Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration of the ING Bank Śląski S.A. Group published for 2020

Contents

I. Capital adequacy

Introduction

Pursuant to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and the Banking Law Act of 29 August 1997 (Journal of Laws of 2015, item 128 as amended), hereinafter referred to as the "Banking Law Act", ING Bank Śląski S.A., hereinafter referred to as the Bank, is obliged to make qualitative and quantitative disclosures relating to the capital adequacy, excluding information immaterial, proprietary or confidential.

Pursuant to the "Policy of disclosing qualitative and quantitative information on capital adequacy and variable components of remuneration of ING Bank Śląski S.A.", disclosures relating to the ING Bank Śląski S.A. Group, hereinafter referred to as the Group, are published.

Disclosures in this document are based on the data from the annual consolidated financial statements for the year 2020 of the ING Bank Śląski S.A. Group.

1. Own funds

1.1 Full reconciliation of own funds items to audited financial statements

The capital comprises: the share capital, the supplementary capital - issuance of shares over nominal value, accumulated other comprehensive income and retained earnings. All capitals and funds are recognised at their face value.

The share capital is recognised at its face value, in accordance with the charter and entry into the commercial register.

The share premium account comprises the share premium earned from the issue of shares less the direct costs thereof.

Other comprehensive income is created as a result of:

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

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

Retained earnings represent the profits earned by the Group in the previous period less paid up dividends. Retained earnings comprise:

- other supplementary capital,
- capital reserve,
- general risk fund,
- revaluation of share-based payments,
- undistributed profit/loss of past years, and

- net financial result for shareholders of the dominant entity.

Other supplementary capital is established from earnings after tax with the aim of covering the balance sheet loss. The decision on using the supplementary capital is taken by the General Meeting.

The capital reserve is established separately from the supplementary capital from earnings after tax in the amount decided by the General Meeting. The capital reserve is earmarked for covering special losses and expenses. The decision on using the capital reserve is taken by the General Meeting.

The General Risk Fund is established under the Banking Law Act from earnings after tax and is earmarked for covering unidentified risk of banking operations. The decisions on using the fund are taken by the Management Board.

Revaluation of share-based payments - this item is presented as the fair value valuation of options granted under the Group's incentive schemes addressed to Bank employees.

The own funds include profit in the process of approval and the net profit of the current reporting period less expected charges and dividend in the amount not exceeding profit as verified by the chartered accountant.
As at 31.12.2020 in the own funds of the Group was recognized Bank's net profit in the amount of PLN 465.4 million for the period from 01.01.2020 to 30.06.2020, after deducting the expected charges and dividend, based on the decisions of the Financial Supervision Authority of 28 September 2020.

Unrealised gains and losses on debt and equity instruments available for sale are recognized in own funds in accordance with the guidelines in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and the Banking Law Act. In accordance with the article 171a of the Banking Law Act, unrealised gains and unrealised are included in own funds in 100%.

Group decreases own funds by the following values:

- goodwill and other intangible assets,
- difference between the amount of provisions and the amount of expected losses (the value computed for the bank calculating risk-weighted exposure amounts using IRB approach), and
- value adjustment due to the requirements for prudent valuation.
- adjustment in the transitional period due to adaptation to IFRS 9 requirements,
- adjustment to the deduction of software assets.

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The table below is presents calculation of regulatory own funds.

	items of the consolidated statement of financial position	adjustments resulting from the application of prudential consolidation	items of the consolidated statement of financial position, taking into account the prudential consolidation	items not recognized in the regulatory own funds	**items recognized in the regulatory own funds**
ASSETS					
Intangible assets	426.6	-14.2	412.4	49.9	**362.5**
LIABILITIES AND EQUITY					
Share capital	130.1	0.0	130.1	0.0	**130.1**
Supplementary capital - issuance of shares over nominal value	956.3	0.0	956.3	0.0	**956.3**
Accumulated other comprehensive income	3 923.4	0.0	3 923.4	3 480.0	**443.4**
- revaluation of financial assets measured at fair value through OCI - debt securities	353.4	0.0	353.4	0.0	**353.4**
- revaluation of financial assets measured at fair value through OCI - equity instruments	100.8	0.0	100.8	0.0	**100.8**
- property, plant and equipment	5.8	0.0	5.8	0.0	**5.8**
- cash flow hedging instruments (effective part)	3 474.2	0.0	3 474.2	3 474.2	**0.0**
- hedging instruments (elements not designated)	5.8	0.0	5.8	5.8	**0.0**
- actuarial gains/losses	-16.6	0.0	-16.6	0.0	**-16.6**
Retained earnings	13 608.5	0.0	13 608.5	**872.2**	**12 736.3**
- other supplementary capital	314.7	0.0	314.7	0.0	**314.7**
- reserve capital	10 193.4	0.0	10 193.4	0.0	**10 193.4**
- general risk fund	1 215.2	0.0	1 215.2	0.0	**1 215.2**
- revaluation of share-based payments	51.9	0.0	51.9	0.0	**51.9**
- result of past years	495.7	0.0	495.7	0.0	**495.7**
- net income for the current year	1 337.6	0.0	1 337.6	872.2	**465.4**
Equity attributable to shareholders of ING Bank Ślaski S.A.	**18 618.3**	**0.0**	**18 618.3**	**4 352.2**	**14 266.1**
Non-controlling interests	0.0	0.0	0.0	0.0	**0.0**
Total equity	**18 618.3**	**0.0**	**18 618.3**	**4 352.2**	**14 266.1**
Equity recognized in the regulatory own funds					**14 266.1**
Other elements of own funds (decreases and increases), including:					2 127.8
- subordinated liabilities					2 307.4
- goodwill and other intangible assets					-362.5
- goodwill included in the valuation of significant investments					-104.4
- shortage/surplus adjustments for credit risk to the expected loss under AIRB					0.0
- adjustment in the transitional period due to adaptation to IFRS 9 requirements					361.8
- value adjustment due to the requirements for prudent valuation					-24.9
-deferred tax assets that rely on future profitability excluding those arising from temporary differences					-49.6
Regulatory own funds adopted for the calculation of the total capital ratio					**16 393.9**

1.2 Description of the main features of capital instruments issued by the Bank

The main characteristics of the Common Equity Tier 1 instruments issued by the Bank are presented in the table below. The presentation complies with the requirements of the Commission Implementing Regulation (EU) No. 1423/2013.

The main characteristics of the capital instruments		
1	Issuer	ING Bank Śląski S.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN code: PLBSK0000017
3	Governing law(s) of the instrument	Polish
	Regulatory treatment	*Yes*
4	Transitional CRR rules	Common Equity Tier 1 Partial issue reclassification to lower category of capital - not applicable.
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub-)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Instrument type: ordinary share. Classification - Common Equity Tier 1 instrument in accordance with Article 28 of Regulation (EU) No. 575/2013.
8	Amount recognised in regulatory capital (currency in million, as at the last reporting date)	Nominal value: PLN 92.6 million (series A) PLN 37.5 million (series B) Agio: PLN 956.3 million (series B) Total capital worth: PLN 92.6 million (series A) PLN 993.8 million (series B) All parts of the instrument are included in the same category of regulatory capital. The amount recognized in regulatory capital does not differ from the amount of the issued instrument.
9	Nominal amount of instrument	PLN 130.1 million
9a	Issue price	Series A: PLN 5 (after the denomination and after the shares split*) Series B: PLN 26.5 (after the shares split*)
9b	Redemption price	Not applicable
10	Accounting classification	Equity
11	Original issue date	08 October 1991
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons/dividends	*Dividends*
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing) - in relation to the payment of the coupon/dividend	Partially discretionary; causes: - decisions of the Supervisory Board - results - administrative decisions

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The main characteristics of the capital instruments		
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount) - in relation to the payment of the coupon/dividend	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitional features	No
37	If yes, specify non-compliant features	Not applicable

*) In 2011, the nominal value of shares was split. As a result, the nominal value of shares was reduced from PLN 10 to PLN 1 per share.

1.3 Information on the nature and amount of certain own funds items

The table below presents nature and amount of certain own funds items. The presentation complies with the requirements of the Commission Implementing Regulation (EU) No. 1423/2013.

No.*	Description	Amount at disclosure date	Regulation (EU) No. 575/2013 Article reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**1 086.4**	26 (1), 27, 28, 29
	of which: ordinary share	**130.1**	EBA list 26 (3)
2	Retained earnings	**747.5**	26 (1) (c)
	revaluation of share-based payments	**51.9**	
	result of past years	**333.8**	
	adjustment in the transitional period due to adaptation to IFRS 9 requirements	**361.8**	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	**11 113.4**	26 (1)
3a	Funds for general banking risk	**1 215.2**	26 (1) (f)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**465.4**	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**14 627.9**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**-24.9**	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	**-466.9**	36 (1) (b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	**-49.6**	36(1) (c), 38
12	Negative amounts resulting from the calculation od expected loss amount	**0.0**	36 (1) (d), 40, 159
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-541.4**	

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No.*	Description	Amount at disclosure date	Regulation (EU) No. 575/2013 Article reference
29	**Common Equity Tier 1 (CET1) capital**	**14 086.5**	
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0.0**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0.0**	
44	**Additional Tier 1 (AT1) capital**	**0.0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**14 086.5**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 307.4	62, 63
51	**Tier 2 (T2) capital before regulatory adjustments**	**2 307.4**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0.0**	
58	**Tier 2 (T2) capital**	**2 307.4**	
59	**Total capital (TC = T1 + T2)**	**16 393.8**	
60	**Total risk weighted assets**	**87 555.4**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**16.09%**	92 (2) (a)
62	Tier 1 (as a percentage of risk exposure amount)	**16.09%**	92 (2) (b)
63	Total capital (as a percentage of risk exposure amount)	**18.72%**	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	**2 628.1**	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	**2 188.9**	
66	of which: countercyclical buffer requirement	**1.4**	
67	of which: systemic risk buffer requirement	**0.0**	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**437.8**	CRD 131
The amounts below the thresholds of deductions (before weighing risk)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**374.3**	36 (1) (c), 38, 48

*) numbering in accordance with Annex VI of the Commission Implementing Regulation (EU) No. 1423/2013

2. Regulatory capital requirements calculation

The Group is required to maintain T1 and TCR at 9% and 11% respectively.

The requirement arises from the provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 ie.:

- for Common Equity Tier 1 ratio - CET1 - 4,5%,
- for Tier 1 ratio - T1 - 6.0%, and,
- for Total capital ratio (TCR) - 8.0%,

and the capital buffers determined in accordance with the Act on macroprudential supervision over the financial system and crisis management in the financial system of 05 August 2015.

The capital requirement for credit risk represents approx. 88% of the Group's overall capital requirement and has the greatest impact on capital adequacy calculation.

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ING Bank Śląski S.A. reports capital requirement for credit risk under the AIRB approach for exposure classes: institutions and entrepreneurs. The Bank applies such presentation method pursuant to the letter of De Nederlandsche Bank (DNB) of 04 July 2013, wherein DNB together with the Polish Financial Supervision Authority approved application of the full AIRB approach by the Bank therefore.

In case of retail exposures, Bank introduced so called roll-out plan of implementation of AIRB method. Due to conducted works by ING Groep NV on the new default definition implementation and currently used AIRB models adjustment with respect to EBA guidelines the initial dates of AIRB application for portfolios under standardized approach are being discussed.

ING Bank Śląski S.A. Group subsidiaries calculate capital requirements for credit risk with the use of the SA method, except ING Lease (Polska) Sp. z o.o., which uses the AIRB method.

The capital requirement for credit valuation adjustment risk (CVA) refers to the adjustment of the market value in accordance with the provisions of Basel III. The Bank calculates the adjustment for overhead capital requirement under the standard method in accordance with Article 384 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

To calculate the capital requirement for risk of contribution to fund the CCP in case of default, the Bank uses method, described in Article 306-309 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013. London Clearing House (LCH), KDPW_CCP SA and EUREX are the eligible central counterparty for ING Group and ING Bank Śląski S.A. Group.

The standard approach compliant with CRR is used to calculate the requirement for market risk, settlement/delivery risk and the requirement due to exposure concentration limit and large exposures limit overrun. The capital requirement for operational risk was estimated using the Standardised Approach (TSA).

Risk-weighted exposure and capital requirements for particular risks as at 31 December 2020 are presented in the table below (in accordance with the EU OV1: Regulatory Capital Requirements template shown in the EBA/GL/2016/11 Guidelines).

EU OV1: Regulatory Capital Requirements

			RWA amounts				Minimum capital requirements			
			as of 31 Dec 2020	as of 30 Sep 2020	as of 30 Jun 2020	as of 31 Mar 2020	as of 31 Dec 2020	as of 30 Sep 2020	as of 30 Jun 2020	as of 31 Mar 2020
	1	**Credit risk (excluding CCR)**	**75 712.5**	**74 859.3**	**76 201.1**	**78 196.9**	**6 057.0**	**5 988.7**	**6 096.1**	**6 255.8**
Article 438(c)(d)	2	Of which the standardised approach	42 226.6	42 311.4	40 821.7	41 519.7	3 378.1	3 384.9	3 265.7	3 321.6
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	33 485.9	32 547.9	35 379.4	36 677.2	2 678.9	2 603.8	2 830.4	2 934.2
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	900.3	774.7	755.1	847.8	72.0	62.0	60.4	67.8
Article 107	6	**CCR**	**869.0**	**861.3**	**894.9**	**800.2**	**69.5**	**68.9**	**71.6**	**64.0**
Article 438(c)(d)	7	Of which mark to market	654.8	617.9	635.3	541.8	52.4	49.4	50.8	43.3
Article 438(c)(d)	8	Of which original exposure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	9	Of which the standardised approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	10	Of which internal model method (IMM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	105.4	112.6	104.2	207.2	8.4	9.0	8.3	16.6
Article 438(c)(d)	12	Of which CVA	108.8	130.8	155.4	51.2	8.7	10.5	12.4	4.1
Article 438(e)	13	**Settlement risk**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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EU OV1: Regulatory Capital Requirements

			RWA amounts				Minimum capital requirements			
			as of 31 Dec 2020	as of 30 Sep 2020	as of 30 Jun 2020	as of 31 Mar 2020	as of 31 Dec 2020	as of 30 Sep 2020	as of 30 Jun 2020	as of 31 Mar 2020
Article 449(o)(i)	14	**Securitisation exposures in the banking book (after the cap)**	**119.4**	**111.0**	**0.0**	**434.7**	**9.6**	**8.9**	**0.0**	**34.8**
	15	Of which IRB approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	16	Of which IRB supervisory formula approach (SFA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	17	Of which internal assessment approach (IAA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	18	Of which standardised approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 438(e)	19	**Market risk**	**761.9**	**982.2**	**849.6**	**800.1**	**60.9**	**78.6**	**68.0**	**64.0**
	20	Of which the standardised approach	761.9	982.2	849.6	800.1	60.9	78.6	68.0	64.0
	21	Of which IMA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 438(e)	22	Large exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 438(f)	23	**Operational risk**	**9 344.0**	**9 344.0**	**9 344.0**	**9 810.7**	**747.5**	**747.5**	**747.5**	**784.9**
	24	Of which basic indicator approach	0.0	0.0	0.0	9 810.7	0.0	0.0	0.0	784.9
	25	Of which standardised approach	9 344.0	9 344.0	9 344.0	0.0	747.5	747.5	747.5	0.0
	26	Of which advanced measurement approach	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Article 437(2), Article 48 and Article 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**748.6**	**839.7**	**824.0**	**893.5**	**59.9**	**67.2**	**65.9**	**71.5**
Article 500	28	**Floor adjustment**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	29	**Total**	**87 555.4**	**86 997.5**	**88 113.6**	**90 936.1**	**7 004.4**	**6 959.8**	**7 049.1**	**7 275.0**

The tables below present exposures by class according to the AIRB and SA methods – in accordance with the following templates shown in the EBA/GL/2016/11 Guidelines:

- EU CR5: Standardised approach,
- EU CR6: IRB - Credit risk exposures by exposure class and PD range,
- EU CR8: RWA flow statements of credit risk exposures under the IRB approach.

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EU CR5: Standardised approach

		Risk weight									Total
	Exposure classes	0%	20%	35%	50%	75%	100%	150%	250%	Others	
1	Central governments or central banks	47 834.2	0.0	0.0	0.0	0.0	0.0	0.0	299.4	0.0	**48 133.6**
2	Regional government or local authorities	0.0	3 394.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**3 394.9**
3	Public sector entities	0.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	**5.0**
4	Multilateral development banks	7 898.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**7 898.8**
5	International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
6	Institutions	0.0	0.0	0.0	42.1	0.0	0.0	0.0	0.0	0.0	**42.1**
7	Corporates	0.0	0.0	0.0	0.0	0.0	5 373.2	0.0	0.0	0.0	**5 373.2**
8	Retail	0.0	0.0	0.0	0.0	27 376.7	0.0	0.0	0.0	0.0	**27 376.7**
9	Secured by mortgages on immovable property	0.0	0.0	34 259.3	0.0	14.5	228.3	592.4	0.0	0.0	**35 094.5**
10	Exposures in default	0.0	0.0	0.0	0.0	0.0	822.7	87.7	0.0	0.0	**910.4**
11	Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
12	Covered bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
13	Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
14	Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
15	Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
16	Other items	723.1	0.0	0.0	0.0	0.0	1 921.2	0.0	0.0	1.8	**2 646.1**
17	**Total**	**56 456.1**	**3 394.9**	**34 259.3**	**47.1**	**27 391.2**	**8 345.4**	**680.1**	**299.4**	**1.8**	**130 875.3**

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EU CR6: IRB - Credit risk exposures by exposure class and PD range

	PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Institutions *	0.00 to <0.15	8 427.4	1 667.7	0.5	9 187.7	0.1	317.0	30.3	1.7	880.5	0.1	2.2	
	0.15 to <0.25	189.4	182.5	0.1	211.6	0.2	52.0	10.2	1.9	87.1	0.4	0.2	
	0.25 to <0.50	2 326.9	332.7	0.3	2 425.4	0.4	38.0	30.7	2.9	614.2	0.3	3.3	
	0.50 to <0.75	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	0.75 to <2.50	74.1	68.3	0.2	85.0	1.2	35.0	3.7	1.3	94.3	1.1	0.4	
	2.50 to <10.00	2.0	39.3	0.1	6.0	6.2	27.0	0.0	1.0	9.2	1.5	0.1	
	10.00 to <100.00	0.5	1.2	0.9	1.5	16.3	39.0	3.5	2.9	3.5	2.3	0.1	
	100.00 (Default)	5.1	0.0	0.0	5.1	100.0	1.0	38.1	1.0	0.0	0.0	5.1	
	Subtotal	**11 025.4**	**2 291.7**	**0.4**	**11 922.3**	**0.2**	**509.0**	**29.8**	**1.9**	**1 688.8**	**0.1**	**11.4**	**6,6**
Corporates Specialised lending**	0.00 to <0.15	195.6	4.7	0.3	197.1	0.1	25.0	1.0	1.9	1.2	0.0	0.0	
	0.15 to <0.25	954.8	29.7	1.0	984.5	0.2	33.0	21.6	2.8	321.0	0.3	0.5	
	0.25 to <0.50	5 064.2	425.6	0.9	5 437.3	0.4	122.0	25.4	3.1	2 335.8	0.4	5.2	
	0.50 to <0.75	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	0.75 to <2.50	3 000.3	181.5	1.0	3 174.3	0.9	176.0	15.7	3.2	1 179.7	0.4	5.0	
	2.50 to <10.00	147.1	39.0	0.6	171.0	5.9	9.0	37.1	2.3	228.5	1.3	3.0	
	10.00 to <100.00	57.4	6.7	0.5	60.9	24.5	40.0	14.8	1.4	50.1	0.8	2.1	
	100.00 (Default)	445.6	0.0	0.0	445.6	100.0	9.0	30.4	1.3	258.5	0.6	122.8	
	Subtotal	**9 865.0**	**687.2**	**0.9**	**10 470.7**	**5.0**	**414.0**	**22.0**	**2.9**	**4 374.8**	**0.4**	**138.6**	**155,2**
Corporates SME	0.00 to <0.15	398.8	3 292.6	0.0	428.3	0.1	4 058.0	30.1	1.2	54.0	0.1	0.2	
	0.15 to <0.25	862.5	504.0	0.6	1 172.9	0.2	468.0	28.0	2.2	225.4	0.2	0.6	
	0.25 to <0.50	1 297.1	664.2	0.7	1 744.0	0.3	869.0	26.1	2.4	471.5	0.3	1.6	
	0.50 to <0.75	2 594.0	900.1	0.6	3 167.1	0.6	1 111.0	26.1	2.2	1 086.3	0.3	4.9	
	0.75 to <2.50	4 723.7	1 317.3	0.6	5 475.7	1.6	2 112.0	22.7	2.0	2 197.4	0.4	19.7	
	2.50 to <10.00	2 636.4	626.2	0.6	3 033.1	4.7	1 219.0	21.4	2.0	1 521.1	0.5	29.6	
	10.00 to <100.00	278.0	32.3	0.8	304.5	20.7	267.0	22.0	1.9	254.8	0.8	14.0	
	100.00 (Default)	333.0	10.8	0.6	339.1	100.0	225.0	37.1	1.6	361.2	1.1	135.5	
	Subtotal	**13 123.5**	**7 347.5**	**0.3**	**15 664.7**	**4.2**	**10 329.0**	**24.4**	**2.1**	**6 171.7**	**0.4**	**206.1**	**253,0**
Corporates Other	0.00 to <0.15	3 352.9	6 659.0	0.2	4 742.6	0.1	2 136.0	37.0	2.3	1 178.2	0.2	14.4	
	0.15 to <0.25	2 729.4	4 524.8	0.4	4 631.4	0.2	317.0	38.3	2.1	1 651.8	0.4	3.2	
	0.25 to <0.50	4 278.4	4 203.1	0.4	5 980.6	0.4	591.0	33.2	2.3	2 941.1	0.5	7.6	
	0.50 to <0.75	2 925.3	857.1	0.7	3 559.8	0.6	543.0	28.2	2.3	2 033.4	0.6	5.9	
	0.75 to <2.50	8 748.0	4 032.5	0.5	10 832.7	1.4	1 389.0	26.8	2.1	7 065.9	0.7	38.9	
	2.50 to <10.00	3 954.5	1 352.9	0.4	4 561.2	4.4	1 751.0	23.8	1.9	3 798.8	0.8	45.4	
	10.00 to <100.00	716.7	91.6	0.5	767.3	20.6	5 489.0	17.9	1.9	834.8	1.1	29.7	
	100.00 (Default)	1 708.9	53.7	0.6	1 742.0	100.0	1 016.0	47.2	1.2	1 480.2	0.8	1 059.1	
	Subtotal	**28 414.1**	**21 774.7**	**0.4**	**36 817.6**	**6.3**	**13 232.0**	**31.1**	**2.1**	**20 984.2**	**0.6**	**1 204.2**	**1 280,3**
Total (all portfolios)		**62 428,0**	**32 101.1**	**0.4**	**74 875.3**	**4.7**	**24 484.0**	**28.2**	**2.2**	**33 219.5**	**0.4**	**1 560.3**	**1 695.1**

*) Local government units are permanently excluded from the institutions exposure class in the IRB approach and are permanently reported under the SA method as a result of the AIRB approach approval.

