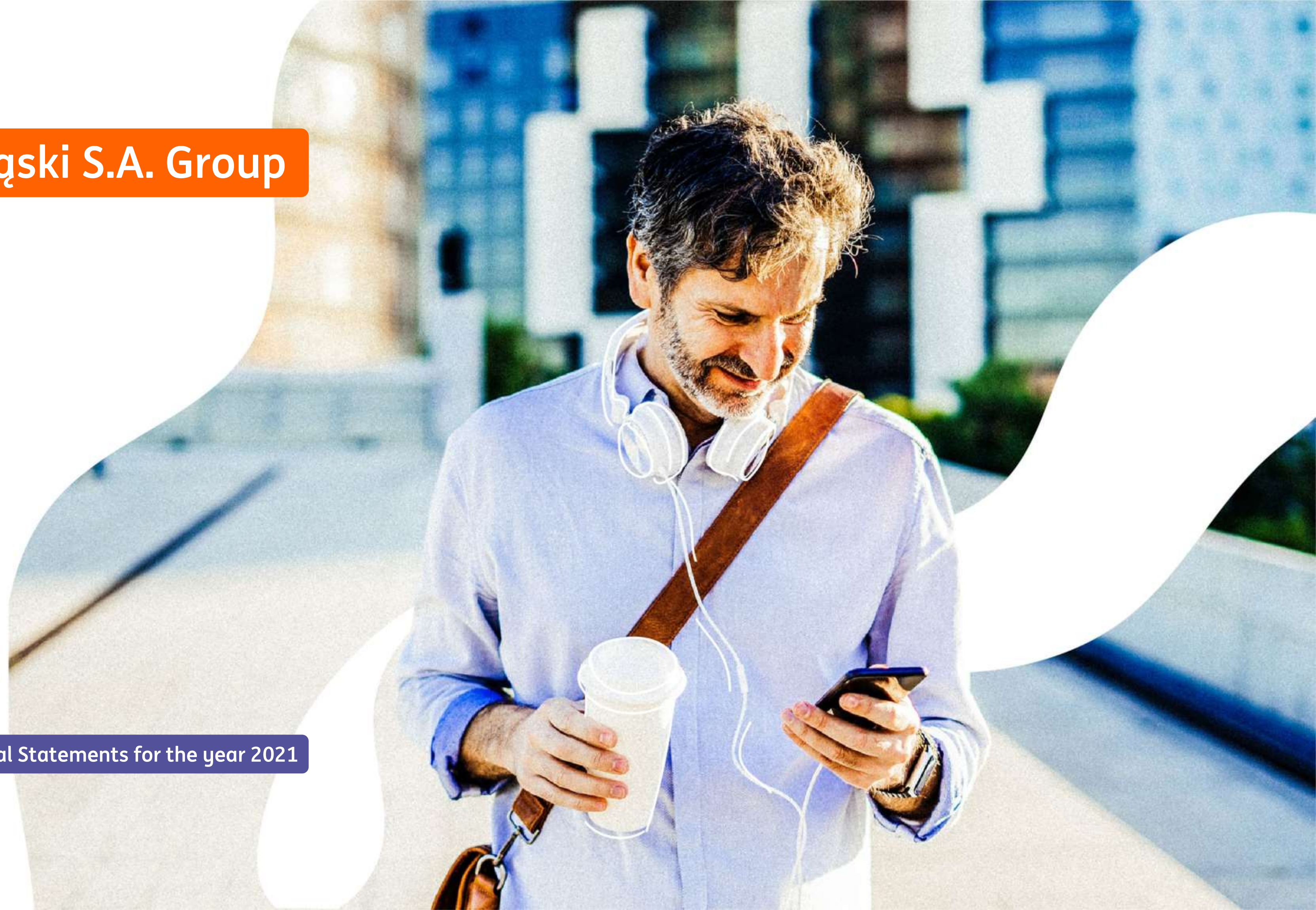


ING Bank Śląski S.A. Group

in 2021

Annual Consolidated Financial Statements for the year 2021





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Consolidated income statement

for the year ended 31 December

	Note	2021	2020
Interest income	2	5,432.4	5,246.9
calculated using effective interest rate method	2	5,431.7	5,244.1
other interest income	2	0.7	2.8
Interest expenses	2	462.7	705.1
Net interest income	2	4,969.7	4,541.8
Commission income	3	2,325.0	1,963.5
Commission expenses	3	480.2	435.1
Net commission income	3	1,844.8	1,528.4
Net income on financial instruments measured at fair value through profit or loss and FX result	4	64.3	103.5
Net income on the sale of securities measured at amortised cost	5	2.8	7.3
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	5	38.4	31.1
Net (loss)/income on hedge accounting	6	-52.5	11.5
Net (loss)/income on other basic activities	7	0.1	-9.0
Net income on basic activities		6,867.6	6,214.6
General and administrative expenses	8	2,964.5	2,762.5
Impairment for expected credit losses	9	316.0	804.6
including profit on sale of receivables		61.6	4.1
Cost of legal risk of FX mortgage loans	10	56.4	270.3
Tax on certain financial institutions	11	544.7	481.6
Share of profit/(loss) of associates accounted for using the equity method	22	29.3	16.1
Gross profit		3,015.3	1,911.7
Income tax	12	707.0	574.1
Net profit	13	2,308.3	1,337.6
attributable to shareholders of ING Bank Śląski S.A.		2,308.3	1,337.6

The consolidated income statement should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.

	2021	2020
Net profit attributable to shareholders of ING Bank Śląski S.A.	2,308.3	1,337.6
Weighted average number of ordinary shares	130,100,000	130,100,000
Earnings per ordinary share (in PLN)	17.74	10.28

The diluted earnings per share are the same as the profit per one ordinary share.



Consolidated statement of comprehensive income

for the year ended 31 December

	Note	2021	2020
Net profit for the period		2,308.3	1,337.6
Total other comprehensive income, including:	34.2	-6,732.1	2,057.4
Items which can be reclassified to income statement, including:		-6,748.3	2,029.9
debt instruments measured at fair value through other comprehensive income – gains on revaluation carried through equity		-248.1	102.8
debt instruments measured at fair value through other comprehensive income – reclassification to financial result due to sale		-25.7	-18.3
cash flow hedging – gains on revaluation carried through equity		-5,566.7	2,562.5
cash flow hedging – reclassification to profit or loss		-907.8	-617.1
Items which will not be reclassified to income statement, including:		16.2	27.5
equity instruments measured at fair value through other comprehensive income – gains on revaluation carried through equity		22.3	30.9
fixed assets revaluation		-0.3	0.0
actuarial gains/losses		-5.8	-3.4
Net comprehensive income for the reporting period		-4,423.8	3,395.0
attributable to shareholders of ING Bank Śląski S.A.		-4,423.8	3,395.0

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.



Consolidated statement of financial position

as at		Note	31 Dec 2021	31 Dec 2020	01 Jan 2020
Assets					
Cash in hand and balances with the Central Bank		14	1,100.0	867.3	1,402.9
Loans and other receivables to other banks		15	704.8	704.6	798.5
Financial assets measured at fair value through profit or loss		16, 17, 21	1,538.3	1,817.6	1,303.3
Derivative hedge instruments		18	250.4	1,194.8	851.6
Investment securities		19, 21	45,584.4	54,170.6	33,794.2
Loans and other receivables to customers measured at amortised cost		20	146,536.0	124,655.3	118,127.8
Transferred assets		21, 16, 19	2,280.9	963.0	111.5
Investments in associates accounted for using the equity method		22	184.8	174.1	181.0
Property, plant and equipment		23	831.2	913.1	956.0
Intangible assets		24	377.4	426.6	429.9
Current income tax assets		12	734.5	2.7	0.0
Deferred tax assets		25	1,245.0	423.2	445.6
Other assets		26	286.5	282.8	208.4
Other assets			201,654.2	186,595.7	158,610.7

The consolidated statement of financial position shall be read in conjunction with the notes to consolidated financial statements being the integral part thereof.

as at		Note	31 Dec 2021	31 Dec 2020	01 Jan 2020
Liabilities					
Liabilities to other banks		27	10,051.0	8,228.0	6,256.1
Financial liabilities measured at fair value through profit or loss		28, 17	1,679.6	1,530.8	915.1
Derivative hedge instruments		18	235.4	558.5	546.0
Liabilities to customers		29	170,609.9	151,028.5	130,473.5
Liabilities from debt securities issued		30	972.4	1,370.5	399.7
Subordinated liabilities		31	1,610.3	2,309.2	2,131.1
Provisions		32	336.9	256.3	205.7
Current income tax liabilities		12	3.9	389.6	381.3
Other liabilities		33	2,623.4	2,306.0	2,078.9
Total liabilities			188,122.8	167,977.4	143,387.4
Equity					
Share capital		34.1	130.1	130.1	130.1
Share premium		34.3	956.3	956.3	956.3
Accumulated other comprehensive income		34.2	-2,821.0	3,923.4	1,867.3
Retained earnings		34.3	15,266.0	13,608.5	12,269.6
Equity attributable to shareholders of ING Bank Śląski			13,531.4	18,618.3	15,223.3
Non-controlling interests			0.0	0.0	0.0
Total equity		13	13,531.4	18,618.3	15,223.3
Total equity and liabilities			201,654.2	186,595.7	158,610.7



Consolidated statement of changes in equity

for the year ended 31 December 2021

Note: 34

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	3,923.4	13,608.5	18,618.3
Profit for the current period	-	-	-	2,308.3	2,308.3
Other net comprehensive income, including:	0.0	0.0	-6,744.4	12.3	-6,732.1
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	-225.8	-	-225.8
debt securities measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-25.7	-	-25.7
sale of equity instruments measured at fair value through other comprehensive income	-	-	-7.1	7.1	0.0
cash flow hedging – gains/losses on revaluation carried through equity	-	-	-5,566.7	-	-5,566.7
cash flow hedging – reclassification to profit or loss	-	-	-907.8	-	-907.8
fixed assets revaluation	-	-	-0.3	-	-0.3
disposal of fixed assets	-	-	-5.2	5.2	0.0
actuarial gains/losses	-	-	-5.8	-	-5.8
Other changes in equity, including:	0.0	0.0	0.0	-663.1	-663.1
valuation of share-based payments	-	-	-	0.4	0.4
dividend payment	-	-	-	-663.5	-663.5
Closing balance of equity	130.1	956.3	-2,821.0	15,266.0	13,531.4



for the year ended 31 December 2020

Note: 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	1,867.3	12,269.6	15,223.3
Profit for the current period	-	-	-	1,337.6	1,337.6
Other net comprehensive income, including:	0.0	0.0	2,056.1	1.3	2,057.4
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	133.7	-	133.7
debt securities measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-18.3	-	-18.3
cash flow hedging – gains/losses on revaluation carried through equity	-	-	2,562.5	-	2,562.5
cash flow hedging – reclassification to profit or loss	-	-	-617.1	-	-617.1
disposal of fixed assets	-	-	-1.3	1.3	0.0
actuarial gains/losses	-	-	-3.4	-	-3.4
Closing balance of equity	130.1	956.3	3,923.4	13,608.5	18,618.3

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.



Consolidated cash flow statement

for the year ended 31 December

	Note	2021	2020
Net profit		2,308.3	1,337.6
Adjustments, including:		-1,871.3	18,105.6
Share of profit/(loss) of associates accounted for using the equity method	22	-29.3	-16.1
Depreciation and amortisation	8, 23, 24	286.3	294.2
Interest accrued (from the income statement)	2	-4,969.7	-4,541.8
Interest paid		-432.5	-641.3
Interest received		5,455.7	5,129.9
Dividends received	5	-6.7	-8.4
Gains (losses) on investing activities		2.2	1.0
Income tax (from the income statement)	12	707.0	574.1
Income tax paid		-1,067.5	-1,028.5
Change in provisions	32, 41	73.4	49.8
Change in loans and other receivables to other banks	15, 41	-82.6	-140.1
Change in financial assets measured at fair value through profit or loss	16, 17, 41	233.3	-632.9
Change in investment securities	19, 41	5,571.7	-78.4
Change in hedge derivatives	18, 41	-7,371.8	2,071.1
Change in loans and other receivables to customers measured at amortised cost	20, 41	-21,840.3	-6,539.1
Change in other assets	26, 41	-21.5	-136.8
Change in liabilities to other banks	27, 41	1,457.0	2,061.1
Change in liabilities measured at fair value through profit or loss	17, 28, 41	148.7	615.9
Change in liabilities to customers	29, 41	19,583.3	20,568.7
Change in other liabilities	33, 41	432.0	503.2
Net cash flow from operating activities		437.0	19,443.2

for the year ended 31 December

	Note	2021	2020
Purchase of property, plant and equipment	23	-87.0	-84.0
Disposal of property, plant and equipment		3.5	1.3
Purchase of intangible assets	24	-35.9	-81.1
Disposal of assets held for sale	26	0.0	0.2
Purchase of equity instruments measured at fair value through other comprehensive income		0.0	-8.3
Purchase of debt securities measured at amortised cost		-1,787.9	-23,867.8
Disposal of debt securities measured at amortised cost		3,154.2	3,116.3
Dividends received	5	6.7	8.4
Net cash flows from investing activities		1,253.6	-20,915.0
Long-term loans received	41	1,852.6	891.0
Long-term loans repaid	41	-2,189.0	-1,013.3
Interest on long-term loans repaid	41	-28.1	-37.7
Issue of debt securities	30	575.0	975.0
Redemption of debt securities	30	-975.0	0.0
Interests from issued debt securities		-4.3	-8.1
Repayment of lease liabilities	41	-108.8	-104.4
Dividends paid	34.3	-663.5	0.0
Net cash flows from financing activities		-1,541.1	702.5
Effect of exchange rate changes on cash and cash equivalents		109.9	162.4
Net increase/(decrease) in cash and cash equivalents		149.5	-769.3
Opening balance of cash and cash equivalents		1,228.1	1,997.4
Closing balance of cash and cash equivalents	41	1,377.6	1,228.1

The Consolidated Cash Flow Statement should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.



Accounting policy and additional notes

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Accounting policy and additional notes

I. Bank and the Group details

1. Key Bank data

ING Bank Śląski S.A. ("Parent company", "Parent entity", "Bank") with the registered office in Poland, Katowice, Sokolska Str. 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Parent company statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. In 2021, there were no changes in the name of the Bank or its identification data compared to the previous reporting period.

2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered to individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies. Additionally, through subsidiaries the Group conducts leasing and factoring activity, advisory and acts as a financial intermediary as well as provides other financial services. The duration of business of the Parent company is indefinite.

3. Share capital

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares of a par value of PLN 1.00 each. Bank's shares are quoted on the Warsaw Stock Exchange (sector: banks).

4. Shareholding structure of ING Bank Śląski S.A.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2021 held 75% shares in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting of ING Bank Śląski S.A. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2021, the shareholders owning 5% and more votes at the General Meeting of ING Bank S.A. were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97,575,000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	11,179,441	8.59



5. ING Bank Śląski S.A. Management Board and Supervisory Board composition

Bank's Management Board

On 30 November 2020, Mr Lorenzo Tassan-Bassut resigned from the position of the Vice-President of the Management Board of ING Bank Śląski SA, effective at the end of 31 January 2021.

On 18 December 2020, the Supervisory Board appointed Ms Ewa Łuniewska as Vice-President of the Management Board of the Bank, effective from 1 January 2021.

On 24 May 2021, the Supervisory Board, following the receipt of a decision from the Polish Financial Supervision Authority of 14 May 2021, entrusted Ms Joanna Erdman with the position of Vice-President of the Bank's Management Board responsible for supervising the management of significant risks in the Bank's operations (CRO Division).

On 31 August 2021, the Supervisory Board appointed Ms Alicja Żyła as Vice-President of the Bank's Management Board, effective 1 September 2021.

At the end of 2021, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr. Brunon Bartkiewicz - Bank Management Board President,
- Ms. Joanna Erdman - Bank Management Board Vice-President,
- Mr. Marcin Giżycki - Bank Management Board Vice-President,
- Ms. Bożena Graczyk - Bank Management Board Vice-President,
- Ms. Ewa Łuniewska - Bank Management Board Vice-President,
- Mr. Michał H. Mrozek - Bank Management Board Vice-President,
- Mr. Sławomir Soszyński - Bank Management Board Vice-President,
- Ms. Alicja Żyła - Bank Management Board Vice-President.

Bank's Supervisory Board

On 26 August 2021, the Bank received a statement from Ms Susan Poot resigning as a member of the Bank's Supervisory Board, effective 30 September 2021.

On 25 October 2021, the Bank received a statement from Mr Aleksander Kutela on his resignation as a member of the Bank's Supervisory Board, effective from the date of the Extraordinary General Meeting of the Bank, i.e. 29 November 2021.

On 29 November 2021, the Extraordinary General Meeting of the Bank passed resolutions on:

- 1) dismissal from the Supervisory Board of the Bank Mr Antoni F. Reczek, so far acting as Chairman of the Supervisory Board. The reason for the dismissal is the prolonged absence of Mr Antoni F. Reczek, which prevented his active participation in the work of the Supervisory Board.
- 2) appointment of Ms Dorota Dobija, Ms Monika Marcinkowska and Mr Stephen Creese to the Bank's Supervisory Board.

At the end of 2021, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr. Aleksander Galos – Chair, Independent Member,
- Ms. Małgorzata Kołakowska – Deputy Chair,
- Mr. Michał Szczurek – Secretary,
- Mr. Stephen Creese – Member,
- Ms. Dorota Dobija – Independent Member,
- Ms. Monika Marcinkowska - Independent Member,
- Mr. Remco Nieland – Member.



6. ING Bank Śląski S.A. Group

ING Bank Śląski S.A. is a Parent entity of the ING Bank Śląski Group (“Capital Group”, “Group”). As at 31 December 2021, the composition of the ING Bank Śląski Group was the following:

name	type of activity	registered office	% of the Group share in equity	% of the Group share in the General Meeting votes	nature of the capital relationship	recognition in the Group Financial Statements
ING Investment Holding (Polska) S.A., that holds shares at the following subsidiaries and associates:	financial holding	Katowice	100	100	subsidiary	full consolidation
ING Commercial Finance S.A.	factoring services	Warszawa	100	100	subsidiary	full consolidation
ING Lease (Polska) Sp. z o.o.*	leasing services	Warszawa	100	100	subsidiary	full consolidation
NN Investment Partners TFI S.A.	investment funds	Warszawa	45	45	associated	consolidation with the equity method
ING Bank Hipoteczny S.A.	banking services	Katowice	100	100	subsidiary	full consolidation
ING Usługi dla Biznesu S.A.	accountancy services, payroll services	Katowice	100	100	subsidiary	full consolidation
Nowe Usługi S.A.	education and promotion for the financial market and TURBO Certificates	Katowice	100	100	subsidiary	full consolidation
Solver Sp. z o.o. w likwidacji**	holiday and training courses organisation	Katowice	100	100	subsidiary	full consolidation

*) The ING Lease (Polska) Sp. z o.o Group incorporates 5 special-purpose vehicles wherein ING Lease (Polska) Sp. z o.o holds 100% of shares.

**) On 1 August 2021, the liquidation of Solver Sp. z o.o. began.

ING Investment Holding (Polska) S.A.

ING Investment Holding (Polska) S.A. is a holding company. Through that company, the Bank holds shares in three companies: ING Lease (Polska) Sp. z o.o. (100%), ING Commercial Finance S.A. (100%) and NN Investment Partners TFI S.A. (45%).

ING Commercial Finance S.A.

The company's core business is factoring, i.e. receivables financing and servicing services. The company offers factoring with and without recourse, with assumption of the risk of the recipient's solvency. Comprehensive debt management includes monitoring of recipients, preparation of current reports, mediation of debt insurance and debt collection.

ING Lease (Polska) Sp. z o.o.

The company offers all basic types of leasing which allow financing both movables (in the form of cars, vans, heavy transport vehicles, machinery and equipment, construction, medical, equipment and IT equipment) and real estate. The company services are targeted at all market segments: large, medium and small enterprises as well as micro clients (entrepreneurs).

ING Bank Hipoteczny S.A.

The purpose of the company is to acquire and then increase the share of long-term financing in the Group's balance sheet by issuing long-term mortgage bonds based on mortgage-backed credit claims acquired from ING Bank Śląski or other banks.

ING Usługi dla Biznesu S.A.

The company conducts operations in the following business areas: running an online database of companies and an online B2B commerce and business platform (ALEO), running a platform for invoicing and payment management, accounting, HR and payroll services (ING Księgowość), distribution of software for the robotisation of business processes (SAIO) and providing access to an application for individual clients that aggregates accounts from multiple suppliers in one place (imoje accounts).

Nowe Usługi S.A.

The company conducts educational and marketing activities. Provides a portal on investing and the stock market, where investment-related materials are published and a knowledge base is available (edukacjagiieldowa.pl). The company is also involved in the popularisation of ING Turbo certificates on the Polish market. The instruments are issued by ING Bank N.V. Amsterdam and quoted at the Warsaw Stock Exchange The main activities of the company are the organisation of marketing campaigns, ING Turbo helpline service or technical support while running the ingturbo.pl website.

Solver Sp. z o.o. w likwidacji

In recent years, the company's operations have mainly involved organising holidays for employees and their families and pensioners of ING Bank Śląski S.A. Due to the decision to dispose of the real estate in which the company's operations were conducted, it was no longer possible to continue the business. The liquidation of the company was opened on 1 August 2021.

NN Investment Partners TFI S.A.

The company conducts operations in the area of creation and management of investment funds, including acting as intermediary in the sale and redemption of participation units, representing them towards third parties and managing portfolios. The company is part of the international NN Group.



7. Entity authorised to audit the financial statements

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with registered office in Warsaw is the entity authorised to audit the financial statements.

8. Approval of financial statements

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2021 to 31 December 2021 have been approved by the Bank Management Board on 8 March 2022.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2020 to 31 December 2020 were approved by the General Meeting on 15 April 2021.

II. Statement of compliance with International Financial Reporting Standards

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2021 to 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The consolidated financial statements take into account the requirements of EU approved standards and interpretations, except for the standards and interpretations listed in the item below, which are either pending approval by the EU or have been approved by the EU, but shall take effect after the balance sheet date.

1. Changes in accounting standards

In these annual consolidated financial statements, the Group included the following changes to the standards and new interpretations approved by the European Union and effective for annual periods beginning on or after 1 January 2021:

Change	Influence on the Group financial statements
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Benchmark rate reform – Phase 2 (the accounting year starting on 1 January 2021)	The implementation of the amendments will entail the possibility of continuing the recognition and presentation of financial instruments affected by the reform of benchmark rates and an increased scope of disclosures. By applying these mandatory amendments, Group avoids recognising modification gains and losses on debt instruments that would otherwise be required in the absence of Phase 2 amendments (changes to debt instruments resulting from IBOR Reform are treated as a reset to the instrument's variable interest rate).
IFRS 4 Insurance Contracts Extension of the temporary exemption from the application of IFRS 9	The amendment does not affect the financial statements of the Group.



Published standards and interpretations that were issued by 31 December 2021 and approved by the European Union, but were not previously adopted by the Group:

Change (EU effective date provided for in the parentheses)	Influence on the Group financial statements
IFRS 17 Insurance contracts with the extension of the temporary exemption from the application of IFRS 9. (the accounting year starting on 1 January 2023)	The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.
Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (the financial year starting on or after 1 April 2021)	Change in the scope of leasing modification, the purpose of which is to extend by 1 year the period of withdrawal from the evaluation of leasing modification, in a situation where the change in leasing payments is a direct consequence of the Covid-19 pandemic. The application of the amendment will not have an impact on the financial statements of the Group.
Changes resulting from the cyclical review of IFRS 2018-2020 (the accounting year starting on 1 January 2022)	Changes to: IFRS 1 – subsidiary applying accounting standards for the first time IFRS 9 – fees in the "10%" test (to determine the possibility of excluding financial liabilities from the consolidated statement of financial position) – in accordance with the change in the test, all fees paid or received should be included, including those settled by the borrower or lender on behalf of other entities Illustrative examples for IFRS 16 – lease incentives IAS 41 – agriculture: taxation measured at fair value measurement. The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.
IFRS 3 Reference to conceptual assumptions (the accounting year starting on 1 January 2022)	The amendment introduces to the content of the standard references to the conceptual framework published in March 2018. The Group's analyses show that the implementation of the changes will not have a significant impact on the Group's financial statements.
IAS 37 Onerous contracts – the costs of meeting the contract (the accounting year starting on 1 January 2022)	A change consisting in clarifying the concept of the costs of meeting obligations under contracts, where the costs exceed the economic benefits resulting from them. The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.
IAS 16 Property, plant and equipment – benefits before planned use (the accounting year starting on 1 January 2022)	The amendment consists in the exclusion of the possibility of deducting from the production expenses of property, plant and equipment amounts received from the sale of products manufactured at the stage of pre-implementation tests. This type of sales revenues and the corresponding expenses should be included in the income statement. The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.

Published standards and interpretations that were issued by 31 December 2021, but were not approved by the European Union as at 31 December 2021 and were not previously adopted by the Group:

Change (expected IASB effective date provided for in the parentheses)	Influence on the Group financial statements
IAS 1 Presentation of financial statements: classification of financial liabilities as short-term or long-term, taking into account the deferral of the application date (the accounting year starting on 1 January 2023)	The classification of financial liabilities as long-term will depend on the existence of the right to prolong the liability for a period longer than 12 months and on the fulfilment of the conditions for the implementation of such a prolongation as at the balance sheet date. The implementation of the amendment will not affect the financial statements of the Group.
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (the financial year starting on or after 1 January 2023)	Change in the scope of disclosure of significant accounting principles in the financial statements. Pursuant to the introduced changes, only the accounting principles that have a significant impact on the information contained in the financial statements will be disclosed. The practical stand attached to the amendment contains a detailed illustrative example. The implementation of the change will have a significant impact on the scope of disclosures of significant accounting principles in the Group's financial statements.
Amendments to IAS 8: Definition of Accounting Estimates (the financial year starting on or after 1 January 2023)	Amendment to clarify the definition of accounting estimates, i.e. monetary amounts recognized in the financial statements that are subject to measurement uncertainty. The implementation of the change will not have a significant impact on the financial statements of the Group.
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (the financial year starting on or after 1 January 2023)	Amendment specifies the accounting requirements for income tax and possible exemption from recognising deferred tax. The amendments clarify that the exemption does not apply to transactions such leases and decommissioning obligations i.e. transactions for which simultaneously are recognise both an asset and a liability. The application of the amendment will not have an impact on the financial statements of the Group.
Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (the financial year starting on or after 1 January 2023)	Analysis undertaken by the Group shows that the implementation of the change will not have a significant impact on the financial statements of the Group.

As at the date of approval of this report for publication, taking into account the ongoing process of introducing IFRS standards in the EU and the Group's operations, with respect to the accounting principles applied by the Group there are no differences between the IFRS standards that have entered into force and the IFRS standards endorsed by the EU.



2. Going-concern

These annual consolidated financial statements of the ING Bank Śląski S.A. Group were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the date of publication, i.e. from 11 March 2022. As at the approval date hereof, the Bank Management Board have not identified any events that could pose a threat to the Group members continuing their operations during the period of 12 months from the date of publication as a result of intentional or forced abandonment or significant limitation of its operations by the Capital Group.

3. Discontinued operations

No material operations were discontinued during 2021 and 2020.

4. Financial statements scope and currency

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the year 2021 comprise the data of the Bank and its subsidiaries and associates (jointly referred to as the “Group”).

These annual consolidated financial statements have been prepared in Polish Zloty (“PLN”). Unless provided for otherwise, all values were given rounded up to PLN million. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

5. Reporting period and comparable data

These annual consolidated financial statements of the ING Bank Śląski S.A. Group cover the period from 1 January 2021 to 31 December 2021 and include the comparative data:

- for the consolidated statement of financial position as at 31 December 2020 and 1 January 2020,
- for line items from the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the period from 1 January 2020 to 31 December 2020.

6. Consolidation rules

The consolidated financial statements comprise the financial statements of the Bank as well as the financial statements of its subsidiaries. The documents were developed for the term of 12 months ended 31 December 2021.

After being adjusted for IFRS compliance, the financial statements of subsidiaries are developed for the same reporting period as the financial statements of the Parent entity, with the use of uniform accounting principles for similar transactions and business events. Adjustments are made to eliminate any discrepancies in the accounting principles applied.

All significant balances and transactions between Group members, including income and costs, unrealised profits as well as gains and losses under intragroup transactions were eliminated in full. Unrealised losses are eliminated, unless proving impairment occurrence.

Subsidiaries are fully consolidated from the moment of obtaining control by the Parent entity until the loss of control date. Control is exercised by the Parent entity when the Parent entity governs the subsidiary. Because of its subsidiary exposure the Parent entity is exposed to variable financial results or holds rights to variable financial results and can use its governing authority over the subsidiary to influence its financial results.

III. Significant accounting principles

IFRS provide for the selected accounting policies that may be applied. The key areas where IFRS allow the entity to select the policy and which refer to the Group Accounting Policy include:

- selection of accounting policy to continue to apply the hedge accounting requirements of IAS 39,
- selection of accounting policy for valuation of buildings and land at revalued amount, being its fair value at the balance sheet date.

The Group Accounting Policy complies with IFRS. Group decisions as to the admissible policy selection are presented below.

1. Basis for preparation of consolidated financial statements

The financial statements are prepared in Polish zlotys rounded to one million zlotys with one decimal place (unless otherwise stated). The concept of fair value has been applied in the statements for own real property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as measured at fair value through other comprehensive income. Other items of financial assets (including loans and advances) are presented at amortised cost less impairment or at purchase price less impairment. Recognized financial assets that were designated as hedged items in the fair value hedge strategy, and which, in the absence of such designation, would be measured at amortized cost, are measured at amortized cost, taking into account the hedged risk valuation adjustment. Non-current assets held for sale are recognised at the lower of their carrying amount and the fair value less sales costs.



2. Professional judgment

In the process of accounting principles application to the matters discussed hereinbelow, besides the accounting estimates, professional judgment of the management staff was of key significance.

2.1. Deferred tax assets

The Group recognizes deferred tax assets based on the assumption that it is probable that taxable income sufficient to fully realize the deferred tax asset would be achieved.

2.2. Classification of leases

When acting as a lessor, the Group classifies leases as operating or financial. The classification is based on the assessment to what extent the risks and rewards of ownership of the subject of the lease and in relation to the lease of the assets resulting from the lease are attributable to the lessor and to which the lessee. The substance of each transaction is used to make the said assessment.

2.3. Classification of financial assets

The Group classifies financial assets on the basis of both the business model for holding the financial assets and assessment whether under the contractual terms require solely payments of principal and interest on the principal amount outstanding. The detailed information about assumptions in this regard is presented in item

[14.2. Classification of financial assets.](#)

3. Accounting estimates

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

Estimates and assumptions applied to the presentation of the value of assets, liabilities, income and costs are made on the basis of 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 estimates 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.

The estimates and assumptions are reviewed on an on-going basis. Adjustments to estimates are recognised in the period when the estimate was changed provided that the adjustment applies to this period alone or in the period when the estimate was changed and in the following periods, should the adjustment impact both the current and future periods.

Below are the most significant booking estimates made by the Group.

3.1. Impairment

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

3.1.1. Impairment of financial assets

The Group applies IFRS 9 requirements regarding impairment in order to recognize and measure the impairment for expected credit losses on debt financial assets that are measured at amortised cost or at fair value through other comprehensive income.

The expected loss in the portfolio of individually insignificant exposures is calculated collectively as a probability-weighted average from three macroeconomic scenarios with different probabilities of occurrence. The final level of the provisions results from the sum of the expected credit losses estimated each year in the future till the maturity date for Stage 2 and Stage 3 assets and in 12-month horizon for Stage 1 assets, including discount.

To determine impairment (or reverse it) in the ISFA (Individually Significant Financial Assets) portfolio, the present value of expected future cash flows has to be calculated. The amount of the future cash flows is determined among others taking account information about the current and forecasted economic standing of the borrower, the forecast value of the recovery amount from collateral of the credit exposure and the macroeconomic factors.

The methodology and assumptions used to estimate both the amount and the time of future cash flows are regularly reviewed and adjusted as needed.

Macroeconomic factors

Credit risk models for the purposes of IFRS 9 were built on the basis of historical relationships between changes in economic parameters (e.g. GDP or interest rates) and their subsequent effect in the realization of changes in the level of credit risk (PD / LGD). Until the end of 2019, changes in macroeconomic forecasts were realized relatively slowly, moving smoothly from one phase of the cycle to the next. The current economic situation triggered by Covid-19 pandemic has completely different characteristics, a rapid and deep decline in GDP followed by a rapid and equally dynamic rebound of the economy. It was noted that, unlike in the previous crisis, the decline in GDP growth and the peak of insolvency will not occur at the same time. In addition, due to the effect of aid programs, liquidity and employment maintenance programs (i.e. support from BGK, PFR, statutory and non-statutory moratoria), the effect of changing macroeconomic forecasts was somewhat "stretched and softened" in relation to what the macroeconomic indicators alone would show.



As of 31 December 2021, the Group revised its forecasts of macroeconomic indicators. The macroeconomic assumptions used to calculate expected credit losses are based on a forecasts prepared by the Bank Macroeconomic Analysis Office.

Due to the dynamic development of the pandemic and high uncertainty, the forecasts adopted by the Group may not fully cover the impact of the macroeconomic situation on the level of expected losses, both in the short and long term. In making its estimate, the Group considered the International Accounting Standards Board's statement of 27 March 2020 regarding the recognition of IFRS 9 expected losses, taking into account the uncertainty associated with the Covid-19 pandemic. The Group made appropriate judgments taking into account the existing significant uncertainty, in particular with regard to 1) future macroeconomic conditions and the impact of government actions in counteracting the effects of the pandemic, and 2) assessing whether there has been a significant increase in credit risk for credit exposures.

Management adjustments

In times of increased volatility and uncertainty, when portfolio quality and the economic environment change rapidly, models have a reduced ability to accurately predict losses.

To reduce the model risk, additional adjustments can be made to address data quality issues, model issues or expert judgment. They also include adjustments resulting from overestimation or underestimation of the impact of updated macroeconomic scenarios by IFRS 9 models.

In 2021, an improvement in macroeconomic forecasts was observed, partly compensated by worsening of forecasts by the year end, which during the whole 2021 had a positive impact on the amount of expected credit losses determined on the basis of models. Nevertheless, we are still dealing with another wave of disease, unknown duration of the pandemic or scale of vaccinations. In this situation, reversals of expected credit losses resulting directly from models do not necessarily correlate with the certainty of improving clients' situation, taking into account also that aid programs as well as liquidity and employment maintenance programs, especially in the corporate segment, may result in the risk of delaying the moment of insolvency of borrowers.

In this situation, the Group decided to create an additional expected credit loss provision aimed at mitigating the effect of releasing provisions for expected credit losses in connection with the improving macroeconomic forecasts. Based on expert judgement, the amount of this adjustment at the end of 2021 amounted to PLN 139.2 million (compared to PLN 33.1 million at the end of 2020). This amount constitutes, depending on segment, 85%-100% of provisions released based on models (without taking into account management adjustments) due to improved macroeconomic forecasts compared to forecasts at the end of 2020. The amount of this management adjustment at the end of 2021, the amount of PLN 63.1 million relates to the update of macroeconomic baseline scenario, prepared by the Bank Macroeconomic Analyses Office in the beginning of January 2022 which were worse than

earlier forecasts in the last quarter of 2021, while for interest rates, forward curves as at the end of 2021 were adopted. The amount of PLN 76.1 million was estimated by the Group based on expert judgment.

At the end of 2020, in relation to implemented aid programmes giving the possibility of suspending or deferring repayments by borrowers, the Group had a provision for expected credit losses amounting to PLN 9.9 million for the risk of underestimation of PD parameters for portfolios covered by non-statutory moratoria. At the end of 2020, the Group also had additional provision for expected credit losses amounting to PLN 40.8 million to cover increased losses resulting from statutory moratoria which were not included in standard risk parameters. At the end of 2021, the Group does not maintain provisions for expected credit losses due to the above.

Management adjustments did not impact classification of exposures into stages presented in these financial statements. Split of management into stages and into corporate and retail segment was presented in note [20.2. Quality of credit portfolio](#).

Change of triggers of significant increase in credit risk for CHF loans

In 2021, the trigger of classification of CHF indexed loans into Stage 2, which implied calculating lifetime expected credit losses, was removed. This change was implemented because credit risk of these assets decreased due to offer of settlements prepared by the Group for clients and made available in the fourth quarter of 2021. Scale of settlements expected by the Group significantly limits the impact for clients of unfavourable changes in FX rates and their ability to meet contractual obligations as they have a possibility to accept the Group's offer and conversion into PLN denominated loans. Due to this, the Group does not assess that for CHF indexed loans, taking into account the expected impact of settlements, there has been a significant increase in credit risk which would imply classification to Stage 2. The introduced change in estimates does not have a significant impact on the Group's statement of financial position or income statement. As a result of this change, financial assets with gross carrying amount of PLN 420.9 million were transferred from Stage 2 to Stage 1 (with 12-month horizon of expected credit losses), which resulted in releasing of provisions for expected credit losses of PLN 3.7 million.

Criteria of significant increase in credit risk, the methodology of estimating expected credit losses and the related accounting rules were described in [14.13. Impairment](#).



Thresholds used to identify a significant increase in credit risk

Determining the threshold of a significant increase in credit risk requires judgment and is a significant source of uncertainty in the estimates of expected losses.

Thresholds of PD parameters increase in the lifetime of exposures in relation to PD at origination which indicate significant increase in credit risk are established for models based on assumed methodology. At the end of 2021 and 2020 these triggers were as follows:

	Strategic clients portfolio	Corporate sales network portfolio (SME model)	Mortgages and SE&Micro (MTG and SBF model)	Consumer Lending portfolio (CLN model)	Investment portfolio
Relative treshold	1	1	0.5	0.7	1
Absolute treshold	100bp	250bp	75bp	350bp	100bp

Absolute threshold – indicates maximum difference between PD at the reporting date and PD at initial recognition which triggers classification to Stage 2

Relative threshold – indicates maximum relation between PD at the reporting date and PD at initial recognition and is expressed as the product of the logarithm based on the PD transformation from the initial recognition and the ratio value determined at the portfolio level, beyond which the exposure is classified to Stage 2.

Different levels of triggers depending of the portfolio result from different characteristics of these portfolio and depend, among others, on the level of average default rates for specific portfolio.

Sensitivity analysis of expected credit losses on assumed PD treshold

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

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

These estimates show, respectively, hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 190 million (including PLN 120 million for the corporate portfolio and PLN 70 million for the retail portfolio) or higher by approximately PLN 880 million (PLN 370 million for the corporate portfolio and PLN 510 million for the retail portfolio respectively).

The estimates made as at 31 December 2020 showed, respectively, the hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 210 million (including PLN 125 million for the corporate portfolio and PLN 85 million for the retail portfolio) or higher by approximately PLN 720 million (PLN 315 million for the corporate portfolio and PLN 405 million for the retail portfolio, respectively).

Macroeconomic forecasts and probability weights applied to each of macroeconomic scenarios

The tables below present the macroeconomic forecasts applied as at 31 December 2021 and 31 December 2020 of key factors and the difference of expected losses in upside, baseline and downside scenarios to reported expected losses, which are weighted with scenario probability – division into corporate, retail and total portfolio (assuming the maintenance of an unchanged time horizon for calculating the expected losses, respectively, in 12 months or throughout the life of the exposure). Presented deviations from losses reported do not take into account management adjustments described above, with the exception of the adjustment related to the update of macroeconomic forecasts in baseline scenario (PLN 63.1 million at the end of 2021). At the end of 2021 macroeconomic forecasts used for the calculation of deviations for baseline scenario are based on forecasts prepared the Bank’s Macroeconomic Analyses Office, while for interest rates, forward curves as at the end of 2021 were adopted.

At the end of 2021 the deviations from losses reported for retail portfolio did not change significantly compared to the end of 2020. With respect to corporate portfolio the deviations decreased significantly, mainly due to lower volatility of forecasted GDP in positive and downside scenarios in 3-year horizon. Volatility in 2020 was caused by shocks triggered by the beginning of pandemic.



2021

Total portfolio									
		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)		
Upside scenario	GDP	6.6%	6.0%	5.5%	-12%	20%	2,102.7		
	Unemployment by BAEL	1.9%	1.9%	1.8%					
	Real estate price index	7.8%	6.3%	6.5%					
	3 months' interest rate	3.0%	3.0%	3.0%					
Baseline scenario	GDP	4.5%	4.2%	3.4%	-3%	60%		2,102.7	
	Unemployment by BAEL	2.8%	2.6%	2.6%					
	Real estate price index	2.4%	2.4%	2.4%					
	3 months' interest rate	3.9%	3.5%	3.3%					
Negative scenario	GDP	-0.5%	2.7%	1.7%	13%	20%			2,102.7
	Unemployment by BAEL	4.2%	5.6%	6.9%					
	Real estate price index	0.3%	2.5%	2.5%					
	3 months' interest rate	2.2%	1.8%	1.7%					

2020

Total portfolio							
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	7.7%	4.2%	5.0%	-14%	20%	2,536.9
	Unemployment by BAEL	3.8%	2.8%	1.8%			
	Real estate price index	8.1%	6.3%	4.3%			
	3 months' interest rate	0.6%	1.0%	1.3%			
Baseline scenario	GDP	4.2%	3.7%	3.4%	-6%	60%	
	Unemployment by BAEL	4.7%	3.4%	2.8%			
	Real estate price index	2.8%	4.6%	4.6%			
	3 months' interest rate	0.1%	0.4%	0.5%			
Negative scenario	GDP	-4.8%	5.4%	2.3%	32%	20%	
	Unemployment by BAEL	6.8%	6.6%	6.9%			
	Real estate price index	-8.1%	5.2%	7.7%			
	3 months' interest rate	0.0%	0.2%	0.3%			



2021

Corporate portfolio							
		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	6.6%	6.0%	5.5%	-18%	20%	1,180.6
	Unemployment by BAEL	1.9%	1.9%	1.8%			
	Real estate price index	7.8%	6.3%	6.5%			
	3 months' interest rate	3.0%	3.0%	3.0%			
Baseline scenario	GDP	4.5%	4.2%	3.4%	-5%	60%	
	Unemployment by BAEL	2.8%	2.6%	2.6%			
	Real estate price index	2.4%	2.4%	2.4%			
	3 months' interest rate	3.9%	3.5%	3.3%			
Negative scenario	GDP	-0.5%	2.7%	1.7%	23%	20%	
	Unemployment by BAEL	4.2%	5.6%	6.9%			
	Real estate price index	0.3%	2.5%	2.5%			
	3 months' interest rate	2.2%	1.8%	1.7%			

2020

Corporate portfolio									
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)		
Upside scenario	GDP	7.7%	4.2%	5.0%	-24%	20%	1,199.2		
	Unemployment by BAEL	3.8%	2.8%	1.8%					
	Real estate price index	8.1%	6.3%	4.3%					
	3 months' interest rate	0.6%	1.0%	1.3%					
Baseline scenario	GDP	4.2%	3.7%	3.4%	-11%	60%		1,199.2	
	Unemployment by BAEL	4.7%	3.4%	2.8%					
	Real estate price index	2.8%	4.6%	4.6%					
	3 months' interest rate	0.1%	0.4%	0.5%					
Negative scenario	GDP	-4.8%	5.4%	2.3%	56%	20%			1,199.2
	Unemployment by BAEL	6.8%	6.6%	6.9%					
	Real estate price index	-8.1%	5.2%	7.7%					
	3 months' interest rate	0.0%	0.2%	0.3%					



2021

Retail portfolio						
		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario
Upside scenario	GDP	6.6%	6.0%	5.5%	-5%	20%
	Unemployment by BAEL	1.9%	1.9%	1.8%		
	Real estate price index	7.8%	6.3%	6.5%		
	3 months' interest rate	3.0%	3.0%	3.0%		
Baseline scenario	GDP	4.5%	4.2%	3.4%	0%	60%
	Unemployment by BAEL	2.8%	2.6%	2.6%		
	Real estate price index	2.4%	2.4%	2.4%		
	3 months' interest rate	3.9%	3.5%	3.3%		
Negative scenario	GDP	-0.5%	2.7%	1.7%	2%	20%
	Unemployment by BAEL	4.2%	5.6%	6.9%		
	Real estate price index	0.3%	2.5%	2.5%		
	3 months' interest rate	2.2%	1.8%	1.7%		

Reported expected losses
(collective assessment in Stage 1, 2 and 3)

922.1

2020

Retail portfolio						
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario
Upside scenario	GDP	7.7%	4.2%	5.0%	-3%	20%
	Unemployment by BAEL	3.8%	2.8%	1.8%		
	Real estate price index	8.1%	6.3%	4.3%		
	3 months' interest rate	0.6%	1.0%	1.3%		
Baseline scenario	GDP	4.2%	3.7%	3.4%	-1%	60%
	Unemployment by BAEL	4.7%	3.4%	2.8%		
	Real estate price index	2.8%	4.6%	4.6%		
	3 months' interest rate	0.1%	0.4%	0.5%		
Negative scenario	GDP	-4.8%	5.4%	2.3%	5%	20%
	Unemployment by BAEL	6.8%	6.6%	6.9%		
	Real estate price index	-8.1%	5.2%	7.7%		
	3 months' interest rate	0.0%	0.2%	0.3%		

Reported expected losses
(collective assessment in Stage 1, 2 and 3)

1,337.7



3.1.2.Impairment of property, plant and equipment and intangible assets

The assessment in this respect is based on estimating the recoverable amount of the asset being the higher of their value in use and net realisable value at the review date.

The value in use of an asset (or a cash-generating unit when the recoverable amount of an asset item forming joint assets cannot be determined) is estimated, among others, through adoption of estimate assumptions for amounts, times of future cash flows which the Group may generate from a given fixed asset (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 Group makes use of relevant market data available or valuations made by independent appraisers, which, in principle, are also based on estimates.

The relevant recording rules were delineated in Chapter III. *Significant accounting principles*, in item 15.4. *Impairment of other non-financial assets*.

Detailed information on the impairment test in relation to goodwill is presented in additional note 24. *Intangible assets*.

3.2. Deferred tax asset for unused tax loss

The Group recognises a deferred tax asset for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilised. Based on the Group’s tax performance forecast for 2022-2026, it has been estimated that the Group will generate sufficient taxable income to reduce the tax base by the full amount of the tax loss. Accordingly, the Group recognised the full amount of the tax loss in the deferred tax asset. At the end of 2021, the deferred tax asset relating to unused tax losses amounted to PLN 544.5 million (PLN 49.2 million at the end of 2020).

3.3. Measurement of financial instruments not quoted in active markets

The fair value of financial instruments not quoted in active markets is measured using valuation models. For non-option derivatives, the models based on discounted cash flows apply. Options are measured using appropriate option valuation models. Valuation models used by the Group are verified prior to their usage.

Where possible, in models the Bank uses observable data from active markets. However, in certain circumstances, to choose the right valuation parameter, the Bank makes an estimate by comparing a given instrument to another one present in another market but having similar or identical features. Application of the prudence principle requiring to choose the lower value of assets and the higher value of liabilities as being more probable – especially in the conditions of lower liquidity or/and volatility in financial markets – is fundamental in the valuation made under

this approach. Change of assumptions concerning these factors may impact valuation of some financial instruments.

Sensitivity analysis of the valuation of financial instruments not listed on active markets is presented in additional note 37. *Fair value*.

3.4. Provisions for retirement and pension benefit

The Group establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit 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 Group’s obligations towards its 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 rises as well as to staff rotation, death risk and others. The assumptions are verified as at the end of the accounting year.

The tables below show the sensitivity of the model to the values of each assumption as at 31 December 2021 and 31 December 2020. The value of pension provisions recognised in the Group’s books as at 31 December 2021 and 31 December 2020, respectively, is presented as a base variant.



2021

	Provisions for retirement and pension benefit (in PLN million)		
	lower bracket	base variant	upper bracket
Discount rate (+ 1% / base variant / – 1%)	66.2	73.9	83.0
Deviation from the assumed dynamics of changes in salaries (– 0.5% / base variant / +0.5%)	69.5	73.9	78.5

2020

	Provisions for retirement and pension benefit (in PLN million)		
	lower bracket	base variant	upper bracket
Discount rate (+ 1% / base variant / – 1%)	56.9	63.8	71.9
Deviation from the assumed dynamics of changes in salaries (– 0.25% / base variant / +0.25%)	61.8	63.8	65.8

3.5. Lease period for perpetual contracts

The lease period was determined taking into account the option of extension and shortening available in the concluded contracts, if the option is likely to be used. In the case of contracts concluded for an indefinite period with the option of termination for both parties to the contract, the Group assessed whether there are significant costs of withdrawal from the contract. The contracts for an indefinite period owned by the Group are primarily property lease contracts. If there are no significant costs, the notice period for both parties to the contract has been set as the lease period. If the costs of leaving the contract are significant, the Group has adopted a period of 4 years as the lease period. The adopted period results from the strategy of physical presence in a given location, ensuring flexibility and business efficiency, and taking into account changing expectations and preferences of the customers.

The adopted estimates do not have a significant impact on the value of right-of-use assets. As at 30 December 2021, a change in the lease period of 1 year affects the value of assets by approximately PLN 6 million (similar to 31 December 2020).

3.6. Write-downs and portfolio provisions related to the portfolio of mortgage loans indexed to the CHF exchange rate

As at 31 December 2021 and 31 grudnia 2020 the Group had receivables under CHF-indexed retail mortgage loans. The table presents the number and individual elements of the gross and net balance sheet value of these receivables.

	2021	2020
number of contracts (in pieces)	3,920	4,277
capital balance	825.9	908.9
the amount of the adjustment to the gross carrying amount	-345.6	-300.0
other elements of the gross carrying amount (interest, ESP)	2.2	2.4
gross balance sheet value	482.5	611.3
impairment for expected credit losses	-13.7	-26.5
net balance sheet value	468.8	584.8

In addition, a provision of PLN 37,6 million (PLN 11.8 million as at 31 December 2020) was recognised in respect of financial assets relating to CHF-indexed mortgages removed from the statement of financial position as at 31 December 2021. The provision for legal risk of mortgage loans indexed to CHF relating to repaid loans is presented in liabilities under *Provisions* (note 32).

The table presents key information on CHF-indexed mortgages derecognised from the statement of financial position as at 2021 and 2020 yearend, respectively. The data does not include agreements for which litigation has been completed and agreements that have been closed as a result of conversion to PLN loans, in connection with entering into a settlement (for further details on the settlement programme see note 32. *Provisions*)

	2021	2020
number of contracts (in pieces)	2,210	2,023
disbursed loan amount (converted into PLN million)	319.8	288.8
provisions for legal risk	37.6	11.8



Changes during the period concerning the estimate of the adjustment/provision for legal risk both for loans in the Bank's portfolio and for repaid loans are presented by the Bank in the income statement under *Cost of legal risk of FX mortgage loans* (note 10).

The following table presents the change in 2021 and 2020:

- in gross carrying amount adjustments for CHF-indexed mortgage loans recognised in the statement of financial position, and
- in provision for CHF-indexed mortgage loans derecognised from the statement of financial position.

	2021		2020	
	an adjustment to the gross carrying amount for loans recognized in the statement of financial position	provision for loans derecognised from the statement of financial position (repaid)	an adjustment to the gross carrying amount for loans recognized in the statement of financial position	provision for loans derecognised from the statement of financial position (repaid)
Balance at the beginning of the period	300.0	11.8	35.3	9.6
provisions recognised/ reversed	35.2	13.2	267.3	3.0
reclassification due to full repayment of loans	-14.3	14.3	-	-
utilisation, including from settlements	-22.2	-1.7	-2.6	-0.8
FX differences	46.9	-	-	-
Balance at the end of the period	345.6	37.6	300.0	11.8

The amount of the gross carrying amount adjustment due to the legal risk of the CHF-indexed mortgage portfolio recognised in the report on the financial standing and the amount of provisions for legal risk of CHF-indexed mortgage loans that have already been removed from the report on the financial standing depends on a number of variables; those variables include: the scale of settlement agreements with the borrowers, the forecasted number of future disputes, possible future outcomes, and the probability distribution of various scenarios.

As at 31 December 2021, a portfolio approach was used to estimate the gross carrying amount adjustment related to the portfolio of CHF-indexed mortgage loans included in the statement of financial position and to estimate the provision for CHF-indexed mortgage assets removed from the report resulting from legal risk related to these credits.

The adjustment to the gross carrying amount of the CHF portfolio is intended to reflect the actual and expected changed contractual cash flows (the change is due to the fact that the legal risk associated with the CHF-indexed mortgage portfolio changes the estimate of the payments on these assets and the introduction of the adjustment to the gross carrying amount will allow the gross carrying amount to be presented at a value that reflects the actual and expected changed contractual cash flows).

For financial assets already removed from the statement of financial position, the recognition of provisions for legal risk on a portfolio basis results from the assessment of the probability of an outflow of cash.

At 31 December 2021, potential losses from legal risk are estimated using the portfolio method as a probability-weighted average of the three scenarios – baseline, positive and negative – taking into account the estimated probability of occurrence. The scenarios on which the estimation is based are differentiated in terms of the probability of the occurrence of various possible court judgments and the Bank's expected scale of settlements with clients regarding the conversion of loans from CHF-indexed to PLN-denominated loans (whose interest rate is determined based on the WIBOR rate taking into account the credit margin published by the PFSA for the purposes of the settlement process) and the expected number of court cases calculated on the basis of the Bank's professional judgment resulting from the Bank's past experience and analysis of the current market situation.

As at 31 December 2021, for the portfolio of CHF-indexed mortgages included in the statement of financial position, the Bank assumes in each scenario that for a specific part of the portfolio, the following may occur:

- 1) conversion of loans from CHF-indexed to PLN-denominated loans (whose interest rate is based on the WIBOR rate) through voluntary settlements or
- 2) cancellation of the loan agreement at the end of the final judicial proceedings,
- 3) return of the spread between the Bank's exchange rate table and the average NBP rate.

The solution mentioned in point 1), i.e. conversion of loans indexed to CHF to loans denominated in PLN through voluntary settlements, the Group adopts in estimating losses as the dominant solution. In this case, the calculation of losses assumes the conversion of the loan agreement and the repayments made under it by the borrower as if the loan had been granted in PLN from the outset. Historical CHF/PLN exchange rates from the dates of these cash flows are used in the calculation of the original loan amount and repayments made during its life. The calculation takes into account the remuneration for the credit interest rate based on WIBOR and market credit margins for loans granted in PLN from the time of granting the credit.

The calculation of losses in the event of the cancellation of a loan agreement is based on the assumption of the return of instalments to the client by the Bank and the return of the principal of the loan to the Bank by the client.



This calculation uses historical CHF/PLN exchange rates for settlement, but does not take into account the Bank's interest rate remuneration for the borrower's use of capital.

The positive, baseline and negative scenarios differ in the size of the portfolio affected by the PLN conversion or by court cases, including contract annulment.

At 31 December 2021, for financial assets already removed from the statement of financial position, the Bank assumes in each scenario that for a specific part of the portfolio, there may be:

- 1) a settlement with the borrower consisting in the conversion of loans from CHF-indexed to PLN-denominated loans, or
- 2) cancellation of the loan agreement at the end of the final judicial proceedings.

The positive, baseline and negative scenarios differ in their assumptions regarding the size of the portfolio covered by the annulment settlement.

The change in the estimate due to adjustment of the gross carrying amount for mortgage loans indexed to CHF included in the statement of financial position and provisions for financial assets already removed from the statement of financial position in 2021 in comparison to their balance as at 31 December 2020 resulted, among others, from due to an increase in the CHF/PLN exchange rate, an updated estimate of the impact of the scenario of settlements with clients concerning the conversion of loans from CHF-indexed to PLN-denominated loans and – for financial assets already removed from the statement of financial position – a change in assumptions regarding possible settlements and the time horizon for the realisation of scenarios.

The main sources of uncertainty for the estimates described above are the assumptions regarding 1) the distribution of the number of voluntary settlements compared to the number of litigation cases ending in rescission 2) the size of the portfolio not covered by either voluntary settlements or litigation and 3) the assumption regarding the probability of a rescission judgment for litigation cases.

As at 31 December 2021:

- the change in probability between the scenario regarding voluntary settlements with customers in favour of a judgment cancelling the loan agreement by +/- 5 p.p (without changing the other assumptions) would result in a change in the level of the gross book value adjustment for CHF indexed mortgage loans included in the statement of financial position by +/- PLN 22 million (compared to +/- PLN 20 million as at 31 December 2020),
- change in the probability of the voluntary settlement scenario with customers by +/- 5 pp. at the expense of the likelihood of no loss, it would result in a change in the level of adjustment of the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position by +/- PLN 21 million (compared to +/- PLN 16 million as at 31 December 2020),
- change in the probability of the scenario invalidating the loan agreement by +/- 5 pp. at the expense of the probability of no loss, it would result in a change in the level of adjustment of the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position by +/- PLN 43 million (compared to +/- PLN 36 million as at 31 December 2020).

