

**ING Bank Śląski S.A.**

**Group in 2020**



**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Contents****Annual consolidated financial statements of the ING Bank Śląski S.A. Group**

|  |          |
|--|----------|
| <b>Consolidated income statement</b>   | <b>4</b> |
| <b>Consolidated statement of comprehensive income</b>                                    | <b>5</b> |
| <b>Consolidated statement of financial position</b>                                      | <b>6</b> |
| <b>Consolidated statement of changes in equity</b>                                       | <b>7</b> |
| <b>Consolidated cash flow statement</b>  | <b>8</b> |
| <b>Accounting policy and additional notes</b>  | <b>9</b> |
| I Bank and the Group details   | 9        |
| II Statement of compliance with International Financial Reporting Standards              | 11       |
| III Significant accounting principles  | 15       |
| IV Comparability of financial data   | 64       |
| V Notes to the consolidated financial statements   | 68       |
| 1 Segment reporting  | 68       |
| 2 Net interest income  | 72       |
| 3 Net commission income  | 73       |
| 4 Net income on financial instruments at fair value through profit or loss and FX result | 74       |
| 5 Net income on the sale securities and dividend income                                  | 74       |
| 6 Net i(loss)/income on hedge accounting   | 74       |
| 7 Net (loss)/income on other basic activities  | 75       |
| 8 General and administrative expenses  | 75       |
| 9 Impairment for expected credit losses  | 79       |
| 10 Cost of legal risk of FX mortgage loans   | 79       |
| 11 Tax on certain financial institutions   | 79       |
| 12 Income tax  | 80       |
| 13 Earnings and book value per ordinary share  | 81       |
| 14 Cash in hand and balances with the Central Bank                                       | 81       |
| 15 Loans and other receivables to other banks  | 82       |
| 16 Financial assets measured at fair value through profit or loss                        | 82       |
| 17 Valuation of derivatives  | 83       |
| 18 Hedge accounting  | 86       |
| 19 Investments securities  | 86       |
| 20 Assets securing liabilities   | 88       |
| 21 Loans and other receivables to customers measured at amortised cost                   | 89       |
| 22 Investments in associates accounted for using the equity method                       | 95       |
| 23 Property, plant and equipment   | 96       |
| 24 Intangible assets   | 99       |
| 25 Assets held for sale  | 101      |
| 26 Deferred tax  | 102      |
| 27 Other assets  | 104      |
| 28 Liabilities to other banks  | 105      |
| 29 Financial liabilities measured at fair value through profit or loss                   | 105      |
| 30 Liabilities to customers  | 106      |
| 31 Liabilities from debt securities issued   | 106      |
| 32 Subordinated liabilities  | 107      |
| 33 Provisions  | 107      |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

|      |  |     |
|------|--|-----|
| 34   | Other liabilities  | 114 |
| 35   | Equity   | 115 |
| 36   | FX structure of assets and liabilities                     | 118 |
| 37   | Contingent liabilities                                     | 123 |
| 38   | Fair value   | 124 |
| 39   | Offsetting financial instruments                           | 131 |
| 40   | Custody activities   | 132 |
| 41   | Leasing – the Group as a lessor                            | 133 |
| 42   | Additional information on consolidated cash flow statement | 133 |
| 43   | Related entities   | 137 |
| 44   | Transactions with the management staff and employees       | 138 |
| 45   | Headcount  | 140 |
| 46   | Significant events after the balance sheet date            | 141 |
|      | <b>Risk and capital management</b>                         | 142 |
| I.   | Risk and capital management system                         | 142 |
| II.  | Credit risk  | 146 |
| III. | Market risk  | 169 |
| IV.  | Liquidity and funding risk                                 | 183 |
| V.   | Non-financial risk   | 194 |
| VI.  | Model risk   | 196 |
| VII. | Business risk  | 196 |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Consolidated income statement**

for the year ended 31 December

|  | Note | 2020           | 2019           |
|--|------|----------------|----------------|
| Interest income  | 2    | 5,246.9        | 5,311.3        |
| calculated using effective interest rate method  | 2    | 5,244.1        | 5,307.2        |
| other interest income  | 2    | 2.8            | 4.1            |
| Interest expenses  | 2    | 705.1          | 986.2          |
| <b>Net interest income</b>   | 2    | <b>4,541.8</b> | <b>4,325.1</b> |
| Commission income  | 3    | 1,963.5        | 1,724.1        |
| Commission expenses  | 3    | 435.1          | 383.6          |
| <b>Net commission income</b>   | 3    | <b>1,528.4</b> | <b>1,340.5</b> |
| Net income on financial instruments measured at fair value through profit or loss and FX result                    | 4    | 103.5          | 108.3          |
| Net income on the sale of securities measured at amortised cost  | 5    | 7.3            | 0.0            |
| Net income on the sale of securities measured at fair value through other comprehensive income and dividend income | 5    | 31.1           | 36.3           |
| Net (loss)/income on hedge accounting  | 6    | 11.5           | -14.3          |
| Net (loss)/income on other basic activities  | 7    | -9.0           | -6.1           |
| <b>Net income on basic activities</b>  |      | <b>6,214.6</b> | <b>5,789.8</b> |
| General and administrative expenses  | 8    | 2,762.5        | 2,497.4        |
| Impairment for expected credit losses  | 9    | 804.6          | 574.3          |
| 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 associates accounted for using the equity method   |      | 16.1           | 6.6            |
| <b>Gross profit</b>  |      | <b>1,911.7</b> | <b>2,257.8</b> |
| Income tax   | 12   | 574.1          | 599.1          |
| <b>Net profit</b>  |      | <b>1,337.6</b> | <b>1,658.7</b> |
| <b>- attributable to shareholders of ING Bank Śląski S.A.</b>  |      | <b>1,337.6</b> | <b>1,658.7</b> |
| - attributable to non-controlling interests  |      | 0.0            | 0.0            |
| Net profit attributable to shareholders of ING Bank Śląski S.A.  |      | <b>1,337.6</b> | <b>1,658.7</b> |
| 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 consolidated income statement should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Consolidated statement of comprehensive income**

for the year ended 31 December

|   | Note | 2020           | 2019           |
|---|------|----------------|----------------|
| <b>Net profit for the period</b>  |      | <b>1,337.6</b> | <b>1,658.7</b> |
| <b>Total other comprehensive income, including:</b>   | 35   | <b>2,057.4</b> | <b>698.2</b>   |
| <b>Items which can be reclassified to income statement, including:</b>  |      | <b>2,029.9</b> | <b>685.9</b>   |
| 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          |
| 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         |
| <b>Items which will not be reclassified to income statement, including:</b>   |      | <b>27.5</b>    | <b>12.3</b>    |
| 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          |
| <b>Net comprehensive income for the reporting period</b>  |      | <b>3,395.0</b> | <b>2,356.9</b> |
| attributable to shareholders of ING Bank Śląski S.A.  |      | 3,395.0        | 2,356.9        |

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## Consolidated statement of financial position

as at

|   | Note   | 2020             | 2019             | 01.01.2019       |
|---|--------|------------------|------------------|------------------|
| <b>Assets</b>   |        |                  |                  |                  |
| 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     | 704.6            | 798.5            | 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     | 54,933.5         | 33,824.4         | 31,937.2         |
| Loans and other receivables to customers measured at amortised cost | 21     | 124,655.3        | 118,127.8        | 102,907.4        |
| Investments in associates accounted for using the equity method     | 22     | 174.1            | 181.0            | 1.0              |
| Property, plant and equipment                                       | 23     | 913.1            | 956.0            | 556.1            |
| Intangible assets   | 24     | 426.6            | 429.9            | 439.2            |
| Assets held for sale  | 25     | 3.6              | 3.6              | 10.9             |
| Current income tax assets   |        | 2.7              | 0.0              | 0.0              |
| Deferred tax assets   | 26     | 423.2            | 445.6            | 398.2            |
| Other assets  | 27     | 279.2            | 204.8            | 486.0            |
| <b>Total assets</b>   |        | <b>186,595.7</b> | <b>158,610.7</b> | <b>141,812.9</b> |
| <b>Liabilities</b>  |        |                  |                  |                  |
| Liabilities to other banks  | 28     | 8,228.0          | 6,256.1          | 5,195.8          |
| 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     | 151,028.5        | 130,473.5        | 117,682.5        |
| Liabilities from debt securities issued                             | 31     | 1,370.5          | 399.7            | 300.3            |
| Subordinated liabilities  | 32     | 2,309.2          | 2,131.1          | 1,076.9          |
| Provisions  | 33     | 256.3            | 205.7            | 152.4            |
| Current income tax liabilities                                      |        | 389.6            | 381.3            | 280.3            |
| Other liabilities   | 34     | 2,306.0          | 2,078.9          | 1,503.7          |
| <b>Total liabilities</b>  |        | <b>167,977.4</b> | <b>143,387.4</b> | <b>128,491.3</b> |
| <b>Equity</b>   |        |                  |                  |                  |
| Share capital   | 35     | 130.1            | 130.1            | 130.1            |
| Share premium   | 35     | 956.3            | 956.3            | 956.3            |
| Accumulated other comprehensive income                              | 35     | 3,923.4          | 1,867.3          | 1,169.7          |
| Retained earnings   | 35     | 13,608.5         | 12,269.6         | 11,065.5         |
| <b>Equity attributable to shareholders of ING Bank Śląski</b>       |        | <b>18,618.3</b>  | <b>15,223.3</b>  | <b>13,321.6</b>  |
| Non-controlling interests   |        | 0.0              | 0.0              | 0.0              |
| <b>Total equity</b>   |        | <b>18,618.3</b>  | <b>15,223.3</b>  | <b>13,321.6</b>  |
| <b>Total equity and liabilities</b>                                 |        | <b>186,595.7</b> | <b>158,610.7</b> | <b>141,812.9</b> |
| Carrying amount   |        | 18,618.3         | 15,223.3         | 13,321.6         |
| Number of shares  |        | 130,100,000      | 130,100,000      | 130,100,000      |
| Carrying amount per share (PLN)                                     |        | 143.11           | 117.01           | 102.40           |

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## Consolidated statement of changes in equity

## 2020

Note 35

|   | Share capital | Share premium | Accumulated other comprehensive income | Retained earnings | Non-controlling interests | Total equity    |
|---|---------------|---------------|--|-------------------|---------------------------|-----------------|
| <b>Opening balance of equity</b>  | <b>130.1</b>  | <b>956.3</b>  | <b>1,867.3</b>                         | <b>12,269.6</b>   | <b>0.0</b>                | <b>15,223.3</b> |
| <b>Profit for the current period</b>  | -             | -             | -                                      | 1,337.6           | -                         | <b>1,337.6</b>  |
| <b>Other net comprehensive income, including:</b>   | <b>0.0</b>    | <b>0.0</b>    | <b>2,056.1</b>                         | <b>1.3</b>        | <b>0.0</b>                | <b>2,057.4</b>  |
| financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity | -             | -             | 133.7                                  | -                 | -                         | 133.7           |
| 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            |
| <b>Closing balance of equity</b>  | <b>130.1</b>  | <b>956.3</b>  | <b>3,923.4</b>                         | <b>13,608.5</b>   | <b>0.0</b>                | <b>18,618.3</b> |

## 2019

Note: 35

|   | Share capital | Share premium | Accumulated other comprehensive income | Retained earnings | Non-controlling interests | Total equity    |
|---|---------------|---------------|--|-------------------|---------------------------|-----------------|
| <b>Opening balance of equity</b>  | <b>130.1</b>  | <b>956.3</b>  | <b>1,169.7</b>                         | <b>11,080.2</b>   | <b>0.0</b>                | <b>13,336.3</b> |
| adjustment in recognition the repo transactions   | -             | -             | -                                      | -14.7             | -                         | -14.7           |
| <b>Opening balance of equity adjusted for corrections</b>   | <b>130.1</b>  | <b>956.3</b>  | <b>1,169.7</b>                         | <b>11,065.5</b>   | <b>0.0</b>                | <b>13,321.6</b> |
| <b>Profit for the current period</b>  | -             | -             | -                                      | 1,658.7           | -                         | <b>1,658.7</b>  |
| <b>Other net comprehensive income, including:</b>   | <b>0.0</b>    | <b>0.0</b>    | <b>697.6</b>                           | <b>0.6</b>        | <b>0.0</b>                | <b>698.2</b>    |
| financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity | -             | -             | 39.5                                   | -                 | -                         | 39.5            |
| 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           |
| <b>Other changes in equity, including:</b>  | <b>0.0</b>    | <b>0.0</b>    | <b>0.0</b>                             | <b>-455.2</b>     | <b>0.0</b>                | <b>-455.2</b>   |
| valuation of share-based payments   | -             | -             | -                                      | 0.2               | -                         | 0.2             |
| dividends paid  | -             | -             | -                                      | -455.4            | -                         | -455.4          |
| <b>Closing balance of equity</b>  | <b>130.1</b>  | <b>956.3</b>  | <b>1,867.3</b>                         | <b>12,269.6</b>   | <b>0.0</b>                | <b>15,223.3</b> |

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## Consolidated cash flow statement

for the year ended 31 December

|  | Note     | 2020             | 2019            |
|--|----------|------------------|-----------------|
| <b>Net profit</b>  |          | <b>1,337.6</b>   | <b>1,658.7</b>  |
| <b>Adjustments, including:</b>   |          | <b>18,076.1</b>  | <b>-1,928.9</b> |
| Share of profit/(loss) of associates accounted for using the equity method               | 22       | -16.1            | -6.6            |
| Depreciation and amortisation  | 8,23,24  | 294.2            | 276.8           |
| Interest accrued (from the income statement)   | 2        | -4,541.8         | -4,325.1        |
| Interest paid  |          | -649.4           | -990.7          |
| Interest received  |          | 5,275.4          | 5,354.3         |
| Dividends received   | 5        | -8.4             | -7.0            |
| Gains (losses) on investing activities   |          | 1.0              | -8.6            |
| Income tax (from the income statement)   | 12       | 574.1            | 599.1           |
| Income tax paid from the income statement  |          | -546.1           | -545.5          |
| Change in provisions   | 33,42    | 50.6             | 53.3            |
| Change in loans and other receivables to other banks                                     | 15,42    | -141.5           | -143.8          |
| Change in financial assets measured at fair value through profit or loss                 | 16,17,42 | -632.9           | 768.4           |
| Change in debt securities measured at fair value through other comprehensive income      | 19,42    | -100.9           | -1,083.5        |
| Change in hedge derivatives  | 18,42    | 1,614.7          | 684.5           |
| Change in loans and other receivables to customers measured at amortised cost            | 21,42    | -6,687.5         | -15,264.0       |
| Change in other assets   | 27,42    | -136.8           | 266.6           |
| Change in liabilities to other banks   | 28,42    | 2,061.1          | 265.1           |
| Change in liabilities measured at fair value through profit or loss                      | 17,29,42 | 615.9            | -772.7          |
| Change in liabilities to customers   | 30,42    | 20,568.7         | 12,789.0        |
| Change in other liabilities  | 34,42    | 481.8            | 161.5           |
| <b>Net cash flow from operating activities</b>   |          | <b>19,413.7</b>  | <b>-270.2</b>   |
| Purchase of property, plant and equipment  | 23       | -84.0            | -107.4          |
| Disposal of property, plant and equipment  |          | 1.3              | 1.9             |
| Purchase of intangible assets  | 24       | -81.1            | -86.6           |
| Disposal of intangible assets  |          | 0.0              | 26.7            |
| Disposal of assets held for sale   |          | 0.2              | 15.1            |
| Purchase of shares in associates   |          | 0.0              | -173.4          |
| Purchase of equity instruments measured at fair value through other comprehensive income |          | -8.3             | 0.0             |
| Purchase of debt securities measured at amortised cost                                   |          | -23,867.8        | -993.6          |
| Disposal of debt securities measured at amortised cost                                   |          | 3,116.3          | 204.0           |
| Dividends received   |          | 8.4              | 7.0             |
| <b>Net cash flows from investing activities</b>  |          | <b>-20,915.0</b> | <b>-1,106.3</b> |
| Long-term loans received   |          | 891.0            | 2,543.8         |
| Long-term loans repaid   |          | -1,013.3         | -643.4          |
| Interest on long-term loans repaid   |          | -37.7            | -26.5           |
| Interests from issued debt securities  |          | 0.0              | -7.6            |
| Repayment of lease liabilities   |          | -78.0            | -93.4           |
| Proceeds from the issue of debt securities   |          | 970.0            | 400.0           |
| Dividends paid   |          | 0.0              | -455.4          |
| Redemption of debt securities  |          | 0.0              | -300.0          |
| <b>Net cash flows from financing activities</b>  |          | <b>732.0</b>     | <b>1,417.5</b>  |
| Effect of exchange rate changes on cash and cash equivalents                             |          | 162.4            | 67.3            |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                              |          | <b>-769.3</b>    | <b>41.0</b>     |
| <b>Opening balance of cash and cash equivalents</b>                                      |          | <b>1,997.4</b>   | <b>1,956.4</b>  |
| <b>Closing balance of cash and cash equivalents</b>                                      | 41       | <b>1,228.1</b>   | <b>1,997.4</b>  |

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## Accounting policy and additional notes

### I. Bank and the Group details

#### 1. Key Bank data

ING Bank Śląski S.A. ("Parent company", "Parent entity", "Bank") with the registered office in Poland, Katowice, Sokolska Str. 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Parent company statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75. In 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. Additionally, through subsidiaries the Group conducts leasing and factoring activity, operates real estate, lease of real estate and advisory and acts as a financial intermediary as well as provides other financial services. The duration of business of the Parent company is indefinite.

#### 3. Share capital

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

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 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   |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**7. ING Bank Śląski S.A. Group**

ING Bank Śląski S.A. is a Parent entity of the ING Bank Śląski Group ("Capital Group", "Group"). As at 31 December 2020, the composition of the ING Bank Śląski Group was the following:

| Name                                 | Type of activity  | Registered office | % of the Group share in equity | % of the Group share in the General Meeting votes | Recognition in the Group Financial Statements |
|--------------------------------------|---|-------------------|--------------------------------|---|---|
| ING Investment Holding (Polska) S.A. | financial holding   | Katowice          | 100                            | 100   | full consolidation                            |
| ING Commercial Finance S.A.*         | factoring services  | Warsaw            | 100                            | 100   | full consolidation                            |
| ING Lease (Polska) Sp. z o.o.*/**    | leasing services  | Warsaw            | 100                            | 100   | full consolidation                            |
| ING Bank Hipoteczny S.A.             | banking services  | Katowice          | 100                            | 100   | full consolidation                            |
| ING Usługi dla Biznesu S.A.          | accountancy services, payroll services                                  | Katowice          | 100                            | 100   | full consolidation                            |
| Nowe Usługi S.A.                     | education and promotion for the financial market and TURBO Certificates | Katowice          | 100                            | 100   | full consolidation                            |
| Solver Sp. Z o.o.                    | holiday and training courses organisation                               | Katowice          | 100                            | 100   | full consolidation                            |
| NN Investment Partners TFI S.A.*     | investment funds  | Warsaw            | 45                             | 45  | consolidation with the equity method          |

\*) ING Bank Śląski S.A. has an indirect share in the company via ING Investment Holding (Polska) 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.

**8. Approval of financial statements**

These annual consolidated financial statements of the ING Bank Śląski S.A. Group 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 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 consolidated financial statements of the ING Bank Śląski S.A. Group 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 consolidated financial statements take into account the requirements of EU approved standards and interpretations, except for the standards and interpretations listed in the item below, which are either pending approval by the EU or have been approved by the EU, but shall take effect after the balance sheet date.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**1. Changes in accounting standards**

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

| Change  | Influence on the Group statements   |
|---|---|
| <i>IFRS 16 Leasing<br/>Covid-19 related rent reliefs</i>  | 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 Group. |
| <i>IFRS 3<br/>Definition of undertaking<br/>(the accounting year starting on 1 January 2020)</i>          | 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 Group.   |
| <i>IAS 1 and IAS 8<br/>Definition of materiality<br/>(the accounting year starting on 1 January 2020)</i> | 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 Group.   |
| <i>References to the IFRS conceptual framework<br/>(the accounting year starting on 1 January 2020)</i>   | 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 Group.   |

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

| Change<br>(EU effective date provided for in the parentheses)   | Influence on the Group statements                                    |
|---|--|
| <i>IFRS 4 Insurance Contracts<br/>Extension of the temporary exemption from the application of IFRS 9</i> | The amendment will not affect the financial statements of the Group. |

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 Group:

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

|  |  |
|--|--|
| <p>IAS 37<br/><i>Onerous contracts – the costs of meeting the contract (the accounting year starting on 1 January 2022)</i></p>  | <p>A change consisting in clarifying the concept of the costs of meeting obligations under contracts, where the costs exceed the economic benefits resulting from them. The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.</p>  |
| <p>IAS 16<br/><i>Property, plant and equipment – benefits before planned use (the accounting year starting on 1 January 2022)</i></p>  | <p>The amendment consists in the exclusion of the possibility of deducting from the production expenses of property, plant and equipment amounts received from the sale of products manufactured at the stage of pre-implementation tests. This type of sales revenues and the corresponding expenses should be included in the income statement. The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.</p>  |
| <p><i>Changes resulting from the cyclical review of IFRS 2018-2020 (the accounting year starting on 1 January 2022)</i></p>  | <p>Changes to:<br/>IFRS 1 – subsidiary applying accounting standards for the first time<br/>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<br/>Illustrative examples for IFRS 16 – lease incentives<br/>IAS 41 – agriculture: taxation measured at fair value measurement.<br/>The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.</p> |
| <p>IFRS 17<br/><i>Insurance contracts with the extension of the temporary exemption from the application of IFRS 9. (the accounting year starting on 1 January 2023)</i></p> | <p>The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.</p>   |

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

**2. Going-concern**

These annual consolidated financial statements of the ING Bank Śląski S.A. Group were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the date of publication, i.e. from 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 Group members continuing their operations during the period of 12 months from the date of publication as a result of intentional or forced abandonment or significant limitation of its operations by the Capital Group.

**3. Discontinued operations**

No material operations were discontinued during 2020 and 2019.

**4. Financial statements scope and currency**

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the year 2020 comprise the data of the Bank and its subsidiaries and associates (jointly referred to as the "Group").

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**5. Reporting period and comparable data**

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

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

**6. Consolidation rules**

The consolidated financial statements comprise the financial statements of the Bank as well as the financial statements of its subsidiaries. The documents were developed for the term of 12 months ended 31 December 2020.

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**III. Significant accounting principles**

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

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

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

**1. Basis for preparation of consolidated financial statements**

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

**2. Professional judgment**

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

**2.1. Deferred tax assets**

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

**2.2. Classification of leases**

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

**2.3. Classification of financial assets**

The Group classifies financial assets on the basis of both the business model for holding the financial assets and assessment whether under the contractual terms require solely payments of principal and interest on the principal amount outstanding. The detailed information about assumptions in this regard is presented in item 14.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**3. Accounting estimates**

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

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

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

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

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

**3.1. Impairment**

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

**3.1.1. Impairment of financial assets**

The Group applies IFRS 9 requirements regarding impairment in order to recognize and measure the impairment for expected credit losses on 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 from 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

parameters. Therefore, to cover the risk of a potential deterioration in the quality of this portfolio, the Group 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. It was noted that, unlike in the previous crisis, the decline in GDP growth and the peak of insolvency will not occur at the same time. 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 Group 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 Group 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 Group's financial result for 2020 in the amount of PLN 7.8 million. Detailed information in this regard can be found in point 14.13. *Impairment*.

Classification of exposures subject to credit moratorium into Stages

The Group 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 Group 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 Group. 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 14.13. *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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 55.0 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 Group estimated the allowances for expected losses in Stages 1 and 2 with the following assumptions:

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

These estimates show, respectively, hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 210 million (including PLN 125 million for the corporate portfolio and PLN 85 million for the retail portfolio) or higher by approximately PLN 720 million (PLN 315 million for the corporate portfolio and PLN 405 million for the retail portfolio respectively).

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 255 million (including PLN 100 million for the corporate portfolio and PLN 155 million for the retail portfolio) or higher by approximately PLN 660 million (PLN 345 million for the corporate portfolio and PLN 315 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.

## ING Bank Śląski S.A. Group

Annual consolidated 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) |
|--------------------------|-------------------------|-------|------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 7.7%  | 4.2% | 5.0% |  |                                 |  |
|                          | Unemployment            | 3.8%  | 2.8% | 1.8% |  |                                 |  |
|                          | Real estate price index | 8.1%  | 6.3% | 4.3% | -24%   | 20%                             |  |
|                          | 3 months' interest rate | 0.6%  | 1.0% | 1.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 4.2%  | 3.7% | 3.4% |  |                                 |  |
|                          | Unemployment            | 4.7%  | 3.4% | 2.8% |  |                                 |  |
|                          | Real estate price index | 2.8%  | 4.6% | 4.6% | -11%   | 60%                             | 1,199.2  |
|                          | 3 months' interest rate | 0.1%  | 0.4% | 0.5% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | -4.8% | 5.4% | 2.3% |  |                                 |  |
|                          | Unemployment            | 6.8%  | 6.6% | 6.9% |  |                                 |  |
|                          | Real estate price index | -8.1% | 5.2% | 7.7% | 56%  | 20%                             |  |
|                          | 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) |
|--------------------------|-------------------------|-------|------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 7.7%  | 4.2% | 5.0% |  |                                 |  |
|                          | Unemployment            | 3.8%  | 2.8% | 1.8% |  |                                 |  |
|                          | Real estate price index | 8.1%  | 6.3% | 4.3% | -3%  | 20%                             |  |
|                          | 3 months' interest rate | 0.6%  | 1.0% | 1.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 4.2%  | 3.7% | 3.4% |  |                                 |  |
|                          | Unemployment            | 4.7%  | 3.4% | 2.8% |  |                                 |  |
|                          | Real estate price index | 2.8%  | 4.6% | 4.6% | -1%  | 60%                             | 1,337.7  |
|                          | 3 months' interest rate | 0.1%  | 0.4% | 0.5% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | -4.8% | 5.4% | 2.3% |  |                                 |  |
|                          | Unemployment            | 6.8%  | 6.6% | 6.9% |  |                                 |  |
|                          | Real estate price index | -8.1% | 5.2% | 7.7% | 5%   | 20%                             |  |
|                          | 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) |
|--------------------------|-------------------------|-------|------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 7.7%  | 4.2% | 5.0% |  |                                 |  |
|                          | Unemployment            | 3.8%  | 2.8% | 1.8% |  |                                 |  |
|                          | Real estate price index | 8.1%  | 6.3% | 4.3% | -14%   | 20%                             |  |
|                          | 3 months' interest rate | 0.6%  | 1.0% | 1.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 4.2%  | 3.7% | 3.4% |  |                                 |  |
|                          | Unemployment            | 4.7%  | 3.4% | 2.8% |  |                                 |  |
|                          | Real estate price index | 2.8%  | 4.6% | 4.6% | -6%  | 60%                             | 2,536.9  |
|                          | 3 months' interest rate | 0.1%  | 0.4% | 0.5% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | -4.8% | 5.4% | 2.3% |  |                                 |  |
|                          | Unemployment            | 6.8%  | 6.6% | 6.9% |  |                                 |  |
|                          | Real estate price index | -8.1% | 5.2% | 7.7% | 32%  | 20%                             |  |
|                          | 3 months' interest rate | 0.0%  | 0.2% | 0.3% |  |                                 |  |

## ING Bank Śląski S.A. Group

Annual consolidated 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) |
|--------------------------|-------------------------|------|-------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 4.2% | 6.1%  | 5.0% |  |                                 |  |
|                          | Unemployment            | 2.5% | 1.9%  | 1.5% |  |                                 |  |
|                          | Real estate price index | 5.9% | 8.8%  | 7.5% | -14%   | 20%                             |  |
|                          | 3 months' interest rate | 1.8% | 1.9%  | 2.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 3.5% | 3.0%  | 2.9% |  |                                 |  |
|                          | Unemployment            | 2.8% | 2.7%  | 2.7% |  |                                 |  |
|                          | Real estate price index | 5.1% | 4.9%  | 4.9% | -4%  | 60%                             | 804.3  |
|                          | 3 months' interest rate | 1.6% | 1.6%  | 1.6% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | 1.3% | -0.5% | 0.6% |  |                                 |  |
|                          | Unemployment            | 4.4% | 5.6%  | 6.6% |  |                                 |  |
|                          | Real estate price index | 1.2% | 0.1%  | 4.3% | 22%  | 20%                             |  |
|                          | 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) |
|--------------------------|-------------------------|------|-------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 4.2% | 6.1%  | 5.0% |  |                                 |  |
|                          | Unemployment            | 2.5% | 1.9%  | 1.5% |  |                                 |  |
|                          | Real estate price index | 5.9% | 8.8%  | 7.5% | -7%  | 20%                             |  |
|                          | 3 months' interest rate | 1.8% | 1.9%  | 2.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 3.5% | 3.0%  | 2.9% |  |                                 |  |
|                          | Unemployment            | 2.8% | 2.7%  | 2.7% |  |                                 |  |
|                          | Real estate price index | 5.1% | 4.9%  | 4.9% | 0%   | 60%                             | 780.1  |
|                          | 3 months' interest rate | 1.6% | 1.6%  | 1.6% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | 1.3% | -0.5% | 0.6% |  |                                 |  |
|                          | Unemployment            | 4.4% | 5.6%  | 6.6% |  |                                 |  |
|                          | Real estate price index | 1.2% | 0.1%  | 4.3% | 7%   | 20%                             |  |
|                          | 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) |
|--------------------------|-------------------------|------|-------|------|--|---------------------------------|--|
| <b>Upside scenario</b>   | GDP                     | 4.2% | 6.1%  | 5.0% |  |                                 |  |
|                          | Unemployment            | 2.5% | 1.9%  | 1.5% |  |                                 |  |
|                          | Real estate price index | 5.9% | 8.8%  | 7.5% | -10%   | 20%                             |  |
|                          | 3 months' interest rate | 1.8% | 1.9%  | 2.3% |  |                                 |  |
| <b>Baseline scenario</b> | GDP                     | 3.5% | 3.0%  | 2.9% |  |                                 |  |
|                          | Unemployment            | 2.8% | 2.7%  | 2.7% |  |                                 |  |
|                          | Real estate price index | 5.1% | 4.9%  | 4.9% | -2%  | 60%                             | 1,584.3  |
|                          | 3 months' interest rate | 1.6% | 1.6%  | 1.6% |  |                                 |  |
| <b>Negative scenario</b> | GDP                     | 1.3% | -0.5% | 0.6% |  |                                 |  |
|                          | Unemployment            | 4.4% | 5.6%  | 6.6% |  |                                 |  |
|                          | Real estate price index | 1.2% | 0.1%  | 4.3% | 15%  | 20%                             |  |
|                          | 3 months' interest rate | 1.3% | 1.0%  | 0.6% |  |                                 |  |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

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

The relevant recording rules were delineated in item 15.4. *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 Group are verified prior to their usage.

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

Sensitivity analysis of the valuation of financial instruments not listed on active markets is presented in Note 38. *Fair value*

**3.3. Provisions for retirement and pension benefit**

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated 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%)   | 56.91   | 63.77        | 71.92         |
| Salary raise (-0.25% / base variant / +0.25) | 61.80   | 63.77        | 65.82         |

**2019**

|  | Provisions for retirement and pension benefit |              |               |
|--|---|--------------|---------------|
|  | Lower bracket                                 | Base variant | Upper bracket |
| Discount rate (+ 1% / base variant / - 1%)   | 50.07   | 55.91        | 62.84         |
| Salary raise (-0.25% / base variant / +0.25) | 54.37   | 55.91        | 57.51         |

**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 Group assessed whether there are significant costs of withdrawal from the contract. The contracts for an indefinite period owned by the Group are primarily property lease contracts. If there are no significant costs, the notice period for both parties to the contract has been set as the lease period. If the costs of leaving the contract are significant, the Group has adopted a period of 4 years as the lease period. The adopted period results from the strategy of physical presence in a given location, ensuring flexibility and business efficiency, and taking into account changing expectations and preferences of the customers.

The adopted estimates do not have a significant impact on the value of right-of-use assets. 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 Group 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 33.

### **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),

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- make a proportional reimbursement of these costs, i.e. the reimbursement should cover the period from the date of actual repayment of the loan to the date of final repayment specified in the contract.

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

- refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Group estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision was estimated based on the assumptions regarding the number of customers who can submit complaints to the Group and the sum of commission on overpaid loans. In 2019 the Group created PLN 17.1 million provisions in this respect. An increase in the number of complaints by 10% would increase the provision by PLN 1.7 million. As at 31 December 2020, the value of the provision was PLN 8.9 million.
- With respect to prepayments made from 11 September 2019, the Group returns the commissions charged after the customer repays the loan earlier proportionally. These revenues are recognised using the effective interest rate method, which has a faster rate of revenue recognition than the straight-line method used to calculate returns. In order to properly take into account the impact on the valuation of receivables and the financial result, the Group 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.

**4. Consolidation policies****4.1. Subsidiaries**

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

If the control ceases, the Bank:

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

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

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

**4.2. Associates**

Associates are all entities over which the Bank has significant influence but not control in financial or operational terms, generally accompanying a share of between 20% and 50% of the voting rights. The consolidated financial statements include the Group share in profits or losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date the significant influence ceases.

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

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

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

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

**4.3. Business combinations****4.3.1. Assumption of control over an entity other than the ING Group member**

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

**4.3.2. Transactions eliminated in consolidation process**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**5. Foreign currency****5.1. The functional currency and the presentation currency**

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

**5.2. Transactions in foreign currency**

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

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

**6. Net interest income**

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

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

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

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**7. Commission income and costs**

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

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

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

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

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

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

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

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

**Income and costs under bancassurance commission**

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

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

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

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

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

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

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

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

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

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

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

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

## **10. Net (loss)/income on hedge accounting**

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

**13. Lease contracts and factoring services****13.1. The Group as lessor**

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

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

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

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

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**13.2. Factoring services**

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

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

**14. Financial assets and liabilities****14.1. Initial recognition**

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

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

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

**14.2. Classification of financial assets**

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

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

**Financial assets measured at amortised cost**

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

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

**Debt financial assets measured at fair value through other comprehensive income**

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

solely payments of principal and interest on the principal amount outstanding.

**Equity instruments measured at fair value through other comprehensive income**

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

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

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

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

**Business model assessment**

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

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

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- in response to regulatory/supervisory requirements,
- liquidity crisis (stress case scenario),
- change of the credit limit of the particular borrower.

The Group took the following assumptions:

- Sales close to maturity means the sales of financial assets whose:
  - original maturity is more than 1 year and sales occurs less than 6 months before maturity date,
  - original maturity is less than 1 year and sales occurs less than 3 months before maturity date.
- infrequent sales means 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 Group formulated the following definitions:

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

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

In particular the Group verifies the following conditions:

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

**14.3. Classification of financial liabilities**

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

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

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

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

**Financial liabilities measured at amortised cost**

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

**14.4. Derecognition**

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

The Group transfers a financial asset if and only if it 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 Group retains contractual rights to cash flows but assumes a contractual obligation to transfer these cash flows, the Group treats such a transaction as a transfer of a financial asset only if all three of the following conditions are met:

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

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

derecognizes the financial asset,

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

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

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

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

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

**14.5. Modification of contractual cash flows**

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

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

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

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

**14.6. Measurement**

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, except for the financial assets 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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- contingent consideration recognised by the Group acting as an acquirer in a business combination to which IFRS 3 applies, which it shall subsequently be measured at fair value through profit or loss.

