



ING Bank Śląski S.A. Group

in 2022

Annual Consolidated Financial Statements for the year 2022



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Consolidated income statement

for the year ended 31 December

	Note	2022	2021
Interest income	2	8,111.9	5,432.4
calculated using effective interest rate method	2	7,162.1	5,431.7
the impact of the adjustment to the gross carrying amount of loans due to credit moratoria	2	-1,644.9	0.0
other interest income	2	949.8	0.7
Interest expenses	2	-2,497.9	-462.7
Net interest income	2	5,614.0	4,969.7
Commission income	3	2,636.7	2,325.0
Commission expenses	3	-541.9	-480.2
Net commission income	3	2,094.8	1,844.8
Net income on financial instruments measured at fair value through profit or loss and FX result	4	32.1	64.3
Net income on the sale of securities measured at amortised cost	5	-24.8	2.8
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	5	26.5	38.4
Net (loss)/income on hedge accounting	6	-39.4	-52.5
Net (loss)/income on other basic activities	7	-6.6	0.1
Net income on basic activities		7,696.6	6,867.6
General and administrative expenses	8	-3,642.1	-2,964.5
Impairment for expected credit losses	9	-735.8	-316.0
including profit on sale of receivables		82.7	61.6
Cost of legal risk of FX mortgage loans	10	-294.3	-56.4
Tax on certain financial institutions	11	-646.9	-544.7
Share of profit/(loss) of associates accounted for using the equity method	22	25.6	29.3
Gross profit		2,403.1	3,015.3
Income tax	12	-688.7	-707.0
Net profit		1,714.4	2,308.3
attributable to shareholders of ING Bank Śląski S.A.		1,714.4	2,308.3

	Note	2022	2021
Net profit attributable to shareholders of ING Bank Śląski S.A.		1,714.4	2,308.3
Weighted average number of ordinary shares		130,100,000	130,100,000
Earnings per ordinary share (in PLN)	13	13.18	17.74

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.



Consolidated statement of comprehensive income

for the year ended 31 December			
	Note	2022	2021
Net profit for the period		1,714.4	2,308.3
Total other comprehensive income, including:	34.2	-5,218.3	-6,732.1
Items which can be reclassified to income statement, including:		-5,184.6	-6,748.3
debt instruments measured at fair value through other comprehensive income – gains on revaluation carried through equity		-411.3	-248.1
debt instruments measured at fair value through other comprehensive income – reclassification to financial result due to sale		-15.9	-25.7
cash flow hedging – gains on revaluation carried through equity		-6,064.6	-5,566.7
cash flow hedging – reclassification to profit or loss		1,307.2	-907.8
Items which will not be reclassified to income statement, including:		-33.7	16.2
equity instruments measured at fair value through other comprehensive income – gains on revaluation carried through equity		-37.7	22.3
fixed assets revaluation		0.1	-0.3
actuarial gains/losses		3.9	-5.8
Net comprehensive income for the reporting period		-3,503.9	-4,423.8
attributable to shareholders of ING Bank Śląski S.A.		-3,503.9	-4,423.8

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



Consolidated statement of financial position

as at			
	Note	31.12.2022	31.12.2021
Assets			
Cash in hand and balances with the Central Bank	14	2,337.6	1,100.0
Loans and other receivables to other banks	15	5,161.1	704.8
Financial assets measured at fair value through profit or loss	16, 17, 20	1,952.3	1,538.3
Derivative hedge instruments	18	139.2	250.4
Investment securities	19, 20	48,432.8	45,584.4
Transferred assets	20, 16, 19	163.8	2,280.9
Loans and other receivables to customers measured at amortised cost	21	154,974.6	146,536.0
Investments in associates accounted for using the equity method	22	178.9	184.8
Property, plant and equipment	23	950.0	831.2
Intangible assets	24	417.2	377.4
Current income tax assets	12	572.2	734.5
Deferred tax assets	25	1,828.6	1,245.0
Other assets	26	157.8	286.5
Total assets		217,266.1	201,654.2

as at			
	Note	31.12.2022	31.12.2021
Liabilities			
Liabilities to other banks	27	5,639.6	10,051.0
Financial liabilities measured at fair value through profit or loss	28, 17	2,203.8	1,679.6
Derivative hedge instruments	18	369.5	235.4
Liabilities to customers	29	192,731.3	170,609.9
Liabilities from debt securities issued	30	404.8	972.4
Subordinated liabilities	31	1,643.9	1,610.3
Provisions	32	359.0	336.9
Current income tax liabilities	12	19.9	3.9
Deferred tax loss	25	0.4	0.0
Other liabilities	33	4,549.6	2,623.4
Total liabilities		207,921.8	188,122.8
Equity			
Share capital	34.1	130.1	130.1
Share premium	34.3	956.3	956.3
Accumulated other comprehensive income	34.2	-8,039.3	-2,821.0
Retained earnings	34.3	16,297.2	15,266.0
Total equity	13	9,344.3	13,531.4
attributable to shareholders of ING Bank Śląski S.A.		9,344.3	13,531.4
Total equity and liabilities		217,266.1	201,654.2

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



Consolidated statement of changes in equity

for the year ended 31 December 2022

Note: 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	-2,821.0	15,266.0	13,531.4
Profit for the current period	-	-	-	1,714.4	1,714.4
Other net comprehensive income, including:	0.0	0.0	-5,218.3	0.0	-5,218.3
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	-449.0	-	-449.0
debt securities measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-15.9	-	-15.9
cash flow hedging – gains/losses on revaluation carried through equity	-	-	-6,064.6	-	-6,064.6
cash flow hedging – reclassification to profit or loss	-	-	1,307.2	-	1,307.2
fixed assets revaluation	-	-	0.1	-	0.1
actuarial gains/losses	-	-	3.9	-	3.9
Other changes in equity, including:	0.0	0.0	0.0	-683.2	-683.2
valuation of share-based payments	-	-	-	6.3	6.3
dividend payment	-	-	-	-689.5	-689.5
Closing balance of equity	130.1	956.3	-8,039.3	16,297.2	9,344.3

for the year ended 31 December 2021

Note: 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	3,923.4	13,608.5	18,618.3
Profit for the current period	-	-	-	2,308.3	2,308.3
Other net comprehensive income, including:	0.0	0.0	-6,744.4	12.3	-6,732.1
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	-225.8	-	-225.8
debt securities measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-25.7	-	-25.7
sale of equity instruments measured at fair value through other comprehensive income	-	-	-7.1	7.1	0.0
cash flow hedging – gains/losses on revaluation carried through equity	-	-	-5,566.7	-	-5,566.7
cash flow hedging – reclassification to profit or loss	-	-	-907.8	-	-907.8
fixed assets revaluation	-	-	-0.3	-	-0.3
disposal of fixed assets	-	-	-5.2	5.2	0.0
actuarial gains/losses	-	-	-5.8	-	-5.8
Other changes in equity, including:	0.0	0.0	0.0	-663.1	-663.1
valuation of share-based payments	-	-	-	0.4	0.4
dividend payment	-	-	-	-663.5	-663.5
Closing balance of equity	130.1	956.3	-2,821.0	15,266.0	13,531.4

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



Consolidated cash flow statement

for the year ended 31 December

	Note	2022	2021
Net profit		1,714.4	2,308.3
Adjustments, including:		1,240.7	-1,871.3
Share of profit/(loss) of associates accounted for using the equity method	22	-25.6	-29.3
Depreciation and amortisation	8, 23, 24	279.3	286.3
Interest accrued (from the income statement)	2	-5,614.0	-4,969.7
Interest paid		-2,060.3	-432.5
Interest received		7,719.4	5,455.7
Dividends received	5	-6.8	-6.7
Gains (losses) on investing activities		5.8	2.2
Income tax (from the income statement)	12	688.7	707.0
Income tax paid		-125.0	-1,067.5
Change in provisions	32, 41	26.7	73.4
Change in loans and other receivables to other banks	15, 41	-4,014.9	-82.6
Change in financial assets measured at fair value through profit or loss	16, 17, 41	-325.7	233.3
Change in investment securities	19, 41	-533.6	5,571.7
Change in hedge derivatives	18, 41	-5,628.1	-7,371.8
Change in loans and other receivables to customers measured at amortised cost	21, 41	-8,197.2	-21,840.3
Change in other assets	26, 41	238.3	-21.5
Change in liabilities to other banks	27, 41	-5,517.5	1,457.0
Change in liabilities measured at fair value through profit or loss	17, 28, 41	524.2	148.7
Change in liabilities to customers	29, 41	21,735.6	19,583.3
Change in other liabilities	33, 41	2,071.4	432.0
Net cash flow from operating activities		2,955.1	437.0

for the year ended 31 December

	Note	2022	2021
Purchase of property, plant and equipment	23	-150.1	-87.0
Disposal of property, plant and equipment		0.7	3.5
Purchase of intangible assets	24	-118.1	-35.9
Purchase of debt securities measured at amortised cost		-4,959.5	-1,787.9
Disposal of debt securities measured at amortised cost		4,244.0	3,154.2
Dividends received	5	6.8	6.7
Net cash flows from investing activities		-976.2	1,253.6
Long-term loans received	41	2,423.8	1,852.6
Long-term loans repaid	41	-1,311.2	-2,189.0
Interest on long-term loans repaid	41	-35.6	-28.1
Issue of debt securities	30	0.0	575.0
Redemption of debt securities	30	-575.0	-975.0
Interests from issued debt securities		-14.9	-4.3
Repayment of lease liabilities	41	-104.4	-108.8
Dividends paid	34.3	-689.5	-663.5
Net cash flows from financing activities		-306.8	-1,541.1
Net increase/(decrease) in cash and cash equivalents		1,672.1	149.5
effect of exchange rate changes on cash and cash equivalents		-115.2	109.9
Opening balance of cash and cash equivalents		1,377.6	1,228.1
Closing balance of cash and cash equivalents	41	3,049.7	1,377.6

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



Accounting policy
and additional notes

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Accounting policy and additional notes

I. Bank and the Group details

1. Key Bank data

ING Bank Śląski S.A. ("Parent company", "Parent entity", "Bank") with the registered office in Poland, Katowice, ulica Sokolska 34, zip code 40-086 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.

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 and 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. Shareholders of ING Bank Śląski S.A.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2022 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 2022, 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
1.	ING Bank N.V.	97,575,000	75.00
2.	Aviva Otwarty Fundusz Emerytalny Aviva Santander *	11,205,030	8.61

*) Based on the annual information on the structure of assets of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 31 December 2022; on 2 January 2023, the fund changed its name to the Drugi Allianz Polska Otwarty Fundusz Emerytalny. On 5 January 2023 Bank received from Powszechne Towarzystwo Emerytalne Allianz Polska S.A. ("PTE Allianz") a notification about the increased share of the funds managed by PTE Allianz in the total number of votes in the General Meeting of the Bank above 9%, following the merger with the company Aviva Powszechne Towarzystwo Emerytalne Aviva Santander Spółka Akcyjna managing Drugi Allianz Polska Otwarty Fundusz Emerytalny ("Drugi Allianz OFE"). In line with the notification, after the merger, the total share of Allianz Polska Otwarty Fundusz Emerytalny, Allianz Polska Dobrowolny Fundusz Emerytalny and Drugi Allianz OFE, managed by PTE Allianz, in the share capital and in the total number of votes at the Bank is 9.74%.

5. 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.

6. Approval of financial statements

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2022 to 31 December 2022 have been approved by the Bank Management Board on 15 March 2023.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2021 to 31 December 2021 were approved by the General Meeting on 7 April 2022.



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

Bank's Management Board

At the end of 2022, similarly to the end of 2021, the composition of the Management Board of ING Bank Śląski S.A. was as follows:

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

Bank's Supervisory Board

On 10 February 2022, the Bank received a statement from Mr. Remco Nieland about resigning from the function of a member of the Bank's Supervisory Board as of the date of the Ordinary General Meeting of the Bank. The reason for the resignation was planned retirement.

On 7 April 2022, the Ordinary General Meeting of the Bank appointed Mr. Aris Bogdaneris to the Supervisory Board of ING Bank Śląski S.A.

At the end of 2022, the Supervisory Board of ING Bank Śląski S.A. was composed of the following:

- Mr. Aleksander Galos – Chairman of the Supervisory Board, Independent Member,
- Ms. Małgorzata Kołakowska – 1st Vice-Chairman of the Supervisory Board,
- Mr. Michał Szczurek – Vice-Chairman of the Supervisory Board,
- Mr. Aris Bogdaneris – Member of the Supervisory Board,
- Mr. Stephen Creese – Member of the Supervisory Board,
- Ms. Dorota Dobija – Independent Member of the Supervisory Board,
- Ms. Monika Marcinkowska - Independent Member of the Supervisory Board.

8. 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 2022, 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 GM votes	nature of the capital relationship	recognition in the Group Financial Statements
ING Investment Holding (Polska) S.A., that holds shares at the following subsidiaries and associates:	financial holding	Katowice	100	100	subsidiary	full consolidation
ING Commercial Finance S.A.	factoring services	Warszawa	100	100	subsidiary	full consolidation
ING Lease (Polska) Sp. z o.o.*	leasing services	Warszawa	100	100	subsidiary	full consolidation
SAIO Spółka Akcyjna	software sales, robotization of processes	Katowice	100	100	subsidiary	full consolidation
NN Investment Partners TFI S.A.	investment funds	Warszawa	45	45	associated	consolidation with the equity method
ING Bank Hipoteczny S.A.	banking services	Katowice	100	100	subsidiary	full consolidation
ING Usługi dla Biznesu S.A.	accountancy services, payroll services	Katowice	100	100	subsidiary	full consolidation
Nowe Usługi S.A.	education and promotion for the financial market and TURBO Certificates	Katowice	100	100	subsidiary	full consolidation

*) W skład grupy kapitałowej ING Lease (Polska) Sp. z o.o. wchodzi 5 spółek celowych, w których ING Lease (Polska) Sp. z o.o. posiada 100% udziałów.

Changes in the composition of the Capital Group

- In August 2022, a new subsidiary was established in the Capital Group - SAIO S.A. The direct owner of the entity is ING Investment Holding (Polska) S.A., which holds 100% of the share capital of the company, amounting to PLN 1 million. The company was registered in the National Court Register on 4 October 2022.
- On 18 May 2022, the liquidation of the Bank's subsidiary, SOLVER Sp. z o.o, was completed. On 25 August 2022, the District Court in Katowice issued a decision to remove the company from the National Court Register.



Subject of activity of the Capital Group companies

ING Investment Holding (Polska) S.A.

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

ING Commercial Finance S.A.

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

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

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

SAIO S.A.

The business of the company established in 2022 is the sublicensing of SAIO robotization software and the implementation of robotization of business processes at clients as part of its own activities and the partner network being built. The company took over operations previously carried out in ING Usług dla Biznesu. The purpose of the change is to concentrate all functions in a dedicated entity for the purpose of broadly scaling the process robotization business.

ING Bank Hipoteczny S.A.

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

ING Usługi dla Biznesu S.A.

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

Nowe Usługi S.A.

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

NN Investment Partners TFI S.A.

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

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 2022 to 31 December 2022 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.



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 2022:

Change	Influence on the Group financial statements
Changes resulting from the cyclical review of IFRS 2018-2020	Changes to: IFRS 1 – subsidiary applying accounting standards for the first time IFRS 9 – fees in the "10%" test (to determine the possibility of excluding financial liabilities from the consolidated statement of financial position) – in accordance with the change in the test, all fees paid or received should be included, including those settled by the borrower or lender on behalf of other entities Illustrative examples for IFRS 16 – lease incentives IAS 41 – agriculture: taxation measured at fair value measurement. The implementation of the amendments does not have a significant impact on the Group's financial statements.
IFRS 3 Reference to conceptual assumptions	The amendment introduces to the content of the standard references to the conceptual framework published in March 2018. The implementation of the changes does not have a impact on the Group's financial statements.
IAS 37 Onerous contracts – the costs of meeting the contract	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 implementation of the amendments does not have impact on the Group's financial statements.
IAS 16 Property, plant and equipment – benefits before planned use	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 implementation of the amendments does not have a significant impact on the Group's financial statements.
IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021	Change in the scope of leasing modification, the purpose of which is to extend by 1 year the period of withdrawal from the evaluation of leasing modification, in a situation where the change in leasing payments is a direct consequence of the Covid-19 pandemic. The application of the amendment does not have an impact on the financial statements of the Group.

