



ING Bank Hipoteczny S.A.

ING Bank Hipoteczny Spółka Akcyjna

(incorporated as a joint-stock company under the laws of the Republic of Poland)

EUR5,000,000,000

Programme for the issuance of the Covered Bonds (*hipoteczne listy zastawne*)

Under this EUR5,000,000,000 Programme (the **Programme**), ING Bank Hipoteczny Spółka Akcyjna, with its registered offices at ul. Chorzowska 50, 40-101 Katowice, Poland (the **Bank**) may from time to time issue mortgage covered bonds (*hipoteczne listy zastawne*) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below) (the **Covered Bonds**). The Covered Bonds will be issued in bearer form.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed EUR5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*General Description of the Programme*" and to any additional Dealer appointed under the Programme from time to time by the Bank (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

An investment in the Covered Bonds involves certain risks. For a discussion of these risks, see "Risk Factors" beginning on page 9 of this Base Prospectus.

This Base Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* (the **CSSF**) of the Grand Duchy of Luxembourg (**Luxembourg**) in its capacity as competent authority (the **Competent Authority**) under the Regulation (EU) 2017/1129 (the **Prospectus Regulation**). The Competent Authority has only approved this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval should not be considered an endorsement of the issuer that is the subject of this Base Prospectus. The Competent Authority's approval should not be considered as an endorsement of the quality of the Covered Bonds and investors in the Covered Bonds should make their own assessment as to the suitability of investing in the Covered Bonds. Application has been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. Application will be made to list the Covered Bonds on Warsaw Stock Exchange and to trade the Covered Bonds on the regulated market of the Warsaw Stock Exchange. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

References in this Base Prospectus to Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange or that such Covered Bonds have been admitted to trading on the Warsaw Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market and the Warsaw Stock Exchange's regulated market are regulated markets for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

In order to be able to conduct a listing in relation to certain issuances of Covered Bonds and/or to list certain Covered Bonds on the regulated market of the Warsaw Stock Exchange, the Bank applied for a notification of this Base Prospectus pursuant to Article 25 of the Prospectus Regulation into the Republic of Poland (**Poland**). The Bank may request the CSSF to provide competent authorities in additional host Member States within the European Economic Area with a notification. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Bank.

This Base Prospectus is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area (the EEA) and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) of the Prospectus Regulation. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under "Terms and Conditions of the Covered Bonds") of Covered Bonds will be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Covered Bonds to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Moody's Investors Service Ltd. (**Moody's**) is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. The Covered Bonds issued under the Programme are expected to be assigned a rating by Moody's. However, the Bank may also issue Covered Bonds which are unrated or rated by another rating agency. Where a Tranche of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to other Tranches of Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The amount of interest payable on Floating Rate Covered Bonds will be calculated by reference to one of EURIBOR, LIBOR or WIBOR, as specified in the applicable Final Terms. As at the date of this Base Prospectus, the administrators of EURIBOR and LIBOR are included in ESMA's register of administrators under Article 36 of Regulation (EU) 2016/1011 (the **Benchmarks Regulation**). As at the date of this Base Prospectus, the administrator of WIBOR is not included in ESMA's register of administrators under Article 36 of the Benchmarks Regulation. As far as the Bank is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that GPW Benchmark S.A. is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or any state securities laws, and are subject to U.S. tax law requirements. The Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S under the Securities Act (**Regulation S**) in compliance with applicable securities laws.

Arrangers and Dealers

ING

ING Bank Śląski

This Base Prospectus and any supplement thereto will be published in electronic form on the website of the Luxembourg Stock Exchange under www.bourse.lu, will be available free of charge at the specified offices of the Bank and will be published in electronic form on the website of the Bank under www.inghipoteczny.pl.

The date of this Base Prospectus is 5 September 2019.

IMPORTANT NOTICE

This document constitutes the base prospectus of ING Bank Hipoteczny Spółka Akcyjna (the **Bank**) in respect of Covered Bonds (the **Base Prospectus**). This Base Prospectus constitutes a base prospectus for the purposes of Article 8 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the **Prospectus Regulation**). This Base Prospectus should be read and understood in conjunction with any supplement thereto. Full information on the Bank and any Tranche of Covered Bonds is only available on the basis of the combination of this Base Prospectus, including any supplements thereto, and applicable final terms (the **Final Terms**).

The Bank, with its registered offices at ul. Chorzowska 50, 40-101 Katowice, Poland, is solely responsible for the information given in this Base Prospectus. The Bank hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus for which it is responsible, is to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Certain information under the heading "*Book-entry Clearance Systems*" has been extracted from information provided by the clearing systems referred to therein. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Neither ING Bank N.V. (**ING NV**) nor ING Bank Śląski S.A. (**ING BSK** and, together with ING NV, the **Arrangers** and each of them the **Arranger**) nor any other Dealer nor any other person mentioned in this Base Prospectus, excluding the Bank, has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers or any of the other Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Arrangers or any of the other Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Bank, the Arrangers or any of the other Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme nor the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Bank, the Arrangers or any of the other Dealers to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers and the other Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Bank, the Arrangers and the other Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Arrangers or the other Dealers which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area and the United Kingdom (see "*Subscription and Sale*").

This Base Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in a Member State of Covered Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Bank, the Arrangers or any other Dealer to publish a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Bank nor the Arrangers nor any other Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Bank, the Arrangers or any other Dealer to publish or supplement this Base Prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement to this Base Prospectus;
- (ii) has access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Covered Bonds and is familiar with the behaviour of any relevant indices and financial markets;
- (v) understands that an investment in the Covered Bonds involves a reliance on the creditworthiness of the Bank only and not that of any other entities; and
- (vi) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds have not been and will not be registered under the Securities Act or any state securities laws, and are subject to U.S. tax law requirements. The Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S under the Securities Act in compliance with applicable securities laws.

This Base Prospectus contains selected macroeconomic, industry and statistical data as well as data relating to the ING Bank Śląski group (the **Group**) which has been derived from publicly available sources, including official industry sources and other third-party sources, such as financial statements of the Group which do not form part of this Base Prospectus. The Bank believes that such data is reliable but cannot guarantee its accuracy and completeness. Such information, data and statistics may be based on a number of assumptions and estimates and may be subject to rounding.

The Bank confirms, in relation to information in this Base Prospectus which was sourced from a third party, this information has been accurately reproduced and that as far as the Bank is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

All references in this Base Prospectus to "*U.S. dollars*" refer to United States dollars, all references to "*PLN*" and "*Złoty*" refer to Polish zloty, all references to "*Sterling*" and "*£*" refer to pounds sterling, all references to "*euro*", "*EUR*" and "*€*" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time, and all references to "*Swiss Francs*" and "*CHF*" refer to the currency of Switzerland.

As at 4 September 2019, the euro/PLN spot exchange rate published by the National Bank of Poland was EUR1.00 = PLN4.39.

Certain figures in this Base Prospectus have been subject to rounding adjustments. Accordingly, amounts shown as totals in tables or elsewhere may not be an arithmetic aggregation of the figures which precede them.

The term "*mortgage covered bond*" as used herein corresponds to the use of the term "*hipoteczny list zastawny*" as used in Polish legislation. Covered Bonds (as so capitalised) means mortgage covered bonds in bearer form.

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended **MiFID II**); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Covered Bonds will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a distributor) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealer nor any of its respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

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STABILISATION

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Final Terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds.

Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

GENERAL DESCRIPTION OF THE PROGRAMME

This section "General Description of the Programme" must be read as an introduction to this Base Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. The following is qualified in its entirety by the remainder of this Base Prospectus.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No 2019/980 (the **Delegated Regulation**).

Words and expressions defined in "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*" shall have the same meanings in this description.

Issuer:	ING Bank Hipoteczny Spółka Akcyjna.
Issuer Legal Entity Identifier:	2594006G5AW3PX0GET92
Description:	Programme for the issuance of Covered Bonds (<i>hipoteczne listy zastawne</i>).
Arrangers:	ING Bank N.V. and ING Bank Śląski S.A.
Dealers:	ING Bank N.V., ING Bank Śląski S.A. and any other Dealers appointed in accordance with the Programme Agreement.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under Covered Bonds issued under the Programme. These are set out under " <i>Risk Factors</i> ". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Covered Bonds and certain market risks.
Certain Restrictions:	Each issue of Covered Bonds in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus. Covered Bonds having a maturity of less than one year Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see " <i>Subscription and Sale</i> ".
Principal Paying Agent:	Deutsche Bank AG, London Branch
Programme Size:	EUR5,000,000,000 (or its equivalent in other currencies calculated as described under " <i>General Description of the Programme</i> ") outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis and subject to certain restrictions, as described under " <i>Subscription and Sale</i> ".
Series and Tranches:	Covered Bonds will be issued on a continuous basis in Tranches with no minimum issue size, each Tranche consisting of Covered Bonds which are identical in all respects. One or more Tranches, which are expressed to be consolidated and forming a single series and identical in all respects, but having different issue dates, interest commencement dates, issue prices and dates for first interest payments may form a series (Series) of Covered Bonds. Further Covered Bonds may be issued as part of an existing Series. The specific terms of each Tranche will be set forth in the

applicable Final Terms.

Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer(s).
Maturities:	Such maturities as may be agreed between the Bank and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued only on a fully-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount.
Type of Covered Bonds:	For a description of certain aspects relevant to the Covered Bonds, see " <i>Information relating to Covered Bonds</i> ".
Form of Covered Bonds:	The Covered Bonds will be issued in bearer form as described in " <i>Form of the Covered Bonds</i> ".
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Covered Bonds:	<p>Floating Rate Covered Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series); or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(iii) on such other basis as may be agreed between the Bank and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Bank and the relevant Dealer for each Series of Floating Rate Covered Bonds.</p> <p>Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Covered Bonds in respect of each Interest Period (as defined in the Final Terms), as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates (as defined in the Final Terms), and will be calculated on the basis of such Day Count Fraction (as defined in the Final Terms), as may be agreed between the Bank and the relevant Dealer.</p>
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate that the Covered Bonds Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.</p> <p>Under the Polish Act on Bonds, if the Bank is subject to non-bankruptcy liquidation (<i>likwidacja</i>), the Bank shall redeem the Covered Bonds at par on the opening day of such non-bankruptcy liquidation (<i>likwidacja</i>) proceedings. If the Bank is subject to a merger (<i>połączenie</i>), division (<i>podział</i>) or transformation (<i>przekształcenie formy prawnej</i>), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (<i>połączenie</i>), division (<i>podział</i>) or transformation (<i>przekształcenie formy prawnej</i>) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (<i>likwidacja</i>), merger (<i>połączenie</i>), division (<i>podział</i>)</p>

and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meaning as prescribed under Polish law.

Unless previously redeemed or purchased and cancelled and subject to Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*", each Covered Bond will be redeemed by the Bank at 100 per cent. of its nominal value on its scheduled maturity date.

Covered Bonds having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".

Extended maturity in the event of the Bank's bankruptcy:

Upon a Bankruptcy Event of the Bank (as defined in Condition 5(c) of the Conditions), the maturity of all outstanding covered bonds issued by the Bank, including the Covered Bonds, will automatically be extended by 12 months (the **Extended Maturity Date**). While interest under all of the Bank's covered bonds (including the Covered Bonds) will continue to be payable in the manner and on the dates indicated in the Terms and Conditions of the Covered Bonds and the applicable Final Terms, a Bankruptcy Event may affect the timing and amount of principal to be paid to Covered Bond Holders.

On the date of the Bankruptcy Event, the bankruptcy court will appoint a bankruptcy receiver (*syndyk*) who will assume responsibility for the administration of the Bank's assets. Within three months of the Bankruptcy Event, the bankruptcy receiver must conduct, in accordance with the Bankruptcy Law:

- a coverage test (*test równowagi pokrycia*) to determine whether the assets forming the separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds (including the Covered Bonds) issued by the Bank; and
- a liquidity test (*test płynności*) to determine whether the assets forming the separate bankruptcy asset pool of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the Extended Maturity Dates of all outstanding covered bonds (including the Covered Bonds) issued by the Bank.

If the results of both the coverage test and the liquidity test are positive, the claims of the Holders of the Covered Bonds for the repayment of principal are to be fulfilled in accordance with the Terms and Conditions of the Covered Bonds and the applicable Final Terms up to the Extended Maturity Date.

If the result of the coverage test is positive but the result of the liquidity test is negative, or if the result of the coverage test is negative, the maturity of the Covered Bonds will be extended by three years from the latest maturity date of a receivable in the cover pool.

In certain circumstances provided by Polish law, the claims of the Holders of the Covered Bonds for the payment of principal may be satisfied sooner than the applicable extended maturity dates pursuant to pass-through procedures from the receivables in the cover pool.

In addition, the holders of all outstanding covered bonds issued by the Bank may, by a vote of holders representing two-thirds of the aggregate principal amount of all outstanding covered bonds of the Bank, adopt resolutions requesting the bankruptcy receiver to sell the cover pool (Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*").

Other circumstances may affect the timing and amount of principal to be paid to Covered Bond Holders. For further details see Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*" of the terms and conditions of the Covered Bonds and "*Information Relating to Covered Bonds*".

Denomination of Covered Bonds:	Covered Bonds will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions</i> ", and save that the minimum denomination of each Covered Bond will be at least EUR100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 6 " <i>Taxation</i> " of the Terms and Conditions of the Covered Bonds unless such deduction is required by law. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 6 " <i>Taxation</i> " of the Terms and Conditions of the Covered Bonds be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The Terms and Conditions of the Covered Bonds will not contain a negative pledge provision.
Cross Default:	The Terms and Conditions of the Covered Bonds will not contain a cross default provision.
Status of the Covered Bonds:	The Covered Bonds are direct, unconditional, unsubordinated obligations of the Bank and rank pari passu among themselves. The Covered Bonds are covered in accordance with the Polish Covered Bonds Act and rank pari passu with all other covered and unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.
Subordination:	Covered Bonds may not be issued on a subordinated basis.
Rating:	Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. See " <i>Information relating to Ratings</i> ".
Listing and admission to trading:	Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and/or the Warsaw Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange and/or on the Regulated Market of the Warsaw Stock Exchange. Each of the Luxembourg Stock Exchange's Regulated Market and the Warsaw Stock Exchange's Regulated Market is a regulated market for the purposes of the MiFID II. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the applicable Final Terms. Covered Bonds may further be issued under the Programme without being listed on any stock exchange. The applicable Final Terms will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.
Clearing:	The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and any other clearing system as may be specified in the applicable Final Terms. The Common Code and the International Securities Identification Number (ISIN) will be set out in the applicable Final Terms, as more fully described under " <i>Form of the Covered Bonds</i> ".
Payments:	Payments on Global Covered Bonds will be made to Euroclear Bank SA/NV (Euroclear) or Clearstream Banking S.A. (Clearstream, Luxembourg), as relevant, or to its order for credit to the relevant accountholders of Euroclear or

Clearstream, Luxembourg. The Bank will be discharged by payment to, or to the order of, Euroclear or Clearstream, Luxembourg, as relevant, and each Holder of Covered Bonds represented by a Global Covered Bond held through Euroclear or Clearstream, Luxembourg must look solely to Euroclear or Clearstream, Luxembourg for its share of any payments so made by the Bank.

Notification: In order to be able to list certain Covered Bonds on the Regulated Market of the Warsaw Stock Exchange, the Bank applied initially for a notification of this Base Prospectus pursuant to Article 25 of the Prospectus Regulation into Poland.

Governing Law: The Covered Bonds and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, Polish law.

The Polish common court appropriate for the registered seat of the Bank at the time of making a claim shall have non-exclusive jurisdiction for any action or other legal proceedings arising out of or in connection with the Covered Bonds. The Polish courts shall have exclusive jurisdiction over lost or destroyed Covered Bonds.

Selling Restrictions: There are restrictions on the offer, sale and transfer of Covered Bonds in the United States, the European Economic Area, the United Kingdom and Poland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds (see "*Subscription and Sale*").

United States Selling Restrictions: The Covered Bonds have not been and will not be registered under the Securities Act or any state securities laws, and are subject to U.S. tax law requirements. Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S in compliance with applicable securities laws.

The Covered Bonds will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury regulations section, including, without limitation, successor regulations issued in accordance with IRS Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (**TEFRA D**) or 1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury regulations section, including, without limitation, successor regulations issued in accordance with IRS Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (**TEFRA C**), unless the Covered Bonds are issued in circumstances in which the Covered Bonds will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

Representation of the Holders of the Covered Bonds: There is no provision for the representation of Holders of the Covered Bonds.

Calculating the PLN equivalent of the Aggregate Nominal Amount

For the purpose of calculating the PLN equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

- (i) the PLN equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under "*Form of the Covered Bonds*") shall be determined, at the discretion of the Bank, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the PLN against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Bank on the relevant day of calculation; and
- (ii) the PLN equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under "*Form of the Covered Bonds*") and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Bank for the relevant issue.

Principal Paying Agent and Luxembourg Listing Agent

The Programme provides for the following initial agents:

Principal Paying Agent: Deutsche Bank AG, London Branch

Luxembourg Listing Agent: Deutsche Bank Luxembourg S.A.

The Bank may vary or terminate the appointment of the agents and may appoint other or additional agents.

Information relating to Ratings

Covered Bonds issued under the Programme may be rated or unrated. The ratings assigned to the Covered Bonds will be disclosed in the applicable Final Terms within the item "*Rating*".

The risk pertaining to the Bank is described by ratings assigned to the Bank and which may be subject to change over the course of time. Investors should nevertheless keep in mind that a rating does not constitute a recommendation to purchase, sell or hold debt securities issued by the Bank.

Moreover, the ratings assigned by the rating agencies may at any time be suspended, downgraded or withdrawn. Any such suspension, downgrade or withdrawal of the rating assigned to the Bank may have a sustained adverse effect on the market price of the debt securities issued under this Base Prospectus.

Based on the provisions of Regulation (EC) No. 1060/2009 on rating agencies as amended from time to time (the **Rating Regulation**), certain institutions as further determined pursuant to Article 4(1) of the Rating Regulation which are established in the European Union (the **Regulated Institutions**) are subject to certain restrictions with regard to the use of ratings for regulatory purposes. Pursuant to Article 4(1) of the Rating Regulation, Regulated Institutions may use credit ratings for regulatory purposes only if such credit ratings are issued by credit rating agencies established in the European Union and registered in accordance with the Rating Regulation (or for which the relevant registration procedure is still pending). The Bank is rated by Moody's, which is established in the European Union or has relevant subsidiaries which are established in the European Union and have been registered in accordance with the Rating Regulation.

ESMA publishes on its website (www.esma.europa.eu) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 of the CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

The overview provided below shows the ratings assigned to the Bank by Moody's as at the date of this Base Prospectus. The current ratings of the Bank may be found on the Bank's website at: www.inghipoteczny.pl.

Prospectus

This Base Prospectus and any supplement(s) thereto will be published in electronic form on the website of the Luxembourg Stock Exchange at: www.bourse.lu, will be available free of charge at the specified offices of the Bank (at the request of potential investors) and will be published on the website of the Bank at: www.inghipoteczny.pl.

Final Terms

In relation to Covered Bonds issued by the Bank which are listed on a Regulated Market on any stock exchange, the applicable Final Terms will be available on the website of the Bank at: www.inghipoteczny.pl and will, if legally required, be published in any other form. Furthermore, in relation to Covered Bonds which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, the applicable Final Terms will also be available on the website of the Luxembourg Stock Exchange at www.bourse.lu.

RISK FACTORS

In purchasing the Covered Bonds, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of risks which individually or together could result in the Bank becoming unable to make all payments due. The Bank has described in this Base Prospectus risks which could materially adversely affect its business and ability to make payments due known to the Bank as at the date of this Base Prospectus. In addition, risks which are material for the purpose of assessing the market risks associated with the Covered Bonds are also described below. It cannot be excluded that new risks, not known to the Bank as the date of this Base Prospectus, may arise. Additionally, certain risks which the Bank currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

RISKS RELATED TO THE BANK'S FINANCIAL SITUATION

Borrowers may fail to duly perform their obligations under the mortgage loans

The Bank is exposed to potential credit-related losses that can occur as a result of borrowers being unable or unwilling to honour their contractual obligations. Like any financial services organisation, the Bank assumes credit risk where it relies on the ability of the borrowers to satisfy their financial obligations to the Bank on a timely basis.

There are various factors that influence borrowers' ability to satisfy their financial obligations under mortgage loans in the Bank's portfolio. These factors range from the overall economic conditions to events affecting individual borrowers, such as loss of earnings, illness or divorce. In addition, the ability of a borrower to sell a property mortgaged as security for a mortgage loan at a price sufficient to repay the amount outstanding under that loan depends on a number of factors, including the availability of buyers for the property, the value of that property and property values in general at any given time. To the extent the Bank's credit exposure increases, it could have an adverse effect on its business and profitability if material unexpected credit losses occur.

The Bank maintains credit approval and monitoring procedures and monitors, among other factors, the borrower's cash flow and ability to repay mortgage loans in an effort to improve the quality of the Bank's mortgage loan portfolio and mitigate future allowances for loan losses and credit impairments. However, there can be no assurance that these credit approval and monitoring procedures will successfully protect the Bank from material credit losses or reduce the amount of provisions for mortgage loans that become non-performing in the future.

The Bank's refinancing costs may increase

Mortgage loans in the Bank's portfolio usually have maturities beyond the maturity of the corresponding funding, which results in the Bank's dependence on its ability to continuously refinance its maturing debts with new funding. The Bank's funding capacity and ability to raise funding can deteriorate due to circumstances which are outside of the Bank's control. Some of these factors may also increase the Bank's need for funding through, for example, a higher amount of collateral demanded by the counterparties to certain financing transactions.

As a result of turmoil or crises in the financial and capital markets, the Bank may encounter difficulties in obtaining refinancing or may only be able to obtain refinancing at elevated costs. The inability of the Bank to anticipate or provide for unforeseen decreases or changes in funding sources and/or to refinance itself would have a material adverse effect on the Bank's ability to meet its obligations under the Covered Bonds.

A high proportion of long-term mortgages in the Bank's loan portfolio makes it difficult for the Bank to adjust its loan margins to market terms while any deterioration of residential real estate prices and decrease in value of collateral provided to the Bank may negatively affect the Bank's business, financial condition and/or the results of its operations

Unless expressly permitted by law, under Polish law a party to an agreement cannot change its terms without the consent of the other party. Therefore the Bank is not able to unilaterally change the terms of mortgage loans in its portfolio. As a result, compared to other financial institutions operating on the Polish market, which have credit portfolios with a larger proportion of short-term loans, the Bank is limited in its ability to change its credit portfolio margins to acquiring new mortgage loans reflecting current credit margins in the market. This limited ability to re-price its loan portfolio may adversely affect the business, financial condition and results of operations of the Bank.

Proceeds from enforcement of mortgages may not satisfy the Bank's claims in full

When borrowers default on mortgage loans, enforcement actions can be taken in order to claim the collateral securing these mortgage loans. However, the Bank's credit risk may be increased when the collateral it holds cannot be enforced or is liquidated at a price not sufficient to recover the full amount due and payable under the relevant mortgage loan. The

market value at which real estate properties mortgaged as security for mortgage loans can be sold, and the amount that can be recovered as a result of enforcement action, heavily depends on the current real estate market prices and the legal environment at the time.

When acquiring the mortgage loans, the Bank assumes a certain level of prices of residential real property securing such loans. If sale prices of residential real property in Poland substantially decline for any reason, the value of the Bank's security might be adversely affected and, in cases of foreclosure, the Bank may not be able to recover the entire amount of the loan if the borrowers are unable to repay them. In addition, investments in real estate are characterised by low liquidity as compared to other types of investments and such liquidity may further deteriorate in periods of economic downturn. The Bank cannot guarantee that if the residential real estate market in Poland deteriorates significantly, the ability to enforce its security in a timely and effective manner would not deteriorate significantly. This could have an adverse effect on the Bank's business, financial condition and the results of its operations.

Additionally, a decline in the value of collateral taken by the Bank or the inability of the Bank to obtain additional collateral may require the Bank to reclassify the relevant loans and/or set aside additional provisions for loan losses, and could result in increased reserve and/or capital requirements.

Enforcement of mortgages is a lengthy and expensive process

Enforcement of a mortgage over a property can be a lengthy process and may require the creditor to incur substantial costs, especially in relation to foreclosure sale of property by court enforcement officers. Given its short operating history, the Bank has not yet developed a comprehensive database on the average time to enforce security over property; however, the Bank relies on the Group's solution in this case. This solution may affect the reliability of the Bank's projections concerning the expected duration of an enforcement action.

Additionally, the Act on Mortgage Credit and Supervision over Mortgage Credit Intermediaries and Agents dated 23 March 2017 (the **Mortgage Credit Act**) introduced certain restrictions on banks' ability to enforce mortgages over real estate. In particular, before commencing enforcement proceedings, a bank should grant the borrower a six-month period in which to sell the real estate asset encumbered with the mortgage.

Prolonged enforcement proceedings requiring significant expenditure can render it difficult for the Bank to recover in full the funds due to the Bank from the borrowers, which could adversely affect the Bank's financial performance and its ability to meet its obligations under the Covered Bonds.

Changes in interest rates may affect the Bank's income

Interest rate risk originates primarily from the differences between the structure and/or levels of interest rates applicable in respect of the Bank's asset side and liability side respectively. For example, the Bank may fund its assets with fixed and/or relatively high interest rates, by liabilities obtained at floating and/or lower interest rates, and vice versa. Interest rate risk may also arise when interest rate fixing periods on assets and liabilities do not coincide.

As with all other banks, the Bank earns interest from loans and other assets, and pays interest to its creditors. Interest rates are highly sensitive to many factors beyond the Bank's control, including monetary policies and domestic and international economic and political conditions. As with any bank, changes in market interest rates (including changes in the difference between prevailing short-term and long-term rates) and correlations between changes in interest rates in the reference markets and interest margins could affect the interest rates the Bank charges on its interest-earning assets compared to the interest rates it pays on its interest-bearing liabilities. This difference could reduce the Bank's net interest income.

As a consequence of its distinctive asset-liability structure as a mortgage bank, the Bank earns interest primarily from mortgage loans and pays interest mainly to the holders of covered bonds. An increase in interest rates may reduce the demand for mortgage loans and the Bank's ability to originate such loans. Conversely, a decrease in the general level of interest rates may adversely affect the Bank through increased prepayments on the Bank's mortgage loan portfolio. Changes in interest rates may also affect the Bank's ability to issue covered bonds.

A mismatch in interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material adverse effect on the financial condition and results of operations of the Bank.

RISKS RELATED TO THE BANK'S BUSINESS ACTIVITIES AND INDUSTRY

Competition in the Polish banking market may affect the Bank's profitability

The Bank operates in the Polish banking services market which is subject to growing competition resulting from such market's continuous development. This competition may interfere with the ING BSK's plans to sell mortgage loans and

the Bank's plans to acquire these loans. Competition in the Polish banking market, and in particular the possibility that banks will resume the price war over housing loans, may also negatively impact the margins earned by the Bank on mortgage loans. In turn, competition in the covered bonds market, both from Polish and international issuers, may have a negative impact on the value of covered bond issuances planned by the Bank and thus on the Bank's ability to finance its lending activity or the costs of such financing. Growing competition could adversely affect the Bank's financial performance and its ability to perform its obligations under the Covered Bonds.

The economic conditions in Central and Eastern Europe and the devaluation of the currencies in these countries could have an adverse effect on the Group's, including the Bank's business, financial condition and results of operations

There is a perception among certain investors that the economic or financial conditions of Central and Eastern European countries influence the economic or financial conditions of Poland, and that financial assets of Central and Eastern European countries may be treated as the same "asset class" by foreign investors. As a result, investors may reduce their investments in Polish financial assets due to deteriorating economic or financial conditions in other countries of Central and Eastern Europe. Specifically, the devaluation or depreciation of any of the currencies in Central and Eastern Europe could impair the strength of PLN. A depreciation of PLN against foreign currencies may make it more difficult for the Group's, including the Bank's customers to repay their obligations denominated in a foreign currency, which could also have a material adverse effect on the Bank's business, financial condition and results of operations. The financial problems faced by the Group's, including the Bank's customers could also adversely affect the Bank's business, financial condition and results of operations. Market turmoil and economic deterioration could adversely affect the respective liquidity, businesses and/or financial conditions of the Group's, including the Bank's borrowers, which could in turn impair the Group's, including the Bank's loan portfolio and other financial assets and result in decreased demand for the Group's, including the Bank's products. In an environment of significant market turmoil, economic deterioration and increasing unemployment, coupled with declining consumer spending, the value of assets collateralising the Group's, including the Bank's secured loans could also decline significantly. The occurrence of any of these developments could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the Bank.

Poland's economic, political and social conditions have affected and will continue to have an effect on the Bank's business, financial condition and results of operations

The Bank conducts its operations only in Poland. Therefore, macroeconomic factors relating to Poland, such as gross domestic product (**GDP**), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand, loan impairment allowances and margins for the Bank's products and services, which materially affects the Bank's business, financial condition and results of operations. The main tendencies expected in the Polish economy are:

- growing absorption of EU funds and further revival of capital investment activity in the private sector;
- positive consumer sentiment and further growth in real disposable income in households;
- growing tensions in the labour market, which result from strong demand for labour and growing supply limitations, which lead to maintained growth in remuneration dynamics (labour costs) and employee deficits in some industries;
- stabilization of the National Bank of Poland (**NBP**) interest rates, growing expectations concerning the maintenance of current NBP interest rates without any changes for at least 18 months; and
- stabilization of deposit growth and demand for loans; regarding loans, a slowing growth in corporate loans will be balanced by further dynamic growth in loans to households; regarding deposits, the improving financial position of households should lead to a growth in deposits in this segment, whereas a slow down in the growth of deposits by non-financial business entities and stabilization of deposits by central and local governments is expected.

Any deterioration of the economic, business, political and social conditions in Poland or the failure of the policy of the Polish Government may have a material adverse effect on the business, financial condition and operations of the Bank.

The Bank is dependent on ING BSK

The Bank is a wholly-owned subsidiary of ING BSK, a Polish universal bank, and is dependent on ING BSK in a number of areas.

ING BSK set up the Bank to diversify the sources of funding for the Group. As at the date of this Base Prospectus, the Group perceives the covered bonds to be issued by the Bank as an important source of funding for the Group. However, it cannot be excluded that the Group's strategy may change and the Group may decide to raise financing in ways other

than through the issuance of covered bonds by the Bank. Such a change in the Group's strategy may lead to a reduction in the scale of the Bank's business activity.

As the sole shareholder of the Bank, ING BSK may be required to subscribe for new shares in the Bank's share capital or provide the Bank with capital in a different manner if so required by the applicable capital adequacy requirements. It is possible that ING BSK may decide that these requirements became too onerous for the Group. This may lead to ING BSK deciding to reduce the scale of operations of the Bank to avoid making additional capital contributions. For example, financial institutions will have to meet the minimum requirement for own funds and eligible liabilities (MREL). As at the date of this Base Prospectus, the Bank is exempt from meeting this requirement, but ING BSK will be obliged to satisfy MREL. It is not certain whether ING BSK should take into account the Bank when verifying whether the MREL requirement is met at the Group level. If ING BSK has to also take into account the Bank when calculating MREL, ING BSK may decide to raise financing in ways other than through the issuance of covered bonds by the Bank or reduce the scale of operations of the Bank.

Additionally, the Bank outsources certain services to ING BSK on the basis of a cooperation agreement (see "*Description of the Bank – Business overview of the Bank – Cooperation between the Bank and ING BSK in mortgage loan origination and acquisition of mortgage loans*"). The cooperation agreement defines the tasks to be performed by ING BSK for the Bank in the course of its business and specifies how these tasks are to be delivered. The cooperation agreement covers the following:

- post-sale services regarding loans transferred by ING BSK to the Bank, with ING BSK reviewing post-sale applications, instructions and complaints for which no lending decision is required;
- sharing IT systems with ING BSK; and
- support in the application of group-wide tools, methodologies and risk models approved by the Bank's competent bodies for the purposes of risk assessment and control.

The Bank's market reputation and brand perception might be affected by events concerning other companies from the ING group. For example, on 4 September 2018, ING N.V., which is an indirect parent company of the Bank announced that it has entered into a settlement agreement with the Dutch Public Prosecution Service relating to previously disclosed investigations regarding various requirements for client on-boarding and the prevention of money laundering and corrupt practices. Under the terms of the agreement ING N.V. has agreed to pay a fine of EUR 675 million and EUR 100 million for disgorgement. In connection with the investigations ING N.V. also received information requests from the US Securities and Exchange Commission (SEC). As ING N.V. announced on 5 September 2018, ING has received a formal notification from the SEC that it has concluded its investigation. In the letter dated 4 September 2018 the Division of Enforcement states that, based on information as of the date thereof, it does not intend to recommend an SEC enforcement action against ING N.V. Although investigations of this kind might not directly concern ING BSK or the Bank, they may negatively affect the perception of the Bank's brand.

Any negative future changes affecting ING BSK's operations, business model and IT systems, as well as any changes in how the ING BSK brand is perceived, may adversely affect the Bank's business, results of operations and financial condition and the Bank's ability to meet its obligations under the Covered Bonds.

The Bank may fail to meet its strategic objective

The key business objective defined in the Bank's strategy is to obtain long-term financing through issuances of covered bonds and becoming one of the most active covered bonds issuers in the Polish market. In the initial phase of its business activity the Bank will not itself grant mortgage loans to clients, but instead will purchase the mortgage loans granted by ING BSK. This means that the Bank's financial performance and its ability to deliver the stated strategic business objective largely depend on ING BSK meeting its mortgage loans sales targets and on investors' demand for covered bonds. Decrease in demand for mortgage loans or decrease of the investors' appetite for covered bonds issued by the Bank, may adversely affect the Bank's business, results of operations and financial condition. Given the nature of its business, the Bank will have a limited ability to seek alternative sources of funding should it fail to deliver its strategic objective regarding mortgage loans and covered bonds. Such failure to deliver its strategic objective could adversely affect the Bank's business, results of operations and financial condition and ability to meet its obligations under the Covered Bonds.

Similar to other mortgage banks, the Bank has a special asset-liability structure

Since the Bank operates as a mortgage bank, it has a special asset-liability structure as compared with that generally characterising the Polish banking system. The Bank will primarily fund the acquisition of mortgage loans from ING BSK by issuing covered bonds. Mortgage loans have long-term maturities and provide for repayments in the form of instalments with principal amounts being subject to amortisation on a periodic basis. Covered bonds, on the other hand, are medium-term obligations of the Bank with bullet repayments. Consequently, financing mortgage loans through the

issuance of covered bonds exposes the Bank to (funding) liquidity risks (besides interest rate risks) in particular arising from such maturity mismatches. To the extent that the volume of, or the Bank's ability to access on commercially reasonable terms and/or in a timely manner, the wholesale lending markets become constrained, the Bank may face funding gaps, in particular, in periods of turmoil or in the event of unexpected governmental interventions in the markets where it operates. Difficulties in refinancing may also cause the Bank to dispose of its assets at a loss, increase the rates paid on funding or limit its business activities. A lack of liquidity or refinancing opportunities may, *inter alia*, result in a limitation of business volume in the financing business, which may, in turn, lead to a reduction of the Bank's interest income and could adversely affect the Bank's business, financial position and results of operations.

The 'Apartment+' programme may affect the demand for mortgage loans

In September 2016, the Polish Government adopted the 'Apartment+' (*Mieszkanie+*) programme. Under the programme, the Polish Government intends to build apartments for lease which will be available to low- and medium-wage earners, especially multi-child families. According to the public announcements, the Polish Government intends to build under the programme one million apartments within ten years. Although several apartment buildings have already been built and made available to tenants, the programme is still in an early phase and it is difficult to estimate its influence on the Polish housing market. However, implementation of the Apartment+ programme may result in a decreased demand for mortgage loans financing the acquisition of new apartments.

Falling residential property prices may affect the Bank's financial standing

The repayment of mortgage loans advanced by the Bank is secured by residential property, which is exposed to the risk of losing value. Therefore, a decline in property prices may lead directly to a decrease in the value of security for loans advanced by the Bank. Furthermore, depreciation of property value may have an effect on the mortgage lending value of property calculated by the Bank, which may result in the Bank breaching statutory restrictions on its activities. All such developments may lead to a reduction of the scale of the Bank's operations and adversely affect the Bank's financial standing.

Decline in demand for residential properties will lead to decline in demand for mortgage loans

A drop in demand for residential property may have a direct negative effect on the demand for mortgage loans, translating into lower-than-planned sales of mortgage loans by the ING BSK and, as a consequence, reduced number of loans transferred by ING BSK to the Bank. Lower sales of mortgage loans could adversely affect the Bank's financial performance and ability to perform its obligations under the Covered Bonds.

Properties securing mortgage loans are exposed to catastrophes and natural disasters

The Bank insures the properties which are mortgaged in the Bank's favour in accordance with the market practice. It is possible that such insurance may not cover all risks to which a property is exposed. Properties on which loans advanced by the Bank are secured may be destroyed or significantly damaged as a result of natural disasters, such as floods, hurricanes, tornadoes, hailstorms and fires. The frequency and intensity of such phenomena are difficult to predict. Moreover, the growing weather and climate variability observed in recent years creates additional uncertainty over the future occurrence of such disasters. A natural disaster can result in a lower value of property and thus the value of security established for the Bank's benefit, especially if a property is not covered by a valid insurance policy or if bringing the property back to its pre-disaster condition is impossible. In consequence, such natural disasters could adversely affect the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

The Bank is subject to additional tax, levied on certain financial institutions (including mortgage banks)

On 1 February 2016, the Act on the Tax on Certain Financial Institutions (the **Polish Banking Tax**) entered into force. This act introduced a new tax on assets of financial institutions (including banks) operating in Poland. In case of banks, the Polish Banking Tax is calculated on the total assets of a bank, subject to a tax-free amount of PLN4 billion. The value of own funds and treasury bonds held by a bank decreases the base for calculating the Polish Banking Tax. Any changes in the Polish Banking Tax, which increase the level of the tax payable by the Bank, may affect the financial results of the Bank and may have an adverse effect on its business, financial condition and results of operations.

Risk management systems might not identify all risks

In its operations, the Bank manages risk through the risk assessment methods and procedures it has implemented, including risk assessment models. These tools support the Bank's decision-making processes. However, they may prove to be insufficient to properly assess future risks due to reliance on historical data, errors made at the stage of development, implementation or incorrect use of the methods and models, etc. This may lead to an incorrect assessment of the risk related to the Bank's recognised assets and liabilities, off-balance sheet items and the Bank's business

decisions, which in turn may adversely affect the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

The transfer of mortgage loans from ING BSK to the Bank may be declared ineffective

Under Polish law, in principle, the debtor's consent is not required to transfer a receivable. The Bank will not acquire a loan from ING BSK before the mortgage securing this loan is established. However, the transfer of the mortgage loans to the Bank may be subject to certain generally available remedies which could result in such transfer being declared ineffective by Polish courts.

In case of the bankruptcy of ING BSK, the transfer of the mortgage loans from ING BSK to the Bank may be declared ineffective pursuant to certain rules in the Polish Bankruptcy Law dated 28 February 2003 (*Ustawa z dnia 28 lutego 2003 r. Prawo upadłościowe*, the **Polish Bankruptcy Law**). Grounds for ineffectiveness include: (i) the transfer of mortgage loans occurred later than six months of the bankruptcy of ING BSK, unless the Bank can show that such transfer was not detrimental to the creditors of ING BSK; or (ii) if the transfer of mortgage loans was made later than 12 months before the commencement of bankruptcy proceedings, and such transfer was made without remuneration or the remuneration obtained by ING BSK was grossly disproportionate to the value of the transferred mortgage loans.

If a Polish court declares the transfer of the mortgage loans to the Bank ineffective, ING BSK will be required to repay to the Bank all amounts received from the Bank in respect of such transfer and the Bank will be required to return the transferred mortgage loans to ING BSK or, if such return is not possible, to pay to ING BSK the value of the respective mortgage loans.

The Bank is exposed to counterparty credit risk

The Bank may routinely execute transactions (including securities or currency trades, repos, swaps and derivative contracts) with counterparties in the financial services industry, including commercial banks, investment banks, funds, brokers and dealers.

Many of these transactions expose the Bank to the risk of a counterparty defaulting on its obligations prior to maturity when the Bank has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the Bank cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. In addition, counterparty credit risk also arises from holding debt instruments as the issuers (including financial institutions, sovereigns, supranational entities and corporations) of such debt instruments may default on their obligations thereunder due to insolvency, political events, lack of liquidity, operational failure or a number of other reasons. Furthermore, the deteriorating solvency of such counterparties may impair the efficacy of the Bank's hedging and other risk management strategies.