**) As far as corporate exposures are concerned, the Bank and the whole ING Group identify the so-called specialized lending transactions that comprise the following types of financing: Commercial Property Finance, Trade and Commodity Finance as well as

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Project Finance, out of which Commercial Property Finance stands for the largest exposure of the Bank. For those types of financing, the Bank uses dedicated PD rating models developed on the ING Group's level.

EU CR8: RWA flow statements of credit risk exposures under the IRB approach

		a)	b)
		RWA amounts	Capital requirements
1	**RWAs as at the end of the previous reporting period**	**35 327.5**	**2 826.2**
2	Asset size	843.1	67.4
3	Asset quality	25.7	2.1
4	Model updates	0.0	0.0
5	Methodology and policy	-1 196.0	-95.7
6	Acquisitions and disposals	0.0	0.0
7	Foreign exchange movements	85.3	6.8
8	Other	0.0	0.0
9	**RWAs as at the end of the reporting period**	**35 085.6**	**2 806.8**

Risk weighted assets for equity exposures are calculated as follows:

- according to simplified method (for the risk weight of 290% and 370%), and
- using exemption thresholds for deductions from own funds items (for the risk weight of 250%).

Under the simplified risk weighting method, the weight of 290% is used for traded equity exposures; the weight of 370% is applied to the other exposures identified in the portfolio covered by the simplified method and not included in the weight of 190% under this method.

Detailed information on equity exposure is presented in the table below (in accordance with the EU CR10: IRB (specialized lending and equities) template shown in the EBA/GL/2016/11 Guidelines).

EU CR10: IRB (specialised lending and equities)

Regulatory categories	On balance sheet amount		Off balance sheet amount		RW	Off balance sheet amount		RWA		Capital requirements	
	as of 31 Dec 2020	as of 30 Jun 2020	as of 31 Dec 2020	as of 30 Jun 2020		as of 31 Dec 2020	as of 30 Jun 2020	as of 31 Dec 2020	as of 30 Jun 2020	as of 31 Dec 2020	as of 30 Jun 2020
Exchange traded equity exposures	-	-	-	-	290%	-	-	-	-	-	-
Private equity exposures	-	-	-	-	190%	-	-	-	-	-	-
Other equity exposures	71.3	62.1	-	-	250%	71.3	62.1	178.3	155.2	14.3	12.4
Other equity exposures	195.1	162.1	-	-	370%	195.1	162.1	722.0	599.9	57.8	48.0
Total	**266.4**	**224.2**	**-**	**-**	**-**	**266.4**	**224.2**	**900.3**	**755.1**	**72.1**	**60.4**

3. Capital buffers

The provisions of the CRD IV, in particular on regulatory capital buffers were implemented to the domestic regulations in 2015 by adopting the Act on macroprudential supervision over the financial system and crisis management in the financial system and relevant amendment of the Banking Law Act.

The Act set out the capital buffers that will need to be observed by banks in Poland as of January 2016.

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As at 31 December 2020, the Group accounts for the following values in the calculation of capital buffers:

- capital conservation buffer which equals 2,5%,
- other systemically important institution buffer (O-SII) at 0.5% imposed by the PFSA decision of 19 December 2017 and upheld with the PFSA letter of 2 August 2018 and of 19 August 2019, which remains valid also in 2020,
- countercyclical buffer applied to exposure to which such buffer was imposed by competent authorities. The countercyclical buffer varies over time depending on the structure of the relevant exposures and the levels of countercyclical buffer rates imposed on the relevant exposures (as at December 2020 the countercyclical buffer was effectively equal to 0.001%)
- systemic risk buffer according to the Regulation of the Minister of Finance repealing previous regulation on systemic risk buffer published on 18th of March, 2020 equals 0%.

The tables below present information on: the geographical distribution of the relevant credit exposures and the amount of the institution-specific countercyclical capital buffer - in accordance with Commission Delegated Regulation (EU) 2015/1555.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
010	**Breakdown by country**	**010**	**020**	**030**	**040**	**050**	**060**	**070**	**080**	**090**	**100**	**110**	**120**
	Poland	71 333.5	61 896.8	0.0	0.0	0.0	0.0	5 845.6	0.0	0.0	5 845.6	98.8	0.0
	Luxembourg	0.6	316.0	0.0	0.0	0.0	0.0	30.2	0.0	0.0	30.2	0.5	0.3
	Norway	0.8	0.3	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.0	1.0
	Czech Republic	0.1	92.4	0.0	0.0	0.0	0.0	6.7	0.0	0.0	6.7	0.1	0.5
	Hong Kong	0.0	39.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
	Slovakia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
	Bulgaria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
	Other countries	65.8	803.2	0.0	0.0	0.0	0.0	35.4	0.0	0.0	35.4	0.6	0.0
020	**Total**	**71 400.8**	**63 147.9**	**0.0**	**0.0**	**0.0**	**0.0**	**5 918.0**	**0.0**	**0.0**	**5 918.0**	**100.0**	

Amount of institution-specific countercyclical capital buffer

010	Total risk exposure amount	73 976.1
020	Institution specific countercyclical buffer rate	0.0016
030	Institution specific countercyclical buffer requirement	1.4

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4. Leverage ratio

The calculation of regulatory leverage ratio in the ING Bank Śląski S.A. Group as at 31 December 2020, was based on provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter referred to as the "Regulation 2015/62").

Leverage ratio is calculated as Tier 1 capital measure divided by the total exposure measure and expressed as a percentage. Total exposure measure is the sum of the exposure value calculated in accordance with the Regulation 2015/62 of all assets and off-balance sheet items not deducted when calculating the Tier 1 capital measure.

The table below presents the reconciliation of total exposure to the calculation of the leverage ratio with the value of assets in the published annual financial statements in accordance with the Commission Implementing Regulation (EU) 2016/200.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amount
1	Total assets as per published financial statements	186 595.8
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	18.6
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0.0
4	Adjustments for derivative financial instruments	4 434.7
5	Adjustment for securities financing transactions (SFTs)	279.4
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	13 218.5
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0.0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0.0
7	Other adjustments	-179.6
8	**Leverage ratio total exposure measure**	**204 367.4**

The table below presents information on the financial leverage ratio as at 31 December 2020 and the breakdown of the total exposure measure comprising the leverage ratio in accordance with the Commission Implementing Regulation (EU) 2016/200.

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LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	184 520.4
2	(Asset amounts deducted in determining Tier 1 capital)	-179.6
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**184 340.8**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	5 684.2
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	1 475.2
EU-5a	Exposure determined under Original Exposure Method	0.0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0.0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-630.7
8	(Exempted CCP leg of client-cleared trade exposures)	0.0
9	Adjusted effective notional amount of written credit derivatives	0.0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0.0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**6 528.7**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	274.9
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.0
14	Counterparty credit risk exposure for SFT assets	4.5
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0.0
15	Agent transaction exposures	0.0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0.0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**279.4**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	43 354.9
18	(Adjustments for conversion to credit equivalent amounts)	-30 136.4
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**13 218.5**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0.0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0.0
Capital and total exposure mesure		
20	**Tier 1 capital**	14 086.5
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**204 367.4**
Leverage ratio		
22	**Leverage ratio**	**6.89**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0.0

On the basis of CRD IV Directive and implementing standards, the Group prepared and implemented "The procedure of preparing the report: Leverage Ratio". This document describes the recipients and detailed rules of leverage ratio calculation in LIREP application for NBP reporting by Accounting Department.

Within the ICAAP process, the excessive leverage ratio risk has been identified as immaterial. The metric used for materiality assessment has been the cost of capital needed to keep the ratio at the required level. Despite risk immateriality, the Group has implemented a management process for this type of risk, including: "Excessive financial leverage risk management policy" and "Leverage ratio planning procedure". The documents sets responsibilities of departments and ALCO Committee within the process.

The Accounting Department is responsible for:

- the leverage ratio calculating methodology (in agreement with the Group Treasury) and current calculation of the ratio,
- carrying out the obligatory reporting process to external entities of the Bank, such as NBP, KNF.

The Controlling Department is responsible for preparing plans of on-balance and off-balance positions, which are necessary for calculating the components of the leverage ratio.

The Group Treasury is responsible for planning the leverage ratio and initiating actions, which aim to maintain the leverage ratio at the required level.

Market Risk Management is responsible for:

- reporting and monitoring the leverage ratio, as well as informing the Management Board on this issue,
- setting a limit of the leverage ratio,
- the methodology of estimating the economic capital for the excessive leverage ratio risk, in case of qualifying this risk as significant and carrying out stress tests including the excessive leverage ratio risk.

For internal purposes the required ratio limit is 5%. In order to limit the risk of the leverage ratio falling below the required level, the Market Risk Management controls whether the ratio reaches (or may reach in the forecast horizon) the following levels:

- below 3% - considered as unacceptable,
- between 3% and 5% - considered as the level under observation,
- above 5% considered - as desired.

If the current or planned leverage ratio falls below the unacceptable level, the Market Risk Management informs the ALCO Committee and the Management Board. Based on the information received, ALCO may decide on recommending the Management Board one of the following actions:

- not paying or reducing the amount of dividend,
- issuance of capital, which could be included to Tier I,
- limiting the development of the Bank's lending activity,
- securitization or sale of certain loan portfolios,
- other actions resulting in the ratio improvement.

Based on the ALCO's recommendation, the Management Board decides on the next steps and indicates the unit responsible for carrying out these actions.

In 2020 the leverage ratio has been above internal and regulatory limit. The main influencing factors have been:

- credit dynamics (nominator) – as a result of Bank strategy,

- recognition in Tier I capital 2019 and two quarters of 2020 year (denominator) – a consequence of Bank strategy to improve capital adequacy ratio,
- inclusion of transition periods in own funds calculation (denominator).

If the Bank decides to identify the excessive leverage ratio risk as material and the ratio will not be at the required level in stress test for the mild recession scenario, Market Risk Management calculates the appropriate economic capital. The economic capital is a shortage of capital needed to maintain the ratio at the required level.

5. Liquidity

5.1 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.

The information in this document has been disclosed on the basis of data from the annual consolidated financial statements for the year 2020 of the ING Bank Śląski S.A. Group.

5.2 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 PFSA's resolution No. 386/2008 and 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 Group 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 Group Treasury. Applying adequate tools, it manages the risks in a centralised manner within the limit system applied by the Bank.

5.3 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 objective is to apply a conservative approach to liquidity risk management to support safe survival of events that are specified to ING Bank Śląski S.A. and 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 customers' 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 customers' 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.

5.4 Structure and organisation of the risk management process

The structure of risk and control at the Bank is based on the Three Lines of Defence Model. The model is designed to ensure a stable and effective framework for risk management by defining and implementing three risk management "levels" with distinct roles, responsibilities and oversight responsibilities:

- **First line of defence** – business management at the Bank. The heads of particular business units bear the primary responsibility for the actions. operations. compliance with norms and effective risk control affecting the particular business unit, The business management participate in the process of liquidity and funding risk management at all levels of organization.
- **Second line of defence** – risk and finance management functions. The risk management functions and finance management functions, if applicable, are performed through:
  - development of policies, standards and guidance for their particular risk areas,
  - coordination, supervision and control of the actions taken by the first line of defence within the scope of assigned tasks and the management, control and reporting risks generated by the first line of defence,
  - escalating/vetoing of the business unit's activities that could possibly generate risks unacceptable for the Bank.
- **Third line of defence** – Internal Audit Department. The Internal Audit Department is responsible for ensuring independent assessment and opinion on:
  - the design and effectiveness of internal controls of the risks resulting from the Bank's activity,
  - the design and effectiveness of risk management performed by the first and second line of defence.

The Bank's Supervisory Board, Management Board and the Asset and Liability Committee (ALCO) play a specific role in liquidity and funding risk management.

The Bank's Supervisory Board is responsible for:

- approving the liquidity risk tolerance, teoverall acceptable level of liquidity and funding risk (in HL RAS) presented to the Supervisory Board by the Executive 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 liquidity and funding risk limits (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 liquidity premium levels based on advised by Group Treasury Department level resulted from the liquidity premium review and/or adjusts it when deemed necessary, because of the 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 Group 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 to liquidity and funding risk limits (in LCS and ALCO RAS)
- implementation of limits under the approved risk appetite (approved in accordance with the division of responsibility in determining the levels of limits defined in the RAS setting and monitoring policy within market risk, liquidity and solvency), approval of assumptions to 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.

5.5 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 admissible level of funding and liquidity risk is defined with a system composed of several elements: the general level of risk acceptable to the Bank, approved by the Supervisory Board, and a limit system, approved in accordance with the division of responsibility in determining the levels of limits defined in the RAS setting and monitoring policy within market risk, liquidity and solvency. 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.

<u>M3-M4</u>

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Resolution No. 386/2008 of the Polish Financial Supervision Authority obliges the Bank to calculate the following liquidity measures:

- M3 – coverage ratio of illiquid assets with equity (minimum value: 1.00), and
- M4 – coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds (minimum value: 1.00).

The Bank is obliged to perform daily monitoring and comply with the limits set forth in PFSA's resolution for M3 and M4 measures. In 2020 the Bank maintained all liquidity standards above minimum values.

As at 31 December 2020, supervisory liquidity measures for ING Bank Śląski S.A. were as follows:

	Liquidity measures	Minimum value	2020	2019
M3	Coverage ratio of illiquid assets with equity	1	9,63	9,39
M4	Coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds	1	1,33	1,17

Deposit base stability

Verification of the stability of the deposit base by calculating the stable part of stable external funding is a major element in the calculation of supervisory liquidity measures. The analysis is performed with an internal model. The model considers the following aspects:

- funding received from major depositors,
- distribution of changes,
- estimation of volatility and time scaling,
- long- and short term trends,
- impact of FX rate volatility on the stability of the deposit base.

The model is a subject to an annual review that covers a detailed analysis of its functioning, an analysis of the underlying assumptions and backtesting.

Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)

In compliance with the duties and principles set forth in Regulation (EU) No 575/2013 of the European Parliament and of the Council and Commission Delegated Regulation's (EU) No 2015/61 and 2018/1620, the Bank calculates the following regulatory 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 2020 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.

The Bank is obliged to report the liquidity measures to the regulator on a monthly and quarterly basis.

As at 31 December 2020 and 31 December 2019, the supervisory liquidity measures for the Group of ING Bank Śląski S.A. were as follows:

	Liquidity measures	Minimum value	2020	2019
LCR	Liquidity coverage ratio	100%	220%	130%
NSFR	Stable funding ratio	n/a*	144%	130%

*) in compliance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, the target regulatory limit for NSFR was not yet in force; starting from 28.06.2021, in accordance with Regulation (EU) No 2019/876 of the European Parliament and of the Council, the minimum ratio value will be at least 100%.

In compliance with the Guidelines on the disclosure of the net outflow coverage ratio, in addition to the disclosure of information on liquidity risk management issued by EBA, the Bank is obliged to disclose components of the ratio in the form as specified in the table below (net outflow coverage ratio – total). It contains the following information:

- high quality liquid assets – a "weighted" amount subject to value reduction,
- cash outflows – weighted and unweighted outflows,
- cash inflows – weighted and unweighted inflows.

Such weighted inflows and outflows are calculated as values after application of inflow and outflow ratios. The presented numbers cover the values for each of the four calendar quarters in 2020. Those are average observed values at the end of each month in the 12-month period preceding the end of each quarter.

The information presented in the table covers all positions irrespective of the denomination currency and are presented in PLN. The net outflow coverage ratio contains all important elements for the Bank's liquidity profile.

Apart from the presented values of the net outflow coverage ratio calculated for all currencies, the Bank also monitors ratios calculated for major currencies – PLN and EUR.

For the EUR ratio, the Bank identifies mismatch in the net outflow coverage ratio and as a result its value is below the ratio calculated for all currencies.

The above mismatch consists in the existence of long-term assets of EUR loans and their funding method. In terms of LCR, inflows under the loans are restricted to the next principal and interest instalment. The deposits funding those positions are only in part retail deposits characterised with a low outflow ratio. The other positions funding EUR loans in terms of LCR are characterised with a higher outflow ratio. Such calculated amount of EUR outflows is not fully covered with liquid assets in the currency thus resulting in a lower net outflow ratio in EUR versus the ratio calculated for all currencies.

