ING Bank Śląski S.A. in 2020

Contents

Annual financial statements of the ING Bank Śląski S.A.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Income statement

for the year ended 31 December

	Note	2020	2019
Interest income	2	4,970.0	5,071.2
calculated using effective interest rate method	2	4,967.2	5,067.1
other interest income	2	2.8	4.1
Interest expenses	2	693.3	981.4
Net interest income	2	**4,276.7**	**4,089.8**
Commission income	3	1,914.9	1,686.9
Commission expenses	3	442.8	391.1
Net commission income	3	**1,472.1**	**1,295.8**
Net income on financial instruments measured at fair value through profit or loss and FX result	4	101.9	107.6
Net income on the sale of securities measured at amortised cost	5	7.3	0.0
Net income on the sale of financial assets measured at fair value through other comprehensive income and dividend income	5	19.4	5.4
Net (loss)/income on hedge accounting	6	11.5	-14.3
Net (loss)/income on other basic activities	7	-14.1	-3.9
Net income on basic activities		**5,874.8**	**5,480.4**
General and administrative expenses	8	2,616.2	2,369.8
Impairment for expected credit losses	9	699.7	537.7
including profit on sale of receivables		4.1	34.3
Cost of legal risk of FX mortgage loans	10	270.3	31.2
Tax on certain financial institutions	11	481.6	435.7
Share of profit/(loss) of subsidiaries and associates accounted for using the equity method		75.7	110.5
Gross profit		**1,882.7**	**2,216.5**
Income tax	12	545.1	557.8
Net profit		**1,337.6**	**1,658.7**
Weighted average number of ordinary shares		130,100,000	130,100,000
Earnings per ordinary share (PLN)	13	10.28	12.75

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

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Statement of comprehensive income

for the year ended 31 December

	Note	2020	2019
Net profit for the period		**1,337.6**	**1,658.7**
Total other comprehensive income, including:	34	**1,918.1**	**589.7**
Items which can be reclassified to income statement, including:		**1,890.6**	**577.4**
debt instruments measured at fair value through other comprehensive income – gains on revaluation carried through equity		102.8	17.3
debt instruments measured at fair value through other comprehensive income – reclassification to financial result due to sale		-18.3	-23.7
loans measured at fair value through other comprehensive income - revaluation gains / losses related to equity		-139.3	-108.5
cash flow hedging – gains on revaluation carried through equity		2,562.5	1,083.3
cash flow hedging – reclassification to profit or loss		-617.1	-391.0
Items which will not be reclassified to income statement, including:		**27.5**	**12.3**
equity instruments measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity		30.9	22.2
fixed assets revaluation		0.0	0.3
actuarial gains/losses		-3.4	-10.2
Net comprehensive income for the reporting period		**3,255.7**	**2,248.4**

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Statement of financial position

as at

	Note	2020	2019	01.01.2019
Assets				
Cash in hand and balances with the Central Bank	14	867.3	1,402.9	1,237.4
Loans and other receivables to other banks	15	2,674.2	3,285.3	776.5
Financial assets measured at fair value through profit or loss	16, 17	2,017.7	1,384.6	2,153.4
Derivative hedge instruments	18	1,194.8	851.6	909.6
Investment securities	19	54,882.2	33,559.5	31,937.2
Loans and other receivables to customers	21	116,352.3	110,376.2	98,907.4
Investments in subsidiaries and associates accounted for using the equity method	22	1,354.1	1,112.2	634.6
Property, plant and equipment	23	894.4	932.8	550.4
Intangible assets	24	404.3	408.4	425.0
Assets held for sale	25	0.5	3.6	10.9
Deferred tax assets	26	271.1	270.8	209.0
Other assets	27	204.0	329.4	183.4
Total assets		**181,116.9**	**153,917.3**	**137,934.8**
Liabilities				
Liabilities to other banks	28	4,776.6	2,622.5	1,807.7
Financial liabilities measured at fair value through profit or loss	29, 17	1,530.8	915.1	1,687.6
Derivative hedge instruments	18	558.5	546.0	611.8
Liabilities to customers	30	150,736.5	130,036.8	117,293.8
Liabilities from debt securities issued		0.0	0.0	300.3
Subordinated liabilities	31	2,309.2	2,131.1	1,076.9
Provisions	32	250.8	201.9	149.5
Current income tax liabilities		387.4	377.9	264.5
Other liabilities	33	2,196.6	1,971.2	1,421.1
Total liabilities		**162,746.4**	**138,802.5**	**124,613.2**
Equity				
Share capital	34	130.1	130.1	130.1
Share premium	34	956.3	956.3	956.3
Accumulated other comprehensive income	34	3,675.6	1,758.8	1,169.7
Retained earnings	34	13,608.5	12,269.6	11,065.5
Total equity		**18,370.5**	**15,114.8**	**13,321.6**
Total equity and liabilities		**181,116.9**	**153,917.3**	**137,934.8**
Carrying amount		18,370.5	15,114.8	13,321.6
Number of shares		130,100,000	130,100,000	130,100,000
Carrying amount per share (PLN)		141.20	116.18	102.40

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Statement of changes in equity

2020

Note 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**1,758.8**	**12,269.6**	**15,114.8**
Profit for the current period	-	-	-	1,337.6	**1,337.6**
Other net comprehensive income, including:	**0.0**	**0.0**	**1,916.8**	**1.3**	**1,918.1**
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	-5.6	-	-5.6
debt instruments measured at fair value through other comprehensive income – reclassification to financial result due to sale	-	-	-18.3	-	-18.3
cash flow hedging – gains on revaluation carried through equity	-	-	2,562.5	-	2,562.5
cash flow hedging – reclassification to profit or loss	-	-	-617.1	-	-617.1
disposal of fixed assets	-	-	-1.3	1.3	0.0
actuarial gains/losses	-	-	-3.4	-	-3.4
Closing balance of equity	**130.1**	**956.3**	**3,675.6**	**13,608.5**	**18,370.5**

2019

Note: 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**1,169.7**	**11,080.2**	**13,336.3**
adjustment in recognition the repo transactions	-	-	0.0	-14.7	-14.7
Opening balance of equity adjusted for corrections	**130.1**	**956.3**	**1,169.7**	**11,065.5**	**13,321.6**
Profit for the current period	-	-	-	1,658.7	**1,658.7**
Other net comprehensive income, including:	**0.0**	**0.0**	**589.1**	**0.6**	**589.7**
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	-69.0	-	-69.0
debt instruments measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-23.7	-	-23.7
cash flow hedging – gains on revaluation carried through equity	-	-	1,083.3	-	1,083.3
cash flow hedging – reclassification to profit or loss	-	-	-391.0	-	-391.0
fixed assets revaluation	-	-	0.3	0.0	0.3
disposal of fixed assets	-	-	-0.6	0.6	0.0
actuarial gains/losses	-	-	-10.2	-	-10.2
Other changes in equity, including:	**0.0**	**0.0**	**0.0**	**-455.2**	**-455.2**
valuation of share-based payments	-	-	-	0.2	0.2
dividends paid	-	-	-	-455.4	-455.4
Closing balance of equity	**130.1**	**956.3**	**1,758.8**	**12,269.6**	**15,114.8**

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Cash flow statement

for the year ended 31 December

	Note	2020	2019
Net profit		**1,337.6**	**1,658.7**
Adjustments, including:		**19,289.1**	**-751.3**
Share of profit/(loss) of subsidiaries and associates accounted for using the equity method	22	-75.7	-110.5
Depreciation and amortisation	8,23,24	282.8	268.3
Interest accrued (from the income statement)	2	-4,276.7	-4,089.8
Interest paid		-675.8	-954.6
Interest received		5,009.8	5,123.8
Dividends received	5	-8.4	-7.0
Gains (losses) on investing activities		1.1	-8.4
Income tax (from the income statement)	12	545.1	557.8
Income tax paid from the income statement		-535.9	-506.2
Change in provisions	32, 41	48.9	52.4
Change in loans and other receivables to other banks	15, 41	375.7	-2,630.7
Change in financial assets measured at fair value through profit or loss	16,17,41	-632.9	768.4
Change in debt securities measured at fair value through other comprehensive income	19, 41	-240.3	-1,157.1
Change in hedge derivatives	18, 41	1,614.7	684.5
Change in loans and other receivables to customers	21, 41	-6,147.3	-11,521.9
Change in other assets	27, 41	43.4	-159.0
Change in liabilities to other banks	28, 41	2,154.2	816.9
Change in liabilities measured at fair value through profit or loss	17,29,41	615.9	-772.7
Change in liabilities to customers	30, 41	20,713.4	12,741.1
Change in other liabilities	33, 41	477.1	153.4
Net cash flow from operating activities		**20,626.7**	**907.4**
Purchase of property, plant and equipment	23	-83.4	-106.4
Disposal of property, plant and equipment		0.0	1.6
Purchase of intangible assets	24	-69.3	-74.2
Disposal of intangible assets		0.0	26.7
Disposal of assets held for sale		0.2	15.1
Purchase of shares in subsidiaries and associates		-170.0	-377.6
Purchase of equity instruments measured at fair value through other comprehensive income		-7.2	0.0
Purchase of debt securities measured at amortised cost		-23,852.5	-763.6
Disposal of debt securities measured at amortised cost		2,886.3	204.0
Dividends received		8.4	16.6
Net cash flows from investing activities		**-21,287.5**	**-1,057.8**
Long-term loans received		0.0	1,064.6
Interest on long-term loans repaid		-32.7	-19.4
Interests from issued debt securities		0.0	-7.6
Repayment of lease liabilities		-75.8	-90.8
Dividends paid		0.0	-455.4
Redemption of debt securities		0.0	-300.0
Net cash flows from financing activities		**-108.5**	**191.4**
Effect of exchange rate changes on cash and cash equivalents		162.4	67.3
Net increase/(decrease) in cash and cash equivalents		**-769.3**	**41.0**
Opening balance of cash and cash equivalents		**1,997.4**	**1,956.4**
Closing balance of cash and cash equivalents	41	**1,228.1**	**1,997.4**

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Accounting policy and additional notes

I. Bank details

1. Key Bank data

ING Bank Śląski S.A. ("Bank", "Entity") with the registered office in Poland, Katowice, Sokolska Str. 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Bank was given statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. In 2020, there were no changes in the name of the Bank or its identification data compared to the previous reporting period.

2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered to individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies and actively participates in trading on domestic and foreign financial markets. The duration of the Company was defined in the Bank's statute as indefinite.

3. Share capital

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

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2020 held 75% shares in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting of ING Bank Śląski S.A. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2020, the shareholders owning 5% and more votes at the General Meeting of ING Bank S.A. were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97,575,000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	11,018,205	8.47

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

Bank's Management Board

On 1 July 2020, Mr. Michał Mrożek took the position of the Vice-President of the Bank's Management Board, in accordance with the resolution of the Supervisory Board of 15 May 2020.

On 12 November 2020, Mr. Michał Bolesławski resigned from the position of the Vice-President of the Management Board of ING Bank Śląski S.A., effective at the end of 31 December 2020.

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

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

At the end of 2020, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr. Brunon Bartkiewicz – Bank Management Board President
- Mr. Michał Bolesławski – Bank Management Board Vice-President,
- Ms. Joanna Erdman – Bank Management Board Vice-President,
- Mr. Marcin Giżycki – Bank Management Board Vice-President,
- Ms. Bożena Graczyk – Bank Management Board Vice-President,
- Mr. Michał Mrożek – Bank Management Board Vice-President,
- Mr. Sławomir Soszyński – Bank Management Board Vice-President,
- Mr. Lorenzo Tassan-Bassut – Bank Management Board Vice-President.

Bank's Supervisory Board

On 27 February 2020, Mr Ad Kas resigned from the position of a member of the Supervisory Board of ING Bank Śląski S.A., effective from the date of the General Meeting approving the financial statements for 2019.

On 3 March 2020, Mr. Norman Tambach resigned from the position of a member of the Supervisory Board of ING Bank Śląski S.A., effective from the date of the General Meeting approving the financial statements for 2019.

On 2 April 2020, the General Meeting appointed Ms. Susan Poot and Mr. Remco Nieland to the Supervisory Board, effective from 1 May 2020. The newly appointed members are related to the ING Group.

At the end of 2020, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr. Antoni F. Reczek – Chair, Independent Member,
- Ms. Małgorzata Kołakowska – Deputy Chair,
- Mr. Aleksander Galos – Secretary, Independent Member,
- Mr. Aleksander Kutela – Independent Member,
- Mr. Remco Nieland – Member,
- Ms. Susan Poot – Member,
- Mr. Michał Szczurek – Member.

6. Entity authorised to audit the financial statements

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

7. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2020 to 31 December 2020 have been approved by the Bank Management Board on 9 March 2021.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2020 to 31 December 2020 will be published and approved on the same day as the standalone financial statements.

The annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2019 to 31 December 2019 were approved by the General Meeting on 2 April 2020.

II. Statement of compliance with International Financial Reporting Standards

These annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2020 to 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of EU approved standards and interpretations, except for the standards and interpretations listed in the item below, which are either pending approval by the EU or have been approved by the EU, but shall take effect after the balance sheet date.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

1. Changes in accounting standards

In these annual financial statements, the Bank included the following changes to the standards and new interpretations approved by the European Union and effective for annual periods beginning on or after 1 January 2020:

Change	Influence on the Bank statements
IFRS 16 Leasing *Covid-19 related rent reliefs*	The amendment in the scope of leasing modification, the purpose of which is to ensure the possibility of withdrawing from the evaluation of leasing modifications in a situation where the amendment in leasing payments is a direct consequence of the covid-19 pandemic. The application of the amendment did not affect the financial statements of the Bank.
IFRS 3 *Definition of undertaking* *(the accounting year starting on 1 January 2020)*	The amendment specifies the definition of an undertaking. It also enables a simplified approach to be used to assess whether the purchase of a specific activity or asset is a business purchase or an asset purchase. The application of the amendment did not affect the financial statements of the Bank.
IAS 1 and IAS 8 *Definition of materiality* *(the accounting year starting on 1 January 2020)*	The amendment aims to clarify the definition of materiality and to provide guidance to improve consistency in the application of the concept of materiality in the standards already in force. The application of the amendment did not affect the financial statements of the Bank.
References to the IFRS conceptual framework *(the accounting year starting on 1 January 2020)*	The amendment to a number of standards and interpretations to standards to update the references to the IFRS conceptual framework published in March 2018. The application of the amendment did not affect the financial statements of the Bank.

Published standards and interpretations that were issued by 31 December 2020 and approved by the European Union, but were not previously adopted by the Bank:

Change (EU effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 4 Insurance Contracts *Extension of the temporary exemption from the application of IFRS 9*	The application of the amendment did not affect the financial statements of the Bank.

Published standards and interpretations that were issued by 31 December 2020, but were not approved by the European Union as at 31 December 2020 and were not previously adopted by the Bank:

Change (expected IASB effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Benchmark rate reform – Phase 2* *(the accounting year starting on 1 January 2021)*	The Bank's analyses show that the implementation of the amendments will entail the possibility of continuing the recognition and presentation of financial instruments affected by the reform of benchmark rates and an increased scope of disclosures. In the Bank's opinion, the application of the amendments will not have a significant impact on the Bank's financial statements.
IAS 1 *Presentation of financial statements: classification of financial liabilities as short-term or long-term, taking into account the deferral of the application date* *(the accounting year starting on 1 January 2023)*	The classification of financial liabilities as long-term will depend on the existence of the right to prolong the liability for a period longer than 12 months and on the fulfilment of the conditions for the implementation of such a prolongation as at the balance sheet date. The implementation of the amendment will not affect the financial statements of the Bank.
IFRS 3 *Reference to conceptual assumptions* *(the accounting year starting on 1 January 2022)*	The amendment introduces to the content of the standard references to the conceptual framework published in March 2018. The Bank's analyses show that the implementation of the changes will not have a significant impact on the Bank's financial statements.

IAS 37 *Onerous contracts – the costs of meeting the contract* *(the accounting year starting on 1 January 2022)*	A change consisting in clarifying the concept of the costs of meeting obligations under contracts, where the costs exceed the economic benefits resulting from them. The Bank's analyses show that the implementation of the amendments will not have a significant impact on the Bank's financial statements.
IAS 16 *Property, plant and equipment – benefits before planned use* *(the accounting year starting on 1 January 2022)*	The amendment consists in the exclusion of the possibility of deducting from the production expenses of property, plant and equipment amounts received from the sale of products manufactured at the stage of pre-implementation tests. This type of sales revenues and the corresponding expenses should be included in the income statement. The Bank's analyses show that the implementation of the amendments will not have a significant impact on the Bank's financial statements.
Changes resulting from the cyclical review of IFRS 2018-2020 *(the accounting year starting on 1 January 2022)*	Changes to: IFRS 1 – subsidiary applying accounting standards for the first time IFRS 9 – fees in the "10%" test (to determine the possibility of excluding financial liabilities from the consolidated statement of financial position) – in accordance with the change in the test, all fees paid or received should be included, including those settled by the borrower or lender on behalf of other entities Illustrative examples for IFRS 16 – lease incentives IAS 41 – agriculture: taxation measured at fair value measurement. The Bank's analyses show that the implementation of the amendments will not have a significant impact on the Bank's financial statements.
IFRS 17 *Insurance contracts with the extension of the temporary exemption from the application of IFRS 9.* *(the accounting year starting on 1 January 2023)*	The Bank's analyses show that the implementation of the amendments will not have a significant impact on the Bank's financial statements.

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

2. Going-concern

These annual financial statements of the ING Bank Śląski S.A. were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the date of publication, i.e. from 12 March 2021. As at the approval date hereof, the Bank Management Board have not identified any events that could pose a threat to the Bank continuing its operations during the period of 12 months from the date of publication as a result of intentional or forced abandonment or significant limitation of its operations by the Bank.

3. Discontinued operations

No material operations were discontinued during 2020 and 2019.

4. Financial statements scope and currency

The Bank is the parent entity of the ING Bank Śląski S.A. Capital Group. and in addition to these annual financial statements, it also prepares annual consolidated financial statements in accordance with IFRS.

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

5. Reporting period and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 1 January 2020 to 31 December 2020 and include the comparative data:

- for the statement of financial position as at 31 December 2019 and 1 January 2019,
- for line items from the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 1 January 2019 to 31 December 2019.

III. Significant accounting principles

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

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

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

1. Basis for preparation of consolidated financial statements

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

2. Professional judgment

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

2.1. Deferred tax assets

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

2.2. Classification of financial assets

The Bank classifies financial assets on the basis of both the business model for holding the financial assets and assessment whether under the contractual terms require solely payments of principal and interest on the principal amount outstanding. The detailed information about assumptions in this regard is presented in item 13.

3. Accounting estimates

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

Estimates and assumptions applied to the presentation of the value of assets, liabilities, income and costs are made on the basis of historical data available and other factors considered to be relevant in given circumstances.

The assumptions applied for the future and available data sources are the base for making estimates regarding the carrying amount of assets and liabilities, which cannot be determined explicitly on the basis of other sources. The estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date. The actual results may differ from estimates.

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

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

3.1. Impairment

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

3.1.1. Impairment of financial assets

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

The expected loss in the portfolio of insignificant exposures individually is calculated collectively as a probability-weighted average from several macroeconomic scenarios with different probabilities of occurrence. The final level of the provisions results from the sum of the expected credit losses estimated each year in the future till the maturity date including discount.

To determine impairment (or reverse it) in the ISFA (Individually Significant Financial Assets) portfolio, the present value of expected future cash flows has to be calculated. The amount of the future cash flows is determined among others taking account of the information about the current and forecasted economic standing of the borrower, the forecast value of the recovery amount form the legal collaterals of the credit exposure and the macroeconomic conditions.
The methodology and assumptions used to estimate both the amount and the time of future cash flows are regularly reviewed and adjusted as needed.

Management adjustments

In times of volatility and uncertainty, when portfolio quality and the economic environment change rapidly, models have a reduced ability to accurately predict losses. To reduce the model risk, additional adjustments can be made to address data quality issues, model issues, or expert judgment.

During 2020, programs giving the possibility of suspending or deferring repayments were implemented. As a result, there was a potential risk of underestimating the PD parameter on portfolios subject to non-statutory moratorium. The portfolio of micro-enterprises, whose clients can still benefit from the aid program, is particularly exposed to the risk of underestimating the parameters. Therefore, to cover the risk of a potential deterioration in the quality of this portfolio, the Bank made an additional write-off of PLN 9.9 million as at 31 December 2020.

The specificity of the current crisis differs significantly from the previous ones. So far, changes in macroeconomic forecasts have been realized relatively slowly, moving smoothly from one phase of the cycle to the next. The current crisis has completely different characteristics, a rapid and deep decline in GDP followed by a rapid and equally dynamic rebound of the economy. t was noted that, unlike in the previous crisis, the decline in GDP growth and the peak of insolvency will not occur at the same time. Macroeconomic readings at the end of 2020 are starting to positively affect the amount of write-offs, while we are still dealing with uncertainty as to the occurrence of another wave of disease, unknown duration of a pandemic or vaccination rate. In this situation, sudden write-offs do not necessarily correlate with the improvement of the clients' situation. In addition, aid programs as well as liquidity and employment maintenance programs, especially in the corporate segment, may result in the risk of delaying the moment of insolvency of borrowers. In this situation, the Bank decided to create an additional write-off aimed at mitigating the effect of releasing provisions in connection with the improving macroeconomic forecasts. Its amount at the end of 2020, based on expert estimates, was set at PLN 33.1 million.

Definition of Default (DoD) exposure

The definition of exposures in default status, impaired exposures and non-performing exposures was made more precise in accordance with the guidelines of the European Banking Authority (EBA) No.EBA /GL/ 2016/07 so that the Bank has unified approach to regulatory requirements in this respect. A debtor or exposure assessed as being defaulted is also considered an impaired and non-performing exposure. This change resulted in a charge to the Bank's financial result for 2020 in the amount of PLN 7.8 million. Detailed information in this regard can be found in point 13.13. *Impairment*.

Classification of exposures subject to credit moratorium into Stages

The Bank does not identify the possibility of postponing repayments offered from the end of March 2020 to retail and corporate customers under the non-statutory moratorium as an independent indication of a significant increase in credit risk. In such cases, the Bank performs portfolio or individual assessment together with other indications of a significant increase in credit risk.

An exposure subject to the statutory moratorium is, in principle, classified under Stage 3. Classification under Stage 2 is possible only in exceptional cases, taking into account the specific circumstances and facts resulting from additional analyzes carried out by the Bank. Due to the ongoing epidemic and the declining interest in taking advantage of the statutory moratorium, an additional write-off was created for the expected increased losses resulting from government holidays, which were not captured by the standard risk parameters. In total, the additional write-off at the end of 2020 amounted to PLN 40.8 million.

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto are described in item 13.13. *Impairment.*

Thresholds used to identify a significant increase in credit risk and macroeconomic forecasts and probability weights applied to each of macroeconomic scenarios

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

In 2020 the assumptions regarding the significant change in credit risk (SICR) for the retail cash loan portfolio were updated. In particular, the relative threshold for PD parameter, which when exceeded results in reclassification to Stage 2, was changed from 75 bp to 350 bp. The change in the SICR threshold resulted in a decrease in the value of write-downs for expected losses by approximately PLN 55 million. In 2019, the relative threshold of PD change for the corporate sales network was updated from 100 bp to 250 bp.

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

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

These estimates show, respectively, hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 170 million (including PLN 85 million for the corporate portfolio and PLN 85 million for the retail portfolio) or higher by approximately PLN 700 million (PLN 310 million for the corporate portfolio and PLN 390 million for the retail portfolio respectively).

The estimates made as at 31 December 2019 showed, respectively, the hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 245 million (including PLN 90 million for the corporate portfolio and PLN 155 million for the retail portfolio) or higher by approximately PLN 645 million (PLN 340 million for the corporate portfolio and PLN 305 million for the retail portfolio, respectively).

The tables below present the macroeconomic forecasts applied as at 31 December 2020 and 31 December 2019 of key factors and the difference of expected losses in upside, baseline and downside scenarios to reported expected losses, which are weighted with scenario probability – division into corporate, retail and total portfolio.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

Corporate portfolio							
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	7.7%	4.2%	5.0%	-21%	20%	1,130.1
	Unemployment	3.8%	2.8%	1.8%			
	Real estate price index	8.1%	6.3%	4.3%			
	3 months' interest rate	0.6%	1.0%	1.3%			
Baseline scenario	GDP	4.2%	3.7%	3.4%	-10%	60%	
	Unemployment	4.7%	3.4%	2.8%			
	Real estate price index	2.8%	4.6%	4.6%			
	3 months' interest rate	0.1%	0.4%	0.5%			
Negative scenario	GDP	-4.8%	5.4%	2.3%	52%	20%	
	Unemployment	6.8%	6.6%	6.9%			
	Real estate price index	-8.1%	5.2%	7.7%			
	3 months' interest rate	0.0%	0.2%	0.3%			

Retail portfolio							
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	7.7%	4.2%	5.0%	-3%	20%	1,334.1
	Unemployment	3.8%	2.8%	1.8%			
	Real estate price index	8.1%	6.3%	4.3%			
	3 months' interest rate	0.6%	1.0%	1.3%			
Baseline scenario	GDP	4.2%	3.7%	3.4%	-1%	60%	
	Unemployment	4.7%	3.4%	2.8%			
	Real estate price index	2.8%	4.6%	4.6%			
	3 months' interest rate	0.1%	0.4%	0.5%			
Negative scenario	GDP	-4.8%	5.4%	2.3%	5%	20%	
	Unemployment	6.8%	6.6%	6.9%			
	Real estate price index	-8.1%	5.2%	7.7%			
	3 months' interest rate	0.0%	0.2%	0.3%			

Total portfolio							
		2021	2022	2023	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	7.7%	4.2%	5.0%	-12%	20%	2,464.1
	Unemployment	3.8%	2.8%	1.8%			
	Real estate price index	8.1%	6.3%	4.3%			
	3 months' interest rate	0.6%	1.0%	1.3%			
Baseline scenario	GDP	4.2%	3.7%	3.4%	-5%	60%	
	Unemployment	4.7%	3.4%	2.8%			
	Real estate price index	2.8%	4.6%	4.6%			
	3 months' interest rate	0.1%	0.4%	0.5%			
Negative scenario	GDP	-4.8%	5.4%	2.3%	28%	20%	
	Unemployment	6.8%	6.6%	6.9%			
	Real estate price index	-8.1%	5.2%	7.7%			
	3 months' interest rate	0.0%	0.2%	0.3%			

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

Corporate portfolio

		2020	2021	2022	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	4.2%	6.1%	5.0%	-13%	20%	786.7
	Unemployment	2.5%	1.9%	1.5%			
	Real estate price index	5.9%	8.8%	7.5%			
	3 months' interest rate	1.8%	1.9%	2.3%			
Baseline scenario	GDP	3.5%	3.0%	2.9%	-3%	60%	
	Unemployment	2.8%	2.7%	2.7%			
	Real estate price index	5.1%	4.9%	4.9%			
	3 months' interest rate	1.6%	1.6%	1.6%			
Negative scenario	GDP	1.3%	-0.5%	0.6%	21%	20%	
	Unemployment	4.4%	5.6%	6.6%			
	Real estate price index	1.2%	0.1%	4.3%			
	3 months' interest rate	1.3%	1.0%	0.6%			

Retail portfolio

		2020	2021	2022	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	4.2%	6.1%	5.0%	-7%	20%	779.2
	Unemployment	2.5%	1.9%	1.5%			
	Real estate price index	5.9%	8.8%	7.5%			
	3 months' interest rate	1.8%	1.9%	2.3%			
Baseline scenario	GDP	3.5%	3.0%	2.9%	0%	60%	
	Unemployment	2.8%	2.7%	2.7%			
	Real estate price index	5.1%	4.9%	4.9%			
	3 months' interest rate	1.6%	1.6%	1.6%			
Negative scenario	GDP	1.3%	-0.5%	0.6%	7%	20%	
	Unemployment	4.4%	5.6%	6.6%			
	Real estate price index	1.2%	0.1%	4.3%			
	3 months' interest rate	1.3%	1.0%	0.6%			

Total portfolio

		2020	2021	2022	Expected losses not weighted by probability – deviation from losses reported in%	Weight assigned to the scenario	Reported expected losses (collective assessment in Stage 1, 2 and 3)
Upside scenario	GDP	4.2%	6.1%	5.0%	-10%	20%	1,565.9
	Unemployment	2.5%	1.9%	1.5%			
	Real estate price index	5.9%	8.8%	7.5%			
	3 months' interest rate	1.8%	1.9%	2.3%			
Baseline scenario	GDP	3.5%	3.0%	2.9%	-2%	60%	
	Unemployment	2.8%	2.7%	2.7%			
	Real estate price index	5.1%	4.9%	4.9%			
	3 months' interest rate	1.6%	1.6%	1.6%			
Negative scenario	GDP	1.3%	-0.5%	0.6%	14%	20%	
	Unemployment	4.4%	5.6%	6.6%			
	Real estate price index	1.2%	0.1%	4.3%			
	3 months' interest rate	1.3%	1.0%	0.6%			

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

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

The value in use of an asset (or a cash-generating unit when the recoverable amount of an asset item forming joint assets cannot be determined) is estimated, among others, through adoption of estimate assumptions for amounts, times of future cash flows which the Bank may generate from a given fixed asset (or a cash-generating unit) and other factors. To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given assets item.

When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers, which, in principle, are also based on estimates.

The relevant recording rules were delineated in item 14.4. *Impairment of other non-financial assets.*

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

3.2. Measurement of financial instruments not quoted in active markets

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

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

Detailed information on the fair value measurement of financial instruments not quoted on active markets is described in Note 37. *Fair value*

3.3. Provisions for retirement and pension benefit

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards its employees considering the headcount and payroll status as at the update date.

The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary rises as well as to staff rotation, death risk and others. The assumptions are verified as at the end of the accounting year.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

The tables below present model sensitivity to the values adopted for individual assumptions as at 31 December 2020 and 31 December 2019.

2020

	Provisions for retirement and pension benefit		
	Lower bracket	Base variant	Upper bracket
Discount rate (+ 1% / base variant / – 1%)	53.14	59.41	66.83
Salary raise (-0.25% / base variant / +0.25)	57.60	59.41	61.28

2019

	Provisions for retirement and pension benefit		
	Lower bracket	Base variant	Upper bracket
Discount rate (+ 1% / base variant / – 1%)	46.75	52.08	58.39
Salary raise (-0.25% / base variant / +0.25)	50.67	52.08	53.54

3.4. Lease period for perpetual contracts

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

The adopted estimates do not have a significant impact on the value of right-of-use assets. A change in the lease period of 1 year affects the value of assets by approx. PLN 6 million.

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

As at 31 December 2020, the Bank had receivables under CHF-indexed retail mortgage loans in the gross carrying amount of PLN 611.3 million (PLN 880.6 million as at 31 December 2019). Total loans indexed to various currencies amounted to PLN 627.4 million (PLN 951.4 million as at 31 December 2019.

As at 31 December 2020, without taking into account the legal risk adjustment related to the gross carrying amount, the gross carrying amount of CHF-indexed retail mortgage loans would be PLN 911.3 million (PLN 915.9 million as at 31 December 2019).

The amount of the adjustment to the gross carrying amount resulting from legal risk for the CHF-indexed mortgage loan portfolio reported in the statement of financial position and the amount of legal risk provisions for CHF-indexed mortgage loans already removed from the statement of financial position depends on many variables, i.e. primarily the forecast number of future disputes and the number and terms of settlements with borrowers, the forecast horizon adopted in the estimates, possible future legal decisions, and the probability distribution of individual possibilities.

As at 31 December 2020, a portfolio approach was used to estimate the gross carrying amount adjustment related to the portfolio of CHF-indexed mortgage loans included in the statement of financial position and to estimate the provision for CHF-indexed mortgage assets removed from the report resulting from legal risk related to these credits.

The adjustment to the gross carrying amount of the CHF portfolio is intended to reflect the actual and revised estimated contractual cash flows (the change due to the assessment that the legal risk associated with the CHF-indexed mortgage portfolio changes the payment assessment for these assets and the adjustment to the gross carrying amount), will allow the gross carrying amount to be disclosed at an amount that will reflect the actual and revised estimated contractual cash flows).

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

As at 31 December 2020, the amount of the adjustment to the gross carrying amount arising from legal risk for the portfolio of CHF-indexed mortgage loans still disclosed in the statement of financial position amounted to PLN 300.0 million (PLN 35.3 million as at 2019 yearend).

Regarding CHF-indexed mortgage loans already removed from the statement of financial position, as at 31 December 2020, the Bank maintained a provision amounted to PLN 11.8 million (PLN 9.6 million as at 2019 yearend). The amount is presented in liabilities under *Provisions*.

As at 31 December 2020, the potential losses due to legal risk are estimated using the portfolio method as a probability-weighted average from three scenarios - the base, positive and negative - taking into account the estimated probability of occurrence. The scenarios on which the estimation is based are varied in terms of the probability of various possible court judgments and the scale of settlements with customers regarding the conversion of loans from CHF indexed to PLN-denominated loans (the interest rate of which is determined based on the WIBOR rate taking into account the loan margin resulting from the average interest rate on new loans in PLN from the month of granting the loan in CHF published in NBP statistics) and the expected number of court cases calculated on the basis of the Bank's professional judgment resulting from the Bank's experience to date and the current analysis of the market situation.

As at 31 December 2020, for the portfolio of CHF indexed mortgage loans included in the statement of financial position the Bank assumes in each scenario that for a specific part of the portfolio possibilities are:

1) conversion of loans indexed to CHF into loans denominated in PLN (the interest rate of which is determined based on the WIBOR rate) through voluntary settlements, or
2) cancellation of the credit agreement after the end of valid legal proceedings.

The calculation of losses in the case of conversion of loans into loans denominated in PLN assumes the conversion of the loan agreement and repayments made on its basis by the borrower as if the loan had been granted in PLN from the beginning. Historical CHF / PLN rates on the dates of these cash flows are used to calculate the original loan amount and the repayments made during its life. The calculation takes into account the remuneration for the loan interest based on the WIBOR rate and the market loan margins for loans granted in PLN from the loan origination period.

The calculation of losses in the event of cancellation of the loan agreement uses historical CHF / PLN exchange rates for settlement, but does not include the Bank's remuneration for interest on the borrower's use of capital.

The positive, baseline and negative scenarios differ in the size of the portfolio subject to conversion into PLN or court cases, including cancellation of contracts.

The change in the estimate due to the adjustment of the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position in 2020 compared to the balance of this adjustment as at 31 December 2019 resulted, inter alia, from the introduction of a new scenario of settlements with customers regarding the conversion of loans indexed to CHF to loans denominated in PLN in accordance with the PFSA proposal of December 2020 and from an increase in the number of disputes that may end in the cancellation of the contract.

The main source of uncertainty for the estimate of the gross carrying amount adjustment for CHF-indexed mortgage loans included in the statement of financial position is the assumptions about 1) the distribution of voluntary settlements versus the number of disputes ending in cancellation of the contract; 2) the size of the portfolio not covered by either voluntary settlements or disputes and 3) the probability of the cancellation of the contract in court cases.

As at 31 December 2020:

- the change in probability between the scenario regarding voluntary settlements with customers in favour of a judgment cancelling the loan agreement by +/- 5 p.p (without changing the other assumptions) would result in a change in the level of the gross book value adjustment for CHF indexed mortgage loans included in the statement of financial position by +/- PLN 20 million.
- the inclusion of +/- 5% of the exposure in the portfolio subject to voluntary settlements or litigation (without changing other assumptions) would result in a change in the level of gross carrying amount adjustment for CHF-indexed mortgage loans included in the statement of financial position. +/- PLN 18 million.
- ▪ change in the probability of the end of disputes with the annulment of the contract by +/- 10 p.p. (without changing other assumptions) would result in a change in the level of adjustment of the gross carrying amount for CHF-indexed mortgage loans included in the statement of financial position by +/- PLN 15 million.

The provisions for expected credit losses on the CHF indexed mortgage loan portfolio resulting from the recognition of these loans in Stage 2 amounted to PLN 14.8 million as at 31 December 2020 and PLN 11.6 million in Stage 3.

Detailed information on court cases is provided in Note 32.

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

On 11 September 2019, the European Court of Justice (CJEU) announced a judgment in the case of the question referred by the Lublin-Wschód District Court for a preliminary ruling regarding the interpretation of Art. 16 clause 1 of Directive 2008/48 / EC of the European Parliament and of the Council of 23 April 2008 on consumer credit agreements. The Consumer Credit Act (UKK) in force in Poland contains in Art. 49 analogous provision, which up to 2016 had no interpretation doubts, and banks, as a rule, charging a commission for granting a loan, did not refund its client in the event of early repayment (except for withdrawal from the contract). Discussion on the interpretation of Art. 49 UKK started UOKiK by issuing a joint position with the Financial Ombudsman in 2016, according to which in the event of early repayment of a consumer loan all possible costs of such a loan should be reduced, irrespective of their nature and regardless of when these costs were actually borne by the borrower this reduction is to be proportional, i.e. refer to the period from the date of actual repayment of the loan to the date of final repayment specified in the contract. The judgment of the CJEU resolves this issue in such a way that in the event of early repayment of consumer credit, banks should:

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

After the publication of the above judgment, the President of UOKiK presented his position in which he fully shared the findings of the CJEU judgment. In connection with the judgment of the CJEU and the UOKiK statement in the third quarter of 2019, the Bank adapted its activities to the current interpretation of the regulations as follows:

- refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Bank estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision was estimated based on the assumptions regarding the number of customers who can submit complaints to the Bank and the sum of commission on overpaid loans. The Bank created PLN 17.1 million provisions in this respect. An increase in the number of complaints by 10% would increase the provision by PLN 1.7 million. As at 31 December 2020, the value of the provision was PLN 8.9 million.
- With respect to prepayments made from 11 September 2019, the Bank returns the commissions charged after the customer repays the loan earlier proportionally. These revenues are recognised using the effective interest rate method, which has a faster rate of revenue recognition than the straight-line method used to calculate returns. In order to properly take into account the impact on the valuation of receivables and the financial result, the Bank estimated the difference between the settlement of revenues using the effective rate method and the straight-line method based on expected returns using historical data on prepayment profiles of loans with different tenors. As a result, the gross value of receivables from consumer loans and mortgage loans valued at amortised cost decreased in 2020 by PLN 6.4 million to the total amount of PLN 27.4 million reducing the gross value at the end of 2020 compared to the amount of PLN 21.0 million reducing the gross value recognised in 2019 and disclosed at the end of 2019.

3.7. Business combinations

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

The acquisition method is used to account for the acquisition of entities from unrelated parties. On the acquisition date, the Bank recognizes, separately from goodwill, the identifiable assets acquired and liabilities assumed, taking into account the recognition conditions, and all non-controlling interests in the acquired entity.

4. Valuation of subsidiaries and associates in the separate financial statements

In the Bank's separate financial statements, investments in the Bank's subsidiaries and associates are initially recognized at purchase price, and then accounted for using the equity method. The investment includes goodwill (less any accumulated impairment losses) determined as at the date of acquisition.

The Bank's share in the financial result of subsidiaries or associates from the date of acquisition is recognized in the income statement, and the share in changes in other capitals from the date of acquisition - in other comprehensive income. The carrying amount of the investment is adjusted for the total changes in the state of individual capital components from the date of their acquisition.

If the Bank's share in losses exceeds the value of shares in a subsidiary or associate, the Bank ceases to recognize its share in further losses or creates a reserve for any additional losses only in the amount in which the investor took legal or customary obligation or made a payment on behalf of company.

Unrealized gains on transactions between the Bank and these entities are eliminated in proportion to the Bank's share in these entities. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred.

Each time at the end of the reporting period, the Bank assesses the existence of premises that indicate whether there has been impairment of investments made in subsidiaries and associates.

If such evidence exists, the Bank estimates the recoverable amount, i.e. the value in use of the investment or the fair value less the costs of selling the asset, whichever is the higher. If the carrying amount of an asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement.

5. Foreign currency

5.1. The functional currency and the presentation currency

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

5.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are recognised in the statement of profit or loss in the specific item *FX result, which is an element of Net income on financial instruments measured at fair value through profit or loss and FX result.*

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

6. Net interest income

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

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

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

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

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

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

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

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

7. Commission income and costs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income and costs under bancassurance commission

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

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

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

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

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

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

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

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

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

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

- on a straight-line basis during the insurance policy term – if the Bank, apart from other sales operations, also provides additional services during the insurance term,
- on a one-off basis – if the Bank does not provide any additional services during the insurance policy term.

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

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

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

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

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

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

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

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

10. Net (loss)/income on hedge accounting

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

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

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

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

12. Factoring services

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

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

13. Financial assets and liabilities

13.1. Initial recognition

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

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

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

13.2. Classification of financial assets

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

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

Financial assets measured at amortised cost

Financial assets shall be measured at amortised cost if both of the following conditions are met and is not designated to be measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets measured at fair value through other comprehensive income

Financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met and it is not designated for measurement measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments measured at fair value through other comprehensive income

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

Financial assets measured at fair value through profit or loss

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

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

Business model assessment

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

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

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

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

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

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

- increase of credit risk,
- sales close to maturity,
- infrequent sales,
- sales insignificant in value,
- in response to regulatory/supervisory requirements,
- liquidity crisis (stress case scenario),
- change of the credit limit of the particular borrower.