Published standards and interpretations that were issued by 31 December 2022, but were not approved by the European Union as at 31 December 2021 and were not previously adopted by the Group:

Change (EU effective date provided for in the parentheses)	Influence on the Group financial statements
IFRS 17 Insurance contracts with the extension of the temporary exemption from the application of IFRS 9. (the accounting year starting on 1 January 2023)	The Group's analyses show that the implementation of the amendments will not have a significant impact on the Group's financial statements.
IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (the financial year starting on or after 1 January 2023)	Change in the scope of disclosure of significant accounting principles in the financial statements. Pursuant to the introduced changes, only the accounting principles that have a significant impact on the information contained in the financial statements will be disclosed. The practical stand attached to the amendment contains a detailed illustrative example. The implementation of the change will have a significant impact on the scope of disclosures of significant accounting principles in the Group's financial statements.
IAS 8 Definition of Accounting Estimates (the financial year starting on or after 1 January 2023)	Amendment to clarify the definition of accounting estimates, i.e. monetary amounts recognized in the financial statements that are subject to measurement uncertainty. The implementation of the change will not have a significant impact on the financial statements of the Group.
IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (the financial year starting on or after 1 January 2023)	Amendment specifies the accounting requirements for income tax and possible exemption from recognising deferred tax. The amendments clarify that the exemption does not apply to transactions such leases and decommissioning obligations i.e. transactions for which simultaneously are recognise both an asset and a liability. The application of the amendment will not have an impact on the financial statements of the Group.
IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (the financial year starting on or after 1 January 2023)	Analysis undertaken by the Group shows that the implementation of the change will not have a significant impact on the financial statements of the Group.



Published standards and interpretations that were issued by 31 December 2022, but were not approved by the European Union as at 31 December 2022 and were not previously adopted by the Group:

Change (expected IASB effective date provided for in the parentheses)	Influence on the Group financial statements
IAS 1 Presentation of financial statements: <ul style="list-style-type: none">classification of financial liabilities as Current or Non-current Date,deferral of the application date andnon-current Liabilities with Covenants (the accounting year starting on 1 January 2024)	The classification of financial liabilities as non-current 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 (covenants) for the implementation of such a prolongation as at the balance sheet date. The amendments require also to disclose the information about these covenants in the notes to the financial statements. The implementation of the amendment will not affect the financial statements of the Group.
IFRS 16 Lease: Lease liability in Sale and Leaseback (the financial year starting on or after 1 January 2024)	Analysis undertaken by the Group shows that the implementation of the change will not have an impact on the financial statements of the Group.

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

2. Going-concern

Consolidated financial statements of the ING Bank Śląski S.A. Capital Group for the period from 1 January 2022 to 31 December 2022 has been prepared on the assumption that the Group will continue as a going concern for at least 12 months from the date of publication, i.e. from 17 March 2023. As at the date of signing the consolidated financial statements, the Management Board of the Bank does not find any facts or circumstances that would indicate any threat to the Group's ability to continue as a going concern within 12 months from the date of publication as a result of intentional or forced discontinuation or significant limitation of the Group's current operations.

3. Financial statements scope and currency

These annual consolidated financial statements of the ING Bank Śląski S.A. Capital Group for the period from 1 January 2022 to 31 December 2022 contains data of the Bank and its subsidiaries and associates (together referred to as the "Group").

These annual consolidated financial statements have been prepared in Polish zlotys ("PLN"). All values, unless indicated otherwise, are rounded to the nearest million zlotys with one decimal place. As a result, there may be instances of mathematical inconsistency in the totals or between individual notes.

4. Reporting period and comparable data

Annual consolidated financial statements of the ING Bank Śląski S.A. Capital Group covers the period from 1 January 2022 to 31 December 2022 and includes comparative data:

- for the consolidated statement of financial position as at 31 December 2021,
- for items from the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 January 2021 to 31 December 2021.

5. 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 2022.

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

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

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

III. Significant accounting principles

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

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



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

1. Basis for preparation of consolidated financial statements

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

2. Professional judgment

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

2.1. Deferred tax assets

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

2.2. Classification of leases

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

2.3. Classification of financial assets

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

13.2. Classification of financial assets.

3. Accounting estimates

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

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

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

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

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

3.1. Estimation of expected credit losses for financial assets and impairment of non-current assets

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 Estimation of expected credit losses for financial assets

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

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

To determine impairment (or reverse it) in the ISFA (Individually Significant Financial Assets) portfolio, the present value of expected future cash flows has to be calculated. The amount of the future cash flows is determined among



others taking account information about the current and forecasted economic standing of the borrower, the forecast value of the recovery amount from collateral of the credit exposure and the macroeconomic factors.

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

Macroeconomic factors

Credit risk models for the purposes of IFRS 9 were built on the basis of historical relationships between changes in economic parameters (e.g. GDP or interest rates) and their subsequent effect on the implementation of changes in the level of credit risk (PD/LGD). Until the end of 2019, changes in macroeconomic forecasts were implemented relatively slowly, smoothly moving from one phase of the cycle to another, without drastic and shock events changing the macroeconomic situation. The current economic situation caused, among others, by the Covid-19 pandemic and the war in Ukraine has completely different characteristics - a sudden increase in interest rates, inflation, disruption of supply chains, further reduction of GDP forecasts. In addition, due to the effect of the aid programs for mortgage loans, the effect of changing macroeconomic forecasts was softened in relation to what would be shown by the macroeconomic indicators alone.

As at 31 December 2022, the Group revised the forecasts of macroeconomic ratios. Macroeconomic assumptions used to determine expected credit losses are based on forecasts prepared by the Bank's Macroeconomic Analysis Office, supplemented with management adjustments where, in the opinion of the management, recent economic events have not been fully captured.

Changing the criteria for a significant increase in credit risk

In 2022, the Group updated the premises of a significant increase in credit risk, resulting in the classification of exposures to Stage 2, in particular, a three-fold increase in the PD parameter from the moment of granting the exposure was introduced as one of the premises, and the limiting conditions for the presence of a client/exposure on the watch list were removed (i.e. all exposures from the watch list are treated as meeting the premise of a significant increase in credit risk). The estimated impact of introducing the above-mentioned changes in the premises include the reclassification of approximately PLN 2.7 billion of exposures from Stage 1 to Stage 2 and an increase in provisions for expected credit losses by approximately PLN 15.0 million.

Management adjustments

In times of heightened volatility and uncertainty, where portfolio quality and the economic environment are changing rapidly, models are undermined in their ability to accurately predict losses. To mitigate model risk,

additional adjustments can be made to address data quality issues, model issues or expert opinions. They also include adjustments resulting from overestimation or underestimation of allowances for expected credit losses by IFRS 9 models.

The current surge in inflation and interest rates has not occurred in the last few years. Therefore, the historical correlation of risk parameters (PD in IFRS models) with macroeconomic parameters does not fully reflect the current credit risk of the portfolios. At the same time, as a result of backtests of models for the retail portfolio and for the portfolio of corporate clients, excessive conservativeness of LGD models for impaired exposures was identified which results of recovery period used for LGD assessment.

The introduction of management adjustments at the end of 2022 addressing the above-mentioned issues resulted in a decrease in the allowance for expected credit losses by PLN 4.7 million for the portfolio of retail clients (including PLN reversed 113.8 million due to excessive conservativeness of the LGD model and PLN recognised 109.1 million for an adjustment related to the insufficient historical correlation of risk parameters with macroeconomic parameters, which have recently changed rapidly due to inflation and changes in interest rates) and by PLN 70.5 million for the portfolio of corporate clients (including reversed 188.0 PLN million due to excessive conservativeness of the LGD model and PLN recognised 117.5 million due to an adjustment related to insufficient historical correlation of risk parameters with macroeconomic parameters, which have recently changed rapidly due to inflation and changes in interest rates).

In addition, the observed negative changes in the economy related to the war in Ukraine, in particular the disruption of supply chains, increases in energy prices and labor shortages, in the Group's opinion, are not sufficiently covered by the current models for corporate clients. As a consequence, the Group conducted an analysis of the portfolio of corporate clients in terms of the risk of future debt servicing problems and decided to increase the provision for expected credit losses for this portfolio by PLN 84.3 million at the end of 2022.

The above management adjustments did not affect the classification of exposures to Stages presented in these financial statements.

On 29 July 2022, a statutory aid program was introduced allowing customers with mortgage loans in PLN to suspend 4 installments in 2022 and 4 installments (one per quarter) in 2023 (credit holidays). Due to the specificity of PD models, which use information on behavior in accounts (in particular in terms of timely repayments), model parameters may be underestimated in relation to the actual situation of the client. In connection with the above, the impairment loss was adjusted and part of the exposure portfolio was reclassified to Stage 2 (customers with arrears on other products or with an uncertain economic situation, e.g. with a high DSTI ratio, meaning a high ratio of debt servicing cost to income). As a consequence, the Group decided to increase the allowance for expected



credit losses for the mortgage loan portfolio by PLN 25.0 million at the end of 2022 and reclassified PLN 3.7 billion of exposures to Stage 2.

Split of management into stages and into corporate and retail segment was presented in note 21.2. *Quality of credit portfolio*.

Criteria of significant increase in credit risk, the methodology of estimating expected credit losses and the related accounting rules were described in 13.12. *Expected credit losses*.

Thresholds used to identify a significant increase in credit risk

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

Thresholds of PD parameters increase in the lifetime of exposures in relation to PD at origination which indicate significant increase in credit risk are established for models based on assumed methodology. At the end of 2022 and 2021 these triggers were as follows:

	Strategic clients portfolio	Corporate sales network portfolio	Strategic clients portfolio	Corporate sales network portfolio	Strategic clients portfolio
Relative threshold	1	1	0.5	0.7	1
Absolute threshold	100pb	250pb	75pb	350pb	100pb

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

Relative threshold – indicates the maximum measure of the relationship between the PD as at the reporting date and the PD from the initial recognition of the exposure, taking into account the scaling factor determined at the level of a particular exposure, based on the PD from the initial recognition, beyond which the asset is classified to Stage 2.

In addition, in the third quarter of 2022, a new condition for identifying a significant increase in credit risk was added – a three-fold increase in the PD parameter from the moment of granting the exposure.

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

Sensitivity analysis of expected credit losses on assumed PD threshold

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, as at 31 December 2022, respectively lower expected losses for assets in Stages 1 and 2 by approximately PLN 290 million (including PLN 200 million for the corporate portfolio and PLN 90 million for the retail portfolio) or higher by approximately PLN 840 million (respectively PLN 440 million for the corporate portfolio and PLN 400 million for the retail portfolio).

Estimates made as at 31 December 2021 showed hypothetical expected losses lower for assets in Stages 1 and 2, respectively, by approx. PLN 190 million (including PLN 120 million for the corporate portfolio and PLN 70 million for the retail portfolio) or higher by approx. PLN 880 million (respectively PLN 370 million for the corporate portfolio and PLN 510 million for the retail portfolio).

Macroeconomic forecasts and probability weights applied to each of macroeconomic scenarios

Below are presented the macroeconomic forecasts of key factors adopted as at 31 December 2022 and 31 December 2021 and the deviations of expected losses in the upside, baseline and negative scenarios from the reported expected losses, weighted by the probability of the scenarios - broken down into corporate, retail and for the entire loan portfolio. In 2021, the analysis assumed that the time horizon for calculating the expected losses of 12 months or the entire lifetime of the exposure, respectively, would remain unchanged. In 2022, the analysis took into account changes in the time horizon of expected losses resulting from the macroeconomic scenarios used in the analysis. The presented deviations from reported losses do not take into account the impact of management adjustments described earlier. The macroeconomic assumptions used to determine these deviations for the baseline scenario are based on forecasts prepared by the Bank's Macroeconomic Analysis Office, with forward curves as at the end of the year adopted for interest rates.

The tables on the next pages present the results of the analysis of changes in exposure in Stages and changes in the coverage of provisions jointly for the entire loan portfolio and separately for the corporate and retail portfolios. The results of the analysis for 2021 do not take into account changes in the time horizon of expected losses resulting from the macroeconomic scenarios used in the analysis.



Both for the entire loan portfolio and its corporate and retail parts, the selective application of the negative scenario with a weight of 100% results in a significant increase in the level of provisions in all Stages (1/2/3). The average increase in the write-down on the entire portfolio, on a consolidated basis, is approximately 21% compared to the averaged scenario used to calculate the write-offs for 2022. The increase in write-downs in this scenario is caused mainly by a drastic decline in GDP and a moderate increase in the unemployment rate. The decrease in the interest rate expected in this scenario (from 8% to approximately 5% over a 3-year horizon) reduces the credit burden of customers and, as a result, partially mitigates the effect of the decline in GDP.

2022

Total portfolio

		2023	2024	2025	Expected losses weighted by probability – deviation from losses reported in %		Change in the share of Stage 2 in relation to the entire portfolio in %	Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)		
					Total	by Stages			Total	by Stages	
Upside scenario	GDP	4.2%	4.3%	5.2%	-9%	Stage 1	-26%	-17%	20%	2,356.9	Stage 1 432.7 Stage 2 833.0 Stage 3 1,091.1
	Unemployment	2.1%	2.2%	1.8%		Stage 2	-16%				
	Real estate price index	2.1%	3.9%	5.0%		Stage 3	-2%				
	3 months' interest rate	10.2%	10.2%	9.9%							
Baseline scenario	GDP	1.5%	3.3%	3.5%	-5%	Stage 1	4%	-17%	60%		
	Unemployment	3.1%	2.9%	2.8%		Stage 2	-20%				
	Real estate price index	0.3%	2.5%	3.2%		Stage 3	0%				
	3 months' interest rate	8.0%	7.3%	7.1%							
Negative scenario	GDP	-2.8%	1.1%	1.5%	21%	Stage 1	17%	104%	20%		
	Unemployment	4.6%	5.9%	6.9%		Stage 2	63%				
	Real estate price index	-5.1%	0.6%	1.2%		Stage 3	3%				
	3 months' interest rate	6.7%	5.4%	4.6%							

Similar results in terms of the impact of macroeconomic variables can be observed in the case of the 100% positive scenario.

If a 100% weighting was applied to the baseline scenario, there would be a decrease in provisions by approximately 5% for the entire portfolio (4% for the corporate portfolio and 6% for the retail portfolio).