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Net outflow coverage ratio

		TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
		31 March 2020	30 June 2020	30 September 2020	31 December 2020	31 March 2020	30 June 2020	30 September 2020	31 December 2020
Number of data points used to calculate the averages		12	12	12	12	12	12	12	12
HIGH QUALITY LIQUID ASSETS									
1	**Total high quality liquid assets**					**31 515**	**35 604**	**41 849**	**47 406**
OUFLOWS OF CASH FUNDS									
2	Retails deposits and deposits from small enterprises, of which:	110 178	116 097	122 672	128 599	8 611	9 106	9 702	10 219
3	*Stable deposits*	70 823	74 329	77 809	81 174	3 541	3 716	3 890	4 059
4	*Less stable deposits*	39 354	41 762	44 850	47 407	5 070	5 390	5 811	6 160
5	Uncommitted wholesale funding	17 142	17 123	17 816	18 112	9 525	9 367	9 729	10 048
6	*Operational deposits (all counterparties) and deposits within the network of cooperating network of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	17 142	17 123	17 816	18 112	9 525	9 367	9 729	10 048
8	*Unsecured debt*	0	0	0	0	0	0	0	0
9	Committed wholesale funding					0	0	0	0
10	Additional requirements	23 135	23 504	24 156	23 168	3 032	3 196	3 373	3 385
11	*Outflows related to exposure to derivative instruments and other requirements related to hedges*	958	1 125	1 264	1 403	958	1 125	1 264	1 403
12	*Outflows related to loss of funding under debt products*	0	0	1	1	0	0	1	1
13	*Credit instruments and liquidity support instruments*	22 177	22 379	22 891	21 764	2 074	2 071	2 108	1 981
14	Other contractual liabilities relating to funding	6 979	5 920	5 046	4 306	6 778	5 699	4 807	4 045
15	Other conditional liabilities relating to funding	13 992	14 637	15 264	17 820	0	0	0	0
16	**TOTAL OUFLOWS OF CASH FUNDS**					**27 946**	**27 368**	**27 611**	**27 697**
INFLOWS OF CASH FUNDS									
17	Secured credit transactions (e.g. with a repurchase obligation)	346	346	266	252	3	3	2	1
18	Inflows from fully serviced exposures	2 613	2 747	2 687	2 637	1 041	1 092	1 074	1 101
19	Other cash inflows	2 048	1 949	1 812	1 802	2 048	1 949	1 812	1 802
EU-19a	(Difference between the sum of total weighted inflows and the sum of total weighted outflows resulting from transactions in third countries which apply transfer restrictions or transactions denominated in non-convertible currencies)								
EU-19b	(Surplus of inflows from related specialised credit institutions)								
20	TOTAL INFLOWS OF CASH FUNDS	5 007	5 042	4 765	4 691	3 092	3 044	2 888	2 904
EU-20a	***Totally excluded inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows subject to limitation of 90%***	0	0	0	0	0	0	0	0
EU-20c	***Inflows subject to limitation of 75%***	5 007	5 042	4 765	4 691	3 093	3 043	2 888	2 903
						TOTAL ADJUSTED VALUE			
21	HEDGING AGAINST IMPAIRMENT					31 515	35 604	41 849	47 406
22	**TOTAL NET INFLOWS OF CASH FUNDS**					24 855	24 325	24 723	24 793
23	**NET OUTFLOW COVERAGE RATIO (%)**					**1.27**	**1.48**	**1.69**	**1.91**

Net stable funding ratio

	as of 31 Mar 2020	as of 30 Jun 2020	as of 30 Sep 2020	as of 31 Dec 2020
amounts of stable funding available	137 981.2	150 141.3	152 921.1	153 353.9
the amount of stable funding required	106 308.0	104 393.9	106 296.9	106 650.9
stable net financing rate	1.30	1.44	1.44	1.44

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Here below 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 the end of 2020 and 2019. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

	2020	2019
Level 1 liquid assets		
Cash	723.1	733.8
Cash in nostro accounts with the Central Bank net of the required reserve	13.2	1.2
Other exposures to the Central Bank (O/N deposit, cash bills)	0.0	230.0
Unencumbered Treasury bonds	43 801.2	27 705.1
Unencumbered BGK bonds	2 149.5	525.6
Unencumbered bonds of the European Investment Bank	7 095.8	3 554.2
Total	**53 782.8**	**32 749.9**

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 collateral in 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 customers' anticipated/actual behaviour. Modelling is mixed. This means than an analysis of customers' behaviour relies on historic data and expert judgement.

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 customers' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans, cash loans and overdrafts 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
2020 (PLN million)						
Liquidity gap	39 808.7	9 763.0	26 946.9	841.8	-63 811.4	-13 548.9
Cumulated liquidity gap	39 808.7	49 571.6	76 518.5	77 360.4	13 548.9	0.0
2019 (PLN million)						
Liquidity gap	24 321.7	9 459.2	23 514.3	-718.7	-45 972.5	-10 604.0
Cumulated liquidity gap	24 321.7	33 780.9	57 295.1	56 576.4	10 604.0	0.0

In the Group of ING Bank Śląski S.A., the Bank follows liquidity risk monitoring and limiting based on measurements of the cumulated 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,
- customer segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

Periodical analyses also monitor the risk generated by related customers (within Groups).

The existing funding structure is well diversified. Herebelow, there is the funding structure as at the end of 2020 and 2019, split into direct and mutual funding. Direct funding is provided mainly by retail and corporate customers while mutual funding comprised primarily funds acquired from other banks.

Direct funding:

	2020		2019	
Core customer segments	**direct funding**	**% share**	**direct funding**	**% share**
Banks	2 900	1.7%	1 606	1.1%
Corporate customers.	46 797	27.3%	41 362	28.2%
Retail customers	102 742	60.0%	87 877	59.9%
Own issues	3 632	2.1%	2 529	1.7%
Equity	15 116	8.8%	13 590	9.1%

Mutual funding:

	2020		2019	
Core customer segments	**mutual funding**	**% share**	**mutual funding**	**% share**
Banks	15 459	100.0%	8 994	99.5%
Corporate customers.	0	0.0%	43	0.5%
Retail customers	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 cumulated 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 2020:

Structure of the liquidity buffer	% share
Treasury bonds or bonds issued by the central bank (PLN)	67.2%
Treasury bonds or bonds issued by the central bank (EUR)	11.0%
bonds of BGK , PFR and EIB	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 GMRA 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).

Stress tests and contingency plans

In compliance with regulatory requirements, the Bank has implemented a stress test program. It guarantees that such tests are planned, designed, held and analysed in order to identify sources of potentially restricted liquidity. Additionally, it stresses that such situations may be prevented so that the existing exposures remain within the approved limits. The Bank pays special attention to the test process under which every six months the Bank holds measurements and analyses the sensitivity of liquidity risk in various scenarios.

The results of stress tests are relied on in the following instances:

- development of the strategy,
- implementation of remedial actions or actions aimed at reducing the Bank's exposure to risk,
- designing of contingency plans should stress situations materialise,
- day-to-day practice of risk management,
- setting the risk appetite and internal limits, and
- adaptation and enhancement of internal regulations in the Bank.

The test program includes a scenario analysis, sensitivity tests and reversed tests. Such scenario analysis combined shock elements that are likely to materialise at the same time.

Three variants are analysed in the tests:

- idiosyncratic – specific for the Bank: market conditions remain good, the banking sector is not subject to stress conditions,
- systemic – an external market crisis: the Bank is affected by stress tests as a result of deteriorated market conditions,
- mixed – a combination of the variants specified above.

In each variant a number of risk factors are analysed and a set of scenarios are developed. As a rule, the test scenarios are designed on conservative assumptions.

The objective of sensitivity analyses is to understand the Bank's sensitivity to various risk factors.

Reversed tests are additional elements which are to analyse potential hazards to the Bank. The tests are held in the entire Bank and cover various risks in order to obtain a complete and comprehensive picture of risks prevailing at the Bank. In the liquidity test process, an important element covers specific scenarios to intraday liquidity hazards as well as intraday liquidity ratios and measures.

The results of the tests held in 2020 confirm a stable and secure position of the Bank. The Bank holds liquidity reserves on an adequate level.

An important process of liquidity risk management covers the development of a contingency liquidity plan for the Bank which is related to the stress test program. The Contingency Funding Plan developed by the Bank provides guidelines relating to identifying a liquidity crisis and should such crisis be identified – actions to be taken to overcome the crisis. The Contingency Funding Plan covers the Bank's entire business. The Liquidity Crisis Team plays the key role when the Contingency Funding Plan is activated.

The Contingency Funding Plan is subject to periodic testing. Given the specifics of 2020, the ALCO Committee was informed on the results of the annual test of the contingency funding plan conducted as actual actions taken during the outbreak from March 2020.The tests held in 2020 confirmed the adequacy of the actions detailed in the Contingency Funding Plan to overcome liquidity crises.

5.6 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 Group 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 Group 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.

5.7 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.

5.8 Risk management in subsidiaries

The balance sheet totals of the Bank's subsidiaries are insignificant compared to the Bank's balance sheet in the context of liquidity risk, and thus the approach adopted to managing liquidity risk and financing is much simpler than in the case of the Bank's liquidity. The principle was adopted that the liquidity risk and financing should be kept to a minimum, if possible, in subsidiaries, as companies should not be exposed to liquidity risk.

In the case of ING Bank Hipoteczny, the above description is not fully applicable. 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 2020 ING Bank Hipoteczny issued own bonds for PLN 975 million.

ING Bank Hipoteczny SA is a company operating on an autonomic basis. This entity operates within the risk appetite accepted by INGBS and managed at ING Bank Hipoteczny SA level.

5.9 Maturity analysis of financial assets and liabilities and derivative financial instruments by contractual payment days

The table below presents financial assets split by remaining (from the reporting date) contractual maturities.

2020 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Cash in hand and balances with the Central Bank	0.0	867.3	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	0.0	376.7	13.8	33.2	310.9	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	0.8	290.2	200.7	47.9	224.5	75.3
Investment securities	157.7	86.4	1 699.1	5 414.1	37 882.8	11 729.7
Loans and other receivables to customers measured at amortised cost	0.0	14 271.2	5 710.5	21 134.2	46 030.3	56 181.9
Other assets	0.0	14.3	11.4	37.2	0.0	0.0

2019 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Cash in hand and balances with the Central Bank	0.0	1 402.9	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	0.0	602.6	10.6	46.2	237.4	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	186.2	28.0	45.1	347.5	282.5
Investment securities	110.6	388.1	2 661.4	1 045.4	20 741.6	10 687.0
Loans and other receivables to customers measured at amortised cost	0.0	18 471.1	4 227.7	16 361.1	40 938.0	42 009.1
Other assets	0.0	1.5	14.9	23.2	0.0	0.0

The table below presents financial liabilities 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.

2020 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Liabilities to other banks	0.0	5 008.6	330.5	1 010.3	1 875.2	69.2
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	200.0	0.0	0.0	117.9	147.6
Liabilities to customers	0.0	148 809.6	304.8	1 383.7	227.0	303.2
Liabilities from debt securities issued	0.0	0.0	927.5	51.6	409.5	0.0
Subordinated liabilities	0.0	0.8	6.4	21.8	116.3	2 164.0
Other liabilities	0.0	872.9	351.6	284.9	19.8	347.4
Contingent liabilities granted	0.0	43 278.5	0.0	0.0	0.0	0.0

2019 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Liabilities to other banks	0.0	2 812.4	174.0	807.5	2 373.8	88.5
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	80.7	0.0	0.0	85.9	81.3
Liabilities to customers	0.0	127 969.6	933.9	1 368.3	177.7	41.1
Liabilities from debt securities issued	0.0	0.0	4.7	0.0	437.1	0.0
Subordinated liabilities	0.0	0.9	6.4	21.8	116.3	2 224.7
Other liabilities	0.0	741.2	233.5	296.4	24.6	366.0
Contingent liabilities granted	0.0	36 547.7	0.0	0.0	0.0	0.0

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 below 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 2020 and 31 December 2019 respectively.

2020 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
IRS transactions, of which:	-432.9	-664.6	-541.3	-805.8	184.6
hedging transactions in hedge accounting	-135.8	-97.4	-167.0	-95.9	26.6
other derivatives	-8.0	-7.7	-25.6	-2.4	0.0

2019 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
IRS transactions, of which:	-97.6	90.7	249.3	-182.5	-299.0
hedging transactions in hedge accounting	10.0	38.2	80.3	-152.0	-175.7
other derivatives	-10.6	-8.0	-11.8	-24.1	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 above data reflects non-discounted contractual cash outflows and inflows of nominals and – in case of CIRS transactions – as interest, as at 31 December 2020 and 31 December 2019 respectively.

2020 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
outflows	4 961.8	1 850.5	2 405.1	1 380.5	0.0
inflows	-5 036.3	-1 905.5	-2 471.1	-1 457.7	0.0

2019 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
outflows	-2 799,0	-1 527,2	-1 502,1	-725,2	-252,1
inflows	2 786,3	1 514,6	1 477,5	659,4	244,4

5.10 Summary up

In the period under report, the liquidity and funding risk profile and the risk management methods were not materially changed. With respect to risk measurements, the core changes resulted from guidelines of the supervisory authorities, including PFSA and EBA.

6. Credit risk

6.1 Credit risk adjustments

6.1.1 Accounting definitions of past due and impaired items

For the accounting and regulatory purposes, the Bank classifies the past due exposures as material financial exposures with the capital or interest default. Days past due are calculated from the due date of the earliest payment defined in the credit agreement with the client.

At each balance sheet date, the Bank assesses whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when there is evidence of impairment resulting from one or more events occurring after the initial recognition of the asset (loss event), and the loss event (or events) has an effect on the expected future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.
A delay in the execution by the customer of any material credit obligations towards the Bank, the parent company or any of its subsidiaries exceeding 90 days is a default by the customer.
The definition of customer's default is consistent with the definition of impairment.

The exposure is considered to be in default and at the same time to be the impaired exposure if the following conditions are met:

- there is objective evidence of impairment or impairment indicator leading, in the Bank opinion, to default,
- the delay in payment is over 90 days and at the same time the amount of the arrears exceeds the absolute and relative materiality threshold.

From February 15, 2020, the Bank has been using the definition of default and the materiality thresholds for past due credit obligations in accordance with:

- Guidelines of the European Banking Authority (EBA) No. EBA/GL/2016/07 of January 18, 2017 on the application of the definition of default, as defined in art. 178 of Regulation (EU) No 575/2013,
- Regulation of the Minister of Finance, Investment and Development of 03/10/2019 on the materiality threshold of an overdue credit obligation (Journal of Laws 2019, 1960), referred to in Art. 178 sec. 2 lit. d) CRR), i.e. the absolute threshold of PLN 400 for retail credit exposures and PLN 2,000 for other credit exposures and the absolute threshold of 1% (regardless of the customer segment).

The Bank defined the objective evidences of impairment loss, whose occurrence has a direct impact on the estimates of future cash flows related to the particular exposure. The objective evidences of impairment loss mirror the specificity of retail and corporate portfolios (including financial institutions and banks) and meet the requirements of the EBA Guidelines No. EBA/GL/2016/07 of January 18, 2017 on the application of the definition of default, as defined in art. 178 of Regulation (EU) No 575/2013.

These include situations in which, for example:

- The Bank classifies the exposure to the Stage 3
- The Bank consents to a distressed restructuring of the credit obligation, resulting in loss more than 1% of the present value of the discounted futures cash flows, including forgiveness or writes off,

- The Bank or other bank or counterparty has filed for bankruptcy of the client or for the initiation of proceedings under restructuring law or has made a similar request with regard to the debtor's credit obligation towards the Group,
- The debtor has been declared bankrupt, or a similar protection has been declared or the debtor has been put into liquidation, ceased to operate,
- The Bank sells the credit obligation at a material credit-related economic loss,
- The Bank terminates the loan agreement,
- The Bank sells loan receivables with a significant economic loss of more than 5% of the balance sheet exposure amount, if the sale is caused by the deteriorating credit quality of the exposure,
- There is an overdue period exceeding 30 days or the Bank grants another facility (forbearance) on the credit exposure that is during the probation period for exit from forbearance,
- The credit exposure has an interest-free status, i.e. the Bank suspends charging interest,
- For retail credit exposure, there are over 3-month arrears in the repayment of due liabilities under the loan with a one-off repayment of the entire mobilized capital at the end of the loan period,
- For non-retail credit exposures - the Bank made a decision to recover the receivables as a part of the debt collection strategy,
- The debtor questions the balance sheet credit exposure in court proceedings.

The impairment indications for corporate credit exposures include among others:

- A retail debtor has failed to comply with the third repayment arrangement,
- A natural person who is 100% owner of the company and guarantees its significant obligations is in default status (default indicator for the company),
- A company owned in 100% by natural person is in default status (the default indicator for natural person),
- There are over 3-month arrears in repayment (interest and fees) for a loan with a bullet repayment of principal,
- The debtor belongs to the same economic or legal group as the obligor in default,
- No re-financing possibilities,
- The obligor has no intention or no ability to repay the liabilities towards the Bank due to the existing financial difficulties, including but not limited to:
  - There was a significant deterioration in the Obligor's economic and financial situation,
  - There are unsettled claims from guarantees granted by the Bank (lack of customer funds) and the overdue period is longer than 45 days,
  - The debtor significantly violates the terms of the loan agreement, which may have a negative impact on future cash flows,
  - Another bank terminated a loan agreement of significant value,
- The whereabouts of the corporate Obligor are unknown, resulting in a lack of representation in contacts with the Bank and undisclosed assets of the Obligor,
- There is a crisis in the sector in which the Obligor operates, combined with the weak position of the corporate Obligor in the sector,
- The Bank has restructured its loan receivables for non-commercial reasons related to significant financial difficulties of the customer, which would not have occurred if the

customer had not experienced difficulties and the loss of the net present value of cash flows is equal to or lower than 1%,

- The Obligor has committed credit fraud against the Bank or another ING Group entity,
- The exposure has received a forbearance 2 or more times in the last 5 years,
- Significant deterioration of the Obligor's rating.

The Bank has also defined the additional impairment triggers for leveraged transactions and commercial real estate financing transactions.

Credit exposure is assessed for impairment during defined periods in the monitoring process for performing and non-performing portfolios. In addition, the Bank monitors the client's debt repayment timeliness (both for performing and non-performing portfolios) with the use of available tools and reports, which results in early identification of the threat of objective evidences of impairment loss or impairment trigger occurrence in the future before its actual materialization. In case of impairment trigger identification on any of client's account, impairment is calculated for the whole credit exposure of the client. Identification of objective evidence of impairment does not require further expert judgment, the debtor / credit exposure is considered as being in default without further analysis. Default indicators require individual expert assessment and a decision as to whether the classification to default is justified.

The bank has identified events that result in the customer being able to exit the default status. A subsequent occurrence of the circumstances specified in the definition of default would constitute another default.

Subsidiaries have analogous rules of classification of exposures to impaired financial assets and the list of impairment triggers.

6.1.2 Description of approaches and methods adopted for determining specific and general credit risk adjustments

Since 1 January 2018 the Bank has calculated the provisions for impaired financial assets according to new IFRS 9 standard measured at amortized cost (financial assets hold to collect contractual cash flows) and at fair value through other comprehensive income (financial assets both hold to collect contractual cash flows and to sell financial assets) according to new IFRS 9 standard.

In new standard the Bank still distinguishes two types of provision calculations for impaired credit exposures, namely: individual provisions and collective provisions. Subsidiaries do not calculate provisions for off-balance part of credit exposures due to the specificity of their operations.

Individual provisions

According to IFRS 9 individual provisions are formed for the impaired individually significant financial assets (ISFA) when there is evidence that the impairment loss on the single financial assets item or group of financial assets was incurred and results from one or more default events, whose occurrence impacts the estimates of future cash flows related to the particular financial assets item. Individual provisions are calculated for financial assets classified to 20, 21 or 22 risk class.

Individual provisions are calculated with the use of discounted future cash flows methodology. To define future cash flows it is necessary to determine the exact amount and the date of the particular cash flow. The estimated proceeds may stem from different sources and be positive (cash inflow to the Bank) or negative (cash outflow from the Bank). They include in particular: debt repayment, additional disbursement, repayment from operational activity of the client, proceeds from collection and workout activities - collateral liquidation, sale of the loan.

In terms of collection and workout activities, in ISFA provisions calculation, the appropriate recovery rates are applied for particular collaterals which are included in the estimation of future cash flows. The recovery rate ratios are determined, among others, by the type of the collateral, the value of the mortgage-backed exposure, valuation date and the book value of the collateral. Amounts and dates of proceeds inflows are based mainly on expert knowledge, however, the Bank defined the principles of application of the future cash flows scenarios and the maximum recovery rates from the collateral liquidation. Subsidiaries estimate future cash flows on the basis of expert knowledge only.

Collective provisions

The collective provisioning method applies to exposures that do not meet the classification criterion for the portfolio calculated using the individual method. We distinguish among them assets for which evidence of impairment occurred or cases of default occurred. These assets are classified in risk classes 20, 21, 22. If no evidence of impairment is found when assessing a financial asset, this asset is included in the group 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. Assets defined in this way without recognized impairment are classified in risk classes 1-19.

Collective provisions are calculated in accordance with collective provisions methodology that is based on adjusted risk parameters (PD, LGD and EAD/CCF) in line with requirements specified in IFRS 9 (and IAS 37). Risk parameters models for portfolios covered by advanced internal rating-based approach (AIRB) and those in use-test within AIRB roll-out plan were developed in compliance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms. Models for portfolio permanently excluded from AIRB approach fulfill the requirements specified in IFRS 9 and IAS 37.

IFRS 9 Standard has introduced different methodology of assessing provisions that bases on estimation of expected credit losses, instead of incurred losses, as it was in IAS 39.