The Bank took the following assumptions:

- Sales close to maturity means the sales of financial assets whose:
  - original maturity is more than 1 year and sales occurs less than 6 months before maturity date,
  - original maturity is less than 1 year and sales occurs less than 3 months before maturity date.
- infrequent sales means the sales activities at level below 10% of sales transactions in relation to average number of sales transactions in a particular business model;
- insignificant in value means sales activities at the level less than indicator computed based on a quotient of 10% and average maturity of the assets portfolio in relation to:
  - quotient of carrying amount of sold assets to carrying amount of the entire portfolio in a particular business model, or
  - quotient of realised result from sales transaction to net interest margin of the entire portfolio held within particular business model.

Assessment of cash flow characteristics

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

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

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

In particular the Bank verifies the following conditions:

- contingent events which have influence on the timing and the amount of cash
- leverage,
- prepayment or funding extension conditions,
- non-recourse conditions for the realised cash flows,
- terms that modified the consideration for time value of money.

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

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

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

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

13.3. Classification of financial liabilities

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

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

Financial liabilities measured at fair value through profit or loss

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

Financial liabilities measured at amortised cost

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

Financial guarantees

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

13.4. Derecognition

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

The Bank transfers a financial asset if and only if it either:

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

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

- The Bank is not required to pay the final recipients until it receives the corresponding amounts resulting from the original asset,
- under the transfer agreement, the Bank may not sell or pledge the original asset other than a security for the obligation to transfer cash flows established for the benefit of final

recipients,

- The Bank is required to remit all the cash flows received from the original asset without material delay.

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognizes the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognize the financial asset, and if the Bank has not retained control, it derecognizes the financial asset to the extent of its continuing involvement in the financial asset.

The Bank derecognizes a financial liability (or part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is satisfied or cancelled or expires.

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

The Bank reduce the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

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

13.5. Modification of contractual cash flows

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

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

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

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

13.6. Measurement

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

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

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

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

If the estimates of payments or inflows change (excluding immaterial modifications and changes in estimates of expected credit losses), the Bank adjusts the gross carrying amount of the asset or the amortised cost of the financial liability (or group of financial instruments) so that this value reflects the actual and changed estimated contractual cash flows. For this purpose, the Bank translates the gross carrying amount of a financial asset or the amortised cost of a financial liability as the present value of estimated future contractual cash flows that are discounted at the original effective interest rate of the financial instrument (or the credit-adjusted effective interest rate for purchased or credit-impaired financial assets created) or, where applicable, the revised effective interest rate).
In particular, the Bank adjusts the gross carrying amount of the portfolio of mortgage loans denominated in foreign currencies, taking into account the changed estimated cash flows from these agreements resulting from the legal risk of this portfolio. The adjustment is recorded as a separate line in the income statement *Cost of legal risk of FX mortgage loans*.

Granted financial guarantees are measured at the higher of:

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

13.7. Reclassification

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

In case of reclassification of:

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

- Financial asset measured at fair value through profit or loss to financial asset measured at fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and the measurement is carried through equity.
- Financial asset measured at fair value through other comprehensive income to financial asset measured at fair value through profit or loss – the cumulative gain or loss previously recognised in other comprehensive income is removed from equity to financial result as reclassification adjustment in accordance with IAS 1.

13.8. Gains and losses resulting from subsequent measurement

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

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

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

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

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

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

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

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

- regarding debt financial assets are recognised in the income statement,
- regarding equity instruments are recognised in the relevant equity item, in which it presents retained earnings.

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

Market activity is assessed on the basis of frequency and the volume of effected transactions as well as access to information about quoted prices which by and large should be delivered on a continuous basis.

The main market and the most beneficial one at the same time is the market the Bank can access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

Based on the employed methods of determining the fair value, financial assets/liabilities are classified to the following categories:

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

The Bank verifies on a monthly basis whether any changes occurred to the quality of the input data used for individual measurement techniques and determines the reasons therefor and their impact on the fair value calculation for the financial assets/liabilities item. Each identified case is reviewed individually. Following detailed analyses, the Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

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

13.9. Cost basis of debt and equity securities

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

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

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

13.10. Derivative instruments and hedge accounting

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

The carrying amount of interest rate derivatives settled via the central counterparty reflects transaction settlement under the settled to market approach.

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

In addition, for receivables resulting from matured or terminated and unsettled transactions as at the balance sheet date, the Bank establishes impairment losses using the methodology applied to assessing the risk of impaired credit receivables.

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

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

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

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

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

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

13.10.1. Hedge accounting

The Bank applies the hedge accounting requirements of IAS 39.

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

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

- formalised documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Bank. The Bank specifies the manner for assessing the effectiveness of the hedging instrument in offsetting changes in cash flows due to the hedged transaction in terms of mitigation of risk the Bank hedges against,
- the hedging instrument and hedged instrument are similar, especially nominal value, maturity date and sensitivity to interest rate and FX rate changes,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately

affect the financial result,

- the effectiveness of the hedge may be assessed credibly, so the fair value of the hedged item or the cash flows of the said item as well as fair value of a hedge instrument may be valued credibly,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

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

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

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

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

Cash flow hedge

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

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

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

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

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

Further, the Bank applies the hedging strategy to hedge against FX risk and base risk being the consequence of funding the CHF or EUR- denominated or indexed loans portfolio with PLN liabilities using Currency Interest Rate Swaps (CIRS).

With one economic link between the concluded CIRS transactions and the extended CHF or EUR loans as well as PLN deposits used to fund them, the Bank sets two hedge relationships for cash flow hedge accounting purposes. The foregoing is made by separating the real CIRS transaction part hedging the portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

13.10.2. Derivative instruments not qualifying as hedging instruments

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

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

13.11. Offsetting financial instruments

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

In order to mitigate credit risk, the Bank concludes master agreements with contracting parties, with which the Bank concludes transactions. These master agreements provide for offsetting financial assets and liabilities in case of a breach of the master agreement. Due to the conditional nature of these contractual provisions, there is no netting in the financial statements and the effects of conditional netting are presented in note 38.

13.12. Repo, reverse repo transactions

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

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

13.13. Impairment

Estimation of the impairment loss is based on the expected credit loss. This approach shall be applied to debt financial assets, credit exposures, lease receivables, irrevocable financial commitments and financial guarantees, except for investment in equity securities.

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

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

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,

- the time value of money, and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Three stage approach

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

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

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

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

Significant increase in credit risk

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

- Significant increase in the lifetime PD at reporting date comparing to the lifetime PD at initial recognition occurring over the period from the reporting date till maturity date;
- Watch list status,
- Forbearance status,
- More than 30 days past due,
- The exposure constitutes a mortgage loan indexed in CHF at the Bank.

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

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

Evidence of impairment

The evidence of impairment is

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

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

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

Impairment triggers

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

The triggers for impairment for corporate credit exposures include:

- granting by a natural person in default of obligations, a surety at the Bank for significant obligations of a company belonging to it or when a natural person is a debtor of the Bank and the company belonging to it is in default,
- over 3-month arrears in repayment (including all interest, principal and commissions) under

the loan with a one-off repayment of all disbursed capital at the end of the loan period (not applicable if the repayment frequency exceeds one month),

- the customer belongs to the same economic or legal group as the defaulting debtor,
- disappearance of the possibility of refinancing,
- for exposures resulting from transactions concluded on the financial market – disappearance of an active market (e.g. suspension of quotations on the WSE) for a given financial asset (shares, bonds, other securities) held by the Bank due to financial difficulties of the issuer / client, which may have a negative effect on the future cash flows of a given financial asset,
- the customer ceases to repay principal, interest or commission and the delay in repayment or the oldest unauthorised overdraft continues for more than 45 calendar days,
- bankruptcy threat, submission of an application to initiate proceedings under restructuring law or other financial reorganization, which may result in non-repayment of a financial asset or its delay,
- no intention or possibility of repayment by the Debtor due to the existing financial problems; in particular, the following events may indicate significant financial difficulties (the events described in points "a" to "e" are not triggers for impairment if they were assumed in the client's financial plans at the time of granting the involvement and the Bank accepted such plans:
  a) negative equity at the end of the annual accounting period,
  b) negative cash flows from operating activities in three consecutive annual accounting periods (from the cash flow statement, and if it is not prepared, then from the simplified cash flow statement),
  c) revenues from core activities decrease significantly (over 50% year on year based on the results of annual accounting periods) or revenues from core activities decrease (over 30% year on year based on the results of annual accounting periods) and, at the same time, the ratio of debt to EBITDA (earnings before interest, taxes, depreciation and amortization, profit before deduction of interest on interest-bearing liabilities, taxes and depreciation) is greater than 4 or EBITDA is less than 0 (if the contract contains a different definition of the trigger, the event is a trigger for impairment, if it is exceeded level 4 as defined in the contract. If the contract indicates the level of the ratio> 4, then we identify the triggers for impairment when exceeding the level specified in the contract),
  d) Negative EBITDA in two consecutive annual financial periods,
  e) the implementation of financial projections by the client negatively differs from the range approved by the Bank by at least 20%, which leads to a significant breakdown of financial ratios,
  f) the events described in points "a" to "e" occurred during the accounting year, provided that they occurred in the amounts considered significant and the Bank expects that the situation will not improve until the end of the annual accounting period and this situation may result in failure to repay the financial asset or its delay,
  g) active enforcement to client accounts kept in the Bank, if the oldest active enforcement order persists for more than 90 days and the total amount of active titles exceeds PLN 100 thousand; PLN for customers of the corporate sales network or PLN 500 thousand for strategic clients,
  h) unsettled claims under guarantees granted by the Bank (lack of customer funds), if the customer's overdue liability to the Bank due to the payment of the guarantee by the Bankpersists for more than 45 days from the date of payment of the guarantee claim,
- a material breach of contractual terms by the customer, which may have a negative impact on future cash flows from a given financial asset (if there has been a material breach of contractual terms, but the Bank, after identifying and assessing the causes and effects of such breach, accepted them (temporarily or permanently) or changed, such an event is not

treated as a trigger for impairment),
- termination of a loan agreement with another bank of significant value,
- unknown whereabouts of the client, resulting in a lack of representation in contacts with the Bank and undisclosed assets of the client,
- crisis of the sector in which the client operates, combined with the borrower's weak position in a given sector,
- restructuring of the loan receivable for non-commercial reasons related to significant financial difficulties of the client, resulting in a change to the existing terms of the contract, full or partial refinancing of the exposure at risk, which would not have occurred if the client had not experienced these financial difficulties (including forbearance) and loss of the net present value of cash flows is equal to or less than 1%,
- credit fraud of the debtor towards the Bank or another ING Group entity,
- the exposure has received a forbearance 2 or more times in the last 5 years,
- a significant deterioration of the client's rating resulting in its reclassification to a risk class of at least 17 with a simultaneous drop by at least 4 classes.

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

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

The triggers for impairment for retail credit exposures include:
- failure to meet a minimum of three debt repayment arrangements within the current period of arrears,
- a natural person who has issued a surety in the Bank for significant obligations of their company is in default or a natural person is a debtor of the Bank and their company is in a state of default,
- the business client is related to the same group of debtors (legally or economically) in which one of the debtors is defaulted,
- no intention or possibility of repayment – in the Bank's opinion, the debtor does not want to pay off the obligation or is unable to pay; the inability to repay the liability occurs when the

debtor's sources of income are insufficient to repay the instalments due, e.g.

   – for an individual client: loss of job, termination of social benefits payments, divorce, serious illness, death of the debtor, obtaining information on untimely servicing of a debt of significant value in another bank (over 90 days overdue) or commencement of enforcement / debt collection activities by another bank,
   – for a business client: (anticipated) cash shortfall, (anticipated) high or sudden increase in leverage, (anticipated) breach of financial clauses, (anticipated) deterioration in a market where the debtor's position is weak,

- approving a forbearance to the customer that is not able to repay its financial obligations under a loan agreement with the Bank due to existing or anticipated financial difficulties,
- credit fraud of the debtor towards the Bank – reasonable suspicion of extortion of a loan, i.e. an obligation whose credit documentation or the established facts indicate that it was granted as a result of deliberate misrepresentation of the Bank by presenting documents, certificates, and statements that are not factually correct,
- occurrence of minimum two forbearance instances within 5 years of granting the first forbearance.

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

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

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

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

If, as a result of the assessment, it is concluded that there is no evidence of impairment for a given financial asset, the asset is included in groups of financial assets with similar credit risk characteristics that indicate the debtor's ability to repay the entire liability in accordance with the terms of the contract. In the groups designated in this way, the impairment loss is calculated using the collective method, based on the valuation of expected credit losses. If there is evidence that an impairment loss has been incurred on an asset measured at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate of the financial instrument.

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

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

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

Measurement of expected credit losses

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

The amount of the revaluation charge calculated collectively is based on the history of losses for asset portfolios with similar credit risk characteristics. For the purposes of determining risk parameters, the Bank uses over thirty models for the needs of which exposures are classified into homogeneous groups with similar characteristics based on different criteria. Exposures from the retail banking segment are divided into mortgage, consumer and business loans. Corporate banking exposures are grouped mainly by customer size (e.g. small and medium-sized enterprises, corporations), customer type (e.g. financial institutions), loan application (e.g. real estate financing, project financing) and product (e.g. leasing, factoring).

The Bank measures the lifetime expected credit losses LEL (Lifetime Expected Loss) – is the discounted amount of partial losses over the lifetime of the exposure, relating to default events in each 12-month time window by the maturity date of the exposure in each of the three scenarios:

$$LEL = \sum_{t=0}^{T} \frac{PD_t^{PiT} \times EAD_t^{PiT} \times LGD_t^{PiT}}{(1+EIR)^{t+1/2}}$$

where:

- $\boldsymbol{PD_t^{PiT}}$ – marginal PD, the expected percentage of default events within time window of 12 months after "t",
- $\boldsymbol{EAD_t^{PiT}}$ – the expected exposure at default within time window of 12 months after "t",
- $\boldsymbol{LGD_t^{PiT}}$ – the expected loss given default to the EAD event within time window of 12 months after "t",
- EIR – Effective Interest Rate;
- T – remaining maturity,
- t – the following year between the reporting date and the expected exposure maturity date.

For credit exposures classified to Stage 1, a 12-month expected credit loss computed based on the above mentioned formula is applied, however for T = 12 months.

For credit exposures in default at Stage 3 and for which the collective provision is computed, the Bank measured the lifetime expected credit losses based on the following formula:

$$LEL_{etap\ 3} = EAD_{in\_default}^{PiT} \times LGD_{in\_default}^{PiT}$$

where PD equals 100% and the $LGD_{in\_default}^{PiT}$ and $EAD_{in\_default}^{PiT}$ represent characteristics of defaulted exposures.

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

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

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

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

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

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

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

The LGD parameter, which is a function of used techniques for mitigation of credit risk and it is expressed as percentage of EAD, it is estimated on a product and exposure level based on the parameters of the regulatory LGD models (estimated according to "through the cycle" approach) which were properly calibrated for the purpose of IFRS 9.

The level of LGD which is used for the estimation of the amount of the impairment loss according to the collective method for defaulted exposures (PD = 100%), depends on the period during which the exposure was identified as defaulted. In addition, for corporate clients segment in the field of large and medium-sized companies, the Bank uses the so-called the Policy of full provision whereunder for defaulted exposures from at least 2 years, the value of LGD parameter equals 100%. In a similar way, regarding the retail clients segment, the use of the Policy of the full provision rules (i.e. LGD = 100%) is contingent on the existence of the following circumstances:

- the impairment event took place and
  - the objective evidences of the impairment have existed incessantly science 2 years from the identification of the impairment in case of the corporate clients and enterprisers
  - current days past due exceeds 90 days

- the permanent loss of the credit-worthiness took place to repayment of the outstanding amount or part of outstanding amount and
  - client has no assets, from which Bank could recovered its receivables,
  - the lack of the triggers to change of those in the predictable future (i.e.: early write-off) – applied to the clients with identified impairment,
- client is subject of the insolvency proceedings and there are reasonable triggers that the Bank could not recover any or insignificant amounts during this process.

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

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the statement of profit or loss for the period.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment loss is reversed through the statement of profit or loss by a proper adjustment. With regard to strategic clients and corporate clients the Bank determined the events whereunder it is possible to reverse credit exposure impairment.

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

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

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

- no evidence or trigger for impairment being the source of default or indicating a high probability of non-payment – are not active,
- at least 3 months (trial period) have elapsed from the date of completion of the evidence / trigger for impairment and during this period the client's behaviour (intention to repay) and situation (repayment ability) were positively assessed, and in the case of a corporate client, the assessment of the financial situation was documented,
- The client made regular repayments – no arrears >30 days in the trial period,
- at the end of the trial period the client is considered able to pay its credit obligations in full, without recourse to collateral,
- without arrears in repayment exceeding the amount of the absolute limit; if any arrears exist in an amount in excess of the absolute limit, the trial period is extended until the time the amount of arrears drops below the limit,

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

- no evidence or trigger for impairment being the source of default or indicating a high probability of non-payment – are not active,
- minimum 12 months (trial period) have passed since the last of the events specified below:
  - granting the last restructuring measures, i.e. granting a forbearance facility,
  - the exposure has been assigned default status;

  - end of the grace period set forth in the restructuring agreement,
- in the trial period, the client made material/regular repayments:
  - the client, as part of its regular payments in accordance with the agreed terms of the restructuring, repaid a material amount in the amount of the early past due (if there were past due amounts) or a write-down (if there were no overdue amounts),
  - the client made regular repayments in compliance with the new repayment schedule in line with the restructuring terms and conditions – no arrears > 30 days in the trial period.
- at the end of the trial period, the client has no arrears and no concerns exist as to full repayment of the exposure in compliance with the terms and conditions of restructuring;

The Bank has established the following additional conditions for the reversal of impairment / exemption from default applicable to all clients:

- If, during the trial period, evidence or trigger for impairment is identified that is the source of default / high probability of non-payment, the end date of the trial period will be reassessed and the trial period starts from the beginning from the expiry of the evidence / trigger.
- If in the trial period and after the end of the grace period, DPD > 30 occurred, the trial period end date will be reset and the trial period will restart until DPD returns to below 31 days.
- All conditions for the reversal of impairment / recovery should be met also with regard to new exposures to a client, in particular, if previous credit exposures of that client that were previously under restructuring have been disposed of or impaired permanently.

An exception to the principle of no active evidence / triggers for impairment being the source of default is the evidence "classification to Stage 3 / provision" – its continuation does not suspend the commencement of the trial period (because it is the effect and not the cause of default) – classification to Stage 3 and the reserve is also kept during the trial period.

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

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

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

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- breach of contractual terms and conditions, specifically with regard to default or delay in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,
- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset,

- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Bank books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

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

In case of objective evidence for impairment of debt financial assets measured at fair value through other comprehensive income, the part of fair value which equals the impairment loss is derecognised therefrom and recognised in the income statement, even if financial assets item has not been excluded from the statement of financial position.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and present fair value, less any impairment loss on that financial asset previously included in the income statement.

13.14. Purchased or originated credit impaired financial assets

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

Such assets may be recognised due to following reasons:

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

Those assets are excluded from 3-stage approach described in item 13.13 and are classified to impaired assets till the derecognition date.

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

13.15. Forbearance and non-performing exposure

The Bank set the principles of identification of and reporting on forbearance and non-performing exposures under the Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.

Pursuant to the definition adopted, forbearance refers to the following:

- the client's default on paying their financial liabilities has been confirmed or is expected in the short term,
- because of the above, the Bank has decided to extend forbearance to the client so as to enable them to pay the contractual liabilities or to prevent future default on payment,
- forbearance has been extended neither on commercial grounds nor on market conditions; it would not have been extended provided that the client had not suffered financial difficulties; the amended agreement contains the terms and conditions that are more favourable than the market ones, i.e. those that could be offered by the Bank at the same time to other debtors with a similar risk profile,
- the client accepted forbearance, i.e. the terms and conditions of the agreement binding so far have been changed or a refinancing agreement has been signed or an "embedded

forbearance clause" has taken effect or the Bank has abandoned actions in the event of the client materially breaching the essential financial clause.

Forbearance is recognised in the above-said situations regardless of the client's compensation thereunder and the collateral accepted by the Bank.

For the retail segment – all exposures in restructuring are deemed forbearance exposures.

As non-performing exposures the Bank recognises those exposures that meet at least one of the below criteria:

- significant exposure is overdue over 90 days,
- the Bank is of the opinion that there is little probability that the client will meet all their credit liabilities without the Bank having to take actions such as satisfaction from collateral (regardless of the overdue amount and the number of days past due),
- credit exposure impairment has been reported.

Exposures are also classified as non-performing exposures when arrears of more than 30 days past due occur for the forbearance exposure or when another forbearance is granted for such exposure, while that does not refer to the cases when the client during credit lifetime was after obtaining that status in the performing portfolio.

The forbearance can:

- not significantly change the material conditions or expected future cash flows of an existing financial asset, or
- change significantly the material conditions or expected future cash flows versus the conditions or expected future cash flows of the existing financial asset.

Then, accordingly:

- the expected future cash flows for the changed financial asset subject to forbearance will be recognised in the valuation of the existing financial asset on the basis of the expected exercise period and the amounts discounted with the initial effective interest rate for the existing financial asset, or
- the existing financial asset is derecognised and the new financial asset is carried through the balance sheet measured at fair value as at the initial recognition date, while the difference between the existing and the new assets is carried through income statement. Such recognition is independent of the change or lack of change of the transaction legal form and is based on its economic content.

14. Property, plant and equipment and intangible assets

14.1. Property, plant and equipment

Own property, plant and equipment

Property, plant and equipment consist of controlled non-current assets and costs to construct such assets. Non-current assets include property, plant and equipment items with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

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

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

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

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

Fixed assets in leasing

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

The Bank identifies leasing and non-leasing elements in concluded contracts. Non-lease payments under contracts are recognised as an expense in the income statement on a straight-line basis over the term of the lease. Lease payments are recorded in accordance with the rules described below.

At the date of commencement of the lease, the Bank recognizes assets due to the right to use the assets and liabilities arising from leasing. The initial valuation of the lease liability is determined by the Bank at the present value of future lease payments. To determine the discounted value of leasing fees, the Bank uses the leasing interest rate, and if the rate is not easily available, the Bank uses the marginal interest rate. The Bank determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which lease contracts and contract maturities are denominated. After the lease commencement date, the carrying amount of the liability:

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

At the commencement date of the lease, the Bank recognizes assets due to the right to use at the cost, which is based on the amount of the initial measurement of the lease liability. The cost of an asset due to the right of use also includes:

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

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

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

The Bank uses the exemption for:

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

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

14.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities,
- arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or from other rights and obligations.

Goodwill

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

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

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

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

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software.

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

Other intangible assets

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

Subsequent costs

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

14.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives. The depreciable/amortisable amount is the purchase price or production cost of an asset, less its residual value.

The useful life, depreciation/amortization rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognised prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through income statement).

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

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

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

14.4. Impairment of other non-financial assets

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

If such a trigger exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

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

Recognition of impairment loss

If there are triggers for impairment of common property, i.e. the assets which do not generate cash independently from other assets or groups of assets, and the recoverable amount of the individual asset included among common property cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs. An impairment loss is recognised if the book value of the asset or cash-generating unit exceeds its recoverable amount. The goodwill impairment is determined by estimating the recoverable amount of the cash-generating unit the given goodwill applies to. Should the recoverable amount of the cash-generating unit be lower than the carrying amount, impairment loss is made.

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

Reversing impairment loss

Goodwill impairment loss is not subject to reversal.

An impairment loss of an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount.

An impairment loss can be reversed only up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation/amortization charge, would be established, if any impairment loss had not been recognised.

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

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

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

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

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

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

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

16. Other financial assets

Other financial assets include trade receivables and other receivables.

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

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

If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the present value, applying the discount rate that reflects the current market assessments of time value of money. If the discounting method has been applied, the increase of receivables due to time lapse is recognised as net interest income.

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

17. Provisions

Provisions, including provisions for off-balance sheet liabilities, are recognised in the statement of financial position when the Bank has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

The Bank establishes provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Bank is in possession of the specific, formal restructuring plan determining at least the operations or part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

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

- in an individual approach, the Bank creates provisions for liabilities resulting from court cases and other legal claims if the probability of an outflow of resources to settle the obligation is higher than 50%.
- in the case of a larger population of similar court cases or other legal claims, the probability of an outflow of resources to meet the Bank's obligation is measured on a portfolio basis, taking into account the group of obligations as a whole, and the provision is estimated using the expected value method as a probability weighted average of a few scenarios (most often three: baseline, positive and negative) with different probabilities assigned to each scenario.

The Bank applies the above principles to legal claims that do not affect cash flows from financial assets recognised in the statement of financial position – in this case the Bank applies IFRS 9, as described in item 13.6.

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

18. Prepayments and deferred income

18.1. Prepayments

Prepayments comprise of particular expenses which will be settled against the profit or loss as being accrued over the future reporting periods.

Deferred costs include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in the item *Other assets*.

18.2. Deferred income

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

19. Employee benefits

19.1. Benefits under the Act on employee pension programmes

Expenses incurred due to a programme of certain contributions are recognised as costs in the income statement.

19.2. Short-term employee benefits

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

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

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

19.3. Long-term employee benefits

19.3.1. Benefits under the Labour Code regulations

Provisions for retirement benefits granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis.

Provisions for long-term employee benefits are recognised in the item *Provisions* from the statement of financial position in correspondence with remuneration costs in the income statement.

The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on retirement and pension benefits provision.

19.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two options:

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

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

As regards the benefits granted in the form of phantom stock a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year or three-year periods). The employee who was granted the benefit shall not exercise the phantom stock-related rights during the retention period.

The fair value of phantom stock determined using the principles adopted (i.e. based on the estimates made upon applying the reduction factor) is allocated throughout the vesting period. The value of benefit is recognised as liability towards employees in correspondence with the income statement.

20. Equity

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

Share capital

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

Dividends

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

Share premium

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

Accumulated other comprehensive income

Accumulated other comprehensive income is created as a result of:

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

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

Retained earnings

Retained earnings are created from profit write-offs and are allocated for purposes specified in the Articles of Association (the company's Charter) or other legal regulations. Retained earnings comprise of:

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

Other supplementary capital, other reserve capital and general banking risk fund are created from profit write-offs and are allocated for purposes specified in the Articles of Association (the company's Charter) or other legal regulations.

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

The net financial result represents the gross result under the statement of profit or loss for the current year, adjusted with the corporate income tax.

21. Cash and cash equivalents

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

22. Taxes

22.1. Income tax

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

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

22.2. Deferred income tax

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

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

- initial recognition of goodwill,

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

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

The carrying amount of a deferred tax asset shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realization of the deferred tax assets component.

Deferred tax assets and deferred tax provisions are estimated with the use of the tax rates which are expected to be in force when the asset is realised or provision released, assuming the tax rates (and tax provisions) legally or factually in force as at the balance sheet date.

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

Deferred tax assets and provisions are recognised by the Bank in the statement of financial position after offsetting at the level of each entity subject to consolidation. The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

22.3. Tax on certain financial institutions

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

22.4. Other taxes

Income, costs and assets are recognised less the value added tax, tax on civil law acts, and other sales taxes, except where the sales tax, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognised accordingly as part of the cost of acquisition of an asset, or as part of a cost item.

The net amount of sales tax recoverable from or payable to the tax authorities is recognised in the statement of financial position as part of receivables or liabilities.

IV. Comparability of financial data

When compared with the annual financial statements for previous periods, in the Annual Financial Statements for the period from 1 January 2020 to 31 December 2020, the Bank amended the manner of presentation of individual items of the income statement, statement of financial position and cash flow statement, including changes in accounting policies. The changes are as follows:

- *change in accounting principles regarding the recognition of provisions resulting from legal risk for the portfolio of CHF indexed mortgage loans* (***change a***)

In 2020, the Bank changed the recognition of expected losses due to legal risk on the portfolio of CHF indexed mortgage loans, which in the financial statements for 2019 were recognized as write-offs for expected credit losses in the statement of financial position in correspondence with the costs of expected losses in the profit and loss account.

In 2020, the Bank applied the provisions of IFRS 9.B.5.4.6 to recognize these losses and recognized them as an adjustment to the gross carrying amount of the portfolio of CHF-indexed mortgage loans. In accordance with IFRS 9.B.5.4.6, when an entity changes its estimate of payments or receipts (excluding immaterial modifications and changes to the estimate of expected credit losses), it adjusts the gross carrying amount of the asset or group of financial instruments so that it reflects the actual and changed estimated cash flows under the contract

In accordance with IAS 8, the Bank introduced a change in its accounting policy, judging that the change improved the reliability and usefulness of information presented in the financial statements. The Bank recognizes that the legal risk associated with its CHF-indexed mortgage portfolio primarily affects the amount of the estimated contractual cash flows that the Bank may claim.

In addition, recognizing the legal risk adjustment for CHF-indexed mortgage loans as a gross carrying amount adjustment in accordance with IFRS 9.B.4.6, as opposed to recognizing it as an expected loss allowance, better reflects the credit quality of the CHF-indexed mortgage portfolio. As a consequence, it allows for the identification of evidence of impairment, i.e. classification to Stage 3, for these assets in accordance with IFRS 9 according to the assumptions relating primarily to credit risk, while the legal risk of CHF indexed loans is not directly related to the credit quality of these assets. Possible changes in contractual flows due to the legal risk of this portfolio do not result from credit risk, but from a potential change in the original contractual terms relating to, inter alia, loan currencies and therefore relate to the expected change in original contractual flows under the loan agreements.

This change has no impact on the statement of financial position as it does not change the carrying amount (net) of the CHF-indexed mortgage portfolio. However, it does affect additional disclosures of gross amounts and expected loss allowances for the CHF-indexed mortgage portfolio.

In the income statement, the Bank introduced an additional line *Cost of legal risk of FX mortgage loans*, which presents the costs related to the legal risk of CHF-indexed mortgage loans included in the statement of financial position and loans derecognised from the statement of financial position (repaid loans).

- *change in the presentation of the costs of writing off receivables due to suspended commissions (**change b**)*

The Bank changed the presentation of the costs of writing off receivables due to suspended commissions – in earlier periods they were presented as a reduction *of Commission income* and are now recognised in *Commission costs*. In the opinion of the Bank, the change increases the information value of the income statement.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

- *separation of a separate line in the assets of the statement of financial position for assets measured at fair value through profit or loss* (***change c***)

The Bank created a new item in the assets of the statement of financial position called *Financial assets measured at fair value through profit or loss,* to which the obligatory loans measured at fair value through profit or loss were transferred (previously presented under *Loans and other receivables to customers*), equity instruments designated to be measured at fair value through profit or loss and *Assets held for trading*. The change was aimed at recognizing in one item of the statement of financial position all financial assets measured at fair value with the measurement effect recognised in the income statement. Simultaneously with this change, the names of some items of the statement of financial position were made more precise, which, in the Bank's opinion, will increase the transparency of the financial statements.

The table below presents individual items of the income statement according to the values presented in the annual financial statements for the period from 1 January 2019 to 31 December 2019 and according to the values presented in these financial statements.

the period from 1 Jan 2019 to 31 Dec 2019

	in Financial Statements for the period from 1 January 2019 to 31 December 2019 (approved data)	change a)	change b)	in Financial Statements for the period from 1 January 2020 to 31 December 2020 (comparable data)
Interest income	5,071.2			5,071.2
Interest expenses	981.4			981.4
Net interest income	**4,089.8**	**0.0**	**0.0**	**4,089.8**
Commission income	1,681.5		5.4	1,686.9
Commission expenses	385.7		5.4	391.1
Net commission income	**1,295.8**	**0.0**	**0.0**	**1,295.8**
Net income on financial instruments measured at fair value through profit or loss and FX result	107.6			107.6
Net income on the sale of financial assets measured at fair value through other comprehensive income and dividend income	5.4			5.4
Net (loss)/income on hedge accounting	-14.3			-14.3
Net (loss)/income on other basic activities	-3.9			-3.9
Net income on basic activities	**5,480.4**	**0.0**	**0.0**	**5,480.4**
General and administrative expenses	2,369.8			2,369.8
Impairment for expected credit losses	568.9	-31.2		537.7
Cost of legal risk of FX mortgage loans	0.0	31.2		31.2
Tax on certain financial institutions	435.7			435.7
Share of profit/(loss) of subsidiaries and associates accounted for using the equity method	110.5			110.5
Gross profit	**2,216.5**	**0.0**	**0.0**	**2,216.5**
Income tax	557.8			557.8
Net profit	**1,658.7**	**0.0**	**0.0**	**1,658.7**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

The table below presents individual items of the statement of financial position according to the values presented in the annual financial statements for the period from 1 January 2019 to 31 December 2019 and according to the values presented in these financial statements.

as at 31.12.2019

in Financial Statements for the period from 1 January 2019 to 31 December 2019 (approved data)		*change c)*	in Financial Statements for the period from 1 January 2020 to 31 December 2020 (comparable data)	
Assets			**Assets**	
Cash in hand and balances with the Central Bank	1,402.9		Cash in hand and balances with the Central Bank	1,402.9
Loans and other receivables to other banks	3,285.3		Loans and other receivables to other banks	3,285.3
Financial assets held for trading	1,224.2	160.4	Financial assets measured at fair value through profit or loss	1,384.6
Derivative hedge instruments	851.6		Derivative hedge instruments	851.6
Investment securities	33,559.6	-0.1	Investment securities	33,559.5
Loans and other receivables to customers	110,536.5	-160.3	Loans and other receivables to customers measured at amortised cost	110,376.2
Investments in subsidiaries and associates	1,112.2		Investments in subsidiaries and associates accounted for using the equity method	1,112.2
Property, plant and equipment	932.8		Property, plant and equipment	932.8
Intangible assets	408.4		Intangible assets	408.4
Assets held for sale	3.6		Assets held for sale	3.6
Deferred tax assets	270.8		Deferred tax assets	270.8
Other assets	329.4		Other assets	329.4
Total assets	**153,917.3**	**0.0**	**Total assets**	**153,917.3**
Liabilities			**Liabilities**	
Liabilities to other banks	2,622.5		Liabilities to other banks	2,622.5
Financial liabilities measured at fair value through income statement	915.1		Financial liabilities measured at fair value through profit or loss	915.1
Derivative hedge instruments	546.0		Derivative hedge instruments	546.0
Liabilities to customers	130,036.8		Liabilities to customers	130,036.8
Subordinated liabilities	2,131.1		Subordinated liabilities	2,131.1
Provisions	201.9		Provisions	201.9
Current income tax liabilities	377.9		Current income tax liabilities	377.9
Other liabilities	1,971.2		Other liabilities	1,971.2
Total liabilities	**138,802.5**	**0.0**	**Total liabilities**	**138,802.5**
Total equity	**15,114.8**	**0.0**	**Total equity**	**15,114.8**
Total equity and liabilities	**153,917.3**	**0.0**	**Total equity and liabilities**	**153,917.3**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

as at 31.12.2018

in Financial Statements for the period from 1 January 2019 to 31 December 2019 (approved data)		change c)	in Financial Statements for the period from 1 January 2020 to 31 December 2020 (comparable data)	
Assets			**Assets**	
Cash in hand and balances with the Central Bank	1,237.4		Cash in hand and balances with the Central Bank	1,237.4
Loans and other receivables to other banks	776.5		Loans and other receivables to other banks	776.5
Financial assets held for trading	1,934.9	218.5	Financial assets measured at fair value through profit or loss	2,153.4
Derivative hedge instruments	909.6		Derivative hedge instruments	909.6
Investment securities	31,937.3	-0.1	Investment securities	31,937.2
Loans and other receivables to customers	99,125.8	-218.4	Loans and other receivables to customers measured at amortised cost	98,907.4
Investments in subsidiaries and associates	634.6		Investments in subsidiaries and associates accounted for using the equity method	634.6
Property, plant and equipment	550.4		Property, plant and equipment	550.4
Intangible assets	425.0		Intangible assets	425.0
Assets held for sale	10.9		Assets held for sale	10.9
Deferred tax assets	209.0		Deferred tax assets	209.0
Other assets	183.4		Other assets	183.4
Total assets	**137,934.8**	**0.0**	**Total assets**	**137,934.8**
Liabilities			**Liabilities**	
Liabilities to other banks	1,807.7		Liabilities to other banks	1,807.7
Financial liabilities measured at fair value through income statement	1,687.6		Financial liabilities measured at fair value through profit or loss	1,687.6
Derivative hedge instruments	611.8		Derivative hedge instruments	611.8
Liabilities to customers	117,293.8		Liabilities to customers	117,293.8
Liabilities from debt securities issued	300.3		Liabilities from debt securities issued	300.3
Subordinated liabilities	1,076.9		Subordinated liabilities	1,076.9
Provisions	149.5		Provisions	149.5
Current income tax liabilities	264.5		Current income tax liabilities	264.5
Other liabilities	1,421.1		Other liabilities	1,421.1
Total liabilities	**124,613.2**	**0.0**	**Total liabilities**	**124,613.2**
Total equity	**13,321.6**	**0.0**	**Total equity**	**13,321.6**
Total equity and liabilities	**137,934.8**	**0.0**	**Total equity and liabilities**	**137,934.8**

The table below presents individual items of the cash flow statement according to the values presented in the annual financial statements for the period from 1 January 2019 to 31 December 2019 and according to the values presented in these financial statements.

the period from 1 Jan 2019 to 31 Dec 2019

	in Financial Statements for the period from 1 January 2019 to 31 December 2019 (approved data)	change c)	in Financial Statements for the period from 1 January 2019 to 31 December 2019 (comparable data)
Net cash flow from operating activities	**907.4**	**0.0**	**907.4**
Change in financial assets measured at fair value through profit or loss	710.3	58.1	768.4
Change in loans and other receivables to customers	-11,463.8	-58.1	-11,521.9

V. Notes to the financial statements

1. Segment reporting

Segments of operation

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

- retail banking segment,
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of collected assets) and subject-related criteria. The specific rules of assigning clients to respective segments are governed by the clients segmentation criteria specified in the Bank's internal regulations. In 2020, the Bank shifted its services to individual entrepreneurs from the retail area to the corporate area. The data for 2019 has been made comparable and is presented in this report in accordance with the current client segmentation.

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

Retail banking segment

Within the framework of retail banking, the Bank provides services for individual customers – segments of mass customers and wealthy customers.

This activity is analysed by the leading products, including i.e.: credit products (overdraft on the savings and settlement account – ROR, loans related to cards, hire purchase loans, housing loans, mortgage loans), deposit products (current accounts, term deposits, savings accounts), structured product, ING fund units, brokerage services and bank cards.

Corporate banking segment

Corporate banking area encompasses as follows:

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

Services to institutional clients encompass strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services and capital market operations.

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

Measurement

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

Geographic segments

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2,908.7**	**2,966.1**	**5,874.8**
net interest income	2,398.4	1,878.3	4,276.7
commission income, including:	741.4	1,173.5	1,914.9
transaction margin on currency exchange transactions	64.4	371.6	436.0
account maintenance fees	97.7	264.7	362.4
lending commissions	22.5	337.7	360.2
payment and credit cards fees	275.5	99.2	374.7
participation units distribution fees	78.7	0.0	78.7
insurance product offering commissions	134.9	4.2	139.1
other commissions	67.7	96.1	163.8
commission expenses	281.3	161.5	442.8
net commission income	**460.1**	**1,012.0**	**1,472.1**
other income/expenses	50.2	75.8	126.0
General and administrative expenses	**1,430.4**	**1,185.8**	**2,616.2**
including: depreciation and amortization	190.4	92.4	282.8
Segment result	**1,478.3**	**1,780.3**	**3,258.6**
Impairment for expected credit losses	313.5	386.2	699.7
Cost of legal risk of FX mortgage loans	270.3	0.0	270.3
Tax on certain financial institutions	196.4	285.2	481.6
Share of profit/(loss) of subsidiaries and associates accounted for using the equity method	37.4	38.3	75.7
Gross profit	**735.5**	**1,147.2**	**1,882.7**
Income tax	-	-	545.1
Net profit	-	-	**1,337.6**
Assets of the segment	84,472.8	93,739.0	178,211.8
Segment investments in subsidiaries and associates accounted for using the equity method	506.3	847.8	1,354.1
Other assets (not allocated to segments)	-	-	1,551.0
Total Assets	**84,979.1**	**94,586.8**	**181,116.9**
Segment liabilities	94,346.2	65,565.4	159,911.6
Other liabilities (not allocated to segments)	-	-	2,834.8
Equity	-	-	18,370.5
Total equity and liabilities	**94,346.2**	**65,565.4**	**181,116.9**
Capital expenditure	83.5	69.2	152.7
Net cash flow from operating activities	5,912.5	14,630.7	20,543.2
Net cash flow from operating activities (not allocated to segments)	-	-	83.5
Net cash flow from operating activities total	5,912.5	14,630.7	20,626.7
Net cash flows from investing activities	-10,232.9	-11,054.6	-21,287.5
Net cash flows from financing activities	-	-108.5	-108.5

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2,776.9**	**2,703.5**	**5,480.4**
net interest income	2,313.4	1,776.4	4,089.8
commission income, including:	667.1	1,019.8	1,686.9
transaction margin on currency exchange transactions	55.9	334.8	390.7
account maintenance fees	98.3	196.2	294.5
lending commissions	29.3	310.7	340.0
payment and credit cards fees	270.1	81.9	352.0
participation units distribution fees	74.5	0.0	74.5
insurance product offering commissions	110.4	3.2	113.6
other commissions	28.6	93.0	121.6
commission expenses	251.4	139.7	391.1
net commission income	**415.7**	**880.1**	**1,295.8**
other income/expenses	47.9	46.9	94.8
General and administrative expenses	**1,302.9**	**1,066.9**	**2,369.8**
including: depreciation and amortization	182.9	85.4	268.3
Segment result	**1,474.0**	**1,636.6**	**3,110.6**
Impairment for expected credit losses	273.9	263.8	537.7
Cost of legal risk of FX mortgage loans	31.2	0.0	31.2
Tax on certain financial institutions	167.3	268.4	435.7
Share of profit/(loss) of subsidiaries and associates accounted for using the equity method	7.6	102.9	110.5
Gross profit	**1,009.2**	**1,207.3**	**2,216.5**
Income tax	-	-	557.8
Net profit	-	-	**1,658.7**
Assets of the segment	69,906.5	81,176.9	151,083.4
Segment investments in subsidiaries and associates accounted for using the equity method	317.2	795.0	1,112.2
Other assets (not allocated to segments)	-	-	1,721.7
Total Assets	**70,223.7**	**81,971.9**	**153,917.3**
Segment liabilities	83,212.4	53,039.1	136,251.5
Other liabilities (not allocated to segments)	-	-	2,551.0
Equity	-	-	15,114.8
Total equity and liabilities	**83,212.4**	**53,039.1**	**153,917.3**
Capital expenditure	99.3	81.3	180.6
Net cash flow from operating activities	1,951.5	-648.7	1,302.8
Net cash flow from operating activities (not allocated to segments)	-	-	-395.4
Net cash flow from operating activities total	1,951.5	-648.7	907.4
Net cash flows from investing activities	-736.2	-321.6	-1,057.8
Net cash flows from financing activities	-	191.4	191.4

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2. Net interest income

	2020	2019
Interest income, including:	**4,970.0**	**5,071.2**
Interest income calculated using effective interest rate method, including:	**4,967.2**	**5,067.1**
Interest on financial instruments measured at amortised cost	**4,385.0**	**4,357.7**
interest on loans and other receivables to other banks	68.7	68.9
interest on loans and other receivables to customers	3,936.8	4,030.2
interest on investment securities	379.5	258.6
Interest on loans measured at fair value through other comprehensive income	**241.0**	**275.9**
Interest on investment securities measured at fair value through other comprehensive income	**341.2**	**433.5**
Other interest income, including:	**2.8**	**4.1**
interest on loans and other receivables to customers measured at fair value through profit or loss	2.8	4.1
Interest expenses, including:	**693.3**	**981.4**
interest on deposits from other banks	16.3	54.3
interest on deposits from customers	642.8	892.8
interest on issue of debt securities	0.0	7.4
interest on subordinated liabilities	30.4	19.7
interest on lease liabilities	3.8	7.2
Net interest income	**4,276.7**	**4,089.8**

The interest costs presented above relate to financial liabilities measured at amortised cost.

