Assessment of the ING Bank Śląski S.A. Group’s Operations in 2021 prepared by the Supervisory Board

In 2021, the Polish economy experienced a strong rebound (5.7% growth) after a pandemic recession and a 2.5% fall in the GDP in 2020. The dynamic growth in private consumption (6.2%), supported by a strong growth in wages and social benefits, and the rebound in investment (8%) were accompanied by a high contribution from the change in inventories (~2.6 percentage points) and a negative impact from net exports (-1.9 percentage points). In dynamic terms, the Polish economy gained momentum in 2021, demonstrating its resilience to the next waves of the COVID-19 pandemic. This has been linked to increasing collective immunity to coronavirus infection through vaccination or due to previous COVID-19 outbreaks. In Q4 2021, economic growth reached 7.3% y/y, one of the best results ever.

The strong economic situation at the end of the year translated into high inflationary pressure also on the demand side; during the year the sources of inflation were mainly on the supply side and resulted from rising energy and food prices and shortages of e.g. chips or production components due to disruptions in global supply chains. In December 2021, inflation was 8.6% y/y, with average inflation for the year as a whole reaching 5.1% after 3.4% in 2020.

The National Bank of Poland has responded to rising inflationary pressures since October 2021, when the first hike was made in a monthly cycle of increases lasting at least until February 2022, when the reference rate reached 2.75%. Other countries in the region – the Czech Republic and Hungary – started raising interest rates as early as mid-2021. Previously, the NBP had gradually phased out its asset purchase programme, and at the end of the year the programme was stopped altogether. The NBP has also increased its tolerance to a strengthening of the zloty, which could support an anti-inflationary policy and lower inflation to the upper band of deviations from the inflation target, i.e. 3.5% in the medium term. In late 2021, the government decided to activate the anti-inflationary shield through temporary indirect tax cuts aimed at easing high inflationary pressures in late 2021 and early 2022.

In 2021, the banking sector recorded a very good year in terms of mortgage sales, for example. Businesses and their financing needs also improved – clearly visible in leasing and factoring products. After the MPC cut interest rates three times in 2020, we saw them rise three times in 2021. The reference rate as at 2021 yearend was above the pre-pandemic level (1.75% versus 1.50%). As the interest rate rises took place in Q4, however, their impact on the sector's results will not be fully visible until 2022.

Following the proposal of the Chairman of the PFSA, banks have made available a settlement path for their clients in the field of foreign currency mortgages with the support of the Court of Arbitration at the PFSA. One of the banks that decided to take this step was ING Bank Śląski. Some banks have also chosen to implement their own mediation models. Nevertheless, 2021 was another year marked by banks making provisions for the legal risks associated with this loan portfolio.

As a result of factors affecting the Polish economy and the banking sector in 2021, the ING Bank Śląski S.A. Group achieved a net profit of PLN 2,308.3 million, a marked improvement on 2020 (+72.6% y/y). This is a very good result compared to the sector, which posted a net profit of PLN 8.8 billion in 2021, after a net loss of PLN 0.3 billion a year earlier. This higher net profit in the ING Bank Śląski S.A. Group is mainly a consequence of a significantly lower level of the Group's risk costs, down by 61% y/y to PLN 316.0 million, and lower provisions for legal risk of FX mortgage loans (PLN 56.4 million vs. 270.3 in 2020). Consequently, the provision coverage ratio of Stage 3 loans and other receivables and POCI improved y/y by 4.5 p.p. to 65.2%; and the level of coverage of foreign currency mortgage loans by legal risk provisions is the highest in the sector (41.2% at 2021 yearend). It is worth noting that the Group's operating result before the cost of risk increased by 13% y/y to PLN 3,932.4 million, thanks to higher revenue dynamics (+11% y/y) than operating cost dynamics (+7% y/y). The improvement in the Group's income was due to both improved net interest income (+9% y/y) and net fee and commission income (+21% y/y). On the other hand, the Group's operating costs increased by 7% y/y, including own costs by 10% y/y, with regulatory costs (BGF and PFSA) falling by 13% y/y. Finally, as a consequence of the increase in total assets (+8% y/y), the cost of the so-called bank tax was also higher (+13% y/y).

The Supervisory Board oversees the activities of the Company, ensuring compliance with the relevant laws and regulations concerning accounting, finance and reporting by public companies. The Supervisory Board is also responsible for overseeing processes relating to the management of individual risks in ING Bank Śląski S.A. with the support of the Risk Committee and the Audit Committee. On the basis of the recommendations of these Committees, the Supervisory Board accepts and approves the risk management strategy for the Bank's operations, the main principles of the policy in this respect, as well as the risk appetite. In addition, the Supervisory Board monitors the level of utilisation of internal limits from the perspective of the Bank's current strategy.

The Risk Committee supports the Supervisory Board in monitoring the risk management process, including for the operational (non-financial) risk, liquidity risk, credit risk and market risk. Further, the Committee oversees the risk management process as well as the process of internal capital estimation, the capital adequacy and the risk of capital- and other models. The Committee expresses its opinion on the Bank's overall risk appetite in the current and long term.

Monitoring the financial reporting process is the responsibility of the Audit Committee. In this context, the Audit Committee periodically reviews the Bank's financial statements and the results of the audit of these statements, and the Chair of the Audit Committee – who is also an independent member of the

Board – holds regular meetings with the Vice-President of the Management Board supervising the CFO Division, during which she reviews the Bank's interim financial results prior to their publication. The Audit Committee also analyses the deliverables of the entity authorised to audit the financial statements, ensuring that it is independent and effective. In addition, the Audit Committee monitors the adequacy and effectiveness of the internal control system and internal audit, and assesses the effectiveness of measures used to mitigate risk, including compliance risk, and the quality of risk management.