The assessment of provisions applied by the Bank depends on the change of credit risk level of exposure in relation to the risk level determined at a granting date (initial recognition). Based on the change of credit risk level, the exposure are classifed to one of 3 stages, with different calculation of expected credit loss:

- Stage 1 - performing exposures with no significant credit risk increase since the date of granting the exposure. Provision will be calculated based on 12-month expected credit loss.
- Stage 2 – performing exposures with significant increase of credit risk since the date of granting the exposure. Provision will be calculated based on lifetime expected credit loss (calculated from the date of granting the exposure until its maturity).
- Stage 3 – exposures with impairment (default) recognized. Provision will be calculated based on lifetime expected credit loss with PD=100%. Rules of classifying exposures to Stage 3 will be the same as the binding under MSR 39 process of assessment the impairment occurrence.

Estimation of expected loss (EL) under IFRS 9, requires forecasting of changes in risk parameters PD, LGD, EAD (EL= PD x LGD x EAD) in the whole lifetime of exposure. The forecast is based on, functional relations between change of risk parameters and change of macroeconomic factors determined from historical data.

Final provisions on exposures under Stage 2 and Stage 3 result from the sum of expected losses calculated in each year in the future up to maturity, using discounting.

Expected loss is calculated as the average probability weighted using multiple macroeconomic scenarios with different probability of occurrence.

Current PD, LGD and EAD models, which were built for AIRB capital requirements purposes, remain in use. However, for the purpose of IFRS 9 provisions calculating, parameters of these models have been calibrated according to PIT ("point-in-time") approach and forecasted in perspective of 30 years. Repayment schedules were taken into account in EAD parameter according to credit agreements.

The Bank identifies significant increase of credit risk (classification to Stage 2) based on the following signals:

- Significant increase of PD parameter in whole life of exposure ("lifetime") determined on reporting date in relation to the "lifetime" PD from the origination date (initial recognition) in the perspective of the whole remaining period from reporting date to maturity,
- Classification the exposure/client as Watch List,
- Rating 18/19,
- Customer service by the restructuring unit DKZR/CKD (does not apply to customers classifying to the Easy Lending path),
- Forbearance,
- Delay > 30 days in repayment of credit obligations,
- Bonds modified due to credit reasons,
- The client has a mortgage in CHF in ING Bank or other bank.

The Bank has defined also the methodology, calculation and reporting processes of provisions/value adjustments for exposures stemming from financial markets transactions. The Bank identifies two categories of such exposures for which the provisions/value adjustments are made:

- Bank receivables identified from the settlement of transactions on financial markets that were not repaid by the counterparty - Failed Settlement,
- potential receivables of the Bank that may arise at the moment transactions on financial markets are settled - Credit and Debit Value Adjustments (CVA/DVA).

Subsidiaries do not calculate the provisions/value adjustments for the exposures stemming from financial markets transactions due to the specificity of their operations.

6.2 Use of credit risk mitigation techniques

6.2.1 Rules and procedures as well as the scope of on- and off-balance sheet netting

In line with the rules applicable at the Bank, prior to initiation of a derivative transaction, each corporate client and financial institution is obliged to sign an appropriate Agreement with the Bank which enables the "netting" of transactions made. The system entry of the limits awarded to the customer, which are necessary to make a transaction, is conditioned upon signing legal documents by the customer. Conclusion of derivative transactions without appropriate Agreements signed with the Counterparties, is forbidden.

The Bank holds letters of legal advice and monitors changing regulations.

6.2.2 Rules and procedures of collateral valuation and management

The Bank's regulations on collateral describe the valuation method for each type of collateral across the tangible and personal collateral group.

The Bank identifies the following collateral values:

- face value,
- adjusted face value, and
- fair value.

Collateral face value is the value expressed in the collateral currency, established on the basis of current prices, excluding the influence of other factors (in particular: market value, book value, value of the accounts receivable transferred to the Bank), and set for each collateral individually.

Adjusted face value is the value of collateral realigned taking into account the factors omitted in the calculation of face value. Such value is worked out if in the Bank's opinion there exist factors which were omitted while calculating collateral face value or were included but to an insufficient degree and have an adverse impact on collateral value.

Collateral fair value is calculated as the product of recovery rate on collateral (defined using the parameters of an appropriate LGD model) and collateral value accepted by Bank (face value or adjusted face value providing the triggers of its calculation have emerged.

The fair value is corrected in the case of mismatch between the date of collateral maturity and the exposure maturity day.

Value of property is verified by the Bank's Appraisal Team. The aforementioned obligation to verify the value by the Bank arises from the Polish Financial Supervision Authority's recommendations.

When appraising the value and liquidity of tangible collateral one takes into account the assets use/occupancy period, their age and market for specialist collateral items.

Depending on the type of collateral, the value is monitored at specified intervals, aligned with the provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

The list of the aspects analysed in the course of the credit approval process, collateral establishment and collateral monitoring includes the following issues:

- verification of the collateral value,
- physical check of the tangible collateral (inspections),
- check of the collateral formal-and-legal status (if put in place, if legally binding, if insured), and
- verification of the guarantor's financial standing (setting the risk rating).

At the same time, it is recommended for the decision-makers to consider that if certain circumstances occur, the frequency of monitoring should be increased.

Such circumstances are, inter alia:

- collateral risk,
- collateral value fluctuation risk, and
- reputation risk.

If the Bank decides that collateral value should be monitored at shorter intervals, they should take into consideration the economic effectiveness, i.e. the relation between the cost and effects of monitoring.

Monitoring performed at shorter intervals, e.g. in the case of property, is required under the circumstances of substantial fluctuations in the market conditions; the frequency of monitoring also depends on the specific nature of such property and individual factors affecting its value.

With respect to other tangible collateral, beside the material fluctuations in the market conditions, more frequent monitoring may be dictated by the technical condition of machines and equipment, means of transport, etc.

The Bank's regulations also define the way in which collateral is presented and approved in the process of credit exposure award in accordance with the credit mandates and the rules of collateral monitoring presentation and approval.

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

For lease facilities, ownership of the leased object is the main security collateral of lease transactions. Principles of collateralizing arise from the nature of leasing. The principles of valuation of the collaterals in terms of requirements under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 are governed not only by the nature of leasing itself but also from the Collateral Management Policy referring to the estimation of the recoveries and capital requirements calculation at ING Lease (Polska) Sp. z o.o. introduced in 2015, updated in 2020.

ING LP as a lease company buying the leased object from a supplier becomes its owner and then, as the owner, gives the lease object to the lessee (customer) for use. The purchase from the supplier of the assets item to be leased, under the law, is made at the market price. Acquisition value of the leased assets item from the supplier is the initial value of the lease transaction.

The principles for verifying the leased assets at ING LP are included in two regulations. For movables it is the "Supplier and leased asset verification procedure", for properties it is a the "Real estate policy paper".

Purchase price (market value) of a new object – movable acquired from a supplier unrelated to the lessee can be verified under so called internal verification based on:

- supplier status (applies to suppliers with no trusted status in ING LP),
- type of leased asset, and
- the value of the transaction.

In other cases, the market value of the new movable object is generally not verified.

The value of second-hand assets item - movable (regardless who is the seller) or the value of the new assets item - movable but purchased from a customer or a company associated with the customer is verified with an independent expert's valuation or, if possible, internal market value verification.

The value of the property to be financed is always verified in an appraisal prepared by an independent valuator.

The values of financed movables are not verified throughout the lease contract duration.

Market values of financed properties are verified at least every two years on the basis of an appraisal prepared by an independent valuator. Additionally, in those years when the external valuation of the property is not required, ING LP prepares an internal market value verification of the financed property.

ING Commercial Finance S.A. (ING CF)

Primary collateral for standard factoring transactions (both with and without recourse) are the receivables accepted and purchased from the Client by ING CF.

At the stage of the factoring application analysis and throughout the factoring agreement duration, ING CF makes ongoing assessments of the quality of receivables (analysis of the history of collaboration between client and debtor, quality of the settlements, the provisions of trade agreements) and monitors the debtors' financial situation.

ING CF occasionally uses other forms of collateral, such as mortgage, assets alienation or bank guarantees. The principles of collateral value verification are defined in the ING CF's "Credit Risk Manual". In accordance with these principles in the case of establishment of:

- mortgages - at the proposal stage clients are obliged to provide property appraisal, no older than 12 months, an extract from the land and property register and a copy of property insurance policy. In the case the mortgage is registered to another bank, the information on the current status of the debt secured by the mortgage.
- pledge on assets/assets alienation - at the proposal stage, clients are obliged to provide the documents proving the value of assets such as an insurance policy or stock value reports.

- bank guarantee - Front Office is required to obtain the opinion of the Bank on the risk of the bank issuing the guarantee.
- the factor guarantee (credit cover) - taking over the risk of foreign debtor's insolvency by the foreign factor, ING CF verifies whether the factor is one from the list of the factors accepted by ING Group.

Since usage of additional collateral is rare occurrence in ING CF, the "Credit Risk Manual" includes a clause that collateral liquidity assessment and valuation are made in accordance with the Bank's rules.

ING CF applies the secondary risk management procedure for non-recourse factoring. Insurance policies are accepted within the limits granted to insurers, allowing monitoring of the risk secured by individual insurers.

6.2.3 Description of the main types of collateral taken by the Bank

Bank

The Bank accepts all permitted legal forms of collateral, at the same time specifying their preference as to their application in the collateral regulations.

Yet, the collateral should be chosen based on:

- correlating the value and quality of collateral with the probability of client's default. It means that the worse the client's risk rating is, the better the collateral for credit exposure should be put in place,
- seeking to fulfil the conditions specified in the regulations which enable, inter alia, including the recovery rates assigned to collateral items in the process of calculation of capital requirements and provisions,
- respecting the limitations in accepting collateral and accounting for the guidelines presented in the regulations, aimed at the minimisation of the negative departure of the actual recovery rates from those estimated in the LGD model, and
- optimising the collateral catalogue for a given credit exposure when there is a specific pool of collateral items available.

In retail area, the Bank uses the standard method for regulatory capital calculation. To use preferential risk weights for mortgaged exposures, the quality criteria described in Articles 124, 208 and 229 section 1 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 have to be fulfilled.

The Bank has identified the following collateral groups:

- Tangible collateral which makes it possible for the Bank to recover debt in the event of a client's default by liquidating the collateral provider's specific assets – funded credit protection.

  The Bank recognises the following types of assets that may serve as tangible collateral for the Bank's receivables under credit exposure:

  - properties,
  - movable assets - things with specified identity,
  - movable assets - inventory or things of a specified type,
  - cash (security deposits, term deposits and funds deposited as letter of credit coverage),
  - accounts receivable,
  - Treasury bonds,

  - bonds traded on a stock exchange,
  - bonds not traded on a stock exchange/investment certificates,
  - shares traded on a stock exchange,
  - shares not traded on a stock exchange,
  - participation units in Open-end Mutual Funds, and
  - purchased receivable with recourse.
- Personal collateral which makes it possible for the Bank to recover debt in the event of a client's default by resorting to any component of the collateral provider's assets - unfunded credit protection.

  The Bank recognises the following forms of personal collateral:
  - surety under the Bills of Exchange Law or Civil Code,
  - bank guarantee/reguarantee and corporate guarantee, and
  - debt accession.
- In some LGD models applied by the Bank the recovery rate on the unsecured part of exposure is also affected by the so-called “negative pledge” covenant which obliges a client not to create any collateral on the client’s assets or to significantly limit the collateral created in favour of other creditors. The client’s acceptance of such a clause increases the recovery rate on the unsecured part of exposure.
- There are also additional types of collateral used by the Bank that strengthen their position in negotiations or expand the Bank's control entitlements as the creditor. Additional collateral includes (inter alia):
  - letter of intent/letter of comfort/statement of comfort,
  - blank promissory note,
  - assignment of rights under property insurance policy,
  - credit insurance coverage from an insurance company, and
  - insurance coverage for domestic accounts receivable (an insurance policy issued to ING BSK or insurance policy assignment).

In addition, Bank introduced rules on identification of agricultural properties taken as collateral as a result of entering into force the Act on Formation of the Agricultural System and Act on Land and Mortgage Registers and Mortgages dated 6th July, 2016.

Structure of individual collateral groups is diversified. The collateral with the biggest share is the following:

- mortgages - their share results from the fact that mortgage is usually used to secure longterm capex loans. In addition, mortgage is the main collateral in the case of commercial property loans,
- bank guarantees, corporate sureties and guarantees - this group of collateral includes guarantors from various industries having diversified financial standing. Therefore, there is no material risk of concentration. If a particular recovery rate has been assumed, higher than 0%, it is necessary to investigate the guarantor's financial standing and assign a risk rating thereto,
- non-current and current assets.

Accounts receivable and securities have a small share in the overall pool of collateral accepted by the Bank.

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

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

In the case of lease facilities, ownership of the leased assets item is the main security of lease transactions. The principles for pledging collateral and determining their value stem from the very nature of leasing itself and the "Collateral Management Policy concerning estimation of recoveries and capital requirements at w ING Lease (Polska) Sp. z o.o." referring to capital requirements calculation at ING Lease (Polska) Sp. zo.o. introduced in 2015, updated in 2020.

ING Commercial Finance S.A. (ING CF)

Primary collateral for the standard factoring (both with and without recourse) are the receivables accepted and purchased from the Client by ING CF.

In addition to the assignment of receivables ING CF also acquires as a collateral promissory note issued by the client, often guaranteed by its owners, and power of attorney to client's bank account. Factoring without recourse is secured by the insurance covering the risk of debtor's insolvency issued in one of the accepted insurance companies.

For the reverse factoring the basic collateral is a power of attorney to the client's bank account. , This is due to the fact that the product is targeted only at selected customers (in a very good financial situation) from the strategic customers segment.

ING CF occasionally uses other forms of collateral, such as mortgage, assets alienation or bank guarantees.

6.2.4 Main types of guarantors and credit derivative counterparties and their creditworthiness

The following table presents the main types of guarantors and own their collateral value. A significant increase can be observed for the type of guarantee provider - local authorities (BGK guarantee) 45.3% (of the total). The Bank does not use credit derivatives.

Guarantee delivery type	Collateral value *	Share%
Companies – "investment" category (rating below 10)	3 906.8	29.3%
Companies – "speculative" category (ratings 11-17)	3 327.0	25.0%
Companies – "irregular" category (ratings 18-22)	53.4	0.4%
Local authorities (GL prefix)	6 027.0	45.3%
Total	**13 314.2**	**100%**

*) The value presented in the table is the value of collateral, and not of exposure.

6.2.5 Market or credit risk concentrations within the credit mitigation taken

Since the institution has a significant exposure to financing the purchase of residential and commercial properties, mortgages (68,7% of the total) form the main collateral.

Collateral type	Collateral value *	Share %
Mortgages	106 873.3	68.7%
Machinery and equipment	21 370.5	13.7%
Guarantees	13 314.2	8.6%
Inventory	7 699.4	5.0%
Debts	5 550.3	3.6%
Cash	691.3	0.4%
Securities	19.2	0.0%
Total	**155 518.3**	**100%**

*) The value presented in the table is the value of collateral, and not of exposure.

6.3 Use of IRB approach to credit risk

6.3.1 Structure of internal rating systems and relations between internal and external ratings

Determination of the client's risk class is an integral part of the Bank's credit risk evaluation process for credit exposures. The risk class itself is determined by coherently-used rating system. The rating assignment process is finalized before the credit decision is made.

Exposures to companies and institutions

As far as the exposures to companies and institutions are concerned, ING Group applies a 22-grade rating scale with respect to entrepreneurs where classes reflect the borrower's risk. Some credit risk models used by the Bank assign rating sub-classes to have better granularity of the rating scale. Those subclasses should be treated as a part of the full rating class.

The Bank most often applies 17 full risk classes (6-22). Sometimes a better risk class may be applicable, usually in the Strategic Clients portfolio. The customer is assigned to a given risk class based on the rating models, using the data from the customer's financial reports, evaluation of qualitative factors and, in particular cases, financial standing of the parent company.

Risk rating is assigned to the customer in the first place in line with the value of probability of default given by rating model. The following description of characteristics for each risk class is treated alternatively, in particular when ratings assigned on the basis of models are subject to appeal.

Risk classes can be divided into 3 basic groups:

- group equivalent to investment grades (risk classes 1-10),
- group equivalent to speculative grades (risk classes 11-17), and
- problem loan grades (risk classes 18-22).

Group of low risk classes (1-10) include borrowers with solid income and margin levels, strong balance sheet structure and stable long-term perspectives. In the top grades of this range, the borrowers occupying the position of market leaders are classified who are relatively less susceptible to adverse market fluctuations. Such borrowers have free, that is "at their discretion", access to the financing available on the markets at any time.

Group of medium and increased risk classes (11-17) covers a relatively large range of risk levels, and can be divided into:

- The borrowers with the best grades within this class, who currently meet their financial obligations, however their debt servicing capacity (the principal and interest) may turn out to be uncertain over a longer period of time. So the safety margin is limited. In adverse business environment or unfavorable economic conditions there is a real threat that credit risk may increase.
- The borrowers assigned higher risk grades (the worst grades in this class) which, in a longer perspective, may be characterized by: uncertainty as to their income perspectives, lower quality of assets and risk of the capital level mismatch that may translate into possible losses.

Problem loan grades (18-22) is a group that includes the borrowers who show clear indications of problems with debt servicing or are in the situation referred to as 'an event of default' has already occurred. This group includes also the clients whose exposures are in forbearance status in case the delinquency of debt repayment exceeded 30 calendar days on the exposure with forbearance status or having granted the consecutive forbearance on the particular exposure.

Risk classes 1-2

Entities included in this range are characterised by the lowest risk. In a longer perspective, they have solid and stable income, substantial liquidity and extremely strong balance sheet structure maintained for a long period of time. The probability of default by those borrowers is very low. Entities classified to this group usually:

- operate in global/large markets characterised by attractive margins, a strong potential for growth and high entry barriers,
- experience weak or no pressure on prices thanks to no or few direct competitors present,
- have strong position versus suppliers, and strong and well-known global brand(s), and
- are subject to no foreseeable threats.

Risk classes 3-4

High quality entities, with slightly higher long-term risk potential than the entities classified to risk classes 1 or 2. Nevertheless, in a longer perspective they are assessed as very strong entities with stable income, good financial liquidity and strong balance sheet structure.

Risk classes 5-7

These classes include strong entities who operate on a cycle basis or entities in good condition whose income is to some extent fluctuating. The analysis of these entities may prove that they are prone to future weakening of their financial situation. The entities classified to this group:

- often operate on more competitive markets with low customer loyalty levels,
- have a good debt profile, characterised by relatively low risk, and thus are fully capable of meeting their financial obligations,
- have to allocate substantial company resources to maintain their market share,
- have limited ability to dictate prices and/or terms and conditions of cooperation with suppliers.

For global models (which are commonly used at ING Group) and local models (used only by the Bank) for certain risks classes (8-17) different descriptions are used for the customers classified in those classes.

Risk classes 8-10 for global models

Entities classified to this range are susceptible to fluctuations in economic climate that may affect their creditworthiness, yet their current situation is still good. Entities classified to this group are usually characterised by:

- ability to differentiate products or services from those offered by competitors when faced with pressure from the market,
- small or no influence on prices of materials they purchase,
- management who may implement riskier strategies or who may be judged as less stable than the management of a company with a higher rating.

Risk classes 11-13 for global models

Entities classified to this class are characterised by a relatively good financial standing but their ability to service debt over a longer period is not guaranteed. Past cash flows of these companies show some irregularity. These companies may have suffered losses in the previous years. Although at present they are more or less profitable, they show a certain margin of safety and they are still ranked among the acceptable borrowers. In addition, the entities classified to this range:

- may have problems with maintaining their position in the market in the face of growing competition,
- have little or no influence on prices of materials they purchase,
- it is possible that their management is not of the highest quality.

Risk classes 14-17 for global models

The companies classified to this range enter the endangered financial standing zone. Possible symptoms: considerable decrease in profitability, substantial weakening of the balance sheet structure, irregular cash flows with outflows predominating over inflows and tighten capability to service debts. Such entities often:

- operate in a sector that is in a downward phase,
- have to face the increasing pressure from their competitors,
- have very limited or no influence on prices of materials they purchase and their relations with suppliers,
- may have a weak management characterized by e.g. lack of experience, no stability or poor commitment.