As at the date of this Base Prospectus, the Bank executes securities or currency trades, repos, swaps and derivative contracts only with ING BSK. However, it cannot be excluded that the Bank will enter into transactions of this kind with other counterparties.

Any of the aforementioned events may have a material adverse effect on the Bank's business, financial condition and results of operations.

LEGAL AND REGULATORY RISKS

The Bank may be unable to satisfy its minimum capital adequacy and other regulatory ratios

As at 30 June 2019, the Bank's total capital ratio was 25.78 per cent. Certain developments could affect the Bank's ability to continue to satisfy the current capital adequacy requirements, including:

- increasing the scale of the Bank's business activities and increasing the Bank's risk-weighted assets;
- the Bank's ability to raise capital;
- the payment of dividends by the Bank to its shareholder;
- losses resulting from a deterioration in the Bank's asset quality, a reduction in income levels, the introduction of new levies or a combination of all of the above;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks; and
- additional capital requirements imposed by the Bank's regulator.

The Bank may also be required to raise additional capital in the future in order to maintain its capital adequacy ratios above the minimum-required levels including the required capital buffers. The Bank's ability to raise additional capital may be limited by numerous factors, including:

- the Bank's future financial condition, results of operations and cash flows;
- any necessary regulatory approvals;
- the Bank's credit rating;
- financial markets disruption;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- changes in domestic and international economy; and
- political and other conditions.

Moreover, there can be no assurance that the Bank will be able to comply with potentially more stringent prudential regulations concerning capital adequacy, including further changes to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the **CRD IV**) and Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the **CRR**) package.

Failure to maintain the minimum capital adequacy and other regulatory ratios or to otherwise maintain sufficient levels of capital to conduct the Bank's business may have an adverse effect on the business, financial condition and results of operations of the Bank. Moreover, a breach of laws relating to the minimum capital adequacy and other regulatory ratios may result in the Bank being subject to administrative sanctions or regulatory resolution measures which may result in an increase in the operating costs of the Bank, loss of reputation, and, consequently, an adverse effect on the business, financial condition and results of operations of the Bank.

The Bank is subject to substantial regulation and regulatory and governmental oversight

As a financial institution, the Bank is subject to extensive regulation, as well as to certain administrative measures and policies. Moreover, the Bank holds an authorisation issued by the KNF, and the KNF and other regulatory authorities supervise its activity. Applicable legal provisions address, inter alia, capital adequacy, risk management and prevention of money laundering. The fulfilment of these regulations implies substantial costs and could significantly limit potential operations. Furthermore, regulatory authorities have substantial discretion in how to regulate banks, and this discretion, and the means available to the regulators, have been increasing during recent years. Regulation may be imposed on an ad hoc basis by governments and regulators in response to a crisis, and these may especially affect financial institutions such as the Bank that are deemed to be systemically important.

Any legislative or regulatory actions and any required changes to the business operations of the Bank resulting from such legislation and regulations, as well as any deficiencies in the Bank's compliance with such legislation and regulation, could result in significant loss of revenue, limit the ability of the Bank to pursue business opportunities in which it might otherwise consider engaging and provide certain products and services, affect the value of assets that it holds, require the Bank to increase its prices and therefore reduce demand for its products, impose additional compliance and other costs on the Bank or otherwise adversely affect its business.

The Bank may be required to make substantial contributions to the Bank Guarantee Fund and the Borrower's Support Fund

Pursuant to the provisions of the Polish Act on Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring dated 10 June 2016 (*Ustawa z dnia 10 czerwca 2016 r. o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przymusowej restrukturyzacji*) (the **Resolution Act**), members of a mandatory guarantee system are obliged to contribute to a deposit guarantee fund and a resolution fund. If an entity that is a member of the Polish Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) (the **BFG**) is declared bankrupt, other members may be required to make additional one-off payments to cover the liabilities of such entity.

The Resolution Act sets a new methodology for the calculation of the bank contributions to the BFG. Based on the targeted levels of funds that are stipulated in the Resolution Act, the total financial burden for the sector in 2019 is slightly higher than in 2018, assuming no significant pay-outs from the BFG are required. Methodology for the calculation of the Bank's contributions to the BFG may be subject to future changes and such changes may result in an increase in the Bank's contributions to the BFG.

In addition, a Borrowers' Support Fund was established pursuant to the Polish Act on the support of borrowers in financial difficulties who have taken out a housing loan dated 9 October 2015 (*Ustawa z dnia 9 października 2015 r. o wsparciu kredytobiorców znajdujących się w trudnej sytuacji finansowej, którzy zaciągnęli kredyt mieszkaniowy*) in order to support residential borrowers in financial difficulties. This fund is intended to provide support to natural persons who are unemployed or who find themselves in difficult financial situations or who are required to repay housing loans which significantly encumber their household budgets. The Borrowers' Support Fund is funded predominantly from contributions made by lenders in proportion to their housing loan portfolio for households, for which the delay in repayment of principal or interest exceeds 90 days.

If the Bank is required to make substantial contributions to the BFG and the Borrowers' Support Fund, it may have a material adverse effect on the Bank's strategy, its growth potential and profit margins and, consequently, could have a material adverse effect on the Bank's business, financial condition and results of operations.

Regulatory intervention regarding CHF mortgage loans

The Polish banks have granted a significant amount of residential mortgage loans denominated in CHF or indexed to CHF (the **CHF Loans**). These loans were a very popular product because of a favourable rate of exchange of CHF into PLN prevailing at the time. As a result of a sharp increase in the value of CHF, the value of monthly instalments under the CHF Loans and the outstanding principal amount of the CHF Loans has grown. Because of this certain affected borrowers decided to challenge the CHF Loans in courts. While certain claims were resolved in accordance with the borrowers' requests, most of these claims have been dismissed.

There is currently a proceeding pending in front of the Court of Justice of the European Union (the **Court of Justice**) concerning a CHF Loan granted by Raiffeisen Bank Polska S.A. This proceeding is widely perceived as being crucial for the further approach of Polish courts to the issue of the CHF Loans because the Polish courts may decide to follow the approach adopted by the Court of Justice. If the decision of the Court of Justice of the European Union is favourable for the borrower, Polish courts may decide to resolve the pending cases brought by the Polish borrowers in a similar manner.

As at 30 June 2019 the gross value of the CHF Loans in the Group's portfolio was PLN941.4 million and constitutes 0.78 per cent. of the gross value of the CHF Loans in the whole Polish banking sector. The Bank does not hold any CHF Loans in its portfolio. However, the conversion of the CHF Loans may have a negative impact on the Polish banking sector as a whole and, as a consequence, on the business activity and financial position of the Group. This may adversely affect the Bank's financial standing and its ability to meet obligations under the Covered Bonds.

The Polish Covered Bonds Act was significantly amended in 2015 and some of its provisions may be interpreted differently by market participants, public authorities and the courts

The Polish Covered Bonds Act was significantly amended in 2015 and the Polish covered bonds market is relatively undeveloped. This means that market participants, public authorities and the courts in Poland have limited experience in applying the Polish Covered Bonds Act. Additionally, some provisions of the Polish Covered Bonds Act and other acts of law governing the activities of mortgage banks, in particular, the provisions concerning the bankruptcy of a mortgage bank, have not been tested in practice. There is a risk that the Bank's interpretation of the Polish Covered Bonds Act may differ from the opinion of other market participants, public authorities and the courts. A different interpretation may have an impact on the validity and enforceability of certain rights and obligations under the Covered Bonds. These differences may also result in sanctions imposed by the relevant authorities or disputes which may have unfavourable results for the Bank. Additionally, these differences may require the Bank to change the way it conducts business and these changes may adversely affect the Bank's financial standing and its ability to perform obligations under the Covered Bonds.

Changes to the Polish pension system

Open pension funds, which are a part of the pension system in Poland, are important investors in debt securities issued in the Polish market. Recently, the Polish Government has announced that it intends to wind up the open pension funds. The persons who have accounts with the open pension funds will be able to decide whether the assets in the account in the open pension fund should be transferred to the state social security system or to a separate individual pension account. As of the date of this Base Prospectus it is not certain whether the changes proposed by the Polish Government will be implemented. The dissolution of the open pension funds may affect the investors' demand for covered bonds issued by the Bank and therefore may adversely affect the Bank's financial standing and ability to meet its obligations under the Covered Bonds.

The Bank may breach the regulatory requirements concerning the cover pool

The Bank, its cover pool and issuances of covered bonds by the Bank are subject to a number of regulatory restrictions. If the Bank does not originate or acquire new mortgage loans to replace the loans which were included in the cover pool, but were repaid, it is possible that the Bank will not satisfy the statutory overcollateralisation requirements. Additionally, even though the Bank and the cover pool monitor verify whether the loans in the cover pool meet the statutory criteria, it cannot be excluded that particular loans in the cover pool might not satisfy all statutory criteria. In such case the Bank may need to replenish the assets in the cover pool in order to comply with the regulatory requirements concerning the cover pools which can be done through adding additional eligible loans or by supplying substitute liquid assets. Breach of regulatory requirements concerning the cover pool may also result in disciplinary action from the KNF including fines, removal of board members and (in extreme circumstances) commencement of compulsory restructuring.

RISKS RELATED TO THE NATURE OF THE COVERED BONDS

Holders of all covered bonds issued by the Bank share the same cover pool

The Covered Bonds are not guaranteed by any person and constitute direct, unconditional and unsubordinated obligations of the Bank, which will rank *pari passu* among themselves and with all other covered bonds issued by the Bank and with all other obligations of the Bank that have been provided the same priority as the Covered Bonds.

The Bank maintains one cover pool for all covered bonds of the same type (for example, mortgage covered bonds) issued by the Bank. This means that holders of all covered bonds of one type issued by the Bank have a claim against the same assets in the cover pool maintained for that type of covered bonds. Holders of one type of covered bonds have no claim against the assets in the cover pool maintained for another type of covered bonds (which means that holders of mortgage covered bonds have no claim against the cover pool maintained for public covered bonds). The Polish Covered Bonds Act does not permit the maintenance of a "variety of pools" for calculation, insolvency or other purposes under Polish law (for example, on issue-by-issue or programme-by-programme basis). In the future, the Bank may decide to issue mortgage covered bonds under programmes other than the Programme or on a standalone basis and the holders of mortgage covered bonds will have access to the same cover pool as holders of the Covered Bonds.

Holders of the Covered Bonds will have limited information on loans in the cover pool

This Base Prospectus provides basic information on the loans in the cover pool as at 15 August 2019. Within three months from the end of each financial year, the Bank will announce in "*Monitor Sądowy i Gospodarczy*" the aggregate amount of the Bank's receivables in the cover pool. Additionally, the Bank publishes periodically a cover pool report in accordance with Article 129 section 7 of the CRR. The Cover Pool Monitor supervises the proper maintenance of the cover pool register, but the results of this inspection are not publicly available. Therefore, it is possible that after the date of this Base Prospectus the composition of the cover pool will change and these changes may have an adverse effect on the Bank's financial position and ability to perform its obligations under the Covered Bonds.

The Covered Bonds are obligations of the Bank only

The Covered Bonds will constitute the obligations of the Bank only. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Bank. The Covered Bonds are not guaranteed by ING BSK or any other member of the Group. Holders of Covered Bonds have no recourse to any entity other than the Bank. Although during the Bank's licensing process, ING BSK declared to the KNF its intention to support the Bank and maintain the Bank's liquidity and capital adequacy ratios above the applicable regulatory limits, this declaration does not constitute a guarantee, or any other similar instrument, for the Covered Bonds. Therefore, it cannot be a basis for claims of the Holders of the Covered Bonds against ING BSK and ING BSK is not in any way liable for the Bank's obligations under the Covered Bonds. This means that if the Bank fails to satisfy its obligations under the Covered Bonds, the Holders of the Covered Bonds will not have any claim against ING BSK and are exposed to the risk that the Bank may not have sufficient assets to make the payments under the Covered Bonds in full.

No events of default

The Terms and Conditions of the Covered Bonds do not include any events of default relating to the Bank or the Covered Bonds, the occurrence of which would entitle the Holders of the Covered Bonds to accelerate the Covered Bonds. Consequently, the Holders of the Covered Bonds will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the Terms and Conditions of the Covered Bonds and are not able to accelerate the Covered Bonds if the Bank's situation deteriorates.

Extension of maturity dates in the case of the Bank's bankruptcy

Upon a Bankruptcy Event of the Bank (as defined in Condition 5(c)), the maturity of all outstanding covered bonds issued by the Bank, including the Covered Bonds, will automatically be extended by 12 months (the **Extended Maturity Date**). While interest under all of the Bank's covered bonds (including the Covered Bonds) will continue to be payable in the manner and on the dates indicated in the terms and conditions of the Covered Bonds and the applicable Final Terms, a Bankruptcy Event may affect the timing and amount of principal to be paid to Covered Bond Holders.

On the date of the Bankruptcy Event, the bankruptcy court will appoint a bankruptcy receiver (*syndyk*) who will assume responsibility for the administration of the Bank's assets. Within three months of the Bankruptcy Event, the bankruptcy receiver must conduct, in accordance with the Bankruptcy Law:

- a coverage test (*test równowagi pokrycia*) to determine whether the assets forming the separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds (including the Covered Bonds) issued by the Bank; and
- a liquidity test (*test płynności*) to determine whether the assets forming the separate bankruptcy asset pool of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the Extended Maturity Dates of all outstanding covered bonds (including the Covered Bonds) issued by the Bank.

If the results of both the coverage test and the liquidity test are positive, the claims of the holders of the Covered Bonds for the repayment of principal are to be fulfilled in accordance with the terms and conditions of the Covered Bonds and the applicable Final Terms up to the Extended Maturity Date.

If the result of the coverage test is positive but the result of the liquidity test is negative, or if the result of the coverage test is negative, the maturity of the Covered Bonds will be extended by three years from the latest maturity date of a receivable in the cover pool.

In certain circumstances provided by Polish law, the claims of the holders of the Covered Bonds for the payment of principal may be satisfied sooner than the applicable extended maturity dates pursuant to pass-through procedures from the receivables in the cover pool.

In addition, the holders of all outstanding covered bonds issued by the Bank may, by a vote of holders representing two-thirds of the aggregate principal amount of all outstanding covered bonds of the Bank, adopt resolutions requesting the bankruptcy receiver to sell the cover pool (Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*").

Other circumstances may affect the timing and amount of principal to be paid to Covered Bond Holders. For further details see Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*" of the terms and conditions of the Covered Bonds and "*Information Relating to Covered Bonds*".

Additionally, filing the motion to declare a mortgage bank bankrupt results in a suspension of the mortgage bank's operations for approximately two months. Suspension of the mortgage bank's operations may further affect the timing of payments to be made to Covered Bond Holders.

Meetings of holders of covered bonds in the event of bankruptcy

According to the Polish Bankruptcy Law, following the declaration of bankruptcy of the Bank the meeting of holders of covered bonds (including the Covered Bonds) may be convened by the judge-commissioner on a motion of holders of covered bonds representing at least 10 per cent. of the principal amount of the outstanding covered bonds. Unless the Polish Bankruptcy Law provides otherwise, resolutions of the meeting of holders of covered bonds are adopted regardless of the number of the covered bond holders present, by a majority of votes of those holders who hold no less than 50 per cent. of the nominal value of the outstanding covered bonds. Consequently, Covered Bond Holders can be bound by the result of a resolution that they voted against, abstained from voting or did not vote at all.

Consent of the abovementioned meeting is required for sale of assets belonging to any cover pool register maintained by the Bank if: (i) they are sold in whole and the proceeds from such sale will not be enough to cover costs of cover pool liquidation and liabilities from covered bonds; or (ii) they are sold in part and below their fair value. Consent to the sale of part of the Bank's banking enterprise, comprising in particular the separate bankruptcy asset pool, requires a majority of two-thirds of votes. In such case none of the covered bonds (including the Covered Bonds) is subject to such sale and the bankruptcy receiver shall determine the share of the proceeds from the sale of the Bank's banking enterprise which will be used for covering claims of covered bond holders (including the Covered Bond Holders).

For considerations in respect of pre-declaration of bankruptcy meeting of the Covered Bond Holders please refer to the "*Meetings of Holders of Covered Bonds*" risk factor below.

The application of the net proceeds of Covered Bonds with a specific use of proceeds, such as 'Green Covered Bonds' may not meet investor expectations or be suitable for an investor's investment criteria

The applicable Final Terms relating to any specific Tranche of Covered Bonds may provide that it will be the Bank's intention to apply the proceeds from an offer of those Covered Bonds specifically to refinance existing loans in the cover pool or acquire new loans which, in each case, are secured over energy efficient buildings (**Green Mortgage Loans** and the Covered Bonds issued thereunder, **Green Covered Bonds**). It should be noted that any Green Mortgage Loans will be included in the cover pool together with other mortgage loans, which are not Green Mortgage Loans. Accordingly, prospective investors will have a claim against the entire cover pool, without having preferential claim on the Green Mortgage Loans over and above other investors.

Prospective investors in the Green Covered Bonds should have regard to the information in "Use of Proceeds" regarding the use of the net proceeds of those Green Covered Bonds and must determine for themselves the relevance of such information for the purpose of any investment in such Green Covered Bonds together with any other investigation such investor deems necessary.

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time or that any prevailing market consensus will not significantly change. Accordingly, there is a risk that any projects or uses the subject of, or related to, any Green Covered Bonds will meet any or all investor expectations regarding such "green" or other equivalently-labelled performance objectives.

Fixed Rate Covered Bonds

The Holder of a Covered Bond with a fixed rate of interest (**Fixed Rate Covered Bond**) is exposed to the risk that the price of such Covered Bond falls as a result of changes in the market interest rate. While the nominal interest rate of a Fixed Rate Covered Bond as specified in the applicable Final Terms is fixed during the life of such Covered Bond, the current interest rate on the capital markets (**market interest rate**) typically changes on a daily basis. As the market interest rate changes, the price of a Fixed Rate Covered Bond also changes, but in the opposite direction.

If the market interest rate increases, the price of a Fixed Rate Covered Bond typically falls, until the yield of such Covered Bond is approximately equal to the market interest rate.

If the market interest rate falls, the price of a Fixed Rate Covered Bond typically increases, until the yield of such Covered Bond is approximately equal to the market interest rate. If the Holder of a Fixed Rate Covered Bond holds such Covered Bond until maturity, changes in the market interest rate are not relevant to such Holder as the Covered Bond will be redeemed at a specified redemption amount, usually the principal amount of such Covered Bond.

In the case of Fixed Rate Covered Bonds with an interest commencement date not equal to the issue date, such instruments will have a lower yield than Fixed Rate Covered Bonds with an interest commencement date equal to the issue date. In the event that such Fixed Rate Covered Bonds are sold in the secondary market before accrual of interest begins, investors may face a negative yield.

Where an investor purchases Covered Bonds at an issue price (including any fees or transaction costs in connection with such purchase) higher than or equal to the sum of the redemption amount of the Covered Bonds and all remaining interest payments on the Covered Bonds until the maturity date, the investor may receive no yield or a negative yield.

Floating Rate Covered Bonds

The Holder of a Covered Bond with a floating rate of interest (**Floating Rate Covered Bond**) is exposed to the risk of fluctuating reference rates such as the Euro Interbank Offered Rate (**EURIBOR**), the London Interbank Offered Rate (**LIBOR**) or the Warsaw Interbank Offered Rate (**WIBOR**) as applicable and uncertain interest income. Fluctuating reference rate levels make it impossible to determine the yield of Floating Rate Covered Bonds in advance.

Furthermore, where the Floating Rate Covered Bonds do not provide for a minimum rate of interest above zero per cent., investors may not receive any interest payments during one or more interest periods if the applicable reference rate decreases or increases (in the case of Reverse Floating Rate Covered Bonds (as defined below)) to a certain level.

In case of a low floating rate of interest and where an investor purchases Covered Bonds at an issue price (including any fees or transaction costs in connection with such purchase) higher than or equal to the sum of the redemption amount of the Covered Bonds and all remaining interest payments on the Covered Bonds until the maturity date, the investor may receive no yield or a negative yield.

Fixed to Floating Rate Covered Bonds

Fixed to Floating Rate Covered Bonds are Covered Bonds which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Covered Bonds as the change of interest basis may result in a lower interest return for Covered Bondholders. Where the Covered Bonds convert from a fixed rate to a floating rate, the spread on the Fixed to Floating Rate Covered Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Covered Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. Where the Covered Bonds convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Covered Bonds and could affect the market value of an investment in the relevant Covered Bonds.

Zero Coupon Covered Bonds

Zero Coupon Covered Bonds do not pay current interest but are issued at a discount from their nominal value. The difference between the redemption price and the issue price constitutes interest income until maturity and reflects the market interest rate. The Holder of a Zero Coupon Covered Bond is exposed to the risk that the price of such Covered Bond falls as a result of changes in the market interest rate. Prices of Zero Coupon Covered Bonds are more volatile than prices of Fixed Rate Covered Bonds and are likely to fluctuate more in relation to market interest rate changes than interest-bearing Covered Bonds with a similar maturity.

Currency risk

The Bank will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Covered Bonds; (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds; and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Bank to make payments in respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Additionally, although the Covered Bonds will be denominated in the Specified Currency, if a judgement in the Polish courts is made in the Specified Currency without explicit indication that the claim can only be fulfilled in the Specified Currency, the enforcement of such judgement would be made in PLN, which means an investor becomes exposed to currency risk as the currency of its investment has changed. If PLN moves against the Specified Currency after judgement and before the judgement is fully enforced, the investor might incur a loss due to currency fluctuation.

Furthermore, in the course of bankruptcy proceedings, in principle the claims of the Bank's creditors denominated in any currency other than PLN will be placed on the list of claims in PLN at the exchange rate of the NBP as at the date of the Bankruptcy Event, and in the absence of such exchange rate – according to the average market price on that day. Entering the claim on the list of claims in PLN does not result in the conversion of the claim denominated in a foreign currency into a claim denominated in PLN; however, all payments made as a result of the implementation of the distribution plan prepared based on the list of claims shall be made in PLN. The Bank, after consultation with its advisers, has concluded that, in the course of bankruptcy proceedings, the abovementioned provisions relating to satisfaction of claims as a result of the implementation of the distribution plan after conversion into PLN should not apply to the Covered Bonds, and consequently all payments under the Covered Bonds should be made in accordance with their respective terms and conditions in the Specified Currency. However, as the relevant provisions of the Polish Bankruptcy Law relating to the bankruptcy of mortgage banks have been recently amended and have not been tested in practice, the Bank cannot exclude the possibility that bankruptcy administrators appointed in the course of bankruptcy proceedings of the Bank might interpret the relevant legislation in a different manner.

The regulation and reform of "benchmarks" may adversely affect the value of Covered Bonds linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks", including EURIBOR, LIBOR and WIBOR, are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a "benchmark".

The Benchmark Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Bank) of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmark Regulation could have a material impact on any Covered Bonds linked to or referencing EURIBOR, LIBOR or WIBOR, in particular, if the methodology or other terms of EURIBOR, LIBOR or WIBOR are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of EURIBOR, LIBOR or WIBOR.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the UK Financial Conduct Authority (**FCA**) confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (**SONIA**) over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**€STR**) as the new risk free rate. €STR is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

It is not possible to predict with certainty whether, and to what extent, EURIBOR, LIBOR or WIBOR will continue to be supported going forwards. This may cause EURIBOR, LIBOR or WIBOR, to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have the following effects on certain "benchmarks" (including EURIBOR, LIBOR and WIBOR): (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to or referencing EURIBOR, LIBOR or WIBOR.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing EURIBOR, LIBOR or WIBOR.

The Terms and Conditions of Covered Bonds provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if an Original Reference Rate and/or any page on which an Original Reference Rate may be published, becomes unavailable, or if the Issuer, the Calculation Agent, any Paying Agent or any other party responsible for the calculation of the Rate of Interest (as specified in the applicable Final Terms) are no longer permitted lawfully to calculate interest on any Covered Bonds by reference to such an Original Reference Rate under the Benchmarks Regulation or otherwise. Such fallback arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions), with or without the application of an adjustment spread. An adjustment spread, if applied could be positive or negative and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of an Original Reference Rate. However, it may not be possible to determine or apply an adjustment spread and even if an adjustment is applied, such adjustment spread may not be effective to reduce or eliminate economic prejudice to investors. If no adjustment spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest. The use of a Successor Rate or Alternative Rate (including with the application of an adjustment spread) will still result in any

Covered Bonds linked to or referencing an Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Meetings of Holders of Covered Bonds

The Terms and Conditions of the Covered Bonds contain provisions for calling meetings of their respective Covered Bond Holders to consider matters affecting the interests of such Covered Bond Holders generally. These provisions permit defined majorities to bind all Covered Bond Holders who did not attend and vote at the relevant meeting and Covered Bond Holders who voted in a manner contrary to the majority. As a result, Covered Bond Holders can be bound by the result of a vote that they voted against.

Additionally, under the Polish Act on Bonds, the resolutions of meetings of Holders of listed Covered Bonds amending the provisions of the Conditions or the Final Terms concerning: (i) the amounts payable by the Bank under the Covered Bonds, the manner of determining these amounts, including conditions of payment of interest; (ii) the dates, place and the manner of making payments under the Covered Bonds and the dates on which persons entitled to receive payments under the Covered Bonds are determined; (iii) convening, holding and adopting resolutions by the meeting of Holders; and (iv) lowering the principal amount of the Covered Bonds require consent of all Holders attending the meeting and the consent of the Bank. This means the Bank or a holder of a single Covered Bond may prevent an amendment to the Conditions or the Final Terms which would be beneficial for a majority of Holders of the Covered Bonds.

Clearing Systems

Because the global covered bonds representing the Covered Bonds (each a **Global Covered Bond** and, together, the **Global Covered Bonds**) may be held by or on behalf of Euroclear, with its registered address at 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium and/or Clearstream Luxembourg, with its registered address at 42 Avenue Kennedy, L-1855 Luxembourg, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Bank.

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bond(s). Such Global Covered Bond will be deposited on the issue date with a common safekeeper (in the case of Covered Bonds issued in new global covered bond (NGCB) form) or common depository (in any other case) for Euroclear or Clearstream, Luxembourg. Investors will not be entitled to receive definitive Covered Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bond(s), investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Covered Bonds are represented by one or more Global Covered Bond(s) the Bank will discharge its payment obligations under the Covered Bonds by making payments to the common depository or to the common safekeeper (in the case of Covered Bonds issued in NGCB form), as the case may be, for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Covered Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Covered Bonds. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

RISKS RELATED TO THE ADMISSION OF THE COVERED BONDS TO TRADING ON A REGULATED MARKET

An active secondary market in respect of the Covered Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Covered Bonds

Application may be made to list the Covered Bonds to be issued under the Programme on the Official List of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) and/or the Warsaw Stock Exchange (*Gięlda Papierów Wartościowych w Warszawie S.A.*) and to admit to trading such Covered Bonds on the Regulated Market of the

Luxembourg Stock Exchange and/or on the Regulated Market of the Warsaw Stock Exchange. In addition, the Programme provides that Covered Bonds may be listed on other or further stock exchanges or may not be listed at all. Regardless of whether the Covered Bonds are listed or not, there can be no assurance that a liquid secondary market for the Covered Bonds will develop or, if it does develop, that it will continue. The fact that the Covered Bonds may be listed does not necessarily lead to greater liquidity than if they were not listed. If the Covered Bonds are not listed on any exchange, pricing information for such Covered Bonds may, however, be more difficult to obtain, which may affect the liquidity of the Covered Bonds adversely. In an illiquid market, an investor might not be able to sell his Covered Bonds at any time at fair market prices. The possibility to sell the Covered Bonds might additionally be restricted due to currency restrictions.

Market value of Covered Bonds

The market value of Covered Bonds might change significantly on a daily basis. The price at which a Holder will be able to sell Covered Bonds prior to maturity may be at a discount, which could be substantial, from the relevant issue price of the Covered Bonds or the purchase price paid by such purchaser. The historical market prices of reference rates or an index should not be taken as an indication of reference rates' or an index's future performance during the term of any Covered Bond.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will, unless otherwise specified in the applicable Final Terms, be applied by the Bank as follows:

- (a) where "General Corporate Purposes" is specified in the applicable Final Terms, for its general corporate purposes; or
- (b) where "Green Covered Bonds" is specified in the applicable Final Terms, to refinance existing loans in the Cover Pool or acquire new loans which, in each case, are secured over energy efficient buildings.

If, in respect of any particular issue, there is a particular identified use of proceeds other than using the net proceeds for the Bank's general corporate purposes, then this will be stated in the relevant Final Terms.

FORM OF THE COVERED BONDS

Each Tranche of Covered Bonds will be in bearer form and will be initially issued in the form of a temporary global covered bond (a **Temporary Global Covered Bond**) or, if so specified in the applicable Final Terms, a permanent global covered bond (a **Permanent Global Covered Bond**) which, in either case, will:

- (i) if the Global Covered Bonds are intended to be issued in NGCB form, as stated in the applicable Final Terms, be delivered on or prior to the Issue Date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream, Luxembourg; and
- (ii) if the Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the Issue Date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

Where the Global Covered Bonds issued in respect of any Tranche are in NGCB form, the applicable Final Terms will also indicate whether such Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Covered Bonds are to be so held does not necessarily mean that the Covered Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms. Each Temporary Global Covered Bond (if it will not be exchanged) and/or Permanent Global Covered Bond will be kept in custody by or on behalf of a Common Safekeeper until all obligations of the Bank under the Covered Bonds have been satisfied. While any Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein for interests in a Permanent Global Covered Bond of the same Series. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Covered Bond if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (**TEFRA C**) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (**TEFRA D**) are applicable in relation to the Covered Bonds or, if the Covered Bonds do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Where TEFRA D is specified in the applicable Final Terms, the following legend will appear on the applicable Permanent Global Covered Bond:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Covered Bonds and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Covered Bonds or interest.

Covered Bonds which are represented by a Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Agent (as defined under "*Terms and Conditions of the Covered Bonds*") shall arrange that, where a further Tranche of Covered

Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds at a point after the Issue Date of the further Tranche, the Covered Bonds of such further Tranche shall be assigned, if so required, a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Covered Bonds of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series/Tranche of Covered Bonds issued under the Programme.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, **MiFID II**)]**[MiFID II]**; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Luxembourg, [Date]

ING BANK HIPOTECZNY S.A.

Legal entity identifier (LEI): 2594006G5AW3PX0GET92

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]

under the EUR5,000,000,000

Programme for the issuance of Covered Bonds (*hipoteczne listy zastawne*)

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 5 September 2019 [and the supplement[s] to it dated [] [and []], which [together] constitute[s] a base prospectus for the purposes of the Regulation (EU) 2017/1129 (the **Prospectus Regulation**) (the **Base Prospectus**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 8.4 of the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange website (www.bourse.lu), on the website of the Bank (www.inghipoteczny.pl), and is available for viewing at and collection from the registered office of ING Bank Hipoteczny S.A., at ul. Chorzowska 50, 40-101 Katowice, Poland and the office of Deutsche Bank AG, London Branch (in its capacity as the Principal Paying Agent) at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom .

1. (a) Series Number: []
(b) Tranche Number: []
(c) Date on which the Covered Bonds will be consolidated and form a single Series: The Covered Bonds will be consolidated and form a single Series with [*identify issue amount/ISIN/maturity date/issue date of earlier Tranche(s)*] on [the Issue Date/the exchange date of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency: []
3. Aggregate Nominal Amount:
(a) Series: []

- (b) Tranche: []
- (c) Issue Price (per Covered Bond): [] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest amounting to *[insert Specified Currency and amount of accrued interest]* for *[insert number of days]* days for the period from, and including [the Interest Commencement Date]*[insert date]* to, but excluding [the Issue Date] *[insert date]*]
(Zero Coupon Covered Bonds can be issued only at a discount.)
4. (a) Specified Denominations: []
(Covered Bonds of each Series must have only one Specified Denomination with a minimum denomination of €100,000 (or equivalent)).
- (b) Calculation Amount: []
(Insert the relevant Specified Denomination.)
5. (a) Issue Date: []
- (b) Interest Commencement Date: (An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)
- Period to Maturity Date: [Specify/Issue Date/Not Applicable]
- Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [Specify/Maturity Date/Not Applicable]
6. Maturity Date: [Specify date or for Floating Rate Covered Bonds – Interest Payment Date falling in or nearest to *[specify month and year]*]
7. Interest Basis:
- Period to Maturity Date: [] per cent. per annum Fixed Rate]
[[[] month [WIBOR/LIBOR/EURIBOR]] +/- [] per cent. Floating Rate]
[Zero Coupon]
(see paragraph [11]/[12]/[13(a)] below)
- Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [] per cent. per annum Fixed Rate]
[[[] month [WIBOR/LIBOR/EURIBOR]] +/- [] per cent. Floating Rate]
[Zero Coupon]
(see paragraph [11]/[12]/[13(a)] below)
8. Redemption/Payment Basis: Redemption at par
9. Change of Interest Basis [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [11/12] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [11/12] applies] [Not Applicable]
10. Date of Management Board approval for issuance of Covered Bonds obtained: [] [and []], respectively]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

11. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [[] per Calculation Amount/Not Applicable]
- (d) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment

- Date falling [in/on] []/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)]
[30/360]
- (f) Determination Date(s): [] in each year] [Not Applicable]
(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon.)
- (g) Party responsible for calculating amounts payable: [Agent/[if not the Agent, insert details of Calculation Agent]]
12. Floating Rate Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: [] subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not applicable]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount: [Agent/[if not Agent, insert details of Calculation Agent]]
- (f) Screen Rate Determination:
- (i) Reference Rate: [] month [[WIBOR]/[LIBOR]/[EURIBOR]].
- (ii) Interest Determination Date(s): []
(Second Warsaw business day prior to the start of each Interest Period if WIBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- (iii) Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate)
- (iv) Reference Banks: []
- (g) ISDA Determination:
- (i) Floating Rate Option: []
- (ii) Designated Maturity: []

(iii) Reset Date: []

(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

(N.B. The fall-back provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)

(h) Linear Interpolation [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]

(i) Margin(s): [+/-][] per cent. per annum

(j) Minimum Rate of Interest: [[] per cent. per annum]/[Not Applicable]

(k) Maximum Rate of Interest: [[] per cent. per annum]/[Not Applicable]

(l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]

[Actual/365 (Fixed)]

[Actual/365 (Sterling)]

[Actual/360]

[30/360][360/360][Bond Basis]

[30E/360][Eurobond Basis]

[30E/360 (ISDA)]

13. Zero Coupon Covered Bond Provisions [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Accrual Yield: [] per cent. per annum

(b) Reference Price: []

PROVISIONS RELATING TO REDEMPTION

14. Final Redemption Amount of each Covered Bond: [] per Calculation Amount

(N.B.: In relation to any issue of Covered Bonds which are expressed at item 4 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it, the following wording should be added: "For the avoidance of doubt, in the case of a holding of Covered Bonds in an integral multiple of [] in excess of [] as envisaged in item 4 above, such holding will be redeemed at its nominal amount.")

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

15. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Warsaw] / [London] / [Brussels] / [Not Applicable] / []

(Note that this item relates to the date of payment as referred to under Condition 4(c))

FORM OF COVERED BONDS

16. Form of Covered Bonds:

(a) Form: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond]

[Permanent Global Covered Bond]

(b) New Global Note: [Yes/No]

THIRD PARTY INFORMATION

[] has been extracted from []. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Bank:

By:

Duly authorised

ING BANK HIPOTECZNY S.A.

By:

Duly authorised

By:

Duly authorised

COVER POOL MONITOR OF ING BANK HIPOTECZNY S.A.

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Luxembourg/Warsaw/None/*specify other*]
- (ii) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange/Warsaw Stock Exchange/*specify other*] with effect from []]/[Not Applicable.]

2. RATINGS

Ratings: [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The list of registered and certified rating agencies is published by the European Securities and Markets Authority on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.]/[Not Applicable.]

[Need to include a brief explanation of the ratings if this has previously been published by the rating provider.]

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUES

[Save for the fees [of [*insert relevant fee disclosure*]] payable to the [Managers/Dealers], so far as the Bank is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business.] [*Amend as appropriate if there are other interests*]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND EXPENSES RELATING TO ADMISSION TO TRADING

- (i) Reasons for the offer [General Corporate Purposes]/[Green Covered Bonds]/[*description of the reasons for the offer if not "General Corporate Purposes" or "Green Covered Bonds"*]
- (ii) Estimated net amount of the proceeds []
- (iii) Estimated expenses relating to the admission to trading []/[Not Applicable]

5. YIELD (Fixed Rate Covered Bonds only)

Indication of yield: []/[Not Applicable]

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) CFI: [[Include code], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[Not Applicable]/[Not Available]
- (iv) FISN: [[Include code], as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or

- alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[Not Applicable]/[Not Available]
- (v) Any clearing system(s) other than Clearstream Luxembourg [./and], Euroclear Bank S.A./N.V. and the relevant address(es) and identification number(s): [Not Applicable/give name(s), address(es) and identification number(s)]
- (vi) Delivery: Delivery [free of/against] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): []/[Not Applicable]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

7. DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/give names]
- (iii) Date of Subscription Agreement: [Not Applicable/insert date]
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/give name and address]
- (v) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- (vi) U.S. Selling Restrictions: [[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
- (If the Covered Bonds clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)*
- (viii) Prohibition of Sales to Belgian Consumers: [Applicable/Not Applicable]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the terms and conditions of the Covered Bonds which will be incorporated by reference into, and will form part of, each Global Covered Bond (as defined below). The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

The Covered Bonds are mortgage covered bonds (*hipoteczne listy zastawne*) issued by ING Bank Hipoteczny Spółka Akcyjna (the **Bank**), a joint-stock company with its registered office in Katowice, Poland, at ul. Chorzowska 50, 40-101 Katowice, registered in the register of entrepreneurs of the National Court Register maintained by the District Court Katowice-Wschód in Katowice, VIII Commercial Division of the National Court Register, under number 0000723965, with the fully paid-up share capital of PLN 210,000,000, NIP number 205-000-51-99, with the corporate website www.inghipoteczny.pl pursuant to the resolution of the Supervisory Board of the Bank No. 23/4/2019 dated 9 May 2019 and the Agency Agreement (as defined below).

The place of issue of the Covered Bonds is Luxembourg.

References herein to the **Covered Bonds** shall be references to the Covered Bonds of the relevant Tranche and shall mean:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a **Global Covered Bond**), units of each Specified Denomination in the Specified Currency; and
- (b) any Global Covered Bond.

The Covered Bonds have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 5 September 2019 and made between the Bank and Deutsche Bank AG, London Branch as principal paying agent (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for the Covered Bonds (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on the Global Covered Bond pertaining thereto, which complete these terms and conditions of the Covered Bonds (the **Conditions**). References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on the Global Covered Bond for the relevant Covered Bonds.

The Global Covered Bonds do not have interest coupons attached on issue.

Any reference to **Covered Bond Holders** or **Holders** in relation to any Covered Bonds shall mean the holders of the Covered Bonds and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Bank and of the Agent and copies may be obtained from those offices save that, if the Covered Bonds are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation, the applicable Final Terms will only be obtainable by a Covered Bond Holder holding one or more Covered Bonds and such Covered Bond Holder must produce evidence satisfactory to the Bank and the relevant Paying Agent as to its holding of such Covered Bonds and identity. If the Covered Bonds are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Words and expressions used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated. In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer form and are serially numbered, in the currency (the **Specified Currency**) and in the denominations for each Series (the **Specified Denomination(s)**) specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds may be Fixed Rate Covered Bonds or Floating Rate Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis and the determination in Change of Interest Basis shown in the applicable Final Terms. Alternatively, the Covered Bonds may be Zero Coupon Covered Bonds depending upon the Interest Basis shown in the applicable Final Terms.

Subject as set out below, title to the Covered Bonds is effected by agreement on the transfer among the relevant parties and by delivery or otherwise in accordance with any applicable laws and regulations including the rules of any relevant Clearing System.

The Bank and the Paying Agents will (except as otherwise required by law) deem and treat the Holder of any Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but without prejudice to the provisions set out in the next succeeding paragraph.

The applicable Final Terms will specify whether the Covered Bonds will be issued in new global note form.

The applicable Final Terms will specify the initial Aggregate Nominal Amount of the relevant Tranche and, in the event of a further Tranche to be consolidated with an existing Tranche or Tranches, the Aggregate Nominal Amount of the relevant Series of Covered Bonds.