2021

Total portfolio

		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in %		Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)				
					Total	by Stages		Total	by Stages			
Upside scenario	GDP	6.6%	6.0%	5.5%	-12%	Stage 1	-36%	20%	2,102.7	Stage 1 316.2 Stage 2 375.1 Stage 3 1,411.4		
	Unemployment	1.9%	1.9%	1.8%		Stage 2	-23%					
	Real estate price index	7.8%	6.3%	6.5%		Stage 3	-4%					
	3 months’ interest rate	3.0%	3.0%	3.0%								
Baseline scenario	GDP	4.5%	4.2%	3.4%	-3%	Stage 1	-15%	60%				
	Unemployment	2.8%	2.6%	2.6%		Stage 2	-4%					
	Real estate price index	2.4%	2.4%	2.4%		Stage 3	0%					
	3 months’ interest rate	3.9%	3.5%	3.3%								
Negative scenario	GDP	-0.5%	2.7%	1.7%	13%	Stage 1	60%	20%				
	Unemployment	4.2%	5.6%	6.9%		Stage 2	20%					
	Real estate price index	0.3%	2.5%	2.5%		Stage 3	2%					
	3 months’ interest rate	2.2%	1.8%	1.7%								



2022

Corporate portfolio

		2023	2024	2025	Expected losses weighted by probability – deviation from losses reported in %		Change in the share of Stage 2 in relation to the entire portfolio in %	Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)	
					Total	by Stages			Total	by Stages
Upside scenario	GDP	4.2%	4.3%	5.2%	-13%	Stage 1 -45%	-20%	20%	1,316.4	Stage 1 237.3 Stage 2 535.3 Stage 3 543.7
	Unemployment	2.1%	2.2%	1.8%		Stage 2 -20%				
	Real estate price index	2.1%	3.9%	5.0%		Stage 3 -2%				
	3 months' interest rate	10.2%	10.2%	9.9%						
Baseline scenario	GDP	1.5%	3.3%	3.5%	-4%	Stage 1 -15%	-7%	60%		
	Unemployment	3.1%	2.9%	2.8%		Stage 2 -6%				
	Real estate price index	0.3%	2.5%	3.2%		Stage 3 0%				
	3 months' interest rate	8.0%	7.3%	7.1%						
Negative scenario	GDP	-2.8%	1.1%	1.5%	32%	Stage 1 29%	129%	20%		
	Unemployment	4.6%	5.9%	6.9%		Stage 2 90%				
	Real estate price index	-5.1%	0.6%	1.2%		Stage 3 3%				
	3 months' interest rate	6.7%	5.4%	4.6%						

Retail portfolio

		2023	2024	2025	Expected losses weighted by probability – deviation from losses reported in %		Change in the share of Stage 2 in relation to the entire portfolio in %	Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)			
					Total	by Stages			Total	by Stages		
Upside scenario	GDP	4.2%	4.3%	5.2%	-4%	Stage 1 -5%	-4%	20%	1,040.5	Stage 1 195.4 Stage 2 297.7 Stage 3 547.4		
	Unemployment	2.1%	2.2%	1.8%		Stage 2 -10%						
	Real estate price index	2.1%	3.9%	5.0%		Stage 3 -2%						
	3 months' interest rate	10.2%	10.2%	9.9%								
Baseline scenario	GDP	1.5%	3.3%	3.5%	-6%	Stage 1 25%	-55%	60%				
	Unemployment	3.1%	2.9%	2.8%		Stage 2 -42%						
	Real estate price index	0.3%	2.5%	3.2%		Stage 3 -1%						
	3 months' interest rate	8.0%	7.3%	7.1%								
Negative scenario	GDP	-2.8%	1.1%	1.5%	8%	Stage 1 4%	9%	20%				
	Unemployment	4.6%	5.9%	6.9%		Stage 2 21%						
	Real estate price index	-5.1%	0.6%	1.2%		Stage 3 4%						
	3 months' interest rate	6.7%	5.4%	4.6%								

2021

Corporate portfolio

		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in %			Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)				
					Total	by Stages			Total	by Stages			
Upside scenario	GDP	6.6%	6.0%	5.5%	-18%	Stage 1	-55%	20%	1,180.6				
	Unemployment	1.9%	1.9%	1.8%		Stage 2	-30%						
	Real estate price index	7.8%	6.3%	6.5%		Stage 3	-5%						
	3 months' interest rate	3.0%	3.0%	3.0%									
Baseline scenario	GDP	4.5%	4.2%	3.4%	-5%	Stage 1	-25%	60%				Stage 1	206.2
	Unemployment	2.8%	2.6%	2.6%		Stage 2	-6%					Stage 2	232.5
	Real estate price index	2.4%	2.4%	2.4%		Stage 3	0%					Stage 3	741.9
	3 months' interest rate	3.9%	3.5%	3.3%									
Negative scenario	GDP	-0.5%	2.7%	1.7%	23%	Stage 1	100%	20%					
	Unemployment	4.2%	5.6%	6.9%		Stage 2	29%						
	Real estate price index	0.3%	2.5%	2.5%		Stage 3	2%						
	3 months' interest rate	2.2%	1.8%	1.7%									

Retail portfolio

		2022	2023	2024	Expected losses not weighted by probability – deviation from losses reported in %			Weight assigned to the scenario to determine the reported expected losses	Reported expected losses (collective assessment in Stage 1, 2 and 3)					
					Total	by Stages			Total	by Stages				
Upside scenario	GDP	6.6%	6.0%	5.5%	-5%	Stage 1	-10%	20%	922.1	Stage 1	110.0			
	Unemployment	1.9%	1.9%	1.8%		Stage 2	-14%					Stage 2	142.6	
	Real estate price index	7.8%	6.3%	6.5%		Stage 3	-2%							Stage 3
	3 months' interest rate	3.0%	3.0%	3.0%										
Baseline scenario	GDP	4.5%	4.2%	3.4%	0%	Stage 1	-1%	60%		922.1	Stage 1	110.0		
	Unemployment	2.8%	2.6%	2.6%		Stage 2	-1%						Stage 2	142.6
	Real estate price index	2.4%	2.4%	2.4%		Stage 3	0%							
	3 months' interest rate	3.9%	3.5%	3.3%										
Negative scenario	GDP	-0.5%	2.7%	1.7%	2%	Stage 1	3%	20%		922.1	Stage 1	110.0		
	Unemployment	4.2%	5.6%	6.9%		Stage 2	6%						Stage 2	142.6
	Real estate price index	0.3%	2.5%	2.5%		Stage 3	2%							
	3 months' interest rate	2.2%	1.8%	1.7%										



3.1.2 Impairment of property, plant and equipment and intangible assets

The assessment in this respect is based on the estimation of the recoverable value of the asset, which is the value in use or the value of sales less direct costs of sale, depending on which of the above-mentioned values at the time of the review is higher.

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

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

The relevant recording rules were delineated in Chapter III. *Significant accounting principles*, in item 14.4. *Impairment of other non-financial assets*.

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

3.2. Deferred tax asset for unused tax loss

The Group recognizes a deferred tax asset for deductible temporary differences and unsettled tax losses to the extent that it is probable that taxable profit will be available against which the deductible differences can be offset and tax losses settled. Based on the forecast of the Group's tax results for the years 2023-2026, it was estimated that the Group will generate sufficient taxable income to reduce the tax base by the full amount of the tax loss. Therefore, the Group recognized the full amount of the tax loss in the deferred tax asset. At the end of 2022, the deferred tax asset related to unsettled tax losses amounted to PLN 1,038.1 million (PLN 544.5 million at the end of 2021).

3.3. Measurement of financial instruments not quoted in active markets

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

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

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

3.4. Provisions for retirement and pension benefit

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

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

The tables below show the sensitivity of the model to the values of each assumption as at 31 December 2022 and 31 December 2021. The value of pension provisions recognised in the Group's books as at 31 December 2022 and 31 December 2021, respectively, is presented as a base variant.

Assumptions adopted for the valuation:

- discount rate – 7.00%,
- long-term wage growth rate – 5.70%.



2022

	Provisions for retirement and pension benefit (in PLN million)		
	lower bracket	base variant	upper bracket
Discount rate (+ 1% / base variant / – 1%)	67.2	74.0	81.8
Deviation from the assumed dynamics of changes in salaries (- 0.5% / base variant / +0.5%)	70.0	74.0	78.0

2021

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

3.5. Lease period for perpetual contracts

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

The adopted estimates do not have a significant impact on the value of assets under the right of use. As at 31 December 2022, a change in the lease term by 1 year results in a change in the value of assets by approx. PLN 8.5 million (approx. PLN 6 million as at 31 December 2021).

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

As at 31 December 2022 and 31 December 2021 the Group had receivables under CHF-indexed retail mortgage loans. The table below presents the number and individual elements of the gross and net balance sheet value of these receivables.

	2022	2021
number of contracts (in pieces)	3,318	3,920
capital balance	719.0	825.9
the amount of the adjustment to the gross carrying amount	-581.6	-345.6
other elements of the gross carrying amount (interest, ESP)	2.1	2.2
gross balance sheet value	139.5	482.5
impairment for expected credit losses	-16.2	-13.7
number of contracts (in pieces)	123.3	468.8

In addition, with regard to financial assets related to CHF-indexed mortgage loans removed from the statement of financial position, a provision of PLN 53.7 million was recognized as at 31 December 2022 (PLN 37.6 million as at 31 December 2021). The provision for legal risk of mortgage loans indexed to CHF for repaid loans is presented in liabilities under *Provisions* (explanatory note 32).

As at 31 December 2022, the number of mortgage loan agreements indexed to CHF, removed from the statement of financial position, excluding agreements closed as a result of annulment of the agreement by the court or as a result of conversion into PLN loans, in connection with the settlement (more on the settlement program in the note explanatory 32. *Provision*) amounted to PLN 2,373 (2,210 as at 31 December 2021), and the corresponding release amount was PLN 342.9 million (PLN 319.8 million as at 31 December 2021).

As at 31 December 2022, 1,041 court cases were pending against the Bank (755 cases at the end of 2021). As at 31 December 2022, the outstanding principal of CHF-indexed mortgage loans recognized in the statement of financial position to which the proceedings concerned amounted to PLN 251.8 million (PLN 197.8 million at the end of 2021). By 31 December 2022, 198 court cases ended with final court judgments.



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

The following table presents the change in 2022 and 2021:

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

	2022		2021	
	an adjustment to the gross carrying amount for loans recognized in the statement of financial position	provision for loans derecognised from the statement of financial position (repaid)	an adjustment to the gross carrying amount for loans recognized in the statement of financial position	provision for loans derecognised from the statement of financial position (repaid)
Balance at the beginning of the period	345.6	37.6	300.0	11.8
Changes in the period, including:	236.0	16.1	45.6	25.8
provisions recognised/ reversed	271.5	21.4	35.2	13.2
reclassification due to full repayment of loans	-3.0	3.0	-14.3	14.3
utilisation, including from settlements	-82.0	-8.3	-22.2	-1.7
FX differences	49.5	-	46.9	-
Balance at the end of the period	581.6	53.7	345.6	37.6

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

As at 31 December 2022, a portfolio approach was used to estimate the gross carrying amount adjustment related to the portfolio of CHF-indexed mortgage loans included in the statement of financial position and to estimate the provision for CHF-indexed mortgage assets removed from the report resulting from legal risk related to these credits.

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

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

At 31 December 2021, potential losses from legal risk are estimated as a probability-weighted average of the three scenarios – baseline, positive and negative – taking into account the estimated probability of occurrence. The scenarios on which the estimation is based are varied in terms of the expected number of court cases (calculated on the basis of the Bank's professional judgment resulting from the Bank's previous experience and analysis of the current market situation in cases ended with an annulment judgment), as well as the scale of settlements with clients expected by the Bank.

As at 31 December 2022, for the portfolio of CHF-indexed mortgages included in the statement of financial position, the Bank assumes in each scenario that for a specific part of the portfolio, the following may occur:

- 1) cancellation of the loan agreement at the end of the final judicial proceedings or
- 2) conversion of loans from CHF-indexed to PLN-denominated loans (whose interest rate is based on the WIBOR rate) through voluntary settlements.

Calculation of losses in the case of conversion of loans indexed to CHF into loans denominated in PLN through voluntary settlements was made in accordance with current estimates and terms of settlements offered by the Bank together with the right to remuneration. This solution, depending on the scenario, covers from 5% to 15% of the portfolio of CHF-indexed mortgage loans recognized in the statement of financial position.

The calculation of losses in the event of annulment of the loan agreement is based on the assumption that the Bank will return the installments to the customer and return the principal of the loan granted to the Bank by the customer, without taking into account the Bank's recovery of remuneration for the borrower's use of the capital. This solution, depending on the scenario, covers from 64% to 79% of the portfolio of CHF-indexed mortgage loans recognized in the statement of financial position. Positive, baseline and negative scenarios differ in the number of disputes and the size of the portfolio covered by settlements, and the weights of individual scenarios are equal.

As at 31 December 2022, for financial assets already removed from the statement of financial position, the Bank assumes in each of the scenarios that for a specific part of the portfolio, the loan agreement may be invalidated



after the end of final court proceedings. The calculation of losses in the event of annulment of a loan agreement is analogous to the one in the case of the portfolio of CHF-indexed mortgage loans recognized in the statement of financial position. This solution, depending on the scenario, covers from 20% to 30% of financial assets already removed from the statement of financial position. Positive, baseline and negative scenarios differ in assumptions regarding the number of disputes, and the weights of individual scenarios are equal.

The change in the estimate due to the adjustment of the gross carrying amount for mortgage loans indexed to CHF recognized in the statement of financial position and the provision for financial assets already removed from the statement of financial position in 2022 compared to their balance as at 31 December 2021 resulted, among others, from from an increase in the assumed number of disputes ending in annulment of the agreement and a decrease in the expected number of settlements, and an increase in the CHF/PLN exchange rate. The change in the assumption regarding the lack of consideration of remuneration for the use of capital also had a significant impact.

The main source of uncertainty for the estimates described above is the number of disputes and the willingness of customers to conclude settlements in accordance with the program offered by the Bank.

At 31 December 2022:

- change in the share of the portfolio of loans covered by voluntary settlements by +/- 5 p.p. at the expense of the share of the portfolio of loans not affected by the loss, would result in a change in the level of adjustment of the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position by +/- PLN 21 million (compared to +/- PLN 21 million as at 31 December 2021),
- change in the share of the loan portfolio affected by the cancellation of the loan agreement by +/- 5 p.p. at the expense of the share of the portfolio of loans not affected by the loss, it would result in a change in the level of adjustment of the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position by PLN +/- 38 million (compared to PLN +/- 43 million as at 31 December 2021),
- change in the share of the portfolio of loans covered by voluntary settlements at the expense of the share of the portfolio of loans affected by the cancellation of the loan agreement by +/- 5 p.p. would result in a change in the level of adjustment to the gross carrying amount for CHF-indexed mortgage loans recognized in the statement of financial position by +/- PLN 18 million (compared to +/- PLN 22 million as at 31 December 2021),
- change in the share of loans removed from the financial statements affected by the cancellation of the loan agreement at the expense of the share of loans removed from the financial statements not affected by the loss by +/- 5 p.p. would result in a change in the legal risk provision for CHF-indexed mortgage loans already

removed from the statement of financial position by PLN +/- 11 million (compared to PLN +/-9 million as at 31 December 2021).

As at 31 December 2022, provisions for expected credit losses for the portfolio of CHF-indexed mortgage loans resulting from the recognition of these loans in Stage 1 amounted to PLN 1.0 million, PLN 8.9 million in Stage 2 and PLN 6.3 million in Stage 3. For comparison, as at 31 December 2021, write-downs resulting from the recognition of the aforementioned loans in Stage 1 amounted to PLN 0.3 million, PLN 5.8 million in Stage 2 and PLN 7.8 million in Stage 3.

3.7. Adjustment of the gross carrying amount of mortgage loans in PLN due to credit moratoria

In 2022, the President of the Republic of Poland signed the law *on crowdfunding for business ventures and assistance to borrowers*. It introduced, among other for borrowers with a mortgage loan in PLN, the option to suspend the repayment of up to 8 monthly mortgage installments - two in each quarter of the second half of 2022 and one in each quarter of 2023 ("moratoria", "credit holidays"). As a result of the change in law, the Group recognized an adjustment to the gross carrying amount of mortgage loans in PLN. The amount of the adjustment, amounting to PLN 1,644.9 million as at 31 December 2022, presented in the line *Impact of adjustment to the gross carrying amount of loans under loan moratoria*, was determined as the difference between the present value of estimated cash flows resulting from loan agreements, taking into account the suspension of installment payments, and the gross current carrying amount of the loan portfolio, taking into account the percentage of customers who will suspend the repayment of installments.

In the second half of 2022, on average 63% of the portfolio of mortgage loans in PLN was covered by credit holidays (in terms of value in relation to the entire portfolio that meets the criteria required to take advantage of credit holidays). The indicator was defined as the average customer interest in holidays based on four periods in which customers could take advantage of credit holidays. As at 31 December 2022, the Group assumed in its estimates that in 2023, customer interest in terms of value would amount to 75% in the first half of the year and 77.5% in the second half of 2023.