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

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

Granted financial guarantees are measured at the higher of:

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

**14.7. Reclassification**

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

In case of reclassification of:

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

asset measured at fair value through profit or loss – the cumulative gain or loss previously recognised in other comprehensive income is removed from equity to financial result as reclassification adjustment in accordance with IAS 1.

**14.8. Gains and losses resulting from subsequent measurement**

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

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

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

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

Foreign exchange gains and losses arising from a change in the fair value of a financial asset measured at fair value through other comprehensive income denominated in foreign currency are recognised directly in equity only 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 Group establishes the fair value with the use of valuation techniques that include using recent arm's length market transactions, discounted cash flow analysis and option pricing models and other techniques commonly used by market players.

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

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

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

- Level 1: financial assets/liabilities measured directly on the basis of prices quoted in the

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

active market.

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

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

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

**14.9. Cost basis of debt and equity securities**

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

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

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

**14.10. Derivative instruments and hedge accounting**

Derivative instruments are measured at fair value without cost of transactions, which are to be incurred 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 Group. This approach provides for the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated) and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Group insolvency are calculated by analogy.

In addition, for receivables resulting from matured or terminated and unsettled transactions as at the balance sheet date, the Group 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*

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

and FX result, whereas the impairments losses for matured transactions in the item *Impairment for expected credit losses*.

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

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

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

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

The Group uses derivative instruments in order to hedge against FX and interest rate risk, arising from activity of the 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.

**14.10.1. Hedge accounting**

The Group 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 Group designates certain derivative instruments as fair value hedge or cash flow hedge. The Group 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 Group. The Group specifies the manner for assessing the effectiveness of the hedging instrument in offsetting changes in cash flows due to the hedged transaction in terms of mitigation of risk the Group hedges against,
- the hedging instrument and hedged instrument are similar, especially nominal value, maturity date and sensitivity to 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

**Cash flow hedge**

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

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

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

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

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

Further, the Group 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).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group 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.

**14.10.2. Derivative instruments not qualifying as hedging instruments**

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

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

**14.11. Offsetting financial instruments**

The Group offsets financial assets and financial liabilities and 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 Group concludes master agreements with contracting parties, with which the Bank concludes transactions. These master agreements provide for offsetting financial assets and liabilities in case of a breach of the master agreement. Due to the conditional nature of these contractual provisions, there is no netting in the financial statements and the effects of conditional netting are presented in note 39.

**14.12. Repo, reverse repo transactions**

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

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

**14.13. Impairment**

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

possible outcomes,

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

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

**Three stage approach**

During the process of estimating credit provisions, the change of the credit quality for a particular credit exposure since initial recognition is described in the Group 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 Group qualifies the financial exposures to Stage 1, 2 or 3 using a cascade approach in the following order:

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

**Significant increase in credit risk**

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

- Significant increase in the lifetime PD at reporting date comparing to the lifetime PD at initial recognition occurring over the period from the reporting date till maturity date;
- Watch list status,
- 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 Group assesses whether a financial assets item or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired if and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. The Group recognizes the expected credit losses based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group in the process of restructuring of a significant amount of corporate client receivables resulting in a reduction in cash flows from a given financial asset,
- write-down or write-off of retail credit exposure in the debt collection process,
- filing by the Group, the client's counterparty or another bank for the client's bankruptcy or the initiation of proceedings under the restructuring law,
- declaration of bankruptcy; in the case of corporate credit exposures, the client was put into liquidation, ceased operations,
- the credit exposure becomes due to the termination of the credit agreement by the Group,
- sale by the Group of a credit receivable (or its part) with a loss greater than 5% of the balance sheet exposure amount, if the sale was caused by the deteriorating credit quality of the exposure,
- the occurrence of an overdue exceeding 30 days or granting another forbearance on a credit exposure classified initially as forbearance non-performing, and then healed and in the forbearance performing status during the trial period,
- interest-free status (interest stoppage) for a credit exposure,
- for retail credit exposure, over 3-month arrears in repayment of due liabilities under the loan with a one-off repayment of the entire mobilised capital at the end of the loan period,
- for corporate credit exposures – making a decision to recover debts as part of the debt collection strategy,
- questioning the balance sheet credit exposure by the client in court proceedings

Impairment triggers

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

The triggers for impairment for corporate credit exposures 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

and the company belonging to it is in default,

- over 3-month arrears in repayment (including all interest, principal and commissions) under the loan with a one-off repayment of all disbursed capital at the end of the loan period (not applicable if the repayment frequency exceeds one month),
- the customer belongs to the same economic or legal group as the defaulting debtor,
- disappearance of the possibility of refinancing,
- for exposures resulting from transactions concluded on the financial market – disappearance of an active market (e.g. suspension of quotations on the WSE) for a given financial asset (shares, bonds, other securities) held by the Group due to financial difficulties of the issuer / client, which may have a negative effect on the future cash flows of a given financial asset,
- the customer ceases to repay principal, interest or commission and the delay in repayment or the oldest unauthorised overdraft continues for more than 45 calendar days,
- bankruptcy threat, submission of an application to initiate proceedings under restructuring law or other financial reorganization, which may result in non-repayment of a financial asset or its delay,
- no intention or possibility of repayment by the Debtor due to the existing financial problems; in particular, the following events may indicate significant financial difficulties (the events described in points "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 Group 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 Group 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 Group expects that the situation will not improve until the end of the annual accounting period and this situation may result in failure to repay the financial asset or its delay,
  - g) active enforcement to client accounts kept in the Group, if the oldest active enforcement order persists for more than 90 days and the total amount of active titles exceeds PLN 100 thousand; PLN for customers of the corporate sales network or PLN 500 thousand for strategic clients,
  - h) unsettled claims under guarantees granted by the Group (lack of customer funds), if the customer's overdue liability to the Group due to the payment of the guarantee by the Group persists for more than 45 days from the date of payment of the guarantee claim,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- a material breach of contractual terms by the customer, which may have a negative impact on future cash flows from a given financial asset (if there has been a material breach of contractual terms, but the Group, after identifying and assessing the causes and effects of such breach, accepted them (temporarily or permanently) or changed, such an event is not treated as a trigger for impairment),
- 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 Group and undisclosed assets of the client,
- crisis of the sector in which the client operates, combined with the borrower's weak position in a given sector,
- restructuring of the loan receivable for non-commercial reasons related to significant financial difficulties of the client, resulting in a change to the existing terms of the contract, full or partial refinancing of the exposure at risk, which would not have occurred if the client had not experienced these financial difficulties (including forbearance) and loss of the net present value of cash flows is equal to or less than 1%,
- credit fraud of the debtor towards the Bank or another ING Group entity,
- the exposure has received a forbearance 2 or more times in the last 5 years,
- a significant deterioration of the client's rating resulting in its reclassification to a risk class of at least 17 with a simultaneous drop by at least 4 classes.

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

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

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

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

The triggers for impairment for retail credit exposures include:

- failure to meet a minimum of three debt repayment arrangements within the current period of arrears,
- a natural person who has issued a surety in the Group for significant obligations of their company is in default or a natural person is a debtor of the Group and their company is in a state of default,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- the business client is related to the same group of debtors (legally or economically) in which one of the debtors is defaulted,
- no intention or possibility of repayment – in the Group's opinion, the debtor does not want to pay off the obligation or is unable to pay; the inability to repay the liability occurs when the debtor's sources of income are insufficient to repay the instalments due, e.g.
  - for an individual client: loss of job, termination of social benefits payments, divorce, serious illness, death of the debtor, obtaining information on untimely servicing of a debt of significant value in another bank (over 90 days overdue) or commencement of enforcement / debt collection activities by another bank,
  - for a business client: (anticipated) cash shortfall, (anticipated) high or sudden increase in leverage, (anticipated) breach of financial clauses, (anticipated) deterioration in a market where the debtor's position is weak,
- approving a forbearance to the customer that is not able to repay its financial obligations under a loan agreement with the Group due to existing or anticipated financial difficulties,
- credit fraud of the debtor towards the Group – reasonable suspicion of extortion of a loan, i.e. an obligation whose credit documentation or the established facts indicate that it was granted as a result of deliberate misrepresentation of the Group by presenting documents, certificates, and statements that are not factually correct,
- occurrence of minimum two forbearance instances within 5 years of granting the first forbearance.

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

The entire loan portfolio of retail, 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 Group in compliance with the agreement and a documented assessment,
- if no default or impairment is identified, a written justification for leaving the client in the performing portfolio should be prepared,
- if as a result of the assessment a situation of default or impairment was identified – reclassification of the client to the portfolio of non-performing exposures.

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

In practice, this means that for assets from the Stage 3 portfolio subject to individual assessment (individually significant financial assets), the impairment is calculated directly using discounted future cash flows for a given asset, and for assets from the Stage 3 portfolio subject to collective

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

The amount of the revaluation charge calculated collectively is based on the history of losses for asset portfolios with similar credit risk characteristics. For the purposes of determining risk parameters, the Group uses over thirty models for the needs of which exposures are classified into homogeneous groups with similar characteristics based on different criteria. 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 Group measures the lifetime expected credit losses LEL (Lifetime Expected Loss) – is the discounted amount of partial losses over the lifetime of the exposure, relating to default events in each 12-month time window by the maturity date of the exposure 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:

- $PD_t^{pit}$  – marginal PD, the expected percentage of default events within time window of 12 months after "t",
- $EAD_t^{pit}$  – the expected exposure at default within time window of 12 months after "t",
- $LGD_t^{pit}$  – 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group 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 Group assumes that for each time window of 12 months the event of default occurs on average in the middle of the period 0-12 months.

The Group measures the expected credit losses as the probability weighted average of the few macroeconomic scenarios (mostly three: a baseline, 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 Group determined the relation between the observable parameters of expected loss (PD, LGD) and macroeconomic factors as functions, based on which – at predicted macroeconomic factors – Bank computes the predicted parameter values of expected loss in a given year in the future in accordance with forward looking “point in time” approach.

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

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 since 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 Group could recover 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 Group 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 Group determined the events whereunder it is possible to reverse credit exposure impairment.

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset,
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Group books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

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

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.

#### 14.14. Purchased or originated credit impaired financial assets

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

Such assets may be recognised due to following reasons:

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

Those assets are excluded from 3-stage approach described in item 14.13 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.

#### 14.15. Forbearance and non-performing exposure

The Group 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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- because of the above, the Group 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 Group 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 Group 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 Group.

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

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

- significant exposure is overdue over 90 days,
- the Group is of the opinion that there is little probability that the client will meet all their credit liabilities without the Group 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**15. Property, plant and equipment and intangible assets****15.1. Property, plant and equipment****Own property, plant and equipment**

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

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

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

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

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

**Fixed assets in leasing**

The Group is a party to lease contracts, under which it receives the right to control the use of an identified asset for a given period in exchange for remuneration. The Group applies 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 Group 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 Group 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 Group at the present value of future lease payments. To determine the discounted value of leasing fees, the Group uses the leasing interest rate, and if the rate is not easily available, the Group uses the marginal interest rate. The Group determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which lease contracts and contract maturities are denominated. After the lease commencement date, the carrying amount of the liability:

- increased by accrued leasing interest, which is recognised in the income statement and

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

The Group uses the exemption for:

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

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

**15.2. Intangible assets**

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Goodwill**

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

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

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

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

**Computer software**

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

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

**Other intangible assets**

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

**Subsequent costs**

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

**15.3. Depreciation and amortization charges**

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

**15.4. Impairment of other non-financial assets**

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

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

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

**Recognition of impairment loss**

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

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

**Reversing impairment loss**

Goodwill impairment loss is not subject to reversal.

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

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

that is reasonable in relation to its present fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

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

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

**17. Other financial assets**

Other financial assets include trade receivables and other receivables.

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

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

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

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

**18. Provisions**

Provisions, including provisions for off-balance sheet liabilities, are recognised in the statement of financial position when the Group 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 Group 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 Group is in possession of the specific, formal restructuring plan determining at least the

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

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

**19. Prepayments and deferred income****19.1. Prepayments**

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

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

**19.2. Deferred income**

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

**20. Employee benefits****20.1. Benefits under the Act on employee pension programmes**

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

**20.2. Short-term employee benefits**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

**20.3. Long-term employee benefits****20.3.1. Benefits under the Labour Code regulations**

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

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

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

**20.3.2. Variable remuneration programme benefits**

Variable remuneration programme benefits consist of two parts:

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

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the 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.

**21. Equity**

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

**Share capital**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Dividends**

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

**Share premium**

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

**Accumulated other comprehensive income**

Accumulated other comprehensive income is created as a result of:

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

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

**Retained earnings**

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

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

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

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

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

**22. Cash and cash equivalents**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**23. Taxes****23.1. Income tax**

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

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

**23.2. Deferred income tax**

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

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

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

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

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

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

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

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

**23.3. Tax on certain financial institutions**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**23.4. Other taxes**

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**IV. Comparability of financial data**

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

- change in the presentation of commissions for the purchase of invoices under factoring (change a)

The Group changed the presentation of revenues related to the purchase of invoices under factoring – in the previous periods it was recognised in commission income, while now it is recognised in interest income. In the opinion of the Group, this change increases the transparency and information value of the income statement.

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

In 2020, the Group 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 Group 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 Group introduced a change in its accounting policy, judging that the change improved the reliability and usefulness of information presented in the financial statements. The Group recognizes that the legal risk associated with its CHF-indexed mortgage portfolio primarily affects the amount of the estimated contractual cash flows that the Group 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 Group 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).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

The Group 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 Group, the change increases the information value of the consolidated income statement.

- 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 d)

The Group created a new item in the assets of the consolidated 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 consolidated 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 consolidated statement of financial position were made more precise, which, in the Group's opinion, will increase the transparency of the financial statements.

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

**the period from 1 Jan 2019 to 31 Dec 2019**

|  | in Consolidated Financial<br>Statements<br>for the period<br>from 1 January 2019<br>to 31 December 2019<br>(approved data) | change<br>a) | change<br>b) | change<br>c) | in Consolidated Financial<br>Statements<br>for the period<br>from 1 January 2020<br>to 31 December 2020<br>(comparable data) |
|--|--|--------------|--------------|--------------|--|
| Interest income  | 5,280.1  | 31.2         |              |              | 5,311.3  |
| Interest expenses  | 986.2  |              |              |              | 986.2  |
| <b>Net interest income</b>   | <b>4,293.9</b>   | <b>31.2</b>  | <b>0.0</b>   | <b>0.0</b>   | <b>4,325.1</b>   |
| Commission income  | 1,749.9  | -31.2        |              | 5.4          | 1,724.1  |
| Commission expenses  | 378.2  |              |              | 5.4          | 383.6  |
| <b>Net commission income</b>   | <b>1,371.7</b>   | <b>-31.2</b> | <b>0.0</b>   | <b>0.0</b>   | <b>1,340.5</b>   |
| Net income on financial instruments measured at fair value through profit or loss and FX result                    | 108.3  |              |              |              | 108.3  |
| Net income on the sale of securities measured at fair value through other comprehensive income and dividend income | 36.3   |              |              |              | 36.3   |
| Net (loss)/income on hedge accounting  | -14.3  |              |              |              | -14.3  |
| Net (loss)/income on other basic activities  | -6.1   |              |              |              | -6.1   |
| <b>Net income on basic activities</b>  | <b>5,789.8</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>5,789.8</b>   |
| General and administrative expenses  | 2,497.4  |              |              |              | 2,497.4  |
| Impairment for expected credit losses  | 605.5  |              | -31.2        |              | 574.3  |
| 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 associates accounted for using the equity method   | 6.6  |              |              |              | 6.6  |
| <b>Gross profit</b>  | <b>2,257.8</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>2,257.8</b>   |
| Income tax   | 599.1  |              |              |              | 599.1  |
| <b>Net profit</b>  | <b>1,658.7</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>1,658.7</b>   |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

as at 31.12.2019

| in Consolidated Financial Statements<br>for the period from 1 January 2019 to 31 December 2019<br>(approved data) |                  | change<br>d) | in Consolidated Financial Statements<br>for the period from 1 January 2020 to 31 December 2020<br>(comparable data) |                  |
|---|------------------|--------------|---|------------------|
| <b>Assets</b>   |                  |              | <b>Assets</b>   |                  |
| 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  | 798.5            |              | Loans and other receivables to other banks  | 798.5            |
| 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   | 33,824.5         | -0.1         | Investment securities   | 33,824.4         |
| Loans and other receivables to customers  | 118,288.1        | -160.3       | Loans and other receivables to customers measured at amortised cost   | 118,127.8        |
| Investments in associates   | 181.0            |              | Investments in associates accounted for using the equity method   | 181.0            |
| Property, plant and equipment   | 956.0            |              | Property, plant and equipment   | 956.0            |
| Intangible assets   | 429.9            |              | Intangible assets   | 429.9            |
| Assets held for sale  | 3.6              |              | Assets held for sale  | 3.6              |
| Deferred tax assets   | 445.6            |              | Deferred tax assets   | 445.6            |
| Other assets  | 204.8            |              | Other assets  | 204.8            |
| <b>Total assets</b>   | <b>158,610.7</b> | <b>0.0</b>   | <b>Total assets</b>   | <b>158,610.7</b> |
| <b>Liabilities</b>  |                  |              | <b>Liabilities</b>  |                  |
| Liabilities to other banks  | 6,256.1          |              | Liabilities to other banks  | 6,256.1          |
| 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  | 130,473.5        |              | Liabilities to customers  | 130,473.5        |
| Liabilities from debt securities issued   | 399.7            |              | Liabilities from debt securities issued   | 399.7            |
| Subordinated liabilities  | 2,131.1          |              | Subordinated liabilities  | 2,131.1          |
| Provisions  | 205.7            |              | Provisions  | 205.7            |
| Current income tax liabilities  | 381.3            |              | Current income tax liabilities  | 381.3            |
| Other liabilities   | 2,078.9          |              | Other liabilities   | 2,078.9          |
| <b>Total liabilities</b>  | <b>143,387.4</b> | <b>0.0</b>   | <b>Total liabilities</b>  | <b>143,387.4</b> |
| <b>Total equity</b>   | <b>15,223.3</b>  | <b>0.0</b>   | <b>Total equity</b>   | <b>15,223.3</b>  |
| <b>Total equity and liabilities</b>   | <b>158,610.7</b> | <b>0.0</b>   | <b>Total equity and liabilities</b>   | <b>158,610.7</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

as at 31.12.2018

| in Consolidated Financial Statements<br>for the period from 1 January 2019 to 31 December 2019<br>(approved data) |                  | change<br>c) | in Consolidated Financial Statements<br>for the period from 1 January 2020 to 31 December 2020<br>(comparable data) |                  |
|---|------------------|--------------|---|------------------|
| <b>Assets</b>   |                  |              | <b>Assets</b>   |                  |
| 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  | 103,125.8        | -218.4       | Loans and other receivables to customers measured at amortised cost   | 102,907.4        |
| Investments in associates   | 1.0              |              | Investments in associates accounted for using the equity method   | 1.0              |
| Property, plant and equipment   | 556.1            |              | Property, plant and equipment   | 556.1            |
| Intangible assets   | 439.2            |              | Intangible assets   | 439.2            |
| Assets held for sale  | 10.9             |              | Assets held for sale  | 10.9             |
| Deferred tax assets   | 398.2            |              | Deferred tax assets   | 398.2            |
| Other assets  | 486.0            |              | Other assets  | 486.0            |
| <b>Total assets</b>   | <b>141,812.9</b> | <b>0.0</b>   | <b>Total assets</b>   | <b>141,812.9</b> |
| <b>Liabilities</b>  |                  |              | <b>Liabilities</b>  |                  |
| Liabilities to other banks  | 5,195.8          |              | Liabilities to other banks  | 5,195.8          |
| 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  | 117,682.5        |              | Liabilities to customers  | 117,682.5        |
| 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  | 152.4            |              | Provisions  | 152.4            |
| Current income tax liabilities  | 280.3            |              | Current income tax liabilities  | 280.3            |
| Other liabilities   | 1,503.7          |              | Other liabilities   | 1,503.7          |
| <b>Total liabilities</b>  | <b>128,491.3</b> | <b>0.0</b>   | <b>Total liabilities</b>  | <b>128,491.3</b> |
| <b>Total equity</b>   | <b>13,321.6</b>  | <b>0.0</b>   | <b>Total equity</b>   | <b>13,321.6</b>  |
| <b>Total equity and liabilities</b>   | <b>141,812.9</b> | <b>0.0</b>   | <b>Total equity and liabilities</b>   | <b>141,812.9</b> |

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

the period from 1 Jan 2019 to 31 Dec 2019

|  | in Consolidated<br>Financial Statements<br>for the period<br>from 1 January 2019<br>to 31 December 2019<br>(approved data) | change<br>a) | change<br>d) | in Consolidated<br>Financial Statements<br>for the period<br>from 1 January 2019<br>to 31 December 2019<br>(comparable data) |
|--|--|--------------|--------------|--|
| <b>Net cash flow from operating activities</b>                           | <b>-235.4</b>  | <b>0.0</b>   | <b>0.0</b>   | <b>-235.4</b>  |
| Interest accrued (from the income statement)                             | -4,293.9   | -31.2        |              | -4,325.1   |
| Interest received  | 5,323.1  | 31.2         |              | 5,354.3  |
| 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                       | -15,205.9  |              | -58.1        | -15,264.0  |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**V. Notes to the consolidated financial statements****1. Segment reporting****Segments of operation**

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

- retail banking segment,
- corporate banking segment.

The 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 Group's internal regulations. In 2020, the Group 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 Group 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 Group, 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 Group's business lines.

Retail banking segment

Within the framework of retail banking, the Group 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, capital market operations conducted by the Parent company, products related to leasing and factoring services offered by ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Measurement**

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

**Geographic segments**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|  | Retail banking<br>segment | Corporate banking<br>segment | TOTAL            |
|--|---------------------------|------------------------------|------------------|
| <b>Income total</b>  | <b>2,942.6</b>            | <b>3,272.0</b>               | <b>6,214.6</b>   |
| net interest income  | 2,439.9                   | 2,101.9                      | 4,541.8          |
| commission income, including:  | 738.7                     | 1,224.8                      | 1,963.5          |
| transaction margin on currency exchange transactions                       | 64.4                      | 370.7                        | 435.1            |
| account maintenance fees   | 97.7                      | 263.2                        | 360.9            |
| lending commissions  | 19.8                      | 331.2                        | 351.0            |
| 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                     | 27.6                         | 162.5            |
| factoring and lease contracts commissions                                  | 0.0                       | 31.1                         | 31.1             |
| other commissions  | 67.7                      | 101.8                        | 169.5            |
| commission expenses  | 281.4                     | 153.7                        | 435.1            |
| <b>net commission income</b>   | <b>457.3</b>              | <b>1,071.1</b>               | <b>1,528.4</b>   |
| other income/expenses  | 45.4                      | 99.0                         | 144.4            |
| <b>General and administrative expenses</b>                                 | <b>1,439.6</b>            | <b>1,322.9</b>               | <b>2,762.5</b>   |
| including: depreciation and amortization                                   | 191.0                     | 103.2                        | 294.2            |
| <b>Segment result</b>  | <b>1,503.0</b>            | <b>1,949.1</b>               | <b>3,452.1</b>   |
| Impairment for expected credit losses                                      | 316.0                     | 488.6                        | 804.6            |
| 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 associates accounted for using the equity method | 16.1                      | 0.0                          | 16.1             |
| <b>Gross profit</b>  | <b>736.4</b>              | <b>1,175.3</b>               | <b>1,911.7</b>   |
| Income tax   | -                         | -                            | 574.1            |
| <b>Net profit</b>  | -                         | -                            | <b>1,337.6</b>   |
| - attributable to shareholders of ING Bank Śląski S.A.                     | -                         | -                            | 1,337.6          |
| Assets of the segment  | 82,866.1                  | 101,730.4                    | 184,596.5        |
| Segment investments in associates accounted for using the equity method    | 174.1                     | -                            | 174.1            |
| Other assets (not allocated to segments)                                   | -                         | -                            | 1,825.1          |
| <b>Total Assets</b>  | <b>83,040.2</b>           | <b>101,730.4</b>             | <b>186,595.7</b> |
| Segment liabilities  | 96,781.5                  | 68,244.0                     | 165,025.5        |
| Other liabilities (not allocated to segments)                              | -                         | -                            | 2,951.9          |
| Equity   | -                         | -                            | 18,618.3         |
| <b>Total equity and liabilities</b>  | <b>96,781.5</b>           | <b>68,244.0</b>              | <b>186,595.7</b> |
| Capital expenditure  | 86.1                      | 79.1                         | 165.2            |
| Net cash flow from operating activities                                    | 6,198.0                   | 13,289.4                     | 19,487.4         |
| Net cash flow from operating activities (not allocated to segments)        | -                         | -                            | -73.7            |
| Net cash flow from operating activities total                              | 6,198.0                   | 13,289.4                     | 19,413.7         |
| Net cash flows from investing activities                                   | -9,963.1                  | -10,951.9                    | -20,915.0        |
| Net cash flows from financing activities                                   | -                         | 732.0                        | 732.0            |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|  | Retail banking<br>segment | Corporate banking<br>segment | TOTAL            |
|--|---------------------------|------------------------------|------------------|
| <b>Income total</b>  | <b>2,792.2</b>            | <b>2,997.6</b>               | <b>5,789.8</b>   |
| net interest income  | 2,309.9                   | 2,015.2                      | 4,325.1          |
| commission income, including:  | 671.2                     | 1,052.9                      | 1,724.1          |
| transaction margin on currency exchange transactions                       | 55.9                      | 333.8                        | 389.7            |
| account maintenance fees   | 98.3                      | 195.2                        | 293.5            |
| lending commissions  | 27.0                      | 300.1                        | 327.1            |
| payment and credit cards fees  | 270.1                     | 81.8                         | 351.9            |
| participation units distribution fees                                      | 74.5                      | 0.0                          | 74.5             |
| insurance product offering commissions                                     | 110.4                     | 25.1                         | 135.5            |
| factoring and lease contracts commissions                                  | 0.0                       | 24.6                         | 24.6             |
| other commissions  | 35.0                      | 92.3                         | 127.3            |
| commission expenses  | 253.3                     | 130.3                        | 383.6            |
| <b>net commission income</b>   | <b>417.9</b>              | <b>922.6</b>                 | <b>1,340.5</b>   |
| other income/expenses  | 64.4                      | 59.8                         | 124.2            |
| <b>General and administrative expenses</b>                                 | <b>1,323.9</b>            | <b>1,173.5</b>               | <b>2,497.4</b>   |
| including: depreciation and amortization                                   | 184.4                     | 92.4                         | 276.8            |
| <b>Segment result</b>  | <b>1,468.3</b>            | <b>1,824.1</b>               | <b>3,292.4</b>   |
| Impairment for expected credit losses                                      | 162.4                     | 411.9                        | 574.3            |
| 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 associates accounted for using the equity method | 7.5                       | -0.9                         | 6.6              |
| <b>Gross profit</b>  | <b>1,114.9</b>            | <b>1,142.9</b>               | <b>2,257.8</b>   |
| Income tax   | -                         | -                            | 599.1            |
| <b>Net profit</b>  | -                         | -                            | <b>1,658.7</b>   |
| - attributable to shareholders of ING Bank Śląski S.A.                     | -                         | -                            | 1,658.7          |
| Assets of the segment  | 67,772.2                  | 88,840.9                     | 156,613.1        |
| Segment investments in associates accounted for using the equity method    | 176.7                     | 4.3                          | 181.0            |
| Other assets (not allocated to segments)                                   | -                         | -                            | 1,816.6          |
| <b>Total Assets</b>  | <b>67,948.9</b>           | <b>88,845.2</b>              | <b>158,610.7</b> |
| Segment liabilities  | 85,532.8                  | 55,188.7                     | 140,721.5        |
| Other liabilities (not allocated to segments)                              | -                         | -                            | 2,665.9          |
| Equity   | -                         | -                            | 15,223.3         |
| <b>Total equity and liabilities</b>  | <b>85,532.8</b>           | <b>55,188.7</b>              | <b>158,610.7</b> |
| Capital expenditure  | 102.8                     | 91.2                         | 194.0            |
| Net cash flow from operating activities                                    | -1,306.3                  | 1,077.4                      | -228.9           |
| Net cash flow from operating activities (not allocated to segments)        | -                         | -                            | -41.2            |
| Net cash flow from operating activities total                              | -1,306.3                  | 1,077.4                      | -270.1           |
| Net cash flows from investing activities                                   | -656.3                    | -450.0                       | -1,106.3         |
| Net cash flows from financing activities                                   | -                         | 1,417.5                      | 1,417.5          |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2. Net interest income**

|  | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <b>Interest income, including:</b>   | <b>5,246.9</b> | <b>5,311.3</b> |
| <b>Interest income calculated using effective interest rate method, including:</b>                 | <b>5,244.1</b> | <b>5,307.2</b> |
| <b>Interest on financial instruments measured at amortised cost</b>                                | <b>4,902.2</b> | <b>4,873.1</b> |
| interest on loans and other receivables to other banks   | 19.1           | 42.0           |
| interest on loans and other receivables to customers   | 4,502.8        | 4,571.1        |
| interest on investment securities  | 380.3          | 260.0          |
| <b>Interest on investment securities measured at fair value through other comprehensive income</b> | <b>341.9</b>   | <b>434.1</b>   |
| <b>Other interest income, including:</b>   | <b>2.8</b>     | <b>4.1</b>     |
| interest on loans and other receivables to customers measured at fair value through profit or loss | 2.8            | 4.1            |
| <b>Interest expenses, including:</b>   | <b>705.1</b>   | <b>986.2</b>   |
| interest on deposits from other banks  | 19.9           | 58.3           |
| interest on deposits from customers  | 642.4          | 891.1          |
| interest on issue of debt securities   | 8.4            | 9.8            |
| interest on subordinated liabilities   | 30.4           | 19.7           |
| interest on lease liabilities  | 4.0            | 7.3            |
| <b>Net interest income</b>   | <b>4,541.8</b> | <b>4,325.1</b> |

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 92.6 million compared to PLN 89.3 million for 2019.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**3. Net commission income**

|   | 2020           | 2019           |
|---|----------------|----------------|
| <b>Commission income</b>  |                |                |
| transaction margin on currency exchange transactions                              | 435.1          | 389.7          |
| account maintenance fees  | 360.9          | 293.5          |
| lending commissions   | 351.0          | 327.1          |
| payment and credit cards fees   | 374.7          | 351.9          |
| participation units distribution fees   | 78.7           | 74.5           |
| insurance product offering commissions  | 162.5          | 135.5          |
| factoring and lease contracts commissions   | 31.1           | 24.6           |
| brokerage activity fees   | 63.1           | 20.1           |
| fiduciary and custodian fees*   | 32.2           | 28.2           |
| foreign commercial business   | 34.0           | 38.1           |
| agency in financial instruments transactions                                      | 5.8            | 6.2            |
| other commission  | 34.4           | 34.7           |
| related to assets / liabilities not measured at fair value through profit or loss | 1.3            | 0.9            |
| other   | 33.1           | 33.8           |
| <b>Total commission income</b>  | <b>1,963.5</b> | <b>1,724.1</b> |
| <b>Commission expenses</b>  |                |                |
| card fees paid  | 234.4          | 204.7          |
| commission paid on agency in selling deposit products                             | 59.0           | 54.8           |
| brokerage activity fees   | 31.8           | 15.3           |
| commission paid on disclosing credit information                                  | 16.5           | 16.6           |
| 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            |
| leasing services  | 3.1            | 2.9            |
| other commission  | 28.8           | 34.0           |
| related to assets / liabilities not measured at fair value through profit or loss | 9.8            | 12.4           |
| other   | 19.0           | 21.6           |
| <b>Total commission expenses</b>  | <b>435.1</b>   | <b>383.6</b>   |
| <b>Net commission income</b>  | <b>1,528.4</b> | <b>1,340.5</b> |

\*) Fiduciary and custodian fees show the commissions earned on custody services, where the Group 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 383.4 million from granting loans, factoring and leasing services (PLN 352.6 million in 2019),
- costs in the total amount of PLN 88.4 million due to intermediation in the sale of deposit products, provision of credit information and leasing services (PLN 86.7 million in 2019).

Revenue from contracts with customers within the meaning of IFRS 15 in 2020 amounted to PLN 1,580.1 million compared to PLN 1,371.5 million in 2019.

**ING Bank Śląski S.A. Group**

Annual consolidated 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  | 61.1         | 46.4         |
| FX result   | 53.0         | 68.4         |
| currency derivatives  | 8.1          | -22.0        |
| Net income on interest rate derivatives   | 5.5          | 39.4         |
| 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          |
| <b>Total</b>  | <b>103.5</b> | <b>108.3</b> |

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 dividend income**

|  | 2020 | 2019 |
|--|------|------|
| Net income on the sale of securities measured at amortised cost  | 7.3  | 0.0  |
| Net income on sale of securities measured at fair value through other comprehensive income and dividend income, including: | 31.1 | 36.3 |
| sale of debt securities  | 22.7 | 29.3 |
| dividend income  | 8.4  | 7.0  |

Dividend income received in 2020 and 2019 comes from entities whose shares the Group 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        |
| <b>Net (loss)/income on hedge accounting</b> | <b>11.5</b> | <b>-14.3</b> |

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

**ING Bank Śląski S.A. Group**

Annual consolidated 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  | 9.4         | 13.8        |
| Net income on disposal of property, plant and equipment and intangible assets | -1.5        | -0.2        |
| Banking activity-related compensations and losses                             | -3.7        | -3.0        |
| Provision for commission refunds for early loan repayments *                  | 0.0         | -17.1       |
| Other   | -13.2       | 0.4         |
| <b>Net (loss)/income on other basic activities</b>                            | <b>-9.0</b> | <b>-6.1</b> |

\* As described in Note 3.6 in Chapter III Significant accounting policies and Note 33. *Provisions*.**8. General and administrative expenses**

|  | 2020           | 2019           |
|--|----------------|----------------|
| <b>Personnel expenses, including</b>                         | <b>1,314.0</b> | <b>1,202.6</b> |
| wages and salaries, including:                               | 1,079.2        | 985.2          |
| variable remuneration programme                              | 28.5           | 34.2           |
| ING Group's incentive programme                              | 0.1            | 0.2            |
| retirement benefits  | 4.7            | 3.7            |
| employee benefits  | 234.8          | 217.4          |
| <b>Cost of marketing and promotion</b>                       | <b>123.3</b>   | <b>119.4</b>   |
| <b>Depreciation and amortisation, including:</b>             | <b>294.2</b>   | <b>276.8</b>   |
| on property, plant and equipment                             | 214.4          | 198.7          |
| including depreciation of the right to use                   | 104.4          | 96.8           |
| on intangible assets   | 79.8           | 78.1           |
| <b>Other general and administrative expenses, including:</b> | <b>1,031.0</b> | <b>898.6</b>   |
| IT costs   | 251.0          | 221.3          |
| communication costs  | 44.7           | 51.0           |
| transport and representation costs                           | 24.2           | 37.0           |
| maintenance of buildings                                     | 96.0           | 100.0          |
| costs of short-term leasing and low-value leasing            | 13.3           | 22.0           |
| obligatory Bank Guarantee Fund payments                      | 288.7          | 202.3          |
| obligatory restructuring fund                                | 125.4          | 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                     | 99.6           | 90.0           |
| donation   | 9.5            | 5.0            |
| disputed claims  | 12.3           | 0.6            |
| other  | 178.4          | 153.3          |
| <b>Total</b>   | <b>2,762.5</b> | <b>2,497.4</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

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

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

|   | Number of<br>shares | Value of<br>shares<br>(in PLN<br>million) | Number of<br>nondeferred<br>shares - held 1<br>year | Deferred<br>shares<br>total | 2 years of<br>deferral                        | 3 years of<br>deferral                        | 4 years of<br>deferral                        | 5 years of<br>deferral                       | 6 years of<br>deferral                       | Median share prices<br>for the period 10 Oct-<br>20 Nov 2020/ net<br>asset value as at 30<br>Nov 2020* |
|---|---------------------|---|---|-----------------------------|---|---|---|--|--|--|
| <b>Programme 2016</b>   | 9,863               | 1.2                                       | -   | 9,863                       | assigned in 2019<br>payable in 2020<br>-      | assigned in 2020<br>payable in 2021<br>9,863  | -   | -  | -  | 124.80   |
| <b>Programme 2017</b>   | 26,985              | 3.4                                       | -   | 26,985                      | assigned in 2020<br>payable in 2021<br>8,683  | assigned in 2021<br>payable in 2022<br>8,729  | assigned in 2022<br>payable in 2023<br>8,774  | assigned in 2023<br>payable in 2024<br>398   | assigned in 2024<br>payable in 2025<br>401   | 124.80   |
| <b>Programme 2018</b>   | 28,636              | 3.7                                       | -   | 28,636                      | assigned in 2021<br>payable in 2022<br>9,362  | assigned in 2022<br>payable in 2023<br>9,400  | assigned in 2023<br>payable in 2024<br>9,446  | assigned in 2024<br>payable in 2025<br>214   | assigned in 2025<br>payable in 2026<br>214   | 124.80/ 1,213.90   |
| <b>Programme 2019</b>   | 72,259              | 9.6                                       | 43,151  | 29,108                      | assigned in 2022<br>payable in 2023<br>9,328  | assigned in 2023<br>payable in 2024<br>9,370  | assigned in 2024<br>payable in 2025<br>9,420  | assigned in 2025<br>payable in 2026<br>495   | assigned in 2026<br>payable in 2027<br>495   | 124.80/ 1,213.90   |
| <b>Programme 2020</b><br>(established reserve for<br>the program - actual<br>award in 2021) | 113,038             | 14.7                                      | 66,171  | 46,867                      | assigned in 2023<br>payable in 2024<br>14,863 | assigned in 2024<br>payable in 2025<br>14,896 | assigned in 2025<br>payable in 2026<br>14,932 | assigned in 2026<br>payable in 2027<br>1,088 | assigned in 2027<br>payable in 2028<br>1,088 | 124.80/ 1,213.90   |

\*) For the valuation of ING Bank Śląski S.A. programs and its subsidiaries, except for ING Bank Hipoteczny S.A. the median of share prices for the period from 10 October to 20 November 2020 has been used. For the valuation of ING Bank Hipoteczny S.A. programs the net asset value was adopted as at 30 November 2020.