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

For 2020, interest income on financial assets in Stage 3 was PLN 81.4 million compared to PLN 76.8 million for 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

3. Net commission income

	2020	2019
Commission income		
transaction margin on currency exchange transactions	436.0	390.7
account maintenance fees	362.4	294.5
lending commissions	360.2	340.0
payment and credit cards fees	374.7	352.0
participation units distribution fees	78.7	74.5
insurance product offering commissions	139.1	113.6
brokerage activity fees	63.1	20.1
fiduciary and custodian fees*	32.2	28.2
foreign commercial business	34.2	38.5
agency in financial instruments transactions	5.8	6.2
other commission	28.5	28.6
related to assets / liabilities not measured at fair value through profit or loss	1.3	0.9
other	27.2	27.7
Total commission income	**1,914.9**	**1,686.9**
Commission expenses		
card fees paid	234.4	204.7
commission paid on agency in selling deposit products	58.9	54.8
brokerage activity fees	31.6	15.3
commission paid on disclosing credit information	16.4	16.4
commission paid on cash handling services	25.5	20.9
electronic banking services fees	10.4	12.3
commission paid on trading in securities	9.2	8.8
costs of the National Clearing House (KIR)	11.8	11.3
agency in financial instruments transactions	4.6	2.0
other commission	40.0	44.6
related to assets / liabilities not measured at fair value through profit or loss	9.8	12.4
other	30.2	32.2
Total commission expenses	**442.8**	**391.1**
Net commission income	**1,472.1**	**1,295.8**

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

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

- revenues in the total amount of PLN 361.5 million from granting loans (PLN 340.9 million in 2019),
- costs in the total amount of PLN 85.1 million due to brokering the sale of deposit products and providing credit information (PLN 83.6 million in 2019).

Revenue from contracts with customers within the meaning of IFRS 15 in 2020 amounted to PLN 1,553.4 million compared to PLN 1,346.0 million in 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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

	2020	2019
FX result and net income on interest rate derivatives, including	59.0	44.9
FX result	54.3	70.1
currency derivatives	4.7	-25.2
Net income on interest rate derivatives	6.0	40.2
Net income on debt instruments held for trading	36.8	22.4
Net income on measurement of loans to customers which are measured at fair value through profit or loss	0.1	0.1
Total	**101.9**	**107.6**

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

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

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

	2020	2019
Net income on the sale of securities measured at amortised cost	7.3	0.0
Net income on sale of financial assets measured at fair value through other comprehensive income and dividend income, including:	19.4	5.4
sale of debt securities	22.6	29.3
sale of loans	-11.6	-30.9
dividend income	8.4	7.0

Dividend income received in 2020 and 2019 comes from entities whose shares the Bank maintained in its portfolio as at 31 December 2020 and 31 December 2019, respectively.

6. Net (loss)/income on hedge accounting

	2020	2019
Net income on hedge accounting	**19.9**	**8.2**
valuation of the hedged transaction	316.7	34.3
valuation of the hedging transaction	-296.8	-26.1
Cash flow hedge accounting	**-8.4**	**-22.5**
ineffectiveness under cash flow hedges	-8.4	-22.5
Net (loss)/income on hedge accounting	**11.5**	**-14.3**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the financial statements, Note III.8. *Hedge accounting* in the *Risk and capital management* chapter.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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

	2020	2019
Sale of other services	0.5	4.7
Net income on disposal of property, plant and equipment and intangible assets	-1.6	-0.6
Banking activity-related compensations and losses	-3.7	-3.0
Provision for commission refunds for early loan repayments *	0.0	-17.1
Other	-9.3	12.1
Net (loss)/income on other basic activities	**-14.1**	**-3.9**

* As described in Note 3.6 in Chapter III Significant accounting policies and Note 32. *Provisions*.

8. General and administrative expenses

	2020	2019
Personnel expenses, including	**1,225.5**	**1,120.8**
wages and salaries, including:	1,006.0	918.8
variable remuneration programme	25.9	30.5
ING Group's incentive programme	0.1	0.2
retirement benefits	4.3	3.4
employee benefits	219.5	202.0
Cost of marketing and promotion	**121.1**	**117.9**
Depreciation and amortisation, including:	**282.8**	**268.3**
on property, plant and equipment	210.2	194.5
including depreciation of the right to use	101.5	94.0
on intangible assets	72.6	73.8
Other general and administrative expenses, including:	**986.8**	**862.8**
IT costs	233.0	207.2
communication costs	43.1	49.5
transport and representation costs	22.3	33.2
maintenance of buildings	93.7	98.6
costs of short-term leasing and low-value leasing	13.3	21.8
obligatory Bank Guarantee Fund payments	287.7	202.3
obligatory restructuring fund	124.4	131.2
bank guarantee fund	163.3	71.1
fees to the Financial Supervisory Commission	13.3	16.1
advisory and legal services, audit costs	96.6	86.7
donation	9.5	5.0
disputed claims	12.0	0.9
other	162.3	141.5
Total	**2,616.2**	**2,369.8**

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

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

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter III. Significant accounting principles in item 19.3.2. *Variable Remuneration Programme benefits.*

The below table presents basic information about the Programme addressed to persons holding managerial positions having material impact on the Bank's risk profile.

	Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year	Deferred shares total	2 years of deferral	3 years of deferral	4 years of deferral	5 years of deferral	6 years of deferral	Median share prices for the period 10 Oct-20 Nov 2020
Programme 2016	9,553	1.2	-	9,553	assigned in 2019 payable in 2020	assigned in 2020 payable in 2021	-	-	-	124.80
					-	9,553				
Programme 2017	25,150	3.1	-	25,150	assigned in 2020 payable in 2021	assigned in 2021 payable in 2022	assigned in 2022 payable in 2023	assigned in 2023 payable in 2024	assigned in 2024 payable in 2025	124.80
					8,073	8,118	8,160	398	401	
Programme 2018	26,377	3.3	-	26,377	assigned in 2021 payable in 2022	assigned in 2022 payable in 2023	assigned in 2023 payable in 2024	assigned in 2024 payable in 2025	assigned in 2025 payable in 2026	124.80
					8,618	8,646	8,685	214	214	
Programme 2019	66,319	8.3	39,534	26,785	assigned in 2022 payable in 2023	assigned in 2023 payable in 2024	assigned in 2024 payable in 2025	assigned in 2025 payable in 2026	assigned in 2026 payable in 2027	124.80
					8,561	8,594	8,640	495	495	
Programme 2020 (established reserve for the program - actual award in 2021)	102,835	12.8	60,032	42,803	assigned in 2023 payable in 2024	assigned in 2024 payable in 2025	assigned in 2025 payable in 2026	assigned in 2026 payable in 2027	assigned in 2027 payable in 2028	124.80
					13,515	13,541	13,571	1,088	1,088	

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

8.1.2. ING Group's incentive programme

To the end of 2012, the Bank participated in the long-term incentive programme of ING Group (LSPP–Long-term Sustainable Performance Plan), formerly known as LEO (Long-term Equity Ownership).

As at the balance sheet date, the Bank records in the books the valuation of instruments held by the Bank's employees. The fair value of options granted is recognised as employee costs (on the other side in equity) and is allocated during the vesting period.

Parameters used in the valuation model

	2020		2019	
	min	*max*	*min*	*max*
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 years	9 years	5 years	9 years
current share price	EUR 2.9	EUR 25.42	EUR 2.9	EUR 25.42
expected volatility of share certificates	25%	84%	25%	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2020	2019	2020	2019
Opening balance	**21,601**	**41,073**	**7.35**	**5.13**
transferred	-4,868	3,861	7.35	5.13
exercised	-6,642	-1,501	7.35	5.74
written down	0	0	0.00	0.00
expired	-10,091	-21,832	7.35	2.90
Closing balance	**0**	**21,601**	**0.00**	**7.35**

All options outstanding as at 31 December 2019 were options settled by issuing shares.

For options outstanding and exercisable as at 31 December 2019, the exercise price range was EUR 5.00-10.00 and the weighted average period (in years) remaining to the end of the contractual life (options) was 0.20.

The total intrinsic value of options outstanding and exercisable as at 31 December 2020 was EUR 0 compared to EUR 72,147 as at 31 December 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

9. Impairment for expected credit losses

Net impairment gains/(losses)

	2020	2019
Loans and other receivables to other banks, including:	**0.5**	**0.0**
measured at amortised cost	0.5	0.0
Investment securities, including:	**4.1**	**-1.6**
measured at fair value through other comprehensive income	-0.2	-0.8
measured at amortised cost	4.3	-0.8
Loans and other receivables to customers, including:	**715.8**	**509.9**
measured at amortised cost*, including:	**700.5**	**506.7**
corporate banking	401.8	235.6
including corporate and municipal debt securities	0.0	0.0
retail banking	298.7	271.1
measured at fair value through other comprehensive income	15.3	3.2
Provisions for off-balance sheet liabilities	**-20.7**	**29.4**
Total	**699.7**	**537.7**

*) The values presented in the item *Loans and other receivables to customers* include amounts of repayments related to receivables previously written off from the balance sheet, which in 2020 amounted to PLN 1.4 million compared to PLN 0.6 million in 2019.

Balance sheet write-offs

	2020	2019
Loans and other receivables to other banks, including:	**0.5**	**0.0**
measured at amortised cost	0.5	0.0
Investment securities, including:	**9.7**	**5.6**
measured at fair value through other comprehensive income	3.8	4.0
measured at amortised cost	5.9	1.6
Loans and other receivables to customers, including:	**3,005.9**	**2,263.6**
measured at amortised cost*, including:	2,987.7	2,260.6
corporate banking	1,922.5	1,504.7
including corporate and municipal debt securities	0.6	0.6
retail banking	1,065.2	755.9
measured at fair value through other comprehensive income	18.2	3.0
Provisions for off-balance sheet liabilities	**86.9**	**107.1**
Total	**3,103.0**	**2,376.3**

10. Cost of legal risk of FX mortgage loans

	2020	2019
Provisions for legal risk of CHF indexed mortgage loans, including:		
relating to loans in the Bank's portfolio	267.3	24.5
relating to repaid loans	3.0	6.7
Total	**270.3**	**31.2**

Detailed information on the legal risk of Swiss franc indexed mortgage loans is presented later in the financial statements in note no. 32. *Provisions*.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

11. Tax on certain financial institutions

Under the Act on tax on certain financial institutions, Bank is charged with the so-called bank tax, amounting to 0.0366% of the value of its assets on a monthly basis. The tax base is the sum of assets reduced by PLN 4 billion and the value of own funds and treasury securities. For 2020, the tax amount was PLN 481.6 million (PLN 435.7 million for 2019).

12. Income tax

Income tax recognised in the income statement

	2020	2019
Current tax	613.7	582.6
Deferred tax, including:	-68.6	-24.8
rise and reversal of temporary differences	-68.6	-24.8
Income tax recognised in the income statement	**545.1**	**557.8**

Calculating the effective tax rate

	2020	2019
A. Profit before tax	**1,882.7**	**2,216.5**
B. 19% of profit before tax	**357.7**	**421.1**
C. Increases – non-deductible expenses, including:	**203.3**	**158.6**
tax on certain financial institutions	91.5	82.8
prudential fee in favour of BGF	54.7	38.5
impairment loss on receivables in a part not covered with the deferred tax	1.4	1.7
provisions for disputable debt claims and other assets	-3.0	15.4
expenses due to loan and non-loan receivables written off	7.9	4.0
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.3	1.3
representation expenses	0.6	0.6
provisions for legal risk of foreign currency mortgage loans and commission returns	48.1	12.4
other	0.8	1.9
D. Decreases – tax exempt income, including:	**15.9**	**21.9**
valuation using the equity method of subsidiaries and associates	14.4	21.0
release of provisions for disputable debt claims	0.7	0.9
other	0.8	0.0
E. Income tax from the income statement (B+C-D)	**545.1**	**557.8**
Effective tax rate (E : A)*	**28.95%**	**25.17%**

*) The deviation in the effective tax rate above 19% in 2020 was mainly due to:

- the tax on certain financial institutions in the amount of PLN 481.6 million (PLN 435.7 million in 2019),
- payments to BGF (contribution to the guarantee fund of banks and contribution to the resolution fund) in the amount of PLN 287.7 million (PLN 202.3 million in 2019),
- creation of provisions for the legal risk of foreign currencies mortgage loans and for the reimbursement of commission on prepaid consumer loans in the amount of PLN 270.3 million (PLN 48.3 million in 2019).

Current tax

	2020	2019
Current tax recognised in the income statement	613.7	582.6
Current tax recognised in cumulative comprehensive income	405.4	182.3
Total current tax	**1,019.1**	**764.9**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

13. Earnings and book value per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the Bank for 2020 was based on net profit in the amount of PLN 1,337.6 million (2019: PLN 1,658.7 million) and the weighted average number of ordinary shares at the end of 2020 and 2019 in 130,100,000.

	2020	2019
Net profit	1,337.6	1,658.7
Weighted average number of ordinary shares	130,100,000	130,100,000
Earnings per ordinary share (in PLN)	**10.28**	**12.75**

Diluted earnings per share

In 2020 as well as in 2019, there were no factors that would dilute the profit per one share. In the described periods, ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

Book value per share

The calculation of the book value per share of the Bank for 2020 was based on the amount of Bank's equity in the amount of PLN 18,370.5 million (2019: PLN 15,114.8 million) and the number of shares outstanding at the end of 2020 and 2019 in the amount of 130,100,000.

	2020	2019
Book value	18,370.5	15,114.8
Number of shares	130,100,000	130,100,000
Book value per share (PLN)	**141.20**	**116.18**

14. Cash in hand and balances with the Central Bank

	2020	2019
Cash in hand	723.1	733.9
Balances with the Central Bank	144.2	669.0
Total	**867.3**	**1 402.9**

The Bank maintains a mandatory reserve of 3.5% of the value of deposits received by the Parent company on the current account at the National Bank of Poland.

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

- PLN 774.7 million for the period from 31 December 2020 to 30 January 2021,
- PLN 4,554.0 million for the period from 31 December 2019 to 31 January 2020.

Required reserves fund held on the current account in the National Bank of Poland bear interest during the reserve period in the amount determined by the Monetary Policy Council. As at 31 December 2020, the interest rate was 0.1% compared to 0.5% as at 31 December 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

15. Loans and other receivables to other banks

	2020	2019
Current accounts	92.1	258.3
Interbank deposits:	0.0	74.1
O/N deposits	0.0	74.1
Loans and advances	2,313.9	2,372.7
Placed call deposits	268.7	262.1
Receivables from the subsidiary for deferred payment	0.0	318.1
Total (gross)	**2,674.7**	**3,285.3**
Impairment for expected credit losses, including:	-0.5	0.0
contracting loans and borrowings;	-0.5	0.0
Total (net)	**2,674.2**	**3,285.3**

Loans and receivables to other banks by maturity

	2020	2019
up to 1 month	376.7	600.6
over 1 month and up to 3 months	10.1	0.0
over 3 months and up to 1 year	18.9	132.7
over 1 year and up to 5 years	2,269.0	2,552.0
Total (gross)	**2,674.7**	**3,285.3**

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

	2020	2019
Financial assets held for trading	**1,910.7**	**1,224.2**
valuation of derivatives*	1,199.8	554.3
other financial assets held for trading, including:	710.9	669.9
debt securities:	436.0	498.4
Treasury bonds	419.2	480.6
European Investment Bank bonds	16.8	17.8
repo transactions	274.9	171.5
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	**107.0**	**160.4**
loans are obligatorily measured at fair value through profit or loss	106.2	160.3
equity instruments	0.8	0.1
Total	**2,017.7**	**1,384.6**

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

Starting from the financial statements for 2020 the Bank created a new item in the assets of the statement of financial position called Financial assets measured at fair value through profit or loss, to which the obligatory loans measured at fair value through profit or loss were transferred (previously presented under Loans and other receivables to customers), equity instruments designated to be measured at fair value through profit or loss and Assets held for trading. The change is described in Chapter IV. Comparability of financial data.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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

	2020				2019			
	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	TOTAL	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	TOTAL
without a specific date	-	-	0.8	**0.8**	-	-	0.1	**0.1**
up to 1 month	278.6	-	-	**278.6**	174.8	-	-	**174.8**
over 1 month and up to 3 months	0.0	4.2	-	**4.2**	-	1.3	-	**1.3**
over 3 months and up to 1 year	218.3	18.9	-	**237.2**	27.0	37.6	-	**64.6**
over 1 year and up to 5 years	142.3	60.7	-	**203.0**	134.4	84.7	-	**219.1**
over 5 years	71.7	11.2	-	**82.9**	333.7	25.5	-	**359.2**
for which the maturity has expired	-	11.2	-	**11.2**	-	11.2	-	**11.2**
Total	**710.9**	**106.2**	**0.8**	**817.9**	**669.9**	**160.3**	**0.1**	**830.3**

17. Valuation of derivatives

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

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

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Fair value of derivatives		Notional amount of instruments with the remaining maturity			
	Assets	Liabilities	up to 3 months	over 3 months up to 1 year	above 1 year	Total
Interest rate derivatives, including:	**429.9**	**555.8**	**54,656.9**	**114,843.5**	**301,532.9**	**471,033.3**
settled via CCP	*140.7*	*198.0*	*52,056.8*	109,945.90	288,712.10	*450,714.8*
contracts for the future FRA interest rate – PLN	0.4	0.7	26,047.0	24,960.0	4,000.0	55,007.0
Interest rate swaps (IRS PLN) fixed – float	308.5	341.6	26,676.6	84,628.1	277,592.7	388,897.4
Interest rate swaps (IRS EUR) fixed – float	86.1	178.4	926.3	2,889.1	12,654.2	16,469.6
Interest rate swaps (IRS USD) fixed – float	31.5	31.7	1,006.4	1,666.8	5,761.1	8,434.3
CAP options – EUR	3.3	3.3	0.6	698.4	1,458.1	2,157.1
CAP options – PLN	0.1	0.1	0.0	1.1	66.8	67.9
Currency derivatives, including:	**118.5**	**105.6**	**18,093.5**	**11,510.2**	**8,382.2**	**37,985.9**
currency contracts (swap, forward), including:	**87.7**	**75.4**	**16,887.8**	**9,135.0**	**1,449.3**	**27,472.1**
currency contracts (swap, forward) EUR / PLN	26.4	34.1	5,067.2	3,455.2	362.2	8,884.6
currency contracts (swap, forward) USD / PLN	37.3	25.9	2,177.5	1,169.3	77.6	3,424.4
currency contracts (swap, forward) EUR / USD	12.3	4.5	6,853.3	2,831.0	101.5	9,785.8
other currency contracts (swap, forward) currency pairs	11.7	10.9	2,789.8	1,679.5	908.0	5,377.3
CIRS, including:	**13.4**	**10.9**	**1,192.9**	**1,492.4**	**1,510.5**	**4,195.8**
CIRS CHF/PLN (float-float)	3.8	6.0	0.0	0.0	187.4	187.4
CIRS EUR/PLN (float-float)	9.3	2.2	124.8	641.6	1,323.1	2,089.5
CIRS EUR/PLN (fixed-fixed)	0.0	0.0	0.0	0.0	0.0	0.0
CIRS EUR/USD (float-float)	0.3	0.0	0.0	850.8	0.0	850.8
CIRS USD/CHF (float-float)	0.0	2.7	1,068.1	0.0	0.0	1,068.1
currency options (acquired), including:	**20.1**	**0.9**	**6.4**	**879.3**	**2,711.2**	**3,596.9**
CHF / PLN options	0.0	0.0	0.0	0.0	0.0	0.0
EUR / PLN options	2.6	0.9	5.9	879.1	0.0	885.0
USD / PLN options	17.5	0.0	0.5	0.2	2,711.2	2,711.9
currency options (sold)	**-2.7**	**18.4**	**6.4**	**3.5**	**2,711.2**	**2,721.1**
EUR / PLN options	-2.7	0.9	5.9	3.3	0.0	9.2
USD / PLN options	0.0	17.5	0.5	0.2	2,711.2	2,711.9
Current off-balance sheet transactions, including:	**0.4**	**0.4**	**1,728.5**	**0.0**	**0.0**	**1,728.5**
foreign exchange operations	0.4	0.4	1,726.2	-	-	1,726.2
operations in securities	0.0	0.0	2.3	-	-	2.3
Valuation of other financial instruments	**5.5**	**5.4**	-	-	-	-
Total	**554.3**	**667.2**	**74,478.9**	**126,353.7**	**309,915.1**	**510,747.7**

Interest rate derivatives IRS/FRA settled to market

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

Embedded derivatives

At the end of 2020 and 2019, the Bank had PLN deposits with embedded derivatives. Embedded instruments are FX options. As at 31 December 2020, embedded derivatives were valued at PLN 0.02 million versus PLN 0.01 million as at 31 December 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

18. Hedge accounting

In the financial statements prepared for 2020 (similarly to 2019), the Bank applies fair value hedge accounting and cash flow hedge accounting. The table below presents the valuation of hedging instruments, broken down into instruments securing the fair value of securities and cash flow hedging instruments. The valuation of hedging instruments is presented in the item *Derivative hedge instruments in assets* (positive valuation) and liabilities (negative valuation) of the statement of financial position of the Bank.

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging instruments	1,194.8	513.9	846.1	474.8
Instruments hedging the fair value of securities	0.0	44.6	5.5	71.2
Total hedge instruments	**1,194.8**	**558.5**	**851.6**	**546.0**

Detailed information on the hedge accounting applied in the Bank is presented further in the report in Note III.8 *Hedge accounting* in the chapter *Risk and capital management*.

19. Investment securities

	2020			2019		
		Stage 1			Stage 1	
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
Measured at fair value through other comprehensive income	**21,345.9**	**-3.8**	**21,342.1**	**21,213.1**	**-4.0**	**21,209.1**
debt securities, including:	21,189.3	-3.8	21,185.5	21,102.5	-4.0	21,098.5
Treasury bonds	18,561.2	-3.4	18,557.8	18,651.2	-3.7	18,647.5
State Treasury bonds in EUR	1,057.9	-0.2	1,057.7	982.8	-0.2	982.6
European Investment Bank bonds	1,078.2	-0.1	1,078.1	1,021.5	0.0	1,021.5
Austrian government bonds	492.0	-0.1	491.9	447.0	-0.1	446.9
equity instruments, including:	156.6	0.0	156.6	110.6	0.0	110.6
Biuro Informacji Kredytowej S.A.	70.3	0.0	70.3	63.8	0.0	63.8
Krajowa Izba Rozliczeniowa S.A.	19.2	0.0	19.2	14.7	0.0	14.7
other	67.1	0.0	67.1	32.1	0.0	32.1
Measured at amortised cost, including:	**33,546.0**	**-5.9**	**33,540.1**	**12,352.0**	**-1.6**	**12,350.4**
debt securities, including:	33,546.0	-5.9	33,540.1	12,352.0	-1.6	12,350.4
Treasury bonds	17,985.6	-3.4	17,982.2	5,963.6	-0.8	5,962.8
Treasury bonds in EUR	4,095.1	-0.8	4,094.3	3,273.3	-0.6	3,272.7
Bank Gospodarstwa Krajowego bonds	2,103.9	-0.5	2,103.4	508.6	-0.1	508.5
European Investment Bank bonds	6,171.4	-0.5	6,170.9	2,606.5	-0.1	2,606.4
Bonds of the Polish Development Fund (PFR)	3,017.4	-0.7	3,016.7	0.0	0.0	0.0
Treasury bills	172.6	0.0	172.6	0.0	0.0	0.0
Total	**54,891.9**	**-9.7**	**54,882.2**	**33,565.1**	**-5.6**	**33,559.5**

The value presented in the item *equity instruments* in the category of assets measured at fair value through other comprehensive income (FVOCI) includes investments in shares issued by entities that are considered to be material from the perspective of the Bank's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in Note 37. *Fair value.* In 2020, the Bank received the related revenue in the form of a dividend in the amount of PLN 8.4 million (PLN 7.0 million in 2019), which was presented in the income statement in item *Net income on the sale of securities measured at fair value through other comprehensive income and dividend income.*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

In 2020 and 2019, the Bank did not sell any equity securities.

Changes in impairment for expected credit losses

	2020			2019		
	measured at fair value through other comprehensive income	measured at amortised cost	TOTAL	measured at fair value through other comprehensive income	measured at amortised cost	TOTAL
	Stage 1			Stage 1		
Opening balance impairment	4.0	1.6	**5.6**	4.7	2.3	**7.0**
Changes during the period, including:	-0.2	4.3	**4.1**	-0.7	-0.7	**-1.4**
establishment and termination	-0.2	4.3	**4.1**	-0.7	-0.7	**-1.4**
Closing balance impairment	**3.8**	**5.9**	**9.7**	**4.0**	**1.6**	**5.6**

In 2020, the volume of investment securities measured at amortized cost increased significantly, which translated into an increase in the allowance for expected credit losses compared to the previous year. In 2019, changes in the gross value of investment securities measured at fair value through other comprehensive income and financial assets measured at amortised cost had no material effect on the level of impairment for expected credit losses. In 2020 and 2019, there were no transfers of investment securities between stages with different valuation of expected credit losses.

Investment securities by maturity

	2020			2019		
	measured at fair value through other comprehensive income	measured at amortised cost	TOTAL	measured at fair value through other comprehensive income	measured at amortised cost	TOTAL
without a specific date	156.6	0.0	**156.6**	110.6	0.0	**110.6**
up to 1 month	0.0	0.0	**0.0**	0.0	159.0	**159.0**
over 1 month and up to 3 months	0.0	172.6	**172.6**	0.0	0.0	**0.0**
over 3 months and up to 1 year	3,787.8	2,415.5	**6,203.3**	1,005.1	2,715.3	**3,720.4**
over 1 year and up to 5 years	8,009.8	20,423.1	**28,432.9**	9,252.0	5,809.8	**15,061.8**
over 5 years	9,387.9	10,528.9	**19,916.8**	10,841.4	3,666.4	**14,507.8**
Total	**21,342.1**	**33,540.1**	**54,882.2**	**21,209.1**	**12,350.4**	**33,559.5**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

20. Assets securing liabilities

Market value of assets pledged as security for liabilities

	2020	2019
Bonds from the portfolio of financial assets measured at fair value through profit or loss:		
Treasury bonds securing liabilities under the securities sold securities with a repurchase promise (sell-buy-back transactions)	197.7	80.0
Bonds and credit receivables from the portfolio of financial assets measured at amortised cost:		
Treasury bonds securing liabilities under the securities sold repurchase agreements (repo transactions)	756.8	30.0
Bonds from the portfolio of assets measured at fair value through other comprehensive income		
Treasury bonds as security for the Bank Guarantee Fund	681.4	574.8
Austrian Government bonds securing the settlements made with LCH	490.2	445.4
bonds of the European Investment Bank securing settlements made with LCH	127.1	0.0
Treasury bonds blocking the obligation to pay the contributions to the bank guarantee fund	139.4	87.4
Treasury bonds blocking the obligation to pay the contribution to the compulsory bank restructuring fund	131.1	88.4
securities as a security deposit for the settlement of EUREX transactions	119.5	45.7
Treasury bonds securing a loan received by a subsidiary from the European Investment Bank	67.3	128.7
Treasury bonds constituting security in securities for the initial settlement deposit	33.1	60.0
securities on an account with Euroclear, intended as collateral for transactions not submitted to clearing houses	25.1	3.0
bonds securing the settlement fund	11.0	10.0

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

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

The Bank has deposited call-type margins as security for derivative transactions. Receivables in this respect are presented in Note 15. *Loans and other receivables to other banks* and in Note 21. *Loans and other receivables to customers.*

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

The market value of securities subject to buy-sell-back / reverse repo transactions was PLN 270.6 million as at 31 December 2020 compared to PLN 169.7 million as at 31 December 2019.

As at 31 December 2020, securities with a value of PLN 246.9 million were resold (in comparison with PLN 165.9 million as at 31 December 2019).

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

21. Loans and other receivables to customers

	2020	2019
measured at amortised cost	105,725.5	102,524.2
measured at fair value through other comprehensive income	10,626.8	7,852.0
Total (net)	**116,352.3**	**110,376.2**

Some of the mortgage loans have been designated by the Bank for the "Holding and Sell" business model and may be sold to ING Bank Hipoteczny S.A. (being a subsidiary of the Bank) as part of the so-called pooling. These loans are measured at fair value through other comprehensive income.

From the point of view of the consolidated financial statements, pooled loans still meet the criterion of the "Maintenance" business model, due to the fact that pooling transactions take place within the Capital Group.

The Bank uses the discounted cash flow model to measure mortgage loans assigned to the portfolio measured at fair value. Due to the use of input data in the valuation model that is not based on observable market data, the valuation technique belongs to Level 3.

Loans and receivables to customers measured at amortised cost

	2020			2019		
	gross	impairment for expected credit losses	net	gross	impairment for expected credit losses	net
Loan portfolio, of which:	**106,779.9**	**-2,987.7**	**103,792.2**	**102,488.0**	**-2,260.6**	**100,227.4**
Corporate banking	**65,586.4**	**-1,922.5**	**63,663.9**	**65,193.1**	**-1,504.7**	**63,688.4**
loans in the current account	12,294.2	-567.8	11,726.4	14,048.4	-515.8	13,532.6
term loans and advances	50,299.9	-1,354.1	48,945.8	48,640.1	-988.3	47,651.8
debt securities (corporate and municipal)	2,992.3	-0.6	2,991.7	2,504.6	-0.6	2,504.0
Retail banking	**41,193.5**	**-1,065.2**	**40,128.3**	**37,294.9**	**-755.9**	**36,539.0**
mortgages	33,262.1	-257.4	33,004.7	29,706.3	-170.3	29,536.0
loans in the current account	655.0	-60.7	594.3	645.2	-48.7	596.5
other loans and advances	7,276.4	-747.1	6,529.3	6,943.4	-536.9	6,406.5
Other receivables, of which:	**1,933.3**	**0.0**	**1,933.3**	**2,296.8**	**0.0**	**2,296.8**
call deposits placed	1,272.2	0.0	1,272.2	1,598.6	0.0	1,598.6
other receivables	661.1	0.0	661.1	698.2	0.0	698.2
Total	**108,713.2**	**-2,987.7**	**105,725.5**	**104,784.8**	**-2,260.6**	**102,524.2**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Loans and receivables to customers by maturity

	2020		2019	
	measured at amortised cost	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through other comprehensive income
up to 1 month	16,863.4	35.9	20,059.2	27.5
over 1 month and up to 3 months	4,031.1	47.9	3,228.7	29.7
over 3 months and up to 1 year	13,277.9	241.0	11,982.4	148.6
over 1 year and up to 5 years	37,201.5	1,607.6	35,582.4	1,055.7
over 5 years	35,356.5	8,694.4	32,177.9	6,590.5
for which the maturity has expired	1,982.8	0.0	1,754.2	0.0
Total	**108,713.2**	**10,626.8**	**104,784.8**	**7,852.0**

21.1. Quality of loan portfolio

Quality of the portfolio of loans measured at amortized cost

	2020			2019		
	gross	impairment for expected credit losses	net	gross	impairment for expected credit losses	net
Corporate banking	**65,586.4**	**-1,922.5**	**63,663.9**	**65,193.1**	**-1,504.7**	**63,688.4**
assets in stage 1	57,786.0	-172.3	57,613.7	59,501.9	-62.8	59,439.1
assets in stage 2	5,384.5	-200.1	5,184.4	3,430.3	-138.6	3,291.7
assets in stage 3	2,414.6	-1,550.1	864.5	2,259.4	-1,303.3	956.1
including individually significant assets	*1,463.8*	*-777.9*	*685.9*	*1,487.1*	*-721.6*	*765.5*
POCI assets	1.3	0.0	1.3	1.5	0.0	1.5
Retail banking	**41,193.5**	**-1,065.2**	**40,128.3**	**37,294.9**	**-755.9**	**36,539.0**
assets in stage 1	38,111.7	-140.5	37,971.2	33,023.6	-53.7	32,969.9
assets in stage 2	2,040.0	-177.5	1,862.5	3,663.3	-267.4	3,395.9
including CHF-indexed mortgage loans	*587.2*	*-14.8*	*572.4*	*871.7*	*-13.2*	*858.5*
assets in stage 3	1,039.6	-747.2	292.4	608.0	-434.8	173.2
including CHF-indexed mortgage loans	*24.1*	*-11.6*	*12.5*	*8.9*	*-4.2*	*4.7*
POCI assets	2.2	0.0	2.2	0.0	0.0	0.0
Total	**106,779.9**	**-2,987.7**	**103,792.2**	**102,488.0**	**-2,260.6**	**100,227.4**
Total assets in stage 1	95,897.7	-312.8	95,584.9	92,525.5	-116.5	92,409.0
Total assets in stage 2	7,424.5	-377.6	7,046.9	7,093.6	-406.0	6,687.6
Total assets in stage 3	3,454.2	-2,297.3	1,156.9	2,867.4	-1,738.1	1,129.3
total POCI assets	3.5	0.0	3.5	1.5	0.0	1.5

The Bank identifies POCI financial assets whose carrying value as at 31 December 2020 is PLN 3.5 million (PLN 1.5 million as at 31 December 2019). These are exposures due to impaired receivables acquired in connection with the acquisition of SKOK Bieszczadzka in 2017 and exposures that were significantly modified as a result of restructuring, which involved the need to remove the original credit commitment and re-recognition of the asset in the statement of financial position.

In 2020, credit exposures in the amount of PLN 6,588.8 million were subject to modification of contractual cash flows, which did not result in their exclusion and re-recognition of the financial asset (for comparison, in 2019 these exposures amounted to PLN 1,135.5 million).

Modifications to contractual cash flows that do not result in their exclusion and re-recognition of a financial asset, i.e. resulting in the recognition of gains or losses on modifications, result from business premises or credit risk events in the form of forbearance facilities granted to customers. In the event of business premises, the method of determining impairment for expected credit losses does not change. Granting customers facilities (forbearance) indicates a significant increase in credit risk, resulting in classification to Stage 2, in the case of granting another convenience, classification to Stage 3 follows the principles of estimating impairment losses described in point 13.13. *Impairment*.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

For financial assets where the contractual cash flows have changed during the reporting period, while the corresponding impairment for expected credit losses was valued at an amount equal to the expected lifetime credit loss, the amortised cost before modification was PLN 795.7 million, and the net loss on modification amounted to PLN -1.7 million (in 2019: PLN 208.9 million and PLN -1.8 million, respectively).

Gross carrying amount at the end of the reporting period, financial assets that have been modified since initial recognition at the time when the impairment for expected credit losses was valued at an amount equal to the expected life-cycle credit loss, and for which the impairment for expected credit losses was during the reporting period, the change to an amount equal to 12 months of expected credit losses as at 31 December 2019 was PLN 173.2 million compared to PLN 25.9 million at the end of 2019.

Quality of the portfolio of loans measured at fair value through other comprehensive income

	2020			2019		
	gross	impairment for expected credit losses	net	gross	impairment for expected credit losses	net
Retail banking						
assets in stage 1	10,565.1	-8.9	10,556.2	7,829.9	-2.0	7,827.9
assets in stage 2	64.2	-3.3	60.9	25.0	-1.0	24.0
assets in stage 2	15.7	-6.0	9.7	0.1	0.0	0.1
Total	**10,645.0**	**-18.2**	**10,626.8**	**7,855.0**	**-3.0**	**7,852.0**

Sale of receivables

Sale of non-performing receivables

In 2020, the Bank made the following non-performing receivable sale transactions:

- corporate portfolio
  - On 24 February 2020, the Bank entered into an agreement for the sale of impaired corporate receivables from the portfolio. As a result of the transaction, the portfolio of impaired receivables decreased by PLN 8.3 million. The positive impact of the transaction on the Bank's gross result was PLN 4.1 million.

In 2019, the Bank made the following non-performing receivable sale transactions:

- corporate portfolio
  - On 31 January 2019, the Bank entered into an agreement for the sale of impaired corporate receivables from the portfolio. As a result of the transaction, the portfolio of impaired receivables decreased by PLN 117.4 million. The positive impact of the transaction on the Bank's gross result was PLN 9.8 million.
- retail portfolio
  - On 21 and 22 November 2019, the Bank concluded an agreement for the sale of retail and corporate receivables from the portfolio with recognised impairment. As a result of the transaction, the portfolio of impaired receivables decreased by PLN 219.6 million. The positive impact of the transaction on the Bank 's gross result was PLN 24.5 million.

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Sale of mortgage-secured receivables to ING Bank Hipoteczny S.A.

In 2020, the Bank carried out 2 sales transactions to ING Bank Hipoteczny S.A. of the portfolio of mortgage-secured housing loans in the total amount of PLN 1,032.5 million. The purchase price was set at the market value. All current and deferred payments for the above-mentioned transactions were settled and at the end of 2020 the Bank did not have any receivables in its books.

In 2019, the Bank carried out 8 sales transactions to ING Bank Hipoteczny S.A. of the portfolio of mortgage-secured housing loans in the total amount of PLN 3,235.8 million. As at 31 December 2019, the Bank had a receivable from ING Bank Hipoteczny S.A. concerning deferred payment for these sale transactions in the amount of PLN 318.1 million, which was recognized under *Loans and other receivables to other banks*.