As at 31 December 2021, the allowance for expected credit losses on the CHF-indexed mortgage portfolio resulting from the recognition of these loans in Stage 1 amounted to PLN 0.3 million, PLN 5.8 million in Stage 2 and PLN 7.8 million in Stage 3. In comparison, as at 31 December 2020, the write-downs resulting from the recognition of the said loans in Stage 2 amounted to PLN 14.8 million and PLN 11.6 million in Stage 3.



3.7. Returns of part of the cost of credit resulting from prepayments of consumer loans

On 11 September 2019, the European Court of Justice (CJEU) announced a judgment in the case of the question referred by the Lublin-Wschód District Court for a preliminary ruling regarding the interpretation of Art. 16 clause 1 of Directive 2008/48 / EC of the European Parliament and of the Council of 23 April 2008 on consumer credit agreements. The Consumer Credit Act (UKK) in force in Poland contains in Art. 49 analogous provision, which up to 2016 had no interpretation doubts, and banks, as a rule, charging a commission for granting a loan, did not refund its client in the event of early repayment (except for withdrawal from the contract). Discussion on the interpretation of Art. 49 UKK started UOKiK by issuing a joint position with the Financial Ombudsman in 2016. The judgment of the CJEU resolves this issue in such a way that in the event of early repayment of consumer credit, banks should:

- reduce the total cost of the loan along with all its components (e.g. fees, commission, insurance),
- make a proportional reimbursement of these costs, i.e. the reimbursement should cover the period from the date of actual repayment of the loan to the date of final repayment specified in the contract.

After the publication of the above judgment, the President of UOKiK presented his position in which he fully shared the findings of the CJEU judgment.

In connection with the judgment of the CJEU and the UOKiK statement in the third quarter of 2019, the Group adapted its activities to the current interpretation of the regulations as follows:

- Refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Group estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision was estimated based on the assumptions regarding the number of customers who can submit complaints to the Group and the sum of commission on overpaid loans. In 2019 the Group created PLN 17.1 million provisions in this respect. An increase in the number of complaints by 10% would increase the provision by PLN 1.7 million. As at 31 December 2020, the value of the provision was PLN 7.4 million (PLN 8.9 million as at 31 December 2020).
- With respect to prepayments made from 11 September 2019, the Group returns the commissions charged after the customer repays the loan earlier proportionally. These revenues are recognised using the effective interest rate method, which has a faster rate of revenue recognition than the straight-line method used to calculate returns. In order to properly take into account the impact on the valuation of receivables and the financial result the Group has estimated the difference between accounting for revenue using the effective rate method and the straight-line method based on expected commission returns using historical data on prepayment profiles of loans with different maturities. In 2021, the gross value of consumer and mortgage loans receivable measured at amortised cost has not changed on this account. On the other hand, in 2020, the gross value of consumer loans and mortgages receivable measured at amortised cost was reduced by an amount of PLN 7.8 million to a total of PLN 28.9 million reducing the gross value.

4. Consolidation policies

4.1. Subsidiaries

Subsidiaries are any entities controlled by the Bank. The control exists, when the Bank has direct or indirect influence on the financial and operating policies of an entity so as to obtain benefits from its activities.

Under IFRS 10, all of the following conditions have to be fulfilled simultaneously in order to confirm control over a specified unit:

- holding an existing right (power) to manage the relevant activities of the unit on an ongoing basis (activities that significantly affect return from a specific involvement with a given unit),
- exposure to variable returns or holding rights to variable returns,
- having the ability to use the existing rights (power) to affect its returns from a given involvement.

The conditions indicated hereinabove are not deemed fulfilled if the existing rights are of the protective nature only, i.e. are defined as rights securing Bank's interests related to a given involvement.

The control reassessment is done each time if the facts and circumstances indicate a change to the terms and conditions being the basis for the analysis of a specific involvement, however at least once a year.

The financial statements of subsidiaries are included in the consolidated financial statements from the date of acquisition until the date on which the Parent company ceases to control the subsidiary, if applicable.

If the control ceases, the Bank:

- no longer recognises the assets and liabilities of the unit that formerly was a subsidiary in the consolidated financial statements,
- recognises any gains or losses associated with the loss of control events attributable to the former controlling interest.

Retained investments are recognised at fair value as at the control loss date, which is the date of initial recognition of the investment in the Bank's books, depending on the conditions, as:

- interest in joint arrangements, or
- interest in associates or
- financial assets classified and measured based on the purpose of holding thereof.

4.2. Associates

Associates are all entities over which the Bank has significant influence but not control in financial or operational terms, generally accompanying a share of between 20% and 50% of the voting rights. The consolidated financial



statements include the Group share in profits or losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date the significant influence ceases.

Investments in associates are initially recognised at purchase price and then accounted for using the equity method.

The Group investment includes goodwill (net of any accumulated impairment losses) identified upon acquisition. The share of the Group in the profits (losses) since the date of acquisition is recognised in the statement of profit or loss, whereas its share in changes in other capital since the date of acquisition – in other capital. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

When the share of the Group in the losses of the investment becomes greater than the share of the Group in that investment, the Group discontinues the recognition of any further losses or creates provisions only to such amount it has assumed obligations or has settled payments on behalf of the respective investment.

Unrealised gains on transactions between the Group and such entities are eliminated pro rata to the Group's interest in those entities. Unrealised losses are also eliminated, unless there is evidence of impairment of the asset transferred.

4.3. Business combinations

4.3.1. Assumption of control over an entity other than the ING Group member

The acquisition approach is applied when settling the purchase of entities from non-associated parties. At the acquisition date, the Bank recognizes, separately from goodwill, purchased identifiable assets and taken over identifiable liabilities, taking into account recognition criteria and all non-controlling interests in the acquired entity.

4.3.2. Transactions eliminated in consolidation process

Intragroup balances and gains and losses or income and costs resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

5. Foreign currency

5.1. The functional currency and the presentation currency

The items contained in presentations of particular units of the Bank are priced in the currency of the basic economic environment in which a given entity operates (the “functional currency”). These consolidated financial statements are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.2. 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 recognised in the statement of profit or loss in the specific item *FX result*, which is an element of *Net income on financial instruments measured at fair value through profit or loss and FX result*.

Foreign exchange differences under changes to the fair value of debt financial instruments classified as financial assets at fair value through other comprehensive income are recognised in accumulated comprehensive income relating to financial assets classified to this financial category.

6. Net interest income

Interest income and expense for all financial instruments are recognised in the income statement.

Revenue from interest on financial assets measured at amortised cost and measured at fair value through other comprehensive income is recognised in the income statement at amortised cost using the effective interest rate or effective interest rate adjusted for credit risk.

The effective interest rate method is a method of calculating the amortised cost of an asset or financial liability (or group of financial assets or financial liabilities) and of assigning interest income or expense to the appropriate periods. The effective interest rate is the rate that discounts the estimated future cash inflows or payments made in the expected period until the expiry of the financial instrument, and in justified cases in the shorter period, to the net carrying amount of the asset or financial liability.

When calculating the effective interest rate, the Group estimates the cash flow, taking into account all the provisions of the financial instrument contract; however, it does not take into account potential future losses related to bad loans. The calculation includes all fees and commissions paid and received by the parties to the contract that form an integral part of the effective interest rate, transaction costs and all other bonuses and discounts.

Potential future credit losses are only taken into account for financial assets that are impaired due to credit risk at the time of initial recognition. The above is aimed at calculating the effective interest rate adjusted for credit risk.

Interest income includes interest and commissions (received or due) included in the calculation of the effective interest rate on: loans with repayment schedules, interbank deposits and securities.

In the case of financial assets or a group of similar financial assets classified under Stage 3, interest income is accrued from the present value of the receivable (i.e. value reduced by an impairment loss) using the interest rate used to discount future cash flows for the purpose of estimating impairment losses.



Interest income / expense on derivatives designated as hedging instruments in hedge accounting are presented under *Net interest income*.

7. Commission income and costs

Commission income arises from providing financial services by the Group and comprises i.a. fees for extending a loan, the Group's commitment to extend a loan, cards issue, cash management services, brokerage services, insurance products-related services and asset management services. Commission income comprises also margins on FX derivatives transactions.

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

The Group recognizes the following effective interest rate-adjusting commissions:

- commissions for application review and credit commitment letter issue,
- commissions for limit/ overdraft granted,
- commissions for granting loan or limit/ overdraft,
- commission for restructured loan processing,
- commission for amending the credit agreement as to the amount, currency or schedule of repayments,
- costs of credit and cash loan agency commissions.

Other commissions attributed to origination of financial assets without the repayment schedule are settled using a straight-line method throughout the agreement term.

The Group recognizes the following commissions as the ones cleared on a straight-line basis:

- the commissions described as the commissions adjusting the effective interest rate for the loans for whose commissions no cash flows can be estimated (first of all, current account overdrafts, working capital loans and revolving loans),
- commissions for issuing, confirming or prolonging the time and increasing the amount of guarantees or letters of credit,
- commissions for multi-facility agreements,
- commissions for the loan or limit/ overdraft granted to start another lending year.

Fees on commitment to extend a cash loan, which is likely to be taken, are deferred and as at the date of financial assets origination are settled as the component of effective interest rate or using straight-line method based on the above mentioned criterion.

Other fees and commissions relating to the financial services offered by the Group – like cash management services, brokerage services and asset management services – are recognised in the income statement including the five steps approach:

- 1) identify the contract with a customer,
- 2) identify individual performance obligations in the contract,
- 3) determine the transaction price,
- 4) allocate the transaction price to individual performance obligations,
- 5) recognise income when (or as) each performance obligation is satisfied.

Based on the performed analysis, the Group recognised commission and fee income:

- once the service has been delivered (also for upfront fees) i.e. at transfer of the control over the goods or services,
- over time, if the service delivery is over time,
- at point-in-time, when the Group performs a key operation,
- when there is an actual benefit from the perspective of the customer.

After (or during) satisfaction of the performance obligations, the Group recognises as income the amount which equals the transaction price, that was allocated to this individual performance obligation.

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

Income and costs under bancassurance commission

Fees and commission related to insurance products are recognised in the income statement according to their economic content and classified as:

- commissions being part and parcel of a fee under a financial instrument wherewith the insurance product is linked,
- fee for agency service, and
- fee for additional services after the insurance product sale.

Prior to implementation of the insurance product, in order to recognise it properly in the statement of profit or loss, the Group analyses features of the insurance product and also the link between the insurance product and the banking product. In this analysis, the Group takes account of the prevalence of the economic content over the legal form. The factors analysed by the Group include but are not limited to:



- manner in which an insurance product is offered, option of purchasing a banking product without the insurance product as well as option of purchasing only the insurance product at the Group,
- pricing conditions of the two products sold together and separately,
- profitability of the insurance and banking products sold together and separately,
- sales target of combined products versus sales target of the same banking products sold without insurance,
- option of concluding an insurance agreement outside the Group,
- number of resignations and the value of refunded insurance premiums,
- settlement cycle with a client, and
- scope of activities performed by the Group for the insurer and their duration.

Insurance products offered with loans are treated by the Group as linked to lending products, mainly because of lack of the possibility to purchase at the Bank an insurance product without a loan or a cash loan.

For the absolute majority of insurance products linked with lending products functioning at the Group, the income on insurance products is earned based on monthly settlements with both the insurer and the client. Since the client may resign at any time from the insurance coverage for the following month, the Group treats such insurance as renewed each month and settled for each month separately.

Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Group recognises the income on such insurance in the commission income on insurance products. The Group analogically presents the costs directly related to these insurance products.

Such an approach ensures compliance with the matching principle. At the same time, the Group monitors the level of income on insurance products linked to the lending products in terms of legitimacy of division into interest income and commission income. At present, such a division would not materially impact the Group's income statement. The Group applies an analogical approach to real property insurance with mortgage loans. Taking account of the materiality principle, the Group presents full income on this insurance in the net commission income.

Most insurance products linked with the Group's deposit products (current accounts and savings accounts) use the monthly-settlement structure. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Group recognises the income on such insurance in the commission income on insurance products.

Commissions under insurance products not linked to banking products are recognised in the income statement:

- on a straight-line basis during the insurance policy term – if the Group, apart from other sales operations, also provides additional services during the insurance term,

- on a one-off basis – if the Group does not provide any additional services during the insurance policy term.

Should there be a risk of refund of the fee under the insurance product, the Group decreases its income by the amounts of estimated provisions. The provisions for refunds are established based on the historical data on actual refunds made in the past and based on projections as to the amount of refunds in the future.

8. Net income on financial instruments measured at fair value through profit or loss and FX result

Net income on financial instruments measured at fair value through profit or loss and FX result includes gains and losses arising from disposal and change of fair value of assets and liabilities measured at fair value through profit or loss at initial recognition excluding interest rate derivatives designated as hedging instruments in strategies based on hedge accounting principles..

Net income on financial instruments measured at fair value through profit or loss and FX result also includes fair value adjustments for pre-settlement credit risk and analogous risk generated by the Group (bilateral value adjustment).

9. Net income on the sale of securities and dividend income

Net income on the sale of securities measured at fair value through other comprehensive income consists of realised gains and losses arising from the sale of debt securities measured at fair value through other comprehensive income and dividend income.

Revenue from dividends is recognised in the income statement on the date of determining the shareholders' rights to receive them.

The result on the sale of securities measured at amortized cost consists of the realized profits and losses arising from the sale of debt securities measured at amortized cost.

10. Net (loss)/income on hedge accounting

This item includes the measurement of hedged and hedging transactions in fair value hedging accounting and the net income on measurement of hedging instruments in the ineffective part of hedge relationship of cash flows hedge accounting.

11. Net (loss)/income on other basic activities

Net income on other basic activities includes cost and income not attributed directly to Group's banking and brokerage activity.

These include in particular: net income due to sale of assets (non-current assets and intangible assets), income on sales of other services, income due to recovered bad debts, received and paid damages, penalties and fines.



12. Net profit (loss) attributable to non-controlling interests

Net profit (loss) attributable to non-controlling interests comprises of that part of the profit or loss, net income for the period and net assets of entity subsidiary that can be attributed to shares not held by the Parent entity (directly or indirectly through subsidiaries).

13. Lease contracts and factoring services

13.1. The Group as lessor

The Group is a party to lease contracts, on the basis of which it transfers for payable usufruct non-current assets for an agreed period. Lease contracts are classified by the Group based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

A lease contract is considered as financial lease provided the following terms and conditions are met individually or jointly:

- the contract transfers the asset ownership to the lessee before the end of lease term,
- the contract includes the right of lessee to purchase the asset at the price which, as expected, is that lower than the fair value agreed as at the date when purchase right execution becomes feasible that at the leasing commencement date it is certain that the lessee shall take advantage of this right,
- the lease term corresponds in majority to the term of asset economic lifetime, even if the legal title is not transferred,
- the present value of minimum lease payments as at the lease commencement date in principle equals the leased asset fair value,
- the leased assets are specialised enough that only the lessee may take advantage thereof, without making major modifications thereto,
- the lessee may prolong the contract (or conclude a new one) for additional term for the fee which is materially lower compared to the market,
- the lessee may terminate the contract and any losses of the lessor arising therefrom shall be covered by the lessee,
- profits or losses related to fluctuation of asset residual value are attributable to the lessee.

The lease contracts whereunder the lessor basically retains all the risk as well as benefits arising from holding of leased asset are classified as operational lease contracts.

The lease contract shall be concluded for the term ranging from five to ten years, including transfer of the legal title to the beneficiary (lessee) after lease contract expiry. The ownership of leased asset is the collateral for the liabilities arising from lease contracts.

There are no contingent lease payments within the Group. There are no unguaranteed residual values attributable to the lessor within the Group.

In case of lease contracts, which result in transferring substantially all the risks and rewards following holding of the leased asset (financial lease), the subject of such lease contract is derecognised from the statement of financial position. A receivable amount is recognised in an amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such a way as to achieve reaching a fixed rate of return from the outstanding receivables.

Interest on financial leases is presented in Interest income in the item Interest on loans and other receivables to customers, under the detailed item Interest on lease liabilities.

Lease payments for contracts which do not fulfil requirements of a finance lease are recognised as income in the income statement, using the straight-line method, throughout the period of the lease.

13.2. Factoring services

The Group provides factoring services in local and international trade. Handling and financing receivables as well as risk management are their essence. In addition, as part of factoring activities, the Group provides additional services, in the field of financial limits for debtors, debt collection and taking over commercial risk. Domestic factoring without taking over risk (with recourse) is the dominant form of factoring activity of the Group.

Interest income is shown in the income statement in the item *Net interest income*, while commission income is shown in the item *Net commission income*.

14. Financial assets and liabilities

14.1. Initial recognition

The Group recognizes a financial asset or liability in the statement of financial position when it becomes bound by the provisions of the contract of this instrument.

Purchase and sale transactions of financial assets measured at amortised cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss are recognised in accordance with the accounting method adopted for all such operations on the transaction settlement date – the date on which the asset is delivered to the unit or delivered by the unit. Loans and receivables are recognised upon disbursement of funds to the borrower.



Upon initial recognition, a financial asset or financial liability is measured at fair value, increased in the case of a financial asset or liability not classified as measured at fair value through profit or loss, by significant transaction costs that can be directly attributed to the acquisition or issue of the financial asset or financial liability.

14.2. Classification of financial assets

The Group classifies financial assets into one of the following categories:

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

Financial assets measured at amortised cost

Financial assets shall be measured at amortised cost if both of the following conditions are met and is not designated to be measured 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

Financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met and it is not designated for measurement measured 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 sell financial assets 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.

Equity instruments measured at fair value through other comprehensive income

Equity instruments are measured at fair value through other comprehensive income in a situation where, upon initial recognition in the Group's books, an irrevocable decision has been made to designate a specific investment to be measured at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

All financial assets that do not meet the criteria for classification to financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

In addition, Group may, at initial recognition, irrevocably designate a financial asset for measurement measured at fair value through profit or loss, even though it fulfils conditions for classification to financial assets at amortised cost or financial assets measured at fair value through other comprehensive income. The necessary condition is to confirm that such designation is aimed at elimination or significant reduction of an accounting mismatch that would otherwise arise.

Business model assessment

The Group assesses the objectives of the business model at the level of the Group's unit that manages financial assets and is a so-called business owner of the particular financial assets portfolio. The following business models are identified for managing the financial assets i.e. in order to:

- collect contractual cash flows,
- collect contractual cash flows and sell financial assets,
- other (e.g.: in order to maximize profits on sales).

The business models are established at the level which is the best reflection of the Group approach to management of financial assets in order to fulfil business objectives and generate cash flows.

During assessment, the Group verifies all areas of Group's units activities identified as business owners of a particular portfolio of financial assets and which may have influence on the decisions taken with regard to holding assets in the Group's portfolio, including but not limited to:

- assumptions of the product offer,
- organisational chart of a Bank's unit,
- assumptions of assessment of the performance of the particular assets portfolio (e.g.: approach to planning, management information assumptions, key assessment indicators),
- approach to compensation of the key managers in relation to portfolio performance or cash flows generated on the portfolio,
- the risk generated by the assets portfolio and approach to management of those risks,
- assessment of sales activities from assets portfolio (frequency, volume and reasons for the sales), and
- assessment of expectations regarding sales activities in the future.



The Group permits the sales of financial assets held to collect contractual cash flows, due to the following reasons:

- increase of credit risk,
- sales close to maturity,
- infrequent sales,
- sales insignificant in value.

The Group took the following assumptions:

- Sales close to maturity means the sales of financial assets whose:
 - original maturity is more than 1 year and sales occurs less than 6 months before maturity date,
 - original maturity is less than 1 year and sales occurs less than 3 months before maturity date.
- infrequent sales means that the number of sales compared to the average number of items in the business model is less than 10%,
- insignificant in value means for which both the value of the sales compared to the total value of the business model and the net gains from the sales compared to the total net interest income of the business model is less than 10%.

Assessment of cash flow characteristics

In order to assess the cash flow characteristics the Group formulated the following definitions:

- principal – means fair value of the financial asset at initial recognition in the Group's books,
- interest – means the payment including consideration for:
 - time value of money,
 - credit risk resulting from principal amount outstanding within a specified period,
 - other basic lending risks and costs (e.g. liquidity risk and administrative costs), and
 - profit margin.

The assessment is to confirm that the realised cash flows are solely repayment of principal and interest on the principal amount outstanding. The Group verifies the contractual terms, which have influence on the timing of realised cash flows and the amount of the cash flow realised on particular financial asset.

In particular the Group verifies the following conditions:

- contingent events which have influence on the timing and the amount of cash
- leverage,

- prepayment or funding extension conditions,
- non-recourse conditions for the realised cash flows,
- terms that modified the consideration for time value of money.

The assessment of the conditions that modified the time value of money is conducted based on qualitative or quantitative analysis.

In case the qualitative assessment does not provide the conclusions as to the realised cash flow characteristics, the Group performs a quantitative assessment. The quantitative assessment is based on comparison of the difference between:

- undiscounted contractual cash flows and
- undiscounted cash flows that would arise at benchmark asset that not include the conditions modifying consideration for time value of money.

If the difference between assessed cash flows is significant, then the verified asset will be obligatorily classified to measurement measured at fair value through profit or loss, as the realised cash flows are not solely repayments of principal and interest on principal amount outstanding.

14.3. Classification of financial liabilities

The Group classifies financial liabilities into one of the following categories:

- measured at fair value through profit or loss,
- measured at amortised cost,
- financial guarantees.

Financial liabilities measured at fair value through profit or loss

Derivatives that are liabilities and financial liabilities recognised as a result of the short sale of securities are measured after initial recognition measured at fair value through profit or loss.

Financial liabilities measured at amortised cost

Financial liabilities being a contractual obligation to deliver cash or other financial asset to another entity not measured at fair value through profit or loss, being a deposit or loan received or a financial liability recognised in the result on financial asset sales transaction that cannot be derecognised from the statement of financial position.



Financial guarantees

A financial guarantee is a contract under which the issuer undertakes to make specified payments to the beneficiary to compensate the beneficiary for losses caused by the failure of a specified debtor to make repayments under the original or modified terms of a debt instrument contract.

14.4. Derecognition

The Group derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Group transfers the financial asset and the transfer qualifies for derecognition.

The Group transfers a financial asset if and only if it:

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

In a situation where the Group retains contractual rights to cash flows but assumes a contractual obligation to transfer these cash flows to a third party, the Group treats such a transaction as a transfer of a financial asset only if all of the following three conditions are met:

- The Group is not required to pay the final recipients until it receives the corresponding amounts resulting from the original asset,
- under the transfer agreement, the Group may not sell or pledge the original asset other than a security for the obligation to transfer cash flows established for the benefit of final recipients,
- The Group is required to remit all the cash flows received from the original asset without material delay.

When transferring a financial asset, the Group assesses the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group:

- 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 Group determines whether it has retained control of the financial asset. In this case if the Group has retained control, it continues to recognize the financial asset, and if the Group has not retained control, it derecognizes the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognizes a financial liability (or 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.

The Group derecognizes financial assets or their part, if the rights pertaining to the financial assets expire, the Group waives such rights, sells those receivables, they are cancelled or as a result of significant modification of the loan or cash loan contractual terms.

The Group reduce the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This principle is applied, among others, to accrued penalty interest, also when the principal amount of the related financial assets is still recognized in the statement of financial position.

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

14.5. Modification of contractual cash flows

When the terms of the loan and cash loan agreements are renegotiated and contractual cash flows of a financial asset are modified, the Group assesses if such modification was significant and should result in the extinguishment of that financial asset and recognition of a new financial asset.

The Group assumes that such significant modification of the terms of the agreement will take place in case of a:

- change of the debtor with the consent of the Group
- change of the legal form/type of the financial instrument or
- change of loan currency unless it was included in contractual terms.

In case of non-significant modification which does not result in derecognition of financial assets, the Group recalculates gross carrying amount of the financial asset and it recognises a modification gain or loss in profit or loss.

14.6. Measurement

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, except for the financial assets measured at amortised cost using the effective interest method.

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

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value, in particular a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument,
- financial liabilities resulting from the transfer of a financial asset which do not qualify for derecognition or which are recognised on a continuing involvement basis,



- commitments to provide a loan at a below-market interest rate which it shall subsequently measure it at the higher of:
 - the amount of impairment for expected credit losses, and
 - the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with principles of IFRS 15,
- contingent consideration recognised by the Group acting as an acquirer in a business combination to which IFRS 3 applies, which it shall subsequently be measured at fair value through profit or loss.

If the estimates of payments or inflows change (excluding immaterial modifications and changes in estimates of expected credit losses), the Group adjusts the gross carrying amount of the asset or the amortised cost of the financial liability (or group of financial instruments). For this purpose, the Group translates the gross carrying amount of a financial asset or the amortised cost of a financial liability as the present value of estimated future contractual cash flows that are discounted at the original effective interest rate of the financial instrument (or the credit-adjusted effective interest rate for purchased or credit-impaired financial assets created) or, where applicable, the revised effective interest rate).

In particular, the Group adjusts the gross carrying amount of the portfolio of mortgage loans denominated in foreign currencies, taking into account the changed estimated cash flows from these agreements resulting from the legal risk of this portfolio. The adjustment is recorded as a separate line in the income statement *Cost of legal risk of FX mortgage loans*.

Granted financial guarantees are measured at the higher of:

- the amount being the most appropriate estimate of the expenditures needed to fulfil the current obligation arising from the financial guarantee, upon consideration of the probability of materialisation thereof;
- the amount recognised at the initial recognition, adjusted with the settled amount of commission received for granting the guarantee.

14.7. Reclassification

A particular financial asset may be reclassified to another financial category only if the business model changes. In such case, that financial asset is transferred to financial category in accordance with current business model. Reclassification shall apply prospectively (i.e. from reclassification date).

In case of reclassification of:

- Financial asset at amortised cost to financial asset measured at fair value through profit or loss, its fair value is measured as at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in financial result.

- Financial asset measured at fair value through profit or loss to financial asset at amortised cost, its fair value as at the reclassification date becomes its new gross carrying amount and will be amortised according to general rules.
- Financial asset at amortised cost to financial asset measured at fair value through other comprehensive income, its fair value is measured as at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.
- Financial asset measured at fair value through other comprehensive income to financial asset at amortised cost – the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset. The financial asset is measured at the reclassification date as if it had always been measured at amortised cost.
- Financial asset measured at fair value through profit or loss to financial asset measured at fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and the measurement is carried through equity.
- Financial asset measured at fair value through other comprehensive income to financial asset measured at fair value through profit or loss – the cumulative gain or loss previously recognised in other comprehensive income is removed from equity to financial result as reclassification adjustment in accordance with IAS 1.

14.8. Gains and losses resulting from subsequent measurement

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

- a gain or loss on a financial asset or financial liability classified as measured at fair value through profit or loss is recognised in the income statement;
- a gain or loss on an asset measured at fair value through other comprehensive income is recognised directly in equity through statement of changes in equity.

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

- purchased or originated credit-impaired financial assets. The Group applies the credit risk adjusted effective interest rate to the value of amortised cost of a financial asset as of the initial recognition, and
- financial assets that are not purchased or originated credit-impaired financial assets which subsequently became credit-impaired financial assets (Stage 3).



For those financial assets the Group applies the effective interest rate to the value of amortised cost (net) of a financial asset in subsequent reporting periods.

Dividends on an equity instrument are recognised in the income statement when the entity's right to receive payment is established.

Foreign exchange gains and losses arising from a change in the fair value of a financial asset measured at fair value through other comprehensive income denominated in foreign currency are recognised directly in equity only for non-monetary assets. Foreign exchange gains and losses arising from monetary financial assets (e.g. debt securities) denominated in foreign currency are recognised directly in the income statement.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognised previously in equity:

- regarding debt financial assets are recognised in the income statement,
- regarding equity instruments are recognised in equity.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined on the basis of the bid price for long position and offer price for short position. Should there be no active market for a given instrument or for the securities not quoted on an active market, the Group establishes the fair value with the use of valuation techniques that include using recent arm's length market transactions, discounted cash flow analysis and option pricing models and other techniques commonly used by market players.

Market activity is assessed on the basis of frequency and the 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 Group 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 methods of determining the fair value, financial assets/liabilities are classified to the following categories:

- Level 1: financial assets/liabilities measured directly on the basis of prices quoted in the active market.
- Level 2: financial assets/liabilities measured on the basis of measurement techniques based on assumptions using data from an active market or market observations.
- Level 3: financial assets/liabilities measured on the basis of measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

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

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

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

14.9. Cost basis of debt and equity securities

Estimation of fair value of and result on sale of securities requires application of a certain cost basis for investment. The cost basis for investment applied in that respect is based on the interpretation resulting in application by an analogy of the guidelines given in IAS 2 Inventories, however only as far as possible considering the unique nature of the financial instruments of this type.

The Group applies the "weighted average purchase price" as the effective cost basis for investment to estimate fair value of and result on sale of securities with the capital rights.

The Group applies the "first-in first-out" (FIFO) method as the cost basis for investment for debt securities.

14.10. Derivative instruments and hedge accounting

Derivative instruments are measured at fair value without cost of transactions, which are to be incurred. The base of initial fair value valuation of derivatives is the transaction price, i.e. fair value of received or paid amount.

Settlements exchanged for Interest Rate derivatives cleared via a central counterparty that are subject to settled to market contracts reduce the derivative's carrying value.

The credit risk component is included in the fair value measurement for derivative instruments through credit valuation adjustments. Valuation adjustments are estimated per counterparty considering the expected pre-settlement exposure credit risk and the same risk generated by the Group. This approach provides for the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated) and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Group insolvency are calculated by analogy.

In addition, for receivables resulting from matured or terminated but unsettled derivatives, the Group establishes impairment losses using the methodology applied to assessing the risk of impaired credit receivables.



The two adjustments as mentioned above were differently reflected in the financial statements. Fair value adjustments due to risk for non-matured transactions were presented in the item Net income on financial instruments measured at fair value through profit or loss and FX result, whereas the impairments losses for matured transactions in the item Impairment for expected credit losses.

If a transaction whose fair value was adjusted in the previous reporting period in the item Net income on financial instruments measured at fair value through profit or loss and FX result becomes mature or subject to restructuring, then the amount of the previous fair value adjustment is moved to the item Impairment for expected credit losses and the added part of the impairment loss for such already matured transaction is presented in the statement of financial position in the item Impairment for expected credit losses. Therefore the financial result is impacted only by the amount of surplus of the current impairment loss (or write-down) for a mature transaction above the amount of the fair value adjustment made before the transaction has matured.

Hybrid instrument contains the main agreement which is not a derivative and derivative which causes, that part or all of the cash flows resulting from the main agreement is modified based on specific interest rate, price of financial instrument, price of commodity, FX rate, price or interest rate index or other variable.

A hybrid (combined) instrument where the host contract is the Group's asset is classified in full to financial assets measured at fair value through profit or loss.

The Group separates and recognizes in the consolidated statement of financial position the derivatives being hybrid instruments components where the host contract is the Group's liability. Embedded derivatives separated from the host contract are recognised analogically to other derivatives if economic features and risks related to embedded derivatives are not strictly connected to the economic features and risks relevant for the host contract, a derivative with the same terms as the embedded derivative fulfils the definition of a derivative and the host contract being the Group's liability is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value and its changes are recognised in the income statement.

The Group uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the Group. Those derivatives, which were not designated as hedge instruments pursuant to the principles of hedge accounting, are classified as instruments measured at fair value through financial result.

14.10.1. Hedge accounting

The Group applies the hedge accounting requirements of IAS 39.

Hedge accounting presents the offsetting effects of fair value changes of both hedging instruments and hedged items which impact the income statement.

The Group designates certain derivative instruments as fair value hedging instrument or cash flow hedging instrument. The Group uses hedge accounting, if the following conditions are met:

- formal documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Group. The Group specifies the manner for assessing the effectiveness of the hedging instrument in offsetting changes in cash flows due to the hedged transaction in terms of mitigation of risk the Group hedges against,
- the hedging instrument and hedged instrument are similar, especially nominal value, maturity date and sensitivity to hedged risk,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the financial result,
- the effectiveness of the hedge can be assessed credibly, so the fair value of the hedged item or the cash flows of the hedged item as well as fair value of a hedge instrument can be valued credibly,
- the hedge is assessed on an ongoing basis and is determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument measured at fair value (i.e. for a derivative hedge instrument) is recognised in the income statement; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognised in the income statement. In view of the above, any ineffectiveness of the strategy (i.e. lack of full offsetting for changes to the fair value of the hedged item and changes to the fair value of the hedged instrument) is immediately disclosed in the income statement.

If a hedged item is a component of financial assets measured at fair value through other comprehensive income, the profit or loss resulting from the hedged risk is recognised in the statement of profit or loss, and the income statement resulting from non-hedged risk is recognised in equity.

The Group applies the fair value hedge accounting in order to hedge changes in fair value of fixed-rate debt instruments classified to the portfolio of assets measured at fair value through other comprehensive income and fixed-rate debt instruments classified to the portfolio of assets at amortised cost against the risk resulting from interest rate changes.



Cash flow hedge

Cash flow hedge is a hedge of the exposure to volatility in cash flows that:

- is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction,
- could affect the income statement.

A cash flow hedge is accounted for as follows: the changes of the fair value of the hedge instrument, which are an effective part of hedging relationship, are recognised directly in equity through the statement of comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned future transaction, are transferred into income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

The Group applies cash flow hedge accounting in order to hedge the amount of future cash flows of certain portfolios of assets/liabilities of the Group or the portfolio of highly probable planned transactions against the interest rate risk and the highly probable planned transactions against the FX risk.

14.10.2. Derivative instruments not qualifying as hedging instruments

Changes in fair value of derivatives that do not fulfil the criteria of hedge accounting are disclosed in the statement of profit or loss for the current period. Changes in fair value of interest rate derivatives arising from ongoing accrual of interest coupon are disclosed under Net interest income on derivatives, whereas the remaining part of changes in the fair value of interest rate derivatives is presented under *Net income on financial instruments measured at fair value through profit or loss and FX result*.

Changes in the fair value of FX derivatives are presented under *Net income on financial instruments measured at fair value through profit or loss and FX result*.

14.11. Offsetting financial instruments

The Group offsets financial assets and financial liabilities and presents them in a net amount in the statement of financial position when and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In order to mitigate credit risk, the Group concludes master agreements with contracting parties, with which the Bank concludes transactions. These master agreements provide for offsetting financial assets and liabilities in case

of a breach of the master agreement. Due to the conditional nature of these contractual provisions, there is no netting in the financial statements and the effects of conditional netting are presented in note 38. *Offsetting financial instruments*.

14.12. Repo, reverse repo transactions

The Group presents the financial assets sold with the repurchase clauses (repo, sell-buy-back transactions) in its statement of financial position, simultaneously recognising a financial liability under a repurchase clause. This is done in order to reflect the risks and benefits arising on this asset item that are retained by the Group after the transfer.

For the securities purchased with a reverse repurchase clause (reverse repo, buy-sell-back), the financial assets held are presented as receivables arising from repurchase clause, hedged with securities.

14.13. Impairment

Estimation of the impairment loss is based on the expected credit loss. This approach shall be applied to debt financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, lease receivables, contract assets, irrevocable loan commitments and financial guarantees, except for investment in equity securities.

At each reporting date, the Group measures the impairment for expected credit losses for a financial asset at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Group measures the impairment for expected credit losses for that financial asset at an amount equal to 12-month expected credit losses.



The Group estimates expected credit losses in a way that takes account of:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group has clarified the definition of exposures in default status, impaired exposures and non-performing exposures, thereby unifying the approach in this respect to regulatory requirements. A debtor or an exposure is assessed as default is also identified as an impaired and non-performing exposure.

Three stage approach

During the process of estimating expected credit losses, the change of the credit quality for a particular credit exposure since initial recognition is described based on three stages, the reflecting the various approaches to measurement the expected credit losses:

- Stage 1 includes performing exposures that have not had a significant increase in credit risk since initial recognition. Expected credit loss shall be measured based on 12-month expected credit losses (or till maturity date if such exposures will expire in less than 12 months).
- Stage 2 includes performing exposures that have had a significant increase in credit risk since initial recognition. Expected credit loss is calculated on the basis of anticipated losses throughout the lifetime, or from the reporting date until the remaining maturity.
- Stage 3 – impaired exposures, which means non-performing loans. Expected credit loss shall be measured based on lifetime expected credit losses and PD = 100%.

The Group qualifies the financial exposures to Stage 1, 2 or 3 using a cascade approach in the following order:

1. Identification of impaired exposures and classification thereof to Stage 3,
2. Allocation to Stage 2 based on triggers for significant increase of credit risk.
3. Allocation of other exposures to Stage 1.

Significant increase in credit risk

The Group determines the significant increase in credit risk, which results in classification to Stage 2, based on one of the following triggers (where the first one is the leading one):

- significant increase in the lifetime PD at reporting date comparing to the lifetime PD at initial recognition occurring over the period from the reporting date till maturity date;

- watch list status, unless an assessment of the credit risk of the individual counterparty indicated there is no significant increase in credit risk,
- a customer rating set to 18/19 or customer service by a corporate restructuring unit,
- forbearance status,
- more than 30 days past due.

Thresholds of significant increase in PD parameters in the lifetime of exposure comparing to PD at initial recognition, indicating significant increase in credit risk, are established for models according to assumed methodology as:

- absolute threshold – indicates maximum difference between PD at the reporting date and PD at initial recognition which triggers classification to Stage 2,
- relative threshold – indicates maximum relation between PD at the reporting date and PD at initial recognition and is expressed as the product of the logarithm based on the PD transformation from the initial recognition and the ratio value determined at the portfolio level, beyond which the exposure is classified to Stage 2.

The methodology of establishing PD thresholds to indicate significant increase in credit risk is based on performing an appropriate segmentation followed by statistical indication of the threshold to classify exposures to Stage 2 which maximizes discriminatory power of classification to stages, under certain assumptions, among others, minimization of classification errors.

Evidence and triggers for classification of assets at amortised costs to the Stage 3

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

Evidence of impairment

The evidence of impairment is:

- identification of objective evidence of impairment (in the case of corporate and retail credit exposures), or
- a delay in repayment of more than 90 days and, at the same time, the amount of the arrears exceeds the absolute and relative materiality threshold.



Objective evidence of impairment does not require expert judgment – identification of the occurrence of such evidence causes the credit exposure to be considered defaulted and, at the same time, impaired without further analysis. Objective impairment evidence of corporate or retail credit exposures cover the occurrence of minimum one of the following situations:

- restructuring of the credit exposure for non-commercial reasons related to significant financial difficulties of the client, resulting in a change to the existing terms of the contract, full or partial refinancing of the exposure at risk, which would not have taken place if the client had not experienced financial difficulties (including forbearance), resulting in a loss of more than 1% of the present value of discounted future cash flows; for retail credit exposures – non-performing restructuring,
- write-down or write-off by the Group in the process of restructuring of a significant amount of corporate client receivables resulting in a reduction in cash flows from a given financial asset,
- filing by the Group, the client's counterparty or another bank for the client's bankruptcy or the initiation of proceedings under the restructuring law,
- declaration of bankruptcy; in the case of corporate credit exposures, the client was put into liquidation, ceased operations,
- the credit exposure becomes due to the termination of the credit agreement by the Group,
- sale by the Group of a credit receivable (or its part) with a loss greater than 5% of the balance sheet exposure amount, if the sale was caused by the deteriorating credit quality of the exposure,
- the occurrence of an overdue exceeding 30 days or granting another forbearance on a credit exposure classified initially as forbearance non-performing, and then healed and in the forbearance performing status during the trial period,
- interest-free status (interest stoppage) for a credit exposure,
- for retail credit exposure, over 3-month arrears in repayment of due liabilities under the loan with a one-off repayment of the entire mobilised capital at the end of the loan period,
- for corporate credit exposures – making a decision to recover debts as part of the debt collection strategy,
- questioning the balance sheet credit exposure by the client in court proceedings.

Impairment triggers

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

The triggers for impairment for corporate credit exposures (excluding exposures to entrepreneurs) include:

- granting by a natural person in default of obligations, a surety at the Bank for significant obligations of a company belonging to it or when a natural person is a debtor of the Bank and the company belonging to it is in default,
- over 3-month arrears in repayment (including all interest, principal and commissions) under the loan with a one-off repayment of all disbursed capital at the end of the loan period (not applicable if the repayment frequency exceeds one month),
- the customer belongs to the same economic or legal group as the defaulting debtor,
- disappearance of the possibility of refinancing,
- for exposures resulting from transactions concluded on the financial market – disappearance of an active market (e.g. suspension of quotations on the WSE) for a given financial asset (shares, bonds, other securities) held by the Group due to financial difficulties of the issuer / client, which may have a negative effect on the future cash flows of a given financial asset,
- the customer ceases to repay principal, interest or commission and the delay in repayment or the oldest unauthorised overdraft continues for more than 45 calendar days,
- bankruptcy threat, submission of an application to initiate proceedings under restructuring law or other financial reorganization, which may result in non-repayment of a financial asset or its delay,
- no intention or possibility of repayment by the debtor due to the existing financial problems; in particular, the following events may indicate significant financial difficulties (the events described in points "1" to "5" are not triggers for impairment if they were assumed in the client's financial plans at the time of granting the involvement and the Group accepted such plans:
 - 1) negative equity at the end of the annual accounting period,
 - 2) negative cash flows from operating activities in three consecutive annual accounting periods (from the cash flow statement, and if it is not prepared, then from the simplified cash flow statement),
 - 3) revenues from core activities decrease significantly (over 50% year on year based on the results of annual accounting periods) or revenues from core activities decrease (over 30% year on year based on the results of annual accounting periods) and, at the same time, the ratio of debt to EBITDA (earnings before interest, taxes, depreciation and amortization, profit before deduction of interest on interest-bearing liabilities, taxes



and depreciation) is greater than 4 or EBITDA is less than 0 (if the contract contains a different definition of the trigger, the event is a trigger for impairment, if it is exceeded level 4 as defined in the contract. If the contract indicates the level of the ratio > 4, then we identify the triggers for impairment when exceeding the level specified in the contract),

- 4) Negative EBITDA in two consecutive annual financial periods,
 - 5) the implementation of financial projections by the client negatively differs from the range approved by the Group by at least 20%, which leads to a significant breakdown of financial ratios,
 - 6) the events described in points "1" to "5" occurred during the accounting year, provided that they occurred in the amounts considered significant and the Group expects that the situation will not improve until the end of the annual accounting period and this situation may result in failure to repay the financial asset or its delay,
 - 7) active enforcement to client accounts kept in the Group, if the oldest active enforcement order persists for more than 90 days and the total amount of active titles exceeds PLN 100 thousand; PLN for customers of the corporate sales network or PLN 500 thousand for strategic clients,
 - 8) unsettled claims under guarantees granted by the Group (lack of customer funds), if the customer's overdue liability to the Group due to the payment of the guarantee by the Group persists for more than 45 days from the date of payment of the guarantee claim,
 - 9) termination of a loan agreement with another bank of significant value,
- a material breach of contractual terms by the customer, which may have a negative impact on future cash flows from a given financial asset (if there has been a material breach of contractual terms, but the Group, after identifying and assessing the causes and effects of such breach, accepted them (temporarily or permanently) or changed, such an event is not treated as a trigger for impairment),
 - unknown whereabouts of the client, resulting in a lack of representation in contacts with the Group and undisclosed assets of the client,
 - crisis of the sector in which the client operates, combined with the borrower's weak position in a given sector,
 - restructuring of the loan receivable for non-commercial reasons related to significant financial difficulties of the client, resulting in a change to the existing terms of the contract, full or partial refinancing of the exposure at risk, which would not have occurred if the client had not experienced these financial difficulties (including forbearance) and loss of the net present value of cash flows is equal to or less than 1%,
 - credit fraud of the debtor towards the Bank or another ING Group entity,
 - the exposure has received a forbearance 2 or more times in the last 5 years,

- a significant deterioration of the client's rating resulting in its reclassification to a risk class of at least 17 with a simultaneous drop by at least 4 classes.

The Group has also determined the following additional triggers for impairment for leveraged transactions (i.e. transactions with a high level of debt relative to operating profit):

- a significant breach of an important financial clause or failure to return to the state from before the breach, especially when the customer simultaneously requests a repayment facility,
- forbearance refinancing of the existing borrower with an increased level of financial leverage (IBD / EBITDA, i.e. interest bearing debt / earnings before interest, taxes, depreciation and amortization, total liabilities / profit before deduction of interest on interest-bearing liabilities, taxes and depreciation) compared to leverage levels at the time of funding or previous refinancing,
- refinancing of the exposure with the repayment of the entire mobilised capital at the end of the loan period in the event of financial difficulties of the client and with a low probability of refinancing by another bank under current market conditions,
- the base case and stress case scenarios indicate the lack of sufficient and stable cash flows to service the debt in accordance with the adopted schedule;

and the following additional triggers for the revenue-generating real estate financing transactions:

- LTV (Loan to Value) > 90% and this is not a temporary situation,
- historical DSCR (debt service cover ratio) ratio < 1.0 or ICR (interest coverage ratio) < 1.0 (depending on which indicator is used for transaction risk assessments) for two consecutive annual accounting periods and cash flows generated by the real estate are, in the opinion of experts, insufficient to repay and service the loan in accordance with the adopted schedule.

The triggers for impairment for retail credit exposures and credit exposures to entrepreneurs include:

- failure to meet a minimum of three debt repayment arrangements within the current period of arrears,
- a natural person who has issued a surety in the Group for significant obligations of their company is in default or a natural person is a debtor of the Group and their company is in a state of default,
- the business client is related to the same group of debtors (legally or economically) in which one of the debtors is defaulted,
- no intention or possibility of repayment – in the Group's opinion, the debtor does not want to pay off the obligation or is unable to pay; the inability to repay the liability occurs when the debtor's sources of income are insufficient to repay the instalments due, e.g.:



- for an individual client: loss of job, termination of social benefits payments, divorce, serious illness, death of the debtor, obtaining information on untimely servicing of a debt of significant value in another bank (over 90 days overdue) or commencement of enforcement / debt collection activities by another bank,
- for a business client: (anticipated) cash shortfall, (anticipated) high or sudden increase in leverage, (anticipated) breach of financial clauses, (anticipated) deterioration in a market where the debtor's position is weak,
- approving a forbearance to the customer that is not able to repay its financial obligations under a loan agreement with the Group due to existing or anticipated financial difficulties,
- credit fraud of the debtor towards the Group – reasonable suspicion of extortion of a loan, i.e. an obligation whose credit documentation or the established facts indicate that it was granted as a result of deliberate misrepresentation of the Group by presenting documents, certificates, and statements that are not factually correct,
- occurrence of minimum two forbearance instances within 5 years of granting the first forbearance.

In the process of identifying impairment, the Group first assesses whether there is any objective evidence or trigger for impairment for financial assets.

The entire loan portfolio of retail and corporate clients is subject to the control for impairment of exposure. Credit exposure is assessed for impairment in relation to the debtor automatically on a daily basis for customers from retail segments and on a current basis and on the applicable dates of regular and irregular portfolio monitoring in relation to corporate customers. Objective evidence of impairment requires the client to be reclassified to the portfolio of non-performing exposures.

Identification of the triggers for impairment of the credit exposure of corporate clients requires an individual expert assessment of the debtor's situation and a decision whether the classification to default is justified, i.e.:

- assessment of the customer's potential to repay all credit obligations to the Group in compliance with the agreement and a documented assessment,
- if no default or impairment is identified, a written justification for leaving the client in the performing portfolio should be prepared,
- if as a result of the assessment a situation of default or impairment was identified – reclassification of the client to the portfolio of non-performing exposures.

If, as a result of the assessment, it is concluded that there is no evidence of impairment for a given financial asset, the asset is included in groups of financial assets with similar credit risk characteristics that indicate the debtor's ability to repay the entire liability in accordance with the terms of the contract. In the groups designated in this way, the impairment loss is calculated using the collective method, based on the valuation of expected credit losses. If

there is evidence that an impairment loss has been incurred on an asset measured at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate of the financial instrument.

In practice, this means that for assets from the Stage 3 portfolio subject to individual assessment (individually significant financial assets), the impairment is calculated directly using discounted future cash flows for a given asset, and for assets from the Stage 3 portfolio subject to collective assessment (financial assets insignificant) – is determined using the collective impairment method with the use of the expected credit loss over the life of the asset. When estimating future cash flows, the available information about the debtor is taken into account, in particular, the ability to repay the exposure is assessed, and in the event that the credit exposure has collateral, the estimation also takes into account the expected future cash flows from the realization of the collateral, taking into account inter alia time, costs and difficulties in recovering payments as a result of selling the collateral.

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

The Group applies a new definition of default, in line with the guidelines of the European Banking Authority (EBA) No. EBA/GL/2016/07 of 18.01.2017 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013.

Measurement of expected credit losses

In order to measure the expected credit losses under collective approach, the Group uses the adjusted to IFRS 9 requirements the existing regulatory capital models (PD, LGD, EAD) developed for the Advanced Internal Ratings Based (AIRB) approach. The models of risk parameters for the purpose of IFRS 9 follow the same structure as the models for regulatory capital purposes, however the manner of estimating the specified value of PD, LGD and EAD is adjusted to IFRS 9 requirements, in particular it includes reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions. The model's parameters were calibrated in accordance with the “point-in-time” approach and are programmed within 30 years' time-frame. EAD parameter includes the repayment schedules in accordance with credit agreements.

The amount of the revaluation charge calculated collectively is based on the history of losses for asset portfolios with similar credit risk characteristics. For the purposes of determining risk parameters, the Group uses over thirty models for the needs of which exposures are classified into homogeneous groups with similar characteristics based on different criteria (mainly product characteristics, e.g. loan duration, form of collateral and purpose of the loan, and type of client and financing). Exposures from the retail banking segment are divided into mortgage and consumer. Corporate banking exposures are grouped mainly by customer size (e.g. small and medium-sized



enterprises, corporations), customer type (e.g. financial institutions), loan application (e.g. real estate financing, project financing) and product (e.g. leasing, factoring).

The Group measures the lifetime expected credit losses LEL (Lifetime Expected Loss) – is the discounted amount of partial losses over the lifetime of the exposure, relating to default events in each 12-month time window by the maturity date of the exposure, taking into account the scenario weights.

For credit exposures classified to Stage 1, a 12-month expected credit loss is applied.

For credit exposures in default at Stage 3 and for which the collective provision is computed, the Group measured the lifetime expected credit losses.

The time value of money was reflected in expected credit losses by two discount factors:

- The discount factor between the moment of default and the moment of debt recovery. It is used for the parameters of the regulatory LGD models.
- Discounting between the reporting date and the moment the exposure becomes in default which is partly taken into account in calculating the lifetime expected loss LEL. The Group assumes that for each time window of 12 months the event of default occurs on average in the middle of the period 0-12 months.

The Group measures the expected credit losses as the probability weighted average of the few macroeconomic scenarios (mostly three: a baseline, negative and positive scenario) with different probability to occur. The expected loss is determined separately for each scenario and the probability weighted average results from the weights (probabilities) assigned to each scenario (sum of weights = 100%). Such approach fulfils IFRS 9 requirements that the impairment for expected credit losses should reflect an unbiased and probability-weighted amount that is determined based on a number of possible outcomes.

Weightings of scenarios result directly from macroeconomic assumptions made. The Group has chosen for the 90th percentile of macroeconomic factors distribution as a downside scenario because it corresponds the assumptions of other calculations in the Group related to risk appetite, which use 90% confidence level (e.g. RWA at risk) and 10th percentile for positive scenario as a mirror approach. 90th and 10th percentile of the distribution imply directly the probabilities of realization of these scenarios – both have statistically a 20% probability of realization. Consequently, the baseline scenario is a supplement of these extreme scenarios and it has 60% probability weighting.

The forecast (measurement) of the expected loss is conducted at each point in time in the future depending on the expected future economic conditions at a given point. Based on the data about past events, the Group determined the relation between the observable parameters of expected loss (PD, LGD) and macroeconomic factors as functions, based on which – at predicted macroeconomic factors – Bank computes the predicted parameter values of expected loss in a given year in the future in accordance with forward looking “point in time” approach.

The impact of macroeconomic factors on expected credit losses is ensured in the Group by including them in the

modelling of particular risk parameters, which enables appropriate selection of factors specific for a given parameter and portfolio type. Selection of appropriate macroeconomic factors constitutes a part of model building process and includes several stages, both expert based that guarantee an economically interpretable relation as well as statistical approach which enables the assessment of their significance and power of relations. The assessment of the adequacy of the impact of macroeconomic factors is part of the overall assessment of the models for determining impairment for expected credit losses as part of the model monitoring performed by the Group.

For the purpose of measurement of the expected credit loss, the Group determines the level of EAD exposures only for irrevocable loan commitments through the use of CCF conversion factors (the range of utilization of the undrawn loan commitment during a period from the reporting date till the default event) from regulatory EAD models (estimated in accordance with “through the cycle” approach). EAD decreases during the time according to payment schedule of the particular credit exposure.

For the financial exposures with determined maturity payment date, the expected lifetime is limited to 30 years. When the lifetime of the significant part of portfolio is more than 30 years, the length of the period to maturity equals the expected lifetime of such exposures.

For the financial exposures without maturity payment date (e.g.: some revolving credit facilities and credit cards) the expected lifetime is determined by the statistical behavioural parameter.

The LGD parameter, which is a function of used techniques for mitigation of credit risk and it is expressed as percentage of EAD, it is estimated on a product and exposure level based on the parameters of the regulatory LGD models (estimated according to “through the cycle” approach) which were properly calibrated for the purpose of IFRS 9. Collateral recoveries are an integral part of the construction of LGD models and, as a rule, the criteria for recognizing collateral are consistent with the CRR requirements. The most important collaterals recognized by the Group include mortgage collaterals (residential and commercial) as well as guarantees and sureties.

The level of LGD which is used for the estimation of the amount of the impairment loss according to the collective method for defaulted exposures (PD = 100%), depends on the period during which the exposure was identified as defaulted. In addition, for corporate clients segment in the field of large and medium-sized companies, the Group uses the so-called the policy of full provision whereunder for defaulted exposures from at least 2 years, the value of LGD parameter equals 100%, except for exposures secured by a mortgage (in the first place) and / or a BGK guarantee, when the total value of the collateral is not lower than half of the nominal value of the secured credit exposure (LTV ≤ 200%). In such cases, the value of the LGD parameter is 100% after 5 or 8 years depending on the customer's rating (20-22). In a similar way, regarding the retail clients segment and entrepreneurs, the use of the policy of the full provision rules (i.e. LGD = 100%) is contingent on the existence of the following circumstances:



- the impairment event took place and the objective evidences of the impairment occurs continuously for 2 years from the date of recognition of impairment in relation to entrepreneurs and the current overdue is more than 90 days,
- defaulted exposures that belong to the impaired portfolio (POCI),
- the exposures were assessed as credit fraud, i.e. they were registered as a suspicion of credit fraud or reported as a notification of a suspected crime.

Recognition of impairment for expected credit losses for assets at amortised cost

Impairment losses are presented as a reduction of the carrying amount of the assets is recognised in the statement of profit or loss for the period.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the decrease is recognized as a reversal in the statement of profit or loss. The Group determined the events whereunder it is possible to reverse credit exposure impairment.

The Group applies the same criteria for client's exit from default and reversal of impairment loss. The process of opening the trial period followed by curing – transfer from the non-performing portfolios to the performing portfolio is executed:

- for clients from the mortgage and consumer loans segment – at the business segment level, unless it relates to a situation identified at the debtor's level (e.g. bankruptcy),
- for corporate clients – at the debtor level.

If the debtor is in an impaired portfolio and has no exposure in the forbearance statute, it is considered healed and qualified for a performing portfolio if all the following conditions are met in the following order:

- no evidence or trigger for impairment being the source of default or indicating a high probability of non-payment – are not active,
- at least 3 months (trial period) have elapsed from the date of completion of the evidence / trigger for impairment and during this period the client's behaviour (intention to repay) and situation (repayment ability) were positively assessed, and in the case of a corporate client, the assessment of the financial situation was documented,
- The client made regular repayments – no arrears >30 days in the trial period,

- at the end of the trial period the client is considered able to pay its credit obligations in full, without recourse to collateral,
- without arrears in repayment exceeding the amount of the absolute limit; if any arrears exist in an amount in excess of the absolute limit, the trial period is extended until the time the amount of arrears drops below the limit.