The Aggregate Nominal Amount of the relevant Series of Covered Bonds represented by the Temporary Global Covered Bond(s) and the Permanent Global Covered Bond(s) shall be the aggregate nominal amount from time to time entered in the records of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). The records of Euroclear or Clearstream, Luxembourg (which expression means the records that of Euroclear or of Clearstream, Luxembourg holds for its customers which reflect the amount of such customer's interest in the Covered Bonds) shall be conclusive evidence of the aggregate nominal amount of the Covered Bonds represented by the Temporary Global Covered Bond and the Permanent Global Covered Bond and, for these purposes, a statement issued by a Euroclear or by Clearstream, Luxembourg stating the aggregate nominal amount of the Covered Bonds so represented at any time shall be conclusive evidence of the records of Euroclear or of Clearstream, Luxembourg at that time.

2. STATUS OF THE COVERED BONDS

The Covered Bonds are direct, unconditional and unsubordinated obligations of the Bank and rank pari passu among themselves. The Covered Bonds are covered in accordance with the Polish Act dated 29 August 1997 on Covered Bonds and Mortgage Banks (*Ustawa z dnia 29 sierpnia 1997 r. o listach zastawnych i bankach hipotecznych*, the **Polish Covered Bonds Act**) and rank pari passu with all other unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.

3. INTEREST

The applicable Final Terms determine whether the Covered Bonds of a given Series are Fixed Rate Covered Bonds, Floating Rate Covered Bonds, or any combination thereof (depending upon the Interest Basis and the determination in Change of Interest Basis shown in the applicable Final Terms), or Zero Coupon Covered Bonds.

(a) *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date, subject to Condition 5(c) (in which case it shall be paid until the Extended Maturity Date or Additionally Extended Maturity Date, as the case may be).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Fixed Coupon Amounts are calculated by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the

relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or, in case of the first interest period, the Interest Commencement Date) to (but excluding) the next Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period such interest shall be calculated in respect of such period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 3:

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (I) the number of days in such Determination Period; and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of: (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Covered Bonds*

(i) Interest Payment Dates

Each Floating Rate Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 3(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Luxembourg and each Relevant Business Centre specified in the applicable Final Terms;
 - (B) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
 - (C) a day on which Clearstream, Luxembourg and Euroclear are offsetting money and securities transfers.
- (ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

- (A) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity and Reset Date** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Covered Bonds

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or WIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 11.00 am (Warsaw time in the case of WIBOR) on the Interest Determination Date in question plus or minus (as specified in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

In the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, the Bank and/or an agent appointed by the Bank shall request each of the Reference Banks to provide its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 11.00 am (Warsaw time in the case of WIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Bank and/or an agent appointed by the Bank.

As used herein, **Reference Banks** means the principal office of the bank or banks specified as such in the Final Terms or such other prime bank or banks as may be appointed as such by the Agent after consultation with the Bank.

If on any Interest Determination Date only one of the Reference Banks provides the Agent with a quotation as provided in the foregoing provisions of this paragraph, the Rate of Interest shall be the sum of the relevant quotation (rounded, if necessary, to the nearest 0.001 per cent (0.0005 per cent. being rounded upwards)) and the Margin (as applicable), all as determined by the Agent.

If on any Interest Determination Date none of the Reference Banks provides the Agent with a quotation, the Rate of Interest shall be (i) the rate determined on the previous Interest Determination Date (if any) or (ii) if there is no such previous Interest Determination Date, the Rate of Interest in the last preceding Interest Period, in each case, substituting, where a different margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the margin relating to the relevant Interest Period in place of the margin relating to that last preceding Interest Period.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 3(b)(ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 3(b)(ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Agent, in the case of Floating Rate Covered Bonds, will at, or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 3(b):

- (A) if **Actual/Actual (ISDA)** or **Actual/Actual** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (F) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (G) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

- (v) **Linear Interpolation**

Where Linear Interpolation is specified in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next than shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

- (vi) **Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bank and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 9 as soon as possible after their determination but in no event later than the fourth Luxembourg Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bond Holders in accordance with Condition 9. For the purposes of this paragraph, the

expression **Luxembourg Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in Luxembourg.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b) by the Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Agent, the other Paying Agents and all Covered Bond Holders and (in the absence of wilful default or bad faith) no liability to the Bank or the Covered Bond Holders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(viii) Accrual of interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at a level specified under the provisions of the Polish Civil Code dated 23 April 1964 (*Ustawa z dnia 23 kwietnia 1964 r. Kodeks cywilny*, the **Civil Code**) until whichever is the earlier of:

- (A) the date on which all amounts due in respect of such Covered Bond have been paid; and
- (B) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent and notice to that effect has been given to the Holders in accordance with Condition 9.

(ix) Benchmark discontinuation

(A) Independent Adviser

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Bank shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to advise the Bank in determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3(b)(ix)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 3(b)(ix)(D)). In making such determination, the Bank shall act in good faith as an expert. In the absence of fraud, the Independent Adviser shall have no liability whatsoever to the Bank, the Agent or the Holders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 3(b)(ix).

If the Bank is unable to appoint an Independent Adviser in accordance with this Condition 3(b)(ix)(A), the Bank, acting in good faith, may still determine (i) a Successor Rate or Alternative Rate and (ii) in either case, an Adjustment Spread and/or any Benchmark Amendments in accordance with this Condition 3(b)(ix) (with the relevant provisions in this Condition 3(b)(ix) applying mutatis mutandis to allow such determinations to be made by the Bank without consultation with an Independent Adviser). Where this Condition 3(b)(ix) applies, without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Rate, Adjustment Spread and/or Benchmark Amendments (as the case may be), the Bank will take into account any relevant and applicable market precedents and customary market usage as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets.

For the avoidance of doubt, none of the Agents shall be obliged to monitor or inquire whether a Benchmark Event has occurred or have any liability in respect thereof.

(B) Successor Rate or Alternative Rate

If the Bank, following consultation with the Independent Adviser, determines that:

- (I) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component

part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 3(b)(ix)); or

- (II) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Covered Bonds (subject to the operation of this Condition 3(b)(ix)).

(C) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(D) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 3(b)(ix) such Successor Rate or, failing which, the Alternative Rate (as applicable) shall subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part thereof) by reference to such Successor Rate or the Alternative Reference Rate. Such amendments shall not impose more onerous obligations on the party responsible for determining the Rate of Interest or expose it to any additional duties or liabilities without this party's consent.

(E) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3(b)(ix) will be notified promptly by the Bank to the Agent, the Calculation Agent, the Paying Agents in accordance with Condition 9.

No later than notifying the Agent of the same, the Bank shall deliver to the Agent a certificate signed by two authorised signatories of the Issuer:

- (I) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 3(b)(ix); and
- (II) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Agent shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Agent's ability to rely on such certificate as aforesaid) be binding on the Bank, the Agent, the Calculation Agent, the Paying Agents and the Holders.

(F) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 3(b)(ix) (A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 3(b)(iv) will continue to apply unless and until a Benchmark Event has occurred.

(G) Instructions to the Agents

Notwithstanding any other provision of this Condition 3(b)(ix), if in the Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 3(b)(ix), the Agent shall promptly notify the Issuer and/or the Independent Adviser thereof and the Issuer shall direct the Agent in writing as to which alternative course of action to adopt. If the Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any

reason, it shall notify the Issuer and/or the Independent Adviser (as the case may be) thereof and Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(H) Definitions:

As used in this Condition 3(b)(ix):

Adjustment Spread means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (I) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)
- (II) the Bank, following consultation with the Independent Adviser, determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Bank determines that no such spread is customarily applied)
- (III) the Bank, following consultation with the Independent Adviser, determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

Alternative Rate means an alternative benchmark or screen rate which the Bank, following consultation with the Independent Adviser, determines in accordance with Condition 3(b)(ix)(B) is customary applied in the international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Covered Bonds.

Benchmark Amendments has the meaning given to it in Condition 3(b)(ix)(D).

Benchmark Event means:

- (I) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (II) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (III) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (IV) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally or in respect of the Covered Bonds; or
- (V) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Holder of the Covered Bonds using the Original Reference Rate,

provided that in the case of sub-paragraphs (II), (III) and (IV), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

Independent Adviser means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 3(b)(ix)(A).

Original Reference Rate means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Bank.

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (I) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (II) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

Successor Rate means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(c) **Interest Rates Positive**

Unless specified otherwise in the applicable Final Terms, the rate of interest payable in respect of the Covered Bonds shall never be less than zero. If the method for determining a rate of interest applicable to the Covered Bonds would result in a negative figure, the applicable rate of interest would be zero.

(d) **No Periodic Payments of Interest on Zero Coupon Covered Bonds**

There will be no periodic payments of interest on any Zero Coupon Covered Bonds.

4. PAYMENTS

(a) **Method of payment**

Subject as provided below, Holders will receive payments as follows:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the Holder with a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the Holder.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(b) **Payments**

Payments of principal and interest (if any) in respect of Covered Bonds will (subject as provided below) be made in the manner specified and otherwise in the manner specified in the relevant Global Covered Bond, where applicable, against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

The holder of a Global Covered Bond shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Bank will be discharged by payment to, or to the order of, the holder of such Global Covered Bond in respect of each amount so paid. Each of the persons

shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Bank to, or to the order of, the holder of such Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

- (i) the Bank has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.

(c) *Payment Day*

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 7) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Relevant Financial Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) a day on which Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(d) *Interpretation of principal and interest*

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 6;
- (ii) the Final Redemption Amount of the Covered Bonds; and
- (iii) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

5. **REDEMPTION AND PURCHASE**

(a) *Redemption at maturity*

Subject to Condition 5(c) and Condition 5(g), unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Bank at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) *No redemption at the option of the Covered Bond Holders (Investor Put)*

The Covered Bond Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.

(c) *Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*

(i) In these Conditions:

Bankruptcy Event means the announcement of the bankruptcy of the Bank (*ogłoszenie upadłości*) by a Polish bankruptcy court in accordance with the Polish Bankruptcy Law;

Bankruptcy Receiver means the receiver (*syndyk*) appointed by the bankruptcy court in respect of the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law;

Coverage Test means the coverage test (*test równowagi pokrycia*) as defined in the Polish Covered Bonds Act, performed by the Bankruptcy Receiver to determine whether the Separate Bankruptcy Asset Pool is sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full;

Cover Pool Register means the cover pool register (*rejestr zabezpieczenia listów zastawnych*) maintained by the Bank in accordance with the provisions of the Polish Covered Bonds Act;

Liquidity Test means the liquidity test (*test płynności*) as defined in the Polish Bankruptcy Law, performed by the Bankruptcy Receiver to determine whether the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the maturity of all outstanding covered bonds issued by the Bank extended by 12 months;

Partial Separate Bankruptcy Asset Pool Sale means the sale of a portion of the assets constituting the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law;

Polish Accounting Act means the Polish Act dated 29 September 1994 on Accounting (*Ustawa z dnia 29 września 1994 r. o rachunkowości*);

Polish Bankruptcy Law means the Polish Act dated 28 February 2003 Bankruptcy Law (*Ustawa z dnia 28 lutego 2003 r. Prawo upadłościowe*);

Qualifying Hedging Instruments means hedging arrangements to which the Bank is a party which satisfy the conditions of the Polish Covered Bonds Act and the Polish Accounting Act;

Separate Bankruptcy Asset Pool means a separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank created on the date of the Bankruptcy Event to satisfy claims of all holders of outstanding covered bonds issued by the Bank and counterparties to Qualifying Hedging Instruments;

Separate Bankruptcy Asset Pool Sale means the sale of all of the assets constituting the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law; and

Underlying Receivables means the receivables which are the basis for the issuance of the covered bonds issued by the Bank.

(ii) Upon the occurrence of a Bankruptcy Event, the maturity date of all covered bonds issued by the Bank shall be automatically extended by 12 months (the **Extended Maturity Date**).

(iii) With respect to the Coverage Test and the Liquidity Test to be conducted by the Bankruptcy Receiver within three months of the date of the Bankruptcy Event in accordance with the Polish Covered Bonds Act:

(A) If the Coverage Test and the Liquidity Test each confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, the Bank's obligations towards the Covered Bond Holders shall be fulfilled in accordance with these Conditions and the applicable Final Terms taking into account the Extended Maturity Date and paragraph (iv) below.

Notwithstanding the above, the Covered Bond Holders, together with the holders of all outstanding covered bonds issued by the Bank may, not later than two months following the announcement of the results of the Coverage Test and the Liquidity Test by the Bankruptcy Receiver, by a vote of holders representing two-thirds of the aggregate nominal amount of all outstanding covered bonds of the Bank, instruct the Bankruptcy Receiver to conduct a Separate Bankruptcy Asset Pool Sale (a) to another mortgage bank, with the transfer of the obligations of the Bank under all of the outstanding covered bonds of the Bank in which case payments of principal and interest under the Covered Bonds will be made by the mortgage bank acquiring the Separate Bankruptcy Asset Pool or (b) to another mortgage bank or a bank, without such transfer, in which case payments of principal and interest under the Covered

Bonds will be made by the Bankruptcy Receiver from the proceeds from the Separate Bankruptcy Asset Pool Sale.

If the amount of proceeds received from the Separate Bankruptcy Asset Pool Sale, *less*, with respect to all outstanding covered bonds of the Bank:

- (I) the aggregate amount of interest that will become due and payable within six months from the Separate Bankruptcy Asset Pool Sale; and
- (II) the aggregate amount of principal and interest that had become due and payable prior to the date of the Bankruptcy Event but had not been paid prior to the date of Bankruptcy Event,

is equivalent to at least 5 per cent of the aggregate principal amount of all outstanding covered bonds of the Bank, the Bankruptcy Receiver may, at his discretion, repay the principal under the Covered Bonds (provided that payments are made pro rata to all holders of outstanding covered bonds of the Bank, including the Covered Bond Holders, and counterparties to the Qualifying Hedging Instruments) earlier than on the Extended Maturity Date. Such payment would be made on the next interest payment date, but in any event not earlier than 14 days after the date on which the decision of the judge-commissioner approving the Bankruptcy Receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

- (B) If the Coverage Test confirms that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, but the Liquidity Test fails to confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the maturity of all outstanding covered bonds issued by the Bank extended by 12 months, the Maturity Date of the Covered Bonds shall be extended by three years from the latest maturity date of an Underlying Receivable entered into the Cover Pool Register (the **Additionally Extended Maturity Date**).

However, if the available funds in the Separate Bankruptcy Asset Pool, *less*, with respect to all outstanding covered bonds of the Bank:

- (I) the aggregate amount of interest that will become due and payable within six months from the date of the performance of the Coverage Balance Test; and
- (II) the costs of bankruptcy proceedings with respect to the Separate Bankruptcy Asset Pool indicated in the Bankruptcy Receiver's report,

are equivalent to at least 5 per cent of the aggregate nominal value of the outstanding covered bonds issued by the Bank, payment of principal under the Covered Bonds shall be made on the next interest payment date falling at least 14 days after the date on which the decision of the judge-commissioner approving the Bankruptcy Receiver's report on the progress of the bankruptcy proceedings becomes final and binding; *provided that* such payments of principal shall be made pro rata to all holders of covered bonds issued by the Bank (including the Covered Bond Holders) and counterparties to the Qualifying Hedging Instruments (the **Pass-Through Procedure**).

Notwithstanding the above, the Covered Bond Holders, together with all holders of the outstanding covered bonds issued by the Bank, may, not later than three months following the date of the announcement of the results of the Coverage Test and the Liquidity Test, by a vote of holders representing two-thirds of the aggregate nominal amount of all outstanding covered bonds of the Bank:

- (I) disapply the Additionally Extended Maturity Date and the Pass-Through Procedure and revert to the Extended Maturity Date; or
- (II) instruct the Bankruptcy Receiver to conduct a Separate Bankruptcy Asset Pool Sale or Partial Separate Bankruptcy Asset Pool Sale to:
 - a. another mortgage bank, with the transfer of the obligations of the Bank under all of the outstanding covered bonds of the Bank;
 - b. a bank which is not a mortgage bank, without the transfer of the obligations of the Bank under all of the Bank's outstanding covered bonds, or

- c. an entity which is not a bank, with respect to assets the possession of which is not restricted to banks, without the transfer of the obligations of the Bank under all of the Bank's outstanding covered bonds,

in which case principal and all interest under the Covered Bonds shall become immediately due and payable.

(C) If the Coverage Test fails to confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, paragraph (B) above shall apply (including the Additionally Extended Maturity Date); *provided that* the vote by the holders of the outstanding covered bonds issued by the Bank on the Separate Bankruptcy Asset Pool Sale or Partial Separate Bankruptcy Asset Pool Sale referred in paragraph (B) above may occur at any time following the announcement of the results of the Coverage Balance Test.

(iv) Irrespective of the results of the Coverage Test and Liquidity Test, following the date of the Bankruptcy Event, any interest under the Covered Bonds shall be calculated on the basis of, and payable in the manner and on the dates indicated in the Conditions and the applicable Final Terms.

(v) In addition, if a Bankruptcy Event occurs after the Maturity Date and the aggregate nominal amount under the Covered Bonds which is due and payable had not been repaid prior to the Bankruptcy Event Date, the Bank shall, subject to the Additionally Extended Maturity Date, pay such aggregate nominal amount under the Covered Bonds within 12 months of the date of the Bankruptcy Event, but not earlier than after the first announcement on the results of the Coverage Test and the Liquidity Test.

This Condition 5(c) replicates mandatory provisions of Polish law, in particular the Polish Bankruptcy Law, as at the date of this Base Prospectus. In the event of a conflict between Condition 5(c) and mandatory provisions of Polish law, if and as amended from time to time, mandatory provisions of Polish law shall prevail. Changes (if any) in the mandatory provisions of Polish law which affect the provisions of this Condition 5(c) shall not create an obligation for the Bank to notify the Holders thereof unless otherwise required under applicable Polish law.

(d) *Purchases*

The Bank may at any time purchase Covered Bonds at any price in the open market or otherwise.

(e) *Cancellation*

All Covered Bonds which are redeemed or purchased by the Bank will forthwith be cancelled. All Covered Bonds so cancelled cannot be reissued or resold.

(f) *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 5(a) is improperly withheld or refused, default interest specified under Article 481 §2 of the Civil Code shall accrue on such amount.

(g) *Mandatory redemption in case of non-bankruptcy liquidation, merger, division or transformation under statutory provisions of Polish law*

Under the Polish Act dated 15 January 2015 on Bonds (*Ustawa z dnia 15 stycznia 2015 r. o obligacjach*) (the **Polish Act on Bonds**), if the Bank is subject to non-bankruptcy liquidation (*likwidacja*), the Bank shall redeem the Covered Bonds at par on the opening day of such non-bankruptcy liquidation (*likwidacja*) proceedings. If the Bank is subject to a merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (*likwidacja*), merger (*połączenie*), division (*podział*) and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meaning as prescribed under Polish law.

6. TAXATION

All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts as shall be necessary in order that the net

amounts received by the holders of the Covered Bonds after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Covered Bond by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond; or
- (b) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(c)); or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond to another Paying Agent in a Member State of the European Union.

Notwithstanding any other provision of these Conditions, in no event will the Bank be required to pay any additional amounts in respect of the Covered Bonds for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

- i. **Tax Jurisdiction** means Poland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which payments made by the Bank of principal and interest on the Covered Bonds become generally subject; and
- ii. the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bond Holders in accordance with Condition 9.

7. PRESCRIPTION

Claims against the Bank for payment under the Covered Bonds expire after ten years and may not be prescribed unless otherwise permitted by Polish law.

8. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Bank is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the Agent, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (b) the Bank undertakes that it will ensure that it maintains a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Bank is incorporated.

In addition, the Bank shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(b). Notice of any variation, termination, appointment or change in the

Paying Agents will be given to the Covered Bond Holders promptly by the Bank in accordance with Condition 9.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Bank and do not assume any obligation to, or relationship of agency or trust with, any Covered Bond Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

9. NOTICES

All notices regarding the Covered Bonds will be deemed to be validly given if published in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the Luxemburger Wort in Luxembourg. So long as the Covered Bonds are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the Luxemburger Wort in Luxembourg. The Bank shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. The Bank will deliver printouts of all information published on the Bank's website in accordance with the Polish Act on Bonds to ING Bank Śląski S.A.

So long as any Global Covered Bonds representing the Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Holders on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Covered Bond Holder shall be in writing and given by lodging the same with the Agent. While any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any Holder to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

10. FURTHER ISSUES

The Bank shall be at liberty from time to time without the consent of the Covered Bond Holders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

11. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing law

The Covered Bonds and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, Polish law.

(b) Submission to jurisdiction

The Polish common court appropriate for the registered seat of the Bank at the time of making a claim shall have non-exclusive jurisdiction for any action or other legal proceedings (**Proceedings**) arising out of or in connection with the Covered Bonds. The Polish courts shall have exclusive jurisdiction over lost or destroyed Covered Bonds.

(c) Enforcement

Any Holder of Covered Bonds may in any proceedings against the Bank, or to which such Holder and the Bank are parties, in his own name enforce his rights arising under such Covered Bonds on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of Covered Bonds (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of Covered Bonds

credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) or (ii) a copy of the Covered Bonds in global form certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the Global Covered Bond representing the Covered Bonds. For purposes of the foregoing, **Custodian** means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Covered Bonds and includes the Clearing System. Each Holder may, without prejudice of the foregoing, protect and enforce his rights under the Covered Bonds also in any other way which is permitted in the country in which the proceedings are initiated.

12. MEETINGS OF COVERED BOND HOLDERS MODIFICATION, WAIVER AND SUBSTITUTION

The meeting of the Covered Bond Holders may consider any matter affecting their interests under the Covered Bonds, including the sanctioning by a resolution of a modification of the Conditions. Such a meeting may be convened for each Series by the Bank and shall be convened by the Bank if required in writing by Covered Bond Holders holding not less than 10 per cent. in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act). The meeting of the Covered Bond Holders shall be convened by an announcement made at least 21 days before the date of the meeting published in accordance with Condition 9. The meeting of the Covered Bond Holders shall be held at the seat of the entity operating the regulated market (in the event the Covered Bond Holders are admitted to trading on a regulated market) or (in all other cases) in Warsaw, Poland. The quorum at any such meeting for passing a resolution is one or more persons holding or representing not less than 50 per cent. of the nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act), except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing the nominal value or the rate of interest payable in respect of the Covered Bonds or altering the currency of payment of the Covered Bonds), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act). A resolution passed at any meeting of the Covered Bond Holders shall be binding on all the Covered Bond Holders of the Series for which the meeting was held, whether or not they are present at the meeting. The resolutions shall be passed:

- (a) in case of reduction of the nominal value of the Covered Bonds – by an unanimous vote of all present Covered Bond Holders;
- (b) in case of:
 - i. modifications to the methods of calculating interest, and terms of payment (including reduction or cancellation) of interest;
 - ii. modifications as to the time, place or method of satisfying the claims of the Covered Bond Holders, including the date, as at which entitlement to these benefits is established; or
 - iii. the principles of convening, holding or adopting resolutions by the meeting of the Covered Bond Holders,by an unanimous vote of all present Covered Bond Holders (in case the Covered Bonds are admitted to trading on a regulated market) or by a majority of 75 per cent. of all present Covered Bond Holders (in case the Covered Bonds are not admitted to trading on a regulated market); and
- (c) in all other cases – by a majority vote.

Any changes to the Conditions approved by the Covered Bond Holders in the manner specified above shall only take effect if the Bank consents thereto. The Bank's statement concerning consent or the lack thereof for the change of the Conditions shall be published by the Bank on the Bank's website within seven days from the end of the meeting of the Covered Bond Holders. Failure to publish such statement means that the Bank does not grant its consent for the change of the Conditions.

Upon the occurrence of the Bankruptcy Event, the provisions of the Polish Bankruptcy Law with respect of meetings of holders of all outstanding covered bonds of the Bank shall prevail. For further details see Condition 5(c) above.

MARKET OVERVIEW

The Polish economy

Poland is the eighth largest and one of the most dynamic economies in the European Union. In 2018, it received developed market status from FTSE Russell and Stoxx. In 2018, real GDP growth in Poland reached 5.2 per cent., up from 4.9 per cent. in 2017, and, according to ING BSK, is set to grow by around 4.5 per cent. in 2019. The increase in household consumption expenditures remained the main growth contributor. Simultaneously, investment dynamics recovered, increasing from 3.9 per cent. in 2017 to 7.3 per cent. in 2019. Higher outlays were present in the case of infrastructure projects in the public sector, e.g., the development of motorways, railways and municipal utilities. Investment spending by larger companies also increased, while SME spending was weak.

Polish fiscal position in 2018 continued to improve, mostly due to a favourable economic environment but also due to a tightening in the tax system. Tax revenues grew by 11 per cent. as compared to 2017. The general government deficit declined from 1.4 per cent. of GDP in 2017 to 0.4 per cent. for 2018. The level of public debt dropped from 51 per cent. in 2017 to 49 per cent. of GDP in 2018.

The table below sets out the key economic indicators for Poland as 31 December 2018 and 31 December 2017.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Activity indicators		
Real GDP (per cent., year on year)	5.2	4.9
Private consumption (per cent., year on year)	4.5	4.5
Private investments (per cent., year on year)	8.8	3.5
Industrial production (per cent., year on year)	6.0	6.5
General government balance (per cent. of GDP)	-0.4	-1.4
Government debt (per cent. of GDP)	48.9	50.6
Registered unemployment rate (per cent.)	5.8	6.6
Nominal GDP (USD billion)	496	469
Prices		
CPI inflation rate (per cent., year on year average)	1.7	2.0
PPI inflation rate (per cent., year on year average)	2.2	2.9
Enterprise sector wage rates (per cent., year on year)	7.1	5.6
Market indicators		
3-months' interbank rate (per cent.)	1.72	1.72
EUR/PLN exchange rate (average)	4.27	4.24

Source: Polish Central Statistical Office (*Główny Urząd Statystyczny*, GUS), NBP

The Polish banking sector

Structure of the Polish banking sector

In line with KNF data, as at 30 May 2019, the total number of banks and branches of foreign credit institutions operating in Poland was 608: there were 31 domestic commercial banks, 32 branches of foreign credit institutions, and 545 cooperative banks operating in Poland.

The following table sets out the number of domestic commercial banks, foreign credit institutions and cooperative banks operating in Poland:

	30 May 2019	31 December 2018	31 December 2017
Total, including:	608	612	616
Domestic commercial banks	31	32	35
Branches of foreign credit institutions	32	31	28
Cooperative banks	545	549	553

Source: KNF's monthly data on the banking sector – July 2019

In 2018, the ownership structure in the Polish banking sector did not change significantly. The share of domestic investors in the banking sector's assets decreased slightly from 54.5 per cent. in 2017 to 53.6 per cent. in 2018. At the end of 2018, domestic investors controlled 13 commercial banks compared to 19 controlled by foreign investors.

Financial situation of the Polish banking sector

According to the KNF, the Polish banking sector was stable in 2018, which mainly reflected the good condition of the Polish economy and the improved mood of consumers and entrepreneurs.

The basic characteristics of the Polish banking sector are shown in the table below:

	2018	2017	Change 2017/2018
	<i>(in PLN billion)</i>		<i>(per cent.)</i>
Total assets	1,895.9	1,776.8	6.7
Deposits from the non-financial sector	1,161.4	1,070.4	8.5
Loans to non-financial sector	1,088.8	1,026.7	6.0

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

Total assets

In 2018, the nominal value of total assets of the Polish banking sector increased by almost 7 per cent. compared to 2017. This increase was significantly higher than in 2017, mainly because of the weakening of the PLN compared to the other main currencies. After the removal of the foreign exchange impact, the total assets increase was comparable to 2017.

The increase in total assets was mainly driven by loans to the non-financial sector. In 2018, a slight increase in assets denominated in foreign currencies was observed. In the structure the assets in foreign currencies, EUR and CHF were the most important currencies.

The structure of total assets in terms of foreign currencies is set out in the table below:

	2018	2017	Change 2017/2018
	<i>(in PLN billion)</i>		<i>(per cent.)</i>
PLN	1,535.2	1,421.7	8.0
EUR	202.8	191.5	5.9
CHF	110.9	114.5	-3.1
USD	32.3	32.4	-0.3
Other currencies	14.6	16.6	-12.0

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

Loans

In 2018, loans to the non-financial sector increased by PLN 62.0 billion, ie 6 per cent. compared to 2017, but the growth rate was slightly lower than in 2017. The largest share of total loans to non-financial clients belongs to households (65 per cent.), followed by business and non-commercial institutions (35 per cent.).

The following table sets out the structure of loans to non-financial clients:

	2018	2017	2017/2018
	<i>(in PLN billion)</i>		<i>(per cent.)</i>
Loans to households, including:	708.4	671.9	5.4
Housing loans	421.4	394.3	6.9
Loans to businesses	373.1	347.9	7.2
Loans to non-commercial institutions	7.3	6.9	5.8

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

In 2018, the housing loans growth rate was higher than in 2017. Banks granted approximately 212,200,000 loans with an aggregate value of PLN 53.9 billion compared to 190,600,000 loans of an aggregate value of PLN 44.6 billion in 2017. Although the PLN was weaker against most important foreign currencies, the share of loans granted in currencies other than PLN decreased.

The quality of loan portfolio set out in the table below remained stable:

	2018	2017
	<i>(in PLN billion)</i>	
Total receivables	1,088.8	1,026.7
Without impairment – Phase 1	914.6	n/a
Without impairment – Phase 2	99.8	n/a
With identified impairment – Phase 3	74.4	69.6

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

At the end of 2018, the amount of loans with identified impairment increased but at the same time the loan portfolio increased so that the share of impaired loans remained at a level comparable to 2017. In housing loans, the quality of the loan portfolio improved in 2018. The amount of impaired loans decreased by PLN 600 million and their share in the total loan portfolio also decreased from 2.8 per cent. to 2.5 per cent.

Deposits

The deposit growth rate in 2018 was higher than in 2017 and reached almost 8.5 per cent., with a nominal value of PLN 91 billion. This increase was mainly driven by household deposits, which is related to the low unemployment rate, increasing salaries and social benefits programmes run by Polish government. The further development of the deposit base remains under pressure due to low interest rates and investors seeking other alternatives to allocate their money which might deliver higher rates of return.

The structure of the Polish banking sector deposits is set out in the table below:

	2018	2017	Change 2017/2018
	<i>(in PLN billion)</i>		<i>(per cent.)</i>
Non-financial sector deposits	1,161.4	1,070.4	8.5
Households	839.5	761.3	10.3
Businesses	295.6	285.0	3.7
Non-commercial institutions	26.3	24.1	9.1

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

Financial results

In 2018, the net financial result of the Polish banking sector amounted to PLN 14.531 billion and was higher compared to 2017 by 6.2 per cent. This increase was due mainly to higher interest income and a moderate increase in operational costs. The impact of other factors was significantly lower.

The table below shows the financial results of the Polish banking sector:

	<u>2018</u>	<u>2017</u>	<u>Change 2017/2018</u>
	<i>(in PLN billion)</i>		<i>(per cent.)</i>
Operational income	65,125.0	64,014.0	1.7
Operational costs and amortisation	36,532.0	36,010.0	1.4
Reserves	9,653.0	9,589.0	0.7
Net financial result	14,531.0	13,687.0	6.2

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

In 2018, a moderate increase in the operational cost and amortisation was observed, by 1.4 per cent. The highest impact on cost increase is related to marketing, salaries and bank tax.

These factors are reflected in the basic effectiveness ratios given in the table below:

	<u>2018</u>	<u>2017</u>
Cost to income	56.10	56.25
Interest results / average assets	2.58	2.68
Net result / average assets	0.79	0.78
Net result / average equity	7.08	6.93

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

Key trends in the Polish banking sector

Polish banks continue to increase their effectiveness by optimising employment and sales networks. As a result, in 2018 the number of employees in the banking sector decreased by 1,800 and the number of bank branches decreased by 444. At the same time, Polish customers are more active on the internet, which additionally supports these tendencies.

In 2018, two commercial banks, BPI Bank Polskich Inwestycji and Getin Noble Bank, merged, two commercial banks were converted into branches of credit institutions, one branch of a credit institutions started activity, and four cooperative banks were taken over by other cooperative banks.

The capital base remained stable. In 2018, limited growth in banks' own funds (3.5 per cent. compared to 2017) and total risk exposure (2.8 per cent. compared to 2017) was observed. As a result, capital ratios remained at almost the same level as in the previous year. At the end of 2018, only six cooperative banks and one commercial bank did not fulfil the minimum requirements for capital ratios but their share in the sector's assets was marginal (0.2 per cent.). In the majority of banks, the leverage ratio also stayed above the level that the KNF recommends (5 per cent.). In terms of liquidity, only one bank did not fulfil the LCR requirement at 100 per cent.

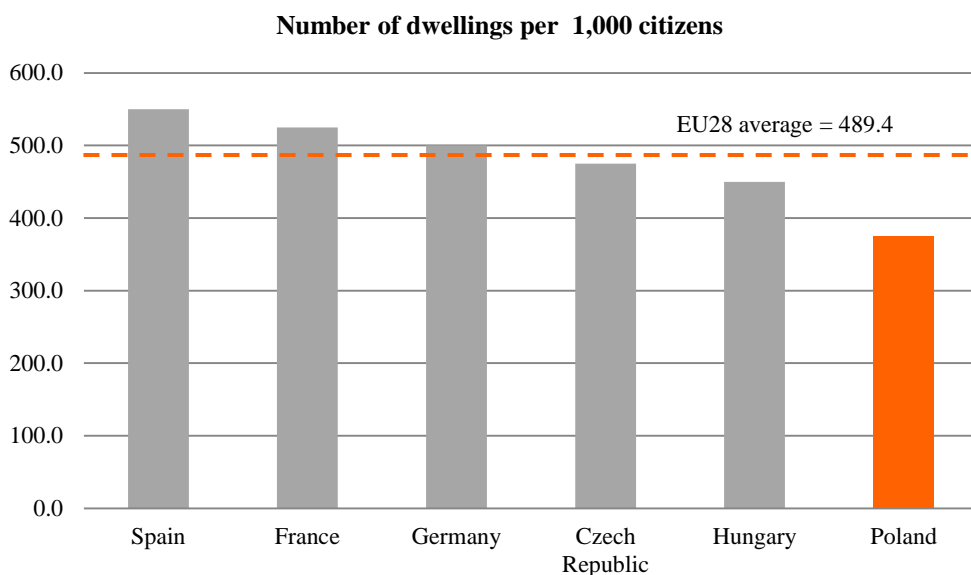
The table below sets out basic information concerning capital adequacy and liquidity in the Polish banking sector:

	<u>2018</u>	<u>2017</u>	<u>Change 2017/2018</u>
			<i>(per cent.)</i>
Banks' own funds (PLN billion)	204.6	197.6	3.5
Risk exposure (PLN billion)	1,071.3	1,042.5	2.8
Tier I ratio (per cent.)	17.2	17.2	n/a
Total capital ratio (per cent.)	19.1	19.0	n/a
Liquidity coverage ratio (per cent.)	154.4	148.1	n/a

Source: KNF's report on the situation of the Polish banking sector in 2018 – May 2019

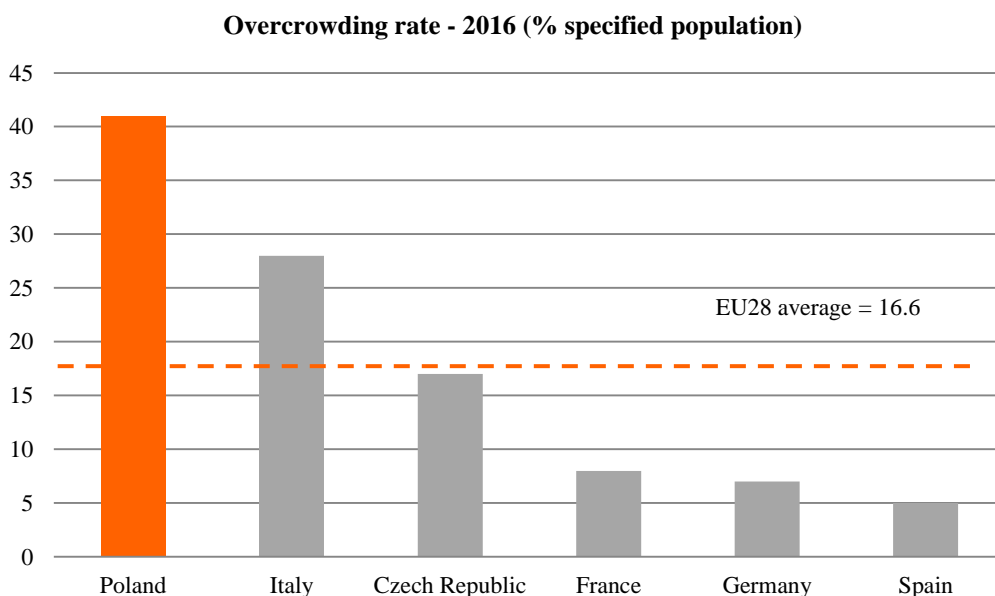
Residential market

One of the permanent elements that characterises the Polish socio-economic situation is a shortage of flats. According to Deloitte Property Index 2018, the number of dwellings in Poland per 1,000 citizens in 2018 was 376. For comparison, the number in other EU countries is around 480. In Germany, France and Spain, it is over 490 apartments.



Source: Deloitte Property Index 2018

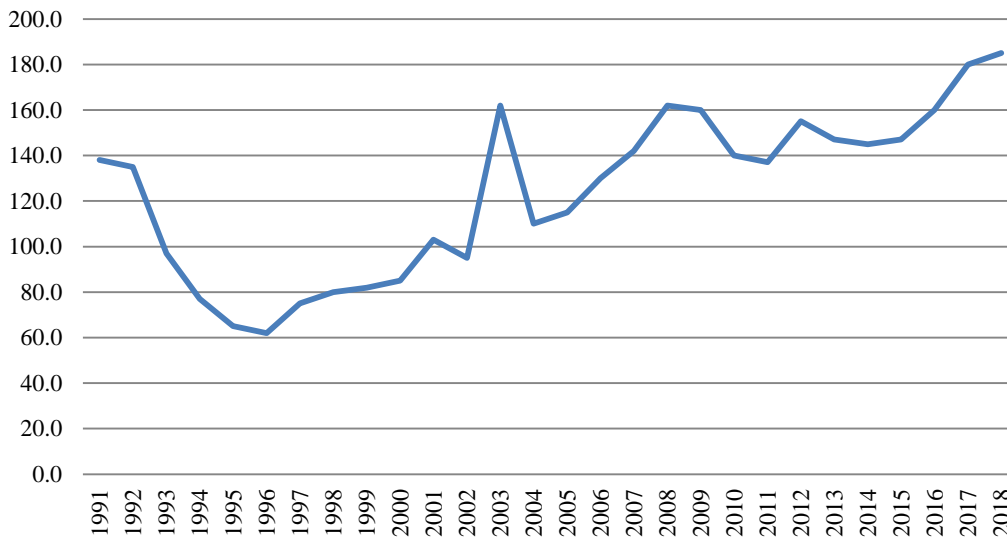
In addition to a shortage in quantity, it is also important to point out the unsatisfactory standard of a large part of the available housing stock. According to the Eurostat definition, over 40 per cent. of Poles live in overcrowded homes. Both the average area of a flat and the area per inhabitant are below the EU average.



Source: Eurostat

Depending on the adopted methodology, the shortage of flats in Poland is estimated between 1.4 million and 4.4 million. According to GUS data, around 63,900 flats were commissioned in the first four months of 2019 (9.3 per cent. more than in the corresponding period of the previous year). In addition, there were almost 75,800 dwellings whose construction has begun (7.0 per cent. more than in the corresponding period of the previous year) and 80,000 dwellings for which construction permits have been issued or filed in accordance with the construction design (8.3 per cent. less than in the corresponding period of the previous year).

Number of completed dwellings (in thousands)



Source: GUS

The availability of an adequate housing stock is one of the factors that determines further social and economic development. The significant housing shortage in Poland is an opportunity for the development of the mortgage banking market, which is based granting residential mortgage loans financed and refinanced through issuances of covered bonds.

The prices of flats in Poland have systematically grown since 2014 by about 30 per cent. on average, more in particular locations. The rental market is concentrated mainly in the largest Polish agglomerations. It is a market dominated by private individual investors. In the last few years, developers offering investments with flats for rent have started to appear on the market, however their market share is small. Long-term renting dominates the market. Demand is generated mainly by students, foreigners, people starting their career and employees delegated to a location other than their permanent address. It is estimated that 70 per cent. of property purchases were made in cash.