Collateral

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

Changes in impairment for expected credit losses

Loans and receivables to customers measured at amortised cost

2020

	Corporate banking				Retail banking				TOTAL
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	
Opening balance impairment	**62.8**	**138.6**	**1,303.3**	**1,504.7**	**53.7**	**267.4**	**434.8**	**755.9**	**2,260.6**
Changes in the period, including:	**109.5**	**61.5**	**246.8**	**417.8**	**86.8**	**-89.9**	**312.4**	**309.3**	**727.1**
impairments for granted loans during the period	66.5	-	-	**66.5**	52.2	-	-	52.2	**118.7**
transfer to Stage 1	5.7	-41.0	-4.3	**-39.6**	24.0	-106.1	-6.6	-88.7	**-128.3**
transfer to Stage 2	-18.6	124.1	-7.9	**97.6**	-4.5	71.4	-11.6	55.3	**152.9**
transfer to Stage 3	-1.6	-24.3	233.9	**208.0**	-2.7	-51.3	288.0	234.0	**442.0**
changed provisioning under impairment for expected credit losses	45.9	1.4	23.6	**70.9**	17.8	-5.0	33.7	46.5	**117.4**
derecognition from the balance sheet (write-downs, sale)	-	-	-41.8	**-41.8**	-	-	-9.6	-9.6	**-51.4**
calculation and write-off of effective interest	-	-	54.7	**54.7**	-	-	30.7	30.7	**85.4**
other	11.6	1.3	-11.4	**1.5**	-	1.1	-12.2	-11.1	**-9.6**
Closing balance impairment	**172.3**	**200.1**	**1,550.1**	**1,922.5**	**140.5**	**177.5**	**747.2**	**1,065.2**	**2,987.7**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Corporate banking				Retail banking				TOTAL
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	
Opening balance impairment	**61.4**	**138.0**	**1,165.8**	**1,365.2**	**43.9**	**275.0**	**424.7**	**743.6**	**2,108.8**
Changes in the period, including:	**1.4**	**0.6**	**137.5**	**139.5**	**9.8**	**-7.6**	**10.1**	**12.3**	**151.8**
impairments for granted loans during the period	33.6	-	-	**33.6**	35.8	-	-	35.8	**69.4**
transfer to Stage 1	3.3	-32.8	-4.3	**-33.8**	4.9	-64.4	-4.0	-63.5	**-97.3**
transfer to Stage 2	-15.6	86.8	-8.1	**63.1**	-12.9	137.9	-19.8	105.2	**168.3**
transfer to Stage 3	-4.9	-25.0	400.6	**370.7**	-1.8	-36.8	190.8	152.2	**522.9**
changed provisioning under impairment for expected credit losses	-15.0	-28.3	-50.7	**-94.0**	-16.2	-44.7	-7.3	-68.2	**-162.2**
derecognition from the balance sheet (write-downs, sale)	-	-	-219.7	**-219.7**	-	-	-148.7	-148.7	**-368.4**
calculation and write-off of effective interest	-	-	26.7	**26.7**	-	-	0.2	0.2	**26.9**
other	-	-0.1	-7.0	**-7.1**	-	0.4	-1.1	-0.7	**-7.8**
Closing balance impairment	**62.8**	**138.6**	**1,303.3**	**1,504.7**	**53.7**	**267.4**	**434.8**	**755.9**	**2,260.6**

Loans measured at fair value through other comprehensive income

	2020				2019			
	Retail banking				Retail banking			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Opening balance impairment	**2.0**	**1.0**	**0.0**	**3.0**	**1.8**	**0.2**	**0.0**	**2.0**
Changes in the period, including:	**6.9**	**2.3**	**6.0**	**15.2**	**0.2**	**0.8**	**0.0**	**1.0**
impairments for granted loans during the period	3.4	-	-	**3.4**	1.0	-	-	**1.0**
transfer to Stage 1	-	-0.5	-	**-0.5**	-	-0.2	-	**-0.2**
transfer to Stage 2	-	2.7	-	**2.7**	-	1.0	-	**1.0**
transfer to Stage 3	-	-	6.0	**6.0**	-	-	-	**0.0**
changed provisioning under impairment for expected credit losses	3.5	0.1	-	**3.6**	-0.8	-	-	**-0.8**
Closing balance impairment	**8.9**	**3.3**	**6.0**	**18.2**	**2.0**	**1.0**	**0.0**	**3.0**

Reconciliation of the gross carrying amount

Loans and receivables to customers measured at amortised cost

Changes in the gross carrying amount of the loan portfolio affect the level of impairment for expected credit losses, primarily through origination of loans in the period, repayments made by borrowers and transfers between Stages. The table below presents a reconciliation of changes in the gross carrying amount by Stage.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	Corporate banking					Retail banking					TOTAL
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	
Opening balance of gross carrying amount	**59,501.9**	**3,430.3**	**2,259.4**	**1.5**	**65,193.1**	**33,023.6**	**3,663.3**	**608.0**	**0.0**	**37,294.9**	**102,488.0**
Changes in the period, including:	**-1,715.9**	**1,954.2**	**155.2**	**-0.2**	**393.3**	**5,088.1**	**-1,623.3**	**431.6**	**2.2**	**3,898.6**	**4,291.9**
loans granted in the period	12,699.2	-	-	-0.2	**12,699.0**	8,902.4	-	-	2.2	**8,904.6**	**21,603.6**
repayment (total and partial) and the release of new tranches	-11,227.9	-814.7	-221.3	-	**-12,263.9**	-4,138.6	-553.9	-39.2	-	**-4,731.7**	**-16,995.6**
calculation of penalty interest (for delay)	-	-	134.2	-	**134.2**	-	-	28.0	-	**28.0**	**162.2**
transfer to Stage 1	937.6	-929.7	-7.9	-	**0.0**	1,192.1	-1,183.0	-9.1	-	**0.0**	**0.0**
transfer to Stage 2	-3,895.9	3,907.7	-11.8	-	**0.0**	-619.1	642.7	-23.6	-	**0.0**	**0.0**
transfer to Stage 3	-228.9	-209.1	438.0	-	**0.0**	-248.7	-264.4	513.1	-	**0.0**	**0.0**
derecognition from the balance sheet (write-downs, sale)	-	-	-41.8	-	**-41.8**	-	-	-9.6	-	**-9.6**	**-51.4**
value adjustment for legal risk of CHF mortgage loans	-	-	-	-	**0.0**	-	-264.7	-	-	**-264.7**	**-264.7**
writing down penalty interest (for late payment)	-	-	-134.2	-	**-134.2**	-	-	-28.0	-	**-28.0**	**-162.2**
Closing balance of gross carrying amount	**57,786.0**	**5,384.5**	**2,414.6**	**1.3**	**65,586.4**	**38,111.7**	**2,040.0**	**1,039.6**	**2.2**	**41,193.5**	**106,779.9**

2019

	Corporate banking					Retail banking					TOTAL
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	
Opening balance of gross carrying amount	**53,969.9**	**4,359.0**	**1,897.5**	**0.0**	**60,226.4**	**34,213.3**	**5,058.4**	**569.5**	**0.0**	**39,841.2**	**100,067.6**
Changes in the period, including:	**5,532.0**	**-928.7**	**361.9**	**1.5**	**4,966.7**	**-1,189.7**	**-1,395.1**	**38.5**	**0.0**	**-2,546.3**	**2,420.4**
loans granted in the period	12,822.3	-	-	1.5	**12,823.8**	15,685.2	-	-	-	**15,685.2**	**28,509.0**
repayment (total and partial) and the release of new tranches	-6,140.4	-1,261.9	-282.5	-	**-7,684.8**	-9,366.9	-698.6	-29.9	-	**-10,095.4**	**-17,780.2**
calculation of penalty interest (for delay)	-	-	100.3	-	**100.3**	-	-	31.0	-	**31.0**	**131.3**
transfer to Stage 1	1,520.0	-1,513.7	-6.3	-	**0.0**	2,047.2	-2,041.3	-5.9	-	**0.0**	**0.0**
transfer to Stage 2	-2,118.9	2,129.5	-10.6	-	**0.0**	-1,524.2	1,557.1	-32.9	-	**0.0**	**0.0**
transfer to Stage 3	-551.0	-282.6	833.6	-	**0.0**	-126.4	-177.0	303.4	-	**0.0**	**0.0**
derecognition from the balance sheet (write-downs, sale)	-	-	-172.3	-	**-172.3**	-	-	-196.2	-	**-196.2**	**-368.5**
transfer to the portfolio at fair value through other comprehensive income	-	-	-	-	**0.0**	-7,904.6	-	-	-	**-7,904.6**	**-7,904.6**
value adjustment for legal risk of CHF mortgage loans	-	-	-	-	**0.0**	-	-35.3	-	-	**-35.3**	**-35.3**
writing down interest (for delay)	-	-	-100.3	-	**-100.3**	-	-	-31.0	-	**-31.0**	**-131.3**
Closing balance of gross carrying amount	**59,501.9**	**3,430.3**	**2,259.4**	**1.5**	**65,193.1**	**33,023.6**	**3,663.3**	**608.0**	**0.0**	**37,294.9**	**102,488.0**

In 2020 among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8,979.0 million), moreover, financial loans for individuals (PLN 2,360.2 million). A significant part is also short-term loans: revolving loans (PLN 692.3 million), working loans (PLN 2,750.1 million) and overdrafts (PLN 1,041.5 million). Additionally, during 2020 the penalty interest amounted to PLN 162.2 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off.

In 2019 among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8,953.0 million), moreover, financial loans for individuals (PLN 3,074.7 million). A significant part is also short-term loans: revolving loans (PLN 1,424.7 million), working loans (PLN 3,989.6 million) and overdrafts (PLN 1,395.3 million). Additionally, during 2019 the penalty interest amounted to PLN 131.1 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Loans measured at fair value through other comprehensive income

Changes in the carrying amount of the portfolio of loans at fair value through other comprehensive income are presented in Note 37.1. The level of write-offs for expected credit losses for this portfolio resulted mainly from the volume of these loans in Stage 1, which was mainly the net effect of reclassification in 2019 from the portfolio of loans measured at amortized cost, new launches and sales to ING Bank Hipoteczny S.A. and the transfer in 2019 of some exposure to Stage 2.

22. Investments in subsidiaries and associates accounted for using the equity method

Name	Type of capital relationship	% of the Bank share in equity	the carrying amount 2020	the carrying amount 2019
ING Investment Holding (Polska) S.A., that holds shares at the following subsidiaries and associates:	subsidiary	100,00%	831.4	776.6
*ING Lease (Polska) Sp. z o.o.**	*subsidiary*	*100,00%*	*271.2*	*262.9*
ING Commercial Finance Polska S.A.	*subsidiary*	*100,00%*	*109.4*	*78.9*
NN Investment Partners TFI S.A.	*associated*	*45,00%*	*4.9*	*7.5*
ING Bank Hipoteczny S.A.	subsidiary	100,00%	484.9	293.2
ING Usługi dla Biznesu S.A.	subsidiary	100,00%	20.9	21.2
Solver Sp. z o.o.	subsidiary	100,00%	16.5	16.5
Nowe Usługi S.A.	subsidiary	100,00%	0.4	0.3
Twisto Sp z o.o.	-	-	n/a	4.3
Total			**1,354.1**	**1,112.2**

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

In 2020, ING Bank Śląski S.A. increased the share capital of ING Bank Hipoteczny S.A. in the amount of PLN 170.0 million.

At the end of 2019, the Bank owned 20% of shares in the associate Twisto Sp. z o.o. ("Twisto"). In 2020, the interests in Twisto Polska Sp. z o.o. were reclassified from an investment in associated entity to a minority capital investment. Currently, shares in this company are presented under *Investment securities – measured at fair value through other comprehensive income – equity instruments* (note 19).

The reconciliation of the carrying amount of investments in associates for 2020 and 2019 is presented below

	2020	2019
Opening balance of gross carrying amount	**1,112.2**	**634.6**
Purchase of shares	170.0	377.6
Valuation using the equity method in the period	75.7	110.5
Devidends received	0.0	-9.6
Reclassification to financial assets measured at fair value through other comprehensive income	-4.3	0.0
Other	0.5	-0.9
Closing balance of gross carrying amount	**1,354.1**	**1,112.2**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

23. Property, plant and equipment

	2020	2019
Right of use assets, including:	360.0	380.3
real estate	340.9	359.0
means of transport	19.0	20.9
other assets	0.1	0.4
Real estate and investments in foreign fixed assets	326.1	326.5
Computer hardware	110.2	106.3
Other property, plant and equipment	68.6	75.7
Fixed assets under construction	29.5	44.0
Total	**894.4**	**932.8**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Changes to property, plant and equipment

2020

	Right of use assets				Real estate and investments in foreign fixed assets	Computer hardware	Other property, plant and equipment	Fixed assets under construction	TOTAL
	real estate	means of transport	other assets	Total right of use assets					
Opening gross value	**443.5**	**27.6**	**0.7**	**471.8**	**727.2**	**301.5**	**400.0**	**44.0**	**1,944.5**
Additions, including:	**87.6**	**7.4**	**0.0**	**95.0**	**26.0**	**54.5**	**20.1**	**83.4**	**279.0**
new contracts	38.7	7.2	-	45.9	-	-	-	-	45.9
adjustment of the asset in connection with the recalculation of the lease liability	48.9	0.2	-	49.1	-	-	-	-	49.1
purchases	-	-	-	0.0				83.4	83.4
investment takeovers	-	-	-	0.0	23.4	54.5	20.0		97.9
reclassification from non-current assets held for sale	-	-	-	0.0					0.0
other	-	-	-	0.0	2.6		0.1		2.7
Reductions, including:	**-18.2**	**-2.3**	**0.0**	**-20.5**	**-4.6**	**-0.5**	**-1.9**	**-97.9**	**-125.4**
early termination of the contract	-18.0	-2.3	-	-20.3	-	-	-	-	-20.3
adjustment of the asset in connection with the recalculation of the lease liability	-0.2	0.0	-	-0.2	-	-	-	-	-0.2
sale and liquidation	-	-	-	0.0	-0.2	-0.5	-0.9		-1.6
investment takeovers	-	-	-	0.0				-97.9	-97.9
reclassification to non-current assets held for sale	-	-	-	0.0	-4.4		-1.0		-5.4
Fair value change, including:	**0.0**	**0.0**	**0.0**	**0.0**	**11.0**	**0.0**	**0.0**	**0.0**	**11.0**
included in income statement*	-	-	-	0.0	11.0	-	-	-	11.0
Closing gross value	**512.9**	**32.7**	**0.7**	**546.3**	**759.6**	**355.5**	**418.2**	**29.5**	**2,109.1**
Opening accumulated depreciation	**-84.5**	**-6.7**	**-0.3**	**-91.5**	**-400.7**	**-195.2**	**-324.3**	**0.0**	**-1,011.7**
Changes in the period, including:	**-87.5**	**-7.0**	**-0.3**	**-94.8**	**-32.8**	**-50.1**	**-25.3**	**0.0**	**-203.0**
depreciation charges	-92.0	-9.2	-0.3	-101.5	-32.5	-50.1	-26.1	-	-210.2
reduction in scope and early termination of the contract	4.5	2.2		6.7	-	-	-	-	6.7
reclassification to non-current assets held for sale	-	-	-	0.0	1.3		0.9	-	2.2
reclassification to another group within property, plant and equipment	-	-	-	0.0	-1.6		-0.1	-	-1.7
Closing accumulated depreciation	**-172.0**	**-13.7**	**-0.6**	**-186.3**	**-433.5**	**-245.3**	**-349.6**	**0.0**	**-1,214.7**
Closing net value	**340.9**	**19.0**	**0.1**	**360.0**	**326.1**	**110.2**	**68.6**	**29.5**	**894.4**

*) in line *General and administrative expenses*, in detailed item *Maintenance of buildings*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Right of use assets: real estate	Right of use assets: means of transport	Right of use assets: other assets	Total right of use assets	Real estate and investments in foreign fixed assets	Computer hardware	Other property, plant and equipment	Fixed assets under construction	TOTAL
Opening gross value	**452.4**	**13.9**	**0.7**	**467.0**	**704.8**	**258.6**	**378.8**	**32.1**	**1,841.3**
Additions, including:	**52.1**	**14.2**	**0.0**	**66.3**	**28.7**	**43.4**	**24.9**	**106.3**	**269.6**
new contracts	25.9	14.2	0.0	40.1	-	-	-	-	40.1
adjustment of the asset in connection with the recalculation of the lease liability	26.2	0.0	0.0	26.2	-	-	-	-	26.2
purchases	-	-	-	0.0	-	-	-	106.4	106.4
investment takeovers	-	-	-	0.0	26.7	42.9	24.8	-	94.4
reclassification to another group within property, plant and equipment	-	-	-	0.0	-	0.1	-	-	0.1
reclassification from non-current assets held for sale	-	-	-	0.0	2.0	-	0.1	-	2.1
other	-	-	-	0.0	-	0.4	-	-0.1	0.3
Reductions, including:	**-61.0**	**-0.5**	**0.0**	**-61.5**	**-13.4**	**-0.5**	**-3.7**	**-94.4**	**-173.5**
early termination of the contract	-60.0	-0.4	0.0	-60.4	-	-	-	-	-60.4
adjustment of the asset in connection with the recalculation of the lease liability	-1.0	-0.1	0.0	-1.1	-	-	-	-	-1.1
sale and liquidation	-	-	-	0.0	-0.2	-0.5	-1.3	-	-2.0
investment takeovers	-	-	-	0.0	-	-	-	-94.4	-94.4
reclassification to non-current assets held for sale	-	-	-	0.0	-13.2	-	-2.3	-	-15.5
reclassification to another group within property, plant and equipment	-	-	-	0.0	-	-	-0.1	-	-0.1
Fair value change, including:	**0.0**	**0.0**	**0.0**	**0.0**	**7.1**	**0.0**	**0.0**	**0.0**	**7.1**
included in other comprehensive income	-	-	-	0.0	0.4	-	-	-	0.4
included in income statement*	-	-	-	0.0	6.7	-	-	-	6.7
Closing gross value	**443.5**	**27.6**	**0.7**	**471.8**	**727.2**	**301.5**	**400.0**	**44.0**	**1,944.5**
Opening accumulated depreciation	**0.0**	**0.0**	**0.0**	**0.0**	**-375.6**	**-155.1**	**-293.2**	**0.0**	**-823.9**
Changes in the period, including:	**-84.5**	**-6.7**	**-0.3**	**-91.5**	**-25.1**	**-40.1**	**-31.1**	**0.0**	**-187.8**
depreciation charges	-87.0	-6.8	-0.3	-94.1	-29.3	-40.1	-31.1	-	-194.6
reduction in scope and early termination of the contract	2.5	0.1	0.0	2.6	-	-	-	-	2.6
sale and liquidation	-	-	-	0.0	-0.8	-	-0.1	-	-0.9
reclassification to non-current assets held for sale	-	-	-	0.0	5.0	-	2.2	-	7.2
reclassification to another group within property, plant and equipment	-	-	-	0.0	-	-	-2.1	-	-2.1
Closing accumulated depreciation	**-84.5**	**-6.7**	**-0.3**	**-91.5**	**-400.7**	**-195.2**	**-324.3**	**0.0**	**-1,011.7**
Closing net value	**359.0**	**20.9**	**0.4**	**380.3**	**326.5**	**106.3**	**75.7**	**44.0**	**932.8**

*) in line *General and administrative expenses*, in detailed item *Maintenance of buildings*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

There are no legal constraints on property, plant and equipment at the end of 2020 and 2019.

Contractual obligations to purchase property, plant and equipment

In 2020, the Bank concluded agreements with counterparties that in the future will affect increase in the value of property, plant and equipment of PLN 1.2 million. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof. The agreements refer to real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets.

At the end of 2019, the Bank had contracts (partly of a framework nature) regarding real estate (buildings and structures), investments in foreign fixed assets, fixed assets under construction and other fixed assets for the total amount of PLN 3.5 million.

24. Intangible assets

	2020	2019
Goodwill	223.3	223.3
Software	149.4	169.9
Outlays for intangible assets	30.9	13.6
Other intangible assets	0.7	1.6
Total	**404.3**	**408.4**

Changes in intangible assets

2020

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**1,141.5**	**13.6**	**16.6**	**1,395.0**
Additions, including:	**0.0**	**52.0**	**69.3**	**0.0**	**121.3**
purchases	-	-	69.3	-	**69.3**
investment takeovers	-	52.0	-	-	**52.0**
Reductions, including:	**0.0**	**0.0**	**-52.0**	**0.0**	**-52.0**
investment takeovers	-	-	-52.0	-	**-52.0**
other	-	-	-	-	**0.0**
Closing gross value	**223.3**	**1,193.5**	**30.9**	**16.6**	**1,464.3**
Opening accumulated depreciation	**0.0**	**-971.6**	**0.0**	**-15.0**	**-986.6**
Changes in the period, including:	**0.0**	**-72.5**	**0.0**	**-0.9**	**-73.4**
depreciation charges	-	-71.7	-	-0.9	**-72.6**
other	-	-0.8	-	-	**-0.8**
Closing accumulated depreciation	**0.0**	**-1,044.1**	**0.0**	**-15.9**	**-1,060.0**
Closing net value	**223.3**	**149.4**	**30.9**	**0.7**	**404.3**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**1,063.0**	**19.9**	**14.9**	**1,321.1**
Additions, including:	**0.0**	**78.5**	**74.2**	**1.7**	**154.4**
purchases	-	-	74.2	-	74.2
investment takeovers	-	78.5	-	1.7	80.2
Reductions, including:	**0.0**	**0.0**	**-80.5**	**0.0**	**-80.5**
investment takeovers	-	-	-80.2	-	-80.2
other	-	-	-0.3	-	-0.3
Closing gross value	**223.3**	**1,141.5**	**13.6**	**16.6**	**1,395.0**
Opening accumulated depreciation	**0.0**	**-882.4**	**0.0**	**-13.7**	**-896.1**
Changes in the period, including:	**0.0**	**-89.2**	**0.0**	**-1.3**	**-73.8**
depreciation charges	-	-72.5	-	-1.3	-73.8
sale and liquidation	-	-16.7	-	-	-16.7
Closing accumulated depreciation	**0.0**	**-971.6**	**0.0**	**-15.0**	**-986.6**
Closing net value	**223.3**	**169.9**	**13.6**	**1.6**	**408.4**

Contractual obligations to purchase intangible assets

In 2020, the Bank concluded agreements with contractors for the future acquisition of intangible assets for a total amount of PLN 5.2 million, however, due to the framework nature of some contracts, this amount is not target. As in the previous year, these agreements concern the purchase of licenses and implementation of computer software.

At the end of 2019, the Bank had (partly framework) agreements to purchase a license and implement software for a total amount of PLN 4.4 million.

Impairment test of cash generating units with respective goodwill

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

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

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

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

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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

25. Assets held for sale

	2020	2019
Opening value	**3.6**	**10.9**
Additions, including:	**3.2**	**16.4**
reclassification from property, plant and equipment	3.2	16.4
Reductions, including:	**-6.3**	**-23.7**
sale	-5.3	-14.4
reclassification to property, plant and equipment	-1.0	-9.3
Closing value	**0.5**	**3.6**

As at 31 December 2020, the amount of *Assets held for sale* included 2 real estate properties which were reclassified from Property, plant and equipment. The real estate properties are available to be immediately sold in their current condition. The Bank intends to sell the abovementioned real estate properties using services of a specialised company that searches for potential buyers with the use of various, available sources (advertisements, direct mailing, contact with other real property agencies, etc.). The real property should be sold within 12 months from the reclassification date.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

26. Deferred tax

Movements in temporary differences during the year

2020

	Opening balance	Changes carried through profit or loss	Changes carried through other comprehensive income	**Closing balance**
Deferred tax assets				
allowance for expected credit losses	-276.6	-56.7	-	**-333.3**
valuation of operational leasing	-149.3	-54.3	-28.7	**-232.3**
settlement of the difference between tax and balance sheet depreciation	-11.1	-7.6	-	**-18.7**
other provisions	-72.4	-2.6	-	**-75.0**
employee benefits	-55.1	0.8	-	**-54.3**
correction due to effective interest rate	-6.4	6.0	-8.5	**-8.9**
financial leasing	-0.9	0.8		**-0.1**
provision for restructuring	0.0	-7.3	-	**-7.3**
other	0.0	-2.1	-	**-2.1**
Total	**-571.8**	**-123.0**	**-37.2**	**-732.0**
Deferred tax provision				
revaluation	188.1	-	105.5	**293.6**
accrued interest	111.0	54.9	-	**165.9**
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	1.1	-0.2	-	**0.9**
other	0.8	-0.3	-	**0.5**
Total	**301.0**	**54.4**	**105.5**	**460.9**
Deferred tax disclosed in the balance sheet	**-270.8**	**-68.6**	**68.3**	**-271.1**
Deferred tax asset				**-271.1**

2019

	Opening balance	Changes carried through profit or loss	Changes carried through other comprehensive income	**Closing balance**
Deferred tax assets				
allowance for expected credit losses	-264.6	-12.0	-	**-276.6**
valuation of operational leasing	-137.8	-10.3	-1.2	**-149.3**
settlement of the difference between tax and balance sheet depreciation	0.0	-11.1	-	**-11.1**
other provisions	-59.2	-13.2	-	**-72.4**
employee benefits	-51.3	-3.8	-	**-55.1**
correction due to effective interest rate	0.0	12.1	-18.5	**-6.4**
financial leasing	0.0	-0.9	-	**-0.9**
Total	**-512.9**	**-39.2**	**-19.7**	**-571.8**
Deferred tax provision				
revaluation	205.4	-	-17.3	**188.1**
accrued interest	84.8	26.2	-	**111.0**
settlement of the difference between tax and balance sheet depreciation	2.4	-2.4	-	**0.0**
correction due to effective interest rate	7.9	-7.9	-	**0.0**
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	2.8	-1.7	-	**1.1**
other	0.6	0.2	-	**0.8**
Total	**303.9**	**14.4**	**-17.3**	**301.0**
Deferred tax disclosed in the balance sheet	**-209.0**	**-24.8**	**-37.0**	**-270.8**
Deferred tax asset				**-270.8**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Deferred tax recognised directly in equity

	2020	2019
Revaluation of financial asset measured at fair value through other comprehensive income - debt securities	62.9	63.1
Revaluation of financial asset measured at fair value through other comprehensive income - equity instruments	23.6	16.4
Revaluation of financial asset measured at fair value through other comprehensive income - loans	-27.0	-18.6
fixed assets revaluation	1.3	1.6
revaluation of cash flow hedging instruments	126.6	55.8
actuarial gains / losses	-3.6	-2.8
Total	**183.8**	**115.5**

27. Other assets

	2020	2019
Prepayments, including:	**187.8**	**138.5**
accrued income	94.9	51.3
commission-related settlements	42.9	43.2
prepaid bank operating expenses	49.4	43.1
expenses to be settled	0.6	0.9
Other assets, including:	**16.2**	**190.9**
settlements with customers	14.7	12.5
public and legal settlements	0.9	1.1
other	0.6	177.3
Total	**204.0**	**329.4**
including financial assets	16.2	190.9

27.1. Quality of other financial assets

	2020			2019		
	gross	impairment	**net**	gross	impairment	**net**
assets in Stage 1	16.2	0.0	16.2	190.9	0.0	190.9
assets in Stage 3	45.6	-45.6	0.0	56.3	-56.3	0.0
Razem	**61.8**	**-45.6**	**16.2**	**247.2**	**-56.3**	**190.9**

Changes in impairment for expected credit losses

	2020			2019		
	Stage 1	Stage 3	**Total**	Stage 1	Stage 3	**Total**
Opening balance impairment	**0.0**	**56.3**	**56.3**	**0.0**	**59.5**	**59.5**
Changes in the period, including:	**0.0**	**-10.7**	**-10.7**	**0.0**	**-3.2**	**-3.2**
linking impairment for expected credit losses	0.0	14.4	**14.4**	0.0	10.1	**10.1**
exclusion from the statement of financial position as a result of write-down	0.0	-3.6	**-3.6**	0.0	-9.2	**-10.8**
exclusion from the statement of financial position due to repayment	0.0	-21.5	**-21.5**	0.0	-4.1	**-2.5**
Closing balance impairment	**0.0**	**45.6**	**45.6**	**0.0**	**56.3**	**56.3**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Reconciliation of the gross carrying amount

	2020			2019		
	Stage 1	Stage 3	**Total**	Stage 1	Stage 3	**Total**
Opening balance of gross carrying amount	**190.9**	**56.3**	**247.2**	**64.4**	**59.5**	**123.9**
Changes in the period, including:	**-174.7**	**-10.7**	**-185.4**	**126.5**	**-3.2**	**123.3**
transfer to Stage 3	-14.4	14.4	**0.0**	-10.1	10.1	**0.0**
exclusion from the statement of financial position due to write-down	0.0	-3.6	**-3.6**	0.0	-9.2	**-9.2**
recognition of new financial instruments, repayments and other changes	-160.3	-21.5	**-181.8**	136.6	-4.1	**132.5**
Closing gross value	**16.2**	**45.6**	**61.8**	**190.9**	**56.3**	**247.2**

28. Liabilities to other banks

	2020	2019
Current accounts	421.3	474.9
Interbank deposits	2,927.4	1,565.3
Repo transactions	762.9	31.1
Received call deposits	660.3	549.2
Other liabilities	4.7	2.0
Total	**4,776.6**	**2,622.5**

Liabilities to other banks by maturity

	2020	2019
up to 1 month	4,775.5	2,622.2
over 1 month and up to 3 months	1.1	0.3
Total	**4,776.6**	**2,622.5**

29. Financial liabilities measured at fair value through profit or loss

	2020	2019
Valuation of derivatives*	1,065.3	667.2
Other financial liabilities measured at fair value through profit or loss, including:	465.5	247.9
book short position in trading securities	265.5	167.2
financial liabilities held for trading, including:	200.0	80.7
repo transactions	200.0	80.7
Total	**1,530.8**	**915.1**

*) Detailed disclosures regarding the nominal value of derivatives and their valuation by individual types are presented in Note 17. *Valuation of derivatives.*

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

	2020	2019
up to 1 month	200.0	80.7
over 1 year and up to 5 years	117.9	85.9
over 5 years	147.6	81.3
Total	**465.5**	**247.9**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

30. Liabilities to customers

	2020	2019
Deposits, of which:	**149,452.2**	**128,997.0**
Corporate banking	**58,937.7**	**50,045.0**
current deposits	45,411.9	34,736.5
saving deposits	12,934.4	13,535.3
term deposits	591.4	1,773.2
Retail banking	**90,514.5**	**78,952.0**
current deposits	22,924.1	15,706.7
saving deposits	65,896.2	60,812.0
term deposits	1,694.2	2,433.3
Other liabilities, including:	**1,284.3**	**1,039.8**
liabilities under monetary hedges	547.1	400.1
call deposits	20.7	11.6
other liabilities	716.5	628.1
Total	**150,736.5**	**130,036.8**

Liabilities to customers by maturity

	2020	2019
up to 1 month	149,422.7	127,994.5
over 1 month and up to 3 months	433.1	818.3
over 3 months and up to 1 year	769.4	1,093.5
over 1 year and up to 5 years	110.1	127.9
over 5 years	1.2	2.6
Total	**150,736.5**	**130,036.8**

31. Subordinated liabilities

Bank concluded 3 subordinated loan agreements with ING Bank N.V. based in Amsterdam:

- Agreement concluded on 23 February 2016 for the amount of EUR 150.0 million. By decision of the Polish Financial Supervision Authority of 19 April 2016, the Bank obtained permission to recognize loan amount under Tier 2 capital.
- Agreement concluded on 30 October 2018 for the amount of EUR 100.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 30 January 2019.
- Agreement concluded on 30 September 2019 for the amount of EUR 250.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 28 November 2019.

All loans were loan was granted for 10 years. The Bank has the right to prepay of each loan after the lapse of 5 years, provided the relevant approval of the Polish Financial Supervision Authority (PFSA) is obtained. Interest will be paid quarterly at the 3M EURIBOR rate plus margin (2.25% for loan from 2016, 1.22% for the 2018 loan and 1.66% for loan from 2019). The financial terms and conditions of the loans were set on an arm's length basis. ING Bank N.V. is the Parent company, holding 75% of shares and votes at the Bank General Meeting.

As at the end of 2020, the carrying amount of the subordinated loans was PLN 2,309.2 million (PLN 2,131.1 million as at the end of 2019).

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

32. Provisions

	2020	2019
Provision for off-balance sheet liabilities	86.9	107.1
Provision for retirement benefits	59.4	52.1
Provision for disputes	21.2	18.1
Provision for restructuring	48.6	0.0
Other provisions	34.7	24.6
Total	**250.8**	**201.9**

2020

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for disputes	Provision for restructuring	Other provisions	TOTAL
	Stage 1	Stage 2	Stage 3	Total					
Opening balance	22.3	17.5	67.3	**107.1**	52.1	18.1	0.0	24.6	**201.9**
provisions recognised/ reversed	16.2	-3.2	-33.2	**-20.2**	3.1	4.1	48.6	17.0	**52.6**
provisions utilised	-	-	-	**0.0**	-	-0.9	-	-6.9	**-7.8**
actuarial gains/losses .	-	-	-	**0.0**	4.2	-	-	-	**4.2**
other	-	-	-	**0.0**	-	-0.1	-	-	**-0.1**
Closing balance	**38.5**	**14.3**	**34.1**	**86.9**	**59.4**	**21.2**	**48.6**	**34.7**	**250.8**
Expected provision settlement period:									
up to 1 year				0.0	3.9	1.7	21.7	18.9	**46.2**
over 1 year				86.9	55.5	19.5	26.9	15.8	**204.6**

2019

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for disputes	Other provisions	TOTAL
	Stage 1	Stage 2	Stage 3	Total				
Opening balance	**26.6**	**17.8**	**34.1**	**78.5**	**38.8**	**32.2**	**0.0**	**149.5**
provisions recognised/ reversed	-4.3	-0.3	33.9	**29.3**	3.4	0.8	17.0	**50.5**
provisions utilised	-	-	-	**0.0**	-1.6	-0.3	-2.0	**-3.9**
actuarial gains/losses	-	-	-	**0.0**	11.5	-	-	**11.5**
transition from individual to portfolio provision for mortgage loans in CHF	-	-	-	**0.0**	-	-14.6	9.6	**-5.0**
other	-	-	-0.7	**-0.7**	-	-	-	**-0.7**
Closing balance	**22.3**	**17.5**	**67.3**	**107.1**	**52.1**	**18.1**	**24.6**	**201.9**
Expected provision settlement period:								
up to 1 year				0.0	3.4	2.3	14.9	**20.6**
over 1 year				107.1	48.7	15.8	9.7	**181.3**

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2020 stood at 1.2 % (2.0% at the end of 2019). The actuarial valuation-based provision is recognised and reviewed per annum.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Provision for retirement benefits – revision of the balance-sheet liability

	2020	2019
Opening balance	52.1	38.8
Costs included in the income statement, including:	4.2	3.4
regular employment costs	3.2	2.3
costs of interest	1.0	1.1
Actuarial gains / losses	4.2	11.5
Paid benefits	-1.1	-1.6
Closing balance	**59.4**	**52.1**

Provision for disputes

The value of the proceedings conducted in 2020 concerning liabilities and debt claims did not exceed 10% of the Bank's equity. The Bank is of the opinion that none of the proceedings conducted in 2020 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Bank's financial liquidity, individually or in total.

Provision for restructuring

In 2020, the Bank's Management Board decided to continue in the years 2021-2023 the process initiated in 2016, which is related primarily to the transformation of the profile of the retail distribution network as a consequence of changes in customer behaviour. Its purpose is, among others, a gradual reduction in the number of bank branches, the number of cash points and employment. In 2020 a restructuring provision in the amount of PLN 48.6 million was created, which is intended to cover personnel costs (i.e. the costs of employee severance pay) and non-personnel costs related to the physical liquidation and transformation of branches (regarding the early termination of lease agreements for facilities, costs of bringing branches to their original condition and costs related to the liquidation of cash points).

The provision was recognized in the profit and loss account under Operating expenses in specific items:

- PLN 38.6 million as employee costs,
- the amount of PLN 10.0 million as other costs.

The realization of cash flows related to the restructuring will be gradual in the years 2021-2023.

Other provisions

This item includes provisions for paid CHF indexed mortgage loans and provisions for commission reimbursement on consumer loans prepaid by customers.

- *Legal risk related to the portfolio of loans indexed to CHF*

As at 31 December 2020, the amount of the adjustment to the gross carrying amount arising from legal risk for the portfolio of CHF-indexed mortgage loans still disclosed in the statement of financial position amounted to PLN 300.0 million (PLN 35.3 million as at 2019 yearend).

Regarding CHF-indexed mortgage loans already removed from the statement of financial position, as at 31 December 2020, the Bank maintained a provision amounted to PLN 11.8 million (PLN 9.6 million as at 2019 yearend). The amount is presented in liabilities under *Provisions*.

Significant assumptions regarding the calculation of the amount of the adjustment to gross carrying amount due to legal risk for the portfolio of CHF-indexed mortgage loans reported in the statement of financial position and the amount of provisions for CHF-indexed mortgage loans already removed from the statement of financial position as at 31 December 2020 are described in chapter III. *Significant accounting principles*, in point 3.5.

As at 31 December 2020, 450 court cases were pending against the Bank (156 court cases as at 2019 yearend) in connection with the concluded loan agreements in PLN indexed with CHF. As at 31 December 2020, the outstanding capital of the loans concerned by these proceedings was PLN 129.6 million (PLN 51.0 million as at 2019 yearend).

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

In April 2018, the District Court in Warsaw, in connection with a case conducted by this court, in a lawsuit against one of the Polish banks, submitted a request to the Court of Justice of the European Union (hereinafter the CJEU) for a preliminary ruling on unfair terms in consumer contracts regarding the effects of possible abusiveness of the provisions of the loan agreement indexed to CHF.

On 3 October 2019, the CJEU issued a judgment which did not concern the assessment of clauses in CHF-indexed loan agreements in terms of their possible abusiveness, but only the possible consequences of recognizing the abusiveness of a given provision by the domestic court. The judgment contains some guidelines that should be followed by national courts. The Court reaffirmed that contract evaluation should not be automatic. It is also for the national court to assess whether, following the finding that a given provision is abusive, the contract – in accordance with national law – cannot continue to apply without such a provision. Only when the domestic court comes to the conclusion that the contract cannot continue to apply without a condition deemed abusive, does the client consent to the maintenance of the provisions considered abusive or expressly opposes it. It is also for the national court to assess the potential consequences for the consumer of the annulment of the credit agreement concerned. The CJEU also questioned the possibility of transforming the loan into a PLN loan with an interest rate of LIBOR. In the opinion of the Tribunal, the option of converting foreign currency loans into zloty loans while maintaining the LIBOR rate could be an excessive interference with the nature of the main subject of the contract.

In July 2019 the Polish Bank Association applied to the President of the Supreme Court (hereinafter the Supreme Court) to analyse by the Supreme Court a defective, from a legal and economic point of view, the concept of transforming a CHF-indexed loan agreement into a PLN loan at the LIBOR rate, expressed in the opinion of the CJEU General Counsel. In August 2019, the Supreme Court issued a publication in which the above solution was approved.

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

At the same time, the information provided by attorneys representing banks in CHF disputes shows that in many courts a practice has been developed to refrain from examining the grounds for abusiveness of indexation clauses. More and more judges are of the opinion that it has already been decided that if an indexation clause refers to the bank's exchange rate table, it is abusive. Therefore, judges give up the assessment of a given, specific contractual provision, and their considerations focus only on the analysis of whether the contract can continue to be performed without this provision. Recent rulings show that most often the courts do not see such a possibility and declare the loan agreement invalid. The above practice manifests itself in the increase in the number of court cases lost by banks in 2020. If this approach continues and other courts adopt it (at the moment, such a motion seems premature), there is a possibility that the Bank will lose court cases in the future. However, due to the overall number of cases and the number of courts involved, it will be a process spread over time. The current state of the epidemic in the country should also be taken into account, which will certainly extension of the time limit for considering cases by courts.

On 25 March 2021 a meeting of the Civil Chamber of the Supreme Court will be held, during which the application of the First President of the Supreme Court of 29 January 2021 for the adoption of a resolution on the following legal issues regarding loans denominated and indexed in foreign currencies will be considered (legal basis Art. 83 § 1 of the Act of December 8, 2017 on the Supreme Court):

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

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

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

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

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

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

In December 2020, the chairman of the Polish Financial Supervision Authority presented a proposal for banks to conclude voluntary settlements with borrowers. The assumption of the settlements is the conversion of loans into loans denominated in PLN, under which the loan agreement is converted and repayments made on its basis by the borrower as if the loan had been granted in PLN from the beginning. The interest rate on the loan in PLN is determined based on the WIBOR rate, taking into account the loan margin resulting from the average interest rate on new loans in PLN from the month of granting the loan in CHF published in NBP statistics.

For information on the Bank's approach to estimating gross book value adjustments resulting from legal risk for the CHF-indexed mortgage loan portfolio reported in the statement of financial position and provisions for legal risk for CHF-indexed mortgage loans already removed from the statement of financial position, see chapter III. *Significant accounting principles*, in point 3.5. The Bank considered the voluntary conversion scenario described above in estimating the legal risk adjustment to the gross carrying amount for CHF-indexed mortgage loans included in the statement of financial position.

- *Provision for commission refunds on prepaid consumer loans*

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

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

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

In connection with the judgment of the CJEU and the statement of the Office of Competition and Consumer Protection, the Bank now automatically reimburses a proportionate part of the commission in the case of early repayment of the consumer loan (for repayments made after 11 September 2019). For early repayments made before 11 September 2019, the Bank makes refunds if the client submits a complaint and its verification proves that the refund is justified.

On 9 October 2019, the Bank was served with a notice of initiation by the Office of Competition and Consumer Protection and a request to provide information on banking products on offer from 16 May 2016, to which the provisions of the Consumer Credit Act, including Art. 49 of this act. The explanatory proceeding concerns the settlement by the Bank of commission refunds in cases of early repayment of consumer loans. The Bank provided the requested information to the Office of Competition and Consumer Protection by letter of 29 October 2019. On 24 December 2019, the Bank received another letter from the Office of Competition and Consumer Protection in the same procedure with the request for additional information. The Bank replied with a letter of 3 January 2020.

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

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

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

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

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

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

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

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

On 25 November 2020, UOKiK decided to extend the termination of the proceedings.

As at 31 December 2020, the Bank did not create any provisions on this account.

- *Proceedings on the use of practices violating collective consumer interests*

Before the President of the Office of Competition and Consumer Protection, an ex officio proceeding was conducted on 9 July 2014 regarding the use of practices violating collective consumer interests, consisting in: during the validity of payment card contracts, replacement of payment cards not equipped with a contactless function for cards equipped with this function without changing the content of the contract ; deriving the legal effects from the Communication for the account holder specified in the Regulations for the provision of services by ING Bank Śląski as part of keeping savings and checking accounts and savings accounts for natural persons; failure to provide consumers with information about the possibilities and rules of making the so-called contactless transactions, spending limits for payment transactions performed with these payment cards, on paper or on another durable medium, in due time before the conclusion of the contract. The Bank's proposed obligations presented to the supervisor as part of the above procedure were already implemented on 18 December 2018, the Office of Competition and Consumer Protection decided to extend the procedure. To date, the status of the proceedings has not changed. As at 31 December 2020, the Bank did not create any provisions on this account.