The borrowers classified to the 16-17 range are additionally affected by the following circumstances:

- despite servicing all obligations by the borrower on an ongoing basis there are strong premises that the borrower's financial standing or creditworthiness may diminish,
- at present there are no predictions as to the occurrence of the situation referred to as “default” but more intensive monitoring is necessary, and
- actions aimed at improvement of the Bank's position as the creditor, or limitation or complete cancellation of the Bank's involvement in a borrower or transaction financing are required.

Risk class 15/only for global model for large corporates

Apart from the general conditions presented above and used to classify an entity to the range 14-17, grade 15 is additionally characterised by the following circumstances:

- material symptoms of the borrower's financial standing/creditworthiness deterioration, and
- substantial symptoms of the risk profile impairment that will result in the borrower's failure to timely meet all of their debt obligations in the future.

While all of the following conditions have been met:

- the borrower has not applied for any change (extension) of the principal repayment date,
- in a short term perspective (up to 1 year) the borrower will not require additional financing that would have resulted from the financial liquidity deterioration,
- the borrower is sufficiently capable of servicing their debt, and
- a positive assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk grade 15 are concerned for whom additional covenants have been defined, the following events of default may occur:

- the Bank predicts that a borrower will breach one or more conditions, and
- the Bank may waive a condition, on a one-off basis, for the period of up to one year.

Risk class 16/only for global model for large corporates

Apart from the overall conditions presented above and used to classify an entity to the range 14-17, the following circumstances occur:

- material symptoms of the borrower's financial standing/creditworthiness deterioration, and
- substantial symptoms of the risk profile impairment that will result in the borrower's failure to timely meet all of their debt obligations in the future.

But all of the following conditions have been met:

- the borrower has not applied for any change (extension) of the principal repayment date,
- in a short term perspective (up to 1 year) the borrower will not require additional financing that would have resulted from the financial liquidity deterioration, and
- positive or neutral assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk grade 16 are concerned for whom additional covenants have been defined, the following events of default may occur:

- the borrower failed to meet one or more conditions, and
- the borrower advised the Bank that they would not be able to meet one or more of these conditions.

Risk class 17/only for global model for large corporates

Apart from the overall conditions presented above and used to classify an entity to the range 14-17, the following circumstances occur:

- material symptoms of the borrower's financial standing/creditworthiness deterioration, and
- substantial symptoms of the risk profile impairment that will result in the borrower's failure to timely meet all of their debt obligations in the future.

In addition, one or more of the following symptoms have occurred:

- the borrower has applied for a change (extension) of the principal repayment term, or there is high probability that they may submit such an application where the change (extension) of the principal repayment term does not (will not) result in the Bank's loss because the terms of such prolongation fully compensate for the delay in principal repayment,
- the borrower is not or probably will not be capable of servicing their debts in a long term, however, in a short-term perspective (up to 1 year) they will not require additional financing that would have resulted from their financial liquidity deterioration, and
- neutral or negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk class 17 are concerned for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Risk classes 8-10 for local models

Entities classified in this range are customers with sound economic status and usually are characterized with:

- exceptional financial standing and ability to meet financial obligations in long term,
- high safety margin for debt repayment in long time perspective,
- ability to differentiate products or services from those offered by competitors when faced with pressure from the market,
- well experienced management.

Risk classes 11-12 for local models

Entities classified in this range are customers with very good economic status and usually are characterized with:

- very good financial standing and ability to meet financial obligations in long term, which however can be negatively affected by macroeconomic factors,
- limited ability to differentiate products or services in comparison to competitors,
- experienced management able to implement riskier strategies or who may be judged as less stable than the management of a company with a higher rating.

Risk classes 13-14 for local models

Majority of entities classified in this range is characterized with good financial status, however weaker than entities with better ratings. These clients still have acceptable safety margin and are perceived as good borrowers. Entities classified to this group are usually characterized with:

- good financial standing and ability to meet financial obligations in long term, which however can be negatively affected by macroeconomic factors,
- limited or no ability to differentiate products or services in comparison to competitors,
- management with experience adequate to the business activity,
- for some entities long term debt service ability may be assessed as more risky due to past irregular cash flows or loss bared in past years.

Risk classes 15-16 for local models

Entities classified in this range are still acceptable borrowers. However some of them may be characterized with higher credit risk. Entities in this group may have:

- problems with maintaining their position in the market in the face of growing competition,
- little or no influence on prices of materials, goods or services they purchase,
- it is possible that their management is not of the highest quality or high turnover in the management,
- decrease in profitability, substantial weakening of the balance sheet structure, irregular cash flows with outflows predominating over inflows.

Risk class 17 for local models

The companies classified in this rating enter the endangered financial standing zone. They show material indications of the borrower's weakening economic and financial standing/creditworthiness. Actions aimed at improvement of the Bank's position as the creditor are required, or the limitation or complete cancellation of the Bank's involvement in a borrower or transaction financing. At present there are no predictions as to the occurrence of the situation referred to as 'default' but more intensive monitoring is necessary.

Material symptoms of risk profile deterioration, which results in increasing threat that all financial obligations will not be meet on time in the future, which may include one or more of following:

- the borrower has applied for a change (extension) of the employed capital repayment term, or there is high probability that he may submit such an application where the change (extension) of the employed capital repayment term does not (will not) result in the Bank's loss because the terms of such prolongation fully compensate for the delay in repayment of the capital,
- despite servicing of all obligations by the borrower on an ongoing basis there are strong premises that the borrower's financial standing or creditworthiness may diminish,
- the borrower is not or probably will not be capable of servicing his debts in a long term, however, in a short term perspective (up to 1 year) will not require additional financing that would have resulted from the impairment of his financial liquidity,
- neutral or negative assessment of the borrower's main markets prospects.

The entities classified in this rating often:

- operate in a sector that is in a downward phase,
- have to face the increasing pressure from their competitors,
- have very limited or no influence on prices of materials they purchase and their relations with suppliers,
- may have a weak management characterized by e.g. lack of experience, no stability or poor commitment.

Risk class 18 - Under observation/Restructuring

The borrower continues their business and meets their obligations towards the Bank (i.e. there are no delays in the principal or interest repayments or any delay is shorter than 31 days), and at least one of the circumstances mentioned below has already occurred:

- the borrower has applied for a change (extension) of the principal repayment term, however the change (extension) of the principal repayment term does not result in the Bank's loss because the terms of such prolongation fully compensate for the delay in the principal repayment,
- in a short-term perspective (up to 1 year) the borrower will need additional financing resulting from their financial liquidity deterioration, but the Bank assesses that in the short period there will be no problems with obtaining such financing (outside the Bank),
- the customer is not sufficiently capable of servicing their debt, and
- negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk class 18 are concerned for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Risk class 19 - Below standard/Restructuring

The borrower continues their business and meets their obligations towards the Bank (if there are delays in the repayment, they areshorter than 90 days), and at least one of the circumstances mentioned below has already occurred:

- the borrower has applied for a change (extension) of the principal repayment term, however the change (extension) of the principal repayment term does not result in the Bank's loss because the terms of such prolongation fully compensate for the delay in the principal repayment,
- in a short-term perspective (up to 1 year) the borrower will need additional financing resulting from their financial liquidity deterioration and, in the short period, such financing will be probably available (outside the Bank),
- the customer is not sufficiently capable of servicing its debt, and
- negative assessment of the borrower's main markets prospects.

Furthermore, as far as the customers with risk grade 19 are concerned for whom additional covenants have been defined, it may happen that the borrower has failed to meet one or more conditions.

Risk class 20 - Doubtful/Default and impairment occurred and recoveries and actions before forced collateral liquidation

The Bank assesses that the customer will not repay their obligations towards the Bank in full, but the Bank has not initiated (yet) the compulsory liquidation of collateral. However, the Bank may have already undertaken actions aimed at voluntary sale of items constituting collateral by the customer himself (or the owner of the items) to designate the proceeds from the sale for repayment of the debt to the Bank. The inability to repay in full the obligations towards the Bank results from one or more of the following circumstances:

- the Bank has assessed that the impairment of exposure has occurred, or
- the Bank has decided to dispose of credit claims at a discount higher than 10%, and such a disposal does not result from management of concentration risk, or
- on the exposure with the forbearance status the default in repayment exceeded 30 calendar days or the Bank granted the consecutive forbearance facility to client.

Risk class 21 Lost/Default occurred and forced recoveries and actions for collateral liquidation without losses

In the case of borrowers classified to risk grade 21, the following circumstances have occurred:

- the Bank initiated the liquidation of collateral,
- there are no prospects for rebuilding the borrower's creditworthiness and re-commencement of debt servicing,
- all potential opportunities for the exposure restructuring have been exhausted and no desired effects have been obtained, and
- no impairment loss is expected, because the current value of the liquidated collateral fully covers (is expected to cover) the debt to the Bank.

Risk class 22 - Lost/Default and impairment occurred and forced recoveries and actions for collateral liquidation with losses

In the case of customers classified to risk grade 22, the following circumstances have occurred:

- the Bank initiated the liquidation of collateral,
- there are no prospects for rebuilding the borrower's creditworthiness and re-commencement of debt servicing,

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- all potential opportunities for the exposure restructuring have been exhausted and no desired effects have been obtained, and
- due to the absence of collateral or its insufficient value, the exposure has been (or will be) remitted in part or in full.

In case of exposures to companies and institutions, the default definition determines the client's reclassification to risk classes 20-22.

The table below presents the structure of correlations between internal and external rating systems:

ING Rating Risk class	S&P/Fitch IBCA Rating	Moody's Rating
1	AAA	Aaa
2	AA+	Aa1
3	AA	Aa2
4	AA-	Aa3
5	A+	A1
6	A	A2
7	A-	A3
8	BBB+	Baa1
9	BBB	Baa2
10	BBB-	Baa3
11	BB+	Ba1
12	BB	Ba2
13	BB-	Ba3
14	B+	B1
15	B	B2
16	B-	B3
17	CCC	Caa1
18	CC	Ca
19	C	C
20	D	C
21	D	C
22	D	C

Equity exposures

As far as equity exposures are concerned, the Bank applies simple risk weight approach according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013. Due to the specific nature of their business, subsidiaries do not identify equity exposures.

The definition of a default event used for the products classified as exposures resulting from financial market transactions and the default objective evidence and default indications (and therefore objective evidence and indicators of impairment) are the same as for other credit risk-bearing products and are described in the section "Accounting definitions of past due and impaired items" of this document.

The default indicator related to a material breach of the terms of the contract is additionally detailed in the form of breach of contract events as defined in the framework agreements concluded between the Bank and with customers.

Models for basic risk parameters

Following the requirement of the continuous compliance with the advanced internal-ratings based approach (AIRB) for the purpose of regulatory capital calculation, the Bank developed, implemented, monitored and validated local and global models for the following basic risk parameters:

- PD (probability of default),
- LGD (loss given default), and
- EAD (exposure at default)

for classes of assets in line with AIRB.

As far as corporate exposures are concerned, the following models, among others, are applied by the Group:

- for the strategic clients segment covering businesses with annual sales proceeds above EUR 100 million:
  - global ING Group PD (expert and statistical) rating model developed at the ING Group level which accounts for and is monitored regularly with the local data,
  - global LGD and EAD (hybrid, expert and statistical models) models also developed at ING Group level which account for and monitored regularly with the local data.
- for the local mid-sized and mid-corporate segments (SME assets class) covering clients with annual income from EUR 0.8 to 100 million:
  - local PD (expert and statistical) rating model developed under the supervision of the ING Group based on the Bank's internal data, applied at ING also as a regional model for Central and Eastern European states,
  - local LGD and EAD models (hybrid, expert and statistical models) developed under the supervision of ING based on the Bank's internal data and applied at ING as regional models for the Central and Eastern European states.

Besides the above, the Group also uses global (central) models for exposures to banks and other financial institutions, to sovereign and local governments as well as for specialised lending exposures.

6.3.2 Use of internal estimates for the purposes other than calculation of risk-weighted exposure amounts

ING Bank Śląski S.A. Group uses PD, LGD and EAD models developed in line with the requirements of Part III, Title II, Chapter 3 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 for the purposes of regulatory capital calculation and in the key risk management processes - in measurement and management of credit exposure, the process of planning and formulation of strategy and reporting.

Credit exposure - measurement and management

ING Bank Śląski S.A. Group uses PD, LGD and EAD risk parameters models in key areas associated with credit risk management, in particular:

- the calculation of the regulatory and economic capital otherwise known as internal capital,
- the calculation of provisions, and
- lending process, credit price calculation, reference limits definition and risk appetite.

Each of the above-mentioned areas uses a certain alignment of parameters to the purposes to be accomplished by a given area.

Process of planning and formulation of strategy

Supervisory requirement to maintain the sufficient level of regulatory capital in Group results in the maintenance of the safe level of economic capital. Planning and management of economic capital in Group is conducted within defined market strategies, whose parameters comprise AIRB approach parameters estimated by the particular credit risk models. Planning and management of economic capital in Group aims to maximize the return on economic capital in acceptable risk frame. These parameters, allocated on business lines, are regularly reported on the Bank's Management Board by Capital Management Department. The planning methodology includes projected Group development and expected changes in external environment. Calculated values are the basis for capital adequacy assessment, capital limits setting and credit risk management strategy in the risk appetite statement (RAS). Capital plan is ratified by the Bank Management Board and Supervisory Board.

Reporting

Centre of Expertise – Policy, Models and Systems prepares monthly reports on corporate and retail credit risks. In addition, the Accounting Department generates obligatory quarterly reports on risk weighted assets and the minimum regulatory capital/capital adequacy ratio. The basic reporting tool, both in the ING Bank Śląski S.A. Group and in the whole ING Group, is Vortex as a part of Vantage - integrated IT environment for credit risk management - is a global, centralised database on credit risk that provides a wide spectrum of information on various aspects of credit exposures, both on a transaction level and various aggregation levels. Vortex generates the reports in various dimensions using data on: PD, LGD, EAD, economic capital, risk weighted assets, the minimum regulatory capital, balance, and collateral. The data are available to all authorised users, at all levels of management, (as per specified access rights) from the Risk Management, Front-Office and Finance areas.

6.3.3 Credit risk mitigation management and recognition

Bank

Collateral is an essential tool for limiting credit risk, however it may not replace a financed entity's creditworthiness which is the determinant of credit exposure award.

The collateral in place has the following functions:

- financial:
  - it should limit the credit exposure losses when credit risk materialises i.e. when the debtor has discontinued to satisfy the contractual obligations, and
  - if it meets the conditions set out in the Bank's regulations on collateral it may be taken into account when assessing capital requirements for credit risk and collective provisions for impairment of assets in a credit portfolio. The recovery rates assigned to individual categories of collateral have been determined on the basis appropriate of the LGD model,
- non-financial:
  - it strengthens the control authority of the Bank as the creditor by limiting the collateral provider's ability to dispose of the assets pledged to the Bank, and
  - it strengthens the Bank's position in negotiations with the debtor (client), the debtor's other creditors and the collateral provider.

The Bank applies the following credit risk mitigation techniques:

- funded credit protection linked to tangible collateral, and
- unfunded credit protection linked to personal collateral items.

Reduction of the Bank's credit risk under credit exposure if the debtor defaults on the obligations, is insolvent, goes bankrupt or in the situation of another breach of the loan agreement, general terms and conditions and/or collateral agreement, in the case of:

- funded credit protection - stems from the Bank's right to liquidate, transfer, acquire or retain particular assets, or
- unfunded credit protection - stems from a third party's obligation to pay a specified amount of money.

The Bank's regulations on collateral include (inter alia):

- the criteria for recognising collateral in the process of calculation of capital requirements for credit risk,
- the general rules for selecting collateral applied by the Bank taking into account acceptable credit risk level,
- the detailed rules for specific types of tangible and personal collateral considered in the recovery ratio estimation (including inter alia the rules on collateral valuation, tangible collateral insurance coverage requirements, preferred legal forms of collateral, requirements for providers of personal collateral and other requirements concerning personal and tangible collateral).

Furthermore, the Bank's regulations on collateral specifically take into account the aspects of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 which refer to the application of the LGD models, legal certainty of collateral and its monitoring.

The Bank's regulations define also the way in which collateral is presented and approved in the process of granting credit exposures and the rules of collateral monitoring presentation and approval.

The Bank has verified the legal certainty and the scope of jurisdiction assigned to the applied risk mitigation instruments with an external, reputable law firm.

In 2015, the requirement under Article 1 section 1 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 concerning obtainment of written legal opinion to the collateral-related documents confirming that the latter are legally effective and enforceable in all relevant jurisdictions (for the collateral in question).

In the collateral selection process, the Bank seeks to optimise the catalogue of collateral for a given exposure by means of:

- first choosing the collateral with the highest recovery rate and less costly monitoring,
- diversifying the types of collateral for a specific credit exposure,
- avoiding securing the same credit exposure with collateral items which are correlated in such a way that deterioration in the quality of one collateral item results in deterioration in the quality of another collateral item.

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

The main security of lease transactions is the lessor's ownership of the assets item financed under the lease contract. Such security pays both financial and non-financial roles.

Sale of leased assets in case of termination of the lease contract reduces or completely eliminates the loss on the credit exposure. In addition, re-marketability of the financed assets affects the level of LGD (recovery rate is assigned to individual types of leased assets) and in consequence the level of both collective and specific provisions. Re-marketability of the leased assets is assessed using the expert method at the stage of a lease facility application assessment and is one of the main parameters to be taken into account when assessing the proposed lease transactions and affecting the final credit decision (often the re-marketability is more important than the financial situation of the client).

As the owner of the financed assets item, after termination of the lease contract, ING LP can take physical control over the assets item (by repossession) and as an owner can sell it to a third party. The threat of the loss of the leased assets item by the lessee causes customers to often pay back the overdue lease debt in the first place comparing to other entities (especially if the market value of the leased assets item exceeds the credit exposure or the assets item is crucial for the customer's operations).

ING Commercial Finance S.A. (ING CF)

The basic collateral of the financing granted under the factoring agreement is the assignment of trade receivables purchased by ING CF. Said financing should be repaid by debtors from the receivables transferred to factoring by the client. In the case of non-recourse factoring transaction additional source of repayment is the insurer who covers debtor's insolvency risk. All the above means that the credit risk is divided and potential losses on factoring exposure in case of the client's financial problems are limited.

Collateral is taken into account in the calculation of capital requirements for credit risk and provisions.

ING CF regulations include the rules for determining the collateral value and collateral monitoring and the criteria for collateral recognition when calculating the capital requirement. Each collateral item is assigned adequate recovery rate in the LGD model.

6.3.4 Control mechanisms for rating systems

Credit risk rating and review

Commercial functions who grant credit facilities are separated from the process of transaction- and client risk rating ("four-eye control" principle). Credit risk is rated (by the Risk Manager) based on the principle of separation from the commercial functions (Relationship Manager). The following parties are involved in the risk rating process: Rating Owner (Relationship Manager) and Risk Manager.

The Rating Owner inputs the financial data of the client and has sole responsibility for the correctness of the initial risk rating, including rating review and update. There is only one owner of a borrower's risk rating. The risk management unit responsible for restructuring and debt collection (i.e. the Corporate Credit Restructuring Department) becomes the rating owner for the borrowers rated 18 to 22. The Rating Owner rates the exposure using the rating model dedicated to a given group of clients. The final rating is determined by the Risk Manager, or by the Appeal Judge if an appeal has been made

The Risk Manager is responsible for:

- verifying that the appropriate rating model has been used for the borrower,
- verifying that financial and non-financial data entered are correct,
- challenging unaudited financial data,
- taking into account additional available information that could affect the borrower's rating including: quality of cooperation with the bank and its external ratings (if applicable), and
- finalizing the rating.

The outcomes of specific models may undergo arbitrary adjustments in that the ultimate rating grades are determined as part of the appeal process. At least one notch difference (positive or negative) between the rating calculated by the rating model and the view of the appellant (the person initiating an appeal) is sufficient to start a rating appeal. Reasons for a rating appeal are circumstances that has not (yet) have been captured by the rating model but which are likely to have a (usually negative) effect on the borrower's PD, especially if:

- borrower has defaulted or is expected to default on any financial obligation to any party,
- a major disruption of activities occurred, or
- a change in legislation has occurred that will seriously impact the financial performance.

The IT system at the Group, used also in the whole ING Group, supports the credit risk assessment process and enables, as well, centralized gathering data on risk rating grades of clients.