**ING Bank Śląski S.A. Group**

Annual consolidated 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 Group 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 Group records in the books the valuation of instruments held by the Group'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       |            |
|---|------------|------------|------------|------------|
|   | <i>min</i> | <i>max</i> | <i>min</i> | <i>max</i> |
| 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<br>(in numbers) |               | Weighted average exercise<br>price (in euros) |             |
|------------------------|-------------------------------------|---------------|---|-------------|
|                        | 2020                                | 2019          | 2020  | 2019        |
| <b>Opening balance</b> | <b>21,601</b>                       | <b>41,073</b> | <b>7.35</b>                                   | <b>5.13</b> |
| 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        |
| <b>Closing balance</b> | <b>0</b>                            | <b>21,601</b> | <b>0.00</b>                                   | <b>7.35</b> |

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.

**ING Bank Śląski S.A. Group**

Annual consolidated 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         |
|---|--------------|--------------|
| <b>Loans and other receivables to other banks, including:</b>                           | <b>0.5</b>   | <b>0.0</b>   |
| measured at amortised cost  | 0.5          | 0.0          |
| <b>Investment securities, including:</b>  | <b>4.1</b>   | <b>-1.6</b>  |
| measured at fair value through other comprehensive income                               | -0.2         | -0.8         |
| measured at amortised cost  | 4.3          | -0.8         |
| <b>Loans and other receivables to customers measured at amortised cost*, including:</b> | <b>820.7</b> | <b>546.5</b> |
| corporate banking   | 504.2        | 383.7        |
| corporate and municipal debt securities   | 0.0          | 0.0          |
| retail banking  | 316.5        | 162.8        |
| <b>Provisions for off-balance sheet liabilities</b>                                     | <b>-20.7</b> | <b>29.4</b>  |
| <b>Total</b>  | <b>804.6</b> | <b>574.3</b> |

\*) The values presented in the item *Loans and other receivables to customers measured at amortised cost* include amounts of repayments related to receivables previously written off from the balance sheet, which in 2020 amounted to PLN 1.6 million compared to PLN 0.9 million in 2019.

**Balance sheet write-offs**

|   | 2020           | 2019           |
|---|----------------|----------------|
| <b>Loans and other receivables to other banks, including:</b>             | <b>0.5</b>     | <b>0.0</b>     |
| measured at amortised cost  | 0.5            | 0.0            |
| <b>Investment securities, including:</b>                                  | <b>9.7</b>     | <b>5.6</b>     |
| measured at fair value through other comprehensive income                 | 3.8            | 4.0            |
| measured at amortised cost  | 5.9            | 1.6            |
| <b>Loans and other receivables measured at amortised cost, including:</b> | <b>3,270.3</b> | <b>2,446.0</b> |
| corporate banking   | 2,183.2        | 1,686.0        |
| corporate and municipal debt securities                                   | 0.6            | 0.6            |
| retail banking  | 1,087.1        | 760.0          |
| <b>Provisions for off-balance sheet liabilities</b>                       | <b>86.9</b>    | <b>107.1</b>   |
| <b>Total</b>  | <b>3,367.4</b> | <b>2,558.7</b> |

**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         |
| <b>Total</b>  | <b>270.3</b> | <b>31.2</b> |

Detailed information on the legal risk of Swiss franc indexed mortgage loans is presented later in the financial statements in note no. 33. *Provisions*.

**11. Tax on certain financial institutions**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

|  | 2020         | 2019         |
|--|--------------|--------------|
| Current tax  | 628.4        | 628.1        |
| Deferred tax, including:                             | -54.3        | -29.0        |
| rise and reversal of temporary differences           | -5.7         | -29.0        |
| tax losses in subsidiaries*                          | -48.6        | 0.0          |
| <b>Income tax recognised in the income statement</b> | <b>574.1</b> | <b>599.1</b> |

\*) The amount presented under "tax losses in subsidiaries" includes mainly the tax loss incurred by the subsidiary ING Lease (Polska) Sp. z.o.o. Tax loss of PLN 258.9 million is recognized in full in deferred tax, i.e. PLN 49.2 million (19% \* PLN 258.9 million) and results from the introduction of Covid-19 moratorium for lessees. According to the company's estimates, as at 31 December 2020, there is no risk of impairment of a deferred tax asset.

**Calculating the effective tax rate**

|   | 2020           | 2019           |
|---|----------------|----------------|
| <b>A. Profit before tax</b>   | <b>1,911.7</b> | <b>2,257.8</b> |
| <b>B. 19% of profit before tax</b>  | <b>363.2</b>   | <b>429.0</b>   |
| <b>C. Increases – non-deductible expenses, including:</b>                           | <b>215.7</b>   | <b>172.6</b>   |
| tax on certain financial institutions   | 91.5           | 82.8           |
| prudential fee in favour of BGF   | 54.8           | 38.5           |
| impairment loss on receivables in a part not covered with the deferred tax          | 1.6            | 23.5           |
| provisions for disputable debt claims and other assets                              | 1.4            | 3.3            |
| expenses due to loan and non-loan receivables written off                           | 9.1            | 4.0            |
| State Fund for Rehabilitation of Disabled Persons (PFRON) payments                  | 1.4            | 1.4            |
| representation expenses   | 0.7            | 0.6            |
| provisions for legal risk of foreign currency mortgage loans and commission returns | 48.1           | 12.4           |
| other   | 7.1            | 6.1            |
| <b>D. Decreases – tax exempt income, including:</b>                                 | <b>4.8</b>     | <b>2.5</b>     |
| release of provisions for disputable debt claims                                    | 0.7            | 0.9            |
| valuation using the equity method of subsidiaries                                   | 3.1            | 1.3            |
| other   | 1.0            | 0.3            |
| <b>E. Income tax from the income statement (B+C-D)</b>                              | <b>574.1</b>   | <b>599.1</b>   |
| <b>Effective tax rate (E : A)*</b>  | <b>30.03%</b>  | <b>26.53%</b>  |

\*) 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 288.7 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            | 628.4          | 628.1        |
| Current tax recognised in cumulative comprehensive income | 405.4          | 182.3        |
| <b>Total current tax</b>                                  | <b>1,033.8</b> | <b>810.4</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated 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 Parent company 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 attributable to shareholders of ING Bank Śląski S.A. | 1,337.6      | 1,658.7      |
| Weighted average number of ordinary shares                      | 130,100,000  | 130,100,000  |
| <b>Earnings per ordinary share (in PLN)</b>                     | <b>10.28</b> | <b>12.75</b> |

**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 parent company for 2020 was based on the amount of equity attributable to the shareholders of ING Bank Śląski S.A. in the amount of PLN 18,618.3 million (2019: PLN 15,223.3 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                        | 18,618.3      | 15,223.3      |
| Number of shares                  | 130,100,000   | 130,100,000   |
| <b>Book value per share (PLN)</b> | <b>143.11</b> | <b>117.01</b> |

**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          |
| <b>Total</b>                   | <b>867.3</b> | <b>1 402.9</b> |

The Group's Parent company 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.

**ING Bank Śląski S.A. Group**

Annual consolidated 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                                | 344.3        | 204.0        |
| Placed call deposits                              | 268.7        | 262.1        |
| <b>Total (gross)</b>                              | <b>705.1</b> | <b>798.6</b> |
| Impairment for expected credit losses, including: | -0.5         | 0.0          |
| contracting loans and borrowings;                 | -0.5         | 0.0          |
| <b>Total (net)</b>                                | <b>704.6</b> | <b>798.5</b> |

**Loans and receivables to other banks by maturity**

|                                 | 2020         | 2019         |
|---------------------------------|--------------|--------------|
| up to 1 month                   | 376.7        | 600.5        |
| over 1 month and up to 3 months | 10.1         | 0.0          |
| over 3 months and up to 1 year  | 18.9         | 0.0          |
| over 1 year and up to 5 years   | 299.4        | 198.0        |
| <b>Total (gross)</b>            | <b>705.1</b> | <b>798.5</b> |

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

|  | 2020           | 2019           |
|--|----------------|----------------|
| <b>Financial assets held for trading</b>   | <b>1,910.7</b> | <b>1,224.2</b> |
| 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          |
| <b>Financial assets other than those held for trading, measured at fair value through profit or loss, including:</b> | <b>107.0</b>   | <b>160.4</b>   |
| loans are obligatorily measured at fair value through profit or loss   | 106.2          | 160.3          |
| equity instruments   | 0.8            | 0.1            |
| <b>Total</b>   | <b>2,017.7</b> | <b>1,384.6</b> |

\*) 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 consolidated financial statements for 2020 the Group created a new item in the assets of the consolidated 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.

**ING Bank Śląski S.A. Group**

Annual consolidated 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  | <b>0.8</b>   | -                                       | -  | 0.1  | <b>0.1</b>   |
| up to 1 month                      | 278.6                                   | -  | -  | <b>278.6</b> | 174.8                                   | -  | -  | <b>174.8</b> |
| over 1 month and up to 3 months    | 0.0                                     | 4.2  | -  | <b>4.2</b>   | -                                       | 1.3  | -  | <b>1.3</b>   |
| over 3 months and up to 1 year     | 218.3                                   | 18.9   | -  | <b>237.2</b> | 27.0                                    | 37.6   | -  | <b>64.6</b>  |
| over 1 year and up to 5 years      | 142.3                                   | 60.7   | -  | <b>203.0</b> | 134.4                                   | 84.7   | -  | <b>219.1</b> |
| over 5 years                       | 71.7                                    | 11.2   | -  | <b>82.9</b>  | 333.7                                   | 25.5   | -  | <b>359.2</b> |
| for which the maturity has expired | -                                       | 11.2   | -  | <b>11.2</b>  | -                                       | 11.2   | -  | <b>11.2</b>  |
| <b>Total</b>                       | <b>710.9</b>                            | <b>106.2</b>   | <b>0.8</b>   | <b>817.9</b> | <b>669.9</b>                            | <b>160.3</b>   | <b>0.1</b>   | <b>830.3</b> |

**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 Group's statement of financial position. Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

## ING Bank Śląski S.A. Group

Annual consolidated 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            |
| <b>Interest rate derivatives, including:</b>              | <b>837.3</b>           | <b>675.8</b>   | <b>71,158.8</b>                                      | <b>120,369.1</b>        | <b>344,556.9</b> | <b>536,084.8</b> |
| <i>settled via CCP</i>                                    | 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             |
| <b>Currency derivatives, including:</b>                   | <b>351.9</b>           | <b>371.8</b>   | <b>24,579.2</b>                                      | <b>22,073.9</b>         | <b>5,123.7</b>   | <b>51,776.8</b>  |
| <b>currency contracts (swap, forward), including:</b>     | <b>299.7</b>           | <b>216.9</b>   | <b>23,185.1</b>                                      | <b>13,118.4</b>         | <b>2,980.9</b>   | <b>39,284.4</b>  |
| 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         |
| <b>CIRS, including:</b>                                   | <b>43.8</b>            | <b>143.2</b>   | <b>44.7</b>  | <b>4,909.9</b>          | <b>2,142.8</b>   | <b>7,097.4</b>   |
| 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          |
| <b>currency options (acquired), including:</b>            | <b>12.1</b>            | <b>-0.3</b>    | <b>674.7</b>   | <b>2,022.8</b>          | <b>0.0</b>       | <b>2,697.5</b>   |
| 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          |
| <b>currency options (sold)</b>                            | <b>-3.7</b>            | <b>12.0</b>    | <b>674.7</b>   | <b>2,022.8</b>          | <b>0.0</b>       | <b>2,697.5</b>   |
| 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          |
| <b>Current off-balance sheet transactions, including:</b> | <b>7.7</b>             | <b>15.0</b>    | <b>7,128.8</b>                                       | <b>0.0</b>              | <b>0.0</b>       | <b>7,128.8</b>   |
| foreign exchange operations                               | 7.7                    | 15.0           | 7,123.8  | -                       | -                | 7,123.8          |
| operations in securities                                  | 0.0                    | 0.0            | 5.0  | -                       | -                | 5.0              |
| <b>Valuation of other financial instruments</b>           | <b>2.9</b>             | <b>2.7</b>     | <b>-</b>   | <b>-</b>                | <b>-</b>         | <b>-</b>         |
| <b>Total</b>  | <b>1,199.8</b>         | <b>1,065.3</b> | <b>102,866.8</b>                                     | <b>142,443.0</b>        | <b>349,680.6</b> | <b>594,990.4</b> |

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## 2019

|  | Fair value<br>of derivatives |              | Notional amount of instruments<br>with the remaining maturity |                                  |                  | Total            |
|--|------------------------------|--------------|---|----------------------------------|------------------|------------------|
|  | Assets                       | Liabilities  | up to 3<br>months   | over 3<br>months<br>up to 1 year | above<br>1 year  |                  |
| <b>Interest rate derivatives, including:</b>               | <b>429.9</b>                 | <b>555.8</b> | <b>54,656.9</b>   | <b>114,843.5</b>                 | <b>301,532.9</b> | <b>471,033.3</b> |
| <i>settled via CCP</i>                                     | 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             |
| <b>Currency derivatives, including:</b>                    | <b>118.5</b>                 | <b>105.6</b> | <b>18,093.5</b>   | <b>11,510.2</b>                  | <b>8,382.2</b>   | <b>37,985.9</b>  |
| <b>currency contracts (swap, forward), including:</b>      | <b>87.7</b>                  | <b>75.4</b>  | <b>16,887.8</b>   | <b>9,135.0</b>                   | <b>1,449.3</b>   | <b>27,472.1</b>  |
| 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)<br>currency pairs | 11.7                         | 10.9         | 2,789.8   | 1,679.5                          | 908.0            | 5,377.3          |
| <b>CIRS, including:</b>                                    | <b>13.4</b>                  | <b>10.9</b>  | <b>1,192.9</b>  | <b>1,492.4</b>                   | <b>1,510.5</b>   | <b>4,195.8</b>   |
| 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          |
| <b>currency options (acquired), including:</b>             | <b>20.1</b>                  | <b>0.9</b>   | <b>6.4</b>  | <b>879.3</b>                     | <b>2,711.2</b>   | <b>3,596.9</b>   |
| 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          |
| <b>currency options (sold)</b>                             | <b>-2.7</b>                  | <b>18.4</b>  | <b>6.4</b>  | <b>3.5</b>                       | <b>2,711.2</b>   | <b>2,721.1</b>   |
| 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          |
| <b>Current off-balance sheet transactions, including:</b>  | <b>0.4</b>                   | <b>0.4</b>   | <b>1,728.5</b>  | <b>0.0</b>                       | <b>0.0</b>       | <b>1,728.5</b>   |
| foreign exchange operations                                | 0.4                          | 0.4          | 1,726.2   | -                                | -                | 1,726.2          |
| operations in securities                                   | 0.0                          | 0.0          | 2.3   | -                                | -                | 2.3              |
| <b>Valuation of other financial instruments</b>            | <b>5.5</b>                   | <b>5.4</b>   | <b>-</b>  | <b>-</b>                         | <b>-</b>         | <b>-</b>         |
| <b>Total</b>   | <b>554.3</b>                 | <b>667.2</b> | <b>74,478.9</b>   | <b>126,353.7</b>                 | <b>309,915.1</b> | <b>510,747.7</b> |

## 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 Group 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**18. Hedge accounting**

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

|  | 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         |
| <b>Total hedge instruments</b>                   | <b>1,194.8</b> | <b>558.5</b> | <b>851.6</b> | <b>546.0</b> |

Detailed information on the hedge accounting applied in the Group 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<br>for expected<br>credit loss | net             | gross           | impairment<br>for expected<br>credit loss | net             |
| <b>Measured at fair value through other comprehensive income</b> | <b>21,397.2</b> | <b>-3.8</b>                               | <b>21,393.4</b> | <b>21,248.0</b> | <b>-4.0</b>                               | <b>21,244.0</b> |
| debt securities, including:                                      | 21,239.5        | -3.8                                      | 21,235.7        | 21,137.4        | -4.0                                      | 21,133.4        |
| Treasury bonds   | 18,611.4        | -3.4                                      | 18,608.0        | 18,686.1        | -3.7                                      | 18,682.4        |
| 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:                                   | 157.7           | 0.0                                       | 157.7           | 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  | 68.2            | 0.0                                       | 68.2            | 32.1            | 0.0                                       | 32.1            |
| <b>Measured at amortised cost, including:</b>                    | <b>33,546.0</b> | <b>-5.9</b>                               | <b>33,540.1</b> | <b>12,582.0</b> | <b>-1.6</b>                               | <b>12,580.4</b> |
| debt securities, including:                                      | 33,546.0        | -5.9                                      | 33,540.1        | 12,582.0        | -1.6                                      | 12,580.4        |
| 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             |
| NBP money market bills   | 0.0             | 0.0                                       | 0.0             | 230.0           | 0.0                                       | 230.0           |
| <b>Total</b>   | <b>54,943.2</b> | <b>-9.7</b>                               | <b>54,933.5</b> | <b>33,830.0</b> | <b>-5.6</b>                               | <b>33,824.4</b> |

The value presented in the item *equity instruments* in the category of assets measured at fair value through other comprehensive income (FVOCI) includes investments in shares issued by entities that are considered to be material from the perspective of the Group's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in Note 38. *Fair value*. In 2020, the Group 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 consolidated income statement

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

in item *Net income on the sale of securities measured at fair value through other comprehensive income and dividend income*.

In 2020 and 2019, the Group 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   |                            |             |
| <b>Opening balance impairment</b>            | 4.0   | 1.6                        | <b>5.6</b> | 4.7   | 2.3                        | <b>7.0</b>  |
| <b>Changes during the period, including:</b> | -0.2  | 4.3                        | <b>4.1</b> | -0.7  | -0.7                       | <b>-1.4</b> |
| establishment and termination                | -0.2  | 4.3                        | <b>4.1</b> | -0.7  | -0.7                       | <b>-1.4</b> |
| <b>Closing balance impairment</b>            | <b>3.8</b>  | <b>5.9</b>                 | <b>9.7</b> | <b>4.0</b>  | <b>1.6</b>                 | <b>5.6</b>  |

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         | 157.7   | 0.0                        | <b>157.7</b>    | 110.6   | 0.0                        | <b>110.6</b>    |
| over 1 month and up to 3 months | 0.0   | 172.6                      | <b>172.6</b>    | 0.0   | 388.9                      | <b>388.9</b>    |
| over 3 months and up to 1 year  | 3,787.8   | 2,415.5                    | <b>6,203.3</b>  | 1,005.1   | 2,715.3                    | <b>3,720.4</b>  |
| over 1 year and up to 5 years   | 8,009.8   | 20,423.1                   | <b>28,432.9</b> | 9,252.0   | 5,809.8                    | <b>15,061.8</b> |
| over 5 years                    | 9,438.1   | 10,528.9                   | <b>19,967.0</b> | 10,876.3  | 3,666.4                    | <b>14,542.7</b> |
| <b>Total</b>                    | <b>21,393.4</b>   | <b>33,540.1</b>            | <b>54,933.5</b> | <b>21,244.0</b>   | <b>12,580.4</b>            | <b>33,824.4</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated 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  |
|---|---------|-------|
| <b>Bonds from the portfolio of financial assets measured at fair value through profit or loss:</b>                              |         |       |
| Treasury bonds securing liabilities under the securities sold securities with a repurchase promise (sell-buy-back transactions) | 197.7   | 80.0  |
| <b>Bonds and credit receivables from the portfolio of financial assets measured at amortised cost:</b>                          |         |       |
| Treasury bonds securing liabilities under the securities sold repurchase agreements (repo transactions)                         | 756.8   | 30.0  |
| mortgage receivables securing the covered bonds   | 3,017.7 | 632.7 |
| <b>Bonds from the portfolio of assets measured at fair value through other comprehensive income</b>                             |         |       |
| 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  |
| Treasury bonds constituting security in the covered bond collateral register  | 13.4    | 14.8  |

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

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

The Group has liabilities due to the issue of mortgage bonds which are secured with the above-mentioned mortgage claims. At the end of 2020 and 2019, the nominal value of the issued covered bonds was PLN 400 million. Detailed information on the issued mortgage bonds can be found in Note 31 *Liabilities due to the issue of securities*.

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

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

The market value of securities subject to buy-sell-back / reverse repo transactions was PLN 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 Parent company of the Group is required to maintain in its current

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

account with the NBP. More information on the required reserve is provided in Note 14. *Cash in hand and balances with the Central Bank.*

**21. Loans and other receivables to customers measured at amortised cost**

|   | 2020             |   |                  | 2019             |   |                  |
|---|------------------|---|------------------|------------------|---|------------------|
|   | gross            | impairment for<br>expected credit<br>losses | net              | gross            | impairment<br>for expected<br>credit losses | net              |
| <b>Loan portfolio, of which:</b>          | <b>125,992.4</b> | <b>-3,270.3</b>                             | <b>122,722.1</b> | <b>118,277.0</b> | <b>-2,446.0</b>                             | <b>115,831.0</b> |
| <b>Corporate banking</b>                  | <b>70,159.9</b>  | <b>-2,183.2</b>                             | <b>67,976.7</b>  | <b>69,916.7</b>  | <b>-1,686.0</b>                             | <b>68,230.7</b>  |
| loans in the current account              | 9,549.9          | -567.8                                      | 8,982.1          | 11,515.3         | -515.8                                      | 10,999.5         |
| term loans and advances                   | 42,928.5         | -1,417.7                                    | 41,510.8         | 41,166.6         | -1,067.4                                    | 40,099.2         |
| lease receivables                         | 9,832.1          | -134.5                                      | 9,697.6          | 9,396.8          | -62.1                                       | 9,334.7          |
| factoring receivables                     | 4,857.1          | -62.6                                       | 4,794.5          | 5,333.4          | -40.1                                       | 5,293.3          |
| debt securities (corporate and municipal) | 2,992.3          | -0.6  | 2,991.7          | 2,504.6          | -0.6  | 2,504.0          |
| <b>Retail banking</b>                     | <b>55,832.5</b>  | <b>-1,087.1</b>                             | <b>54,745.4</b>  | <b>48,360.3</b>  | <b>-760.0</b>                               | <b>47,600.3</b>  |
| mortgages                                 | 47,901.1         | -279.3                                      | 47,621.8         | 40,771.7         | -174.3                                      | 40,597.4         |
| 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          | -537.0                                      | 6,406.4          |
| <b>Other receivables, of which:</b>       | <b>1,933.3</b>   | <b>-0.1</b>                                 | <b>1,933.2</b>   | <b>2,296.8</b>   | <b>0.0</b>                                  | <b>2,296.8</b>   |
| call deposits placed                      | 1,272.2          | 0.0   | 1,272.2          | 1,598.6          | 0.0   | 1,598.6          |
| other receivables                         | 661.1            | -0.1  | 661.0            | 698.2            | 0.0   | 698.2            |
| <b>Total</b>                              | <b>127,925.7</b> | <b>-3,270.4</b>                             | <b>124,655.3</b> | <b>120,573.8</b> | <b>-2,446.0</b>                             | <b>118,127.8</b> |

**Loans and receivables to customers by maturity**

|                                    | 2020             | 2019             |
|------------------------------------|------------------|------------------|
| up to 1 month                      | 14,311.5         | 17,289.7         |
| over 1 month and up to 3 months    | 5,229.9          | 4,160.1          |
| over 3 months and up to 1 year     | 19,331.2         | 16,054.2         |
| over 1 year and up to 5 years      | 39,538.1         | 39,261.9         |
| over 5 years                       | 47,413.6         | 42,023.4         |
| for which the maturity has expired | 2,101.4          | 1,784.5          |
| <b>Total</b>                       | <b>127,925.7</b> | <b>120,573.8</b> |

**21.1. Receivables from financial leasing**

As at 31 December 2020, the largest share in the portfolio of leased items were vehicles (49% of the portfolio value), and a 3.3% increase in the value of new vehicle financing agreements was recorded compared to the end of 2019.

A significant share in the portfolio are also machinery and equipment (32% of the portfolio value) with a simultaneous increase of 9.4% compared to the value of financed machinery and equipment at the end of 2019, other movables constituted 10% of the portfolio value (an increase of 3.1% compared to the end of 2019).

At the same time, the financial commitment in the area of property leasing decreased in 2020 – 10% of the portfolio value (a decrease of 10.9% compared to the end of 2019).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

|                                | 2020           | 2019           |
|--------------------------------|----------------|----------------|
| up to 1 year                   | 3,735.8        | 3,269.9        |
| over 1 year and up to 2 years  | 2,507.3        | 2,527.5        |
| over 2 years and up to 3 years | 1,802.5        | 1,667.4        |
| over 3 years and up to 4 years | 1,022.0        | 1,073.5        |
| over 4 years and up to 5 years | 436.7          | 499.5          |
| over 5 years                   | 327.8          | 359.1          |
| <b>Total</b>                   | <b>9,832.1</b> | <b>9,396.8</b> |

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

|                                | 2020            | 2019           |
|--------------------------------|-----------------|----------------|
| up to 1 year                   | 3,923.7         | 3,509.6        |
| over 1 year and up to 2 years  | 2,619.0         | 2,678.5        |
| over 2 years and up to 3 years | 1,864.4         | 1,752.3        |
| over 3 years and up to 4 years | 1,051.2         | 1,117.0        |
| over 4 years and up to 5 years | 448.9           | 518.0          |
| over 5 years                   | 340.8           | 380.1          |
| <b>Total</b>                   | <b>10,248.0</b> | <b>9,955.5</b> |

The present value of minimum lease instalments is as follows:

|   | 2020           | 2019           |
|---|----------------|----------------|
| (Gross) receivables under financial lease         | 10,248.0       | 9,955.5        |
| Undue interest                                    | 415.9          | 558.7          |
| <b>Present value of minimum lease instalments</b> | <b>9,832.1</b> | <b>9,396.8</b> |

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

|  | 2020         | 2019         |
|--|--------------|--------------|
| Profit from the sale of fixed assets (leasing items) | 4.3          | 3.4          |
| Net interest income from leasing investment          | 243.9        | 286.2        |
| Variable leasing fees (commission fees)              | 10.2         | 10.4         |
| <b>Total</b>   | <b>258.4</b> | <b>300.0</b> |

In 2020 and 2019, no significant modifications of financial lease contracts were found.

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

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

The main collateral for lease contracts are the objects of leasing, this applies to all contracts, due to the design of the standard lease contract and the fact that ownership of the subject of the leasing remains until the termination of the contract on the part of the lessor. Leasing items are fully insured by the Group or by the Customer at insurance companies approved by the Group. Before entering into a lease contract, the Group assesses the customer's creditworthiness and assesses the risk associated with the subject of the lease. In addition, with a view to limiting the potential loss in the absence of debt service, the Group aims to conclude additional security agreements. The type and value of collateral required depend on the amount and subject of financing, lease parameters (e.g.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

deductible, financing period, residual value). Pursuant to the terms of the lease contracts, if the lease contract is terminated, the resulting receivables become due. In addition, as part of securing the Group, the Group takes over the subject of the lease and immediately strives to develop it in the most advantageous manner (sale, re-leasing).

**21.2. Quality of loan portfolio**

|  | 2020             |   |                  | 2019             |   |                  |
|--|------------------|---|------------------|------------------|---|------------------|
|  | gross            | impairment for<br>expected credit<br>losses | net              | gross            | impairment for<br>expected credit<br>losses | net              |
| <b>Corporate banking</b>                         | <b>70,159.9</b>  | <b>-2,183.2</b>                             | <b>67,976.7</b>  | <b>69,916.7</b>  | <b>-1,686.0</b>                             | <b>68,230.7</b>  |
| assets in stage 1                                | 59,222.1         | -192.1                                      | 59,030.0         | 61,733.3         | -67.0                                       | 61,666.3         |
| assets in stage 2                                | 7,842.2          | -227.7                                      | 7,614.5          | 5,261.7          | -144.9                                      | 5,116.8          |
| assets in stage 3                                | 3,094.3          | -1,763.4                                    | 1,330.9          | 2,920.2          | -1,474.1                                    | 1,446.1          |
| <i>including individually significant assets</i> | 1,966.6          | -969.5                                      | 997.1            | 2,005.3          | -885.5                                      | 1,119.8          |
| POCI assets                                      | 1.3              | 0.0   | 1.3              | 1.5              | 0.0   | 1.5              |
| <b>Retail banking</b>                            | <b>55,832.5</b>  | <b>-1,087.1</b>                             | <b>54,745.4</b>  | <b>48,360.3</b>  | <b>-760.0</b>                               | <b>47,600.3</b>  |
| assets in stage 1                                | 52,646.0         | -150.2                                      | 52,495.8         | 44,045.1         | -56.2                                       | 43,988.9         |
| assets in stage 2                                | 2,129.6          | -181.8                                      | 1,947.8          | 3,706.6          | -268.9                                      | 3,437.7          |
| <i>including CHF-indexed mortgage loans</i>      | 587.2            | -14.8                                       | 572.4            | 907.0            | -48.5                                       | 858.5            |
| assets in stage 3                                | 1,054.7          | -755.1                                      | 299.6            | 608.6            | -434.9                                      | 173.7            |
| <i>including CHF-indexed mortgage loans</i>      | 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              |
| <b>Total</b>                                     | <b>125,992.4</b> | <b>-3,270.3</b>                             | <b>122,722.1</b> | <b>118,277.0</b> | <b>-2,446.0</b>                             | <b>115,831.0</b> |
| Total assets in stage 1                          | 111,868.1        | -342.3                                      | 111,525.8        | 105,778.4        | -123.2                                      | 105,655.2        |
| Total assets in stage 2                          | 9,971.8          | -409.5                                      | 9,562.3          | 8,968.3          | -413.8                                      | 8,554.5          |
| Total assets in stage 3                          | 4,149.0          | -2,518.5                                    | 1,630.5          | 3,528.8          | -1,909.0                                    | 1,619.8          |
| total POCI assets                                | 3.5              | 0.0   | 3.5              | 1.5              | 0.0   | 1.5              |

The Group 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 6,642.9 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 1,144.0 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 14.13. *Impairment.*

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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.