The estimated percentage of customer interest is the main parameter that affects the value of the adjustment. Change in the estimated percentage of customers by +/- 5 p.p. throughout 2023 would result in a change in the amount of the adjustment by approximately +/- PLN 60 million.

At the end of 2022, mortgage loans in PLN covered by credit holidays in more than 87% (in terms of value) were in Stage 1.



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

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

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

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

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

- Refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Group estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision was estimated based on the assumptions regarding the number of customers who can submit complaints to the Group and the sum of commission on overpaid loans. In 2019 the Group created PLN 17.1 million provisions in this respect. As at 31 December 2022, there was no change in estimates with regard to commission refunds made on the complaint path. An increase or decrease in the number of complaints by 10% would result in an increase or decrease in the provision by PLN 1.7 million, respectively. As at 31 December 2022, the value of the provision was PLN 6.5 million (7.4 million as at 31 December 2021).
- With respect to prepayments made from 11 September 2019, the Group returns the commissions charged after the customer repays the loan earlier proportionally. These revenues are recognised using the effective interest rate method, which has a faster rate of revenue recognition than the straight-line method used to calculate returns. In order to properly take into account the impact on the valuation of receivables and the financial result the Group has estimated the difference between accounting for revenue using the effective

rate method and the straight-line method based on expected commission returns using historical data on prepayment profiles of loans with different maturities. In 2022, the gross value of receivables from consumer loans and mortgage loans measured at amortized cost increased by PLN 5.0 million to the total amount of PLN 23.8 million, decreasing the gross value. For comparison, in 2021 this value has not changed.

4. Consolidation policies

4.1. Subsidiaries

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

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

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

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

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

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

If the control ceases, the Bank:

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

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



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

4.2. Associates

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

Investments in associates are initially recognised at purchase price and then accounted for using the equity method. The 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. Transactions eliminated in consolidation process

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

5. Foreign currency

5.1. The functional currency and the presentation currency

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

5.2. Transactions in foreign currency

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

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

6. Net interest income

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

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

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

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

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



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

Interest income / expense on derivatives designated as hedging instruments in hedge accounting including interest income/expense from settlements of the price alignment amount resulting from the service in accordance with the settled-to-market approach are presented in *Net interest income*. The justification for the change in the presentation of the price adjustment amount is described in detail in the chapter [IV. Comparability of financial data](#).

7. Commission income and costs

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

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

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

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

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

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

- the commissions described as the commissions adjusting the effective interest rate for the loans for whose commissions no cash flows can be estimated (first of all, current account overdrafts, working capital loans and revolving loans),

- commissions for issuing, confirming or prolonging the time and increasing the amount of guarantees or letters of credit,
- commissions for multi-facility agreements,
- commissions for the loan or limit/ overdraft granted to start another lending year.

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

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

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

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

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

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

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



Income and costs under bancassurance commission

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

10. Net (loss)/income on hedge accounting

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

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

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

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

12. Lease contracts and factoring services

12.1. 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 where to 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.

12.2. 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 and commissions included in the calculation of the effective interest rate are recognized in the income statement under *Net interest income*, and other commission income under *Net commission income*.

13. Financial assets and liabilities

13.1. 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.

13.2. Classification of financial assets

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

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

Financial assets measured at amortised cost

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

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

Debt financial assets measured at fair value through other comprehensive income

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

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

Equity instruments measured at fair value through other comprehensive income

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

Financial assets measured at fair value through profit or loss

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



Business model assessment

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

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

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

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

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

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

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

The Group took the following assumptions:

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

Assessment of cash flow characteristics

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

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

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

In particular the Group verifies the following conditions:

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



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

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

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

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

13.3. Classification of financial liabilities

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

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

Financial liabilities measured at fair value through profit or loss

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

Financial liabilities measured at amortised cost

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

Financial guarantees

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

13.4. Derecognition

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

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

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

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

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

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

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

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



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

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

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

13.5. Modification of contractual cash flows

When the terms of the loan and cash loan agreements are renegotiated and contractual cash flows of a financial asset are modified, the Group assesses if such modification was significant and should result in the extinguishment of that financial asset and recognition of a new financial asset. A financial asset is extinguished if either the qualitative or the quantitative criteria are met.

Qualitative criteria

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, or
- change of the legal form/type of the financial instrument or
- change of loan currency unless it was included in contractual terms, or
- the modified financial asset does not meet the SPPI test, i.e. the cash flows from the financial asset do not represent, on specified dates, solely payments of principal and interest on the principal amount outstanding, or
- change in interest rate from fixed to floating or vice versa for financial assets that are not credit-impaired, or
- change of the financial instruments from revolving to non-revolving or vice versa for financial assets that are not credit-impaired, or
- increase of the exposure amount of 50% or an extension of the tenor of the facility/instrument by 50%, if the present value of cash flows under the modified terms, discounted at the original effective interest rate, is at

least 10% different from the discounted present value of the remaining cash flows of the original agreement, discounted using the original effective interest rate.

Quantitative trigger

A financial asset is deemed to be extinguished when the present value of cash flows under the modified loan terms, discounted at the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original agreement, discounted using the original effective interest rate.

For modifications that do not lead to a derecognition of the financial asset, the net present value difference (using the original effective interest rate) between the cash flows of the asset before and after modification is recognised in the statement of profit and loss.

13.6. Measurement

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

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

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value, in particular a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument,
- financial liabilities resulting from the transfer of a financial asset which do not qualify for derecognition or which are recognised on a continuing involvement basis,
- commitments to provide a loan at a below-market interest rate which it shall subsequently measure it at the higher of:
 - the amount of impairment for expected credit losses, and
 - the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with principles of IFRS 15,
- contingent consideration recognised by the Group acting as an acquirer in a business combination to which IFRS 3 applies, which it shall subsequently be measured at fair value through profit or loss.

If the estimates of payments or inflows change (excluding immaterial modifications and changes in estimates of expected credit losses), the Group adjusts the gross carrying amount of the asset or the amortised cost of the



financial liability (or group of financial instruments). For this purpose, the Group translates the gross carrying amount of a financial asset or the amortised cost of a financial liability as the present value of estimated future contractual cash flows that are discounted at the original effective interest rate of the financial instrument (or the credit-adjusted effective interest rate for purchased or credit-impaired financial assets created) or, where applicable, the revised effective interest rate).

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

Granted financial guarantees are measured at the higher of:

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

13.7. Gains and losses resulting from subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

13.8. Cost basis of debt and equity securitie

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.

13.9. Derivative instruments and hedge accounting

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

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

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

default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Group insolvency are calculated by analogy.

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

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

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

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

13.9.1 Hedge accounting

The Group applies the hedge accounting requirements of IAS 39.

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

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

- formal documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Group. The Group specifies the manner for assessing the effectiveness of the hedging instrument in offsetting changes in cash flows due to the hedged transaction in terms of mitigation of risk the Group hedges against,



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

Fair value hedge

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

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

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

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

Cash flow hedge

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

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

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

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

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

13.9.2 Derivative instruments not qualifying as hedging instruments

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

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



13.10. Offsetting financial instruments

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

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

13.11. 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.

13.12. Expected credit losses

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

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

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

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

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

The Group applies the definition of exposures in default status, impaired exposures and non-performing exposures in accordance with regulatory requirements. A debtor or an exposure is assessed as default is also identified as an impaired and non-performing exposure.

Three stage approach

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

- Stage 1 includes performing exposures that have not had a significant increase in credit risk since initial recognition. Expected credit loss shall be measured based on 12-month expected credit losses (or till maturity date if such exposures will expire in less than 12 months).
- Stage 2 includes performing exposures that have had a significant increase in credit risk since initial recognition. Expected credit loss is calculated on the basis of anticipated losses throughout the lifetime, or from the reporting date until the remaining maturity.
- Stage 3 – impaired exposures, which means non-performing loans. Expected credit loss shall be measured based on lifetime expected credit losses and the probability of default (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,
- threefold increase in PD
- the asset has an internal rating of 18 or 19
- customer service by a corporate restructuring unit,
- forbearance status,
- collective assessment of significant increase in credit risk of an entire portfolio
- more than 30 days past due.

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

- absolute threshold – indicates maximum difference between PD at the reporting date and PD at initial recognition which triggers classification to Stage 2,
- relative threshold – indicates the maximum measure of the relationship between the PD as at the reporting date and the PD from the initial recognition of the exposure, taking into account the scaling factor determined at the level of a particular exposure, based on the PD from the initial recognition, beyond which the asset is classified to Stage 2.

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

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

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

Evidence of impairment

The evidence of impairment is:

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

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

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



- for retail credit exposure, over 3-month arrears in repayment of due liabilities under the loan with a one-off repayment of the entire mobilised capital at the end of the loan period,
- for corporate credit exposures – making a decision to recover debts as part of the debt collection strategy,
- questioning the balance sheet credit exposure by the client in court proceedings.

Impairment triggers

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

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

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

- 2) negative cash flows from operating activities in three consecutive annual accounting periods (from the cash flow statement, and if it is not prepared, then from the simplified cash flow statement),
 - 3) revenues from core activities decrease significantly (over 50% year on year based on the results of annual accounting periods) or revenues from core activities decrease (over 30% year on year based on the results of annual accounting periods) and, at the same time, the ratio of debt to EBITDA (earnings before interest, taxes, depreciation and amortization, profit before deduction of interest on interest-bearing liabilities, taxes and depreciation) is greater than 4 or EBITDA is less than 0 (if the contract contains a different definition of the trigger, the event is a trigger for impairment, if it is exceeded level 4 as defined in the contract. If the contract indicates the level of the ratio > 4, then we identify the triggers for impairment when exceeding the level specified in the contract),
 - 4) Negative EBITDA in two consecutive annual financial periods,
 - 5) the implementation of financial projections by the client negatively differs from the range approved by the Group by at least 20%, which leads to a significant breakdown of financial ratios,
 - 6) the events described in points "1" to "5" occurred during the accounting year, provided that they occurred in the amounts considered significant and the Group expects that the situation will not improve until the end of the annual accounting period and this situation may result in failure to repay the financial asset or its delay,
 - 7) active enforcement to client accounts kept in the Group, if the oldest active enforcement order persists for more than 90 days and the total amount of active titles exceeds PLN 100 thousand; PLN for customers of the corporate sales network or PLN 500 thousand for strategic clients,
 - 8) unsettled claims under guarantees granted by the Group (lack of customer funds), if the customer's overdue liability to the Group due to the payment of the guarantee by the Group persists for more than 45 days from the date of payment of the guarantee claim,
 - 9) termination of a loan agreement with another bank of significant value,
- a material breach of contractual terms by the customer, which may have a negative impact on future cash flows from a given financial asset (if there has been a material breach of contractual terms, but the Group, after identifying and assessing the causes and effects of such breach, accepted them (temporarily or permanently) or changed, such an event is not treated as a trigger for impairment),
 - unknown whereabouts of the client, resulting in a lack of representation in contacts with the Group and undisclosed assets of the client,
 - crisis of the sector in which the client operates, combined with the borrower's weak position in a given sector,



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

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

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

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

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

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

- failure to meet a minimum of three debt repayment arrangements within the current period of arrears,

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

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

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

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

- assessment of the customer's potential to repay all credit obligations to the Group in compliance with the agreement and a documented assessment,



- if no default or impairment is identified, a written justification for leaving the client in the performing portfolio should be prepared,
- if as a result of the assessment a situation of default or impairment was identified – reclassification of the client to the portfolio of non-performing exposures.

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

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

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

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

Measurement of expected credit losses

In order to measure the expected credit losses under collective approach, the Group uses the adjusted to IFRS 9 requirements the existing regulatory capital models (PD, LGD, EAD) developed for the Advanced Internal Ratings Based (AIRB) approach. The models of risk parameters for the purpose of IFRS 9 follow the same structure as the models for regulatory capital purposes, however the manner of estimating the specified value of PD, LGD and EAD is

adjusted to IFRS 9 requirements, in particular it includes reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions. The model's parameters were calibrated in accordance with the “point-in-time” approach. EAD parameter includes the repayment schedules in accordance with credit agreements.

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

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

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

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

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

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

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



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

The forecast (measurement) of the expected loss is conducted at each point in time in the future depending on the expected future economic conditions at a given point. Based on the data about past events, the Group determined the relation between the observable parameters of expected loss (PD, LGD) and macroeconomic factors as functions, based on which – at predicted macroeconomic factors – Bank computes the predicted parameter values of expected loss in a given year in the future in accordance with forward looking “point in time” approach. The impact of macroeconomic factors on expected credit losses is ensured in the Group by including them in the modelling of particular risk parameters, which enables appropriate selection of factors specific for a given parameter and portfolio type. Selection of appropriate macroeconomic factors constitutes a part of model building process and includes several stages, both expert based that guarantee an economically interpretable relation as well as statistical approach which enables the assessment of their significance and power of relations. The assessment of the adequacy of the impact of macroeconomic factors is part of the overall assessment of the models for determining impairment for expected credit losses as part of the model monitoring performed by the Group.

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

For exposures with a specified final repayment date, the time to maturity is equal to the final repayment date. If the final repayment date exceeds 30 years, the expected loss calculation period is limited to 30 years.

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

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

recognizing collateral are consistent with the CRR requirements. The most important collaterals recognized by the Group include mortgage collaterals (residential and commercial) as well as guarantees and sureties.

The level of LGD which is used for the estimation of the amount of the impairment loss according to the collective method for defaulted exposures (PD = 100%), depends on the period during which the exposure was identified as defaulted. In addition, for corporate clients segment in the field of large and medium-sized companies, the value of the LGD parameter is 100% after at least 78 months of the exposure being in default. In a similar way, regarding the retail clients segment and entrepreneurs, the value of the LGD parameter takes the value of 100% when the following conditions are met:

- the impairment event took place and the objective evidences of the impairment occurs continuously for 47 months from the date of recognition of impairment in relation to entrepreneurs,
- defaulted exposures that belong to the impaired portfolio (POCI),
- the exposures were assessed as credit fraud, i.e. they were registered as a suspicion of credit fraud or reported as a notification of a suspected crime.

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

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

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

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

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

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



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

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

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

The Group applied additional default exit criteria for all Obligors:

- If impairment evidence or indicator of impairment is identified in the probation period which is the source of default/ indicates a high likelihood of non-repayment, the end date of the probation period will be reset and the probation period is re-started until expiry of such evidence/indicator.
- If in the probation period and after the end of the grace period, DPD > 30 occurred, the probation period end date will be reset and the probation period will restart until DPD returns to below 31 days.
- All conditions of exit from default and reversal of impairment should be met also with regard to new exposures to the Obligor, in particular where the previous defaulted and restructured exposures of the Obligor were sold or written off.

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

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

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

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



hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

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

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

13.13. 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 13.5.) due to derecognition of original loan or
- origination of new credit exposure for the client for which other exposures were classified to Stage 3.

Those assets are excluded from the three stage approach described in item 13.12.

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. Property, plant and equipment and intangible assets

14.1. Property, plant and equipment

Own property, plant and equipment

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

Property, plant and equipment, with the exception of land and buildings, are recorded at purchase price or production cost i.e. after initial recognition they are recorded at historical cost less depreciation and impairment.

The historical costs are made up of the purchase price/ production cost and the costs directly related to the purchase of assets.

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

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

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

Fixed assets in leasing

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

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

At the date of commencement of the lease, the Group recognizes assets due to the right to use the assets. The initial valuation of the lease liability is determined by the Group at the present value of future lease payments. Identifying future lease payments requires a lease period to be determined. When determining the lease period, the Group takes into account the irrevocable lease period together with the periods for which the lease can be extended and the periods in which the lease can be terminated. In order to make an assessment, the Group takes into account all relevant facts and circumstances that create an economic incentive to use or not to use these options.