Frequency of risk rating reviews and updates (if any)

Only the Rating Owner can initiate review of the risk rating. The following rules apply to rating reviews:

- a risk rating must be reviewed at least annually; a risk rating is considered overdue after at most 12 months from the last approval date of the risk rating,
- the Rating Owner should take appropriate action to review the risk rating for a borrower; the Rating Owner should perform an interim re-rating when the value of one or more risk drivers has materially changed. Events that could entail a re-rating procedure are for example a change of risk rating of the parent or a change of any of the qualitative risk drivers, and
- without a review until the expiry of 15 months from the last approval date of the risk rating, the risk rating will automatically downgrade and after additional 6 months - it will expire (automatic downgrade and expiation is not applicable to irregular borrowers' ratings).

6.4 Quantitative information on credit risk

Credit risk adjustments

The tables below present detailed quantitative information on credit risk adjustments, as required by Art. 442 Regulations 575/2013 and Guidelines EBA/GL/2016/11:

- EU CRB-B: Total and average net amount of exposures,
- EU CRB-C: Geographical breakdown of exposures,
- EU CRB-D: Concentration of exposures by industry or counterparty types,
- EU CRB-E: Maturity of exposures,
- EU CR1-A: Credit quality of exposures by exposure classes and instruments,
- EU CR1-B: Credit quality of exposures by industry or counterparty types,
- EU CR1-C: Credit quality of exposures by geography,
- EU CR2-A: Changes in stock of general and specific credit risk adjustment,
- EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities.

The letter symbols of the columns in the tables result from the appropriate template of EBA/GL/2016/11 Guidelines.

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EU CRB-B: Total and average net amount of exposures

	Net carrying value of exposures at the end of 2020	Average net exposures over the period	Net carrying value of exposures at the end of 2019
AIRB approach			
Institutions	13 309.5	14 750.7	11 896.7
Corporates Specialised lending	10 397.0	9 887.3	8 519.3
Corporates SME	20 218.0	19 372.1	18 974.4
Corporates Other	48 908.5	47 924.9	46 829.5
Equities	266.5	243.9	225.3
Total AIRB approach	**93 099.5**	**92 178.7**	**86 445.2**
SA approach			
Central governments or central banks	48 848.8	46 675.8	31 252.7
Regional governments or local authorities	3 466.5	3 665.5	3 465.4
MDBs	7 253.9	5 512.8	3 628.9
Institutions	42.1	10.6	0.1
Corporates	9 754.2	9 227.1	9 009.5
of which: SMEs	7 810.6	7 441.9	7 158.4
Retail	30 484.9	30 691.2	29 860.2
of which: SMEs	6 613.6	6 790.9	6 779.6
Secured by mortgages on immovable property	35 265.3	32 977.8	29 070.7
of which: SMEs	323.6	371.6	437.0
Exposures in default	915.8	751.2	389.1
Other	2 646.1	2 871.1	2 774.2
Total SA approach	**138 677.6**	**132 383.1**	**109 450.8**
Total	**231 777.1**	**224 561.8**	**195 896.0**

(PLN million)

EU CRB-C: Geographical breakdown of exposures

	Net value								
	Poland	Luxembourg	United Kingdom	Austria	Germany	Netherlands	France	Other	Total
Institutions	6 070.5	1.2	5 176.9	676.2	314.9	309.5	372.0	388.3	13 309.5
Corporates Specialised lending	10 094.8	197.6	0.0	0.0	75.0	0.0	0.0	29.6	10 397.0
Corporates SME	20 195.8	0.0	0.0	0.0	22.2	0.0	0.0	0.0	20 218.0
Corporates other	47 322.9	138.9	128.4	8.0	119.9	129.4	0.4	1 060.6	48 908.5
Equities	266.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	266.5
Total AIRB approach	**83 950.5**	**337.7**	**5 305.3**	**684.2**	**532.0**	**438.9**	**372.4**	**1 478.5**	**93 099.5**
Central governments or central banks	47 990.2	0.0	0.0	858.6	0.0	0.0	0.0	0.0	48 848.8
Regional governments or local authorities and PSE	3 466.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3 466.5
MDBs	0.0	7 253.9	0.0	0.0	0.0	0.0	0.0	0.0	7 253.9
Institutions	42.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.1
Corporates	9 511.0	0.0	0.0	0.0	27.9	0.0	0.0	215.3	9 754.2
Retail	30 464.4	0.2	4.4	0.4	1.9	1.1	0.7	11.8	30 484.9
Secured by mortgages on immovable property	35 243.0	0.5	3.3	0.5	3.8	1.4	0.5	12.3	35 265.3
Exposures in default	913.4	0.0	0.5	0.0	0.4	0.1	0.0	1.4	915.8
Other	2 646.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2 646.1
Total SA approach	**130 276.7**	**7 254.6**	**8.2**	**859.5**	**34.0**	**2.6**	**1.2**	**240.8**	**138 677.6**
Total*	**214 227.2**	**7 592.3**	**5 313.5**	**1 543.7**	**566.0**	**441.5**	**373.6**	**1 719.3**	**231 777.1**

*) Excludes CVA, CCP DF

(PLN million)

EU CRB-D: Concentration of exposures by industry or counterparty types

	Net value																			
	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13 280.2	0.0	29.3	0.0	0.0	0.0	0.0	0.0	0.0	13 309.5
Corporates Specialised lending	0.0	0.0	33.1	1 013.5	0.0	0.0	0.3	1.6	0.0	276.0	44.0	9 027.6	0.7	0.0	0.0	0.0	0.1	0.1	0.0	10 397.0
Corporates SME	746.7	117.7	7 962.6	40.7	22.2	1 756.7	5 741.4	1 226.0	426.3	55.7	2.7	226.2	1 035.4	182.1	0.0	22.8	229.9	422.9	0.0	20 218.0
Corporates other	1 227.5	514.3	19 078.8	3 089.6	221.7	2 963.9	9 953.5	2 923.7	560.4	1 641.8	316.7	902.8	3 171.1	1 302.4	0.0	37.3	216.6	782.4	4.0	48 908.5
Equities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.5	0.0	134.4	0.1	114.8	0.0	0.0	0.0	0.0	0.0	0.7	266.5
Total AIRB approach	**1 974.2**	**632.0**	**27 074.5**	**4 143.8**	**243.9**	**4 720.6**	**15 695.2**	**4 151.3**	**1 003.2**	**1 973.5**	**13 778.0**	**10 156.7**	**4 351.3**	**1 484.5**	**0.0**	**60.1**	**446.6**	**1 205.4**	**4.7**	**93 099.5**
Central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5 825.2	0.0	0.0	0.0	42 721.2	0.0	0.0	0.0	302.4	48 848.8
Regional governments or local authorities and PSE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3 466.5	0.0	0.0	0.0	0.0	3 466.5
MDBs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7 253.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7 253.9
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.1
Corporates	30.8	33.4	3 077.2	2.3	1.2	108.0	3 846.7	478.0	7.0	45.8	20.6	1 205.3	260.7	28.8	1.5	5.9	7.5	72.5	521.0	9 754.2
Retail	77.9	14.9	787.0	3.6	0.5	996.1	1 749.9	758.6	158.4	41.8	145.6	152.8	1 081.2	52.0	0.0	79.0	389.2	190.2	23 806.2	30 484.9
Secured by mortgages on immovable property	8.1	1.3	61.9	0.0	0.2	22.6	76.6	8.9	17.3	2.0	3.6	18.5	23.4	1.3	0.0	1.5	6.0	4.4	35 007.7	35 265.3
Exposures in default	8.0	0.6	29.3	0.2	0.0	36.4	85.4	58.4	11.2	2.4	5.5	3.2	44.4	7.1	0.0	1.7	16.4	9.2	596.4	915.8
Other	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2 644.3	2 646.1
Total SA approach	**124.8**	**50.2**	**3 957.2**	**6.1**	**1.9**	**1 163.1**	**5 758.6**	**1 303.9**	**193.9**	**92.0**	**13 296.5**	**1 379.8**	**1 409.7**	**89.2**	**46 189.2**	**88.1**	**419.1**	**276.3**	**62 878.0**	**138 677.6**
Total	**2 099.0**	**682.2**	**31 031.7**	**4 149.9**	**245.8**	**5 883.7**	**21 453.8**	**5 455.2**	**1 197.1**	**2 065.5**	**27 074.5**	**11 536.5**	**5 761.0**	**1 573.7**	**46 189.2**	**148.2**	**865.7**	**1 481.7**	**62 882.7**	**231 777.1**

(PLN million)

EU CRB-E: Maturity of exposures

	Net exposure value				
AIRB approach	No stated maturity or on demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
Exposures to institutions	1 378.4	2 860.6	5 287.5	3 783.0	13 309.5
Exposures to corporates - specialized lending	0.0	1 921.2	5 452.8	3 023.0	10 397.0
Exposures to corporates - SME	0.0	8 980.1	6 172.6	5 065.3	20 218.0
Exposures to corporates - other	0.0	19 458.6	17 456.3	11 993.6	48 908.5
Equity exposures	0.0	0.0	0.0	266.5	266.5
SA approach					
Exposures to central governments or central banks	0.0	6 098.3	24 903.4	17 847.1	48 848.8
Exposures to regional governments or local authorities	0.0	205.5	990.8	2 270.2	3 466.5
Exposures to multilateral development banks	0.0	421.3	3 914.7	2 917.9	7 253.9
Exposures to intitucions	0.0	42.0	0.1	0.0	42.1
Exposures to corporates	160.6	7 482.1	771.8	1 339.7	9 754.2
Retail exposures	0.2	2 034.2	2 687.2	25 763.3	30 484.9
Exposures secured by mortgages on immovable property	0.0	41.9	54.8	35 168.6	35 265.3
Exposures in default	5.3	149.5	110.1	650.9	915.8
Other items	0.0	0.4	1.4	2 644.3	2 646.1

(PLN million)

EU CR1-A: Credit quality of exposures by exposure classes and instruments

		a)	b)	c)	d)	e)	f)	g)
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
		Defaulted exposures	Non-defaulted exposures					
1	Central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Institutions	5.1	13 312.0	7.6	0.0	0.0	0.0	13 309.5
3	Corporates	2 559.7	78 652.3	1 688.5	0.0	0.0	0.0	79 523.5
4	*Of which: Specialised lending*	445.6	10 106.6	155.2	0.0	0.0	0.0	10 397.0
5	Of which: SMEs	344.8	20 126.2	253.0	0.0	0.0	0.0	20 218.0
6	Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Secured by real estate property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	*SMEs*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	*Non-SMEs*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	*Qualifying revolving*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	*Other retail*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	*SMEs*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	*Non-SMEs*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Equity	0.0	266.5	0.0	0.0	0.0	0.0	266.5
15	**Total IRB approach**	**2 564.8**	**92 230.8**	**1 696.1**	**0.0**	**0.0**	**0.0**	**93 099.5**
16	Central governments or central banks	0.0	48 848.8	0.0	0.0	0.0	0.0	48 848.8
17	Regional governments or local authorities	0.0	3 461.6	0.2	0.0	0.0	0.0	3 461.4
18	Public sector entities	0.0	5.1	0.0	0.0	0.0	0.0	5.1
19	Multilateral development banks	0.0	7 253.9	0.0	0.0	0.0	0.0	7 253.9
20	International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21	Institutions	0.0	42.1	0.0	0.0	0.0	0.0	42.1
22	Przedsiębiorstwa	0.0	9 764.5	10.3	0.0	0.0	0.0	9 754.2
23	*Of which: SMEs*	0.0	7 818.0	7.4	0.0	0.0	0.0	7 810.6
24	Retail	0.0	30 763.4	278.5	0.0	0.0	0.0	30 484.9
25	*Of which: SMEs*	0.0	6 704.6	91.0	0.0	0.0	0.0	6 613.6
26	Secured by mortgages on immovable property	0.0	35 409.3	144.0	0.0	0.0	0.0	35 265.3
27	*Of which: SMEs*	0.0	325.7	2.1	0.0	0.0	0.0	323.6
28	Exposures in default	1 702.7	0.0	786.9	0.0	0.0	0.0	915.8
29	Items associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
30	Covered bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
31	Claims on institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
32	Collective investments undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
33	Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
34	Other exposures	0.0	2 646.1	0.0	0.0	0.0	0.0	2 646.1
35	**Total standardised approach**	**1 702.7**	**138 194.8**	**1 219.9**	**0.0**	**0.0**	**0.0**	**138 677.6**
36	**Total**	**4 267.5**	**230 425.6**	**2 916.0**	**0.0**	**0.0**	**0.0**	**231 777.1**
37	Of which: Loans	4 190.0	127 596.6	2 831.6	0.0	0.0	0.0	128 955.0
38	Of which: Debt securities	0.0	57 278.2	0.6	0.0	0.0	0.0	57 277.6
39	Of which: Off-balance-sheet exposures	77.5	42 335.8	83.8	0.0	0.0	0.0	42 329.5

*) Excludes CVA RWA

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

EU CR1-B: Credit quality of exposures by industry or counterparty types

		a)	b)	c)	d)	e)	f)	g)
		Gross carrying values of						
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
1	Agriculture, forestry and fishing	170.0	2 027.3	98.3	0.0	0.0	0.0	2 099.0
2	Mining and quarrying	8.7	681.6	8.1	0.0	0.0	0.0	682.2
3	Manufacturing	604.3	30 843.5	416.1	0.0	0.0	0.0	31 031.7
4	Electricity, gas, steam and air conditioning supply	187.7	4 093.9	131.7	0.0	0.0	0.0	4 149.9
5	Water supply	0.1	246.5	0.8	0.0	0.0	0.0	245.8
6	Construction	344.5	5 763.7	224.5	0.0	0.0	0.0	5 883.7
7	Wholesale and retail trade	855.4	21 227.1	628.7	0.0	0.0	0.0	21 453.8
8	Transport and storage	197.8	5 369.7	112.3	0.0	0.0	0.0	5 455.2
9	Accommodation and food service activities	30.9	1 197.7	31.5	0.0	0.0	0.0	1 197.1
10	Information and communication	13.1	2 071.4	19.0	0.0	0.0	0.0	2 065.5
11	Financial and insurance activities	16.5	27 078.8	20.8	0.0	0.0	0.0	27 074.5
12	Real estate activities	393.9	11 299.5	156.9	0.0	0.0	0.0	11 536.5
13	Professional, scientific and technical activities	244.5	5 682.6	166.1	0.0	0.0	0.0	5 761.0
14	Administrative and support service activities	16.1	1 574.5	16.9	0.0	0.0	0.0	1 573.7
15	Public administration and defence, compulsory social security	0.0	46 189.5	0.3	0.0	0.0	0.0	46 189.2
16	Education	7.0	145.6	4.4	0.0	0.0	0.0	148.2
17	Human health services and social work activities	52.8	848.4	35.5	0.0	0.0	0.0	865.7
18	Arts, entertainment and recreation	58.4	1 468.8	45.5	0.0	0.0	0.0	1 481.7
19	Other services	1 065.8	62 615.5	798.6	0.0	0.0	0.0	62 882.7
20	**Total**	**4 267.5**	**230 425.6**	**2 916.0**	**0.0**	**0.0**	**0.0**	**231 777.1**

EU CR1-C : Credit quality of exposures by geography

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Poland	4 262.7	212 875.1	2 910.6	0.0	0.0	0.0	214 227.2
Luxembourg	0.0	7 594.1	1.8	0.0	0.0	0.0	7 592.3
United Kingdom	0.9	5 313.1	0.5	0.0	0.0	0.0	5 313.5
Austria	0.0	1 543.7	0.0	0.0	0.0	0.0	1 543.7
Germany	0.7	565.8	0.5	0.0	0.0	0.0	566.0
The Netherlands	0.3	441.4	0.2	0.0	0.0	0.0	441.5
France	0.1	373.6	0.1	0.0	0.0	0.0	373.6
Other	2.8	1 718.8	2.3	0.0	0.0	0.0	1 719.3
Total	**4 267.5**	**230 425.6**	**2 916.0**	**0.0**	**0.0**	**0.0**	**231 777.1**

*) Excludes Counterparty Credit Risk exposures, CVA RWA

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

EU CR2-A : Changes in stock of general and specific credit risk adjustment

		a)	b)
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening balance**	**2 611.4**	-
2	Increases due to amounts set aside for estimated loan losses during the period	2 076.0	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-1 269.0	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-81.0	-
5	Transfers between credit risk adjustments		-
6	Impact of exchange rate differences	14.0	-
7	Business combinations, including acquisitions and disposals of subsidiaries		-
8	Other adjustments	14.5	-
9	**Closing balance**	**3 365.9**	-
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	2.0	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

	a)
	Gross carrying value defaulted exposures
Opening balance	**4 083.4**
Loans and debt securities that have defaulted or impaired since the last reporting period	519.2
Returned to non-defaulted status	-45.6
Amounts written off	0.0
Other changes	-289.5
Closing balance	**4 267.5**

Use of credit risk mitigation techniques

The tables below present detailed quantitative information regarding the use of credit risk mitigation techniques in accordance with the requirements of Art. 453 of Regulation 575/2013 and Guidelines EBA/GL/2016/11:

- EU CR3: Credit risk mitigation techniques - overview,
- EU CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects,
- EU CR7: IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques.

The letter symbols of the columns in the tables result from the appropriate template of EBA/GL/2016/11 Guidelines.

(PLN million)

EU CR3: Credit risk mitigation techniques - overview

	a)	b)	c)	d)	e)
	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	129 917.0	41 367.4	37 461.9	3 905.5	n/a
Total debt securities	57 277.6	0.0	0.0	0.0	n/a
Total exposures	**187 194.6**	**41 367.4**	**37 461.9**	**3 905.5**	n/a
Of which defaulted	2 144.6	768.7	644.7	124.0	n/a

EU CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

		a)	b)	c)	d)	e)	f)
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Exposure classes	On-Balance Sheet amount	Off-Balance Sheet amount	On-Balance Sheet amount	Off-Balance Sheet amount	RWA	RWA density
1	Central governments or central banks	47 921.6	927.2	48 057.4	76.2	748.6	2%
2	Regional government or local authorities	3 332.1	129.5	3 331.9	63.0	679.0	20%
3	Public sector entities	5.0	0.0	5.0	0.0	2.5	50%
4	Multilateral development banks	7 253.9	0.0	7 882.7	16.1	0.0	0%
5	International organisations	0.0	0.0	0.0	0.0	0.0	0%
6	Institutions	42.1	0.0	42.1	0.0	21.0	50%
7	Corporates	5 261.6	4 502.9	5 243.7	129.5	5 160.8	96%
8	Retail	25 413.3	5 350.1	25 114.0	2 262.7	19 484.6	71%
9	Secured by mortgages on immovable property	35 070.5	338.9	34 925.9	168.6	13 058.2	37%
10	Exposures in default	1 697.4	5.3	909.1	1.3	954.3	105%
11	Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0%
12	Covered bonds	0.0	0.0	0.0	0.0	0.0	0%
13	Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0%
14	Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0%
15	Equity	0.0	0.0	0.0	0.0	0.0	0%
16	Other items	2 646.1	0.0	2 646.1	0.0	2 887.2	109%
17	**Total**	**128 643.6**	**11 253.9**	**128 157.9**	**2 717.4**	**42 996.2**	**33%**

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

EU CR7: IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques

		a)	b)
		Pre-credit derivatives RWAs	Actual RWAs
1	**Exposures under FIRB**	**0.0**	**0.0**
2	Central governments and central banks	0.0	0.0
3	Institutions	0.0	0.0
4	Corporates - SMEs	0.0	0.0
5	Corporates - Specialised lending	0.0	0.0
6	Corporates - Other	0.0	0.0
7	**Exposures under AIRB**	**34 119.8**	**34 119.8**
8	Central governments and central banks	0.0	0.0
9	Institutions	1 688.8	1 688.8
10	Corporates - SMEs	6 171.7	6 171.7
11	Corporates - Specialised lending	4 374.8	4 374.8
12	Corporates - Other	20 984.2	20 984.2
13	Retail - Secured by real estate SMEs	0.0	0.0
14	Retail - Secured by real estate non-SMEs	0.0	0.0
15	Retail - Qualifying revolving	0.0	0.0
16	Retail - Other SMEs	0.0	0.0
17	Retail - Other non-SMEs	0.0	0.0
18	Equity IRB	900.3	900.3
19	Other non-credit obligation assets	0.0	0.0
20	**Total**	**34 119.8**	**34 119.8**

Exposure to the counterparty credit risk

The tables below present detailed quantitative information on counterparty credit risk exposure in accordance with the requirements of Art. 439 and Art. 452 of Regulation 575/2013 and Guidelines EBA/GL/2016/11:

- EU CCR1: Analysis of the counterparty credit risk (CCR) exposure by approach,
- EU CCR2: Credit valuation adjustment (CVA) capital charge,
- EU CCR4: IRB approach - CCR exposures by portfolio and PD scale.