**Sale of non-performing receivables**

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

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

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

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

**Collateral**

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## Changes in impairment for expected credit losses

## 2020

|  | Corporate banking |              |                |                | Retail banking |              |              |                | TOTAL          |
|--|-------------------|--------------|----------------|----------------|----------------|--------------|--------------|----------------|----------------|
|  | Stage 1           | Stage 2      | Stage 3        | Total          | Stage 1        | Stage 2      | Stage 3      | Total          |                |
| <b>Opening balance impairment</b>                                | <b>67.0</b>       | <b>144.9</b> | <b>1,474.1</b> | <b>1,686.0</b> | <b>56.2</b>    | <b>268.9</b> | <b>434.9</b> | <b>760.0</b>   | <b>2,446.0</b> |
| <b>Changes in the period, including:</b>                         | <b>125.1</b>      | <b>82.8</b>  | <b>289.3</b>   | <b>497.2</b>   | <b>94.0</b>    | <b>-87.1</b> | <b>320.2</b> | <b>327.1</b>   | <b>824.3</b>   |
| impairments for granted loans during the period                  | 77.1              | -            | -              | 77.1           | 55.9           | -            | -            | 55.9           | 133.0          |
| transfer to Stage 1  | 6.6               | -41.8        | -4.3           | -39.5          | 23.9           | -106.8       | -6.6         | -89.5          | -129.0         |
| transfer to Stage 2  | -19.6             | 149.5        | -7.9           | 122.0          | -4.5           | 74.7         | -11.6        | 58.6           | 180.6          |
| transfer to Stage 3  | -1.6              | -25.1        | 259.6          | 232.9          | -2.7           | -51.2        | 295.7        | 241.8          | 474.7          |
| changed provisioning under impairment for expected credit losses | 51.0              | -1.1         | 63.7           | 113.6          | 21.4           | -4.9         | 33.8         | 50.3           | 163.9          |
| derecognition from the balance sheet (write-downs, sale)         | -                 | -            | -67.6          | -67.6          | -              | -            | -9.6         | -9.6           | -77.2          |
| calculation and write-off of effective interest                  | -                 | -            | 54.7           | 54.7           | -              | -            | 30.7         | 30.7           | 85.4           |
| other  | 11.6              | 1.3          | -8.9           | 4.0            | -              | 1.1          | -12.2        | -11.1          | -7.1           |
| <b>Closing balance impairment</b>                                | <b>192.1</b>      | <b>227.7</b> | <b>1,763.4</b> | <b>2,183.2</b> | <b>150.2</b>   | <b>181.8</b> | <b>755.1</b> | <b>1,087.1</b> | <b>3,270.3</b> |

## 2019

|  | Corporate banking |              |                |                | Retail banking |              |              |              | TOTAL          |
|--|-------------------|--------------|----------------|----------------|----------------|--------------|--------------|--------------|----------------|
|  | Stage 1           | Stage 2      | Stage 3        | Total          | Stage 1        | Stage 2      | Stage 3      | Total        |                |
| <b>Opening balance impairment</b>                                | <b>68.4</b>       | <b>149.6</b> | <b>1,306.4</b> | <b>1,524.4</b> | <b>45.8</b>    | <b>275.2</b> | <b>424.6</b> | <b>745.6</b> | <b>2,270.0</b> |
| <b>Changes in the period, including:</b>                         | <b>-1.4</b>       | <b>-4.7</b>  | <b>167.7</b>   | <b>161.6</b>   | <b>10.4</b>    | <b>-6.3</b>  | <b>10.3</b>  | <b>14.4</b>  | <b>176.0</b>   |
| impairments for granted loans during the period                  | 36.0              | -            | -              | 36.0           | 37.2           | -            | -            | 37.2         | 73.2           |
| transfer to Stage 1  | 3.5               | -35.7        | -4.9           | -37.1          | 4.9            | -64.6        | -4.0         | -63.7        | -100.8         |
| transfer to Stage 2  | -17.7             | 91.0         | -8.2           | 65.1           | -13.0          | 139.2        | -19.8        | 106.4        | 171.5          |
| transfer to Stage 3  | -5.2              | -27.6        | 433.3          | 400.5          | -1.9           | -36.8        | 191.0        | 152.3        | 552.8          |
| changed provisioning under impairment for expected credit losses | -18.0             | -32.4        | -43.5          | -93.9          | -16.9          | -44.5        | -2.7         | -64.1        | -158.0         |
| derecognition from the balance sheet (write-downs, sale)         | -                 | -            | -228.6         | -228.6         | -              | -            | -153.1       | -153.1       | -381.7         |
| calculation and write-off of effective interest                  | -                 | -            | 26.7           | 26.7           | -              | -            | -            | 0.0          | 26.7           |
| other  | -                 | -            | -7.1           | -7.1           | 0.1            | 0.4          | -1.1         | -0.6         | -7.7           |
| <b>Closing balance impairment</b>                                | <b>67.0</b>       | <b>144.9</b> | <b>1,474.1</b> | <b>1,686.0</b> | <b>56.2</b>    | <b>268.9</b> | <b>434.9</b> | <b>760.0</b> | <b>2,446.0</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Reconciliation of the gross carrying amount**

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

**2020**

|   | Corporate banking |                |                |             |                 | Retail banking  |                 |                |            |                 | TOTAL            |
|---|-------------------|----------------|----------------|-------------|-----------------|-----------------|-----------------|----------------|------------|-----------------|------------------|
|   | Stage 1           | Stage 2        | Stage 3        | POCI        | Total           | Stage 1         | Stage 2         | Stage 3        | POCI       | Total           |                  |
| <b>Opening balance of gross carrying amount</b>               | <b>61,733.3</b>   | <b>5,261.7</b> | <b>2,920.2</b> | <b>1.5</b>  | <b>69,916.7</b> | <b>44,045.1</b> | <b>3,706.6</b>  | <b>608.6</b>   | <b>0.0</b> | <b>48,360.3</b> | <b>118,277.0</b> |
| <b>Changes in the period, including:</b>                      | <b>-2,511.2</b>   | <b>2,580.5</b> | <b>174.1</b>   | <b>-0.2</b> | <b>243.2</b>    | <b>8,600.9</b>  | <b>-1,577.0</b> | <b>446.1</b>   | <b>2.2</b> | <b>7,472.2</b>  | <b>7,715.4</b>   |
| loans granted in the period                                   | 17,502.0          | -              | -              | -0.2        | 17,501.8        | 12,292.1        | -               | -              | 2.2        | 12,294.3        | 29,796.1         |
| repayment (total and partial) and the release of new tranches | -15,260.3         | -1,566.6       | -364.1         | -           | -17,191.0       | -3,943.8        | -559.4          | -44.6          | -          | -4,547.8        | -21,738.8        |
| calculation of penalty interest (for delay)                   | -                 | -              | 134.2          | -           | 134.2           | -               | -               | 28.0           | -          | 28.0            | 162.2            |
| transfer to Stage 1   | 1,276.5           | -1,266.8       | -9.7           | -           | 0.0             | 1,213.8         | -1,204.7        | -9.1           | -          | 0.0             | 0.0              |
| transfer to Stage 2   | -5,706.0          | 5,726.7        | -20.7          | -           | 0.0             | -693.0          | 716.8           | -23.8          | -          | 0.0             | 0.0              |
| transfer to Stage 3   | -323.4            | -312.8         | 636.2          | -           | 0.0             | -268.2          | -265.0          | 533.2          | -          | 0.0             | 0.0              |
| derecognition from the balance sheet (write-downs, sale)      | -                 | -              | -67.6          | -           | -67.6           | -               | -               | -9.6           | -          | -9.6            | -77.2            |
| 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           |
| <b>Closing balance of gross carrying amount</b>               | <b>59,222.1</b>   | <b>7,842.2</b> | <b>3,094.3</b> | <b>1.3</b>  | <b>70,159.9</b> | <b>52,646.0</b> | <b>2,129.6</b>  | <b>1,054.7</b> | <b>2.2</b> | <b>55,832.5</b> | <b>125,992.4</b> |

**2019**

|   | Corporate banking |                |                |            |                 | Retail banking  |                 |              |            |                 | TOTAL            |
|---|-------------------|----------------|----------------|------------|-----------------|-----------------|-----------------|--------------|------------|-----------------|------------------|
|   | Stage 1           | Stage 2        | Stage 3        | POCI       | Total           | Stage 1         | Stage 2         | Stage 3      | POCI       | Total           |                  |
| <b>Opening balance of gross carrying amount</b>               | <b>56,152.8</b>   | <b>5,897.1</b> | <b>2,335.5</b> | <b>0.0</b> | <b>64,385.4</b> | <b>34,213.3</b> | <b>5,058.4</b>  | <b>569.5</b> | <b>0.0</b> | <b>39,841.2</b> | <b>104,226.6</b> |
| <b>Changes in the period, including:</b>                      | <b>5,580.5</b>    | <b>-635.4</b>  | <b>584.7</b>   | <b>1.5</b> | <b>5,531.3</b>  | <b>9,831.8</b>  | <b>-1,351.8</b> | <b>39.1</b>  | <b>0.0</b> | <b>8,519.1</b>  | <b>14,050.4</b>  |
| loans granted in the period                                   | 18,357.3          | -              | -              | 1.5        | 18,358.8        | 15,685.2        | -               | -            | -          | 15,685.2        | 34,044.0         |
| repayment (total and partial) and the release of new tranches | -10,512.3         | -1,742.5       | -387.0         | -          | -12,641.8       | -6,230.3        | -674.4          | -29.8        | -          | -6,934.5        | -19,576.3        |
| calculation of penalty interest (for delay)                   | -                 | -              | 100.3          | -          | 100.3           | -               | -               | 31.0         | -          | 31.0            | 131.3            |
| transfer to Stage 1   | 2,107.1           | -2,097.2       | -9.9           | -          | 0.0             | 2,047.2         | -2,041.3        | -5.9         | -          | 0.0             | 0.0              |
| transfer to Stage 2   | -3,683.7          | 3,696.5        | -12.8          | -          | 0.0             | -1,543.4        | 1,576.2         | -32.8        | -          | 0.0             | 0.0              |
| transfer to Stage 3   | -687.9            | -492.2         | 1,180.1        | -          | 0.0             | -126.9          | -177.0          | 303.9        | -          | 0.0             | 0.0              |
| derecognition from the balance sheet (write-downs, sale)      | -                 | -              | -185.7         | -          | -185.7          | -               | -               | -196.3       | -          | -196.3          | -382.0           |
| value adjustment for legal risk of CHF mortgage loans         | -                 | -              | -              | -          | 0.0             | -               | -35.3           | -            | -          | -35.3           | -35.3            |
| writing down penalty interest (for late payment)              | -                 | -              | -100.3         | -          | -100.3          | -               | -               | -31.0        | -          | -31.0           | -131.3           |
| <b>Closing balance of gross carrying amount</b>               | <b>61,733.3</b>   | <b>5,261.7</b> | <b>2,920.2</b> | <b>1.5</b> | <b>69,916.7</b> | <b>44,045.1</b> | <b>3,706.6</b>  | <b>608.6</b> | <b>0.0</b> | <b>48,360.3</b> | <b>118,277.0</b> |

In 2020 among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8,979.0 million), moreover, financial loans for individuals (PLN 2,360.2 million). A significant part is also short-term loans: revolving loans (PLN 692.3 million), working loans (PLN 2,750.1 million) and overdrafts (PLN 1,041.5 million). In addition, in the portfolio of loans granted during the year there are also lease receivables (PLN 3,032.6 million) and factoring receivables (PLN 1,770.3 million). 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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). In the portfolio of loans granted during the year there were also lease receivables (PLN 3,979.0 million) and factoring receivables (PLN 1,556.1 million). Additionally, during 2019 the penalty interest amounted to PLN 131.3 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off.

**22. Investments in associates accounted for using the equity method**

|                                 | 2020         | 2019         |
|---------------------------------|--------------|--------------|
| NN Investment Partners TFI S.A. | 174.1        | 176.7        |
| Twisto Polska Sp. z o.o.        | n/a          | 4.3          |
| <b>Closing balance</b>          | <b>174.1</b> | <b>181.0</b> |

In 2020, the interests in Twisto Polska Sp. z o.o. were reclassified from an 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).

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

**Selected data regarding the associate:**

|   | NN Investment Partners TFI S.A. |       | Twisto Polska Sp. z o.o. |
|---|---------------------------------|-------|--------------------------|
|   | 2020                            | 2019  | 2019                     |
| Share in the capital of the entity  | 45%                             | 45%   | 20%                      |
| Assets, including:  | 132.7                           | 128.5 | 22.4                     |
| Short-term  | 129.5                           | 123.7 | 22.3                     |
| Long-term   | 3.2                             | 4.8   | 0.1                      |
| Liabilities and provisions for liabilities, including:                                  | 33.3                            | 29.4  | 1.2                      |
| Short-term  | 31.6                            | 26.2  | 1.2                      |
| Long-term   | 1.7                             | 3.2   | 0.0                      |
| Net assets  | 99.4                            | 99.1  | 21.1                     |
| Profit (loss)   | 41.3                            | 41.5  | -5.0                     |
| Revenues  | 119.6                           | 117.6 | 0.2                      |
| Profit or loss after tax from discontinued operations                                   | 0.0                             | 0.0   | 0.0                      |
| Other comprehensive income  | 0.5                             | 0.7   | 0.0                      |
| Total comprehensive income  | 41.8                            | 42.2  | 21.1                     |
| Cash and cash equivalents   | 63.2                            | 99.6  | 7.1                      |
| Short-term financial liabilities (excluding trade and other liabilities and provisions) | 2.8                             | 2.8   | 0.0                      |
| Long-term financial liabilities (excluding trade and other liabilities and provisions)  | 1.6                             | 3.2   | 0.0                      |
| Depreciation and amortisation   | 1.0                             | 1.1   | 0.0                      |
| Interest income   | 0.5                             | 1.3   | 0.0                      |
| Interest expenses   | 0.1                             | 0.2   | 0.0                      |
| Income tax expense or income  | 10.5                            | 10.8  | 0.0                      |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

|  | 2020         | 2019         |
|--|--------------|--------------|
| <b>Opening balance of gross carrying amount</b>  | <b>181.0</b> | <b>1.0</b>   |
| Purchase of shares   | 0.0          | 173.4        |
| Valuation using the equity method in the period  | 16.1         | 6.6          |
| Dividends received   | -18.7        | 0.0          |
| Reclassification to financial assets measured at fair value through other comprehensive income | -4.3         | 0.0          |
| <b>Closing balance of gross carrying amount</b>  | <b>174.1</b> | <b>181.0</b> |

**23. Property, plant and equipment**

|   | 2020         | 2019         |
|---|--------------|--------------|
| Right of use assets, including:                     |              |              |
| real estate   | 376.6        | 398.4        |
| means of transport                                  | 354.9        | 374.8        |
| other assets  | 21.6         | 23.2         |
| Real estate and investments in foreign fixed assets | 0.1          | 0.4          |
| Real estate and investments in foreign fixed assets | 327.7        | 330.8        |
| Computer hardware                                   | 110.4        | 106.8        |
| Other property, plant and equipment                 | 68.9         | 76.0         |
| Fixed assets under construction                     | 29.5         | 44.0         |
| <b>Total</b>  | <b>913.1</b> | <b>956.0</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated 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<br>investments in<br>foreign fixed<br>assets | Computer<br>hardware | Other property,<br>plant and<br>equipment | Fixed assets<br>under<br>construction | TOTAL           |
|---|---------------------|-----------------------|--------------|------------------------------|--|----------------------|---|---------------------------------------|-----------------|
|   | real estate         | means of<br>transport | other assets | Total right of<br>use assets |  |                      |   |                                       |                 |
| <b>Opening gross value</b>  | <b>461.1</b>        | <b>30.8</b>           | <b>0.7</b>   | <b>492.6</b>                 | <b>734.5</b>   | <b>306.5</b>         | <b>407.1</b>                              | <b>44.0</b>                           | <b>1,984.7</b>  |
| <b>Additions, including:</b>  | <b>87.6</b>         | <b>9.1</b>            | <b>0.0</b>   | <b>96.7</b>                  | <b>26.8</b>  | <b>54.9</b>          | <b>20.2</b>                               | <b>83.4</b>                           | <b>282.0</b>    |
| new contracts   | 38.7                | 8.9                   | -            | 47.6                         | -  | -                    | -   | -                                     | 47.6            |
| adjustment of the asset in connection with the recalculation of the lease liability | 48.9                | 0.2                   | -            | 49.1                         | -  | -                    | -   | -                                     | 49.1            |
| purchases   | -                   | -                     | -            | 0.0                          | -  | 0.4                  | 0.2                                       | 83.4                                  | 84.0            |
| investment takeovers  | -                   | -                     | -            | 0.0                          | 23.4   | 54.5                 | 20.0                                      | -                                     | 97.9            |
| reclassification from non-current assets held for sale                              | -                   | -                     | -            | 0.0                          | 2.6  | -                    | -   | -                                     | 2.6             |
| other   | -                   | -                     | -            | 0.0                          | 0.8  | -                    | -   | -                                     | 0.8             |
| <b>Reductions, including:</b>   | <b>-18.2</b>        | <b>-2.8</b>           | <b>0.0</b>   | <b>-21.0</b>                 | <b>-9.7</b>  | <b>-0.5</b>          | <b>-2.1</b>                               | <b>-97.9</b>                          | <b>-131.2</b>   |
| early termination of the contract   | -18.0               | -2.8                  | -            | -20.8                        | -  | -                    | -   | -                                     | -20.8           |
| adjustment of the asset in connection with the recalculation of the lease liability | -0.2                | -                     | -            | -0.2                         | -  | -                    | -   | -                                     | -0.2            |
| sale and liquidation  | -                   | -                     | -            | 0.0                          | -0.2   | -0.5                 | -0.9                                      | -                                     | -1.6            |
| investment takeovers  | -                   | -                     | -            | 0.0                          | -  | -                    | -   | -97.9                                 | -97.9           |
| reclassification to non-current assets held for sale                                | -                   | -                     | -            | 0.0                          | -9.5   | -                    | -1.2                                      | -                                     | -10.7           |
| <b>Fair value change, including:</b>  | <b>0.0</b>          | <b>0.0</b>            | <b>0.0</b>   | <b>0.0</b>                   | <b>11.0</b>  | <b>0.0</b>           | <b>0.0</b>                                | <b>0.0</b>                            | <b>11.0</b>     |
| included in income statement*   | -                   | -                     | -            | 0.0                          | 11.0   | -                    | -   | -                                     | 11.0            |
| <b>Closing gross value</b>  | <b>530.5</b>        | <b>37.1</b>           | <b>0.7</b>   | <b>568.3</b>                 | <b>762.6</b>   | <b>360.9</b>         | <b>425.2</b>                              | <b>29.5</b>                           | <b>2,146.5</b>  |
| <b>Opening accumulated depreciation</b>   | <b>-86.3</b>        | <b>-7.6</b>           | <b>-0.3</b>  | <b>-94.2</b>                 | <b>-403.7</b>  | <b>-199.7</b>        | <b>-331.1</b>                             | <b>0.0</b>                            | <b>-1,028.7</b> |
| <b>Changes in the period, including:</b>  | <b>-89.3</b>        | <b>-7.9</b>           | <b>-0.3</b>  | <b>-97.5</b>                 | <b>-31.2</b>   | <b>-50.8</b>         | <b>-25.2</b>                              | <b>0.0</b>                            | <b>-204.7</b>   |
| depreciation charges  | -93.8               | -10.3                 | -0.3         | -104.4                       | -32.8  | -50.8                | -26.4                                     | -                                     | -214.4          |
| reduction in scope and early termination of the contract                            | 4.5                 | 2.4                   | -            | 6.9                          | -  | -                    | -   | -                                     | 6.9             |
| reclassification to non-current assets held for sale                                | -                   | -                     | -            | 0.0                          | 3.2  | -                    | 1.2                                       | -                                     | 4.4             |
| reclassification to another group within property, plant and equipment              | -                   | -                     | -            | 0.0                          | -1.6   | -                    | -   | -                                     | -1.6            |
| <b>Closing accumulated depreciation</b>   | <b>-175.6</b>       | <b>-15.5</b>          | <b>-0.6</b>  | <b>-191.7</b>                | <b>-434.9</b>  | <b>-250.5</b>        | <b>-356.3</b>                             | <b>0.0</b>                            | <b>-1,233.4</b> |
| <b>Closing net value</b>  | <b>354.9</b>        | <b>21.6</b>           | <b>0.1</b>   | <b>376.6</b>                 | <b>327.7</b>   | <b>110.4</b>         | <b>68.9</b>                               | <b>29.5</b>                           | <b>913.1</b>    |

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | Right of use assets |                       |              |                              | Real estate and<br>investments in<br>foreign fixed<br>assets | Computer<br>hardware | Other property,<br>plant and<br>equipment | Fixed assets<br>under<br>construction | TOTAL           |
|---|---------------------|-----------------------|--------------|------------------------------|--|----------------------|---|---------------------------------------|-----------------|
|   | real estate         | means of<br>transport | other assets | Total right of<br>use assets |  |                      |   |                                       |                 |
| <b>Opening gross value</b>  | <b>470.1</b>        | <b>15.5</b>           | <b>0.7</b>   | <b>486.3</b>                 | <b>712.4</b>   | <b>263.0</b>         | <b>385.4</b>                              | <b>32.1</b>                           | <b>1,879.2</b>  |
| <b>Additions, including:</b>  | <b>52.0</b>         | <b>15.9</b>           | <b>0.0</b>   | <b>67.9</b>                  | <b>28.7</b>  | <b>44.0</b>          | <b>25.4</b>                               | <b>106.6</b>                          | <b>272.6</b>    |
| new contracts   | 25.8                | 15.9                  | 0.0          | 41.7                         | -  | -                    | -   | -                                     | 41.7            |
| adjustment of the asset in connection with the recalculation of the lease liability | 26.2                | -                     | -            | 26.2                         | -  | -                    | -   | -                                     | 26.2            |
| purchases   | -                   | -                     | -            | 0.0                          | -  | 0.3                  | 0.5                                       | 106.6                                 | 107.4           |
| investment takeovers  | -                   | -                     | -            | 0.0                          | 26.7   | 43.1                 | 24.8                                      | -                                     | 94.6            |
| reclassification to another group within property, plant and equipment              | -                   | -                     | -            | 0.0                          | 2.0  | -                    | 0.1                                       | -                                     | 2.1             |
| reclassification from non-current assets held for sale                              | -                   | -                     | -            | 0.0                          | -  | 0.1                  | -   | -                                     | 0.1             |
| other   | -                   | -                     | -            | 0.0                          | -  | 0.5                  | -   | -                                     | 0.5             |
| <b>Reductions, including:</b>   | <b>-61.0</b>        | <b>-0.6</b>           | <b>0.0</b>   | <b>-61.6</b>                 | <b>-13.7</b>   | <b>-0.5</b>          | <b>-3.7</b>                               | <b>-94.7</b>                          | <b>-174.2</b>   |
| early termination of the contract   | -60.0               | -0.5                  | -            | -60.5                        | -  | -                    | -   | -                                     | -60.5           |
| adjustment of the asset in connection with the recalculation of the lease liability | -1.0                | -0.1                  | -            | -1.1                         | -  | -                    | -   | -                                     | -1.1            |
| sale and liquidation  | -                   | -                     | -            | 0.0                          | -0.5   | -0.5                 | -1.3                                      | -                                     | -2.3            |
| investment takeovers  | -                   | -                     | -            | 0.0                          | -  | -                    | -   | -94.6                                 | -94.6           |
| 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            |
| other   | -                   | -                     | -            | 0.0                          | -  | -                    | -   | -0.1                                  | -0.1            |
| <b>Fair value change, including:</b>  | <b>0.0</b>          | <b>0.0</b>            | <b>0.0</b>   | <b>0.0</b>                   | <b>7.1</b>   | <b>0.0</b>           | <b>0.0</b>                                | <b>0.0</b>                            | <b>7.1</b>      |
| included in other comprehensive income  | -                   | -                     | -            | 0.0                          | 0.4  | -                    | -   | -                                     | 0.4             |
| included in income statement*   | -                   | -                     | -            | 0.0                          | 6.7  | -                    | -   | -                                     | 6.7             |
| <b>Closing gross value</b>  | <b>461.1</b>        | <b>30.8</b>           | <b>0.7</b>   | <b>492.6</b>                 | <b>734.5</b>   | <b>306.5</b>         | <b>407.1</b>                              | <b>44.0</b>                           | <b>1,984.7</b>  |
| <b>Opening accumulated depreciation</b>   | <b>0.0</b>          | <b>0.0</b>            | <b>0.0</b>   | <b>0.0</b>                   | <b>-378.4</b>  | <b>-159.0</b>        | <b>-299.4</b>                             | <b>0.0</b>                            | <b>-836.8</b>   |
| <b>Changes in the period, including:</b>  | <b>-86.3</b>        | <b>-7.6</b>           | <b>-0.3</b>  | <b>-94.2</b>                 | <b>-25.3</b>   | <b>-40.7</b>         | <b>-31.7</b>                              | <b>0.0</b>                            | <b>-191.9</b>   |
| depreciation charges  | -88.8               | -7.7                  | -0.3         | -96.8                        | -29.6  | -40.5                | -31.8                                     | -                                     | -198.7          |
| reduction in scope and early termination of the contract                            | 2.5                 | 0.1                   | -            | 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            |
| other   | -                   | -                     | -            | 0.0                          | 0.1  | -0.2                 | 0.1                                       | -                                     | 0.0             |
| <b>Closing accumulated depreciation</b>   | <b>-86.3</b>        | <b>-7.6</b>           | <b>-0.3</b>  | <b>-94.2</b>                 | <b>-403.7</b>  | <b>-199.7</b>        | <b>-331.1</b>                             | <b>0.0</b>                            | <b>-1,028.7</b> |
| <b>Closing net value</b>  | <b>374.8</b>        | <b>23.2</b>           | <b>0.4</b>   | <b>398.4</b>                 | <b>330.8</b>   | <b>106.8</b>         | <b>76.0</b>                               | <b>44.0</b>                           | <b>956.0</b>    |

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

**ING Bank Śląski S.A. Group**

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

**24. Intangible assets**

|                               | 2020         | 2019         |
|-------------------------------|--------------|--------------|
| Goodwill                      | 223.3        | 223.3        |
| Software                      | 167.9        | 189.2        |
| Outlays for intangible assets | 34.7         | 15.8         |
| Other intangible assets       | 0.7          | 1.6          |
| <b>Total</b>                  | <b>426.6</b> | <b>429.9</b> |

**Changes in intangible assets**

2020

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|  | Goodwill     | Software        | Outlays for<br>intangible<br>assets | Other<br>intangible<br>assets | TOTAL           |
|--|--------------|-----------------|-------------------------------------|-------------------------------|-----------------|
| <b>Opening gross value</b>               | <b>223.3</b> | <b>1,106.7</b>  | <b>20.1</b>                         | <b>14.9</b>                   | <b>1,365.0</b>  |
| <b>Additions, including:</b>             | <b>0.0</b>   | <b>88.2</b>     | <b>85.7</b>                         | <b>1.7</b>                    | <b>175.6</b>    |
| purchases                                | -            | 0.9             | 85.7                                | -                             | 86.6            |
| investment takeovers                     | -            | 87.3            | -                                   | 1.7                           | 89.0            |
| <b>Reductions, including:</b>            | <b>0.0</b>   | <b>0.0</b>      | <b>-90.0</b>                        | <b>0.0</b>                    | <b>-90.0</b>    |
| investment takeovers                     | -            | -               | -89.0                               | -                             | -89.0           |
| other                                    | -            | -               | -1.0                                | -                             | -1.0            |
| <b>Closing gross value</b>               | <b>223.3</b> | <b>1,194.9</b>  | <b>15.8</b>                         | <b>16.6</b>                   | <b>1,450.6</b>  |
| <b>Opening accumulated depreciation</b>  | <b>0.0</b>   | <b>-912.1</b>   | <b>0.0</b>                          | <b>-13.7</b>                  | <b>-925.8</b>   |
| <b>Changes in the period, including:</b> | <b>0.0</b>   | <b>-93.6</b>    | <b>0.0</b>                          | <b>-1.3</b>                   | <b>-94.9</b>    |
| depreciation charges                     | -            | -76.8           | -                                   | -1.3                          | -78.1           |
| sale and liquidation                     | -            | -16.8           | -                                   | -                             | -16.8           |
| <b>Closing accumulated depreciation</b>  | <b>0.0</b>   | <b>-1,005.7</b> | <b>0.0</b>                          | <b>-15.0</b>                  | <b>-1,020.7</b> |
| <b>Closing net value</b>                 | <b>223.3</b> | <b>189.2</b>    | <b>15.8</b>                         | <b>1.6</b>                    | <b>429.9</b>    |

**Contractual obligations to purchase intangible assets**

In 2020, the Group concluded agreements with contractors for the future acquisition of intangible assets for a total amount of PLN 7.3 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 Group had (partly framework) agreements to purchase a license and implement software for a total amount of PLN 5.2 million.

**Impairment test of cash generating units with respective goodwill**

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

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

The test input data cover the economic capital, risk-weighted assets and profit before tax per segment and effective tax rate. The test is performed using the model that calculates and compares the current value of free cash flow of the unit to the estimated book value of the unit's funds. The cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. A discount rate of 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 Group and the strategy covering the maximum period of the next three years. The data regarding the subsequent years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

year of the Group's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

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

**25. Assets held for sale**

|   | 2020        | 2019         |
|---|-------------|--------------|
| <b>Opening value</b>                                | <b>3.6</b>  | <b>10.9</b>  |
| <b>Additions, including:</b>                        | <b>6.3</b>  | <b>16.4</b>  |
| reclassification from property, plant and equipment | 6.3         | 16.4         |
| <b>Reductions, including:</b>                       | <b>-6.3</b> | <b>-23.7</b> |
| sale  | -5.3        | -14.4        |
| reclassification to property, plant and equipment   | -1.0        | -9.3         |
| <b>Closing value</b>                                | <b>3.6</b>  | <b>3.6</b>   |

As at 31 December 2020, the amount of *Assets held for sale* included 3 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 Group 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.

## ING Bank Śląski S.A. Group

Annual consolidated 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 |
|---|-----------------|--|--|-----------------|
| <b>Deferred tax assets</b>  |                 |  |  |                 |
| allowance for expected credit losses  | -280.0          | -68.1                                  | -  | <b>-348.1</b>   |
| valuation of operational leasing  | -167.8          | 52.7                                   | -  | <b>-115.1</b>   |
| revaluation   | -147.4          | -54.5                                  | -28.7  | <b>-230.6</b>   |
| employee benefits   | -83.0           | 19.4                                   | -  | <b>-63.6</b>    |
| other provisions  | -71.2           | -3.2                                   | -  | <b>-74.4</b>    |
| settlement of the difference between tax and balance sheet depreciation                                   | -11.9           | -7.3                                   | -  | <b>-19.2</b>    |
| financial leasing   | -0.9            | 0.8                                    | -  | <b>-0.1</b>     |
| tax losses in subsidiaries  | -0.6            | -48.6                                  | -  | <b>-49.2</b>    |
| provision for restructuring   | 0.0             | -7.3                                   | -  | <b>-7.3</b>     |
| other   | 0.0             | -2.1                                   | -  | <b>-2.1</b>     |
| <b>Total</b>  | <b>-762.8</b>   | <b>-118.2</b>                          | <b>-28.7</b>                                       | <b>-909.7</b>   |
| <b>Deferred tax provision</b>   |                 |  |  |                 |
| revaluation   | 188.3           | -                                      | 105.4  | <b>293.7</b>    |
| accrued interest  | 111.6           | 58.6                                   | -  | <b>170.2</b>    |
| correction due to effective interest rate   | 13.8            | 7.4                                    | -  | <b>21.2</b>     |
| settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief | 1.1             | -0.2                                   | -  | <b>0.9</b>      |
| valuation of financial leasing  | 1.8             | -1.5                                   | -  | <b>0.3</b>      |
| other   | 0.6             | -0.4                                   | -  | <b>0.2</b>      |
| <b>Total</b>  | <b>317.2</b>    | <b>63.9</b>                            | <b>105.4</b>                                       | <b>486.5</b>    |
| <b>Deferred tax disclosed in the balance sheet</b>  | <b>-445.6</b>   | <b>-54.3</b>                           | <b>76.7</b>  | <b>-423.2</b>   |
| Deferred tax asset  |                 |  |  | <b>-423.2</b>   |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | Opening balance | Changes carried through profit or loss | Changes carried through other comprehensive income | Closing balance |
|---|-----------------|--|--|-----------------|
| <b>Deferred tax assets</b>  |                 |  |  |                 |
| allowance for expected credit losses  | -271.4          | -8.6                                   | -  | <b>-280.0</b>   |
| valuation of operational leasing  | -144.3          | -23.5                                  | -  | <b>-167.8</b>   |
| revaluation   | -136.1          | -10.1                                  | -1.2   | <b>-147.4</b>   |
| employee benefits   | -81.7           | -1.3                                   | -  | <b>-83.0</b>    |
| other provisions  | -58.5           | -12.7                                  | -  | <b>-71.2</b>    |
| settlement of the difference between tax and balance sheet depreciation                                   | 0.0             | -11.9                                  | -  | <b>-11.9</b>    |
| financial leasing   | 0.0             | -0.9                                   | -  | <b>-0.9</b>     |
| tax losses in subsidiaries  | -1.1            | 0.5                                    | -  | <b>-0.6</b>     |
| valuation of financial leasing  | -1.9            | 1.9                                    | -  | <b>0.0</b>      |
| <b>Total</b>  | <b>-695.0</b>   | <b>-66.6</b>                           | <b>-1.2</b>  | <b>-762.8</b>   |
| <b>Deferred tax provision</b>   |                 |  |  |                 |
| revaluation   | 206.1           | -0.6                                   | -17.2  | <b>188.3</b>    |
| accrued interest  | 84.1            | 27.5                                   | -  | <b>111.6</b>    |
| correction due to effective interest rate   | 3.3             | 10.5                                   | -  | <b>13.8</b>     |
| settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief | 2.8             | -1.7                                   | -  | <b>1.1</b>      |
| settlement of the difference between tax and balance sheet depreciation                                   | 0.2             | -0.2                                   | -  | <b>0.0</b>      |
| valuation of financial leasing  | 0.0             | 1.8                                    | -  | <b>1.8</b>      |
| other   | 0.3             | 0.3                                    | -  | <b>0.6</b>      |
| <b>Total</b>  | <b>296.8</b>    | <b>37.6</b>                            | <b>-17.2</b>                                       | <b>317.2</b>    |
| <b>Deferred tax disclosed in the balance sheet</b>  | <b>-398.2</b>   | <b>-29.0</b>                           | <b>-18.4</b>                                       | <b>-445.6</b>   |
| Deferred tax asset  |                 |  |  | <b>-445.6</b>   |

**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         |
| fixed assets revaluation  | 1.3          | 1.6          |
| revaluation of cash flow hedging instruments  | 126.6        | 55.8         |
| actuarial gains / losses  | -3.6         | -2.8         |
| <b>Total</b>  | <b>210.8</b> | <b>134.1</b> |

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## 27. Other assets

|                                 | 2020         | 2019         |
|---------------------------------|--------------|--------------|
| <b>Prepayments, including:</b>  | <b>216.0</b> | <b>165.2</b> |
| accrued income                  | 101.3        | 56.5         |
| commission-related settlements  | 42.9         | 43.2         |
| prepaid bank operating expenses | 62.0         | 56.8         |
| expenses to be settled          | 9.8          | 8.7          |
| <b>Other assets, including:</b> | <b>63.2</b>  | <b>39.6</b>  |
| settlements with customers      | 15.9         | 13.0         |
| public and legal settlements    | 43.9         | 7.2          |
| other                           | 3.4          | 19.4         |
| <b>Total</b>                    | <b>279.2</b> | <b>204.8</b> |
| including financial assets      | 63.2         | 39.6         |

## 27.1. Quality of other financial assets

|                   | 2020         |              |             | 2019        |              |             |
|-------------------|--------------|--------------|-------------|-------------|--------------|-------------|
|                   | gross        | impairment   | net         | gross       | impairment   | net         |
| assets in Stage 1 | 63.2         | 0.0          | 63.2        | 39.6        | 0.0          | 39.6        |
| assets in Stage 3 | 45.6         | -45.6        | 0.0         | 56.3        | -56.3        | 0.0         |
| <b>Razem</b>      | <b>108.8</b> | <b>-45.6</b> | <b>63.2</b> | <b>95.9</b> | <b>-56.3</b> | <b>39.6</b> |

## Changes in impairment for expected credit losses

|  | 2020       |              |              | 2019       |             |             |
|--|------------|--------------|--------------|------------|-------------|-------------|
|  | Stage 1    | Stage 3      | Total        | Stage 1    | Stage 3     | Total       |
| <b>Opening balance impairment</b>  | <b>0.0</b> | <b>56.3</b>  | <b>56.3</b>  | <b>0.0</b> | <b>59.5</b> | <b>59.5</b> |
| <b>Changes in the period, including:</b>                                     | <b>0.0</b> | <b>-10.7</b> | <b>-10.7</b> | <b>0.0</b> | <b>-3.2</b> | <b>-3.2</b> |
| 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        | -9.2        |
| exclusion from the statement of financial position due to repayment          | 0.0        | -21.5        | -21.5        | 0.0        | -4.1        | -4.1        |
| <b>Closing balance impairment</b>  | <b>0.0</b> | <b>45.6</b>  | <b>45.6</b>  | <b>0.0</b> | <b>56.3</b> | <b>56.3</b> |

## Reconciliation of the gross carrying amount

|  | 2020        |              |              | 2019          |             |               |
|--|-------------|--------------|--------------|---------------|-------------|---------------|
|  | Stage 1     | Stage 3      | Total        | Stage 1       | Stage 3     | Total         |
| <b>Opening balance of gross carrying amount</b>                        | <b>39.6</b> | <b>56.3</b>  | <b>95.9</b>  | <b>360.1</b>  | <b>59.5</b> | <b>419.6</b>  |
| <b>Changes in the period, including:</b>                               | <b>23.6</b> | <b>-10.7</b> | <b>12.9</b>  | <b>-320.5</b> | <b>-3.2</b> | <b>-323.7</b> |
| 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 | 38.0        | -21.5        | 16.5         | -310.4        | -4.1        | -314.5        |
| <b>Closing gross value</b>   | <b>63.2</b> | <b>45.6</b>  | <b>108.8</b> | <b>39.6</b>   | <b>56.3</b> | <b>95.9</b>   |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**28. Liabilities to other banks**

|                        | 2020           | 2019           |
|------------------------|----------------|----------------|
| Current accounts       | 421.3          | 474.9          |
| Interbank deposits     | 2,861.6        | 1,559.5        |
| Loans received*        | 3,517.1        | 3,639.5        |
| Repo transactions      | 762.9          | 31.1           |
| Received call deposits | 660.3          | 549.2          |
| Other liabilities      | 4.8            | 1.9            |
| <b>Total</b>           | <b>8,228.0</b> | <b>6,256.1</b> |

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

**Liabilities to other banks by maturity**

|                                 | 2020           | 2019           |
|---------------------------------|----------------|----------------|
| up to 1 month                   | 4,855.4        | 2,812.3        |
| over 1 month and up to 3 months | 143.3          | 174.0          |
| over 3 months and up to 1 year  | 288.4          | 807.5          |
| over 1 year and up to 5 years   | 1,205.8        | 2,373.8        |
| over 5 years                    | 1,735.1        | 88.5           |
| <b>Total</b>                    | <b>8,228.0</b> | <b>6,256.1</b> |

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

|  | 2020           | 2019         |
|--|----------------|--------------|
| <b>Valuation of derivatives*</b>   | <b>1,065.3</b> | 667.2        |
| <b>Other financial liabilities measured at fair value through profit or loss, including:</b> | <b>465.5</b>   | 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         |
| <b>Total</b>   | <b>1,530.8</b> | <b>915.1</b> |

\*) 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         |
| <b>Total</b>                  | <b>465.5</b> | <b>247.9</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**30. Liabilities to customers**

|                                      | 2020             | 2019             |
|--------------------------------------|------------------|------------------|
| <b>Deposits, including:</b>          | <b>149,269.9</b> | <b>128,800.1</b> |
| <b>Corporate banking</b>             | <b>58,755.4</b>  | <b>49,848.1</b>  |
| current deposits                     | 45,250.6         | 34,707.2         |
| saving deposits                      | 12,920.5         | 13,513.1         |
| term deposits                        | 584.3            | 1,627.8          |
| <b>Retail banking</b>                | <b>90,514.5</b>  | <b>78,952.0</b>  |
| current deposits                     | 22,924.1         | 15,706.7         |
| saving deposits                      | 65,896.2         | 60,812.0         |
| term deposits                        | 1,694.2          | 2,433.3          |
| <b>Other liabilities, including:</b> | <b>1,758.6</b>   | <b>1,673.4</b>   |
| liabilities under monetary hedges    | 547.1            | 400.1            |
| other liabilities                    | 1,211.5          | 1,273.3          |
| call deposits                        | 20.7             | 11.6             |
| other liabilities                    | 1,190.8          | 1,261.7          |
| <b>Total</b>                         | <b>151,028.5</b> | <b>130,473.5</b> |

**Liabilities to customers by maturity**

|                                 | 2020             | 2019             |
|---------------------------------|------------------|------------------|
| up to 1 month                   | 149,384.7        | 127,964.6        |
| over 1 month and up to 3 months | 433.1            | 929.7            |
| over 3 months and up to 1 year  | 1,085.4          | 1,361.2          |
| over 1 year and up to 5 years   | 115.1            | 176.9            |
| over 5 years                    | 10.2             | 41.1             |
| <b>Total</b>                    | <b>151,028.5</b> | <b>130,473.5</b> |

**31. Liabilities from debt securities issued**

|  | 2020           | 2019         |
|--|----------------|--------------|
| Liabilities under issue of debt securities, including: | 1,370.5        | 399.7        |
| Bonds issued by ING Bank Śląski S.A.                   | 975.1          | 0.0          |
| Mortgage bonds issued by ING Bank Hipoteczny S.A.      | 395.4          | 399.7        |
| <b>Total</b>   | <b>1,370.5</b> | <b>399.7</b> |

**Liabilities under issue of debt securities by maturity**

|                                 | 2020           | 2019         |
|---------------------------------|----------------|--------------|
| over 1 month and up to 3 months | 925.1          | 0.0          |
| over 3 months and up to 1 year  | 50.0           | 2.1          |
| over 1 year and up to 5 years   | 395.4          | 397.6        |
| <b>Total</b>                    | <b>1,370.5</b> | <b>399.7</b> |

**Bond issue program**

In 2020, as part of the Bonds Issue Program, a subsidiary of the Group – ING Bank Hipoteczny SA – issued bonds with a total nominal value of PLN 975 million (i.e. 1 950 bonds with a nominal value of PLN 500 thousand each).