At the start of the lease contract, the Group assesses whether it can be assumed with sufficient certainty that it will benefit the option to extend the lease, or that it will not use the option to terminate the lease. The Group reviews the lease period in order to reassess significant events or circumstances that may affect the estimated length of the lease period. Leasing ceases to be enforceable if both the lessee and the lessor have the right to terminate the lease without the other party's permission, which results in a slight penalty, at the most. For lease contracts concluded for an indefinite period, in which there is a two-sided notice and potentially high costs related to the termination of the contract, the Group estimates the lease period. To determine the discounted value of lease payments, the Group uses the leasing interest rate, and if the rate is not easily available, the Group uses the marginal interest rate. The Group determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which lease contracts and contract maturities are denominated. After the lease commencement date, the carrying amount of the liability:

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

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

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

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

The Group uses the exemption for:

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

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

14.2. Intangible assets

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

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

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

Goodwill

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

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

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

The goodwill recognised in the financial statements of the 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 following conditions are met:

- it is likely that the outlays (taking into account the new version of the software) will result in a significant increase in functionality in relation to the originally assessed performance standard, and
- these costs can be reliably measured and attributed to internally used existing software.

In other cases, costs are recognised in the income statement in the reporting period in which they were incurred.

14.3. Depreciation and amortization charges

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

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

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

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

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

- costs of development of software 3 years
- software licenses 3 years

14.4. Impairment of other non-financial assets

For each balance sheet date, the 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 under *General and administrative expenses*. Impairment losses for cash-generating units reduce the goodwill of the cash-generating units (group of units) in the first place and then reduce proportionally the book value of other assets in the unit (group of units).

Reversing impairment loss

Goodwill impairment loss is not subject to reversal.

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

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



15. Non-current assets held for sale

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

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

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

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

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

16. 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, which is 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 earlier, before reaching the 60-day overdue threshold.

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.

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

17. Provisions

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

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

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

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

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

in the case of a larger population of similar court cases or other legal claims, the probability of an outflow of resources to meet the Group's obligation is measured on a portfolio basis, taking into account the group of obligations as a whole, and the provision is estimated using the expected value method as a probability weighted



average of a few scenarios (most often three: baseline, positive and negative) with different probabilities assigned to each scenario.

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

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

18. Prepayments and deferred income

18.1. Prepayments

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

Deferred costs include primarily provisions for material costs due to services provided for the 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*.

18.2. Deferred income

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

19. Employee benefits

19.1. Benefits under the Act on employee pension programmes

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

19.2. Short-term employee benefits

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

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

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

19.3. Long-term employee benefits

19.3.1 Benefits under the Labour Code regulations

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

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

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

19.3.2 Variable remuneration programme benefits

Variable remuneration benefits to employees that are to be settled in cash are recognised as an expense during the performance period with a corresponding entry of a liability towards employees.

The share-based payment components that are to be settled in cash are recognised as an expense and liability during the performance period (the year for which the employee receives the benefits) based on the benefit's fair value. The fair value is remeasured every balance sheet date until the settlement with the employee, with changes in the fair value recognised as gains or losses in the statement of profit or loss.

The share-based payment components that are to be settled in shares are recognised as an expense during the performance period based on the fair value. The corresponding entry is in equity. The fair value is remeasured at grant date and any changes are recognised in equity.

The fair value of the share-based payment components is determined with reference to the share price and the present value of estimated dividend payments during the deferral period.

20. Equity

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



Share capital

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

Dividends

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

Share premium

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

Accumulated other comprehensive income

Accumulated other comprehensive income is created as a result of:

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

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

Retained earnings

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

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

21. Cash and cash equivalents

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

22. Taxes

22.1. Income tax

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

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

22.2. Deferred income tax

The 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.

22.3. Tax on certain financial institutions

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

22.4. Other taxes

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

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

IV. Comparability of financial data

In these annual consolidated financial statements for the period from 1 January 2022 to 31 December 2022, compared to the consolidated annual financial statements for earlier periods, the Group has made changes to the presentation of individual items in the consolidated income statement.

The changes are as follows:

- Beginning with the consolidated financial statements for the year 2022, the Group added to the profit and loss account the line for the *impact of the adjustment to the gross carrying amount of loans due to credit moratoria*, which is a detailed presentation of interest income. The Group decided to make this change due to the significant share of the said adjustment in total interest income. The adjustment is the result of a change in the law, i.e. the entry into force in 2022 of the act *on crowdfunding for business ventures and assistance to borrowers*. Detailed information on the approach adopted by the Group in estimating the aforementioned adjustment can be found in explanatory note 2. *Net interest income*.
- Due to the interest rate environment, the price alignment amount (PAA) received on derivatives in cash flow hedge accounting relationships has become material. After reviewing the presentation of these amounts, the Group concluded, that the PAA amounts substantively reflect interest income (expense) resulting from amounts previously paid (received) to settle changes in the market value of hedging derivatives. Therefore, the Group moved these amounts from the item *Net (loss)/income on hedge accounting* (from the detailed item *ineffectiveness under cash flow hedges*) to *Interest income* and *Interest expenses* (to specific items *other interest income/cost related to the settlement of valuations of cash flow hedging derivatives*). The comparative financial statements are not adjusted due to the immateriality of these amount in the comparative periods.

V. Notes to the consolidated financial statements

1. Segment reporting

Segments of operation

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

- retail banking segment,
- corporate banking segment.



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

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

Retail banking segment

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

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

Corporate banking segment

Corporate banking area encompasses as follows:

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

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

The service of individual entrepreneurs includes natural persons conducting business activity and partner companies that do not keep full accounting in accordance with the provisions of the Act on accounting, civil partnerships or

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

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

Measurement

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

Geographic segments

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



Income statement by segments

	2022			2021		
	Retail banking	Corporate banking	Total	Retail banking	Corporate banking	Total
Income total	2,555.0	5,141.6	7,696.6	3,275.7	3,591.9	6,867.6
net interest income	1,912.0	3,702.0	5,614.0	2,715.4	2,254.3	4,969.7
net commission income, including:	580.2	1,514.6	2,094.8	558.0	1,286.8	1,844.8
commission income, including:	900.8	1,735.9	2,636.7	850.4	1,474.6	2,325.0
transaction margin on currency exchange	87.8	613.9	701.7	71.7	472.6	544.3
account maintenance fees	112.7	333.9	446.6	116.9	324.3	441.2
lending commissions	25.7	432.7	458.4	25.5	377.3	402.8
payment and credit cards fees	364.2	148.6	512.8	309.7	116.2	425.9
participation units distribution fees	61.2	0.0	61.2	90.4	0.0	90.4
insurance product offering commissions	188.6	34.0	222.6	165.0	34.1	199.1
factoring and lease contracts commissions	0.0	51.3	51.3	0.0	41.2	41.2
other commissions	60.6	121.5	182.1	71.2	108.9	180.1
commission expenses	-320.6	-221.3	-541.9	-292.4	-187.8	-480.2
other income/expenses	62.7	-74.9	-12.2	2.3	50.8	53.1
General and administrative expenses	-2,093.7	-1,548.4	-3,642.1	-1,543.5	-1,421.0	-2,964.5
including depreciation and amortisation	-166.9	-112.4	-279.3	-173.8	-112.5	-286.3
Segment operating result	461.3	3,593.2	4,054.5	1,732.2	2,170.9	3,903.1
impairment for expected credit losses	-292.2	-443.6	-735.8	-78.0	-238.0	-316.0
cost of legal risk of FX mortgage loans	-294.3	0.0	-294.3	-56.4	0.0	-56.4
tax on certain financial institutions	-246.6	-400.3	-646.9	-232.0	-312.7	-544.7
share of profit/(loss) of associates accounted for using the equity method	25.6	0.0	25.6	29.3	0.0	29.3
Gross profit	-346.2	2,749.3	2,403.1	1,395.1	1,620.2	3,015.3
Income tax	-	-	-688.7	-	-	-707.0
Net profit	-	-	1,714.4	-	-	2,308.3
attributable to shareholders of ING Bank Śląski S.A.	-	-	1,714.4	-	-	2,308.3

Assets and liabilities, and net cash flow by segments

	2022			2021		
	Retail banking	Corporate banking	Total	Retail banking	Corporate banking	Total
Assets of the segment	92,863.7	120,521.0	213,384.7	91,852.9	106,365.2	198,218.1
Segment investments in associates accounted for using the equity method	178.9	-	178.9	184.8	-	184.8
Other assets (not allocated to segments)	-	-	3,702.5	-	-	3,251.3
Total Assets	93,042.6	120,521.0	217,266.1	92,037.7	106,365.2	201,654.2
Segment liabilities	110,961.7	92,031.2	202,992.9	106,620.0	78,538.6	185,158.6
Other liabilities (not allocated to segments)	-	-	4,928.9	-	-	2,964.2
Equity	-	-	9,344.3	-	-	13,531.4
Total equity and liabilities	110,961.7	92,031.2	217,266.1	106,620.0	78,538.6	201,654.2
Capital expenditure	154.2	114.0	268.2	76.8	70.8	147.6
Net cash flow from operating activities	3,233.1	-2,533.5	699.6	-794.1	1,765.7	971.6
Net cash flow from operating activities (not allocated to segments)	-	-	2,255.5	-	-	-509.8
Net cash flow from operating activities total	3,233.1	-2,533.5	2,955.1	-794.1	1,765.7	461.8
Net cash flows from investing activities	-509.9	-466.3	-976.2	599.3	629.6	1,228.9
Net cash flows from financing activities	0.0	-306.8	-306.8	0.0	-1,541.1	-1,541.1

**2. Net interest income**

	2022	2021
Interest income, including:	8,111.9	5,432.4
interest income calculated using effective interest rate method, including:	7,162.1	5,431.7
interest on financial instruments measured at amortised cost	6,411.6	5,277.0
interest on loans and other receivables to other banks	397.7	16.7
interest on loans and other receivables to customers	5,320.2	4,818.0
impact of the adjustment to the gross carrying amount of loans due to credit moratoria	-1,644.9	0.0
interest on investment securities	693.7	442.3
interest on investment securities measured at fair value through other comprehensive income	750.5	154.7
other interest income, including:	949.8	0.7
interest income related to the settlement of valuations of cash flow hedging derivatives	946.9	0.0
other interest on loans and other receivables to customers measured at fair value through profit or loss	2.9	0.7
Interest expenses, including:	-2,497.9	-462.7
interest on deposits from other banks	-368.5	-10.6
interest on deposits from customers	-1,583.4	-416.2
interest on issue of debt securities	-22.3	-6.3
interest on subordinated liabilities	-25.7	-26.7
interest on lease liabilities	-8.0	-2.9
other interest cost related to the settlement of valuations of cash flow hedging derivatives	-490.0	0.0
Net interest income	5,614.0	4,969.7

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

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

For 2022, interest income on financial assets in Stage 3 amounted to PLN 133.0 million compared to PLN 73.4 million in 2021.

Impact of adjustments to the gross carrying amount of loans due to credit moratoria

In 2022, the act *on crowdfunding for business ventures and assistance to borrowers* entered into force, introducing, among others, for borrowers with a mortgage loan in PLN, the option to suspend the repayment of up to 8 monthly mortgage installments - two in each quarter of the second half of 2022 and one in each quarter of 2023.

The change in law resulted in the Group recognizing an adjustment to the gross carrying amount of mortgage loans in PLN. Its amount as at 31 December 2022 was PLN 1,644.9 million. Information on the assumptions used to calculate the adjustment can be found in Chapter III. *Significant accounting policies*, in point **3.7. Adjustment of the gross carrying amount of mortgage loans in PLN due to credit moratoria.**

Other interest income/cost related to the settlement of valuations of cash flow hedging derivatives

Starting from 2022, the Group moved the amount of price adjustment (PAA) received from derivatives under cash flow hedge accounting from *the Net (loss)/income on hedge accounting* line to the line *Interest income* and *Interest expense* (to the detailed items of *other interest income/expenses related to the settlement of valuation of cash flow hedging derivatives*). More information on this can be found in the chapter **IV. Comparability of financial data**.

**3. Net commission income**

	2022	2021
Commission income	2,636.7	2,325.0
transaction margin on currency exchange transactions	701.7	544.3
account maintenance fees	446.6	441.2
lending commissions	458.4	402.8
payment and credit cards fees	512.8	425.9
participation units distribution fees	61.2	90.4
insurance product offering commissions	222.6	199.1
factoring and lease contracts commissions	51.3	41.2
brokerage activity fees	58.0	69.4
fiduciary and custodian fees	25.2	26.3
foreign commercial business	43.4	43.6
agency in financial instruments transactions	5.4	4.9
other commission	50.1	35.9
related to assets / liabilities not measured at fair value through profit or loss	2.2	2.9
other	47.9	33.0
Commission expenses	-541.9	-480.2
card fees paid	-296.1	-255.1
commission paid on agency in selling deposit products	-87.0	-84.6
brokerage activity fees	-24.5	-26.9
commission paid on disclosing credit information	-21.6	-18.6
commission paid on cash handling services	-27.6	-24.2
electronic banking services fees	-13.0	-11.9
commission paid on trading in securities	-10.9	-12.1
costs of the National Clearing House (KIR)	-16.4	-13.3
agency in financial instruments transactions	-10.4	-4.8
leasing services	-3.3	-3.0
other commission	-31.1	-25.7
related to assets / liabilities not measured at fair value through profit or loss	-9.4	-7.4
other	-21.7	-18.3
Net commission income	2,094.8	1,844.8

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

- revenues in the total amount of PLN 511.9 million from granting loans, factoring and leasing services (PLN 446.9 million in 2021),
- costs in the total amount of PLN 121.3 million for intermediation in the sale of deposit products, providing credit information and leasing services (PLN 113.6 million in 2021).

Revenues from contracts with customers within the meaning of IFRS 15 amounted to PLN 2,124.8 million in 2022 compared to PLN 1,878.1 million in 2021.

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

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

	2022	2021
FX result and net income on interest rate derivatives, including	-106.0	16.8
FX result	193.1	674.3
currency derivatives	-299.1	-657.5
Net income on interest rate derivatives	93.9	44.0
Net income on debt instruments held for trading	35.4	6.1
Net income on repo transactions	13.5	0.8
Net income on measurement of loans to customers	0.0	0.2
Net income on equity instruments	-4.7	-3.6
Total	32.1	64.3

The result on derivatives includes the net result on trading and fair value measurement of interest rate instruments (FRA, IRS/CIRS, cap options) and currency instruments (swaps, options).

The result on debt instruments includes the net result on trading in government securities and the result on the fair value measurement of these instruments.

As the result on equity instruments for 2022 (similarly to 2021), the result on the sale of shares of one company from the portfolio of financial assets other than those held for trading, measured at fair value through profit or loss, was presented.

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

	2022	2021
Net income on the sale of securities measured at amortised cost	-24.8	2.8
Net income on sale of securities measured at fair value through other comprehensive income and dividend income, including:	26.5	38.4
sale of debt securities	19.7	31.7
dividend income	6.8	6.7
Total	1.7	41.2

Dividend income received in 2022 and 2021 comes from companies whose shares the Group kept as at 31 December 2022 and 31 December 2021, respectively, in its portfolio.

6. Net (loss)/income on hedge accounting

	2022	2021
Net income on hedge accounting	-35.4	-55.9
valuation of the hedged transaction	-527.6	-1 090.2
valuation of the hedging transaction	492.2	1 034.3
Cash flow hedge accounting	-4.0	3.4
ineffectiveness under cash flow hedges	-4.0	3.4
Total	-39.4	-52.5

Starting from 2022, the Group moved the price adjustment amount (PAA) received from derivatives under cash flow hedge accounting from the *Net (loss)/income on hedge accounting* line (from the detailed item: *ineffectiveness under cash flow hedges*) to the line *Interest income* and *Interest expense* (to the detailed item *other interest income/costs related to the settlement of valuations of cash flow hedging derivatives*). More information on this subject can be found in Chapter [IV. Comparability of financial data](#).