The Polish mortgage loan market

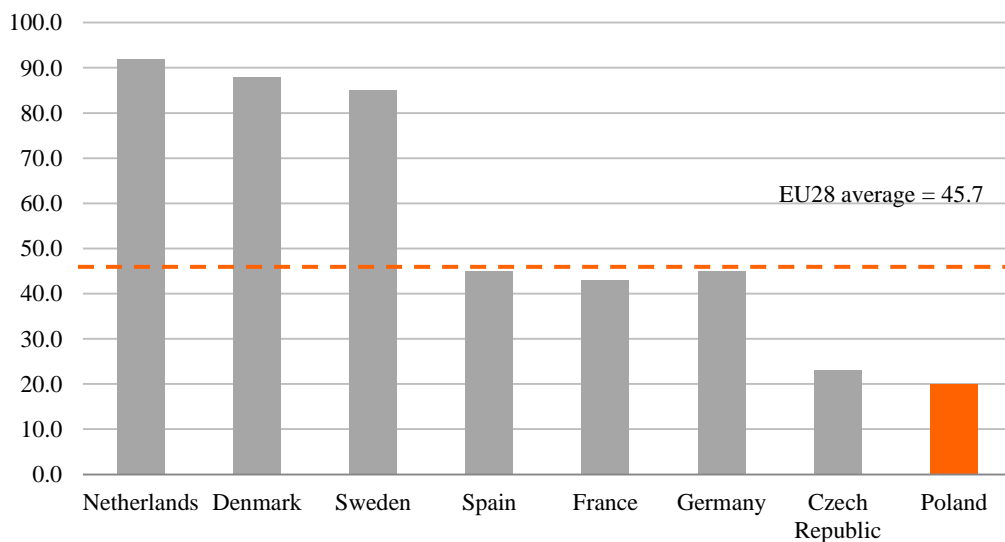
2018 was a strong year for the Polish mortgage market, which exceeded PLN 415 billion. In 2018 212,596 new residential mortgage loans of an aggregated value of PLN 53 billion (respectively 12 per cent. and 21 per cent. more than in the previous year) were granted. For several years, the trend of an increase in the average size of a single loan, which in the third quarter of 2018 was around PLN 260,000, is clearly noticeable. This is related to an increase in borrowers' affluence, interest in larger areas and constantly rising property prices.

The Polish mortgage market is almost entirely dominated by loans with a floating interest rate. Currently, banks are introducing loans based on a fixed interest rate.

According to the ING BSK's financial statements for the financial year ended 31 December 2018, in 2018 ING BSK sold PLN 8.52 billion of PLN residential mortgage loans which gave ING BSK a market share of approximately 16.2 per cent. According to the ING BSK's financial statements for the quarter ended 31 March 2019, in the first quarter of 2019 ING BSK sold PLN 2.10 billion of PLN residential mortgage loans which gave ING BSK a market share of approximately 15.8 per cent. As at 31 March 2019 the ING BSK's PLN residential mortgage loan portfolio was PLN 33.6 billion which gave ING BSK a market share of approximately 10.4 per cent.

In Poland, according to the European Mortgage Federation the ratio of total amount of residential loans to GDP in market prices oscillates around 20 per cent. whereas in the EU countries, according to the European Mortgage Federation at the end of 2017, it was around 45 per cent.

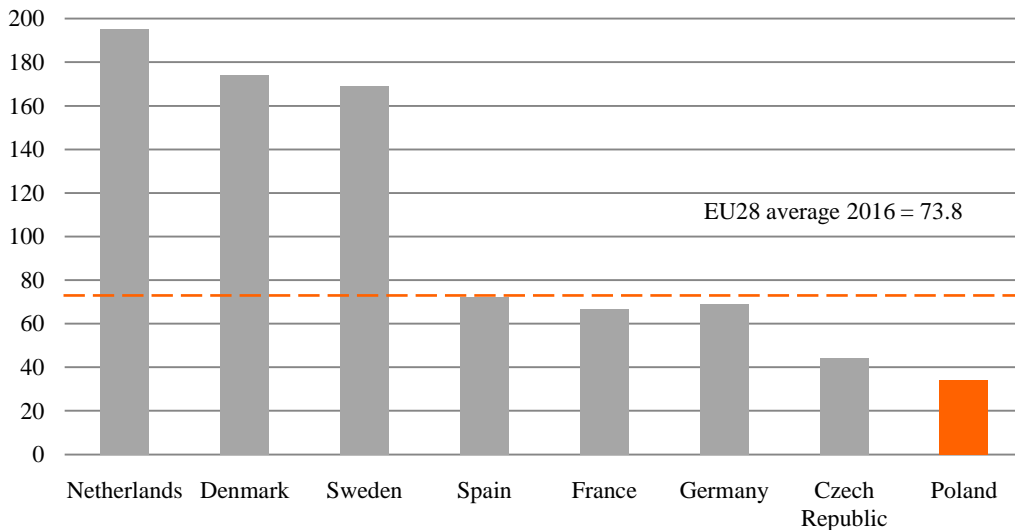
Total Outstanding Residential Loans to GDP Ratio - 2017 (%)



Source: European Mortgage Federation – Hypostat 2018

The ratio of outstanding residential loans to disposable income of households in Poland is also much lower than the EU average.

Total Outstanding Residential Loans to Disposable Income of Households Ratio - 2017 (%)



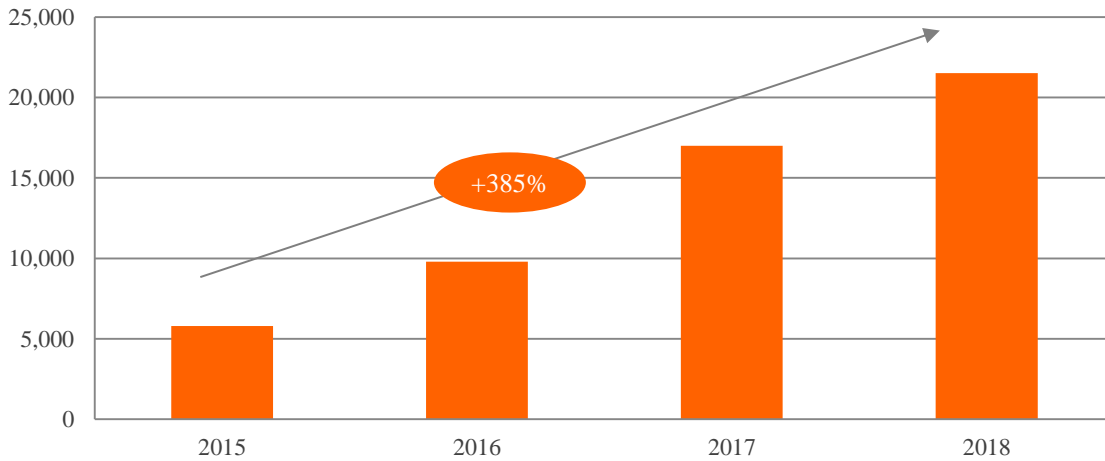
Source: European Mortgage Federation – Hypostat 2018

The high demand for housing, the growing economy and low interest rates are conducive to further growth in the mortgage market; however, the dynamics of this growth may be lower than in 2018.

Covered bond and mortgage bank market

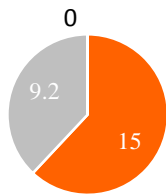
The Polish covered bond market is still small in comparison to developed EU economies, where covered bonds are an important source of financing mortgage loans. At the end of 2018, the total outstanding covered bonds amounted to around 5 per cent. of the total residential loans portfolio. In comparison, it was around 16 per cent. in Germany and around 34 per cent in the Czech Republic 2017. However, in recent years this market has been characterised by dynamic development. Issuers from Poland place covered bonds both on the domestic and foreign markets. The amount of outstanding covered bonds has increased almost four times since 2015:

Outstanding covered bonds issued by Polish mortgage bank - PLN million



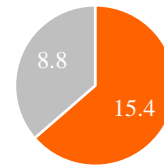
The covered bonds are offered mostly in public offerings. The majority of the covered bonds offered in the Polish market are floating rate covered bonds whereas the bonds offered in the foreign markets are fixed rate covered bonds.

**Interest rate breakdown
(PLN billion)**



■ Fixed ■ Floating ■ Other

**Currency breakdown
(PLN billion)**



■ EUR ■ PLN

As at 31 March 2019, the total value of outstanding covered bonds was approximately PLN 24.2 billion. PKO Bank Hipoteczny S.A. is currently the largest issuer of mortgage bonds in Poland in terms of outstanding covered bonds portfolio.

SELECTED FINANCIAL INFORMATION OF THE BANK

Presentation of financial information

Unless otherwise indicated, the financial information in this Base Prospectus relating to the Bank has been derived from the audited standalone financial statement of the Bank for the financial year ended 31 December 2018 and the unaudited interim financial statement of the Bank for the six-month period ended 30 June 2018.

The Bank's financial year ends on 31 December and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Bank's financial statements have been prepared in accordance with the IFRS as adopted by the European Union.

Alternative Performance Measures

The Base Prospectus includes certain data which the Bank considers to constitute alternative performance measures (APMs) for the purposes of the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures.

These APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Bank's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Bank's liquidity.

ROA (Return on assets)	Calculated by dividing net annual profit attributable to owners of the Bank by average total assets at the end of the current accounting period.
ROE (Return on equity)	Calculated by dividing the net annual profit attributable to owners of the Bank by the average equity at the end of the current reporting period.
DR (Total debt ratio)	Calculated by dividing the total debt at the end of the current accounting period by the total assets at the end of the current accounting period.
TCR (Total capital ratio)	Calculated by dividing the total capital of the Bank by total risk weighted assets at the end of the current accounting period.
LR (Leverage ratio)	Calculated by dividing the total capital of the Bank by total exposures at the end of the current accounting period.
LCR (Liquidity coverage ratio)	Calculated by dividing liquidity coverage of the Bank by net liquidity outflows at the end of the current accounting period.

Bank's financial information for the periods ended 31 December 2018 and 30 June 2019

Selected Financial Data

	30 June 2019	31 December 2018
	<i>(in PLN thousand)</i>	
Net interest income	6,361.4	947.4
Net income on basic activities	6,164.1	939.7
General and administrative expenses	-10,386.0	-9,888.2
Profit before tax	-4,476.2	-8,948.5
Profit after tax	-3,636.6	-7,379.4
Earnings per ordinary share	-17.32	-61.5
Amounts due from banks	369,682.8	111,534.9
Securities	177,703.2	0.0
Loans to customers	1,320,666.4	0.0
Total assets	1,874,873.3	116,187.7
Liabilities to other banks	1,600,350.5	0.0
Total liabilities	1,606,637.7	3,877.2

Share capital	210,000	120,000.0
Total equity	268,235.7	123,310.5

The basic ratios

	30 June 2019	31 December 2018
	<i>(per cent.)</i>	
ROA	-0.19	-6.4
ROE	-1.36	-6.1
DR	85,69	3.3
TCR	25.78	N/A
LR	14.20	N/A
LCR	148.61	N/A

Income Statement

	30 June 2019	31 December 2018
	<i>(in PLN thousand)</i>	
Interest income	9,573.3	947.4
Interest charges	-3,211.8	0.0
Net interest income	6,361.4	947.4
Fee and commission income	48.2	0.0
Commission expenses	-230.1	-3.1
Net commission income	-181.9	-3.1
FX result	-2.4	-4.6
Net income on other basic activities	-13.0	-0.002
Net income on basic activities	6,164.1	939.7
General and administrative expenses	-10,386.0	-9,888.2
Expected losses/Impairment losses for financial assets and provisions for off-balance sheet liabilities	-254.3	0.0
Profit before tax	-4,476.2	-8,948.5
Income tax	839.6	1,569.1
Profit after tax	-3,636.6	-7,379.4
Number of shares	210,000	120,000
Earnings per ordinary share (PLN) – basic	-17.32	-61.5
Earnings per ordinary share (PLN) – diluted	-17.32	-61.5

Statement of comprehensive income

	30 June 2019	31 December 2018
	<i>(in PLN thousand)</i>	
Profit after tax for the period	-3,636.6	-7,379.4
Total other comprehensive income, including:	-8.8	-310.1
Items which can be reclassified to income statement:	-8.8	0.0
Unrealised result on measurement of HTC&S securities	-8.8	0.0
including deferred tax	2.1	0.0
Items which will not be reclassified to income statement, including:	0.0	-310.1
Actuarial gains/losses	0.0	-310.1
including deferred tax	0.0	72.7
Net comprehensive income for the period	-3,645.4	-7,689.5

Statement of financial position

	30 June 2019	31 December 2018
	<i>(in PLN thousand)</i>	
Assets		
Amounts due from banks	369,682.8	111,534.9
Securities measured at fair value through other comprehensive income	24,728.8	0.0
Securities measured at amortised cost	152,974.5	0.0
Loans granted to customers	1,320,666.4	0.0
Property, plant and equipment	1,311.0	104.1
Intangible assets	2,312.6	2,808.5
Deferred current income tax receivables	0.0	11.9
Deferred income tax assets	2,483.5	1,641.8
Other assets	713.7	86.4
Total assets	1,874,873.3	116,187.7
Liabilities		
Liabilities to other banks	1,600,350.5	0.0
Reserves	382.9	382.9
Other liabilities	5,904.3	3,494.3
Total liabilities	1,606,637.7	3,877.2

Equity

Share capital	210,000	120,000.0
Share premium	62,191.1	0.0
Accumulated other comprehensive income	-318.9	-310.1
Retained earnings	-3,636.6	-7,379.4
Total equity	268,235.7	112,310.5
Total equity and liabilities	1,874,873.3	116,187.7
Book value	268,235.7	112,310.5
Number of shares	210,000	120,000
Book value per share	1,277.31	935.92

Cash flow statement

	<u>30 June 2019</u>	<u>31 December 2018</u>
	<i>(in PLN thousand)</i>	
Profit after tax	-3,636.6	-7,379.4
Adjustments, of which	-1,317,161.5	2,015.4
Depreciation and amortisation	698.5	188.5
Interest accrued (from the income statement)	-6,361.4	-947.4
Interest paid	-9.8	0.0
Interest received	6,256.2	827.9
Income tax (from the income statement)	-839.6	-1,569.1
Income tax paid	0.0	-11.9
Change in loans and other receivables from clients	-1,320,666.4	0.0
Change in other assets	919.3	-39.7
Change in liabilities to other banks	823.6	0.0
Change in other liabilities	2,187.9	3,567.1
Net cash flow from operating activities	-1,320,628.5	-5,364.0
Purchase of property plant and equipment	-83.4	-125.3
Purchase of intangible assets	0.0	-2,975.8
Purchase of securities measured at fair value through other comprehensive income	-24,728.9	0.0
Purchase of securities measured at amortised cost	-152,974.5	0.0
Interest received on securities measured at amortised cost	17.0	0.0

Net cash flow from investing activities	-177,592.8	-3,101.1
Proceeds from the issue of shares	159,570.5	120,000.0
Long-term loans received	1,599,526.9	0.0
Interest on long-term loans repaid	-2,381.9	0.0
Leasing liabilities repaid	-169.5	0.0
Net cash flow from financing activities	1,756,546.1	120,000.0
Increase/decrease in net cash and cash equivalents	258,147.9	111,534.9
Opening balance of cash and cash equivalents	111,534.9	0.0
Closing balance of cash and cash equivalents	369,682.8	111,534.9

DESCRIPTION OF THE BANK

History and general introduction

ING Bank Hipoteczny Spółka Akcyjna is a Polish mortgage bank (*bank hipoteczny*). The core business of the Bank involves acquiring mortgage loans secured on residential properties granted by ING BSK. The loans in the Bank's loan portfolio are denominated solely in PLN and as at the date of this Base Prospectus the Bank does not intend to acquire loans denominated in currencies other than PLN (for details on the Bank's loan portfolio, see "*Business overview of the Bank*" and "*The Bank's loan portfolio*" below). As at the date of this Base Prospectus, the Bank does not itself grant mortgage loans. The Bank is the sole entity in the Group authorised to issue covered bonds.

ING BSK, the sole shareholder of the Bank, is the fifth bank in Poland in terms of total assets. ING BSK is a member of the ING capital group. ING capital group provides financial and insurance services in 40 countries worldwide. The ING capital group's dominant entity is ING Groep N.V. with its registered office in Amsterdam.

ING BSK has established the Bank as an entity through which the Group could diversify the Group's sources of funding. The Group perceives the covered bonds issued by the Bank as an important source of long-term funding for the Group. Additionally, obtaining funds through issuances of covered bonds by the Bank enables the Group to reduce the maturity mismatch between the Group's assets and liabilities.

The Bank was established on 20 March 2018 for an indefinite period. The Bank is entered into the register of entrepreneurs of the National Court Register maintained by District Court Katowice-Wschód in Katowice under number 0000723965. The Bank is authorised to operate as a mortgage bank under the Polish Covered Bonds Act and is supervised by the KNF. Its operating permit was issued by the KNF on 2 January 2019. The Bank's registered office is in Katowice at ul. Chorzowska 50 and its telephone number is +48 32 357 84 33. Although the Bank is a member of the Group and closely cooperates with ING BSK in its business operations, the Bank is an independent legal entity with separate corporate bodies. The Bank has no subsidiaries.

As at the date of this Base Prospectus, the share capital of the Bank is PLN 210,000,000, which comprises 210,000 ordinary shares each with a nominal value of PLN 1,000.00 each. All of the Bank's shares are owned by ING BSK.

Ratings

Ratings assigned to ING BSK

ING BSK has been assigned ratings by Moody's as set forth in the table below:

Category	Rating	Outlook
Long-term deposit rating	A2	Stable
Short-term deposit rating	P-1	N/A
BCA rating	baa2	N/A
Adjusted BCA rating	baa1	N/A
Short-term debt-rating	(P)P-2	N/A
Long-term counterparty risk assessment	A1(cr)	N/A
Short-term counterparty risk assessment	P-1(cr)	N/A
Long-term counterparty risk rating	A1	N/A
Short-term counterparty risk rating	P-1	N/A

ING BSK has been assigned ratings by Fitch Ratings as set forth in the table below:

Category	Rating	Outlook
Long-term issuer default rating	A	Stable
Short-term issuer default rating	F1	N/A
Viability rating	bbb+	N/A
Adjusted BCA rating	baa1	N/A
Support-rating	1	N/A
National long-term rating	AAA(pol)	Stable
National short-term rating	F1+(pol)	N/A

Source: ING BSK

Ratings assigned to the Bank

As at the date of this Base Prospectus, Moody's assigned the following ratings to the Bank and the covered bonds issued by the Bank:

Category	Rating	Outlook
Long-term covered bonds rating (the Programme)	(P)Aa3	N/A
Long-term counterparty risk assessment	A2(cr)	N/A
Long-term Bank's rating	Baa1	Stable

According to the Moody's rating scale, obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk. "(P)" means that the rating is provisional, ie that the assignment of definitive rating is subject to the fulfilment of contingencies that in Moody's view are highly likely to be completed.

Under the Moody's rating scale counterparty risk assessments are opinions on the likelihood of a default by an issuer on certain senior operating obligations and other contractual commitments. Issuers assessed "A(cr)" are judged to be upper-medium grade and are subject to low risk of defaulting on certain senior operating obligations and other contractual commitments.

Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Description of the Group and the Bank's position within the Group

Overview

The Bank is solely owned by ING BSK and is a member of the Group. The Bank has no subsidiaries. According to the ING BSK's financial statements for the financial year ended 31 December 2018, ING BSK's share in sales of PLN residential mortgage loans in 2018 was approximately 16.2 per cent. ING BSK's share in the net profit, assets and equity of the Polish banking sector for the year ended 31 December 2018 was 11 per cent., 7 per cent. and 7 per cent., respectively (based on KNF data).

As at 31 December 2018, ING BSK serviced approximately 4.86 million customers (including 4.78 million retail customers and 62 thousand corporate clients).

In addition to products and services offered to retail and corporate banking clients, the Group provides specialist financial services with regard to leasing, factoring, investment funds, pension funds, investment banking, electronic payment services, life insurance, debt collection services and support in the conduct of business and offers Internet banking products and services. ING BSK also generates income from its investment operations by investing ING BSK's excess liquidity in the inter-bank and Polish treasury securities markets.

ING BSK's distribution network consists of 337 retail branches and 1,051 cash machines as at 31 December 2018. As at 31 December 2018, ING BSK employed 8,034 full-time equivalent staff and employees.

As at 31 December 2018, ING BSK had market shares in the Polish banking sector of 7 per cent., 9.1 per cent. and 8.0 per cent. in respect of the assets, amounts due to customers and loans and advances to customers, respectively (based on KNF and NBP data).

The Group's share in new sales of mortgage loans to retail banking customers amounted to 16.2 per cent. as at 31 December 2018, respectively, which puts the Group in the third in the Polish market. ING BSK has a legacy portfolio of CHF-denominated mortgage loans, the active selling of which ceased in December 2008. As at 30 April 2019 and as at 31 December 2018 and 2017, the share of foreign currency mortgage loans (excluding accrued interest and effective interest rate adjustment) was 3.8 per cent., 3.0 per cent. and 2.8 per cent., respectively. As at 31 December 2018, the amount of housing mortgage loans granted by the Group was PLN32 billion.

ING BSK's primary residential loan products are standard repayment mortgages for financing home or apartment purchases, renovations or refurbishments. These loans are secured by mortgages on the property being acquired or other property. Until such mortgages are registered in the mortgage register, ING BSK insures the receivables under such loans during the interim period.

Business overview of the Bank

Spheres of activity

The Bank's business activities as a Polish mortgage bank are subject to the Polish Covered Bonds Act. The Bank's business activities include: (i) purchasing receivables under mortgage loans granted by other banks; (ii) issuing mortgage covered bonds; (iii) taking credits and loans; (iv) issuing bonds; (v) depositing debt securities; (vi) acquiring shares in other entities whose legal form ensures that the Bank's liability is limited to the value of funds invested by the Bank, if such investment supports the Bank's business activities, provided that the aggregate value of such shares does not exceed 10 per cent. of the Bank's own funds; (vii) providing consultancy services relating to the real estate market, including services to establish the mortgage lending value of real properties; and (viii) managing the receivables of the Bank and other banks under mortgage loans and granting these loans on behalf of other banks under agreements entered into with these banks. The Bank does not accept deposits.

The Bank focuses its business activity on acquiring mortgage loans for residential purposes granted by ING BSK (the pooling model), issuing covered bonds to finance or refinance the mortgage loans in the Bank's portfolio and entering into derivative transactions required by law. As at the date of this Base Prospectus, the Bank does not grant or acquire commercial mortgage loans and the Bank does not purchase loans from banks other than ING BSK. Loans acquired by the Bank are denominated solely in PLN. The Bank cannot exclude that in the future it might start acquiring commercial real estate loans denominated in PLN or in other currencies.

The maximum amount of a loan at the time of acquiring the loan may not exceed 100 per cent. of the mortgage lending value of the property.

Loans acquired by the Bank are secured by mortgages entered in the land and mortgage register with the highest priority. The mortgage may be established over the following types of real property:

- a house for a single family, a semi-detached house or a house for a single family with a garage or a semi-detached house with a garage; or
- flat, flat with a parking spot in a shared car park or a flat with a garage.

The value of the property, i.e. the mortgage lending value of the property, is determined in a strictly prescribed form in accordance with the "*Rules for determining the mortgage lending value of the property*", approved by the KNF.

Additionally, the Bank's claims under the loans are secured by an assignment of the borrower's pecuniary claims under the insurance policy against fire and other accidents relating to the property on which the mortgage is or will be established.

The Bank's business activity is subject to a number of restrictions and the Bank must regularly conduct several tests to confirm that its activities comply with the regulatory restrictions and requirements. The Bank follows the regulatory requirements and performs all required tests. For a description of these restrictions and tests, see "*Overview of the Polish Covered Bonds Legislation*".

From time to time the Bank may execute foreign exchange transactions and may enter into hedging transactions to hedge interest rate and foreign exchange risks. Under the Polish Covered Bonds Act, these transactions may only be entered into to support the Bank's principal business activities. Additionally, under the Polish Covered Bonds Act, the Bank must hedge its foreign exchange risk if the covered bonds issued by the Bank are denominated in a currency different from: (i) the currency of the receivables in the cover pool; or (ii) the currency of cash held by the Bank or deposited by the Bank with the NBP or the currency in which the securities held by the Bank as substitute assets are denominated.

The Bank's strategic position in the Group

ING BSK set up the Bank in order to obtain long-term financing through issues of covered bonds.

Cooperation between the Bank and ING BSK in acquisition of mortgage loans

The Bank's operations are based on maximum possible operational integration with ING BSK's. The Bank benefits from the Group's significant market share in the Polish residential mortgage loan market and the Group's extensive distribution network which ensures a stable growth of the number of mortgage loans the Bank may acquire. Additionally, the Bank has access to ING BSK's know-how resources relating to managing mortgage loans granted to individuals and to risk models developed by the Group. The Bank closely cooperates with ING BSK in servicing mortgage loans acquired from ING BSK. Because of this close cooperation between the Bank and ING BSK, the Bank is dependent on ING BSK in conducting its business activities.

In its business activity, the Bank benefits from ING BSK's know-how and resources, made available to the Bank under the cooperation agreement dated 25 September 2018 (the **Cooperation Agreement**) and the framework agreement for

transfer of mortgage loans dated 17 January 2019 (the **Framework Agreement**), entered into between the Bank and ING BSK.

During the proceedings at the KNF concerning the establishment of the Bank, ING BSK declared to the KNF that it will provide the Bank with financial support. ING BSK also committed to the KNF to maintain the Bank's liquidity and capital adequacy ratios above the applicable regulatory limits.

The Cooperation Agreement

The Cooperation Agreement covers the following areas of cooperation between the Bank and ING BSK:

- post-sales services for loans acquired by the Bank:
 - o post-sales services which have no impact on the risk associated with the loan, i.e. providing information on account balance, preparing statements from bank accounts and providing updates on upcoming payments, are outsourced to ING BSK and are performed by ING BSK branches as well as through internet banking and ING BSK's client contact centre;
- access to ING BSK's know-how and other resources:
 - o the Bank outsourced its back-office functions as well as processing settlements, payments, reconciliation of accounts and administrative support to ING BSK;
 - o both the Bank and ING BSK use the same risk evaluation tools and models for the sales and risk evaluation processes;
 - o both the Bank and ING BSK use the same IT systems in certain areas, however, the systems used by each bank store separate data and have separate access controls;
 - o the Bank uses the same suppliers as ING BSK and usually benefits from supply and services agreement entered into by ING BSK for the benefit of the whole Group.

ING BSK supports the Bank in operational aspects only. The Bank independently makes all decisions relating to its business activities and its credit process.

The Framework Agreement

The Framework Agreement regulates the transfers of mortgage loans from ING BSK to the Bank. The loans are transferred in tranches and each tranche is transferred to the Bank under a separate transfer agreement. An independent expert separately evaluates each tranche of loans. The Bank must pay ING BSK 90 per cent. of the purchase price within thirty days from the date of the transfer. The remaining, interest-bearing part of the purchase price must be paid within 18 months from the date of the transfer.

The pooling model

Under the pooling model, the Bank purchases from ING BSK mortgage loans originated by ING BSK. The purchase of mortgage loans from ING BSK is governed by the Framework Agreement. The mortgage loans which the Bank acquires from ING BSK must satisfy the following criteria:

The principal amount of the loan to the mortgage lending value:	Maximum 100%
Title to the property:	Separate ownership or perpetual usufruct (<i>użytkowanie wieczyste</i>)
Security interest:	Mortgage with the highest priority
Currency:	PLN
Arrears:	None
Purpose of the loan:	Residential

Servicing of the loans

Following the transfer of a mortgage loan, ING BSK is responsible for dealing with the customers, managing their loan accounts and providing information on the customers during the term of the loans. These services are conducted by ING BSK under the Cooperation Agreement.

The Bank's loan portfolio

All loans in the Bank's cover pool are PLN-denominated mortgage loans granted to private individuals. As at 18 August 2019, the principal amount of the loans in the Bank's portfolio was PLN 2,047,761,742.81 and the principal amount of the loans in the cover pool was PLN 665,259,683.29.

All loans in the Bank's cover pool are floating rate loans with an interest rate based on WIBOR for six months. As at 18 August 2019, the average contractual maturity of the loans in the cover pool was 249 months (weighted average).

The Polish Covered Bonds Act sets out the detailed eligibility criteria for a loan to be included in the cover pool. For a description of this criteria see "*Overview of the Polish Covered Bonds Legislation – Composition of the Cover*".

The Bank periodically publishes disclosure reports (*raporty ujawnień*) regarding issuances of the mortgage covered bonds by the Bank and the structure of its loan portfolio.

Composition of the Bank's cover pool

The Bank's cover pool does not contain asset-backed securities that do not comply with paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast). These asset-backed securities have never been included in the Bank's cover pool and the Bank does not intend to include such asset-backed securities in its cover pool in the future.

Other sources of financing

Apart from issuing covered bonds, the Bank raises financing through:

- credit facilities; and
- the deferred payment of purchase price for loans acquired from ING BSK.

Under the Polish Covered Bonds Act, the Bank's obligations under outstanding bonds and loans and credit facilities cannot exceed ten times the Bank's own funds within five years from the date the Bank commenced its operations and six times the Bank's own funds after such five-year period.

As at 30 June 2019, the principal amount of outstanding loans and credit facilities was PLN 990,795,600, and the amount of deferred payments of purchase prices for loans acquired from ING BSK was PLN 609,554,900.

Risk Management

General

Risk management is a key internal process within the Bank. It is aimed at ensuring the profitability of commercial activity by providing the control of the risk level and maintaining it within the risk tolerance and limits applied by the Bank in a changing macroeconomic and legal environment. The expected level of risk plays an important role in the Bank's planning process.

As a result of the statutory restrictions on activities that may be pursued by mortgage banks, the Bank's asset-liability structure is distinct from that which generally characterises the Polish banking system. The Bank's asset side consists predominantly of mortgage loans. The Bank's liabilities consist of equity and credit facilities granted to the Bank. The Bank assumes that the covered bonds it issues will also play a significant part in the Bank's liabilities in the future.

Risk management within the Bank is based on the following principles:

- the risk management process, including the management of risk relating to the loan process, is defined and regulated by strategies, policies and procedures adopted by the Bank's Management Board and Supervisory Board;
- the Bank manages all identified types of banking risks and performs an ICAAP (Internal Capital Adequacy Assessment Process) wherein:
 - the risk management process is appropriate to the scale of operations and to the significance, scale and complexity of a given risk, and tailored to new risk factors and sources on a current basis; and
 - the risk management methods, in particular the models and their assumptions, and the risk measurement systems are tailored to the scale and complexity of the risk, and are periodically verified and validated;

- the Bank manages the liquidity risk and performs an ILAAP (Internal Liquidity Adequacy Assessment Process) wherein the liquidity risk management process and liquidity management methods are appropriate to the Bank's business model;
- having an organisational structure that ensures the independence of the risk area, including the separation of the mortgage valuation and credit decision-making processes from the Bank's commercial activities;
- integration with the planning and controlling systems and supporting the implementation of the Bank's strategy in compliance with the risk management strategy, particularly in terms of risk tolerance levels; and
- the risk management process is consistent with the Group's principles of risk management, including the usage of the Group's risk and valuation models, modified to reflect the nature of the Bank's activities and approved by the Bank's Management Board and Supervisory Board.

Guidelines and methodologies for measuring risk have been approved by the Bank's Management Board and are subject to regular review, taking into account the applicable legal and regulatory framework, economic and financial environment, interest rate outlook, and the overall level of market risks affecting the Bank's balance sheet transactions. The Bank's guidelines and methodologies for measuring risk are aligned with the guidelines and methodologies for measuring risk introduced by the Group.

Risk management process

The process of risk management in the Bank consists of the following elements:

- risk identification: the identification of actual and potential sources of risk and an estimation of the significance of their potential influence on the financial and non-financial situation of the Bank. Within the risk identification process, types of risk perceived as significant to the Bank's activities are identified;
- risk assessment and measurement: each identified risk must be assessed to determine the significance of this risk for the Bank. This enables the Bank to choose the risks that require additional control measures and the severity of these measures. Risks that have been identified and assessed previously must be re-assessed to confirm or amend the assessment made previously;
- risk control: establishing limit-risk levels in particular areas of operations. Risk control covers the determination of control mechanisms adequate to the scale and complexity of the Bank's operations, particularly in the form of the Risk Appetite Statement;
- risk forecasting and monitoring: preparing risk-level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measures from the previous period, recommendations and suggestions). Risk monitoring is performed with a frequency appropriate to the significance and volatility of a specific risk type;
- risk reporting: periodically informing the Bank's managing and supervisory bodies (also through their relevant committees) of the results of risk measurement or risk assessment, actions taken and recommended actions. The scope, frequency and form of reporting are adjusted to the management level of the recipients; and
- management actions: including, in particular, issuing internal regulations, establishing levels in the Risk Appetite Statement, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management, and taking action to maintain a defined level of risk. The objective of management actions is to direct the risk management process and risk levels.

The Bank's Management Board is responsible for risk management, including supervising and monitoring the Bank's activities. The Bank's Management Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management.

The risk management process is executed in three lines of defence, which are independent of one another in organisational and functional terms.

The first line of defence consist of the Bank's organisational units managing risk in the operational activity of the Bank (in particular, Treasury and Business and Operations units). The first line of defence is responsible for working out, implementing and executing control mechanisms aimed at attaining the objectives of the internal control system. It ensures that the rules, including any relevant limits resulting from internal and external regulations, are observed in order to achieve compliance with applicable laws and markets standards. The responsibilities of the first line of defence include the analysis, control and management of risk.

The second line of defence consists of units responsible for the areas of operational risk, model risk, compliance risk, legal risk, credit and market risk, finance risk, and human resources risk . The second line of defence supports the first

line of defence in attaining the objectives of the internal control system, in particular through the issuance of internal regulations and ensuring the methods and tools within the internal control system are adequate for the bank's profile, monitoring the first line of defence's observance of control mechanisms, horizontal monitoring of the observance of control mechanisms within the second line of defence, performing independent control and quality assurance, reporting risks which may be material to the Bank as well as reporting identified threats and instances of non-compliance.

The internal audit function is the third line of defence, the purpose of which is an independent review and assessment of the risk management system and internal control system (excluding internal audit) introduced by the Bank.

Mortgage lending value

Due to the asset structure of the Bank, the process of assessing the mortgage lending value of a property is critical to the operations of the Bank.

The Bank's policy with respect to credit security and its valuation is based on the Polish Covered Bonds Act, the Banking Law and the Act on Land and Mortgage Register and Mortgages dated 6 July 1982 (*Ustawa z dnia 6 lipca 1982 r. o księгах wieczystych i hipotece*). The Bank's policy also takes into account the KNF's guidelines.

The Bank has in place and applies the Mortgage Lending Value Calculation Rules approved by the KNF and issued in accordance with the Polish Covered Bonds Act and KNF recommendations.

The mortgage lending value determined by the Bank reflects the long-term risk associated with property serving as collateral for loans advanced by the Bank and is used to calculate the maximum amount of a loan secured by a mortgage over a given property or to decide whether a loan secured by this property can be purchased by the Bank.

The Bank calculates the mortgage lending value based on an expert's opinion, prepared with due care and diligence, taking into account only those characteristics of the property and expenditure necessary to build it which are permanent and can be obtained by any owner of the property assuming its reasonable use. The expert's opinion, prepared as at a specific date, presents the assumptions and parameters based on which the analysis was made, the calculation process and the proposed mortgage lending value. The opinion takes into account the analyses and forecasts of the parameters specific to a given property which are material for credit risk assessment, as well as general factors, such as population growth, unemployment rate, and regional and urban development.

The mortgage lending value of a property for loans acquired by the Bank from ING BSK is determined in the following stages:

Stage	Description
Legal due diligence of the real property	ING BSK conducts a legal due diligence of the real property encumbered with the mortgage.
Preparing a report on the property and a market report	An external expert who has demonstrated to the Bank sufficient experience and skills in estimating banking risk associated with securing mortgage loans prepares a report on the property and a market report.
Preparing the mortgage lending value valuation	The Collateral Valuation Unit, a separate unit of the Bank, prepares the mortgage lending value valuation.
Final review of the valuation and determining the mortgage lending value of the property	The Collateral Valuation Unit, a separate unit of the Bank, conducts a final review of the valuation and determines the final mortgage lending value of the property.

MANAGEMENT OF THE BANK

General

The Bank is a joint-stock company (*spółka akcyjna*) operating under Polish law. The Bank, its management and the Bank's corporate setup are governed by the Statutes of the Bank. The business address of all members of the Bank's Management Board is ul. Chorzowska 50, 40-101 Katowice, Poland. The business address of all members of the Bank's Supervisory Board is ul. Chorzowska 50, 40-101 Katowice, Poland.

To the best of the Bank's knowledge, there are no potential conflicts of interest between the duties of the members of the Management Board or the Supervisory Board with respect to the Bank and their private interests or other duties.

Management structure and committees

The Management Board represents the Bank in all matters and is responsible for its day-to-day management. The Supervisory Board is responsible for overseeing the operations of the Bank. The Supervisory Board is not responsible for the management of the Bank, but certain decisions require the Supervisory Board's approval.

There is one committee within the Supervisory Board: the Audit and Risk Committee. The Audit and Risk Committee supports the Supervisory Board in monitoring and supervising the financial reporting process, internal and external audit and the organisation of the Bank's management. The Audit and Risk Committee also monitors the relationship between the Bank and the Bank's auditor. Additionally, the Audit and Risk Committee supports the Supervisory Board in monitoring the risk management system.

Management Board

The Management Board manages the activities of the Bank, acts on the Bank's behalf and makes decisions in all matters regarding the Bank which are not reserved for the General Meeting or the Supervisory Board. The Management Board is also responsible for making all decisions concerning issuances of covered bonds by the Bank. The operations of the Management Board are further regulated by the Management Board's by-laws.

The Management Board consists of at least three members who are appointed and dismissed by the Supervisory Board. The members of the Management Board are appointed for a joint five-year term. There are no restrictions on reappointment of members of the Management Board. As at the date of this Base Prospectus, the members of the Management Board are:

<u>Name</u>	<u>Position</u>	<u>Commencement of membership on the Management Board</u>	<u>Commencement of current term of office</u>	<u>Date of expiration of current term of office</u>
Mirosław Boda	President of the Management Board	26 February 2018	26 February 2018	26 February 2023
Jacek Frejlich	Vice-president of the Management Board	26 February 2018	26 February 2018	26 February 2023
Roman Telepko	Vice-president of the Management Board	26 February 2018	26 February 2018	26 February 2023

Supervisory Board

The Bank's Supervisory Board is responsible for overseeing the Bank's operations. The Supervisory Board appoints the Management Board members, approves the Bank's strategy and the Bank's financial plans. The operations of the Supervisory Board are regulated by the by-laws of the Supervisory Board. The Supervisory Board consists of at least five members appointed by the Bank's General Meeting for a joint five-year term. There are no limits on the reappointment of Supervisory Board members.

As at the date of this Base Prospectus, the Supervisory Board has the following members:

<u>Name</u>	<u>Position</u>	<u>Commencement of membership</u>	<u>Commencement of current term of office</u>	<u>Date of expiration of the current term of office</u>
Brunon Bartkiewicz	Chairman	26 February 2018	26 February 2018	26 February 2023

Name	Position	Commencement of membership	Commencement of current term of office	Date of expiration of the current term of office
Marcin Giżycki	Deputy Chairman	26 February 2018	26 February 2018	26 February 2023
Patrick Roesink	Member	26 February 2018	26 February 2018	26 February 2023
Bożena Graczyk	Member	26 February 2018	26 February 2018	26 February 2023
Joanna Erdman	Member	26 February 2018	26 February 2018	26 February 2023
Krzysztof Gmur	Member	26 February 2018	26 February 2018	26 February 2023
Jacek Michalski	Member	10 August 2018	26 February 2018	26 February 2023

Cover Pool Monitor

As at the date of this Base Prospectus, upon application by the Supervisory Board, the KNF appointed Ms Grażyna Zielińska as Cover Pool Monitor and Mr Krzysztof Brejda as Deputy Cover Pool Monitor. The Cover Pool Monitor's responsibilities are described in "*Overview of the Polish Covered Bonds Legislation*" below.

RELATED PARTY TRANSACTIONS

As at 31 December 2018

	ING BSK	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V.
	<i>(in PLN thousand)</i>			
Receivables	111,534.93	-	-	-
Amounts due from banks	111,534.93	-	-	-
Other assets	47.5	-	-	-
Liabilities	-	-	-	-
Other liabilities	-	-	-	-
Off-balance sheet operations	94.4	-	-	-
Off-balance sheet liabilities received	94.4	-	-	-

As at 30 June 2019

Receivables	369,682.8	-	-	-
Amounts due from banks	369,682.8	-	-	-
Other assets	3.6	-	-	-
Liabilities	1,600,350.5	-	9.5	-
Liabilities to other banks	1,600,350.5	-	-	-
Other liabilities	-	-	9.5	-
Off-balance sheet operations	1,510,196.5	-	-	-
Off-balance sheet liabilities received	1,510,196.5	-	-	-

ING BSK maintains current accounts and short-term deposit accounts for the Bank. Moreover, the Bank's employees have access to credit lines which ING BSK makes available through credit cards offered to the Group's employees.