In December 2020, as part of the above-mentioned of the program, three series of bonds were issued, i.e. .:

- Series 1 (INGBH001) with a value of PLN 675 million and maturity fixed at 3 months

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- Series 2 (INGBH002) with a value of PLN 50 million and a maturity period fixed at 6 months,
- Series 3 (INGBH003) with a value of PLN 250 million and a maturity period fixed at 3 months.

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

Mortgage bonds

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

**32. Subordinated liabilities**

ING Bank Śląski 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).

**33. Provisions**

|   | 2020         | 2019         |
|---|--------------|--------------|
| Provision for off-balance sheet liabilities | 86.9         | 107.1        |
| Provision for retirement benefits           | 63.8         | 55.9         |
| Provision for disputes                      | 21.4         | 18.1         |
| Provision for restructuring                 | 49.5         | 0.0          |
| Other provisions                            | 34.7         | 24.6         |
| <b>Total</b>                                | <b>256.3</b> | <b>205.7</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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        |                                   |                        |                             |                  |              |
| <b>Opening balance</b>                | 22.3  | 17.5        | 67.3        | <b>107.1</b> | 55.9                              | 18.1                   | 0.0                         | 24.6             | <b>205.7</b> |
| provisions recognised/ reversed       | 16.2  | -3.2        | -33.2       | <b>-20.2</b> | 3.7                               | 4.4                    | 49.5                        | 16.9             | <b>54.3</b>  |
| provisions utilised                   | -   | -           | -           | <b>0.0</b>   | -                                 | -1.0                   | -                           | -6.9             | <b>-7.9</b>  |
| actuarial gains/losses .              | -   | -           | -           | <b>0.0</b>   | 4.2                               | -                      | -                           | -                | <b>4.2</b>   |
| other                                 | -   | -           | -           | <b>0.0</b>   | -                                 | -0.1                   | -                           | 0.1              | <b>0.0</b>   |
| <b>Closing balance</b>                | <b>38.5</b>                                 | <b>14.3</b> | <b>34.1</b> | <b>86.9</b>  | <b>63.8</b>                       | <b>21.4</b>            | <b>49.5</b>                 | <b>34.7</b>      | <b>256.3</b> |
| Expected provision settlement period: |   |             |             |              |                                   |                        |                             |                  |              |
| up to 1 year                          |   |             |             | 0.0          | 4.0                               | 1.7                    | 22.6                        | 18.9             | <b>47.2</b>  |
| over 1 year                           |   |             |             | 86.9         | 59.8                              | 19.7                   | 26.9                        | 15.8             | <b>209.1</b> |

**2019**

|   | Provision for off-balance sheet liabilities |             |             |              | Provision for retirement benefits | Provision for disputes | Other provisions | TOTAL        |              |
|---|---|-------------|-------------|--------------|-----------------------------------|------------------------|------------------|--------------|--------------|
|   | Stage 1                                     | Stage 2     | Stage 3     | Total        |                                   |                        |                  |              |              |
| <b>Opening balance</b>  | 26.6  | 17.8        | 34.1        | <b>78.5</b>  | 41.4                              | 32.5                   | 0.0              | <b>152.4</b> |              |
| provisions recognised/ reversed   | -4.3  | -0.3        | 33.9        | <b>29.3</b>  | 3.8                               | 0.5                    | 17.0             | <b>50.6</b>  |              |
| provisions utilised   | -   | -           | -           | <b>0.0</b>   | -1.9                              | -0.3                   | -2.0             | <b>-4.2</b>  |              |
| actuarial gains/losses  | -   | -           | -           | <b>0.0</b>   | 12.6                              | -                      | -                | <b>12.6</b>  |              |
| transition from individual to portfolio provision for mortgage loans in CHF | -   | -           | -           | <b>0.0</b>   | -                                 | -14.6                  | 9.6              | <b>-5.0</b>  |              |
| other   | 0.0   | 0.0         | -0.7        | <b>-0.7</b>  | -                                 | -                      | -                | <b>-0.7</b>  |              |
| <b>Closing balance</b>  | <b>22.3</b>                                 | <b>17.5</b> | <b>67.3</b> | <b>107.1</b> | <b>55.9</b>                       | <b>18.1</b>            | <b>24.6</b>      | <b>205.7</b> |              |
| Expected provision settlement period:                                       |   |             |             |              |                                   |                        |                  |              |              |
| up to 1 year  |   |             |             |              | 0.0                               | 3.4                    | 2.3              | 14.9         | <b>20.6</b>  |
| over 1 year   |   |             |             |              | 107.1                             | 52.5                   | 15.8             | 9.7          | <b>185.1</b> |

**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.

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

|  | 2020        | 2019        |
|--|-------------|-------------|
| Opening balance                                    | 55.9        | 41.4        |
| Costs included in the income statement, including: | 4.8         | 3.8         |
| regular employment costs                           | 3.7         | 2.6         |
| costs of interest                                  | 1.1         | 1.2         |
| Actuarial gains / losses                           | 4.2         | 12.6        |
| Paid benefits                                      | -1.1        | -1.9        |
| <b>Closing balance</b>                             | <b>63.8</b> | <b>55.9</b> |

**Provision for disputes**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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 49.5 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 consolidated profit and loss account under Operating expenses in specific items:

- PLN 39.5 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 Group 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

claim, equal to the difference in the benefits provided to the party whose total benefit was higher?

5. In the event of the invalidity or ineffectiveness of a loan agreement due to the unlawful nature of some of its provisions, does the limitation period for the bank's claim for reimbursement of the amounts paid under the loan start from the moment of their payment?
6. If, in the event of the invalidity or ineffectiveness of a credit agreement, either party is entitled to a claim for reimbursement of the performance provided in the performance of such a contract, may that party also demand remuneration for the use of its funds by the other party?

The ruling of the Supreme Court may affect the assumptions made in the model for estimating the Group's gross book value adjustments resulting from legal risk for the portfolio of CHF-indexed mortgage loans disclosed in the statement of financial position and provisions for legal risk for CHF-indexed mortgage loans already removed from the report from the financial situation. In particular, it may affect the number and resolution of disputes and the interest of borrowers in entering into voluntary agreements regarding conversion into PLN loans. The Bank 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 Group'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 Group 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),

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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 Group now automatically reimburses a proportionate part of the commission in the case of early repayment of the consumer loan (for repayments made after 11 September 2019). For early repayments made before 11 September 2019, the Group makes refunds if the client submits a complaint and its verification proves that the refund is justified.

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

**Proceedings before the President of the Office of Competition and Consumer Protection (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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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 Group 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 Group 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.

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN 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 depository'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 depository 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.

**34. Other liabilities**

|   | 2020           | 2019           |
|---|----------------|----------------|
| <b>Accruals, including:</b>                 | <b>439.7</b>   | <b>417.1</b>   |
| due to employee benefits                    | 274.8          | 281.1          |
| variable remuneration programme             | 46.0           | 63.0           |
| due to commissions                          | 154.0          | 131.4          |
| other                                       | 10.9           | 4.6            |
| <b>Other liabilities, including:</b>        | <b>1,866.3</b> | <b>1,661.8</b> |
| lease liabilities                           | 393.7          | 404.5          |
| interbank settlements                       | 611.7          | 569.4          |
| settlements with suppliers                  | 290.7          | 317.1          |
| public and legal settlements                | 101.3          | 97.2           |
| 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:                                      | 233.6          | 188.8          |
| <b>Total</b>                                | <b>2,306.0</b> | <b>2,078.9</b> |
| Including financial liabilities             | 1,866.3        | 1,661.8        |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**35. Equity****35.1. Share capital**

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

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

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

**35.2. Accumulated other comprehensive income**

|  | 2020           | 2019           |
|--|----------------|----------------|
| Changes in the fair value of financial assets measured through other comprehensive income – debt instruments, including:   |                |                |
| deferred tax   | 353.4          | 268.9          |
| current 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: |                |                |
| deferred tax   | 100.8          | 69.9           |
| Property, plant and equipment, including:  |                |                |
| deferred tax   | -23.6          | -16.4          |
| Property, plant and equipment, including:  | 5.8            | 7.1            |
| deferred tax   | -1.3           | -1.6           |
| Cash flow hedges, including:   |                |                |
| deferred tax   | 3,480.0        | 1,534.6        |
| current tax **   | -126.6         | -55.8          |
| current tax **   | -689.7         | -304.2         |
| Actuarial gains / losses, including:   |                |                |
| deferred tax   | -16.6          | -13.2          |
| deferred tax   | 3.6            | 2.8            |
| <b>Total</b>   | <b>3,923.4</b> | <b>1,867.3</b> |

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

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

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

The Group uses the service "settled to market", or "STM", provided for by the Regulation of the KDPW 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*.

**ING Bank Śląski S.A. Group**

Annual consolidated 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 – debt instruments | Changes in the fair value of financial assets measured through other comprehensive income – equity instruments | Property, plant and equipment | Cash flow hedge | Actuarial gains / losses | TOTAL          |
|---|--|--|-------------------------------|-----------------|--------------------------|----------------|
| <b>Opening balance</b>  | <b>268.9</b>   | <b>69.9</b>  | <b>7.1</b>                    | <b>1,534.6</b>  | <b>-13.2</b>             | <b>1,867.3</b> |
| financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity       | 102.8  | 30.9   | -                             | -               | -                        | 133.7          |
| financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale | -18.3  | 0.0  | -                             | -               | -                        | -18.3          |
| cash flow hedging – gains on revaluation carried through equity   | -  | -  | -                             | 2,562.5         | -                        | 2,562.5        |
| cash flow hedging – reclassification to profit or loss  | -  | -  | -                             | -617.1          | -                        | -617.1         |
| disposal of fixed assets  | -  | -  | -1.3                          | -               | -                        | -1.3           |
| actuarial gains/losses  | -  | -  | -                             | -               | -3.4                     | -3.4           |
| <b>Closing balance</b>  | <b>353.4</b>   | <b>100.8</b>   | <b>5.8</b>                    | <b>3,480.0</b>  | <b>-16.6</b>             | <b>3,923.4</b> |

**2019**

|   | Changes in the fair value of financial assets measured through other comprehensive income – debt instruments | Changes in the fair value of financial assets measured through other comprehensive income – equity instruments | Property, plant and equipment | Cash flow hedge | Actuarial gains / losses | TOTAL          |
|---|--|--|-------------------------------|-----------------|--------------------------|----------------|
| <b>Opening balance</b>  | <b>275.3</b>   | <b>47.7</b>  | <b>7.4</b>                    | <b>842.3</b>    | <b>-3.0</b>              | <b>1,169.7</b> |
| financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity       | 17.3   | 22.2   | -                             | -               | -                        | 39.5           |
| financial assets measured at fair value through other comprehensive income – transfer to financial result in connection with the sale | -23.7  | 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          |
| <b>Closing balance</b>  | <b>268.9</b>   | <b>69.9</b>  | <b>7.1</b>                    | <b>1,534.6</b>  | <b>-13.2</b>             | <b>1,867.3</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**35.3. 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         |
| <b>Total</b>                          | <b>13,608.5</b> | <b>12,269.6</b> |

**2020**

|                                       | Other<br>supplemen<br>tary capital | Reserve<br>capital | General<br>risk fund | Valuation<br>of share-based<br>payments | Retained<br>earnings<br>from<br>previous<br>years | Result for<br>the current<br>year | TOTAL           |
|---------------------------------------|------------------------------------|--------------------|----------------------|---|---|-----------------------------------|-----------------|
| <b>Opening balance</b>                | <b>314.7</b>                       | <b>9,043.3</b>     | <b>1,215.2</b>       | <b>51.9</b>                             | <b>1,644.5</b>                                    | <b>0.0</b>                        | <b>12,269.6</b> |
| 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             |
| <b>Closing balance</b>                | <b>314.7</b>                       | <b>10,193.4</b>    | <b>1,215.2</b>       | <b>51.9</b>                             | <b>495.7</b>                                      | <b>1,337.6</b>                    | <b>13,608.5</b> |

**2019**

|  | Other<br>supplemen<br>tary capital | Reserve<br>capital | General<br>risk fund | Valuation<br>of share-based<br>payments | Retained<br>earnings<br>from<br>previous<br>years | Result for<br>the current<br>year | TOTAL           |
|--|------------------------------------|--------------------|----------------------|---|---|-----------------------------------|-----------------|
| <b>Opening balance</b>   | <b>314.7</b>                       | <b>8,232.9</b>     | <b>1,215.2</b>       | <b>51.7</b>                             | <b>1,265.7</b>                                    | <b>0.0</b>                        | <b>11,080.2</b> |
| adjustment in recognition the repo transactions  | -                                  | -                  | -                    | -                                       | -14.7   | -                                 | -14.7           |
| <b>Opening balance of equity adjusted for changes to the accounting principles and other adjustments</b> | <b>314.7</b>                       | <b>8,232.9</b>     | <b>1,215.2</b>       | <b>51.7</b>                             | <b>1,251.0</b>                                    | <b>0.0</b>                        | <b>11,065.5</b> |
| 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             |
| <b>Closing balance</b>   | <b>314.7</b>                       | <b>9,043.3</b>     | <b>1,215.2</b>       | <b>51.9</b>                             | <b>-14.2</b>                                      | <b>1,658.7</b>                    | <b>12,269.6</b> |

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**General Risk Fund**

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits and is used for unidentified risk of banking activity. The decision on the use of the Fund is taken by the Management Board.

**Dividend payout**

The dividend is paid based on the financial result determined in the separate annual financial statements of the Parent company and the Group companies.

Details of the Group's dividend policy and dividend payout constraints are included in the risk management part of this report, in chapter I. *Risk and Capital Management*, in item 5. *Dividend Policy*.

**36. FX structure of assets and liabilities**

Herein below, the statement of consolidated financial position of the Group and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

|     | 31.12.2020 | 31.12.2019 |
|-----|------------|------------|
| EUR | 4.6148     | 4.2585     |
| USD | 3.7584     | 3.7977     |
| CHF | 4.2641     | 3.9213     |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|   | PLN              | EUR              |                    | USD              |                    | CHF              |                    | other currencies converted to PLN | TOTAL            |
|---|------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|-----------------------------------|------------------|
|   |                  | converted to PLN | <i>in currency</i> | converted to PLN | <i>in currency</i> | converted to PLN | <i>in currency</i> |                                   |                  |
| <b>Assets</b>   |                  |                  |                    |                  |                    |                  |                    |                                   |                  |
| Cash in hand and balances with the Central Bank                     | 516.7            | 235.2            | 51.0               | 61.3             | 16.3               | 4.8              | 1.1                | 49.3                              | 867.3            |
| Loans and other receivables to other banks                          | 362.5            | 289.9            | 62.8               | 30.6             | 8.1                | 0.5              | 0.1                | 21.1                              | 704.6            |
| Financial assets measured at fair value through profit or loss      | 1,832.7          | 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   | 48,815.5         | 6,118.0          | 1,325.8            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 54,933.5         |
| Loans and other receivables to customers measured at amortised cost | 105,726.5        | 16,517.1         | 3,579.2            | 681.7            | 181.4              | 597.0            | 140.0              | 1,133.0                           | 124,655.3        |
| Investments in associates accounted for using the equity method     | 174.1            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 174.1            |
| Property, plant and equipment                                       | 913.1            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 913.1            |
| Intangible assets   | 426.6            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 426.6            |
| Assets held for sale  | 3.6              | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 3.6              |
| Current income tax assets   | 2.7              | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 2.7              |
| Deferred tax assets   | 423.2            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | 423.2            |
| Other assets  | 274.9            | 3.8              | 0.8                | 0.3              | 0.1                | 0.0              | 0.0                | 0.2                               | 279.2            |
| <b>Total assets</b>   | <b>160,503.4</b> | <b>23,461.8</b>  | <b>5,084.1</b>     | <b>790.0</b>     | <b>210.2</b>       | <b>612.3</b>     | <b>143.5</b>       | <b>1,228.2</b>                    | <b>186,595.7</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|   | PLN              | EUR              |                | USD              |                | CHF              |             | other currencies converted to PLN | TOTAL            |
|---|------------------|------------------|----------------|------------------|----------------|------------------|-------------|-----------------------------------|------------------|
|   |                  | converted to PLN | in currency    | converted to PLN | in currency    | converted to PLN | in currency |                                   |                  |
| <b>Liabilities</b>  |                  |                  |                |                  |                |                  |             |                                   |                  |
| Liabilities to other banks  | 3,318.9          | 4,592.3          | 995.1          | 252.4            | 67.2           | 22.8             | 5.3         | 41.6                              | <b>8,228.0</b>   |
| 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                              | <b>1,530.8</b>   |
| Derivative hedge instruments  | 375.3            | 183.2            | 39.7           | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>558.5</b>     |
| Liabilities to customers  | 130,908.8        | 15,601.4         | 3,380.7        | 3,708.4          | 986.7          | 24.9             | 5.8         | 785.0                             | <b>151,028.5</b> |
| Liabilities from debt securities issued                             | 1,370.5          | 0.0              | 0.0            | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>1,370.5</b>   |
| Subordinated liabilities  | 0.0              | 2,309.2          | 500.4          | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>2,309.2</b>   |
| Provisions  | 244.0            | 7.1              | 1.5            | 5.2              | 1.4            | 0.0              | 0.0         | 0.0                               | <b>256.3</b>     |
| Current income tax liabilities                                      | 389.6            | 0.0              | 0.0            | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>389.6</b>     |
| Other liabilities   | 2,102.4          | 198.8            | 43.1           | 2.6              | 0.7            | 0.0              | 0.0         | 2.2                               | <b>2,306.0</b>   |
| <b>Total liabilities</b>  | <b>139,921.2</b> | <b>23,008.2</b>  | <b>4,985.7</b> | <b>4,127.3</b>   | <b>1,098.2</b> | <b>62.2</b>      | <b>14.5</b> | <b>858.5</b>                      | <b>167,977.4</b> |
| <b>Equity</b>   |                  |                  |                |                  |                |                  |             |                                   |                  |
| Share capital   | 130.1            | 0.0              | 0.0            | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>130.1</b>     |
| Share premium   | 956.3            | 0.0              | 0.0            | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>956.3</b>     |
| Accumulated other comprehensive income                              | 3,811.8          | 111.6            | 24.2           | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>3,923.4</b>   |
| Retained earnings   | 13,608.5         | 0.0              | 0.0            | 0.0              | 0.0            | 0.0              | 0.0         | 0.0                               | <b>13,608.5</b>  |
| <b>Total equity</b>   | <b>18,506.7</b>  | <b>111.6</b>     | <b>24.2</b>    | <b>0.0</b>       | <b>0.0</b>     | <b>0.0</b>       | <b>0.0</b>  | <b>0.0</b>                        | <b>18,618.3</b>  |
| <b>Total equity and liabilities</b>                                 | <b>158,427.9</b> | <b>23,119.8</b>  | <b>5,009.9</b> | <b>4,127.3</b>   | <b>1,098.2</b> | <b>62.2</b>      | <b>14.5</b> | <b>858.5</b>                      | <b>186,595.7</b> |
| Contingent liabilities granted                                      | 37,953.1         | 4,821.1          | 1,044.7        | 802.8            | 213.6          | 2.5              | 0.6         | 8.0                               | <b>43,587.5</b>  |
| Contingent liabilities received                                     | 10,756.5         | 589.6            | 127.8          | 167.2            | 44.5           | 0.0              | 0.0         | 72.8                              | <b>11,586.1</b>  |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | PLN              | EUR              |                    | USD              |                    | CHF              |                    | other currencies converted to PLN | TOTAL            |
|---|------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|-----------------------------------|------------------|
|   |                  | converted to PLN | <i>in currency</i> | converted to PLN | <i>in currency</i> | converted to PLN | <i>in currency</i> |                                   |                  |
| <b>Assets</b>   |                  |                  |                    |                  |                    |                  |                    |                                   |                  |
| 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                              | <b>1,402.9</b>   |
| Loans and other receivables to other banks                          | 397.9            | 283.7            | 66.6               | 90.4             | 23.8               | 0.4              | 0.1                | 26.1                              | <b>798.5</b>     |
| 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                              | <b>1,384.6</b>   |
| Derivative hedge instruments  | 680.5            | 171.1            | 40.2               | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>851.6</b>     |
| Investment securities   | 28,683.6         | 5,140.8          | 1,207.2            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>33,824.4</b>  |
| Loans and other receivables to customers measured at amortised cost | 100,369.7        | 14,866.8         | 3,491.1            | 628.5            | 165.5              | 906.8            | 231.2              | 1,356.0                           | <b>118,127.8</b> |
| Investments in associates accounted for using the equity method     | 181.0            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>181.0</b>     |
| Property, plant and equipment                                       | 956.0            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>956.0</b>     |
| Intangible assets   | 429.9            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>429.9</b>     |
| Assets held for sale  | 3.6              | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>3.6</b>       |
| Deferred tax assets   | 445.6            | 0.0              | 0.0                | 0.0              | 0.0                | 0.0              | 0.0                | 0.0                               | <b>445.6</b>     |
| Other assets  | 193.4            | 10.7             | 2.5                | 0.3              | 0.1                | 0.0              | 0.0                | 0.4                               | <b>204.8</b>     |
| <b>Total assets</b>   | <b>134,648.0</b> | <b>20,815.7</b>  | <b>4,888.0</b>     | <b>803.0</b>     | <b>211.4</b>       | <b>916.4</b>     | <b>233.7</b>       | <b>1,427.6</b>                    | <b>158,610.7</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | PLN              | EUR              |                | USD              |              | CHF              |             | other currencies converted to PLN | TOTAL            |
|---|------------------|------------------|----------------|------------------|--------------|------------------|-------------|-----------------------------------|------------------|
|   |                  | converted to PLN | in currency    | converted to PLN | in currency  | converted to PLN | in currency |                                   |                  |
| <b>Liabilities</b>  |                  |                  |                |                  |              |                  |             |                                   |                  |
| Liabilities to other banks  | 2,087.2          | 4,110.9          | 965.3          | 2.2              | 0.6          | 47.0             | 12.0        | 8.8                               | 6,256.1          |
| 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  | 113,594.6        | 13,332.7         | 3,130.8        | 2,725.1          | 717.6        | 38.0             | 9.7         | 783.1                             | 130,473.5        |
| Liabilities from debt securities issued                             | 399.7            | 0.0              | 0.0            | 0.0              | 0.0          | 0.0              | 0.0         | 0.0                               | 399.7            |
| Subordinated liabilities  | 0.0              | 2,131.1          | 500.4          | 0.0              | 0.0          | 0.0              | 0.0         | 0.0                               | 2,131.1          |
| Provisions  | 194.8            | 4.3              | 1.0            | 6.6              | 1.7          | 0.0              | 0.0         | 0.0                               | 205.7            |
| Current income tax liabilities                                      | 381.3            | 0.0              | 0.0            | 0.0              | 0.0          | 0.0              | 0.0         | 0.0                               | 381.3            |
| Other liabilities   | 1,854.1          | 220.7            | 51.8           | 2.5              | 0.7          | 1.5              | 0.4         | 0.1                               | 2,078.9          |
| <b>Total liabilities</b>  | <b>119,521.2</b> | <b>20,205.3</b>  | <b>4,744.5</b> | <b>2,776.1</b>   | <b>731.1</b> | <b>86.5</b>      | <b>22.1</b> | <b>798.3</b>                      | <b>143,387.4</b> |
| <b>Equity</b>   |                  |                  |                |                  |              |                  |             |                                   |                  |
| 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                              | 1,766.8          | 100.5            | 0.0            | 0.0              | 0.0          | 0.0              | 0.0         | 0.0                               | 1,867.3          |
| Retained earnings   | 12,269.6         | 0.0              | 0.0            | 0.0              | 0.0          | 0.0              | 0.0         | 0.0                               | 12,269.6         |
| <b>Total equity</b>   | <b>15,122.8</b>  | <b>100.5</b>     | <b>0.0</b>     | <b>0.0</b>       | <b>0.0</b>   | <b>0.0</b>       | <b>0.0</b>  | <b>0.0</b>                        | <b>15,223.3</b>  |
| <b>Total equity and liabilities</b>                                 | <b>134,644.0</b> | <b>20,305.8</b>  | <b>4,744.5</b> | <b>2,776.1</b>   | <b>731.1</b> | <b>86.5</b>      | <b>22.1</b> | <b>798.3</b>                      | <b>158,610.7</b> |
| Contingent liabilities granted                                      | 30,190.2         | 4,867.7          | 1,143.1        | 1,431.1          | 376.8        | 1.2              | 0.3         | 57.5                              | 36,547.7         |
| Contingent liabilities received                                     | 7,234.5          | 1,175.8          | 276.1          | 157.6            | 41.5         | 0.0              | 0.0         | 77.8                              | 8,645.7          |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**37. Contingent liabilities****37.1. Contingent liabilities granted**

|                                       | 2020            | 2019            |
|---------------------------------------|-----------------|-----------------|
| Undrawn credit facilities             | 33,997.6        | 27,699.0        |
| Guarantees                            | 6,058.6         | 5,837.2         |
| Undrawn overdrafts in current account | 1,580.5         | 1,425.6         |
| Credit card limits                    | 1,520.5         | 1,389.9         |
| Letters of credit                     | 430.3           | 196.0           |
| <b>Total</b>                          | <b>43,587.5</b> | <b>36,547.7</b> |

The Group discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts in current accounts.

The Group issues guarantees and letters of credits to secure fulfilment of obligations of the Group's customers to third parties. The value of guarantees and letters of credit disclosed above reflects the maximum loss that can be incurred and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.

The Group charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

**Financial guarantee contracts by maturity**

|                                 | 2020           | 2019           |
|---------------------------------|----------------|----------------|
| up to 1 month                   | 152.6          | 141.0          |
| over 1 month and up to 3 months | 618.7          | 458.0          |
| over 3 months and up to 1 year  | 2,535.3        | 2,380.0        |
| over 1 year and up to 5 years   | 1,990.6        | 2,060.7        |
| over 5 years                    | 761.4          | 797.5          |
| <b>Total</b>                    | <b>6,058.6</b> | <b>5,837.2</b> |

**37.2. Contingent liabilities received**

|                      | 2020            | 2019           |
|----------------------|-----------------|----------------|
| Guarantees received* | 10,763.6        | 8,211.4        |
| Financing            | 822.5           | 434.3          |
| <b>Total</b>         | <b>11,586.1</b> | <b>8,645.7</b> |

\*) In 2020, the Group 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**38. 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.

**38.1. Financial assets and liabilities measured at fair value in statement of financial position**

Based on the employed methods of determining the fair value, the Group classifies individual financial assets / liabilities into one of three categories, the so-called Valuation level. The description of the individual levels of valuation is included in Chapter III. *Significant accounting principles*, in item 14.8.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement levels.

2020

|   | Level 1         | Level 2        | Level 3      | TOTAL           |
|---|-----------------|----------------|--------------|-----------------|
| <b>Financial assets, including:</b>   | <b>21,672.4</b> | <b>2,669.5</b> | <b>264.0</b> | <b>24,605.9</b> |
| 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           | 0.0            | 0.0          | 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  | 0.0             | 1,194.8        | 0.0          | 1,194.8         |
| Financial assets measured at fair value through other comprehensive income, including:                        | 21,235.7        | 0.0            | 157.7        | 21,393.4        |
| debt securities, including:   | 21,235.7        | -              | -            | 21,235.7        |
| treasury bonds  | 18,608.0        | -              | -            | 18,608.0        |
| 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  | 0.0             | 0.0            | 157.7        | 157.7           |
| <b>Financial liabilities, including:</b>  | <b>265.5</b>    | <b>1,823.8</b> | <b>0.0</b>   | <b>2,089.3</b>  |
| Valuation of derivatives  | -               | 1,065.3        | -            | 1,065.3         |
| Other financial liabilities measured at fair value through profit or loss, including:                         | 265.5           | 200.0          | 0.0          | 465.5           |
| book short position in trading securities   | 265.5           | -              | -            | 265.5           |
| financial liabilities held for trading, including:  | -               | 200.0          | -            | 200.0           |
| repo transactions   | -               | 200.0          | -            | 200.0           |
| Derivative hedge instruments  | -               | 558.5          | -            | 558.5           |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | Level 1         | Level 2        | Level 3      | TOTAL           |
|---|-----------------|----------------|--------------|-----------------|
| <b>Financial assets, including:</b>   | <b>21,631.8</b> | <b>1,577.4</b> | <b>271.0</b> | <b>23,480.2</b> |
| 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:                        | 21,133.4        | 0.0            | 110.6        | 21,244.0        |
| debt securities, including:   | 21,133.4        | -              | -            | 21,133.4        |
| treasury bonds  | 18,682.4        | -              | -            | 18,682.4        |
| 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           |
| <b>Financial liabilities, including:</b>  | <b>167.2</b>    | <b>1,293.9</b> | <b>0.0</b>   | <b>1,461.1</b>  |
| Valuation of derivatives  | -               | 667.2          | -            | 667.2           |
| Other financial liabilities measured at fair value through profit or loss, including:                         | 167.2           | 80.7           | 0.0          | 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 Group classifies derivatives and repo transactions to level 2 of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option – the Garman-Kohlhagen model adjusted by the call spread,
- Cap/Floor (back-to-back transactions) – the 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 -0.5p.p./+0.5p.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.

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%.

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

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 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 |
| <b>Opening balance</b>   | <b>160.3</b>   | <b>0.1</b>   | <b>110.6</b>   | <b>218.4</b>   | <b>0.1</b>   | <b>83.2</b>  |
| <b>Additions, including:</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>47.1</b>  | <b>0.0</b>   | <b>0.0</b>   | <b>27.4</b>  |
| loans granted in the period / investment acquisition   | -  | -  | 4.2  | -  | -  | -  |
| reclassification of equity instruments from investments in associates to investment securities measured at fair value through other comprehensive income | -  | -  | 4.8  | -  | -  | -  |
| valuation referred to accumulated other comprehensive income   | -  | -  | 38.1   | -  | -  | 27.4   |
| <b>Reductions, including:</b>  | <b>-54.1</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>-58.1</b>   | <b>0.0</b>   | <b>0.0</b>   |
| loan repayments  | -54.0  | -  | -  | -58.0  | -  | -  |
| valuation charged to the income statement*   | -0.1   | -  | -  | -0.1   | -  | -  |
| <b>Closing balance</b>   | <b>106.2</b>   | <b>0.1</b>   | <b>157.7</b>   | <b>160.3</b>   | <b>0.1</b>   | <b>110.6</b>   |

\*) In the item *Net income on financial instruments measured at fair value through profit or loss and FX result*

## 38.2. Non-financial assets measured at fair value in the statement of financial position

### 2020

|   | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---------|---------|---------|-------|
| Own real property                           | -       | -       | 266.9   | 266.9 |
| Property, plant and equipment held for sale | -       | -       | 3.6     | 3.6   |

### 2019

|   | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---------|---------|---------|-------|
| Own real property                           | -       | -       | 263.7   | 263.7 |
| 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 Group measures its property measured at fair value. Valuation is carried out by an independent appraiser using the income method in accordance with the applicable rules of property valuation.