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

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

	2022	2021
Sale of other services	4.0	10.0
Net income on disposal of property, plant and equipment and intangible assets	-4.4	-3.1
Banking activity-related compensations and losses	-6.1	-6.4
Other	-0.1	-0.4
Total	-6.6	0.1

**8. General and administrative expenses**

	2022	2021
Personnel expenses, including:	-1,599.4	-1,497.0
wages and salaries, including:	-1,293.5	-1,223.5
variable remuneration programme	-24.6	-51.6
ING Group's incentive programme	-0.1	-0.4
retirement benefits	-6.4	-4.9
employee benefits	-305.9	-273.5
Cost of marketing and promotion	-143.1	-135.6
Depreciation and amortisation, including:	-279.3	-286.3
on property, plant and equipment	-204.6	-203.3
including depreciation of the right to use	-104.1	-106.8
on intangible assets	-74.7	-83.0
Other general and administrative expenses, including:	-1,620.3	-1,045.6
contributions to the Commercial Banks Protection System	-470.7	0.0
IT costs	-329.8	-309.7
obligatory payments to the Bank Guarantee Fund	-227.1	-245.0
obligatory restructuring fund	-172.8	-132.6
bank guarantee fund	-54.3	-112.4
maintenance costs of buildings and real estate valuation to fair value	-118.4	-122.2
advisory and legal services, audit costs	-102.1	-93.8
communication costs	-43.4	-36.3
disputed claims	-40.4	-35.7
transport and representation costs	-36.1	-22.8
costs of the Borrowers Support Fund	-23.7	0.0
fees to the Polish Financial Supervision Authority	-22.1	-19.3
donation	-13.8	-6.5
short-term and low-value lease costs	-12.1	-11.6
other	-180.6	-142.7
Total	-3,642.1	-2,964.5

Contributions to the aid fund of the Commercial Bank Protection System

In 2022, eight Polish banks, including ING Bank Śląski S.A. (participating banks) established the Commercial Bank Protection System. The system is managed by a joint-stock company (Management Unit) established for this purpose, whose share capital was set at PLN 1 million. The Bank's share in the share capital and the total number of votes is 13.0%. On 1 August 2022, the Commercial Bank Protection System was entered into the National Court Register.

An aid fund has been set up in the Managing Unit, to which participating banks contribute cash. The assistance fund may be used to ensure liquidity and solvency for each of its participants (up to the amount of the available aid fund) and to support the forced liquidation of participating and non-participating banks. Payments made by the participants of the protection system to the aid fund constitute tax deductible costs.

In 2022, the Bank contributed PLN 470.7 million to the aid fund. Any further contributions to the aid fund require the unanimous consent of the participating banks, including the Bank.

Obligatory payments to the Bank Guarantee Fund (BFG)

On 26 October 2022, the BFG Council adopted a resolution on lowering the target level of funds of the deposit guarantee scheme in banks to 1.6% of the amount of guaranteed funds in banks and branches of foreign banks covered by the mandatory deposit guarantee scheme. Therefore, the obligatory contribution to the bank guarantee fund, attributable to ING Bank Śląski S.A. for 2022 decreased to PLN 54.3 million compared to PLN 122.2 million for 2021.

Contribution to the Borrowers Support Fund

On 14 July 2022, the President of the Republic of Poland signed the *Act on crowdfunding for business ventures and assistance to borrowers*, which introduced, among other things, the obligation for the banking sector to make an additional payment of PLN 1.4 billion by the end of 2022 to the Borrower Support Fund (FWK). The amount attributable to the Group amounted to PLN 23.7 million.



8.1. Employee benefits

Variable Remuneration Programme

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. Variable remuneration programme benefits to persons holding managerial positions having a material impact on the risk profile of the Group (in accordance with guidelines and Regulation on the risk management system and internal control system, remuneration policy and a detailed method of capital estimation in banks have been granted in one of two programmes:

- A cash-settled share-based payment and cash programme, which operated until mid-2022. In this programme the benefit is granted in two parts:
 - one paid in a fixed amount of cash (no more than 50%), and
 - one paid in cash with the amount of cash based on the price of ING Bank Śląski shares (at least 50%); a cash-settled share-based payment.
- An equity-settled share-based payment and cash programme, which operates from mid-2022. In this programme the benefit is granted in two parts:
 - one paid in a fixed amount of cash (no more than 50%), and
 - one granted as rights to ING Bank Śląski shares (at least 50%); an equity-settled share-based payment.

The variable remuneration programme for any given performance year is settled over a period of up to six years (the deferral period) in tranches. Furthermore, the components that are settled in shares and in cash are subject to a one-year retention period after settlement.

The significant accounting principles applied to variable remuneration programme benefits are included in Chapter III. *Significant accounting principles* in item 19.3.2. *Variable Remuneration Programme benefits*.

The table below presents the instruments granted under share-based payment programmes.

2022

	Fair value of instruments at the measurement date (in PLN million)	Total number of Instruments granted	Number of instruments outstanding at the beginning of 2022	Number of instruments exercised during 2022	Number of instruments forfeited during 2022	Number of instruments granted but not yet exercised as at 31 December 2022
Cash-settled						
Programme 2017	171.6	67,029	18,302	8,729	-	9,573
Programme 2018	171.6	72,137	28,752	9,362	-	19,390
Programme 2019	171.6	72,259	29,108	-	-	29,108
Programme 2020	171.6	63,806	63,806	38,027	-	25,779
Programme 2021	171.6	50,530	50,530	-	-	50,530
Programme 2022*	171.6	37,472	37,472	-	-	37,472
Total		363,233	227,970	56,118	-	171,852
Equity-settled						
Programme 2022*	171.6	41,573	41,573	-	-	41,573

*) for the 2022 Program, the value of the established provision was given, the granting of the benefits takes place in 2023

2021

	Fair value of instruments at the measurement date (in PLN million)	Total number of Instruments granted	Number of instruments outstanding at the beginning of 2021	Number of instruments exercised during 2021	Number of instruments forfeited during 2021	Number of instruments granted but not yet exercised as at 31 December 2021
Cash-settled						
Programme 2016	260.3	72,748	9,863	9,863	-	-
Programme 2017	260.3	67,029	26,985	8,683	-	18,302
Programme 2018	260.3	72,137	28,810	-	-	28,810
Programme 2019	260.3	72,259	72,259	43,151	-	29,108
Programme 2020	260.3	63,806	63,806	-	-	63,806
Programme 2021	260.3	68,451	68,451	-	-	68,451
Total		416,430	270,174	61,697	0	208,477



9. Impairment for expected credit losses

Net impairment for expected credit losses

	2022	2021
Loans and other receivables to other banks, including:	-0.2	0.5
measured at amortised cost	-0.2	0.5
Investment securities, including:	0.4	-1.3
measured at fair value through other comprehensive income	0.2	0.3
measured at amortised cost	0.2	-1.6
Loans and other receivables to customers measured at amortised cost*, including:	-706.7	-323.7
corporate banking	-418.1	-246.4
corporate and municipal debt securities	-4.4	0.2
retail banking	-288.6	-77.3
Provisions for off-balance sheet liabilities	-29.3	8.5
Total	-735.8	-316.0

*) Values presented in Loans and other receivables to customers measured at amortized cost include i.a. repayments of receivables previously written off the balance sheet, which in 2022 amounted to PLN 0.8 million compared to PLN 1.0 million in 2021.

Balance sheet impairment for expected credit losses

	2022	2021
Loans and other receivables to other banks, including:	0.2	0.1
measured at amortised cost	0.2	0.1
Investment securities, including:	10.5	12.0
measured at fair value through other comprehensive income	3.3	4.6
measured at amortised cost	7.2	7.4
Loans and other receivables to customers measured at amortised cost, including:	3,269.2	3,113.6
corporate banking	2,192.2	2,158.2
corporate and municipal debt securities	4.7	0.3
retail banking	1,077.0	955.4
Provisions for off-balance sheet liabilities	107.9	78.6
Total	3,387.8	3,204.3

10. Cost of legal risk of FX mortgage loans

	2022	2021
Provisions for legal risk of FX indexed mortgage loans, including:		
relating to loans in the Bank's portfolio	-271.5	-42.8
relating to repaid loans	-22.8	-13.6
Total	-294.3	-56.4

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

11. Tax on certain financial institutions

Under the Act on tax on certain financial institutions, banks are charged with the so-called bank tax, amounting to 0.0366% of the value of its assets on a monthly basis. The tax base is the sum of assets reduced by PLN 4 billion and the value of own funds and treasury securities. For 2022, the tax amount was PLN 646.9 million (PLN 544.7 million for 2021).



12. Income tax

Income tax recognised in the income statement

	2022	2021
Current tax, of which:	1,190.8	1,373.0
current tax for the financial year	1,211.7	1,442.3
tax on dividends	1.3	1.3
taxes relating to previous years	-22.2	-70.6
Deferred tax, including:	-502.1	-666.0
rise and reversal of temporary differences	-8.5	-170.7
tax losses, of which:	-493.6	-495.3
incurred by the Bank	-517.2	-517.3
incurred by subsidiaries	23.6	22.0
Total	688.7	707.0

The amount presented under tax losses includes:

- Tax loss incurred by the Bank - tax loss in the amount of PLN -2,722.1 billion fully recognized in deferred tax, i.e. PLN -517.2 million, results from a decrease in IRS valuations, settled-to-market (STM) with KDPW/LCH/EUREX (CCP) clearing houses, on which the Bank, in accordance with its individual interpretation, pays current tax; due to the fact that in 2022, as in 2021, valuations dropped significantly, a cost/receivable was created in the corporate income tax (CIT). In the Group's opinion, as at 31 December 2022 there is no risk of impairment of the deferred income tax asset.
- Tax losses incurred by subsidiaries, including:
 - Settlement of the tax loss incurred by the subsidiary ING Lease (Polska) Sp. z o.o., established as at 31 December 2020 - the loss was settled in the amount of PLN 126.8 million and at the same time deferred tax was settled in the amount of PLN 24.1 million; the amount of loss in the amount of PLN 16.1 million and deferred tax in the amount of PLN 3.1 million remain to be settled. In the Group's opinion, as at 31 December 2022 there is no risk of impairment of the deferred income tax asset for the part of the loss to be settled.
 - Tax loss incurred by a subsidiary - ING Bank Hipoteczny S.A. - a tax loss in the amount of PLN -2.4 million recognized in full in deferred tax, i.e. in the amount of PLN -0.5 million, results from the reduction of tax revenues from interest on receivables arising from mortgage loans. In the company's opinion, as at 31 December 2022, there is no risk of impairment of the deferred income tax asset.

Current tax for the financial year

	2022	2021
Current tax for the financial year included in the consolidated income statement	1,211.7	1,442.3
Current tax for the financial year included in consolidated equity	-1,141.7	-1,423.0
Total	70.0	19.3

Current income tax assets / liabilities

	2022	2021
Current income tax assets	572.2	734.5
Current income tax liabilities	19.9	3.9

For 2021, the Bank used a simplified form of paying corporate income tax advances. In 2021, the Bank recorded a tax loss and therefore, due to the simplified form of paying income tax advances, the advance payments are the Bank's receivable from the Tax Office. In 2022, the Bank resigned from the simplified form of paying the aforementioned advances and due to the fact that in 2022 it recorded a tax loss, it did not pay the advances to the Tax Office. The decrease in current income tax receivables in 2022 results from the deduction of tax liabilities from other taxes (tax on certain financial institutions and value added tax) from the overpayment for 2021.

Calculating the effective tax rate

The deviation in the effective tax rate above 19% in 2022 was mainly due to:

- increase, including:
 - tax on certain financial institutions in the amount of PLN 646.9 million (PLN 544.7 million in 2021),
 - payments to the BFG (contribution to the guarantee fund of banks and the contribution to the resolution fund) in the amount of PLN 227.1 million (PLN 245.0 million in 2021),
 - creation of provisions for legal risk of mortgage loans in foreign currencies in the amount of PLN 292.9 million (PLN 48.8 million in 2021).
- decreases, including:



- change in the accounting treatment of securities for corporate income tax (CIT) – as a result of the change, the Group recognised a deferred tax asset of 8.3 million, which had the effect of reducing the variance of the effective tax rate above 19%.

	2022	2021
A. Profit before tax	2,403.1	3,015.3
B. 19% of profit before tax	456.6	572.9
C. Increases – non-deductible expenses, including:	246.6	184.8
tax on certain financial institutions	122.9	103.5
prudential fee in favour of BGF	43.1	46.6
provisions for legal risk of foreign currency mortgage loans and commission returns	55.6	9.2
costs of derecognition of credit and non-credit receivables from the balance sheet	4.3	4.1
impairment loss on receivables in a part not covered with the deferred tax	2.5	5.2
provisions for disputable debt claims and other assets	8.7	7.0
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.7	1.6
representation expenses	0.6	0.5
other	7.2	7.1
D. Decreases – tax exempt income, including:	14.5	50.7
recognition of a deferred tax asset due to a change in the method of accounting for securities in income tax	8.3	43.9
valuation using the equity method of subsidiaries	4.9	5.6
release of provisions for disputed claims	0.7	0.3
other	0.6	0.9
E. Income tax from the income statement (B+C-D)	688.7	707.0
Effective tax rate (E : A)	28.66%	23.45%

13. Earnings and book value per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the parent company for 2022 was based on net profit of PLN 1,714.4 million (2021: PLN 2,308.3 million) and the weighted average number of ordinary shares outstanding at the end of 2022 and 2021 in 130,100,000 units.

	2022	2021
Net profit attributable to shareholders of ING Bank Śląski S.A.	1,714.4	2,308.3
Weighted average number of ordinary shares	130,100,000	130,100,000
Earnings per ordinary share (in PLN)	13.18	17.74

Diluted earnings per share

In 2022 as well as in 2021, 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 2022 was based on the amount of equity attributable to shareholders of ING Bank Śląski S.A. in the amount of PLN 9,344.3 million (2021: PLN 13,531.4 million) and the number of shares outstanding at the end of 2022 and 2021 in the number of 130,100,000.

	2022	2021
Book value	9,344.3	13,531.4
Number of shares	130,100,000	130,100,000
Book value per share (PLN)	71.82	104.01

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

	2022	2021
Cash in hand	932.6	599.1
Balances with the Central Bank	1,405.0	500.9
Total	2,337.6	1,100.0

The parent company of the Group maintains a mandatory reserve in the current account with the National Bank of Poland, the amount of which at the end of 2022 was 3.5% of the value of deposits received (compared to 2.0% at the end of 2021).

The arithmetic mean of the required reserve funds, which the parent company of the Group is obliged to maintain in a given period on the current account with NBP, was:

- PLN 6,532.2 million for the period from 30 November 2022 to 1 January 2023,
- PLN 3,370.1 million for the period from 31 December 2021 to 30 January 2022.

The required reserve funds held in the current account with the NBP bear interest during the reserve period in the amount set by the Monetary Policy Council. As at 31 December 2022, the interest rate was 6.75% (0.1% as at 31 December 2021).