All the above mentioned transactions are carried out on an arm's length basis. The Bank and ING BSK also carry out transactions resulting from agreements for the sub-lease of premises used for the Bank's registered office, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

Furthermore, the Bank benefits from services provided by other related entities, ie SWIFT operating services provided by ING Belgium N.V., financial and accounting services provided by ING Usługi dla Biznesu S.A. and the hosting of IT applications provided by ING Business Shared Services B.V. acting through its branch in Poland.

OVERVIEW OF LEGAL REGULATIONS CONCERNING THE BANKING SECTOR

The following description is of a general nature and sets out certain features of Polish law concerning the banking sector as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Polish legislative and regulatory framework pertaining to banking activities.

Specific legal requirements for banks

Engaging in banking activities involves meeting multiple regulatory obligations, most of which follow directly from the provisions of the Banking Act dated 29 August 1997 (*Ustawa z dnia 29 sierpnia 1997 r. Prawo bankowe*) (the **Banking Act**), and from resolutions, ordinances and recommendations issued by the KNF. The most important of these obligations relate to banks' own funds, the capital adequacy ratio, solvency ratio, exposure concentration, risk management systems and financial management conducted by banks.

Banks have a duty to protect banking secrecy. Regulations on personal data protection are particularly important for the functioning of banks in order to protect individual customers. Personal data may be processed exclusively in compliance with detailed regulations, using technical and organisational resources which ensure the protection of personal data against unauthorised processing, including making it available to third parties.

Banks must also comply with regulations for the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

Certain restrictions also apply if banks retain any third parties for the performance of banking activities for and on behalf of the bank or for the performance of any banking-related operations.

Agreements concluded by banks with their customers are subject to detailed regulations (see also "*Consumer protection*" below).

Banking supervision exercised by the KNF

In Poland, banking supervision is exercised by the KNF and covers in particular:

- assessing the financial position of banks, including analysing liquidity, the quality of assets, solvency and the financial results of banks;
- estimating, maintaining and reviewing internal capital;
- auditing the quality of risk management systems, and in particular the risk management system and internal control system;
- auditing compliance of the bank's activities with the appropriate regulations; and
- monitoring and controlling the bank's compliance with the exposure concentration limits and standards for the risk acceptable in banks' operations as determined by KNF.

The KNF has wide powers and legal instruments which enable it to carry out supervision over banks (including the possibility to conduct inspections).

Other supervisory authorities

Some areas of banking operations are subject to the supervision of other public administration authorities, the most important of which are as follows:

- the President of the Office for Protection of Competition and Consumers with respect to protecting market competition and consumers' collective rights;
- the Head of the Data Protection Office with respect to collecting, processing, managing and protecting personal data; and
- the minister responsible for financial institutions (the Minister of Finance) and the General Inspector for Financial Information with respect to the prevention of money laundering and financing of terrorism.

Bank Guarantee Fund

The Bank Guarantee Fund covers the monetary assets deposited in bank accounts or receivable in respect of claims confirmed by documents issued by banks with a guarantee system. Participation in the Bank Guarantee Fund is mandatory for all Polish banks and in certain instances for branches of foreign banks operating in Poland. Banks covered by the guarantee system make mandatory annual payments to the Bank Guarantee Fund and are obliged to set up a

guaranteed funds protection fund. The mandatory guarantee system ensures that if a bank becomes insolvent, the funds deposited in bank accounts, up to an amount specified in the regulations, are returned. As at the date of this Base Prospectus, funds up to the amount equivalent to EUR100,000 per single person in respect of deposits in all accounts in a given bank are fully covered by the guarantee system. Funds deposited in particular by government administration authorities, other banks, credit institutions, insurance companies, investment and pension funds are not covered by the guarantee system.

Mortgage Credit Act

The Mortgage Credit Act, which implements the Directive 2014/17/EU (the **Mortgage Credit Directive**) into Polish law, came into force on 22 July 2017.

The general purpose of the Mortgage Credit Act is to improve the position of borrowers who purchase real estate. The Mortgage Credit Act introduces restrictions on granting mortgage loans such as restrictions on currencies in which a loan may be granted, which depend on the currency of the borrower's income. Banks will be allowed to tie mortgage loans with other products except the auxiliary bank account free of charge (which does not concern Polish mortgage banks as they are not allowed to maintain bank accounts for their clients). It does not affect the cross-selling that respects the borrower's right to choose a standalone mortgage loan or other combined offer. Additionally, while a bank may require the borrower to insure the property financed with the mortgage loan and to assign this insurance to the bank, the bank may not restrict the borrower's ability to choose an insurer, as long as the insurance policy meets the criteria stipulated by the bank. The Mortgage Credit Act imposes several mortgage loans information requirements on banks. The first requirement is in respect of advertisements concerning mortgage loans which must provide detailed information about, and refer to all important features of, the mortgage loans. The next is the offer information which must be presented in a special information sheet and submitted to the customer after getting acquainted with his credit needs. The information sheet is binding on a bank for 14 days. Banks are also obliged to issue a credit decision within 21 days of the date of a loan application and to justify the refusal of granting a loan. The third requirement is in respect of the content of the loan agreement, which is also strictly regulated. It includes a customer's right to withdraw from the loan agreement within 14 days of the date of signing the agreement. Therefore, these regulations have demanded some changes in the process of originating mortgage loans. The Mortgage Credit Act introduces licensing requirements for brokerage and agent services regarding mortgage loans. Moreover it introduces regular training requirements as a condition of maintaining the licence. Banks are also required to conduct regular training of their employees involved in mortgage loan origination processes.

Personal data protection

In light of the large number of individuals serviced by banks, all the regulations concerning personal data protection are of particular importance to banking operations. Personal data may be processed exclusively in compliance with specific regulations, while applying technical and organisational means that ensure the protection of personal data, particularly from disclosure to any unauthorised parties. Additionally, the persons to which such data relates should have the right to access all of their personal data and to correct it.

The General Data Protection Regulation (**GDPR**) entered into force on 25 May 2018. It imposes new obligations and guidelines on companies in the management and processing of personal data. This means a significant change for companies in their approach to the security of data storage and the issue of making it available to the relevant employees.

The key challenges resulting from the GDPR's implementation result from:

- the definition of personal data, including identifying the person to whom the data relates, will be much broader;
- automated processing of personal data will be permitted under certain conditions;
- the legal rights of the individual will be increased considerably;
- personal data processors, controllers and data protection officers will have many new obligations related to providing technical and organizational protection of personal data; and
- administrative fines for non-compliance with the Regulation can reach EUR20 million or 4 per cent. of an organisation's annual worldwide turnover. Moreover, individuals will have the right to judicial redress and claim compensation beyond the statutory fines.

OVERVIEW OF THE POLISH COVERED BONDS LEGISLATION

The following description is of a general nature and sets out certain features of Polish law governing the issuance of covered bonds as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Polish legislative and regulatory framework pertaining to the Covered Bonds.

Introduction

As at the date of this Base Prospectus, the main act of law governing the covered bonds in Poland is the Polish Covered Bonds Act. The Polish Covered Bonds Act was adopted on 29 August 1997 and came into force on 1 January 1998. The Polish Covered Bonds Act was significantly amended on 24 July 2015. These amendments came into force on 1 January 2016. Other laws and regulations that also apply to mortgage banks and covered bonds are the Bonds Act, the Banking Act, the Bankruptcy Law as well as the decrees issued by the Minister of Finance and the recommendations issued by the KNF.

Mortgage banks

In Poland, only specialised mortgage banks may issue covered bonds. As at the date of this Base Prospectus, all mortgage banks operating in Poland are subsidiaries of a bank and a separate legal entity. Establishing a mortgage bank requires a permit from the KNF and mortgage banks' activities are subject to KNF supervision.

Mortgage banks' lending activity

In accordance with the Polish Covered Bonds Act, the lending activities of the mortgage banks cover: (i) granting mortgage loans; (ii) granting loans secured by a guarantee of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for countries that are restructuring their external indebtedness or have restructured their external indebtedness in the last five years, loans to these entities, loans to local government units and loans secured by a guarantee from the local government units; and (iii) purchasing loans of the type referred to in (i) and (ii) above from other banks.

Under the Polish Covered Bonds Act, the amount of the mortgage bank's receivables under mortgage loans, in the part exceeding 60 per cent. of the mortgage lending value of the property, may not exceed 30 per cent. of the total amount of the mortgage bank's receivables under the mortgage loans. The amount of a single mortgage loan, on the day the bank grants or acquires the loan, may not exceed the mortgage lending value of the secured property.

Covered bonds

Covered bonds (*listy zastawne*) are debt securities issued exclusively by mortgage banks under the Polish Covered Bonds Act. There are two types of covered bonds: mortgage covered bonds (*hipoteczne listy zastawne*) and public covered bonds (*publiczne listy zastawne*). For a description of assets constituting the basis for issuing mortgage covered bonds and public covered bonds, see "*Core assets*" below.

The covered bonds constitute direct, unconditional and unsubordinated obligations of the Bank, and rank *pari passu* among themselves and all other obligations of the Bank which have the same priority as the covered bonds. Any obligations of the Bank arising from the covered bonds are obligations of the Bank the repayment of which can be realised from any assets of the Bank, subject to a special regime that applies in respect of the obligations arising from the covered bonds on the Bank's bankruptcy. The assets which satisfy the relevant criteria set out in the Polish Covered Bonds Act and which cover the obligations of the Bank arising from the covered bonds are referred to in this Base Prospectus as the cover pool. The Polish Covered Bonds Act sets out the criteria that certain assets must meet to be eligible to constitute cover for covered bonds.

Under the Polish Covered Bonds Act, the title to assets in the cover pool is held by the Bank and these assets remain on the Bank's balance sheet. Subject to certain exceptions in the course of the bankruptcy proceedings (described in detail in the "*Bankruptcy and Insolvency*" section), the holders of the covered bonds do not have direct access to the assets in the cover pool.

In accordance with the Polish Covered Bonds Act, the mortgages established to secure loans included in the cover pool must have the highest priority. This means that, on enforcement of the Bank's claims secured by a mortgage, the Bank's claims will be satisfied after the satisfaction of the enforcement costs, alimonies, and the statutory minimum wage for a three-month period, pensions due as compensation for an illness, inability to work, disability or death but ahead of the other creditors of the Bank.

The aggregate principal amount of outstanding covered bonds may not exceed 40 times the mortgage bank's own funds increased by the general risk reserves created by the mortgage bank.

Composition of the Cover Pool

General

A mortgage bank maintains separate cover pools for mortgage covered bonds and public covered bonds. There is only one cover pool for each type of covered bond, so that holders of all mortgage covered bonds have the benefit of the same cover pool and holders of all public covered bonds have the benefit of the same cover pool. The cover pool must comply with the requirements concerning, among others, the value of the assets, set out in the Polish Covered Bonds Act.

Additionally, a mortgage bank must maintain a cover pool register (*rejestr zabezpieczenia listów zastawnych*) for each cover pool indicating the assets constituting the cover pool. A mortgage bank enters both core and substitute assets as well as the assets in the liquidity buffer in the cover pool register. For a description of assets in the liquidity buffer, please see "*Liquidity buffer*" below.

The value of a loan disclosed in the cover pool register is up to the amount of the loan indicated in the relevant loan agreement for the loans originated or acquired by the mortgage bank. Within three months from the end of each financial year, a mortgage bank will announce in "*Monitor Sądowy i Gospodarczy*" the aggregate value of assets entered in the register as at the end of the financial year.

There are two types of assets in the cover pool: the core assets and the substitute assets. At least 85 per cent. of the assets in the cover pool must be core assets. Mortgage banks are subject to a mandatory overcollateralisation requirement, so that at all times the value of the assets in the cover pool must be at least 110 per cent. of the aggregate principal amount of the outstanding covered bonds. If the assets in the cover pool are denominated in a currency different from the currency of the covered bonds, the mortgage bank is required to enter into transactions hedging the currency risk.

A mortgage bank cannot dispose of the assets included in the cover pool without the prior written consent of the Cover Pool Monitor. Generally, a mortgage bank can use the assets in the cover pool as collateral only for the covered bonds. The only exceptions are establishing collateral for hedging transactions entered into by the mortgage bank and entered in the cover pool register and collateral established in favour of settlement systems of which a mortgage bank is a member.

Core assets

For the mortgage covered bonds, the core assets consist of mortgage loans, both originated by the mortgage bank and acquired by the mortgage bank from other banks.

The mortgage bank may apply the proceeds from the issuance of covered bonds towards refinancing the mortgage loans in the cover pool. Refinancing in relation to a single loan cannot exceed 80 per cent. of the mortgage lending value for residential properties and 60 per cent. of the mortgage lending value for other properties.

A mortgage securing a loan to be included in the cover pool must have the highest priority. The mortgage bank may disburse the funds to the borrower before the mortgage is entered in the land and mortgage register if the bank received interim security.

Loans secured by mortgages over real property on which construction works are pending cannot exceed 10 per cent. of the aggregate principal amount of loans in the cover pool. Loans secured by mortgages over real property on which there are no buildings, but which is designated for construction in the applicable zoning plan, cannot exceed 10 per cent. of this limit.

For public covered bonds, the core assets are: (i) loans secured by a guarantee of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (ii) loans to the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (iii) loans to local government units; and (iv) loans secured by a guarantee from the local government units.

Substitute assets

The substitute assets, for both mortgage covered bonds and public covered bonds, are securities issued or guaranteed by the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years, cash deposited by the mortgage bank with the NBP and cash held by the mortgage bank.

Liquidity buffer

A mortgage bank has to maintain a liquidity buffer. The value of the assets in the liquidity buffer must be at least the amount of interest payable under the outstanding covered bonds in the next six months. The only assets that can be included in the liquidity buffer are: (i) securities issued or guaranteed by the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (ii) cash deposited by the mortgage bank with the NBP; and (iii) cash held by the mortgage bank. The assets included in the liquidity buffer cannot be used as a base for issuing covered bonds.

Derivatives

When calculating the value of the cover pool and the liquidity buffer the value of hedging arrangements to which the mortgage bank is a counterparty is also taken into account provided that the following conditions are met:

- the purpose of the hedging arrangement and the assets and liabilities to be hedged by that contract were formally designated before the hedging arrangement was concluded;
- the hedging instrument and the hedged assets or liabilities provided for in the hedging arrangement have similar characteristics, including, in particular, with regard to the nominal values, maturities, and the effects of interest rate or exchange rate changes; and
- the degree of certainty as to the expected cash flows from the hedging arrangement is significant.

Valuation of assets in the Cover Pool

As required by the Polish Covered Bonds Act, a mortgage bank should determine the mortgage lending value of a real property in a prudent and cautious manner. The mortgage lending value of a property is determined on the basis of valuation prepared by the mortgage bank or by a separate entity. The Cover Pool Monitor and the KNF may review the valuation. The detailed principles of determining the mortgage lending value of a real property are issued by the management board of a mortgage bank and are subject to the KNF's approval. Under Recommendation F issued by the KNF, if the valuation is conducted by the mortgage bank, it should be conducted by a separate organisational unit within the mortgage bank, independent from the units responsible for selling mortgage loans and handling the loan application process. Additionally, Recommendation F provides that a simplified valuation procedure may be adopted for credit exposures whose value does not exceed PLN300,000 for properties located in Warsaw, Cracow, Poznań, Wrocław, Gdańsk, Sopot or Gdynia and PLN200,000 for properties located elsewhere. For more information on the valuation process please see "*Mortgage lending value*".

The role of the Cover Pool Monitor

The Polish Covered Bonds Act governs the appointment and the responsibilities of the Cover Pool Monitor and the Deputy Cover Pool Monitor.

The Cover Pool Monitor monitors whether:

- there is appropriate coverage for the outstanding covered bonds;
- the mortgage lending value of the property was established in accordance with rules of establishing the mortgage lending value of the property adopted by the mortgage bank;
- the mortgage bank maintains the required overcollateralisation level and liquidity buffer;
- the results of the liquidity test and the coverage test confirm that the claims of the holders of the covered bonds can be satisfied in full;
- the mortgage bank maintains the cover pool register in accordance with the applicable regulations; and
- the mortgage bank maintains the appropriate cover pool and makes the required entries in the cover pool register.

The Cover Pool Monitor must notify the KNF if it identifies any non-compliance by the mortgage bank with the applicable regulations or if the result of the coverage test or the liquidity test is negative. On a monthly basis, the Cover Pool Monitor must provide the KNF with a copy of the cover pool register for the preceding month countersigned by the Cover Pool Monitor.

There must be one Cover Pool Monitor and at least one Deputy Cover Pool Monitor at a mortgage bank. Additional Deputy Cover Pool Monitors may be appointed if it is required due to the scale of the mortgage bank's operations. The

Cover Pool Monitors and the Deputy Cover Pool Monitors are individuals who are citizens of an EU member state, have a university degree and can guarantee the proper performance of their obligations.

The Cover Pool Monitor and the Deputy Cover Pool Monitors are appointed by the KNF, upon application from the mortgage bank's supervisory board, for a six-year term and may be appointed for one additional term.

The Cover Pool Monitor and Deputy Cover Pool Monitors are independent in performing their duties.

Monitoring the Cover Pool

The mortgage bank conducts the collateralisation review (*rachunek zabezpieczeń*). The mortgage bank monitors daily the satisfaction of the overcollateralisation requirements and verifies whether the mortgage bank's interest income from assets in the cover pool is not lower than interest payable under the outstanding covered bonds. Additionally, each mortgage bank has to perform two periodic tests: the coverage test and the liquidity test.

The coverage test verifies whether the value of the assets in the cover pool allows for full satisfaction of all claims under the outstanding covered bonds. Under the decree of the Minister of Finance dated 30 December 2015, a mortgage bank should perform the coverage test using the following formula:

$$\frac{\text{core assets} + \text{substitute assets} + \text{hedging instruments} + \text{liquidity buffer}}{\text{principal amount of outstanding covered bonds} + \text{costs of liquidating bankruptcy asset pool} + \text{due and unpaid interest}}$$

$$\text{principal amount of outstanding covered bonds} + \text{costs of liquidating bankruptcy asset pool} + \text{due and unpaid interest}$$

The purpose of the liquidity test is to verify that the value of the assets in the cover pool is sufficient for full satisfaction of all claims under the outstanding covered bonds even if the maturity of the covered bonds is extended in bankruptcy proceedings. Under the decree of the Minister of Finance, a mortgage bank should perform the liquidity test for a six-month period and a 12-month period.

The liquidity test for the six-month period is conducted using the following formula:

$$\begin{aligned} & (\text{Substitute assets} + \text{liquidity buffer} + \text{net proceeds under hedging instruments for the next six months}) - \\ & (\text{Interest payable in the next six months} + \\ & \text{principal amount of covered bonds that fall due in the next six months} + \\ & \text{cost for the next six months of liquidating bankruptcy asset pool}) \end{aligned}$$

The liquidity test for the 12-month period is conducted using the following formula:

$$\begin{aligned} & (\text{Substitute assets} + \text{liquidity buffer} + \text{net proceeds under hedging instruments for the next 12 months} + \\ & \text{interest under receivables in the cover pool for the next 12 months} + \\ & \text{repayment of principal of receivables in the cover pool for the next 12 months}) - \\ & (\text{Interest payable in the next 12 months} + \\ & \text{principal amount of covered bonds that fall due in the next 12 months} + \\ & \text{obligations towards holders that became due but were not paid before the date of declaration of bankruptcy} + \\ & \text{costs for the next 12 months of liquidating bankruptcy asset pool}) \end{aligned}$$

The liquidity test should be performed by taking into account interest and principal amount payable in respect of covered bonds: (i) in the next six months; and (ii) in the next 12 months.

In conducting the tests, the mortgage bank should take into account foreign exchange and interest rate differences if such differences were not hedged with appropriate hedging transactions. The tests are conducted by reference to the market conditions as at the day of the test and by reference to adverse market conditions.

The liquidity test must be performed at least every three months and the coverage test must be performed every six months. The test results are positive if they demonstrate that as at the date of conducting the tests, the assets entered in the cover pool register were sufficient to satisfy the claims of holders of the covered bonds in full. The test results are verified by the Cover Pool Monitor. If the result of any test is negative, the Cover Pool Monitor must notify the KNF.

BANKRUPTCY AND INSOLVENCY

Recovery plan

If a mortgage bank is in breach of the capital adequacy requirements, there is a threat that a mortgage bank might breach the capital adequacy requirements, the financial position of the mortgage bank deteriorated materially, the mortgage bank demonstrates a loss, there is a threat that the mortgage bank may demonstrate a loss, there is a risk that the mortgage bank may become insolvent or illiquid, the leverage ratio is increasing, the value of non-performing loans or the concentration of exposure is increasing, the mortgage bank should notify the KNF and BGF and implement a recovery plan (*plan naprawczy*).

The KNF may:

- request the mortgage bank to implement the recovery plan;
- order the mortgage bank to stop granting loans to the bank's shareholders, the members of the bank's management board and supervisory board, and the bank's employees;
- request the mortgage bank to decrease certain variable elements of the remuneration of individuals holding managerial positions in the mortgage bank or to suspend payment of these variable elements;
- request the mortgage bank's management board to convene a general meeting of the shareholders to ascertain the situation of the mortgage bank, adopt a decision on covering the balance sheet loss and take other decisions, including a decision on increasing the mortgage bank's own funds;
- request the mortgage bank to dismiss a person holding a managerial position at the mortgage bank;
- order the mortgage bank to prepare and implement a restructuring plan (*plan restrukturyzacji*);
- request the mortgage bank to amend its business strategy; or
- request the bank to amend its constitutional documents or the organisational structure.

The KNF may also appoint a trustee (*kurator*) to oversee the execution of the recovery plan. The trustee may participate in the meetings of the mortgage bank's governing bodies and has access to all information necessary to perform his duties. The trustee may also file with the relevant court an objection against the decisions of the mortgage bank's management board and supervisory board.

If the measures ordered by the KNF are insufficient or the implementation of the recovery plan is insufficient to remedy the situation of the bank, the KNF may decide to appoint a receiver (*zarząd komisaryczny*). The receiver replaces the management board and the supervisory board and takes over the management of the mortgage bank. The receiver prepares a recovery plan and, after agreeing the plan with the KNF, executes it.

Liquidation

If, after six months from convening an extraordinary general meeting of the shareholders referred to in "*Recovery plan*" above, the loss of the mortgage bank exceeds half of the mortgage bank's own funds, the KNF may revoke the bank's banking licence and order its liquidation

The liquidation of a bank is conducted by a liquidator (*likwidator*) appointed by the KNF. Upon the liquidator's appointment, the management board of the bank is dismissed and the supervisory board is suspended. The liquidator takes over the management of the bank and represents the bank in all matters. The purpose of the liquidation proceedings is to collect the bank's outstanding claims, liquidate its assets and terminate the bank's operations. The claims of the holders of the covered bonds and the counterparties to eligible hedging are satisfied from the assets in the cover pool ahead of claims of other creditors of the mortgage bank. The claims of the bank's shareholders are satisfied after the satisfaction of the claims of the other creditors of the bank. Once the liquidator completes the liquidation, the liquidator files a report with the KNF and applies to the court maintaining the register of entrepreneurs (*rejestr przedsiębiorców*) to delete the bank from the register of entrepreneurs. The bank ceases to exist on the day it is deleted from the register of entrepreneurs.

Compulsory Restructuring

The Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **BRRD**) was implemented in Poland by the Resolution Act which entered into force on 9 October 2016.

Under the Resolution Act, the BFG became the applicable resolution authority and was granted broad powers with respect to the Polish banks and other financial institutions (a **Resolution Entity**). The BFG can either initiate compulsory restructuring proceedings concerning a Resolution Entity or decide to apply the bail-in tools concerning its capital instruments if (i) the threat of that Resolution Entity's insolvency cannot be ruled out by steps taken by it or its supervisory authorities, or (ii) initiating such BFG's actions are in the public interest.

BFG can apply the following resolution tools with respect to the Resolution Entity:

- sale of business;
- bridge institution;
- asset separation; and
- bail-in (i.e. compulsory write-down or conversion of Resolution Entity's obligations).

The above tools may be applied separately or in any combination save that asset separation can only be applied in conjunction with another resolution tool.

In addition to the resolution tools, the Resolution Act grants certain resolution powers to BFG, including:

- the right to suspend the termination rights of a party to an agreement with the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs;
- the right to suspend the termination rights of a party to an agreement with a subsidiary of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs, provided that certain conditions are met;
- the right to suspend the performance of any due obligations of the Resolution Entity under an agreement until midnight on the business day following the date on which the publication notice of that suspension occurs; and
- the right to suspend the rights of a secured creditor to enforce a security interest concerning any assets of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs.

The above suspension rules do not apply to certain types of claims specified in detail in the Resolution Act

If the BFG decides that a mortgage bank's liabilities under covered bonds should be transferred to another entity, this transfer should not limit the rights of the holders of covered bonds or affect the collateralisation of covered bonds. Furthermore, the obligations of mortgage banks under covered bonds and hedging instruments entered into the cover pool register may be subject to a compulsory write-down or conversion only to the extent the value of the cover pool is not sufficient to satisfy all claims under covered bonds issued by the Bank.

A party to an agreement with the Resolution Entity cannot terminate that agreement due to BFG's declaration of the initiation of the Resolution Proceedings or due to BFG's performance of its rights within the resolution proceedings, assuming that all the principal obligations under that agreement to make payments or deliveries or provide collateral continue to be performed by the applicable Resolution Entity.

Bankruptcy

General

If, according to the balance sheet prepared as at the last day of the relevant reporting period, the assets of the bank are not sufficient to satisfy the bank's obligations, the management board, the receiver or the liquidator must promptly notify the KNF. The KNF will take a decision on whether to suspend the bank's operations and appoint a receiver if a receiver was not previously appointed and will file a petition to the relevant court for the commencement of bankruptcy proceedings. The KNF will also suspend the bank's operations and appoint a receiver and will file a petition for the commencement of bankruptcy proceedings if, for reasons directly connected with the financial situation of the bank, the bank fails to satisfy its obligations to pay the guaranteed funds specified in Article 2 item 68 of the Resolution Act.

KNF is not permitted to file a petition to the relevant court for the commencement of bankruptcy proceedings if BFG has commenced compulsory restructuring in respect of the bank. However, under the Resolution Act, the BFG is also authorised to file a motion to declare a mortgage bank bankrupt if in the course of compulsory restructuring the application of certain resolution tools, i.e. sale of business, bridge institution, and/or asset separation did not result in the sale of the bank subject to the proceedings and according to the balance sheet prepared as at the last day of the relevant reporting period, the assets of the bank are not sufficient to satisfy the bank's obligations.

Before declaring a bank's bankruptcy, the bankruptcy court will question a representative of the KNF, the members of the bank's management board and receiver, and the liquidator regarding the grounds for declaring the bank bankrupt and the candidates for the bankruptcy receiver (*syndyk*).

On the day the bank is declared bankrupt, the management and supervisory bodies of the bank are dissolved. The receivership and the appointment of the liquidator expire. Additionally, the rights of the members of the bank's corporate bodies to receive severance payments and remuneration for the period after the declaration of bankruptcy expires.

Additionally, on the day the bank is declared bankrupt:

- bank account agreements are terminated and interest on deposits is calculated until the date of declaration of bankruptcy; and
- loan agreements are terminated if the funds were not disbursed prior to the date of declaration of bankruptcy.

Position of holders of covered bonds

On the declaration of a mortgage bank's bankruptcy, the following assets will constitute a separate bankruptcy asset pool:

- the assets in the cover pool, including the rights under the hedging arrangements which comply with the requirements described in "Overview of the Polish covered bonds legislation – Composition of the cover pool – Derivatives";
- the assets in the liquidity buffer;
- proceeds from payments under receivables in the cover pool; and
- assets acquired by the mortgage bank in exchange for assets in the cover pool.

If there is doubt whether a mortgage bank's asset should be included in the separate bankruptcy asset pool, for the purpose of the bankruptcy proceedings, it is included in the bankruptcy estate up to its value indicated in the cover pool register.

If there is any surplus left in the separate bankruptcy asset pool after satisfying the claims of the holders of the covered bonds, it is added to the general bankruptcy estate of the mortgage bank.

In principle, the mortgage bank's creditors cannot set-off their claims against the mortgage bank with the mortgage bank's claims against these creditors included in the separate bankruptcy asset pool. The only exceptions are:

- set-off of claims under hedging transactions indicated in the cover pool register; and
- settlement of claims between the mortgage bank and the payment and settlement system of which the mortgage bank is a member as well as settlement of financial collateral granted by the mortgage bank.

The rules concerning satisfaction of claims of the holders of covered bonds on a mortgage bank's bankruptcy also apply to satisfaction of claims of counterparties to hedging transactions entered into by the mortgage bank which are entered in the cover pool register.

The bankruptcy court will appoint, upon consultation with the KNF, a trustee (*kurator*) who will represent the holders of the covered bonds in the bankruptcy proceedings. The holders of the covered bonds may also participate in the bankruptcy proceedings after receiving consent from the judge-commissioner (*sędzia komisarz*) conducting the proceedings.

The bankruptcy court will also appoint a bankruptcy receiver. The bankruptcy receiver takes over the management of the mortgage bank's assets from the bank's management and should liquidate the bankrupt bank's assets. From his appointment, the bankruptcy receiver acts in his own name, but on behalf of the bankrupt bank.

Within 21 days from the day of declaration of the mortgage bank's bankruptcy, the trustee will report to the bankruptcy estate:

- the aggregate principal amount of the outstanding covered bonds which became due before the date of declaration of bankruptcy;
- the aggregate amount of all interest outstanding under the covered bonds; and
- the aggregate principal amount all outstanding covered bonds due after the date of declaration of bankruptcy, interest due after the date of declaration of bankruptcy and any applicable premiums.

On the date of declaration of bankruptcy, the maturity of all outstanding covered bonds is extended by 12 months. The obligations towards holders of the covered bonds which became due before the declaration of bankruptcy and which were not paid are satisfied within 12 months from the date of the declaration of bankruptcy, but no earlier than the day falling

after the results of the coverage test and the liquidity test are announced. Due interest under the covered bonds is paid in the manner set out in the terms and conditions of the covered bonds.

Within three months from the date the bank was declared bankrupt, the bankruptcy receiver is required to conduct the coverage test and the liquidity test (for a detailed description of the tests, please see "*Overview of the Polish Covered Bonds Legislation – Monitoring the Cover*"). The results of the tests are positive if the separate bankruptcy asset pool is sufficient to satisfy the claims of the holders of all outstanding covered bonds. The test results are published by the judge-commissioner.

If the results of both tests are positive, the claims under the covered bonds are satisfied in accordance with the terms and conditions of the covered bonds, taking into account the extension of maturity of the covered bonds by 12 months. In this scenario the receiver may enter into hedging transactions.

Within two months from the date the test results are announced, a meeting of holders of the covered bonds may request the receiver, by way of resolution adopted with a majority of two-thirds of votes of holders of the outstanding covered bonds, to sell all receivables and rights in the separate bankruptcy asset pool:

- to another mortgage bank together with transferring to the purchaser all obligations of the bankrupt bank under the covered bonds; or
- to another bank or another mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds.

A meeting of the holders of the covered bonds may be convened if a request for convening the meeting is made within a month from the date the test results are announced. If this resolution is adopted, interest under the covered bonds until the date of sale of the assets is paid from the assets in the separate bankruptcy asset pool.

If the proceeds from the sale of assets in the separate bankruptcy asset pool reduced by the interest under the outstanding covered bonds payable in the next six months and the amount of claims of holders of the covered bonds which became due before the date of declaration of bankruptcy and which were not paid before that date, are at least five per cent. of the principal amount of the outstanding covered bonds, the claims of the holders of the covered bonds may be satisfied pro rata before the extended maturity date. These proceeds will be paid to the holders of the covered bonds on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

If the results of the coverage test are positive and the results of the liquidity test are negative, the maturity date of the covered bonds, including the covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivables in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings of at least 5 per cent. of the principal amount of the outstanding covered bonds, the holders of the covered bonds shall receive payments under the covered bonds before the extended maturity date. These payments will be made pro rata on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of the covered bonds may, within three months from the date of announcing the results of the tests, adopt a resolution on disapplying the extension of the maturity date or on the sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

If the results of the coverage test are negative, the maturity date of the covered bonds, including the covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivable in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings, of at least 5 per cent. of the principal amount of the outstanding covered bonds, the holders of the covered bonds shall receive payments under the covered bonds before the extended maturity date. These payments will be made on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of the covered bonds may, however, adopt a resolution on disapplication of the extension of the maturity date or on sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

The order of priority of satisfaction of claims from the separate bankruptcy asset pool is as follows:

- costs of liquidating the separate bankruptcy asset pool which include the trustee's fee, interest and other ancillary payments under the covered bonds; and
- the outstanding principal amount of the covered bonds.

If the separate bankruptcy asset pool is not sufficient to satisfy the claims of the holders of the covered bonds, these claims will be satisfied from the general bankruptcy estate. The funds from the general bankruptcy estate designated for satisfying the claims of the holders of the covered bonds will be transferred to the separate bankruptcy asset pool.

TAXATION

Potential purchasers and sellers of the Covered Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Covered Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Covered Bonds. Potential investors are advised not to rely upon the tax summary contained in this document and/or in the Final Terms, but instead to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Covered Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor.

SUBSCRIPTION AND SALE

Subject to the provisions of the programme agreement dated 5 September 2019 (the **Programme Agreement**) between the Bank, ING NV and ING BSK (together with any further financial institution appointed as a dealer under the Programme Agreement, the **Dealers**), the Covered Bonds may be sold by the Bank to the Dealers, who shall act as principals in relation to such sales. However, the Bank has reserved the right to issue Covered Bonds directly on its own behalf to subscribers who are not Dealers and which agree to be bound by the restrictions set out below. The Programme Agreement also provides for Covered Bonds to be issued in Tranches which are jointly and severally underwritten by two or more Dealers or such subscribers.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Covered Bonds. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the Bank or, in relation to itself and the Bank only, by any Dealer, at any time on giving not less than ten business days' notice.

United States of America

The Covered Bonds have not been and will not be registered under the U.S. Securities Act of 1933 as amended (the **Securities Act**), or the securities law of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except certain transactions exempt from or not subject to the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered nor sold the Covered Bonds of any identifiable Tranche, and will not offer nor sell the Covered Bonds of any identifiable Tranche (i) as part of their distribution at any time nor (ii) otherwise until 40 days after completion of the distribution of such tranche as determined, and such completion is notified to each relevant Dealer, by the Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Accordingly, each Dealer has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Covered Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed to notify the Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager when it has completed the distribution of its portion of the Covered Bonds of any identifiable Tranche so that the Principal Paying Agent or, in the case of a Syndicated Issue, the relevant Lead Manager may determine the completion of the distribution of all Covered Bonds of that Tranche and notify the other relevant Dealers (if any) of the end of the restricted period. Each Dealer agrees that, at or prior to confirmation of sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Covered Bonds from it during the restricted period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the **Securities Act**), or the securities laws of any state or other jurisdiction of the United States, and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of this tranche of Securities as determined, and notified to [Relevant Dealer], by the [Principal Paying Agent/relevant Lead Manager], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used above have the meanings given to them by Regulation S.

Each Dealer has represented and agreed that it has not entered and will not enter into any contractual arrangement with respect to the distribution or delivery of Covered Bonds within the United States of America, except with its affiliates or with the prior written consent of the Bank.

Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Covered Bonds, other than Covered Bonds with an initial maturity of one year or less, will be issued in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) or substantially identical provisions (the **D Rules**), or in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5 (c)(2)(i)(C) or substantially identical provisions (the **C Rules**), as specified in the Final Terms.

In addition, in respect of Covered Bonds issued in accordance with the D Rules, each Dealer has represented and agreed that:

- (a) to the extent permitted under the D Rules, it has not offered or sold, and during the restricted period will not offer or sell, Covered Bonds in bearer form to a person who is within the United States or its possessions or to a United States person;
- (b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Covered Bonds in bearer form are aware that such Covered Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if such Dealer is a United States person, it has represented that it is acquiring the Covered Bonds in bearer form for purposes of resale in connection with their original issuance and if such Dealer retains Covered Bonds in bearer form for its own account, it will do so only in accordance with the requirements of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D)(6) or substantially identical provisions; and
- (d) with respect to each affiliate that acquires Covered Bonds in bearer form from such Dealer for the purpose of offering or selling such Covered Bonds during the restricted period, such Dealer either (i) has repeated and confirmed the representations and agreements contained in sub-clauses (a), (b) and (c) on such affiliate's behalf or (ii) has agreed that it will obtain from such affiliate for the benefit of the Bank the representations and agreements contained in sub-clauses (a), (b) and (c).

Terms used in the above paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

In addition, where the C Rules are specified in the applicable Final Terms as being applicable to any Tranche of Covered Bonds, Covered Bonds in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, Covered Bonds in bearer form within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of Covered Bonds in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such Dealer or purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of Covered Bonds in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each issuance of index- or currency-linked Covered Bonds shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Bank as a term of the issuance and purchase or, as the case may be, subscription of such Covered Bonds. Each Dealer agrees that it shall offer, sell and deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

The Bank may agree with one or more Dealers for such Dealers to arrange for the sale of Covered Bonds under procedures and restrictions designed to allow such sales to be exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus or any other offering material.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

- (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Regulation**); and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms in respect of any Covered Bonds specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Member State except that it may make an offer of such Covered Bonds to the public in that Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3(1) of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Relevant Member State means a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the Covered Bonds to be offered, so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Bank;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Belgium

Other than in respect of Covered Bonds for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a **Belgian Consumer**) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required. Each Dealer has represented and agreed that it will comply with all

relevant laws and directives in each jurisdiction in which it purchases, offers, sells, or delivers Covered Bonds or has in its possession or distributes the Base Prospectus or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Covered Bonds under the laws and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, in all cases at its own expense, and neither the Bank nor any other Dealer shall have responsibility therefor.

These selling restrictions may be modified by the agreement of the Bank and the Dealers, *inter alia*, following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

No governmental consents, approvals or authorisations in Poland in connection with the issue of the Covered Bonds and the performance by the Bank of its obligations under the Covered Bonds will be required to be complied with.

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by the resolution of the Supervisory Board of the Bank No. 23/4/2019 dated 9 May 2019. The issuance of each Series of the Covered Bonds will be authorised by a separate resolution of the Management Board of the Bank.

Listing and admission to trading of Covered Bonds

Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and/or the Warsaw Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) and/or on the Regulated Market of the Warsaw Stock Exchange (*Gięlda Papierów Wartościowych w Warszawie S.A.*). Each of the Luxembourg Stock Exchange's Regulated Market and the Warsaw Stock Exchange's Regulated Market is a regulated market for the purposes of the Market and Financial Instruments Directive 2014/65/EU. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the applicable Final Terms. Covered Bonds may further be issued under the Programme without being listed on any stock exchange.

Covered Bonds which are unlisted or to be listed or admitted to trading, as the case may be, on another stock exchange or market may be issued under this Programme but only, in the case of Covered Bonds listed or admitted to trading on another stock exchange or market, if the Bank ensures that all laws and regulations are complied with including, among others, any applicable requirements for notifications of competent authorities and other requirements under the Prospectus Regulation.

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Documents Available

For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available the Bank's website: www.inghipoteczny.pl:

- (a) the constitutional documents (with English translations thereof) of the Bank;
- (b) a copy of this Base Prospectus;
- (c) any future base prospectuses, offering circulars, prospectuses, information memoranda, supplements and Final Terms prepared by the Bank.

The content on the websites available via hyperlinks included in this Base Prospectus does not form a part of this Base Prospectus with the exception of hyperlinks to the electronic addresses where information incorporated by reference is available.

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code, the International Securities Identification Number (ISIN) and the alphabetical code of each Series of Covered Bonds will be set out in the applicable Final Terms.

If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

Euroclear's address is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium. Clearstream, Luxembourg's address is 42, avenue Kennedy, 1855 Luxembourg, Luxembourg.

Conditions for determining price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial performance or position of the Bank since 30 June 2019 and there has been no material adverse change in the financial position or prospects of the Bank since 30 June 2019.

Litigation

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Covered Bonds (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Bank.