A client in an impaired portfolio with an exposure with the status of a forbearance granted – is considered healed and qualified for a performing portfolio if all the following conditions are met:

- no evidence or trigger for impairment being the source of default or indicating a high probability of non-payment – are not active,
- minimum 12 months (trial period) have passed since the last of the events specified below:
 - granting the last restructuring measures, i.e. granting a forbearance facility,
 - the exposure has been assigned default status;
- end of the grace period set forth in the restructuring agreement,
- in the trial period, the client made material/regular repayments:
 - the client, as part of its regular payments in accordance with the agreed terms of the restructuring, repaid a material amount in the amount of the early past due (if there were past due amounts) or a write-down (if there were no overdue amounts),
 - the client made regular repayments in compliance with the new repayment schedule in line with the restructuring terms and conditions – no arrears > 30 days in the trial period,
- at the end of the trial period, the client has no arrears and no concerns exist as to full repayment of the exposure in compliance with the terms and conditions of restructuring.

The Group applied additional default exit criteria for all Obligors:

- If impairment evidence or indicator of impairment is identified in the probation period which is the source of default/ indicates a high likelihood of non-repayment, the end date of the probation period will be reset and the probation period is re-started until expiry of such evidence/indicator.
- If in the probation period and after the end of the grace period, DPD > 30 occurred, the probation period end date will be reset and the probation period will restart until DPD returns to below 31 days.



- All conditions of exit from default and reversal of impairment should be met also with regard to new exposures to the Obligor, in particular where the previous defaulted and restructured exposures of the Obligor were sold or written off.

Classification to Stage 3 is an exception to the principle of no active evidence / triggers for impairment being the source of default if such evidence "" –does not block the opening of the probation period (since it is the effect and not the reason of default) – classification to Stage 3 and the provision are also maintained in the probation period.

Triggers for classification of financial assets measured at fair value through other comprehensive income to Stage 3

The Group assesses as at each balance sheet date whether there is any objective evidence of impairment of debt financial assets classified as measured at fair value through other comprehensive income. Confirmation of the objective evidence of impairment is a trigger for classification of an asset to Stage 3.

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

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

Recognition of impairment for expected credit losses of the debt financial assets measured at fair value through other comprehensive income

Impairment losses for debt financial assets measured at fair value through other comprehensive income are recognised in the statement of profit or loss. These impairment losses derecognised from other comprehensive income.

14.14. Purchased or originated credit impaired financial assets

The Group recognises as the separate category, the purchased or originated credit-impaired financial assets at initial recognition (POCI).

Such assets may be recognised due to following reasons:

- purchase of credit impaired financial assets,
- significant modification (described in item 14.5) due to derecognition of original loan or
- origination of new credit exposure for the client for which other exposures were classified to Stage 3.

Those assets are excluded from the three stage approach described in item 14.13.

The above means that the change in the cumulated lifetime expected credit losses, both positive and negative, is recognised as impairment gain or loss in profit or loss.

15. Property, plant and equipment and intangible assets

15.1. Property, plant and equipment

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 items 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, with the exception of land and buildings, are recorded at purchase price or production cost i.e. after initial recognition they are recorded at historical cost less depreciation and impairment. The historical costs are made up of the purchase price/ production cost and the costs directly related to the purchase of assets.

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



Land and buildings are carried in accordance with the revaluation model, after initial recognition at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The revaluation effect is reflected in other comprehensive income in case of the value increase, or carried through the income statement in case of the balance sheet asset's value decrease. However, the increase of value is recognised as income statement insofar as it reverses the decrease of value due to revaluation of the same asset that was previously recognised as costs of a given period. Similarly, the decrease of the asset's value resulting from revaluation shall be set off against the relevant surplus resulting from the previous revaluation of the same asset. The entire revaluation surplus is carried through retained earnings at the time of withdrawing from use or selling the asset item.

Fixed assets in leasing

The Group is a party to lease contracts, under which it receives the right to control the use of an identified asset for a given period in exchange for remuneration. The Group applies IFRS 16 to all lease agreements, except for all lease agreements for intangible assets and exemptions provided for in the standard and described below.

The Group identifies leasing and non-leasing components in concluded contracts. Non-lease payments under contracts are recognised as an expense in accordance with relevant IFRS. Lease payments are recorded in accordance with the rules described below.

At the date of commencement of the lease, the Group recognizes assets due to the right to use the assets. The initial valuation of the lease liability is determined by the Group at the present value of future lease payments. Identifying future lease payments requires a lease period to be determined. When determining the lease period, the Group takes into account the irrevocable lease period together with the periods for which the lease can be extended and the periods in which the lease can be terminated. In order to make an assessment, the Group takes into account all relevant facts and circumstances that create an economic incentive to use or not to use these options. At the start of the lease contract, the Group assesses whether it can be assumed with sufficient certainty that it will benefit the option to extend the lease, or that it will not use the option to terminate the lease. The Group reviews the lease period in order to reassess significant events or circumstances that may affect the estimated length of the lease period. Leasing ceases to be enforceable if both the lessee and the lessor have the right to terminate the lease without the other party's permission, which results in a slight penalty, at the most. For lease contracts concluded for an indefinite period, in which there is a two-sided notice and potentially high costs related to the termination of the contract, the Group estimates the lease period. To determine the discounted value of lease payments, the Group uses the leasing interest rate, and if the rate is not easily available, the Group uses the marginal interest rate. The

Group determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which lease contracts and contract maturities are denominated. After the lease commencement date, the carrying amount of the liability:

- increased by accrued leasing interest, which is recognised in the income statement and losses as interest expenses,
- less lease payments paid,
- updated as a result of reassessment, changes in leasing or changes in essentially fixed leasing fees.

At the commencement date of the lease, the Group recognizes assets due to the right to use equal to the initial measurement of the lease liability. The cost of an asset due to the right of use also includes:

- fees paid on the date of commencement or before the date of commencement of the lease, less leasing incentives received,
- initial direct costs incurred by the lessee,
- costs to be borne by the lessee in connection with bringing the asset to its original condition.

The right to use is depreciated over the duration of the lease and is reduced for impairment losses. The value of the right to use is updated during the lease period as a result of modifications of the lease agreement.

The Group uses the exemption for:

- short-term leases – a contract may be classified as a short-term contract if the duration of the contract does not exceed 12 months and a purchase option is not provided for the subject of the contract,
- leases in which the subject of the contract has a low value – assets may be classified as low-value assets if the gross purchase price of the new component does not exceed EUR 5,000 and the subject of the contract is not and will not be sub-leased.

Lease payments under the above mentioned contracts are recognised by the Group as costs in the income statement in a systematic manner throughout the duration of the lease.

15.2. 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,



- 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.

Goodwill

Goodwill arising on acquisition of an entity is recognised at the acquisition price being the surplus of the aggregate of:

- provided payment,
- sums of all non-controlling interest in the acquired entity, and
- in the case of combining entities executed measured at fair value as at the day of acquiring interest in the capital of the acquired entity, previously belonging to the acquiring entity.

over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

The goodwill recognised in the financial statements of the Group was recognised pursuant to the requirements binding on the day of first application of IFRS i.e. at acquisition price being a surplus of the cost of combining the business entities over the interest of the acquirer's in the net fair value of all identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is recognised at acquisition price less any accumulated impairment losses.

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.

Expenditures attached to the development or maintenance of computer software are recognised as costs when incurred.

Other intangible assets

Other intangible assets purchased by the Group, are recognised at purchase price or production cost less amortization and total amount of impairment losses.

Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible asset are capitalised only if the criteria of the standards applicable in the Group are met. In other cases, costs are recognised in the income statement in the reporting period in which they were incurred.

15.3. 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/amortisable amount is the purchase price or production cost of an asset, less its residual value.

The useful life, depreciation/amortization 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 recognised prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through income statement).

In case of buildings measured at fair value, the accumulated depreciation balance at the revaluation date is removed from the carrying amount gross, and the net carrying amount is adjusted to the revalued amount.

Depreciation and amortization charges are recognised in the income statement. At each balance sheet date goodwill and other intangible assets with indefinite useful life are regularly tested for impairment. The depreciation/amortization periods are as follows:

- | | |
|---|---|
| • lands and buildings | 50 years |
| • investments in external fixed assets, | period of rental, lease, leasing, no longer than 10 years |
| • devices | 3 to 7 years |
| • equipment | 5 years |
| • costs of development of software | 3 years |
| • software licenses | 3 years |

15.4. Impairment of other non-financial assets

For each balance sheet date, the Group assesses the existence of objective triggers for impairment of an asset.

If such a trigger exists, the Group 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.

As regards company goodwill, it is tested for impairment as at the balance sheet date regardless of whether or not there are triggers for impairment in place.

Recognition of impairment loss

If there are triggers for 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 Group determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs. An impairment loss is recognised if the book value of the asset or cash-



generating unit exceeds its recoverable amount. The goodwill impairment is determined by estimating the recoverable amount of the cash-generating unit the given goodwill applies to. Should the recoverable amount of the cash-generating unit be lower than the carrying amount, impairment loss is made.

The impairment loss is recognised in the income statement. Impairment losses for cash-generating units reduce the goodwill of the cash-generating units (group of units) in the first place and then reduce proportionally the book value of other assets in the unit (group of units).

Reversing impairment loss

Goodwill impairment loss is not subject to reversal.

An impairment loss of an asset other than goodwill 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 any impairment loss had not been recognised.

16. Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or group of assets) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or group of assets) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or group of assets) and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or group of assets), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its present fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of the two: its carrying amount or fair value less disposal cost. Assets classified in this category are not depreciated.

Where the criteria for classification as non-current assets held for sale are no longer met, the Group will no longer classify that asset as an asset held for sale (or group of assets) but reclassify it as appropriate.

In such a case, the Group measures the asset that is no longer classified as an asset held for sale (or that is no longer part of a group of assets held for sale) at the lower of the following amounts:

- its carrying amount from the day before the asset (or a group of assets) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or group of assets) not been classified as held for sale

- its recoverable amount at the date of the decision not to sell.

Discontinued operations are components of the Group that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, or are a subsidiary acquired exclusively with a view to resale. The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Operations held for sale, which are to be no longer used, can be also classified as discontinued operations.

17. Other financial assets

Other financial assets include trade receivables and other receivables.

The Group introduced the simplified approach regarding to measurement of the impairment for expected credit losses and recognise the impairment at an amount equal to lifetime expected credit losses.

Trade receivables are covered by write-downs after reaching the overdue threshold of 60 days. In justified cases, and in particular in the case of receivables for deficiencies and damages, claims contested by debtors and other receivables for which the Group considers the risk of non-recovery as high, write-downs are made at an earlier date.

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 present value, 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 recognised as net interest income.

Budgetary receivables are recognised as part of other financial assets, except for corporate income tax receivables, which are a separate item in the statement of financial position.

18. Provisions

Provisions, including provisions for off-balance sheet items, are recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability. This is also applicable to the recognition of provisions for risk-bearing off-balance sheet items including non-financial guarantees, letters of credit and irrevocable unutilised credit lines.

Provisions for irrevocable unused credit lines for corporate exposures are recognized in the income statement under the item *Impairment for expected credit losses*.

The Group establishes provisions for restructuring costs only when the general criteria of recognising provisions under IAS 37 are met and in particular but not limited to the situation when the Group is in possession of a formal restructuring plan determining at least the operations or part thereof, basic locations, place of employment, the



functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term of execution. The commencement of restructuring procedure or the public announcement thereof is a condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

The Group creates provisions for legal risk on an individual or portfolio basis:

in an individual approach, the Group creates provisions for liabilities resulting from court cases and other legal claims if the probability of an outflow of resources to settle the obligation is higher than 50%.

in the case of a larger population of similar court cases or other legal claims, the probability of an outflow of resources to meet the Group's obligation is measured on a portfolio basis, taking into account the group of obligations as a whole, and the provision is estimated using the expected value method as a probability weighted average of a few scenarios (most often three: baseline, positive and negative) with different probabilities assigned to each scenario.

The Group applies the above principles to legal claims that do not affect cash flows from financial assets recognised in the statement of financial position – in this case the Group applies IFRS 9, as described in item 14.6.

If the legal claim relates to a financial asset that has been excluded from the statement of financial position (e.g. repaid), provision is created on the basis of IAS 37.

19. Prepayments and deferred income

19.1. 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 Group by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in the item *Other assets*.

19.2. Deferred income

This item comprises mainly fees settled on a straight-line basis and other types of income collected in advance which will be settled against the income statement in future reporting periods. Deferred income is presented in the statement of financial position in the *Other liabilities*.

20. Employee benefits

20.1. 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.

20.2. Short-term employee benefits

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

The Group recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

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

20.3. Long-term employee benefits

20.3.1. Benefits under the Labour Code regulations

Provisions for retirement benefits 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 Provisions from the statement of financial position in correspondence with remuneration costs 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 retirement and pension benefits provision.



20.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits consist of two parts:

- one paid in cash (no more than 50%), and
- one granted as phantom stock (at least 50%, after rounding up to full instrument), making the holder eligible to obtain cash whose final amount will be conditional on the price of ING Bank Śląski's shares.

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the performance period (i.e., during the the year of work for which employees obtain benefits). The value of benefit is recognised as a liability towards employees in correspondence with the income statement.

As regards the benefits granted in the form of phantom stock 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 or three-year periods). The employee who was granted the benefit shall not exercise the phantom stock-related rights during the retention period.

The fair value of phantom shares is based on the Bank's share price. During the performance period a liability is recognised with corresponding amounts in the statement of profit and loss. The liability is measured as the fair value of the phantom shares (based on the Bank's share price) and the number of phantom shares that is expected to vest. The liability is remeasured to reflect until the phantom shares are settled to reflect changes in the fair value and changes in the number of phantom shares that is expected to vest.

21. Equity

Equity comprises of the share capital, share premium, accumulated other comprehensive income and retained earnings. All balances of capital and funds are recognised at nominal value.

Share capital

Share capital is presented at nominal value, in accordance with the Articles of Association (the company's charter) and entry into the commercial register of the Parent entity.

Dividends

Dividends for the financial year which have been approved by the General Shareholders' Meeting, but not paid at the balance sheet date are disclosed under Dividend liabilities in the item Other liabilities.

Share premium

Share premium is formed from agio obtained from the issue of shares reduced by the attributable direct costs incurred with that issue.

Accumulated other comprehensive income

Accumulated other comprehensive income is created as a result of:

- valuation of financial instruments classified for measurement measured at fair value through other comprehensive income,
- valuation of derivatives for the element being the effective cash flow hedge,
- valuation of non-current assets measured at fair value,
- actuarial gains and losses.

The deferred tax assets and liabilities resulting from above mentioned valuations are included in the accumulated other comprehensive income. The accumulated other comprehensive income is not subject to profit distribution.

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. Retained earnings comprise of:

- other supplementary capital,
- other reserve capital,
- general banking risk fund,
- valuation of share-based payments,
- undistributed result from previous years,
- net result attributable to Parent entity.

Other supplementary capital, other reserve capital and general banking risk fund 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.

General banking risk fund is created in accordance with the Banking Law Act of 29 August 1997 as amended, from profit after tax.

The net financial result attributable to the Parent entity represents the gross result under the statement of profit or loss for the current year, adjusted with the corporate income tax and the result attributable to the minority shares.

22. Cash and cash equivalents

Cash and cash equivalents for the purposes of a cash flow statement include: cash in hand and cash held at the Central Bank, and cash equivalents e.g. balances on current accounts and overnight deposits held by other banks.



23. Taxes

23.1. Income tax

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

Current tax is a liability calculated based on taxable income at the prevailing tax rate at the balance sheet date including adjustments of previous years' tax liability.

23.2. Deferred income tax

The Group creates a provision for deferred tax in respect of a timing difference caused by different moment of recognising income as generated and costs as incurred in accordance with the accounting regulations corporate income tax provisions. A positive net difference is recognised in liabilities as *Deferred tax provisions*. A negative net difference is recognised under *Deferred tax assets*.

The deferred tax provision is created by using the balance sheet method for all positive timing differences as at the balance sheet date arising between tax value of assets and liabilities and their carrying amount disclosed in the financial statements, except for situations where deferred tax provision arises from:

- initial recognition of goodwill,
- goodwill the amortization of which is not a tax deductible expense,
- initial recognition of an asset or liability under a transaction which does not constitute a business combination and which on its origination has no impact on the gross financial result or taxable income or loss.

Deferred tax assets are recognised with respect to all negative timing 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 recognised in such amount in which taxable income is likely to be earned allowing to set off negative timing differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an asset or liability with a transaction which does not constitute a business combination and on its origination have no impact on the gross financial result or taxable income or loss.

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 assets 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 realised or provision released, assuming the tax rates (and tax provisions) legally or factually in force as at the balance sheet date.

Income tax pertaining to items directly recognised in equity is recognised in equity.

Deferred tax assets and provisions are recognised by the Group in the statement of financial position after offsetting at the level of each entity subject to consolidation. The Group 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.

23.3. Tax on certain financial institutions

The tax on certain financial institutions (instituted by virtue of the Act of 15 January 2016, Journal of Laws 2016 item 68) is not income tax and is shown in the income statement as *Tax on certain financial institutions*.

23.4. Other taxes

Income, costs and assets are recognised less the value added tax, tax on civil law acts, and other sales taxes, except where the sales tax, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognised accordingly as 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 recognised in the statement of financial position as part of receivables or liabilities.



IV. Comparability of financial data

In these annual consolidated financial statements for the period from 1 January 2021 to 31 December 2021, compared to the consolidated annual financial statements for earlier periods, the Group has made changes to the presentation of individual items in the consolidated statement of financial position.

The changes are as follows:

- Separation of *Transferred assets* (**change a**)

The Group has separated a new item in the consolidated statement of financial position – *Transferred assets* – which presents assets that can be pledged or resold by the collateral recipient. IFRS 9.3.2.23(a) requires these assets to be segregated and presented separately from other assets in the statement of financial position. The new item included debt securities resold with a repurchase agreement under repo or buy-sell-back transactions. These assets are measured at fair value through profit or loss, at fair value through other comprehensive income or at amortised cost. The change was intended to better reflect the risk characteristics of these financial assets. The figures as at 31 December 2020 have been restated to ensure comparability.

- Inclusion of non-current assets held for sale under *Other assets* (**change b**)

Following the principle of materiality, the Group departed from the presentation of non-current assets held for sale in a separate line item in the consolidated statement of financial position and from 31 December 2021 onwards shows them in *Other assets*. Over the last few years, the carrying amount of these assets has been gradually decreasing and at the end of 2021 they amount to PLN 0.0 million. The figures as at 31 December 2020 have been restated.

The Group has also changed the presentation of several items in the statement of cash flows. For detailed information, please refer to explanatory note **41. Additional information on consolidated cash flow statement**.

The table presents individual asset items of the consolidated statement of financial position according to the values presented in the annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020 and according to the values presented in these consolidated financial statements. Liabilities and equity did not change.

31 December 2020

	in consolidated financial statements for the period from 1 January 2020 to 31 December 2020 (approved data)	change a	change b	in consolidated financial statements for the period from 1 January 2021 to 31 December 2021 (comparable data)
Assets				
Cash in hand and balances with the Central Bank	867.3			867.3
Loans and other receivables to other banks	704.6			704.6
Financial assets measured at fair value through profit or loss	2,017.7	-200.1		1,817.6
Derivative hedge instruments	1,194.8			1,194.8
Investment securities	54,933.5	-762.9		54,170.6
Loans and other receivables to customers measured at amortised cost	124,655.3			124,655.3
Transferred assets	0.0	963.0		963.0
Investments in associates accounted for using the equity method	174.1			174.1
Property, plant and equipment	913.1			913.1
Intangible assets	426.6			426.6
Assets held for sale	3.6		-3.6	0.0
Current income tax assets	2.7			2.7
Deferred tax assets	423.2			423.2
Other assets	279.2		3.6	282.8
Total assets	186,595.7	0.0	0.0	186,595.7
Total equity and liabilities	186,595.7	0.0	0.0	186,595.7



V. Notes to the consolidated financial statements

1. Segment reporting

Segments of operation

The management of the Group's activity is conducted within the areas defined in the Group's business model. The Group's business model, above all for the purpose of management reporting, includes division of clients into two main segments:

- retail banking segment,
- corporate banking segment.

The basis for distinguishing individual segments are entity criteria and - in the case of division into sub-segments - financial criteria (especially turnover, level of collected assets). The specific rules of assigning clients to respective segments are governed by the clients segmentation criteria specified in the Group's internal regulations.

The Group has separated in organisational terms the operations performed by the Centre of Expertise Treasury. The Centre of Expertise Treasury manages short-term and long-term liquidity risk in line with the effective regulations and risk appetite internally set at the Group, manages interest rate risk and invests surpluses obtained from business lines while maintaining the liquidity buffer in the form of liquid assets. The Centre of Expertise Treasury's net income on operations is allocated to the business lines considering its support function for the Group's business lines.

Retail banking segment

Within the framework of retail banking, the Group provides services to private individuals - the mass client segment and wealthy clients segment.

This activity is analyzed in terms of the main products, including: loan products (overdraft facilities, card-related loans, installment loans, mortgage loans), deposit products (current accounts, term deposits, savings accounts), structured, fund participation units, brokerage services and bank cards.

Corporate banking segment

Corporate banking area encompasses as follows:

- providing services to institutional clients,
- providing services to individual entrepreneurs,
- financial Markets products.

Services to institutional clients encompass strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations conducted by the Parent company, products related to leasing and factoring services offered by ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

The service of individual entrepreneurs includes natural persons conducting business activity and partner companies that do not keep full accounting in accordance with the provisions of the Act on accounting, civil partnerships or general partnerships whose partners are only natural persons who do not keep full accounting in accordance with the provisions of the Accounting Act, and housing communities. The activity of entrepreneurs is reported in terms of the main products, including credit products (cash loan, credit line, credit card), deposit products (company account, foreign currency account, account for housing communities), leasing products offered by ING Lease (Polska) Sp. z o.o., accounting services, terminals and payment gateways.

Financial markets products encompass operations performed in money and capital markets, conducted both on the proprietary basis as well as for the customers' benefit. Within the framework of this activity, currency, money and derivative instrument market products and securities operations (treasury securities, shares and notes) are specified.

Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Group, included in notes describing applied accounting standards. In particular, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS). Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price – coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtaining long-term liquidity, matching of the Group's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations. Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Group presents segment's interest income reduced by the cost of the interest.

Geographic segments

The Group pursues business within the territory of the Republic of Poland.



Income statement by segments

	2021			2020		
	Retail banking	Corporate banking	Total	Retail banking	Corporate banking	Total
Income total	3,275.7	3,591.9	6,867.6	2,945.3	3,269.3	6,214.6
net interest income	2,715.4	2,254.3	4,969.7	2,439.9	2,101.9	4,541.8
net commission income, including:	558.0	1,286.8	1,844.8	460.0	1,068.4	1,528.4
commission income, including:	850.4	1,474.6	2,325.0	741.4	1,222.1	1,963.5
transaction margin on currency exchange transactions	71.7	472.6	544.3	64.4	370.7	435.1
account maintenance fees	116.9	324.3	441.2	97.7	263.2	360.9
lending commissions	25.5	377.3	402.8	22.5	328.5	351.0
payment and credit cards fees	309.7	116.2	425.9	275.5	99.2	374.7
participation units distribution fees	90.4	0.0	90.4	78.7	0.0	78.7
insurance product offering commissions	165.0	34.1	199.1	134.9	27.6	162.5
factoring and lease contracts commissions	0.0	39.0	39.0	0.0	31.1	31.1
other commissions	71.2	111.1	182.3	67.7	101.8	169.5
commission expenses	292.4	187.8	480.2	281.4	153.7	435.1
other income/expenses	2.3	50.8	53.1	45.4	99.0	144.4
General and administrative expenses	1,543.5	1,421.0	2,964.5	1,439.6	1,322.9	2,762.5
including depreciation and amortisation	173.8	112.5	286.3	191.0	103.2	294.2
Segment operating result	1,732.2	2,170.9	3,903.1	1,505.7	1,946.4	3,452.1
impairment for expected credit losses	78.0	238.0	316.0	316.0	488.6	804.6
cost of legal risk of FX mortgage loans	56.4	0.0	56.4	270.3	0.0	270.3
tax on certain financial institutions	232.0	312.7	544.7	196.4	285.2	481.6
share of profit/(loss) of associates accounted for using the equity method	29.3	0.0	29.3	16.1	0.0	16.1
Gross profit	1,395.1	1,620.2	3,015.3	739.1	1,172.6	1,911.7
Income tax	-	-	707.0	-	-	574.1
Net profit	-	-	2,308.3	-	-	1,337.6
attributable to shareholders of ING Bank Śląski S.A.	-	-	2,308.3	-	-	1,337.6

Assets and liabilities, and net cash flow by segment

	2021			2020		
	Retail banking	Corporate banking	Total	Retail banking	Corporate banking	Total
Assets of the segment	91,852.9	106,365.2	198,218.1	82,912.4	101,684.1	184,596.5
Segment investments in associates accounted for using the equity method	184.8	-	184.8	174.1	-	174.1
Other assets (not allocated to segments)	-	-	3,251.3	-	-	1,825.1
Total Assets	92,037.7	106,365.2	201,654.2	83,086.5	101,684.1	186,595.7
Segment liabilities	106,620.0	78,538.6	185,158.6	96,829.0	68,196.5	165,025.5
Other liabilities (not allocated to segments)	-	-	2,964.2	-	-	2,951.9
Equity	-	-	13,531.4	-	-	18,618.3
Total equity and liabilities	106,620.0	78,538.6	201,654.2	96,829.0	68,196.5	186,595.7
Capital expenditure	76.8	70.8	147.6	86.1	79.1	165.2
Net cash flow from operating activities	-794.1	1,765.7	971.6	6,200.6	13,286.8	19,487.4
Net cash flow from operating activities (not allocated to segments)	-	-	-509.8	-	-	-73.7
Net cash flow from operating activities total	-794.1	1,765.7	461.8	6,200.6	13,286.8	19,413.7
Net cash flows from investing activities	599.3	629.6	1,228.9	-9,962.7	-10,952.3	-20,915.0
Net cash flows from financing activities	0.0	-1,541.1	-1,541.1	-	732.0	732.0



2. Net interest income

	2021	2020
Interest income, including:	5,432.4	5,246.9
interest income calculated using effective interest rate method, including:	5,431.7	5,244.1
interest on financial instruments measured at amortised cost	5,277.0	4,902.2
interest on loans and other receivables to other banks	16.7	19.1
interest on loans and other receivables to customers	4,818.0	4,502.8
interest on investment securities	442.3	380.3
interest on investment securities measured at fair value through other comprehensive income	154.7	341.9
other interest income, including:	0.7	2.8
interest on loans and other receivables to customers measured at fair value through profit or loss	0.7	2.8
Interest expenses, including:	462.7	705.1
interest on deposits from other banks	10.6	19.9
interest on deposits from customers	416.2	642.4
interest on issue of debt securities	6.3	8.4
interest on subordinated liabilities	26.7	30.4
interest on lease liabilities	2.9	4.0
Net interest income	4,969.7	4,541.8

The interest costs presented in the table relate to financial liabilities measured at amortised cost.

For assets in Stage 3, interest income is calculated based on net exposure amounts, i.e. amounts that include interest impairment for expected credit losses.

For 2021, interest income on financial assets in Stage 3 was PLN 73.4 million compared to PLN 92.6 million for 2020.



3. Net commission income

	2021	2020
Commission income	2,325.0	1,963.5
transaction margin on currency exchange transactions	544.3	435.1
account maintenance fees	441.2	360.9
lending commissions	402.8	351.0
payment and credit cards fees	425.9	374.7
participation units distribution fees	90.4	78.7
insurance product offering commissions	199.1	162.5
factoring and lease contracts commissions	39.0	31.1
brokerage activity fees	69.4	63.1
fiduciary and custodian fees	26.3	32.2
foreign commercial business	43.6	34.0
agency in financial instruments transactions	4.9	5.8
other commission	38.1	34.4
related to assets / liabilities not measured at fair value through profit or loss	2.9	1.3
other	35.2	33.1
Commission expenses	480.2	435.1
card fees paid	255.1	234.4
commission paid on agency in selling deposit products	84.6	59.0
brokerage activity fees	26.9	31.8
commission paid on disclosing credit information	18.6	16.5
commission paid on cash handling services	24.2	25.5
electronic banking services fees	11.9	10.4
commission paid on trading in securities	12.1	9.2
costs of the National Clearing House (KIR)	13.3	11.8
agency in financial instruments transactions	4.8	4.6
leasing services	3.0	3.1
other commission	25.7	28.8
related to assets / liabilities not measured at fair value through profit or loss	7.4	9.8
other	18.3	19.0
Net commission income	1,844.8	1,528.4

*) Fiduciary and custodian fees show the commissions earned on custody services, where the Group keeps or invests assets for their clients.

The table includes the following items relating to financial instruments that are not measured at fair value through profit or loss and which have not been included in the calculation of the effective interest rate:

- revenues in the total amount of PLN 444.7 million from granting loans, factoring and leasing services (PLN 383.4 million in 2020),
- costs in the total amount of PLN 113.6 million due to intermediation in the sale of deposit products, provision of credit information and leasing services (PLN 88.4 million in 2020).

Revenue from contracts with customers within the meaning of IFRS 15 in 2021 amounted to PLN 1,880.3 million compared to PLN 1,580.1 million in 2020.

**4. Net income on financial instruments measured at fair value through profit or loss and FX result**

	2021	2020
FX result and net income on interest rate derivatives, including	16.8	61.1
FX result	674.3	53.0
currency derivatives	-657.5	8.1
Net income on interest rate derivatives	44.0	5.5
Net income on debt instruments held for trading	6.9	36.8
Net income on equity instruments	-3.6	0.0
Net income on measurement of loans to customers	0.2	0.1
Total	64.3	103.5

Net income on debt instruments includes net income on trading in treasury securities and money market instruments (treasury bills) as well as result on fair value measurement of those instruments.

Net income on derivatives includes net income on trading and fair value measurement of IR derivatives (FRA, IRS/CIRS, cap options), FX derivatives (swaps and options) as well as stock exchange index options.

The result on the sale of shares of one company from the portfolio of financial assets other than held for trading measured at fair value through profit or loss was presented as the net income on equity instruments for 2021.

5. Net income on the sale of securities and dividend income

	2021	2020
Net income on the sale of securities measured at amortised cost	2.8	7.3
Net income on sale of securities measured at fair value through other comprehensive income and dividend income, including:	38.4	31.1
sale of debt securities	31.7	22.7
dividend income	6.7	8.4
Total	41.2	38.4

Dividend income received in 2021 and 2020 comes from entities whose shares the Group maintained in its portfolio as at 31 December 2021 and 31 December 2020, respectively.

6. Net (loss)/income on hedge accounting

	2021	2020
Net income on hedge accounting	-55.9	19.9
valuation of the hedged transaction	-1,090.2	316.7
valuation of the hedging transaction	1,034.3	-296.8
Cash flow hedge accounting	3.4	-8.4
ineffectiveness under cash flow hedges	3.4	-8.4
Total	-52.5	11.5

For details of the hedge accounting applied by the Group, refer to the subsequent part of the financial statements, *Risk and capital management* section, in chapter **III.1.10. Hedge accounting**.

**7. Net (loss)/income on other basic activities**

	2021	2020
Sale of other services	10.0	9.4
Net income on disposal of property, plant and equipment and intangible assets	-3.1	-1.5
Banking activity-related compensations and losses	-6.4	-3.7
Other	-0.4	-13.2
Total	0.1	-9.0

8. General and administrative expenses

	2021	2020
Personnel expenses, including	1,497.0	1,314.0
wages and salaries, including:	1,223.5	1,080.0
variable remuneration programme	51.6	28.5
ING Group's incentive programme	0.4	0.1
retirement benefits	4.9	4.7
employee benefits	273.5	234.0
Cost of marketing and promotion	135.6	123.3
Depreciation and amortisation, including:	286.3	294.2
on property, plant and equipment	203.3	214.4
including depreciation of the right to use	106.8	104.4
on intangible assets	83.0	79.8
Other general and administrative expenses, including:	1,045.6	1,031.0
IT costs	309.7	268.1
communication costs	36.3	44.7
transport and representation costs	22.8	24.2
maintenance costs of buildings and real estate valuation to fair value	122.2	96.0
costs of short-term leasing and low-value leasing	11.6	13.3
obligatory Bank Guarantee Fund payments	245.0	288.7
obligatory restructuring fund	132.6	125.4
bank guarantee fund	112.4	163.3
fees to the Polish Financial Supervision Authority	19.3	13.4
advisory and legal services, audit costs	93.8	99.6
donation	6.5	9.5
disputed claims	35.7	12.3
other	142.7	161.2
Total	2,964.5	2,762.5



8.1. Employee benefits

Variable Remuneration Programme

In 2020, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to persons holding managerial positions having a material impact on the risk profile of the Group (in order to meet the guidelines arising from the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and a detailed method of capital estimation in banks, to satisfy the requirements under Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter III. *Significant accounting principles* in item 20.3.2. *Variable Remuneration Programme benefits*.

The table below presents the change in the status of phantom shares during the reporting period.

2021

	Fair value of Instruments as at 31 December 2021 (in PLN million)	Total number of Instruments granted	Number of instruments outstanding at the beginning of 2021	Number of instruments exercised during 2021	Number of instruments forfeited during 2021	Number of instruments granted but not yet exercised as at 31 December 2021
Programme 2016	260.3	72,748	9,863	9,863	-	-
Programme 2017	260.3	67,029	26,985	8,683	-	18,302
Programme 2018	260.3	72,137	28,810	-	-	28,810
Programme 2019	260.3	72,259	72,259	43,151	-	29,108
Programme 2020	260.3	63,806	63,806	-	-	63,806
Programme 2021*	260.3	68,451	68,451	-	-	68,451

*) for the 2021 Program, the value of the established provision was given, the actual allocation of shares will take place in 2022

2020

	Fair value of Instruments as at 31 December 2021 (in PLN million)	Total number of Instruments granted	Number of instruments outstanding at the beginning of 2021	Number of instruments exercised during 2021	Number of instruments forfeited during 2021	Number of instruments granted but not yet exercised as at 31 December 2021
Programme 2015	172.1	108,846	14,521	14,521	-	-
Programme 2016	172.1	72,748	19,696	9,833	-	9,863
Programme 2017	172.1	67,029	26,985	-	-	26,985
Programme 2018	172.1	72,137	72,137	43,327	-	28,810
Programme 2019	172.1	72,259	72,259	-	-	72,259
Programme 2020	172.1	113,038	-	-	-	-



9. Impairment for expected credit losses

Net impairment for expected credit losses

	2021	2020
Loans and other receivables to other banks, including:	-0.5	0.5
measured at amortised cost	-0.5	0.5
Investment securities, including:	1.3	4.1
measured at fair value through other comprehensive income	-0.3	-0.2
measured at amortised cost	1.6	4.3
Loans and other receivables to customers measured at amortised cost*, including:	323.7	820.7
corporate banking	246.4	504.2
corporate and municipal debt securities	-0.2	0.0
retail banking	77.3	316.5
Provisions for off-balance sheet liabilities	-8.5	-20.7
Total	316.0	804.6

*) The values presented in the item Loans and other receivables to customers measured at amortised cost include amounts of repayments related to receivables previously written off from the balance sheet, which in 2021 amounted to PLN 1.0 million compared to PLN 1.6 million in 2020.

Balance sheet write-offs for expected credit losses

	2021	2020
Loans and other receivables to other banks, including:	0.1	0.5
measured at amortised cost	0.1	0.5
Investment securities, including:	12.0	9.8
measured at fair value through other comprehensive income	4.6	3.9
measured at amortised cost	7.4	5.9
Loans and other receivables to customers measured at amortised cost*, including:	3,113.6	3,270.3
corporate banking	2,158.2	2,183.2
corporate and municipal debt securities	0.3	0.6
retail banking	955.4	1,087.1
Provisions for off-balance sheet liabilities	78.6	86.9
Total	3,204.3	3,367.5

10. Cost of legal risk of FX mortgage loans

	2021	2020
Provisions for legal risk of FX indexed mortgage loans, including:		
relating to loans in the Bank's portfolio	42.8	267.3
relating to repaid loans	13.6	3.0
Total	56.4	270.3

Detailed information on the legal risk of CHF-indexed mortgage loans is presented later in the report in note [32. Provisions](#). Significant assumptions regarding the calculation of legal risk provisions for CHF-indexed mortgage loans are described in Chapter III. *Significant accounting principles*, in point [3.6](#).

**11. Tax on certain financial institutions**

Under the Act on tax on certain financial institutions, banks are charged with the so-called bank tax, amounting to 0.0366% of the value of its assets on a monthly basis. The tax base is the sum of assets reduced by PLN 4 billion and the value of own funds and treasury securities. For 2021, the tax amount was PLN 544.7 million (PLN 481.6 million for 2020).

12. Income tax**Income tax recognised in the income statement**

	2021	2020
Current tax, of which:	1,373.0	628.4
current tax for the financial year	1,442.3	611.1
tax on dividends	1.3	1.6
taxes relating to previous years	-70.6	15.7
Deferred tax, including:	-666.0	-54.3
rise and reversal of temporary differences	-170.7	-5.7
tax losses*, of which:	-495.3	-48.6
incurred by the Bank	-517.3	0.0
incurred by subsidiaries	22.0	-48.6
Total	707.0	574.1

*) The amount presented under tax losses includes:

- tax loss incurred by the Bank – tax loss in the amount of PLN 2,722.7 billion fully recognized in deferred tax, i.e. in the amount of PLN 517.3 million (19% * PLN 2,722.7 billion) results from a decrease in IRS valuations, settled to market (STM) with KDPW / LCH / EUREX (CCP) clearing houses, on which the Bank, in accordance with its individual interpretation, pays current tax; due to the fact that in 2021 valuations decreased significantly, a cost / charge arose in the corporate income tax (CIT). The Group believes that there is no risk of impairment of deferred tax assets as at 31 December 2021.
- settlement of the tax loss incurred by the subsidiary ING Lease (Polska) Sp. z o.o., arising as at 31 December 2020 – the loss was settled in the amount of PLN 115.8 million and at the same time deferred tax in the amount of PLN 22 million was settled (19%*115.8 million); the amount of the loss in the amount of PLN 143.1 million and deferred tax in the amount of PLN 27.2 million (19%*143.1 million) remain to be settled. As at 31

December 2021, the Group believes that there is no risk of impairment of the deferred tax asset for the remaining loss carry forwards.

Current tax for the financial year

	2021	2020
Current tax for the financial year included in the consolidated income statement	1,442.3	611.1
Current tax for the financial year included in consolidated equity	-1,423.0	405.7
Total	19.3	1,016.8

Current income tax assets / liabilities

	2021	2020
Current income tax assets	734.5	2.7
Current income tax liabilities	3.9	389.6

For 2020 and 2021, the Bank used a simplified form of paying advances for corporate income tax. For the year 2021, the Bank recorded a tax loss (as described earlier) and therefore, due to the simplified form of paying advances for income tax, the paid advances constitute the Bank's receivable from the Tax Office.

Calculating the effective tax rate

The deviation in the effective tax rate above 19% in 2021 was mainly due to:

- increase, including:
 - the tax on certain financial institutions in the amount of PLN 544.7 million (PLN 481.6 million in 2020),
 - payments to BGF (contribution to the guarantee fund of banks and contribution to the resolution fund) in the amount of PLN 245.0 million (PLN 288.7 million in 2020),
 - creation of provisions for the legal risk of foreign currencies mortgage loans in the amount of PLN 48.8 million (PLN 270.3 million in 2020).



- decreases, including:
 - change in the accounting treatment of securities for corporate income tax (CIT) – as a result of the change, the Group recognised a deferred tax asset of 43.9 million, which had the effect of reducing the variance of the effective tax rate above 19%.

	2021	2020
A. Profit before tax	3,015.3	1,911.7
B. 19% of profit before tax	572.9	363.2
C. Increases – non-deductible expenses, including:	184.8	215.7
tax on certain financial institutions	103.5	91.5
prudential fee in favour of BGF	46.6	54.8
provisions for legal risk of foreign currency mortgage loans and commission returns	9.2	48.1
costs of writing off credit and non-credit receivables	4.1	9.1
impairment loss on receivables in a part not covered with the deferred tax	5.2	1.6
provisions for disputable debt claims and other assets	7.0	1.4
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.6	1.4
representation expenses	0.5	0.7
other	7.1	7.1
D. Decreases – tax exempt income, including:	50.7	4.8
recognition of a deferred tax asset due to a change in the method of accounting for securities in income tax	43.9	0.0
valuation using the equity method of subsidiaries	5.6	3.1
release of provisions for disputed claims	0.3	0.7
other	0.9	1.0
E. Income tax from the income statement (B+C-D)	707.0	574.1
Effective tax rate (E : A)*	23.45%	30.03%

13. Earnings and book value per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the Parent company for 2021 was based on net profit in the amount of PLN 2,308.3 million (2020: PLN 1,337.6 million) and the weighted average number of ordinary shares at the end of 2021 and 2020 in 130,100,000.

	2021	2020
Net profit attributable to shareholders of ING Bank Śląski S.A.	2,308.3	1,337.6
Weighted average number of ordinary shares	130,100,000	130,100,000
Earnings per ordinary share (in PLN)	17.74	10.28

Diluted earnings per share

In 2021 as well as in 2020, there were no factors that would dilute the profit per one share. In the described periods, ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. 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.

Book value per share

The calculation of the book value per share of the parent company for 2021 was based on the amount of equity attributable to the shareholders of ING Bank Śląski S.A. in the amount of PLN 13,531.4 million (2020: PLN 18,618.3 million) and the number of shares outstanding at the end of 2021 and 2020 in the amount of 130,100,000.

	2021	2020
Book value	13,531.4	18,618.3
Number of shares	130,100,000	130,100,000
Book value per share (PLN)	104.01	143.11

**14. Cash in hand and balances with the Central Bank**

	2021	2020
Cash in hand	599.1	723.1
Balances with the Central Bank	500.9	144.2
Total	1,100.0	867.3

The parent entity of the Group maintains a mandatory reserve on the current account with the National Bank of Poland, the amount of which at the end of 2021 amounted to 2.0% of the value of deposits received (compared to 0.5% at the end of 2020).

The arithmetic mean of balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 3,370.1 million for the period from 31 December 2021 to 30 January 2022,
- PLN 774.7 million for the period from 31 December 2020 to 30 January 2021.

Required reserves fund held on the current account in the National Bank of Poland bear interest during the reserve period in the amount determined by the Monetary Policy Council. As at 31 December 2021, the interest rate was 0.1% similar to 31 December 2020.

15. Loans and other receivables to other banks

	2021	2020
Current accounts	95.0	92.1
Interbank deposits:	125.2	0.0
Loans and advances	302.1	344.3
Placed call deposits	182.6	268.7
Total (gross)	704.9	705.1
Impairment for expected credit losses, including:	-0.1	-0.5
contracting loans and borrowings;	-0.1	-0.5
Total (net)	704.8	704.6

Loans and receivables to other banks by maturity

	2021	2020
without specified maturity	95.0	92.1
up to 1 month	204.7	284.6
over 1 month and up to 3 months	360.1	10.1
over 3 months and up to 1 year	45.1	18.9
over 1 year and up to 5 years	0.0	299.4
Total (gross)	704.9	705.1

**16. Financial assets measured at fair value through profit or loss**

	2021			2020		
	transferred debt securities	other financial assets measured at fair value through profit or loss	Total	transferred debt securities	other financial assets measured at fair value through profit or loss	Total
Financial assets held for trading, including:	243.2	1,455.1	1,698.3	200.1	1,710.6	1,910.7
valuation of derivatives	-	629.3	629.3	-	1,199.8	1,199.8
other financial assets held for trading, including:	243.2	825.8	1,069.0	200.1	510.8	710.9
debt securities:	243.2	301.1	544.3	200.1	235.9	436.0
Treasury bonds in PLN	243.2	259.2	502.4	200.1	219.1	419.2
Czech Treasury bonds in CZK	-	41.4	41.4	-	0.0	0.0
European Investment Bank bonds	-	0.5	0.5	-	16.8	16.8
repo transactions	-	524.7	524.7	-	274.9	274.9
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	-	83.2	83.2	-	107.0	107.0
loans obligatorily measured at fair value through profit or loss	-	78.4	78.4	-	106.2	106.2
equity instruments	-	4.8	4.8	-	0.8	0.8
Total	243.2	1,538.3	1,781.5	200.1	1,817.6	2,017.7

Detailed disclosures on the nominal values of derivative instruments and their valuation broken down into individual types of derivative instruments along with the remaining dates for their implementation are presented in note [17. Valuation of derivatives](#).

Securities that can be pledged or sold by the collateral recipient are presented as transferred debt securities. These assets, as required by IFRS 9, are presented separately by the Group in the consolidated statement of financial position under *Transferred assets*. For further information on assets pledged as security for liabilities, see note [21](#).

Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives) according to maturity

	2021				2020			
	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	Total	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	Total
without specified maturity	-	-	4.8	4.8	-	-	0.8	0.8
up to 1 month	524.7	10.2	-	534.9	278.6	-	-	278.6
over 1 month and up to 3 months	-	4.5	-	4.5	0.0	4.2	-	4.2
over 3 months and up to 1 year	7.5	14.1	-	21.6	218.3	18.9	-	237.2
over 1 year and up to 5 years	297.8	45.4	-	343.2	142.3	60.7	-	203.0
over 5 years	239.0	4.2	-	243.2	71.7	11.2	-	82.9
for which the maturity has expired	-	-	-	0.0	-	11.2	-	11.2
Total	1,069.0	78.4	4.8	1,152.2	710.9	106.2	0.8	817.9

17. Valuation of derivatives

The table presents the nominal values of derivatives whose valuation is presented in financial assets measured at fair value through profit or loss (positive valuation) and financial liabilities measured at fair value through profit or loss (negative valuation) of the Group's statement of financial position. Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

The fair value valuation of derivatives includes a valuation adjustment for counterparty credit risk (CVA) and Group default (DVA).



2021

Fair value measurement

Nominal value of instruments with remaining maturity

	Assets	Liabilities	up to 3 months	from 3 months to 1 year	over 1 year	Total
Interest rate derivatives, including:	237.9	496.8	91,488.3	123,863.6	452,298.7	667,650.6
settled via CCP	137.1	151.8	89,253.3	119,788.2	443,574.5	652,616.0
contracts for the future FRA interest rate – PLN	28.2	36.3	44,590.0	37,622.0	17,894.0	100,106.0
Interest rate swaps (IRS PLN) fixed – float	172.7	402.9	44,389.9	82,946.5	419,338.9	546,675.3
Interest rate swaps (IRS EUR) fixed – float	33.2	55.6	2,260.3	1,618.8	11,601.2	15,480.3
Interest rate swaps (IRS USD) fixed – float	0.5	0.5	224.5	0.0	2,337.0	2,561.5
Interest rate swaps (IRS CZK) fixed - float	2.7	0.9	0.0	0.0	706.6	706.6
CAP options – EUR	0.5	0.5	9.8	1,676.3	373.7	2,059.8
CAP options – PLN	0.1	0.1	13.8	0.0	47.3	61.1
Currency derivatives, including:	389.3	449.8	43,579.9	27,331.3	5,365.0	76,276.2
currency contracts (swap, forward), including:	348.6	402.0	43,372.8	27,005.1	3,442.5	73,820.4
currency contracts (swap, forward) EUR / PLN	63.5	75.1	15,475.1	8,416.4	1,355.7	25,247.2
currency contracts (swap, forward) USD / PLN	120.1	177.4	16,368.7	9,971.3	165.3	26,505.3
currency contracts (swap, forward) EUR / USD	54.4	19.2	5,577.7	2,113.5	0.0	7,691.2
other currency contracts (swap, forward)	110.6	130.3	5,951.3	6,503.9	1,921.5	14,376.7
currency pairs	40.7	47.8	207.1	326.2	1,922.5	2,455.8
CIRS, including:	8.7	30.0	120.8	241.2	0.0	362.0
CIRS CHF/PLN (float-float)	32.0	17.8	86.3	85.0	1,922.5	2,093.8
Current off-balance sheet transactions, including:	2.1	2.4	2,826.9	0.0	0.0	2,826.9
foreign exchange operations	1.9	2.4	2,647.4	-	-	2,647.4
operations in securities	0.2	0.0	179.5	-	-	179.5
Total	629.3	949.0	137,895.1	151,194.9	457,663.7	746,753.7

2020

Fair value measurement

Nominal value of instruments with remaining maturity

	Assets	Liabilities	up to 3 months	from 3 months to 1 year	over 1 year	Total
Interest rate derivatives, including:	837.3	675.8	71,158.8	120,369.1	344,556.9	536,084.8
settled via CCP	495.5	402.2	66,100.9	104,039.8	290,844.4	460,985.1
contracts for the future FRA interest rate – PLN	3.8	3.7	34,944.0	16,040.0	3,996.0	54,980.0
Interest rate swaps (IRS PLN) fixed – float	742.4	568.5	34,505.4	97,119.1	324,204.2	455,828.7
Interest rate swaps (IRS EUR) fixed – float	88.4	101.1	1,400.6	3,461.0	11,152.2	16,013.8
Interest rate swaps (IRS USD) fixed – float	1.7	1.5	82.0	2,273.8	4,819.0	7,174.8
CAP options – EUR	0.9	0.9	226.8	1,475.2	321.5	2,023.5
CAP options – PLN	0.1	0.1	0.0	0.0	64.0	64.0
Currency derivatives, including:	351.9	371.8	24,579.2	22,073.9	5,123.7	51,776.8
currency contracts (swap, forward), including:	299.7	216.9	23,185.1	13,118.4	2,980.9	39,284.4
currency contracts (swap, forward) EUR / PLN	159.3	66.3	11,122.0	4,774.9	786.1	16,683.0
currency contracts (swap, forward) USD / PLN	77.1	46.5	4,720.5	3,481.7	549.8	8,752.0
currency contracts (swap, forward) EUR / USD	9.5	34.1	1,942.2	1,071.1	370.8	3,384.1
other currency contracts (swap, forward)	53.8	70.0	5,400.4	3,790.7	1,274.2	10,465.3
currency pairs	43.8	143.2	44.7	4,909.9	2,142.8	7,097.4
CIRS, including:	6.9	10.7	0.0	0.0	196.0	196.0
CIRS CHF/PLN (float-float)	36.9	20.7	44.7	127.3	1,946.8	2,118.8
CIRS EUR/USD (float-float)	0.0	109.7	0.0	3,718.9	0.0	3,718.9
CIRS USD/CHF (float-float)	0.0	2.1	0.0	1,063.7	0.0	1,063.7
currency options (acquired), including:	12.1	-0.3	674.7	2,022.8	0.0	2,697.5
EUR / PLN options	0.0	-0.3	0.4	0.0	0.0	0.4
USD / PLN options	12.1	0.0	674.3	2,022.8	0.0	2,697.1
currency options (sold)	-3.7	12.0	674.7	2,022.8	0.0	2,697.5
EUR / PLN options	-3.7	0.0	0.4	0.0	0.0	0.4
USD / PLN options	0.0	12.0	674.3	2,022.8	0.0	2,697.1
Current off-balance sheet transactions, including:	7.7	15.0	7,128.8	0.0	0.0	7,128.8
foreign exchange operations	7.7	15.0	7,123.8	-	-	7,123.8
operations in securities	0.0	0.0	5.0	-	-	5.0
Valuation of other financial instruments	2.9	2.7	-	-	-	-
Total	1,199.8	1,065.3	102,866.8	142,443.0	349,680.6	594,990.4

**Interest rate derivatives IRS/FRA settled to market**

IRS / FRA interest rate derivatives submitted for clearing via central counterparties / CCP are settled in accordance with the "settlement-to-market / market settlement" approach. Under the terms of the said service, the balance sheet exposure resulting from the transaction is settled on a daily basis based on the change in the fair value of individual transactions. As a result, no Variation Margin is placed. The carrying amount of individual transactions includes cash flows realised as part of the daily settlement of exposures arising therefrom.

18. Hedge accounting

In the consolidated financial statements prepared for 2021 (similarly to 2020), the Group applies fair value hedge accounting and cash flow hedge accounting. The table below presents the valuation of hedging instruments, broken down into instruments securing the fair value of securities and cash flow hedging instruments. The valuation of hedging instruments is presented in the item Derivative hedge instruments in assets (positive valuation) and liabilities (negative valuation) of the consolidated statement of financial position of the Group.

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging instruments	250.3	218.6	1 194.8	513.9
Instruments hedging the fair value of securities	0.1	16.8	0.0	44.6
Total hedge instruments	250.4	235.4	1 194.8	558.5

For details of the hedge accounting applied by the Group, refer to the subsequent part of the financial statements, *Risk and capital management* section, in chapter **III.1.10. Hedge accounting**.

19. Investment securities

	2021			2020		
	transferred debt securities	other investment securities	Total	transferred debt securities	other investment securities	Total
Measured at fair value through other comprehensive income, including:	1,266.4	14,378.9	15,645.3	762.9	20,630.5	21,393.4
debt securities, including:	1,266.4	14,211.5	15,477.9	762.9	20,472.8	21,235.7
Treasury bonds in PLN	1,266.4	11,765.9	13,032.3	762.9	17,845.1	18,608.0
Treasury bonds in EUR	-	1,022.9	1,022.9	-	1,057.7	1,057.7
European Investment Bank bonds	-	941.4	941.4	-	1,078.1	1,078.1
Austrian government bonds	-	481.3	481.3	-	491.9	491.9
equity instruments	-	167.4	167.4	-	157.7	157.7
Measured at amortised cost, including:	771.3	31,205.5	31,976.8	0.0	33,540.1	33,540.1
debt securities, including:	771.3	31,205.5	31,976.8	0.0	33,540.1	33,540.1
Treasury bonds in PLN	771.3	15,311.5	16,082.8	-	17,982.2	17,982.2
Treasury bonds in EUR	-	4,028.8	4,028.8	-	4,094.3	4,094.3
Bank Gospodarstwa Krajowego bonds	-	2,299.8	2,299.8	-	2,103.4	2,103.4
European Investment Bank bonds	-	5,695.2	5,695.2	-	6,170.9	6,170.9
Bonds of the Polish Development Fund (PFR)	-	3,855.2	3,855.2	-	3,016.7	3,016.7
Treasury bills	-	0.0	0.0	-	172.6	172.6
NBP money market bills	-	15.0	15.0	-	0.0	0.0
Total	2,037.7	45,584.4	47,622.1	762.9	54,170.6	54,933.5

Securities that can be pledged or sold by the collateral recipient are presented as transferred debt securities. These assets, as required by IFRS 9, are presented separately by the Group in the consolidated statement of financial position under *Transferred assets*. For further information on assets pledged as security for liabilities, see note 21.

The value presented in the item equity instruments in the category of assets measured at fair value through other comprehensive income (FVOCI) includes investments in shares issued by entities that are considered to be material from the perspective of the Group's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in note **37. Fair value**. In 2021, the Group received the related revenue in



the form of a dividend in the amount of PLN 6.7 million (PLN 8.4 million in 2020), which was presented in the consolidated income statement in item *Net income on the sale of securities measured at fair value through other comprehensive income and dividend income*.

In 2021, the Group sold the shares of one company. In settlement of the sale of shares, the Group acquired shares in another company which it intends to dispose of as soon as possible. The shares of the acquired company were classified in the portfolio of financial assets measured at fair value through profit or loss.

The Group did not sell any shares from its equity instruments portfolio in 2020.

Investment securities by maturity

	2021			2020		
	measured at fair value through other comprehensive income	measured at amortised cost	Total	measured at fair value through other comprehensive income	measured at amortised cost	Total
without specified maturity	167.4	-	167.4	157.7	-	157.7
up to 1 month	-	15.0	15.0	-	-	0.0
over 1 month and up to 3 months	-	1,127.4	1,127.4	-	172.6	172.6
over 3 months and up to 1 year	57.2	2,763.5	2,820.7	3,787.8	2,415.5	6,203.3
over 1 year and up to 5 years	8,665.7	19,511.4	28,177.1	8,009.8	20,423.1	28,432.9
over 5 years	6,755.0	8,559.5	15,314.5	9,438.1	10,528.9	19,967.0
Total	15,645.3	31,976.8	47,622.1	21,393.4	33,540.1	54,933.5

Quality of investment securities portfolio

	2021			2020		
	gross	Stage 1 impairment for expected credit loss	net	gross	Stage 1 impairment for expected credit loss	net
Measured at fair value through other comprehensive income, including:	15,649.9	-4.6	15,645.3	21,397.3	-3.9	21,393.4
debt securities, including:	15,481.4	-3.5	15,477.9	21,239.5	-3.8	21,235.7
Treasury bonds in PLN	13,035.5	-3.2	13,032.3	18,611.4	-3.4	18,608.0
Treasury bonds in EUR	1,023.1	-0.2	1,022.9	1,057.9	-0.2	1,057.7
European Investment Bank bonds	941.4	0.0	941.4	1,078.2	-0.1	1,078.1
Austrian government bonds	481.4	-0.1	481.3	492.0	-0.1	491.9
equity instruments	168.5	-1.1	167.4	157.8	-0.1	157.7
Measured at amortised cost, including:	31,984.2	-7.4	31,976.8	33,546.0	-5.9	33,540.1
debt securities, including:	31,984.2	-7.4	31,976.8	33,546.0	-5.9	33,540.1
Treasury bonds in PLN	16,086.5	-3.7	16,082.8	17,985.6	-3.4	17,982.2
Treasury bonds in EUR	4,029.5	-0.7	4,028.8	4,095.1	-0.8	4,094.3
Bank Gospodarstwa Krajowego bonds	2,300.3	-0.5	2,299.8	2,103.9	-0.5	2,103.4
European Investment Bank bonds	5,695.4	-0.2	5,695.2	6,171.4	-0.5	6,170.9
Bonds of the Polish Development Fund (PFR)	3,857.5	-2.3	3,855.2	3,017.4	-0.7	3,016.7
Treasury bills	0.0	0.0	0.0	172.6	0.0	172.6
NBP money market bills	15.0	0.0	15.0	0.0	0.0	0.0
Total	47,634.1	-12.0	47,622.1	54,943.3	-9.8	54,933.5



Investment securities - changes in impairment for expected credit losses

	2021			2020		
	Stage 1			Stage 1		
	measured at fair value through other comprehensive income	measured at amortised cost	Total	measured at fair value through other comprehensive income	measured at amortised cost	Total
Opening balance impairment	3.9	5.9	9.8	4.0	1.6	5.6
Changes during the period, including:	0.7	1.5	2.2	-0.1	4.3	4.2
establishment and termination	0.7	1.5	2.2	-0.1	4.3	4.2
Closing balance impairment	4.6	7.4	12.0	3.9	5.9	9.8

In 2021, changes in the gross value of investment securities measured at fair value through other comprehensive income and financial assets measured at amortised cost had no material effect on the level of impairment for expected credit losses. In 2020, the volume of investment securities measured at amortized cost increased significantly, which translated into an increase in the allowance for expected credit losses compared to the previous year.