The letter symbols of the columns in the tables result from the appropriate template of EBA/GL/2016/11 Guidelines.

and variable components of remuneration published for 2020 (PLN million)

EU CCR1 – Analysis of the counterparty credit risk (CCR) exposure by approach

		a)	b)	c)	d)	e)	f)	g)
		Notional	Replacement cost / current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		3 406.4	1 029.5			1 354.7	122.0
2	Original exposure	-					-	-
3	Standardised approach	-	-	-	-	-	-	-
4	IMM (for derivatives and SFTs)		-			-	-	-
5	*Of which securities financing transactions*				-	-	-	-
6	*Of which derivatives and long settlement transactions*				-	-	-	-
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						-	-
10	VaR for SFTs						-	-
11	**Total**							**122.0**

EU CCR2 – CVA capital charge

		a)	b)	c)	d)
		as of 31 Dec 2020		as of 30 Jun 2020	
		Exposure value	RWAs	Exposure value	RWAs
1	Total portfolios subject to the advanced method	-	-	-	-
2	(i) VaR component (including the 3× multiplier)		-		-
3	(ii) SVaR component (including the 3× multiplier)		-		-
4	All portfolios subject to the standardised method	485.9	108.8	426.7	155.4
EU4	Based on the original exposure method	-	-	-	-
5	**Total subject to the CVA capital charge**	**485.9**	**108.8**	**426.7**	**155.4**

(PLN million)

EU CCR4: IRB approach – CCR exposures by portfolio and PD scale

		a)	b)	c)	d)	e)	f)	g)
Exposure class	PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Institutions	0.00 to <0.15	267.6	0.07%	34	37.57%	2.5	36.4	13.59%
	0.15 to <0.25	4.6	0.21%	7	38.13%	1.1	1.7	38.33%
	0.25 to <0.50	11.0	0.36%	13	43.68%	1.8	8.6	77.62%
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	35.6	0.91%	20	57.74%	1.4	45.8	128.58%
	2.50 to <10.00	1.8	4.95%	12	38.13%	0.1	2.3	129.92%
	10.00 to <100.00	0.3	16.32%	2	38.13%	0.0	0.5	205.93%
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	**320.8**	**0.21%**	**88**	**40.03%**	**2.4**	**95.3**	**29.71%**
Corporates Specialised lending	0.00 to <0.15	0.8	0.14%	2	91.37%	1.0	0.4	50.73%
	0.15 to <0.25	3.7	0.21%	3	91.37%	4.8	5.3	144.67%
	0.25 to <0.50	71.7	0.39%	44	73.32%	3.2	83.4	116.33%
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	42.3	0.81%	25	86.15%	3.7	85.4	201.71%
	2.50 to <10.00	2.1	4.39%	1	54.50%	2.4	4.0	189.43%
	10.00 to <100.00	0.1	16.32%	1	91.37%	3.2	0.4	505.55%
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	**120.7**	**0.61%**	**76**	**78.16%**	**3.4**	**178.9**	**148.25%**
Corporates SME	0.00 to <0.15	0.3	0.17%	2	48.60%	1.0	0.1	24.29%
	0.15 to <0.25	0.1	0.35%	1	48.60%	**1.0**	0.0	55.60%
	0.25 to <0.50	0.6	0.59%	5	48.60%	1.0	0.4	59.05%
	0.50 to <0.75	-	-	-	-	-	-	-
	0.75 to <2.50	0.2	1.77%	6	48.60%	1.0	0.2	93.61%
	2.50 to <10.00	-	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-
	Subtotal	**1.2**	**0.65%**	**14**	**48.60%**	**1.0**	**0.7**	**55.20%**
Corporates Other	0.00 to <0.15	26.4	0.10%	3	58.58%	1.5	8.1	30.81%
	0.15 to <0.25	54.4	0.16%	35	56.13%	**1.4**	21.7	39.89%
	0.25 to <0.50	90.7	0.39%	47	57.71%	1.2	58.1	64.04%
	0.50 to <0.75	21.0	0.59%	58	48.60%	1.3	13.5	64.38%
	0.75 to <2.50	34.0	1.37%	111	53.39%	1.8	40.0	117.61%
	2.50 to <10.00	18.7	3.11%	39	55.95%	1.2	27.1	145.31%
	10.00 to <100.00	1.0	25.29%	5	48.60%	1.1	3.2	307.09%
	100.00 (Default)	0.1	100.00%	1	48.82%	2.0	0.6	610.24%
	Subtotal	**246.3**	**0.81%**	**299**	**55.91%**	**1.4**	**172.4**	**69.98%**
Total (all portfolios)		**689.0**	**0.50%**	**477**	**52.40%**	**8.1**	**447.3**	**64.92%**

Non-performing and forborne exposures

The tables below present detailed quantitative information on non-performing and forborne exposures in accordance with the requirements of Guidelines EBA/GL/2018/10:

- Template 1: Credit quality of forborne exposures,
- Template 3: Credit quality of performing and non-performing exposures by past due days,
- Template 4: Performing and non-performing exposures and related provisions,
- Template 9: Collateral obtained by taking possession and execution processes.

The letter symbols of the columns in the tables result from the appropriate template of EBA/GL/2018/10 Guidelines.

(PLN million)

Template 1: Credit quality of forborne exposures

		a)	b)	c)	d)	e)	f)	g)	h)
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
1	**Loans and advances**	**1 230.2**	**1 660.1**	**1 659.9**	**1 659.9**	**43.6**	**807.7**	**1 061.4**	**434.8**
2	*Central banks*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	*General governments*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	*Credit institutions*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	*Other financial corporations*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	*Non-financial corporations*	1 036.5	1 119.3	1 119.3	1 119.3	31.3	514.2	815.5	284.2
7	*Households*	193.7	540.8	540.6	540.6	12.2	293.5	245.9	150.7
8	**Debt securities**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
9	**Loan commitments given**	**164.7**	**0.1**	**0.1**	**0.1**	**0.7**	**14.4**	**13.8**	**0.0**
10	**Total**	**1 394.9**	**1 660.2**	**1 660.1**	**1 660.1**	**44.3**	**822.1**	**1 075.2**	**434.8**

(PLN million)

Template 3: Credit quality of performing and non-performing exposures by past due days

		a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due 30 days	Past due > 30 days 90 days		Unlikely to pay that are not past due or are past due 90 days	Past due > 90 days 180 days	Past due > 180 days 1 year	Past due > 1 year 2 years	Past due > 2 years 5 years	Past due > 5 years 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**121 721.3**	**121 406.3**	**315.0**	**4 167.8**	**1 477.3**	**206.9**	**290.7**	**883.5**	**1 309.3**	**0.0**	**0.0**	**4 150.3**
2	*Central banks*	144.2	144.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	*General governments*	1 758.9	1 758.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	*Credit institutions*	705.1	705.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	*Other financial corporations*	5 406.8	5 406.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	*Non-financial corporations*	49 211.6	49 099.0	112.5	2 376.4	857.2	126.6	101.9	461.4	829.2	0.0	0.0	2 374.7
7	*Of which SMEs*	16 745.1	16 678.4	66.7	1 110.8	357.4	61.7	73.5	247.5	370.7	0.0	0.0	1 023.0
8	*Households*	64 494.7	64 292.2	202.4	1 791.4	620.1	80.3	188.8	422.1	480.1	0.0	0.0	1 775.6
9	**Debt securities**	**57 774.0**	**57 774.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
10	*Central banks*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	*General governments*	44 011.6	44 011.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	*Credit institutions*	9 353.7	9 353.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	*Other financial corporations*	4 403.8	4 403.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	*Non-financial corporations*	4.9	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	**Off-balance-sheet exposures**	**43 239.7**			**39.5**								**39.5**
16	*Central banks*	0.0			0.0								0.0
17	*General governments*	132.7			0.0								0.0
18	*Credit institutions*	1 722.3			0.0								0.0
19	*Other financial corporations*	1 358.9			0.0								0.0
20	*Non-financial corporations*	33 388.9			32.9								32.9
21	*Households*	6 636.8			6.6								6.6
22	**Total**	**222 734.9**	**179 180.3**	**315.0**	**4 207.2**	**1 477.3**	**206.9**	**290.7**	**883.5**	**1 309.3**	**0.0**	**0.0**	**4 189.8**

(PLN million)

Template 4: Performing and non-performing exposures and related provisions

		a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)	m)	n)	o)
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	**Loans and advances**	**121 721.3**	**111 935.3**	**9 785.9**	**4 167.8**	**11.4**	**4 155.9**	**710.4**	**319.9**	**390.5**	**2 494.5**	**2.8**	**2 491.7**	**0.0**	**20 068.8**	**58 933.0**
2	*Central banks*	144.2	144.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	*General governments*	1 758.9	1 758.6	0.3	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	7.5	5.2
4	*Credit institutions*	705.1	705.0	0.2	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	*Other financial corporations*	5 406.8	5 406.8	0.0	0.0	0.0	0.0	14.6	14.6	0.0	0.0	0.0	0.0	0.0	472.7	412.5
6	*Non-financial corporations*	49 211.6	43 085.1	6 126.5	2 376.4	1.4	2 374.7	260.7	139.5	121.2	1 264.0	0.1	1 264.0	0.0	13 445.3	20 939.4
7	*Of which SMEs*	16 745.1	14 190.9	2 554.2	1 110.8	1.3	1 109.5	96.3	48.9	47.4	660.0	0.0	659.9	0.0	8 878.6	14 007.4
8	*Households*	64 494.7	60 835.7	3 658.9	1 791.4	10.0	1 781.2	434.2	164.9	269.3	1 230.5	2.8	1 227.7	0.0	6 143.3	37 575.9
9	**Debt securities**	**57 774.0**	**57 770.0**	**4.0**	**0.0**	**0.0**	**0.0**	**10.3**	**10.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
10	*Central banks*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	*General governments*	44 011.6	44 011.9	0.0	0.0	0.0	0.0	8.2	8.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	*Credit institutions*	9 353.7	9 353.4	0.0	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	*Other financial corporations*	4 403.8	4 403.8	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	*Non-financial corporations*	4.9	0.9	4.0	0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
15	**Off-balance-sheet exposures**	**43 239.7**	**42 353.8**	**885.9**	**39.5**	**0.0**	**39.5**	**53.0**	**38.6**	**14.4**	**33.9**	**0.0**	**33.9**		**723.8**	**0.1**
16	*Central banks*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
17	*General governments*	132.7	132.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
18	*Credit institutions*	1 722.3	1 722.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
19	*Other financial corporations*	1 358.9	1 358.2	0.7	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0		0.0	0.0
20	*Non-financial corporations*	33 388.9	32 643.1	745.8	32.9	0.0	32.9	40.9	32.2	8.7	29.6	0.0	29.6		690.1	0.1
21	*Households*	6 636.8	6 497.6	139.2	6.6	0.0	6.6	11.9	6.2	5.6	4.2	0.0	4.2		33.7	0.0
22	**Total**	**222 735.0**	**212 059.1**	**10 675.8**	**4 207.2**	**11.4**	**4 195.3**	**773.7**	**368.6**	**405.1**	**2 528.4**	**2.8**	**2 525.5**	**0.0**	**20 792.6**	**58 933.1**

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Template 9: Collateral obtained by taking possession and execution processes

		a)	b)
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	0.0	0.0
2	Other than PP&E	0.0	0.0
3	*Residential immovable property*	0.0	0.0
4	*Commercial Immovable property*	0.0	0.0
5	*Movable property (auto, shipping, etc.)*	0.0	0.0
6	*Equity and debt instruments*	0.0	0.0
7	*Other*	0.0	0.0
8	**Total**	**0.0**	**0.0**

Information on exposures subject to measures applied in response to the COVID-19 crisis

The tables below present detailed quantitative information on exposures subject to measures applied in response to the COVID-19 crisis in accordance with the requirements of EBA/GL/2020/07 Guidelines:

- Template 1: Information on loans and advances subject to legislative and non-legislative moratoria,
- Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria, and
- Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis.

The letter symbols of the columns in the tables result from the appropriate template of EBA/GL/2020/07 Guidelines.

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			Inflows to non-performing exposures
				Of which: exposures witl forbearanc measure	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
1	Loans and advances subject to moratorium	**241.2**	**162.3**	0.0	29.3	**78.9**	0.0	0.0	**-35.6**	**-4.5**	0.0	-3.1	**-31.1**	0.0	0.0	74.9
2	of which: Households	**219.7**	**144.7**	0.0	27.4	**75.0**	0.0	0.0	**-35.3**	**-4.3**	0.0	-3.0	**-31.0**	0.0	0.0	73.3
3	*of which: Collateralised by residential immovable property*	**120.7**	**75.6**	0.0	10.6	**45.1**	0.0	0.0	**-15.9**	**-1.0**	0.0	-0.9	**-14.9**	0.0	0.0	44.8
4	of which: Non-financial corporations	**21.5**	**17.7**	0.0	1.8	**3.8**	0.0	0.0	**-0.3**	**-0.2**	0.0	-0.1	**-0.1**	0.0	0.0	1.6
5	*of which: Small and Medium-sized Enterprises*	**16.6**	**13.0**	0.0	1.8	**3.6**	0.0	0.0	**-0.2**	**-0.1**	0.0	-0.1	**-0.1**	0.0	0.0	1.6
6	*of which: Collateralised by commercial immovable property*	**12.5**	**10.6**	0.0	0.0	**1.9**	0.0	0.0	**-0.1**	**0.0**	0.0	0.0	**-0.1**	0.0	0.0	0.0

(PLN million)

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	44 962	9 805.6							
2	Loans and advances subject to moratorium (granted))	44 394	8 667.4	164.2	8 426.2	241.2	0.0	0.0	0.0	0.0
3	of which: Households		4 275.8	164.2	4 056.1	219.7	0.0	0.0	0.0	0.0
4	*of which: Collateralised by residential immovable property*		2 049.9	104.2	1 929.2	120.7	0.0	0.0	0.0	0.0
5	of which: Non-financial corporations		4 388.4	0.0	4 366.9	21.5	0.0	0.0	0.0	0.0
6	*of which: Small and Medium-sized Enterprises*		3 148.0	0.0	3 131.4	16.6	0.0	0.0	0.0	0.0
7	*of which: Collateralised by commercial immovable property*		2 596.3	0.0	2 583.8	12.5	0.0	0.0	0.0	0.0

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	3 229.1	4.8	2 706.0	7.5
2	of which: Households	397.3			0.0
3	of which: Collateralised by residential immovable property	33.6			0.0
4	of which: Non-financial corporations	2 830.7	4.8	2 381.1	7.5
5	of which: Small and Medium-sized Enterprises	2 828.2			7.5
6	of which: Collateralised by commercial immovable property	1 340.6			3.0

7 Operational risk

7.1 General description of the operational risk management process at the ING Bank Śląski S.A. Group

ING Bank Śląski S.A. Group manages operational risk pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and of other regulators.

The operational risk management process in the ING Bank Śląski S.A. Group is based on common principles in line with the ING Group's approach.

The operational risk management system was developed in accordance with the rule of proportionality, i.e. taking into consideration the nature, scale and complexity of the business activity and the significance of processes and the Bank operational risk profile. The system covers all spheres of the Bank's activity and the Bank Group's activity, cooperation with outsourcers, clients and partners and is a consistent and permanent practice covering the following elements:

- risk identification and assessment,
- risk mitigation,
- execution of controls,
- monitoring, reporting and quality assurance.

The operational risk management at the Bank is supervised by the Bank's Supervisory Board, in subsidiaries by the subsidiaries' Supervisory Boards, which, based on periodic management information, assess the effectiveness of activities in this respect.

Having obtained the Supervisory Board's approval, the Management Board of the Bank and the Boards of Directors of the subsidiaries implement the operational risk management strategy by introducing a coherent package of internal normative documents regulating the scope, principles and obligations of the employees of the Bank and the subsidiaries in the area of operational risk management.

A particularly important role in ensuring continuity and coherence of risk management in the Group is played by the Non-financial Risk Committees (the Non-financial Risk Committee in ING Bank Śląski S.A. and its task forces as well as the Non-financial Risk Committees in the subsidiaries), which cover operational and compliance risks.

The Bank maintains a complete, consistent and transparent structure of operational risk management and clearly stated scope of duties and responsibilities.

The structure of operational risk management takes account of the scope and specific nature of the Bank and subsidiaries operations, existing business lines, client segments, and product groups. The management structure is underpinned by the Three Lines of Defence Model.

1st line of defence

Business and Bank organisational units operationally supporting Business. First line of defence is responsible for developing, implementing and performing risk mitigation controls.

The scope of responsibilities includes in particular:

- carrying out risk assessments and taking mitigating actions in order to maintain the risk at the level set in risk appetite,
- implementing, using and testing of controls resulting from policies and other regulations,
- registering internal events and monitoring of losses,
- maintaining business continuity,
- ensuring identification of risks and control mechanisms for products and processes in accordance with the rules binding in the Bank,

- carrying out risk assessments and taking mitigating actions to maintain risk levels consistent with the designated risk appetite,
- implementation, application and testing of control mechanisms resulting from policies and other regulations, also for outsourced activities,
- supervision, monitoring of risks and controls for products and processes in its area of responsibility, including outsourced activities,
- recording internal events and monitoring losses,
- ensuring that actions are taken following audit and non-audit recommendations,
- Business continuity.

Making business decisions, the first line of defence must take into account the opinion of the second line of defence.

2nd line of defence

It is composed of:

- units from the following areas:
  - operational risk,
  - compliance risk,
  - legal risk,
  - model risk,
  - credit and market risk,
  - finance,
  - human resources management, and
- Credit Risk Inspection Department,
- Model Validation Department.

Second line of defence supports the first line of defence in managing risk. 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 the process,
- verifying the application of risk regulations by the first line of defence,
- approval of business proposals affecting the bank's risk profile,
- preparation of management information on risk, taking into account risks affecting the implementation of the Bank's strategy and key risks,
- monitoring risk mitigation activities and changes in the risk profile,
- ensuring the employment of qualified staff in the area of risk management,
- providing independent analysis and expertise to support management,
- analysis and monitoring of threats and trends in phenomena affecting the risk profile,
- to perform tasks resulting from the second line of defence control function.

Within the scope of control activities, the second line of defence units make their own independent assessment of the effectiveness of the first line of defence through: inspections, tests, reviews and other forms of control.

3rd line of defence

It is the internal audit function which independently assesses the internal control system in relation to risks identified in processes and managing these risks by first and second line of defence.

7.2 Methods applied to quantify capital requirement for the operational risk

For the purpose of calculating regulatory capital requirements for operational risk, the ING Bank Śląski S.A. uses the Standardised Approach (TSA) from the reporting period 30 June 2020 onwards, while ING Mortgage Bank - a member of the ING Bank Śląski S.A. Capital Group, uses the Basic Indicator Approach (BIA) .

For the calculation of economic capital, the Capital Group uses the Advanced Measurement Approach (AMA).

The model applied by the ING Bank Śląski S.A. Group is a hybrid model combining the actual loss data and the data collected on the basis of expert judgments. It is based on the Loss Distribution Approach which is applied to set capital requirements by combining the frequency distribution and severity distribution of the events in the operational risk area. Severity describes the potential value of loss, whereas frequency describes the number of potential events during the year. Following the PFSA's requirements and European Union regulations, the four sources of data are used in the ING Bank Śląski S.A. Capital Group's AMA framework:

- internal loss data,
- external loss data,
- scenario analyses, and
- business environment and internal control factors.

AMA model takes into account both the event and potential risks of a high frequency and low severity as well as events and potential risks with a low frequency but high severity thus ensures an adequate level of capital in case of unexpected events.

7.3 Gross losses due to the operational risk

In 2020, the ING Bank Śląski S.A. Capital Group reported operational risk losses from internal events at the level of PLN 331 million; of which ING Bank Śląski S.A. PLN 330.7 million, and ING Lease Polska Sp. z o.o. PLN 0.3 million.

The operational risk losses also include losses resulting from compliance and legal risk.

Established provisions are included in gross losses. Released provisions increase Bank's income for given year.