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

The President of UOKiK, at the request of the Polish Trade and Distribution Organization – the Employers' Union (POHiD), after conducting antitrust proceedings against ING Bank Śląski S.A. and other banks, issued on 29 December 2006 a decision stating that the Bank had committed practices restricting competition. UOKiK found that competition-restricting practice consisting in the participation by various Polish banks, including the Bank, in an agreement restricting competition on the acquiring services market related to the settlement of consumers' obligations towards merchants, for payments for goods and services purchased by consumers, with the use of payment cards on territory of Poland by jointly setting the amount of the interchange fee charged for transactions made with Visa and MasterCard cards in Poland. Due to the finding of competition restricting practices, UOKiK imposed fines, including penalties on the Bank in the amount of PLN 14.1 million.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

From this decision, among others The bank appealed to the Court of Competition and Consumer Protection (SOKiK). By ruling on 12 November 2008, SOKiK changed the decision of UOKiK, so that it did not find any practice restricting competition. On 22 April 2010, this judgment was quashed by a judgment of the Court of Appeal, which referred the case to SOKiK for re-examination.

By the ruling of the SOKiK of 21 November 2013, the Court did not change the decision of the Office of Competition and Consumer Protection with regard to the allegation of restriction of competition, but reduced the Bank's fine to PLN 403,209. However, the judgment of the SOKiK was changed by the judgment of the Court of Appeal, which on 6 October 2015 ruled to change the judgment of the SOKiK in such a way that all appeals were dismissed in full. As a result of this ruling, the President's decision became final, and in October 2015 the Bank paid the imposed fine of PLN 14.1 million.

The Bank, like other banks participating in the proceedings, filed a cassation appeal against the judgment of the Court of Appeal. On 25 October 2017, the Supreme Court quashed the judgment of the Court of Appeal, referring the case to that court for re-examination. According to the position of UOKiK, the penalty was returned to the Bank.

On 23 November 2020, the Court of Appeal overruled the SOKiK judgment of 21 November 2013 and remitted the SOKiK case, leaving the court to decide on the costs.

Due to the lack of final decisions, the amount of the refunded penalty was not recognized in the profit and loss account. As at 31 December 2020, the value of the provision was PLN 14.1 million.

PFSA: proceedings on breach of depositary's obligations

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

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

In connection with the proceedings, a provision in the amount of PLN 0.5 million was created in December 2018. The Bank paid the imposed fine in the third quarter of 2020. On 1 October 2020, the Bank appealed against the said decision to the Provincial Administrative Court.

33. Other liabilities

	2020	2019
Accruals, including:	**409.6**	**391.1**
due to employee benefits	251.4	257.2
variable remuneration programme	46.0	57.6
due to commissions	151.5	129.2
other	6.7	4.7
Other liabilities, including:	**1,787.0**	**1,580.1**
lease liabilities	375.9	385.8
interbank settlements	611.7	569.4
settlements with suppliers	237.3	270.9
public and legal settlements	94.6	87.7
liability to pay to the BFG guarantee fund	121.8	49.0
liability to pay to the BFG resolution fund	113.5	35.8
other:	232.2	181.5
Total	**2,196.6**	**1,971.2**
Including financial liabilities	1,787.0	1,580.1

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

34. Equity

34.1. Share capital

The Bank's share capital is PLN 130,100,000 and is sub-divided into:

- 92,600,000 A-series ordinary bearer's shares with face value of PLN 1.00 each, and
- 37,500,000 B-series ordinary bearer's shares with face value of PLN 1.00 each.

Each ordinary share entitles its holder to dividend and one vote during the general meeting. All shares are fully paid.

34.2. Accumulated other comprehensive income

	2020	2019
Changes in the fair value of financial assets measured through other comprehensive income – debt instruments, including:	353.4	268.9
deferred tax	*-62.9*	*-63.1*
current tax *	*-19.9*	*0.0*
Changes in the fair value of financial assets measured through other comprehensive income – equity instruments, including:	100.8	69.9
deferred tax	*-23.6*	*-16.4*
Changes in the fair value of financial assets measured through other comprehensive income – loans, including:	-247.8	-108.5
deferred tax	*27.0*	*18.6*
Property, plant and equipment, including:	5.8	7.1
deferred tax	*-1.3*	*-1.6*
Cash flow hedges, including:	3,480.0	1,534.6
deferred tax	*-126.6*	*-55.8*
current tax **	*-689.7*	*-304.2*
Actuarial gains / losses, including:	-16.6	-13.2
deferred tax	*3.6*	*2.8*
Total	**3,675.6**	**1,758.8**

**) current tax on the valuation of debt instruments*

Due to the fact that the debt securities included in all portfolios are jointly owned by one taxpayer of corporate income tax (hereinafter "CIT"), the Bank calculated for all portfolios jointly, separately for each security and using the FIFO method, tax results on purchase and sale of debt securities. The change in the method of determining the tax results from the purchase / sale of debt securities results in a different distribution of the results realised in the field of valuation. Accounting unrealised valuation in accumulated other comprehensive income for CIT purposes becomes a realised valuation, on which the Bank pays current tax. For this reason, the current tax is recorded for the part of the unrealised valuation in accumulated other comprehensive income that is realised in terms of CIT.

*** current tax on the valuation of hedging derivatives*

The Bank uses the service "settled to market", or "STM", provided for by the Regulation of the KDPW CCP and London Clearing House Clearnet (LCH) in respect of the approach to the settlement of IRS and FRA instruments . Even though the effective portion of the derivative hedge instruments resulting from the measurement of derivative hedging instruments is recognised in other comprehensive income, due to the STM mechanism it is settled in cash and the amount paid to/ received from LCH and KDPW CCP represents tax income/ expense for the purpose of the corporate income tax (CIT). That is why the current tax is recognised in other comprehensive income. Details on the STM services are presented in explanatory Note 17. *Valuation of derivatives.*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	Changes in the fair value of financial assets measured through other comprehensive income			Property, plant and equipment	Cash flow hedge	Actuarial gains / losses	TOTAL
	debt instruments	equity instruments	loans				
Opening balance	**268.9**	**69.9**	**-108.5**	**7.1**	**1,534.6**	**-13.2**	**1,758.8**
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	102.8	30.9	-139.3	-	-	-	**-5.6**
financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale	-18.3	0.0	0.0	-	-	-	**-18.3**
cash flow hedging – gains on revaluation carried through equity	-	-	-	-	2,562.5	-	**2,562.5**
cash flow hedging – reclassification to profit or loss	-	-	-	-	-617.1	-	**-617.1**
disposal of fixed assets	-	-	-	-1.3	-	-	**-1.3**
actuarial gains/losses	-	-	-	-	-	-3.4	**-3.4**
Closing balance	**353.4**	**100.8**	**-247.8**	**5.8**	**3,480.0**	**-16.6**	**3,675.6**

2019

	Changes in the fair value of financial assets measured through other comprehensive income			Property, plant and equipment	Cash flow hedge	Actuarial gains / losses	TOTAL
	debt instruments	equity instruments	loans				
Opening balance	**275.3**	**47.7**	**0.0**	**7.4**	**842.3**	**-3.0**	**1,169.7**
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	17.3	22.2	-108.5	-	-	-	**-69.0**
financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale	-23.7	0.0	0.0	-	-	-	**-23.7**
cash flow hedging – gains on revaluation carried through equity	-	-	-	-	1,083.3	-	**1,083.3**
cash flow hedging – reclassification to profit or loss	-	-	-	-	-391.0	-	**-391.0**
fixed assets revaluation	-	-	-	0.3	-	-	**0.3**
disposal of fixed assets	-	-	-	-0.6	-	-	**-0.6**
actuarial gains/losses	-	-	-	-	-	-10.2	**-10.2**
Closing balance	**268,9**	**69,9**	**-108,5**	**7,1**	**1,534,6**	**-13,2**	**1,758,8**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

34.3. Retained earnings

	2020	2019
Other supplementary capital	314.7	314.7
Reserve capital	10,193.4	9,043.3
General risk fund	1,215.2	1,215.2
Valuation of share-based payments	51.9	51.9
Retained earnings from previous years	495.7	-14.2
Result for the current year	1,337.6	1,658.7
Total	**13,608.5**	**12,269.6**

2020

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share-based payments	Retained earnings from previous years	Result for the current year	TOTAL
Opening balance	**314.7**	**9,043.3**	**1,215.2**	**51.9**	**1,644.5**	**0.0**	**12,269.6**
net result for the current period	-	-	-	-	-	1,337.6	**1,337.6**
profit written off to reserve capital	-	1,150.1	-	-	-1,150.1	-	**0.0**
disposal of fixed assets	-	-	-	-	1.3	-	**1.3**
Closing balance	**314.7**	**10,193.4**	**1,215.2**	**51.9**	**495.7**	**1,337.6**	**13,608.5**

2019

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share-based payments	Retained earnings from previous years	Result for the current year	TOTAL
Opening balance	**314.7**	**8,232.9**	**1,215.2**	**51.7**	**1,265.7**	**0.0**	**11,080.2**
adjustment in recognition the repo transactions	-	-	-	-	-14.7	-	**-14.7**
Opening balance of equity adjusted for changes to the accounting principles and other adjustments	**314.7**	**8,232.9**	**1,215.2**	**51.7**	**1,251.0**	**0.0**	**11,065.5**
net result for the current period	-	-	-	-	-	1,658.7	**1,658.7**
profit written off to reserve capital	-	810.4	-	-	-810.4	-	**0.0**
dividends paid	-	-	-	-	-455.4	-	**-455.4**
disposal of fixed assets	-	-	-	-	0.6	-	**0.6**
valuation of share-based payments	-	-	-	0.2	-	-	**0.2**
Closing balance	**314.7**	**9,043.3**	**1,215.2**	**51.9**	**-14.2**	**1,658.7**	**12,269.6**

In 2019, dividends were paid out of the 2018 profit in the amount of PLN 455.4 million, i.e. PLN 3.50 per share.

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserve capital

The reserve capital is created irrespective of the supplementary capital from profit after tax write-offs, in the amount passed by the General Meeting. The reserve capital may be allocated to cover special costs and expenses, and also to increase the share capital from the Bank's funds. The decision on activation of the reserve capital is taken by the General Meeting.

General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits and is used for unidentified risk of banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout

Details of the Bank's dividend policy and divided payout constraints are included in the risk management part of this report, in chapter I. *Risk and Capital Management*, in item 5*. Dividend Policy.*

35. FX structure of assets and liabilities

Herein below, the statement of financial position of the Bank and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31.12.2020	31.12.2019
EUR	4.6148	4.2585
USD	3.7584	3.7977
CHF	4.2641	3.9213

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	PLN	EUR		USD		CHF		other currencies	TOTAL
		converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	516.7	235.2	*51.0*	61.3	*16.3*	4.8	*1.1*	49.3	**867.3**
Loans and other receivables to other banks	2,332.1	289.9	*62.8*	30.6	*8.1*	0.5	*0.1*	21.1	**2,674.2**
Financial assets measured at fair value through profit or loss	1,832.7	134.3	*29.1*	16.1	*4.3*	10.0	*2.3*	24.6	**2,017.7**
Derivative hedge instruments	1,031.3	163.5	*35.4*	0.0	*0.0*	0.0	*0.0*	0.0	**1,194.8**
Investment securities	48,764.2	6,118.0	*1,325.8*	0.0	*0.0*	0.0	*0.0*	0.0	**54,882.2**
Loans and other receivables to customers	101,133.6	12,841.9	*2,782.8*	646.8	*172.1*	597.0	*140.0*	1,133.0	**116,352.3**
Investments in subsidiaries and associates accounted for using the equity method	1,354.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1,354.1**
Property, plant and equipment	894.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**894.4**
Intangible assets	404.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**404.3**
Assets held for sale	0.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.5**
Deferred tax assets	271.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**271.1**
Other assets	200.5	3.0	*0.7*	0.3	*0.1*	0.0	*0.0*	0.2	**204.0**
Total assets	**158,735.5**	**19,785.8**	***4,287.6***	**755.1**	***200.9***	**612.3**	***143.5***	**1,228.2**	**181,116.9**

ING Bank Śląski S.A.
Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	PLN	EUR		USD		CHF		other currencies	TOTAL
		converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	
Liabilities									
Liabilities to other banks	3,384.4	1,098.2	*238.0*	252.4	*67.2*	0.0	*0.0*	41.6	**4,776.6**
Financial liabilities measured at fair value through profit or loss	1,211.7	116.2	*25.2*	158.7	*42.2*	14.5	*3.4*	29.7	**1,530.8**
Derivative hedge instruments	375.3	183.2	*39.7*	0.0	*0.0*	0.0	*0.0*	0.0	**558.5**
Liabilities to customers	130,768.5	15,461.8	*3,350.5*	3,698.1	*984.0*	24.9	*5.8*	783.2	**150,736.5**
Subordinated liabilities	0.0	2,309.2	*500.4*	0.0	*0.0*	0.0	*0.0*	0.0	**2,309.2**
Provisions	238.5	7.1	*1.5*	5.2	*1.4*	0.0	*0.0*	0.0	**250.8**
Current income tax liabilities	387.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**387.4**
Other liabilities	2,032.3	159.6	*34.6*	2.6	*0.7*	0.0	*0.0*	2.1	**2,196.6**
Total liabilities	**138,398.1**	**19,335.3**	***4,189.9***	**4,117.0**	***1,095.5***	**39.4**	***9.2***	**856.6**	**162,746.4**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Share premium	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Accumulated other comprehensive income	3,564.0	111.6	*24.2*	0.0	*0.0*	0.0	*0.0*	0.0	**3,675.6**
Retained earnings	13,608.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**13,608.5**
Total equity	**18,258.9**	**111.6**	***24.2***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**18,370.5**
Total equity and liabilities	**156,657.0**	**19,446.9**	***4,214.1***	**4,117.0**	***1,095.5***	**39.4**	***9.2***	**856.6**	**181,116.9**

Contingent liabilities granted	41,286.6	5,378.0	*1,165.4*	846.0	*225.1*	2.5	*0.6*	30.9	**47,544.0**
Contingent liabilities received	10,897.7	589.6	*127.8*	167.2	*44.5*	0.0	*0.0*	72.8	**11,727.3**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	PLN	EUR		USD		CHF		other currencies	TOTAL
		converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	1,071.6	252.7	*59.3*	39.6	*10.4*	5.4	*1.4*	33.6	**1,402.9**
Loans and other receivables to other banks	2,884.8	283.6	*66.6*	90.4	*23.8*	0.4	*0.1*	26.1	**3,285.3**
Financial assets measured at fair value through profit or loss	1,235.2	89.9	*21.1*	44.2	*11.6*	3.8	*1.0*	11.5	**1,384.6**
Derivative hedge instruments	680.5	171.1	*40.2*	0.0	*0.0*	0.0	*0.0*	0.0	**851.6**
Investment securities	28,418.7	5,140.8	*1,207.2*	0.0	*0.0*	0.0	*0.0*	0.0	**33,559.5**
Loans and other receivables to customers	96,404.6	11,129.7	*2,613.5*	608.4	*160.2*	880.3	*224.5*	1,353.2	**110,376.2**
Investments in subsidiaries and associates accounted for using the equity method	1,112.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1,112.2**
Property, plant and equipment	932.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**932.8**
Intangible assets	408.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**408.4**
Assets held for sale	3.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**3.6**
Deferred tax assets	270.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**270.8**
Other assets	320.6	8.1	*1.9*	0.3	*0.1*	0.0	*0.0*	0.4	**329.4**
Total assets	**133,743.8**	**17,075.9**	***4,009.8***	**782.9**	***206.1***	**889.9**	***227.0***	**1,424.8**	**153,917.3**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	PLN	EUR		USD		CHF		other currencies	TOTAL
		converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	*in currency*	converted to PLN	
Liabilities									
Liabilities to other banks	2,092.4	519.0	*121.9*	2.2	*0.6*	0.1	*0.0*	8.8	**2,622.5**
Financial liabilities measured at fair value through profit or loss	684.6	184.5	*43.3*	39.7	*10.5*	0.0	*0.0*	6.3	**915.1**
Derivative hedge instruments	324.9	221.1	*51.9*	0.0	*0.0*	0.0	*0.0*	0.0	**546.0**
Liabilities to customers	113,390.7	13,124.5	*3,082.0*	2,705.1	*712.3*	36.4	*9.3*	780.1	**130,036.8**
Subordinated liabilities	0.0	2,131.1	*500.4*	0.0	*0.0*	0.0	*0.0*	0.0	**2,131.1**
Provisions	191.0	4.3	*1.0*	6.6	*1.7*	0.0	*0.0*	0.0	**201.9**
Current income tax liabilities	377.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**377.9**
Other liabilities	1,783.9	183.2	*43.0*	2.5	*0.7*	1.5	*0.4*	0.1	**1,971.2**
Total liabilities	**118,845.4**	**16,367.7**	***3,843.5***	**2,756.1**	***725.8***	**38.0**	***9.7***	**795.3**	**138,802.5**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Share premium	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Accumulated other comprehensive income	1,658.3	100.5	*23.6*	0.0	*0.0*	0.0	*0.0*	0.0	**1,758.8**
Retained earnings	12,269.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**12,269.6**
Total equity	**15,014.3**	**100.5**	***23.6***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**15,114.8**
Total equity and liabilities	**133,859.7**	**16,468.2**	***3,867.1***	**2,756.1**	***725.8***	**38.0**	***9.7***	**795.3**	**153,917.3**

Contingent liabilities granted	32,119.0	4,110.9	*965.3*	1,338.2	*352.4*	1.2	*0.3*	13.8	**37,583.1**
Contingent liabilities received	6,874.5	1,175.8	*276.1*	157.6	*41.5*	0.0	*0.0*	77.8	**8,285.7**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

36. Contingent liabilities

36.1. Contingent liabilities granted

	2020	2019
Undrawn credit facilities	38,165.3	29,314.1
Guarantees	5,847.1	5,257.0
Undrawn overdrafts in current account	1,580.5	1,425.6
Credit card limits	1,520.8	1,390.4
Letters of credit	430.3	196.0
Total	**47,544.0**	**37,583.1**

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts in current accounts.

The Bank issues guarantees and letters of credits to secure fulfilment of obligations of the Bank's customers to third parties. The value of guarantees and letters of credit disclosed above reflects the maximum loss that can be incurred and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.

The Bank charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Financial guarantee contracts by maturity

	2020	2019
up to 1 month	152.6	141.0
over 1 month and up to 3 months	619.3	461.9
over 3 months and up to 1 year	2,342.6	1,795.9
over 1 year and up to 5 years	1,992.4	2,060.7
over 5 years	740.2	797.5
Total	**5,847.1**	**5,257.0**

36.2. Contingent liabilities received

	2020	2019
Guarantees received	11,654.6	8,211.5
Financing	72.7	74.2
Total	**11,727.3**	**8,285.7**

*) In 2020, the Bank decided to change the presentation of the guarantees received. The present presentation takes into account only those guarantees that provide the basis for the reduction of risk-weighted assets and provisions for expected credit losses.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

37. Fair value

Fair value, which is best reflected by a market price, if available is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

37.1. Financial assets and liabilities measured at fair value in statement of financial position

Based on the employed methods of determining the fair value, the Bank classifies individual financial assets / liabilities into one of three categories, the so-called Valuation level. The description of the individual levels of valuation is included in Chapter III. *Significant accounting principles* , in item 13.8.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement levels.

2020

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**21,622.2**	**2,669.5**	**10,889.7**	**35,181.4**
Valuation of derivatives	-	**1,199.8**	-	**1,199.8**
Financial assets held for trading, including:	**436.0**	**274.9**	**0.0**	**710.9**
debt securities, including:	436.0	-	-	436.0
treasury bonds	419.2	-	-	419.2
European Investment Bank bonds	16.8	-	-	16.8
repo transactions	-	274.9	-	274.9
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	**0.7**	**0.0**	**106.3**	**107.0**
loans are obligatorily measured at fair value through profit or loss	-	-	106.2	106.2
equity instruments	0.7	-	0.1	0.8
Derivative hedge instruments	-	**1,194.8**	-	**1,194.8**
Financial assets measured at fair value through other comprehensive income, including:	**21,185.5**	**0.0**	**156.6**	**21,342.1**
debt securities, including:	21,185.5	-	-	21,185.5
treasury bonds	18,557.8	-	-	18,557.8
State Treasury bonds in EUR	1,057.7	-	-	1,057.7
European Investment Bank bonds	1,078.1	-	-	1,078.1
Austrian government bonds	491.9	-	-	491.9
equity instruments	-	-	156.6	156.6
Loans measured at fair value through other comprehensive income	-	-	**10,626.8**	**10,626.8**
Financial liabilities, including:	**265.5**	**1,823.8**	**0.0**	**2,089.3**
Valuation of derivatives	-	**1,065.3**	-	**1,065.3**
Other financial liabilities measured at fair value through profit or loss, including:	**265.5**	**200.0**	-	**465.5**
book short position in trading securities	265.5	-	-	265.5
financial liabilities held for trading, including:	-	200.0	-	200.0
repo transactions	-	200.0	-	200.0
Derivative hedge instruments	-	**558.5**	-	**558.5**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**21,596.9**	**1,577.4**	**8,123.0**	**31,297.3**
Valuation of derivatives	-	**554.3**	-	**554.3**
Financial assets held for trading, including:	**498.4**	**171.5**	**0.0**	**669.9**
debt securities, including:	498.4	-	-	498.4
treasury bonds	480.6	-	-	480.6
European Investment Bank bonds	17.8	-	-	17.8
repo transactions	-	171.5	-	171.5
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	**0.0**	**0.0**	**160.4**	**160.4**
loans are obligatorily measured at fair value through profit or loss	-	-	160.3	160.3
equity instruments	-	-	0.1	0.1
Derivative hedge instruments	-	**851.6**	-	**851.6**
Financial assets measured at fair value through other comprehensive income, including:	**21,098.5**	**0.0**	**110.6**	**21,209.1**
debt securities, including:	21,098.5	-	-	21,098.5
treasury bonds	18,647.5	-	-	18,647.5
State Treasury bonds in EUR	982.6	-	-	982.6
European Investment Bank bonds	1,021.5	-	-	1,021.5
Austrian government bonds	446.9	-	-	446.9
equity instruments	-	-	110.6	110.6
Loans measured at fair value through other comprehensive income	-	-	**7,852.0**	**7,852.0**
Financial liabilities, including:	**167.2**	**1,293.9**	**0.0**	**1,461.1**
Valuation of derivatives	-	**667.2**	-	**667.2**
Other financial liabilities measured at fair value through profit or loss, including:	**167.2**	**80.7**	-	**247.9**
book short position in trading securities	167.2	-	-	167.2
financial liabilities held for trading, including:	-	80.7	-	80.7
repo transactions	-	80.7	-	80.7
Derivative hedge instruments	-	**546.0**	-	**546.0**

Movements between valuation levels

In 2020, there were no movements between valuation levels.

Valuation of financial instruments classified to level 2

The Bank classifies derivatives and repo transactions to level 2 of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option – the Garman-Kohlhagen model adjusted by the call spread,
- Cap/Floor (back-to-back transactions) – the Black's model.

The following are the input data for the models:

- the FX rate – obtained by the parties from the National Bank of Poland's website,
- implied volatilities – obtained from Bloomberg,
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash flows at the transaction level. The fair value determined in that manner is the PV of those cash flows.

All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers. Market data quality is controlled during the daily contribution process for revaluation rates.

Derivative instruments are valued according to the OIS curve concept on the assumption that the transaction valuation is hedged with a deposit at the EONIA rate. PLN transactions settled in central clearing houses (London Clearing House, Central Securities Depository of Poland) are exception, where NPV settlement is in the original currency which is reflected in the applied valuation curves (initial zero curve based on WIBOR and IRS quotations).

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Valuation of financial instruments classified to level 3

The financial assets classified to level 3 of the valuation as at 31 December 2020 and as at 31 December 2019 include unlisted equity instruments and loans that did not meet the SPPI criterion according to IFRS 9.

Fair value measurement of unquoted equity interests in other companies is based on the discounted cash flow, dividend or economic value added model. Estimates of future cash flows were prepared based on medium-term profitability forecasts prepared by the Management Boards of these companies. The discount rate is based on the cost of equity estimated using the CAPM (Capital Asset Pricing Model). At the end of 2020, it was in the range of 7.7% -13.5% depending on the company. While at the end of 2019 it was 9.2%. The fair value measurement of unlisted equity interests in other companies as at December 31, 2020 included the following entities: Biuro Informacji Kredytowej S.A., Krajowa Izba Rozliczeniowa S.A. and Polski Standard Płatności sp. z o.o., while as at 31 December 2019, this valuation included Biuro Informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A.
The sensitivity analysis of equity instruments revaluation shows that 1) the adoption of the target dividend payout rate of + 10 p.p. / -10 p.p. against the baseline scenario, would result in an 11% increase / decrease, respectively; 2) assuming the cost of equity capital by -0.5 p.p / + 0.5 p.p in relation to the baseline scenario, would result in a 10% increase in the valuation / a decrease in the valuation by 8%; 3) the combined effects of items 1) and 2) would result in a 23% increase in the valuation / a decrease in the valuation by 18%, respectively.

The fair value methodology of the loan portfolio is based on the discounted cash flow method. Under this method, for each contract being valued, expected cash flows are estimated, discount factors for particular payment dates and the value of discounted cash flows is determined as at the valuation date. Valuation models are powered by business parameters for individual contracts and parameters observable by the market, such as interest rate curves, liquidity cost and cost of capital. The change in the parameters adopted for the valuation did not have a significant impact on the valuation value as at 31 December 2020.

Discount rates for mortgage loans measured at fair value through other comprehensive income at the end of 2020 were on average 2.9%, while the fair value sensitivity analysis as at 31 December 2020 indicates that with a change in the discount rate by + 0.5 /-0.5 p.p. with no change in expected cash flows, it causes a change in the fair value by approximately -2.8% / + 2.9%, respectively.

The discount rates for the above loans as at 2020 yearend and 2019 yearend were approximately 2%, while the fair value sensitivity analysis as at 31 December 2020 and 31 December 2019 indicates that with a change in the discount rate by + 1/-1 pp and no change in expected cash flows causes a change in fair value by approximately +/- 3%.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

In 2020, the change in the valuation of equity instruments classified under level 3 of the valuation recognised in other comprehensive income amounted to PLN 38.1 million (in 2019: PLN 27.4 million). In 2020, the impact of the valuation of loans classified under level 3 of the valuation amounted to PLN 0.1 million (in 2019: 0.1 million PLN) and was included in the income statement in the item *Net income on financial instruments measured at fair value through profit or loss and FX result.*

Movements in financial assets/liabilities classified to the level 3 of measurement

	2020				2019			
	Loans are obligatorily measured at fair value through profit or loss	Equity instruments measured at fair value through profit or loss	Equity instruments measured at fair value through other comprehensive income	Loans measured at fair value through other comprehensive income	Loans are obligatorily measured at fair value through profit or loss	Equity instruments measured at fair value through profit or loss	Equity instruments measured at fair value through other comprehensive income	Loans measured at fair value through other comprehensive income
Stan na początek okresu	**160.3**	**0.1**	**110.6**	**7,852.0**	**218.4**	**0.1**	**83.2**	**7,904.6**
Zwiększenia, w tym:	**0.0**	**0.0**	**46.0**	**4,057.4**	**0.0**	**0.0**	**27.4**	**3,366.0**
kredyty udzielone w okresie / nabycie inwestycji	-	-	3.1	4,057.4	-	-	-	3,366.0
reklasyfikacja instrumentów kapitałowych z inwestycji w jednostki stowarzyszone do inwestycyjnych papierów wartościowych wycenianych według wartości godziwej przez inne całkowite dochody	-	-	4.8	-	-	-	-	-
wycena odnoszona na skumulowane inne całkowite dochody	-	-	38.1	-	-	-	27.4	-
Zmniejszenia, w tym:	**-54.1**	**0.0**	**0.0**	**-1,282.6**	**-58.1**	**0.0**	**0.0**	**-3,418.6**
spłaty kredytów	-54.0	-	-	-143.4	-58.0	-	-	-55.7
wycena odnoszona na skumulowane inne całkowite dochody	-	-	-	-118.2	-	-	-	-127.1
wycena odnoszona na rachunek zysków i strat*	-0.1	-	-	-	-0.1	-	-	-
sprzedaż do ING Banku Hipotecznego	-	-	-	-1,021.0	-	-	-	-3,235.8
Stan na koniec okresu	**106.2**	**0.1**	**156.6**	**10,626.8**	**160.3**	**0.1**	**110.6**	**7,852.0**

*) In the item *Net income on financial instruments measured at fair value through profit or loss and FX result*

37.2. Non-financial assets measured at fair value in the statement of financial position

2020

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	266.6	**266.6**
Property, plant and equipment held for sale	-	-	0.5	**0.5**

2019

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	260.3	**260.3**
Property, plant and equipment held for sale	-	-	3.6	**3.6**

Changes in non-financial assets classified to level 3 of the measurement are presented in this statement, Note 23. *Property, plant* and *equipment* and 25. *Assets held for sale*.

Fair value measurement

Own real property

The Bank measures its property measured at fair value. Valuation is carried out by an independent appraiser using the income method in accordance with the applicable rules of property valuation.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

The sensitivity analysis of own property valuation shows that assuming a capitalization rate of -0.5 p.p. / + 0.5 p.p. compared to the baseline scenario, it would result in an increase in the valuation by 9% (PLN 17.8 million) / a decrease in the valuation by 8% (PLN -16.8 million).

The results of real properties appraisals were presented in the income statement in the item Operating costs (in Note 8 in detailed item *Maintenance of buildings*).

As at 31 December 2020, the amount relating to the real estate properties assessed measured at fair value that was recognised in the accumulated other comprehensive income / revaluation reserve was PLN 5.8 million (including deferred tax). As at 31 December 2019, the same item amounted to PLN 7.1 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 259.5 million as at 31 December 2020 against PLN 251.6 million as at 31 December 2019.

37.3. Financial assets and liabilities not measured at fair value in statement of financial position

The following is a comparison of the carrying amount and the fair value for investment securities measured at amortised cost, the loan portfolio and due to customers and subordinated liabilities. For other financial assets and liabilities, as well as guarantees and off-balance sheet liabilities, not measured at fair value in the statement of financial position, the fair value is close to the carrying amount.

2020

	Carrying amount	Fair value			TOTAL
		Level 1	**Level 2**	**Level 3**	
Investment securities at amortised cost	**33,540.1**	**29,416.1**	**4,704.5**	**0.0**	**34,120.6**
treasury bonds	17,982.2	18,462.8	-	-	18,462.8
State Treasury bonds in EUR	4,094.3	4,133.9	-	-	4,133.9
Bank Gospodarstwa Krajowego bonds	2,103.4	537.6	1,555.4	-	2,093.0
European Investment Bank bonds	6,170.9	6,281.8	-	-	6,281.8
bonds of the Polish Development Fund (PFR)	3,016.7	-	2,976.5	-	2,976.5
treasury bills	172.6	-	172.6	-	172.6
Loans and receivables to customers at amortised cost, including:	**105,725.5**	**0.0**	**0.0**	**105,462.8**	**105,462.8**
Corporate banking segment, including:	**63,663.9**	**0.0**	**0.0**	**63,810.5**	**63,810.5**
loans and advances (in the current account and term ones)	60,672.2	-	-	60,944.8	60,944.8
corporate and municipal debt securities	2,991.7	-	-	2,865.7	2,865.7
Retail banking segment, including:	**40,128.3**	**0.0**	**0.0**	**39,719.0**	**39,719.0**
mortgages	33,004.7	-	-	32,564.3	32,564.3
other loans and advances	7,123.6	-	-	7,154.7	7,154.7
Other receivables	**1,933.3**	**-**	**-**	**1,933.3**	**1,933.3**
Liabilities to customers	**150,736.5**	**0.0**	**0.0**	**150,740.9**	**150,740.9**
Subordinated liabilities	**2,309.2**	**0.0**	**0.0**	**2,160.0**	**2,160.0**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	Carrying amount	Fair value Level 1	Level 2	Level 3	TOTAL
Investment securities at amortised cost	**12,350.4**	**11,601.9**	**525.3**	**0.0**	**12,127.2**
treasury bonds	5,962.8	5,806.5	-	-	5,806.5
State Treasury bonds in EUR	3,272.7	3,223.2	-	-	3,223.2
Bank Gospodarstwa Krajowego bonds	508.5	-	525.3	-	525.3
European Investment Bank bonds	2,606.4	2,572.2	-	-	2,572.2
Loans and receivables to customers at amortised cost	**102,524.2**	**0.0**	**0.0**	**102,330.4**	**102,330.4**
Corporate banking segment, including:	**63,688.4**	**0.0**	**0.0**	**63,600.3**	**63,600.3**
loans and advances (in the current account and term ones)	61,184.4	-	-	61,255.4	61,255.4
corporate and municipal debt securities	2,504.0	-	-	2,344.9	2,344.9
Retail banking segment, including:	**36,539.0**	**0.0**	**0.0**	**36,433.3**	**36,433.3**
mortgages	29,536.0	-	-	29,400.3	29,400.3
other loans and advances	7,003.0	-	-	7,033.0	7,033.0
Other receivables	**2,296.8**	-	-	**2,296.8**	**2,296.8**
Liabilities to customers	**130,036.8**	-	-	**130,036.9**	**130,036.9**
Subordinated liabilities	**2,131.1**	-	-	**2,139.0**	**2,139.0**

The Bank discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

For the purposes of calculating the fair value of the mortgage loan portfolio, the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

To compute fair value of other assets and deposits measured at amortised cost and financial liabilities measured at amortised cost considering the effective interest rate the transfer price is applied. The transfer price is calculated as:

- PLN: BID rates being WIBID overnight, OFFER rates being WIBOR overnight.
- EUR: BID rates being EURIBOR overnight, OFFER rates being EURIBOR overnight.
- USD and CHF: BID rates being LIBOR overnight, OFFER rates being LIBOR overnight.

BID rates are used to compute fair value of financial liabilities measured at amortised cost; in the case of financial assets measured at amortised cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

Credit loss estimations reflect the credit loss provisioning model in place at the Bank in the model of impairment for expected credit losses.

In certain aspects, the model adopted by the Bank is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model does not take into account restructuring-based changes either.

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

In the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of loans granted in the last two-month period.

For that purpose, the following assumptions are adopted:

- use of the loans granted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

The prepayment model is used for the CHF mortgage portfolio. To determine the estimated prepayments, data on the maturity of the mortgage portfolio are used according to the model maturity structure, based on which the average interest rate weighted with maturity is calculated. Based on the model maturity structure and future interest flows calculated using the average interest rate, an aggregate model schedule of capital and interest payments is created.

To estimate the fair value of CHF mortgage loans portfolio, an average margin used when extending EUR mortgage loans adjusted with swap instruments quotations for CHF/EUR currencies was applied on account of active market disappearance.

As a result, for loans and other receivables (including CHF mortgage loans), the fair value, that arises during calculation, is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio, the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio).

In the case of the portfolio of mortgage loans in PLN, the income method is used to measure them at fair value.

Key assumptions:

- for the needs of the valuation, the original schedule of principal and interest repayments is adjusted by taking into account prepayments, credit risk and adopting a timely structure of interest rates,
- credit risk parameters, i.e. PD lifetime and LGD, discounted for the purposes of the valuation, are included in the expected cash flows,
- for the purposes of estimating cash flows, prepayments are taken into account, estimated based on the analysis of historical data on the basis of the prepayment model used,
- the calculation of the discount rate adopted to estimate the value of cash flows takes into account all risks and costs, excluding the prepayment risk and credit risk costs reflected in the flows,
- prepayment risk and credit risk costs are reflected in cash flows,
- application of a calibration margin determined on the basis of the most recent production of the portfolio of mortgage loans, analogous to the portfolio being valued.

The fair value of the loan is calculated as the sum of discounted cash flows from principal repayments and interest payments, taking into account the prepaid capital and the cost of credit risk.

In the case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value.

Investment securities measured at amortised cost

In the case of investment securities measured at amortized cost, the fair value of disclosure securities that are quoted on an active market is determined based on the price in this market, for other securities in this portfolio the model described above in Loans and other receivables is used.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

38. Offsetting financial instruments

The following disclosure relates to offsetting financial assets and financial liabilities that are subject to an enforceable contingent master agreement. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Bank. Margins additionally hedge derivative exposures; the Bank deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

Financial assets

2020

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
derivatives, including	2,394.6	2,394.6	-964.2	681.0	2,111.4
valuation of derivatives	1,199.8	1,199.8	-552.7	0.0	647.1
derivative hedge instruments	1,194.8	1,194.8	-411.5	0.0	783.3
derivatives collateral	0.0	0.0	0.0	681.0	681.0
Securities loans with repurchase agreements received, including:	274.9	274.9	0.0	270.6	545.5
transactions classified as held for trading financial assets	274.9	274.9	0.0	270.6	545.5
Total					**2,656.9**

2019

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
derivatives, including	1,405.9	1,405.9	-598.1	-560.7	247.1
valuation of derivatives	554.3	554.3	-275.3	0.0	279.0
derivative hedge instruments	851.6	851.6	-322.8	0.0	528.8
derivatives collateral	0.0	0.0	0.0	-560.7	-560.7
Securities loans with repurchase agreements received, including:	171.5	171.5	0.0	-169.7	1.8
transactions classified as held for trading financial assets	171.5	171.5	0.0	-169.7	1.8
Total					**248.9**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Financial Liabilities

2020

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,623.9	1,623.9	-964.2	277.2	936.9
valuation of derivatives	1,065.4	1,065.4	-552.7	0.0	512.7
derivative hedge instruments	558.5	558.5	-411.5	0.0	147.0
derivatives collateral	0.0	0.0	0.0	277.2	277.2
Securities loans with repurchase agreements received, including:	962.9	962.9	0.0	954.5	1,917.4
transactions classified as held for trading financial liabilities	200.0	200.0	0.0	197.7	397.7
transactions classified as liabilities to banks / customers	762.9	762.9	0.0	756.8	1,519.7
Total					**2,854.3**

2019

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,213.3	1,213.3	-598.1	-270.1	345.1
valuation of derivatives	667.2	667.2	-275.3	0.0	391.9
derivative hedge instruments	546.0	546.0	-322.8	0.0	223.2
derivatives collateral	0.0	0.0	0.0	-270.1	-270.1
Securities loans with repurchase agreements received, including:	111.8	111.8	0.0	-110.7	1.1
transactions classified as held for trading financial liabilities	80.7	80.7	0.0	-79.9	0.8
transactions classified as liabilities to banks / customers	31.1	31.1	0.0	-30.8	0.3
Total					**346.2**

39. Custody activities

As at 31 December 2020, the Bank maintained 582 customer accounts used to hold the customers' securities (764 as at 31 December 2019). The accounts do not meet the definition of assets and are not recognised in the financial statements of the Bank.

At the end of 2020, the Bank acted as a custodian bank for 146 mutual funds and sub-funds, 1 pension fund, 1 employee fund, and assessed the net asset value and net asset value per participation unit of 8 insurance capital funds (156 funds in total). For comparison, at the end of 2019, the Bank acted as a custodian bank for 151 investment funds and sub-funds, 1 pension fund, 1 employee fund, and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (161 funds in total).

40. Leasing – the Bank as a lessor

40.1. Operating lease

The Bank obtains income from the lease of commercial premises on its own real estate. These contracts are treated as operating lease contracts. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease contracts. In some cases, the agreements provide for the option of their prolongation or price change. Contracts do not include purchase options.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Gross lease payments by maturity are disclosed in the table below:

	2020	2019
up to 1 year	6.9	6.7
over 1 year and up to 2 years	6.8	6.6
over 2 years and up to 3 years	6.4	6.6
over 3 years and up to 4 years	5.5	6.1
	25.6	26.0

41. Additional information on cash flow statement

Cash and its equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts and overnight deposits in other banks.

	2020	2019
Cash in hand (presented in Note 14)	723.1	733.9
Balances with the Central Bank (presented in Note 14)	144.2	669.0
Current accounts in other banks (presented in Note 15)	92.1	258.3
Overnights in other banks (presented in Note 15)	0.0	74.1
Current receivables in other banks	268.7	262.1
Total	**1,228.1**	**1,997.4**

Explanation of the classification of the Bank's activities into operating, investment and financial activities in the cash flow statement

Operating activity includes the core activities of the Bank, not classified as investment or financial activities.