The Supervisory Board also has a Remuneration and Nomination Committee, which monitors, among other things, the labour market situation in terms of remuneration, employee turnover processes, succession plans and the results of employee satisfaction surveys. The Committee regularly monitors the remuneration system of the Bank, including the pay and bonus policy. In 2021, the Remuneration and Nomination Committee, with the involvement of an external company, conducted the process of collective suitability assessment of the Audit Committee. Due to the protracted absence of the Chair of the Supervisory Board and the Audit Committee, the Committee identified the need for changes in the composition of the Supervisory Board and subsequently made a recommendation to the Supervisory Board. The Committee conducted a process of individual assessment of candidates for the Supervisory Board and collective assessment of the Supervisory Board, a process of individual assessment of the candidate for the Chair of the Supervisory Board, and a process of individual assessment of candidates for the Audit Committee and collective assessment of the Audit Committee, making appropriate recommendations to the Supervisory Board.

Furthermore, the Committee also carried out a suitability assessment of the candidate for the new member of the Bank Management Board – the Vice-President of the Bank Management Board responsible for the COO Division – and a collective assessment of the Management Board including the newly appointed Member of the Management Board based on the results of the suitability assessment carried out by an external entity and decided to recommend to the Supervisory Board the appointment of the new member of the Management Board. In addition, in connection with the change in the responsibilities of the Board Member, the Committee also carried out a suitability assessment of the Vice-President of the Management Board supervising the COO Division and a collective suitability assessment of the Bank Management Board.

The Supervisory Board assesses that the risk management system in ING Bank Śląski S.A Group is adequate and effective. It covers all relevant risks and the processes for identifying, measuring, managing and reporting them use risk-specific instruments and techniques. The main objectives of the risk management system were achieved in 2021 and the independence of the organisational units handling risk management was ensured as well as adequate human resources necessary for the effective performance of these units. In 2021, ING Bank Śląski S.A. complied with all safe harbour and capital adequacy requirements, in particular:

- pursuing a prudent lending policy. Lending processes and procedures were in line with supervisory requirements and best practices in the market. In 2021, the Bank took into account in its lending policy the situation prevailing in the economy and applied stricter procedures for the industries at increased risk. The Bank had a diversified loan portfolio with a significant proportion of high quality loans to businesses. At the Bank Group level, Stage 3 loan receivables represented 2.6% of total gross exposure (measured at amortised cost), which is significantly less than the average for the banking sector as a whole (5.4%);
- having procedures and systems in place to meet the highest market standards in the area of market risk management (including interest rate and currency risk). During 2021, the various categories of market risk were actively managed so that their level remained within the Bank's limits. The Bank has a currency-balanced balance sheet structure, *inter alia* characterised by a low share of foreign currency receivables in total mortgage receivables;
- maintaining a good liquidity position. As at 2021 yearend, the loan-to-deposit ratio stood at 85.9%. The Group's strong liquidity position is due to one of the largest – and steadily growing – stable household deposit bases among Polish banks;
- managing effectively operational risk, including model risk, meeting market standards in this regard, and
- having adequate level of own funds to meet the supervisory requirements. In December 2021, the total capital ratio of the ING Bank Śląski S.A. Group was 15.08% and the Tier 1 capital ratio was 13.47%.

In 2021, ING Bank Śląski S.A. also improved its model risk management process, taking into account the recommendations made by the PFSA during the inspection carried out at the beginning of 2021. In addition, the Bank's internal control system sufficiently adequately and effectively protects the Bank against unexpected events as regards granted financing, non-financial risk, market risk, liquidity or capital adequacy. This system covers all the Bank's business units and all three lines of defence. For the purpose of compliance with laws, supervisory requirements, internal regulations and market standards, decisive corrective actions were planned and taken for the weaknesses identified. The Bank has a formalised path for reporting the scale and nature of identified irregularities and the status of corrective actions and disciplinary measures taken. Corrective and disciplinary actions are implemented in a timely and effective manner. The independence of the Internal Audit Department and the Centre of Expertise –

Compliance is ensured as well as adequate human resources necessary for the effective performance of tasks by these units.

Despite the expected robust rebound in economic growth and increasing COVID-19 vaccination rates, 2021 is still largely influenced by pandemic developments in Poland and globally. Therefore, the Supervisory Board is of the opinion that the Bank should continue to focus on the measures that enhance the safety of the Bank, its employees and its clients and ensure accessibility and competitiveness in terms of products and client service quality, such as:

- adequate capital management to ensure safe credit growth as well as to meet all current and future regulatory requirements;
- further development of the product range and electronic service channels. Under the conditions of ongoing pandemic and intense competition, the opportunity for revenue growth lies in expanding the client base by winning new clients and increasing the loyalty of existing clients. Such policies lead to higher client balances and increased transaction flows;
- increasing lending, while maintaining a prudent assessment of client risk. This approach will contribute to maintaining the high quality of the portfolio and to increasing interest income;
- maintaining an adequate level of stable deposits. This will provide the necessary liquidity for lending growth;
- continuing to improve cost efficiency while maintaining high process quality through optimal use of existing resources and the benefits of increased scale of operations.

The Supervisory Board is of the opinion that the existing strategy of scaling up the operations of the Bank over recent years has proved successful, as evidenced by the financial and commercial results achieved. The success of the strategy so far justifies the Bank's intention to continue it in the next year while maintaining an adequate level of capital.

Certainly, in the light of the ongoing Ukrainian-Russian conflict, 2022 will bring about more uncertainty and the perspectives of economic growth in Poland and Europe will be adjusted considerably. We will have to face new challenges. Slump in foreign trade with Russia and Ukraine and deterioration of consumer and company moods which will make them cut down spending and hamper domestic demand will negatively impact the GDP of Poland.