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*).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 259.8 million as at 31 December 2020 against PLN 255.0 million as at 31 December 2019.

### 38.3. 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          |                  |
| <b>Investment securities at amortised cost</b>              | <b>33,540.1</b>  | <b>29,416.1</b> | <b>4,704.5</b> | <b>0.0</b>       | <b>34,120.6</b>  |
| 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            |
| <b>Loans and receivables to customers at amortised cost</b> | <b>124,655.3</b> | <b>0.0</b>      | <b>0.0</b>     | <b>124,318.4</b> | <b>124,318.4</b> |
| Corporate banking segment, including:                       | <b>67,976.7</b>  | <b>0.0</b>      | <b>0.0</b>     | <b>68,103.5</b>  | <b>68,103.5</b>  |
| loans and advances (in the current account and term ones)   | 50,492.9         | -               | -              | 50,765.5         | 50,765.5         |
| lease receivables   | 9,697.6          | -               | -              | 9,677.8          | 9,677.8          |
| factoring receivables                                       | 4,794.5          | -               | -              | 4,794.5          | 4,794.5          |
| corporate and municipal debt securities                     | 2,991.7          | -               | -              | 2,865.7          | 2,865.7          |
| Retail banking segment, including:                          | <b>54,745.4</b>  | <b>0.0</b>      | <b>0.0</b>     | <b>54,281.7</b>  | <b>54,281.7</b>  |
| mortgages   | 47,621.8         | -               | -              | 47,127.0         | 47,127.0         |
| other loans and advances                                    | 7,123.6          | -               | -              | 7,154.7          | 7,154.7          |
| Other receivables   | <b>1,933.2</b>   | -               | -              | <b>1,933.2</b>   | <b>1,933.2</b>   |
| <b>Liabilities to customers</b>                             | <b>151,028.5</b> | -               | -              | <b>151,032.9</b> | <b>151,032.9</b> |
| <b>Subordinated liabilities</b>                             | <b>2,309.2</b>   | -               | -              | <b>2,160.0</b>   | <b>2,160.0</b>   |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | Carrying amount  | Fair value      |              |                  | TOTAL            |
|---|------------------|-----------------|--------------|------------------|------------------|
|   |                  | Level 1         | Level 2      | Level 3          |                  |
| <b>Investment securities at amortised cost</b>              | <b>12,580.4</b>  | <b>11,601.9</b> | <b>755.3</b> | <b>0.0</b>       | <b>12,357.2</b>  |
| 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          |
| NBP money market bills                                      | 230.0            | -               | 230.0        | -                | 230.0            |
| <b>Loans and receivables to customers at amortised cost</b> | <b>118,127.8</b> | <b>0.0</b>      | <b>0.0</b>   | <b>117,932.6</b> | <b>117,932.6</b> |
| Corporate banking segment, including:                       | <b>68,230.7</b>  | <b>0.0</b>      | <b>0.0</b>   | <b>68,141.2</b>  | <b>68,141.2</b>  |
| loans and advances (in the current account and term ones)   | 51,098.7         | -               | -            | 51,169.7         | 51,169.7         |
| lease receivables   | 9,334.7          | -               | -            | 9,333.3          | 9,333.3          |
| factoring receivables                                       | 5,293.3          | -               | -            | 5,293.3          | 5,293.3          |
| corporate and municipal debt securities                     | 2,504.0          | -               | -            | 2,344.9          | 2,344.9          |
| Retail banking segment, including:                          | <b>47,600.3</b>  | <b>0.0</b>      | <b>0.0</b>   | <b>47,494.6</b>  | <b>47,494.6</b>  |
| mortgages   | 40,597.4         | -               | -            | 40,461.7         | 40,461.7         |
| other loans and advances                                    | 7,002.9          | -               | -            | 7,032.9          | 7,032.9          |
| Other receivables   | <b>2,296.8</b>   | -               | -            | <b>2,296.8</b>   | <b>2,296.8</b>   |
| <b>Liabilities to customers</b>                             | <b>130,473.5</b> | -               | -            | <b>130,473.6</b> | <b>130,473.6</b> |
| <b>Subordinated liabilities</b>                             | <b>2,131.1</b>   | -               | -            | <b>2,139.0</b>   | <b>2,139.0</b>   |

The Group discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

For the purposes of calculating the fair value of the mortgage loan portfolio, the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

To compute fair value of other assets and deposits measured at amortised cost and financial liabilities measured at amortised cost considering the effective interest rate the transfer price is applied. The transfer price is calculated as:

- PLN: BID rates being WIBID overnight, OFFER rates being WIBOR overnight.
- EUR: BID rates being EURIBOR overnight, OFFER rates being EURIBOR overnight.
- USD and CHF: BID rates being LIBOR overnight, OFFER rates being LIBOR overnight.

BID rates are used to compute fair value of financial liabilities measured at amortised cost; in the case of financial assets measured at amortised cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

Credit loss estimations reflect the credit loss provisioning model in place at the Group in the model of impairment for expected credit losses.

In certain aspects, the model adopted by the Group is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model does not take into account restructuring-based changes either.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

***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.

**39. Offsetting financial instruments**

The following disclosure relates to offsetting financial assets and financial liabilities that are subject to an enforceable contingent master agreement. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Group. Margins additionally hedge derivative exposures; the Group deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

**Financial assets****2020**

|   | Gross amounts<br>of recognised<br>financial<br>assets | Net amounts of<br>financial assets<br>presented<br>in the statement of<br>of financial<br>position | Related amounts not offset<br>in the statement of financial position |                             | Net amount     |
|---|---|--|--|-----------------------------|----------------|
|   |   |  | Financial<br>instruments   | Cash<br>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,<br>including: | 274.9   | 274.9  | 0.0  | 270.6                       | 545.5          |
| transactions classified as held for trading financial<br>assets     | 274.9   | 274.9  | 0.0  | 270.6                       | 545.5          |
| <b>Total</b>  |   |  |  |                             | <b>2,656.9</b> |

**2019**

|   | Gross amounts<br>of recognised<br>financial<br>assets | Net amounts of<br>financial assets<br>presented<br>in the statement of<br>of financial<br>position | Related amounts not offset<br>in the statement of financial position |                             | Net amount   |
|---|---|--|--|-----------------------------|--------------|
|   |   |  | Financial<br>instruments   | Cash<br>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,<br>including: | 171.5   | 171.5  | 0.0  | -169.7                      | 1.8          |
| transactions classified as held for trading financial<br>assets     | 171.5   | 171.5  | 0.0  | -169.7                      | 1.8          |
| <b>Total</b>  |   |  |  |                             | <b>248.9</b> |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Financial Liabilities****2020**

|  | Gross amounts of<br>recognised<br>financial liabilities | Net amounts of<br>financial liabilities<br>presented in the<br>statement of<br>financial position | Related amounts not offset<br>in the statement of financial position |                               | Net amount     |
|--|---|---|--|-------------------------------|----------------|
|  |   |   | Financial<br>instruments   | Cash<br>collateral<br>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,<br>including:  | 962.9   | 962.9   | 0.0  | 954.5                         | 1,917.4        |
| transactions classified as held for trading financial<br>liabilities | 200.0   | 200.0   | 0.0  | 197.7                         | 397.7          |
| transactions classified as liabilities to banks /<br>customers       | 762.9   | 762.9   | 0.0  | 756.8                         | 1,519.7        |
| <b>Total</b>   |   |   |  |                               | <b>2,854.3</b> |

**2019**

|  | Gross amounts of<br>recognised<br>financial liabilities | Net amounts of<br>financial liabilities<br>presented in the<br>statement of<br>financial position | Related amounts not offset<br>in the statement of financial position |                               | Net amount   |
|--|---|---|--|-------------------------------|--------------|
|  |   |   | Financial<br>instruments   | Cash<br>collateral<br>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,<br>including:  | 111.8   | 111.8   | 0.0  | -110.7                        | 1.1          |
| transactions classified as held for trading financial<br>liabilities | 80.7  | 80.7  | 0.0  | -79.9                         | 0.8          |
| transactions classified as liabilities to banks /<br>customers       | 31.1  | 31.1  | 0.0  | -30.8                         | 0.3          |
| <b>Total</b>   |   |   |  |                               | <b>346.2</b> |

**40. Custody activities**

As at 31 December 2020, the Group 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 Group.

At the end of 2020, the Parent entity of the Group 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 Parent entity of the Group 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).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**41. Leasing – the Group as a lessor****41.1. Operating lease**

The Group obtains income from the lease of commercial premises on its own real estate. These contracts are treated as operating lease contracts. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease contracts. In some cases, the agreements provide for the option of their prolongation or price change. Contracts do not include purchase options.

Gross lease payments by maturity are disclosed in the table below:

|                                | 2020        | 2019        |
|--------------------------------|-------------|-------------|
| up to 1 year                   | 4.1         | 4.1         |
| over 1 year and up to 2 years  | 4.0         | 4.0         |
| over 2 years and up to 3 years | 3.7         | 4.0         |
| over 3 years and up to 4 years | 3.1         | 3.7         |
| <b>Total</b>                   | <b>14.9</b> | <b>15.8</b> |

**41.2. Finance lease**

Disclosures regarding financial leasing in which the Group is the lessor are described in Note 21.1 *Receivables from financial leasing*.

**42. Additional information on consolidated cash flow statement****Cash and its equivalents**

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts 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          |
| <b>Total</b>   | <b>1,228.1</b> | <b>1,997.4</b> |

**Explanation of the classification of the Group's activities into operating, investment and financial activities in the consolidated cash flow statement**

*Operating activity* includes the core activities of the Group, not classified as investment or financial activities.

*Investment activity* covers purchase and sale of shares and holdings in associated entities, intangible assets and property, plant and equipment, equity instruments measured at fair value through other comprehensive income, as well as debt securities measured at amortised cost (excluding short-term treasury bills). Investment activity proceeds also comprise dividends received under shares and holdings in other entities.

*Financial activity* pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Group, including, for example, long-term loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of long-

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

term liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Group and payment of dividends to the owners and other outflows due to profit distribution.

### Reasons for differences between changes in certain items recognised in consolidated statement of financial position and in consolidated cash flow statement

The tables below present the differences between the changes in the balance resulting from the consolidated statement of financial position and the changes reported in the consolidated cash flow statement. The explanations for the reasons for the differences are as follows:

- 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 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 change in *Liabilities to other banks* was excluded from the change in the balance resulting from the repayment of loans for long-term financing of subsidiaries.
- 12) Balance sheet change related to own issue, not presented in interest and in the part related to financial activities.
- 13) The effect of implementing IFRS 16 in the item other liabilities.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|   | change of balance                                     |   | difference,<br>including: | 1)     | 2)     | 3)      | 4)    | 5)       | 6)   | 7)    | 8)   | 9)    | 10)  | 11)   |
|---|---|---|---------------------------|--------|--------|---------|-------|----------|------|-------|------|-------|------|-------|
|   | in consolidated<br>statement of<br>financial position | in consolidated<br>cash flow<br>statement |                           |        |        |         |       |          |      |       |      |       |      |       |
| Change in loans and other receivables to other banks                          | 93.9  | -141.5                                    | <b>-235.4</b>             | -1.7   | -233.7 |         |       |          |      |       |      |       |      |       |
| Change in financial assets measured at fair value through profit or loss      | -633.1  | -632.9                                    | <b>0.2</b>                | 0.2    |        |         |       |          |      |       |      |       |      |       |
| Change in derivative hedge instruments  | -330.7  | 1,614.7                                   | <b>1,945.4</b>            |        |        | 1,945.4 |       |          |      |       |      |       |      |       |
| Change in investment securities   | -21,109.1   | -100.9                                    | <b>21,008.2</b>           | 133.0  |        |         | 116.5 | 20,758.7 |      |       |      |       |      |       |
| Change in loans and other receivables to customers measured at amortised cost | -6,527.5  | -6,687.5                                  | <b>-160.0</b>             | -160.0 |        |         |       |          |      |       |      |       |      |       |
| Change in other assets  | -74.4   | -136.8                                    | <b>-62.4</b>              |        |        |         |       |          | 23.0 | -85.4 |      |       |      |       |
| Change in liabilities to other banks  | 1,971.9   | 2,061.1                                   | <b>89.2</b>               | -38.1  |        |         |       |          |      |       |      |       |      | 127.3 |
| Change in financial liabilities measured at fair value through profit or loss | 615.7   | 615.9                                     | <b>0.2</b>                | 0.2    |        |         |       |          |      |       |      |       |      |       |
| Change in liabilities to customers  | 20,555.0  | 20,568.7                                  | <b>13.7</b>               | 13.7   |        |         |       |          |      |       |      |       |      |       |
| Change in other liabilities   | 227.1   | 481.8                                     | <b>254.7</b>              | 0.8    |        |         |       |          |      |       | -3.4 | 179.3 | 78.0 |       |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | change of balance                                     |   | difference,<br>including: | 1)    | 2)     | 3)    | 4)    | 5)    | 7)    | 8)    | 9)    | 10)  | 11)    | 12)  | 13)    |
|---|---|---|---------------------------|-------|--------|-------|-------|-------|-------|-------|-------|------|--------|------|--------|
|   | in consolidated<br>statement of<br>financial position | in consolidated<br>cash flow<br>statement |                           |       |        |       |       |       |       |       |       |      |        |      |        |
| Change in loans and other receivables to other banks                          | -22.0   | -143.8                                    | <b>-121.8</b>             | 2.7   | -124.5 |       |       |       |       |       |       |      |        |      |        |
| Change in financial assets measured at fair value through profit or loss      | 768.8   | 768.4                                     | <b>-0.4</b>               | -0.4  |        |       |       |       |       |       |       |      |        |      |        |
| Change in derivative hedge instruments  | -7.8  | 684.5                                     | <b>692.3</b>              |       |        | 692.3 |       |       |       |       |       |      |        |      |        |
| Change in investment securities   | -1,887.1  | -1,083.5                                  | <b>803.6</b>              | -1.7  |        |       | -19.1 | 824.4 |       |       |       |      |        |      |        |
| Change in loans and other receivables to customers measured at amortised cost | -15,220.4   | -15,264.0                                 | <b>-43.6</b>              | -43.6 |        |       |       |       |       |       |       |      |        |      |        |
| Change in other assets  | 281.2   | 266.6                                     | <b>-14.6</b>              |       |        |       |       |       | -14.6 |       |       |      |        |      |        |
| Change in liabilities to other banks  | 1,060.3   | 265.1                                     | <b>-795.2</b>             | 33.5  |        |       |       |       |       |       |       |      | -828.7 |      |        |
| Change in financial liabilities measured at fair value through profit or loss | -772.5  | -772.6                                    | <b>-0.1</b>               | -0.1  |        |       |       |       |       |       |       |      |        |      |        |
| Change in liabilities to customers  | 12,791.0  | 12,789.0                                  | <b>-2.0</b>               | -2.0  |        |       |       |       |       |       |       |      |        |      |        |
| Change in other liabilities   | 575.2   | 161.5                                     | <b>-413.7</b>             | -3.6  |        |       |       |       |       | -10.1 | -10.6 | 99.3 |        | -2.4 | -486.3 |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**43. Related entities:**

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Transactions between related entities**

|   | ING Bank NV | Other ING<br>Group entities | Associates | ING Bank NV | Other ING<br>Group entities | Associates |
|---|-------------|-----------------------------|------------|-------------|-----------------------------|------------|
|   | 2020        |                             |            | 2019        |                             |            |
| <b>Receivables</b>                      |             |                             |            |             |                             |            |
| Nostro accounts                         | 2.3         | 8.1                         | -          | 6.6         | 17.9                        | -          |
| Deposits made                           | -           | -                           | -          | 74.1        | -                           | -          |
| Call deposits placed                    | 105.6       | 1.1                         | -          | -           | -                           | -          |
| Loans                                   | 21.5        | 22.6                        | -          | 32.0        | 35.6                        | -          |
| Positive valuation of derivatives       | 78.3        | 3.7                         | -          | 49.8        | 34.9                        | -          |
| Other receivables                       | 4.9         | 0.5                         | -          | 9.9         | 2.9                         | -          |
| <b>Liabilities</b>                      |             |                             |            |             |                             |            |
| Deposits received                       | 1,476.3     | 550.0                       | 10.9       | 791.0       | 47.8                        | 4.6        |
| Credits received                        | 3,400.0     | -                           | -          | 3,472.8     | -                           | -          |
| Loans received                          | 2,309.3     | -                           | -          | 2,131.1     | -                           | -          |
| Loro accounts                           | 34.3        | 182.6                       | -          | 11.7        | 33.6                        | -          |
| Negative valuation of derivatives       | 197.6       | 0.1                         | -          | 38.4        | 32.6                        | -          |
| Other liabilities                       | 39.7        | 0.2                         | -          | 82.6        | 2.7                         | -          |
| <b>Off-balance-sheet operations</b>     |             |                             |            |             |                             |            |
| Off-balance sheet liabilities granted   | 471.9       | 890.3                       | 0.1        | 470.7       | 750.3                       | -          |
| Off-balance sheet liabilities received  | 808.6       | 17.5                        | -          | 412.9       | 21.4                        | -          |
| FX transactions                         | 9,649.5     | 58.2                        | -          | 6,666.5     | -                           | -          |
| IRS                                     | 910.4       | 140.0                       | -          | 2,312.7     | 2,403.9                     | -          |
| Options                                 | 2,355.0     | 17.0                        | -          | 2,851.9     | 31.3                        | -          |
| <b>Income and expenses</b>              |             |                             |            |             |                             |            |
| Income, including:                      | -154.8      | 38.2                        | 50.5       | 29.3        | 28.3                        | 36.3       |
| interest and commission income/expenses | -45.5       | 3.4                         | 50.5       | -33.5       | 8.6                         | 36.3       |
| income on financial instruments         | -109.9      | 34.2                        | -          | 59.8        | 6.5                         | -          |
| net income on other basic *             | 0.6         | 0.6                         | -          | 2.9         | 13.2                        | -          |
| General and administrative expenses     | 126.3       | 7.9                         | -          | 85.1        | 9.7                         | -          |
| <b>Outlays for non-current assets</b>   |             |                             |            |             |                             |            |
| Outlays for intangible assets           | 9.5         | -                           | -          | -           | 1.4                         | -          |

\*) 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.

**44. Transactions with the management staff and employees****Loans to Bank employees and senior management**

Employees of the ING Bank Śląski Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2020 amounted to PLN 190.4 million (excluding loans from the In-House Social Benefits Fund). As at 31 December 2019, their value amounted to PLN 174.9 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 33.4 million. As at 31 December 2019, their value amounted to PLN 35.8 million.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN 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 and the Group 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         |
| <b>Total</b>                             | <b>13.6</b> | <b>12.7</b> |

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                |
| <b>Total</b>  | <b>5.4</b>          | <b>4.2</b>         | <b>5.4</b>          | <b>4.4</b>         |

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.

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Group 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 Group 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 and the Group 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: |            |            |
| remuneration                             | 0.8        | 0.8        |
| <b>Total</b>                             | <b>0.8</b> | <b>0.8</b> |

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 consolidated financial statements of the ING Bank Śląski S.A. Group 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 Funds established in the Group entities. 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 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.

**45. Headcount**

The headcount in the Group at the end of 2020 and 2019 was, respectively:

|             | 2020    | 2019    |
|-------------|---------|---------|
| Individuals | 8 507   | 8 135   |
| FTEs        | 8,451.2 | 8,071.6 |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**46. 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

## 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 Group is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions (allowances) as well as capitals and liquidity buffers.

Within the risk management system, the Group:

- applies formalised rules that are used to determine the size of undertaken risks and rules governing risk management,
- applies formalised procedures aimed at risk identification, measurement, or estimation that also includes a predictable risk level in the future,
- applies formalised limits that mitigate the risk and the rules of procedure if the limits have been exceeded,
- applies the adopted management reporting system that provides for risk level monitoring,
- holds an organisational structure that is adapted to the risk scope and profile.

The structure of risk and control at the Group is based on a model of three lines of defence. The model is to ensure a stable and effective framework for risk management by defining and implementing three levels of “risk management” with various roles, duties and responsibilities related to supervision.

- First line of defence – 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group treats credit, market and operational risk management as a fundamental and integral part of overall management of the Group.

**3. Risk appetite**

Risk appetite determines the maximum risk volume which the Group is ready to accept thus supporting stability and further development. As part of risk and capital management, the Group determines risk appetite parameters (the so-called RAS – Risk Appetite Statement) in the following basic areas:

- RAS covering capital adequacy,
- RAS covering liquidity and funding risk and market risk,
- RAS covering credit risk,
- RAS covering operational risk.

RAS covering the Group's capital adequacy was set in 2020 for the following capital ratios<sup>1</sup>:

- 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

---

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Regulation of the Minister of Finance was published, repealing the regulation on the systemic risk buffer, but following a prudent approach, the Group did not lower the RAS limits by the amount of the systemic risk buffer).

Within RAS concerning capital adequacy, capital limits for each risk type are also set.

**4. Equity and capital requirement****4.1. Equity**

The Group's equity is composed of:

- core capital Tier 1 which as at 2020 yearend was PLN 14,086.5 million,
- capital Tier 2 which as at 2020 yearend was PLN 2,307.4 million,

As at 31 December 2020, the Group did not identify additional Tier 1 capital (AT1).

**Equity**

|   | 2020            | 2019            |
|---|-----------------|-----------------|
| <b>Equity</b>   |                 |                 |
| <b>A. Tier 1 equity</b>   | <b>14,086.5</b> | <b>12,462.4</b> |
| <b>A.I. Tier 1 core capital</b>   | <b>14,086.5</b> | <b>12,462.4</b> |
| 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         | 798.6           |
| – retained earnings in previous years   | 547.6           | -50.7           |
| – recognised profit or recognised loss  | 465.4           | 849.3           |
| accumulated other comprehensive income  | 443.4           | 332.7           |
| reserve capital   | 10,508.1        | 9,446.4         |
| general bank risk funds   | 1,215.2         | 1,215.2         |
| intangible assets   | -466.9          | -521.5          |
| shortage of adjustments to credit risk in view of the expected losses with the IRB method   | 0.0             | -67.4           |
| adjustment in the interim period due to adaptation to the requirements of IFRS 9  | 361.8           | 220.3           |
| adjustment of the value of requirements relating to prudent valuation   | -24.9           | -48.3           |
| deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | -49.6           | 0.0             |
| <b>B. Tier 2 ratio</b>  | <b>2,307.4</b>  | <b>2,129.3</b>  |
| subordinated liabilities  | 2,307.4         | 2,129.3         |
| <b>Equity used to calculate the total capital ratio</b>   | <b>16,393.9</b> | <b>14,591.7</b> |

**4.2. Capital requirement**

In 2019 and 2020, for reporting purposes, the calculation of capital requirement relating to credit risk was made by the Group with an advanced method of internal ratings and the standard method. The Group obtained consent of the Polish Financial Supervision Authority and of the Dutch National Bank to apply the advanced internal rating method (AIRB) for the following exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z o.o. In the area of operational risk, since June 2020, the Group applies the BIA (Basic Indicator Approach) method. In the area of market risk, the Group uses the basic method and the updated average return period method (depending on the type of risk). Additionally, the Group determines capital requirements relating to concentration risk,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group was 18.72% versus 16.87% as at 2019 yearend and the Tier 1 ratio was 16.09% versus 14.41% 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 1.46 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 0.47 p.p.,
- 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 0.41 p.p.,
- an increase in business volumes and operations - a total decrease in TCR by 0.64 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 2.91% to 7.72% and the surplus of the Tier 1 ratio increased from 2.45% to 7.09%.

**Total capital ratio**

|  | 2020            | 2019*           |
|--|-----------------|-----------------|
| <b>Equity used to calculate the total capital ratio</b>  | <b>16,393.9</b> | <b>14,591.7</b> |
| <b>Capital requirements</b>  |                 |                 |
| capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates | 6,196.0         | 6,056.6         |
| capital requirements relating to position risk, FX risk and risk of commodity prices   | 60.9            | 157.1           |
| capital requirement for operational risk   | 747.5           | 701.0           |
| amounts of exposure to risk  | 0.0             | 3.5             |
| <b>Total capital requirement</b>   | <b>7,004.4</b>  | <b>6,918.1</b>  |
| <b>Total capital ratio</b>   | <b>18.72%</b>   | <b>16.87%</b>   |
| <b>Tier 1 capital ratio</b>  | <b>16.09%</b>   | <b>14.41%</b>   |

\*) 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 15 407.1 million, and the TCR and Tier1 ratio to 17.80% and 15.34% respectively.

In its calculations of capital ratios, the Group was applying interim regulations mitigating the implementation effects of IFRS 9 on equity. If the implementation effect of IFRS 9 were fully

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

recognised as at 2020 yearend at the consolidated level, the total capital requirement would have been 18.48% and the Tier I ratio – 15.69% (compared to 16.64% and 14.18% 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 Group as a result of default by debtors in whole and at the agreed time on their credit obligations to the Group, or
- a risk of reduced economic value of credit exposures or groups of credit exposures as a result of impaired ability of debtors to service their debt at the agreed time.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Maximum credit risk exposure**

|   | 2020             | 2019             |
|---|------------------|------------------|
| <b>Loans and other receivables to other banks</b>   | <b>704.6</b>     | <b>798.5</b>     |
| <b>Financial assets measured at fair value through profit or loss (excluding derivatives), including:</b>     | <b>2,016.9</b>   | <b>1,384.5</b>   |
| 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            |
| <b>Derivative hedge instruments</b>   | <b>1,194.8</b>   | <b>851.6</b>     |
| <b>Investment securities (excluding equity instruments), including:</b>                                       | <b>54,775.8</b>  | <b>33,713.8</b>  |
| Measured at fair value through other comprehensive income, including:   | 21,235.7         | 21,133.4         |
| State Treasury bonds  | 18,608.0         | 18,682.4         |
| 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         | 12,580.4         |
| 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              |
| NBP money market bills  | 0.0              | 230.0            |
| <b>Loans and other receivables to customers, including:</b>   | <b>124,655.3</b> | <b>118,127.8</b> |
| Measured at amortised cost, including:  | 124,655.3        | 118,127.8        |
| Corporate banking   | 67,976.7         | 68,230.7         |
| loans in the current account  | 8,982.1          | 10,999.5         |
| term loans and advances   | 41,510.8         | 40,099.2         |
| lease receivables   | 9,697.6          | 9,334.7          |
| factoring receivables   | 4,794.5          | 5,293.3          |
| corporate and municipal debt securities   | 2,991.7          | 2,504.0          |
| Retail banking  | 54,745.4         | 47,600.3         |
| mortgages   | 47,621.8         | 40,597.4         |
| loans in the current account  | 594.3            | 596.5            |
| other loans and advances  | 6,529.3          | 6,406.4          |
| Other receivables   | 1,933.2          | 2,296.8          |
| <b>Receivables under other assets</b>   | <b>63.2</b>      | <b>39.6</b>      |
| <b>Granted off-balance sheet liabilities, of which:</b>   | <b>43,587.5</b>  | <b>36,547.7</b>  |
| Undrawn credit lines  | 33,997.6         | 27,699.0         |
| guarantees  | 6,058.6          | 5,837.2          |
| undrawn overdrafts in current account   | 1,580.5          | 1,425.6          |
| credit card limits  | 1,520.5          | 1,389.9          |
| letters of credit   | 430.3            | 196.0            |
| <b>Total</b>  | <b>226,998.1</b> | <b>191,463.5</b> |

The Group's policy relating to the risk of the credit exposure portfolio provides for the fact that the activity generating credit risk may be related also to other risk types as follows: liquidity, market, operational, environmental, social, legal and reputational risks that may reinforce one another.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

The Group optimises and mitigates losses relating to risk exposure by:

- setting internal limits,
- an adequate structure of credit products,
- applying collateral,
- applying functional controls,
- effective monitoring, restructuring and collection,
- monitoring of changes to the clients' credit worthiness and reliability,
- regular monitoring and validation of models used to identify and measure credit risk
- performing analyses of trends and the values of key risk indicators.

The Group's core objective in the process of credit risk management is to support effective accomplishment of business goals by active risk management and efforts supporting organic growth while:

- maintaining a secure level of solvency and liquidity and an adequate level of provisions,
- ensuring compliance with the law and supervisory requirements.

The Group manages credit risk in an integrated manner on the basis of:

- strategic planning,
- a consistent system of limits, policies and procedures, and
- tools for risk management, including those to identify, measure and control risks.

The integrated system includes all processes in the Group pursued in connection with credit activity.

Detailed credit risk management objectives are as follows:

- 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 Group treats credit risk management as a fundamental and integral part of overall management of the Group. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

### Credit risk management strategy

The credit risk management strategy supports implementation of business objectives while maintaining the Bank's safe level of solvency and liquidity and an adequate level of provisions. The strategy is determined in order to ensure an optimum development of the credit portfolio while maintaining an adequate quality and profitability of credit operations and capital allocation. The primary goal of defining the credit risk management strategy is to optimise the risk/return on equity ratio, while considering information on the current and prospective macroeconomic environment, the Bank's portfolio and the level of execution of the RAS limits.

The credit risk management strategy provides for a "lookout to the future", including the need to remain competitive, attractive and to develop the Bank's offer.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Risk Appetite Statement (RAS)**

RAS means the Bank's risk appetite which is defined by setting key and specific limits. The determination and monitoring of the risk appetite level (RAS parameters) constitute an integral part of the planning process at the Bank and management of concentration risk by the Bank.

Types of RAS limits for credit risk:

- limits of portfolio volume,
- limits for the risk parameters of the portfolio and new sales,
- concentration limits, including limits for the mortgage-backed credit exposures resulting from Recommendation S of the Polish Financial Supervision Authority.

Apart from RAS limits, the Bank sets limits for credit risk for each area, business lines, products and transaction limits that are approved by the competent credit decision maker. Additionally, internal concentration limits are set for economic sectors, accepted collateral, regions and mortgage-backed credit exposures. The compliance with RAS limits is monitored and reported during the year on a monthly basis.

**Concentration of exposures to corporate clients in national economy sectors**

| sector  | gross exposure (on- and off-balance sheet) |                             |                  |                             |
|---|--|-----------------------------|------------------|-----------------------------|
|   | 2020                                       |                             | 2019             |                             |
|   | exposure amount                            | share in the total exposure | exposure amount  | share in the total exposure |
| wholesale trade                                 | 13,173.3                                   | 12.3%                       | 13,178.7         | 13.1%                       |
| property services                               | 9,872.1                                    | 9.2%                        | 9,576.5          | 9.5%                        |
| construction                                    | 6,249.8                                    | 5.8%                        | 5,550.9          | 5.5%                        |
| other business operations                       | 6,189.1                                    | 5.8%                        | 4,559.7          | 4.5%                        |
| retail trade                                    | 5,824.6                                    | 5.4%                        | 5,564.4          | 5.5%                        |
| production of foodstuffs and beverages          | 5,127.6                                    | 4.8%                        | 4,817.1          | 4.8%                        |
| financial intermediation                        | 5,101.9                                    | 4.7%                        | 5,600.8          | 5.6%                        |
| manufacturing of metal final products           | 5,011.9                                    | 4.7%                        | 4,543.1          | 4.5%                        |
| land and pipeline transport                     | 4,067.9                                    | 3.8%                        | 3,726.7          | 3.7%                        |
| power generation                                | 3,744.8                                    | 3.5%                        | 3,596.6          | 3.6%                        |
| rubber industry                                 | 3,608.2                                    | 3.4%                        | 3,173.8          | 3.1%                        |
| public administration and national defence      | 3,410.8                                    | 3.2%                        | 3,267.6          | 3.2%                        |
| wood and paper industry                         | 2,703.7                                    | 2.5%                        | 2,442.1          | 2.4%                        |
| sales, repair and maintenance of motor vehicles | 2,507.4                                    | 2.3%                        | 2,385.7          | 2.4%                        |
| rental of equipment                             | 2,397.1                                    | 2.2%                        | 2,709.8          | 2.7%                        |
| agriculture, forestry, fishery                  | 1,968.3                                    | 1.8%                        | 1,762.7          | 1.7%                        |
| other non-metal material industry               | 1,940.5                                    | 1.8%                        | 1,838.0          | 1.8%                        |
| Information technology and related activities   | 1,859.6                                    | 1.7%                        | 1,788.0          | 1.8%                        |
| machine industry                                | 1,851.1                                    | 1.7%                        | 1,605.6          | 1.6%                        |
| others  | 20,817.4                                   | 19.4%                       | 19,107.1         | 19.0%                       |
| <b>Total</b>                                    | <b>107,427.1</b>                           | <b>100.0%</b>               | <b>100,794.9</b> | <b>100.0%</b>               |

**Group's largest exposures**

The table below contains a specification of the Group's 20 largest exposures to entities / groups of related entities (including groups on entities where the Bank is the parent entity).

The amount of exposures includes the value of on-balance sheet assets (loans granted, placed deposits, debt securities), granted off-balance sheet liabilities and the book equivalent of derivative instruments. The exposures were reduced by amounts of exclusions permitted by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and MF Regulation 1018 of 1 July 2016.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

| Entity/group of related entities | 2020    | 2019    |
|----------------------------------|---------|---------|
| Group 1                          | 1,861.7 | 1,872.3 |
| Group 2 (banking)                | 1,600.4 | 1,488.9 |
| Group 3 (banking)                | 1,278.7 | 511.1   |
| Group 4 (banking)                | 1,262.8 | 1,513.4 |
| Group 5                          | 1,231.9 | 1,155.7 |
| Group 6                          | 1,052.1 | 989.4   |
| Group 7                          | 1,025.4 | 418.3   |
| Group 8                          | 1,015.8 | 1,027.9 |
| Group 9                          | 995.0   | 1,135.6 |
| Group 10                         | 917.3   | 907.2   |
| Group 11                         | 866.9   | 858.0   |
| Group 12                         | 732.7   | 1,053.3 |
| Group 13                         | 716.2   | 708.1   |
| Group 14                         | 713.0   | 576.8   |
| Group 15                         | 678.3   | 679.7   |
| Group 16                         | 605.1   | 573.1   |
| Group 17                         | 562.4   | N/A     |
| Group 18                         | 550.8   | 550.4   |
| Group 19                         | 542.3   | 513.3   |
| Group 20                         | 542.1   | 500.2   |

**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:

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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 Group's portfolio is to ensure portfolio growth in compliance with the approved strategy while maintaining the solvency ratio of the Group and the Bank at acceptable levels and within the determined and approved risk parameters.

Credit risk management of the loan exposure portfolio is performed with the following:

- determination of credit risk management strategy,
- reconciling RAS levels with business,
- development, implementation and monitoring of implementation of credit policies,
- analysis of the macroeconomic situation and individual sectors and generation of guidelines relating to lending directions,
- development and implementation of credit products,
- setting authority levels to approve deviations from credit policies and product exceptions,
- development and implementation of tools supporting risk measurement and assessment.
- analysis and assessment of credit processes and the scope of functional controls,
- administration of the credit exposure portfolio,
- training of staff members participating in the credit process,
- development and maintenance of an incentive system for employees, focused on compliance with internal credit standards.