Auditors

The Bank's financial statements for the financial year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been audited by Michał Tomczyk, certified auditor, member of the Polish Chamber of Certified Auditors (*Polska Izba Biegłych Rewidentów*), licence no. 13503, acting on behalf of BDO spółka z ograniczoną odpowiedzialnością sp. k., an audit firm entered on the list kept by the Polish Chamber of Certified Auditors under no. 3355 and BDO spółka z ograniczoną odpowiedzialnością sp. k. rendered an unqualified audit report on such financial statements of the Bank.

Yield

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

Arranger and/or Dealers transacting with the Bank

The Arranger, certain Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Bank and its affiliates in the ordinary course of business. Except as discussed in the applicable Final Terms, the Arranger, certain Dealers and their affiliates may be customers of, and borrowers from the Bank and its affiliates. In addition, the Arranger, certain Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the certain Arranger, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. The Arranger, the certain Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, the Arranger, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Arranger, the Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Post-issuance information

In connection with the issuance of mortgage covered bonds by the Bank and in accordance with Article 129 section 7 of the CRR, the Bank publishes regular disclosure reports (*raporty ujawnień*) detailing the Bank's issuances of the mortgage covered bonds and cover pool register. The abovementioned disclosure reports (*raporty ujawnień*) are published on the Bank's website www.inghipoteczny.pl.

SCHEDULE 1

THE BANK'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018



ING Bank Hipoteczny S.A.

Financial Statements

for the period from 26 February 2018

to 31 December 2018



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SELECTED FINANCIAL DATA FROM THE FINANCIAL STATEMENTS

Selected financial data

	2018 period from 26 February 2018 to 31 December 2018
Net interest income	947.4
Net income on basic activities	939.7
General and administrative expenses	-9,888.2
Profit before tax	-8,948.5
Profit after tax	-7,379.4
Earnings per ordinary share (PLN)	-61.5

	as at 31 December 2018
Amounts due from banks	111,534.9
Total assets	116,187.7
Share capital	120,000.0
Total equity	112,310.5

The basic ratios

	as at 31 December 2018
ROA - return on assets (%)	-6.4%
ROE - return on equity (%)	-6.1%
DR - total debt ratio (%)	3.3%

ROA - return on assets – net result for the shareholders of ING Bank Hipoteczny S.A. to assets as at 31 December 2018.

ROE - return on equity – net result for the shareholders of ING Bank Hipoteczny S.A. to equity as at 31 December 2018.

DR – total debt ratio – liabilities of ING Bank Hipoteczny S.A. to assets as at 31 December 2018.

INCOME STATEMENT

for the period from 26 February 2018 to 31 December 2018

	Note	
Interest income	5.1	947.4
Net interest income	5.1	947.4
Commission expenses	5.2	-3.1
Net commission income	5.2	-3.1
FX result	5.3	-4.6
Net income on other basic activities		-0.002
Net income on basic activities		939.7
General and administrative expenses	5.4	-9,888.2
Profit before tax		-8,948.5
Income tax	5.5	1,569.1
Profit after tax		-7,379.4
Number of shares		120,000
Earnings per ordinary share (PLN)	5.6	-61.50

There were no discontinued operations at the Bank in the year ended 31 December 2018.

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

STATEMENT OF COMPREHENSIVE INCOME

for the period from 26 February 2018 to 31 December 2018

	Note	
Profit after tax for the period		-7,379.4
Total other comprehensive income, including:		-310.1
Items which can be reclassified to income statement		0.0
Items which will not be reclassified to income statement, including:		-310.1
Actuarial gains/losses	5.13	-310.1
<i>including deferred tax</i>		72.7
Net comprehensive income for the period		-7,689.5

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

STATEMENT OF FINANCIAL POSITION

as at 31 December

	Note	2018
Assets		
Amounts due from banks	5.7	111,534.9
Property, plant and equipment	5.8	104.1
Intangible assets	5.9	2,808.5
Deferred current income tax receivables		11.9
Deferred income tax assets		1,641.8
Other assets	5.10	86.4
Total assets		116,187.7
Liabilities		
Other liabilities	5.11	3,877.2
Total liabilities		3,877.2
Equity		
Share capital	5.12	120,000.0
Accumulated other comprehensive income	5.13	-310.1
Retained earnings	5.14	-7,379.4
Total equity		112,310.5
Total equity and liabilities		116,187.7
Book value		116,187.7
Number of shares		120,000
Book value per share in (PLN)		968.23

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

STATEMENT OF CHANGES IN EQUITY

for the period from 26 February 2018
to 31 December 2018

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity		-	-	-	-
Issue of shares of series A		120,000.0	-	-	120,000.0
Net result for the current period		-	-	-7,379.4	-7,379.4
Other net comprehensive income, including:		-	-310.1	-	-310.1
Actuarial gains/losses		-	-310.1	-	-310.1
Closing balance of equity		120,000.0	-310.1	-7,379.4	112,310.5

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

CASH FLOW STATEMENT

for the period from 26 February 2018 to 31 December 2018

	Note	
Profit after tax		-7,379.4
Adjustments, of which:		1,980.7
Depreciation and amortisation	5.4, 5.8, 5.9	188.5
Interest accrued (from the income statement)	5.1	-947.4
Interest received		827.9
Income tax (from the income statement)	5.5	-1,569.1
Income tax paid		-11.9
Change in other assets		-74.4
Change in other liabilities		3,567.1
Net cash flow from operating activities		-5,398.7
Purchase of property plant and equipment	5.8	-125.3
Purchase of intangible assets	5.9	-2,975.8
Net cash flow from investing activities		-3,101.1
Proceeds from the issue of shares	5.12	120,000.0
Net cash flow from financing activities		120,000.0
Increase/decrease in net cash and cash equivalents		111,500.2
Opening balance of cash and cash equivalents		0.0
Closing balance of cash and cash equivalents		111,534.9

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

1. Bank details

1.1. Key Bank data

ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") with its registered office in Katowice, ul. Chorzowska 50, entered to the Register of Entrepreneurs of the National Court Register maintained by the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register under the number KRS on 20 March 2018. The Bank statistical number is REGON 369582281, and the tax identification number is NIP 205-000-51-99.

1.2. Scope and duration of operations

As at 31 December 2018, ING Bank Hipoteczny S.A. was a joint-stock company applying for a permit to be issued by the Polish Financial Supervision Authority for running business based on the Mortgage/Covered Bonds and Mortgage Banks Act of 29 August 1997, the Bank Law Act of 29 August 1997, Commercial Companies and Partnerships Code and other commonly binding legal regulations, good banking practice principles and the Bank Charter.

In accordance with the business plan of the Bank, the key task of the Bank will be to issue mortgage bonds that will be used as the basic source of long-term financing of the acquired by the Bank debts attributable to the housing mortgage loans for individual clients.

1.3. Share capital

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 120,000,000.00 and is divided into 120,000.00 ordinary registered A-shares of nominal value of PLN 1,000 each. The share capital has been fully covered with pecuniary contributions.

1.4. Shareholders of ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 31 December 2018 held 100% share in the share capital of ING Bank Hipoteczny S.A. ING Bank Hipoteczny S.A. is a part of the capital group called herein the ING Bank Śląski S.A. Group.

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

On 16 January 2018, the Polish Financial Supervision Authority approved the first Management Board of the Bank.

On 26 February 2018, in line with the decision of the Polish Financial Supervision Authority, composition of the first Management Board as well as of the Supervisory Board of ING Bank Hipoteczny S.A. was approved with the Deed of Incorporation of ING Bank Hipoteczny S.A.



As at the end of 2018, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

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

As at the end of 2018, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

Following the death of Mr Marek Rutkiewicz, the Extraordinary General Meeting appointed Mr Jacek Michalski to the Supervisory Board of ING Bank Hipoteczny S.A. effective as of 10 August 2018. With a resolution of the Supervisory Board, Mr Jacek Michalski was appointed Secretary of the Supervisory Board and Member of the Audit and Risk Committee on 11 September 2018.

1.6. Auditing firm authorised to audit financial statements

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

1.7. Approval of financial statements

These financial statements of the ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018 have been approved by the Bank Management Board on 11 March 2019.

2. Statement of compliance with International Financial Reporting Standards

These financial statements of the ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of the standards and interpretations approved by the EU except for the standards and interpretations mentioned in item 2.1. below, which either await approval by the EU or have been already approved by the EU but shall take effect after the balance sheet date.

2.1. Changes to accounting standards

Change	Influence on the Bank's statements
IFRS 9 <i>Financial instruments</i>	Application of the new standard does not affect the financial statements of the Bank.
IFRS 15 <i>Revenue from Contracts with Customers taking account of the application date change</i>	Implementation of IFRS 15 has not affected the financial statements of the Bank.
Explanations to IFRS 15 <i>Revenue from Contracts with Customers</i>	Application of these clarifications to the standard has not affected the Bank's financial statements.
IFRS 4 <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	The Bank does not pursue insurance activity, and due to this, the change has no impact on the financial statements of the Bank.
<i>Changes resulting from the review of IFRS implemented as part of the 2014-2016 cycle (published in December 2016) - refer to IFRS 1 and IAS 28.</i>	Application of the changes has not affected the financial statements of the Bank.
IFRS 2 <i>Classification and measurement of share-based payment transactions</i>	The amendment to the standard has no material impact on the Bank's financial statements.
IAS 40 <i>Transfers of investment property</i>	As at the balance sheet date, the Bank has no investment property and did not change the method of use of the property, and thus the application of this amendment has no impact on the financial statements of the Bank.
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	Application of this interpretation has no impact on the financial statements of the Bank.

THE PUBLISHED NEW STANDARDS AND INTERPRETATIONS AS WELL AS AMENDMENTS THERETO THAT WERE ISSUED AND APPROVED BY THE EUROPEAN UNION AS AT 31 DECEMBER 2018, BUT WERE NOT PREVIOUSLY APPLIED BY THE BANK:

Change (EU effective date provided for in the parentheses)	Influence on the Bank's statements
IFRS 16 Leasing (the accounting year starting on 01 January 2019 or later)	Application of the new standard will have an impact on recognition, presentation, measurement and disclosure of the assets under operational leasing in the Bank's financial statements, acting as lessee. Implementation of the new standard will have an impact on the balance sheet total of the Bank, but will have no significant impact on the Bank's financial results. Expected increase in the balance sheet total attributable to recognition of the assets usufruct right total and lease liabilities total in the period of their initial application will be approximately PLN 1.3 million. Lease payments by maturity are presented in note 5.19.
IFRS 9 Prepayment features with negative compensation (the accounting year starting on 01 January 2019)	Amendment implementation will have no impact on the financial statements of the Bank.
IFRIC 23 Uncertainty over Income Tax Treatments (the accounting year starting on 01 January 2019)	The Bank's analyses show that the implementation of this interpretation will have no impact on the financial statements of the Bank.

THE PUBLISHED NEW STANDARDS AND INTERPRETATIONS AS WELL AS AMENDMENTS THERETO THAT WERE ISSUED BUT NOT APPROVED BY THE EUROPEAN UNION AS AT 31 DECEMBER 2018, AND WERE NOT PREVIOUSLY APPLIED BY THE BANK:

Change (expected IASB effective date provided for in the parentheses)	Influence on the Bank's statements
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the accounting year starting on 1 January 2016 or later) EU approval was postponed for an indefinite period.	Status of approval of the changes has not changed since 12 February 2016. Nevertheless, the potential implementation of changes in the published form will not affect the Bank's financial statements.
IFRS 17 Insurance Contracts (the accounting year starting on 01 January 2021)	Not applicable
IAS 28 Long-term Interests in Associates and Joint Ventures (the accounting year starting on 01 January 2019)	Not applicable
Changes resulting from the review of IFRS implemented as part of the 2015-2017 cycle (published in December 2017) - refer to IFRS 3, IFRS 11, IAS 12 and IAS 23 . (the accounting year starting on 01 January 2019)	Not applicable
IAS 19 Plan amendment, curtailment or settlement (the accounting year starting on 01 January 2019 or later)	At this stage of analyses, the Bank does not expect any significant impact of implementation of the changes on the financial statements of the Bank.
References to conceptual assumptions of IFRS (the accounting year starting on 1 January 2020)	The Bank's analyses show that the implementation of these changes will have no impact on the financial statements of the Bank.
IFRS 3 Definition of a Business (the accounting year starting on 1 January 2020)	Not applicable

<p>IAS 1 and IAS 8 <i>Definition of Material</i> <i>(the accounting year starting on 1 January 2020)</i></p>	<p>Implementation of changes will have no impact on the financial statements of the Bank.</p>
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The European Union has decided not to start the process of approving IFRS 14 *Regulatory Deferral Accounts* (the accounting year starting on 1 January 2016 or later) and wait for the final version of the standard.

2.2. Going concern

The financial statements of the Bank were prepared on a going concern basis, as regards foreseeable future, that is within at least 12 months from the end of the reporting period. As at the date of approval hereof by the Bank Management Board, no facts or circumstances were identified that could pose a threat to the Bank's operation as a going concern for at least 12 months from the end of the reporting period due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

2.3. Discontinued operations

No material operations were discontinued in 2018.

2.4. Financial statements scope and currency

The Bank is the parent entity and the major investor for associated entities and joint subsidiaries. Thus, ING Bank Hipoteczny S.A. does not prepare consolidated financial statements of the Group that would cover the financial data of such entities.

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

These annual financial statements have been developed in Polish Zloty ("PLN"). Unless otherwise specified, financial data are presented after rounding to one thousand zloty. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

2.5. Reporting period and comparable data

The financial statements of ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") covers the period from 26 February 2018 to 31 December 2018. As the business was started on 26 February 2018, the financial statements do not show any comparable data.

3. Significant accounting principles

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

3.1. Basis for preparation of financial statements

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

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

3.2. Professional judgement

In the process of accounting principles application to the matters discussed herein below, besides the booking estimates, professional judgment of the management staff was of key significance.

3.2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results deteriorate in the future.

3.2.2. Classification of leases

Leases are classified by the Bank as operating or financial leases based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee. The substance of each transaction is used to make the said assessment. For details of leases, see the note 5.19.

3.3. Accounting estimates

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

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

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

well as the following periods, they are recognised in the period when the estimation was changed and in the following periods.

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

3.3.1. Impairment

The Bank assesses whether there is objective evidence of impairment of non-current assets as at balance sheet date.

3.3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors.

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

3.3.2. Provisions for retirement and pension benefit

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards their employees considering the headcount and payroll status as at the update date. The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the accounting year.

3.3.3. Valuation of incentive schemes

3.3.3.1. Valuation of variable remuneration programme benefits

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

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

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

3.3.4. Amortisation period and method for intangible assets

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

3.4. Foreign currency

3.4.1. Functional currency and presentation currency

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

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

3.4.2. Transactions in foreign currency

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

3.5. Financial assets and liabilities

3.5.1. Classification

The Bank classifies financial instruments to the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, investments held to maturity and available-for-sale financial assets.

3.5.2. Recognition

The Bank incorporates financial assets or liabilities into the balance sheet when, and only when it becomes a party to the instrument-related contract. Purchase and sale transactions of financial assets carried at fair value through profit or loss, held to maturity and available for sale are recognized, in

accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity. Loans and receivables are recognized on distribution of the cash to borrower.

3.5.3. Derecognition

The Bank derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset.

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognizes the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognize the financial asset, and if the Bank has not retained control, it derecognizes the financial asset to the extent of its continuing involvement in the financial asset.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is satisfied or cancelled or expires.

3.5.4. Measurement

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

Other financial liabilities are measured at amortised cost or the amount of due payment.

3.5.5. Impairment

Assessment of impairment is based on measurement of expected credit losses. Such an approach is applied to debt financial assets, credit exposure, committed financial liabilities and financial guarantees, except of capital investments.

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

The Bank measures expected credit losses taking into account:

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

3.6. Non-financial assets

3.6.1. Property, plant and equipment

3.6.1.1. Own property, plant and equipment

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

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

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

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

3.6.1.2. Subsequent costs

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

3.6.2. Intangible assets

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

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

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

3.6.2.1. Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Costs of computer software development or maintenance are recognized when incurred.

3.6.2.2. Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible asset are capitalised when it is probable that such expenditures will ensure future economic benefits for the Bank. In other cases, costs are recognised in the income statement as costs when incurred.

3.6.3. Depreciation and amortization charges

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

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

The depreciation/amortization periods are as follows:

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

3.6.4. Impairment of other non- financial assets

For each balance sheet date, the Bank assesses the existence of objective evidence indicating impairment of a non-current assets item. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

3.6.5. Recognition of impairment loss



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

3.6.6. Reversing impairment loss

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

3.7. Lease contracts

The Bank is a party to operating lease contracts, under which it takes non-current assets for an agreed period for payable usufruct.

Lease contracts are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

Lease payments for operating lease and consecutive lease instalments are recognized as costs in the income statement using the straight-line method, throughout the period of lease, and are shown in the General and administrative expenses, in the item: Costs of lease.

3.8. Other balance sheet items

3.8.1. Other trade receivables and other receivables

Other trade receivables and other receivables are recognized and carried at original invoice amount less an allowance for doubtful accounts.

An allowance for doubtful accounts is made when collection of the full amount of receivables is no longer probable. If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the current value, with applying the discount rate that reflects the current market assessments of time value of money. If the discounting method has been applied, the increase of receivables due to time lapse is recognized as financial income.

Other trade receivables and other receivables embrace in particular settlements with off-takers in particular. Budgetary receivables are recognized as part of other financial assets, except for corporate income tax receivables, which are a separate item on the balance sheet.

3.8.2. Liabilities

Other liabilities comprise in particular: payables for the benefit of tax office under VAT, settlements with suppliers and payables due to received prepayments which will be settled by means of delivering goods, services or non-current assets. Other liabilities are recognized in the amounts due.

3.8.3. Cash and cash equivalents

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

3.9. Equity

Equity comprises of: share capital, retained earnings and other net comprehensive income. The equity is established by the Bank in accordance with the applicable law and the Charter.

3.9.1. Share capital

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

3.9.2. Retained earnings

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

3.9.3. Other net comprehensive income

Other comprehensive income include actuarial gains and losses and deferred tax attributable thereto.

3.10. Prepayments and deferred income

3.10.1. Prepayments

Prepayments comprise of particular expenses which will be settled against the profit or loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as subscription and IT services costs paid in advance to be settled in the future periods. Prepayments are presented in the statements of financial position in the Other assets item.

3.11. Employee benefits

3.11.1. Benefits under the Act on employee pension programmes

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

3.11.2. Short term employee benefits

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

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other balance sheet liabilities. The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

3.11.3. Long-term employee benefits

3.11.3.1. Benefits under the Labour Code regulations

Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis. Provisions for long-term employee benefits are recognised in the item *Other liabilities* from the Statement of financial position in correspondence with costs of labour in the income statement. The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

3.11.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two parts:

- one paid in cash (no more than 50%), and
- value of benefits granted in a form of financial instruments entitling to receive cash whose value is conditional on the book value of net assets of ING Bank Hipoteczny S.A. per share, adjusted with factors affecting the said assets, other than the financial result.

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which employees obtain benefits and during the deferral period – adequate benefit components). The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement. As regards the benefits granted in the form of financial instruments a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year, three-year periods,

etc.). During the holding period, the employee who was granted the benefit shall not exercise the rights from the granted instruments. The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement.

3.12. Provisions

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

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

3.13. Income statement

3.13.1. Net interest income

Interest income on financial instruments is recognized in the income statement. Interest income consists of interest on term deposits with other banks.

3.13.2. Commission costs

Commission costs include commission for operating services, for instance, fees for maintenance of bank accounts, issue of bank cards.

3.13.3. FX result

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

3.13.4. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to banking activity.

3.14. Taxes

3.14.1. Income tax

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

3.14.2. Deferred income tax

The Bank creates a provision for deferred tax in respect of a temporary difference caused by different moment of recognising income as generated and costs as incurred in accordance with the accounting regulations and corporate income tax provisions. A positive net difference is recognized in liabilities as *Deferred tax provisions*. A negative net difference is recognized under *Deferred tax assets*. The deferred income tax provision is created by using the balance-sheet method for all positive temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

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

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

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

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

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

The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

3.14.3. Other taxes

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

4. Comparability of financial data

As the business was started on 26 February 2018, the financial statements do not show any comparable data.

5. Notes to the financial statements

NOTES TO INCOME STATEMENT

5.1. Net interest income

	2018 period from 26 February 2018 to 31 December 2018
Interest income, including	947.4
Interest income calculated using the effective interest method, of which	947.4
interest on other receivables from banks measured at amortised cost	947.4
Other interest income	0.0
Interest expenses	0.0
Net interest income	947.4

5.2. Net commission income

	2018 period from 26 February 2018 to 31 December 2018
Commission income	0.0
Commission expenses	-3.1
commission for operating services of the banks	-3.1
Net commission income	-3.1

5.3. FX result

	2018 period from 26 February 2018 to 31 December 2018
FX result	-4.6
FX result	-4.6

5.4. General and administrative expenses

	2018 period from 26 February 2018 to 31 December 2018
Personnel expenses, including:	-4,542.4
wages and salaries, including:	3,895.1
variable remuneration programme	970.3
employee benefits	647.2
Other general and administrative expenses, including:	-5,345.8
Depreciation and amortisation	-188.5
consumption of materials and assets other than non-current assets	-717.7
legal services	-2,405.2
other advisory and consulting costs	-344.9
other third-party services	-293.4
communications costs	-227.1
IT costs	-169.3
costs of rental of buildings	-221.4
costs of lease	-46.4
taxes and charges	-605.9
Other	-126.0
General and administrative expenses	-9,888.2

The following costs are recognized in the *Employee benefits* item: salary overheads, costs of training, medical services and contribution to the In-house Social Benefits Fund.

5.5. Income tax

Income tax recognized in the income statement

	2018 period from 26 February 2018 to 31 December 2018
Current tax	0.0
Deferred tax, including:	1,569.1
Recognized and reversed temporary differences	1,569.1
1. recognized and reversed negative temporary differences <i>attributable to:</i>	1,627.3
1) <i>tax loss</i>	1,088.4
2) <i>costs of provision for personnel, tangible and others expenses</i>	534.2
3) <i>other</i>	4.7
2. recognized and reversed positive temporary differences <i>attributable to:</i>	58.1
1) <i>income on accrued but not paid interest</i>	22.7
2) <i>difference between tax and balance sheet depreciation/amortization</i>	35.4
Total tax recognized in the income statement	1,569.1

Effective tax rate calculation

	2018 period from 26 February 2018 to 31 December 2018
A. Profit before tax	-8,948.5
B. 19% profit before tax	-1,700.2
C. Increases - 19% costs other than tax deductible cost, including:	131.2
civil law tax	114.3
Other	16.8
D. Decreases - 19% tax exempt income	0.0
E. Income tax from income statement [-(B+C-D)]	1,569.1
Effective tax rate (-E : A)*	17.5%

*) The effective tax rate deviated below 19% in 2018 due to the civil law tax paid in connection with formation of the company and bringing cash contributions for the share capital of the company in the amount of PLN 601,800.

Income tax recognized in other comprehensive income

	2018 period from 26 February 2018 to 31 December 2018
Deferred tax, including:	72.7
Recognized and reversed temporary differences	72.7
<i>including recognized and reversed negative temporary differences attributable to actuarial losses</i>	<i>72.7</i>
Total income tax recognized in other comprehensive income	72.7

5.6. Earnings per ordinary share**Basic earnings per share**

The calculation of basic earnings per share of the Bank for 2018 was based on net loss in the amount of - PLN 7,379,400 and the number of ordinary shares at the end of 2018 being 120,000.

Diluted earnings per share

In 2018, there were no factors that would dilute the profit per one share. In the described period, ING Bank Hipoteczny S.A. issued neither bonds convertible to shares nor stock options. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

NOTES TO STATEMENT OF FINANCIAL POSITION

5.7. Amounts due from banks

	As at 31 December 2018
Term deposits in banks, of which:	111,534.9
overnights	16,415.5
Total (gross)	111,534.9
Impairment loss	0.0
Total (net)	111,534.9

Amounts due from banks include short-term deposits in PLN in ING Bank Śląski S.A.

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

5.8. Property, plant and equipment

	As at 31 December 2018
Computer hardware	108.4
Other property, plant and equipment	16.9
Total (gross)	125.3
Closing accumulated depreciation/amortisation of the computer hardware	-20.3
Closing accumulated depreciation/amortisation of other property, plant and equipment	-0.8
Total (net)	104.1

5.9. Intangible assets

	As at 31 December 2018
Software	2,975.8
Total (gross)	2,975.8
Closing accumulated depreciation/amortisation of software	-167.3

Total (net)	2,808.5
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From the point of view of the Bank, in 2018 significant intangible assets included expenditure for purchasing of and adjusting the Register of Collaterals of Covered Bonds software for the amount of PLN 1,114,000 and purchase of the licence for SAS (CSS) software for the amount of PLN 1,387,000. As the process of adjustment has been completed, the said intangible assets were accepted for use. Expected economic life of the software is 3 years.

5.10. Other assets

	As at 31 December 2018
Prepayments, including:	32.3
prepaid bank operating expenses	32.3
Other assets, including:	54.1
settlements with customers	54.1
Total	86.4

Receivables attributable to settlements with offtakers include amounts due from ING Bank Śląski S.A. of PLN 47,500 and receivables attributable to advance payments for suppliers in the amount of PLN 6,600. ING Bank Hipoteczny S.A. does not identify FX risk, interest rate risk, or any significant counterparty credit risk for the said settlements.

5.11. Other liabilities

	As at 31 December 2018
Accruals, including:	2,898.5
due to employee benefits, of which	1,098.6
referring to valuation of liabilities due to certain post-employment benefits - actuarial gains and losses	382.9
variable remuneration programme	475.4
due to legal services	1,066.1
due to purchase of licenses and software other than non-current assets	391.9
due to communication costs	181.6
Other	160.3
Other liabilities, including:	978.7
settlements with suppliers	118.6
settlements with employees	651.2
public and legal settlements	208.8
Other	17.4
Total	3,877.2



5.12. Share capital

The Bank's share capital is PLN 120,000,000.00 and is sub-divided into 120,000.00 ordinary registered A-shares of nominal value of PLN 1,000 each. Each ordinary share entitles its holder to dividend and one vote during the General Meeting.

5.13. Accumulated other comprehensive income

	As at 31 December 2018
Actuarial gains / losses, including	-310.1
deferred tax	72.7
Total	-310.1

5.14. Retained earnings

	As at 31 December 2018
Result for the current year	-7,379.4
Total	-7,379.4

NOTES TO CASH FLOW STATEMENT

5.15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include generally cash disclosed in the statement of financial position as well as current accounts and overnight deposits in other banks.

	2018 period from 26 February 2018 to 31 December 2018
Deposits in banks (presented in note 5.7)	111,534.9
Total	111,534.9

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

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

Investment activity covers purchase and sale of intangible assets and property, plant and equipment as well as non-current assets held to maturity.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including, for example, long-term loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of long-term liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

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

The reasons for differences between changes recognised in statement of financial position and in cash flow statement have been explained in the table herein below. Moreover, changes in the individual assets and liabilities were adjusted with interest disclosed in the position Interest received/ paid. Whereas the change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was disclosed in the position Net increase/decrease in cash and cash equivalents.

for the period from 26 February 2018 to
31 December 2018

	Change in other assets		difference	explanations
	in statement of financial position	in cash flow statement		
Change in other assets	86.39	-74.43	160.83	Change in other assets results in particular from decrease in amortisation/depreciation of non-current assets and intangible assets, and it is not taken into account in <i>Net cash flows on investing activities</i> .
Change in other liabilities	3,877.19	3,567.07	310.11	Change in other liabilities does not take into account actuarial gains/losses that were taken into account in the cumulated other comprehensive income.

OTHER NOTES

5.18. Fair value

Fair value, which is best reflected by a market price, if available, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

In the period from 26 February 2018 to 31 December 2018, there were neither financial assets nor non-financial assets measured at fair value at ING Bank Hipoteczny S.A.

5.19. Operating leases

The Bank cooperates with a lease company in respect of car leasing and fleet management. The Bank also incurs costs under the lease of dwelling units, recognised as operating leases. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements.

Gross lease payments by maturity resulting from an agreement signed with an entity from outside the ING Bank Śląski S.A. Group are disclosed in the table below:

	as of 31 December 2018
up to 1 year	77.1
1-5 years	77.1

5.20. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 31 December 2018 held 100% share in share capital of ING Bank Hipoteczny S.A. and 100% shares in the total number of votes at the General Meeting of ING Bank Hipoteczny S.A.

ING Bank Śląski S.A. maintains current accounts and short-term deposit accounts for ING Bank Hipoteczny S.A. Moreover, ING Bank Hipoteczny S.A. avails itself of the credit line from ING Bank Śląski S.A. rendered available to the employees of the company in connection with using bank cards of ING Bank Śląski S.A. All the above mentioned transactions are carried out on an arm's length basis. ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. make also transactions resulting from agreements for sub-lease of premises used for the registered office of the Bank, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

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

provided by ING Usługi dla Biznesu S.A. and hosting of IT applications provided by ING Business Shared Services B.V. sp. Z o.o. (branch in Poland).

Costs and income are presented as per their net value (VAT excluded).

for the period from 26 February 2018 to

31 December 2018

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Income, including:	944.27	-	-	-
Interest income	947.39	-	-	-
Commission expenses	-3.12	-	-	-
Expenses, including	312.63	223.35	111.27	82.2
General and administrative expenses	312.63	223.35	111.27	82.2

as at 31 Dec. 2018

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Receivables	111,534.93	-	-	-
Amounts due from banks	111,534.93	-	-	-
Other assets	47.5	-	-	-
Liabilities	-	-	-	-
Other liabilities	-	-	-	-
Off-balance-sheet operations	94.4	-	-	-
Off-balance sheet liabilities received	94.4	-	-	-

5.21. Transactions with the management staff and employees

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of the In-House Social Benefits Fund as at 31 December 2018 was PLN 17,400.

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

As at the end of 2018, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

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

Emoluments of the Management Board Members of ING Bank Hipoteczny S.A.

	2018 period from 26 February 2018 to 31 December 2018
Short-term employee benefits, including:	845.5
– remuneration	836.7
- benefits	8.7
Total	845.5

* exclusive of the variable remuneration programme

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

Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for 2018 under the Variable Remuneration Programme have not yet been awarded.

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2018 bonus; some part of it will be paid out in 2019, and some part will be deferred for the upcoming years (2021-2026). The Bank Supervisory Board will take the final decision on the bonus amount.

In the period from 26 February 2018 to 31 December 2018, no post-employment emoluments were paid to the Management Board Members. The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

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

As at the end of 2018, the composition of the Supervisory Board of ING Bank Hipoteczny S.A. was as follows:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

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

	2018 period from 26 February 2018 to 31 December 2018
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Short-term employee benefits, including:	65.7
– remuneration	65.7
Total	65.7

The Management Board Members and other persons employed by ING Bank Hipoteczny S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

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

As at 31 December 2018, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

5.22. Headcount

The headcount in ING Bank Hipoteczny S.A. was 30 FTEs.

5.23. Significant events after the end of the reporting period

Polish Financial Supervision Authority's approval of operations commencement

On 2 January 2019, the Bank obtained information that the Polish Financial Supervision Authority approved operations commencement. ING Bank Hipoteczny commenced its operations on 7 January 2019. Due to the above, after the end of the reporting period a Debt Transfer Framework Agreement to Issue Covered Bonds was signed.

Increase in share capital

On 9 January 2019, the General Meeting of Shareholders passed a resolution to increase the share capital of ING Bank Hipoteczny S.A. by PLN 90,000,000.00 by way of issuing 90,000 ordinary registered B-shares of the nominal value of PLN 1,000 each. The share issue price was PLN 1.778 each. The shares have been fully covered with pecuniary contributions.

These annual financial statements of the ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018 has 39 consecutively numbered pages.

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

11 March 2019 **Mirosław Boda**
President of the Management Board

.....

11 March 2019 **Jacek Frejlich**
Vice-President of the Management Board

.....

11 March 2019 **Roman Telepko**
Vice-President of the Management Board

.....

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

11 March 2019 **Agnieszka Kukuczka**
Manager – Accounting and Taxes
Chief Accountant

.....



Independent Auditor's Report from its audit for the Supervisory Board of ING Bank Hipoteczny S.A.

Report on the audit of the annual financial statements

Opinion

We conducted an audit of the annual financial statements of ING Bank Hipoteczny S.A. ("Company") which contains a statement of financial position as at 31 December 2018 and a statement of comprehensive income, a statement of changes in equity, a cash flow statement for the period from 26 February 2018 to 31 December 2018 and additional information and notes, containing a description of the approved accounting principles and other clarifications ("financial statements").

In our opinion, the accompanying financial statements:

- in a reliable and clear manner present the Company's economic and financial condition as at 31 December 2018 and its financial results and cash flows for the financial year ended on that day, in compliance with the applicable International Financial Reporting Standards, endorsed by the European Union and the approved accounting principles (policies);
- in their form and content, are compliant with the applicable laws and the Company's Articles of Association;
- have been made on the basis of correctly kept books of account in compliance with chapter 2 of the Accounting Act of 29 September 1994 ("Accounting Act" - Journal of Laws of 2018, item 395, as amended).

Basis for opinion

We conducted our audit in accordance with International Audit Standards in the version approved as Domestic Audit Standards by the Polish Chamber of Statutory Auditors ("KSB") and in compliance with the Act of 11 May 2017 on auditors, audit firms and public supervision (Act on auditors" - Journal of Laws of 2017, item 1089, as amended). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in compliance with the International Federation of Accountants (IFAC) Code of Ethics ("IFAC Code"), resolutions of the Polish Chamber of Statutory Auditors and other ethical requirements that apply to audits of financial statements in Poland. We have complied with other ethical duties in line with the requirements and the IFAC Code. During the audit, the key auditor and the audit firm remained independent of the Company in compliance with the requirements of independence as specified in the Act on auditors.

We are of the opinion that the audit evidence obtained is sufficient and adequate to constitute the basis of our opinion.



Responsibility of the Management Board and Supervisory Board for the financial statements

The Company's Management Board is responsible for preparing - on the basis of correctly kept books of accounts - of financial statements that in a reliable and clear manner present the Company's economic and financial condition and its financial results in compliance with International Financial Reporting Standards, endorsed by the European Union, approved accounting principles (policies) and the laws applicable to the Company and its Articles of Association, as well as for internal control that the Management Board finds necessary in order to prepare financial statements that would not contain material misstatements caused by fraud or error.

Making the financial statements, the Company's Management Board is responsible for assessing the Company's ability to continue as a going concern, for disclosing - if applicable - issues related to continued operations and for approving the principle of a going concern as the basis of accounting, with the exception of a situation when the Management Board intends to liquidate the Company or discontinue its business, or no realistic alternative exists for liquidation or discontinued operations.

The Management Board and members of the Supervisory Board are required to ensure that the financial statements are compliant with the requirements specified in the Accounting Act. Members of the Supervisory Board are responsible for supervising the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objective was to obtain reasonable assurance if the financial statements as a whole do not contain material misstatements caused by fraud or error and to issue an audit report containing our opinion. Reasonable assurance is a high level of assurance but it does not guarantee that the audit performed in compliance with KSB may always detect all material misstatements. Misstatements may result from fraud or error and are deemed as material if it can be reasonably expected that individually or in combination they could affect economic decision of readers, taken on the basis of the financial statements.

The scope of the audit does not provide for an assurance as to future profitability of the Company or the effectiveness or efficiency of the Company's business directed by its Management Board now or in the future.

During audits compliant with KSB, we apply professional judgement and apply professional scepticism as well as:

- we identify and assess the risk of material misstatement of the financial statements caused by fraud or error, we design and apply audit procedures adequate for those risks and we obtain audit evidence that is sufficient and adequate to underlie our opinion. The risk of failure to detect a material misstatement resulting from fraud is higher than one resulting from error since fraud may include collusion, falsification, intentional omissions, misleading or circumvention of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we assess the adequacy of the applied accounting principles (policies) and the grounds underlying accounting estimates and the related disclosures made by the Company's Management Board;

- we draw conclusions on the adequacy of the going concern assumption made by the Company's Management Board as the basis for accounting and - on the basis of obtained audit evidence - if any material uncertainties exist related to events of conditions that may materially challenge the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to note in our auditor's report the related disclosures in the financial statements or - if such disclosures are inadequate - we modify our opinion. Our conclusions are based on audit evidence obtained by the date our auditor's report is made; however, future events or conditions may cause that the company will discontinue its operations;
- we assess the overall presentation, structure and content of the financial statements, including disclosures and if the financial statements present the underlying transactions and events in a manner ensuring reliable presentation.

Other information, including report on operations

Other information includes a report on the Company's operations for the period from 26 February 2018 to 31 December 2018 ("Report on operations")

Responsibility of the Management Board

The Company's Management Board is responsible for preparing a report on operations in compliance with law.

Accountability of the Statutory Auditor

Our opinion from the audit of the financial statements does not cover the report from operations. In connection with the audit of the financial statements, it is our duty to become acquainted with the Report on operations and to review if there is no material inconsistency with the financial statements or our knowledge obtained during the audit or if it otherwise seems materially misstated. If on the basis of our audit work, we identify material misstatements in the Report on operations, we are obliged to provide adequate information in our audit report. Our duty, in compliance with the Act on statutory auditors, is to issue an opinion if the report on operations was made in compliance with law and if it is consistent with the information disclosed in the financial statements.

Opinion on the report on operations

On the basis of our audit work, in our opinion the Report on the Company's operations:

- was made in compliance with Art 49. of the accounting Act;
- is consistent with the information disclosed in the financial statements.

Additionally, in the light of our knowledge on the Company and its surrounding, obtained during our audit, we state we detected no material misstatements in the report on its operations.

Michał Tomczyk is the key auditor responsible for the audit as a result of which this report was generated.

BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw

entered to the list of statutory auditors under number 3355.



represented by key auditor

Signed with a qualified electronic signature

Michał Tomczyk
Certified Auditor
register number 13503

Warsaw, 11 March 2019.

SCHEDULE 2

**THE BANK'S UNAUDITED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE
2019**



ING Bank Hipoteczny S.A.

Interim Condensed Financial Statement

for a six-month period ending on

30 June 2019



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Income statement

for the period from 1 January 2019 to 30 June 2019

	Note	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Interest income, including:	5.1	9,573.3	365.8
calculated using the effective interest method	5.1	9,573.3	365.8
Interest charges, including:	5.1	-3,211.8	0.0
Net interest income	5.1	6,361.4	365.8
Fee and commission income	5.2	48.2	0.0
Commission expenses	5.2	-230.1	-0.2
Net commission income	5.2	-181.9	-0.2
FX result	5.3	-2.4	0
Net income on other basic activities		-13.0	0.0
Net income on basic activities		6,164.1	365.5
General and administrative expenses	5.4	-10,386.0	-1,698.7
Expected losses/Impairment losses for financial assets and provisions for off-balance sheet liabilities	5.5, 5.9	-254.3	0.0
Profit before tax		-4,476.2	-1,333.1
Income tax	5.6	839.6	135.7
Profit after tax		-3,636.6	-1,197.5
Number of shares		210,000	120,000
Earnings per ordinary share - basic (PLN)	5.7	-17.32	-9.98
Earnings per ordinary share - diluted (PLN)		-17.32	-9.98

ING Bank Hipoteczny S.A.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Discontinued operation occurred neither in the period ending on 30 June 2019 nor in the corresponding period from 26 February 2018 to 30 June 2018.