In 2021 and 2020, there were no transfers of investment securities between stages with different valuation of expected credit losses.

20. Loans and other receivables to customers measured at amortised cost

	2021			2020		
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
Loan portfolio, of which:	146,400.3	-3,113.6	143,286.7	125,992.4	-3,270.3	122,722.1
Corporate banking	79,914.5	-2,158.2	77,756.3	70,159.9	-2,183.2	67,976.7
loans in the current account	12,408.6	-560.0	11,848.6	9,549.9	-567.8	8,982.1
term loans and advances	46,117.3	-1,441.7	44,675.6	42,928.5	-1,417.7	41,510.8
lease receivables	11,180.0	-90.0	11,090.0	9,832.1	-134.5	9,697.6
factoring receivables	6,890.0	-66.2	6,823.8	4,857.1	-62.6	4,794.5
debt securities (corporate and municipal)	3,318.6	-0.3	3,318.3	2,992.3	-0.6	2,991.7
Retail banking	66,485.8	-955.4	65,530.4	55,832.5	-1,087.1	54,745.4
mortgages	57,410.2	-217.9	57,192.3	47,901.1	-279.3	47,621.8
loans in the current account	685.9	-54.0	631.9	655.0	-60.7	594.3
other loans and advances	8,389.7	-683.5	7,706.2	7,276.4	-747.1	6,529.3
Other receivables, of which:	3,249.3	0.0	3,249.3	1,933.3	-0.1	1,933.2
call deposits placed	2,531.5	0.0	2,531.5	1,272.2	0.0	1,272.2
other	717.8	0.0	717.8	661.1	-0.1	661.0
Total	149,649.6	-3,113.6	146,536.0	127,925.7	-3,270.4	124,655.3

**Loans and receivables to customers by maturity**

	2021	2020
without specified maturity	12,425.5	9,560.4
up to 1 month	7,925.9	4,751.1
over 1 month and up to 3 months	7,466.1	5,229.9
over 3 months and up to 1 year	20,854.3	19,331.2
over 1 year and up to 5 years	43,655.1	39,538.1
over 5 years	55,321.2	47,413.6
for which the maturity has expired	2,001.5	2,101.4
Total (gross)	149,649.6	127,925.7

20.1. Receivables from financial leasing

As at 31 December 2021, vehicles accounted for the largest share of the leased portfolio (50% of the portfolio value), while an increase of 16.9% in the value of new vehicle financing contracts was recorded compared to the end of 2020.

A significant share in the portfolio are also machinery and equipment (33% of the portfolio value) with a simultaneous increase of 17.3% compared to the value of financed machinery and equipment at the end of 2020, other movables constituted 9% of the portfolio value (an increase of 0.9% compared to the end of 2020).

At the same time, the share of the real estate leasing portfolio decreased by 3 percentage points to 7% in 2021 (a 20.3% decrease in portfolio value compared to the end of 2020).

The future minimum lease payments that are to be received by the Group under lease contracts are as follows:

	2021	2020
up to 1 year	4,135.8	3,735.8
over 1 year and up to 2 years	2,886.7	2,507.3
over 2 years and up to 3 years	2,027.7	1,802.5
over 3 years and up to 4 years	1,090.5	1,022.0
over 4 years and up to 5 years	706.6	436.7
over 5 years	332.7	327.8
Total	11,180.0	9,832.1

Gross receivables under financial lease that will be received by Group are as follows:

	2021	2020
up to 1 year	4,434.4	3,923.7
over 1 year and up to 2 years	3,071.0	2,619.0
over 2 years and up to 3 years	2,127.3	1,864.4
over 3 years and up to 4 years	1,138.7	1,051.2
over 4 years and up to 5 years	726.8	448.9
over 5 years	351.3	340.8
Total	11,849.5	10,248.0

The present value of minimum lease instalments is as follows:

	2021	2020
(Gross) receivables under financial lease	11,849.5	10,248.0
Undue interest	669.5	415.9
Present value of minimum lease instalments	11,180.0	9,832.1



Revenues realised by the Group from financial lease contracts are as follows:

	2021	2020
Profit from the sale of fixed assets (leasing items)	4.9	4.3
Net interest income from leasing investment	245.4	243.9
Variable leasing fees (commission fees)	15.1	10.2
Total	265.4	258.4

A lease receivable with a material modification was recognised in 2021. This receivable, recognised as an asset of POCI, arose from the disposal of a restructured real estate derived from a deferred part payment lease agreement.

In 2020, no significant modifications of financial lease contracts were found.

How the lessor manages risks related to all rights that it retains with respect to the underlying assets

In finance lease contracts, the lessee retains substantially all the risks and rewards of ownership of the leased asset.

The main collateral for lease contracts are the objects of leasing, this applies to all contracts, due to the design of the standard lease contract and the fact that ownership of the subject of the leasing remains until the termination of the contract on the part of the lessor. Leasing items are fully insured by the Group or by the Customer at insurance companies approved by the Group. Before entering into a lease contract, the Group assesses the customer's creditworthiness and assesses the risk associated with the subject of the lease. In addition, with a view to limiting the potential loss in the absence of debt service, the Group aims to conclude additional security agreements. The type and value of collateral required depend on the amount and subject of financing, lease parameters (e.g. deductible, financing period, residual value). Pursuant to the terms of the lease contracts, if the lease contract is terminated, the resulting receivables become due. In addition, as part of securing the Group, the Group takes over the subject of the lease and immediately strives to develop it in the most advantageous manner (sale, re-leasing).

20.2. Quality of loan portfolio

	2021			2020		
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
Corporate banking	79,914.5	-2,158.2	77,756.3	70,159.9	-2,183.2	67,976.7
assets in stage 1	70,654.1	-168.7	70,485.4	59,222.1	-192.1	59,030.0
assets in stage 2	6,466.2	-218.4	6,247.8	7,842.2	-227.7	7,614.5
assets in stage 3	2,743.1	-1,771.1	972.0	3,094.3	-1,763.4	1,330.9
<i>including individually significant assets</i>	1,763.4	-982.0	781.4	1,966.6	-969.5	997.1
POCI assets	51.1	0.0	51.1	1.3	0.0	1.3
Retail banking, including:	66,485.8	-955.4	65,530.4	55,832.5	-1,087.1	54,745.4
mortgages	57 410,2	-217,9	57 192,3	47 901,1	-279,3	47 621,8
assets in stage 1	56 297,2	-17,5	56 279,7	46 037,7	-34,3	46 003,4
assets in stage 2	784,7	-48,5	736,2	1 531,5	-72,0	1 459,5
assets in stage 3	328,3	-151,9	176,4	331,9	-173,0	158,9
other loans	9 075,6	-737,5	8 338,1	7 931,4	-807,8	7 123,6
assets in stage 1	7 805,4	-89,5	7 715,9	6 608,3	-115,9	6 492,4
assets in stage 2	586,1	-90,9	495,2	598,1	-109,8	488,3
assets in stage 3	681,9	-557,1	124,8	722,8	-582,1	140,7
POCI assets	2.2	0.0	2.2	2.2	0.0	2.2
Total	146,400.3	-3,113.6	143,286.7	125,992.4	-3,270.3	122,722.1
assets in stage 1	134,756.7	-275.7	134,481.0	111,868.1	-342.3	111,525.8
assets in stage 2	7,837.0	-357.8	7,479.2	9,971.8	-409.5	9,562.3
assets in stage 3	3,753.3	-2,480.1	1,273.2	4,149.0	-2,518.5	1,630.5
POCI assets	53.3	0.0	53.3	3.5	0.0	3.5

In 2021, the trigger of classification of all CHF indexed loans into Stage 2, which implied calculating lifetime expected credit losses, was removed. As a result of this change, financial assets with gross carrying amount of PLN 420.9 million were transferred from Stage 2 to Stage 1 (with 12-month horizon of expected credit losses), which resulted in



releasing of provisions for expected credit losses of PLN 3.7 million. More information about this change is described in chapter III. *Significant accounting principles*, in item **3.1.1. Impairment of financial assets**.

The Group identifies POCI financial assets whose carrying value as at 31 December 2021 is PLN 53.3 million (PLN 3.5 million as at 31 December 2020). These are exposures due to impaired receivables acquired in connection with the acquisition of SKOK Bieszczadzka in 2017, exposures that were significantly modified as a result of restructuring, which involved the need to remove the original credit or lease commitment and re-recognition of the asset in the statement of financial position.

The increase in the balance in 2021 results from the recognition as POCI of a receivable arising from the sale of the restructured property resulting from a lease agreement with deferred part of the payment.

In 2021, credit exposures in the amount of PLN 2,077.9 million (including PLN 5.0 million from exposures covered by aid tools due to COVID-19, the so-called moratoria) were subject to modification of contractual cash flows, which did not result in their exclusion and re-recognition of the financial asset (for comparison, in 2020 these exposures amounted to PLN 6,642.9 million, including PLN 3,618.0 million from moratoria).

Modifications to contractual cash flows that do not result in their exclusion and re-recognition of a financial asset, i.e. resulting in the recognition of gains or losses on modifications, result from business premises or credit risk events in the form of forbearance facilities granted to customers. In the event of business premises, the method of determining impairment for expected credit losses does not change. Granting customers facilities (forbearance) indicates a significant increase in credit risk, resulting in classification to Stage 2, in the case of granting another convenience, classification to Stage 3 follows the principles of estimating impairment losses described in chapter III. *Significant accounting principles*, in item **14.13. Impairment**.

For financial assets where the contractual cash flows have changed during the reporting period, while the corresponding impairment for expected credit losses was valued at an amount equal to the expected lifetime credit loss (ie financial assets in Stages 2 and 3), the amortised cost before modification was PLN 282.6 million PLN, and the net loss on modification amounted to -2.0 million PLN (in 2020: PLN 795.7 million and PLN -1.7 million, respectively).

Gross carrying amount at the end of the reporting period, financial assets that have been modified since initial recognition at the time when the impairment for expected credit losses was valued at an amount equal to the expected life-cycle credit loss (ie financial assets in Stages 2 and 3), and for which the impairment for expected credit losses was during the reporting period, the change to an amount equal to 12 months of expected credit losses (ie there has been a transfer of these financial assets to Stage 1) as at 31 December 2020 was PLN 41.2 million compared to PLN 173.2 million at the end of 2020.

Sale of non-performing receivables

In 2021, the Group has completed one sale of non-operating receivables. On 7 May 2021, the Group entered into an agreement to sell retail and corporate receivables from its impaired portfolio. As a result of the transaction, the portfolio of impaired receivables decreased by PLN 373.4 million. The positive impact of the transaction on the Group's pre-tax profit amounted to PLN 61.6 million.

In 2020 the Group entered into an agreement for the sale of impaired corporate receivables from the portfolio. As a result of the transaction, the portfolio of impaired receivables decreased by PLN 8.3 million. The positive impact of the transaction on the Group's gross result was PLN 4.1 million.

The result on the sale of receivables is presented in the line *Profit on the sale of receivables* under *Impairment for expected credit losses* in the income statement.

Collateral

In line with the lending policy, the Group accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in section *Risk and capital management*, in item **II.1.6. Credit risk management**.



Reconciliation of the gross carrying amount (GCA) and changes in impairment for expected credit losses (ECL)

2021

	Corporate banking										Retail banking										Total	
	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total		GCA	ECL
Opening balance	59,222.1	192.1	7,842.2	227.7	3,094.3	1,763.4	1.3	0.0	70,159.9	2,183.2	52,646.0	150.2	2,129.6	181.8	1,054.7	755.1	2.2	0.0	55,832.5	1,087.1	125,992.4	3,270.3
Changes in the period, including:	11,432.0	-23.4	-1,376.0	-9.4	-351.2	7.7	49.8	0.0	9,754.6	-25.1	11,456.6	-43.1	-758.8	-42.4	-44.5	-46.1	0.0	0.0	10,653.3	-131.6	20,407.9	-156.7
loans granted in the period	24,376.3	77.1	-	-	-	-	49.8	-	24,426.1	77.1	17,864.7	55.3	-	-	-	-	-	-	17,864.7	55.3	42,290.8	132.4
transfer to Stage 1	2,568.1	9.0	-2,563.1	-49.5	-5.0	-3.2	-	-	0.0	-43.7	1,313.3	3.6	-1,299.9	-58.3	-13.4	-10.7	-	-	0.0	-65.4	0.0	-109.1
transfer to Stage 2	-3,380.2	-19.2	3,402.8	119.1	-22.6	-14.2	-	-	0.0	85.7	-671.0	-8.9	758.7	81.5	-87.7	-44.2	-	-	0.0	28.4	0.0	114.1
transfer to Stage 3	-346.8	-2.8	-213.7	-24.7	560.5	252.1	-	-	0.0	224.6	-280.4	-6.4	-147.9	-36.5	428.3	254.1	-	-	0.0	211.2	0.0	435.8
repayment (total and partial) and the release of new tranches	-11,785.4	-25.3	-2,002.0	-55.0	-618.2	-22.8	-	-	-14,405.6	-103.1	-6,457.4	-27.0	-336.7	-22.5	-153.7	-52.1	-	-	-6,947.8	-101.6	-21,353.4	-204.7
changed provisioning under impairment for expected credit losses	-	-91.0	-	-24.4	-	50.2	-	-	0.0	-65.2	-	-34.6	-	-10.0	-	9.6	-	-	0.0	-35.0	0.0	-100.2
management adjustments	-	30.6	-	25.0	-	15.4	-	-	0.0	71.0	-	-25.7	-	3.3	-	6.8	-	-	0.0	-15.6	0.0	55.4
Total impairment for expected credit losses in the profit and loss account		-21.6		-9.5		277.5		0.0		246.4		-43.7		-42.5		163.5		0.0		77.3		323.7
derecognition from the balance sheet (write-downs, sale)	-	-	-	-	-265.9	-265.9	-	-	-265.9	-265.9	-	-	-	-	-218.0	-218.0	-	-	-218.0	-218.0	-483.9	-483.9
calculation of penalty interest (for late payment)	-	-	-	-	106.8	-	-	-	106.8	0.0	-	-	-	-	26.8	-	-	-	26.8	0.0	133.6	0.0
writing down penalty interest (for late payment)	-	-	-	-	-106.8	-	-	-	-106.8	0.0	-	-	-	-	-26.8	-	-	-	-26.8	0.0	-133.6	0.0
value adjustment for legal risk of CHF mortgage loans	-	-	-	-	-	-	-	-	0.0	0.0	-312.6	-	267.0	-	-	-	-	-	-45.6	0.0	-45.6	0.0
calculation and write-off of effective interest	-	-	-	-	-	15.1	-	-	0.0	15.1	-	-	-	-	-	-15.6	-	-	0.0	-15.6	0.0	-0.5
other	-	-1.8	-	0.1	-	-19.0	-	-	0.0	-20.7	-	0.6	-	0.1	-	24.0	-	-	0.0	24.7	0.0	4.0
Closing balance	70,654.1	168.7	6,466.2	218.3	2,743.1	1,771.1	51.1	0.0	79,914.5	2,158.1	64,102.6	107.1	1,370.8	139.4	1,010.2	709.0	2.2	0.0	66,485.8	955.5	146,400.3	3,113.6



2020

	Corporate banking										Retail banking										Total	
	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total		GCA	ECL
Opening balance	61,733.3	67.0	5,261.7	144.9	2,920.2	1,474.1	1.5	0.0	69,916.7	1,686.0	44,045.1	56.2	3,706.6	268.9	608.6	434.9	0.0	0.0	48,360.3	760.0	118,277.0	2,446.0
Changes in the period, including:	-2,511.2	125.1	2,580.5	82.8	174.1	289.3	-0.2	0.0	243.2	497.2	8,600.9	94.0	-1,577.0	-87.1	446.1	320.2	2.2	0.0	7,472.2	327.1	7,715.4	824.3
loans granted in the period	17,502.0	77.1	-	-	-	-	-0.2	-	17,501.8	77.1	12,292.1	55.9	-	-	-	-	2.2	-	12,294.3	55.9	29,796.1	133.0
transfer to Stage 1	1,276.5	6.6	-1,266.8	-41.8	-9.7	-4.3	-	-	0.0	-39.5	1,213.8	24.0	-1,204.7	-106.8	-9.1	-6.6	-	-	0.0	-89.4	0.0	-128.9
transfer to Stage 2	-5,706.0	-19.6	5,726.7	149.5	-20.7	-7.9	-	-	0.0	122.0	-693.0	-4.5	716.8	74.7	-23.8	-11.6	-	-	0.0	58.6	0.0	180.6
transfer to Stage 3	-323.4	-1.6	-312.8	-25.1	636.2	259.6	-	-	0.0	232.9	-268.2	-2.7	-265.0	-51.2	533.2	295.7	-	-	0.0	241.8	0.0	474.7
repayment (total and partial) and the release of new tranches	-15,260.3	-15.9	-1,566.6	-21.8	-364.1	-9.7	-	-	-17,191.0	-47.4	-3,943.8	-8.3	-559.4	-25.0	-44.6	-21.1	-	-	-4,547.8	-54.4	-21,738.8	-101.8
changed provisioning under impairment for expected credit losses	-	45.1	-	-0.9	-	71.7	-	-	0.0	115.9	-	-2.9	-	11.9	-	54.4	-	-	0.0	63.4	0.0	179.3
management adjustments	-	21.7	-	21.3	-	-	-	-	0.0	43.0	-	32.6	-	8.2	-	-	-	-	0.0	40.8	0.0	83.8
Total impairment for expected credit losses in the profit and loss account		113.4		81.2		309.4		0.0		504.0		94.1		-88.2		310.8		0.0		316.7		820.7
derecognition from the balance sheet (write-downs, sale)	-	-	-	-	-67.6	-67.6	-	-	-67.6	-67.6	-	-	-	-	-9.6	-9.6	-	-	-9.6	-9.6	-77.2	-77.2
calculation of penalty interest (for late payment)	-	-	-	-	134.2	-	-	-	134.2	0.0	-	-	-	-	28.0	-	-	-	28.0	0.0	162.2	0.0
writing down penalty interest (for late payment)	-	-	-	-	-134.2	-	-	-	-134.2	0.0	-	-	-	-	-28.0	-	-	-	-28.0	0.0	-162.2	0.0
value adjustment for legal risk of CHF mortgage loans	-	-	-	-	-	-	-	-	0.0	0.0	-	-	-264.7	-	-	-	-	-	-264.7	0.0	-264.7	0.0
calculation and write-off of effective interest	-	-	-	-	-	54.7	-	-	0.0	54.7	-	-	-	-	-	30.7	-	-	0.0	30.7	0.0	85.4
other	-	11.7	-	1.6	-	-7.2	-	-	0.0	6.1	-	-0.1	-	1.1	-	-11.7	-	-	0.0	-10.7	0.0	-4.6
Closing balance	59,222.1	192.1	7,842.2	227.7	3,094.3	1,763.4	1.3	0.0	70,159.9	2,183.2	52,646.0	150.2	2,129.6	181.8	1,054.7	755.1	2.2	0.0	55,832.5	1,087.1	125,992.4	3,270.3

Changes in the gross carrying amount of the loan portfolio affect the level of impairment for expected credit losses, primarily through origination of loans in the period, transfers between Stages and repayments made by borrowers.

In 2021 among loans granted during the year, the most important item are mortgage loans for individuals (PLN 12,770.7million), moreover, financial loans for individuals (PLN 3,706.5 million). A significant part is also short-term loans: revolving loans (PLN 1,872.7 million), working loans (PLN 3,725.1 million) and overdrafts (PLN 1,475.8 million). In addition, in the portfolio of loans granted during the year there are also lease receivables (PLN 5,173.0 million) and factoring receivables (PLN 3,092.1 million). Additionally, during 2021 the penalty interest amounted to PLN 133.6 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off. At the end of 2021, the amount of written off penalty interest that is subject to debt collection activities was PLN 422.6 million.



In 2020 among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8,979.0 million), moreover, financial loans for individuals (PLN 2,360.2 million). A significant part is also short-term loans: revolving loans (PLN 692.3 million), working loans (PLN 2,750.1 million) and overdrafts (PLN 1,041.5 million). In addition, in the portfolio of loans granted during the year there are also lease receivables (PLN 3,032.6 million) and factoring receivables (PLN 1,770.3 million). During 2020 the penalty interest amounted to PLN 162.2 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off. The balance of written penalty interest at the end of 2020 amounted to PLN 379.2 million.

21. Assets securing liabilities

Assets securing liabilities that meet the criteria for separate presentation in the statement of financial position (transferred assets)

The Group presents separately in the consolidated statement of financial position, assets securing liabilities that can be pledged or resold by the collateral recipient (transferred assets). IFRS 9.3.2.23(a) requires these assets to be segregated and presented separately from other assets in the statement of financial position.

	2021				2020		
	portfolio of financial assets measured at fair value through profit or loss	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total	portfolio of financial assets measured at fair value through profit or loss	portfolio of financial assets measured at fair value through other comprehensive income	Total
treasury bonds, of which:							
securing liabilities under the securities sold securities with a repurchase promise (sell- buy-back transactions)	243.2	1,266.4	771.3	2,280.9	200.1	762.9	963.0
Total	243.2	1,266.4	771.3	2,280.9	200.1	762.9	963.0

**Other assets securing liabilities**

The carrying amount of other assets securing liabilities that do not meet the criteria for separate presentation in the statement of financial position is presented in the table below.

	2021			2020		
	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total
treasury bonds, of which:	199.8	814.1	1,013.9	212.0	842.8	1,054.8
providing security for the benefit of the Bank Guarantee Fund	-	592.7	592.7	-	665.1	665.1
constituting a block on the obligation to pay a contribution to the guarantee fund of banks	-	176.2	176.2	-	136.1	136.1
constituting a blocking of the obligation to pay a contribution to the banks' compulsory restructuring fund	172.4	-	172.4	131.2	-	131.2
constituting the lodging of securities collateral for initial margin	-	31.0	31.0	-	31.2	31.2
securing a loan received by the subsidiary from the European Investment Bank	14.0	-	14.0	67.4	-	67.4
providing security for the KDPW CCP settlement fund	-	7.1	7.1	-	10.4	10.4
representing the payment of securities collateral for the initial margin for the ATS Market	-	7.1	7.1	-	-	-
pledged as collateral in the cover register of mortgage bonds	13.4	-	13.4	13.4	-	13.4
European Investment Bank bonds, of which:	0.0	264.9	264.9	0.0	254.5	254.5
providing security for settlements with LCH	-	117.6	117.6	-	118.3	118.3
constituting the margin for the settlement of EUREX transactions	-	122.3	122.3	-	111.2	111.2
in the Euroclear account, earmarked as collateral for transactions not submitted to clearing houses	-	25.0	25.0	-	25.0	25.0
Austrian Government bonds securing the settlements made with LCH	481.3	-	481.3	491.9	-	491.9
mortgage receivables securing the covered bonds	-	2,996.1	2,996.1	-	3,016.2	3,017.7
Total	681.1	4,075.1	4,756.2	703.9	4,113.5	4,818.9



The blocking of securities takes place taking into account the conditions resulting from:

- Act on the Bank Guarantee Fund, deposit guarantee system and forced restructuring
- Regulation of the European Parliament and of the Council (EU) No. 648/2012 of 4 July 2012
- from concluded contracts,
- liabilities under repo agreements.

The Group has liabilities due to the issue of mortgage bonds which are secured with the above-mentioned mortgage claims. At the end of 2020 and 2019, the nominal value of the issued covered bonds was PLN 400 million. Detailed information on the issued mortgage bonds can be found in note 30. *Liabilities from debt securities issued.*

The Group has deposited call-type margins as security for derivative transactions. Receivables in this respect are presented in note 15. *Loans and other receivables to other banks* and in note 20. *Loans and other receivables to customers measured at amortised cost.*

Restricted assets, apart from the instruments presented in this note, also include the value of the obligatory reserve that the Parent company of the Group is required to maintain in its current account with the NBP. More information on the required reserve is provided in note 14. *Cash in hand and balances with the Central Bank.*

Securities not constituting the Group's assets accepted as collateral for liabilities under repo transactions

The market value of securities subject to buy-sell-back / reverse repo transactions was PLN 508.7 million as at 31 December 2021 compared to PLN 270.6 million as at 31 December 2020. As at 31 December 2021, securities with a value of PLN 481.5 million were resold (in comparison with PLN 262.7 million as at 31 December 2020).

22. Investments in associates accounted for using the equity method

ING Bank Śląski S.A. holds an indirect share in the share capital of NN Investment Partners TFI through ING Investment Holding (Polska) SA, which is a subsidiary of the Bank. The core business of NN Investment Partners TFI is the creation and management of funds and investment portfolios. The Group recognizes the shares as an investment in an associate and is measured using the equity method in accordance with IAS 28.

	2021	2020
NN Investment Partners TFI S.A.	184.8	174.1
Total	184.8	174.1

Selected data regarding the associate:

	2021	2020
Share in the capital of the entity	45%	45%
Assets, including:	170.6	132.7
Short-term	110.9	129.5
Long-term	59.7	3.2
Liabilities and provisions for liabilities, including:	41.8	33.3
Short-term	31.1	31.6
Long-term	10.7	1.7
Net assets	128.8	99.4
Profit (loss)	70.0	41.3
Revenues	144.4	119.6
Inne całkowite dochody	0.7	0.5
Other comprehensive income	70.7	41.8
Total comprehensive income	80.3	63.2
Cash and cash equivalents	4.8	2.8
Short-term financial liabilities (excluding trade and other liabilities and provisions)	10.7	1.6
Long-term financial liabilities (excluding trade and other liabilities and provisions)	1.4	1.0
Depreciation and amortisation	0.1	0.5
Interest income	0.1	0.1
Interest expenses	17.3	10.5



The reconciliation of the carrying amount of investments in associates for 2021 and 2020 is presented below.

	2021	2020
Opening balance	174.1	181.0
Valuation using the equity method in the period	29.3	16.1
Dividends received	-18.6	-18.7
Reclassification to financial assets measured at fair value through other comprehensive income	-	-4.3
Closing balance	184.8	174.1

23. Property, plant and equipment

	2021	2020
Right of use assets, including:	323.4	376.6
real estate	304.9	354.9
means of transport	18.5	21.6
other assets	0.0	0.1
Own real estate	259.2	266.9
Investments in non-owned fixed assets	51.4	60.8
Computer hardware	84.8	110.4
Other property, plant and equipment	73.8	68.9
Fixed assets under construction	38.6	29.5
Total	831.2	913.1

There are no legal constraints on property, plant and equipment at the end of 2021 and 2020.



2021

	right of use assets				own real estate	investments in non- owned fixed assets	computer hardware	other property, plant and equipment	fixed assets under construction	Total
	real estate	means of transport	other assets	Total						
Opening gross value	530.5	37.1	0.7	568.3	424.1	338.5	360.9	425.2	29.5	2,146.5
Additions, including:	59.2	7.9	0.2	67.3	21.5	9.6	18.3	28.9	86.4	232.0
new contracts for the right of use	10.1	7.4	-	17.5	-	-	-	-	-	17.5
adjustment of the asset in connection with the recalculation of the lease liability	49.1	0.5	0.2	49.8	-	-	-	-	-	49.8
purchases	-	-	-	0.0	-	-	0.3	0.3	86.4	87.0
investment takeovers	-	-	-	0.0	21.3	9.6	18.0	28.4	-	77.3
reclassification from non-current assets held for sale	-	-	-	0.0	-	-	-	0.2	-	0.2
other	-	-	-	0.0	0.2	-	-	-	-	0.2
Reductions, including:	-22.8	-4.2	0.0	-27.0	-12.1	-0.6	-0.8	-3.2	-77.3	-121.0
early termination of the contract	-16.8	-3.9	-	-20.7	-	-	-	-	-	-20.7
adjustment of the asset in connection with the recalculation of the lease liability	-6.0	-0.3	-	-6.3	-	-	-	-	-	-6.3
sale and liquidation	-	-	-	0.0	-0.3	-0.6	-0.8	-1.7	-	-3.4
investment takeovers	-	-	-	0.0	-	-	-	-	-77.3	-77.3
reclassification to non-current assets held for sale	-	-	-	0.0	-11.8	-	-	-1.5	-	-13.3
Fair value change, including:	0.0	0.0	0.0	0.0	-11.4	0.0	0.0	0.0	0.0	-11.4
included in other comprehensive income	-	-	-	0.0	-0.4	-	-	-	-	-0.4
included in income statement*	-	-	-	0.0	-11.0	-	-	-	-	-11.0
Closing gross value	566.9	40.8	0.9	608.6	422.1	347.5	378.4	450.9	38.6	2,246.1
Opening accumulated depreciation	-175.6	-15.5	-0.6	-191.7	-157.2	-277.7	-250.5	-356.3	0.0	-1,233.4
Changes in the period, including:	-86.4	-6.8	-0.3	-93.5	-5.7	-18.4	-43.1	-20.8	0.0	-181.5
depreciation charges	-95.8	-10.7	-0.3	-106.8	-12.9	-18.4	-43.1	-22.1	-	-203.3
reduction in scope and early termination of the contract	9.4	3.9	-	13.3	-	-	-	-	-	13.3
reclassification to non-current assets held for sale	-	-	-	0.0	7.2	-	-	1.5	-	8.7
reclassification from non-current assets held for sale	-	-	-	0.0	-	-	-	-0.2	-	-0.2
Closing accumulated depreciation	-262.0	-22.3	-0.9	-285.2	-162.9	-296.1	-293.6	-377.1	0.0	-1,414.9
Closing net value	304.9	18.5	0.0	323.4	259.2	51.4	84.8	73.8	38.6	831.2

*) in line *General and administrative expenses*, in detailed item *maintenance costs of buildings and real estate valuation to fair value*



2020

	right of use assets				own real estate	investments in non- owned fixed assets	computer hardware	other property, plant and equipment	fixed assets under construction	Total
	real estate	means of transport	other assets	Total						
Opening gross value	461.1	30.8	0.7	492.6	406.1	328.4	306.5	407.1	44.0	1,984.7
Additions, including:	87.6	9.1	0.0	96.7	11.6	15.2	54.9	20.2	83.4	282.0
new contracts for the right of use	38.7	8.9	-	47.6	-	-	-	-	-	47.6
adjustment of the asset in connection with the recalculation of the lease liability	48.9	0.2	-	49.1	-	-	-	-	-	49.1
purchases	-	-	-	0.0	-	-	0.4	0.2	83.4	84.0
investment takeovers	-	-	-	0.0	9.0	14.4	54.5	20.0	-	97.9
reclassification from non-current assets held for sale	-	-	-	0.0	2.6	-	-	-	-	2.6
other	-	-	-	0.0	-	0.8	-	-	-	0.8
Reductions, including:	-18.2	-2.8	0.0	-21.0	-4.6	-5.1	-0.5	-2.1	-97.9	-131.2
early termination of the contract	-18.0	-2.8	-	-20.8	-	-	-	-	-	-20.8
adjustment of the asset in connection with the recalculation of the lease liability	-0.2	-	-	-0.2	-	-	-	-	-	-0.2
sale and liquidation	-	-	-	0.0	-0.2	-	-0.5	-0.9	-	-1.6
investment takeovers	-	-	-	0.0	-	-	-	-	-97.9	-97.9
reclassification to non-current assets held for sale	-	-	-	0.0	-4.4	-5.1	-	-1.2	-	-10.7
Fair value change, including:	0.0	0.0	0.0	0.0	11.0	0.0	0.0	0.0	0.0	11.0
included in income statement*	-	-	-	0.0	11.0	-	-	-	-	11.0
Closing gross value	530.5	37.1	0.7	568.3	424.1	338.5	360.9	425.2	29.5	2,146.5
Opening accumulated depreciation	-86.3	-7.6	-0.3	-94.2	-145.5	-258.2	-199.7	-331.1	0.0	-1,028.7
Changes in the period, including:	-89.3	-7.9	-0.3	-97.5	-11.7	-19.5	-50.8	-25.2	0.0	-204.7
depreciation charges	-93.8	-10.3	-0.3	-104.4	-11.4	-21.4	-50.8	-26.4	-	-214.4
reduction in scope and early termination of the contract	4.5	2.4	-	6.9	-	-	-	-	-	6.9
reclassification to non-current assets held for sale	-	-	-	0.0	1.3	1.9	-	1.2	-	4.4
reclassification from non-current assets held for sale	-	-	-	0.0	-1.6	-	-	-	-	-1.6
Closing accumulated depreciation	-175.6	-15.5	-0.6	-191.7	-157.2	-277.7	-250.5	-356.3	0.0	-1,233.4
Closing net value	354.9	21.6	0.1	376.6	266.9	60.8	110.4	68.9	29.5	913.1

*) in line *General and administrative expenses*, in detailed item *maintenance costs of buildings and real estate valuation to fair value*



Contractual obligations to purchase property, plant and equipment

In 2021, the Group concluded agreements with counterparties that in the future will affect increase in the value of property, plant and equipment of PLN 1.1 million. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof. The agreements refer to real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets.

At the end of 2020, the Group had contracts (partly of a framework nature) regarding real estate (buildings and structures), investments in foreign fixed assets, fixed assets under construction and other fixed assets for the total amount of PLN 1.2 million.

24. Intangible assets

	2021	2020
Goodwill obtained as a result of a branch of ING Bank NV contributed in kind	223.3	223.3
Software	138.9	167.9
Outlays for intangible assets	14.1	34.7
Other intangible assets	1.1	0.7
Total	377.4	426.6

Changes in intangible assets

2021

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	Total
Opening gross value	223.3	1,254.2	34.7	16.6	1,528.8
Additions, including:	0.0	55.0	35.8	1.4	92.2
purchases	-	-	35.8	-	35.8
investment takeovers	-	55.0	-	1.4	56.4
Reductions, including:	0.0	0.0	-56.4	0.0	-56.4
investment takeovers	-	-	-56.4	-	-56.4
Closing gross value	223.3	1,309.2	14.1	18.0	1,564.6
Opening accumulated depreciation	0.0	-1,086.3	0.0	-15.9	-1,102.2
Changes in the period, including:	0.0	-84.0	0.0	-1.0	-85.0
depreciation charges	-	-82.0	-	-1.0	-83.0
other	-	-2.0	-	-	-2.0
Closing accumulated depreciation	0.0	-1,170.3	0.0	-16.9	-1,187.2
Closing net value	223.3	138.9	14.1	1.1	377.4



2020

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	Total
Opening gross value	223.3	1,194.9	15.8	16.6	1,450.6
Additions, including:	0.0	60.6	81.2	0.0	141.8
purchases	-	-	81.2	-	81.2
investment takeovers	-	60.6	-	-	60.6
Reductions, including:	0.0	-1.3	-62.3	0.0	-63.6
sale and liquidation	-	-1.3	-1.2	-	-2.5
investment takeovers	-	-	-60.6	-	-60.6
other	-	-	-0.5	-	-0.5
Closing gross value	223.3	1,254.2	34.7	16.6	1,528.8
Opening accumulated depreciation	0.0	-1,005.7	0.0	-15.0	-1,020.7
Changes in the period, including:	0.0	-80.6	0.0	-0.9	-81.5
depreciation charges	-	-78.9	-	-0.9	-79.8
other	-	-1.7	-	-	-1.7
Closing accumulated depreciation	0.0	-1,086.3	0.0	-15.9	-1,102.2
Closing net value	223.3	167.9	34.7	0.7	426.6

Contractual obligations to purchase intangible assets

In 2021, the Group concluded agreements with contractors for the future acquisition of intangible assets for a total amount of PLN 25.0 million, however, due to the framework nature of some contracts, this amount is not target. As in the previous year, these agreements concern the purchase of licenses and implementation of computer software.

At the end of 2020, the Group had (partly framework) agreements to purchase a license and implement software for a total amount of PLN 7.3 million.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carried out at least once every year, irrespective of identification of any triggers for impairment.

At the Bank, the impairment test covered the goodwill obtained as a result of a branch of ING Bank NV contributed in kind, which was assigned to the corporate activity of the Group. The smallest identifiable cash-generating units were determined and goodwill totalling PLN 223.3 million was assigned thereto. No other additional elements of intangible value and indefinite useful life were identified that could be assigned to the identified cash-generating units.

The test input data cover the economic capital, risk-weighted assets and profit before tax per segment and effective tax rate. The test is performed using the model that calculates and compares the current value of free cash flow of the unit to the estimated book value of the unit's funds. The cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. A discount rate of 8.97% representing the weighted average cost of capital, estimated on the basis of the risk-free rate (3.67%), beta factor (1.06) and share price risk premium (5.00%), was used to discount the flows as at 2021 yearend. As at 2020 yearend, the discount rate used to discount the flows was 7.52% and was estimated based on a risk-free rate of 1.52%, a beta factor of 1.0 and a share price risk premium of 6.00%. Other assumptions include the nominal growth rate after the forecast period (2.5% as at 2021 and 2020 yearend).

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cash flows generated during the continued use. The cash flow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cash flow forecasts are based on mid-term plan approved by the Group and the strategy covering the maximum period of the next three years. The data regarding the subsequent years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Group's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

The test showed the surplus of present value over the net book value of the cash-generating unit thus no impairment was determined.

**25. Deferred tax****Movements in temporary differences during the year****2021**

	Opening balance	Changes carried through profit or loss	Changes carried through other comprehensive income	Closing balance
Deferred tax assets				
impairment for expected credit losses	348.1	-7.8	-	340.3
valuation of operational leasing	115.1	1.6	-	116.7
revaluation of financial instruments	230.6	205.9	-14.7	421.8
employee benefits	63.6	12.3	-	75.9
provisions	81.7	23.4	-	105.1
settlement of the difference between tax and balance sheet depreciation	19.2	-4.7	-	14.5
financial leasing	0.1	-0.1	-	0.0
tax losses	49.2	495.3	-	544.5
other	2.1	10.1	-	12.2
Total	909.7	736.0	-14.7	1,631.0
Deferred tax provision				
revaluation of financial instruments	293.7	-	-170.5	123.2
accrued interest	170.2	43.1	-	213.3
effective interest rate adjustment	21.2	24.5	-	45.7
settlement of prepayments/accruals due to depreciation/ amortisation	0.9	,	-	0.9
valuation of financial leasing	0.3	1.0	-	1.3
other	0.2	1.4	-	1.6
Total	486.5	70.0	-170.5	386.0
Deferred tax disclosed in the balance sheet, of which:	423.2	666.0	155.8	1,245.0
Deferred tax asset	,	,	,	1,245.0

2020

	Opening balance	Changes carried through profit or loss	Changes carried through other comprehensive income	Closing balance
Deferred tax assets				
impairment for expected credit losses	280.0	68.1	-	348.1
valuation of operational leasing	167.8	-52.7	-	115.1
revaluation of financial instruments	147.4	54.5	28.7	230.6
employee benefits	83.0	-19.4	-	63.6
provisions	71.2	10.5	-	81.7
settlement of the difference between tax and balance sheet depreciation	11.9	7.3	-	19.2
financial leasing	0.9	-0.8	-	0.1
tax losses	0.6	48.6	-	49.2
other	0.0	2.1	-	2.1
Total	762.8	118.2	28.7	909.7
Deferred tax provision				
revaluation of financial instruments	188.3	-	105.4	293.7
accrued interest	111.6	58.6	-	170.2
effective interest rate adjustment	13.8	7.4	-	21.2
settlement of prepayments/accruals due to depreciation/ amortisation	1.1	-0.2	-	0.9
valuation of financial leasing	1.8	-1.5	-	0.3
other	0.6	-0.4	-	0.2
Total	317.2	63.9	105.4	486.5
Deferred tax disclosed in the balance sheet, of which:	445.6	54.3	-76.7	423.2
Deferred tax asset				423.2

**Deferred tax recognised directly in equity**

	2021	2020
revaluation of financial asset measured at fair value through other comprehensive income - debt securities	42.6	62.9
revaluation of financial asset measured at fair value through other comprehensive income - equity instruments	27.1	23.6
revaluation of fixed assets	0.1	1.3
revaluation of cash flow hedging instruments	-9.8	126.6
actuarial gains / losses	-5.0	-3.6
Total	55.0	210.8

26. Other assets

	2021	2020
Prepayments, including:	164.2	202.9
accrued income	95.0	99.8
due to commissions	22.5	49.8
due to general and administrative expenses	46.7	53.3
Other assets, including:	122.3	79.9
settlements with recipients	16.2	20.1
public and legal settlements	104.9	44.0
non-current assets held for sale	0.0	3.5
other	1.2	12.3
Total	286.5	282.8
including financial assets	122.3	76.4

Non-current assets held for sale

Following the principle of materiality, the Group departed from the presentation of non-current assets held for sale in a separate line item in the statement of financial position, and from 31 December 2021 onwards, it reports them under other assets.

As at 31 December 2021, the Group had no non-current assets held for sale. As at 31 December 2020, the amount of non-current assets held for sale consisted of the value of 3 real estates that were reclassified from property, plant and equipment.

The following table presents the change in non-current assets held for sale during 2021 and 2020.

	2021	2020
Opening value	3.6	3.6
Additions, including:	4.6	6.3
reclassification from property, plant and equipment	4.6	6.3
Reductions, including:	-8.2	-6.3
sale	-8.0	-5.3
reclassification to property, plant and equipment	-0.2	-1.0
Closing value	0.0	3.6

26.1. Quality of other financial assets

	2021			2020		
	brutto	odpis	netto	brutto	odpis	netto
assets in Stage 1	122.3	0.0	122.3	76.4	0.0	76.4
assets in Stage 3	42.6	-42.6	0.0	41.0	-41.0	0.0
Total	164.9	-42.6	122.3	117.4	-41.0	76.4



Changes in impairment for expected credit losses

	2021			2020		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Opening balance impairment	0.0	41.0	41.0	0.0	51.9	51.9
Changes in the period, including:	0.0	1.6	1.6	0.0	-10.9	-10.9
linking impairment for expected credit losses	0.0	6.6	6.6	0.0	13.4	13.4
exclusion from the statement of financial position as a result of write-down	0.0	-4.5	-4.5	0.0	-3.6	-3.6
exclusion from the statement of financial position due to repayment	0.0	-0.5	-0.5	0.0	-20.7	-20.7
Closing balance impairment	0.0	42.6	42.6	0.0	41.0	41.0

Reconciliation of the gross carrying amount

	2021			2020		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Opening balance of gross carrying amount	76.4	41.0	117.4	39.6	51.9	91.5
Changes in the period, including:	45.9	1.6	47.5	36.8	-10.9	25.9
transfer to Stage 3	-6.6	6.6	0.0	-13.4	13.4	0.0
exclusion from the statement of financial position due to write-down	0.0	-4.5	-4.5	0.0	-3.6	-3.6
recognition of new financial instruments, repayments and other changes	52.5	-0.5	52.0	50.2	-20.7	29.5
Closing gross value	122.3	42.6	164.9	76.4	41.0	117.4

27. Liabilities to other banks

	2021	2020
Current accounts	413.4	421.3
Interbank deposits	3,507.1	2,861.6
Loans received*	3,871.7	3,517.1
Repo transactions	1,991.4	762.9
Received call deposits	242.2	660.3
Other liabilities	25.2	4.8
Total	10,051.0	8,228.0

*) The financing of the long-term lease contracts in EUR (“the matched funding”) received by the subsidiary ING Lease Polska Sp. z o.o. from ING Bank NV and other banks not related to the Group is presented in item Loans received.

Liabilities to other banks by maturity

	2021	2020
without specified maturity	412.7	419.0
up to 1 month	5,948.6	4,436.4
over 1 month and up to 3 months	288.6	131.4
over 3 months and up to 1 year	814.2	300.3
over 1 year and up to 5 years	2,474.2	2,494.0
over 5 years	112.7	446.9
Total	10,051.0	8,228.0

**28. Financial liabilities measured at fair value through profit or loss**

	2021	2020
Valuation of derivatives	949.0	1,065.3
Other financial liabilities measured at fair value through profit or loss, including:	730.6	465.5
book short position in trading securities	486.2	265.5
financial liabilities held for trading, including:	244.4	200.0
repo transactions	244.4	200.0
Total	1,679.6	1,530.8

Detailed disclosures on the nominal values of derivative instruments and their valuation broken down into individual types of derivative instruments along with the remaining dates for their implementation are presented in note 17. *Valuation of derivatives.*

Financial liabilities measured at fair value through profit or loss by maturity

	2021	2020
up to 1 month	244.4	200.0
over 1 year and up to 5 years	211.5	117.9
over 5 years	274.7	147.6
Total	730.6	465.5

29. Liabilities to customers

	2021	2020
Deposits, including:	168,458.5	149,269.9
Corporate banking	69,029.9	58,755.4
current deposits	55,776.1	45,250.6
saving deposits	12,462.4	12,920.5
term deposits	791.4	584.3
Retail banking	99,428.6	90,514.5
current deposits	28,641.5	22,924.1
saving deposits	69,286.6	65,896.2
term deposits	1,500.5	1,694.2
Other liabilities, including:	2,151.4	1,758.6
liabilities under monetary hedges	476.3	547.1
call deposits	12.5	20.7
other liabilities	1,662.6	1,190.8
Total	170,609.9	151,028.5

Liabilities to customers by maturity

	2021	2020
without specified maturity	168,013.3	147,570.9
up to 1 month	1,086.4	1,813.8
over 1 month and up to 3 months	507.1	433.1
over 3 months and up to 1 year	955.2	1,085.4
over 1 year and up to 5 years	40.1	115.1
over 5 years	7.8	10.2
Total	170,609.9	151,028.5



30. Liabilities from debt securities issued

	2021	2020
Liabilities under issue of debt securities, including:	972.4	1 370.5
Bonds issued by ING Bank Śląski S.A	575.6	975.1
Covered bonds issued by ING Bank Hipoteczny S.A.	396.8	395.4
Total	972.4	1,370.5

Liabilities under issue of debt securities by maturity

	2021	2020
up to 1 month	150.6	0.0
over 1 month and up to 3 months	425.0	925.1
over 3 months and up to 1 year	0.0	50.0
over 1 year and up to 5 years	396.8	395.4
Total	972.4	1,370.5

Bond Programme

In 2021, under the Bond Issue Programme (Bond Programme), the Group’s subsidiary ING Bank Hipoteczny S.A. – issued bonds with a total nominal value of PLN 654 million (i.e. 1,308 bonds with a nominal value of PLN 500 thousand each). The bonds were issued in three series:

- Series 4 with a value of PLN 150 million and a maturity set at 10 months,
- Series 5 with a value of PLN 79 million and a maturity set at 6 months,
- Series 6 with a value of PLN 425 million and a maturity set at 3 months.

The bonds were registered with the National Depository for Securities in Warsaw. Series 4 and 6 bonds were directed to qualified investors. Series 5 bonds were fully purchased by an entity within the Bank’s Capital Group.

In 2020, under the Bond Programme, ING Bank Hipoteczny S.A. issued three trzy series of bonds with a nominal value of PLN 975 million (i.e. 1,950 bonds with a nominal value of PLN 500 thousand each).

- Series 1 with a value of PLN 675 million and maturity fixed at 3 months,
- Series 2 with a value of PLN 50 million and a maturity period fixed at 6 months,
- Series 3 with a value of PLN 250 million and a maturity period fixed at 3 months.

The bonds were directed to qualified investors. The bonds were registered with the National Depository for Securities in Warsaw.

In 2021, ING Bank Hipoteczny S.A. redeemed all bonds issued under the Bonds Programme in 2020.

At the end of 2021, the total nominal value of own bonds issued and not redeemed by entities outside the Group amounted to PLN 575 million, compared to PLN 975 million at the end of 2020.

Covered bonds

At the end of 2021 and 2020, the Group had liabilities arising from the issue of covered bonds issued as part of the ING Bank Hipoteczny S.A. covered bond issue programme established in 2019 (Covered Bond Programme). The purpose of establishing the Programme was to create a legal infrastructure under which the Group will be able to issue covered bonds both on the local and foreign market. The funds obtained from the inaugural 5-year "green" issue, carried out under the Program, will be used to refinance PLN mortgage loans of natural persons secured on real estate belonging to 15% of the most energy-efficient buildings in Poland. The issue will be redeemed in October 2024.



31. Subordinated liabilities

As at 31 December 2021 ING Bank Śląski had in its statement of financial position two subordinated loans resulting from agreements with ING Bank N.V. based in Amsterdam. Those are:

- Agreement concluded on 30 October 2018 for the amount of EUR 100.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 30 January 2019.
- Agreement concluded on 30 September 2019 for the amount of EUR 250.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 28 November 2019.

All loans were loan was granted for 10 years. The Bank has the right to prepay of each loan after the lapse of 5 years, provided the relevant approval of the Polish Financial Supervision Authority (PFSA) is obtained. Interest will be paid quarterly at the 3M EURIBOR rate plus margin (1.22% for the 2018 loan and 1.66% for loan from 2019). The financial terms and conditions of the loans were set on an arm's length basis. ING Bank N.V. is the Parent company, holding 75% of shares and votes at the Bank General Meeting.

The subordinated loan resulting from the agreement concluded on 23 February 2016 for EUR 150.0 million was repaid to ING Bank N.V. 24 November 2021, subject to the prior approval of the Polish Financial Supervision Authority.

As at the end of 2021, the carrying amount of the subordinated loans was PLN 1,610.3 million (PLN 2,309.2 million as at the end of 2020)

32. Provisions

	2021	2020
Provision for off-balance sheet liabilities	78.6	86.9
Provision for retirement benefits	73.9	63.8
Provision for disputes	42.4	21.4
Provision for restructuring	67.6	49.5
Provision for legal risk of FX mortgage loans *	37.6	11.8
Other provisions	36.8	22.9
Total	336.9	256.3

*) The figures presented for 2021 and 2020 represent the provision relating to CHF-indexed mortgages derecognised from the statement of financial position. With respect to CHF-indexed mortgage loans recognised in the statement of financial position, the Group estimates the adjustment to the gross carrying amount and recognises it in the consolidated statement of financial position, under *Loans and other receivables to customers measured at amortised cost*. In Chapter III. *Significant accounting principles*, in item 3.6. *Write-downs and portfolio provisions related to the portfolio of mortgage loans indexed to the CHF exchange rate* are presented the change in 2021 and 2020 of both provisions and adjustment to the gross carrying amount due to the legal risk of CHF-indexed mortgages.

The tables below present the movements in the individual provisions in 2021 and 2020.



2021

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for disputes	Provision for restructuring	Provision for legal risk	Other provisions	Total
	Stage 1	Stage 2	Stage 3	Total						
Opening balance	38.5	14.3	34.1	86.9	63.8	21.4	49.5	11.8	22.9	256.3
provisions recognised/ reversed	-5.7	8.1	-10.9	-8.5	3.2	21.3	30.8	13.2	16.2	90.5
reclassification due to full repayment of loans	-	-	-	0.0	-	-	-	14.3	-	14.3
utilisation, including from settlements	-	-	-	0.0	-	-0.3	-12.7	-1.7	-2.3	-17.0
actuarial gains/losses	-	-	-	0.0	6.9	-	-	-	-	6.9
other	-	-	0.2	0.2	-	-	-	-	-	0.2
Closing balance	32.8	22.4	23.4	78.6	73.9	42.4	67.6	37.6	36.8	336.9
Expected provision settlement period:										
up to 1 year				0.0	4.3	24.2	31.1	0.0	8.8	68.4
over 1 year				78.6	69.6	18.2	36.5	37.6	28.0	268.5

2020

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for disputes	Provision for restructuring	Provision for legal risk	Other provisions	Total
	Stage 1	Stage 2	Stage 3	Total						
Opening balance	22.3	17.5	67.3	107.1	55.9	18.1	0.0	9.6	15.0	205.7
provisions recognised/ reversed	16.2	-3.2	-33.2	-20.2	3.7	4.4	49.5	3.0	13.9	54.3
utilisation	-	-	-	0.0	-	-1.0	-	-0.8	-6.1	-7.9
actuarial gains/losses	-	-	-	0.0	4.2	-	-	-	-	4.2
other	-	-	-	0.0	-	-0.1	-	-	0.1	0.0
Closing balance	38.5	14.3	34.1	86.9	63.8	21.4	49.5	11.8	22.9	256.3
Expected provision settlement period:										
up to 1 year				0.0	4.0	1.7	22.6	0.0	18.9	47.2
over 1 year				86.9	59.8	19.7	26.9	11.8	4.0	209.1



Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2021 stood at 2,8% (1,2 % at the end of 2020). The actuarial valuation-based provision is recognised and reviewed per annum.

The table below includes revision of the balance-sheet liability.

	2021	2020
Opening balance	63.8	55.9
Costs included in the income statement, including:	4.8	4.8
regular employment costs	4.1	3.7
costs of interest	0.7	1.1
Actuarial gains / losses	7.0	4.2
Paid benefits	-1.7	-1.1
Closing balance	73.9	63.8

Provision for disputes

The value of the proceedings conducted in 2021 concerning liabilities and debt claims did not exceed 10% of the Group’s equity. The Group is of the opinion that none of the proceedings conducted in 2021 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Group’s financial liquidity, individually or in total.

Provision for restructuring

In 2021, the Bank’s Management Board decided to expand the scope of transformation initiated in 2016. The goal of this transformation is to adapt the organization to changes in clients behaviour. The effect will be, gradual reduction of headcount due to, among others, switching to remote channels, digitalization and automation of processes and further reduction of the number of branches. Due to this, in 2021 the Bank created additional restructuring provision amounting to PLN 29.6 million for expected employee severance pay. The provision was presented in the consolidated income statement in item General and administrative expenses, in Employee benefits. The forecasted period of realization of related cashflows covers 2022-2024.

In 2020 a restructuring provision in the amount of PLN 49.5 million was created (at the end of 2021, the amount of this provision was PLN 38.0 million), which was intended to cover personnel costs (i.e. the costs of employee

severance pay) and non-personnel costs related to the physical liquidation and transformation of branches (regarding the early termination of lease agreements for facilities, costs of bringing branches to their original condition and costs related to the liquidation of cash points). The provision was recognized in the consolidated profit and loss account under *General and administrative expenses* in specific items:

- PLN 39.5 million as personnel costs,
- the amount of PLN 10.0 million as other costs.

Legal risk related to the portfolio of loans indexed to CHF

Significant assumptions regarding the calculation of the amount of the adjustment to gross carrying amount due to legal risk for the portfolio of CHF-indexed mortgage loans reported in the statement of financial position and the amount of provisions for CHF-indexed mortgage loans already removed from the statement of financial position as at 31 December 2020 are described in chapter III. *Significant accounting principles*, in point 3.6.

As at 31 December 2021, 755 court cases were pending against the Bank (450 court cases as at 2020 yearend) in connection with the concluded loan agreements in PLN indexed with CHF. As at 31 December 2021, the outstanding capital of the loans concerned by these proceedings was PLN 197.8 million (PLN 129.6 million as at 2020 yearend).

To date, the Bank has not received any class action, and neither of the clauses used by the Bank in the agreements has been entered in the register of prohibited clauses.

On 3 October 2019, the CJEU issued a judgment which did not concern the assessment of clauses in CHF-indexed loan agreements in terms of their possible abusiveness, but only the possible consequences of recognizing the abusiveness of a given provision by the domestic court. The judgment contains some guidelines that should be followed by national courts. The Court reaffirmed that contract evaluation should not be automatic. It is also for the national court to assess whether, following the finding that a given provision is abusive, the contract – in accordance with national law – cannot continue to apply without such a provision. Only when the domestic court comes to the conclusion that the contract cannot continue to apply without a condition deemed abusive, does the client consent to the maintenance of the provisions considered abusive or expressly opposes it. It is also for the national court to assess the potential consequences for the consumer of the annulment of the credit agreement concerned.