Managing the credit risk profile, the Bank:

- determines, monitors and reports internal concentration limits for economic sectors, types of collateral, regions and mortgage-backed credit exposures,
- monitors and analyses the quality of accepted collateral,
- monitors and reports compliance with prudential standards resulting from the Banking Law Act,
- determines, monitors and reports internal concentration limits for each sub-portfolio,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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 Group secures impairment of credit exposures by recognising provisions to cover impairment resulting from expected credit losses. The Group further secures fluctuating losses versus the average levels of expected losses (that is unexpected losses) by ensuring an adequate level of regulatory capital and economic capital.

Risk-weighted assets and capital requirements are calculated by the Bank as follows:

- for retail exposures – in compliance with the standard method,
- for corporate credit exposures – in compliance with the advanced internal rating method with the exception of exposures to sovereigns, central banks, local governments and public sector entities for which the Group applies the standard method.

Provisions for credit risk at the Bank for all credit exposures are calculated in compliance with International Financial Reporting Standards.

**Credit risk management of 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- sales markets and suppliers,
- financial analysis, including financial projections,
- identification and assessment of repayment sources,
- financial position versus comparable entities in the sector,
- factors from the global, macroeconomic, regional and sectoral environment existing now and that may exert material impact in the future on the company's financial condition in the future.

The analysis of individual clients' creditworthiness covers:

- determination of the amount and stability of the generated income (quantitative analysis),
- determination of the amount of the clients' financial obligations (credit and non-credit),
- identification of the amount of expenditures of households.

In the assessment of creditworthiness, financial measures are used based on mathematical formulas.

- assessment of collateral

The Bank applies collateral to mitigate credit risk and the amount of losses that may be suffered when clients' default on loan repayment. Before collateral is accepted, the Bank assesses the collateral and its value and effectiveness.

Apart from classic forms of collateral (material and personal), the Bank applies additional instruments to mitigate the risk of loss in the form of contractual conditions and clauses.

In order to calculate the capital requirement, the Bank applies the approved LGD models in which each collateral is assigned with an adequate recovery rate. Is the Group's policy to grant loans in amounts and subject to terms and conditions that ensure regular repayments without the need to resort to collateral.

- transactional risk assessment.

Assessing transactions, the Bank takes the following into account:

- results of the clients' creditworthiness and credit reliability,
- compliance with credit policy,
- purpose of lending,
- adequacy of the requested product,
- other risks such as:
  - business risks – macroeconomic, market, sectoral, seasonal risks,
  - structural risks – transaction structure, values of LTV and LGD, client's own contribution (if required), effectiveness of clauses, Bank's position versus other lenders,
  - management staff – employment history, experience, substitution risk of decision makers and succession risk,
  - financial risks – including FX and interest rate risks,
  - concentration risk – is the requested growth of exposure related to the utilisation of a limit set internally by the Bank,
  - reputational risk – can cooperation with the client adversely affect the Bank's reputation.
- relation of risk level to pricing conditions, etc.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**Maximum recognisable amount of collateral or guarantee**

The Group 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 31 December 2020 was PLN 763.2 million compared to PLN 776.6 million at the end of 2019.

**2020**

|   | Maximum recognisable amount of collateral or guarantee |                  |                                      |                 |                | financial<br>guarantees<br>received |
|---|--|------------------|--------------------------------------|-----------------|----------------|-------------------------------------|
|   | mortgage-backed loans                                  |                  | other secured loans                  |                 |                |                                     |
|   | housing loans  | commercial loans | cash funds (issued debt instruments) | others          |                |                                     |
| <b>Loans and advances, of which:</b>                | <b>39,020.1</b>  | <b>19,831.9</b>  | <b>219.3</b>                         | <b>15,836.7</b> | <b>4,822.6</b> |                                     |
| other financial institutions                        | 0.0  | 0.0              | 0.0                                  | 412.6           | 472.7          |                                     |
| non-financial entities                              | 117.6  | 17,758.8         | 214.3                                | 15,021.3        | 3,959.6        |                                     |
| households  | 38,902.5   | 2,068.7          | 4.3                                  | 395.9           | 389.8          |                                     |
| including: loans to purchase residential properties | 37,017.5   | 477.8            | 0.1                                  | 0.0             | 0.0            |                                     |
| other entities (banks, budgetary sector)            | 0.0  | 4.4              | 0.7                                  | 6.9             | 0.5            |                                     |

**2019**

|   | Maximum recognisable amount of collateral or guarantee |                  |                                      |                 |                | financial<br>guarantees<br>received |
|---|--|------------------|--------------------------------------|-----------------|----------------|-------------------------------------|
|   | mortgage-backed loans                                  |                  | other secured loans                  |                 |                |                                     |
|   | housing loans  | commercial loans | cash funds (issued debt instruments) | others          |                |                                     |
| <b>Loans and advances, of which:</b>                | <b>33,357.4</b>  | <b>19,173.5</b>  | <b>157.1</b>                         | <b>15,938.4</b> | <b>4,163.4</b> |                                     |
| other financial institutions                        | 0.0  | 0.0              | 0.0                                  | 327.7           | 713.0          |                                     |
| non-financial entities                              | 154.4  | 16,925.0         | 146.0                                | 13,163.9        | 3,233.8        |                                     |
| households  | 33,203.0   | 2,242.3          | 11.1                                 | 2,439.7         | 213.7          |                                     |
| 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                                  | 7.1             | 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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 Group's total exposure to the client's group of related entities is taken into account; in case of natural persons or sole proprietorships – the authority level depends on the Bank's total exposure to the client. All transactions are underwritten in compliance with clearly defined decision rules and credit authority.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

**Monitoring**

Monitoring applies to all credit exposures generating credit risk, including concentration risk and transactions in financial markets. The objective of monitoring is to identify early warning signals to prevent the occurrence of non-performing loans and to identify early impairment indications or evidence so that the Bank can take appropriate mitigation actions. The monitoring of approved credit exposures includes:

- history of repayments to the Bank (timely repayments),
- compliance by the client with other contractual terms and conditions,
- client's financial and/or economic condition,
- application of the funding in compliance with the financing goal (if specified),
- progress of investment (in case of investment loans),
- verification of warning signals concerning the client or transaction,
- occurrence of objective impairment evidence or indications,
- periodic review of the quality and value of collateral.

**Restructuring and collection**

The Bank provides supports to its clients at each stage of financing. The Bank offers products suited to their needs; should delays occur in repayment, the Bank proposes flexible repayment schedules. In case of more serious problems in repayment, the Bank may offer to restructure the debt. Then, jointly with the client, the Bank sets the best form of support or a settlement.

The main objective of the actions taken in the portfolio in Stage 3 is to mitigate the risk of losses to the Bank or 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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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.

## ING Bank Śląski S.A. Group

Annual consolidated 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 |
| <b>Gross loan portfolio, of which:</b>                   | <b>121,824.7</b>     | <b>1,229.2</b>        | <b>1,229.1</b>                       | <b>0.1</b>  | <b>1,060.6</b> | <b>4,167.7</b>           | <b>1,654.3</b>        | <b>1,649.8</b>                       | <b>4.5</b>  | <b>1,654.3</b>    | <b>1,654.3</b>     |
| Corporate banking, of which:                             | 67,063.0             | 1,112.0               | 1,111.9                              | 0.1         | 944.1          | 3,096.9                  | 1,323.7               | 1,319.2                              | 4.5         | 1,323.7           | 1,323.7            |
| loans in the current account                             | 8,838.1              | 88.2                  | 88.2                                 | 0.0         | 88.2           | 711.8                    | 207.4                 | 207.0                                | 0.4         | 207.4             | 207.4              |
| term loans and advances                                  | 41,025.0             | 859.1                 | 859.0                                | 0.1         | 855.9          | 1,903.5                  | 1,084.9               | 1,080.8                              | 4.1         | 1,084.9           | 1,084.9            |
| lease receivables  | 9,421.2              | 143.0                 | 143.0                                | 0.0         | 0.0            | 410.9                    | 23.5                  | 23.5                                 | 0.0         | 23.5              | 23.5               |
| factoring receivables                                    | 4,786.4              | 21.7                  | 21.7                                 | 0.0         | 0.0            | 70.7                     | 7.9                   | 7.9                                  | 0.0         | 7.9               | 7.9                |
| corporate and municipal debt securities                  | 2,992.3              | 0.0                   | 0.0                                  | 0.0         | 0.0            | 0.0                      | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | 54,761.7             | 117.2                 | 117.2                                | 0.0         | 116.5          | 1,070.8                  | 330.6                 | 330.6                                | 0.0         | 330.6             | 330.6              |
| mortgages  | 47,560.4             | 64.5                  | 64.5                                 | 0.0         | 63.9           | 340.7                    | 190.3                 | 190.3                                | 0.0         | 190.3             | 190.3              |
| loans in the current account                             | 602.6                | 2.4                   | 2.4                                  | 0.0         | 2.3            | 52.4                     | 3.1                   | 3.1                                  | 0.0         | 3.1               | 3.1                |
| other loans and advances                                 | 6,598.7              | 50.3                  | 50.3                                 | 0.0         | 50.3           | 677.7                    | 137.2                 | 137.2                                | 0.0         | 137.2             | 137.2              |
| <b>Impairment for expected credit losses, including:</b> | <b>-744.6</b>        | <b>-43.3</b>          | <b>-43.3</b>                         | <b>-0.1</b> | <b>-42.7</b>   | <b>-2,525.7</b>          | <b>-801.9</b>         | <b>-689.9</b>                        | <b>-3.9</b> | <b>-801.9</b>     | <b>-801.9</b>      |
| Corporate banking, of which:                             | -414.8               | -34.4                 | -34.4                                | -0.1        | -33.8          | -1,768.4                 | -638.6                | -526.6                               | -3.9        | -638.6            | -638.6             |
| loans in the current account                             | -62.9                | -2.0                  | -2.0                                 | 0.0         | -2.0           | -504.9                   | -118.1                | -117.9                               | -0.2        | -118.1            | -118.1             |
| term loans and advances                                  | -309.6               | -31.8                 | -31.8                                | 0.0         | -31.8          | -1,108.1                 | -508.0                | -405.3                               | -3.7        | -508.0            | -508.0             |
| lease receivables  | -33.9                | -0.6                  | -0.6                                 | 0.0         | 0.0            | -100.6                   | -9.1                  | 0.0                                  | 0.0         | -9.1              | -9.1               |
| factoring receivables                                    | -7.8                 | 0.0                   | 0.0                                  | -0.1        | 0.0            | -54.8                    | -3.4                  | -3.4                                 | 0.0         | -3.4              | -3.4               |
| corporate and municipal debt securities                  | -0.6                 | 0.0                   | 0.0                                  | 0.0         | 0.0            | 0.0                      | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | -329.8               | -8.9                  | -8.9                                 | 0.0         | -8.9           | -757.3                   | -163.3                | -163.3                               | 0.0         | -163.3            | -163.3             |
| mortgages  | -105.8               | -4.3                  | -4.3                                 | 0.0         | -4.3           | -173.5                   | -79.0                 | -79.0                                | 0.0         | -79.0             | -79.0              |
| loans in the current account                             | -20.1                | -0.1                  | -0.1                                 | 0.0         | -0.1           | -40.6                    | -2.1                  | -2.1                                 | 0.0         | -2.1              | -2.1               |
| other loans and advances                                 | -203.9               | -4.5                  | -4.5                                 | 0.0         | -4.5           | -543.2                   | -82.2                 | -82.2                                | 0.0         | -82.2             | -82.2              |
| <b>Net loan portfolio, of which:</b>                     | <b>121,080.1</b>     | <b>1,185.9</b>        | <b>1,185.8</b>                       | <b>0.0</b>  | <b>1,017.9</b> | <b>1,642.0</b>           | <b>852.4</b>          | <b>959.9</b>                         | <b>0.6</b>  | <b>852.4</b>      | <b>852.4</b>       |
| Corporate banking, of which:                             | 66,648.2             | 1,077.6               | 1,077.5                              | 0.0         | 910.3          | 1,328.5                  | 685.1                 | 792.6                                | 0.6         | 685.1             | 685.1              |
| loans in the current account                             | 8,775.2              | 86.2                  | 86.2                                 | 0.0         | 86.2           | 206.9                    | 89.3                  | 89.1                                 | 0.2         | 89.3              | 89.3               |
| term loans and advances                                  | 40,715.4             | 827.3                 | 827.2                                | 0.1         | 824.1          | 795.4                    | 576.9                 | 675.5                                | 0.4         | 576.9             | 576.9              |
| lease receivables  | 9,387.3              | 142.4                 | 142.4                                | 0.0         | 0.0            | 310.3                    | 14.4                  | 23.5                                 | 0.0         | 14.4              | 14.4               |
| factoring receivables                                    | 4,778.6              | 21.7                  | 21.7                                 | -0.1        | 0.0            | 15.9                     | 4.5                   | 4.5                                  | 0.0         | 4.5               | 4.5                |
| corporate and municipal debt securities                  | 2,991.7              | 0.0                   | 0.0                                  | 0.0         | 0.0            | 0.0                      | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | 54,431.9             | 108.3                 | 108.3                                | 0.0         | 107.6          | 313.5                    | 167.3                 | 167.3                                | 0.0         | 167.3             | 167.3              |
| mortgages  | 47,454.6             | 60.2                  | 60.2                                 | 0.0         | 59.6           | 167.2                    | 111.3                 | 111.3                                | 0.0         | 111.3             | 111.3              |
| loans in the current account                             | 582.5                | 2.3                   | 2.3                                  | 0.0         | 2.2            | 11.8                     | 1.0                   | 1.0                                  | 0.0         | 1.0               | 1.0                |
| other loans and advances                                 | 6,394.8              | 45.8                  | 45.8                                 | 0.0         | 45.8           | 134.5                    | 55.0                  | 55.0                                 | 0.0         | 55.0              | 55.0               |

\*) 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

## ING Bank Śląski S.A. Group

Annual consolidated 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 |
| <b>Gross loan portfolio, of which:</b>                   | <b>114,733.0</b>     | <b>495.7</b>          | <b>433.7</b>                         | <b>0.4</b>  | <b>438.1</b> | <b>3,544.0</b>           | <b>943.0</b>          | <b>936.3</b>                         | <b>6.6</b>  | <b>936.4</b>      | <b>936.4</b>       |
| Corporate banking, of which:                             | <b>66,990.9</b>      | 371.1                 | 370.7                                | 0.4         | 314.1        | <b>2,925.8</b>           | 863.4                 | 856.7                                | 6.6         | 815.5             | 815.5              |
| loans in the current account                             | <b>10,782.5</b>      | 31.3                  | 31.3                                 | 0.0         | 31.3         | <b>732.8</b>             | 63.5                  | 63.0                                 | 0.4         | 63.5              | 63.5               |
| term loans and advances                                  | <b>39,428.9</b>      | 284.9                 | 284.5                                | 0.4         | 282.8        | <b>1,737.7</b>           | 775.2                 | 769.0                                | 6.2         | 727.3             | 727.3              |
| lease receivables  | <b>9,002.9</b>       | 28.4                  | 28.4                                 | 0.0         | 0.0          | <b>393.9</b>             | 19.7                  | 19.7                                 | 0.0         | 19.7              | 19.7               |
| factoring receivables                                    | <b>5,272.0</b>       | 26.5                  | 26.5                                 | 0.0         | 0.0          | <b>61.4</b>              | 5.0                   | 5.0                                  | 0.0         | 5.0               | 5.0                |
| corporate and municipal debt securities                  | <b>2,504.6</b>       | 0.0                   | 0.0                                  | 0.0         | 0.0          | <b>0.0</b>               | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | <b>47,742.1</b>      | 124.6                 | 63.0                                 | 0.0         | 124.0        | <b>618.2</b>             | 79.6                  | 79.6                                 | 0.0         | 120.9             | 120.9              |
| mortgages  | <b>40,577.0</b>      | 83.8                  | 50.4                                 | 0.0         | 83.2         | <b>194.7</b>             | 50.3                  | 50.3                                 | 0.0         | 46.0              | 46.0               |
| loans in the current account                             | <b>608.1</b>         | 2.6                   | 2.6                                  | 0.0         | 2.6          | <b>37.1</b>              | 2.6                   | 2.6                                  | 0.0         | 2.5               | 2.5                |
| other loans and advances                                 | <b>6,557.0</b>       | 38.2                  | 10.0                                 | 0.0         | 38.2         | <b>386.4</b>             | 26.7                  | 26.7                                 | 0.0         | 72.4              | 72.4               |
| <b>Impairment for expected credit losses, including:</b> | <b>-539.1</b>        | <b>-16.9</b>          | <b>-16.8</b>                         | <b>-0.1</b> | <b>-16.8</b> | <b>-1,906.9</b>          | <b>-449.5</b>         | <b>-334.3</b>                        | <b>-4.7</b> | <b>-448.4</b>     | <b>-448.4</b>      |
| Corporate banking, of which:                             | <b>-215.8</b>        | -9.6                  | -9.5                                 | -0.1        | -9.5         | <b>-1,470.2</b>          | -404.0                | -288.8                               | -4.7        | -367.2            | -367.2             |
| loans in the current account                             | <b>-42.8</b>         | -0.5                  | -0.5                                 | 0.0         | -0.5         | <b>-473.0</b>            | -30.6                 | -30.4                                | -0.2        | -30.6             | -30.6              |
| term loans and advances                                  | <b>-158.6</b>        | -9.0                  | -8.9                                 | -0.1        | -9.0         | <b>-908.8</b>            | -365.7                | -257.4                               | -4.5        | -328.9            | -328.9             |
| lease receivables  | <b>-5.9</b>          | -0.1                  | -0.1                                 | 0.0         | 0.0          | <b>-56.2</b>             | -6.7                  | 0.0                                  | 0.0         | -6.7              | -6.7               |
| factoring receivables                                    | <b>-7.9</b>          | 0.0                   | 0.0                                  | 0.0         | 0.0          | <b>-32.2</b>             | -1.0                  | -1.0                                 | 0.0         | -1.0              | -1.0               |
| corporate and municipal debt securities                  | <b>-0.6</b>          | 0.0                   | 0.0                                  | 0.0         | 0.0          | <b>0.0</b>               | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | <b>-323.3</b>        | -7.3                  | -7.3                                 | 0.0         | -7.3         | <b>-436.7</b>            | -45.5                 | -45.5                                | 0.0         | -81.2             | -81.2              |
| mortgages  | <b>-74.1</b>         | -4.0                  | -4.0                                 | 0.0         | -4.0         | <b>-100.2</b>            | -25.5                 | -25.5                                | 0.0         | -24.8             | -24.8              |
| loans in the current account                             | <b>-22.4</b>         | -0.1                  | -0.1                                 | 0.0         | -0.1         | <b>-26.3</b>             | -1.4                  | -1.4                                 | 0.0         | -1.4              | -1.4               |
| other loans and advances                                 | <b>-226.8</b>        | -3.2                  | -3.2                                 | 0.0         | -3.2         | <b>-310.2</b>            | -18.6                 | -18.6                                | 0.0         | -55.0             | -55.0              |
| <b>Net loan portfolio, of which:</b>                     | <b>114,193.9</b>     | <b>478.8</b>          | <b>416.9</b>                         | <b>0.3</b>  | <b>421.3</b> | <b>1,637.1</b>           | <b>493.5</b>          | <b>602.0</b>                         | <b>1.9</b>  | <b>488.0</b>      | <b>488.0</b>       |
| Corporate banking, of which:                             | <b>66,775.1</b>      | 361.5                 | 361.2                                | 0.3         | 304.6        | <b>1,455.6</b>           | 459.4                 | 567.9                                | 1.9         | 448.3             | 448.3              |
| loans in the current account                             | <b>10,739.7</b>      | 30.8                  | 30.8                                 | 0.0         | 30.8         | <b>259.8</b>             | 32.9                  | 32.6                                 | 0.2         | 32.9              | 32.9               |
| term loans and advances                                  | <b>39,270.3</b>      | 275.9                 | 275.6                                | 0.3         | 273.8        | <b>828.9</b>             | 409.5                 | 511.6                                | 1.7         | 398.4             | 398.4              |
| lease receivables  | <b>8,997.0</b>       | 28.3                  | 28.3                                 | 0.0         | 0.0          | <b>337.7</b>             | 13.0                  | 19.7                                 | 0.0         | 13.0              | 13.0               |
| factoring receivables                                    | <b>5,264.1</b>       | 26.5                  | 26.5                                 | 0.0         | 0.0          | <b>29.2</b>              | 4.0                   | 4.0                                  | 0.0         | 4.0               | 4.0                |
| corporate and municipal debt securities                  | <b>2,504.0</b>       | 0.0                   | 0.0                                  | 0.0         | 0.0          | <b>0.0</b>               | 0.0                   | 0.0                                  | 0.0         | 0.0               | 0.0                |
| Retail banking segment, including:                       | <b>47,418.8</b>      | 117.3                 | 55.7                                 | 0.0         | 116.7        | <b>181.5</b>             | 34.1                  | 34.1                                 | 0.0         | 39.7              | 39.7               |
| mortgages  | <b>40,502.9</b>      | 79.8                  | 46.4                                 | 0.0         | 79.2         | <b>94.5</b>              | 24.8                  | 24.8                                 | 0.0         | 21.2              | 21.2               |
| loans in the current account                             | <b>585.7</b>         | 2.5                   | 2.5                                  | 0.0         | 2.5          | <b>10.8</b>              | 1.2                   | 1.2                                  | 0.0         | 1.1               | 1.1                |
| other loans and advances                                 | <b>6,330.2</b>       | 35.0                  | 6.8                                  | 0.0         | 35.0         | <b>76.2</b>              | 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

**ING Bank Śląski S.A. Group**

Annual consolidated 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 |
| <b>Corporate banking</b>                    | <b>1,112.0</b>         | <b>179.3</b>               | <b>1,323.7</b>           | <b>64.3</b>                | <b>371.1</b>           | <b>41.4</b>                | <b>863.4</b>             | <b>25.9</b>                |
| low risk classes (rating 1-10)              | 19.9                   | 0.0                        | 0.0                      | 0.0                        | 0.0                    | 1.0                        | 0.0                      | 0.0                        |
| medium and high risk classes (rating 11-17) | 927.8                  | 172.5                      | 0.0                      | 0.0                        | 290.2                  | 36.0                       | 6.4                      | 0.0                        |
| problem risk classes (rating 18-22)         | 164.3                  | 6.8                        | 1,323.7                  | 64.3                       | 80.9                   | 4.4                        | 857.0                    | 25.9                       |
| <b>Retail banking</b>                       | <b>117.2</b>           | <b>0.1</b>                 | <b>330.6</b>             | <b>0.0</b>                 | <b>124.6</b>           | <b>0.0</b>                 | <b>79.6</b>              | <b>0.0</b>                 |
| low risk classes (rating 1-10)              | 28.4                   | 0.1                        | 4.6                      | 0.0                        | 45.3                   | 0.0                        | 0.0                      | 0.0                        |
| medium and high risk classes (rating 11-17) | 73.8                   | 0.0                        | 0.6                      | 0.0                        | 70.7                   | 0.0                        | 1.0                      | 0.0                        |
| problem risk classes (rating 18-22)         | 15.0                   | 0.0                        | 325.4                    | 0.0                        | 8.6                    | 0.0                        | 78.6                     | 0.0                        |
| <b>Total (gross)</b>                        | <b>1,229.2</b>         | <b>179.4</b>               | <b>1,654.3</b>           | <b>64.3</b>                | <b>495.7</b>           | <b>41.4</b>                | <b>943.0</b>             | <b>25.9</b>                |

*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 |
| <b>Corporate banking</b> | <b>1,112.0</b>         | <b>179.3</b>               | <b>1,323.7</b>           | <b>64.3</b>                | <b>371.1</b>           | <b>41.4</b>                | <b>863.4</b>             | <b>25.9</b>                |
| 0                        | 1 101.0                | 179.3                      | 497.9                    | 64.3                       | 348.4                  | 41.4                       | 465.9                    | 25.9                       |
| 1-30                     | 7.3                    | 0.0                        | 49.9                     | 0.0                        | 12.3                   | 0.0                        | 6.1                      | 0.0                        |
| 31-60                    | 2.5                    | 0.0                        | 15.3                     | 0.0                        | 3.7                    | 0.0                        | 11.7                     | 0.0                        |
| 61-90                    | 1.1                    | 0.0                        | 82.5                     | 0.0                        | 5.7                    | 0.0                        | 13.5                     | 0.0                        |
| 91-180                   | 0.0                    | 0.0                        | 98.9                     | 0.0                        | 0.1                    | 0.0                        | 38.0                     | 0.0                        |
| 181-365                  | 0.1                    | 0.0                        | 53.7                     | 0.0                        | 0.0                    | 0.0                        | 60.8                     | 0.0                        |
| >365                     | 0.0                    | 0.0                        | 525.5                    | 0.0                        | 0.9                    | 0.0                        | 267.4                    | 0.0                        |
| <b>Retail banking</b>    | <b>117.2</b>           | <b>0.1</b>                 | <b>330.6</b>             | <b>0.0</b>                 | <b>124.6</b>           | <b>0.0</b>                 | <b>79.6</b>              | <b>0.0</b>                 |
| 0                        | 112.4                  | 0.1                        | 259.4                    | 0.0                        | 97.5                   | 0.0                        | 31.0                     | 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                        |
| <b>Total (gross)</b>     | <b>1,229.2</b>         | <b>179.4</b>               | <b>1,654.3</b>           | <b>64.3</b>                | <b>495.7</b>           | <b>41.4</b>                | <b>943.0</b>             | <b>25.9</b>                |

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 75.6 million (PLN 45.3 million for 2019), of which PLN 38.6 million relates to exposures in the performing portfolio and PLN 37.0 million relates to exposures in the non-performing portfolio (for 2019 – PLN 23.5 million and PLN 21.8 million respectively).

**ING Bank Śląski S.A. Group**

Annual consolidated 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 Group made the following assistance tools available to its clients:

- non-statutory moratorium, i.e. tools resulting from the banks' position regarding the unification of the rules for offering support tools for banking sector clients (non-statutory moratorium within the meaning of the guidelines of the European Banking Authority - EBA),
- the so-called statutory moratorium, i.e. support under 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 219.7 million (which is about 5% 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 21.5 million. This accounted for 0.5% 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:<br>instruments for which there<br>has been a significant<br>increase in credit risk since<br>their initial recognition, but<br>which are not impaired due to<br>credit risk (Stage 2) |              |                                      |      | including:<br>instruments for which there<br>has been a significant<br>increase in credit risk since<br>their initial recognition, but<br>which are not impaired due<br>to credit risk (Stage 2) |              |
| Loans subject to moratorium                     | 241.2                 | 162.3 | 29.3   | 78.9         | -35.5                                | -4.5 | -3.1   | -31.0        |
| of which: households                            | 219.7                 | 144.7 | 27.4   | 75.0         | -35.2                                | -4.3 | -3.0   | -30.9        |
| of which: secured with residential<br>property  | 120.7                 | 75.6  | 10.6   | 45.1         | -15.9                                | -1.0 | -0.9   | -14.9        |
| of which: non-financial corporations            | 21.5                  | 17.7  | 1.8  | 3.8          | -0.3                                 | -0.2 | -0.1   | -0.1         |
| of which: small and medium-sized<br>enterprises | 16.5                  | 12.9  | 1.8  | 3.6          | -0.2                                 | -0.1 | -0.1   | -0.1         |
| of which: secured with commercial<br>properties | 12.5                  | 10.6  | 0.0  | 1.9          | -0.1                                 | 0.0  | 0.0  | -0.1         |

**ING Bank Śląski S.A. Group**

Annual consolidated 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 | 44,962            | 9,805.6 |                                |                   |   |
| Loans subject to moratorium (granted)         | 44,394            | 8,667.4 | 164.2                          | 8,426.2           | 241.2                                   |
| of which: households                          |                   | 4,275.8 | 164.2                          | 4,056.1           | 219.7                                   |
| of which: secured with residential property   |                   | 2,049.9 | 104.2                          | 1,929.2           | 120.7                                   |
| of which: non-financial corporations          |                   | 4,388.4 | 0.0                            | 4,366.9           | 21.5                                    |
| of which: small and medium-sized enterprises  |                   | 3,147.9 | 0.0                            | 3,131.4           | 16.5                                    |
| of which: secured with commercial properties  |                   | 2,596.3 | 0.0                            | 2,583.8           | 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 predictable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**8. Rules of risk management in subsidiary entities**

Credit risk management at the subsidiary companies: ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. is subject to the same core principles as in ING Bank Śląski S.A., subject to the nature of the business of the entities.

As part of the risk management process, the Bank exercises supervision over:

- the credit portfolio of the subsidiary entities by assessing the size and the risk profile of the credit portfolio related to their business,
- rules of risk identification, measurements, and mitigation and credit risk management of individual credit transactions of the subsidiary entities,
- market risk level (including liquidity risk) in the subsidiary companies by establishing and monitoring of positions.

The related entities are supervised by the Bank by:

- applying uniform credit risk models in the rating process,
- application of standardised rules of analysing and assessment of transactions exposed to credit risk subject to the specific nature of the business of the related entity,
- application of standardised rules and levels of credit authority,
- granting authorisations to approve credit decisions,
- setting contractual terms and conditions of cooperation in the sphere of providing financing for selected transactions exposed to credit risk,
- exchanging information on solutions and tools supporting credit risk management that are preferred by the Bank,
- provision of information on sectoral policies pursued by the Bank and other sectoral documents,
- co-operation in terms of preparation of credit risk reports.

In the area of establishing and reporting on impairments for credit exposures and provisions for off-balance sheet credit exposures, the associated entities are obliged to apply the rules applicable at the Bank. Levels of impairment allowances and provisions established by the related entities are presented at quarterly meetings of the LLP Committee. Additionally, representatives of the Bank are members of Supervisory Boards and Transaction Committees of the subsidiary entities since the business of the companies – similarly to the Bank – is related to generation of credit and/or market risk.

**Additional aspects of risk management in subsidiary entities**

- ING Lease Polska Sp. z o.o.:
  - it owns the financed assets under lease contract that constitute the core collateral to the transactions,
  - when a lease contract is terminated, the company may take over physical control over the collateral and sell it which reduces or completely eliminates losses on the credit exposure,
  - it holds a developed verification procedure of the suppliers and leased assets to mitigate the risk of fraud and the risk related to leased assets having physical or legal defects,
  - to the extent specified in internal procedures, it verifies both the supplier (if necessary, also entities related to the supplier) / the intermediary in trading in the financed asset which mitigates the delivery risk of the financed assets.

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- ING Commercial Finance Polska S.A.:
  - the core repayment source of exposures are receivables covered with factoring, both in case of recourse and non-recourse factoring,
  - as a rule, it acquires receivables accepting the solvency risk of the buyers subject to prior insurance of the receivables,
  - it offers factoring to clients with accepted risk of the buyers' solvency subject to the insurance contracts concluded by the clients with insurance companies – “take-over of rights and duties of the client's insurance contract”.
- ING Bank Hipoteczny S.A.:
  - ING Bank Hipoteczny S.A. acquires receivables from ING BSK S.A. which – subject to a review of their potential role as collateral to the loans granted and identification of the bank and mortgage value of the property – constitute collateral to issues of mortgage bonds,
  - ING Bank Hipoteczny S.A. bases its business on daily and close cooperation with the CRO Division and the COO Division of ING Bank Śląski S.A.