15. Loans and other receivables to other banks

	2022	2021
Current accounts	329.1	95.0
Interbank deposits:	398.8	125.2
including O/N deposits	21.9	0.0
Loans and advances	312.8	302.1
Reverse repo transactions	3,759.5	0.0
Placed call deposits	361.1	182.6
Total (gross)	5,161.3	704.9
Impairment for expected credit losses	-0.2	-0.1
Total (net)	5,161.1	704.8

Loans and receivables to other banks by maturity

	2022	2021
without specified maturity	329.1	95.0
up to 1 month	4,469.5	204.7
over 1 month and up to 3 months	27.5	360.1
over 3 months and up to 1 year	136.3	45.1
over 1 year and up to 5 years	198.9	0.0
Total (gross)	5,161.3	704.9

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

	2022			2021		
	transferred debt securities	other financial assets measured at fair value through profit or loss	Total	transferred debt securities	other financial assets measured at fair value through profit or loss	Total
Financial assets held for trading, including:	163.8	1,895.8	2,059.6	243.2	1,455.1	1,698.3
valuation of derivatives	-	974.9	974.9	-	629.3	629.3
other financial assets held for trading, including:	163.8	920.9	1,084.7	243.2	825.8	1,069.0
debt securities:	163.8	443.3	607.1	243.2	301.1	544.3
Treasury bonds in PLN	125.2	441.7	566.9	243.2	259.2	502.4
Czech Treasury bonds in CZK	38.6	1.2	39.8	-	41.4	41.4
European Investment Bank bonds	-	0.4	0.4	-	0.5	0.5
repo transactions	-	477.6	477.6	-	524.7	524.7
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	-	56.5	56.5	-	83.2	83.2
loans obligatorily measured at fair value through profit or loss	-	54.6	54.6	-	78.4	78.4
equity instruments	-	1.9	1.9	-	4.8	4.8
Total	163.8	1,952.3	2,116.1	243.2	1,538.3	1,781.5

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

Securities that can be pledged or sold by the collateral recipient are presented as *transferred debt securities*. These assets, as required by IFRS 9, are presented separately by the Group in the consolidated statement of financial position under Transferred assets. For further information on assets pledged as security for liabilities, see note [20](#).

In 2022, the Group sold shares in one company from the portfolio of financial assets measured at fair value through profit or loss. These shares were acquired in 2021 as part of the settlement of the sale of shares in another company. Due to the sale of the aforementioned shares, the Group recorded a loss of PLN -4.7 million in 2022, which was presented in note [4. Net income on financial instruments measured at fair value through profit or loss and FX result](#).

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

	2022				2021			
	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	Total	other financial assets held for trading	loans are obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	Total
without specified maturity	-	-	1.9	1.9	-	-	4.8	4.8
up to 1 month	510.9	-	-	510.9	524.7	10.2	-	534.9
over 1 month and up to 3 months	-	2.8	-	2.8	-	4.5	-	4.5
over 3 months and up to 1 year	57.1	9.7	-	66.8	7.5	14.1	-	21.6
over 1 year and up to 5 years	402.6	29.2	-	431.8	297.8	45.4	-	343.2
over 5 years	114.1	1.5	-	115.6	239.0	4.2	-	243.2
for which the maturity has expired	-	11.4	-	11.4	-	-	-	0.0
Total	1,084.7	54.6	1.9	1,141.2	1,069.0	78.4	4.8	1,152.2

**17. Valuation of derivatives**

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

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

2022

	Fair value		Nominal value of instruments with remaining maturity			
	Assets	Liabilities	up to 3 months	from 3 months to 1 year	over 1 year	Total
Interest rate derivatives, including:	266.9	929.7	103,751.1	180,595.4	450,278.1	734,624.6
settled via CCP	191.2	164.8	103,097.4	179,157.5	439,859.1	722,114.0
contracts for the future FRA interest rate – PLN	14.5	14.3	66,723.0	54,684.0	5,464.0	126,871.0
Interest rate swaps (IRS PLN) fixed – float	218.2	624.2	32,455.4	118,353.8	407,573.8	558,383.0
Interest rate swaps (IRS EUR) fixed – float	11.2	271.8	1,480.1	6,964.6	26,226.6	34,671.3
Interest rate swaps (IRS USD) fixed – float	2.1	1.2	2,936.0	240.4	5,571.2	8,747.6
Interest rate swaps (IRS CZK) fixed - float	13.6	11.1	0.0	328.2	3,782.1	4,110.3
Interest rate swaps (IRS GBP) fixed - float	0.2	0.0	0.0	0.0	995.6	995.6
CAP options – EUR	6.7	6.7	156.6	0.0	620.9	777.5
CAP options – PLN	0.4	0.4	0.0	24.4	43.9	68.3
Currency derivatives, including:	705.8	670.7	35,143.5	27,570.3	8,890.0	71,603.8
currency contracts (swap, forward), including:	641.2	605.3	35,143.5	27,570.3	3,451.6	66,165.4
currency contracts (swap, forward) EUR / PLN	113.1	114.3	8,988.3	8,425.4	1,571.1	18,984.8
currency contracts (swap, forward) USD / PLN	260.1	229.5	15,941.4	8,316.9	16.4	24,274.7
currency contracts (swap, forward) EUR / USD	51.7	94.6	5,743.9	2,347.2	189.0	8,280.1
currency contracts (swap, forward) other currency pairs	216.3	166.9	4,469.9	8,480.8	1,675.1	14,625.8
CIRS, including:	64.6	65.4	0.0	0.0	5,438.4	5,438.4
CIRS EUR/PLN (float-float)	64.6	65.4	0.0	0.0	5,438.4	5,438.4
Current off-balance sheet transactions, including:	2.2	1.9	8,306.7	-	-	8,306.7
foreign exchange operations	2.2	1.9	2,865.8	-	-	2,865.8
operations in securities	0.0	0.0	5,440.9	-	-	5,440.9
Other off-balance sheet financial instruments	0.0	0.0	1,219.4	-	-	1,219.4
Total	974.9	1,602.3	148,420.7	208,165.7	459,168.1	815,754.5

2021

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



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, including cash flows resulting from the settlement of the price alignment amount, which ensures the economic equivalence of the applied approach to the "collateralized-to-market" approach.

18. Hedge accounting

In the consolidated financial statements prepared for 2022 (similarly to 2021), 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.

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging instruments	139.2	367.2	250.3	218.6
Instruments hedging the fair value of securities	0.0	2.3	0.1	16.8
Total hedging instruments	139.2	369.5	250.4	235.4

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

19. Investment securities

	2022			2021		
	transferred debt securities	other investment securities	Total	transferred debt securities	other investment securities	Total
Measured at fair value through other comprehensive income, including:	0.0	15,812.7	15,812.7	1,266.4	14,378.9	15,645.3
debt securities, including:	0.0	15,691.8	15,691.8	1,266.4	14,211.5	15,477.9
Treasury bonds in PLN	-	12,153.8	12,153.8	1,266.4	11,765.9	13,032.3
Treasury bonds in EUR	-	1,803.4	1,803.4	-	1,022.9	1,022.9
European Investment Bank bonds	-	1,308.9	1,308.9	-	941.4	941.4
Austrian government bonds	-	425.7	425.7	-	481.3	481.3
equity instruments	-	120.9	120.9	-	167.4	167.4
Measured at amortised cost, including:	0.0	32,620.1	32,620.1	771.3	31,205.5	31,976.8
debt securities, including:	0.0	32,620.1	32,620.1	771.3	31,205.5	31,976.8
Treasury bonds in PLN	-	13,352.5	13,352.5	771.3	15,311.5	16,082.8
Treasury bonds in EUR	-	3,192.1	3,192.1	-	4,028.8	4,028.8
European Investment Bank bonds	-	6,815.7	6,815.7	-	5,695.2	5,695.2
Bonds of the Polish Development Fund (PFR)	-	3,858.4	3,858.4	-	3,855.2	3,855.2
Bank Gospodarstwa Krajowego bonds	-	1,802.1	1,802.1	-	2,299.8	2,299.8
NBP bills	-	3,599.3	3,599.3	-	15.0	15.0
Total	0.0	48,432.8	48,432.8	2,037.7	45,584.4	47,622.1

Securities that can be pledged or sold by the collateral recipient are presented as *transferred debt securities*. These assets, as required by IFRS 9, are presented separately by the Group in the consolidated statement of financial position under *Transferred assets*. For further information on assets pledged as security for liabilities, see note [20](#).

The value presented in the item equity instruments in the category of assets measured at fair value through other comprehensive income (FVOCI) includes investments in shares issued by entities that are considered to be material from the perspective of the Group's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in note [37. Fair value](#). In 2022, the Group received income in the form of dividends in the amount of PLN 6.8 million (PLN 6.7 million in 2021) from the shares held, which was presented in the consolidated income statement under *Net income on the sale of securities measured at fair value through other comprehensive income and dividend income*.



Investment securities by maturity

	2022			2021		
	measured at fair value through other comprehensive income	measured at amortised cost	Total	measured at fair value through other comprehensive income	measured at amortised cost	Total
without specified maturity	120.9	-	120.9	167.4	-	167.4
up to 1 month	48.5	3,599.3	3,647.8	-	15.0	15.0
over 1 month and up to 3 months	-	-	-	-	1,127.4	1,127.4
over 3 months and up to 1 year	-	180.6	180.6	57.2	2,763.5	2,820.7
over 1 year and up to 5 years	10,203.2	22,615.2	32,818.4	8,665.7	19,511.4	28,177.1
over 5 years	5,440.1	6,225.0	11,665.1	6,755.0	8,559.5	15,314.5
Total	15,812.7	32,620.1	48,432.8	15,645.3	31,976.8	47,622.1

Quality of investment securities portfolio

	2022			2021		
	gross	Stage 1 impairment for expected credit loss	net	gross	Stage 1 impairment for expected credit loss	net
Measured at fair value through other comprehensive income, including:	15,816.0	-3.3	15,812.7	15,649.9	-4.6	15,645.3
debt securities, including:	15,695.1	-3.3	15,691.8	15,481.4	-3.5	15,477.9
Treasury bonds in PLN	12,156.6	-2.8	12,153.8	13,035.5	-3.2	13,032.3
Treasury bonds in EUR	1,803.8	-0.4	1,803.4	1,023.1	-0.2	1,022.9
European Investment Bank bonds	1,309.0	-0.1	1,308.9	941.4	0.0	941.4
Austrian government bonds	425.7	0.0	425.7	481.4	-0.1	481.3
equity instruments	120.9	0.0	120.9	168.5	-1.1	167.4
Measured at amortised cost, including:	32,627.3	-7.2	32,620.1	31,984.2	-7.4	31,976.8
debt securities, including:	32,627.3	-7.2	32,620.1	31,984.2	-7.4	31,976.8
Treasury bonds in PLN	13,355.1	-2.6	13,352.5	16,086.5	-3.7	16,082.8
Treasury bonds in EUR	3,193.4	-1.3	3,192.1	4,029.5	-0.7	4,028.8
European Investment Bank bonds	6,816.2	-0.5	6,815.7	5,695.4	-0.2	5,695.2
Bonds of the Polish Development Fund (PFR)	3,859.8	-1.4	3,858.4	3,857.5	-2.3	3,855.2
Bank Gospodarstwa Krajowego bonds	1,803.5	-1.4	1,802.1	2,300.3	-0.5	2,299.8
NBP bills	3,599.3	0.0	3,599.3	15.0	0.0	15.0
Total	48,443.3	-10.5	48,432.8	47,634.1	-12.0	47,622.1



Investment securities - changes in impairment for expected credit losses

	2022			2021		
	Stage 1		Total	Stage 1		Total
	measured at fair value through other comprehensive income	measured at amortised cost		measured at fair value through other comprehensive income	measured at amortised cost	
Opening balance impairment	4.6	7.4	12.0	3.9	5.9	9.8
Changes during the period, including:	-1.3	-0.2	-1.5	0.7	1.5	2.2
provisions recognised/ reversed	-1.3	-0.2	-1.5	0.7	1.5	2.2
Closing balance impairment	3.3	7.2	10.5	4.6	7.4	12.0

In 2022, as in 2021, changes in the gross value of investment securities measured at fair value through other comprehensive income and financial assets measured at amortised cost had no material effect on the level of impairment for expected credit losses.

In 2022 and 2021, there were no transfers of investment securities between stages with different valuation of expected credit losses.

20. Assets securing liabilities

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

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

2022

	portfolio of financial assets measured at fair value through profit or loss	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total
Bods securing liabilities arising from securities sold with a repurchase agreement (sell-buy-back transactions), including:				
Treasury bonds in PLN	125.2	-	-	125.2
Czech Treasury bonds in CZK	38.6	-	-	38.6
Total	163.8	0.0	0.0	163.8

2021

	portfolio of financial assets measured at fair value through profit or loss	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total
Bods securing liabilities arising from securities sold with a repurchase agreement (sell-buy-back transactions), including:				
Treasury bonds in PLN	243.2	1,266.4	771.3	2,280.9
Total	243.2	1,266.4	771.3	2,280.9

**Other assets securing liabilities**

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

	2022			2021		
	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total	portfolio of financial assets measured at fair value through other comprehensive income	portfolio of financial assets measured at amortised cost	Total
Treasury bonds in PLN, including:	255.9	842.8	1,098.7	199.8	814.1	1,013.9
providing security for the benefit of the Bank Guarantee Fund	-	581.4	581.4	-	592.7	592.7
constituting a block on the obligation to pay a contribution to the guarantee fund of banks	-	199.6	199.6	-	176.2	176.2
constituting a blocking of the obligation to pay a contribution to the banks' compulsory restructuring fund	240.9	-	240.9	172.4	-	172.4
constituting the lodging of securities collateral for initial margin	-	30.9	30.9	-	31.0	31.0
representing the payment of securities collateral for the initial margin for the ATS Market	-	20.6	20.6	-	7.1	7.1
providing security for the KDPW CCP settlement fund	-	10.3	10.3	-	7.1	7.1
securing a loan received by the subsidiary from the European Investment Bank	-	-	-	14.0	-	14.0
pledged as collateral in the cover register of mortgage bonds	15.0	-	15.0	13.4	-	13.4
Treasury bonds in EUR, including:	-	73.5	73.5	-	-	-
constituting the margin for the settlement of EUREX transactions	-	73.5	73.5	-	-	-
European Investment Bank bonds, including:	283.7	504.1	787.8	0.0	264.9	264.9
providing security for settlements with LCH	78.1	354.1	432.2	-	117.6	117.6
constituting the margin for the settlement of EUREX transactions	205.6	124.4	330.0	-	122.3	122.3
in the Euroclear account, earmarked as collateral for transactions not submitted to clearing houses	-	25.6	25.6	-	25.0	25.0
Austrian Government bonds securing the settlements made with LCH	425.7	-	425.7	481.3	-	481.3
mortgage receivables securing the covered bonds	-	1,984.9	1,984.9	-	2,996.1	2,996.1
Total	965.3	3,405.3	4,370.6	681.1	4,075.1	4,756.2

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 2022 and 2021, the nominal value of the issued covered bonds was PLN 400 million. Detailed information on the issued mortgage bonds can be found in note 30. *Liabilities from debt securities issued.*

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



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

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

The market value of securities subject to buy-sell-back / reverse repo transactions amounted to PLN 471.2 million as at December 31, 2022 compared to PLN 508.7 million as at 31 December 2021. As at 31 December 2022, securities with a value of PLN 433.7 million were resold (compared to PLN 481.5 million as at 31 December 2021).

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

	2022			2021		
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
Loan portfolio, of which:	156,360.4	-3,269.2	153,091.2	146,400.3	-3,113.6	143,286.7
Corporate banking	92,478.0	-2,192.2	90,285.8	79,914.5	-2,158.2	77,756.3
loans in the current account	15,444.8	-484.0	14,960.8	12,408.6	-560.0	11,848.6
term loans and advances	53,021.0	-1,518.9	51,502.1	46,117.3	-1,441.7	44,675.6
lease receivables	12,479.1	-115.6	12,363.5	11,180.0	-90.0	11,090.0
factoring receivables	7,751.0	-69.0	7,682.0	6,890.0	-66.2	6,823.8
debt securities (corporate and municipal)	3,782.1	-4.7	3,777.4	3,318.6	-0.3	3,318.3
Retail banking	63,882.4	-1,077.0	62,805.4	66,485.8	-955.4	65,530.4
mortgages	55,155.6	-269.1	54,886.5	57,410.2	-217.9	57,192.3
loans in the current account	697.5	-63.5	634.0	685.9	-54.0	631.9
other loans and advances	8,029.3	-744.4	7,284.9	8,389.7	-683.5	7,706.2
Other receivables, of which:	1,883.4	0.0	1,883.4	3,249.3	0.0	3,249.3
call deposits placed	827.6	0.0	827.6	2,531.5	0.0	2,531.5
other	1,055.8	0.0	1,055.8	717.8	0.0	717.8
Total	158,243.8	-3,269.2	154,974.6	149,649.6	-3,113.6	146,536.0

Loans and receivables to customers by maturity

	2022	2021
without specified maturity	15,669.0	12,425.5
up to 1 month	5,848.8	7,925.9
over 1 month and up to 3 months	8,811.0	7,466.1
over 3 months and up to 1 year	20,767.4	20,854.3
over 1 year and up to 5 years	52,554.8	43,655.1
over 5 years	52,910.9	55,321.2
for which the maturity has expired	1,681.9	2,001.5
Total (gross)	158,243.8	149,649.6

21.1. Receivables from financial leasing

As at 31 December 2022, vehicles accounted for the largest share in the portfolio of leased items (50.5% of the portfolio value), while at the same time, compared to the end of 2021, the value of vehicle financing contracts increased by 12.4%.