On 11 May 2021, a meeting of the full composition of the Civil Chamber of the Supreme Court took place (originally planned for 25 March 2021). During the session, the application of the First President of the Supreme Court of 29 January 2021 for the adoption of a resolution on the following legal issues regarding loans denominated and



indexed in foreign currencies was to be considered (legal basis Art. 83 § 1 of the Act of December 8, 2017 on the Supreme Court):

1. If it is found that the provision of an indexed or denominated loan agreement relating to the method of determining the foreign currency exchange rate constitutes an illegal contractual provision and does not bind the consumer, it is possible to assume that this provision is replaced by another method of determining the foreign currency exchange rate resulting from legal provisions or customs??

If the answer to the above question is in the negative:

2. If it is impossible to establish a binding exchange rate for a foreign currency in a loan agreement indexed to such currency, can the agreement be binding on the parties in the remaining scope?
3. If it is impossible to establish a binding exchange rate for a foreign currency in a loan agreement denominated in a foreign currency, can this agreement be binding on the parties in the remaining scope?

Regardless of the content of the answers to questions 1-3:

4. In the event of the invalidity or ineffectiveness of a loan agreement, in the performance of which the bank paid out to the borrower all or part of the loan amount and the borrower repaid the loan, separate claims arise for undue performance for each of the parties, or is there only one claim, equal to the difference in the benefits provided to the party whose total benefit was higher?
5. In the event of the invalidity or ineffectiveness of a loan agreement due to the unlawful nature of some of its provisions, does the limitation period for the bank's claim for reimbursement of the amounts paid under the loan start from the moment of their payment?
6. If, in the event of the invalidity or ineffectiveness of a credit agreement, either party is entitled to a claim for reimbursement of the performance provided in the performance of such a contract, may that party also demand remuneration for the use of its funds by the other party?

The ruling of the Supreme Court may affect the assumptions made in the model for estimating the Group's gross book value adjustments resulting from legal risk for the portfolio of CHF-indexed mortgage loans disclosed in the statement of financial position and provisions for legal risk for CHF-indexed mortgage loans already removed from the report from the financial situation. In particular, it may affect the number and resolution of disputes and the interest of borrowers in entering into voluntary agreements regarding conversion into PLN loans. The Bank monitors the legal situation related to the judgment of the Supreme Court, which may have an impact on changing the assumptions in the model regarding costs related to legal risk of CHF-indexed loans in subsequent reporting periods.

On 7 May 2021, the Supreme Court adopted a resolution by a panel of seven judges of the Supreme Court addressing the issues presented by the Financial Ombudsman, i.e. the parties' settlements in the event of the

invalidity or failure of an index-linked or denominated loan agreement. The Supreme Court confirmed the position expressed in its resolution of 16 February 2021 (III CZP 11/20) that, if an agreement is invalid, each party is entitled to a claim for the return of the benefit provided by that party (the so-called two-condition theory). The Supreme Court did not prejudge that every indexed or denominated loan agreement should be invalidated. A finding that a contractual provision is abusive should, in principle, result in national courts applying solutions that redress the balance. According to the Supreme Court, an agreement should be considered definitively ineffective if the consumer – duly informed of the consequences – does not agree to be bound by the provision deemed abusive.

On 18 November 2021, the Court of Justice of the EU issued a judgment in the RBI case C-212/20 on mortgage loan indexed to foreign currency.

The referring court put two questions to the CJEU:

- question 1 concerned whether a spreads clause must be written in such a way that the client can calculate for himself/herself what rate should be applied or whether, given the nature of the agreement and its length, it could be written in a more general way, namely referring to the market level of the foreign currency;
- question 2 concerned whether, if it could be a market rate, this contractual provision could be interpreted – on the basis of Article 65 of the Civil Code. – that the parties have agreed on a market rate.

CJEU replies:

- answer to question 1 – the wording of a clause in a loan agreement between an entrepreneur and a consumer which fixes the sale and purchase price of a foreign currency to which the loan is indexed must, on the basis of clear and comprehensible criteria, enable a reasonably well-informed and reasonably observant and circumspect consumer to understand how the exchange rate applicable to the foreign currency used for the calculation of the amount of the loan instalments will be determined, in such a way that the consumer is able at any time to determine the exchange rate applied by the entrepreneur himself/herself
- answer to question 2 – a national court which has found a term in an agreement between an entrepreneur and a consumer to be unfair may not interpret that term (i.e. apply Article 65 of the Civil Code) in order to mitigate its unfairness, even if that interpretation reflects the common intention of the parties (in the case in question, it was assumed that a market rate would apply instead of the “free” rate).

This judgment contains both positive and negative theses for banks. In particular, it confirms that, when assessing clauses, account should be taken of the state of information available to the entrepreneur at the time of the conclusion of the agreement with the consumer (implicitly, the entrepreneur cannot be accused of not having said



something of which he or she was not aware). Furthermore, the CJEU refers to the National Bank of Poland's exchange rate as that rate which is objectively determined.

Therefore, in the opinion of the Bank, the judgments of domestic courts in these cases may still be different.

At the same time, the information provided by attorneys representing banks in CHF disputes shows that in many courts a practice has been developed to refrain from examining the grounds for abusiveness of indexation clauses. More and more judges are of the opinion that it has already been decided that if an indexation clause refers to the bank's exchange rate table, it is abusive. Therefore, judges give up the assessment of a given, specific contractual provision, and their considerations focus only on the analysis of whether the agreement can continue to be performed without this provision. Recent rulings show that most often the courts do not see such a possibility and declare the loan agreement invalid. The above practice is reflected in the increase in the number of court cases lost by banks in 2020 and 2021. However, due to the overall number of cases and the number of courts involved, it will be a process spread over time.

In light of the case law to date on so-called "franc" cases, it cannot be entirely ruled out that a dispute with a bank client involving the bank's obligation to reimburse spreads charged by the bank will be settled. It should be borne in mind that this case law is not yet fully established, there are still many issues to be settled. Although rulings declaring such loan agreements invalid currently prevail, in the Bank's view, such a solution is still likely to occur in the next few years. This is confirmed by the CJEU's judgment of 29 April 2021 in case C-19/20, in which the Court, in response to a question from a Polish court, expressly allowed the possibility for a national court to remove from an agreement only provisions concerning the bank's margin (spread), while maintaining indexation of the loan to a foreign currency. Furthermore, according to the CJEU judgment of 2 September 2021 in Case C-932/19 (the so-called Hungarian case), it is for the national court to assess whether the national legislation allows the agreement to be maintained after the term concerning exchange rate differences that has been declared abusive has been eliminated from the agreement. Therefore, this possibility cannot be excluded a priori under Polish law.

Settlement programme

From 25 October 2021, it offers the possibility of converting a CHF-indexed mortgage loan into a PLN loan as if it had been granted in the Polish currency from the moment it was taken out. To this end, the Bank has made it possible for clients to apply for mediation through the Mediation Centre of the Arbitration Court of the Polish Financial Supervision Authority.

The mediation process is available to clients who have a housing mortgage loan or a housing construction and mortgage loan indexed to CHF exchange rate with the Bank for their own housing purposes, excluding mortgage loans and the above loans where one of the purposes of the loan was the consolidation of non-housing liabilities. A mediation agreement can only be signed for one of client's active housing loans.

The loan will be recalculated from the date of its disbursement, assuming that it was a loan granted in Polish zloty from the beginning. The conversion will take place on the terms and conditions presented by the Chairman of the Polish Financial Supervision Authority. The detailed rules for the settlement of the loan and the determination of the type of interest rate for the future (periodically fixed or variable) will be the subject of arrangements in the mediation process before the PFSA.

From the moment the settlement programme was launched until the end of 2021, clients filed 522 settlement applications and the Bank concluded 147 agreements under the programme.

Other provisions

Provision for commission refunds on prepaid consumer loans

In connection with the judgment of the CJEU of September 11, 2019 and the statement of the Office of Competition and Consumer Protection (more on this subject in chapter III. *Significant accounting principles*, in item 3.7.) the Group now automatically reimburses a proportionate part of the commission in the case of early repayment of the consumer loan (for repayments made after 11 September 2019). For early repayments made before 11 September 2019, the Group makes refunds if the client submits a complaint and its verification proves that the refund is justified.

The amount of the provision for returns made on the complaint path in 2019 was PLN 17.1 million and as at 2021 yearend it was PLN 7.4 million (PLN 8.9 million as at 31 December 2020). As at 31 December 2021 there was no change in assumptions regarding commission returns realized on the complaint path.

On 9 October 2019, the Bank was served with a notice of initiation by the Office of Competition and Consumer Protection and a request to provide information on banking products on offer from 16 May 2016, to which the provisions of the Consumer Credit Act, including Art. 49 of this act. The explanatory proceeding concerns the settlement by the Bank of commission refunds in cases of early repayment of consumer loans. The Bank provided



the requested information to the Office of Competition and Consumer Protection by letter of 29 October 2019. On 24 December 2019, the Bank received another letter from the Office of Competition and Consumer Protection in the same procedure with the request for additional information. The Bank replied with a letter of 3 January 2020.

The Group monitors the impact of the CJEU judgments on the behaviour of borrowers, the practice and jurisprudence of Polish courts in these cases, and assesses the probability of cash outflow in relation to CHF-indexed mortgage loans and commission reimbursements on consumer loans on an ongoing basis.

Proceedings before the President of the Office of Competition and Consumer Protection (UOKiK)

Proceedings on provisions providing for the possibility of changing a standard contract, contract or table of fees and commissions for important reasons, the so-called modification clauses

On 1 April 2019, the President of the Office of Competition and Consumer Protection (UOKiK) initiated ex officio proceedings to recognize a standard contract as illegal in terms of contractual provisions that may violate Art. 23a of the Act on competition and consumer protection. The proceedings concern provisions providing for the possibility of changing the standard contract, contract or table of fees and commissions for important reasons, the so-called modification clauses.

The scope of the procedure relates to the provisions in various general terms and conditions, regulations and contracts concluded with consumers: for cash loans, overdraft limit, granting and repayment of loans in a brokerage account, using a credit card – in the version effective from 7 March 2016; for checking and checking accounts and savings accounts – in the version effective from 9 November 2015; for maintaining payment accounts – in the version applicable from 6 August 2018; for prepaid cards – in the version valid from 1 January 2016.

In the opinion of the President of UOKiK, the analysed modification clauses may constitute prohibited contractual provisions due to:

- the possibility of unilaterally changing the general terms and conditions of the contract as to its essential provisions, in the scope of contracts enabling the generation of debt on the part of consumers, concluded for a specified period,
- general, imprecise nature of the premises for a unilateral amendment to the contract, which does not allow consumers to verify them correctly, and in some provisions there are no time limits as to the scope of changes,
- no provisions regarding the possibility of continuing a contract concluded for a specified period of time regarding crediting consumer needs under the existing rules in the event of failure to accept unilateral proposed changes from the bank.

In the letter of 13 May 2021, the Office for Competition and Consumer Protection notified the Bank that the collection of evidence had been completed. The Office for Competition and Consumer Protection decided to extend the deadline for the completion of the proceedings until 31 December 2021 and then until 30 April 2022.

As at 31 December 2021, the Group has not identified any rationale for making provisions on this account.

Proceedings on the use of practices violating collective consumer interests

Before the President of the Office of Competition and Consumer Protection, an ex officio proceeding was conducted on 9 July 2014 regarding the use of practices violating collective consumer interests, consisting in: during the validity of payment card contracts, replacement of payment cards not equipped with a contactless function for cards equipped with this function without changing the content of the contract ; deriving the legal effects from the Communication for the account holder specified in the Regulations for the provision of services by ING Bank Śląski as part of keeping savings and checking accounts and savings accounts for natural persons; failure to provide consumers with information about the possibilities and rules of making the so-called contactless transactions, spending limits for payment transactions performed with these payment cards, on paper or on another durable medium, in due time before the conclusion of the contract. The Bank's proposed obligations presented to the supervisor as part of the above procedure were already implemented on 18 December 2018, the Office of Competition and Consumer Protection decided to extend the procedure. In July 2021, the Office for Competition and Consumer Protection sought information on whether the Bank maintained its willingness to commit. In view of the fulfilment of all the commitment offers made in the proceedings and the absence of the practices challenged by the Authority, the Bank requested that the proceedings be discontinued. On 30 December 2021, the Office for Competition and Consumer Protection issued its decision concluding the proceedings. The Office for Competition and Consumer Protection ordered the Bank to cease the practice it considered to violate the collective interests of consumers, found that the Bank had ceased the practice it considered to violate the collective interests of consumers, and discontinued the proceedings in part.

Proceedings on the allegation of practices restricting competition on the market of acquiring services related to payments with payment cards in Poland

After conducting antitrust proceedings against ING Bank Śląski S.A. and other banks, at the request of the Polish Trade and Distribution Organization - the Employers' Association (POHiD), the President of the Office of Competition and Consumer Protection issued a decision on 29 December 2006 stating that the Bank had committed practices restricting competition. As restricting competition, UOKiK found the practice consisting in the participation by various Polish banks, including the Bank, in an agreement restricting competition on the acquiring services market related to the settlement of consumers' obligations towards merchants, for payments for goods and services purchased by consumers, with the use of payment cards on territory of Poland by jointly setting the amount of the



interchange fee charged for transactions made with Visa and MasterCard cards in Poland. Due to the finding of competition restricting practices, UOKiK imposed fines, including penalties on the Bank in the amount of PLN 14.1 million.

From this decision, among others The bank appealed to the Court of Competition and Consumer Protection (SOKiK). By ruling on 12 November 2008, SOKiK changed the decision of UOKiK, so that it did not find any practice restricting competition. On 22 April 2010, this judgment was quashed by a judgment of the Court of Appeal, which referred the case to SOKiK for re-examination. 27 kwietnia 2021 roku akta głównej sprawy dotyczącej opłaty interchange zostały przekazane do SOKiK. On 27 April 2021, the files of the main interchange fee case were submitted to SOKiK.

Due to the lack of final decisions, the amount of the refunded penalty was not recognized in the profit and loss account. As at 31 December 2021, the value of the provision was PLN 14.1 million

PFSA proceedings

- On 12 October 2018, the Polish Financial Supervision Authority imposed a fine on the Bank in the amount of PLN 500 thousand, pursuant to Art. 232 sec. 1 of the Act on Investment Funds and Alternative Investment Funds Management, in the wording before the amendment made by the Act of 31 March 2016, in connection with the breach of depositary's obligations set out in Art. 72 of the Act in connection with the Bank acting as the depositary of the Inventum Premium SFIO and Inventum Parasol FIO funds with separate sub-funds.

In the course of reconsidering the case, the PFSA confirmed the violations and did not identify any circumstances that would justify reducing the fine.

In connection with the proceedings, a provision in the amount of PLN 0.5 million was created in December 2018. The Bank paid the imposed fine in the third quarter of 2020. On 1 October 2020, the Bank appealed against the said decision to the Provincial Administrative Court. In the judgment of 7 April 2021, the Provincial Administrative Court overruled the decision of 12 October 2018 and the decision of the Polish Financial Supervision Authority of 12 August 2020 upholding this decision.

The PFSA filed a complaint with the Supreme Administrative Court on 27 July 2021. On 25 August 2021, the Bank responded to the complaint. The date of the hearing before the Supreme Administrative Court has not been set.

- On 17 June 2020 by a decision delivered on 1 July 2020, the Polish Financial Supervision Authority (KNF) initiated administrative proceedings to impose a penalty on ING Bank Śląski S.A, in connection with suspicion of breach of depositary duties defined in art. 72 of the Act on investment funds and management of alternative investment funds in connection with the Bank's function of depositary of the fund Trigon Polskie Perły FIZ, Opera MP FIZ, Opera SFIO Subfundsz Alfa-plus, Trigon Profit XX NS FIZ, Trigon Profit XXI NS FIZ, Trigon

Profit XXII NS FIZ , Trigon Profit XXIII NS FIZ, Trigon Profit XXIV NS FIZ and Altus Absolutnej Stopy Zwrotu FIZ Rynku Polskiego 2 and Article 9() of the above mentioned Act. The proceedings were extended to August 2021, then to November 2021. A provision of PLN 2.5 million was made in connection with the proceedings.

The proceedings ended on 17 December 2021 with the issuance of a Decision under which the PFSA imposed an administrative penalty of PLN 4.3 million (in total) on the Bank for breach of:

- Article 72(1)(7) in connection with Article 72(3) of the Act on Investment Funds and Alternative Investment Fund Management for failing to exercise ongoing control over factual and legal operations carried out by the Trigon Profit Funds and the Opera MP Closed-end Investment Fund and the Opera Alfa-plus.pl sub-fund separated within the Opera Specjalistyczny Open-End Investment Fund in relation to valuation of shares of Kancelaria Medius SA, Centrum Finansowe SA, SkyCash Poland SA and shares of Re Development SA, as well as valuation of debt portfolios,
- Article 9(2) of the Investment Funds Act in connection with the performance of the depositary's duties in an unreliable manner and without exercising the utmost care required in connection with the professional nature of its activities.

The Bank has applied to the PFSA for reconsideration. As at 31 December 2021, the Bank maintained a provision of PLN 4.3 million on this account.

- On 8 June 2021, the Bank received a notice from the Polish Financial Supervision Authority (PFSA) on the initiation of ex officio administrative proceedings for the imposition of an administrative penalty in connection with suspected breaches identified as a result of an audit conducted from 20 to 24 May 2019 in the area of anti-money laundering and terrorist financing.

On 20 January 2022, the Bank received a decision under which the PFSA imposed an administrative penalty of PLN 3.0 million on the Bank for breaches relating to:

- incorrect application of financial security measures involving the ongoing monitoring of the client's business relations,
- a failure to apply, and adequately intensify, financial security measures on an ongoing basis where there is a higher risk of money laundering or terrorist financing,
- lack of documentation on the financial security measures applied to investigate the source of funds and assets of Private Banking segment clients.

As at 31 December 2021, the Bank had a provision for an administrative penalty of PLN 3.0 million.



Other proceedings

On 28 June 2021, the Bank received from the General Inspector of Financial Information (GIIF) a post-inspection letter pursuant to Article 142 of the Act of 1 March 2018 on anti-money laundering and counter-terrorist financing concerning the inspection carried out at the Bank from 16 November 2020 to 7 March 2021. The Bank received a notice from the GIIF on the initiation of ex officio administrative proceedings in this area. The Bank shall take the action required by law during the proceedings.

- On 23 January 2020, the Bank received a notice from the President of the Office for Personal Data Protection (President of the DPA) regarding the audit of the compliance of the processing of personal data with personal data protection regulations, i.e. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) and the Act of 10 May 2018 on personal data protection. On 9 December 2021, the Bank received a notice from the President of UODO on the initiation of ex officio administrative proceedings in this area. The Bank shall take the action required by law during the proceedings.

33. Other liabilities

	2021	2020
Accruals, including:	889.9	683.3
due to employee benefits	348.0	282.8
of which variable remuneration programme	93.2	61.8
due to commissions	180.9	161.1
due to general and administrative expenses	361.0	239.4
Other liabilities, including:	1,733.5	1,622.7
lease liabilities	335.6	393.7
interbank settlements	709.1	611.7
settlements with suppliers	123.4	118.3
public and legal settlements	121.4	101.3
liability to pay to the BFG guarantee fund	155.5	121.8
liability to pay to the BFG resolution fund	148.0	113.5
other:	140.5	162.4
Total	2,623.4	2,306.0
Including financial liabilities	1,733.5	1,622.7



34. Equity

34.1. Share capital

The Parent entity's share capital is PLN 130,100,000 and is sub-divided into:

- 92,600,000 A-series ordinary bearer's shares with face value of PLN 1.00 each, and
- 37,500,000 B-series ordinary bearer's shares with face value of PLN 1.00 each.

Each ordinary share entitles its holder to dividend and one vote during the general meeting. All shares are fully paid.

34.2. Accumulated other comprehensive income

The table below presents the balances of accumulated other comprehensive income as at 31 December 2021 and 31 December 2020, respectively. The following tables show the reconciliation of changes in accumulated other comprehensive income during 2021 and 2020.

	2021	2020
Accumulated other comprehensive income, including:		
from financial assets measured through other comprehensive income – debt instruments, including:	79.7	353.4
deferred tax	-42.6	-62.9
current tax *	23.7	-19.9
from financial assets measured through other comprehensive income – equity instruments, including:	115.9	100.8
deferred tax	-27.1	-23.6
from property, plant and equipment, including:	0.3	5.8
deferred tax	-0.1	-1.3
from cash flow hedges, including:	-2,994.5	3,480.0
deferred tax	9.8	-126.6
current tax **	692.5	-689.7
from actuarial gains / losses, including:	-22.4	-16.6
deferred tax	5.0	3.6
Total	-2,821.0	3,923.4

*) current tax on the valuation of debt instruments

Due to the fact that the debt securities included in all portfolios are jointly owned by one taxpayer of corporate income tax (hereinafter "CIT"), the Bank calculated for all portfolios jointly, separately for each security and using the FIFO method, tax results on purchase and sale of debt securities. The change in the method of determining the tax results from the purchase / sale of debt securities results in a different distribution of the results realised in the field of valuation. Accounting unrealised valuation in accumulated other comprehensive income for CIT purposes becomes a realised valuation, on which the Bank pays current tax. For this reason the current tax is recorded for the part of the unrealised valuation in accumulated other comprehensive income that is realised in terms of CIT.

**) current tax on the valuation of hedging derivatives

The Group uses the service “settled to market”, or “STM”, provided for by the Regulation of the KDPW/LCH/EUREX (CCP) in respect of the approach to the settlement of IRS and FRA instruments . Even though the effective portion of the derivative hedge instruments resulting from the measurement of derivative hedging instruments is recognised in other comprehensive income, due to the STM mechanism it is settled in cash and the amount paid to/ received from CCP represents tax income/ expense for the purpose of the corporate income tax (CIT). That is why the current tax is recognised in other comprehensive income. Details on the STM services are presented in note 17. *Valuation of derivatives*.



2021

	changes in the fair value of financial assets measured through other comprehensive income – debt instruments	changes in the fair value of financial assets measured through other comprehensive income – equity instruments	property, plant and equipment	cash flow hedges	actuarial gains / losses	Total
Accumulated other comprehensive income - opening balance	353.4	100.8	5.8	3,480.0	-16.6	3,923.4
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-248.0	22.2	-	-	-	-225.8
financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale	-25.7	-	-	-	-	-25.7
sale of equity instruments measured at fair value through other comprehensive income	-	-7.1	-	-	-	-7.1
cash flow hedging – gains on revaluation carried through equity	-	-	-	-5,566.7	-	-5,566.7
cash flow hedging – reclassification to profit or loss	-	-	-	-907.8	-	-907.8
fixed assets revaluation	-	-	-0.3	-	-	-0.3
disposal of fixed assets	-	-	-5.2	-	-	-5.2
actuarial gains/losses	-	-	-	-	-5.8	-5.8
Accumulated other comprehensive income - closing balance	79.7	115.9	0.3	-2,994.5	-22.4	-2,821.0

In the item *financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity* in relation to debt securities, changes in the fair value of items classified in this category have been presented, without taking into account the changes resulting from the valuation of the hedged risk , in terms of items covered by the fair value hedge accounting.

The *cash flow hedging – gains on revaluation carried through equity* includes the amount relating to the effective part of the hedging relationship in the cash flow hedging strategy of the portfolio of financial assets / liabilities.

The *cash flow hedging – reclassification to profit or loss* item presents the amortization of the effective part of the hedging relationship of the cash flow hedging strategy on the dates on which the hedged item results in the profit or loss account.

The rules relating to the above items are described in detail in Chapter III. *Significant accounting principles* in item 14.10.1. and in the section *Risk and capital management* in chapter III.1.10. *Hedge accounting*.



2020

	changes in the fair value of financial assets measured through other comprehensive income – debt instruments	changes in the fair value of financial assets measured through other comprehensive income – equity instruments	property, plant and equipment	cash flow hedges	actuarial gains / losses	Total
Accumulated other comprehensive income - opening balance	268.9	69.9	7.1	1,534.6	-13.2	1,867.3
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	102.8	30.9	-	-	-	133.7
financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale	-18.3	0.0	-	-	-	-18.3
cash flow hedging – gains on revaluation carried through equity	-	-	-	2,562.5	-	2,562.5
cash flow hedging – reclassification to profit or loss	-	-	-	-617.1	-	-617.1
disposal of fixed assets	-	-	-1.3	-	-	-1.3
actuarial gains/losses	-	-	-	-	-3.4	-3.4
Accumulated other comprehensive income - closing balance	353.4	100.8	5.8	3,480.0	-16.6	3,923.4



34.3. Retained earnings

	2021	2020
Other supplementary capital	314.7	314.7
Reserve capital	10,868.8	10,193.4
General risk fund	1,215.2	1,215.2
Valuation of share-based payments	52.3	51.9
Retained earnings from previous years	506.7	495.7
Result for the current year	2,308.3	1,337.6
Total	15,266.0	13,608.5

2021

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share- based payments	Retained earnings from previous years	Result for the current year	Total
Retained earnings - opening balance	314.7	10,193.4	1,215.2	51.9	1,833.3	0.0	13,608.5
net result for the current period	-	-	-	-	-	2,308.3	2,308.3
profit written off to reserve capital	-	675.4	-	-	-675.4	-	0.0
dividend payment *	-	-	-	-	-663.5	-	-663.5
disposal of fixed assets	-	-	-	-	5.2	-	5.2
sale of equity instruments measured at fair value through other comprehensive income	-	-	-	-	7.1	-	7.1
valuation of share-based payments	-	-	-	0.4	-	-	0.4
Retained earnings - closing balance	314.7	10,868.8	1,215.2	52.3	506.7	2,308.3	15,266.0

*) In 2021, dividends were paid out of the 2020 profit in the amount of PLN 663.5 million, i.e. PLN 5.10 per share.

2020

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share- based payments	Retained earnings from previous years	Result for the current year	Total
Retained earnings - opening balance	314.7	9,043.3	1,215.2	51.9	1,644.5	0.0	12,269.6
net result for the current period	-	-	-	-	-	1,337.6	1,337.6
profit written off to reserve capital	-	1,150.1	-	-	-1,150.1	-	0.0
disposal of fixed assets	-	-	-	-	1.3	-	1.3
Retained earnings - closing balance	314.7	10,193.4	1,215.2	51.9	495.7	1,337.6	13,608.5

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserve capital

The reserve capital is created irrespective of the supplementary capital from profit after tax write-offs, in the amount passed by the General Meeting. The reserve capital may be allocated to cover special costs and expenses, and also to increase the share capital from the Bank's funds. The decision on activation of the reserve capital is taken by the General Meeting.

General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits and is used for unidentified risk of banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout

The dividend is paid based on the financial result determined in the separate annual financial statements of the Parent company and the Group companies. Details of the Group's dividend policy and divided payout constraints are included in the section *Risk and equity management*, in item **I.1.5. Dividend Policy**.



35. FX structure of assets and liabilities

Herein below, the statement of consolidated financial position of the Group and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31 Dec 2021	31 Dec 2020
EUR	4.5994	4.6148
USD	4.0600	3.7584
CHF	4.4484	4.2641

2021

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	842.0	180.0	39.1	38.1	9.4	3.1	0.7	36.8	1,100.0
Loans and other receivables to other banks	465.6	174.9	38.0	17.4	4.3	2.6	0.6	44.3	704.8
Financial assets measured at fair value through profit or loss	1,270.6	65.7	14.3	56.1	13.8	8.7	2.0	137.2	1,538.3
Derivative hedge instruments	142.2	108.2	23.5	0.0	0.0	0.0	0.0	0.0	250.4
Investment securities	39,580.0	6,004.4	1,305.5	0.0	0.0	0.0	0.0	0.0	45,584.4
Loans and other receivables to customers measured at amortised cost	126,133.3	16,731.2	3,637.7	829.6	204.3	479.5	107.8	2,362.4	146,536.0
Transferred assets	2,280.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,280.9
Investments in associates accounted for using the equity method	184.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	184.8
Property, plant and equipment	831.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	831.2
Intangible assets	377.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	377.4
Current income tax assets	734.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	734.5
Deferred tax assets	1,245.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,245.0
Other assets	278.0	7.9	1.7	0.4	0.1	0.0	0.0	0.2	286.5
Total assets	174,365.5	23,272.3	5,059.8	941.6	231.9	493.9	111.1	2,580.9	201,654.2



2021

	PLN	EUR	USD	CHF	other currencies				
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	converted to PLN	converted to PLN	Total
Liabilities									
Liabilities to other banks	3,885.3	6,126.8	1,332.1	1.2	0.3	0.0	0.0	37.7	10,051.0
Financial liabilities measured at fair value through profit or loss	1,550.6	59.4	12.9	29.6	7.3	0.1	0.0	39.9	1,679.6
Derivative hedge instruments	117.7	117.7	25.6	0.0	0.0	0.0	0.0	0.0	235.4
Liabilities to customers	146,844.8	19,000.0	4,131.0	3,874.5	954.3	24.5	5.5	866.1	170,609.9
Liabilities from debt securities issued	972.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	972.4
Subordinated liabilities	0.0	1,610.3	350.1	0.0	0.0	0.0	0.0	0.0	1,610.3
Provisions	330.6	4.7	1.0	1.6	0.4	0.0	0.0	0.0	336.9
Current income tax liabilities	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9
Other liabilities	2,419.8	195.3	42.5	6.4	1.6	1.8	0.4	0.1	2,623.4
Total liabilities	156,125.1	27,114.2	5,895.2	3,913.3	963.9	26.4	5.9	943.8	188,122.8
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Share premium	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Accumulated other comprehensive income	-2,894.0	73.0	15.9	0.0	0.0	0.0	0.0	0.0	-2,821.0
Retained earnings	15,266.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15,266.0
Total equity	13,458.4	73.0	15.9	0.0	0.0	0.0	0.0	0.0	13,531.4
Total equity and liabilities	169,583.5	27,187.2	5,911.1	3,913.3	963.9	26.4	5.9	943.8	201,654.2
Contingent liabilities granted	41,191.6	6,118.9	1,330.4	1,348.8	332.2	2.3	0.5	32.2	48,693.8
Contingent liabilities received	20,083.5	1,110.5	241.4	376.4	92.7	0.0	0.0	75.0	21,645.4



2020

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	516.7	235.2	51.0	61.3	16.3	4.8	1.1	49.3	867.3
Loans and other receivables to other banks	362.5	289.9	62.8	30.6	8.1	0.5	0.1	21.1	704.6
Financial assets measured at fair value through profit or loss	1,632.6	134.3	29.1	16.1	4.3	10.0	2.3	24.6	1,817.6
Derivative hedge instruments	1,031.3	163.5	35.4	0.0	0.0	0.0	0.0	0.0	1,194.8
Investment securities	48,052.6	6,118.0	1,325.7	0.0	0.0	0.0	0.0	0.0	54,170.6
Loans and other receivables to customers measured at amortised cost	105,726.5	16,517.1	3,579.2	681.7	181.4	597.0	140.0	1,133.0	124,655.3
Transferred assets	963.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	963.0
Investments in associates accounted for using the equity method	174.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	174.1
Property, plant and equipment	913.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	913.1
Intangible assets	426.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	426.6
Current income tax assets	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7
Deferred tax assets	423.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	423.2
Other assets	278.5	3.8	0.8	0.3	0.1	0.0	0.0	0.2	282.8
Total assets	160,503.4	23,461.8	5,084.0	790.0	210.2	612.3	143.5	1,228.2	186,595.7



2020

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Liabilities									
Liabilities to other banks	3,318.9	4,592.3	995.1	252.4	67.2	22.8	5.3	41.6	8,228.0
Financial liabilities measured at fair value through profit or loss	1,211.7	116.2	25.2	158.7	42.2	14.5	3.4	29.7	1,530.8
Derivative hedge instruments	375.3	183.2	39.7	0.0	0.0	0.0	0.0	0.0	558.5
Liabilities to customers	130,908.8	15,601.4	3,380.7	3,708.4	986.7	24.9	5.8	785.0	151,028.5
Liabilities from debt securities issued	1,370.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,370.5
Subordinated liabilities	0.0	2,309.2	500.4	0.0	0.0	0.0	0.0	0.0	2,309.2
Provisions	244.0	7.1	1.5	5.2	1.4	0.0	0.0	0.0	256.3
Current income tax liabilities	389.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	389.6
Other liabilities	2,102.4	198.8	43.1	2.6	0.7	0.0	0.0	2.2	2,306.0
Total liabilities	139,921.2	23,008.2	4,985.7	4,127.3	1,098.2	62.2	14.5	858.5	167,977.4
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Share premium	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Accumulated other comprehensive income	3,811.8	111.6	24.2	0.0	0.0	0.0	0.0	0.0	3,923.4
Retained earnings	13,608.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13,608.5
Total equity	18,506.7	111.6	24.2	0.0	0.0	0.0	0.0	0.0	18,618.3
Total equity and liabilities	158,427.9	23,119.8	5,009.9	4,127.3	1,098.2	62.2	14.5	858.5	186,595.7
Contingent liabilities granted	37,953.1	4,821.1	1,044.7	802.8	213.6	2.5	0.6	8.0	43,587.5
Contingent liabilities received	10,756.5	589.6	127.8	167.2	44.5	0.0	0.0	72.8	11,586.1



36. Contingent liabilities

36.1. Contingent liabilities granted

	2021	2020
Undrawn credit facilities	38,972.4	33,997.6
Guarantees	6,215.5	6,058.6
Undrawn overdrafts in current account	1,563.2	1,580.5
Credit card limits	1,549.1	1,520.5
Letters of credit	393.6	430.3
Total	48,693.8	43,587.5

The Group discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts in current accounts.

The Group issues guarantees and letters of credits to secure fulfilment of obligations of the Group's customers to third parties. The value of guarantees and letters of credit disclosed above reflects the maximum loss that can be incurred and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.

The Group charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Financial guarantee contracts by maturity

	2021	2020
up to 1 month	130.1	152.6
over 1 month and up to 3 months	893.7	618.7
over 3 months and up to 1 year	2,224.8	2,535.3
over 1 year and up to 5 years	2,110.2	1,990.6
over 5 years	856.7	761.4
Total	6,215.5	6,058.6

36.2. Contingent liabilities received

	2021	2020
Guarantees received	14,663.0	10,763.6
Financing	6,982.4	822.5
Total	21,645.4	11,586.1

Guarantee commitments received consist of collateral values for loans granted by the Bank. Funding commitments received include the value of deposits and loans that do not meet the criteria for recognition in the statement of financial position at the time of the financial statements.

37. Fair value

Wartość godziwa to kwota, za jaką składnik aktywów mógłby być wymieniony, lub zobowiązanie wykonane, pomiędzy dobrze poinformowanymi i zainteresowanymi stronami w bezpośrednio zawartej transakcji, innej niż sprzedaż pod przymusem lub likwidacja i jest najlepiej odzwierciedlona przez cenę rynkową, jeśli jest dostępna.

37.1. Financial assets and liabilities measured at fair value in statement of financial position

Based on the employed methods of determining the fair value, the Group classifies individual financial assets / liabilities into one of three categories, the so-called Valuation level. The description of the individual levels of valuation is included in Chapter III. *Significant accounting principles*, in item 14.8.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement levels.



2021

	Level 1	Level 2	Level 3	Total
Financial assets, including:	16,026.9	1,404.4	245.9	17,677.2
Valuation of derivatives	-	629.3	-	629.3
Financial assets held for trading, including:	301.1	524.7	-	825.8
debt securities, including:	301.1	0.0	-	301.1
treasury bonds in PLN	259.2	-	-	259.2
Czech Treasury bonds in CZK	41.4	-	-	,
European Investment Bank bonds	0.5	-	-	0.5
repo transactions	-	524.7	-	524.7
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	4.7	-	78.5	83.2
loans are obligatorily measured at fair value through profit or loss	-	-	78.4	78.4
equity instruments	4.7	-	0.1	4.8
Derivative hedge instruments	-	250.4	-	250.4
Financial assets measured at fair value through other comprehensive income, including:	14,211.5	-	167.4	14,378.9
debt securities, including:	14,211.5	-	-	14,211.5
treasury bonds in PLN	11,765.9	-	-	11,765.9
treasury bonds in EUR	1,022.9	-	-	1,022.9
European Investment Bank bonds	941.4	-	-	941.4
Austrian government bonds	481.3	-	-	481.3
equity instruments	-	-	167.4	167.4
Transferred assets, including:	1,509.6	-	-	1,509.6
treasury bonds in PLN from portfolio of financial assets measured at fair value through profit or loss	243.2	-	-	243.2
treasury bonds in PLN from portfolio of financial assets measured at fair value through other comprehensive income	1,266.4	-	-	1,266.4

	Level 1	Level 2	Level 3	Total
Financial liabilities, including:	486.2	1,428.8	0.0	1,915.0
Valuation of derivatives	-	949.0	-	949.0
Other financial liabilities measured at fair value through profit or loss, including:	486.2	244.4	-	730.6
book short position in trading securities	486.2	-	-	486.2
financial liabilities held for trading, including:	-	244.4	-	244.4
repo transactions	-	244.4	-	244.4
Derivative hedge instruments	-	235.4	-	235.4



2020

	Level 1	Level 2	Level 3	Total
Financial assets, including:	21,672.4	2,669.5	264.0	24,605.9
Valuation of derivatives	-	1,199.8	-	1,199.8
Financial assets held for trading, including:	235.9	274.9	-	510.8
debt securities, including:	235.9	-	-	235.9
treasury bonds in PLN	219.1	-	-	219.1
European Investment Bank bonds	16.8	-	-	16.8
repo transactions	-	274.9	-	274.9
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	0.7	-	106.3	107.0
loans are obligatorily measured at fair value through profit or loss	-	-	106.2	106.2
equity instruments	0.7	-	0.1	0.8
Derivative hedge instruments	-	1,194.8	-	1,194.8
Financial assets measured at fair value through other comprehensive income, including:	20,472.8	-	157.7	20,630.5
debt securities, including:	20,472.8	-	-	20,472.8
treasury bonds in PLN	17,845.1	-	-	17,845.1
treasury bonds in EUR	1,057.7	-	-	1,057.7
European Investment Bank bonds	1,078.1	-	-	1,078.1
Austrian government bonds	491.9	-	-	491.9
equity instruments	-	-	157.7	157.7
Transferred assets, including:	963.0	-	-	963.0
treasury bonds in PLN from portfolio of financial assets measured at fair value through profit or loss	200.1	-	-	200.1
treasury bonds in PLN from portfolio of financial assets measured at fair value through other comprehensive income	762.9	-	-	762.9

	Level 1	Level 2	Level 3	Total
Financial liabilities, including:	265.5	1,823.8	0.0	2,089.3
Valuation of derivatives	-	1,065.3	-	1,065.3
Other financial liabilities measured at fair value through profit or loss, including:	265.5	200.0	0.0	465.5
book short position in trading securities	265.5	-	-	265.5
financial liabilities held for trading, including:	-	200.0	-	200.0
repo transactions	-	200.0	-	200.0
Derivative hedge instruments	-	558.5	-	558.5

Movements between valuation levels

In 2021, as in 2020, there were no movements between the valuation levels.

Valuation of financial instruments classified to level 2

The Group classifies derivatives and repo transactions to level 2 of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option – the Garman-Kohlhagen model adjusted by the call spread,
- Cap/Floor (back-to-back transactions) – the Bachelier model.

The following are the input data for the models:

- the FX rate – obtained by the parties from the National Bank of Poland's website,
- implied volatilities – obtained from Bloomberg,
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash flows at the transaction level. The fair value determined in that manner is the PV of those cash flows.



All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers. Market data quality is controlled during the daily contribution process for revaluation rates.

Derivative instruments are valued according to the OIS curve concept on the assumption that the transaction valuation is hedged with a deposit at the ESTR rate. The exceptions are transactions in PLN and CZK settled through central clearing houses (LCH, NDS, EUREX), where the NPV is settled in the original currency, which is reflected in the valuation curves used (discount curve based on WIBOR, FRA and IRS quotes).

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Valuation of financial instruments classified to level 3

The financial assets classified to level 3 of the valuation as at 31 December 2021 and as at 31 December 2020 include unlisted equity instruments and loans that did not meet the SPPI criterion according to IFRS 9.

Equity instruments

Fair value measurement of unquoted equity interests in other companies is based on the discounted cash flow, dividend or economic value added model. Estimates of future cash flows were prepared based on medium-term profitability forecasts prepared by the Management Boards of these companies. The discount rate is based on the cost of equity estimated using the CAPM (Capital Asset Pricing Model). At the end of 2021, it was in the range of 9.1%-11.1%, depending on the company compared to 7.7% -13.5% at the 2020 yearend. The fair value measurement of unlisted equity interests in other companies as at 31 December 2021 included the following entities: Biuro Informacji Kredytowej S.A., Krajowa Izba Rozliczeniowa S.A. and Polski Standard Płatności sp. z o.o. As at 31 December 2020, this valuation included, in addition to the entities mentioned, also Twisto Polska sp. z o.o.

As at 31 December 2021 the sensitivity analysis of equity instruments revaluation shows that 1) the adoption of the target dividend payout rate of + 10 p.p. / -10 p.p. against the baseline scenario, would result in an 19% increase / decrease, respectively (11% as at 31 December 2020); 2) assuming the cost of equity capital by -0.5p.p./+0.5p.p. in relation to the baseline scenario, would result in a 8% increase in the valuation / a decrease in the valuation by 7% (8%/7% as at 31 December 2020); 3) the combined effects of items 1) and 2) would result in a 28% increase in the valuation / a decrease in the valuation by 24%, respectively (23%/18% as at 31 December 2020).

In 2021, the change in the valuation of equity instruments classified under level 3 of the valuation recognised in other comprehensive income amounted to PLN 25.7 million (in 2020: PLN 38.1 million).

Loans

The fair value methodology of the loan portfolio is based on the discounted cash flow method. Under this method, for each contract being valued, expected cash flows are estimated, discount factors for particular payment dates and the value of discounted cash flows is determined as at the valuation date. Valuation models are powered by business parameters for individual contracts and parameters observable by the market, such as interest rate curves, liquidity cost and cost of capital. The change in the parameters adopted for the valuation did not have a significant impact on the valuation value as at 31 December 2021.

The discount rates for the above loans as at 2021 yearend and 2020 yearend were approximately 2%, while the fair value sensitivity analysis as at 31 December 2021 and 31 December 2020 indicates that with a change in the discount rate by + 1/-1 pp and no change in expected cash flows causes a change in fair value by approximately +/- 1%.

In 2021, the impact of the valuation of loans classified under level 3 of the valuation amounted to PLN 0.2 million (in 2020: 0.1 million PLN) and was included in the income statement in the item *Net income on financial instruments measured at fair value through profit or loss and FX result*.



Movements in financial assets/liabilities classified to the level 3 of measurement

	2021			2020		
	loans obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	equity instruments measured at fair value through other comprehensive income	loans obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	equity instruments measured at fair value through other comprehensive income
Opening balance	106.2	0.1	157.7	160.3	0.1	110.6
Additions, including:	0.2	0.0	17.9	0.1	0.0	47.1
loans granted in the period / acquisition of investment	-	-	-	-	-	4.2
valuation referred to accumulated other comprehensive income	-	-	17.9	-	-	38.1
valuation charged to the income statement *	0.2	-	-	0.1	-	-
reclassification of equity instruments from investments in associates to investment securities measured at fair value through other comprehensive income	-	-	-	-	-	4.8
Reductions, including:	-28.0	0.0	-8.2	-54.2	0.0	0.0
loan repayments / disposal of investments	-28.0	-	-7.1	-54.2	-	-
impairment of equity investments	-	-	-1.1	-	-	-
Closing balance	78.4	0.1	167.4	106.2	0.1	157.7

*) In the item *Net income on financial instruments measured at fair value through profit or loss and FX result*.



37.2. Non-financial assets measured at fair value in the statement of financial position j

2021

	Level 1	Level 2	Level 3	Total
Own real property	-	-	259.2	259.2

2020

	Level 1	Level 2	Level 3	Total
Own real property	-	-	266.9	266.9
Non-current assets held for sale	-	-	3.6	3.6

Changes in non-financial assets classified to level 3 of the measurement are presented in this statement, note 23. Property, plant and equipment and 26. Other assets.

Fair value measurement

Own real property

The Group measures its property measured at fair value. Valuation is carried out by an independent appraiser using the income method in accordance with the applicable rules of property valuation.

As at 31 December 2021 the sensitivity analysis of own property valuation showed that assuming a capitalization rate of -0.5 p.p./+ 0.5 p.p. compared to the baseline scenario, it would result in an increase in the valuation by 7% (PLN 15.4 million) / a decrease in the valuation by 8% (PLN -17.6 million), respectively.

As at 31 December 2020 the sensitivity analysis of own property valuation showed that assuming a capitalization rate of -0.5 p.p./+ 0.5 p.p. compared to the baseline scenario, it would result in an increase in the valuation by 9% (PLN 17.8 million) / a decrease in the valuation by 8% (PLN -16.8 million), respectively.

The results of real properties appraisals were presented in the income statement in the item *General and administrative expenses* (in note 8 in detailed item *maintenance costs of buildings and real estate valuation to fair value*)

As at 31 December 2021, the amount relating to the real estate properties assessed measured at fair value that was recognised in the accumulated other comprehensive income / revaluation reserve was PLN 0.3 million (including deferred tax). As at 31 December 2019, the same item amounted to PLN 5.8 million. The decrease in the valuation

amount recognised in other comprehensive income was due to the sale of several of the Group's own properties in 2021.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 258.8 million as at 31 December 2021 compared to PLN 259.8 million as at 31 December 2020.

37.3. Financial assets and liabilities not measured at fair value in statement of financial position

The following is a comparison of the carrying amount and the fair value for investment securities measured at amortised cost, the loan portfolio and due to customers and subordinated liabilities. For other financial assets and liabilities, as well as guarantees and off-balance sheet liabilities, not measured at fair value in the statement of financial position, the fair value is close to the carrying amount.



2021

	Carrying amount	Level 1	Fair value		Total
			Level 2	Level 3	
Investment securities at amortised cost	31,205.5	24,519.3	5,251.9	0.0	29,771.2
treasury bonds in PLN	15,311.5	14,533.1	-	-	14,533.1
treasury bonds in EUR	4,028.8	4,052.3	-	-	4,052.3
Bank Gospodarstwa Krajowego bonds	2,299.8	502.3	1,679.4	-	2,181.7
European Investment Bank bonds	5,695.2	5,431.7	-	-	5,431.7
bonds of the Polish Development Fund (PFR)	3,855.2	-	3,557.5	-	3,557.5
NBP money market bills	15.0	-	15.0	-	15.0
Loans and receivables to customers at amortised cost, including:	146,536.0	0.0	0.0	146,008.6	146,008.6
Corporate banking segment, including:	77,756.3	0.0	0.0	78,216.9	78,216.9
loans and advances (in the current account and term ones)	56,524.2	-	-	57,056.2	57,056.2
lease receivables	11,090.0	-	-	11,275.0	11,275.0
factoring receivables	6,823.8	-	-	6,823.8	6,823.8
corporate and municipal debt securities	3,318.3	-	-	3,061.9	3,061.9
Retail banking segment, including:	65,530.4	0.0	0.0	64,542.4	64,542.4
mortgages	57,192.3	-	-	55,756.7	55,756.7
other loans and advances	8,338.1	-	-	8,785.7	8,785.7
Other receivables	3,249.3	-	-	3,249.3	3,249.3
Transferred assets, including:	771.3	710.1	-	-	710.1
treasury bonds in PLN from portfolio of financial assets measured at amortised cost	771.3	710.1	-	-	710.1
Liabilities to customers	170,609.9	-	-	170,609.2	170,609.2
Liabilities from debt securities issued	972.4	-	-	961.6	961.6
Subordinated liabilities	1,610.3	-	-	1,594.7	1,594.7

2020

	Carrying amount	Level 1	Fair value		Total
			Level 2	Level 3	
Investment securities at amortised cost	33,540.1	29,416.1	4,704.5	0.0	34,120.6
treasury bonds in PLN	17,982.2	18,462.8	-	-	18,462.8
treasury bonds in EUR	4,094.3	4,133.9	-	-	4,133.9
Bank Gospodarstwa Krajowego bonds	2,103.4	537.6	1,555.4	-	2,093.0
European Investment Bank bonds	6,170.9	6,281.8	-	-	6,281.8
bonds of the Polish Development Fund (PFR)	3,016.7	-	2,976.5	-	2,976.5
treasury bills	172.6	-	172.6	-	172.6
Loans and receivables to customers at amortised cost, including:	124,655.3	0.0	0.0	124,318.4	124,318.4
Corporate banking segment, including:	67,976.7	0.0	0.0	68,103.5	68,103.5
loans and advances (in the current account and term ones)	50,492.9	-	-	50,765.5	50,765.5
lease receivables	9,697.6	-	-	9,677.8	9,677.8
factoring receivables	4,794.5	-	-	4,794.5	4,794.5
corporate and municipal debt securities	2,991.7	-	-	2,865.7	2,865.7
Retail banking segment, including:	54,745.4	0.0	0.0	54,281.7	54,281.7
mortgages	47,621.8	-	-	47,127.0	47,127.0
other loans and advances	7,123.6	-	-	7,154.7	7,154.7
Other receivables	1,933.2	-	-	1,933.2	1,933.2
Liabilities to customers	151,028.5	-	-	151,032.9	151,032.9
Subordinated liabilities	2,309.2	-	-	2,160.0	2,160.0



The Group discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

For the purposes of calculating the fair value of the mortgage loan portfolio, the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

To compute fair value of other assets and deposits measured at amortised cost and financial liabilities measured at amortised cost considering the effective interest rate the transfer price is applied. The transfer price is calculated as:

- PLN: BID rates being WIBID overnight, OFFER rates being WIBOR overnight.
- EUR: BID rates being EURIBOR overnight, OFFER rates being EURIBOR overnight.
- USD and CHF: BID rates being LIBOR overnight, OFFER rates being LIBOR overnight.

BID rates are used to compute fair value of financial liabilities measured at amortised cost; in the case of financial assets measured at amortised cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

Credit loss estimations reflect the credit loss provisioning model in place at the Group in the model of impairment for expected credit losses.

In certain aspects, the model adopted by the Group is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model does not take into account restructuring-based changes either..

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

In the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at the balance sheet date, and

- the average margin based on the portfolio of loans granted in the last two-month period.

For that purpose, the following assumptions are adopted:

- use of the loans granted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

As a result for loans and other receivables, the fair value, that arises during calculation, is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio, the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio).

In the case of the portfolio of mortgage loans in PLN, the income method is used to measure them at fair value. Key assumptions:

- for the needs of the valuation, the original schedule of principal and interest repayments is adjusted by taking into account prepayments, credit risk and adopting a timely structure of interest rates,
- credit risk parameters, i.e. PD lifetime and LGD, discounted for the purposes of the valuation, are included in the expected cash flows,
- for the purposes of estimating cash flows, prepayments are taken into account, estimated based on the analysis of historical data on the basis of the prepayment model used,
- the calculation of the discount rate adopted to estimate the value of cash flows takes into account all risks and costs, excluding the prepayment risk and credit risk costs reflected in the flows,
- prepayment risk and credit risk costs are reflected in cash flows,
- application of a calibration margin determined on the basis of the most recent production of the portfolio of mortgage loans, analogous to the portfolio being valued.

The fair value of the loan is calculated as the sum of discounted cash flows from principal repayments and interest payments, taking into account the prepaid capital and the cost of credit risk.

In the case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value.

**Investment securities measured at amortised cost**

In the case of investment securities measured at amortized cost, the fair value of disclosure securities that are quoted on an active market is determined based on the price in this market, for other securities in this portfolio the model described above in Loans and other receivables is used.

38. Offsetting financial instruments

The following disclosure relates to offsetting financial assets and financial liabilities that are subject to an enforceable contingent master agreement. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Group. Margins additionally hedge derivative exposures; the Group deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

2021**Financial assets**

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including	879.7	879.7	-595.6	-253.4	30.7
valuation of derivatives	629.3	629.3	-450.5	0.0	178.8
derivative hedge instruments	250.4	250.4	-145.1	0.0	105.3
derivatives collateral	0.0	0.0	0.0	-253.4	-253.4
Securities loans with repurchase agreements received, including:	524.7	524.7	0.0	-508.7	16.0
transactions classified as held for trading financial assets	524.7	524.7	0.0	-508.7	16.0
Total					46.7

2020**Financial assets**

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including	2,394.6	2,394.6	-1,164.3	-681.0	549.3
valuation of derivatives	1,199.8	1,199.8	-672.1	0.0	527.7
derivative hedge instruments	1,194.8	1,194.8	-492.2	0.0	702.6
derivatives collateral	0.0	0.0	0.0	-681.0	-681.0
Securities loans with repurchase agreements received, including:	274.9	274.9	0.0	-270.6	4.3
transactions classified as held for trading financial assets	274.9	274.9	0.0	-270.6	4.3
Total					553.6



2021

Financial Liabilities

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,184.4	1,184.4	-595.6	-214.3	374.5
valuation of derivatives	949.0	949.0	-450.5	0.0	498.5
derivative hedge instruments	235.4	235.4	-145.1	0.0	90.3
derivatives collateral	0.0	0.0	0.0	-214.3	-214.3
Securities loans with repurchase agreements received, including:	2,235.8	2,235.8	0.0	-2,202.1	33.7
transactions classified as held for trading financial liabilities	244.4	244.4	0.0	-243.1	1.3
transactions classified as liabilities to banks / customers	1,991.4	1,991.4	0.0	-1,959.0	32.4
Total					408.2

2020

Financial Liabilities

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,623.9	1,623.9	-1,164.3	-277.2	182.4
valuation of derivatives	1,065.4	1,065.4	-672.1	0.0	393.3
derivative hedge instruments	558.5	558.5	-492.2	0.0	66.3
derivatives collateral	0.0	0.0	0.0	-277.2	-277.2
Securities loans with repurchase agreements received, including:	962.9	962.9	0.0	-954.5	8.4
transactions classified as held for trading financial liabilities	200.0	200.0	0.0	-197.7	2.3
transactions classified as liabilities to banks / customers	762.9	762.9	0.0	-756.8	6.1
Total					190.8



39. Custody activities

As at 31 December 2021, the Group maintained 556 customer accounts used to hold the customers' securities (582 as at 31 December 2020). The accounts do not meet the definition of assets and are not recognised in the financial statements of the Group.

At the end of 2021, the Parent entity of the Group acted as a custodian bank for 122 mutual funds and sub-funds, 2 pension fund and assessed the net asset value and net asset value per participation unit of 8 insurance capital funds (132 funds in total). For comparison, at the end of 2020, the Parent entity of the Group acted as a custodian bank for 146 investment funds and sub-funds, 1 pension fund, 1 employee fund, and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (156 funds in total).

40. Leasing – the Group as a lessor

40.1. Operating lease

The Group obtains income from the lease of commercial premises on its own real estate. These contracts are treated as operating lease contracts. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease contracts. In some cases, the agreements provide for the option of their prolongation or price change. Contracts do not include purchase options.

Gross lease payments by maturity are disclosed in the table below:

	2021	2020
up to 1 year	3.9	4.1
over 1 year and up to 2 years	3.7	4.0
over 2 years and up to 3 years	3.1	3.7
over 3 years and up to 4 years	3.1	3.1
Total	13.8	14.9

40.2. Finance lease

Disclosures regarding financial leasing in which the Group is the lessor are described in note 20.1. *Receivables from financial leasing*.

41. Additional information on consolidated cash flow statement

Cash and its equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts in other banks.

	2021	2020
Cash in hand (presented in note 14)	599.1	723.1
Balances with the Central Bank (presented in note 14)	500.9	144.2
Current accounts in other banks (presented in note 15)	95.0	92.1
Other current receivables in other banks (presented in note 15)	182.6	268.7
Total	1,377.6	1,228.1

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

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

Investment activity covers purchase and sale of shares and holdings in associated entities, intangible assets and property, plant and equipment, equity instruments measured at fair value through other comprehensive income, as well as debt securities measured at amortised cost (excluding short-term treasury bills). Investment activity proceeds also comprise dividends received under shares and holdings in other entities.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Group, 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 Group and payment of dividends to the owners and other outflows due to profit distribution.



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

The tables below present the differences between the changes in the balance resulting from the consolidated statement of financial position and the changes reported in the consolidated cash flow statement. The explanations for the reasons for the differences are as follows:

Difference 1:

Changes in the balance of individual assets and liabilities have been adjusted for interest, which is presented in the item *Interest received* (from assets) or *Interest paid* (from liabilities).

Difference 2:

The *Change in loans and other receivables to other banks* excludes the change in the balance of receivables constituting cash equivalents (accounts at other banks) and is presented under *Increase/decrease in net cash*.