## 9. 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<br>(risk rating)                 | Stage 1                |                            | Stage 2                |                            | Stage 3                |                            | POCI                   |                            | TOTAL                  |                            |
|---|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|
|   | balance sheet exposure | off-balance sheet exposure |
| <b>Corporate banking</b>                    |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| low risk classes (rating 1-10)              | 23,060.0               | 17,038.8                   | 217.6                  | 48.8                       | 0.2                    | 0.0                        | 0.0                    | 0.0                        | 23,277.8               | 17,087.6                   |
| medium and high risk classes (rating 11-17) | 36,147.9               | 18,970.1                   | 7,003.5                | 978.7                      | 5.2                    | 0.2                        | 0.0                    | 0.0                        | 43,156.6               | 19,949.0                   |
| problem loan classes (rating 18-22)         | 14.2                   | 79.2                       | 621.1                  | 26.7                       | 3,088.9                | 124.7                      | 1.3                    | 0.0                        | 3,725.5                | 230.6                      |
| <b>Total Gross</b>                          | <b>59,222.1</b>        | <b>36,088.1</b>            | <b>7,842.2</b>         | <b>1,054.2</b>             | <b>3,094.3</b>         | <b>124.9</b>               | <b>1.3</b>             | <b>0.0</b>                 | <b>70,159.9</b>        | <b>37,267.2</b>            |
| impairment for expected credit losses       | -192.1                 | -35.8                      | -227.7                 | -12.0                      | -1,763.4               | -31.3                      | 0.0                    | 0.0                        | -2,183.2               | -79.1                      |
| <b>Net total</b>                            | <b>59,030.0</b>        | <b>36,052.3</b>            | <b>7,614.5</b>         | <b>1,042.2</b>             | <b>1,330.9</b>         | <b>93.6</b>                | <b>1.3</b>             | <b>0.0</b>                 | <b>67,976.7</b>        | <b>37,188.1</b>            |
| <b>Retail banking</b>                       |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| low risk classes (rating 1-10)              | 41,451.2               | 3,612.1                    | 528.6                  | 3.2                        | 0.0                    | 0.0                        | 0.0                    | 0.0                        | 41,979.8               | 3,615.3                    |
| medium and high risk classes (rating 11-17) | 11,194.6               | 626.2                      | 1,278.8                | 43.6                       | 5.5                    | 0.0                        | 1.8                    | 0.0                        | 12,480.7               | 669.8                      |
| problem loan classes (rating 18-22)         | 0.2                    | 0.1                        | 322.2                  | 0.8                        | 1,049.2                | 2.9                        | 0.4                    | 0.0                        | 1,372.0                | 3.8                        |
| <b>Total Gross</b>                          | <b>52,646.0</b>        | <b>4,238.4</b>             | <b>2,129.6</b>         | <b>47.6</b>                | <b>1,054.7</b>         | <b>2.9</b>                 | <b>2.2</b>             | <b>0.0</b>                 | <b>55,832.5</b>        | <b>4,288.9</b>             |
| impairment for expected credit losses       | -150.2                 | -2.8                       | -181.8                 | -2.4                       | -755.1                 | -2.5                       | 0.0                    | 0.0                        | -1,087.1               | -7.7                       |
| <b>Net total</b>                            | <b>52,495.8</b>        | <b>4,235.6</b>             | <b>1,947.8</b>         | <b>45.2</b>                | <b>299.6</b>           | <b>0.4</b>                 | <b>2.2</b>             | <b>0.0</b>                 | <b>54,745.4</b>        | <b>4,281.2</b>             |

## ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

### 2019

| risk class<br>(risk rating)                 | Stage 1                |                            | Stage 2                |                            | Stage 3                |                            | POCI                   |                            | TOTAL                  |                            |
|---|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|------------------------|----------------------------|
|   | balance sheet exposure | off-balance sheet exposure |
| <b>Corporate banking</b>                    |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| low risk classes (rating 1-10)              | 25,324.0               | 13,763.8                   | 229.8                  | 20.3                       | 0.3                    | 0.0                        | 0.0                    | 0.0                        | 25,554.1               | 13,784.1                   |
| medium and high risk classes (rating 11-17) | 36,399.7               | 16,588.4                   | 4,566.2                | 305.0                      | 37.1                   | 1.5                        | 0.0                    | 0.0                        | 41,003.0               | 16,894.9                   |
| problem loan classes (rating 18-22)         | 9.6                    | 88.6                       | 465.7                  | 12.0                       | 2,882.8                | 97.3                       | 1.5                    | 0.0                        | 3,359.6                | 197.9                      |
| <b>Total Gross</b>                          | <b>61,733.3</b>        | <b>30,440.8</b>            | <b>5,261.7</b>         | <b>337.3</b>               | <b>2,920.2</b>         | <b>98.8</b>                | <b>1.5</b>             | <b>0.0</b>                 | <b>69,916.7</b>        | <b>30,876.9</b>            |
| impairment for expected credit losses       | -67.0                  | -20.8                      | -144.9                 | -11.9                      | -1,474.1               | -65.9                      | 0.0                    | 0.0                        | -1,686.0               | -98.6                      |
| <b>Net total</b>                            | <b>61,666.3</b>        | <b>30,420.0</b>            | <b>5,116.8</b>         | <b>325.4</b>               | <b>1,446.1</b>         | <b>32.9</b>                | <b>1.5</b>             | <b>0.0</b>                 | <b>68,230.7</b>        | <b>30,778.3</b>            |
| <b>Retail banking</b>                       |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| low risk classes (rating 1-10)              | 37,720.5               | 3,598.9                    | 810.1                  | 29.9                       | 0.0                    | 0.0                        | 0.0                    | 0.0                        | 38,530.6               | 3,628.8                    |
| medium and high risk classes (rating 11-17) | 6,324.5                | 416.9                      | 2,472.8                | 103.2                      | 0.0                    | 0.0                        | 0.0                    | 0.0                        | 8,797.3                | 520.1                      |
| problem loan classes (rating 18-22)         | 0.1                    | 0.5                        | 423.7                  | 1.1                        | 608.6                  | 1.1                        | 0.0                    | 0.0                        | 1,032.4                | 2.7                        |
| <b>Total Gross</b>                          | <b>44,045.1</b>        | <b>4,016.3</b>             | <b>3,706.6</b>         | <b>134.2</b>               | <b>608.6</b>           | <b>1.1</b>                 | <b>0.0</b>             | <b>0.0</b>                 | <b>48,360.3</b>        | <b>4,151.6</b>             |
| impairment for expected credit losses       | -56.2                  | -1.6                       | -268.9                 | -5.8                       | -434.9                 | -1.3                       | 0.0                    | 0.0                        | -760.0                 | -8.7                       |
| <b>Net total</b>                            | <b>43,988.9</b>        | <b>4,014.7</b>             | <b>3,437.7</b>         | <b>128.4</b>               | <b>173.7</b>           | <b>-0.2</b>                | <b>0.0</b>             | <b>0.0</b>                 | <b>47,600.3</b>        | <b>4,142.9</b>             |

### 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 |
| <b>Corporate banking</b> |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| 0                        | 58,818.4               | 36,033.8                   | 7,580.0                | 1,050.5                    | 769.0                  | 122.4                      | 1.3                    | 0.0                        | 67,168.7               | 37,206.7                   |
| 1-30                     | 386.1                  | 54.3                       | 192.5                  | 3.7                        | 104.8                  | 1.7                        | 0.0                    | 0.0                        | 683.4                  | 59.7                       |
| 31-60                    | 10.7                   | 0.0                        | 41.8                   | 0.0                        | 50.8                   | 0.0                        | 0.0                    | 0.0                        | 103.3                  | 0.0                        |
| 61-90                    | 2.3                    | 0.0                        | 26.5                   | 0.0                        | 110.8                  | 0.0                        | 0.0                    | 0.0                        | 139.6                  | 0.0                        |
| 91-180                   | 0.4                    | 0.0                        | 1.1                    | 0.0                        | 150.5                  | 0.3                        | 0.0                    | 0.0                        | 152.0                  | 0.3                        |
| 181-365                  | 2.2                    | 0.0                        | 0.1                    | 0.0                        | 192.0                  | 0.0                        | 0.0                    | 0.0                        | 194.3                  | 0.0                        |
| >365                     | 2.0                    | 0.0                        | 0.2                    | 0.0                        | 1,716.4                | 0.5                        | 0.0                    | 0.0                        | 1,718.6                | 0.5                        |
| <b>Total Gross</b>       | <b>59,222.1</b>        | <b>36,088.1</b>            | <b>7,842.2</b>         | <b>1,054.2</b>             | <b>3,094.3</b>         | <b>124.9</b>               | <b>1.3</b>             | <b>0.0</b>                 | <b>70,159.9</b>        | <b>37,267.2</b>            |
| <b>Retail banking</b>    |                        |                            |                        |                            |                        |                            |                        |                            |                        |                            |
| 0                        | 52,590.6               | 4,238.4                    | 1,948.4                | 47.6                       | 326.7                  | 2.9                        | 1.9                    | 0.0                        | 54,867.6               | 4,288.9                    |
| 1-30                     | 51.0                   | 0.0                        | 106.8                  | 0.0                        | 38.2                   | 0.0                        | 0.3                    | 0.0                        | 196.3                  | 0.0                        |
| 31-60                    | 3.6                    | 0.0                        | 23.7                   | 0.0                        | 16.0                   | 0.0                        | 0.0                    | 0.0                        | 43.3                   | 0.0                        |
| 61-90                    | 0.3                    | 0.0                        | 22.1                   | 0.0                        | 11.8                   | 0.0                        | 0.0                    | 0.0                        | 34.2                   | 0.0                        |
| 91-180                   | 0.4                    | 0.0                        | 0.0                    | 0.0                        | 48.6                   | 0.0                        | 0.0                    | 0.0                        | 49.0                   | 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                     | 0.1                    | 0.0                        | 28.6                   | 0.0                        | 518.5                  | 0.0                        | 0.0                    | 0.0                        | 547.2                  | 0.0                        |
| <b>Total Gross</b>       | <b>52,646.0</b>        | <b>4,238.4</b>             | <b>2,129.6</b>         | <b>47.6</b>                | <b>1,054.7</b>         | <b>2.9</b>                 | <b>2.2</b>             | <b>0.0</b>                 | <b>55,832.5</b>        | <b>4,288.9</b>             |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

| number of days<br>past due | Stage 1                      |                                  | Stage 2                      |                                  | Stage 3                      |                                  | POCI                         |                                  | TOTAL                        |                                  |
|----------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
|                            | balance<br>sheet<br>exposure | off-balance<br>sheet<br>exposure |
| <b>Corporate banking</b>   |                              |                                  |                              |                                  |                              |                                  |                              |                                  |                              |                                  |
| 0                          | 61,361.8                     | 30,440.8                         | 4,856.6                      | 337.3                            | 913.4                        | 98.5                             | 1.5                          | 0.0                              | <b>67,133.3</b>              | <b>30,876.6</b>                  |
| 1-30                       | 332.3                        | 0.0                              | 274.6                        | 0.0                              | 112.7                        | 0.0                              | 0.0                          | 0.0                              | <b>719.6</b>                 | <b>0.0</b>                       |
| 31-60                      | 26.7                         | 0.0                              | 92.3                         | 0.0                              | 100.7                        | 0.0                              | 0.0                          | 0.0                              | <b>219.7</b>                 | <b>0.0</b>                       |
| 61-90                      | 2.1                          | 0.0                              | 30.1                         | 0.0                              | 48.7                         | 0.0                              | 0.0                          | 0.0                              | <b>80.9</b>                  | <b>0.0</b>                       |
| 91-180                     | 2.5                          | 0.0                              | 5.4                          | 0.0                              | 238.5                        | 0.0                              | 0.0                          | 0.0                              | <b>246.4</b>                 | <b>0.0</b>                       |
| 181-365                    | 4.9                          | 0.0                              | 1.5                          | 0.0                              | 368.8                        | 0.0                              | 0.0                          | 0.0                              | <b>375.2</b>                 | <b>0.0</b>                       |
| >365                       | 3.0                          | 0.0                              | 1.2                          | 0.0                              | 1,137.4                      | 0.3                              | 0.0                          | 0.0                              | <b>1,141.6</b>               | <b>0.3</b>                       |
| <b>Total Gross</b>         | <b>61,733.3</b>              | <b>30,440.8</b>                  | <b>5,261.7</b>               | <b>337.3</b>                     | <b>2,920.2</b>               | <b>98.8</b>                      | <b>1.5</b>                   | <b>0.0</b>                       | <b>69,916.7</b>              | <b>30,876.9</b>                  |
| <b>Retail banking</b>      |                              |                                  |                              |                                  |                              |                                  |                              |                                  |                              |                                  |
| 0                          | 43,819.6                     | 4,014.1                          | 2,925.7                      | 134.0                            | 57.4                         | 1.1                              | 0.0                          | 0.0                              | <b>46,802.7</b>              | <b>4,149.2</b>                   |
| 1-30                       | 225.6                        | 2.2                              | 614.6                        | 0.1                              | 26.6                         | 0.0                              | 0.0                          | 0.0                              | <b>866.7</b>                 | <b>2.3</b>                       |
| 31-60                      | 0.0                          | 0.0                              | 120.3                        | 0.1                              | 21.8                         | 0.0                              | 0.0                          | 0.0                              | <b>142.1</b>                 | <b>0.1</b>                       |
| 61-90                      | 0.0                          | 0.0                              | 43.5                         | 0.0                              | 18.8                         | 0.0                              | 0.0                          | 0.0                              | <b>62.3</b>                  | <b>0.0</b>                       |
| 91-180                     | 0.0                          | 0.0                              | 1.7                          | 0.0                              | 74.5                         | 0.0                              | 0.0                          | 0.0                              | <b>76.3</b>                  | <b>0.0</b>                       |
| 181-365                    | 0.0                          | 0.0                              | 0.3                          | 0.0                              | 124.8                        | 0.0                              | 0.0                          | 0.0                              | <b>125.1</b>                 | <b>0.0</b>                       |
| >365                       | 0.0                          | 0.0                              | 0.5                          | 0.0                              | 284.7                        | 0.0                              | 0.0                          | 0.0                              | <b>285.2</b>                 | <b>0.0</b>                       |
| <b>Total Gross</b>         | <b>44,045.1</b>              | <b>4,016.3</b>                   | <b>3,706.6</b>               | <b>134.2</b>                     | <b>608.6</b>                 | <b>1.1</b>                       | <b>0.0</b>                   | <b>0.0</b>                       | <b>48,360.3</b>              | <b>4,151.6</b>                   |

**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 705.1 million are fully in Stage 1.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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:

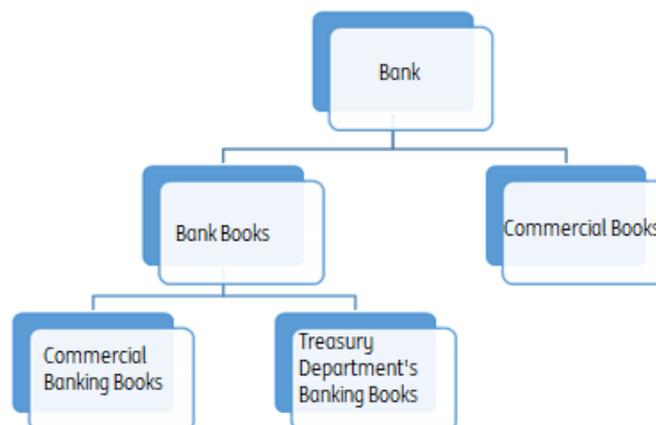
- "trading" (positions taken in order to generate benefits in a short period of time due to market price fluctuations), and
- "banking" (all other positions).

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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:

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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 is held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**6. Sensitivity to the currency risk in the trading book**

The tables below present VaR\* (PLN thousand) for 2020 and 2019:

| 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 consolidated 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 consolidated results to interest rate changes resulting from the banking book:

|      | changes to economic results<br>with an amended curve |          | changes to the reported financial results<br>with an amended curve |            |
|------|--|----------|--|------------|
|      | -2%  | 2%       | -2% gradual  | 2% gradual |
| 2020 | 558.2  | -721.1   | -474.5   | 125.9      |
| 2019 | 503.9  | -1,433.7 | -115.5   | 15.8       |

The table below presents sensitivity of net interest to changes in interest rate scenarios:

|   | changes to net interest income |       |
|---|--------------------------------|-------|
|   | 2020                           | 2019  |
| parallel +125 bps                           | 90.3                           | 9.5   |
| parallel -125 bps                           | -314.5                         | -57.0 |
| growth of short-term interest rates         | 58.1                           | -4.1  |
| drop of short-term interest rates           | -230.9                         | -29.3 |
| growth of long-term interest rates          | 28.5                           | 16.8  |
| drop of long-term interest rates            | -31.6                          | -15.1 |
| "twist" drop of short-term interest rates   | -29.4                          | 3.6   |
| "twist" growth of short-term interest rates | 5.1                            | -9.9  |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

The sensitivity of equity to changes of interest rates under HTC&amp;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 Group carries out:

- prospective effectiveness test:
  - qualitative based on the maturity of the hedged item and the hedging instrument, and
  - quantitative based on the BPV (basis point value) ratio of the hedged item and a hedging instrument,
- retrospective effectiveness test as the quotient of changes in the hedging instrument measurement and changes in the measurement of the hedged item due to the risk being hedged.

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves (that is: interest rate derivative instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- changes to credit risk constituting a valuation component to fair value of the hedged position from the HTC&S portfolio,
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

depending on the exposure type, as well as transactions forwarded for settlement on a daily basis via the Central Counterparty.

Since hedging covers only one type of risk (interest rate risk), changes to the fair value of the hedged position classified as HTC&S resulting from other unhedged risks are recognised as other comprehensive income.

From the viewpoint of economic relationships, the Group's existing hedging strategies contain two types of hedge relationships:

- hedge of the fair value of securities in PLN with a fixed interest coupon classified as HTC&S with IRS transactions "pay fixed, collect variable", denominated in PLN,
- hedge of the fair value of securities in EUR with a fixed interest coupon classified as HTC with IRS transactions "pay fixed, collect variable", denominated in EUR.

The table below presents the fair values and nominal values of hedging and hedged instruments in fair value hedge accounting.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|   | item<br>in the statement of<br>of financial position<br>– number of note | fair value      |             | unrealised<br>valuation result | cumulative<br>valuation<br>adjustment<br>due to the<br>hedged risk | Cumulative part of<br>valuation of unsecured<br>risks recognised in other<br>comprehensive income* | nominal value of instruments with<br>remaining maturity |                 |                 |                  | Total           |
|---|--|-----------------|-------------|--------------------------------|--|--|---|-----------------|-----------------|------------------|-----------------|
|   |  | Assets          | Liabilities |                                |  |  | under<br>1 year   | 1 to 3<br>years | 3<br>to 8 years | above<br>8 years |                 |
| <b>Instruments hedging fair value of securities, of which:</b>                              | Derivative hedge instruments   | <b>0.0</b>      | <b>44.6</b> | <b>-296.8</b>                  | -  | -  | <b>3,230.0</b>  | <b>1,320.0</b>  | <b>6,272.0</b>  | <b>0.0</b>       | <b>10,822.0</b> |
| 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           |
| <b>Hedged instruments, of which:</b>  |  | <b>11,744.9</b> | <b>0.0</b>  | <b>444.7</b>                   | <b>441.2</b>   | <b>18.8</b>  | <b>3,230.0</b>  | <b>1,320.0</b>  | <b>6,272.0</b>  | <b>0.0</b>       | <b>10,822.0</b> |
| 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           |
| <b>Instruments for which the hedging relationship was cancelled, of which:</b>              |  |                 |             |                                |  |  |   |                 |                 |                  |                 |
| 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 Group applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Group cooperates. See Note 17 *Valuation of derivatives* for further information.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|   | item<br>in the statement of<br>of financial position –<br>number of note | fair value      |             | unrealised<br>valuation result | cumulative<br>valuation<br>adjustment<br>due to the<br>hedged risk | cumulative part of<br>valuation of unsecured<br>risks recognised in other<br>comprehensive income* | nominal value of instruments with<br>remaining maturity |                 |                 |                  | Total           |
|---|--|-----------------|-------------|--------------------------------|--|--|---|-----------------|-----------------|------------------|-----------------|
|   |  | Assets          | Liabilities |                                |  |  | under<br>1 year   | 1 to 3<br>years | 3<br>to 8 years | above<br>8 years |                 |
| <b>Instruments hedging fair value of securities, of which:</b>                              | Derivative hedge instruments   | <b>5.5</b>      | <b>71.2</b> | <b>-26.2</b>                   | -  | -  | <b>696.3</b>  | <b>5,201.8</b>  | <b>4,687.0</b>  | <b>335.0</b>     | <b>10,920.1</b> |
| 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           |
| <b>Hedged instruments, of which:</b>  |  | <b>11,385.7</b> | <b>0.0</b>  | <b>79.2</b>                    | <b>150.8</b>   | <b>-36.3</b>   | <b>711.2</b>  | <b>5,201.8</b>  | <b>4,687.0</b>  | <b>335.0</b>     | <b>10,935.0</b> |
| 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           |
| <b>Instruments for which the hedging relationship was cancelled, of which:</b>              |  |                 |             |                                |  |  |   |                 |                 |                  |                 |
| 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

## ING Bank Śląski S.A. Group

Annual consolidated 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 Group's consolidated income statement as *Net (loss)/income on hedge accounting* in Note 6.

The split of the result of measurements of hedging and hedged transaction into individual hedging strategies is presented in the table below.

| Type of economic relation         | 2020   |                    |  | 2019   |                    |  |
|-----------------------------------|--|--------------------|--|--|--------------------|--|
|                                   | changes to fair value used to review the effectiveness of the strategy |                    | ineffective part of the hedging relationship recognised in P&L | changes to fair value used to review the effectiveness of the strategy |                    | ineffective part of the hedging relationship recognised in P&L |
|                                   | hedged position  | hedging instrument |  | hedged position  | hedging instrument |  |
| Hedging of debt securities in PLN | 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  |
|                                   | <b>316.7</b>   | <b>-296.8</b>      | <b>19.9</b>  | <b>34.3</b>  | <b>-26.1</b>       | <b>8.2</b>   |

**Cash flow hedge accounting**

The Group applies hedge accounting principles for cash flows to a specified portfolio of assets / liabilities / highly probable planned financial transactions of the Group (e.g. extrapolations of financial flows resulting from renewable deposits / overdraft facilities). The applied hedging strategies are aimed at hedging the Group's exposures against the risk of changes to future cash flows resulting from interest rate risk. The Group 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

For its strategy relating to calculations of changes to the fair value of future cash flows in the hedged portfolio, the Group applies the method of a “hypothetical derivative” (being a method which provides for a possibility to reflect the hedged position and nature of the hedged risk in the form of a derivative instrument). The valuation principles are similar to the valuation principles of interest rate derivative instruments. Strategy effectiveness research also includes:

- prospective high-probability test of future cash flows,
- retrospective high-probability test of future cash flows confirming, on the basis of actual values, that the adopted model works correctly,
- retrospective test of homogeneity of the portfolio of the hedged item based on statistical analysis (regression method).

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves of the hedging instrument and the hypothetical derivative into PLN denominated positions (that is: interest rate derivative hedging instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type.

From the viewpoint of economic relationships, the Group’s existing hedging strategies contain the following types of hedge relationships:

- The hedging instrument for active positions in the interest rate risk hedging strategy is the position on the Interest Rate Swap of the “pay floating, receive the fixed” type, while the hedging instrument hedging the liability is the position on the Interest Rate Swap of the “pay fixed, receive variable” 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.*

**ING Bank Śląski S.A. Group**

Annual consolidated 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 |                 |                  |                 | Total            |
|---|----------------|--------------|--|-----------------|------------------|-----------------|------------------|
|   | Assets         | Liabilities  | under 1 year   | 1 to 3 years    | 3 to 8 years     | above 8 years   |                  |
| <b>Cash flow hedges, of which:</b>          | <b>1,194.8</b> | <b>513.9</b> | <b>30,019.9</b>                                      | <b>40,935.3</b> | <b>101,917.9</b> | <b>26,830.6</b> | <b>199,703.7</b> |
| 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 |                 |                 |                 | Total            |
|---|--------------|--------------|--|-----------------|-----------------|-----------------|------------------|
|   | Assets       | Liabilities  | under 1 year   | 1 to 3 years    | 3 to 8 years    | above 8 years   |                  |
| <b>Cash flow hedges, of which:</b>          | <b>846.1</b> | <b>474.8</b> | <b>17,565.2</b>                                      | <b>34,841.0</b> | <b>56,914.1</b> | <b>22,737.5</b> | <b>132,057.8</b> |
| 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.

## ING Bank Śląski S.A. Group

Annual consolidated 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 |
| <b>Cash flow hedges, of which:</b>  | <b>1,194.8</b> | <b>513.9</b> | <b>2,394.8</b>  | <b>-2,403.3</b>  | <b>-8.4</b>   | <b>759.9</b>  | <b>1.6</b>  |
| 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 35.2. (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 |
| <b>Cash flow hedges, of which:</b>  | <b>846.1</b> | <b>474.8</b> | <b>782.8</b>  | <b>-783.7</b>  | <b>-22.5</b>  | <b>481.2</b>  | <b>1.3</b>  |
| 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   |

## ING Bank Śląski S.A. Group

Annual consolidated 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 |           |               |           |               |           |               |           |
|---|-------------------|--|-----------|---------------|-----------|---------------|-----------|---------------|-----------|
|   |                   | 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 %           |  |           |               |           |               |           |               |           |
|   | variable %        | 22,321.0   | 2.65%     | 27,474.5      | 2.60%     | 55,848.3      | 2.25%     | 17,240.0      | 1.59%     |
| 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 Group expects the hedged cash flows in cash flow hedge accounting and thus which will affect the financial profit are presented below. The negative value results from the presence of negative interest rates in EUR and CHF currencies.

## 2020

|              | cash flows in PLN<br>(PLN million) |                        |                | cash flows in EUR<br>(EUR million) |                        |                | cash flows in CHF<br>(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            |

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2019**

|              | cash flows in PLN<br>(PLN million) |                           |                   | cash flows in EUR<br>(EUR million) |                           |                   | cash flows in CHF<br>(CHF million) |                   |
|--------------|------------------------------------|---------------------------|-------------------|------------------------------------|---------------------------|-------------------|------------------------------------|-------------------|
|              | inflows<br>(assets)                | outflows<br>(liabilities) | net cash<br>flows | inflows<br>(assets)                | outflows<br>(liabilities) | net cash<br>flows | inflows<br>(assets)                | net cash<br>flows |
| up to 1 year | 1,162.0                            | -220.4                    | <b>941.6</b>      | -5.1                               | 0.7                       | <b>-4.4</b>       | -0.5                               | <b>-0.5</b>       |
| 1-3 years    | 1,955.1                            | -256.9                    | <b>1,698.2</b>    | -6.4                               | 0.5                       | <b>-5.9</b>       | -0.6                               | <b>-0.6</b>       |
| 3-8 years    | 3,066.4                            | -149.7                    | <b>2,916.7</b>    | 4.1                                | -2.4                      | <b>1.7</b>        | -0.1                               | <b>-0.1</b>       |
| over 8 years | 389.7                              | 0.0                       | <b>389.7</b>      | 3.9                                | -1.7                      | <b>2.2</b>        | 0.0                                | <b>0.0</b>        |

*Impact of the reform of key interest rate benchmarks on the Group's hedging strategies*

The Group 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 Group 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 Group applied the amendment to IAS 39, were presented due to the uncertainty resulting from the reform the benchmark rate of LIBOR CHF.

**9. Risk management in subsidiaries**

The policies of ING Bank Śląski S.A. with respect to market risk management in its subsidiary companies provides for maintaining market risk at a low level. The core market risk categories that may occur in connection with the business of the subsidiary companies include FX risk and interest rate risk. Ongoing control and monitoring of market risk level is performed with periodic measurements of market risk categories related to the business of the subsidiary companies.

The company operating on an autonomous basis is ING Bank Hipoteczny S.A. This unit operates within the risk appetite accepted by ING Bank Śląski S.A. and managed at the level of ING Bank Hipoteczny S.A. The market risk management process at ING Bank Hipoteczny S.A. was built based on the best practices of ING Bank Śląski SA. Some technical activities are outsourced to ING Bank Śląski SA, in accordance with the signed SLA agreement between both banks. The ALCO Committee of ING Bank Śląski S.A. plays a supervisory role in relation to the ALCO Committee of ING Bank Hipoteczny SA. The Bank's Management Board, ALCO, the Market Risk Management Department, the Accounting Department and other competent units of the Bank are involved in market risk management. Determination of limits mitigating market risk for each subsidiary company at a consolidated level is a major elements of the market risk management process in the Group of ING Bank Śląski S.A.. The measurement techniques of market risk in the Group are the same as for the Bank. In accordance with the Bank's policies, risk volumes and compliance with the approved risk limits are monitored on a monthly basis.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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,

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

- 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

the area of market risk, liquidity and capital adequacy. The Supervisory Board is provided with information on compliance with the measures, minimum on a quarterly basis.

The limit level is based on the Bank's strategic objectives, identified liquidity risks, results of stress tests and the principles set forth by regulatory authorities. The limits are taken into account in planning processes (implementation of the approved plans may not result in the limits being exceeded). In most instances, the limits have a pre-defined warning level, set above (or below) supervisory limits. The admissible liquidity risk level is determined and updated minimum once a year.

The limit system is more detailed than the risk level approved by the Supervisory Board. The admissible risk level is guaranteed by risk monitoring in various reports concerning liquidity and funding risk in the course of the Bank's normal/regular activity and in extraordinary/extreme situations. Inter alia, the Bank monitors funding concentration risk, the internal liquidity safety buffer and verifies the stability of external funding.

**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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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

At the end of 2020 and 2019, the consolidated supervisory liquidity measures were:

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

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

Herebelow there is a breakdown of level 1 liquid assets used by the Group to calculate the LCR ratio (as defined in the Commission Delegated Regulation (EU) No 2015/61) as at 2020 and 2019 yearend. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

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

In level 1 liquid assets, securities are presented by their market value. The Group's liquidity position is reduced by encumbered securities (constituting collateral, blocked) and increased by securities received as hedged by reverse-repo transactions.

Additional liquidity monitoring measures (ALMM)

In compliance with the Commission Implementing Regulations (EU) 2016/313, the Bank reports a set of additional monitoring ratios 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 that 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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

the planning process of the balance sheet and funding. It also indicates all major funding needs in the future.

The report is a scenario for the current balance sheet in normal market conditions. It does not cover any additional projections of balance sheet development. However, it provides for clients' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans, cash loans, loans in the current account provide for prepayments and cash flows for savings accounts and current accounts are allocated subject to characteristics of liquidity.

Report of structural liquidity:

|                          | 1-6 months | 7-12 months | 1-5 years | 6-10 years | 11-15 years | over 15 years |
|--------------------------|------------|-------------|-----------|------------|-------------|---------------|
| <b>2020</b>              |            |             |           |            |             |               |
| Liquidity gap            | 39,808.7   | 9,763.0     | 26,946.9  | 841.8      | -63,811.4   | -13,548.9     |
| Cumulative liquidity gap | 39,808.7   | 49,571.6    | 76,518.5  | 77,360.4   | 13,548.9    | 0.0           |
| <b>2019</b>              |            |             |           |            |             |               |
| 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           |

In ING Bank Śląski S.A. Group, the Bank follows liquidity risk monitoring and limiting based on measurements of the cumulative gap. In order to properly exercise supervision over liquidity risk in the Group entities, limits are set separately for each company.

**Monitoring of funding sources and concentration risk**

Minimum once a year, the Bank determines the Bank's overall business strategy and the resultant medium-term (3 years) financial plan with a general risk strategy. Financial plan is an indispensable element of the strategy which provides for an effective diversification of funding sources and tenors.

ALCO actively manages the funding base. Additionally, it monitors funding sources in order to:

- verify compliance with the strategy and financial plan,
- identify potential risks related to funding.

Customers' deposits (retail and corporate) are the core funding source for ING Bank Śląski S.A. The Bank monitors the funding structure and thus verifies concentration risk by analysing its deposit base split into:

- type of financing,
- client segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

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

The existing funding structure is well diversified. Below is the funding structure as at 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

Direct funding:

| Core client segments          | 2020           |         | 2019           |         |
|-------------------------------|----------------|---------|----------------|---------|
|                               | direct funding | % share | direct funding | % share |
| Banks                         | 2,900          | 1.7%    | 1,606          | 1.1%    |
| Corporate clients.            | 46,797         | 27.3%   | 41,362         | 28.2%   |
| Retail clients                | 102,742        | 60.0%   | 87,877         | 59.9%   |
| Own issue / subordinated loan | 3,632          | 2.1%    | 2,529          | 1.7%    |
| Equity                        | 15,116         | 8.8%    | 13,590         | 9.1%    |

Mutual funding:

| Core client segments | 2020           |         | 2019           |         |
|----------------------|----------------|---------|----------------|---------|
|                      | 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:

| Structure of the liquidity buffer                        | 2020    | 2019    |
|--|---------|---------|
|  | % share | % share |
| Treasury bonds or bonds issued by the central bank (PLN) | 67.2%   | 76.0%   |
| Treasury bonds or bonds issued by the central bank (EUR) | 11.0%   | 13.7%   |
| 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

The intraday liquidity management process is critical for correct functioning of the Bank as a whole and applies to normal market conditions and extraordinary (crisis) situations. It is a component of current operational liquidity management. Managing its intraday liquidity, the Bank applies intraday ratios. Intraday liquidity ratios are monitored on an ongoing basis and presented to the competent liquidity risk management units and to ALCO.

Intraday liquidity management includes the maintenance of readiness to comply with the Bank's obligations also in crisis circumstances. In this connection, it is necessary to maintain an adequate liquidity buffer on the basis of information on the potential worsening of the Bank's access to intraday liquidity as a result of a market stress. In order to maintain an adequate liquidity buffer, the Bank applies intraday stress tests in its stress test program.

**Management of hedging items**

The management of hedging items covers both positions under CSA and GIMRA contracts as well as positions of liquid assets related to operations with the central bank. This is performed on the level corresponding to the provided services, the Bank's portfolio, funding profile and liquidity requirements.

Most of the Bank's counterparties in derivative transactions have signed Credit Support Annexes (CSA) to ISDA agreements. They regulate the issue of support to portfolios of derivative transactions. They provide for the right to demand margin deposits by parties whose valuation of the portfolio is positive on a specific day (the party's portfolio is in-the-money) and the right to demand release of the margin when the valuation changes. Within the strategy of setting margins for each counterparty to CSA, the transaction portfolio is measured daily for margin requirements.

Derivative instruments such as FRA and IRS are settled via CCP (Central Clearing Party) clearing houses. This provides for effective management of margin deposits and mitigates the counterparty settlement risk. ING Bank Śląski S.A. has signed agreements with KDPW CCP and London Clearing House (LCH).

**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 Group.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**2020**

|  | without a specific<br>date | up to 1<br>month | 1- 12 months | 1-5 years | over 5 years |
|--|----------------------------|------------------|--------------|-----------|--------------|
| <b>Financial assets</b>  |                            |                  |              |           |              |
| 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         | 310.9     | 0.0          |
| Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)      | 0.8                        | 290.2            | 248.7        | 224.5     | 75.3         |
| Investment securities  | 157.7                      | 86.4             | 7,113.1      | 37,882.8  | 11,729.7     |
| Loans and other receivables to customers measured at amortised cost  | 0.0                        | 14,271.2         | 26,844.6     | 46,030.3  | 56,181.9     |
| Other assets   | 0.0                        | 14.3             | 48.6         | 0.0       | 0.0          |
| <b>Financial Liabilities</b>   |                            |                  |              |           |              |
| Liabilities to other banks   | 0.0                        | 5,008.6          | 1,340.8      | 1,875.2   | 69.2         |
| Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives) | 0.0                        | 200.0            | 0.0          | 117.9     | 147.6        |
| Liabilities to customers   | 0.0                        | 148,809.6        | 1,688.5      | 227.0     | 303.2        |
| Liabilities from debt securities issued  | 0.0                        | 0.0              | 979.1        | 409.5     | 0.0          |
| Subordinated liabilities   | 0.0                        | 0.8              | 28.2         | 116.3     | 2,164.0      |
| Other liabilities  | 0.0                        | 872.9            | 636.5        | 19.8      | 347.4        |
| Contingent liabilities granted   | 0.0                        | 43,278.5         | 0.0          | 0.0       | 0.0          |

**2019**

|  | without a specific<br>date | up to 1<br>month | 1- 12 months | 1-5 years | over 5 years |
|--|----------------------------|------------------|--------------|-----------|--------------|
| <b>Financial assets</b>  |                            |                  |              |           |              |
| 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            | 56.8         | 237.4     | 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                      | 388.1            | 3,706.8      | 20,741.6  | 10,687.0     |
| Loans and other receivables to customers measured at amortised cost  | 0.0                        | 18,471.1         | 20,588.8     | 40,938.0  | 42,009.1     |
| Other assets   | 0.0                        | 1.5              | 38.1         | 0.0       | 0.0          |
| <b>Financial Liabilities</b>   |                            |                  |              |           |              |
| Liabilities to other banks   | 0.0                        | 2,812.4          | 981.5        | 2,373.8   | 88.5         |
| Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives) | 0.0                        | 80.7             | 0.0          | 85.9      | 81.3         |
| Liabilities to customers   | 0.0                        | 127,969.6        | 2,302.2      | 177.7     | 41.1         |
| Liabilities from debt securities issued  | 0.0                        | 0.0              | 4.7          | 437.1     | 0.0          |
| Subordinated liabilities   | 0.0                        | 0.9              | 28.2         | 116.3     | 2,224.7      |
| Other liabilities  | 0.0                        | 741.2            | 529.9        | 24.6      | 366.0        |
| Contingent liabilities granted   | 0.0                        | 36,547.7         | 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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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          |

**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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**9. Risk management in subsidiaries**

ING Bank Hipoteczny S.A. performs an important role in managing the Group's long-term liquidity. Its role is to raise long-term liquidity so that the Group:

- improves funding stability,
- ensures diversified funding for the mortgage loan portfolio,
- is able to better manage any mismatch of its assets and liabilities.

In 2020 ING Bank Hipoteczny under its Mortgage Bond Program issued mortgage bonds for PLN 925 million. In 2019 ING Bank Hipoteczny issued mortgage bonds under its International Mortgage Bond Program for PLN 400 million.

ING Bank Hipoteczny S.A. is a company operating on an autonomous basis. This unit operates within the risk appetite accepted by ING Bank Śląski S.A. and managed at the level of ING Bank Hipoteczny SA

Liquidity risk of the Bank's other subsidiary companies is maintained at a minimum level with funding being provided within the ING Group.

**10. Summary up**

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

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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 and the activity of the Group, cooperation with clients, providers and partners. It is a cohesive, regular practice that covers the following elements:

- risk identification and assessment,
- mitigation or risks and monitoring of mitigation activities,
- performance of inspections,
- quality monitoring and assurance.

**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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

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.

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

**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's Group. 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's Group 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 Group manages the risk by regular holding of internal stress tests to support ongoing monitoring of sensitivity or minimum capital requirements to macroeconomic factors. In 2020 the Group 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 Group estimates an additional capital requirement to safeguard against the materialisation effect of the scenario. The results of the stress tests show that should a mild recession materialise, the Group's capital adequacy will not drop below the required level.

**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 Group relies on the recent

**ING Bank Śląski S.A. Group**

Annual consolidated financial statements for the period from 1 January 2020 to 31 December 2020

(PLN million)

legislative proposals with respect to currency conversion of mortgage FX loans. As at 30 June 2020 and 2019, the Group maintained additional economic capital for the risk in pillar II.

At the end of 2020, the Group 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 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 Group 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 Group's foreign currency mortgage loan portfolio was PLN 600.7 million net.