Actual losses distribution of the ING Bank Śląski S.A. Group as per type and category of events with losses ≥ PLN 0.1 million

No.	Event type	Event category	Gross losses in PLN million
1.	Clients, Products and Business Practices	Improper Business or Market Practices / Product Flaws	310.4*
2.	Business Disruption and System Failures	Systems	10.1
3.	Execution, Delivery and Process Management	Transaction Capture, Execution and Maintenance	5.9
4.	Damage to Physical Assets	Disasters and Other Events	2.6
5.	External Fraud	Theft and Fraud	1.5
6.	Employment Practices and Workplace Safety	Employee Relations	0.4
Total			**331.0**

* The amount includes PLN 300 million provision for legal claims related to customer objections in mortgage agreements indexed to foreign currency (CHF) reclassified from credit risk by decision of the Bank Management Board.

The operational risk losses recorded in 2020 risk remained within the limit set at the beginning of the year. Additional inclusion of PLN 300 million in charge of operational risk resulted in exceeding the limit fivefold.

At the same time, as a result of direct recoveries and compensation from insurance, the Bank recovered the amount of PLN 786 thousand, which is 0,24% of the total amount of gross losses.

The highest losses were caused by:

- Legal claims regarding customer objections to the clauses included in mortgage agreements indexed to foreign currency (CHF), including a decision to reclassify the provision for legal claims, so far recognised under credit risk in charge of operational risk,
- Unavailability to the customers of the Brokerage Office of the application intermediating in placing orders to the Stock Exchange,
- Legal claims concerning offering and distribution of Investment Funds,
- Errors in parameterization of bank products,
- Costs related to the adjustment of the way of working to the new sanitary regime caused by the COVID-19 pandemic,
- External frauds related to electronic offenses and social engineering attacks,
- Employee errors during operational activities.

The actions to mitigate negative financial consequences of operational risk events concentrated mainly on:

- Ensuring security of the Bank's customers, employees and continuity of processes in the event of pandemic,
- Ongoing monitoring of risks and trends with regard to products, services and processes,
- Effective management of transaction limits and fraud prevention rules,
- Further enhancement of the security level of internet banking services,
- Development of an early warning system for cyber-attacks on Bank applications and information systems,
- Analysis of potential threat scenarios,
- Exchange of knowledge and experiences in cross-bank Working Groups under the Polish Bank Association,
- Raising risk awareness among the Bank's customers and employees,
- Active monitoring of the correctness of work of employees' and contractors' under outsourced activities.

8 Internal capital adequacy assessment

ING Bank Śląski S.A. Group defines economic capital (internal capital) as capital needed to cover all material risks identified by the Group in its activities and macroeconomic environment. The capital covers potential unexpected losses to which the Group could be exposed in the future with confidence interval corresponding with desired A- rating (99.9%) and one year horizon.

Material risk types identification

In the ING Bank Śląski S.A. Group The Capital Management Policy at ING Bank Slaski S.A. details the process of material risk types identification, the basic elements for their quantification and capital adequacy management rules.

On the basis of above-mentioned document, the Group identifies the following types of risk :

- permanently material risk - the risk which, in view of the nature of the Group's business, is currently material and will be material in the future. The nature of the Group's business shall be understood as deposit and credit services along with related: liquidity, acting in macroeconomic environment and risk management connected with inappropriate and unreliable internal processes, people and technical systems or external events,
- material risk - the risk that may cause potential losses with the frequency of occurrence value qualifying it as material in line with the table below :

Risk materiality classification				
Potential loss (PLN)	**up to 0,2% of own funds**	**from 0,2% to 1% of own funds**	**from 1% to 5% of own funds**	**above 5% of own funds**
At least once a year	Non-material	Material	Material	Material
At least once in 5 years	Non-material	Non-material	Material	Material
Less than once in 5 years	Non-material	Non-material	Non-material	Material

Within ICAAP in the first quarter of 2020 the Risk Materiality Assessment Workshops have taken place in the Group. As a result of the workshops the risks have been assessed according to the below listing.

Permanently material | Material | Immaterial

Credit risk

Default risk and counterparty risk
Residual risk
Concentration risk
Residual value risk
Transfer risk
Other non-credit obligation assets
„Default" definition risk

Market risk

Risk connected with operations on financial markets

Exchange rate risk
Interest rate general and specific risk in trading book
Interest rate risk in banking book: total mismatch
Interest rate risk in banking book: residual convexity risk
Interest rate risk in banking book: base risk
Interest rate risk in banking book: option risk

Property investment and property in own use risk
Capital securities investment risk in banking book
Customer behaviour risk

Business risk

Financial result risk
Macroeconomic risk
FX mortgage portfolio risk
Excessive leverage risk

Liquidity risk

Operational risk

Model risk

Economic capital assessment methodology

At present, ING Bank Śląski S.A. Group calculates capital for the following risks :

- Default and counterparty risk and residual risk - the risk of potential losses due to counterparty/debtor's failure to fulfill their obligations towards the Group (including transaction settlement and delivery of financial instrument at agreed date) and the risk of value decline for credit exposure due to deterioration of client's creditability. Economic capital requirement is calculated using modified AIRB method (INCAP) and completed with central counterparty credit risk capital and the capital for the credit valuation adjustment (CVA) risk as well as the requirement due to settlement/delivery risk which are calculated in compliance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013. Since June 2014 recession LGD parameter has been also used to calculate capital (residual risk).
- Other non-credit obligation assets risk - the risk of not recovering the value of balance non-credit obligation assets by the Group (DTA, capital exposures and other). The economic capital is calculated in compliance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (standardised approach).
- Concentration risk - the risk resulting from an excessive exposure towards one entity, affiliated entities or groups of entities with similar characteristics, which are therefore exposed to increased credit risk (e.g. sector concentration). The capital requirement is calculated based on the following rules:

- for individual borrowers or groups of borrowers with capital or organizational ties - according to the rules for determining regulatory capital requirements defined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013,
- for borrowers from the same economy sector/geographic sector, running the same business or trading in similar goods - as the excess of the set concentration limit for this exposures group, net of write-offs.

- Residual value risk - the risk arising from the residual value of the leased asset, which is the difference between the value of the asset and the sum of the lease payments. The contractor has the right to purchase the leased asset, but it is not absolutely obliged to do this. Capital requirement is calculated according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013
- Exchange rate risk – risk of losses due to currency rate fluctuations. Economic capital is calculated by VaR methodology .
- General and specific interest rate risk in trading book – the risk of loss on positions in trading books due to interest rate changes. Economic capital is calculated by VaR methodology .
- Interest rate risk in banking book: residual convexity risk – risk of loss due to unexpected non-linear shift of the interest rate curve. Economic capital is calculated based on the IR movement simulation.
- Interest rate risk in banking book: total mismatch - the risk of loss in banking book positions due to interest rate changes. Economic capital is calculated by VaR methodology .
- Customer behaviour risk - the risk of potential losses caused by the uncertainty as to the clients' behaviour towards products with embedded options. Economic capital is calculated by CBR model, as a result of two elements: Monte Carlo simulation and replicating portfolio market value.
- Macroeconomic risk - the risk arising from macroeconomic changes and their impact on the minimum capital requirements. The capital requirement determination methodology uses in-house stress tests for mild recession and required capital adequacy metrics.
- FX mortgage portfolio risk - the risk of losses connected with FX mortgage loans conversion into PLN mortgage loans. The capital is calculated on the basis of estimation of costs for regulatory solutions concerning conversion of FX mortgages.
- Liquidity and funding risk - the risk involving the inability to meet, at a reasonable price, financial obligations resulting from the balance sheet and off-balance sheet. The Bank maintains liquidity in such a way that the monetary liabilities of the Bank may have always done with the available funds, proceeds from maturing transactions, available funding sources at market prices and/or the liquidation of transferable assets. Economic capital is reflecting costs of additional funding acquirement allowing to recover internal levels of LCR metric.
- Model risk - a potential loss that the Bank may incur as a result of decisions which may substantially be based on data obtained using models in internal processes, due to errors in the development, implementation or application of such. Capital requirement is calculated for significant and medium significant models with increased or high model risk using expert judgement.
- Operational risk - the risk of direct or indirect material loss resulting from inadequate or unreliable internal processes, bank employees and systems or from external events. Operational risk includes also consequences of losing reputation, , conduct risk and concentration risk (within the area of operation risk). To calculate the economic capital requirement, the Group applies the Advanced Measurement Approach (AMA). The model applied is a hybrid model, allowing the Group to measure risk with the use of internal and

external data on operational risk events, scenario analysis as well as business environment and internal control factors.

ICAAP review process

Every month, the Group prepares standalone and consolidated reports on realised and planned capital requirements for all types of material risks. These reports are received by the Assets and Liabilities Committee (ALCO) and the Management Board. The Supervisory Board is informed about the Bank's and Group's capital adequacy, including internal capital, on the regular basis.

Once a year, a review of internal capital adequacy assessment process (ICAAP) is performed. The review report is sent to the Management Board and Supervisory Board of ING Bank Śląski S.A. Additionally, on a regular basis, an independent ICAAP audit is carried out by the Internal Audit Department.

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

9 Impact of the implementation of IFRS 9 on capital adequacy

The table below presents detailed quantitative information on transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with the requirements of Art. 473a of Regulation CRR and the EBA/GL/2020/12 Guidelines amending the EBA/GL/2018/01 Guidelines:

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

	Available capital (amounts)	
1	CET1 capital	14 086.5
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13 724.6
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied *	14 086.5
3	Tier 1 capital	14 086.5
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13 724.6
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	14 086.5
5	Total capital	16 393.9
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16 167.1
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	16 393.9
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	87 555.4
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	87 501.4
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.09%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.69%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	16.09%
11	Tier 1 (as a percentage of risk exposure amount)	16.09%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.69%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	16.09%
13	Total capital (as a percentage of risk exposure amount)	18.72%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.48%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	18.72%
	Leverage ratio	
15	Leverage ratio total exposure measure	204 367.4
16	Leverage ratio	6.89%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.73%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	6.89%

* The Bank does not temporarily treat unrealized gains and losses measured at fair value through other comprehensive income, in line with Art. 468 of the CRR Regulation. Reported capital ratios including leverage ratio and Tier 1 capital already fully reflect the effect of unrealized gains and losses measured at fair value through other comprehensive income.

II. Variable remuneration policy

Introduction

Pursuant to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and the Banking Law Act of 29 August 1997 (Journal of Laws of 2015, item 128 as amended), hereinafter referred to as the "Banking Law Act", ING Bank Śląski S.A., hereinafter referred to as the Bank, is obliged to make qualitative and quantitative disclosures relating to the "Variable Remuneration Policy".

Pursuant to the Policy of disclosing qualitative and quantitative information on capital adequacy and variable components of remuneration of ING Bank Śląski S.A." disclosures relating to the Variable Remuneration Policy of ING Bank Śląski S.A. are published.

1. Qualitative information

1.1 Information concerning the process of determination of the variable remuneration policy, number of meetings organized in the financial year by the remuneration supervisory authority, including composition and scope of tasks of the Remuneration and Nomination Committee, external consultant who assisted when developing remuneration policy, and role of the relevant participants

The ING Bank Śląski S.A. Group Remuneration Policy applies from 1 January 2017. It sets forth the key assumptions for shaping the principles of remuneration so as to attract and retain employees, by ensuring the remuneration that is competitive versus the market. The Policy also defines remuneration components.

As far as the Policy is concerned, the Bank Supervisory Board Remuneration and Nomination Committee has the following responsibilities :

- they present the Supervisory Board with opinions about and recommendations on the Policy,
- they present the Supervisory Board with recommendations on Policy observance, following the report developed by the Internal Audit Department, and
- they advise upon and monitor variable remuneration of persons holding managerial positions.

The other competences of the Committee which may be applicable when pursuing the Policy are specified in the Bylaw of the Remuneration and Nomination Committee of ING Bank Śląski S.A.

In 2020, the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 13 regular meetings and 3 by way of circulation. In the period from 01.01.2020 to 31.12.2020 the Remuneration and Nomination Committee's composition was following:

- Aleksander Kutela - Chairman (independent Member),
- Aleksander Galos - Member (independent Member),
- Małgorzata Kołakowska - Member.

1.2 Key facts about performance-based remuneration

ING Bank Śląski S.A. develops their remuneration policy based on market data.

The total remuneration is divided into the fixed and variable remuneration. The maximum relation of the fixed remuneration to the variable remuneration was established.

Fixed remuneration is as large a part of the total remuneration as needed to ensure that a fully flexible variable remuneration policy is pursued, including but not limited to allowing to apply reduction or not to award the variable remuneration at all.

ING Bank Śląski S.A. does not provide for any form of remuneration that could provide incentives for employees to favour their own interests or Bank's interest to the detriment of its customers. The remuneration principles for the persons representing the Bank do not incentivize them to take excessive risk or miss sell products.

Variable remuneration consists of the annual bonus, which is set for every employee on the basis of an assessment of sustainable and risk-adjusted results, taking account of quantitative and qualitative criteria.

As part of variable remuneration, employees may also receive: additionally financial award in cash, the aim of which is to recognize and appreciate employees' achievements above-average performance at work and have a special potential.

In keeping with the Capital Management Procedure at ING Bank Śląski S.A., the Bank tests capital to ensure that the total variable remuneration pool of all employees does not limit the ING Bank Śląski S.A.'s ability to maintain the adequate capital base. Should such a limitation apply, a decision not to activate the variable remuneration pool can be taken.

1.3 Key facts about the remuneration system characteristics, including performance measurement criteria and performance adjustment with risk as well as payment deferral policy and vesting criteria

The Bank employs advanced measurement approach to estimate the capital base and the stress-testing policy, whereby adequate risk management and adequate assessment of present and future capital requirements are ensured.

At the time defined, the direct superior determines the performance-related annual goals which ensure coherence with the long-term strategy of the Bank. The goals support creating long-term value of the Bank and account for the risk cost of the Bank and liquidity risk. The goals have the following nature:

- financial, inclusive of Bank performance-related tasks and a given employee area of responsibility (e.g. Bank net profit, financial risk costs),
- non-financial, inclusive of quality indicators relating to implementation of the Bank's strategy and/or to performance of a given control function, non-financial risk.

When assessing individual performance both the financial and non-financial criteria shall be taken into consideration as well as the risk-adjusted criteria; non-financial criteria account for 50% of all their goals at minimum, except for the persons responsible for control functions to

whom financial criteria do not apply at all. When determining the financial tasks, they are not related to the results achieved in areas controlled by the given person.
Assessment and its verification are performed by the immediate superior and are approved by the ING Bank Śląski S.A. Management Board, following the advice of the Supervisory Board Remuneration and Nomination Committee; for ING Bank Śląski S.A. Management Board Members - by the Supervisory Board, based on the recommendation of the Supervisory Board Remuneration and Nomination Committee. Assessment and verification take place by 31 March of the subsequent calendar year at the latest; for ING Bank Ślaski S.A. Management Board Members - by 30 April.
In keeping with the Policy, the Executive Compensation Bylaw for Members of the Management Board and the General Conditions of ING Bank Śląski S.A. Identified Staff Appraisal , both financial and non-financial criteria as well as risk-adjusted criteria are employed to assess individual performance.
In 2019 additional risk requirements were implemented that determine the final level of variable remuneration for the Identified Staff, each time indicated by the Member of the Management Board responsible for the risk area. They are included in:

- *Procedure regarding risk requirements for key function holders, excluding persons performing control functions* which was implemented as Enclosure 1 to the General Conditions of ING Bank Śląski S.A. Identified Staff Appraisal by Resolution No. 86/16/19 of the Management Board of 21 May 2019
- *Procedure regarding risk requirements for Management Board Members, excluding persons performing control functions*, which was implemented as Enclosure 2 to the Executive Remuneration Bylaw for Members of the Management Board of ING Bank Śląski S.A. by Resolution No. 58/VIII/2019 of the Supervisory Board of 6 June 2019.

The process of determining and assessing risk requirements is carried out independently by a Member of the Management Board responsible for the risk area in relation to the assessment of individual employee effects.

Bank's policy provides for adjustment for remuneration cost. It is made under the Policy, whereunder based on the ex post risk adjustment, the Bank has the right to reduce or not to disburse the variable remuneration when it could potentially have the negative impact on the Bank's results.

The Bank specifically regulated the terms and conditions of bonus award in case of employment relationship termination or expiry.

In accordance with the Policy, the Bank does not award additional remuneration as may be due because of termination of the employment contract understood as a part of the variable remuneration package.

2. Quantitative information

The analysis covers all Identified Staff - in line with list of qualitative and quantitative criteria and the additional criteria qualifying staff members to be included in the list of Identified Staff constituting Enclosure No. 1 with the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A.

As at the disclosure date hereof, the variable remuneration of Identified Staff, was not granted yet. The disclosure presents the variable remuneration for 2020 in the maximum amount possible to be granted for which a reserve was created. The variable remuneration will be subject to the opinion of the Remuneration and Nomination Committee and approval of the Management Board and the Supervisory Board of ING Bank Śląski S.A. In addition, an adjustment indicator may be used in accordance with the above procedures regarding risk requirements.

Qualitative and quantitative disclosures relating to capital adequacy and variable components of remuneration published for 2020 (PLN million)

Below, the quantitative information is presented as required by the "Policy of disclosing information as regards the variable remuneration":

- Aggregate quantitative information about remuneration by business line used in Bank management:

No.	Business line	Total remuneration (fixed + variable)
1	Management Board Members supervising business lines used in Bank management	8.2
2	Management Board Members - other	15.0
3	Retail banking segment	19.3
4	Corporate banking segment	41.0
Total		**83.5**

- Aggregate quantitative information about remuneration of Identified Staff, in split into:
  - Management Board Members and persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff, and
  - other persons holding managerial positions at the Bank when considered the Identified Staff,

comprising the following data:

- aggregate remuneration for a given accounting year in split into fixed and variable remuneration and number of beneficiaries:

Group		Number of persons	Remuneration fixed	Variable remuneration	Total remuneration (fixed and variable)
A	Management Board Members	9	13.6	9.6	23.2
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff	44	21.1	10.8	31.9
C	Other persons holding managerial positions at the Bank when considered the Identified Staff	53	19.4	9.0	28.4
Total		**106**	**54.1**	**29.4**	**83.5**

- aggregate amount and form of variable remuneration in split into cash and share-linked instruments, adopted at the Bank:

(PLN million)

Group		Variable remuneration - paid in cash	Variable remuneration - paid in phantom stock	Variable remuneration total
A	Management Board Members	4.8	4.8	9.6
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff	5.4	5.4	10.8
C	Other persons holding managerial positions at the Bank when considered the Identified Staff	4.5	4.5	9.0
Total		**14.7**	**14.7**	**29.4**

- aggregate deferred remuneration in split into the awarded and still not awarded parts:

Group		Deferred variable remuneration - awarded part	Deferred variable remuneration - not-awarded part	Deferred Variable remuneration
A	Management Board Members	2.7	4.3	7.0
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff	3.2	4.3	7.5
C	Other persons holding managerial positions at the Bank when considered the Identified Staff	2.7	3.5	6.3
Total		**8.6**	**12.1**	**20.8**

- aggregate remuneration with deferred payment, granted in the accounting year, paid and reduced under the results-driven adjustment:

Group		Deferred part of variable remuneration for 2014,2015,2016 and 2017 - granted in 2020	Deferred part of variable remuneration for 2014,2015,2016 and 2017 - paid in 2020
A	Management Board Members	2.0	2,6
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff	3.2	4,0
C	Other persons holding managerial positions at the Bank when considered the Identified Staff	2.2	2,0
Total		**7,4**	**8.6**

The remuneration with deferred payment was not reduced under the results-driven adjustment.

- aggregate amount of payments relating to employment commencement and termination in a given accounting year, number of beneficiaries as well as the top payment per person:

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Group		Amount of payments relating to employment commencement and termination	Number of beneficiaries	Top payment per person
A	Management Board Members	0.03	2	0,03
B	Persons reporting directly to the Management Board member irrespective of their employment basis, Branch Directors and Branch Deputy Directors and the Chief Accountant when considered the Identified Staff	0.03	1	0,03
C	Other persons holding managerial positions at the Bank when considered the Identified Staff	0.25	2	0,25
Total		**0,31**	**5**	

With reference to art. 9ca ust. 5 of The Banking Law, in 2020, total remuneration of none of the people employed at ING Bank Śląski S.A. Group did not exceed the amount of EUR 1 million.

With reference to Regulation (EU) No 575/2013 of The European Parliament and of The Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, for 2020, total remuneration of none of the people employed at ING Bank Śląski S.A. Group did not exceed the amount of EUR 1 million.