Difference 3:

Changes in the valuation of fair value recognized in other comprehensive income are excluded from the changes in the balances of individual assets and liabilities.

Difference 4:

The items *Change in financial assets measured at fair value through profit or loss* and *Change in investment securities* include changes in debt securities presented in accordance with IFRS 9.3.2.23 (a), in a separate line item in the statement of financial position as *Transferred assets*.

Difference 5:

Changes related to the acquisition and sale or redemption of debt securities measured at amortized cost as well as changes related to the acquisition of equity instruments measured at fair value through other comprehensive income are excluded from the *Change in investment securities*. These changes are presented as cash flows from investing activities.

Difference 6:

The *Change in other assets* includes non-cash - apart from depreciation - changes in the carrying amount of property, plant and equipment and intangible assets as well as equity investments (cash changes related to these items are presented in cash flows from investing activities).

Difference 7:

The amount of repayment of lease liabilities, which was presented in cash flows from financing activities, was excluded from the *Change in other liabilities*.

Difference 8:

The *Change in other liabilities* includes non-cash - other than accrued and unpaid interest - changes in the balance sheet value of subordinated liabilities and liabilities from issuance of securities. The cash changes related to these items are presented in cash flows from financing activities.

Difference 9:

The *Changes in liabilities to other banks* exclude the amounts of loans taken and the amounts of loan repayments for long-term financing of subsidiaries, which, together with the amount of interest repayment on these loans, were presented in cash flows from financing activities.

Difference 10:

The *Change in investment securities* includes an increase in equity investments resulting from the reclassification (in 2020) of shares in an associate to a portfolio of investment securities measured at fair value through other comprehensive income.

In the tables on the following pages, individual differences have been numbered in accordance with the above list.



2021

	change of balance		difference, including:	Difference 1	Difference 2	Difference 3	Difference 4	Difference 5	Difference 6	Difference 7	Difference 8	Difference 9
	in consolidated statement of financial position	in consolidated cash flow statement										
change in provisions	80.6	73.4	-7.2			-7.2						
change in loans and other receivables to other banks	-0.2	-82.6	-82.4	0.8	-83.2							
change in financial assets measured at fair value through profit or loss	279.3	233.3	-46.0	-2.9			-43.1					
Change in investment securities	8,586.2	5,571.7	-3,014.5	-61.6		-311.8	-1,274.8	-1,366.3				
change in hedge derivatives	621.3	-7,371.8	-7,993.1			-7,993.1						
change in loans and other receivables to customers measured at amortised cost	-21,880.7	-21,840.3	40.4	40.4								
change in other assets, including:	-	-21.5										
change in 'other assets' in the consolidated statement of financial position	-3.7	-3.7	0.0									
other changes	-	-17.8	-17.8						17.8			
change in liabilities to other banks	1,823.0	1,457.0	-366.0	-0.2								-365.8
change in liabilities measured at fair value through profit or loss	148.8	148.7	-0.1	-0.1								
change in liabilities to customers	19,581.4	19,583.3	1.9	1.9								
change in other liabilities, including:	-	432.0										
change in 'other liabilities in the consolidated statement of financial position	317.4	426.2	108.8							108.8		
other changes	-	5.8	5.8								5.8	



2020

	change of balance		difference, including:	Difference 1	Difference 2	Difference 3	Difference 4	Difference 5	Difference 6	Difference 7	Difference 8	Difference 9	Difference 10
	in consolidated statement of financial position	in consolidated cash flow statement											
change in provisions	50.6	49.8	-0.8			-0.8							
change in loans and other receivables to other banks	93.9	-140.1	-234.0	-0.3	-233.7								
change in financial assets measured at fair value through profit or loss	-514.3	-632.9	-118.6	0.2			-118.8						
Change in investment securities	-20,376.4	-78.4	20,298.0	128.5		142.2	-732.7	20,755.7					4.3
change in hedge derivatives	-330.7	2,071.1	2,401.8			2,401.8							
change in loans and other receivables to customers measured at amortised cost	-6,527.5	-6,539.1	-11.6	-11.6									
change in other assets, including:	-74.4	-136.8											
change in 'other assets' in the consolidated statement of financial position	-74.4	-74.4	0.0										
other changes	-	-62.4	-62.4						-62.4				
change in liabilities to other banks	1,971.9	2,061.1	89.2	-38.1								127.3	
change in liabilities measured at fair value through profit or loss	615.7	615.9	0.2	0.2									
change in liabilities to customers	20,555.0	20,568.7	13.7	13.7									
change in other liabilities, including:	227.1	503.2											
change in 'other liabilities in the consolidated statement of financial position	227.1	331.5	104.4							104.4			
other changes	-	171.7	171.7								171.7		



Change in the balance of liabilities presented in financial activities of the consolidated statement of cash flows

2021

	loans received	liabilities from debt securities issued	subordinated liabilities	lease liabilities
Opening balance	3,517.1	1,370.5	2,309.2	393.7
changes from cash flows recognised in financing activities of the consolidated statement of cash flows, of which:	365.8	-404.3	-730.3	-108.8
incurring liabilities / issuing debt securities	1,852.6	575.0	-	-
repayment of liabilities / redemption of debt securities	-1,486.8	-975.0	-702.2	-108.8
interest payments on liabilities	-	-4.3	-28.1	-
non-cash changes included in operating activities of the consolidated statement of cash flows	-11.2	6.2	31.4	50.7
Closing balance	3,871.7	972.4	1,610.3	335.6

2020

	loans received	liabilities from debt securities issued	subordinated liabilities	lease liabilities
Opening balance	3,639.5	399.7	2,131.1	403.8
changes from cash flows recognised in financing activities of the consolidated statement of cash flows, of which:	-127.3	975.0	-30.7	-104.4
incurring liabilities / issuing debt securities	891.0	975.0	-	-
repayment of liabilities / redemption of debt securities	-1,013.3	-	-	-104.4
interest payments on liabilities	-5.0	-	-30.7	-
non-cash changes included in operating activities of the consolidated statement of cash flows	4.9	-4.2	208.8	94.3
Closing balance	3,517.1	1,370.5	2,309.2	393.7

Compared to the financial statements for prior periods, the Group has changed the presentation of certain items in the consolidated cash flow statement:

- 1) Change in the presentation of current income tax by including in Income tax paid the total amount paid to the Tax Office both for current tax from the income statement and for current tax recognised in other comprehensive income. In the financial statements for prior periods, current tax relating to valuations recognised in other comprehensive income adjusted the relevant asset or liability items to which the valuations related. The change was intended to better reflect the actual current income tax flows. For more information on current income tax recognised in other comprehensive income, see note [34.2 Accumulated other comprehensive income](#).
- 2) Change in the presentation of interest by including in the items Interest paid and Interest received changes in the balance of interest at amounts that do not include changes relating to effective interest rate adjustments.

The Group believes that the above changes have improved the informational value of the consolidated statement of cash flows. The figures for 2020 have been restated to bring them to comparability. For the 2020 data, the Group has furthermore made some minor corrections of a tidying-up nature.

**42. Related entities**

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2021 held 75% shares in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting of ING Bank Śląski S.A. The ultimate Parent entity is ING Groep N.V. based in the Netherlands.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives. The Bank also maintains bank accounts of entities from the ING Group. Moreover, the subsidiary ING Lease Sp. z o. o. received from ING Bank NV long-term financing of lease contracts in EUR ("matched funding"). All of the above transactions are carried out on an arm's length basis.

Operating costs incurred by the Bank for the Parent entity result primarily from contracts for the provision of consultancy and advisory services, data processing and analysis, provision of software licenses and IT support. In terms of costs incurred by the Bank for other related entities, outsourcing agreements play a dominant role regarding the provision of system resource hosting services for various applications, lease of IT equipment, monitoring the availability and performance of applications and IT infrastructure as well as penetration testing and IT security monitoring.

Costs are presented as per their net value (VAT excluded).

As at 31 December 2021, ING Bank Śląski S.A. had an exposure to one of the Supervisory Board members included in it at the end of 2021 in the form of a used credit card limit of PLN 11.7 thousand (PLN 13.9 thousand at the end of 2020).

The table presents numerical information on receivables and payables, revenues and expenses as well as expenditures on fixed assets, which result from transactions concluded between entities related to the Group.

	2021			2020		
	ING Bank NV	Other ING Group entities	Associates	ING Bank NV	Other ING Group entities	Associates
Receivables						
Nostro accounts	5.8	6.0	-	2.3	8.1	-
Call deposits placed	-	-	-	105.6	1.1	-
Loans	1.2	8.8	-	21.5	22.6	-
Positive valuation of derivatives	140.0	-	-	78.3	3.7	-
Other receivables	4.8	1.4	-	4.9	0.5	-
Liabilities						
Deposits received	3,378.5	142.1	13.6	1,476.3	550.0	10.9
Loans received	3,871.6	-	-	3,400.0	-	-
Subordinated loan	1,610.4	-	-	2,309.3	-	-
Loro accounts	39.1	40.1	-	34.3	182.6	-
Negative valuation of derivatives	102.1	-	-	197.6	0.1	-
Other liabilities	119.3	2.5	-	39.7	0.2	-
Off-balance-sheet operations						
Off-balance sheet liabilities granted	503.1	790.1	0.1	471.9	890.3	0.1
Off-balance sheet liabilities received	2,186.5	19.0	-	808.6	17.5	-
FX transactions	17,884.0	8.7	-	9,649.5	58.2	-
IRS	554.6	-	-	910.4	140.0	-
Options	1,020.1	16.7	-	2,355.0	17.0	-



2021

2020

	ING Bank NV	Other ING Group entities	Associates	ING Bank NV	Other ING Group entities	Associates
Income and expenses						
Income, including:	-34.0	11.4	52.6	-156.7	9.3	50.5
net interest and commission income	-36.3	6.2	52.6	-47.4	4.6	50.5
net income on financial instruments	1.0	3.9	-	-109.9	4.1	-
net (loss)/income on other basic activities	1.3	1.3	-	0.6	0.6	-
General and administrative expenses	171.4	10.9	-	126.3	7.9	-
Outlays for non-current assets						
Outlays for intangible assets	-	-	-	9.5	-	-

43. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the ING Bank Śląski Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2021 amounted to PLN 213.8 million (excluding loans from the In-House Social Benefits Fund). As at 31 December 2020, their value amounted to PLN 190.4 million.

Granting of a loan, cash loan, bank guarantee and surety for the Bank's senior management group is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.

The financial statements for 2021 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 32.7 million. As at 31 December 2020, their value amounted to PLN 33.4 million.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds established in the Group entities. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2021 amounts to PLN 1.5 million versus PLN 2.0 million as at 31 December 2020. The balance of the In-House Social Benefits Fund as at 31 December 2021 was PLN 11.4 million versus PLN 9.2 million as at 31 December 2020.

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

The composition of ING Bank Śląski S.A. Management Board as at the end of 2021 was presented in the chapter I. *Bank and the Group details* in point I.5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition*.

Emoluments of ING Bank Śląski S.A. Management Board Members

	2021	2020
Short-term employee benefits, including:		
remuneration	10.2	11.0
benefits	1.9	2.6
Total	12.1	13.6

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

Emoluments of ING Bank Śląski S.A. Management Board Members under the Variable Remuneration Programme

	2021		2020	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	3.6	2.9	2.7	2.1
Phantom stock	3.6	2.9	2.7	2.1
Total	7.2	5.8	5.4	4.2

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part. Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2021 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 2021 bonus; some part of it will be paid out in 2022, and some part will be deferred for the upcoming years (2023-2029). The maximum obtainable amount of the bonus for 2021, for which a reserve was established, arrives at PLN 13.0 million, including cash pay-out in 2022 of PLN 3.6 million, and for the deferred part of the bonus PLN 9.4 million. The Bank Supervisory Board will take the final decision on the bonus amount.

As at 31 December 2020, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.6 million. The bonus for 2020 approved in 2021 by the Bank Supervisory Board was PLN 6.7 million.

In the years ended 31 December 2021 and 31 December 2020, there were no post-employment benefits paid out to the Bank 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 Śląski S.A. Supervisory Board Members

The composition of ING Bank Śląski S.A. Supervisory Board as at the end of 2021 was presented in the chapter I. *Bank and the Group details* in point I.5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition*.

Emoluments of ING Bank Śląski S.A. Supervisory Board Members

	2021	2020
Short-term employee benefits, including:		
remuneration	0.8	0.8
Total	0.8	0.8

The Management Board Members and other persons employed by ING Bank Śląski 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 Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2021, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2021 into the public domain.

44. Headcount

The headcount in the Group at the end of 2021 and 2020 was, respectively:

	2021	2020
Individuals	8,694	8,507
FTEs	8,642.9	8,451.2



45. Significant events after the balance sheet date

Impact of the situation in Ukraine on the Polish economy, banking sector and ING Bank Śląski S.A. Group

Macroeconomic environment

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

According to preliminary estimates of the Bank's economists, the war in Ukraine may lower Poland's GDP. The main source of influence is likely to be trade with Ukraine, Russia and Belarus, although lower confidence will also affect the domestic investment environment. Nevertheless, the lower propensity of Polish households to invest should be compensated by private and government expenditure related to accepting refugees. As a result, consumption should be stronger. The final impact of the war on GDP will be further analyzed.

According to the Bank's economists, the government should extend the anti-inflationary shield until the end of 2022, thus counteracting the rise in oil prices and the rise in regulated gas prices in 2022. However, high food prices pose an additional inflationary threat. Ukraine and Russia are large food producers, there may be an effect of transferring price increases to other agricultural commodities.

The short-term weakness of the PLN exchange rate, labor shortages (some Ukrainians leave Poland to join the army) should also increase the risk of an increase in the CPI index. The above risks are reflected in the new NBP's inflation projection, which is very high and probably takes into account a large jump in oil prices, a new shock in the food markets and the translation of the zloty depreciation into the CPI. At the same time, the central bank sees limited risk to GDP in 2022 from the war. Considering the above, there is a risk that the target interest rate may be higher than 4.5%.

The zloty is likely to remain under pressure as the conflict continues. The protracted conflict increases the risk of tightening sanctions which will affect the commodity markets and market concerns about a new energy shock. Moreover, investors cannot get rid of assets in rubles, which in the conditions of ongoing outflows from the emerging markets funds forces them to sell off other assets, such as Polish government bonds. Hence, the influence of the war on the position of the zloty is greater than indicated by economic analyzes. If the fighting in Ukraine shifted to the West, near the Polish border, it would certainly increase the geopolitical risk. With regard to the activity of the National Bank of Poland, the Bank's economists expect that currency interventions will be continued and will continue to focus on limiting volatility, and not on defending specific levels of EUR / PLN.

Credit risk exposure

ING Bank Śląski S.A. Group does not operate directly in Ukraine, Russia or Belarus. Nevertheless, the Group is currently analyzing the portfolio of clients' receivables in terms of their links with these markets.

The retail loan portfolio to citizens of Ukraine, Russia and Belarus is limited and its share in the retail portfolio does not exceed 1%. The vast majority (over 90%) relate to mortgage-secured loans for which the real estate as collateral is located in Poland.

The credit portfolio is also monitored on an ongoing basis and as at the date of approval of these financial statements there are no significant changes in the risk profile or in the share of loans in individual overdue ranges.

The Group's direct balance sheet and off-balance sheet exposure in the corporate segment to companies registered in Ukraine, Russia or Belarus, as well as companies whose ownership structure includes entities (over 50% of shares) registered in Ukraine, Russia or Belarus, amounts to 0.02% of the corporate portfolio. Moreover, as part of the ongoing analyzes of the loan portfolio, the Bank also identified corporate segment clients whose share of revenues or costs exceeds 25% in relation to the Ukrainian, Russian and / or Belarusian markets (indirect exposures). The share of exposures (combined on balance sheet and off-balance sheet) to these customers amounts to (as of 31 December 2021) 3.2% of the total corporate segment exposure. In the group of these identified clients, 91% of the total exposure are State Treasury companies which are strategic from the point of view of the Polish economy. The table below summarizes the exposure to these groups of entities as at 31 December 2021.

	balance sheet exposures (in PLN million)	off-balance sheet exposures (in PLN million)	Total
Direct exposures	8.3	10.0	18.3
Indirect exposures	2,105.5	1,729.8	3,835.3
including strategic companies of the State Treasury	1,867.0	1,632.3	3,499.3

The above analysis is preliminary and will be deepened by the Group in subsequent reporting periods, which may have an impact on a different definition of the exposures whose credit risk may be indirectly affected and on a change in the value of the credit portfolio subject to increased risk.

In addition, the analysis of the existing loan portfolio does not indicate a significant risk of its deterioration. As at the date of preparation of the consolidated financial statements the Group does not observe an increase in the share of customers in default status or with delays in repayment of exposures in the 1-30 days past due range. Both the share of Russia, Ukraine and Belarus destinations in foreign trade and the share of corporate clients with significant trade relations with these countries account for several percent of the loan portfolio.



In a situation where the risks related to the war in Ukraine translate into a deterioration in expectations about the economic situation, this may have an impact on the quality of the loan portfolio and the level of write-offs for expected losses of the Group.

Other aspects

The Group constantly monitors the situation and reacts adequately to the sanctions of the European Union, as well as to similar sanctions imposed by the United States of America and the United Kingdom of Great Britain and Northern Ireland. Economic relations with customers and their beneficial owners related to or coming from the Russian Federation, Belarus and separatist oblasts of Ukraine are monitored and, if necessary, sanctions are taken.

As of 1 March 2022, ING Bank Śląski resigned from settlements in the Russian ruble. This means that the Bank will not execute incoming and outgoing transactions in the Russian ruble and will not convert this currency. At the same time, the Bank ceases to open new accounts in this currency.

The bank is observing an increased level of cash withdrawals, both at cash points and at ATMs. Customers' demand for cash is a constant process occurring in periods of perception by customers of pandemic threats or general security. At the same time, the Bank does not monitor total withdrawals of funds from bank deposits, but only partial withdrawals in order to have cash securing current expenses over a period of 2-3 months. Consumption transactions remain stable at a slightly elevated level, with overall current account balances increasing and household deposit balances showing slight declines.

Household deposit balances in foreign currencies remain constant, as some customers make cash withdrawals in foreign currencies, while other customer groups convert their funds from PLN to foreign currencies. The total movement of changes in foreign currency deposit balances does not exceed 1-2% of the total balances.

It is worth emphasizing that the current inflows resulting from, inter alia, from top-ups from salaries. As a consequence, the Bank observes a stable level of the total balance of household deposits.

In the opinion of the Bank's Management Board, both the Bank and the entire Capital Group of the Bank have a stable liquidity and capital position. Nevertheless, given the scope, complexity and interpenetration of financial and economic effects, not all effects are currently possible to estimate, both in terms of the impact on the entire economy and on individual customers. As at the date of approval of these consolidated financial statements, it is not possible to predict the further development of the armed conflict and the international response to this conflict.

The above-described events that took place after the balance sheet date, i.e. 31 December 2021, are events that indicate the condition that occurred after the end of the reporting period and thus do not require adjustments to the amounts presented in these consolidated financial statements. As at the date of approval of these

consolidated financial statements, it is not possible to estimate the financial impact of the above-mentioned events on the subsequent reporting periods.

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

On 1 March 2022 Bank have received a letter from the Polish Financial Supervision Authority (PFSA) in which the PFSA stated that the Bank satisfies the requirements for the payout of the dividend from up to 100% of 2021 net profit. At the same time, the PFSA recommended mitigating the inherent risk of Bank operations by not taking, without prior consultation with the supervision authority, of other actions, and in particular those being beyond the ordinary business and operational activity which may result in a reduction of own funds, also including potential dividend payout from undivided profit of previous years or share buyback.

Further to current report no. 1/2022 of 3 February 2022, the intention of the Bank is to recommend that the General Meeting pass a resolution on earmarking approximately 30% of the standalone profit of the Bank for 2021 for dividend payout.

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

On 11 February 2022, the Bank received a letter from the Financial Supervision Authority recommending that the risks inherent in the Bank's operations be mitigated by the Bank maintaining, at the individual and consolidated level, own funds to cover the additional capital charge ("P2G") of 0.13 p.p. in order to absorb potential losses arising from stress events. The recommendation should be met above the total capital ratio (referred to in Article 92(1)(c) of Regulation No 575/2013), plus the additional own funds requirement ("P2R", referred to in Article 138(2)(2) of the Banking Act) and the combined buffer requirement (referred to in Article 55(4) of the Macroprudential Supervision Act). The P2G capital charge should consist entirely of Common Equity Tier 1 capital.

P2G consists of two components:

- a basic capital charge of 0,05 p.p., and
- a supplementary capital charge of 0,08 p.p.

The P2G recommendation applies to the Bank from the moment of receipt of the information from the PFSA Office.



Resignation of a member of the Bank’s Supervisory Board

On 10 February 2022, the Bank received a statement from Mr Remco Nieland (Remco Nieland) resigning as a member of the Bank’s Supervisory Board as of the date of the next Annual General Meeting of the Bank. The reason for his resignation is his planned retirement.

Modification of a lease agreement for the Plac Unii building in Warsaw

On 19 January 2022, the Bank agreed with the lessor of the Plac Unii building on ul. Puławska 2 in Warsaw, amendment to the lease agreement. The modification includes extending the lease term until 2033 and leasing additional space in the building, in line with the Bank’s location strategy. The amendment to the lease had no impact on the statement of financial position as at 31 December 2021 or the income statement for the year ended 31 December 2021. As a result of the modification, the lease liabilities in the financial statements will increase by PLN 81 million in January 2022.



Risk and equity
management

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Risk and equity management

I. Risk and capital management system

1.1. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Group is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions (allowances) as well as capitals and liquidity buffers.

Within the risk management system, the Group:

- applies formalised rules that are used to determine the size of undertaken risks and rules governing risk management,
- applies formalised procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- applies formalised limits that mitigate the risk and the rules of procedure if the limits have been exceeded,
- applies the adopted management reporting system that provides for risk level monitoring,
- holds an organisational structure that is adapted to the risk scope and profile.

The structure of risk and control at the Group is based on a model of three lines of defence. The model is to ensure a stable and effective framework for risk management by defining and implementing three levels of “risk management” with various roles, duties and responsibilities related to supervision.

- First line of defence - responsible for compliance with the principles resulting from the approved policies, regulations, instructions and procedures. The scope of responsibilities of the first line of defense includes, among others, the analysis, control and management of risks in processes, including in relation to outsourced activities. These are the Bank's business and organizational units that support the business operationally and technologically.
- Second line of defence - responsible for issuing regulations and providing risk management methods and tools, including defining and maintaining the risk management process and supporting the first line of defence during this process. As part of control activities, the Second Line of Defence makes its own independent assessment of the effectiveness of operations of the First Line of Defence by applying the following methods:

inspections, tests, reviews, and other forms of control. It also supports the first line of risk assessment. The second line of defence consists of units from the area of:

- operational risk
- compliance risk
- legal risk
- credit and market risks
- finance
- HR management and

Credit Risk Inspection Department and Model Validation Department.

- Third line of defence - provides an independent assessment of the internal control system in relation to risks identified in the processes and the management of these risks by the first and second lines of defence. The third line of defense is the Internal Audit Department.

A special role in the risk management process is performed by the Bank's Management Board and Supervisory Board. The Bank operates a number of committees that are active in the management of specific risk types.

1.2. Principles of risk management

ING Bank Śląski S.A. manages credit, market and operational risks in compliance with Polish law, regulations of the Polish Financial Supervision Authority and other authorised authorities as well as in compliance with the standards set by the ING Group to the extent that does not breach the regulations referred to above and best practice documents.

Irrespective of the need to assure regulatory and legal compliance, the Group treats credit, market and operational risk management as a fundamental and integral part of overall management of the Group.

1.3. Risk appetite

Risk appetite determines the maximum risk volume which the Group is ready to accept thus supporting stability and further development. As part of risk and capital management, the Group determines risk appetite parameters (the so-called RAS – Risk Appetite Statement) in the following basic areas:

- RAS covering capital adequacy,
- RAS covering liquidity and funding risk and market risk,



- RAS covering credit risk,
- RAS covering operational risk.

RAS covering the Group’s capital adequacy was set in 2021 for the following capital ratios¹:

- core capital ratio Tier 1 (CET1) at the minimum level of 10.75%,
- Tier 1 (T1) at the minimum level of 12,25%, and
- total capital ratio (TCR) at the minimum level of 14,25%.

RAS concerning capital adequacy results from the duty to maintain minimum levels of capital ratios resulting from the following external regulations:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (4.5% for CET1, 6% for T1 and 8% for TCR),
- Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system sanctioning additional equity buffers, including:
 - the conservation buffer, which in 2021 (as in 2020) was 2.5%,
 - the buffer of another systemic institution of 0.75% imposed by the decision of PFSA of 5 November 2021 (change from 0.5%)
 - the countercyclical buffer applies to the exposures to which such a buffer has been imposed by the competent authorities. The countercyclical buffer is variable over time depending on the structure of the relevant exposures and the levels of the countercyclical buffer rates imposed on the relevant exposures (at the end of December 2021 the countercyclical buffer was 0.001% effectively compared to 0.002% at the end of December 2020)
- Regulation of the Minister for Economic Development and Finance on systemic risk buffer of 1 September 2017 introducing a systemic risk buffer of 3% of the total risk exposure amount applicable to all exposures in the territory of the Republic of Poland (on 18 March 2020, the Regulation of the Minister of Finance was published, repealing the regulation on the systemic risk buffer, but following a prudent approach, the Group did not lower the RAS limits by the amount of the systemic risk buffer).

Within RAS concerning capital adequacy, capital limits for each risk type are also set.

1.4. Equity and capital requirement

1.4.1 Equity

The Group’s equity is composed of:

- core capital Tier 1 which as at 2021 yearend was PLN 14,021.8 million,
- capital Tier 2 which as at 2021 yearend was PLN 1,668.1 million.

As at 31 December 2021, the Group did not identify additional Tier 1 capital (AT1).

¹ The reference levels set in RAS rely on nominal levels of each capital buffer. The applied approach means that RAS for capital adequacy is somewhat higher than resulting from regulatory minimum levels of capital ratios relying on effective and time variable levels of certain capital buffers. The systemic risk buffer of 3% was maintained in RAS levels. The RAS levels reflect the increased O-SII buffer level, which increased from 0.5% to 0.75% at the end of 2021.



Equity

	2021	2020
Tier 1	14,021.8	14,912.9
Tier 1 core capital	14,021.8	14,912.9
equity instruments classified as Tier I core capital	130.1	130.1
surplus from the sales of shares above the par value (share premium)	956.3	956.3
retained earnings	1,059.5	1,885.2
– retained earnings in previous years	559.0	547.6
– recognised profit or recognised loss	500.5	1,337.6
accumulated other comprehensive income	173.4	443.4
reserve capital	11,183.5	10,508.1
general bank risk funds	1,215.2	1,215.2
intangible assets	-425.1	-466.9
adjustment in the interim period due to adaptation to the requirements of IFRS 9	295.7	316.0
adjustment of the value of requirements relating to prudent valuation	-19.1	-24.9
deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-544.5	-49.6
coverage shortfall for non-performing exposures	-3.2	0.0
Tier 2	1,668.1	2,307.4
subordinated debt	1,609.8	2,307.4
surplus in provisions over the expected credit losses under the IRB Approach	58.3	0.0
Equity taken into account in total capital ratio calculation	15,689.9	17,220.3

*) The PFSA, in the letter of 24 January 2022, approved the inclusion in the consolidated common equity Tier 1 capital of the amount of PLN 500.5 million, representing the amount of the Group's consolidated net profit for the 1st half of 2021 less the assumed dividend ratio.

1.4.2 Capital requirement

In 2021 and 2020, for reporting purposes, the calculation of capital requirement relating to credit risk was made by the Group with an advanced method of internal ratings and the standard method. The Group obtained consent of the Polish Financial Supervision Authority and of the Dutch National Bank to apply the advanced internal rating method (AIRB) for the following exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z o.o. In the area of operational risk, since June 2020, the Group applies the BIA (Basic Indicator Approach) method. In the area of market risk, the Group uses the basic method and the updated average return period method (depending on the type of risk). Additionally, the Group determines capital requirements relating to concentration risk, settlement risk and adjustment risk or credit valuation (CVA). In all the cases, the requirements are determined in compliance with the CRR.

The total capital requirement is dominated with the requirement relating to credit risk. At the end of 2021, it accounted for 89%, while at the end of 2020, 88% of the total requirement.

1.4.3 Capital adequacy

On 31 December 2021, the TCR value for the ING Bank Śląski Capital Group was 15.08% compared to 19.52% at the end of 2020 and the Tier 1 ratio was 13.47% compared to 16.91% at the end of 2020.

The main drivers of the change in the total capital ratio are:

- as part of Common Equity Tier 1 capital:
 - payment of dividend from net profit generated in 2020 after resolution on dividend payment adopted by the Extraordinary General Meeting (PLN 663.5 million) – decrease in TCR by 0.64 p.p.,
 - deduction of common equity tier 1 capital by the value of deferred tax assets based on future profitability and not resulting from temporary differences, due to the realised tax loss for 2021 as a result of the valuation of the IRS instruments portfolio – decrease in TCR by 0.48 p.p.,
 - including H1 2021 profit, net of expected dividends (PLN 500.5m) – TCR up by 0.48 p.p.,
- under Tier 2 capital:
 - repayment of a subordinated loan in the nominal amount of EUR 150 million – decrease in the TCR by 0.66 p.p.,
- as part of the capital requirement:
 - increase in risk-weighted assets for credit risk – an overall decrease in TCR of 2.60 p.p.



In December 2021, the Bank issued a notification to the PFSA to apply the provisional treatment of unrealised gains and losses measured at fair value through other comprehensive income, in accordance with Article 468 of the CRR, from 31 December 2021. The impact of the solution applied on the total capital ratio was positive at +0.11 p.p.

The excess TCR over the regulatory requirement decreased from 8.52% to 3.83% and the excess Tier 1 ratio decreased from 7.91% to 4.22%.

Total capital ratio

	2021	2020
Equity used to calculate the total capital ratio	15,689.9	17,220.3
Capital requirements		
capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates	7,408.8	6,179.2
capital requirements relating to position risk, FX risk and risk of commodity prices	100.3	60.9
capital requirement for operational risk	816.8	816.8
Total capital requirement	8,325.9	7,056.9
Total capital ratio	15.08%	19.52%
Minimum required level	11,251%	11,002%
Surplus TCR ratio over the regulatory requirement (p.p)	3,83	8,52
Tier 1 capital ratio	13.47%	16.91%
Minimum required level	9,251%	9,002%
Surplus T1 ratio over the regulatory requirement (p.p)	4,22	7,91

In its calculations of capital ratios, the Group was applying interim regulations mitigating the implementation effects of IFRS 9 on equity. If the implementation effect of IFRS 9 were fully recognised as at 2021 yearend at the consolidated level, the total capital requirement would have been 14.95% and the Tier I ratio – 13.32% (compared to 19.28% and 16.56% in 2020 respectively)

1.5. Dividend policy

The Bank's dividend policy provides for the following:

- stable realisation of dividend payments in a foreseeable perspective in the amount of up to 50% of the Bank's annual net profit in compliance with the prudent management principle and all regulatory requirements the Bank is obliged to comply with, and taking into account the adopted Best Practice for WSE Listed Companies 2021,
- a proposal to pay dividends in an amount higher than the ratio indicated above is possible if justified by the bank's financial situation (e.g. from retained earnings) and provided that all other requirements of the law and the dividend policy are met.
- possibility of dividend payouts from capital surplus over the minimum capital adequacy ratios and above the minimum levels of capital ratios determined by the Polish Financial Supervision Authority for dividend payouts.

When deciding on the proposed amount of dividend payment, the Bank's Management Board takes into account the supervisory requirements communicated within the framework of the official communication of the PFSA concerning the dividend policy of banks, as well as the following considerations:

- the current economic and financial condition of the Bank and the Bank's Group, including limitations when financial losses are generated or in case of low profitability (low return on assets / equity),
- assumptions of the management and risk management strategy of the Bank and the Bank's Capital Group,
- the need to reduce current period profits or unapproved annual profits included in own funds by foreseeable dividends, in accordance with Article 26 of EU Regulation No 575/2013,
- restrictions resulting from Art. 56 of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015,
- macroeconomic environment.

PFSA's guidelines with respect to dividend for 2021

On 9 December 2021, the Polish Financial Supervision Authority approved its position on dividend policies of banks in 2022 (dividend for 2021). The PFSA recommends that dividend of up to 50% of the profit earned in 2021 can only be distributed by those banks that fulfil all of the following criteria:

- that do not pursue any recovery plan,
- have a final BION rating not less than 2.5,
- with financial leverage level (LR) of no more than 5%,



- that hold their Tier 1 (CET1) core capital ratio not lower than the required minimum: $4.5\% + 56\% \cdot \text{P2R}$ requirement (regulatory add-on) + combined buffer requirement including 3% systemic risk buffer waived,
- that hold their Tier 1 (T1) capital ratio not lower than the required minimum: $6\% + 75\% \cdot \text{P2R}$ requirement (regulatory add-on) + combined buffer requirement including 3% systemic risk buffer waived,
- that hold their total capital ratio (TCR) not lower than the required minimum: $8\% + \text{P2R}$ requirement (regulatory add-on) + combined buffer requirement including the 3% systemic risk buffer waived.

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

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

In addition, the PFSA also considers it necessary not to take other actions, in particular those outside the scope of current business and operational activities, which may result in a reduction of the capital base, without prior consultation with the supervisory authority. This also applies to potential dividend payments from retained earnings and share buybacks. The PFSA expects that the possible implementation of such operations will each time be preceded by a consultation with the supervisory authority and will depend on the outcome of such consultation.

In accordance with these guidelines, the PFSA's requirements for ING Bank Śląski S.A. to pay a dividend of up to 50% of its net profit for 2021 are as follows:

- CET1 $\geq 10.75\%$,
- T1 $\geq 12.25\%$,
- TCR $> 14.25\%$.

Declared and paid dividend

On the basis of the PFSA's position on the banks' dividend policy for H2 2021, the Bank's Extraordinary General Meeting passed a resolution on 29 November 2021 to pay a dividend from the 2020 profit. Based on this resolution, on 10 December 2021 the Bank paid a total dividend of PLN 663.5 million, i.e. a gross dividend of PLN 5.10 per share.

Based on the position on the dividend policy of banks in 2022, the Management Board of the Bank intends to recommend to the General Meeting a dividend for 2021 in the total amount of PLN 689.5 million, which represents about 30% of ING Bank Śląski's standalone profit. The proposed dividend per share is 5.30 PLN gross. The proposed dividend date is 15 April 2022 and the proposed dividend payment date is 4 May 2022. The amount of the proposed dividend provides both for the current financial situation of the Group and the Bank and their development plans.

On 1 March 2022 Bank have received a letter from the Polish Financial Supervision Authority containing an individual recommendation of PFSA regarding the fulfillment of the criteria for the payment of dividends from the net profit for 2021. More information is provided in note 45. *Significant events after the balance sheet date.*

II. Credit risk

1.1. Introduction

Credit risk is understood as:

- a risk of a financial loss that may be suffered by the Group as a result of default by debtors in whole and at the agreed time on their credit obligations to the Group, or
- a risk of reduced economic value of credit exposures or groups of credit exposures as a result of impaired ability of debtors to service their debt at the agreed time.



Maximum credit risk exposure

	2021	2020
Loans and other receivables to other banks	704.8	704.6
Financial assets measured at fair value through profit or loss (excluding derivatives and equity instruments), including:	1,533.5	1,816.8
Financial assets held for trading	1,455.1	1,710.6
Valuation of derivatives	629.3	1,199.8
Other financial assets held for trading, including:	825.8	510.8
debt securities, including:	301.1	235.9
Treasury bonds in PLN	259.2	219.1
Czech Treasury bonds in CZK	41.4	0.0
European Investment Bank bonds	0.5	16.8
repo transactions	524.7	274.9
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	78.4	106.2
loans obligatorily measured at fair value through profit or loss	78.4	106.2
Derivative hedge instruments	250.4	1,194.8
Investment securities (excluding equity instruments), including:	47,454.7	54,775.8
Measured at fair value through other comprehensive income, including:	15,477.9	21,235.7
Treasury bonds in PLN	13,032.3	18,608.0
Treasury bonds in EUR	1,022.9	1,057.7
European Investment Bank bonds	941.4	1,078.1
Austrian government bonds	481.3	491.9
Measured at amortised cost, including:	31,976.8	33,540.1
Treasury bonds in PLN	16,082.8	17,982.2
Treasury bonds in EUR	4,028.8	4,094.3
Bank Gospodarstwa Krajowego bonds	2,299.8	2,103.4
European Investment Bank bonds	5,695.2	6,170.9
Bonds of the Polish Development Fund (PFR)	3,855.2	3,016.7
Treasury bills	0.0	172.6

NBP money market bills	15.0	0.0
Loans and other receivables to customers measured at amortised cost, including:	146,536.0	124,655.3
Corporate banking	77,756.3	67,976.7
loans in the current account	11,848.6	8,982.1
term loans and advances	44,675.6	41,510.8
lease receivables	11,090.0	9,697.6
factoring receivables	6,823.8	4,794.5
corporate and municipal debt securities	3,318.3	2,991.7
Retail banking	65,530.4	54,745.4
mortgages	57,192.3	47,621.8
loans in the current account	631.9	594.3
other loans and advances	7,706.2	6,529.3
Other receivables	3,249.3	1,933.2
Transferred assets, including:	2,280.9	963.0
treasury bonds in PLN from portfolio of financial assets measured at fair value through profit or loss	243.2	200.1
treasury bonds in PLN from portfolio of financial assets measured at fair value through other comprehensive income	1,266.4	762.9
treasury bonds in PLN from portfolio of financial assets measured at amortised cost	771.3	0.0
Receivables under other assets	122.3	64.7
Granted off-balance sheet liabilities, of which:	48,693.8	43,587.5
Undrawn credit lines	38,972.4	33,997.6
guarantees	6,215.5	6,058.6
undrawn overdrafts in current account	1,563.2	1,580.5
credit card limits	1,549.1	1,520.5
letters of credit	393.6	430.3
Total	247,576.4	227,762.5



The Group's policy relating to the risk of the credit exposure portfolio provides for the fact that the activity generating credit risk may be related also to other risk types as follows: liquidity, market, operational, environmental, social, legal and reputational risks that may reinforce one another.

The Group optimises and mitigates losses relating to risk exposure by:

- setting internal limits,
- an adequate structure of credit products,
- applying collateral,
- applying functional controls,
- effective monitoring, restructuring and collection,
- monitoring of changes to the clients' credit worthiness and reliability,
- regular monitoring and validation of models used to identify and measure credit risk
- performing analyses of trends and the values of key risk indicators.

The Group's core objective in the process of credit risk management is to support effective accomplishment of business goals by active risk management and efforts supporting organic growth while:

- maintaining a secure level of solvency and liquidity and an adequate level of provisions,
- ensuring compliance with the law and supervisory requirements.

The Group manages credit risk in an integrated manner on the basis of:

- strategic planning,
- a consistent system of limits, policies and procedures, and
- tools for risk management, including those to identify, measure and control risks.

The integrated system includes all processes in the Group pursued in connection with credit activity.

Detailed credit risk management objectives are as follows:

- identification of the areas of the Group's business activities affecting the credit risk profile,
- maintenance of credit losses at a pre-determined level,
- ongoing verification, review of adequacy and development of the applied procedures, models and other elements of the risk management system,
- adaptation of activities to the changing external conditions,
- maintenance of an adequate level of capital requirements related to credit risk and provisions,

- ensuring compliance with the regulator's requirements.

1.2. Risk management strategy and risk appetite parameters

The Group treats credit risk management as a fundamental and integral part of overall management of the Group. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

Credit risk management strategy

The credit risk management strategy supports implementation of business objectives while maintaining the Bank's safe level of solvency and liquidity and an adequate level of provisions. The strategy is determined in order to ensure an optimum development of the credit portfolio while maintaining an adequate quality and profitability of credit operations and capital allocation. The primary goal of defining the credit risk management strategy is to optimise the risk/return on equity ratio, while considering information on the current and prospective macroeconomic environment, the Bank's portfolio and the level of execution of the RAS limits.

The credit risk management strategy provides for a "lookout to the future", including the need to remain competitive, attractive and to develop the Bank's offer.

Risk Appetite Statement (RAS)

RAS means the Bank's risk appetite which is defined by setting key and specific limits. The determination and monitoring of the risk appetite level (RAS parameters) constitute an integral part of the planning process at the Bank and management of concentration risk by the Bank.

Types of RAS limits for credit risk:

- limits of portfolio volume,
- limits for the risk parameters of the portfolio and new sales,
- concentration limits, including limits for the mortgage-backed credit exposures resulting from Recommendation S of the Polish Financial Supervision Authority.

Apart from RAS limits, the Bank sets limits for credit risk for each area, business lines, products and transaction limits that are approved by the competent credit decision maker. Additionally, internal concentration limits are set for economic sectors, accepted collateral, regions and mortgage-backed credit exposures. The compliance with RAS limits is monitored and reported during the year on a monthly basis.



Concentration of exposures to corporate clients in national economy sectors

2021

National economy sector	balance sheet and off-balance sheet exposure in PLN million (gross carrying amount)				share in the total exposure (in %)
	Stage 1	Stage 2	Stage 3	Total	
wholesale trade	12,989.8	1,053.1	487.0	14,529.9	12.0%
property services	9,432.4	708.2	280.9	10,421.5	8.6%
construction	6,458.0	569.8	289.2	7,317.0	6.0%
other business operations	5,836.5	482.6	313.9	6,633.0	5.5%
retail trade	5,764.8	347.4	192.7	6,304.9	5.2%
manufacturing of metal final products	5,362.2	374.1	137.2	5,873.5	4.8%
production of foodstuffs and beverages	4,858.1	537.9	230.1	5,626.1	4.6%
land and pipeline transport	4,492.3	494.2	160.3	5,146.8	4.2%
financial intermediation	4,921.6	4.7	7.7	4,934.0	4.1%
rubber industry	4,181.4	226.5	63.4	4,471.3	3.7%
power generation	3,631.3	13.4	125.3	3,770.0	3.1%
production of chemicals, chemical products	3,518.9	173.8	1.8	3,694.5	3.0%
wood and paper industry	2,890.2	175.5	55.5	3,121.2	2.6%
post and telecommunications	3,011.2	31.9	9.6	3,052.7	2.5%
public administration and national defence	2,939.3	0.3	0.0	2,939.6	2.4%
sales, repair and maintenance of motor vehicles	2,436.7	172.8	66.0	2,675.5	2.2%
rental of equipment	2,424.1	176.8	16.1	2,617.0	2.2%
agriculture, forestry, fishery	1,858.5	211.0	122.8	2,192.3	1.8%
machine industry	1,807.0	211.1	50.7	2,068.8	1.7%
others	21,101.8	2,608.2	383.7	24,093.7	19.8%
Total	109,916.1	8,573.3	2,993.9	121,483.3	100%

2020

National economy sector	balance sheet and off-balance sheet exposure in PLN million (gross carrying amount)				share in the total exposure (in %)
	Stage 1	Stage 2	Stage 3	Total	
wholesale trade	11,513.2	1,140.0	520.1	13,173.3	12.3%
property services	8,327.6	1,136.3	408.2	9,872.1	9.2%
construction	5,573.4	346.0	330.3	6,249.7	5.8%
other business operations	5,629.2	379.3	180.6	6,189.1	5.8%
retail trade	5,263.1	358.1	203.4	5,824.6	5.4%
production of foodstuffs and beverages	4,391.9	532.2	203.5	5,127.6	4.8%
financial intermediation	5,095.1	5.1	1.7	5,101.9	4.7%
manufacturing of metal final products	4,544.8	371.5	95.6	5,011.9	4.7%
land and pipeline transport	3,116.3	775.0	176.6	4,067.9	3.8%
power generation	3,544.0	11.1	189.7	3,744.8	3.5%
rubber industry	3,358.7	203.4	46.2	3,608.3	3.4%
public administration and national defence	3,410.8	0.0	0.0	3,410.8	3.2%
wood and paper industry	2,527.9	117.3	58.5	2,703.7	2.5%
sales, repair and maintenance of motor vehicles	2,307.9	132.8	66.7	2,507.4	2.3%
rental of equipment	2,147.5	227.1	22.5	2,397.1	2.2%
agriculture, forestry, fishery	1,462.0	357.8	148.5	1,968.3	1.8%
other non-metal material industry	1,713.5	191.8	35.2	1,940.5	1.8%
Information technology and related activities	1,707.3	72.4	79.9	1,859.6	1.7%
machine industry	1,661.5	136.2	53.4	1,851.1	1.7%
others	18,025.0	2,402.9	389.5	20,817.4	19.4%
Total	95,320.7	8,896.3	3,210.1	107,427.1	100%



Group's largest exposures

The table below contains a specification of the Group's 20 largest exposures to entities / groups of related entities (including groups on entities where the Bank is the parent entity).

The amount of exposures includes the value of on-balance sheet assets (loans granted, placed deposits, debt securities), granted off-balance sheet liabilities and the book equivalent of derivative instruments. The exposures were reduced by amounts of exclusions permitted by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and MF Regulation 1018 of 1 July 2016.

Entity/group of related entities	Group's exposures	
	2021	2020
Group 1 (banking)	2,058.2	1,262.8
Group 2	1,717.3	716.2
Group 3	1,670.0	1,861.7
Group 4 (banking)	1,371.9	1,600.4
Group 5	1,230.6	1,231.9
Group 6	1,162.9	275.6
Group 7	1,122.7	732.7
Group 8	1,041.6	1,025.4
Group 9	1,016.3	1,015.8
Group 10	968.7	1,052.1
Group 11 (banking)	936.1	1,278.7
Group 12	925.0	917.3
Group 13	822.7	866.9
Group 14	814.4	13.3
Group 15	796.7	396.2
Group 16	795.2	713.0
Group 17	727.7	303.8
Group 18	724.6	995.0
Group 19	653.5	605.1
Group 20	631.6	430.5

1.3. Credit risk management process

Credit risk management is a continuous process which includes all activities of the Bank related to its credit business. All units and persons that perform tasks in the credit process closely cooperate in order to:

- improve the effectiveness of risk management, and
- maintain risks at a level compliant with the Bank's strategy, risk appetite and financial appetite and the approved RAS level.

The credit risk management process is carried out at the Bank within three lines of defence that are independent organisationally and functionally.

The Bank applies organisational solutions providing for separation of the sales functions of banking products from the risk underwriting functions at all levels of the organisational structure, including the Bank's Management Board. Separation of the functions of monitoring and controlling the risk of credit exposures (including concentration risk) from the sales functions of banking products and the risk underwriting functions is maintained below the level of the Bank's Management Board; for retail credit exposures – also at the level of the Management Board.

In case of simplified, automatic credit process paths, the separation of the sales functions of banking products from the risk underwriting functions of credit exposures relies on the independence of the development and validation process of tools supporting the process of risk underwriting from the sales and operational functions. Competences with respect to credit decisions relating to individual credit transactions are separated from decision authority on the development of credit policies and credit risk management principles.

1.4. Credit risk management organisational structure

Within the CRO Division (Chief Risk Officer, Vice-President of the Management Board Responsible for Risk), three areas of credit risk have been distinguished, reporting to the Directors of the Bank:

- Transactional Credit Risk, including:
 - Central Credit Risk Department,
 - Regional Credit Risk Department,
 - Financial Institutions Credit Risk Position.
- Expert Centre – Credit Risk, including:
 - Consumer Credit Risk,
 - Business Credit Risk.



- Models, Data and Reporting, including:
 - Risk Model Department,
 - Policy, Procedures, Regulation and Risk Reporting Department,
 - Credit Risk Tech Team.

Moreover, the Corporate Credit Restructuring Department is located in the structure of the CRO Division.

Each area controls and supervises the Bank's business and risk management processes assigned to them.

1.5. Principles of credit activity

The core principle that the Bank pursues in its credit activity is to comply with law and external regulations related to credit activity, for instance:

- Banking Law Act,
- Act on macro prudential supervision,
- Foreign Exchange Law,
- regulations relating to prevention to money laundering, etc.

The Bank does not enter into credit transactions and does not get involved in activities which ethical aspects raise doubts and that could cause harm to the Bank's reputation.

The following principles are complied with in credit activity:

- The Bank acquires and maintains credit exposures in its credit portfolio that ensure security of the Bank's deposits and equity,
- The Bank acts in clients' interests providing for their needs and potential; the Bank avoids situations as a result of which any approved financing could generate spiralling debts,
- The Bank attracts clients in compliance with the applicable regulations and requirements covering the provision of the required information, documentation, compliance with procedures,
- The Bank provides credit services effectively and professionally, respecting its clients' interests and expectations of the Bank's shareholders related to the growth of value of ING Bank Śląski S.A.,
- The Bank does not enter into transactions, credit exposures without learning and understanding the economic basis of transactions,
- The Bank accepts credit risk if it is able to control it effectively and – if payments are not made – the Bank is able to implement credit recovery procedures,

- The Bank does not approve exposures in which it may be exposed to reputational risk,
- The Bank takes decision concerning new types or areas of credit exposures (e.g. new markets, market segments, client groups, products) subject to prior analysis and review of new opportunities and the related risks,
- in its business relations, the Bank applies the principle of “equal rights” – it requires the same documents and information from the same clients (in terms of credit risk) and pays special attention to equal treatment,
- The Bank is involved in open communication with clients with respect to information requirements in the credit process.

In its cooperation with business partners, the Bank complies with the following principles:

- it verifies its business partners with whom the Bank collaborates in credit distribution,
- it holds procedures of workflow between clients, business partners and the Bank,
- it holds in place quality control procedures of business partners,
- it does not grant powers of attorney or authority to take credit decisions in the name and on behalf of the Bank to grant (distribute) loans,
- it determines the acceptable risk level for each distribution channel,
- it monitors the quality of the loans granted through by its business partners.

1.6. Credit risk management

The Bank manages credit risk both at the level of credit exposure portfolio and at the level of individual transactions.

Risk management of the loan exposure portfolio

The objective of credit risk management of the Group's portfolio is to ensure portfolio growth in compliance with the approved strategy while maintaining the solvency ratio of the Group and the Bank at acceptable levels and within the determined and approved risk parameters.

Credit risk management of the loan exposure portfolio is performed with the following:

- determination of credit risk management strategy,
- reconciling RAS levels with business,
- development, implementation and monitoring of implementation of credit policies,
- analysis of the macroeconomic situation and individual sectors and generation of guidelines relating to lending directions,



- development and implementation of credit products,
- setting authority levels to approve deviations from credit policies and product exceptions,
- development and implementation of tools supporting risk measurement and assessment.
- analysis and assessment of credit processes and the scope of functional controls,
- administration of the credit exposure portfolio,
- training of staff members participating in the credit process,
- development and maintenance of an incentive system for employees, focused on compliance with internal credit standards.

Managing the credit risk profile, the Bank:

- determines, monitors and reports internal concentration limits for economic sectors, types of collateral, regions and mortgage-backed credit exposures,
- monitors and analyses the quality of accepted collateral,
- monitors and reports compliance with prudential standards resulting from the Banking Law Act,
- determines, monitors and reports internal concentration limits for each sub-portfolio,
- defines changes to credit policies and product offer providing for economic cycles and changes in the property market,
- acquires market data on the quality of credit portfolios and compares them with its own credit portfolios.

Capital adequacy and recognition of impairment for expected credit losses

The Group secures impairment of credit exposures by recognising impairment for expected credit losses. The Group further secures fluctuating losses versus the average levels of expected losses (that is unexpected losses) by ensuring an adequate level of regulatory capital and economic capital

Risk-weighted assets and capital requirements are calculated by the Bank as follows:

- for retail exposures – in compliance with the standard method,
- for corporate credit exposures – in compliance with the advanced internal rating method with the exception of exposures to sovereigns, central banks, local governments and public sector entities for which the Group applies the standard method.

Provisions for credit risk at the Bank for all credit exposures are calculated in compliance with International Financial Reporting Standards.

Credit risk management of individually significant credit exposures

Credit risk management for individually significant credit exposures covers:

- determination of the credit risk management process for transactions exposed to credit risk,
- management of documentary requirements applicable to the Bank's credit clients,
- determination of credit analysis standards,
- determination of the maximum levels of DTI, LTV and the minimum levels of clients; own contribution for specific products, transaction types,
- development of principles of approving credit decisions and management of credit approval competencies,
- management of the principles relating to:
 - determination of risk measures applying risk models used at the Bank,
 - verification of timely repayments,
 - client economic and financial situation monitoring,
 - monitoring of compliance with contractual terms and conditions by clients,
 - monitoring of other defined warning signals,
 - acceptance and monitoring of collateral accepted by the Bank,
 - utilisation and monitoring of limits approved by the Bank.
- rules of establishing impairment allowances to credit exposures and provisions for off-balance sheet liabilities,
- management of credit risk of portfolio clients at Stage 3.

The following activities are performed as part of the process of granting and managing individually significant credit exposures:

- client and transaction risk assessment,
- approving credit decisions,
- monitoring,
- restructuring and collection.



Client and transaction risk assessment

The major elements in the assessment process of client and transaction credit risk include:

- assessment of clients' creditworthiness

The Bank reviews clients' creditworthiness by:

- verifying compliance with minimum criteria,
- determining clients' rating or score in the rating or scoring process respectively.

Measurement of clients' risk in the rating or scoring process relies on an estimated PD (probability of default). Financing may be provided to clients when a rating or a score is determined at a pre-determined minimum level for each client type, credit process or product.

Review of creditworthiness of corporate clients in the rating process is made on the basis of:

- the rating assigned to the entity applying for credit exposure, providing collateral (e.g. surety, guarantee) and other entities if so required by the nature of collateral or transaction (e.g. debtors of receivables assigned to the Bank),
- the “four-eye principle”, that is:
 - commercial functions are separated from the rating approval functions that are performed by the CRO Risk Division units, or
 - the operating principles of automatic rating models approved by the Credit Policy Committee.

Review of creditworthiness of retail clients is made on the basis of:

- scoring,
- analysis of history of repayment of obligations to the Bank and other financial institutions,
- features of the borrowers that have material impact on compliance with the existing credit obligations (quality analysis), e.g.:
 - client's personal features: age, marital status, number of persons maintained, housing and financial status, education, employment history, form of employment, profession pursued, etc.,
 - history of the client's cooperation with the Bank: period of cooperation and history of account maintenance.

The Bank applies scoring models (application, behavioural models and BIK scoring) reflecting the client's statistical risk level. The applied clients' creditworthiness review models are subject to regular monitoring and validation to ensure good quality of the tools.

- review of creditworthiness (quantitative assessment)

Creditworthiness is reviewed by identifying the source of repayment and the amount and stability thereof throughout the lending process. This is an assessment of repayment potential by the clients of their credit exposures in the specified amounts, times and subject to terms and conditions determined by the Bank. The clients' potential is subject to a review of clients' creditworthiness in the rating and scoring process. The review of creditworthiness also provides for the FX risk and interest rate risk to which the debtors are exposed.

The analysis of the creditworthiness of a business client and WB (Wholesale Banking) may cover the following areas:

- clients' shareholding structure,
- the sector of their business,
- business and investment strategy,
- market position,
- sales markets and suppliers,
- financial analysis, including financial projections,
- identification and assessment of repayment sources,
- financial position versus comparable entities in the sector,
- factors from the global, macroeconomic, regional and sectoral environment existing now and that may exert material impact in the future on the company's financial condition in the future.

The analysis of individual clients' creditworthiness covers:

- determination of the amount and stability of the generated income (quantitative analysis),
- determination of the amount of the clients' financial obligations (credit and non-credit),
- identification of the amount of expenditures of households.

In the assessment of creditworthiness, financial measures are used based on mathematical formulas.

- assessment of collateral

The Bank applies collateral to mitigate credit risk and the amount of losses that may be suffered when clients' default on loan repayment. Before collateral is accepted, the Bank assesses the collateral and its value and effectiveness.

Apart from classic forms of collateral (material and personal), the Bank applies additional instruments to mitigate the risk of loss in the form of contractual conditions and clauses.



In order to calculate the capital requirement, the Bank applies the approved LGD models in which each collateral is assigned with an adequate recovery rate. Is the Group's policy to grant loans in amounts and subject to terms and conditions that ensure regular repayments without the need to resort to collateral.

- transactional risk assessment.

Assessing transactions, the Bank takes the following into account:

- results of the clients' creditworthiness and credit reliability,
- compliance with credit policy,
- purpose of lending,
- adequacy of the requested product,
- other risks such as:
 - business risks – macroeconomic, market, sectoral, seasonal risks,
 - structural risks – transaction structure, values of LTV and LGD, client's own contribution (if required), effectiveness of clauses, Bank's position versus other lenders,
 - management staff – employment history, experience, substitution risk of decision makers and succession risk,
 - financial risks – including FX and interest rate risks,
 - concentration risk – is the requested growth of exposure related to the utilisation of a limit set internally by the Bank,
 - reputational risk – can cooperation with the client adversely affect the Bank's reputation.
- relation of risk level to pricing conditions, etc.