Investment activity covers purchase and sale of shares and holdings in associated entities, intangible assets and property, plant and equipment, equity instruments measured at fair value through other comprehensive income, as well as debt securities measured at amortised cost (excluding short-term treasury bills). Investment activity proceeds also comprise dividends received under shares and holdings in other entities.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including, for example, long-term loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of long-term liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

Reasons for differences between changes in certain items recognised in statement of financial position and in cash flow statement

The tables below present the differences between the changes in the balance resulting from the statement of financial position and the changes reported in the cash flow statement. The explanations for the reasons for the differences are as follows:

1) Changes in the balance of individual assets and liabilities have been adjusted for interest, which is presented in the *Interest received/paid* item.
2) The change in *Loans and other receivables to other banks* excludes the change in the balance of receivables constituting cash equivalents (accounts at other banks) and is presented under *Increase/decrease in net cash*.
3) The change in *Derivative hedging instruments* takes into account changes in hedging instruments recognised in other comprehensive income.
4) The change in *Investment securities* does not take into account the valuation of the securities, which was recognised in other comprehensive income.
5) The change in *Investment securities*, which was presented in the investment activity, was excluded from the change in *Investment securities*.
6) The change in the value of investments in subsidiary and associated entities.
7) The amount relates to the value of property, plant and equipment and intangible assets unrelated to any cash flow or amortisation change.
8) The change in *Other liabilities* does not take into account changes recognised in other comprehensive income relating to the valuation of employee incentive programs and actuarial gains / losses.
9) The amount of the unrelated to cash flow change in the balance sheet value of subordinated liabilities (accrued and unpaid interest, FX differences).
10) The value of the total cash outflow under the lease recognised under financing activities.
11) The effect of implementing IFRS 16 in the item other liabilities.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	change of balance													
	in consolidated statement of financial position	in consolidated cash flow statement	**difference, including:**	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)
Change in loans and other receivables to other banks	611.1	375.7	**-235.4**	-1.7	-233.7								
Change in financial assets measured at fair value through profit or loss	-633.1	-632.9	**0.2**	0.2									
Change in derivative hedge instruments	-330.7	1,614.7	**1,945.4**			1,945.4							
Change in investment securities	-21,322.7	-240.3	**21,082.4**	132.9			-23.9	20,973.4					
Change in loans and other receivables to customers	-5,976.1	-6,147.3	**-171.2**	-171.2									
Change in other assets	125.4	43.4	**-82.0**						3.8	-85.8			
Change in liabilities to other banks	2,154.1	2,154.2	**0.1**	0.1									
Change in financial liabilities measured at fair value through profit or loss	615.7	615.9	**0.2**	0.2									
Change in liabilities to customers	20,699.7	20,713.4	**13.7**	13.7									
Change in other liabilities	225.4	477.1	**251.7**								-3.4	179.3	75.8

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	change of balance		difference, including:	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)
	in consolidated statement of financial position	in consolidated cash flow statement												
Change in loans and other receivables to other banks	-2,508.8	-2,630.7	**-121.9**	2.6	-124.5									
Change in financial assets measured at fair value through profit or loss	768.8	768.4	**-0.4**	-0.4										
Change in derivative hedge instruments	-7.8	684.5	**692.3**			692.3								
Change in investment securities	-1,622.3	-1,157.1	**465.2**	-1.7			-92.7	559.6						
Change in loans and other receivables to customers measured at amortised cost	-11,468.8	-11,521.9	**-53.1**	-53.1										
Change in other assets	-146.0	-159.0	**-13.0**						0.9	-13.9				
Change in liabilities to other banks	814.8	816.9	**2.1**	2.1										
Change in financial liabilities measured at fair value through profit or loss	-772.5	-772.7	**-0.2**	-0.2										
Change in liabilities to customers	12,743.0	12,741.1	**-1.9**	-1.9										
Change in other liabilities	550.1	153.4	**-396.7**	-5.8							-10.0	-10.5	96.6	-467.0

42. Related entities

The Bank holds shares in the following subsidiaries and associates:

- 100% of shares in ING Investment Holding (Polska) S.A., which owns shares in the entities:
  - 100% of shares in ING Commercial Finance S.A.
  - 100% of shares in ING Lease (Polska) Sp. z o.o.
  - 45% of shares in NN Investment Partners TFI S.A. (associates),
- 100% of shares in ING Banku Hipotecznym S.A.,
- 100% of shares in ING Usługi dla Biznesu S.A.,
- 100% of shares in Solver Sp. z o.o.,
- 100% of shares in Nowe Usługi S.A.

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2020 held 75% shares in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting of ING Bank Śląski S.A. The ultimate Parent entity is ING Groep N.V. based in the Netherlands.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives. The Bank also maintains bank accounts of entities from the ING Group. Moreover, the subsidiary ING Lease Sp. z o. o. received from ING Bank NV long-term financing of lease contracts in EUR ("matched funding"). All of the above transactions are carried out on an arm's length basis.

Operating costs incurred by the Bank for the Parent entity result primarily from contracts for the provision of consultancy and advisory services, data processing and analysis, provision of software licenses and IT support. In terms of costs incurred by the Bank for other related entities, outsourcing agreements play a dominant role regarding the provision of system resource hosting services for various applications, lease of IT equipment, monitoring the availability and performance of applications and IT infrastructure as well as penetration testing and IT security monitoring.

Costs are presented as per their net value (VAT excluded).

As at 31 December 2020, ING Bank Śląski S.A. had an exposure to one of the Supervisory Board members included in it at the end of 2020 in the form of a used credit card limit of PLN 13.9 thousand.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Transactions between related entities

	ING Bank NV	Other ING Group entities	Subsidiaries	Associates	ING Bank NV	Other ING Group entities	Subsidiaries	Associates
	2020				2019			
Receivables								
Nostro accounts	2.3	8.1	-	-	6.6	17.9	-	-
Deposits made	-	-	-	-	74.1	-	-	-
Call deposits placed	105.6	1.1	-	-	-	-	-	-
Loans	-	0.2	11,443.8	-	-	0.2	11,734.0	-
Positive valuation of derivatives	78.3	3.7	2.2	-	49.8	34.9	2.5	-
Other receivables	4.9	0.5	0.8	-	9.9	2.9	172.4	-
Liabilities								
Deposits received	1,476.3	550.0	245.1	10.9	791.0	47.8	202.4	4.6
Loans received	2,309.3	-	-	-	2,131.1	-	-	-
Loro accounts	34.3	182.6	3.0	-	11.7	33.6	0.3	-
Negative valuation of derivatives	197.6	0.1	0.3	-	38.4	32.6	-	-
Other liabilities	39.7	0.2	1.6	-	82.6	2.7	0.6	-
Off-balance-sheet operations								
Off-balance sheet liabilities granted	458.9	865.6	8,813.0	0.1	419.4	677.4	5,143.2	-
Off-balance sheet liabilities received	55.2	17.5	-	-	52.9	21.4	-	-
FX transactions	9,649.5	58.2	-	-	6,666.5	-	-	-
Forward	-	-	13.9	-	-	-	40.8	-
IRS	910.4	140.0	58.9	-	2,312.7	2,403.9	59.0	-
Options	2,355.0	17.0	-	-	2,851.9	31.3	-	-
Income and expenses								
Income, including:	-151.4	37.3	166.0	50.5	34.8	27.1	210.9	36.3
interest and commission income/ expenses	-41.5	2.6	175.0	50.5	-27.5	7.3	240.1	36.3
income on financial instruments	-109.9	34.2	-0.3	-	59.9	6.5	1.3	-
net income on other basic*	-	0.5	2.9	-	2.4	13.3	0.5	-
income on sale of financial assets	-	-	-11.6	-	-	-	-30.9	-
General and administrative expenses	126.5	4.8	1.0	-	85.3	6.7	3.1	-
Outlays for non-current assets								
Outlays for intangible assets	9.5	-	0.9	-	-	1.4	0.8	-

*) In 2019, the Group sold an IT system for handling card transactions to an ING Group entity. The sale price was PLN 26.7 million, while the carrying amount of the sold asset was PLN 16.4 million.

In 2020, the Bank carried out 2 sales transactions to ING Bank Hipoteczny S.A. of the portfolio of mortgage-secured housing loans in the total amount of PLN 1,032.5 million. The purchase price was set at the market value. All current and deferred payments for the above-mentioned transactions were settled and at the end of 2020 the Bank did not have any receivables on this account in its books.

In 2019, the Bank carried out 8 sales transactions to ING Bank Hipoteczny S.A. of the portfolio of mortgage-secured housing loans in the total amount of PLN 3,235.8 million. As at 31 December 2019, the Bank had a receivable from ING Bank Hipoteczny S.A. concerning deferred payment for these sale transactions in the amount of PLN 318.1 million, which was recognized under *Loans and other receivables to other banks.*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

43. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the Bank are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2020 amounted to PLN 182.5 million (excluding loans from the In-House Social Benefits Fund). As at 31 December 2019, their value amounted to PLN 167.7 million.

Granting of a loan, cash loan, bank guarantee and surety for the Bank's senior management group is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.
The financial statements for 2020 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 30.4 million. As at 31 December 2019, their value amounted to PLN 32.1 million.

Remuneration of ING Bank Śląski S.A. Management Board Members

The composition of ING Bank Śląski S.A. Management Board as at the end of 2020 was presented in the chapter I. *Bank details* in point 5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition.*

Emoluments of ING Bank Śląski S.A. Management Board Members

	2020	2019
Short-term employee benefits, including:	13.6	12.7
remuneration	11.0	10.2
benefits	2.6	2.5
Total	**13.6**	**12.7**

Short-term employee benefits comprise: base remuneration, insurance, mutual fund contributions, medical care and other benefits awarded by the Supervisory Board.

Emoluments of ING Bank Śląski S.A. Management Board Members under the Variable Remuneration Programme

	2020		2019	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.7	2.1	2.7	2.2
Phantom stock	2.7	2.1	2.7	2.2
Total	**5.4**	**4.2**	**5.4**	**4.4**

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part.

Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2020 under the Variable Remuneration Programme have not yet been awarded.

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2020 bonus; some part of it will be paid out in 2021, and some part will be deferred for the upcoming years (2022-2028). The maximum obtainable amount of the bonus for 2020, for which a reserve was established, arrives at PLN 9.6 million, including cash pay-out in 2021 of PLN 2.7 million, and for the deferred part of the bonus PLN 6.9 million. The Bank Supervisory Board will take the final decision on the bonus amount.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

As at 31 December 2019, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.8 million. The bonus for 2019 approved in 2020 by the Bank Supervisory Board was PLN 5.0 million.

In the years ended 31 December 2020 and 31 December 2019, there were no post-employment benefits paid out to the Bank Management Board Members.

The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Bank employees participated in the ING Group long-term program until 2012. After this year, ING Bank Śląski S.A. launched its internal program based on ING Bank Śląski S.A. phantom shares. Currently, the last tranches from group programs, or financial instruments, which have been allocated to employees of the Bank by foreign ING companies for the time of performing their functions in these companies are being implemented.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members

The composition of ING Bank Śląski S.A. Supervisory Board as at the end of 2020 was presented in the chapter I. *Bank details* in point 5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition.*

Emoluments of ING Bank Śląski S.A. Supervisory Board Members

	2020	2019
Short-term employee benefits, including:	0.8	0.8
remuneration	0.8	0.8
Total	**0.8**	**0.8**

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2020, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual financial statements of the ING Bank Śląski S.A. for 2020 into the public domain.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Fund established in the Bank. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2020 amounts to PLN 2.0 million versus PLN 2.7 million as at

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

31 December 2019. The balance of the In-House Social Benefits Fund as at 31 December 2020 was PLN 9.2 million versus PLN 8.5 million as at 31 December 2019.

44. Headcount

The headcount in the Bank at the end of 2020 and 2019 was, respectively:

	2020	2019
Individuals	8 053	7 690
FTEs	8,013.0	7,640.7

45. Significant events after the balance sheet date

- *Decision of the Management Board of the Bank regarding compliance with the individual recommendation of the Polish Financial Supervision Authority regarding the dividend policy in the first half of 2021*

On 15 January 2021, the Management Board of the Bank adopted a resolution in which it declared that it would take steps to apply the individual recommendation of the Polish Financial Supervision Authority (PFSA) regarding the Bank's dividend policy in the first half of 2021. This resolution was adopted in connection with the recommendations of the PFSA, which were formulated in the letter received by the Bank on 14 January 2021. In this letter, the PFSA recommends:

- the Bank suspends the payment of dividends in the first half of 2021 (including retained earnings from previous years),
- the Bank's failure to undertake, in the first half of 2021, without prior consultation with the supervisory authority, other activities beyond the scope of current business and operating activities, which may result in a reduction in the capital base, including buyouts of own shares.

As part of this letter, the PFSA also informed that its position on the dividend policy of commercial banks in the second half of 2021 will be presented separately after analysing the situation of the banking sector in the first half of the year.

Risk and equity management

I. Risk and capital management system

1. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions (allowances) as well as capitals and liquidity buffers.

Within the risk management system, the Bank:

- applies formalised rules that are used to determine the size of undertaken risks and rules governing risk management,
- applies formalised procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- applies formalised limits that mitigate the risk and the rules of procedure if the limits have been exceeded,
- applies the adopted management reporting system that provides for risk level monitoring,
- holds an organisational structure that is adapted to the risk scope and profile.

The structure of risk and control at the Bank is based on a model of three lines of defence. The model is to ensure a stable and effective framework for risk management by defining and implementing three levels of “risk management” with various roles, duties and responsibilities related to supervision.

- First line of defence – is responsible for risk analysis in its area of supervision, identification of risks and gaps, as well as development, implementation and performance of risk mitigating controls. These are the Bank's business and organizational units that support the business operationally and technologically.
- Second line of defence – responsible for issuing regulations and providing risk management methods and tools, including defining and maintaining the risk management process and supporting the first line of defence during this process. As part of control activities, the Second Line of Defence makes its own independent assessment of the effectiveness of operations of the First Line of Defence by applying the following methods: inspections, tests, reviews, and other forms of control. It also supports the first line of risk assessment. The second line of defence consists of units from the area of:
  - operational risk
  - compliance risk
  - legal risk
  - credit and market risks
  - finance
  - HR management and

  Credit Risk Inspection Department and Model Validation Department (model risk).
- Third line of defence – provides an independent assessment of the internal control system in relation to risks identified in the processes and the management of these risks by the first and second lines of defence.

A special role in the risk management process is performed by the Bank's Management Board and Supervisory Board. The Bank operates a number of committees that are active in the management of specific risk types.

2. Principles of risk management

ING Bank Śląski S.A. manages credit, market and operational risks in compliance with Polish law, regulations of the Polish Financial Supervision Authority and other authorised authorities as well as in compliance with the standards set by the ING Group to the extent that does not breach the regulations referred to above and best practice documents.

Irrespective of the need to assure regulatory and legal compliance, the Bank treats credit, market and operational risk management as a fundamental and integral part of overall management of the Bank.

3. Risk appetite

Risk appetite determines the maximum risk volume which the Bank is ready to accept thus supporting stability and further development. As part of risk and capital management, the Bank determines risk appetite parameters (the so-called RAS – Risk Appetite Statement) in the following basic areas:

- RAS covering capital adequacy,
- RAS covering liquidity and funding risk and market risk,
- RAS covering credit risk,
- RAS covering operational risk.

RAS covering the Bank's capital adequacy was set in 2020 for the following capital ratios[1]:

- core capital ratio Tier 1 (CET1) at the minimum level of 10.5%,
- Tier 1 (T1) at the minimum level of 12%, and
- total capital ratio (TCR) at the minimum level of 14%.

RAS concerning capital adequacy results from the duty to maintain minimum levels of capital ratios resulting from the following external regulations:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (4.5% for CET1, 6% for T1 and 8% for TCR),
- Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system sanctioning additional equity buffers, including:
  - the conservation buffer, which in 2020 (as in 2019) was 2.5%,
  - the buffer of another systemic institution of 0.5% imposed by the decision of PFSA of 19 December 2017 and reiterated in PFSA's letters of 2 August 2018 and 19 August 2019, remaining at the same level also on 2020,
  - the countercyclical buffer applies to the exposures to which such a buffer has been imposed by the competent authorities. The countercyclical buffer is variable over time depending on the structure of the relevant exposures and the levels of the countercyclical buffer rates imposed on the relevant exposures (at the end of December 2020 the countercyclical buffer was 0.002% effectively compared to 0.002% at the end of December 2019).
- Regulation of the Minister for Economic Development and Finance on systemic risk buffer of 1 September 2017 introducing a systemic risk buffer of 3% of the total risk exposure amount applicable to all exposures in the territory of the Republic of Poland (on 18 March 2020, the

---

The reference levels set in RAS rely on nominal levels of each capital buffer. The applied approach means that RAS for capital adequacy is somewhat higher than resulting from regulatory minimum levels of capital ratios relying on effective and time variable levels of certain capital buffers. The systemic risk buffer of 3% was maintained in RAS levels.

Regulation of the Minister of Finance was published, repealing the regulation on the systemic risk buffer, but following a prudent approach, the Bank did not lower the RAS limits by the amount of the systemic risk buffer).

Within RAS concerning capital adequacy, capital limits for each risk type are also set.

4. Equity and capital requirement

4.1. Equity

The Bank's equity is composed of:

- core capital Tier 1 which as at 2020 yearend was PLN 13,979.6 million,
- capital Tier 2 which as at 2020 yearend was PLN 2,307.4 million,

As at 31 December 2020, the Bank did not identify additional Tier 1 capital (AT1).

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Equity

	2020	2019
Equity		
A. Tier 1 equity	**13,979.6**	**12,473.7**
A.I. Tier 1 core capital	**13,979.6**	**12,473.7**
equity instruments classified as Tier I core capital	130.1	130.1
surplus from the sales of shares above the par value (share premium)	956.3	956.3
retained earnings	1,013.0	887.0
– retained earnings in previous years	547.6	37.7
– recognised profit or recognised loss	465.4	849.3
accumulated other comprehensive income	195.6	224.1
reserve capital	10,508.1	9,358.0
general bank risk funds	1,215.2	1,215.2
intangible assets	-354.7	-408.4
shortage of adjustments to credit risk in view of the expected losses with the IRB method	0.0	-59.6
adjustment in the interim period due to adaptation to the requirements of IFRS 9	351.5	219.4
adjustment of the value of requirements relating to prudent valuation	-35.5	-48.4
B. Tier 2 ratio	**2,307.4**	**2,129.3**
subordinated liabilities	2,307.4	2,129.3
Equity used to calculate the total capital ratio	**16,287.0**	**14,603.0**

4.2. Capital requirement

In 2019 and 2020, for reporting purposes, the calculation of capital requirement relating to credit risk was made by the Bank with an advanced method of internal ratings and the standard method. The Bank obtained consent of the Polish Financial Supervision Authority and of the Dutch National Bank to apply the advanced internal rating method (AIRB) for the following exposure classes: corporates and credit institutions. In the area of operational risk, since June 2020, the Bank applies the BIA (Basic Indicator Approach) method. In the area of market risk, the Bank uses the basic method and the updated average return period method (depending on the type of risk). Additionally, the Bank determines capital requirements relating to concentration risk, settlement risk and adjustment risk or credit valuation (CVA). In all the cases, the requirements are determined in compliance with the

The total capital requirement is dominated with the requirement relating to credit risk. As at 2019 and 2020 yearend it accounted for as much as 88% of the total requirement.

4.3. Capital adequacy

On 31 December 2020, the TCR ratio for the ING Bank Śląski was 20.00% versus 18.30% as at 2019 yearend and the Tier 1 ratio was 17.17% versus 15.63% as at the end of December 2019. The changes to the capital ratios are due to the following factors:

- incorporation in equity of net profit generated in 2019 after the General Meeting has approved a resolution on 2019 profit distribution net of the amount classified by the Bank to equity during 2019 (PLN 809.4 million) and a part of the Bank's profit for the first 6 months of 2020 (PLN 465.4 million) - a total increase in TCR by 1.57 p.p.,
- providing for the impact of IFRS 9 – increase in TCR by 0.15 p.p.,
- taking into account additional amenities in connection with the so-called CRR2 quick-fix, (acceleration of the new approach to the so-called SME support factor, reduction of risk weights for government bonds denominated in foreign currencies, the possibility of preferential treatment of a certain part of intangible assets from software as risk-weighted assets with a risk weight of 100% instead of reducing own funds) - a total increase in TCR by 0.53 p.p.,

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

- taking into account the change in the method of calculating risk-weighted assets for operational risk and removing any suboptimal calculations for market risk and credit risk - total TCR increase by 0.48 p.p.,
- an increase in business volumes and operations - a total decrease in TCR by 1.03 p.p.

Increased levels of capital ratios with a simultaneous reduction in capital requirements as a result of the lifting of the systemic risk buffer mean that the surplus of TCR over the regulatory requirement increased from 4.35% to 9.00% and the surplus of the Tier 1 ratio increased from 3.68 % to 8.16%.

Total capital ratio

	2020	2019*
Equity used to calculate the total capital ratio	**16,287.0**	**14,603.0**
Capital requirements		
capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates	5,742.9	5,551.6
capital requirements relating to position risk, FX risk and risk of commodity prices	60.9	157.1
capital requirement for operational risk	711.3	671.4
amounts of exposure to risk	0.0	3.5
Total capital requirement	**6,515.1**	**6,383.6**
Total capital ratio	**20.00%**	**18.30%**
Tier 1 capital ratio	**17.17%**	**15.63%**

*) on April 2, 2020, the General Meeting of the Bank approved the distribution of the profit for 2019. Including the net profit generated in 2019 in equity as at December 31, 2019 would result in an increase in equity to PLN 15,424.1 million, and the TCR and Tier1 ratio to 19.31% and 16.64%.respectively.

In its calculations of capital ratios, the Bank was applying interim regulations mitigating the implementation effects of IFRS 9 on equity. If the implementation effect of IFRS 9 were fully recognised as at 2020 yearend at the level, the total capital requirement would have been 19.74% and the Tier I ratio – 16.75% (compared to 18.05% and 15.38% in 2019 respectively).

5. Dividend policy

The Bank's dividend policy provides for the following:

- stable dividend payouts over a long time horizon subject to the principle of prudent management and compliance with all regulatory requirements applicable to the Bank,
- possibility of dividend payouts from capital surplus over the minimum capital adequacy ratios and above the minimum levels of capital ratios determined by the Polish Financial Supervision Authority ("PFSA") for dividend payouts.

Determining the proposed amount of dividend, the Management Board takes the following into account in particular:

- the current economic and financial condition of the Bank and the Bank's Group, including limitations when financial losses are generated or in case of low profitability (low return on assets / equity),
- assumptions underlying the management strategy of the Bank and the Bank's Group, including risk management strategy,
- PFSA's position on banks' dividend policies,
- restrictions resulting from Art. 56 of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015.

PFSA's guidelines with respect to dividend for 2020

On 16 December 2020, the Polish Financial Supervision Authority approved its position on dividend policies of banks in 2021 (dividend for 2020). With a view to:

- significant uncertainty as to the further development of the Covid-19 pandemic,
- the transitional nature of solutions used by banks to improve their capital position during a pandemic,
- cautious approach by European regulators to dividends and other forms of reducing capital resources,
- amendment of the EBA guidelines extending the moratorium

The PFSA considered it necessary to suspend the payment of dividends in the first half of 2021. The position of the Polish Financial Supervision Authority regarding the possibility of paying dividends in the second half of 2021 will be presented at a later date.

II. Credit risk

1. Introduction

Credit risk is understood as:

- a risk of a financial loss that may be suffered by the Bank as a result of default by debtors in whole and at the agreed time on their credit obligations to the Bank, or
- a risk of reduced economic value of credit exposures or groups of credit exposures as a result of impaired ability of debtors to service their debt at the agreed time.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Maximum credit risk exposure

	2020	2019
Loans and other receivables to other banks	**2,674.2**	**3,285.3**
Financial assets measured at fair value through profit or loss (excluding derivatives), including:	**2,016.9**	**1,384.5**
Financial assets held for trading	1,910.7	1,224.2
Valuation of derivatives	1,199.8	554.3
Other financial assets held for trading, including:	710.9	669.9
debt securities, including:	436.0	498.4
State Treasury bonds	419.2	480.6
European Investment Bank bonds	16.8	17.8
repo transactions	274.9	171.5
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	106.2	160.3
loans are obligatorily measured at fair value through profit or loss	106.2	160.3
Derivative hedge instruments	**1,194.8**	**851.6**
Investment securities (excluding equity instruments), including:	**54,725.6**	**33,448.9**
Measured at fair value through other comprehensive income, including:	21,185.5	21,098.5
State Treasury bonds	18,557.8	18,647.5
State Treasury bonds in EUR	1,057.7	982.6
European Investment Bank bonds	1,078.1	1,021.5
Austrian government bonds	491.9	446.9
Measured at amortised cost, including:	33,540.1	12,350.4
State Treasury bonds	17,982.2	5,962.8
State Treasury bonds in EUR	4,094.3	3,272.7
Bank Gospodarstwa Krajowego bonds	2,103.4	508.5
European Investment Bank bonds	6,170.9	2,606.4
bonds of the Polish Development Fund (PFR)	3,016.7	0.0
treasury bills	172.6	0.0
Loans and other receivables to customers, including:	**116,352.3**	**110,376.2**
Measured at amortised cost, including:	105,725.5	102,524.2
Corporate banking	63,663.9	63,688.4
loans in the current account	11,726.4	13,532.6
term loans and advances	48,945.8	47,651.8
corporate and municipal debt securities	2,991.7	2,504.0
Retail banking	40,128.3	36,539.0
mortgages	33,004.7	29,536.0
loans in the current account	594.3	596.5
other loans and advances	6,529.3	6,406.5
Other receivables	1,933.3	2,296.8
Measured at fair value through other comprehensive income	10,626.8	7,852.0
Receivables under other assets	**16.2**	**190.9**
Granted off-balance sheet liabilities, of which:	**47,544.0**	**37,583.1**
Undrawn credit lines	38,165.3	29,314.1
guarantees	5,847.1	5,257.0
undrawn overdrafts in current account	1,580.5	1,425.6
credit card limits	1,520.8	1,390.4
letters of credit	430.3	196.0
Total	**224,524.0**	**187,120.5**

The Bank's policy relating to the risk of the credit exposure portfolio provides for the fact that the activity generating credit risk may be related also to other risk types as follows: liquidity, market, operational, environmental, social, legal and reputational risks that may reinforce one another.

The Bank optimises and mitigates losses relating to risk exposure by:

- setting internal limits,
- an adequate structure of credit products,

- applying collateral,
- applying functional controls,
- effective monitoring, restructuring and collection,
- monitoring of changes to the clients' credit worthiness and reliability,
- regular monitoring and validation of models used to identify and measure credit risk
- performing analyses of trends and the values of key risk indicators.

The Bank's core objective in the process of credit risk management is to support effective accomplishment of business goals by active risk management and efforts supporting organic growth while:

- maintaining a secure level of solvency and liquidity and an adequate level of provisions,
- ensuring compliance with the law and supervisory requirements.

The Bank manages credit risk in an integrated manner on the basis of:

- strategic planning,
- a consistent system of limits, policies and procedures, and
- tools for risk management, including those to identify, measure and control risks.

The integrated system includes all processes in the Bank pursued in connection with credit activity.

Detailed credit risk management objectives are as follows:

- support to business initiatives,
- maintenance of credit losses at a pre-determined level,
- ongoing verification, review of adequacy and development of the applied procedures, models and other elements of the risk management system,
- adaptation of activities to the changing external conditions,
- maintenance of an adequate level of capital requirements related to credit risk and provisions,
- ensuring compliance with the regulator's requirements.

2. Risk management strategy and risk appetite parameters

The Bank treats credit risk management as a fundamental and integral part of overall management of the Bank. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

Credit risk management strategy

The credit risk management strategy supports implementation of business objectives while maintaining the Bank's safe level of solvency and liquidity and an adequate level of provisions. The strategy is determined in order to ensure an optimum development of the credit portfolio while maintaining an adequate quality and profitability of credit operations and capital allocation. The primary goal of defining the credit risk management strategy is to optimise the risk/return on equity ratio, while considering information on the current and prospective macroeconomic environment, the Bank's portfolio and the level of execution of the RAS limits.

The credit risk management strategy provides for a "lookout to the future", including the need to remain competitive, attractive and to develop the Bank's offer.

Risk Appetite Statement (RAS)

RAS means the Bank's risk appetite which is defined by setting key and specific limits. The determination and monitoring of the risk appetite level (RAS parameters) constitute an integral part of the planning process at the Bank and management of concentration risk by the Bank.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Types of RAS limits for credit risk:

- limits of portfolio volume,
- limits for the risk parameters of the portfolio and new sales,
- concentration limits, including limits for the mortgage-backed credit exposures resulting from Recommendation S of the Polish Financial Supervision Authority.

Apart from RAS limits, the Bank sets limits for credit risk for each area, business lines, products and transaction limits that are approved by the competent credit decision maker. Additionally, internal concentration limits are set for economic sectors, accepted collateral, regions and mortgage-backed credit exposures. The compliance with RAS limits is monitored and reported during the year on a monthly basis.

Concentration of exposures to corporate clients in national economy sectors

sector	gross exposure (on- and off-balance sheet)			
	2020		2019	
	exposure amount	share in the total exposure	exposure amount	share in the total exposure
financial intermediation	18,846.5	18.3%	19,018.0	19.7%
wholesale trade	9,927.1	9.7%	9,981.0	10.3%
property services	9,253.6	9.0%	8,758.2	9.1%
construction	5,422.8	5.3%	4,861.5	5.0%
other business operations	5,401.0	5.3%	3,766.0	3.9%
retail trade	4,325.6	4.2%	4,307.2	4.5%
manufacturing of metal final products	4,118.7	4.0%	3,688.7	3.8%
production of foodstuffs and beverages	3,912.8	3.8%	3,535.5	3.7%
power generation	3,737.6	3.6%	3,586.3	3.7%
public administration and national defence	3,403.5	3.3%	3,261.7	3.4%
rubber industry	2,716.0	2.6%	2,442.5	2.5%
wood and paper industry	2,067.2	2.0%	1,874.1	1.9%
sales, repair and maintenance of motor vehicles	2,000.0	1.9%	1,969.3	2.0%
rental of equipment	1,947.1	1.9%	2,136.8	2.2%
land and pipeline transport	1,892.1	1.8%	1,587.7	1.6%
agriculture, forestry, fishery	1,770.3	1.7%	1,571.9	1.6%
Information technology and related activities	1,617.3	1.6%	1,604.6	1.7%
machine industry	1,610.6	1.6%	1,358.4	1.4%
fuel industry	1,596.7	1.6%	953.9	1.0%
others	17,321.4	16.8%	16,510.4	17.1%
Total	**102,887.9**	**100.0%**	**96,773.7**	**100.0%**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Bank's largest exposures

The table below contains a specification of the Bank's 20 largest exposures to entities / groups of related entities (including groups on entities where the Bank is the parent entity).

The amount of exposures includes the value of on-balance sheet assets (loans granted, placed deposits, debt securities), granted off-balance sheet liabilities and the book equivalent of derivative instruments. The exposures were reduced by amounts of exclusions permitted by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and MF Regulation 1018 of 1 July 2016.

Entity/group of related entities	2020	2019
Group 1	1,861.7	1,872.3
Group 2 (banking)	1,536.1	1,338.3
Group 3 (banking)	1,278.7	511.1
Group 4 (banking)	1,248.6	1,513.4
Group 5	1,025.4	418.3
Group 6	1,015.8	1,027.9
Group 7	995.0	1,135.6
Group 8	950.4	949.3
Group 9	917.3	907.2
Group 10	866.9	858.0
Group 11	811.9	805.1
Group 12	715.0	706.8
Group 13	678.3	679.5
Group 14	605.1	573.1
Group 15	562.4	B/D
Group 16	550.8	550.4
Group 17	543.1	427.7
Group 18	542.3	513.3
Group 19	542.1	500.2
Group 20	530.4	491.0

3. Credit risk management process

Credit risk management is a continuous process which includes all activities of the Bank related to its credit business. All units and persons that perform tasks in the credit process closely cooperate in order to:

- improve the effectiveness of risk management, and
- maintain risks at a level compliant with the Bank's strategy, risk appetite and financial appetite and the approved RAS level.

The credit risk management process is carried out at the Bank within three lines of defence that are independent organisationally and functionally.

The Bank applies organisational solutions providing for separation of the sales functions of banking products from the risk underwriting functions at all levels of the organisational structure, including the Bank's Management Board. Separation of the functions of monitoring and controlling the risk of credit exposures (including concentration risk) from the sales functions of banking products and the risk underwriting functions is maintained below the level of the Bank's Management Board; for retail credit exposures – also at the level of the Management Board.
In case of simplified, automatic credit process paths, the separation of the sales functions of banking products from the risk underwriting functions of credit exposures relies on the independence of the development and validation process of tools supporting the process of risk underwriting from the sales and operational functions. Competences with respect to credit decisions relating to individual

credit transactions are separated from decision authority on the development of credit policies and credit risk management principles.

4. Risk management organisational structure

Within the CRO Division (Chief Risk Officer, Vice-President of the Management Board Responsible for Risk), three areas of credit risk have been distinguished, reporting to the Directors of the Bank:

- Transactional Credit Risk, including:
  - Central Credit Risk Department,
  - Regional Credit Risk Department,
  - Financial Institutions Credit Risk Position.
- Expert Centre – Credit Risk, including:
  - Consumer Credit Risk
  - Business Credit Risk
- Models, Data and Reporting, including:
  - Risk Model Department,
  - Policy, Procedures, Regulation and Risk Reporting Department,
  - Credit Risk Tech Team.

Each area controls and supervises the Bank's business and risk management processes assigned to them.

5. Principles of credit activity

The core principle that the Bank pursues in its credit activity is to comply with law and external regulations related to credit activity, for instance:

- Banking Law Act,
- Act on macro prudential supervision,
- Foreign Exchange Law,
- regulations relating to prevention to money laundering, etc.

The Bank does not enter into credit transactions and does not get involved in activities which ethical aspects raise doubts and that could cause harm to the Bank's reputation.

The following principles are complied with in credit activity:

- The Bank acquires and maintains credit exposures in its credit portfolio that ensure security of the Bank's deposits and equity,
- The Bank acts in clients' interests providing for their needs and potential; the Bank avoids situations as a result of which any approved financing could generate spiralling debts,
- The Bank attracts clients in compliance with the applicable regulations and requirements covering the provision of the required information, documentation, compliance with procedures,
- The Bank provides credit services effectively and professionally, respecting its clients' interests and expectations of the Bank's shareholders related to the growth of value of ING Bank Śląski S.A.,
- The Bank does not enter into transactions, credit exposures without learning and understanding the economic basis of transactions,

- The Bank accepts credit risk if it is able to control it effectively and – if payments are not made – the Bank is able to implement credit recovery procedures,
- The Bank does not approve exposures in which it may be exposed to reputational risk,
- The Bank takes decision concerning new types or areas of credit exposures (e.g. new markets, market segments, client groups, products) subject to prior analysis and review of new opportunities and the related risks,
- in its business relations, the Bank applies the principle of "equal rights" – it requires the same documents and information from the same clients (in terms of credit risk) and pays special attention to equal treatment,
- The Bank is involved in open communication with clients with respect to information requirements in the credit process.

In its cooperation with business partners, the Bank complies with the following principles:

- it verifies its business partners with whom the Bank collaborates in credit distribution,
- it holds procedures of workflow between clients, business partners and the Bank,
- it holds in place quality control procedures of business partners,
- it does not grant powers of attorney or authority to take credit decisions in the name and on behalf of the Bank to grant (distribute) loans,
- it determines the acceptable risk level for each distribution channel,
- it monitors the quality of the loans granted through by its business partners.

6. Credit risk management

The Bank manages credit risk both at the level of credit exposure portfolio and at the level of individual transactions.

Risk management of the loan exposure portfolio

The objective of credit risk management of the Bank's portfolio is to ensure portfolio growth in compliance with the approved strategy while maintaining the solvency ratio of the Bank at acceptable levels and within the determined and approved risk parameters.

Credit risk management of the loan exposure portfolio is performed with the following:

- determination of credit risk management strategy,
- reconciling RAS levels with business,
- development, implementation and monitoring of implementation of credit policies,
- analysis of the macroeconomic situation and individual sectors and generation of guidelines relating to lending directions,
- development and implementation of credit products,
- setting authority levels to approve deviations from credit policies and product exceptions,
- development and implementation of tools supporting risk measurement and assessment.
- analysis and assessment of credit processes and the scope of functional controls,
- administration of the credit exposure portfolio,
- training of staff members participating in the credit process,
- development and maintenance of an incentive system for employees, focused on compliance with internal credit standards.

Managing the credit risk profile, the Bank:

- determines, monitors and reports internal concentration limits for economic sectors, types of collateral, regions and mortgage-backed credit exposures,
- monitors and analyses the quality of accepted collateral,
- monitors and reports compliance with prudential standards resulting from the Banking Law Act,
- determines, monitors and reports internal concentration limits for each sub-portfolio,
- defines changes to credit policies and product offer providing for economic cycles and changes in the property market,
- acquires market data on the quality of credit portfolios and compares them with its own credit portfolios.

Capital adequacy and recognition of provisions for credit risk

The Bank secures impairment of credit exposures by recognising provisions to cover impairment resulting from expected credit losses. The Bank further secures fluctuating losses versus the average levels of expected losses (that is unexpected losses) by ensuring an adequate level of regulatory capital and economic capital.

Risk-weighted assets and capital requirements are calculated by the Bank as follows:

- for retail exposures – in compliance with the standard method,
- for corporate credit exposures – in compliance with the advanced internal rating method with the exception of exposures to sovereigns, central banks, local governments and public sector entities for which the Bank applies the standard method.

Provisions for credit risk at the Bank for all credit exposures are calculated in compliance with International Financial Reporting Standards.

Credit risk management of individual credit exposures

Credit risk management of individual credit exposures covers:

- determination of the credit risk management process for transactions exposed to credit risk,
- management of documentary requirements applicable to the Bank's credit clients,
- determination of credit analysis standards,
- determination of the maximum levels of DTI, LTV and the minimum levels of clients; own contribution for specific products, transaction types,
- development of principles of approving credit decisions and management of credit approval competencies,
- management of the principles relating to:
  - determination of risk measures applying risk models used at the Bank,
  - verification of timely repayments,
  - client economic and financial situation monitoring,
  - monitoring of compliance with contractual terms and conditions by clients,
  - monitoring of other defined warning signals,
  - acceptance and monitoring of collateral accepted by the Bank,
  - utilisation and monitoring of limits approved by the Bank.
- rules of establishing impairment allowances to credit exposures and provisions for off-balance sheet liabilities,
- management of credit risk of portfolio clients at Stage 3.

In the process of underwriting and managing individual credit exposures, the following actions are executed:

- client and transaction risk assessment,
- approving credit decisions,
- monitoring,
- restructuring and collection.

Client and transaction risk assessment

The major elements in the assessment process of client and transaction credit risk include:

- assessment of clients' creditworthiness

  The Bank reviews clients' creditworthiness by:

  - verifying compliance with minimum criteria,
  - Determining clients' rating or score in the rating or scoring process respectively.

  Measurement of clients' risk in the rating or scoring process relies on an estimated PD (probability of default). Financing may be provided to clients when a rating or a score is determined at a pre-determined minimum level for each client type, credit process or product.

  Review of creditworthiness of corporate clients in the rating process is made on the basis of:

  - the rating assigned to the entity applying for credit exposure, providing collateral (e.g. surety, guarantee) and other entities if so required by the nature of collateral or transaction (e.g. debtors of receivables assigned to the Bank),
  - the "four-eye principle", that is:
    - commercial functions are separated from the rating approval functions that are performed by the CRO Risk Division units, or
    - the operating principles of automatic rating models approved by the Credit Policy Committee.

  Review of creditworthiness of retail clients is made on the basis of:

  - scoring,
  - analysis of history of repayment of obligations to the Bank and other financial institutions,
  - features of the borrowers that have material impact on compliance with the existing credit obligations (quality analysis), e.g.:
    - client's personal features: age, marital status, number of persons maintained, housing and financial status, education, employment history, form of employment, profession pursued, etc.,
    - history of the client's cooperation with the Bank: period of cooperation and history of account maintenance.

  The Bank applies scoring models (application, behavioural models and BIK scoring) reflecting the client's statistical risk level. The applied clients' creditworthiness review models are subject to regular monitoring and validation to ensure good quality of the tools.

- review of creditworthiness (quantitative assessment)

  Creditworthiness is reviewed by identifying the source of repayment and the amount and stability thereof throughout the lending process. This is an assessment of repayment potential by the clients of their credit exposures in the specified amounts, times and subject to terms and conditions determined by the Bank. The clients' potential is subject to a review of clients' creditworthiness in the rating and scoring process. The review of creditworthiness also provides for the FX risk and interest rate risk to which the debtors are exposed.

The analysis of creditworthiness of corporate clients and enterprises may cover the following areas:

- clients' shareholding structure,
- the sector of their business,
- business and investment strategy,
- market position,
- sales markets and suppliers,
- financial analysis, including financial projections,
- identification and assessment of repayment sources,
- financial position versus comparable entities in the sector,
- factors from the global, macroeconomic, regional and sectoral environment existing now and that may exert material impact in the future on the company's financial condition in the future.

The analysis of individual clients' creditworthiness covers:

- determination of the amount and stability of the generated income (quantitative analysis),
- determination of the amount of the clients' financial obligations (credit and non-credit),
- identification of the amount of expenditures of households.

In the assessment of creditworthiness, financial measures are used based on mathematical formulas.

- assessment of collateral

  The Bank applies collateral to mitigate credit risk and the amount of losses that may be suffered when clients' default on loan repayment. Before collateral is accepted, the Bank assesses the collateral and its value and effectiveness.

  Apart from classic forms of collateral (material and personal), the Bank applies additional instruments to mitigate the risk of loss in the form of contractual conditions and clauses.

  In order to calculate the capital requirement, the Bank applies the approved LGD models in which each collateral is assigned with an adequate recovery rate. Is the Bank's policy to grant loans in amounts and subject to terms and conditions that ensure regular repayments without the need to resort to collateral.

- transactional risk assessment.

  Assessing transactions, the Bank takes the following into account:

  - results of the clients' creditworthiness and credit reliability,
  - compliance with credit policy,
  - purpose of lending,
  - adequacy of the requested product,
  - other risks such as:
    - business risks – macroeconomic, market, sectoral, seasonal risks,
    - structural risks – transaction structure, values of LTV and LGD, client's own contribution (if required), effectiveness of clauses, Bank's position versus other lenders,
    - management staff – employment history, experience, substitution risk of decision makers and succession risk,
    - financial risks – including FX and interest rate risks,
    - concentration risk – is the requested growth of exposure related to the utilisation of a limit set internally by the Bank,

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

  - reputational risk – can cooperation with the client adversely affect the Bank's reputation.
- relation of risk level to pricing conditions, etc.