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



Statement of comprehensive income

for the period from 01.01.2019 to 30.06.2019

	Note	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Profit after tax for the period		-3,636.6	-1,197.5
Total other comprehensive income, including:		8.8	-
Items which can be reclassified to income statement		-8.8	-
Unrealised result on measurement of HTC&S securities	5.16	-8.8	-
<i>including deferred tax</i>		2.1	-
Items which will not be reclassified to income statement, including:		-	-
Actuarial gains/losses	5.16	-	-
<i>including deferred tax</i>		-	-
Net comprehensive income for the period		-3,636.6	-1,197.5

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

Statement of financial position

as at 30 June 2019

	Note	as of 30 June 2019	as of 31 December 2018
Assets			
Amounts due from banks	5.8	369,682.8	111,534.9
Securities measured at fair value through other comprehensive income	5.10	24,728.8	0.0
Securities measured at amortized cost	5.10	152,974.5	0.0
Loans and advances granted to customers	5.9	1,320,666.4	0.0
Property, plant and equipment	5.11	1,311.0	104.1
Intangible assets	5.12	2,312.6	2,808.5
Current income tax receivables		0.0	11.9
Deferred income tax assets		2,483.5	1,641.8
Other assets	5.13	713.7	86.4
Total assets		1,874,873.3	116,187.7
Liabilities			
Liabilities to other banks	5.14	1,600,350.5	0.0
Provisions	5.15	382.9	382.9
Other liabilities	5.16	6,287.1	3,494.3
Total liabilities		1,606,637.7	3,877.2
Equity			
Share capital	1.3	210,000.0	120,000.0
Supplementary capital – share premium		62,191.1	0.0
Accumulated other comprehensive income	5.17	-318.9	-310.1
Retained earnings	5.18	-3,636.6	-7,379.4
Total equity		268,235.7	112,310.5
Total equity and liabilities		1,874,873.3	116,187.7
Carrying amount		268,235.7	112,310.5
Number of shares		210,000	120,000
Carrying amount per share (PLN)		1,277.31	935.92

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

Statement of changes in equity

for the period from 01.01.2019 to
30.06.2019

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity		120,000.0	-310.1	-7,379.4	112,310.5
Issue of shares of series B		90,000.0	-	69,570.5	159,570.5
Net result for the current period		-	-	-3,636.6	-3,636.6
Other net comprehensive income, including:		-	-8.8	-	-8.8
Unrealised result on measurement of HTC&S securities		-	-8.8	-	-8.8
Actuarial gains/losses		-	-	-	0.0
Closing balance of equity		210,000.0	-318.9	58,554.5	268,235.7

for the period from 26 February 2018
to 31 December 2018

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity		-	-	-	-
Issue of shares of series A		120,000.0	-	-	120,000.0
Net result for the current period		-	-	-7,379.4	-7,379.4
Other net comprehensive income, including:		-	-310.1	-	-310.1
Actuarial gains/losses		-	-310.1	-	-310.1
Closing balance of equity		120,000.0	-310.1	-7,379.4	112,310.5

for the period from 26 February 2018
to 30 June 2018

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity		-	-	-	-
Issue of shares of series A		120,000.0	-	-	120,000.0
Net result for the current period		-	-	-1,197.5	-1,197.5
Other net comprehensive income, including:		-	-	-	-
Actuarial gains/losses		-	-	-	-
Closing balance of equity		120,000.0	-	-1,197.5	118,802.5

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

Cash flow statement

for the period from 01.01.2019 to 30.06.2019

	Note	the period from 01.01.2019 to 30.06.2019	the period from 26.02.2018 to 30.06.2018
Profit after tax		-3,636.6	-1,197.5
Adjustments, of which:		-1,317,161.5	1,628.9
Depreciation and amortisation	5.4, 5.11, 5.12	698.5	4.2
Interest accrued (from the income statement)	5.1	-6,361.4	-365.8
Interest paid		-9.8	0.0
Interest received		6,256.2	365.8
Income tax (from the income statement)	5.6	-839.6	-135.7
Income tax paid		0.0	-11.9
Change in loans and other receivables from customers		-1,320,666.4	0.0
Change in other assets		919.3	12.7
Change in liabilities to other banks		823.6	0.0
Change in other liabilities		2,187.9	1,759.6
Net cash flow from operating activities		-1,320,628.5	431.4
Purchase of property, plant and equipment	5.11	-83.4	-75.7
Purchase of intangible assets	5.12	0.0	-1,939.8
Purchase of securities measured at fair value through other comprehensive income		-24,728.8	0.0
Purchase of securities measured at amortized cost		-152,974.5	0.0
Interest received on securities measured at amortized cost		17.0	0.0
Net cash flow from investing activities		-177,592.8	-2,015.4
Proceeds from the issue of shares	1.3	159,570.5	120,000.0
Long-term loans received		1,599,526.9	0.0
Interest on long-term loans repaid		-2,381.9	0.0
Lease liabilities repaid		-169.5	0.0
Net cash flow from financing activities		1,756,546.1	120,000.0
Net increase/decrease in cash and cash equivalents		258,147.9	118,416.0
Opening balance of cash and cash equivalents		111,534.9	0.0
Closing balance of cash and cash equivalents		369,682.8	118,416.0

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

1. Bank details

1.1. Key Bank data

ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") with its registered office in Katowice, ul. Chorzowska 50, entered to the Register of Entrepreneurs of the National Court Register maintained by the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register under the number KRS 0000723965 on 20 March 2018. The Bank statistical number is REGON 369582281, and the tax identification number is NIP 205-000-51-99.

1.2. Scope and duration of operations

As at 30 June 2019, ING Bank Hipoteczny is a joint-stock company holding a permit issued by the Polish Financial Supervision Authority for running business based on the Mortgage/Covered Bonds and Mortgage Banks Act of 29 August 1997, the Bank Law Act of 29 August 1997, Commercial Companies and Partnerships Code and other commonly binding legal regulations, good banking practice principles and the Bank Charter.

In accordance with the business plan of the Bank, the key task of the Bank will be to issue mortgage bonds that will be used as the basic source of long-term, stable financing of the acquired by the Bank debts attributable to the housing mortgage loans for individual clients. The Bank runs its business in two locations: in its registered office in Katowice, 50 Chorzowska Street and in Warsaw, 2 Puławska Street.

1.3. Share capital

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 210,000,000.00 and is divided into 210,000.00 ordinary registered shares of nominal value of PLN 1,000 each.

Structure of the share capital

Series	Type of share	Number of shares	Nominal value of 1 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)

ING Bank Hipoteczny S.A.*Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)*

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	06.02.2019

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

The share capital has been fully covered with pecuniary contributions. Each ordinary share entitles its holder to dividend and one vote during the general meeting.

1.4. Shareholders of ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2019 held 100% share in the share capital of ING Bank Hipoteczny S.A. ING Bank Hipoteczny S.A. is a part of the capital group called herein the ING Bank Śląski S.A. Group.

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

On 16 January 2018, the Polish Financial Supervision Authority approved the first Management Board of the Bank.

On 26 February 2018, in line with the decision of the Polish Financial Supervision Authority, composition of the first Management Board as well as of the Supervisory Board of ING Bank Hipoteczny S.A was approved with the Deed of Incorporation of ING Bank Hipoteczny S.A.

In the period covered with the interim condensed financial statements, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

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

In the period covered with the interim condensed financial statements the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

1.6. Auditing firm authorised to audit financial statements

ING Bank Hipoteczny S.A.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

BDO Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw is the auditing firm authorised to audit the financial statements of ING Bank Hipoteczny S.A. Whereas these interim condensed financial statements were reviewed, but not audited, by the auditing firm.



1.7. Approval of financial statements

Annual financial statements of the ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018 have been approved by the General Meeting of ING Bank Hipoteczny S.A. on 3 April 2019.

These interim condensed financial statements were approved by the Management Board of the Bank on 13 August 2019.

2. Significant events in the first half of 2019

Polish Financial Supervision Authority's approval of operations commencement

On 2 January 2019, the Bank obtained information that the Polish Financial Supervision Authority approved operations commencement. ING Bank Hipoteczny S.A. commenced its operations on 7 January 2019.

Conclusion of the Debt Transfer Framework Agreement

On 17 January 2019, ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. signed the Debt Transfer Framework Agreement based on which mortgage-backed housing loans debt claims portfolios are bought in order to issue covered bonds in accordance with the terms and conditions specified, in particular, in the Act on Mortgage Banks.

Increase in share capital

On 3 January 2019, the General Meeting of Shareholders passed a resolution to increase the share capital of ING Bank Hipoteczny S.A. by PLN 90,000,000.00 by way of issuing 90,000 ordinary registered B-shares of the nominal value of PLN 1,000 each. The share issue price was PLN 1.778 each. The shares have been fully covered with pecuniary contributions.

General Meeting of ING Bank Hipoteczny S.A.

On 3 April 2019, the General Meeting of ING Bank Hipoteczny S.A. took place. The resolutions that were passed there concerned:

- approval of the annual financial statements for 2018,
- approval of the Management Report on operations of ING Bank Hipoteczny S.A. in 2018, inclusive of statements on observance of principles of corporate governance,
- acceptance of the 2018 reports of the Supervisory Board,
- acknowledgement of the fulfilment of duties in 2018 by the Management Board Members and

Supervisory Board Members,
- covering losses from previous years.

3. Significant events after the end of the reporting period

In the period from 1 July 2019 to the date of signing these financial statements, ING Bank Hipoteczny S.A. bought another mortgage-backed housing loans debt claims portfolio for the total amount of PLN 755,898,300 under the Debt Transfer Framework Agreement signed on 17 January 2019 with ING Bank Śląski S.A.

Moreover, in the second half of the year, keeping in mind future issues of covered bonds, the Bank started entering mortgage-backed credit debt claims to the register of collaterals for covered bonds.

4. Statement of compliance with International Financial Reporting Standards

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the first half of 2019 were prepared in compliance with the International Accounting Standard (IAS) 34 *Interim Financial Reporting* in a version approved by the European Commission and applicable as at the reporting date, that is as at 30 June 2019.

Interim condensed income statement, interim condensed statement of comprehensive income, interim condensed statement of changes in equity and interim condensed cash flow statement for the period from 01 January 2019 to 30 June 2019 and interim condensed statements of financial position as at 30 June 2019 together with comparable data have been prepared using the same accounting principles for each of the periods, except of the changes stemming from IFRS 16 that substituted IAS 17 *Leases*. The changes refer to recognition, measurement, presentation and disclosure of leases (the changes are shown later herein in 4.1.1 *Influence of application of IFRS 16 Leases on the financial statements*). To its lease contracts, the Bank applied a modified retrospective approach adopted at ING Bank Śląski S.A. Group and did not convert its comparable data.

4.1. Changes to accounting standards

In these interim condensed financial statements the same accounting principles were applied as the ones applied to the annual full financial statements for 2018 (Financial statements of ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018) and standards and interpretations approved by the European Union applicable to annual periods starting on 1 January 2019 or thereafter, namely:

Change	Influence on the Bank's statements
IAS 19 <i>Plan amendment, curtailment or settlement</i>	Application of the new standard did not affect the financial statements of the Bank.
IAS 28 <i>Long-term Interests in Associates and Joint Ventures</i>	The Bank holds shares neither in associates nor in joint ventures, and thus, the change had no impact on the financial statements of the Bank.
IFRS 16 <i>Leases</i>	Application of the new standard has an impact on the recognition, presentation, measurement and disclosure of assets under operational leasing in the financial statements of the Bank as the lessee. Implementation of the new standard has an impact on the balance sheet total of the Bank, but had no significant impact on the Bank's financial results. Increase in the balance sheet total attributable to recognition of the assets right-of-use total and lease liabilities total in the period of their initial application was approximately PLN 1.3 million.
IFRS 9 <i>Prepayment features with negative compensation</i>	Implementation of changes had no impact on the financial statements of the Bank.
<i>Changes resulting from the review of IFRS implemented as part of the 2015-2017 cycle (published in December 2017) - refer to IFRS 3, IFRS 11, IAS 12 and IAS 23.</i>	Implementation of changes had no impact on the financial statements of the Bank.
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	Implementation of changes had no impact on the financial statements of the Bank.

Standards and interpretations that have been released, but are not applicable yet because they have not been approved by the European Union, or they have been approved by the European Union but have not been earlier applied by the Bank have been presented in the annual financial statements of the Bank for 2018. In the first half of this year, no amendments to the accounting standards were published.

As at the date of approving these statements for publication – in consideration of the pending EU process of implementing the IFRS standards and the activity of the Bank with regard to the accounting principles applied by the Bank – there is no difference between the IFRS standards which came into force and the IFRS standards approved by the EU.

4.1.1. Influence of application of IFRS 16 *Leases* on the financial statements

IFRS 16 *Leases* was published by the International Accounting Standards Board in January 2016 and was adopted by the European Union in October 2017. IFRS 16 replaces IAS 17 *Leases* and it regards recognition, measurement, presentation and disclosure of leases. Key changes concern the lessee.

The Bank did not decide to implement the standard earlier, and thus it applies the International Financial Reporting Standard 16 *Leases* for the first time for the reporting period starting on

1 January 2019. The Bank decided to apply the retrospective approach to its lease contracts. Thus, the Bank did not convert comparable data.

As at the date of initial application of the standard, the Bank carried out full analysis of contracts in terms of assessment whether a contract is for lease or includes lease, and decided to recognise lease elements separately from non-lease ones. The Bank does not apply the standard to lease of intangible assets. The Bank acts as a lessee in the real estate/car lease contracts.

The new regulation implements uniform principles of recognition of lease contracts for lessee, taking into account exceptions provided for in the standard. It imposes a requirement to recognise a right-of-use assets item and lease liability. On 01 January 2019, the Bank recognised a right-of-use asset in the amount equal to the lease liability. As at the initial application of the new regulation, the Bank measured the lease liability at present value of remaining lease payments, discounted by applying the lessee's incremental borrowing rate on the date of initial application.

In order to determine the present value of lease payments the Bank applied the lessee's incremental borrowing rate to all leases. The Bank determined the interest rate for lease as the sum of the interest rate for swaps and internal transfer price, taking into account currencies of the lease contracts and maturity dates of the contracts.

Lease period was determined taking into account contractual options to prolong or shorten lease period if it is probable that such an option would be used. In case of contracts concluded for an indefinite period with an option to terminate them by any of the parties thereto, the Bank assessed whether there would be any significant costs of contract termination. Contracts signed for an indefinite period by the Group are mostly real estate lease contracts. If there are no significant costs, the lease period was determined as a notice period to which both parties to the contract are entitled. If the costs of contract termination are significant, the Bank assumed a 4-year period as the lease period. The assumed period results from the strategy of physical presence in a given location that ensures flexibility and business efficacy. The Bank availed itself of the simplified approach for short-term leases (inclusive of leases whose period ends 12 months after the date of initial application of the standard) and for leases of low-value assets. In this case, the Bank carries systematic lease payments through profit or loss. A contract may be classified as a short-term one if the contract period does not exceed 12 months. Assets may be classified as low-value assets if the cost of acquisition of a new one is not higher than EUR 5,000.

A table herein below shows the impact of implementation of IFRS 16 on the financial statements as at 01 January 2019 (PLN thousands):

	As at 31.12.2018	IFRS 16 implementation impact	As at 01.01.2019
Assets			



ING Bank Hipoteczny S.A.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Property, plant and equipment, including:	104.1	1,343.3	1,447.4
right-of-use assets, including:	0.0	1,343.3	1,343.3
- lease of real estate	0.0	1,242.9	1,242.9
- lease of cars	0.0	100.4	100.4
Total assets	116,187.7	1,343.3	117,531.0
Liabilities			
Other liabilities, including:	3,494.3	1,343.3	4,837.6
lease liabilities, including:	0.0	1,343.3	1,343.3
- lease of real estate	0.0	1,242.9	1,242.9
- lease of cars	0.0	100.4	100.4
Total liabilities	3,877.2	1,343.3	5,220.5
Equity per one shareholder of ING Bank Hipoteczny	112,310.5	0.0	112,310.5
Total equity and liabilities	116,187.7	1,343.3	117,531.0

The table below shows reconciliation of the difference between the amounts of future fees being the Bank's obligation under operating lease, disclosed under IAS 17 as at 31 December 2018, and lease liabilities as at 1 January 2019, or as at the implementation date of IFRS 16.

	As at 31.12.2018	adjustments of opening balance sheet	As at 01.01.2019
Future lease liabilities according to IAS 17	1,435.7		
adjustments of opening balance sheet in connection with implementation of IFRS 16, including:		-92.5	
(-) discounting effect incident to the use of the lessee's incremental interest rate of 01 January 2019		-42.5	
(-) exemption for short-term lease agreements -		-21.9	
(-) other than lease elements of agreements		-28.1	
Lease liabilities according to IFRS 16			1,343.3

4.2. Going concern

These interim condensed financial statements of the Bank were prepared on a going concern basis, as regards foreseeable future, that is within at least 12 months from the end of the reporting period. As at the date of approval hereof by the Bank Management Board, no facts or circumstances were identified that could pose a threat to the Bank's operation as a going concern for at least 12 months from the end of the reporting period due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

4.3. Discontinued operations

No material operations were discontinued in the first half of 2019 and in 2018.

4.4. Financial statements scope and currency

The Bank is the parent entity and the major investor for associated entities and joint subsidiaries. Thus, ING Bank Hipoteczny S.A. does not prepare consolidated financial statements of the Group that would cover the financial data of such entities.

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

These interim condensed financial statements have been developed in Polish Zloty ("PLN"). Unless otherwise specified, financial data are presented after rounding to one thousand zloty. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

4.5. Reporting period and comparable data

Interim condensed financial statements of ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") cover the period from 1 January 2019 to 30 June 2019. As the operations were started on 26 February 2018, comparable data cover the period from 26 February 2018 to 30 June 2018 for the interim condensed income statement, interim condensed statement of comprehensive income and interim condensed cash flow statement, additionally as at 31 December 2018 for the interim condensed statement of changes in equity, and in case of interim condensed statements of financial position - the data as at 31 December 2018.

5. Significant accounting principles

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

The accounting principles and calculation methods applied for the needs of preparation of these interim condensed financial statements are consistent with the principles binding in the financial year ending on 31 December 2018.

As the Bank applies to its lease contracts a decision not to convert comparable data in connection with effective entry of IFRS 16, material principles of accounting within a scope referring to IFRS 16 were presented under 3.7 *Leases* showing the principles binding before and after 1 January 2019.

In the interim financial statements, the right-of-use assets were presented in the statements of financial position under "*Property, plant and equipment*" whereas lease liability was presented under

"Other liabilities". Costs incurred by the Bank are presented in the income statement under *Interest costs* (interest on lease liabilities) and *General and administrative expenses* (depreciation of the right-of-use and other costs connected with assets taken on lease).

5.1. Basis for preparation of financial statements

In the interim condensed financial statements, the concept of fair value of financial assets and liabilities measured at fair value was applied, including derivative instruments and financial assets carried at fair value through other comprehensive income, excluding those for which the fair value cannot be determined in a reliable manner. Other items of financial assets are presented at amortized cost less impairment or at purchase price less impairment.

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

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

5.2. Professional judgement

In the process of accounting principles application to the matters discussed herein below, besides the booking estimates, professional judgment of the management staff was of key significance.

5.2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results deteriorate in the future.

5.2.2. Classification of financial assets

The Bank classifies financial assets based on assessment of a business model under which assets are held and based on assessment whether terms and conditions entail only payments of principal and interests thereon. Detailed information about the assumptions made in this respect are presented under 5.5.1 below.

5.3. Accounting estimates

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

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

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

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

5.3.1. Impairment

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

5.3.1.1. Impairment of financial assets

The Bank applies the requirements of IFRS 9 as regards impairment in order to recognise and measure loss allowance for expected credit losses attributable to financial assets that are measured at amortised cost or at fair value through other comprehensive income.

Expected loss is calculated as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The final level of reserves results from the total expected losses calculated each year in future, taking into account, among others, maturity dates, stages and discounting.

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto are described hereinafter, and in the "Principles of creating impairment losses (provisions) for credit exposure according to IFRS at ING Bank Hipoteczny S.A."

5.3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of

estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors.

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

5.3.2. Provisions for retirement and pension benefit

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards their employees considering the headcount and payroll status as at the update date. The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the accounting year.

5.3.3. Valuation of incentive schemes

5.3.3.1. Valuation of variable remuneration programme benefits

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

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

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

5.3.4. Amortisation period and method for intangible assets

The amortisation period and method for intangible assets are verified at the end of each financial year. Changes to the useful life or expected pattern of consumption of the future economic benefits

embodied in the intangible asset are recognised by changing the amortisation period or method, accordingly, and are deemed to be changes in the estimates. The Bank applies the established by the ING Bank Śląski S.A. Group capitalisation limit for purchase (PLN 440,000) or in-house production (PLN 10 million) of computer software. Expenditure for acquisition of items of intangible assets below the capitalisation limit are recognised by the Bank directly in expenses when incurred.

5.4. Foreign currency

5.4.1. Functional currency and presentation currency

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

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

5.4.2. Transactions in foreign currency

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

5.5. Financial assets and liabilities

5.5.1. Classification of financial assets

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

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income and measured at fair value through profit or loss;

Financial assets measured at amortised cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets measured at fair value through other comprehensive income

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

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

Financial assets measured at fair value through profit or loss

All financial assets that do not meet the conditions to be classified as financial assets measured at amortised cost, debt financial assets measured at fair value through other comprehensive income or equity instruments measured at fair value through other comprehensive income, are classified to financial assets measured at fair value through profit or loss.

Moreover, at initial recognition, the Bank may irrevocably designate a given financial assets item to be measured at fair value through income statement, even though, satisfying the terms and conditions of classification, it can be measured at amortised cost or at fair value through other comprehensive income. It is a prerequisite to confirm that the purpose of such a designation is to eliminate or limit significantly any accounting mismatch that would occur without the said designation.

5.5.2. Recognition

The Bank recognises financial assets or liabilities item in the statement of financial position when it becomes a party to the instrument-related contract. Purchase and sale transactions of financial assets carried at fair value through profit or loss, held to maturity and available for sale are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity.

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

¹Transaction Date is a date following the conclusion of a given Transfer Contract being the date, referring to the Portfolio transferred thereunder, at which the first application for entering of ING Bank Hipoteczny S.A. as a mortgage creditor in the Land

5.5.3. Business Model Assessment

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

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

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

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

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

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

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

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

and Mortgage Register maintained for the real property encumbered with the Mortgage securing the Debt from that Portfolio is submitted, or the next consecutive date;

The Bank assumes that:

- any sale close to the maturity date is the sale of financial assets:
 - if the initial maturity date is longer than 1 year - less than 6 months before the maturity date,
 - if the initial maturity date is shorter than 1 year - less than 3 months before the maturity date,
- occasional sale means the sale at the level below 10% of the sales transactions in relation to the average number of items within a given business model
- sale of insignificant value means sale at the level lower than a ratio determined based on the quotient of 10% rate and the average maturity term of the portfolio in relation to one of the following values:
 - quotient of the carrying amount of the sold position in relation to the carrying amount of the whole portfolio under a given business model
 - quotient of the realised result in relation to net interest margin of the whole portfolio held under a given business model.

5.5.4. Cash flows assessment

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

- principal – is defined as fair value of the financial assets item at initial recognition in the Bank's books,
- interest – is defined as payment that includes:
 - fee for the change in time value of money,
 - fee for the credit risk of the principal amount due and payable throughout a stipulated period of time,
 - fee for other basic credit-related risks and costs (for instance, liquidity risk and overheads) and
 - profit margin.

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

Most notably, the following terms and conditions are verified:

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

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

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

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

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

5.5.5. Classification of financial liabilities

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

- financial liabilities measured at fair value through profit or loss,
- financial liabilities measured at amortised cost;

Financial liabilities measured at fair value through profit or loss

Financial liabilities recognised as a result of a short sale of securities are measured after initial recognition at fair value through profit or loss.

Other financial liabilities

Financial liabilities being a contractual obligation to deliver cash or other financial asset to another entity not carried at fair value through profit or loss, being a deposit, loan received or a financial liability recognised as a result of a sale of a financial assets item that cannot be derecognized.

5.5.6. Derecognition

The Bank derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset.

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognizes the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset,

- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognize the financial asset, and if the Bank has not retained control, it derecognizes the financial asset to the extent of its continuing involvement in the financial asset.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is satisfied or cancelled or expires.

5.5.7. Modification of contractual cash flows

If, after renegotiation of the terms and conditions of a credit facility or loan agreement, cash flows from a given financial assets item are subject to modification, the Bank assesses whether the modification is major and whether it leads to derecognition of that financial assets item.

The Bank assumes that modification of the terms and conditions of an agreement is major in case of:

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

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

5.5.8. Measurement

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

Other financial liabilities are measured at amortised cost or the amount of due payment.

5.5.9. Impairment

Assessment of impairment is based on measurement of expected credit losses. Such an approach is applied to debt financial assets, credit exposure, committed financial liabilities and financial guarantees, except of capital investments.

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

The Bank measures expected credit losses taking into account:

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

5.5.10. Gains and losses resulting from later measurement

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

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

Settlement of interest using the effective interest method

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

- purchased or originated credit-impaired financial assets. For these financial assets items, the Bank applies credit-adjusted effective interest rate to amortised cost of the financial assets item since initial recognition;
- financial assets items other than purchased or originated credit-impaired financial assets, which then became credit-impaired financial assets (Stage 3). In case of such financial assets items, the Bank applies credit-adjusted effective interest rate to (net) amortised cost of the financial assets item in later reporting periods.

Non-interest elements

FX gains and losses arising from a change in financial assets item measured at fair value through other comprehensive income denominated in foreign currency are recognized directly in equity only in case

of non-monetary assets, whereas FX differences generated by monetary assets (for instance, debt securities) are recognised in the income statement.

At the moment of derecognition of financial assets, cumulated gains or losses that were recognised in equity:

- are recognised in the income statement as far as debt financial assets are concerned,
- are recognised under equity item where retained earnings are presented, as far as equity instruments are concerned.

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

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

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

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

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

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

The Bank verifies on a monthly basis whether any changes occurred to the quality of the input data used in individual measurement techniques and determines the reasons and their impact on the fair

value calculation for the financial assets/liabilities item. Each identified case is reviewed individually. Following detailed analyses, the Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

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

5.6. Non-financial assets

5.6.1. Property, plant and equipment

5.6.1.1. Own property, plant and equipment

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

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

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

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

5.6.1.2. Subsequent costs

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

5.6.2. Intangible assets

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

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

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

5.6.2.1. Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. Costs of computer software development or maintenance are recognized when incurred.

5.6.2.2. Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible asset are capitalised when it is probable that such expenditures will ensure future economic benefits for the Bank. In other cases, costs are recognised in the income statement as costs when incurred.

5.6.3. Depreciation and amortization charges

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

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

The depreciation/amortization periods are as follows:

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

- software licenses 3 years

5.6.4. Impairment of other non- financial assets

For each balance sheet date, the Bank assesses the existence of objective evidence indicating impairment of a non-current assets item. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

5.6.5. Recognition of impairment loss

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

5.6.6. Reversing impairment loss

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

5.7. Lease contracts

Principles applicable before 1 January 2019

The Bank is a party to operating lease contracts, under which it takes non-current assets for an agreed period for payable use.

Lease contracts are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

Lease payments for operating lease and consecutive lease instalments are recognized as costs in the income statement using the straight-line method, throughout the period of lease, and are shown in the General and administrative expenses, in the item: Costs of lease.

Principles applicable after 1 January 2019

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

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

Non-lease payments for contracts are recognised in income statement as expenses, using the straight-line method, throughout the period of lease. Lease payments are recognised in accordance with the principles described herein below.

As at the beginning of lease, the Bank recognises right-of-use assets and lease liabilities. Initially, lease liabilities are measured by the Bank at present value of future lease payments. To determine the discounted value of lease payments, the Bank applies lease interest rate, and if such a rate is hardly available, the Bank applies the marginal interest rate. The Bank determines the interest rate for lease as the sum of the interest rate for swaps and internal transfer price, taking into account currencies of the lease contracts and maturity dates of the contracts. After the initial lease date, the carrying amount of the liability:

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

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

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

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

To identify future lease payments, the lease term has to be determined. Doing it, the Bank takes into account an irrevocable lease period together with the periods for which the lease may be extended and the periods in which the lease may be terminated. At the commencement of the lease contract, the Bank assesses whether it can be reasonably assumed that the Bank will exercise an option to extend the lease, or it will not exercise an option to terminate the lease. To carry out the assessment, the Bank takes into account all major facts and circumstances that give economic incentive to exercise or not to exercise the said options. The Bank reviews the lease term in order to re-assess major events or circumstances that may affect the estimated lease term. Lease is no longer enforceable when both

the lessee and the lessor have the right to terminate the lease without a prior permit of the other party, which would result in minor penalty at most. For lease contracts concluded for an indefinite period, in case of which both parties may exercise the option to terminate and in case of which there are potentially high costs of contract termination, the Bank assesses the lease term.

The Bank avails itself of exemption for:

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

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

5.8. Other balance sheet items

5.8.1. Other trade receivables and other receivables

Other trade receivables and other receivables are recognized and carried at original invoice amount less an allowance for doubtful accounts.

An allowance for doubtful accounts is made when collection of the full amount of receivables is no longer probable. If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the current value, with applying the discount rate that reflects the current market assessments of time value of money. If the discounting method has been applied, the increase of receivables due to time lapse is recognized as financial income.

Other trade receivables and other receivables embrace settlements with off-takers in particular. Budgetary receivables are recognized as part of other financial assets, except for corporate income tax receivables, which are a separate item on the balance sheet.

5.8.2. Liabilities

Other liabilities comprise in particular: payables for the benefit of tax office under VAT, settlements with suppliers and payables due to received prepayments which will be settled by means of delivering goods, services or non-current assets. Other liabilities are recognized in the amounts due.

5.8.3. Cash and cash equivalents

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

5.9. Equity

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

5.9.1. Share capital

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

5.9.2. Share premium

Share premium is formed from agio obtained from the issue of shares less the attributable direct costs incurred with that issue.

5.9.3. Retained earnings

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

5.9.4. Accumulated other net comprehensive income

Accumulated other comprehensive income occurs as a result of:

- measurement of financial instruments classified to be measured through other comprehensive income,
- measurement of financial derivatives for the element being the effective cash flow hedge, and
- actuarial profits / losses.

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

5.10. Prepayments and deferred income

5.10.1. Prepayments

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

5.11. Employee benefits

5.11.1. Benefits under the Act on employee pension programmes

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

5.11.2. Short term employee benefits

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

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other balance sheet liabilities. The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

5.11.3. Long-term employee benefits

5.11.3.1. Benefits under the Labour Code regulations

Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis. Provisions for long-term employee benefits are recognised in the item *Other liabilities* from the Statement of financial position in correspondence with costs of labour in the income statement. The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

5.11.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two parts:

- one paid in cash (no more than 50%), and
- value of benefits granted in a form of financial instruments entitling to receive cash whose value is conditional on the book value of net assets of ING Bank Hipoteczny S.A. per share, adjusted with factors affecting the said assets, other than the financial result.

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which employees obtain benefits and during the deferral period – adequate benefit components). The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement. As regards the benefits granted in the form of financial instruments a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year, three-year periods, etc.). During the holding period, the employee who was granted the benefit shall not exercise the rights from the granted instruments. The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement.

5.12. Provisions

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

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

5.13. Income statement

5.13.1. Net interest income

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

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

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

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

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

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

Interest income on debt securities measured at fair value through profit or loss or designated to be measured at fair value through profit or loss is recognised under interest income.

Result from accrued interest and settlement of discount or premium on debt securities measured at fair value through profit or loss or classified to be measured at fair value through profit or loss is recognized as interest income.

5.13.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises, among others, fees for certificates about credit liabilities owed/repaid, commission for early repayment of mortgage loans.

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

The Bank recognizes the following effective interest rate-adjusting commissions:

- commission for amending the credit agreement as to the amount, currency or schedule of repayments;

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

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

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

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

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

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

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

5.13.3. FX result

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

5.13.4. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to banking activity.

5.14. Taxes

5.14.1. Income tax

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

5.14.2. Deferred income tax

The Bank creates a provision for deferred tax in respect of a temporary difference caused by different moment of recognising income as generated and costs as incurred in accordance with the accounting regulations and corporate income tax provisions. A positive net difference is recognized in liabilities as *Deferred tax provisions*. A negative net difference is recognized under *Deferred tax assets*. The deferred income tax provision is created by using the balance-sheet method for all positive temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

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

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

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

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

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

The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

5.14.3. Other taxes

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

6. Comparability of financial data

In the annual financial statement prepared for the period from 1 January 2019 to 30 June 2019 ING Bank Hipoteczny S.A. did not change the method of presentation of the financial data in relation to the annual financial statements for the period from 26 February 2018 to 31 December 2018.

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

5.1. Net interest income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Interest income, including	9,573.3	365.8
Interest income calculated using the effective interest method, of which:	9,573.3	365.8
interest on loans and other receivables from customers measured at amortised cost	7,232.4	0.0
interest on other receivables from banks measured at amortised cost	1,566.6	365.8
interest on securities measured at amortised cost	531.3	0.0
interest on securities measured through other comprehensive income	242.9	0.0
Interest expenses, of which:	-3,211.8	0.0
interest on received loans	-2,945.2	0.0
interest on deferred payment attributable to purchase of debt claims	-256.8	0.0
interest on lease liabilities*	-9.8	0.0
Net interest income	6,361.4	365.8

*) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.2. Net commission income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Commission income	48.2	0.0
commission for early repayment of mortgage loans	43.4	0.0
Other	4.9	0.0
Commission expenses	-230.1	-0.2
fees and commissions for other financial entities, inclusive of fees and commissions for disclosure of credit information	-215.1	0.0
Other	-15.0	-0.2

Net commission income	-181.9	-0.2
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5.3. FX result

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
FX result	-2.4	0.0
FX result	-2.4	0.0

5.4. General and administrative expenses

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Personnel expenses, including:	-5,295.7	-937.4
wages and salaries, including:	-4,465.9	-779.1
variable remuneration programme	-912.2	-165.5
employee benefits	-829.8	-158.2
Other general and administrative expenses, including:	-5,090.3	-761.3
costs of auxiliary activities provided under the Cooperation Agreement ¹	-2,971.5	-23.1
Depreciation and amortisation	-698.5	-4.2
consumption of materials and assets other than non-current assets	-68.5	-19.5
legal services	-350.9	0.0
other advisory and consulting costs	-87.4	0.0
other third-party services	-132.1	-61.2
costs of news service platforms	-72.4	0.0
communications costs	-49.1	0.0
IT costs	-237.7	0.0
costs of rental of buildings	-42.0	-35.8
representation costs	-167.4	-4.6
taxes and charges	-17.6	-602.9
Other	-195.3	-10.0
General and administrative expenses	-10,386.0	-1,698.7

***) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.5. Expected losses/Impairment losses for financial assets

Due to the fact that ING Bank Hipoteczny S.A. started its operations in 2019, the Bank did not make any impairments in previous reporting periods. Thus, the data concerning expected losses/impairment losses for financial assets made in the reporting period from 1 January 2019 to 30 June 2019 are equal to data concerning the same and presented in Note 5.9.

5.6. Income tax

Income tax recognized in the income statement

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Current tax	0.0	0.0
Deferred tax, including:	839.6	1,569.1
Recognized and reversed temporary differences	839.6	1,569.1
1. recognized and reversed negative temporary differences	1,458.2	1,627.3
<i>attributable to:</i>		
1) tax loss	901.9	1,088.4
2) costs of provision for personnel, tangible and others expenses	278.7	534.2
3) expenses attributable to accrued but not paid interest	155.8	0.0
4) costs and income settled at the effective interest rate	72.0	0.0
5) other	49.8	4.7
2. recognized and reversed positive temporary differences	-618.6	-58.1
<i>attributable to:</i>		
1) income on accrued but not paid interest	-545.9	-22.7
2) difference between tax and balance sheet depreciation/amortization	-63.0	-35.4
3) other	-9.7	-4.7
Total tax recognized in the income statement	839.6	1,569.1

Effective tax rate calculation

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
A. Profit before tax	-4,476.2	-8,948.5
B. 19% profit before tax	-850.5	-1,700.2
C. Increases - 19% costs other than tax deductible cost, including:	10.9	131.2
civil law tax	0.0	114.3
Other	10.9	16.8
D. Decreases - 19% tax exempt income	0.0	0.0
E. Income tax from income statement [-(B+C-D)]	839.6	1,569.1
Effective tax rate (-E : A)*	18.8%	17.5%

*) The effective tax rate deviated below 19% in the first half of 2018 due to the civil law tax paid in connection with formation of the company and bringing cash contributions for the share capital of the company in the amount of PLN 600,000.

Income tax recognized in other comprehensive income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Deferred tax, including:	2.1	0.0
Recognized and reversed temporary differences	2.1	0.0
<i>including recognized and reversed temporary differences related to unrealised result from valuation of securities measured at fair value through other comprehensive income</i>	2.1	0.0
<i>including recognized and reversed negative temporary differences attributable to actuarial losses</i>	0.0	0.0
Total income tax recognized in other comprehensive income	2.1	0.0

5.7. Earnings per ordinary share**Basic earnings per share**

The calculation of basic earnings per share of the Bank for the first half of 2019 was based on net loss in the amount of - PLN 3,636,603.47 and the number of ordinary shares at 30 June 2019 being 210,000.

Diluted earnings per share

In 1 half of 2019, there were no factors that would dilute the profit per one share. In the described period, ING Bank Hipoteczny S.A. issued neither bonds convertible to shares nor stock options.

The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

NOTES TO STATEMENT OF FINANCIAL POSITION

5.8. Amounts due from banks

	As at 30.06.2019	As at 31.12.2018
Current accounts	1,570.3	0.0
Term deposits in banks, of which:	368,112.6	111,534.9
Overnights	2,305.0	16,415.5
Total (gross)	369,682.8	111,534.9
Impairment loss	0.0	0.0
Total (net)	369,682.8	111,534.9

Amounts due from banks include short-term deposits in PLN at ING Bank Śląski S.A.

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

5.9. Loans and receivables to customers

Loans and other receivables measured at amortised cost

	30.06.2019			31.12.2018		
	gross	expected loss allowance	net	gross	expected loss allowance	net
Loans and other receivables measured at amortised cost, of which:	1,320,914.4	-248.0	1,320,666.4	0.00	0.00	0.00
Customer loan portfolio, including:	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0
Retail Banking (individuals)	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0
Mortgages	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0

Lending portfolio quality

	30.06.2019			31.12.2018		
	gross	expected loss allowance	net	gross	expected loss allowance	net
Retail banking	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0
assets in stage 1	1,313,950.0	-175.2	1,313,774.8	0.0	0.0	0.0
assets in stage 2	6,964.4	-72.8	6,891.6	0.0	0.0	0.0
assets in stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Total	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0

Change in loss allowance for expected credit losses/impairment loss

	the period from 01.01.2019 to 30.06.2019				the period from 26.02.2018 to 30.06.2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Allowance at the beginning of the period	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Movements in the period, including:	-175.2	-72.8	0.0	-248.0	0.0	0.0	0.0	0.0
allowance for loans acquired in the period	-175.2	-72.8	0.0	-248.0	0.0	0.0	0.0	0.0
Allowance at the end of the period	-175.2	-72.8	0.0	-248.0	0.0	0.0	0.0	0.0

5.10. Debt securities

	as at 30.06.2019	as at 31.12.2018
Debt securities measured at fair value through other comprehensive income, of which:	24,728.8	0.0
T-bonds	24,728.8	0.0
Debt securities measured at amortised cost in the investment securities portfolio	152,974.5	0.0
cash bills of the National Bank of Poland	152,974.5	0.0

Total	177,703.2	0.00
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5.11. Property, plant and equipment

	As at 30.06.2019	As at 31.12.2018
Right-of-use assets*	1,151.8	0.0
Computer hardware	191.8	108.4
Other property, plant and equipment	16.9	16.9
Total (gross)	1,360.5	125.3
Closing accumulated depreciation/amortisation of the computer hardware	-47.0	-20.3
Closing accumulated depreciation/amortisation of other property, plant and equipment	-2.5	-0.8
Total (net)	1,311.0	104.1

*) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.12. Intangible assets

	As at 30.06.2019	As at 31.12.2018
Software	2,975.8	2,975.8
Total (gross)	2,975.8	2,975.8
Closing accumulated depreciation/amortisation of software	-663.2	-167.3
Total (net)	2,312.6	2,808.5

From the point of view of the Bank, in 2018 significant intangible assets included expenditure for purchasing of and adjusting the Register of Collaterals of Covered Bonds software for the amount of PLN 1,114,000 and purchase of the licence for SAS (CSS) software for the amount of PLN 1,387,000. As the process of adjustment has been completed, the said intangible assets were accepted for use. Expected economic life of the software is 3 years.

In the first half of 2019, the Bank did not incur any expenditure for intangible assets.

5.13. Other assets

	As at 30.06.2019	As at 31.12.2018
Prepayments, including:	624.8	32.3
prepaid bank operating expenses	522.9	32.3
costs of the planned issue of covered bonds to be settled at EIR	101.9	0.0
Other assets, including:	88.9	54.1
settlements with customers	3.6	54.1
Other	85.3	0.0

Total	713.7	86.4
5.14. Liabilities to banks		
	As at 30.06.2019	As at 31.12.2018
Loans received	990,792.1	0.0
Liabilities due to refinancing*	609,554.9	0.0
Other liabilities	3.5	0.0
Total	1,600,350.5	0.0

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

5.15. Provisions

	As at 30.06.2019	As at 31.12.2018
Provisions, including:	382.9	382.9
referring to valuation of liabilities due to certain post-employment benefits - actuarial gains and losses	382.9	382.9
Total	382.9	382.9

5.16. Other liabilities

	As at 30.06.2019	As at 31.12.2018
Accruals, including:	3,689.7	2,515.6
due to employee benefits, of which	1,718.4	715.7
variable remuneration programme	1,136.8	475.4
due to Cooperation Agreement*	1,500.0	0.0
due to legal services	10.0	1,066.1
due to purchase of licenses and software other than non-current assets	0.0	391.9
due to communication costs	269.4	181.6
Other	191.8	160.3
Other liabilities, including:	2,214.6	978.7
lease liabilities**	1,156.6	0.0
settlements with suppliers	162.8	118.6
settlements with employees	594.1	651.2
public and legal settlements	295.6	208.8
Other	5.5	0.0

Total	5,904.3	3,494.3
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*) A scope of services provided by ING Bank Śląski S.A. for ING Bank Hipoteczny S.A. resulting from the Cooperation agreement is described in Note 5.22 *Transactions with related entities*.

**) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.17. Accumulated other comprehensive income

	As at 30.06.2019	As at 31.12.2018
Actuarial gains / losses, including	-310.1	-310.1
deferred tax	72.7	72.7
Measurement of securities measured at fair value through other comprehensive income, including:	-8.8	0.0
deferred tax	2.1	0.0
Total	-318.9	-310.1

5.18. Retained earnings

	As at 30.06.2019	As at 31.12.2018
Result for the current year	-3,636.6	-7,379.4
Total	-3,636.6	-7,379.4

OTHER NOTES**5.19. Fair value**

Fair value, which is best reflected by a market price, if available, is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement categories (levels). In the first half of 2019, there were no movements among measurement levels, and measurement techniques for Levels 1 through 3 did not change.

Financial assets and liabilities carried at fair value in statement of financial position**as of 30 June 2019**

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	24,728.8	0.0	0.0	24,728.8
Securities measured at fair value through other comprehensive income, of which:	24,728.8	0.0	0.0	24,728.8
T-bonds	24,728.8	0.0	0.0	24,728.8
Financial liabilities	0.0	0.0	0.0	0.0

In the period from 26 February 2018 to 30 June 2018, there were neither financial assets nor non-financial assets measured at fair value at ING Bank Hipoteczny S.A.

Financial assets and liabilities not carried at fair value in statement of financial position**As of 30 June 2019**

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	369,682.8	required payment	0.0	369,682.8	0.0	0.0
Securities measured at amortized cost	152,974.5	regulated market quotations	0.0	152,955.3	0.0	0.0
Loans and receivables to customers	1,320,666.4	discounted cash flows	0.0	0.0	1,317,491.3	0.0
Liabilities						
Liabilities to other banks	1,600,350.5	required payment	0.0	1,600,350.5	0.0	0.0

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

position

as of 31 December 2018

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	111,534.9	required payment	0.0	111,534.9	0.0	0.0

5.20. Factors that may affect financial results in consecutive quarters

Factors that may affect financial results in consecutive quarters are described in the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 30 June 2019.

5.21. Off-Balance Sheet items

	As at 30.06.2019	As at 31.12.2018
Received credit lines, including	1,510,196.5	94.4
- revolving credit facility (RCF)	1,510,000.0	0.0
- unused credit card limits	196.5	94.4
Total off-Balance Sheet items	1,510,196.5	94.4

5.22. Seasonal or cyclical nature of business

Business of ING Bank Hipoteczny S.A. is neither seasonal nor cyclical as defined in Article 21 of IAS 34.

5.23. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2019 held 100% share in share capital of ING Bank Hipoteczny S.A. and 100% shares in the total number of votes at the General Meeting of ING Bank Hipoteczny S.A.

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

ING Bank Hipoteczny S.A.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Covered Bonds (hereinafter referred to as the Framework Agreement) and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

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

Moreover, since January 2019 ING Bank Śląski S.A. has performed for ING Bank Hipoteczny S.A. activities of basic importance, which are a part of financial services provided by ING Bank Hipoteczny S.A. under Cooperation Agreement signed by and between the two banks. Support services are provided in the following areas: Accounting and Taxes, Controlling, IT, Credit Risk and Models Validation, Market Risk, Liquidity Risk, Operating Risk, Information (Technology) Risk, Procurement Services, HR Services, Business and Operations, Treasury, Legal Services, Data Management, Compliance Risk and Audit. Any activities performed under the Cooperation Agreement are of technical support nature², whereas any decision-taking is made by ING Bank Hipoteczny S.A.

All the above mentioned transactions are carried out on an arm's length basis. ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. make also transactions resulting from agreements for sub-lease of premises used for the registered office of the Bank, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

Furthermore, ING Bank Hipoteczny S.A. makes use of services provided by other related entities, that is SWIFT operating services provided by ING Belgium N.V., financial and accounting services provided by ING Usługi dla Biznesu S.A. and hosting of IT applications provided by ING Business Shared Services B.V. sp. Z o.o. (branch in Poland).

Income and expenses

presented as per their net value (VAT excluded)

for the period from 01.01.2019 to 30.06.2019

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Income, including:	1,566.6	-	-	-
Interest income	1,566.6	-	-	-
Expenses, including	-6,188.5	-46.1	-56.87	-141.8
Interest costs	-3,202.0	-	-	-
Commission expenses	-15.0	-	-	-
General and administrative expenses	-2,971.5	-46.1	-56.9	-141.8

² In certain areas (for instance, in the Area of Legal Services or Taxes) support activities are limited exclusively to making available newsletters with information about significant legislative changes affecting banking activities.



for the period from 28.02.2018 to 30.06.2018

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Income, including:	365.8	-	-	-
Interest income	365.8	-	-	-
Expenses, including	-59.2	-	-49.27	-
Interest costs	-	-	-	-
Commission expenses	-0.2	-	-	-
General and administrative expenses	-58.9	-	-49.3	-

Receivables and liabilities

as of 30 June 2019

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Receivables	369,682.83	-	-	-
Amounts due from banks	369,682.83	-	-	-
Other assets	3.6	-	-	-
Liabilities	1,600,350.5	-	9.5	-
Liabilities to other banks	1,600,350.5	-	-	-
Other liabilities	-	-	9.5	-
Off-balance-sheet operations	1,510,196.5	-	-	-
Off-balance sheet liabilities received	1,510,196.5	-	-	-

as at 31 December 2018

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Receivables	111,534.93	-	-	-
Amounts due from banks	111,534.93	-	-	-

ING Bank Hipoteczny S.A.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Other assets	47.5	-	-	-
Liabilities	-	-	-	-
Other liabilities	-	-	-	-
Off-balance-sheet operations	94.4	-	-	-
Off-balance sheet liabilities received	94.4	-	-	-

5.24. Transactions with the management staff and employees***In-House Social Benefits Fund***

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of the In-House Social Benefits Fund as at 30 June 2019 was PLN 54,100, whereas as at 31 December 2018 was PLN 17,400.

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

As at the end of the first half of 2019, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

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

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 31.12.2018
Short-term employee benefits, including:	620.1	0.0
- remuneration	607.7	0.0
- benefits	12.4	0.0
Total	620.1	0.0

* exclusive of the variable remuneration programme

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

Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for 2018 under the Variable Remuneration Programme have been awarded in accordance with the remuneration system binding at the Bank. The Bank Management Board Members are entitled to the 2018 bonus; some part of it has been paid out in 2019, and some part has been deferred for the upcoming years (2021-2026).

Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for the first half of 2019 under the Variable Remuneration Programme have not yet been awarded. The Bank Supervisory Board will take the final decision on the bonus amount.



In the period from 01 January 2019 to 30 June 2019, and also from 26 February 2018 to 31 December 2018 no post-employment emoluments were paid to the Management Board Members. The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

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

As at the end of the first half of 2019, the composition of the Supervisory Board of ING Bank Hipoteczny S.A. was as follows:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 31.12.2018
Short-term employee benefits, including:	60.0	28.0
– remuneration	60.0	28.0
Total	60.0	28.0

The Management Board Members and other persons employed by ING Bank Hipoteczny S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

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

As at 30 June 2019 and as at 31 December 2018, respectively, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

5.25. Headcount

The headcount at ING Bank Hipoteczny S.A. was 37 FTEs as at 30 June 2019 and 30 FTEs as at 31 December 2018.

5.26. Segment reporting

Due to the specifics of business activity, the Bank did not analyse its business results by segments in the reporting period ending on 30 June 2019.

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

RISK AND EQUITY MANAGEMENT

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

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

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."

5.27. Risk management goals and rules

The goal of risk management at ING Bank Hipoteczny S.A. is to ensure an effective risk control and to keep the risk within the risk appetite approved by the Bank despite of the changing macroeconomic and legal landscape, keeping in mind the assumed business activity level. The assumed risk level is an important factor of the planning process.

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

The aim of:

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

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

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

Risk management rules

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

- risk management process, including lending process, is defined and regulated by strategies, policies and procedures adopted by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- the Bank manages all identified types of the bank risk and carries out the ICAAP process (Internal Capital Adequacy Assessment Process), where:
 - a) risk management process is adequate to the scale of operations and materiality, scale and complexity of a given risk and is adjusted to the new risk factors and sources on a current basis,
 - b) risk management methods, models and their risk measurement systems and their assumptions are adjusted to the scale and complexity of the risk and are verified and validated periodically,
- organisational structure of risk management guarantees independence of the risk area, including independence of real estate appraisal and taking credit decisions, from business activity,
- risk management process is integrated with the planning and controlling processes and supports execution of the Bank strategy, while complying with risk management strategy, most notably as regards risk appetite,
- risk management process is cohesive with the rules of risk management at ING Bank Śląski S.A. Group, also as regards the use of the group risk models, adjusted to the specifics of operation of ING Bank Hipoteczny S.A., and approved by competent authorities of ING Bank Hipoteczny S.A.,
- stress tests are performed in the Bank based on previously approved scenarios. Stress-tests results are discussed at the meetings of competent committees (described herein below) and at the meetings of the Bank Management Board. Reporting of risk sources and factors as well as reporting of risk level measurement makes it possible to take appropriate preventive and remedy actions.

5.28. Organisation of risk management

Risk management process is supervised by the **Supervisory Board** who are informed on a regular basis about the risk profile of ING Bank Hipoteczny S.A. and about the most important actions taken in relation to risk management.

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 internal regulations concerning risk management.

Risk management is effected in three independent lines of defence:

1) The first line of defence

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

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

2) The second line of defence

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

It is responsible for:

- a) issuing regulations and providing methods and tools within the internal control system,
- b) monitoring of application of the regulations concerning internal control system by the first line of defence,
- c) monitoring of observance of controls within the second line of defence,
- d) vertical monitoring of the first line of defence as regards observance of 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

Internal auditor is the third line of defence and he provides the management with his independent, impartial statement about adequacy and effectiveness of the risk management system and internal control system in the first and second lines of defence.

The Policy – Audit Charter of ING Bank Hipoteczny S.A. – regulates the roles, powers, scope and nature of work, responsibilities of the Internal auditor and the principles of cooperation of the organisational units of the Bank with that position.

Organisational units responsible for risk management

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

- **Risk Team** - dealing most notably with credit, market, liquidity and operational risks,

- **Assessment and Credit Decisions Team** - dealing most notably with the process of determining the mortgage lending value of the real estate independently from the sales function,
- **Models Validation Position** - dealing most notably with the model risk management and validation of risk models and assessment.

The risk management process is supported by:

Audit and Risk Committee of the Supervisory Board

The Committee supports the Supervisory Board especially by:

- 1) Monitoring of the financial reporting process,
- 2) Monitoring of the effectiveness of the internal control, internal audit and risk management systems, inclusive of their effectiveness as regards financial reporting,
- 3) Monitoring of financial audit activities, especially an audit carried out by the auditing firm, taking into account all the conclusions and findings of the audit supervision commission resulting from the audit carried out by the auditing firm,
- 4) Controlling and monitoring of the certified auditor's and auditing firm's independence, including but not limited to, when the auditing firm provides other services than an audit.

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

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

Assets and Liabilities Committee

The activities of the ALCO Committee include:

- 1) Managing the market and liquidity risk at ING Bank Hipoteczny S.A.,
- 2) Managing the balance sheet (assets and liabilities), methods and levels of transfer pricing system included,
- 3) Managing the equity and capital adequacy,
- 4) Carrying out the process of valuation of the financial instruments and calculating the valuation adjustments that take into account factors not included in the valuation in the Bank's systems,

- 5) Submitting the market risk and liquidity risk policy and valuations of financial instruments to the Management Board for their final approval,
- 6) Reviewing the internal legal acts on a current basis (once a year at the minimum) and adjusting them to the risk profile of the Bank and/or to the changes in macroeconomic and legal environment.

Credit Policy Committee

The activities of the Committee include:

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

Non-financial Risk Committee

The activities of the Committee include:

- 1) Approving of and advising on:
 - a) internal normative documents of the Bank from the non-financial risk area,
 - b) strategy, plans, projects and programmes related to non-financial risk management and control standards,
 - c) annual plans and results of testing the controls,
 - d) annual Plan of Risk Identification and Assessment and outcome of the Business Environment Assessment and scenario analyses, as well as results of Risk Identification and Assessment in case of identification of unacceptable risks,
 - e) a schedule of tasks execution and a report on monitoring of the second line of defence under testing of key controls,
 - f) NFR dashboards and recommendations for the Management Board concerning decisions on significant NFR issues,

- g) periodical results of the review of the organisational structure of the Bank in terms of its compliance with the principles of the operational risk management,
 - h) a model for calculation of operational, economic and regulatory risks capital for operational risk,
- 2) Supervising of:
- a) the processes of NFR identification, assessment, monitoring and mitigation,
 - b) the process of ensuring quality of the NFR processes.
- 3) Monitoring of the use of limits specified in the Risk Appetite Statement (loss limits included).
- 4) Assessment of:
- a) reports on reputational risk and issues concerning the conduct risk,
 - b) non-financial risks related to significant changes in the structure of management of the Bank and significant elements of the outsourcing processes.

5.29. Credit risk

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

Credit risk of the credit exposures portfolio is managed by:

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

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

- assessing of the client and transaction risk,
- monitoring of a client and a credit transaction, inclusive of monitoring of the value of collaterals,

- determining the mortgage lending value of the real estate and monitoring of the value of collaterals.

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

Under the risk management system, the Bank:

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

Credit risk management objectives are achieved by way of:

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

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

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

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

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

to present indispensable information allowing for assessment of the credit exposure in order to ensure that portfolio development is in line with the risk management strategy and policy of the Bank,

- to measure and assess the risk level in relation to the assumed risk appetite,
- to identify the impaired exposures, or exposures at risk of impairment, in order to set loss provisions,
- to assess adequacy of provisioning,
- to identify weaknesses of the risk management process in order to start recovery actions.

The scope of reporting includes but is not limited to:

- quality of the credit exposures (for instance, DPDs and migration among specific DPD classes, etc.),
- write-offs (provisions) and risk parameters (PD/LGD/EAD),
- use and observance of the adopted limits,
- effectiveness of the process of monitoring of exposures and suing for debt claims,
- non-recovered amounts (credit losses),
- coverage of exposure with collaterals (especially, with the mortgage ones).

The reports may be prepared on a daily, monthly, quarterly or semi-annual basis.

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

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

Utilisation of the credit risk limits is checked at least once a month, and the information about the limit utilisation is conveyed at least to the authority that approved the limit. If the limits are overrun, the reasons thereof as well as remedy activities already taken or planned to be taken must be well described. In the period under examination no RAS limits were overran.

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

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

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

During the first half of 2019, all RAS limits were at acceptable level - none of the high-level or specific credit risk limits was overrun.

Loans and advances for retail clients

The Bank applies impairment losses in accordance with CRR and secondary legislation thereto. The credit portfolio is of very good quality. As at 30 June 2019, no impaired exposure was identified.

Loans and advances for retail clients

	Principal balance - as at 30.06.2019
Credit facilities - stage 1, without identified impairment	1,311,210.9
Credit facilities - stage 2, without identified impairment	6,950.3
Credit facilities - stage 3, with identified impairment	0.0
Total loans	1,318,161.2
Impairment loss - stage 1, without identified impairment	-175.2
Impairment loss - stage 2, without identified impairment	-72.8
Impairment loss - stage 3, with identified impairment	0.0
Total impairment losses	-248.0

Loans and advances for retail clients - without identified impairment

	Principal balance - as at 30.06.2019
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up to 30 days	1,318,161.2
from 31 to 60 days	0.0
from 61 to 90 days	0.0
Total loans	1,318,161.2
up to 30 days	100.0%
from 31 to 60 days	0.0%
from 61 to 90 days	0.0%
Total according to DPDs	100%

Credit risk related adjustments

Definitions of past due and impaired positions used in accounting

For accounting and regulatory purposes, the Bank assumes that the past due positions include major financial assets for which there was a delay in repayment of principal or interest. The days past due are calculated starting from the due date of the oldest due and payable payment and are specified in the agreement signed with the client. The Bank defines materiality of the financial asset for retail amounts due in the amount of PLN 500.

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

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

Any delay in performance of any major credit obligations of the client towards the Bank, parent entity or any other of its subsidiaries in excess of 90 days is a default on the client's part. Definition of default on the client's part is coherent with the definition of impairment.

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

Objective impairment evidence is adjusted to the portfolio specifics and takes into account requirements of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013.

Objective impairment evidence includes occurrence of at least one of the following situations:

- The client has discontinued to repay the principal, pay interest or commissions, with the delay of more than 90 DPD, provided that the amount of arrears is higher than the materiality threshold defined for a given client segment or product.
- Another forbearance has occurred or there is a delay of more than 30 DPD with a "forbearance" status (it does not refer to exposures that as at the moment of granting

- the "forbearance" status were classified as performing ones, and have not been reclassified to the non-performing ones by current).
- Announcement/Approval of the consumer bankruptcy - if they assume that the Bank will not be repaid in full - this situation should refer to all debtors of the specified credit exposure and all exposures of a given client.
 - The credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement.
 - The Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item. For retail credit exposures:
 - amortization of the balance of the principal or/and interest in the total amount exceeding PLN 200, however the debt together with the amortized amount exceed the materiality threshold,
 - writing-off, and the balance amount increased by the written-off amount plus interest exceed the materiality threshold.
 - The Bank initiates the debt enforcement proceedings.
 - The client questions the balance sheet credit exposure in court.
 - The client's whereabouts are unknown so the client is not represented in contacts with the Bank.
 - Significant financial difficulties of the Client, especially restructuring of the non-performing retail credit exposure.

Should an objective evidence of impairment be identified on the exposure, it is assumed that impairment is also recognised on other exposures of the same original account number.

The client's credit exposure is tested for impairment at the monitoring dates in place for the regular and irregular portfolios. Moreover, for the (regular and irregular) credit portfolio of the Bank current monitoring of the timely repayment of the amounts due to the Bank is carried out based on available tools and reports, which makes it possible to identify any threat of future indications or objective evidence of impairment before they crystallize.

The Bank makes provisions for credit exposure impairment in accordance with IFRS 9 for the assets measured at amortised cost (financial assets held to collect contracted cash flows) and assets measured at fair value through other comprehensive income (financial assets held to collect contracted cash flows or to sell).

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

In compliance with IFRS 9, a collective provision is made for individually not significant financial assets (INSFA) if there is evidence of impairment for a single financial assets item or for a group of financial assets as a result of a single event or multiple events of default. INSFA provisions are made for financial assets falling into the risk rating 20, 21, 22. If after the assessment we find that for a given financial assets item there is no evidence of impairment, the item is included in the

group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. For such groups, collective provisions are calculated and, in accordance with IFRS 9, they are defined as provisions for non-impaired assets. Provisions for non-impaired assets are made for financial assets falling into the risk rating 1-19.

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

The method of estimation of provisions applied by the Bank depends on the change in the level of credit risk of a given exposure to the risk level determined at the date on which the credit facility was granted. Based on the change in the credit risk level, exposure is classified to one of three stages differing in the method of calculation of the expected credit loss:

- Stage 1 – covers exposures working without any recognised significant increase in the credit risk since the date on which they were granted. Each loan is in Stage 1 at the time it is granted. A provision is calculated based on a 12-month expected loss.
- Stage 2 – covers exposures working with recognised significant increase in the credit risk since the date on which they were granted. A provision is calculated based on an expected loss within the whole life of the exposure (from the reporting date to the maturity date).
- Stage 3 – covers exposures with recognised impairment (default). A provision is calculated based on an expected loss within the whole life of the asset with PD = 100%.

Measurement of the expected credit loss (EL) according to IFRS 9 requires forecasting of changes in the risk parameters PD, LGD and EAD ($EL = PD \times LGD \times EAD$) in the period from the reporting date to the maturity date, namely within the entire life of the exposure. Forecasting is based on functional dependencies, worked out on historical data, of the changes in risk parameters on the changes in macroeconomic factors. The final level of provisions on exposures in Stage 2 and Stage 3 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

In compliance with IFRS 9, expected loss is calculated as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The current models PD, LGD and EAD, that were build for the needs of calculation of capital requirements with AIRB approach, are still used. However, in order to make provisions in accordance with IFRS 9, parameters of these models were calibrated in line with the PIT (point-in-time) approach and forecasted for 30 years. Parameter EAD takes account of schedules of repayments in accordance with the credit agreements.

Definition of impairment (default) and implications and evidence of impairment remain unchanged.

The Bank identifies a significant risk increase (classification to Stage 2) based on the following signals:

- Material increment in the PD parameter in the full lifetime of the exposure determined as at the reporting date to the PD lifetime as at the date of initial recognition in a perspective of the entire remaining period from the reporting date to the maturity date,
- Granting of forbearance,
- Restructuring without identified impairment – risk ratings 17/18/19,
- Delay in debt repayment in excess of 30 days,
- The Client has a CHF mortgage loan at another bank.

Application of credit risk mitigation techniques

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

Established collaterals play the following role:

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

The Bank identifies tangible collaterals that make it possible to recover debt claims by the Bank should the client default, by way of cashing a certain assets item of the security provider - funded credit protection.

The Bank uses the technique of credit risk mitigation in a form of funded credit protection related to tangible collaterals.

Regulations of the Bank concerning collaterals, include:

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

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

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

Acceptable forms of valuation of collaterals:

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

The following types of documents concerning value of real estates are acceptable:

- expert opinion of the mortgage lending value of the real estate prepared by an authorised employee of the Bank, Simplified expert opinion on the mortgage lending value of the real estate, included.

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

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

Quantitative information about credit risk

Credit risk related adjustments

The following tables show detailed quantitative information about credit risk related adjustments, in accordance with the requirements listed in Article 442 of the Regulation 575/2013 and EBA Guidelines/GL/2016/11:

- EU CR1-A: Credit quality of exposures by exposure class and instrument;
- EU CR1-B: Credit quality of exposures by industry or counterparty type;
- EU CR1-C: Credit quality of exposures by geography – all exposures of ING Bank Hipoteczny S.A. are domestic ones (Poland), and thus a decision was taken not to make a table showing that information;
- EU CR1-E: Non-performing and forborne exposures – as at 30 June 2019, there were no non-performing and forborne exposures at ING Bank Hipoteczny S.A., and thus a decision was taken not to make a table showing that information;
- EU CR2-A: Changes in the stock of general and specific credit risk adjustments;
- EU CR4: Standardised approach – Credit risk exposure and CRM effects;
- EU CR5: Standardised approach.

Credit quality of exposures by exposure class and instrument

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments in a period	Net values (a+b-c-d)
	Exposures in default	Exposures other than exposures in default					
Central governments or central banks		180,193.1					180,193.1
Institutions		369,682.8					369,682.8
Retail		1,117,830.7					1,117,830.7
Secured by a mortgage on immovable property		203,083.8					203,083.8
Other exposures		2,024.7					2,024.7
Standardised Approach Total		1,872,815.1					1,872,815.1
Total		1,872,815.1					1,872,815.1
Including: Loans		1,690,597.3					1,690,597.3
Including: Debt securities		177,709.6					177,709.6

Credit quality of exposures by industry or counterparty types

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments	Net values (a + b - c - d)
	Exposures in default	Exposures other than exposures in default					
Financial and insurance business		369,682.8					369,682.8
Public administration and defence; mandatory social security		180,193.1					180,193.1
Others*		1,322,939.2					1,322,939.2
Total		1,872,815.1					1,872,815.1

* Including PLN 1,320,900 of exposures on retail clients (natural persons).

Changes in the stock of general and specific credit risk adjustments

	a)	b)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	0.0	
Increases resulting from the amounts written down for credit loss estimates in the period		-254.8
Closing balance*	-254.8	

*) Balance as at 30.06.2019 includes changes in adjustments for the first half of 2019. Calculation of RWA takes into account provisions as at 31.12.2018; ING Bank Hipoteczny S.A. did not carry out any operations at that period.

Standardised approach – credit risk exposure and CRM effects

Categories of exposures	a)	b)	c)	d)	e)	f)
	Exposures prior to application of the credit conversion factors and mitigation of the credit risk		Exposures after application of the credit conversion factors and mitigation of the credit risk		Risk weighted assets and their concentration	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	Risk weighted assets	Concentration of risk-weighted assets
Central governments or central banks	180,193.1		180,193.1		6,208.8	3%
Institutions	369,682.8		369,682.8		73,936.6	20%
Retail	1,117,830.7		1,117,830.7		838,373.0	75%
Secured by a mortgage on immovable property	203,083.8		203,083.8		71,079.3	35%
Other items	2,024.7		2,024.7		2,024.7	100%

Total	1,872,815.1	0.0	1,872,815.1	0.0	991,622.4	53%
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Standardised approach - risk weights

Categories of exposures	Risk weight						Total
	0%	20%	35%	75%	100%	250%	
Central governments or central banks	177,709.6					2,483.5	180,193.1
Institutions		369,682.8					369,682.8
Retail				1,117,830.7			1,117,830.7
Secured by a mortgage on immovable property			203,083.8				203,083.8
Other items					2,024.7		2,024.7
Total	177,709.6	369,682.8	203,083.8	1,117,830.7	2,024.7	2,483.5	1,872,815.1

5.30. Funding and liquidity risk

Funding and liquidity risk is understood by the Bank as the risk of inability to meet, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that its cash liabilities could be paid at all times from the available funds and inflows from maturing transactions, available funding sources at market prices or from sale of marketable assets. Liquidity risk is material for the Bank.

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

The Bank Management Board is responsible for:

- formulating the strategy for funding and liquidity risk, a target liquidity position, its funding methods and the liquidity risk profile,
- establishing the acceptable level of risk (risk appetite), liquidity risk tolerance and submitting it for the Supervisory Board approval,
- approving the liquidity and funding risk management policy and significant amendments thereto; in particular, the limits tailored to the overall acceptable level of risk approved by the Supervisory Board,
- ensuring allocation of relevant human and IT resources in order to realise the liquidity risk management process.

Structural liquidity risk is transferred to Treasury and managed there. Treasury is responsible for operational management of the short-term liquidity.

Assets and Liabilities Committee (ALCO) oversees and monitors the liquidity risk level and the funding structure of the Bank. ALCO manages the liquidity buffer under relevant limits approved by the Management Board; operational activities in this respect are delegated to Treasury.



The Bank uses the following liquidity risk measures:

- supervisory liquidity norms of the National Bank of Poland (M3, M4),
- liquidity coverage ratio (LCR),
- net stable funding ratio (NSFR),
- structural liquidity gap,
- survival period in stress situation.

In the first half of 2019, the Bank identified no exceeded liquidity risk limits. As at 30 June 2019, the core liquidity measures were at the following levels:

Risk measure	As at 30.06.2019	Supervisory limit
M3	68.68	> 1
M4	1.05	> 1
LCR	149%	> 100%

From time to time, the Bank makes projections of the main liquidity risk measures, especially each time before acquiring a mortgage debt claims portfolio.

As at 30 June 2019, the acquisition of the debt claims portfolio is funded mostly with a loan granted by the parent company. The first issue of covered bonds is planned for September 2019.

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

5.31. Market risk

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

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

Market risk is transferred to Treasury where it is managed within the approved limits.

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

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

In the first half of 2019, the Bank identified no exceeded interest rate risk limits. As at 30 June 2019, the core measures were at the following levels:

Risk measure	As at 30 June
BPV	17.6
NIIaR	436.0
EVEaR to own funds	0.49%

The Bank does not hold significant positions in foreign currencies. As at 30 June 2019, the FX risk is deemed non-material.

5.32. Model risk management

In accordance with the model risk definition adopted by the Bank, the model risk is the potential loss that the Bank may incur as a result of decisions which may have substantially been based on data obtained using models in the Bank internal processes, due to errors in the development, implementation or application of such models.

The model risk management process at ING Bank Hipoteczny S.A. is compliant with the solutions applied in ING Group, keeping in mind the scale and profile of the operations of the Bank.

The models used in the Bank were subject to quarterly reviews and assessment of the exposure to model risk, as well as to model significance reviews. Model validation was carried out as planned, and validation reports were presented to relevant Committees dedicated to specific models. Cyclical validation reports were presented at the meetings of the Bank Management Board and Supervisory Board.

In the first half of 2019, aggregated model risk was below the tolerance level adopted by the Bank for that risk type.

5.33. Operational risk

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

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

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

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

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

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

In the first half of 2019, non-financial risk was at an acceptable level and its distribution results from the already started risk identification and assessment (RIA) cycle and a relatively short period of operation of ING BH. In that period, ING Bank Hipoteczny S.A. did not reported any operational risk losses.

The level of operational risk is reported on a regular, monthly basis under the cyclical management information with the Non-Financial Risk Dashboard (NFRD) presented at the meetings of the Non-Financial Risk Committee (NFRC) composed of all Members of the Management Board of ING Bank Hipoteczny.

For the needs of regulatory capital requirement, ING Bank Hipoteczny S.A. uses now the BIA approach for operational risk.

The limit for expected non-financial risk loss (ELT) projected in Risk Appetite Statement (RAS) for 2019 was used in 32% by the end of the first half of 2019. The level of recommendations identified in the risk identification and assessment process does not exceed the acceptable one. In the first half of the year, there were no losses due to operational risk incidents.

The Management Board takes actions when the level of operational risk in ING BH is high or critical.

Improving our organisational maturity, we perfect solutions and systems to ensure broadly understood security in ING BH.

Operations of ING BH include also outsourcing of some activities to third parties.

A major example thereof are activities outsourced to ING Bank Śląski S.A., which is specially monitored in terms of the quality of provided service and the risks related thereto, inclusive of business continuity risk.

Outsourcing makes it possible to reduce the risk by transferring some banking activities to another institution that has greater experience and better infrastructure to carry out these operations due to the scale of its own business. ING BH is responsible for outsourced activities as if they were performed by ING BH itself, and the decisions about outsourcing and method of outsourcing are taken by ING BH.

Now, ING BH is preparing itself to ensure compliance with the new guidelines of the European Banking Authority (EBA) as regards outsourcing (EBA Draft Guidelines on outsourcing arrangements) that are taking effect as at 30 September 2019.

5.34. Compliance Risk

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

- a) non-compliance resulting from non-implementation of the requirements of external regulations on financial institutions in the Bank's internal regulations; this regards universally applicable laws, recommendations of the regulators, court orders and decisions binding for the Bank under law, accepted codes of conduct,
- b) non-compliance resulting from ineffective controls defined in bank policies and procedures in high-level compliance risk areas, including within the operations of the Compliance Area,
- c) other identified non-compliance concerning universally applicable laws on financial institutions.

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

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

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

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

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

As the Bank started its operations in January 2019, any activities taken in order to mitigate the compliance risk in the Bank were focused mostly on identification and assessment of the risk generated in key processes of the Bank, inclusive of assessment of adequacy of adopted controls, taking into account changes in business, regulatory and legal landscape, starting awareness and training programmes, as well as reporting on identification of gaps (also under current verification activities) and activities taken in conjunction therewith.

5.35. Business risk

The Bank identifies macroeconomic risk as major business risk. Identification of the macroeconomic risk is to secure the Bank against any adverse change in macroeconomic situation. The Bank monitors the macroeconomic landscape on a current basis and adjusts its business strategy. Financial projections take into account the changing market parameters. To determine its sensitiveness to the change in macroeconomic parameters, the Bank uses stress tests.

5.36. Capital management

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

Capital management at ING Bank Hipoteczny S.A. is to make possible and facilitate development of the Bank in accordance with the accepted strategy and business model, while keeping, on an ongoing basis, its own funds on the level adequate to the scale and profile of risk inherent in the Bank's operations, taking into account supervisory requirements. Furthermore, it makes it possible to manage the capital actively, keeping in mind volume and dynamics of current and future changes.

The main objective of this process is to have sufficient and effective capitalisation of the Bank to effect its business strategy and development plans specified in the financial plans, while meeting at the same time all internal and external capital requirements. It stands for financial flexibility in the present and future landscape in order to adjust to the changing market and regulatory conditions. To this end, the capital management activities apply any available capital instruments and transactions both in the baseline scenario as well as in the adverse scenario.

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

This management includes:

- **Pillar 1:** minimum capital requirements provided for in the regulations,
- **Pillar 2:** internal capital, determined with the Bank's own models, for the risk types deemed to be material and permanently material.

Under capital management, the Bank:

- a) plans internal capital and capital requirement as well as own funds,
- b) sets internal limits in order to curtail the generated capital requirements and internal capital,
- c) monitors potential threats to capital adequacy,
- d) identifies and assesses materiality of the risk types inherent to its operations,
- e) takes actions in order to assess and monitor internal capital, capital requirement and own funds,
- f) allocates internal capital,
- g) effects dividend policy resulting from a long-term capital objective and preferred capital structure,
- h) prepares capital contingency plans that define actions to be taken in case of a threat of decrease capital adequacy below "unacceptable" 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 2019, the total capital ratio of the Bank was 25.78%.

Disclosures concerning Pillar 2: internal capitals were presented in the Management Board Report on Operations of ING Bank Hipoteczny S.A.

5.37. Total capital ratio

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

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

- credit risk – with standardised approach,
- credit valuation adjustment (CVA) risk – with standardised approach,
- settlement and supply risk – with standardised approach,
- operational risk – with basic indicator approach (BIA),
- market risk (FX risk) – with basic approach.

In January 2019, the Regulator granted a permit to the Bank to run its business and thus the table below does not show any comparable values for earlier periods.

As at 30 June 2019, the Bank recognised zero values for the own funds requirements in relation to the credit valuation adjustment, settlement and supply and market risks. Having regard to the above, as at the date of this report, the total requirement for own funds consisted of the credit risk and operational risk requirements.

	as at 30.06.2019
Own funds	265,923.1
A. Equity capitals from the statements of financial position,¹⁾ including:	268,260.4
A.I. Equity capitals recognised under own funds, including	268,260.4
<i>Share capital</i>	210,000.0
<i>Supplementary capital – share premium</i>	69,570.5
<i>Supplementary capital – result from previous years, and</i>	-7,379.4
<i>Result for the current period</i>	-3,636.6
<i>Accumulated other comprehensive income – securities measured at fair value through other comprehensive income¹⁾</i>	16.0
<i>Accumulated other comprehensive income – actuarial gains and losses¹⁾</i>	-310.1
B. Other components (decreases and increases) of own funds, including:	-2,337.3
<i>Intangible assets</i>	-2,312.6

Accumulated other comprehensive income - value adjustment due to the requirements for prudent valuation ¹⁾	-24.8
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	265,923.1
Tier 1 capital	265,923.1
Risk weighted assets, including:	1,031,652.4
credit risk weighted assets	991,622.4
operational risk weighted assets	40,030.0
Total capital requirements	82,532.2
Total capital ratio (TCR)	25.78%
minimum required level	8%
excess TCR (p.p.)	183,390.9
Tier 1 ratio (T1)	25.78%
minimum required level	6%
excess T1 (p.p.)	204,024.0
Common Equity Tier 1 ratio (CET1)	25.78%
minimum required level	4.5%
excess CET1 (p.p.)	219,498.7

1) Value of equity from the statement of financial position differs from the value stated in items A and A.I. of this note by PLN 24,800 because of the presentation of the value adjustments due to the requirements for prudent valuation (the so called AVA) in item B of this note.

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

	Gross value of exposures	Net value of exposures ²⁾	Risk weighted assets (RWA)	Requirement for own funds
Exposures to central governments and central banks	180,186.8	180,186.8	6,208.8	496.7
Exposures to institutions	369,682.8	369,682.8	73,936.6	5,914.9
Retail exposures ¹⁾	1,117,830.7	1,117,830.7	838,373.0	67,069.8
Exposures secured by mortgages on immovable properties	203,083.8	203,083.8	71,079.3	5,686.3
Other exposures	2,024.7	2,024.7	2,024.7	162.0
Total	1,872,808.8	1,872,808.8	991,622.4	79,329.8

¹⁾ Exposures that are not fully secured as they are in the transitional period, that is until a security is established or they exceed 80% of the mortgage lending value of the real estate.

²⁾ Value of balance sheet exposures and equivalent of the balance sheet liabilities and contingent transactions, taking into account specific credit risk adjustments.

5.38. Capital buffers

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

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

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

- capital conservation buffer of 2.5%,
- countercyclical capital buffer of 0% for credit exposures within the territory of the Republic of Poland,
- buffer of other systemically-important institution specified in individual decision of the Polish Financial Supervision Authority. PFSA did not consider ING Bank Hipoteczny SA to be the other systemically-important institution and thus there is no obligation to maintain any capital add-on for that,
- systemic risk buffer of 3%.

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

The Bank is not under obligation to keep capital add-on.

5.39. Leverage

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

The excessive financial leverage risk is understood as the risk resulting from an institution's vulnerability to the threats attributable to leverage, which may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustment of its remaining assets.

Leverage Ratio (LR) means a relative size of the Bank's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding

obligations which can only be enforced during the liquidation of the Bank, compared to the Bank's own funds.

The Bank calculates the leverage in accordance with CRR.

Leverage ratio is subject to monitoring on a current basis. The Bank assumes that the ratio higher than 5% is safe and does not require taking any additional actions.

As at 30 June 2019, the leverage ratio was above the 3% level recommended for the banks by the Basel Committee and above the internally set limit.

Leverage

	As at 30.06.2019
L Leverage ratio (LR)	14.12%

These interim condensed financial statement of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 30 June 2019 have 76 consecutively numbered pages.

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

13 August 2019 **Mirosław Boda**
President of the Management Board

.....

13 August 2019 **Jacek Frejlich**
Vice-President *of* *the* *Management* *Board*

.....

13 August 2019 **Roman Telepko**
Vice-President *of* *the* *Management* *Board*

.....

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

13 August 2019 **Agnieszka Kukuczka**
Chief Accountant

.....

REPORT OF AN INDEPENDENT STATUTORY AUDITOR ON THE REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SHAREHOLDERS AND SUPERVISORY BOARD OF ING BANK HIPOTECZNY S.A.

Introduction

We have carried out a review of the enclosed interim condensed financial statements of ING Bank Hipoteczny S.A. with its registered office in Katowice, ul. Chorzowska 50, hereinafter referred to as the “Bank” which comprises a condensed statement of financial position as at 30 June 2019, a condensed statement of comprehensive income for the period from 1 January 2019 to 30 June 2019, a condensed statement of changes in equity for the period from 1 January 2019 to 30 June 2019, a condensed cash flow statement for the period from 1 January 2019 to 30 June 2019 and additional explanatory notes (“interim condensed financial statements”).

The entity’s manager is responsible for preparation and presentation of the interim condensed financial statements in accordance with the requirements of the International Accounting Standard 34 *Interim Financial Reporting* announced in a form of regulations of the European Commission.

We are responsible for drawing a conclusion about the interim condensed financial statements based on the review carried out by us.

Scope of the review

We have carried out the review in accordance with the Domestic Review Standard 2410 following the International Standard of Review Services 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* that was adopted with the resolution of the National Council of Statutory Auditors.

Review of financial statements is carried out by directing questions, most of all, to persons responsible for financial and accounting matters, carrying out analytical procedures as well as other review procedures and by assessing obtained evidence.



The scope of a review is significantly narrower than the scope of an audit carried out in line with the National Auditing Standards following the International Auditing Standards. Due to that, the review does not give surety that all important matters have been disclosed which would be identified during an audit. Thus, we do not express our audit opinion about these interim condensed financial statements.

Conclusion

Based on the carried out review, we state that we have observed nothing which would make us think that the enclosed interim condensed financial statements were not prepared in all material aspects in accordance with the requirements of the International Accounting Standard 34 *Interim Financial Reporting* announced in a form of regulations of the European Commission.

BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw entered on the list of auditing firms under number 3355

on behalf of which a statutory auditor carried out a review of the financial statements

	Signed by: Michał Tomczyk Date: 13 August 2019 at 13:43		Signed by: Andre Helin Date: 13 August 2019 at 16:51
Michał Tomczyk Statutory Auditor, Register No. 13503 Warsaw, on 13 August 2019		dr Andre Helin CEO Statutory Auditor, Register No. 90004	

BANK

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Poland

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