Maximum recognisable amount of collateral or guarantee

The Group uses collateral on the following assets: financial resources (a deposit with the Bank or another bank), liquid securities, real estate, means of transport, receivables, machinery and equipment, inventories, intangible assets and other security.

The value of collateral on credit exposures in Stage 3 in the amount not exceeding the balances of individual loans as at 31 December 2021 was PLN 902.7 million compared to PLN 763.2 million at the end of 2020.

The tables present the value of collateral not exceeding the carrying amount of the related credit exposures. The presented values of collateral result from the assumptions adopted by the Group to determine the nominal value of collateral, the general principles of which for the main types of collateral are as follows:

- The value of the collateral on the property is the lower of the two values, i.e. the value determined as a result of the verification of the property value by the Group (not higher than the market value specified in the appraisal report or internal valuation report), less any previously incurred mortgage charges and the value of the mortgage entry in the land and mortgage register.
- The value of collateral for machines and devices is the lower of the insurance value of these items, the net book value and amounts specified in the contract for registered pledges.
- The value of the collateral for guarantees other than the parent company or another related company is the lower of two values, i.e. the amount up to which the guarantee is issued or the amount of credit exposure to which the security relates.



2021

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	47,910.1	20,107.3	153.6	18,335.0	7,551.4
other financial institutions	0.0	0.0	20.3	227.0	461.3
non-financial entities	154.5	17,750.8	129.4	15,198.1	6,105.5
households	47,755.6	2,347.6	3.9	2,906.2	683.7
including: loans to purchase residential properties	41,991.6	588.2	0.1	0.0	0.4
other entities (banks, budgetary sector)	0.0	8.9	0.0	3.7	300.9

2020

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	39,020.1	19,831.9	219.3	15,836.7	4,822.6
other financial institutions	0.0	0.0	0.0	412.6	472.7
non-financial entities	117.6	17,758.8	214.3	15,021.3	3,959.6
households	38,902.5	2,068.7	4.3	395.9	389.8
including: loans to purchase residential properties	37,017.5	477.8	0.1	0.0	0.0
other entities (banks, budgetary sector)	0.0	4.4	0.7	6.9	0.5

Taking credit decisions

The authority to take credit decisions to accept risk of individual credit exposures is set by the Credit Policy Committee. If data is missing to assess risk, the application will not be approved and no decision will be taken.

Exposures for lower amounts, shorter terms, exposed to lower risk, are accepted at lower authority levels. Along with growing credit risk – that is a growth of individual or joint credit exposure, extension of the lending term, occurrence of non-standard elements in the application or deviations from the applicable internal regulations – the relevant decisions are taken at higher levels of credit authority.

Risk assessment and approval is based on expert judgment relying on the results of risk measurement made with supporting tools as specified in the credit policy and procedures. The following exceptions apply: automatic decisions approved by the IT system or semi-automatic decisions taken within simplified credit process paths.

Credit decisions are taken along with an adequate path on the basis of a comprehensive transaction risk analysis subject to transaction complexity and amount. With respect to paths with a higher automation level, the analysis of transaction list is based on clearly defined criteria, including behavioural criteria, and on an automatic calculation of the credit limit on the basis of an algorithm approved by the Credit Policy Committee.

Retail segment (mortgage and private client segment) and SE/Micro clients

Credit decisions for the regular portfolio shall be made:

- in automatic mode in accordance with specified criteria,
- in one or two person mode – by units from the Operations Division,
- on a two-person basis, in a higher-risk analysis unit, at the level of directors or management board members, for cases involving higher credit risk and non-standard cases.

Decisions for the non-performing portfolio are made in a dedicated recovery and restructuring unit.

Segment Business Clients segment excluding SE/Micro and Wholesale Banking clients)

Credit decisions for portfolios in Stage 1 and 2 (excluding automation) are taken:

- collectively by the Bank's Credit Committee or Restructuring Committee – this applies to the largest credit exposures,
- by two persons – by business units and units responsible for transactional credit risk,
- by one person – by the Risk Manager for small credit exposures.



Lending decisions for the business client portfolio (Easy Lending) are made according to the process path:

- automatically based on:
 - verification of the defined eligibility criteria,
 - verification of the client in BRNK, BIK and BIG databases,
 - calculation of the EL transaction limit calculated in accordance with the algorithm approved by the NCP,or
- expertly by the decision-maker of the crediting unit (Front Office) with appropriate credit expertise.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

Common rules

The mode of decision taking does not release any participant from their personal responsibility for the approved decisions.

Credit decision takers in the two-person approval mode are attributed individual personal credit authority with the amount subject to their knowledge and experience. Competence levels are correlated with the credit risk level. With a higher credit risk, credit decisions are taken by more experience persons. The principles of granting and revoking credit authority are separate for specific client segments. When setting an adequate level of credit authority for business clients (excluding SE & Micro clients) and Wholesale Banking, the Group's total exposure to the client's group of related entities is taken into account; in case of natural persons or sole proprietorships – the authority level depends on the Bank's total exposure to the client. All transactions are underwritten in compliance with clearly defined decision rules and credit authority.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

Monitoring

Monitoring applies to all credit exposures generating credit risk, including concentration risk and transactions in financial markets. The objective of monitoring is to identify early warning signals to prevent the occurrence of non-performing loans and to identify early impairment indications or evidence so that the Bank can take appropriate mitigation actions. The monitoring of approved credit exposures includes:

- history of repayments to the Bank (timely repayments),
- compliance by the client with other contractual terms and conditions,
- client's financial and/or economic condition,
- application of the funding in compliance with the financing goal (if specified),

- progress of investment (in case of investment loans),
- verification of warning signals concerning the client or transaction,
- occurrence of objective impairment evidence or indications,
- periodic review of the quality and value of collateral.

Restructuring and collection

The Bank provides supports to its clients at each stage of financing. The Bank offers products suited to their needs; should delays occur in repayment, the Bank proposes flexible repayment schedules. In case of more serious problems in repayment, the Bank may offer to restructure the debt. Then, jointly with the client, the Bank sets the best form of support or a settlement.

The main objective of the actions taken in the portfolio in Stage 3 is to mitigate the risk of losses to the Bank or mitigate the volume of such losses.

The Bank applies the following strategies in the portfolio in Stage 3:

- debt restructuring – in cooperation with the client which in particular may consist in modifications to contractual terms and conditions in order to adapt debt repayment to the client's financial potential, e.g.:
 - extension of the repayment period,
 - sales of assets,
 - sales of a part of the borrower's business,
 - remission of a part of financial obligations.

Decisions to open restructuring are taken after a detailed review and approval by the competent decision-taking body of the Bank. After a successful restructuring process, the borrower is again subject to standard monitoring procedures of credit risk.

- debt collection – enforcement by the Bank of its receivables from the provided collateral or other property of the client or the property of other obliged third persons. The Bank may claim its receivables by initiating enforcement procedures or by participating in bankruptcy proceedings; in case of retail clients – by way of amicable collection: offering the clients voluntary repayment as a part of collection strategy.



Forbearance

Forbearance occurs when the Bank determines that the client is not able to comply with their financial obligations due to financial difficulties (identified or expected within a short time) and decides to grant forbearance.

Forbearance is identified if all of the following conditions are satisfied:

- problems have been identified with the repayment of financial obligations by the client or the Bank anticipates such difficulties in the near future,
- The Bank has decided to grant forbearance to the client with difficulties in order to facilitate repayment by the borrower or to prevent the occurrence of such difficulties in repayment,

- the facility is not for commercial reasons and is granted on terms and conditions that other borrowers with a similar risk profile could obtain from the Bank,
- the client has accepted forbearance, i.e. the existing terms and conditions of the agreement have been amended, a refinancing agreement has been concluded or an embedded forbearance clause has come into effect, or the Bank has waived undertaking actions in a situation of a material default by the client on a key financial clause.

Corporate exposures and the part of retail exposures meeting the definition of credit moratoria (in accordance with the EBA Guidelines on statutory and non-statutory moratoria on loan repayments applicable in the wake of the COVID-19 crisis) were not identified as forbearance, Retail exposures meeting the criteria for statutory moratoria were classified into Stage 3 with simultaneous recognition of a contingency restructuring.

**Split of the credit portfolio into performing or non-performing portfolios with details of exposures with forbearance****2021**

	Performing exposures	including forbearance	modification of terms and conditions	refinancing	quarantine *	Non-performing exposures	including forbearance	modification of terms and conditions	refinancing	overdue portfolio	impaired portfolio
Gross loan portfolio, of which:	142,593.7	1,560.6	1,560.2	0.4	1,396.1	3,806.6	1,554.6	1,551.4	3.3	946.3	1,544.2
Corporate banking, of which:	77,120.3	1,392.2	1,391.8	0.4	1,230.7	2,794.2	1,156.6	1,153.4	3.3	851.4	1,146.2
loans in the current account	11,707.2	119.8	119.8	0.0	119.8	701.4	202.2	201.9	0.3	165.6	202.2
term loans and advances	44,416.4	1,112.2	1,111.8	0.4	1,108.5	1,700.9	905.0	902.1	3.0	640.7	894.6
lease receivables	10,876.0	149.7	149.7	0.0	0.0	304.0	38.5	38.5	0.0	38.5	38.5
factoring receivables	6,802.1	10.5	10.5	0.0	2.4	87.9	10.9	10.9	0.0	6.6	10.9
corporate and municipal debt securities	3,318.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	65,473.4	168.4	168.4	0.0	165.4	1,012.4	398.0	398.0	0.0	94.9	398.0
mortgages	57,081.9	92.4	92.4	0.0	89.4	328.3	200.7	200.7	0.0	21.9	200.7
loans in the current account	636.7	2.5	2.5	0.0	2.5	49.2	2.8	2.8	0.0	1.1	2.8
other loans and advances	7,754.8	73.5	73.5	0.0	73.5	634.9	194.5	194.5	0.0	71.9	194.5
Impairment for expected credit losses, including:	-633.5	-51.1	-51.1	0.0	-48.9	-2,480.1	-894.5	-891.6	-2.9	-625.7	-894.5
Corporate banking, of which:	-387.1	-41.9	-41.9	0.0	-39.8	-1,771.1	-677.6	-674.7	-2.9	-553.4	-677.6
loans in the current account	-66.4	-0.9	-0.9	0.0	-0.9	-493.6	-124.3	-124.0	-0.3	-114.2	-124.3
term loans and advances	-292.8	-39.3	-39.3	0.0	-38.9	-1,148.9	-534.8	-532.2	-2.6	-422.2	-534.8
lease receivables	-21.9	-1.7	-1.7	0.0	0.0	-68.1	-12.2	-12.2	0.0	-12.2	-12.2
factoring receivables	-5.7	0.0	0.0	0.0	0.0	-60.5	-6.3	-6.3	0.0	-4.8	-6.3
corporate and municipal debt securities	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	-246.4	-9.2	-9.2	0.0	-9.1	-709.0	-216.9	-216.9	0.0	-72.3	-216.9
mortgages	-66.0	-3.6	-3.6	0.0	-3.5	-151.9	-77.2	-77.2	0.0	-14.8	-77.2
loans in the current account	-15.2	-0.1	-0.1	0.0	-0.1	-38.8	-1.6	-1.6	0.0	-0.9	-1.6
other loans and advances	-165.2	-5.5	-5.5	0.0	-5.5	-518.3	-138.1	-138.1	0.0	-56.6	-138.1

**2021 – c.d.**

Net loan portfolio, of which:	141,960.2	1,509.5	1,509.1	0.4	1,347.2	1,326.5	660.1	659.8	0.4	320.6	649.7
Corporate banking, of which:	76,733.2	1,350.3	1,349.9	0.4	1,190.9	1,023.1	479.0	478.7	0.4	298.0	468.6
loans in the current account	11,640.8	118.9	118.9	0.0	118.9	207.8	77.9	77.9	0.0	51.4	77.9
term loans and advances	44,123.6	1,072.9	1,072.5	0.4	1,069.6	552.0	370.2	369.9	0.4	218.5	359.8
lease receivables	10,854.1	148.0	148.0	0.0	0.0	235.9	26.3	26.3	0.0	26.3	26.3
factoring receivables	6,796.4	10.5	10.5	0.0	2.4	27.4	4.6	4.6	0.0	1.8	4.6
corporate and municipal debt securities	3,318.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	65,227.0	159.2	159.2	0.0	156.3	303.4	181.1	181.1	0.0	22.6	181.1
mortgages	57,015.9	88.8	88.8	0.0	85.9	176.4	123.5	123.5	0.0	7.1	123.5
loans in the current account	621.5	2.4	2.4	0.0	2.4	10.4	1.2	1.2	0.0	0.2	1.2
other loans and advances	7,589.6	68.0	68.0	0.0	68.0	116.6	56.4	56.4	0.0	15.3	56.4

*) the *quarantine* class includes those exposures to which forbearance was applied in the past and which are now in the watch process before complete return to performing loans

2020

	Performing exposures	including forbearance	modification of terms and conditions	refinancing	quarantine	Non-performing exposures	including forbearance	modification of terms and conditions	refinancing	overdue portfolio	impaired portfolio
Gross loan portfolio, of which:	121,824.7	1,229.2	1,229.1	0.1	1,060.6	4,167.7	1,654.3	1,649.8	4.5	1,654.3	1,654.3
Corporate banking, of which:	67,063.0	1,112.0	1,111.9	0.1	944.1	3,096.9	1,323.7	1,319.2	4.5	1,323.7	1,323.7
loans in the current account	8,838.1	88.2	88.2	0.0	88.2	711.8	207.4	207.0	0.4	207.4	207.4
term loans and advances	41,025.0	859.1	859.0	0.1	855.9	1,903.5	1,084.9	1,080.8	4.1	1,084.9	1,084.9
lease receivables	9,421.2	143.0	143.0	0.0	0.0	410.9	23.5	23.5	0.0	23.5	23.5
factoring receivables	4,786.4	21.7	21.7	0.0	0.0	70.7	7.9	7.9	0.0	7.9	7.9
corporate and municipal debt securities	2,992.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	54,761.7	117.2	117.2	0.0	116.5	1,070.8	330.6	330.6	0.0	330.6	330.6
mortgages	47,560.4	64.5	64.5	0.0	63.9	340.7	190.3	190.3	0.0	190.3	190.3
loans in the current account	602.6	2.4	2.4	0.0	2.3	52.4	3.1	3.1	0.0	3.1	3.1
other loans and advances	6,598.7	50.3	50.3	0.0	50.3	677.7	137.2	137.2	0.0	137.2	137.2



2020 – c.d.

Impairment for expected credit losses, including:	-744.6	-43.3	-43.3	-0.1	-42.7	-2,525.7	-801.9	-689.9	-3.9	-801.9	-801.9
Corporate banking, of which:	-414.8	-34.4	-34.4	-0.1	-33.8	-1,768.4	-638.6	-526.6	-3.9	-638.6	-638.6
loans in the current account	-62.9	-2.0	-2.0	0.0	-2.0	-504.9	-118.1	-117.9	-0.2	-118.1	-118.1
term loans and advances	-309.6	-31.8	-31.8	0.0	-31.8	-1,108.1	-508.0	-405.3	-3.7	-508.0	-508.0
lease receivables	-33.9	-0.6	-0.6	0.0	0.0	-100.6	-9.1	0.0	0.0	-9.1	-9.1
factoring receivables	-7.8	0.0	0.0	-0.1	0.0	-54.8	-3.4	-3.4	0.0	-3.4	-3.4
corporate and municipal debt securities	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	-329.8	-8.9	-8.9	0.0	-8.9	-757.3	-163.3	-163.3	0.0	-163.3	-163.3
mortgages	-105.8	-4.3	-4.3	0.0	-4.3	-173.5	-79.0	-79.0	0.0	-79.0	-79.0
loans in the current account	-20.1	-0.1	-0.1	0.0	-0.1	-40.6	-2.1	-2.1	0.0	-2.1	-2.1
other loans and advances	-203.9	-4.5	-4.5	0.0	-4.5	-543.2	-82.2	-82.2	0.0	-82.2	-82.2
Net loan portfolio, of which:	121,080.1	1,185.9	1,185.8	0.0	1,017.9	1,642.0	852.4	959.9	0.6	852.4	852.4
Corporate banking, of which:	66,648.2	1,077.6	1,077.5	0.0	910.3	1,328.5	685.1	792.6	0.6	685.1	685.1
loans in the current account	8,775.2	86.2	86.2	0.0	86.2	206.9	89.3	89.1	0.2	89.3	89.3
term loans and advances	40,715.4	827.3	827.2	0.1	824.1	795.4	576.9	675.5	0.4	576.9	576.9
lease receivables	9,387.3	142.4	142.4	0.0	0.0	310.3	14.4	23.5	0.0	14.4	14.4
factoring receivables	4,778.6	21.7	21.7	-0.1	0.0	15.9	4.5	4.5	0.0	4.5	4.5
corporate and municipal debt securities	2,991.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	54,431.9	108.3	108.3	0.0	107.6	313.5	167.3	167.3	0.0	167.3	167.3
mortgages	47,454.6	60.2	60.2	0.0	59.6	167.2	111.3	111.3	0.0	111.3	111.3
loans in the current account	582.5	2.3	2.3	0.0	2.2	11.8	1.0	1.0	0.0	1.0	1.0
other loans and advances	6,394.8	45.8	45.8	0.0	45.8	134.5	55.0	55.0	0.0	55.0	55.0



Exposures with approved forbearance by risk classes

	2021				2020			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	1,392.2	256.9	1,156.6	13.2	1,112.0	179.3	1,323.7	64.3
classes corresponding to investment grade (risk classes 1 to 10)	0.0	0.0	0.0	0.0	19.9	0.0	0.0	0.0
classes corresponding to speculative ratings (risk classes 11 to 17)	1,066.0	238.5	0.0	0.0	927.8	172.5	0.0	0.0
classes of potentially non-performing exposures (risk classes 18-19)	326.2	18.4	0.0	0.0	159.8	6.8	0.0	0.0
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	1,156.6	13.2	4.5	0.0	1,323.7	64.3
Retail banking	168.4	0.0	398.0	0.1	117.2	0.1	330.6	0.0
classes corresponding to investment grade (risk classes 1 to 10)	62.7	0.0	0.0	0.0	28.4	0.1	4.6	0.0
classes corresponding to speculative ratings (risk classes 11 to 17)	96.0	0.0	0.0	0.0	73.8	0.0	0.6	0.0
classes of potentially non-performing exposures (risk classes 18-19)	9.7	0.0	0.0	0.0	15.0	0.0	0.0	0.0
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	398.0	0.1	0.0	0.0	325.4	0.0
Total (gross)	1,560.6	256.9	1,554.6	13.3	1,229.2	179.4	1,654.3	64.3

**Exposures with approved forbearance by overdue periods**

	2021				2020			
number of days past due	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	1,392.2	256.9	1,156.6	13.2	1,112.0	179.3	1,323.7	64.3
0	1,365.8	256.9	490.7	13.2	1,101.0	179.3	497.9	64.3
1-30	6.4	0.0	46.8	0.0	7.3	0.0	49.9	0.0
31-60	19.7	0.0	8.6	0.0	2.5	0.0	15.3	0.0
61-90	0.3	0.0	7.1	0.0	1.1	0.0	82.5	0.0
91-180	0.0	0.0	21.8	0.0	0.0	0.0	98.9	0.0
181-365	0.0	0.0	49.8	0.0	0.1	0.0	53.7	0.0
>365	0.0	0.0	531.8	0.0	0.0	0.0	525.5	0.0
Retail banking	168.4	0.0	398.0	0.1	117.2	0.1	330.6	0.0
0	146.8	0.0	303.0	0.1	112.4	0.1	259.4	0.0
1-30	16.9	0.0	19.9	0.0	4.0	0.0	19.0	0.0
31-60	3.8	0.0	7.9	0.0	0.5	0.0	6.8	0.0
61-90	0.9	0.0	4.9	0.0	0.3	0.0	2.4	0.0
91-120	0.0	0.0	3.5	0.0	0.0	0.0	1.5	0.0
121-150	0.0	0.0	4.3	0.0	0.0	0.0	1.6	0.0
151-180	0.0	0.0	3.3	0.0	0.0	0.0	0.9	0.0
>180	0.0	0.0	51.2	0.0	0.0	0.0	39.0	0.0
Total (gross)	1,560.6	256.9	1,554.6	13.3	1,229.2	179.4	1,654.3	64.3

In the profit and loss account for 2021, the item Interest income – interest on loans and other receivables from clients, contains interest income on exposures with forbearance of PLN 64.4 million (PLN 75.6 million for 2020), of which PLN 41.7 million relates to exposures in the performing portfolio and PLN 22.7 million relates to exposures in the non-performing portfolio (for 2020 – PLN 38.6 million and PLN 37.0 million respectively).

**Exposures covered by assistance tools due to Covid-19**

In connection with the Covid-19 pandemic, in 2020 the Group made the following assistance tools available to its clients:

- non-statutory moratorium, i.e. tools resulting from the banks' position regarding the unification of the rules for offering support tools for banking sector clients (non-statutory moratorium within the meaning of the guidelines of the European Banking Authority - EBA),
- the so-called statutory moratorium, i.e. support under the anti-crisis shield.

The introduced moratorium significantly improved the financial condition of borrowers. Non-statutory moratorium meeting the EBA guidelines were classified to Stage 1, the remaining, depending on individual assessment, to Stage 2 or 3. Statutory moratorium, due to the identified loss of the main source of income, were classified to Stage 3. In the corporate segment, due to the lack of statutory moratorium, only non-statutory moratorium were available. Non-statutory moratorium meeting the EBA guidelines were classified under Stage 1.

If the exposure is classified to Stage 3 due to moratorium, after the expiry of deferral of repayments, the classification to performing portfolio is made when the criteria of healing the exposure with foreborne status are met, including, among others, a 12-month trial period. Detailed conditions of healing foreborne exposures are described in chapter III. *Significant accounting principles*, in item **14.13. Impairment**.

In 2021, the Group continued to offer its retail clients the opportunity to take advantage of statutory moratoria. Corporate clients had the opportunity to take advantage of the renewed non-statutory moratorium only in the 1st quarter of 2021, after in December 2020 the European Banking Authority (EBA) decided to reactivate the "Guidelines on statutory and non-statutory loan repayment moratoria applied in the face of the crisis caused by Covid-19". As part of the renewed non-statutory moratorium, aid tools were intended for entrepreneurs from specific industries eligible for benefits from the PFR 2.0 Financial Shield. They consisted in deferring the repayments of principal or principal and interest installments for a maximum period of 9 months, with the detailed solutions differing depending on the type of client (micro, small, medium or large entrepreneur) or type of product (loans, leasing, factoring, renewable products).

The tables below present the gross carrying amount of loans subject to statutory and non-statutory moratoria as at 31 December 2021 and 31 December 2020.

2021

	Number of debtors	Total, of which:	Gross carrying amount				
			statutory	expired	unexpired		
					total, of which:	residual term under 3 months	residual term above 3 months
Loans on which a moratorium has been proposed	44,962	6,930.1	-	-	-	-	-
Loans subject to moratorium (granted), of which:	43,954	6,742.0	254.7	6,726.5	15.5	13.6	1.9
Retail banking customers	-	2,509.3	254.7	2,496.1	13.2	13.2	-
of which: secured with residential property	-	1,841.7	163.4	1,833.7	8.0	8.0	-
Corporate banking customers	-	4,232.7	-	4,230.4	2.3	0.4	1.9
of which: secured with commercial properties	-	2,586.6	-	2,584.7	1.9	-	1.9

	Gross carrying amount				Impairment for expected credit losses			
	Total, of which:	performing	Including Stage 2	non- performing	Total, of which:	performing	Including Stage 2	non- performing
Loans subject to moratorium (granted), of which:	15.5	0.3	0.3	15.2	-5.0	-	-	-5.0
Retail banking customers	13.2	-	-	13.2	-5.0	-	-	-5.0
of which: secured with residential property	8.0	-	-	8.0	-2.1	-	-	-2.1
Corporate banking customers	2.3	0.3	0.3	2.0	0.0	-	-	-
of which: secured with commercial properties	1.9	-	-	1.9	0.0	-	-	-



2020

	Number of debtors	Total, of which:	Gross carrying amount		total, of which:	unexpired	
			statutory	expired		residual term under 3 months	residual term above 3 months
Loans on which a moratorium has been proposed	44,962	9,805.6	-	-	-	-	44,962
Loans subject to moratorium (granted), of which:	44,394	8,667.4	164.2	8,426.2	241.2	241.2	44,394
Retail banking customers	-	2,890.0	164.2	2,688.9	201.1	201.1	-
of which: secured with residential property	-	2,011.4	104.7	1,891.6	119.8	119.8	-
Corporate banking customers	-	5,777.4	-	5,737.3	40.1	40.1	-
of which: secured with commercial properties	-	2,647.7	-	2,631.8	15.9	15.9	-

	Gross carrying amount				Impairment for expected credit losses			
	Total, of which:	performing	Including Stage 2	non- performing	Total, of which:	performing	Including Stage 2	non- performing
Loans subject to moratorium (granted), of which:	241.2	162.3	29.3	78.9	-35.5	-4.5	-3.1	-31.0
Retail banking customers	201.1	130.0	22.0	71.1	-32.2	-3.7	-2.5	-28.5
of which: secured with residential property	119.8	74.7	10.0	45.1	-15.9	-0.9	-0.9	-15.0
Corporate banking customers	40.1	32.4	7.3	7.7	-3.3	-0.7	-0.6	-2.6
of which: secured with commercial properties	15.9	13.6	0.5	2.3	-0.4	-	-	-0.4

1.7. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions as well as capitals and liquidity buffers.

The credit risk management system at the Bank is composed of the following:

- general rules governing management and mitigation of credit risk,
- RAS strategies and limits,
- policies, instructions and procedures relating to credit risk management,
- systems, tools and model relating to credit risk,
- a management reporting system that provides for risk level monitoring,
- an organisational structure that is adjusted to the size and profile of the credit risk that the Bank incurs..

The actions taken by the Bank within its risk management system may be as follows:

- risk avoidance – closing or restricting certain types of activity that generate too high risks or types of risks that may not be effectively controlled,
- risk mitigation – actions aimed at mitigating the likelihood of occurrence of disadvantageous events of mitigating the effects of such events,
- risk transfer – risk transfer in whole or in part to another entity, e.g. by insurance or securitisation of the credit portfolio,
- risk acceptance – refraining from taking the actions specified above due to economic or practical reasons, within the Bank's risk appetite.

Within its risk management system, the Bank applies its formalised:

- rules to determine the volume of undertaken risks and rules governing risk management,
- procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded.

Additionally, the Bank:

- applies the adopted management reporting system that provides for risk level monitoring,



- has an organisational structure in place that is adjusted to the size and profile of the risk that the Bank incurs,
- has an appropriately defined assessment and measurement process of credit risk, independent of the loan underwriting function, covering:
 - an effective rating system,
 - an effective process of acquiring information, including projections, used to assess expected credit losses,
 - an assessment policy ensuring that the estimation of expected credit losses is made with an individual or collective method,
 - an effective model validation process ensuring that the models keep generating accurate, consistent and objective projections and estimates,
 - clearly formulated, formal communication and coordination of actions of all employees involved in the process of risk assessment and estimation of anticipated credit losses.

The credit risk management system existing at the Bank, including its organisational structure, organisation of the credit process, the system of internal regulations, the applied tools and models, are subject to ongoing verification and adjustment in order to ensure the implementation of the Bank's strategy, including risk appetite. Thus, the Bank follows the objective of the adequacy of its actions relating to identification, assessment, measurement, monitoring and management of activity exposed to credit risk and to maintenance of consistency and compliance with regulatory requirements.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. The calculation of capital requirements for business clients (excluding SE&Micro and Easy Lending clients) and Wholesale Banking is based on the Advanced Internal Ratings Based Approach. Also with respect to its retail portfolio the Bank intends to obtain the PFSA's approval to apply the method for the portfolios of mortgage and consumer loans. The models applied by the Bank for risk management are regularly validated and developed.

The systems and models supporting the assessment of the clients' creditworthiness and credit reliability:

- from Business Clients and Wholesale Banking – are built and monitored in accordance with the requirements of the Advanced Capital Requirements Approach for credit risk and ING Group standards (excluding SE&Micro and Easy Lending clients),
- from the Business Clients Division (SE&Micro and Easy Lending clients) – are application and behavioural scoring models reflecting the statistical level of client risk, built in accordance with the requirements contained in supervisory regulations,

- from the Retail Division – are scoring models (application models, behavioural models and BIK scoring) reflecting the statistical level of client risk, built in accordance with the requirements contained in supervisory regulations.

In its assessment of credit risk, the Bank uses the following models:

- PD (Probability of Default),
- LGD (Loss given Default),
- EAD (Exposure at Default).

The models are designed in compliance with the requirements set forth in supervisory regulations and are applied inter alia to determine the volume of provisions, economic capital for credit risk for internal and external reporting requirements, reporting to the supervisory authority, to determine loan pricing and client profitability. The effectiveness of the models is reviewed on the basis of monitoring and validation processes.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. In the credit risk reporting process, information relating to AIRB models is included at a frequency adapted to the materiality and type of information presented and the position of the recipient. In principle, detailed information relating to the AIRB approach is presented to the senior management, in particular to:

- The Bank's Management Board – results of monitoring of the correctness of functioning of the AIRB approach in compliance with the "Policy of Changes and Monitoring of the Internal Rating Method at ING Bank Śląski S.A.",
- the Credit Policy Committee – results of monitoring of credit risk models, in compliance with the "Credit risk model management instruction at ING Bank Śląski S.A." and the results of model validation in compliance with the "Risk model validation policy".
- the Assets and Liabilities Committee (ALCO) – stress tests in accordance with the "Stress Testing Policy".

As part of the Risk Division's quarterly report, the results of the analysis of the credit risk profile of the corporate and retail mortgage-backed exposure portfolios are presented to the Bank's Management Board and the Risk Committee of the Supervisory Board in accordance with the model monitoring process, in particular:

- risk profiles by categories,
- migration among the categories,
- estimation of relevant parameters in individual categories,



- comparison of realised factors of default, realised LGD values, and realised credit conversion factors (CCF) with expected values.

The Bank also takes into account in its credit risk management process data on write-downs (credit provisions), which are presented in the MB Report: “Credit, Market and Non-Financial Risk Management Report”. The monthly MB Report in an abridged version is presented to the Bank’s Management Board. The quarterly MB Report in full and abridged version is presented to the Bank’s Supervisory Board.

1.8. Rules of risk management in subsidiary entities

Credit risk management at the subsidiary companies: ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. is subject to the same core principles as in ING Bank Śląski S.A., subject to the nature of the business of the entities.

As part of the risk management process, the Bank exercises supervision over:

- the credit portfolio of the subsidiary entities by assessing the size and the risk profile of the credit portfolio related to their business,
- rules of risk identification, measurements, and mitigation and credit risk management of individual credit transactions of the subsidiary entities,
- market risk level (including liquidity risk) in the subsidiary companies by establishing and monitoring of positions.

The related entities are supervised by the Bank by:

- applying uniform credit risk models in the rating process,
- application of standardised rules of analysing and assessment of transactions exposed to credit risk subject to the specific nature of the business of the related entity,
- application of standardised rules and levels of credit authority,
- granting authorisations to approve credit decisions,
- setting contractual terms and conditions of cooperation in the sphere of providing financing for selected transactions exposed to credit risk,
- exchanging information on solutions and tools supporting credit risk management that are preferred by the Bank,
- provision of information on sectoral policies pursued by the Bank and other sectoral documents,
- co-operation in terms of preparation of credit risk reports.

In the area of establishing and reporting on impairments for credit exposures and provisions for off-balance sheet credit exposures, the associated entities are obliged to apply the rules applicable at the Bank. Levels of impairment allowances and provisions established by the related entities are presented at quarterly meetings of the LLP Committee. Additionally, representatives of the Bank are members of Supervisory Boards and Transaction Committees of the subsidiary entities since the business of the companies – similarly to the Bank – is related to generation of credit and/or market risk.

Additional aspects of risk management in subsidiary entities

- ING Lease Polska Sp. z o.o.:
 - it owns the financed assets under lease contract that constitute the core collateral to the transactions,
 - when a lease contract is terminated, the company may take over physical control over the collateral and sell it which reduces or completely eliminates losses on the credit exposure,
 - it holds a developed verification procedure of the suppliers and leased assets to mitigate the risk of fraud and the risk related to leased assets having physical or legal defects,
 - to the extent specified in internal procedures, it verifies both the supplier (if necessary, also entities related to the supplier) / the intermediary in trading in the financed asset which mitigates the delivery risk of the financed assets.
- ING Commercial Finance Polska S.A.:
 - the core repayment source of exposures are receivables covered with factoring, both in case of recourse and non-recourse factoring,
 - as a rule, it acquires receivables accepting the solvency risk of the buyers subject to prior insurance of the receivables,
 - it offers factoring to clients with accepted risk of the buyers’ solvency subject to the insurance contracts concluded by the clients with insurance companies – “take-over of rights and duties of the client’s insurance contract”.
- ING Bank Hipoteczny S.A.:
 - ING Bank Hipoteczny S.A. acquires receivables from ING BSK S.A. which – subject to a review of their potential role as collateral to the loans granted and identification of the bank and mortgage value of the property – constitute collateral to issues of mortgage bonds,
 - ING Bank Hipoteczny S.A. bases its business on daily and close cooperation with the CRO Division and the COO Division of ING Bank Śląski S.A.



1.9. Exposure portfolio structure

Exposures to clients by risk classes

Risk classes can be divided into four basic groups:

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

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



2021

risk rating	Exposures to corporate clients (in PLN million)										Exposures to retail clients (in PLN million)									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
classes corresponding to investment grade (risk classes 1 to 10)	27,272.9	19,700.0	198.5	208.6	3.7	0.4	0.0	0.0	27,475.1	19,909.0	55,417.7	4,816.3	149.3	130.0	0.0	0.0	0.0	0.0	55,567.0	4,946.3
classes corresponding to speculative ratings (risk classes 11 to 17)	43,366.6	19,461.4	5,445.2	1,733.7	305.1	127.3	0.0	0.0	49,116.9	21,322.4	8,678.6	529.6	960.4	45.0	0.0	0.0	2.0	0.0	9,641.0	574.6
classes of potentially non-performing exposures (risk classes 18-19)	14.6	102.9	822.5	163.3	11.5	0.0	0.0	0.0	848.6	266.2	6.3	0.0	261.1	0.8	0.1	0.0	0.2	0.0	267.7	0.8
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	0.0	0.0	2,422.8	71.2	51.1	0.0	2,473.9	71.2	0.0	0.0	0.0	0.0	1,010.1	2.8	0.0	0.0	1,010.1	2.8
Total Gross	70,654.1	39,264.3	6,466.2	2,105.6	2,743.1	198.9	51.1	0.0	79,914.5	41,568.8	64,102.6	5,345.9	1,370.8	175.8	1,010.2	2.8	2.2	0.0	66,485.8	5,524.5
impairment for expected credit losses	-168.7	-28.9	-218.4	-19.3	-1,771.1	-20.8	0.0	0.0	-2,158.2	-69.0	-107.0	-3.8	-139.4	-3.1	-709.0	-2.7	0.0	0.0	-955.4	-9.6
Net total	70,485.4	39,235.4	6,247.8	2,086.3	972.0	178.1	51.1	0.0	77,756.3	41,499.8	63,995.6	5,342.1	1,231.4	172.7	301.2	0.1	2.2	0.0	65,530.4	5,514.9

2020

risk rating	Exposures to corporate clients (in PLN million)										Exposures to retail clients (in PLN million)									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
classes corresponding to investment grade (risk classes 1 to 10)	23,060.0	17,038.8	217.6	48.8	0.2	0.0	0.0	0.0	23,277.8	17,087.6	41,451.2	3,612.1	528.6	3.2	0.0	0.0	0.0	0.0	41,979.8	3,615.3
classes corresponding to speculative ratings (risk classes 11 to 17)	36,147.9	18,970.1	7,003.5	978.7	5.2	0.2	0.0	0.0	43,156.6	19,949.0	11,194.6	626.2	1,278.8	43.6	5.5	0.0	1.8	0.0	12,480.7	669.8
classes of potentially non-performing exposures (risk classes 18-19)	7.4	75.6	611.7	26.6	0.1	0.1	0.0	0.0	619.2	102.3	0.0	0.0	322.2	0.8	0.0	0.0	0.4	0.0	322.6	0.8
classes of non-regular exposures (risk classes 20-22)	6.8	3.6	9.4	0.1	3,088.8	124.6	1.3	0.0	3,106.3	128.3	0.2	0.1	0.0	0.0	1,049.2	2.9	0.0	0.0	1,049.4	3.0
Total Gross	59,222.1	36,088.1	7,842.2	1,054.2	3,094.3	124.9	1.3	0.0	70,159.9	37,267.2	52,646.0	4,238.4	2,129.6	47.6	1,054.7	2.9	2.2	0.0	55,832.5	4,288.9
impairment for expected credit losses	-192.1	-35.8	-227.7	-12.0	-1,763.4	-31.3	0.0	0.0	-2,183.2	-79.1	-150.2	-2.8	-181.8	-2.4	-755.1	-2.5	0.0	0.0	-1,087.1	-7.7
Net total	59,030.0	36,052.3	7,614.5	1,042.2	1,330.9	93.6	1.3	0.0	67,976.7	37,188.1	52,495.8	4,235.6	1,947.8	45.2	299.6	0.4	2.2	0.0	54,745.4	4,281.2



Exposures to clients by DPD

2021

Exposures to corporate clients (in PLN million)											Exposures to retail clients (in PLN million)									
number of days past due	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
0	70,407.4	39,262.1	6,168.6	2,105.6	631.2	198.9	51.1	0.0	77,258.3	41,566.6	63,918.4	5,345.9	923.9	175.8	373.2	2.8	1.8	0.0	65,217.3	5,524.5
1-30	245.9	2.2	207.3	0.0	104.5	0.0	0.0	0.0	557.7	2.2	184.2	0.0	356.9	0.0	33.4	0.0	0.4	0.0	574.9	0.0
31-60	0.2	0.0	76.9	0.0	63.8	0.0	0.0	0.0	140.9	0.0	0.0	0.0	70.0	0.0	18.4	0.0	0.0	0.0	88.4	0.0
61-90	0.6	0.0	11.7	0.0	34.9	0.0	0.0	0.0	47.2	0.0	0.0	0.0	19.9	0.0	12.1	0.0	0.0	0.0	32.0	0.0
91-180	0.0	0.0	0.6	0.0	73.5	0.0	0.0	0.0	74.1	0.0	0.0	0.0	0.1	0.0	58.5	0.0	0.0	0.0	58.6	0.0
181-365	0.0	0.0	0.2	0.0	166.6	0.0	0.0	0.0	166.8	0.0	0.0	0.0	0.0	0.0	114.3	0.0	0.0	0.0	114.3	0.0
>365	0.0	0.0	0.9	0.0	1,668.6	0.0	0.0	0.0	1,669.5	0.0	0.0	0.0	0.0	0.0	400.3	0.0	0.0	0.0	400.3	0.0
Total Gross	70,654.1	39,264.3	6,466.2	2,105.6	2,743.1	198.9	51.1	0.0	79,914.5	41,568.8	64,102.6	5,345.9	1,370.8	175.8	1,010.2	2.8	2.2	0.0	66,485.8	5,524.5

2020

Exposures to corporate clients (in PLN million)											Exposures to retail clients (in PLN million)									
number of days past due	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
0	58,818.4	36,033.8	7,580.0	1,050.5	769.0	122.4	1.3	0.0	67,168.7	37,206.7	52,590.6	4,238.4	1,948.4	47.6	326.7	2.9	1.9	0.0	54,867.6	4,288.9
1-30	386.1	54.3	192.5	3.7	104.8	1.7	0.0	0.0	683.4	59.7	51.0	0.0	106.8	0.0	38.2	0.0	0.3	0.0	196.3	0.0
31-60	10.7	0.0	41.8	0.0	50.8	0.0	0.0	0.0	103.3	0.0	3.6	0.0	23.7	0.0	16.0	0.0	0.0	0.0	43.3	0.0
61-90	2.3	0.0	26.5	0.0	110.8	0.0	0.0	0.0	139.6	0.0	0.3	0.0	22.1	0.0	11.8	0.0	0.0	0.0	34.2	0.0
91-180	0.4	0.0	1.1	0.0	150.5	0.3	0.0	0.0	152.0	0.3	0.4	0.0	0.0	0.0	48.6	0.0	0.0	0.0	49.0	0.0
181-365	2.2	0.0	0.1	0.0	192.0	0.0	0.0	0.0	194.3	0.0	0.0	0.0	0.0	0.0	94.9	0.0	0.0	0.0	94.9	0.0
>365	2.0	0.0	0.2	0.0	1,716.4	0.5	0.0	0.0	1,718.6	0.5	0.1	0.0	28.6	0.0	518.5	0.0	0.0	0.0	547.2	0.0
Total Gross	59,222.1	36,088.1	7,842.2	1,054.2	3,094.3	124.9	1.3	0.0	70,159.9	37,267.2	52,646.0	4,238.4	2,129.6	47.6	1,054.7	2.9	2.2	0.0	55,832.5	4,288.9



Loans and other receivables to other banks and debt securities

At 31 December 2021, all debt securities in the trading financial assets portfolio and investment securities portfolio were in low-risk classes with ratings from 1 to 11 (from 1 to 8 as at 2020 yearend). Both as at 2021 and 2020, all debt securities in the investment securities portfolio were in Stage 1.

At 31 December 2021 and 31 December 2020, loans and other receivables to other banks were more than 99% in low-risk classes (rating 1-10), with the remainder in medium and higher risk classes with ratings between 11 and 14 (between 11 and 16 as at 2020 yearend). Exposures of PLN 704.9 million were entirely in Stage 1 (PLN 705.1 million at 31 December 2020).

The change in the level of the allowance for expected credit losses in 2021 and 2020 was due to changes in the credit parameters of these portfolios.

III. Market risk

1.1. Introduction

The core objectives of credit risk management at ING Bank Śląski S.A. include: ensuring that awareness and understanding exists of the Bank's market risk exposure and that the exposure is adequately managed and falls within the approved limits when applicable. Market risk is defined as a potential loss that may be suffered by the Bank in connection with unfavourable changes to market prices (such as profitability curves, FX rate, prices in capital markets), market parameters (volatility of market prices, correlation between price changes) and client behaviour (e.g. loan prepayments).

1.2. Market risk management process

The market risk management process at the Bank covers risk identification, measurement, monitoring and reporting. The Market Risk Management Department (DZRR) provides managers of the Financial Markets Area in the Wholesale Banking Division and the Center of Expertise Treasury, selected members of the Management Board and ALCO with regular risk reports. Additionally, ALCO, the Bank's Management Board and Supervisory Board are provided with periodic reports with the major measures of market risk. The approval of individual market risk limits is carried out at the level of the ALCO committee, the Bank's Management Board or the Supervisory Board, in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy. Employees of the Market Risk Management Department are qualified specialists and the independence of the department is assured by its separation from the risk generating units.

Market risk management in the Bank also includes the Product Control function which assures correct pricing of products of the Financial Markets in the Wholesale Banking Division and the Center of Expertise Treasury by monitoring the adequacy of pricing models and quality control of market data used to the evaluation and calculation of financial results. Decisions related to the pricing process such as: sources of market data used for valuation, calculation of adjustments concerning market pricing models (bid-offer spread and BVA), are taken by the Parametrisation Committee.

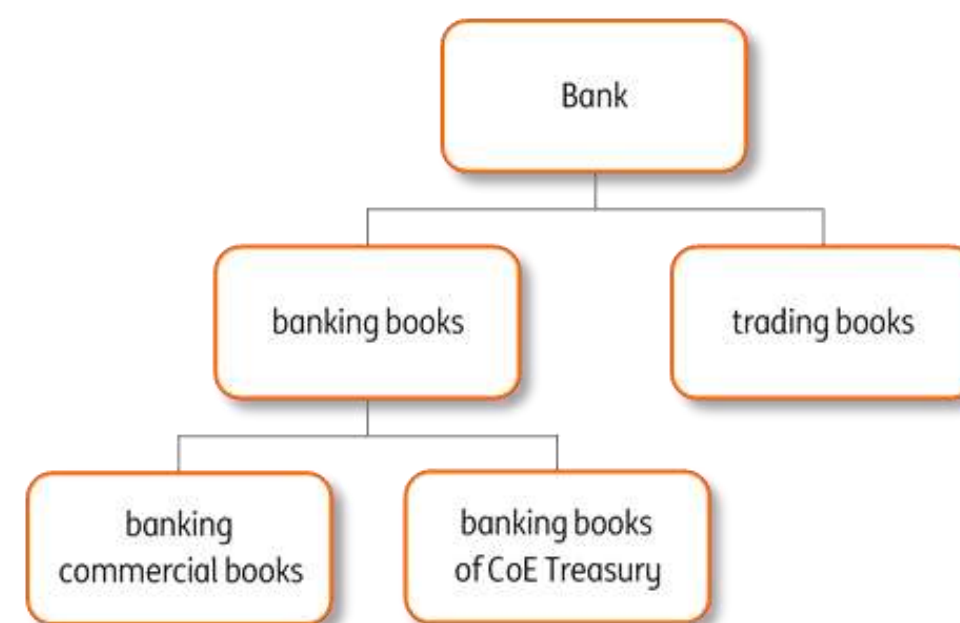
In the period under report, the market risk profile and the risk management methods were not materially changed.

1.3. Structure of the Bank's books and methods of risk management

The Bank maintains the structure of its books relying on intentions which is translated into multiple processes, including market risk management. The book structure reflects the types of market risk that are anticipated and accepted in the Bank's areas and of the fact that market risk should be internally transferred/mitigated. The books are grouped by an intention to maintain positions split into:

- “trading” (positions taken in order to generate benefits in a short period of time due to market price fluctuations), and
- “banking” (all other positions).

The overall structure of the Bank's books is as follows:





The Banking Books are split into Banking Commercial Books and Banking Books of the Centre of Expertise Treasury (CoE Treasury). The Banking Commercial Books include books of the retail and corporate divisions containing deposits and commercial loans. The risks relating to those positions are transferred to:

- banking books of the Centre of Expertise Treasury (CoE Treasury) (for interest rate risk, base and liquidity risk), and
- commercial books of the Financial Markets Area in Wholesale Banking Division (for FX risk) via internal transactions.

The process ensures that the banking commercial books do not retain any material economic market risk. However, as described in more detail further below, the short-term financial result in those books is sensitive to changes of market rates. The commercial activity of the subsidiary companies are included in the Bank's commercial books.

The Banking Books of the Centre of Expertise Treasury are books used to manage:

- the Bank's liquidity risk as a whole, and
- interest rate risk in the banking book.

Maintenance of open positions is permissible within the approved market risk limits:

- for the banking book - NIIaR (Net Interest Income at Risk), EVE (Economic Value of Equity), NPVaR (Net Present Value at Risk),
- for the trading book – VaR (Value at Risk), Slope risk (negative impact on the result caused by an uneven shift of the yield curve), CS01 (change in the market value of a security due to an increase in the credit spread), BPV (Basis Point Value),
- CS RRaR (Credit Spread Revaluation Reserve at Risk) – the measure shows the potential impact of changing credit spreads on the level of revaluation reserve,
- IR RRaR (Interest Rate Revaluation Reserve at Risk) – the measure shows the potential impact of changing interest rates on the level of revaluation reserve.

Hedge accounting is a tool supporting the management of interest rate risk in the banking book. The developed assumptions to the hedging strategy are applied consistently with the approach to market risk management within the approved market risk limits as described above. Detailed information on the assumptions underlying each strategy in hedge accounting are described in this chapter, in item [1.10. Hedge Accounting](#).

Trading Books are the books of the Financial Markets Area in Wholesale Banking Division: FX and interest rate books. The books embrace positions maintained for a short time in order:

- to be resold, or
- to obtain financial benefits on the current price fluctuations or expected within a short time,
- or positions opened for arbitration purposes.

1.4. Measurement of interest rate risk in the banking book

In its measurements of interest rate risk in its banking book, the Bank applies measures required by the European Banking Authority (EBA/GL/2018/02). The core measures are as follows:

- Net Interest Income at Risk – a measure of sensitivity of the reported results of positions recognised on an accrual basis on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- Net Present Value at Risk – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- net present value of discounted future flows at risk (Economic Value of Equity – EVE) – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes.

Additionally, the Bank measures in its banking books:

- option risk – potential losses on the positions resulting from premature deposit withdrawal and/or loan prepayment,
- residual risk – a potential loss on those positions resulting from the application of non-standard pricing mechanisms that are transferred to the Group Treasury managing interest rate risk.

The above risks have an immaterial status (potential losses account for a very negligible proportion in historic and projected results).

Due to the fact that the positions of the Group Treasury are usually subject to valuation at amortised cost, the Bank monitors BPV which limits economic risk of interest rate positions. Additionally, fluctuations of the revaluation reserve are restricted with CS01, IR RRaR and CS RRa limits.



1.5. Measurement of market risk in the trading book

The VaR measured by the Bank is compliant with the best market practices. In the calculation of VaR, the Bank applies the following assumptions:

- one-day positions, 99% confidentiality level,
- 260-day observation period.

In order to reinforce risk control, in the area of FX risk books the Bank has additionally implemented the measurement and monitoring of the risk in the context of the approved limits on intra-day basis.

The Bank calculates also Stressed VaR. Stressed VaR is a measure replicating the calculation of historic simulations with an assumption that the current portfolio is used for the measurement and historic market data from a continuous 12-month period characterised with major fluctuations of market parameters that are material for the portfolio.

Every six months, a general stress-test is performed covering inter alia market risk, liquidity risk and credit risk on the basis of a regulatory scenario and scenarios developed by the Bank's economists and approved by ALCO. Additionally, on a quarterly basis a stress test is held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

1.6. Sensitivity to the currency risk in the trading book

The tables below present VaR* (PLN thousand) for 2021 and 2020:

FX area	Limit	at the end of year	Medium	Min.	Max.
2021	1,839.7	359.2	225.3	6.8	969.0
2020	1,845.9	512.6	194.7	9.7	748.0

*) All VaR limits and their utilisation at ING Bank Śląski S.A. are expressed in EUR. Limit levels and their utilisation were translated into PLN at NBP's daily fixing exchange rates specially for the presentation in financial statements; the "limit" column the amounts calculated at the fixing FX rates are on the last day of the year.

1.7. Sensitivity of the net interest income to interest rate risk

In order to present the sensitivity of the net interest income to changes in interest rates, the Bank analyzed the impact of the shock changes in the yield curve (compared to that of 31 December 2021) on the net interest income for 2022 compared to the baseline scenario. Taking into account the spectrum of expected changes in interest rates, the analysis was prepared on the basis of six scenarios, three for a parallel shift of the curve up and down, by 100 bp, 200 bp and 300 bp respectively, which would take place on 1 January 2022.

Impact on the net interest income (PLN million)	100bp	200bp	300bp
parallel upward shift of the yield curve *	386	772	1,158
parallel downward shift of the yield curve*	-580	-1,771	-1,882

*) compared to the data for 31 December 2021

In the above calculations, the assumption was made, inter alia, constant level of balance sheet balances as at 31 December 2021, taking into account a number of assumptions regarding changes in the level of financing costs, which may differ from those resulting from actual business decisions.



1.8. Sensitivity of economic results and regulatory capital to interest rate risk

The sensitivity to interest rate risk is presented below:

- sensitivity of the consolidated results to interest rate changes resulting from the banking book - the observed changes in the EVE measurement result mainly from two factors:
 - changes (growth) in product volumes and
 - changes to model parameters used to determine the economic value of non-maturity product portfolios.

In connection with subsequent increases in interest rates by the Monetary Policy Council, the minimum level of zero on the client's price in scenarios of falling interest rates (primarily the 0% activation at the client's price for retail clients' savings accounts) ceases to be relevant for the measurement value.

- sensitivity of equity to changes in interest rates resulting from debt instruments measured at fair value through other comprehensive income in the Center of Expertise Treasury portfolio:
 - There were slight changes in the sensitivity of the portfolio of debt instruments measured at fair value through other comprehensive income compared to the previous year. The portfolio BPV measure (BPV short position) fell from PLN 0.98 million to PLN 0.75 million.

	changes to economic results with an amended curve		approximate change in the regulatory capital base with a curve shift			
	-2%	2%	-2%	-1%	+1%	+2%
2021	259.1	-945.1	148.9	74.5	-74.5	-148.9
2020	558.2	-721.1	196.7	98.4	-98.4	-196.7

1.9. The impact of the benchmark rate reform

Interbank offered rates (IBORs), such as WIBOR and EURIBOR, are widely used as benchmarks to set interest rates across a broad range of financial products and contracts. In line with recommendations from the Financial Stability Board, regulators have undertaken a fundamental review and reform of the major interest rates benchmarks. This review and the reform have been already implemented across several major currencies.

The reform of WIBOR was completed in 2020 and consisted of a change to the underlying calculation methodology. This allows market participants to continue to use WIBOR for both existing and new contracts. ING Bank expects that WIBOR will continue to exist as a benchmark rate for the foreseeable future.

The ICE Benchmark Administration, the administrator of LIBOR, stopped publishing most LIBOR rates that were based on submission from panel banks, after 31 December 2021. As a result, contracts can no longer reference to these rates. Only certain USD LIBOR rates will continue to be published until 30 June 2023, to support legacy products.

During 2021, the Bank completed the process of amending the contractual terms of instruments for all contracts that reference non-USD LIBOR rates.

At the beginning of 2021, the Group had material exposures to IBORs that either were discontinued at the end of 2021 or will cease in the future. These changes in the reference rate affect the Group, its customers and the financial industry as a whole and can result in risks. These risks include legal and operational risks, and conduct risk. Legal risks are related to any required changes to documentation for new and existing transactions. Operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes to the new benchmark rates.

On 22 October 2021, the EU Commission published a regulation on the designation of a compound SARON rate published in term structure as a statutory replacement for certain settings of CHF LIBOR. The regulation came into force on 1 January 2022.

To mitigate these risks, the Group established an IBOR programme. This programme has an extensive governance in place, with progress being tracked steering committees. The programme assesses and coordinates the actions necessary to manage the required changes to internal processes and systems, including pricing, risk management, legal documentation and the impact on customers. The Group continues to monitor market developments, and the outcome of several remaining uncertainties such as the availability of term rates, to anticipate the impact on the program, Group customers and any related risks.

The Group applied the IFRS 9 IBOR Phase 2 amendments to account for the changes in the contractual terms of the financial instruments for the purpose of implementing the IBOR Reform. The IFRS 9 Phase 2 amendments allow the Group to not recognise modification gains and losses on debt instruments whose contractual terms were amended



if those modifications are necessary to implement the IBOR Reform and that the new basis for calculating cash flows is ‘economically equivalent’ to the previous basis. Instead, the changes to debt instruments resulting from IBOR Reform are treated as a reset to the instrument’s variable interest rate and changes the instrument’s effective interest rate. The Group applied the Phase 2 amendments to all changes in the contractual terms of the financial instruments for the purpose of implementing the IBOR Reform. As a result, the Group did not recognize any modification gains and losses for the changes.

Structure of financial assets and liabilities according to reference rates

As at 31 December 2021 the following financial instruments use a reference to a significant benchmark rate that is planned to be discontinued. The tables below exclude exposures whose terms have been amended during 2021, but to which the transition to alternative benchmark rate will occur as of date of the next interest rate reset during 2022 and exposures that mature at the beginning of 2022 for which the change was not required as there will not be subject to interest rate reset before maturity.

	nominal value			
	2021		2020	
	with maturity date after 31 Dec 2021	with maturity date after 30 Jun 2023	with maturity date after 31 Dec 2021	with maturity date after 30 Jun 2023
Financial assets (excluding derivative financial instruments)				
GBP LIBOR	-	-	5.1	-
USD LIBOR	428.6	158.9	291.0	192.8
CHF LIBOR	-	-	920.2	-
Financial liabilities (excluding derivative financial instruments)				
GBP LIBOR	-	-	0.2	-
USD LIBOR	2.5	-	0.2	-
Derivative financial instruments				
USD LIBOR	2,561.6	2,202.2	4,818.9	4,097.3
CHF LIBOR	-	-	405.1	-

1.10. Hedge accounting

Fair Value Hedge accounting

In fair value hedge accounting, the risk is equivalent to change in the fair value of a financial asset as a result of changes to interest rates. The hedge covers the fair value of debt instruments with a fixed interest rate that is a position (a part of position) in a security that is classified to a portfolio of assets kept to collect contractual cash flows or for sale (hereinafter: HTC&S) which at the time a hedge relationship is established holds a specific fair value recognised in other comprehensive income and a position (a part of position) in a security classified to a portfolio of financial assets kept to collect contractual cash flows (hereinafter: HTC).