Maximum recognisable amount of collateral or guarantee

The Bank uses the following types of collateral: financial resources (a deposit with the Bank or another bank), liquid securities, real estate, means of transport, receivables, machinery and equipment, inventories, intangible assets and other collaterals.

The value of collateral on credit exposures in Stage 3 in the amount not exceeding the balances of individual loans as at December 31, 2020 was PLN 662.6 million compared to PLN 636.4 million at the end of 2019.

2020

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	**35,329.2**	**19,125.0**	**200.5**	**4,157.3**	**4,795.0**
other financial institutions	0.0	0.0	0.0	412.5	472.7
non-financial entities	117.6	17,051.9	195.5	3,348.9	3,932.0
households	35,211.6	2,068.7	4.3	395.9	389.8
including: loans to purchase residential properties	33,326.6	477.8	0.1	0.0	0.0
other entities (banks, budgetary sector)	0.0	4.4	0.7	0.0	0.5

2019

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	**30,302.1**	**18,309.0**	**140.3**	**4,538.5**	**4,182.1**
other financial institutions	0.0	0.0	0.0	327.5	713.0
non-financial entities	154.4	16,064.5	129.2	3,800.7	3,255.6
households	30,147.7	2,238.3	11.1	410.1	210.6
including: loans to purchase residential properties	28,091.6	436.0	0.2	0.0	0.0
other entities (banks, budgetary sector)	0.0	6.2	0.0	0.2	2.9

Taking credit decisions

The authority to take credit decisions to accept risk of individual credit exposures is set by the Credit Policy Committee. If data is missing to assess risk, the application will not be approved and no decision will be taken.

Exposures for lower amounts, shorter terms, exposed to lower risk, are accepted at lower authority levels. Along with growing credit risk – that is a growth of individual or joint credit exposure, extension of the lending term, occurrence of non-standard elements in the application or deviations from the applicable internal regulations – the relevant decisions are taken at higher levels of credit authority.

Risk assessment and approval is based on expert judgment relying on the results of risk measurement made with supporting tools as specified in the credit policy and procedures. The following exceptions apply: automatic decisions approved by the IT system or semi-automatic decisions taken within simplified credit process paths.

Credit decisions are taken along with an adequate path on the basis of a comprehensive transaction risk analysis subject to transaction complexity and amount. With respect to paths with a higher automation level, the analysis of transaction list is based on clearly defined criteria, including behavioural criteria, and on an automatic calculation of the credit limit on the basis of an algorithm approved by the Credit Policy Committee.

Credit decisions for portfolios in Stage 1 and 2 (excluding automation) are taken:

- collectively by the Bank's Credit Committee or Restructuring Committee – this applies to the largest credit exposures,
- by two persons – by business units and units responsible for transactional credit risk,
- by one person – by the Risk Manager for small credit exposures.

The mode of decision taking does not release any participant from their personal responsibility for the approved decisions.

Credit decision takers in the two-person approval mode are attributed individual personal credit authority with the amount subject to their knowledge and experience. Competence levels are correlated with the credit risk level. With a higher credit risk, credit decisions are taken by more experience persons. The principles of granting and revoking credit authority are separate for specific client segments. When setting an adequate level of credit authority for corporate clients, the Bank's total exposure to the client's group of related entities is taken into account; in case of natural persons or sole proprietorships – the authority level depends on the Bank's total exposure to the client. All transactions are underwritten in compliance with clearly defined decision rules and credit authority.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

Monitoring

Monitoring applies to all credit exposures generating credit risk, including concentration risk and transactions in financial markets. The objective of monitoring is to identify early warning signals to prevent the occurrence of non-performing loans and to identify early impairment indications or evidence so that the Bank can take appropriate mitigation actions. The monitoring of approved credit exposures includes:

- history of repayments to the Bank (timely repayments),
- compliance by the client with other contractual terms and conditions,
- client's financial and/or economic condition,
- application of the funding in compliance with the financing goal (if specified),
- progress of investment (in case of investment loans),
- verification of warning signals concerning the client or transaction,
- occurrence of objective impairment evidence or indications,
- periodic review of the quality and value of collateral.

Restructuring and collection

The Bank provides supports to its clients at each stage of financing. The Bank offers products suited to their needs; should delays occur in repayment, the Bank proposes flexible repayment schedules. In case of more serious problems in repayment, the Bank may offer to restructure the debt. Then, jointly with the client, the Bank sets the best form of support or a settlement.

The main objective of the actions taken in the portfolio in Stage 3 is to mitigate the risk of losses to the Bank or the volume of such losses.

The Bank applies the following strategies in the portfolio in Stage 3:

- debt restructuring – in cooperation with the client which in particular may consist in modifications to contractual terms and conditions in order to adapt debt repayment to the client's financial potential, e.g.:
  - extension of the repayment period,
  - sales of assets,
  - sales of a part of the borrower's business,
  - remission of a part of financial obligations.

  Decisions to open restructuring are taken after a detailed review and approval by the competent decision-taking body of the Bank. After a successful restructuring process, the borrower is again subject to standard monitoring procedures of credit risk.
- debt collection – enforcement by the Bank of its receivables from the provided collateral or other property of the client or the property of other obliged third persons. The Bank may claim its receivables by initiating enforcement procedures or by participating in bankruptcy proceedings; in case of retail clients – by way of amicable collection: offering the clients voluntary repayment as a part of collection strategy.

Forbearance

Forbearance occurs when the Bank determines that the client is not able to comply with their financial obligations due to financial difficulties (identified or expected within a short time) and decides to grant forbearance.
Forbearance is identified if all of the following conditions are satisfied:

- problems have been identified with the repayment of financial obligations by the client or the Bank anticipates such difficulties in the near future,
- The Bank has decided to grant forbearance to the client with difficulties in order to facilitate repayment by the borrower or to prevent the occurrence of such difficulties in repayment,
- forbearance is not provided under commercial reasons and is granted under terms and conditions deviating from market conditions,
- the client has accepted forbearance, i.e. the existing terms and conditions of the agreement have been amended, a refinancing agreement has been concluded or an embedded forbearance clause has come into effect, or the Bank has waived undertaking actions in a situation of a material default by the client on a key financial clause.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Split of the credit portfolio into performing or non-performing portfolios with details of exposures with forbearance

2020	Performing exposures	including forbearance				Non-performing exposures	including forbearance				
			Modification of terms and conditions	Refinancing	Quarantine*			Modification of terms and conditions	Refinancing	Overdue portfolio	Impaired portfolio
Gross loan portfolio, of which:	**103,310.4**	**1,058.2**	**1,058.0**	**0.2**	**1,057.7**	**3,469.5**	**1,381.7**	**1,377.2**	**4.5**	**1,381.7**	**1,381.7**
Corporate banking, of which:	**63,166.9**	944.5	944.3	0.2	944.1	**2,419.5**	1,065.2	1,060.7	4.5	1,065.2	1,065.2
loans in the current account	**11,582.4**	88.2	88.2	0.0	88.2	**711.8**	207.4	207.0	0.4	207.4	207.4
term loans and advances	**48,592.2**	856.3	856.1	0.2	855.9	**1,707.7**	857.8	853.7	4.1	857.8	857.8
corporate and municipal debt securities	**2,992.3**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**40,143.5**	113.7	113.7	0.0	113.6	**1,050.0**	316.5	316.5	0.0	316.5	316.5
mortgages	**32,942.2**	61.0	61.0	0.0	61.0	**319.9**	176.2	176.2	0.0	176.2	176.2
loans in the current account	**602.6**	2.4	2.4	0.0	2.3	**52.4**	3.1	3.1	0.0	3.1	3.1
other loans and advances	**6,598.7**	50.3	50.3	0.0	50.3	**677.7**	137.2	137.2	0.0	137.2	137.2
Impairment for expected credit losses, including:	**-687.6**	**-42.7**	**-42.7**	**-0.1**	**-42.7**	**-2,300.1**	**-691.9**	**-688.0**	**-4.0**	**-691.9**	**-691.9**
Corporate banking, of which:	**-371.8**	-33.8	-33.8	-0.1	-33.8	**-1,550.7**	-530.5	-526.6	-4.0	-530.5	-530.5
loans in the current account	**-62.9**	-2.0	-2.0	0.0	-2.0	**-504.9**	-118.1	-117.9	-0.3	-118.1	-118.1
term loans and advances	**-308.3**	-31.8	-31.8	-0.1	-31.8	**-1,045.8**	-412.4	-408.7	-3.7	-412.4	-412.4
corporate and municipal debt securities	**-0.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**-315.8**	-8.9	-8.9	0.0	-8.9	**-749.4**	-161.4	-161.4	0.0	-161.4	-161.4
mortgages	**-91.9**	-4.3	-4.3	0.0	-4.3	**-165.5**	-77.1	-77.1	0.0	-77.1	-77.1
loans in the current account	**-20.0**	-0.1	-0.1	0.0	-0.1	**-40.7**	-2.1	-2.1	0.0	-2.1	-2.1
other loans and advances	**-203.9**	-4.5	-4.5	0.0	-4.5	**-543.2**	-82.2	-82.2	0.0	-82.2	-82.2
Net loan portfolio, of which:	**102,622.8**	**1,015.5**	**1,015.3**	**0.1**	**1,015.0**	**1,169.4**	**689.8**	**689.2**	**0.5**	**689.8**	**689.8**
Corporate banking, of which:	**62,795.1**	910.7	910.5	0.1	910.3	**868.8**	534.7	534.1	0.5	534.7	534.7
loans in the current account	**11,519.5**	86.2	86.2	0.0	86.2	**206.9**	89.3	89.1	0.1	89.3	89.3
term loans and advances	**48,283.9**	824.5	824.3	0.1	824.1	**661.9**	445.4	445.0	0.4	445.4	445.4
corporate and municipal debt securities	**2,991.7**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**39,827.7**	104.8	104.8	0.0	104.7	**300.6**	155.1	155.1	0.0	155.1	155.1
mortgages	**32,850.3**	56.7	56.7	0.0	56.7	**154.4**	99.1	99.1	0.0	99.1	99.1
loans in the current account	**582.6**	2.3	2.3	0.0	2.2	**11.7**	1.0	1.0	0.0	1.0	1.0
other loans and advances	**6,394.8**	45.8	45.8	0.0	45.8	**134.5**	55.0	55.0	0.0	55.0	55.0

*) the Quarantine class includes those exposures to which forbearance was applied in the past and which are now in the watch process before complete return to performing loans.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019	Performing exposures	including forbearance				Non-performing exposures	including forbearance				
			Modification of terms and conditions	Refinancing	Quarantine*			Modification of terms and conditions	Refinancing	Overdue portfolio	Impaired portfolio
Gross loan portfolio, of which:	**99,605.6**	**438.1**	**376.1**	**0.4**	**438.1**	**2,882.4**	**684.0**	**677.3**	**6.6**	**677.4**	**677.4**
Corporate banking, of which:	**62,928.3**	314.1	313.7	0.4	314.1	**2,264.8**	604.9	598.2	6.6	557.0	557.0
loans in the current account	**13,315.6**	31.3	31.3	0.0	31.3	**732.8**	63.5	63.0	0.4	63.5	63.5
term loans and advances	**47,108.1**	282.8	282.4	0.4	282.8	**1,532.0**	541.4	535.2	6.2	493.5	493.5
corporate and municipal debt securities	**2,504.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**36,677.3**	124.0	62.4	0.0	124.0	**617.6**	79.1	79.1	0.0	120.4	120.4
mortgages	**29,512.2**	83.2	49.8	0.0	83.2	**194.1**	49.8	49.8	0.0	45.5	45.5
loans in the current account	**608.1**	2.6	2.6	0.0	2.6	**37.1**	2.6	2.6	0.0	2.5	2.5
other loans and advances	**6,557.0**	38.2	10.0	0.0	38.2	**386.4**	26.7	26.7	0.0	72.4	72.4
Impairment for expected credit losses, including:	**-520.3**	**-16.8**	**-16.7**	**-0.1**	**-16.8**	**-1,740.3**	**-338.9**	**-334.2**	**-4.7**	**-337.8**	**-337.8**
Corporate banking, of which:	**-201.0**	-9.5	-9.4	-0.1	-9.5	**-1,303.7**	-293.5	-288.8	-4.7	-256.7	-256.7
loans in the current account	**-42.8**	-0.5	-0.5	0.0	-0.5	**-473.0**	-30.6	-30.4	-0.2	-30.6	-30.6
term loans and advances	**-157.6**	-9.0	-8.9	-0.1	-9.0	**-830.7**	-262.9	-258.4	-4.5	-226.1	-226.1
corporate and municipal debt securities	**-0.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**-319.3**	-7.3	-7.3	0.0	-7.3	**-436.6**	-45.4	-45.4	0.0	-81.1	-81.1
mortgages	**-70.2**	-4.0	-4.0	0.0	-4.0	**-100.1**	-25.4	-25.4	0.0	-24.7	-24.7
loans in the current account	**-22.4**	-0.1	-0.1	0.0	-0.1	**-26.3**	-1.4	-1.4	0.0	-1.4	-1.4
other loans and advances	**-226.7**	-3.2	-3.2	0.0	-3.2	**-310.2**	-18.6	-18.6	0.0	-55.0	-55.0
Net loan portfolio, of which:	**99,085.3**	**421.3**	**359.4**	**0.3**	**421.3**	**1,142.1**	**345.1**	**343.1**	**1.9**	**339.6**	**339.6**
Corporate banking, of which:	**62,727.3**	304.6	304.3	0.3	304.6	**961.1**	311.4	309.4	1.9	300.3	300.3
loans in the current account	**13,272.8**	30.8	30.8	0.0	30.8	**259.8**	32.9	32.6	0.2	32.9	32.9
term loans and advances	**46,950.5**	273.8	273.5	0.3	273.8	**701.3**	278.5	276.8	1.7	267.4	267.4
corporate and municipal debt securities	**2,504.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	**36,358.0**	116.7	55.1	0.0	116.7	**181.0**	33.7	33.7	0.0	39.3	39.3
mortgages	**29,442.0**	79.2	45.8	0.0	79.2	**94.0**	24.4	24.4	0.0	20.8	20.8
loans in the current account	**585.7**	2.5	2.5	0.0	2.5	**10.8**	1.2	1.2	0.0	1.1	1.1
other loans and advances	**6,330.3**	35.0	6.8	0.0	35.0	**76.2**	8.1	8.1	0.0	17.4	17.4

*) the Quarantine class includes those exposures to which forbearance was applied in the past and which are now in the watch process before complete return to performing loans

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Exposures with approved forbearance by risk classes

	2020				2019			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	**944.5**	**155.5**	**1,065.2**	**64.3**	**314.1**	**26.6**	**604.9**	**25.9**
low risk classes (rating 1-10)	1.3	0.0	0.0	0.0	0.0	1.0	0.0	0.0
medium and high risk classes (rating 11-17)	794.4	148.7	0.0	0.0	245.4	21.2	6.4	0.0
problem risk classes (rating 18-22)	148.8	6.8	1,065.2	64.3	68.7	4.4	598.5	25.9
Retail banking	**113.7**	**0.1**	**316.5**	**0.0**	**124.0**	**0.0**	**79.1**	**0.0**
low risk classes (rating 1-10)	25.5	0.1	0.0	0.0	44.7	0.0	0.0	0.0
medium and high risk classes (rating 11-17)	73.2	0.0	0.3	0.0	70.7	0.0	1.0	0.0
problem risk classes (rating 18-22)	15.0	0.0	316.2	0.0	8.6	0.0	78.1	0.0
Total (gross)	**1,058.2**	**155.6**	**1,381.7**	**64.3**	**438.1**	**26.6**	**684.0**	**25.9**

Exposures with approved forbearance by overdue periods

	2020				2019			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	**944.5**	**155.5**	**1,065.2**	**64.3**	**314.1**	**26.6**	**604.9**	**25.9**
0	937.6	155.5	324.0	64.3	301.0	26.6	248.7	25.9
1-30	4.3	0.0	47.4	0.0	5.9	0.0	6.1	0.0
31-60	2.2	0.0	14.2	0.0	2.8	0.0	11.6	0.0
61-90	0.4	0.0	81.5	0.0	4.4	0.0	13.1	0.0
91-180	0.0	0.0	33.9	0.0	0.0	0.0	36.4	0.0
181-365	0.0	0.0	53.1	0.0	0.0	0.0	59.2	0.0
>365	0.0	0.0	511.1	0.0	0.0	0.0	229.8	0.0
Retail banking	**113.7**	**0.1**	**316.5**	**0.0**	**124.0**	**0.0**	**79.1**	**0.0**
0	108.9	0.1	245.3	0.0	96.9	0.0	30.5	0.0
1-30	4.0	0.0	19.0	0.0	22.8	0.0	9.7	0.0
31-60	0.5	0.0	6.8	0.0	3.6	0.0	7.1	0.0
61-90	0.3	0.0	2.4	0.0	0.7	0.0	3.5	0.0
91-120	0.0	0.0	1.5	0.0	0.0	0.0	1.8	0.0
121-150	0.0	0.0	1.6	0.0	0.0	0.0	0.8	0.0
151-180	0.0	0.0	0.9	0.0	0.0	0.0	1.3	0.0
>180	0.0	0.0	39.0	0.0	0.0	0.0	24.4	0.0
Total (gross)	**1,058.2**	**155.6**	**1,381.7**	**64.3**	**438.1**	**26.6**	**684.0**	**25.9**

In the profit and loss account for 2020, the item Interest income – interest on loans and other receivables from clients, contains interest income on exposures with forbearance of PLN 66.6 million (PLN 38.3 million for 2019), of which PLN 33.2 million relates to exposures in the performing portfolio and PLN 33.4 million relates to exposures in the non-performing portfolio (for 2019 – PLN 20.4 million and PLN 17.9 million respectively).

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Exposures covered by aid tools due to COVID-19

In connection with the Covid-19 pandemic, the Bank made the following assistance tools available to its clients:

- non-statutory moratorium, i.e. tools resulting from the banks' position regarding the unification of the rules for offering support tools for banking sector clients (non-statutory moratorium within the meaning of the guidelines of the European Banking Authority - EBA),
- the so-called statutory moratorium, i.e. support under Shield 4.0.,
- loan guarantees for corporate clients under the Portfolio Guarantee Line from the Liquidity Guarantee Fund.

The introduced moratorium significantly improved the financial condition of borrowers. The total value of loans to households with an active moratorium as at the end of 2020 amounted to PLN 212.3 million (which is about 5.6% of all moratoriums granted to households in 2020). Non-statutory moratorium meeting the EBA guidelines were classified to Stage 1, the remaining, depending on individual assessment, to Stage 2 or 3. Statutory moratorium, due to the identified loss of the main source of income, were classified to Stage 3.

In the corporate segment, due to the lack of statutory moratorium, only non-statutory moratorium were available. With regard to non-financial enterprises, the gross balance sheet value of active moratorium at the end of 2020 was PLN 14.3 million. This accounted for 0.6% of the value of moratorium granted in 2020. Non-statutory moratorium meeting the EBA guidelines were classified under Stage 1.

As part of the support for entrepreneurs, loans and advances covered by public guarantee programs with a gross carrying amount of PLN 2,830.7 million were also granted.

Loans and advances subject to statutory and non-statutory moratorium

	Gross carrying amount				Write-off for expected credit losses			
		Operated		Non-operated		Operated		Non-operated
			including: instruments for which there has been a significant increase in credit risk since their initial recognition, but which are not impaired due to credit risk (Stage 2)				including: instruments for which there has been a significant increase in credit risk since their initial recognition, but which are not impaired due to credit risk (Stage 2)	
Loans subject to moratorium	226.6	151.9	28.0	74.7	-35.0	-4.5	-3.1	-30.5
of which: households	212.3	139.5	26.4	72.8	-34.7	-4.3	-3.0	-30.4
of which: secured with residential property	115.4	72.0	10.6	43.4	-15.4	-1.0	-0.9	-14.4
of which: non-financial corporations	14.3	12.4	1.6	1.9	-0.2	-0.1	-0.1	-0.1
of which: small and medium-sized enterprises	14.3	12.4	1.6	1.9	-0.2	-0.1	-0.1	-0.1
of which: secured with commercial properties	12.5	10.6	0.0	1.9	-0.1	0.0	0.0	-0.1

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Breakdown of loans with statutory and non-statutory moratorium according to the residual date of the moratorium

	Number of debtors	Gross carrying amount			
			of which: statutory moratorium	of which: expired	residual moratorium term under 3 months
Loans on which a moratorium has been proposed	39,438	6,353.9			
Loans subject to moratorium (granted)	39,438	6,353.9	159.4	6,127.3	226.6
of which: households		3,800.0	159.4	3,587.7	212.3
of which: secured with residential property		1,914.7	99.4	1,799.3	115.4
of which: non-financial corporations		2,553.6	0.0	2,539.3	14.3
of which: small and medium-sized enterprises		2,553.6	0.0	2,539.3	14.3
of which: secured with commercial properties		2,274.3	0.0	2,261.8	12.5

7. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions as well as capitals and liquidity buffers.

The credit risk management system at the Bank is composed of the following:

- general rules governing management and mitigation of credit risk,
- RAS strategies and limits,
- policies, instructions and procedures relating to credit risk management,
- systems, tools and model relating to credit risk,
- a management reporting system that provides for risk level monitoring,
- an organisational structure that is adjusted to the size and profile of the credit risk that the Bank incurs.

The actions taken by the Bank within its risk management system may be as follows:

- risk avoidance – closing or restricting certain types of activity that generate too high risks or types of risks that may not be effectively controlled,
- risk mitigation – actions aimed at mitigating the likelihood of occurrence of disadvantageous events of mitigating the effects of such events,
- risk transfer – risk transfer in whole or in part to another entity, e.g. by insurance or securitisation of the credit portfolio,
- risk acceptance – refraining from taking the actions specified above due to economic or practical reasons, within the Bank's risk appetite.

Within its risk management system, the Bank applies its formalised:

- rules to determine the volume of undertaken risks and rules governing risk management,
- procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded,

Additionally, the Bank:

- applies the adopted management reporting system that provides for risk level monitoring,
- has an organisational structure in place that is adjusted to the size and profile of the risk that the Bank incurs,

- has an appropriately defined assessment and measurement process of credit risk, independent of the loan underwriting function, covering:
  - an effective rating system,
  - an effective process of acquiring information, including projections, used to assess expected credit losses,
  - an assessment policy ensuring that the estimation of expected credit losses is made with an individual or collective method,
  - an effective model validation process ensuring that the models keep generating accurate, consistent and objective projections and estimates,
  - clearly formulated, formal communication and coordination of actions of all employees involved in the process of risk assessment and estimation of anticipated credit losses.

The credit risk management system existing at the Bank, including its organisational structure, organisation of the credit process, the system of internal regulations, the applied tools and models, are subject to ongoing verification and adjustment in order to ensure the implementation of the Bank's strategy, including risk appetite. Thus, the Bank follows the objective of the adequacy of its actions relating to identification, assessment, measurement, monitoring and management of activity exposed to credit risk and to maintenance of consistency and compliance with regulatory requirements.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. The calculation of capital requirements for the corporate credit portfolio is performed on the basis of the Advanced IRB Approach. Also with respect to its retail portfolio the Bank intends to obtain PFSA's approval to apply the method for the portfolios of mortgage and consumer loans. The models applied by the Bank for risk management are regularly validated and developed.

The systems and models supporting the assessment of the clients' creditworthiness and credit reliability:

- corporate clients – are developed and monitored in compliance with the advanced approach to calculate capital requirements for credit risk and with the standards of the ING Group,
- retail clients – those are scoring models (application, behavioural models and BIK scoring) reflecting the statistical level of client risk, developed in compliance with the requirements set forth in supervisory regulations,

In its assessment of credit risk, the Bank uses the following models:

- PD (Probability of Default),
- LGD (Loss given Default),
- EAD (Exposure at Default).

The models are designed in compliance with the requirements set forth in supervisory regulations and are applied inter alia to determine the volume of provisions, economic capital for credit risk for internal and external reporting requirements, reporting to the supervisory authority, to determine loan pricing and client profitability. The effectiveness of the models is reviewed on the basis of monitoring and validation processes.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

8. Exposure portfolio structure

Exposures to clients by risk classes

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).

2020

risk class (risk rating)	Stage 1		Stage 2		Stage 3		POCI		**TOTAL**	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking										
low risk classes (rating 1-10)	30,299.9	20,554.6	186.0	1.8	0.0	0.0	0.0	0.0	**30,485.9**	**20,556.4**
medium and high risk classes (rating 11-17)	27,485.1	16,216.7	4,744.2	339.9	0.3	0.0	0.0	0.0	**32,229.6**	**16,556.6**
problem loan classes (rating 18-22)	1.0	64.3	454.3	14.2	2,414.3	110.0	1.3	0.0	**2,870.9**	**188.5**
Total Gross	**57,786.0**	**36,835.6**	**5,384.5**	**355.9**	**2,414.6**	**110.0**	**1.3**	**0.0**	**65,586.4**	**37,301.5**
impairment for expected credit losses	-172.3	-35.9	-200.1	-12.0	-1,550.1	-31.3	0.0	0.0	**-1,922.5**	**-79.2**
Net total	**57,613.7**	**36,799.7**	**5,184.4**	**343.9**	**864.5**	**78.7**	**1.3**	**0.0**	**63,663.9**	**37,222.3**
Retail banking										
low risk classes (rating 1-10)	30,929.9	3,612.1	520.8	3.2	0.0	0.0	0.0	0.0	**31,450.7**	**3,615.3**
medium and high risk classes (rating 11-17)	7,181.8	626.2	1,200.8	43.6	0.0	0.0	1.8	0.0	**8,384.4**	**669.8**
problem loan classes (rating 18-22)	0.0	0.1	318.4	0.8	1,039.6	2.9	0.4	0.0	**1,358.4**	**3.8**
Total Gross	**38,111.7**	**4,238.4**	**2,040.0**	**47.6**	**1,039.6**	**2.9**	**2.2**	**0.0**	**41,193.5**	**4,288.9**
impairment for expected credit losses	-140.5	-2.8	-177.5	-2.4	-747.2	-2.5	0.0	0.0	**-1,065.2**	**-7.7**
Net total	**37,971.2**	**4,235.6**	**1,862.5**	**45.2**	**292.4**	**0.4**	**2.2**	**0.0**	**40,128.3**	**4,281.2**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

risk class (risk rating)	Stage 1		Stage 2		Stage 3		POCI		TOTAL	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking										
low risk classes (rating 1-10)	32,143.8	17,416.6	181.2	20.1	0.1	0.0	0.0	0.0	**32,325.1**	**17,436.7**
medium and high risk classes (rating 11-17)	27,356.7	13,802.5	2,900.4	161.2	13.1	1.5	0.0	0.0	**30,270.2**	**13,965.2**
problem loan classes (rating 18-22)	1.4	80.7	348.7	6.8	2,246.2	90.2	1.5	0.0	**2,597.8**	**177.7**
Total Gross	**59,501.9**	**31,299.8**	**3,430.3**	**188.1**	**2,259.4**	**91.7**	**1.5**	**0.0**	**65,193.1**	**31,579.6**
impairment for expected credit losses	-62.8	-20.8	-138.6	-11.9	-1,303.3	-65.9	0.0	0.0	**-1,504.7**	**-98.6**
Net total	**59,439.1**	**31,279.0**	**3,291.7**	**176.2**	**956.1**	**25.8**	**1.5**	**0.0**	**63,688.4**	**31,481.0**
Retail banking										
low risk classes (rating 1-10)	26,958.8	3,598.9	823.1	29.9	0.0	0.0	0.0	0.0	**27,781.9**	**3,628.8**
medium and high risk classes (rating 11-17)	6,064.8	416.9	2,417.2	103.2	0.0	0.0	0.0	0.0	**8,482.0**	**520.1**
problem loan classes (rating 18-22)	0.0	0.5	423.0	1.1	608.0	1.1	0.0	0.0	**1,031.0**	**2.7**
Total Gross	**33,023.6**	**4,016.3**	**3,663.3**	**134.2**	**608.0**	**1.1**	**0.0**	**0.0**	**37,294.9**	**4,151.6**
impairment for expected credit losses	-53.7	-1.6	-267.4	-5.8	-434.8	-1.3	0.0	0.0	**-755.9**	**-8.7**
Net total	**32,969.9**	**4,014.7**	**3,395.9**	**128.4**	**173.2**	**-0.2**	**0.0**	**0.0**	**36,539.0**	**4,142.9**

Exposures to clients by DPD

2020

number of days past due	Stage 1		Stage 2		Stage 3		POCI		TOTAL	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking										
0	57,657.0	36,835.6	5,265.6	355.9	386.2	110.0	1.3	0.0	**63,310.1**	**37,301.5**
1-30	125.3	0.0	76.4	0.0	63.9	0.0	0.0	0.0	**265.6**	**0.0**
31-60	2.2	0.0	22.7	0.0	21.6	0.0	0.0	0.0	**46.5**	**0.0**
61-90	1.2	0.0	19.8	0.0	89.8	0.0	0.0	0.0	**110.8**	**0.0**
91-180	0.0	0.0	0.0	0.0	75.6	0.0	0.0	0.0	**75.6**	**0.0**
181-365	0.0	0.0	0.0	0.0	159.8	0.0	0.0	0.0	**159.8**	**0.0**
>365	0.3	0.0	0.0	0.0	1,617.7	0.0	0.0	0.0	**1,618.0**	**0.0**
Total Gross	**57,786.0**	**36,835.6**	**5,384.5**	**355.9**	**2,414.6**	**110.0**	**1.3**	**0.0**	**65,586.4**	**37,301.5**
Retail banking										
0	38,061.6	4,238.4	1,888.2	47.6	317.6	2.9	1.9	0.0	**40,269.3**	**4,288.9**
1-30	49.4	0.0	106.0	0.0	38.2	0.0	0.3	0.0	**193.9**	**0.0**
31-60	0.6	0.0	23.7	0.0	16.0	0.0	0.0	0.0	**40.3**	**0.0**
61-90	0.1	0.0	22.1	0.0	11.8	0.0	0.0	0.0	**34.0**	**0.0**
91-180	0.0	0.0	0.0	0.0	48.1	0.0	0.0	0.0	**48.1**	**0.0**
181-365	0.0	0.0	0.0	0.0	94.9	0.0	0.0	0.0	**94.9**	**0.0**
>365	0.0	0.0	0.0	0.0	513.0	0.0	0.0	0.0	**513.0**	**0.0**
Total Gross	**38,111.7**	**4,238.4**	**2,040.0**	**47.6**	**1,039.6**	**2.9**	**2.2**	**0.0**	**41,193.5**	**4,288.9**

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

number of days past due	Stage 1		Stage 2		Stage 3		POCI		**TOTAL**	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking										
0	59,435.9	31,299.8	3,248.3	188.1	465.1	91.4	1.5	0.0	**63,150.8**	**31,579.3**
1-30	65.9	0.0	103.7	0.0	86.6	0.0	0.0	0.0	**256.2**	**0.0**
31-60	0.0	0.0	58.6	0.0	65.1	0.0	0.0	0.0	**123.7**	**0.0**
61-90	0.0	0.0	18.7	0.0	35.3	0.0	0.0	0.0	**54.0**	**0.0**
91-180	0.0	0.0	0.8	0.0	216.2	0.0	0.0	0.0	**217.0**	**0.0**
181-365	0.0	0.0	0.1	0.0	341.2	0.0	0.0	0.0	**341.3**	**0.0**
>365	0.1	0.0	0.1	0.0	1,049.9	0.3	0.0	0.0	**1,050.1**	**0.3**
Total Gross	**59,501.9**	**31,299.8**	**3,430.3**	**188.1**	**2,259.4**	**91.7**	**1.5**	**0.0**	**65,193.1**	**31,579.6**
Retail banking										
0	32,818.6	4,014.1	2,890.8	134.0	56.8	1.1	0.0	0.0	**35,766.2**	**4,149.2**
1-30	205.1	2.2	607.4	0.1	26.6	0.0	0.0	0.0	**839.0**	**2.3**
31-60	0.0	0.0	119.1	0.1	21.8	0.0	0.0	0.0	**140.9**	**0.1**
61-90	0.0	0.0	43.5	0.0	18.8	0.0	0.0	0.0	**62.3**	**0.0**
91-180	0.0	0.0	1.7	0.0	74.5	0.0	0.0	0.0	**76.3**	**0.0**
181-365	0.0	0.0	0.3	0.0	124.8	0.0	0.0	0.0	**125.1**	**0.0**
>365	0.0	0.0	0.5	0.0	284.7	0.0	0.0	0.0	**285.2**	**0.0**
Total Gross	**33,023.6**	**4,016.3**	**3,663.3**	**134.2**	**608.0**	**1.1**	**0.0**	**0.0**	**37,294.9**	**4,151.6**

Loans and other receivables to other banks and debt securities

All debt securities in the portfolio of financial assets available for trading and in the portfolio of investment securities are classified in low-risk classes with ratings from 1 to 8. All debt securities in the portfolio of investment securities are classified in Stage 1.

Loans and other receivables due from other banks in over 99% are classified as low risk (rating 1-10), the remaining ones are medium and increased risk (rating 11-16). The exposures for PLN 2,674.7 million are fully in Stage 1.

III. Market risk

1. Introduction

The core objectives of credit risk management at ING Bank Śląski S.A. include: ensuring that awareness and understanding exists of the Bank's market risk exposure and that the exposure is adequately managed and falls within the approved limits when applicable. Market risk is defined as a potential loss that may be suffered by the Bank in connection with unfavourable changes to market prices (such as profitability curves, FX rate, prices in capital markets), market parameters (volatility of market prices, correlation between price changes) and client behaviour (e.g. loan prepayments).

2. Policy of market risk management

The market risk management process at the Bank covers risk identification, measurement, monitoring and reporting. The Market Risk Management Department (DZRR) provides managers of the Financial Market Division and the Group Treasury, selected members of the Management Board and ALCO with regular risk reports. Additionally, ALCO, the Bank's Management Board and Supervisory Board are provided with periodic reports with the major measures of market risk. The approval of individual market risk limits is carried out at the level of the ALCO committee, the Bank's Management Board or the Supervisory Board, in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy. Employees of the Market Risk Management Department are qualified specialists and the independence of the department is assured by its separation from the risk generating units.

Credit risk management in the Bank also includes the Product Control function which assures correct pricing of products of the Financial Markets and the Group Treasury by monitoring the adequacy of pricing models and quality control of market data used to the evaluation and calculation of financial results. Decisions related to the pricing process such as: sources of market data used for valuation, calculation of provisions concerning market pricing models, are taken by the Parametrisation Committee.

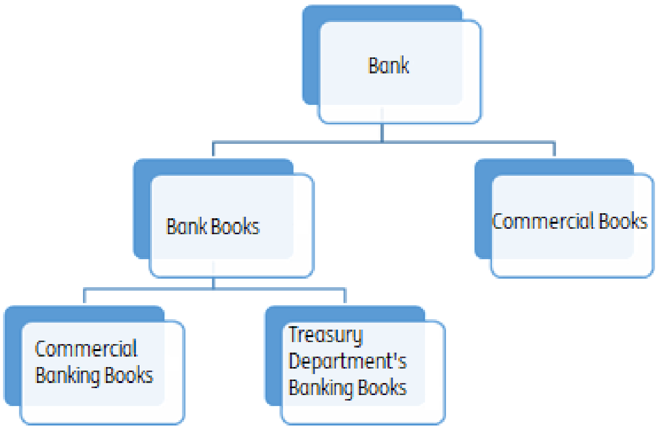
In the period under report, the market risk profile and the risk management methods were not materially changed.

3. Structure of the Bank's books and methods of risk management

The Bank maintains the structure of its books relying on intentions which is translated into multiple processes, including market risk management. The book structure reflects the types of market risk that are anticipated and accepted in the Bank's areas and of the fact that market risk should be internally transferred/mitigated. The books are grouped by an intention to maintain positions split into:

- "trading" (positions taken in order to generate benefits in a short period of time due to market price fluctuations), and
- "banking" (all other positions).

The overall structure of the Bank's books is as follows:



The Banking Books are split into Banking Commercial Books and Banking Books of the Group Treasury. The Banking Commercial Books include books of the retail and corporate divisions containing deposits and commercial loans. The risks relating to those positions are transferred to:

- banking books of the Group Treasury (for interest rate risk, base and liquidity risk), and
- commercial books of the Financial Markets Area (for FX risk) via internal transactions.

The process ensures that the banking commercial books do not retain any material economic market risk. However, as described in more detail further below, the short-term financial result in those books is sensitive to changes of market rates. The commercial activity of the subsidiary companies are included in the Bank's commercial books.

The Banking Books of the Group Treasury are books used to manage:

- the Bank's liquidity risk as a whole, and
- interest rate risk in the banking book.

Maintenance of open positions is permissible within the approved market risk limits:

- for the banking book - NIIaR (Net Interest Income at Risk), EVE (Economic Value of Equity), NPVaR (Net Present Value at Risk),
- for the trading book – VaR (Value at Risk), Slope risk (negative impact on the result caused by an uneven shift of the yield curve), CS01 (change in the market value of a security due to an increase in the credit spread), BPV (Basis Point Value),
- CS RRaR (Credit Spread Revaluation Reserve at Risk) – the measure shows the potential impact of changing credit spreads on the level of revaluation reserve,
- IR RRaR (Interest Rate Revaluation Reserve at Risk) – the measure shows the potential impact of changing interest rates on the level of revaluation reserve.

Hedge accounting is a tool supporting the management of interest rate risk in the banking book. The developed assumptions to the hedging strategy are applied consistently with the approach to market risk management within the approved market risk limits as described above. Detailed information on the assumptions underlying each strategy in hedge accounting are described in point 8.

Trading Books are the books of the Financial Markets Area: FX and interest rate books. The books embrace positions maintained for a short time in order:

- to be resold, or

- to obtain financial benefits on the current price fluctuations or expected within a short time,
- or positions opened for arbitration purposes.

4. Measurement of interest rate risk in the banking book

In its measurements of interest rate risk in its banking book, the Bank applies measures required by the European Banking Authority (EBA/GL/2018/02). The core measures are as follows:

- Net Interest Income at Risk – a measure of sensitivity of the reported results of positions recognised on an accrual basis on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- Net Present Value at Risk – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- net present value of discounted future flows at risk (Economic Value of Equity – EVE) – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes.

Additionally, the Bank measures in its banking books:

- option risk – potential losses on the positions resulting from premature deposit withdrawal and/or loan prepayment,
- residual risk – a potential loss on those positions resulting from the application of non-standard pricing mechanisms that are transferred to the Group Treasury managing interest rate risk.

The above risks have an immaterial status (potential losses account for a very negligible proportion in historic and projected results).
Due to the fact that the positions of the Group Treasury are usually subject to valuation at amortised cost, the Bank monitors BPV which limits economic risk of interest rate positions. Additionally, fluctuations of the revaluation reserve are restricted with CS01, IR RRaR and CS RRa limits.

5. Measurement of market risk in the trading book

The VaR measured by the Bank is compliant with the best market practices. In the calculation of VaR, the Bank applies the following assumptions:

- one-day positions, 99% confidentiality level,
- 260-day observation period.

In order to reinforce risk control, in the area of FX risk books the Bank has additionally implemented the measurement and monitoring of the risk in the context of the approved limits on intra-day basis.

The Bank calculates also Stressed VaR. Stressed VaR is a measure replicating the calculation of historic simulations with an assumption that the current portfolio is used for the measurement and historic market data from a continuous 12-month period characterised with major fluctuations of market parameters that are material for the portfolio.

Every six months, a general stress-test is performed covering inter alia market risk, liquidity risk and credit risk on the basis of a regulatory scenario and scenarios developed by the Bank's economists and approved by ALCO. Additionally, on a quarterly basis a stress test i held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

6. Sensitivity to the currency risk in the trading book

The tables below present VaR* (PLN thousand) for 2020 and 2019:

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Area	Limit	as at 31.12.2020	Medium	Min.	Max.
FX	1,845.9	512.6	194.7	9.7	748.0

Area	Limit	as at 31.12.2019	Medium	Min.	Max.
FX	1,958.4	121.6	127.9	28.5	305.0

*) All VaR limits and their utilisation at ING Bank Śląski S.A. are expressed in EUR. Limit levels and their utilisation were translated into PLN at NBP's daily fixing exchange rates specially for this document; the "limit" column the amounts calculated at the fixing FX rates are on the last day of the year.

7. Sensitivity of profit and equity to interest rate risk

The tables below present a review of the Bank's sensitivity to interest rate risk:

- banking book – the changes observed in the measurements both for NII and EVE result primarily from two factors:
  - changes (growth) of product volumes, and
  - changes to model parameters applied to determine the economic value of product portfolios without maturity.

  In connection with the reduction of interest rates by the Monetary Policy Council, the activation of the minimum level of zero on the client's price takes place in scenarios of falling interest rates (primarily 0% activation at the client's price for retail clients' savings accounts).
- market value of debt instruments classified HTC&S in the portfolio of the Group Treasury:
  - slight changes were observed to the sensitivity of the HTC&S portfolio versus the previous year. The portfolio BPV measure (short BPV position) has decreased from PLN 1.13 million to PLN 0.98 million.