For the needs of the strategy, the recognition of a part change to the fair value due to the hedged risk is made on the basis of valuation models relying on assumptions that are similar to those applicable to valuation models of interest rate derivative instruments. The valuation curves applied in the model are designed on the basis of market rates corresponding to repricing tenors of variable interest rates of hedging instruments.

Interest Rate Swap, swapping fixed interest rate into variable interest rate is the hedging instrument. The above shows that changes to the fair value of the hedging instrument manifest a trend that is opposite to changes of the fair value of the hedged position. In this connection, as a result of the established hedge relationship, the profit and loss account contains a compensating effect of changes to the fair value of the hedging instrument and the hedged position due to the hedged risk. In order to confirm the effectiveness of the strategy, the Group carries out:

- prospective effectiveness test:
 - qualitative based on the maturity of the hedged item and the hedging instrument, and
 - quantitative based on the BPV (basis point value) ratio of the hedged item and a hedging instrument,
- retrospective effectiveness test as the quotient of changes in the hedging instrument measurement and changes in the measurement of the hedged item due to the risk being hedged.



The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves (that is: interest rate derivative instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- changes to credit risk constituting a valuation component to fair value of the hedged position from the HTC&S portfolio,
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type, as well as transactions forwarded for settlement on a daily basis via the Central Counterparty.

Since hedging covers only one type of risk (interest rate risk), changes to the fair value of the hedged position classified as HTC&S resulting from other unhedged risks are recognised as other comprehensive income.

From the viewpoint of economic relationships, the Group’s existing hedging strategies contain two types of hedge relationships:

- hedge of the fair value of securities in PLN with a fixed interest coupon classified as HTC&S with IRS transactions “pay fixed, collect variable”, denominated in PLN,
- hedge of the fair value of securities in EUR with a fixed interest coupon classified as HTC with IRS transactions “pay fixed, collect variable”, denominated in EUR.

The table below presents the fair values and nominal values of hedging and hedged instruments in fair value hedge accounting.



2021

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk ka	cumulative part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity			
		Assets	Liabilities				under 1 year	1 to 3 years	3 to 8 years	Total
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	0.1	16.8	359.6	-	-	299.0	0.0	4,452.0	4,751.0
settled via CCP		0.1	-	360.3	-	-	0.0	-	4,452.0	4,452.0
Interest rate swaps (IRS PLN) fixed – float		0.1	3.4	360.3	-	-	0.0	-	4,452.0	4,452.0
Interest rate swaps (IRS EUR) fixed – float		-	13.4	-0.7	-	-	299.0	-	0.0	299.0
Hedged instruments, of which:		4,602.4	0.0	-423.1	-386.8	-35.6	0.0	0.0	4,452.0	4,751.0
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	4,290.3	-	-423.1	-387.5	-35.6	0.0	0.0	4,452.0	4,452.0
State Treasury bonds	Note 19	3,514.2	-	-377.3	-350.5	-26.8	-	-	3,640.0	3,640.0
European Investment Bank bonds	Note 19	776.1	-	-45.8	-37.0	-8.8	-	-	812.0	812.0
Investment securities measure at amortised cost, including:	Investment securities	312.1	-	-	0.7	-	-	0.0	-	299.0
State Treasury bonds in EUR	Note 19	312.1	-	-	0.7	-	299.0	,	-	299.0
Instruments for which the hedging relationship was cancelled, of which:										
Investment securities measure at amortised cost, including:	Investment securities	576.9	-	-	1.3	-	551.9	-	-	551.9
State Treasury bonds in EUR	Note 19	576.9	-	-	1.3	-	551.9	-	-	551.9

*) presented in the comprehensive income statement in the position: *debt securities measured at fair value via other comprehensive income – gains/losses on revaluation carried through equity*

In its recognition of interest rate derivative instruments IRS/FRA, the Group applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Group cooperates. See note 17. *Valuation of derivatives* for further information.



2020

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk ka	cumulative part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity			
		Assets	Liabilities				under 1 year	1 to 3 years	3 to 8 years	Total
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	0.0	44.6	-423.2	-	-	3,230.0	1,320.0	6,272.0	10,822.0
settled via CCP		-	16.5	-407.7	-	-	3,230.0	1,020.0	6,272.0	10,522.0
Interest rate swaps (IRS PLN) fixed – float		-	16.5	-407.7	-	-	3,230.0	1,020.0	6,272.0	10,522.0
Interest rate swaps (IRS EUR) fixed – float		-	28.1	-15.5	-	-	0.0	300.0	0.0	300.0
Hedged instruments, of which:		11,744.9	0.0	444.7	441.2	18.8	3,230.0	1,320.0	6,272.0	10,822.0
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	11,416.4	-	444.7	425.9	18.8	3,230.0	1,020.0	6,272.0	10,522.0
State Treasury bonds	Note 19	10,504.0	-	354.6	335.3	19.3	3,230.0	1,020.0	5,460.0	9,710.0
European Investment Bank bonds	Note 19	912.4	-	90.1	90.6	-0.5	-	-	812.0	812.0
Investment securities measure at amortised cost, including:	Investment securities	328.5	-	-	15.3	-	-	300.0	-	300.0
State Treasury bonds in EUR	Note 19	328.5	-	-	15.3	-	-	300.0	-	300.0
Instruments for which the hedging relationship was cancelled, of which:										
Investment securities measure at amortised cost, including:		839.4	-	-	29.9	-	-	784.5	-	784.5
State Treasury bonds in EUR	Investment securities	839.4	-	-	29.9	-	-	784.5	-	784.5



Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2021

		nominal value of instruments with remaining maturity					
		under 1 year		1 to 3 years		3 to 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	-	-	-	-	4,452.0	1.93%
	variable %		-		-		0.42%
Interest rate swaps (IRS EUR) fixed – float	fixed %	299.0	4.03%	-	-	-	-
	variable %		-0.55%		-		-

2020

		nominal value of instruments with remaining maturity					
		under 1 year		1 to 3 years		3 to 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	3,230.0	1.76%	1,020.0	1.73%	6,272.0	1.81%
	variable %		0.26%		0.25%		0.27%
Interest rate swaps (IRS EUR) fixed – float	fixed %	-	-	300.0	4.03%	-	-
	variable %		-		-0.51%		-

Net interest on derivative hedging instruments is disclosed as interest on securities measured at amortised cost and interest on securities measured through other comprehensive income which presents net interest of positions hedged within the described strategy.

Measurements of hedging and hedged transactions are presented in the Group's consolidated income statement as *Net (loss)/income on hedge accounting* in note 6.

The split of the result of measurements of hedging and hedged transaction into individual hedging strategies is presented in the table below.

Type of economic relation	2021			2020		
	changes to fair value used to review the effectiveness of the strategy		ineffective part of the hedging relationship recognised in P&L	changes to fair value used to review the effectiveness of the strategy		ineffective part of the hedging relationship recognised in P&L
	hedged position	hedging instrument		hedged position	hedging instrument	
Hedging of debt securities in PLN	-1,075.8	1,019.7	-56.1	331.4	-311.8	19.6
Hedging of debt securities in EUR	-14.5	14.6	0.1	-14.7	15.0	0.3
Total	-1,090.3	1,034.3	-56.0	316.7	-296.8	19.9

Cash flow hedge accounting

The Group applies hedge accounting principles for cash flows to a specified portfolio of assets / liabilities / highly probable planned financial transactions of the Group (e.g. extrapolations of financial flows resulting from renewable deposits / overdraft facilities). The applied hedging strategies are aimed at hedging the Group's exposures against the risk of changes to future cash flows resulting from interest rate risk.

The hedge applies to a specified portfolio of financial assets and/or liabilities or a portfolio of planned transactions that cover variable interest rate financial instruments (financial products based on WIBOR/ EURIBOR) and thus that are exposed to the risk of changes to future cash flows due to changes to market rates – WIBOR/EURIBOR.

For its strategy relating to calculations of changes to the fair value of future cash flows in the hedged portfolio, the Group applies the method of a “hypothetical derivative” (being a method which provides for a possibility to reflect the hedged position and nature of the hedged risk in the form of a derivative instrument). The valuation principles are similar to the valuation principles of interest rate derivative instruments. Strategy effectiveness research also includes:

- prospective high-probability test of future cash flows,
- retrospective high-probability test of future cash flows confirming, on the basis of actual values, that the adopted model works correctly,
- retrospective test of homogeneity of the portfolio of the hedged item based on statistical analysis (regression method).



The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves of the hedging instrument and the hypothetical derivative into PLN denominated positions (that is: interest rate derivative hedging instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type.

From the viewpoint of economic relationships, the Group's existing hedging strategies contain the following types of hedge relationships:

- the hedging instrument for active positions in the interest rate risk hedging strategy is the position on the Interest Rate Swap of the "pay floating, receive the fixed" type, while the
- hedging instrument hedging the liability is the position on the Interest Rate Swap of the "pay fixed, receive variable".

Due to the fact that the hedged position covered with specific strategies keeps affecting the profit and loss account) (by measurement at amortised cost), net interest of the derivative instruments hedging the portfolio:

- of financial assets is presented as interest on loans and other receivables granted to customers, measured at amortised cost,
- of financial liabilities is presented as interest on liabilities to customers.

The table presents the fair values and nominal values of hedged instruments in cash flow hedge accounting. Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while in comparative data for 2020 i two-currency transactions showed both purchased and sold amounts

2021

	fair value		nominal value of instruments with remaining maturity				
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	above 8 years	Total
Cash flow hedges, of which:	250.3	218.6	32,625.3	63,656.4	119,984.2	25,811.1	242,077.0
settled via CCP	28.9	31.6	31,310.3	54,132.3	119,200.2	25,811.1	230,453.9
Interest rate swaps (IRS PLN) fixed – float	142.1	114.3	28,932.0	55,395.0	98,806.3	22,366.1	205,499.4
Interest rate swaps (IRS EUR) fixed – float	108.2	104.3	3,693.3	8,261.4	21,177.9	3,445.0	36,577.6

2020

	fair value		nominal value of instruments with remaining maturity				
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	above 8 years	Total
Cash flow hedges, of which:	1,194.8	513.9	30,019.9	40,935.3	101,917.9	26,830.6	199,703.7
settled via CCP	258.7	125.4	26,393.8	37,141.4	93,477.8	26,830.6	183,843.6
Interest rate swaps (IRS PLN) fixed – float	1,031.3	302.9	29,383.1	37,734.5	82,676.6	19,866.9	169,661.1
Interest rate swaps (IRS EUR) fixed – float	163.5	155.1	636.8	2,774.4	19,126.0	6,963.7	29,500.9
CIRS CHF/PLN (float-float)	0.0	55.9	-	-	-	-	-
float CHF	-	-	-	234.5	64.0	-	298.5
float PLN	-	-	-	191.9	51.3	-	243.2



As at 31 December 2021, other comprehensive income discloses the amount of PLN -2,994.5 million (including tax) concerning the effective part of the hedging relationship in cash flow hedge accounting (PLN 3,480.0 million as at 31 December 2020). The ineffective part of the hedging relationship resulting from mismatch in compensating changes to the fair value of the hedging instrument and the hedged position disclosed in the profit and loss account in 2021 was PLN 3.4 million versus PLN -8.4 million in 2020.

Impact of the application of cash flow hedge accounting on profit and loss account and other comprehensive income

2021

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income and recognised in the profit and loss account	
	Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedging relationships	of the result of closed hedging strategy
Cash flow hedges, of which:	250.3	218.6	-7,987.9	7,991.3	3.4	1,094.1	1.8
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	138.8	59.3	-11,028.8	11,034.4	5.6	1,406.1	-,
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	36.7	9.5	-144.0	144.9	0.9	51.7	-,
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	3.3	55.0	3,154.3	-3157.1	-2.8	-351.0	-,
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	71.5	94.8	30.6	-30.9	-0.3	-12.7	0.8
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-	-	-	-	-	-	0.2
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR	-	-	-	-	-	-	0.8

*) disclosed in the statement of financial position as *Derivative hedge instruments*

**) disclosed in the statement of financial position as *Accumulated other comprehensive income* and in note 34.2. (the amount in the table does not include tax)

***) disclosed in the profit and loss account in the dedicated line item *Net (loss)/income on hedge accounting* and in note 6.



2020

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income and recognised in the profit and loss account	
	Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedging relationships	of the result of closed hedging strategy
Cash flow hedges, of which:	1,194.8	513.9	2,394.8	-2,403.3	-8.4	759.9	1.6
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	1,025.3	49.3	2,930.4	-2,940.5	-10.1	933.8	-
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	54.3	12.2	64.4	-64.0	0.4	46.5	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN including IRS transactions resulting from the decomposition of CIRS CHF / PLN and CIRS EUR / PLN transactions	6.0	277.5	-586.1	587.4	1.3	-208.2	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	109.2	142.9	-14.5	14.4	-	-12.8	0.9
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-	32.0	0.6	-0.6	-	0.6	-
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR	-	-	-	-	-	-	0.7

Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2021

		nominal value of instruments with remaining maturity							
		up to 1 year		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %	7,668.0	2.19%	20,901.0	2.48%	49,769.0	1.99%	13,984.7	1.46%
	variable %		1.07%		0.95%		0.95%		1.03%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	874.0	2.35%	3,665.0	1.55%	13,509.3	1.26%	6,039.4	2.12%
	variable %		1.00%		1.09%		0.87%		0.95%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	-1,352.2	0.18%	695.4	0.48%	2,361.8	0.07%	1,780.0	-0.10%
	variable %		-0.58%		-0.57%		-0.58%		-0.57%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	41.4	0.17%	-133.4	1.12%	579.5	0.36%	239.2	0.07%
	variable %		-0.53%		-0.53%		-0.53%		-0.54%



2020

		nominal value of instruments with remaining maturity							
		up to 1 year		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %		2.65%		2.60%		2.25%		1.59%
	variable %	12,981.0	0.26%	14,757.5	0.26%	39,262.3	0.26%	17,080.0	0.26%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %		2.09%		2.14%		1.23%		1.22%
	variable %	3,862.1	0.26%	3,848.0	0.26%	23,578.3	0.26%	2,626.9	0.26%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %		0.27%		0.54%		0.21%		-0.10%
	variable %	447.6	-0.52%	688.5	-0.54%	500.7	-0.53%	1,222.9	-0.53%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %		0.31%		0.17%		0.76%		0.15%
	variable %	240.0	-0.44%	41.5	-0.47%	-60.0	-0.42%	461.5	-0.46%
CIRS CHF/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in CHF and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in CHF	-	-	234.5	-0.71%	64.0	-0.66%	-	-
	variable % in PLN	-	-	191.9	0.26%	51.3	0.27%	-	-

The periods in which the Group expects the hedged cash flows in cash flow hedge accounting and thus which will affect the financial profit are presented below. The negative value results from the presence of negative interest rates in EUR and CHF currencies.

2021

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)		
	inflows (assets)	outflows (liabilities)	net cash flows	inflows (assets)	outflows (liabilities)	net cash flows
up to 1 year	2,987.3	-766.5	2,220.8	-3.9	0.7	-3.2
1-3 years	5,867.2	-1,818.2	4,049.0	-0.8	0.0	-0.8
3-8 years	6,460.2	-1,609.9	4,850.3	11.0	-2.3	8.7
over 8 years	422.4	-185.3	237.1	2.2	-0.5	1.7

2020

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)			cash flows in CHF (CHF million)	
	inflows (assets)	outflows (liabilities)	net cash flows	inflows (assets)	outflows (liabilities)	net cash flows	inflows (assets)	net cash flows
up to 1 year	160.4	-68.9	91.5	-3.3	0.6	-2.7	-0.5	-0.5
1-3 years	472.8	-212.2	260.6	-4.9	0.9	-4.0	-0.5	-0.5
3-8 years	2,114.5	-549.3	1,565.2	-4.7	1.1	-3.6	0.0	0.0
over 8 years	241.7	-52.6	189.1	0.2	0.0	0.2	0.0	0.0



Impact of the reform of key interest rate benchmarks on the Group's hedging strategies

Group applies fair value and cash flow hedge accounting in accordance with IAS 39, and interest rate and foreign currency risks are designated as hedged risks in various micro and macro models. The hedged exposures are mainly loan portfolios, purchased debt securities and savings/deposits.

Group applied the amendments to IAS 39 issued in September 2019 to hedging relationships that are based on LIBOR CHF, as this hedging relationship is directly affected by the IBOR reform. Nevertheless Bank decided to revoke this hedge accounting relationships in 3rd quarter of 2021. By applying the IAS 39 amendments Group assumes that the LIBOR CHF based cash flows from the hedged item included in this revoked hedging relationship will remain not be unaffected by the IBOR reform.

In terms of the hedge accounting relationships that based on WIBOR and EURIBOR aforementioned amendments to IAS 39 are not applied because these rates have already been reformed and their publication will be continued. Considering that the currently Group is applying the hedge accounting rules only regarding WIBOR and EURIBOR rates, therefore impact of the IBOR reform on hedge accounting relationships introduced in Group is very limited.

1.11. The approach to risk management in subsidiaries

The policies of ING Bank Śląski S.A. with respect to market risk management in its subsidiary companies provides for maintaining market risk at a low level. The core market risk categories that may occur in connection with the business of the subsidiary companies include FX risk and interest rate risk. Ongoing control and monitoring of market risk level is performed with periodic measurements of market risk categories related to the business of the subsidiary companies.

The company operating on an autonomous basis is ING Bank Hipoteczny S.A. This unit operates within the risk appetite accepted by ING Bank Śląski S.A. and managed at the level of ING Bank Hipoteczny S.A. The market risk management process at ING Bank Hipoteczny S.A. was built based on the best practices of ING Bank Śląski SA. Some technical activities are outsourced to ING Bank Śląski SA, in accordance with the signed SLA agreement between both banks. The ALCO Committee of ING Bank Śląski S.A. plays a supervisory role in relation to the ALCO Committee of ING Bank Hipoteczny S.A.

The Bank's Management Board, ALCO, the Market Risk Management Department, the Centre of Expertise Finance Support and Innovations and other competent units of the Bank are involved in market risk management. Determination of limits mitigating market risk for each subsidiary company at a consolidated level is a major elements of the market risk management process in the Group of ING Bank Śląski S.A.. The measurement techniques of market risk in the Group are the same as for the Bank. In accordance with the Bank's policies, risk volumes and compliance with the approved risk limits are monitored on a monthly basis.

IV. Liquidity and funding risk

1.1. Introduction

ING Bank Śląski S.A. recognises the process of stable management of liquidity and funding risk as a major process at the Bank.

Liquidity and funding risk is understood by the Bank as the risk of the lack of ability to perform financial liabilities under on- and off-balance sheet items at reasonable prices. The Bank maintains liquidity so that the Bank's financial liabilities can always be repaid with the available funds, inflows from maturing transactions, available funding sources at market prices and/or liquidation of negotiable assets.

1.2. Liquidity and funding risk management process

In order to optimise the liquidity and funding risk management process, the Bank has developed the Management policy of liquidity and funding risk at ING Bank Śląski S.A. which sets forth the principles ensuring adequate funding sources and mitigation of risks and costs related to funding. The Policy describes a general approach to the liquidity and funding risk management process in the Bank. The core objective of the liquidity and funding risk management process is to maintain an adequate liquidity level to ensure secure and stable operation of the Bank in normal market conditions and in crisis.

The Policy was developed on the basis of the market management strategy in business, approved by the Supervisory Board (including the liquidity and funding risk management strategy). In particular, it reflects the risk appetite specified in the strategy and approved by the Supervisory Board.

Additionally, the Bank prepares a report on the ILAAP process. In a comprehensive and consistent manner, it presents the core indicators and numbers relating to the Bank's liquidity risk profile. It provides for the strategy, funding plan and risk tolerance by the Bank. The results of the report are approved by the Management Board which informs the Supervisory Board of the results.

The general approach to liquidity and funding risk management is composed of five recurring activities: 1) risk identification, 2) risk assessment, 3) risk control, 4) monitoring, and 5) reporting.

- Risk identification and assessment. Risk identification is performed on an annual basis by organising risk identification workshops. Each identified risk is assessed in order to determine its materiality for the Bank. Risk identification is also performed when new products are launched. Risk valuation and its materiality are assessed in terms of likelihood of risk occurrence and the financial effects should such risk materialise.
- Control. Risks are controlled with actions that mitigate the likelihood or risk occurrence or with actions that mitigate the effects should such risk materialise. Important elements of risk management include ongoing verification if the implemented controls are performed. Definition of acceptable risk levels is an element of risk



control. Regular inspection should evidence that risk control actions are effective. Adequate reporting is a major element of the liquidity and funding risk management process which provides the managers with information required for risk management.

- **Monitoring and reporting.** Risk monitoring serves three important objectives: ongoing verification if the implemented risk control is performed; if risk control actions are effective. Such actions support their confidence which is a major element in banking. Well organised and designed regular controls or monitoring that are referred to as risk management are indispensable for correct risk management. Adequate reporting provides information to managers as is indispensable for risk management.

In accordance with Recommendation S, the Bank makes a detailed analysis of long-term liquidity with focus on mortgage loans. The above liquidity analysis shows risk levels related to long-term funding of mortgage loans.

The Bank pursues an active policy of liquidity management with reference to core currencies. For those currencies, liquidity risk measurement and limitation is made per currency and the management of operational liquidity is performed separately for each currency and it is incorporated in the risk transfer system.

Intraday liquidity is actively managed by the Centre of Expertise Treasury. The process manages the position and risk of short-term liquidity (one day and intraday). The objective is to comply with payment and settlement duties in a timely manner in regular operations and in extraordinary/stress situations.

The Bank operates a risk transfer system within which market risks, including liquidity risk, are transferred to the Centre of Expertise Treasury. Applying adequate tools, it manages the risks in a centralised manner within the limit system applied by the Bank.

1.3. Risk types

The Bank splits liquidity risk into two groups:

- liquidity risk resulting from external factors, and
- risk of internal factors relating to the specific bank.

The Bank's goal is a conservative approach to liquidity risk management that will allow safely survive events specific for ING Bank Śląski S.A. and for the entire banking sector.

In terms of time horizon, the Bank splits liquidity risk into:

- operational – focused on current funding of the Bank's position and on managing intraday liquidity,
- strategic – focused on ensuring that the Bank's structural liquidity positions are at an acceptable level.

Considering the tenor and clients' behaviour (the two aspects affecting the Bank's liquidity), the Bank identifies three types of liquidity and funding risk:

- structural – understood as a potentially adverse impact on the Bank's revenues due to a mismatch between the anticipated maturities of the Bank's assets and liabilities as well as the risk of no re-financing possibilities in the future,
- related to clients' behaviour – understood as a potentially adverse impact on the Bank's revenues due to the embedded liquidity options in the products offered by the Bank,
- related to stress conditions – understood as a risk of lack of possibility by the Bank to comply with its financial obligations when due to insufficient available funds or when the generation of such funds is impossible at any price which results in immediate insolvency of the Bank.

1.4. Structure and organisation of the risk management process

The structure of risk and control at the Bank is based on a model of three lines of defence.

The Bank's Management Board and the Asset and Liability Committee (ALCO) play a specific role in liquidity and funding risk management.

The Supervisory Board is responsible for:

- approving the liquidity risk tolerance, the overall accepted level of liquidity and funding risk (in HL RAS) presented to the Supervisory Board by the Management Board.

The Bank's Management Board is responsible for:

- designing a strategy related to liquidity and funding risk, the target liquidity position, the relevant funding methods and liquidity risk profile,
- determination of an acceptable risk level (risk appetite) and submission thereof to the Supervisory Board for approval,
- acceptance of changes to the limits of liquidity and funding risk (in MB RAS),
- acceptance of a liquidity and funding risk management policy and major modifications thereto, in particular limits adequate to the general level of acceptable risk approved by the Supervisory Board,
- ensuring the allocation of adequate human resources and ITC resources in the Bank to implement the policy.
- approving the levels of liquidity bonuses based on the level advised by the Centre of Expertise Treasury resulting from the liquidity premium review and / or adjusts it when deemed necessary due to strategic changes in the balance sheet or other factors.

The Asset and Liability Committee (ALCO) is responsible for:

- implementation of the Bank's strategy with respect to liquidity and funding risk,



- management of a liquidity buffer within the relevant policies and limits approved by the Bank's Management Board, the related operational actions are delegated to the Centre of Expertise Treasury,
- supervision and monitoring of liquidity risk levels as well as the funding structure in the Bank's balance sheet,
- monthly analysis of short-, medium- and long-term liquidity profile (strategic liquidity positions) presented in the reports defined by the regulator and in internal reports,
- acceptance of changes in liquidity and funding risk limits (in LCS and ALCO RAS),
- implementation of limits within the adopted risk appetite (approved in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy), approving assumptions for reports and models,
- analysis of all proposed modifications to the liquidity and funding policies and submission of positively reviewed modifications to the Bank's Management Board.

1.5. Framework risk management principles

The framework liquidity and funding risk management principles contain all material methods with respect to intraday, shorty-term, medium-term and long-term liquidity and funding risk management. This is made up of the following key elements:

- limit system and liquidity risk measurement,
- monitoring of funding sources and concentration risk,
- liquidity reserve management,
- management of intraday liquidity,
- management of hedging items,
- stress tests and contingency plans.

Limit system and liquidity risk measurement

Formal limits are set by the regulator of the banking sector and/or the Bank for various liquidity risk measures. The acceptable level of funding and liquidity risk is defined by a several-element system: the general level of the Bank's acceptable risk, which is approved by the Bank's Supervisory Board, and the system of limits, which is approved in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite. in the area of market risk, liquidity and capital adequacy. The Supervisory Board is provided with information on compliance with the measures, minimum on a quarterly basis.

The limit level is based on the Bank's strategic objectives, identified liquidity risks, results of stress tests and the principles set forth by regulatory authorities. The limits are taken into account in planning processes (implementation of the approved plans may not result in the limits being exceeded). In most instances, the limits have a pre-defined warning level, set above (or below) supervisory limits. The admissible liquidity risk level is determined and updated minimum once a year.

The limit system is more detailed than the risk level approved by the Supervisory Board. The admissible risk level is guaranteed by risk monitoring in various reports concerning liquidity and funding risk in the course of the Bank's normal/regular activity and in extraordinary/extreme situations. Inter alia, the Bank monitors funding concentration risk, the internal liquidity safety buffer and verifies the stability of external funding.

On a weekly basis, the Bank's Management Board receives a liquidity risk report with information on key liquidity measures, On a monthly basis, the Bank's Management Board and the ALCO Committee receive comprehensive information on liquidity risk.

Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)

In accordance with the obligations and principles set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council, as amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council and Commission Delegated Regulations (EU) 2015/61 and 2018/1620, the Bank calculates supervisory liquidity measures:

- short-term liquidity measures (LCR – Liquidity Covered Ratio) – this is to ensure that the Bank holds adequate liquid high quality assets to cover liquidity needs for 30 calendar days in stress conditions. In 2021 a limit of 100% applied,
- long-term liquidity measures (NSFR – Net Stable Funding Ratio) – this is to ensure a minimum level of available funding in medium- and long-term. From 28 June 2021 there was a regulatory cap of 100%.

The Bank is obliged to report the liquidity measures to the regulator on a monthly and quarterly basis.

At the end of 2021 and 2020, the consolidated supervisory liquidity measures were:

Liquidity measures		Minimum value	2021	2020
LCR	Liquidity coverage ratio	100%	164%	220%
NSFR	Net stable funding ratio	100%	157%	144%



Herebelow there is a breakdown of level 1 liquid assets used by the Group to calculate the LCR ratio (as defined in the Commission Delegated Regulation (EU) No 2015/61) as at 2021 and 2020 yearend. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

Level 1 liquid assets

	2021	2020
Cash	599.1	723.1
Cash in nostro accounts with the Central Bank net of the required reserve	16.6	13.2
Other exposures to the Central Bank (O/N deposit, cash bills)	15.0	0.0
Unencumbered Treasury bonds	29,230.4	43,801.2
Unencumbered BGK bonds	2,128.4	2,149.5
Unencumbered European Investment Bank bonds	6,034.9	7,095.8
Total	38,024.4	53,782.8

In level 1 liquid assets, securities are presented by their market value. The Group's liquidity position is reduced by encumbered securities (constituting collateral, blocked) and increased by securities received as hedged by reverse-repo transactions.

Additional liquidity monitoring measures (ALMM)

In compliance with the Commission Implementing Regulations (EU) 2016/313, the Bank reports a set of additional monitoring rations for liquidity reporting. The reports include:

- mismatch by maturity,
- financial concentration by counterparty,
- financial concentration by product type,
- prices for various financing periods,
- prolonged financing,
- concentration of ability to balance liquidity by issuer.

Internal liquidity reports

Another major element in the Bank's liquidity management risk process covers internally defined reports presenting detailed and varied approach by the Bank to measurement and management of the risk. The Bank models liquidity characteristics, both of its assets and liabilities in order to provide for clients' anticipated/actual behaviour. Modelling is mixed. This means than an analysis of clients' behaviour relies on historic data and expert judgment.

A structural liquidity report is one of such internal liquidity reports. The report presents the gap between the Bank's assets and liabilities in time buckets on correctly functioning markets. The report is used to monitor and manage medium- and long-term liquidity positions. It serves as a support in the planning process of the balance sheet and funding. It also indicates all major funding needs in the future.

The report is a scenario for the current balance sheet in normal market conditions. It does not cover any additional projections of balance sheet development. However, it provides for clients' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans, cash loans, loans in the current account provide for prepayments and cash flows for savings accounts and current accounts are allocated subject to characteristics of liquidity.

Report of structural liquidity

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
2021						
Liquidity gap	33,879.6	13,575.6	26,684.3	2,233.5	-67,993.2	-8,379.8
Cumulative liquidity gap	33,879.6	47,455.2	74,139.5	76,373.0	8,379.8	0.0
2020						
Liquidity gap	39,808.7	9,763.0	26,946.9	841.8	-63,811.4	-13,548.9
Cumulative liquidity gap	39,808.7	49,571.6	76,518.5	77,360.4	13,548.9	0.0

In ING Bank Śląski S.A. Group, the Bank follows liquidity risk monitoring and limiting based on measurements of the cumulative gap. In order to properly exercise supervision over liquidity risk in the Group entities, limits are set separately for each company.



Monitoring of funding sources and concentration risk

Minimum once a year, the Bank determines the Bank's overall business strategy and the resultant medium-term (3 years) financial plan with a general risk strategy. Financial plan is an indispensable element of the strategy which provides for an effective diversification of funding sources and tenors.

ALCO actively manages the funding base. Additionally, it monitors funding sources in order to:

- verify compliance with the strategy and financial plan,
- identify potential risks related to funding.

Customers' deposits (retail and corporate) are the core funding source for ING Bank Śląski S.A. The Bank monitors the funding structure and thus verifies concentration risk by analysing its deposit base split into:

- type of financing,
- client segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

Periodical analyses also monitor the risk generated by related clients (within Groups).

The existing funding structure is well diversified. Below is the funding structure as at 2021 and 2020 yearend, split into direct and mutual funding. Direct funding covers products where transaction is "one-sided": funds are taken and then repaid. Mutual funding covers products where funding is simultaneously given and taken (in separate currencies or in separate products). Direct funding is provided mainly by retail and corporate clients while mutual funding comprised primarily funds acquired from other banks.

Direct funding

	2021		2020	
Core client segments	direct funding	share	direct funding	share
Banks	3,518	1.8%	2,900	1.7%
Corporate clients.	55,035	28.8%	46,797	27.3%
Retail clients	113,848	59.5%	102,742	60.0%
Own issue / subordinated loan	2,185	1.1%	3,632	2.1%
Equity	16,768	8.8%	15,116	8.8%

Mutual funding:

	2021		2020	
Core client segments	mutual funding	share	mutual funding	share
Banks	27,626	100.0%	15,459	100.0%
Corporate clients.	0	0.0%	0	0.0%
Retail clients	0	0.0%	0	0.0%



Liquidity reserve management

Maintenance of an adequate liquidity buffer is a major element in managing the Bank’s liquidity. The liquidity buffer presents the available liquidity, required to cover the gap between cumulative outflows and inflows within a relatively short time. It covers assets that are “unencumbered” and easily available to acquire liquidity.

Unencumbered assets are understood as assets that are free of any legal, regulatory, contractual restrictions to have them disposed of by the Bank. The liquidity buffer is crucial in the times of a crisis when the Bank has to obtain liquidity in a short time when the standard funding sources are unavailable or insufficient.

The liquidity buffer is maintained as a safeguard against materialisation of various extraordinary scenarios, providing for needs of additional liquidity which may arise at any time in extraordinary circumstances and in normal conditions.

The table below presents the structure of the liquid asset buffer as at 31 December 2021 and 31 December 2020:

	2021	2020
Structure of the liquidity buffer	share	share
Treasury bonds or bonds issued by the central bank (PLN)	61.8%	67.2%
Treasury bonds or bonds issued by the central bank (EUR)	12.3%	11.0%
bonds of BGK and EIB	25.9%	21.8%

The Bank provides for realistic reductions due to impairment of securities with the level thereof being regularly reviewed and approved by ALCO. The reductions are assessed inter alia on the basis of market liquidity and depth, volatility of market prices, requirements of the central bank.

The Bank also observes asset concentrations ensuring their safe diversification in terms of issuer, maturity and currency.

Management of intraday liquidity

The Bank actively manages positions and risks of short-term (one-day and intraday) liquidity in order to comply with its payment and settlement obligations when due in normal market conditions and in extraordinary/stress situations.

The intraday liquidity management process is critical for correct functioning of the Bank as a whole and applies to normal market conditions and extraordinary (crisis) situations. It is a component of current operational liquidity management. Managing its intraday liquidity, the Bank applies intraday ratios. Intraday liquidity ratios are monitored on an ongoing basis and presented to the competent liquidity risk management units and to ALCO.

Intraday liquidity management includes the maintenance of readiness to comply with the Bank’s obligations also in crisis circumstances. In this connection, it is necessary to maintain an adequate liquidity buffer on the basis of information on the potential worsening of the Bank's access to intraday liquidity as a result of a market stress. In order to maintain an adequate liquidity buffer, the Bank applies intraday stress tests in its stress test program.

Management of hedging items

The management of hedging items covers both positions under CSA and GIMRA contracts as well as positions of liquid assets related to operations with the central bank. This is performed on the level corresponding to the provided services, the Bank's portfolio, funding profile and liquidity requirements.

Most of the Bank's counterparties in derivative transactions have signed Credit Support Annexes (CSA) to ISDA agreements. They regulate the issue of support to portfolios of derivative transactions. They provide for the right to demand margin deposits by parties whose valuation of the portfolio is positive on a specific day (the party's portfolio is in-the-money) and the right to demand release of the margin when the valuation changes. Within the strategy of setting margins for each counterparty to CSA, the transaction portfolio is measured daily for margin requirements.

Derivative instruments such as FRA and IRS are settled via CCP (Central Clearing Party) clearing houses. This provides for effective management of margin deposits and mitigates the counterparty settlement risk. ING Bank Śląski S.A. has signed agreements with KDPW CCP and London Clearing House (LCH) and EUREX.

1.6. Analysis of the maturity of financial assets and liabilities according to contractual payment terms

The tables below present financial assets and liabilities (excluding valuation of derivatives) split by remaining (from the reporting date) contractual maturities. The presented values provide for future interest payments. With respect to contingent liabilities granted, the maturity analysis covers the closest possible performance of the liabilities by the Group.



2021

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets					
Cash in hand and balances with the Central Bank	1,099.9	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	199.9	355.5	322.4	2,459.2	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	4.8	536.6	37.8	577.5	133.3
Investment securities	167.4	1,188.2	3,642.5	35,459.7	10,717.6
Loans and other receivables to customers measured at amortised cost	12,425.2	5,930.8	32,342.3	53,423.7	69,589.9
Other assets	0.0	125.0	10.8	0.0	0.0
Financial Liabilities					
Liabilities to other banks	610.0	5,739.1	1,115.0	2,474.2	112.7
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	244.4	0.0	211.5	274.7
Liabilities to customers	167,677.1	844.2	1,585.7	128.7	374.3
Liabilities from debt securities issued	0.0	150.8	508.7	407.0	0.0
Subordinated liabilities	0.0	0.8	14.9	47.0	1,666.1
Other liabilities	116.8	885.7	474.6	16.8	294.5
Contingent liabilities granted	3,239.1	1,396.1	16,963.0	13,563.2	13,532.8

2020

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets					
Cash in hand and balances with the Central Bank	867.3	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	92.1	284.6	47.0	310.9	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	0.8	290.2	248.7	224.5	75.3
Investment securities	157.7	86.4	7,113.2	37,882.8	11,729.7
Loans and other receivables to customers measured at amortised cost	9,555.5	4,715.7	11,893.4	60,981.5	56,181.9
Other assets	0.0	14.3	50.1	0.0	0.0
Financial Liabilities					
Liabilities to other banks	1,079.2	3,774.1	433.9	1,205.8	1,735.1
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	200.0	0.0	117.9	147.6
Liabilities to customers	147,316.1	1,493.6	1,688.5	227.0	303.2
Liabilities from debt securities issued	0.0	0.0	979.1	409.5	0.0
Subordinated liabilities	0.0	0.8	28.2	116.3	2,164.0
Other liabilities	0.0	870.5	387.2	19.8	347.4
Contingent liabilities granted	3,243.3	814.9	16,328.5	13,286.0	9,605.8



The tables below present a maturity analysis of derivative financial instruments with a negative valuation as at the reporting date. The analysis is based on remaining contractual maturities.

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on a net basis cover IRS, FRA, options and FX Forward NDF transactions. The data in table reflects – in case of IRS transactions – non-discounted future interest cash flows; in case of other transactions, the cash flows equivalent to the valuation as at 31 December 2021 and 31 December 2020 respectively.

2021

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	171.0	263.2	95.8	328.7
hedging transactions in hedge accounting	95.0	100.4	-112.8	59.1
other derivatives	-4.0	-28.8	-4.0	0.0

2020

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	-432.9	-1,205.9	-805.8	184.6
hedging transactions in hedge accounting	-135.8	-264.4	-95.9	26.6
other derivatives	-8.0	-33.3	-2.4	0.0

Derivative instruments settled in gross amounts

Derivative financial instruments settled by the Bank on a gross basis cover FX Swap, FX Forward and CIRS transactions. The data in table reflects non-discounted contractual cash outflows and inflows of nominals and – in case of CIRS transactions – as interest, as at 31 December 2021 and 31 December 2020 respectively.

2021

	up to 1 month	1- 12 months	1-5 years
outflows	-13,422.6	-7,613.2	-1,200.5
inflows	13,290.2	7,416.1	1,209.0

2020

	up to 1 month	1- 12 months	1-5 years
outflows	-5,036.3	-4,376.6	-1,457.7
inflows	4,961.8	4,255.6	1,380.5

1.7. Centralised organisation of the risk management process

The liquidity risk management process is fully centralised in treasury and risk management functions. Liquidity risk (along with the generated liquidity position) of each business line is transferred to the Centre of Expertise Treasury for central management.

The Bank provides for costs and benefits of various types of liquidity risks in the system of internal transfer pricing, in its measurement of profitability and the approval process of new products in all major business areas (both on- and off-balance sheet). The Centre of Expertise Treasury manages the positions transferred to its books over the risk transfer system, including the management of liquidity risk related to resetting the premium for liquidity.

In order to ensure correct, independent and centralised performance of the tasks in the liquidity risk management process (including risk management and reporting as well as preparation, review and updates of documentation), the Bank operates the Market Risk Management Department which reports to a Deputy President of the Management Board.

1.8. Reporting and liquidity risk management system

Liquidity risk reporting and measurement processes are automated. The Bank holds tools automatically generating a set of liquidity reports on a daily or monthly basis. Information of risk measures supports ongoing monitoring of liquidity profiles and control of basic measures. The reports on liquidity risk are submitted to units involved in the risk management process.



1.9. Risk management in subsidiaries

ING Bank Hipoteczny S.A. performs an important role in managing the Group’s long-term liquidity. Its role is to raise long-term liquidity so that the Group:

- improves funding stability,
- ensures diversified funding for the mortgage loan portfolio,
- is able to better manage any mismatch of its assets and liabilities.

In 2021 ING Bank Hipoteczny under its Mortgage Bond Program issued mortgage bonds for PLN 654 million.

ING Bank Hipoteczny S.A. is a company operating on an autonomous basis. This unit operates within the risk appetite accepted by ING Bank Śląski S.A. and managed at the level of ING Bank Hipoteczny SA

Liquidity risk of the Bank’s other subsidiary companies is maintained at a minimum level with funding being provided within the ING Group.

V. ESG risks

In early 2021, the Bank approved a Risk Management Strategy which identified as key objectives for 2021-2023 the identification, assessment, management and reporting of ESG risks (“ESG risks” – environmental, social and corporate governance risks).

The Management Board of ING Bank Śląski SA, the Supervisory Board and the management pay special attention to the identification of risks and opportunities and the management of ESG risks in the Bank. Among other things, the Management Board has initiated the establishment of appropriate organisational structures that ensure a comprehensive approach to the ESG topic from the perspective of risk management, business issues and reporting/disclosures, as well as adequate information flow and knowledge sharing between the units responsible for the various ESG aspects, the Management Board and other employees.

Organisation of ESG risk management

The Bank’s Management Board has established a comprehensive ESG Project, coordinating ESG issues within separate working teams focused on risk, business and reporting/disclosure. The supervision of ESG risk management has been entrusted to the Member of the Bank’s Management Board overseeing the Risk Division (CRO Division).

In 2021, operational oversight of ESG Risk issues was provided by the Credit Policy Committee. In 2022, the Management Board intends to establish a dedicated ESG Risk Committee whose main tasks will be to create the ESG risk management policy, approve the ESG risk management methodology, approve the tools used to assess ESG risk, define the standards for credit analysis of ESG risk and the course of the ESG risk assessment and monitoring process, as well as the principles for including ESG risk in collateral valuation.

Within the CRO Division, a unit has been identified responsible for managing ESG risk and initiating and coordinating further actions to comprehensively implement ESG risk management into the existing credit, market, liquidity and operational risk management system and to meet the expectations indicated in supervisory documents.

Principles for ESG risk management

The environmental and social risk assessment covers the client and the transaction. At the client’s level, we assess whether the business is conducted with respect for human rights, environmental protection principles and is not covered by the exclusion policy. At the transaction level, the Bank assesses whether the transaction complies with the requirements of the specific policies.

The exclusion policy applies to activities with a particularly high risk of violation of human rights and the risk of a negative impact on the environment and the principles of sustainable development. The Bank does not enter into relationships with clients whose core business is covered by ING Bank Śląski S.A.’s exclusion policy.



The Bank identifies and appropriately manages relationships with clients who operate in areas that are more vulnerable to social or environmental risks. Specific policies are in place to promote environmental protection and to minimise the risks involved in exposed areas.

Detailed policies concern the following areas:

- Well-being of animals,
- Forestry and plantations,
- Industrial processing,
- Chemical industry and utilisation of chemicals,
- Defence and the arms industry,
- Hard coal mining, coal-fired power industry, and related businesses,
- Other mining and power industry, petrochemical industry and metal manufacturing.

The Bank's regulations support the identification of environmental and social risks and the appropriate management of relationships with clients who operate in areas with significant environmental impact.

Adaptation to supervisory requirements

In 2021, the Bank implemented the recommendations of the EBA as set out in the document Guidelines for Lending and Credit Monitoring. Guidelines on Loan Origination and monitoring.

The assessment of ESG risk of strategic clients and medium and large companies and the assessment of ESG risk at the level of these portfolios (by sector) is carried out as part of the standard credit process / credit risk management.

The Bank has included in its internal regulations definitions of ESG risks and has identified transformation and physical climate risks (chronic and sudden) that may have a potential impact on client performance and consequently on the quality of the loan portfolio.

Based on statistical data and expert assessment, the Bank analysed the most important ESG risks by sector and drew up a sector risk heatmap and designated high, medium and low ESG risk sectors.

In the credit analysis principles for corporate clients (excluding entrepreneurs) financed in the standard paths of the credit process, ESG risk assessment requirements have been added.

From an ESG risk perspective, the Bank assesses the client according to the double materiality rule, i.e. taking into account both the environmental impact of the client's activities and the potential impact of environmental, climate and social factors on the client's financial performance.

When examining the potential impact of ESG factors and climate risk on a client's financial performance, the Bank focuses on the relevant risk factors and assesses: the client's sensitivity to ESG factors (whether they can increase credit risk) and the client's ability to mitigate these risks, e.g. by having a strategy / action plan for transitioning to environmentally sustainable operations and other factors that mitigate ESG risk. If a high level of ESG risk is identified, it is possible to appeal (downgrade) a client's rating.

CO₂ emission from clients loan portfolio

The Bank made the first quantification of CO₂ emission relating to loan portfolio from clients. Emissions from loan portfolio are a significant element of banks' emissions – they constitute Scope 3 emissions in category 15 related to investments. The Bank aims at continuing its works on quantification of emissions from loan portfolio from clients, focusing on the improvement of calculation methodologies and aiming at improving calculation precision, among others, through obtaining more precise data.

Calculations have been prepared both for corporate and retail segment based on *Global GHG Accounting and Reporting Standard for the Financial Industry*.

Scope 3, Category 15 Investments, is applicable, among others to financial services companies, including commercial banks (*according to Corporate Value Chain (Scope 3) Accounting and Reporting Standard*).

Industries that have significant impact on climate change are defined as sections from A to H and section L according to PKD 2007 classification, in accordance with Appendix 1 to Regulation EC no 1893/2006.

2021

CO _{2e} emissions from loan portfolio from client (Scope 3, Category 15)			
	CO _{2e} emissions (tons)	Gross carrying amount (PLN million)	Intensity of emission (tons of CO _{2e} for PLN 1 million exposure)
Coporate segment (excluding entrepreneurs)	5,231,781	62,340.9	83.9
Industry groups with significant impact on climate change	4,532,934	45,613.0	99.4
Other industries	698,846	16,727.9	41.8
Retail mortgage loans	641,153	50,005.5	12.8
Total	5,872,934	112,346.4	52.3



Corporate segment

Quantifications made as at 31 December 2021 for corporate portfolio cover the exposures of the Bank, ING Lease (Polska) and ING Commercial Finance Polska, excluding loans for entrepreneurs. For the purpose of these estimations, the Bank used data on greenhouse gases emissions (CO₂ and CO_{2e} in case of other gases) split by industries. This data is published annually by Eurostat, the most recent one is available for 2020. Based on industry data the Bank estimated intensity of emission in relation to generated income and in relation to total assets. Based on that, estimations at industry level were transposed to corporate clients of the Bank with the application of basic clients' activity as a link.

In the table above there are quantifications split into two industry groups excluding commercial real estate. The total analysed loan portfolio constitutes 86% of total portfolio of SME, medium and strategic clients. For the first industries' group that significantly impact climate change, the average intensity of emission was 99 tons of CO₂ per 1 million PLN of gross carrying amount of loan exposures. In the second group, other industries, the ratio was 42 tons of CO₂ per 1 million PLN of gross carrying amount of loan exposures, and for the analysed part of corporate portfolio 84 tons of CO₂ per 1 million PLN of gross carrying amount of loan exposures.

In case of commercial real estate there should be applied a dedicated method for quantifying the intensity of emission, using, among others, data on energy class of buildings, energy sources and surface. At the moment, the Bank does not have appropriate database to perform such calculations.

Retail segment

In retail segment, the Bank estimated intensity of emission related to mortgage loans as at 31 December 2021. Due to lack of data on actual usage of energy by particular buildings and lack of access to energy certificates, Bank's approach was based on the year of building real estates and the corresponding regulations on technical and construction aspects. The Bank also uses data made available by Main Statistical Office on the structure of energy utilization by households, data from European Environment Agency on emissions related to production of electric energy as well as data from *2006 IPCC Guidelines for National Green-house Gas Inventories*.

According to the methodology contained in the Global GHG Accounting and Reporting Standard for the Financial Industry the level of emission was adjusted by LTV (relation of loan to be repaid to the value of collateral) in order to reflect real emission related to Bank's loan portfolio. In its calculations the Bank focuses on apartments and detached houses covering about 87% of the whole portfolio of the Group.

For retail mortgage segment, emission in 2021 was 641,153 tons of CO_{2e} and the intensity of emission was 12.8 tons of CO₂ per 1 million PLN of gross carrying amount of loan exposures.

Climate Stress Liquidity Test

Recognising the impact of ESG risk factors on the Bank's liquidity, ING Bank Śląski S.A. developed the Climate Stress Test of Liquidity in 2021. The objective was to determine the impact of risks from climate change and pollution on the bank's liquidity. The test scenarios identified risks, trends in climate, business, legal and social changes that affect the Bank's liquidity. The horizon of the Climate Stress Liquidity Test conducted was 20 years. The test results are positive, i.e. the Bank's liquidity is not at risk over the test horizon. The conclusions of the Climate Liquidity Stress Test will be used in determining the Bank's development directions.

Developing methodologies for ESG risk management

In setting the direction for building a comprehensive ESG risk management system, the Bank builds on the expectations of the European Central Bank as indicated in the "Guide on climate-related and Environmental risks – Supervisory expectations relating to risk management and disclosure". Guide on climate-related and Environmental risks – Supervisory expectations relating to risk management and disclosure). With regard to this document, the Bank conducted a compliance analysis, approved by the Credit Policy Committee. The Bank has set out a detailed plan to achieve compliance with these requirements, spread over the coming years.

The Bank continually monitors regulatory risks arising from changes in the legal environment in relation to the financial sector – following the work of regulators and legislative proposals. The Bank participates in the work of the Polish Bank Association on the interpretation of ESG regulations.

VI. Other risks

1.1. Non-financial risks

Non-financial risks cover management functions of operational and compliance risk based on a common framework, setting forth clear principles and standards of risk identification, assessment, monitoring, mitigation and reporting. The Bank manages non-financial risks in compliance with the Strategy and Risk Appetite Statement for Non-financial Risks approved by the Bank's Management Board that set forth risk limits and tolerance. Compliance with the declared risk appetite is monitored in a periodic report on non-financial risks (NFRD). Additionally, the Bank operates the Non-financial Risk Committee appointed by the Bank's Management Board – the Committee advises the Bank's Management Board with respect to the management of non-financial risks. The Supervisory Board, with the support of the Risk Committee, supervises the management of operational risk by the Management Board and minimum on a yearly basis reviews the effectiveness of the related activities.

The common management framework of non-financial risks support the Bank in active identification of core hazards and gaps and the related risks which may result in undesirable events. The framework supports such processes as



self-assessment of risks and controls, scenario analyses, monitoring of key risk indicators or testing of key controls. The results of analyses of internal and external events keep improving the adequacy and effectiveness of the internal control system functioning in the Bank.

The Bank is convinced that an effective control environment is required to development and maintenance of sustainable business as well as maintains and improves the trust of clients, employees and shareholders.

1.1.1 Operational risk

The Bank's objective in operational risk management is to ensure regular improvement of the safety of the Bank and its clients, reduction of operating costs and improvement of operating effectiveness.

The Bank's Management Board – subject to approval of the Supervisory Board – has developed a strategy of operational risk management. The Bank's management strategy of operational risk provides for legal and regulatory requirements and relies on good practices of the ING Group.

Additionally, the Management Board – also in agreement with the Supervisory Board – in its risk appetite statement defined the maximum acceptable loss limits, capital limits and risk scope that it is willing to accept in the pursuance of the planned business objectives – subject to full compliance with the law and regulations. The level of limit utilisation is monitored and periodically submitted to the Management Board, Risk Committee and the Supervisory Board.

The operational risk management system applies to all business spheres of the Bank and the activity of the Group, cooperation with clients, providers and partners. It is a cohesive, regular practice that covers the following elements:

- risk identification and assessment,
- mitigation or risks and monitoring of mitigation activities,
- performance of inspections,
- quality monitoring and assurance.

The Bank has a coherent and continuously updated set of internal normative documents in relation to operational risk management. The documents regulate the scope, principles and duties of organisational units and employees to mitigate the effects and likelihood of financial and reputational losses in that respect. The risk management culture including risk awareness is reinforced through a number of training and awareness programmes.

1.1.2 Compliance risk

The Bank's mission in the area of ensuring compliance is to develop a cultural function relying on knowledge and compliance with law, internal regulations, market standards and ING Values and Conduct as specified in the Orange Code.

The Bank's Supervisory Board supervises the compliance risk management, and the Bank's Management Board is responsible for the effective management of the compliance risk, including: implementation of organizational solutions, regulations and procedures that enable effective compliance risk management and ensuring adequate resources and means required to perform the tasks.

The Compliance unit is an organisationally separate, independent unit responsible for the organization and functioning of the compliance risk management process. The aim of the Compliance unit is to develop solutions for the identification, assessment, control and monitoring of the risk of non-compliance of the Bank's activities with the provisions of law, internal regulations and market standards and to present reports in this regard. Compliance activities are aimed at the active participation of the Bank's employees in the compliance risk management by shaping a risk culture based on knowledge and compliance with the law, internal regulations and market standards.

1.1.3 Transaction security and stability of IT systems

The security of the funds and data of clients and partners is a key issue to which the Bank pays special attention in its day-to-day operations. The Bank constantly observes threats and analyses their impact on the ICT infrastructure (applications, systems, networks), as well as business processes, those of its partners and their potential impact on clients. On that basis, it designs and implements appropriate organisational and technical solutions in the areas of prevention, detection and response. The Bank's ICT systems protect multi-layered cyber security mechanisms and systems.

1.1.4 Personal data security

The stability of IT systems also means protecting personal data of clients, business partners and employees. However, apart from IT security, the Bank also cares about the physical security of the data and information stored in the Bank and constantly improves its approach to personal data protection. The Bank's internal regulations strictly define the presence of outsiders in offices and exclude the connection of unverified devices to our ICT network. Physical security features are tested on a regular basis and the conclusions of the inspection inspire change. Physical security testing has become an inalienable element of APTs testing the Bank's cyber security resistance.

In the last year, the Bank has found no substantiated complaints of breaches of client privacy although three cases are pending before the Administrative Courts.

Adequate to the changes in the external legal environment, the Bank has adapted the technical and procedural safeguards required by law, internal regulations and good practices to better protect client data. The Bank has also implemented additional requirements related to data transfers outside the European Economic Area (i.e. transfer assessments and standard contractual clauses).



As in previous years, the Bank cooperates with other banks under the umbrella of the Polish Banks' Association in order to develop a common code of conduct, as well as to develop coherent solutions related to personal data protection.

1.2. Model risk

Model risk management is performed in compliance with the Model risk management policy at ING Bank Śląski S.A. The Policy provides for:

- model life cycle,
- principles for assessing the materiality and risk of models,
- functioning principles of the model register,
- principles for carrying out performance monitoring and model validation,
- principles for calculating risk capital for the models and applying model capital charges.

The Model Validation Department provides a model register, which is a repository of information on the risk and valuation models operating in the Bank's Capital group, and which is kept up to date by participants in the model risk management process, including model owners, validators and modellers. The register and model logs contain, among other things, information on the relevance of the models, the results of monitoring their effectiveness, and the results of model validation and their risk levels.

The Bank's Capital group regularly assesses the risks of individual models, estimates capital for model risk and, if required, allocates capital charges to models in accordance with the principles adopted in internal regulations.

The quality of the performance of the models shall be verified as part of the monitoring of the effectiveness of the models and the validation of the models, during which their exposure to sources of model risk shall also be assessed.

Model validation is performed in compliance with the Model Validation Policy at ING Bank Śląski S.A. and validation instructions.

Management reporting to Committees, the Management Board and the Supervisory Board of the status of actions related to model management and validation covers inter alia: results of model validation and risk assessment, assessment of the aggregated model risk level in the context of the approved risk tolerance as well as the capital assigned to model risk.

1.3. Business risk

Within business risk, the group distinguishes one significant risk – macroeconomic risk. Macroeconomic risk is the risk due to macroeconomic factors and their impact on the levels of minimum capital requirements. The Group manages the risk by regular holding of internal stress tests to support ongoing monitoring of sensitivity or minimum capital requirements to macroeconomic factors. In 2021 the Group carried out full capital tests twice: as at Q4 2020 and Q2 2021.

On the basis of results of internal stress tests for a mild recession scenario, the Group estimates an additional capital requirement to safeguard against the materialisation effect of the scenario. The results of the stress tests show that should a mild recession materialise, the Group's capital adequacy will not drop below the required level.

**SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.**

2022-03-11	Brunon Bartkiewicz President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Joanna Erdman Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Marcin Giżycki Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Bożena Graczyk Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Ewa Łuniewska Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Michał H. Mrożek Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Sławomir Soszyński Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>
2022-03-11	Alicja Żyła Vice-President	<i>The original Polish document is signed with a qualified electronic signature</i>

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2022-03-11	Jolanta Alvarado Rodriguez Lead of Centre of Expertise Accounting Policy and Financial Reporting	<i>The original Polish document is signed with a qualified electronic signature</i>
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