The sensitivity of results to interest rate changes resulting from the banking book:

	changes to economic results with an amended curve		changes to the reported financial results with an amended curve	
	-2%	2%	-2% gradual	2% gradual
2020	512.3	-722.1	-443.9	143.0
2019	495.1	-1,438.8	-102.1	11.9

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

The table below presents sensitivity of net interest to changes in interest rate scenarios:

	changes to net interest income	
	2020	2019
parallel +125 bps	98.0	4.6
parallel -125 bps	-296.3	-43.5
growth of short-term interest rates	65.6	-8.1
drop of short-term interest rates	-199.7	-16.8
growth of long-term interest rates	52.7	11.9
drop of long-term interest rates	-7.9	-2.2
"twist" drop of short-term interest rates	-18.3	10.5
"twist" growth of short-term interest rates	18.4	0.7

The sensitivity of equity to changes of interest rates under HTC&S debt securities:

	approximate change in the regulatory capital base with a curve shift			
	-2%	-1%	+1%	+2%
2020	196.7	98.4	-98.4	-196.7
2019	225.5	112.7	-112.7	-225.5

8. Hedge accounting

Fair Value Hedge accounting

In fair value hedge accounting, the risk is equivalent to change in the fair value of a financial asset as a result of changes to interest rates. The hedge covers the fair value of debt instruments with a fixed interest rate that is a position (a part of position) in a security that is classified to a portfolio of assets kept to collect contractual cash flows or for sale (hereinafter: HTC&S) which at the time a hedge relationship is established holds a specific fair value recognised in other comprehensive income and a position (a part of position) in a security classified to a portfolio of financial assets kept to collect contractual cash flows (hereinafter: HTC).

For the needs of the strategy, the recognition of a part change to the fair value due to the hedged risk is made on the basis of valuation models relying on assumptions that are similar to those applicable to valuation models of interest rate derivative instruments. The valuation curves applied in the model are designed on the basis of market rates corresponding to repricing tenors of variable interest rates of hedging instruments.

Interest Rate Swap, swapping fixed interest rate into variable interest rate is the hedging instrument. The above shows that changes to the fair value of the hedging instrument manifest a trend that is opposite to changes of the fair value of the hedged position. In this connection, as a result of the established hedge relationship, the profit and loss account contains a compensating effect of changes to the fair value of the hedging instrument and the hedged position due to the hedged risk. In order to confirm the effectiveness of the strategy, the Bank carries out:

- prospective effectiveness test:
  - qualitative based on the maturity of the hedged item and the hedging instrument, and
  - quantitative based on the BPV (basis point value) ratio of the hedged item and a hedging instrument,
- retrospective effectiveness test as the quotient of changes in the hedging instrument measurement and changes in the measurement of the hedged item due to the risk being hedged.

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,

- mismatch resulting from the use of various valuation curves (that is: interest rate derivative instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- changes to credit risk constituting a valuation component to fair value of the hedged position from the HTC&S portfolio,
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type, as well as transactions forwarded for settlement on a daily basis via the Central Counterparty.

Since hedging covers only one type of risk (interest rate risk), changes to the fair value of the hedged position classified as HTC&S resulting from other unhedged risks are recognised as other comprehensive income.

From the viewpoint of economic relationships, the Bank's existing hedging strategies contain two types of hedge relationships:

- hedge of the fair value of securities in PLN with a fixed interest coupon classified as HTC&S with IRS transactions "pay fixed, collect variable", denominated in PLN,
- hedge of the fair value of securities in EUR with a fixed interest coupon classified as HTC with IRS transactions "pay fixed, collect variable", denominated in EUR.

The table below presents the fair values and nominal values of hedging and hedged instruments in fair value hedge accounting.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2020

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk	Cumulative part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity				
		Assets	**Liabilities**				**under 1 year**	**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	**0.0**	**44.6**	**-296.8**	-	-	**3,230.0**	**1,320.0**	**6,272.0**	**0.0**	**10,822.0**
settled via CCP		-	*16.5*	-311.8	-	-	*3,230.0*	*1,020.0*	*6,272.0*	-	*10,522.0*
Interest rate swaps (IRS PLN) fixed – float		-	16.5	-311.8	-	-	3,230.0	1,020.0	6,272.0	-	10,522.0
Interest rate swaps (IRS EUR) fixed – float		-	28.1	15.0	-	-	0.0	300.0	0.0	-	300.0
Hedged instruments, of which:		**11,744.9**	**0.0**	**444.7**	**441.2**	**18.8**	**3,230.0**	**1,320.0**	**6,272.0**	**0.0**	**10,822.0**
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	11,416.4	-	444.7	425.9	18.8	3,230.0	1,020.0	6,272.0	-	10,522.0
State Treasury bonds	Note 19	10,504.0	-	354.6	335.3	19.3	3,230.0	1,020.0	5,460.0	-	9,710.0
European Investment Bank bonds	Note 19	912.4	-	90.1	90.6	-0.5	-	-	812.0	-	812.0
Investment securities measure at amortised cost, including:	Investment securities	328.5	-	-	15.3	-	-	300.0	-	-	300.0
State Treasury bonds in EUR	Note 19	328.5	-	-	15.3	-	-	300.0	-	-	300.0
Instruments for which the hedging relationship was cancelled, of which:											
Investment securities measure at amortised cost, including:	Investment securities										
State Treasury bonds in EUR	Note 19	839.4	-	-	29.9	-	-	784.5	-	-	784.5

*) presented in the comprehensive income statement in the position: debt securities measured at fair value via other comprehensive income – profit / loss on revaluation recognised in equity

In its recognition of interest rate derivative instruments IRS/FRA, the Bank applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Bank cooperates. See Note 17 *Valuation of derivatives* for further information.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk	cumulative part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity				
		Assets	**Liabilities**				**under 1 year**	**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	**5.5**	**71.2**	**-26.2**	**-**	**-**	**696.3**	**5,201.8**	**4,687.0**	**335.0**	**10,920.1**
settled via CCP		*5.5*	*2.5*	*-73.7*	-	-	-	*4,925.0*	*4,687.0*	*335.0*	*9,947.0*
Interest rate swaps (IRS PLN) fixed – float		5.5	2.5	-73.7	-	-	-	4,925.0	4,687.0	335.0	*9,947.0*
Interest rate swaps (IRS EUR) fixed – float		-	68.7	47.6	-	-	696.3	276.8	-	-	*973.1*
Hedged instruments, of which:		**11,385.7**	**0.0**	**79.2**	**150.8**	**-36.3**	**711.2**	**5,201.8**	**4,687.0**	**335.0**	**10,935.0**
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	10,329.0	-	79.2	115.5	-36.3	-	4,925.0	4,687.0	335.0	9,947.0
State Treasury bonds	Note 19	9,473.0	-	45.9	71.7	-25.8	-	4,925.0	3,875.0	335.0	9,135.0
European Investment Bank bonds	Note 19	856.0	-	33.3	43.8	-10.5	-	-	812.0	-	812.0
Investment securities measure at amortised cost, including:	Investment securities	1,056.7	-	-	35.3	-	711.2	276.8	-	-	988.0
State Treasury bonds in EUR	Note 19	1,056.7	-	-	35.3	-	711.2	276.8	-	-	988.0
Instruments for which the hedging relationship was cancelled, of which:											
Investment securities measure at amortised cost, including:	Investment securities	1,393.9	-	-	60.0	-	574.9	723.9	-	-	1,298.8
State Treasury bonds in EUR	Note 19	1,393.9	-	-	60.0	-	574.9	723.9	-	-	1,298.8

*) presented in the comprehensive income statement in the position: debt securities measured at fair value via other comprehensive income – profit / loss on revaluation recognised in equity

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2020

		nominal value of instruments with remaining maturity							
		under 1 year		**1 to 3 years**		**3 to 8 years**		**over 8 years**	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	3,230.0	1.76%	1,020.0	1.73%	6,272.0	1.81%	-	-
	variable %		0.26%		0.25%		0.27%		-
Interest rate swaps (IRS EUR) fixed – float	fixed %	-	-	300.0	4.03%	-	-	-	-
	variable %		-		-0.51%		-		-

2019

		nominal value of instruments with remaining maturity							
		under 1 year		**1 to 3 years**		**3 to 8 years**		**over 8 years**	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	-	-	4,925.0	1.89%	4,687.0	2.25%	335.0	1.85%
	variable %		-		1.79%		1.79%		1.79%
Interest rate swaps (IRS EUR) fixed – float	fixed %	696.3	4.34%	276.8	4.03%	-	-	-	-
	variable %		-0.40%		-0.41%		-		-

Net interest on derivative hedging instruments is disclosed as *interest on securities measured at amortised cost* and *interest on securities measured through other comprehensive income* which presents net interest of positions hedged within the described strategy.

Measurements of hedging and hedged transactions are presented in the Bank's income statement as *Net (loss)/income on hedge accounting* in Note 6.

The split of the result of measurements of hedging and hedged transaction into individual hedging strategies is presented in the table below.

Type of economic relation	2020 changes to fair value used to review the effectiveness of the strategy		2020 ineffective part of the hedging relationship recognised in P&L	2019 changes to fair value used to review the effectiveness of the strategy		2019 ineffective part of the hedging relationship recognised in P&L
	hedged position	hedging instrument		hedged position	hedging instrument	
Hedging of debt securities in PLN	331.4	-311.8	19.6	78.3	-73.8	4.5
Hedging of debt securities in EUR	-14.7	15.0	0.3	-44.0	47.7	3.7
	316.7	**-296.8**	**19.9**	**34.3**	**-26.1**	**8.2**

Cash flow hedge accounting

The Bank applies hedge accounting principles for cash flows to a specified portfolio of assets / liabilities / highly probable planned financial transactions of the Bank (e.g. extrapolations of financial flows resulting from renewable deposits / overdraft facilities). The applied hedging strategies are aimed at hedging the Bank's exposures against the risk of changes to future cash flows resulting from interest rate risk. The Bank further applies a hedging strategy to its CHF or EUR indexed mortgage loan portfolios in order to hedge both interest rate and FX rate risks simultaneously.

The hedge applies to a specified portfolio of financial assets and/or liabilities or a portfolio of planned transactions that cover variable interest rate financial instruments (financial products based on WIBOR/ EURIBOR/LIBORCHF) and thus that are exposed to the risk of changes to future cash flows due to changes to market rates – WIBOR/EURIBOR, EURIBOR/LIBORCHF and – in the part of the portfolio denominated in CHF/EUR – exposed to FX risk due to changing FX rates.

For its strategy relating to calculations of changes to the fair value of future cash flows in the hedged portfolio, the Bank applies the method of a "hypothetical derivative" (being a method which provides for a possibility to reflect the hedged position and nature of the hedged risk in the form of a derivative instrument). The valuation principles are similar to the valuation principles of interest rate derivative instruments. Strategy effectiveness research also includes:

- prospective high-probability test of future cash flows,
- retrospective high-probability test of future cash flows confirming, on the basis of actual values, that the adopted model works correctly,
- retrospective test of homogeneity of the portfolio of the hedged item based on statistical analysis (regression method).

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves of the hedging instrument and the hypothetical derivative into PLN denominated positions (that is: interest rate derivative hedging instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type.

From the viewpoint of economic relationships, the Bank's existing hedging strategies contain the following types of hedge relationships:

- The hedging instrument for active positions in the interest rate risk hedging strategy is the position on the Interest Rate Swap of the "pay floating, receive the fixed" type, while the hedging instrument hedging the liability is the position on the Interest Rate Swap of the "pay fixed, receive variable" type and separate parts Currency Interest Rate Swaps that reflect Pay Fixed, Receive Variable Interest Rate Swaps.
- Identified parts of Currency Interest Rate Swaps that reflect the transactions: "pay variable in CHF/EUR, collect fixed in PLN" are the hedging instruments to assets in the strategies hedging both interest rate risk and FX risk.

Due to the fact that the hedged position covered with specific strategies keeps affecting the profit and loss account) (by measurement at amortised cost), net interest of the derivative instruments hedging the portfolio:

- of financial assets is presented as *interest on loans and other receivables granted to customers, measured at amortised cost,*
- of financial liabilities is presented as *interest on liabilities to customers.*

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

The table below presents the fair values and nominal values of hedged instruments in cash flow hedge accounting. Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

2020

	fair value		nominal value of instruments with remaining maturity				
	Assets	**Liabilities**	**under 1 year**	**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Cash flow hedges, of which:	**1,194.8**	**513.9**	**30,019.9**	**40,935.3**	**101,917.9**	**26,830.6**	**199,703.7**
settled via CCP	*258.7*	*125.4*	*26,393.8*	*37,141.4*	*93,477.8*	*26,830.6*	*183,843.6*
Interest rate swaps (IRS PLN) fixed – float	1,031.3	302.9	29,383.1	37,734.5	82,676.6	19,866.9	169,661.1
Interest rate swaps (IRS EUR) fixed – float	163.5	155.1	636.8	2,774.4	19,126.0	6,963.7	29,500.9
CIRS CHF/PLN (float-float)	0.0	55.9	-	-	-	-	-
float CHF	-	-	-	234.5	64.0	-	298.5
float PLN	-	-	-	191.9	51.3	-	243.2

2019

	fair value		nominal value of instruments with remaining maturity				
	Assets	**Liabilities**	**under 1 year**	**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Cash flow hedges, of which:	**846.1**	**474.8**	**17,565.2**	**34,841.0**	**56,914.1**	**22,737.5**	**132,057.8**
settled via CCP	*37.1*	*123.7*	*15,027.3*	*29,716.6*	*46,544.0*	*22,737.5*	*114,025.4*
Interest rate swaps (IRS PLN) fixed – float	675.0	284.1	16,200.8	32,247.1	46,652.5	18,253.3	113,353.7
Interest rate swaps (IRS EUR) fixed – float	171.1	152.4	1,291.2	2,406.1	9,931.7	4,484.2	18,113.2
CIRS CHF/PLN (float-float)	0.0	38.3	-	-	-	-	-
float CHF	-	-	39.2	98.0	176.5	0.0	313.7
float PLN	-	-	34.0	89.8	153.4	0.0	277.2

As at 31 December 2020, other comprehensive income discloses the amount of PLN 3,480.0 million (including tax) concerning the effective part of the hedging relationship in cash flow hedge accounting (PLN 1,534.6 million as at 31 December 2019). The ineffective part of the hedging relationship resulting from mismatch in compensating changes to the fair value of the hedging instrument and the hedged position disclosed in the profit and loss account in 2020 was PLN -8.4 million versus PLN -22.5 million in 2019.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Impact of the application of cash flow hedge accounting on profit and loss account and other comprehensive income

2020

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income and recognised in the profit and loss account	
	Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedging relationships	amortisation of the result of closed hedging strategy
Cash flow hedges, of which:	**1,194.8**	**513.9**	**2,394.8**	**-2,403.3**	**-8.4**	**759.9**	**1.6**
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	1,025.3	49.3	2,930.4	-2,940.5	-10.1	933.8	-
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	54.3	12.2	64.4	-64.0	0.4	46.5	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN including IRS transactions resulting from the decomposition of CIRS CHF / PLN and CIRS EUR / PLN transactions	6.0	277.5	-586.1	587.4	1.3	-208.2	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	109.2	142.9	-14.5	14.4	-	-12.8	0.9
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-	32.0	0.6	-0.6	0.0	0.6	-
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR	-	-	-	-	-	-	0.7

*) disclosed in the statement of financial position as *Derivative hedge instruments*
**) disclosed in the statement of financial position as *Accumulated other comprehensive income* and in Note 34.2. (the amount in the table does not include tax)
***) disclosed in the profit and loss account in the dedicated line item *Net (loss)/income on hedge accounting* and in Note 6.

2019

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income and recognised in the profit and loss account	
	Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedging relationships	amortisation of the result of closed hedging strategy
Cash flow hedges, of which:	**846.1**	**474.8**	**782.8**	**-783.7**	**-22.5**	**481.2**	**1.3**
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	660.4	132.9	746.6	-746.6	-25.6	515.0	-
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	63.8	11.6	70.8	-72.1	0.5	42.5	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN including IRS transactions resulting from the decomposition of CIRS CHF / PLN and CIRS EUR / PLN transactions	14.6	171.9	-17.1	17.1	2.7	-72.7	-
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	107.3	140.8	-22.0	22.5	-0.1	-11.5	1.0
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF		17.6	1.1	-1.1	-	4.8	-0.1
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR		-	3.5	-3.5	-	3.1	0.3

Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2020

		nominal value of instruments with remaining maturity							
		up to 1 year		**1 to 3 years**		**3 to 8 years**		**over 8 years**	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %	22,321.0	2.65%	27,474.5	2.60%	55,848.3	2.25%	17,240.0	1.59%
	variable %		0.26%		0.26%		0.26%		0.26%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	7,062.1	2.09%	10,260.0	2.14%	26,828.3	1.23%	2,626.9	1.22%
	variable %		0.26%		0.26%		0.26%		0.26%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	447.6	0.27%	2,193.0	0.54%	10,953.2	0.21%	5,154.7	-0.10%
	variable %		-0.52%		-0.54%		-0.53%		-0.53%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	350.7	0.31%	419.9	0.17%	8,172.8	0.76%	1,809.0	0.15%
	variable %		-0.44%		-0.47%		-0.42%		-0.46%
CIRS CHF/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in CHF and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in CHF	-	-	234.5	-0.71%	64.0	-0.66%	-	-
	variable % in PLN	-	-	191.9	0.26%	51.3	0.27%	-	-

2019

		nominal value of instruments with remaining maturity							
		up to 1 year		**1 to 3 years**		**3 to 8 years**		**over 8 years**	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %	6,189	2.24%	13,380	2.81%	31,692	2.66%	18,253	2.37%
	variable %		1.78%		1.79%		1.79%		1.79%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	1,736	2.26%	7,057	2.67%	4,518	2.73%	-	-
	variable %		1.79%		1.79%		1.79%		-
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	801	0.44%	1,082	0.28%	2,028	0.66%	1,908	0.25%
	variable %		-0.43%		-0.42%		-0.42%		-0.42%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	490	-0.06%	175	0.27%	119	0.95%	643	0.21%
	variable %		-0.34%		-0.37%		-0.35%		-0.38%
CIRS CHF/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in CHF and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in CHF	39.2	-0.62%	98.0	-0.70%	176.5	-0.68%	-	-
	variable % in PLN	34.0	1.79%	89.8	1.79%	153.4	1.79%	-	-

The periods in which the Bank expects the hedged cash flows in cash flow hedge accounting and thus which will affect the financial profit are presented below. The negative value results from the presence of negative interest rates in EUR and CHF currencies.

2020

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)			cash flows in CHF (CHF million)	
	inflows (assets)	outflows (liabilities)	**net cash flows**	inflows (assets)	outflows (liabilities)	**net cash flows**	inflows (assets)	**net cash flows**
up to 1 year	160.4	-68.9	**91.5**	-3.3	0.6	**-2.7**	-0.5	**-0.5**
1-3 years	472.8	-212.2	**260.6**	-4.9	0.9	**-4.0**	-0.5	**-0.5**
3-8 years	2,114.5	-549.3	**1,565.2**	-4.7	1.1	**-3.6**	0.0	**0.0**
over 8 years	241.7	-52.6	**189.1**	0.2	0.0	**0.2**	0.0	**0.0**

2019

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)			cash flows in CHF (CHF million)	
	inflows (assets)	outflows (liabilities)	**net cash flows**	inflows (assets)	outflows (liabilities)	**net cash flows**	inflows (assets)	**net cash flows**
up to 1 year	1,162.0	-220.4	**941.6**	-5.1	0.7	**-4.4**	-0.5	**-0.5**
1-3 years	1,955.1	-256.9	**1,698.2**	-6.4	0.5	**-5.9**	-0.6	**-0.6**
3-8 years	3,066.4	-149.7	**2,916.7**	4.1	-2.4	**1.7**	-0.1	**-0.1**
over 8 years	389.7	0.0	**389.7**	3.9	-1.7	**2.2**	0.0	**0.0**

Impact of the reform of key interest rate benchmarks on the Bank's hedging strategies

The Bank applies the principles of hedge accounting to hedge the interest rate risk resulting from changes in the reference rates: WIBOR, EURIBOR and LIBOR CHF, therefore the scope of the reform has a direct impact on the application of hedge accounting principles.

The published assumptions for the implementation of the requirements resulting from the reform of key interest rate benchmarks in connection with the guidelines of Regulation (EU) 2016/11 of the European Parliament and of the Council of 8 June 2016 show that the LIBOR CHF rate will be replaced with the alternative SARON reference rate, while the WIBOR rate will be replaced by and EURIBOR are strengthened by meeting the requirements of the above-mentioned Regulation.

Therefore, the Bank assumes that the reference interest rate of highly probable planned CHF transactions and interest rate derivatives based on LIBOR CHF will not change as a result of the reform of market benchmark rates.

In the table at the beginning of the section *Cash flow hedge accounting*, in the detail item CIRS CHF / PLN (float-float), the fair value and nominal value of the hedging instruments as at 31 December 2020, to which the Bank applied the amendment to IAS 39, were presented due to the uncertainty resulting from the reform the benchmark rate of LIBOR CHF.

IV. Liquidity and funding risk

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.

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.

3. Risk types

The Bank splits liquidity risk into two groups:

- liquidity risk resulting from external factors, and
- risk of internal factors relating to the specific bank.

The Bank's goal is a conservative approach to liquidity risk management that will allow safely survive events specific for ING Bank Śląski S.A. and for the entire banking sector.
In terms of time horizon, the Bank splits liquidity risk into:

- operational – focused on current funding of the Bank's position and on managing intraday liquidity,
- strategic – focused on ensuring that the Bank's structural liquidity positions are at an acceptable level.

Considering the tenor and clients' behaviour (the two aspects affecting the Bank's liquidity), the Bank identifies three types of liquidity and funding risk:

- structural – understood as a potentially adverse impact on the Bank's revenues due to a mismatch between the anticipated maturities of the Bank's assets and liabilities as well as the risk of no re-financing possibilities in the future,
- related to clients' behaviour – understood as a potentially adverse impact on the Bank's revenues due to the embedded liquidity options in the products offered by the Bank,
- related to stress conditions – understood as a risk of lack of possibility by the Bank to comply with its financial obligations when due to insufficient available funds or when the generation of such funds is impossible at any price which results in immediate insolvency of the Bank.

4. Structure and organisation of the risk management process

The structure of risk and control at the Bank is based on a model of three lines of defence.

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

The Supervisory Board is responsible for:

- approving the liquidity risk tolerance, the overall accepted level of liquidity and funding risk (in HL RAS) presented to the Supervisory Board by the Management Board.

The Bank's Management Board is responsible for:

- designing a strategy related to liquidity and funding risk, the target liquidity position, the relevant funding methods and liquidity risk profile,
- determination of an acceptable risk level (risk appetite) and submission thereof to the Supervisory Board for approval,
- acceptance of changes to the limits of liquidity and funding risk (in MB RAS),

- acceptance of a liquidity and funding risk management policy and major modifications thereto, in particular limits adequate to the general level of acceptable risk approved by the Supervisory Board,
- ensuring the allocation of adequate human resources and ITC resources in the Bank to implement the policy.
- approving the levels of liquidity bonuses based on the level advised by the Group Treasury resulting from the liquidity premium review and / or adjusts it when deemed necessary due to strategic changes in the balance sheet or other factors.

The Asset and Liability Committee (ALCO) is responsible for:

- implementation of the Bank's strategy with respect to liquidity and funding risk,
- management of a liquidity buffer within the relevant policies and limits approved by the Bank's Management Board, the related operational actions are delegated to the 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 in liquidity and funding risk limits (in LCS and ALCO RAS),
- implementation of limits within the adopted risk appetite (approved in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy), approving assumptions for reports and models,
- analysis of all proposed modifications to the liquidity and funding policies and submission of positively reviewed modifications to the Bank's Management Board.

5. Framework risk management principles

The framework liquidity and funding risk management principles contain all material methods with respect to intraday, shorty-term, medium-term and long-term liquidity and funding risk management. This is made up of the following key elements:

- limit system and liquidity risk measurement,
- monitoring of funding sources and concentration risk,
- liquidity reserve management,
- management of intraday liquidity,
- management of hedging items,
- stress tests and contingency plans.

Limit system and liquidity risk measurement

Formal limits are set by the regulator of the banking sector and/or the Bank for various liquidity risk measures. The acceptable level of funding and liquidity risk is defined by a several-element system: the general level of the Bank's acceptable risk, which is approved by the Bank's Supervisory Board, and the system of limits, which is approved in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite. in the area of market risk, liquidity and capital adequacy. The Supervisory Board is provided with information on compliance with the measures, minimum on a quarterly basis.

The limit level is based on the Bank's strategic objectives, identified liquidity risks, results of stress tests and the principles set forth by regulatory authorities. The limits are taken into account in planning processes (implementation of the approved plans may not result in the limits being exceeded). In most instances, the limits have a pre-defined warning level, set above (or below) supervisory limits. The admissible liquidity risk level is determined and updated minimum once a year.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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.

M3-M4

The Bank is obliged to perform daily monitoring and comply with the limits set forth in Polish Financial Supervision Authority's resolution 386/2008 for M3 and M4 measures. In 2020 the Bank maintained all liquidity standards above minimum values.

At the end of 2020 and 2019, 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 Regulations (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.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

At the end of 2020 and 2019, the supervisory liquidity measures were:

	Liquidity measures	Minimum value	2020	2019
LCR	Liquidity coverage ratio	100%	214%	135%
NSFR	Stable funding ratio	n/a*	140%	126%

*) 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%.

Herebelow there is a breakdown of level 1 liquid assets used by the Bank to calculate the LCR ratio (as defined in the Commission Delegated Regulation (EU) No 2015/61) as at 2020 and 2019 yearend. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

	2020	2019
Level 1 liquid assets		
Cash	723.1	733.9
Cash in nostro accounts with the Central Bank net of the required reserve	13.2	1.2
Unencumbered Treasury bonds	43,766.1	27,685.3
Unencumbered BGK bonds	2,149.5	525.5
Unencumbered European Investment Bank bonds	7,095.8	3,554.2
Total	**53,747.7**	**32,500.1**

In level 1 liquid assets, securities are presented by their market value. The Bank's liquidity position is reduced by encumbered securities (constituting collateral, blocked) and increased by securities received as hedged by reverse-repo transactions.

Additional liquidity monitoring measures (ALMM)

In compliance with the Commission Implementing Regulations (EU) 2016/313, the Bank reports a set of additional monitoring rations for liquidity reporting. The reports include:

- mismatch by maturity,
- financial concentration by counterparty,
- financial concentration by product type,
- prices for various financing periods,
- prolonged financing,
- concentration of ability to balance liquidity by issuer.

Internal liquidity reports

Another major element in the Bank's liquidity management risk process covers internally defined reports presenting detailed and varied approach by the Bank to measurement and management of the risk. The Bank models liquidity characteristics, both of its assets and liabilities in order to provide for clients' anticipated/actual behaviour. Modelling is mixed. This means than an analysis of clients' behaviour relies on historic data and expert judgment.
A structural liquidity report is one of such internal liquidity reports. The report presents the gap between the Bank's assets and liabilities in time buckets on correctly functioning markets. The report is used to monitor and manage medium- and long-term liquidity positions. It serves as a support in the planning process of the balance sheet and funding. It also indicates all major funding needs in the future.
The report is a scenario for the current balance sheet in normal market conditions. It does not cover any additional projections of balance sheet development. However, it provides for clients' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans, cash loans,

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

loans in the current account provide for prepayments and cash flows for savings accounts and current accounts are allocated subject to characteristics of liquidity.

Report of structural liquidity:

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
2020						
Liquidity gap	40,482.4	9,598.1	28,161.8	-135.7	-64,915.3	-13,191.3
Cumulative liquidity gap	40,482.4	50,080.5	78,242.2	78,106.6	13,191.3	0.0
2019						
Liquidity gap	24,321.7	9,459.2	23,514.3	-718.7	-45,972.5	-10,604.0
Cumulative liquidity gap	24,321.7	33,780.9	57,295.1	56,576.4	10,604.0	0.0

Monitoring of funding sources and concentration risk

Minimum once a year, the Bank determines the Bank's overall business strategy and the resultant medium-term (3 years) financial plan with a general risk strategy. Financial plan is an indispensable element of the strategy which provides for an effective diversification of funding sources and tenors.

ALCO actively manages the funding base. Additionally, it monitors funding sources in order to:

- verify compliance with the strategy and financial plan,
- identify potential risks related to funding.

Customers' deposits (retail and corporate) are the core funding source for ING Bank Śląski S.A. The Bank monitors the funding structure and thus verifies concentration risk by analysing its deposit base split into:

- type of financing,
- client segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

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

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

Direct funding:

	2020		2019	
Core client segments	**direct funding**	**% share**	**direct funding**	**% share**
Banks	2,963	1.7%	1,612	1.1%
Corporate clients.	46,797	27.6%	41,362	28.3%
Retail clients	102,742	60.6%	87,877	60.1%
Own issue / subordinated loan	2,307	1.4%	2,129	1.5%
Equity	14,675	8.7%	13,320	9.1%

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Mutual funding:

	2020		2019	
Core client segments	**mutual funding**	**% share**	**mutual funding**	**% share**
Banks	15,459	100.0%	8,994	99.5%
Corporate clients.	0	0.0%	43	0.5%
Retail clients	0	0.0%	0	0.0%

Liquidity reserve management

Maintenance of an adequate liquidity buffer is a major element in managing the Bank's liquidity. The liquidity buffer presents the available liquidity, required to cover the gap between cumulative outflows and inflows within a relatively short time. It covers assets that are "unencumbered" and easily available to acquire liquidity. Unencumbered assets are understood as assets that are free of any legal, regulatory, contractual restrictions to have them disposed of by the Bank. The liquidity buffer is crucial in the times of a crisis when the Bank has to obtain liquidity in a short time when the standard funding sources are unavailable or insufficient.

The liquidity buffer is maintained as a safeguard against materialisation of various extraordinary scenarios, providing for needs of additional liquidity which may arise at any time in extraordinary circumstances and in normal conditions.

The table below presents the structure of the liquid asset buffer as at 31 December 2020 and 31 December 2019:

	2020	2019
Structure of the liquidity buffer	**% share**	**% share**
Treasury bonds or bonds issued by the central bank (PLN)	67.3%	75.9%
Treasury bonds or bonds issued by the central bank (EUR)	10.9%	13.8%
bonds of BGK and EIB	21.8%	10.3%

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.

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

Management of hedging items

The management of hedging items covers both positions under CSA and GIMRA contracts as well as positions of liquid assets related to operations with the central bank. This is performed on the level corresponding to the provided services, the Bank's portfolio, funding profile and liquidity requirements.

Most of the Bank's counterparties in derivative transactions have signed Credit Support Annexes (CSA) to ISDA agreements. They regulate the issue of support to portfolios of derivative transactions. They provide for the right to demand margin deposits by parties whose valuation of the portfolio is positive on a specific day (the party's portfolio is in-the-money) and the right to demand release of the margin when the valuation changes. Within the strategy of setting margins for each counterparty to CSA, the transaction portfolio is measured daily for margin requirements.

Derivative instruments such as FRA and IRS are settled via CCP (Central Clearing Party) clearing houses. This provides for effective management of margin deposits and mitigates the counterparty settlement risk. ING Bank Śląski S.A. has signed agreements with KDPW CCP and London Clearing House (LCH).

6. Analysis of the maturity of financial assets and liabilities according to contractual payment terms

The table below presents financial assets and liabilities (excluding valuation of derivatives) split by remaining (from the reporting date) contractual maturities. The presented values provide for future interest payments. With respect to contingent liabilities granted, the maturity analysis covers the closest possible performance of the liabilities by the Bank.

2020

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets					
Cash in hand and balances with the Central Bank	0.0	867.3	0.0	0.0	0.0
Loans and other receivables to other banks	0.0	376.7	47.0	2,280.5	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	0.8	290.2	248.7	224.5	75.3
Investment securities	156.6	86.4	7,113.1	37,832.2	11,729.7
Loans and other receivables to customers	0.0	16,932.0	19,645.3	44,825.5	52,304.8
Other assets	0.0	2.0	14.2	0.0	0.0
Financial Liabilities					
Liabilities to other banks	0.0	4,773.4	3.3	0.0	0.0
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	200.0	0.0	117.9	147.6
Liabilities to customers	0.0	148,847.7	1,372.5	222.0	294.2
Subordinated liabilities	0.0	0.8	28.2	116.3	2,164.0
Other liabilities	0.0	803.8	626.1	19.6	347.4
Contingent liabilities granted	0.0	47,544.0	0.0	0.0	0.0

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

2019

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets					
Cash in hand and balances with the Central Bank	0.0	1,402.9	0.0	0.0	0.0
Loans and other receivables to other banks	0.0	602.6	189.6	2,591.3	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	0.1	186.2	73.1	347.5	282.5
Investment securities	110.6	157.8	3,706.5	20,739.1	10,651.0
Loans and other receivables to customers	0.0	21,447.3	15,430.3	37,218.4	38,673.6
Other assets	0.0	159.0	31.9	0.0	0.0
Financial Liabilities					
Liabilities to other banks	0.0	2,622.3	0.3	0.0	0.0
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	80.7	0.0	85.9	81.3
Liabilities to customers	0.0	127,999.3	1,923.1	128.7	2.6
Subordinated liabilities	0.0	0.9	28.2	116.3	2.224.7
Other liabilities	0.0	683.2	507.7	23.1	366.1
Contingent liabilities granted	0.0	37.583.1	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

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	-432.9	-1 205.9	-805.8	184.6
hedging transactions in hedge accounting	-135.8	-264.4	-95.9	26.6
other derivatives	-8.0	-33.3	-2.4	0.0

2019

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	-97.6	340.0	-182.5	-299.0
hedging transactions in hedge accounting	10.0	118.5	-152.0	-175.7
other derivatives	-10.6	-19.8	-24.1	0.0

Annual financial statements for the period from 1 January 2020 to 31 December 2020 (PLN million)

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

	up to 1 month	1- 12 months	1-5 years	over 5 years
outflows	4,961.8	4,255.6	1,380.5	0.0
inflows	-5,036.3	-4,376.6	-1,457.7	0.0

2019

	up to 1 month	1- 12 months	1-5 years	over 5 years
outflows	-2,799.0	-3,029.3	-725.2	-252.1
inflows	2,786.3	2,992.1	659.4	244.4

7. Centralised organisation of the risk management process

The liquidity risk management process is fully centralised in treasury and risk management functions. Liquidity risk (along with the generated liquidity position) of each business line is transferred to the 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.

8. Reporting and liquidity risk management system

Liquidity risk reporting and measurement processes are automated. The Bank holds tools automatically generating a set of liquidity reports on a daily or monthly basis. Information of risk measures supports ongoing monitoring of liquidity profiles and control of basic measures. The reports on liquidity risk are submitted to units involved in the risk management process.

9. 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.

V. Non-financial risks

Non-financial risks cover management functions of operational and compliance risk based on a common framework, setting forth clear principles and standards of risk identification, assessment, monitoring, mitigation and reporting. The Bank manages non-financial risks in compliance with the Strategy and Risk Appetite Statement for Non-financial Risks approved by the Bank's Management Board that set forth risk limits and tolerance. Compliance with the declared risk appetite is monitored in a periodic report on non-financial risks (NFRD). Additionally, the Bank operates the Non-financial Risk Committee appointed by the Bank's Management Board – the Committee advises the Bank's Management Board with respect to the management of non-financial risks. The Supervisory Board supervises the management of operational risk by the Management Board and minimum on a yearly basis reviews the effectiveness of the related activities.

The common management framework of non-financial risks support the Bank in active identification of core hazards and gaps and the related risks which may result in undesirable events. The framework supports such processes as self-assessment of risks and controls, scenario analyses, monitoring of key risk indicators or testing of key controls. The results of analyses of internal and external events keep improving the adequacy and effectiveness of the internal control system functioning in the Bank.

The Bank is convinced that an effective control environment is required to development and maintenance of sustainable business as well as maintains and improves the trust of clients, employees and shareholders.

1. Operational risk

The Bank's objective in operational risk management is to ensure regular improvement of the safety of the Bank and its clients, reduction of operating costs and improvement of operating effectiveness.
The Bank's Management Board – subject to approval of the Supervisory Board – has developed a strategy of operational risk management. The Bank has implemented a consistent package of internal normative documents. The documents regulate the scope, principles and duties of organisational units and employees to mitigate the effects and likelihood of financial and reputational losses in that respect. The Bank's management strategy of operational risk provides for legal and regulatory requirements and relies on good practices of the ING Group.

Additionally, the Management Board – also in agreement with the Supervisory Board – in its risk appetite statement defined the maximum acceptable loss limits, capital limits and risk scope that it is willing to accept in the pursuance of the planned business objectives – subject to full compliance with the law and regulations. The level of limit utilisation is monitored and periodically submitted to the Management Board, Risk Committee and the Supervisory Board.

The operational risk management system applies to all business spheres of the Bank activity, cooperation with clients, providers and partners. It is a cohesive, regular practice that covers the following elements:

- risk identification and assessment,
- mitigation or risks and monitoring of mitigation activities,
- performance of inspections,
- quality monitoring and assurance.

2. Compliance risk

The Bank's mission in the area of ensuring compliance is to develop a cultural function relying on knowledge and compliance with law, internal regulations, market standards and ING Values and Conduct as specified in the Orange Code.

The Bank's Supervisory Board supervises the compliance risk management, and the Bank's Management Board is responsible for the effective management of the compliance risk, including: implementation of organizational solutions, regulations and procedures that enable effective compliance risk management and ensuring adequate resources and means required to perform the tasks.

The Compliance unit is an organisationally separate, independent unit responsible for the organization and functioning of the compliance risk management process. The aim of the Compliance unit is to develop solutions for the identification, assessment, control and monitoring of the risk of non-compliance of the Bank's activities with the provisions of law, internal regulations and market standards and to present reports in this regard. Compliance activities are aimed at the active participation of the Bank's employees in the compliance risk management by shaping a risk culture based on knowledge and compliance with the law, internal regulations and market standards.

3. Transaction security and stability of IT systems

The security of the funds and data of clients and partners is a key issue to which the Bank pays special attention in its day-to-day operations. The Bank constantly observes threats and analyses their impact on the ICT infrastructure (applications, systems, networks), as well as business processes, those of its partners and their potential impact on clients. On that basis, it designs and implements appropriate organisational and technical solutions in the areas of prevention, detection and response. The Bank's ICT systems protect multi-layered cyber security mechanisms and systems.

4. Personal data security

The stability of IT systems also means protecting personal data of clients, business partners and employees. However, apart from IT security, the Bank also cares about the physical security of the data and information stored in the Bank and constantly improves its approach to personal data protection. The Bank's internal regulations strictly define the presence of outsiders in offices and exclude the connection of unverified devices to our ICT network. Physical security features are tested on a regular basis and the conclusions of the inspection inspire change. Physical security testing has become an inalienable element of APTs testing the Bank's cyber security resistance.

In the last year, the Bank did not find any justified complaints regarding breach of client privacy, although administrative proceedings are pending in one of the cases.

The Bank has adapted the technical and procedural safeguards required by law, internal regulations and good practice in order to better protect its clients' data.

The Bank has not only implemented the requirements related to the implementation of the European Union Regulation on the protection of personal data, but also analyses the changes and incorporates them without unnecessary delay into the internal procedures and regulations. As in previous years, the Bank cooperates with other banks under the umbrella of the Polish Banks' Association in order to develop a common code of conduct, as well as to develop coherent solutions related to personal data protection.

VI. Model risk

Model risk management is performed in compliance with the *Model risk management policy at ING Bank Śląski S.A.* The Policy provides for:

- model life cycle,
- assessment principles of the model materiality,
- functioning principles of the model register,
- capital calculation rules for model risk
- validation principles.

The Model Validation Department keeps a model register which is a repository of information on the risk models and valuation models functioning in the Bank. The model register and logs contain inter alia information on model materiality, results of monitoring and results of model validation and their risk levels.

The Bank regularly assesses the risk related to each model and estimates the related economic capital in compliance with the rules set forth in internal regulations. The calculation method of capital if material and medium material models are identified with an increased or high risk is set in the economic capital calculation methodology for model risk.

The quality of model functioning is subject to verification within model monitoring and validation when an assessment is made of the extent of their exposure to model risk. Model validation is performed in compliance with the Model Validation Policy at ING Bank Śląski S.A. and validation instructions.

Management reporting to Committees, the Management Board and the Supervisory Board of the status of actions related to model management and validation covers inter alia: results of model validation and risk assessment, assessment of the aggregated model risk level in the context of the approved risk tolerance as well as the capital assigned to model risk.

VII. Business risk

Business risk encompasses the following risks:

- macroeconomic risk,
- risk of FX mortgage portfolio.

1. Macroeconomic risk

Macroeconomic risk is the risk due to macroeconomic factors and their impact on the levels of minimum capital requirements. The Bank manages the risk by regular holding of internal stress tests to support ongoing monitoring of sensitivity or minimum capital requirements to macroeconomic factors. In 2020 the Bank carried out full capital tests twice: as at Q4 2019 and Q2 2020.

On the basis of results of internal stress tests for a mild recession scenario, the Bank estimates an additional capital requirement to safeguard against the materialisation effect of the scenario. The results of the stress tests show that should a mild recession materialise, the Bank's capital adequacy will not drop below the required level.

2. Risk of FX mortgage portfolio

Risk of the FX mortgage portfolio is the risk resulting from financial losses due to the need to convert FX mortgage-backed loans to PLN loans. In risk management, the Bank relies on the recent legislative proposals with respect to currency conversion of mortgage FX loans. As at 30 June 2020 and 2019, the Bank maintained additional economic capital for the risk in pillar II.

At the end of 2020, the Bank had PLN 311.8 million of a portfolio reserve for CHF mortgage loans (including PLN 11.8 million as a provision regarding legal risk for for repayment exposures and PLN 300.0 million as legal risk costs of loans in Stage 2 on current and future disputes for on-balance sheet exposures). In addition, the Bank had a PLN 2.0 million allowance for expected credit losses due to the classification of all CHF mortgage loans previously included in Stage 1 as loans in Stage 2. At the end of 2020, the value of the Bank's foreign currency mortgage loan portfolio was PLN 600.7 million net.