A significant share in the portfolio is also made up of machinery and equipment (35.2% of the portfolio value), with a simultaneous increase of 18.4% compared to the value of financed machinery and equipment at the end of 2021, other movables accounted for 8.5% of the portfolio value (increase by 7.6% compared to the end of 2021).

At the same time, in 2022, the share in the real estate leasing portfolio decreased by 1.5% to 5.5% (decrease in the value of the portfolio by 11.2% compared to the end of 2021).



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

	2022	2021
up to 1 year	4,627.1	4,135.8
over 1 year and up to 2 years	3,168.0	2,886.7
over 2 years and up to 3 years	2,213.6	2,027.7
over 3 years and up to 4 years	1,482.5	1,090.5
over 4 years and up to 5 years	629.4	706.6
over 5 years	358.5	332.7
Total	12,479.1	11,180.0

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

	2022	2021
up to 1 year	5,293.0	4,434.4
over 1 year and up to 2 years	3,576.9	3,071.0
over 2 years and up to 3 years	2,439.1	2,127.3
over 3 years and up to 4 years	1,589.2	1,138.7
over 4 years and up to 5 years	670.4	726.8
over 5 years	385.0	351.3
Total	13,953.6	11,849.5

The present value of minimum lease instalments is as follows:

	2022	2021
(Gross) receivables under financial lease	13,953.6	11,849.5
Undue interest	1,474.5	669.5
Present value of minimum lease instalments	12,479.1	11,180.0

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

	2022	2021
Profit from the sale of fixed assets (leasing items)	3.4	4.9
Net interest income from leasing investment	638.0	245.4
Variable leasing fees (commission fees)	20.8	15.1
Total	662.2	265.4

In 2022, no significant modifications of financial lease contracts were found.

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

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

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

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

**21.2. Quality of loan portfolio**

	2022			2021		
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
Corporate banking	92,478.0	-2,192.2	90,285.8	79,914.5	-2,158.2	77,756.3
assets in Stage 1	75,521.7	-196.5	75,325.2	70,654.1	-168.7	70,485.4
assets in Stage 2	14,301.7	-491.0	13,810.7	6,466.2	-218.4	6,247.8
assets in Stage 3	2,601.8	-1,504.7	1,097.1	2,743.1	-1,771.1	972.0
including individually significant assets	1,478.4	-910.7	567.7	1,763.4	-982.0	781.4
POCI assets	52.8	0.0	52.8	51.1	0.0	51.1
Retail banking, including:	63,882.4	-1,077.0	62,805.4	66,485.8	-955.4	65,530.4
mortgages	55,155.6	-269.1	54,886.5	57,410.2	-217.9	57,192.3
assets in Stage 1	49,741.1	-45.6	49,695.5	56,297.2	-17.5	56,279.7
assets in Stage 2	5,135.0	-106.5	5,028.5	784.7	-48.5	736.2
assets in Stage 3	279.5	-117.0	162.5	328.3	-151.9	176.4
other loans	8,726.8	-807.9	7,918.9	9,075.6	-737.5	8,338.1
assets in Stage 1	7,201.2	-145.4	7,055.8	7,805.4	-89.5	7,715.9
assets in Stage 2	878.7	-185.8	692.9	586.1	-90.9	495.2
assets in Stage 3	644.8	-476.7	168.1	681.9	-557.1	124.8
POCI assets	2.1	0.0	2.1	2.2	0.0	2.2
Total	156,360.4	-3,269.2	153,091.2	146,400.3	-3,113.6	143,286.7
assets in Stage 1	132,464.0	-387.5	132,076.5	134,756.7	-275.7	134,481.0
assets in Stage 2	20,315.4	-783.3	19,532.1	7,837.0	-357.8	7,479.2
assets in Stage 3	3,526.1	-2,098.4	1,427.7	3,753.3	-2,480.1	1,273.2
POCI assets	54.9	0.0	54.9	53.3	0.0	53.3

The Group identifies POCI financial assets whose carrying amount as at 31 December 2022 was PLN 54.9 million (PLN 53.3 million as at 31 December 2021). These are exposures due to impaired receivables acquired in connection with the acquisition of SKOK Bieszczadzka in 2017, exposures that were significantly modified as a result of restructuring, which involved the need to remove the original credit or lease commitment and re-recognition of the asset in the statement of financial position.

In 2022, credit exposures in the amount of PLN 2,119.3 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 2021 these exposures amounted to PLN 2,077.9 million).

In addition, exposures in the amount of PLN 56,079.0 million due to credit holidays were not derecognised and re-recognised as a financial asset.

Modifications to contractual cash flows that do not result in their exclusion and re-recognition of a financial asset, i.e. resulting in the recognition of gains or losses on modifications, result from business premises or credit risk events in the form of forbearance facilities granted to customers. In the event of business premises, the method of determining impairment for expected credit losses does not change. Granting customers facilities (forbearance) indicates a significant increase in credit risk, resulting in classification to Stage 2, in the case of granting another convenience, classification to Stage 3 follows the principles of estimating impairment losses described in chapter III. *Significant accounting principles*, in item **13.12. Expected credit losses**.

For financial assets where the contractual cash flows have changed during the reporting period, while the corresponding impairment for expected credit losses was valued at an amount equal to the expected lifetime credit loss (ie financial assets in Stages 2 and 3), the amortised cost before modification was PLN 177.7 million PLN, and the net loss on modification amounted to -0.1 million PLN (in 2021: PLN 282.6 million and PLN -2.0 million, respectively).

Gross carrying amount at the end of the reporting period, financial assets that have been modified since initial recognition at the time when the impairment for expected credit losses was valued at an amount equal to the expected life-cycle credit loss (ie financial assets in Stages 2 and 3), and for which the impairment for expected credit losses was during the reporting period, the change to an amount equal to 12 months of expected credit losses (ie there has been a transfer of these financial assets to Stage 1) as at 31 December 2022 was PLN 11.6 million compared to PLN 41.2 million at the end of 2021.

Sale of non-performing receivables

In 2022, the Group carried out three transactions of sale of non-performing receivables. The Group concluded the following agreements regarding the sale of receivables from the impaired portfolio:

- Agreement on the sale of corporate receivables, as a result of which the portfolio of impaired receivables decreased by PLN 106.7 million. The positive impact of the transaction on the Group's gross result amounted to PLN 8.6 million.



- Agreement on the sale of retail receivables, as a result of which the portfolio of impaired receivables decreased by PLN 218.9 million. The positive impact of the transaction on the Group's gross result amounted to PLN 64.9 million.
- Agreement for the sale of corporate receivables, as a result of which the portfolio of impaired receivables decreased by PLN 211.8 million. The positive impact of the transaction on the Group's gross result amounted to PLN 9.2 million.

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

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

Credit quality of exposures to customers exposed to direct and indirect risks caused by the war in Ukraine

Due to the outbreak of war in Ukraine in February 2022, the Group continuously monitors the situation and reacts adequately to the European Union sanctions, as well as similar sanctions imposed by the United States and the United Kingdom of Great Britain and Northern Ireland. Economic relations with customers and their beneficial owners related to or coming from the Russian Federation, Belarus and the separatist oblasts of Ukraine are monitored and, if necessary, sanctions are taken.

ING Bank Śląski S.A. Group does not operate directly in Ukraine, Russia or Belarus. Nevertheless, the Group analyzes the customer receivables portfolio on an ongoing basis in terms of links with these markets and risks related to the effects caused by the war (in particular disruptions in the energy sector) and the introduced sanctions. Throughout 2022, the Group updated the list of clients under observation on an ongoing basis.

As at 31 December 2022, the Group classified to Stage 2 balance sheet and off-balance sheet exposures with a total value of PLN 3,114.2 million. In 2022, the impairment for expected credit losses related to the analyzed on-balance sheet and off-balance sheet exposures increased by PLN 58.7 million.

The Group defines direct exposures as exposures to corporate segment customers with their registered office or owner in Russia, Belarus or Ukraine.

The Group defines indirect exposures as exposures to corporate segment customers whose share of revenues or costs in relation to the Ukrainian, Russian and / or Belarusian markets exceeds:

- 25% (or lower, if the dependence on these markets is significant in the individual assessment) for strategic clients,
- 20% for other corporate segment customers.

The table below presents a summary of the Group's exposures to direct and indirect exposures from the portfolio of corporate clients as at 31 December 2022 and comparable data for the same clients, calculated as at 31 December 2021.

	2022			2021		
	balance sheet exposure in the gross carrying amount	off-balance sheet exposure*	Total	balance sheet exposure in the gross carrying amount	off-balance sheet exposure*	Total
Direct exposures	7.3	9.6	16.9	6.9	9.8	16.7
Stage 1	1.9	8.9	10.8	1.7	8.5	10.2
Stage 2	2.2	0.7	2.9	1.8	1.2	3.0
Stage 3	3.2	0.0	3.2	3.4	0.1	3.5
Indirect exposures	3,366.4	7,960.6	11,327.0	4,032.7	3,378.3	7,411.0
Stage 1	1,927.9	6,287.8	8,215.7	3,538.9	3,275.4	6,814.3
including strategic companies of the State Treasury	704.0	3,134.7	3,838.7	1,967.1	1,708.5	3,675.6
Stage 2	1,438.5	1,672.8	3,111.3	493.8	102.9	596.7
including strategic companies of the State Treasury	566.4	1,403.9	1,970.3	0.0	0.0	0.0

*) value of the unused limit in the case of credit products granted, nominal value in the case of guarantees.

Collateral

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



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

2022

	Corporate banking										Retail banking										Total	
	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL	GCA	ECL
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total		GCA	ECL
Opening balance	70,654.1	-168.7	6,466.2	-218.4	2,743.1	-1,771.1	51.1	0.0	79,914.5	-2,158.2	64,102.6	-107.0	1,370.8	-139.4	1,010.2	-709.0	2.2	0.0	66,485.8	-955.4	146,400.3	-3,113.6
Changes in the period, including:	4,867.6	-27.8	7,835.5	-272.6	-141.3	266.4	1.7	0.0	12,563.5	-34.0	-7,160.3	-84.0	4,642.9	-152.9	-85.9	115.3	-0.1	0.0	-2,603.4	-121.6	9,960.1	-155.6
loans granted in the period	19,973.5	-98.1	-	-	-	-	1.7	-	19,975.2	-98.1	23,049.3	-75.5	-	-	-	-	-	-	23,049.3	-75.5	43,024.5	-173.6
transfer to Stage 1	1,155.6	-4.4	-1,152.3	24.6	-3.3	2.0	-	-	0.0	22.2	249.8	-4.0	-233.9	25.0	-15.9	13.7	-	-	0.0	34.7	0.0	56.9
transfer to Stage 2	-11,170.7	39.3	11,195.1	-314.9	-24.4	22.0	-	-	0.0	-253.6	-5,131.2	14.4	5,289.8	-204.5	-158.7	86.4	-	-	-0.1	-103.7	-0.1	-357.3
transfer to Stage 3	-381.9	3.5	-278.3	25.0	660.2	-235.3	-	-	0.0	-206.8	-320.1	5.8	-137.4	28.8	457.6	-248.9	-	-	0.1	-214.3	0.1	-421.1
repayment (total and partial) and the release of new tranches	-4,708.9	23.7	-1,929.0	61.2	-408.5	122.4	-	-	-7,046.4	207.3	-23,192.4	25.7	-214.9	19.1	-189.7	101.1	-0.1	-	-23,597.1	145.9	-30,643.5	353.2
changed provisioning under impairment for expected credit losses*	-	-14.3	-	58.0	-	-45.1	-	-	0.0	-1.4	-	-0.6	-	45.5	-	-125.2	-	-	0.0	-80.3	0.0	-81.7
management adjustments	-	23.3	-	-126.4	-	15.4	-	-	0.0	-87.7	-	-49.8	-	-65.9	-	120.3	-	-	0.0	4.6	0.0	-83.1
Total impairment for expected credit losses in the profit and loss account		-27.0		-272.5		-118.6		0.0		-418.1		-84.0		-152.0		-52.6		0.0		-288.6		-706.7
derecognition from the balance sheet (write-downs, sale)	-	-	-	-	-365.3	365.3	-	-	-365.3	365.3	-	-	-	-	-174.7	174.7	-	-	-174.7	174.7	-540.0	540.0
calculation of penalty interest (for late payment)	-	-	-	-	118.4	-	-	-	118.4	0.0	-	-	-	-	50.1	-	-	-	50.1	0.0	168.5	0.0
writing down penalty interest (for late payment)	-	-	-	-	-118.4	-	-	-	-118.4	0.0	-	-	-	-	-50.1	-	-	-	-50.1	0.0	-168.5	0.0
value adjustment due to credit holidays	-	-	-	-	-	-	-	-	0.0	0.0	-1,613.9		-26.5		-4.5	-	-	-	-1,644.9	0.0	-1,644.9	0.0
value adjustment for legal risk of CHF mortgage loans	-	-	-	-	-	-	-	-	0.0	0.0	-201.8	-	-34.2	-	-	-	-	-	-236.0	0.0	-236.0	0.0
calculation and write-off of effective interest	-	-	-	-	-	20.4	-	-	0.0	20.4	-	-	-	-	-	5.7	-	-	0.0	5.7	0.0	26.1
other	-	-0.8	-	-0.1	-	-0.7	-	-	0.0	-1.6	-	0.0	-	-0.9	-	-12.5	-	-	0.0	-13.4	0.0	-15.0
Closing balance	75,521.7	-196.5	14,301.7	-491.0	2,601.8	-1,504.7	52.8	0.0	92,478.0	-2,192.2	56,942.3	-191.0	6,013.7	-292.3	924.3	-593.7	2.1	0.0	63,882.4	-1,077.0	156,360.4	-3,269.2

*) The item *changed provisioning under impairment for expected credit losses* includes changes resulting from the update in 2022 of the indications of a significant increase in credit risk, resulting in the classification of the exposure to Stage 2, as described in Chapter III. *Significant accounting principles*, in point **3.1.1** *Estimation of expected credit losses for financial assets*.



2021

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

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

In 2022, among the loans granted during the year, the most important items are mortgage loans for natural persons (PLN 7,708.7 million), and cash loans for natural persons (PLN 2,787.9 million). A significant part is also short-term loans: revolving loans (PLN 1,082.9 million), working capital loans (PLN 5,977.0 million) and overdrafts (PLN 2,494.3 million). The portfolio of loans granted in 2022 also includes leasing receivables (PLN 5,287.6 million) and factoring receivables (PLN 5,813.9 million). In addition, in 2022, penalty interest in the amount of PLN 168.5 million was added to the gross carrying amount of loans and other receivables to customers, which was written off in full. At the end of 2022, the amount of penal interest written off, which is the subject of debt collection activities, amounted to PLN 498.6 million.

In 2021, among loans granted during the year, the most important items were mortgage loans for natural persons (PLN 12,770.7 million), cash loans for natural persons (PLN 3,706.5 million), short-term loans: revolving (PLN 1,872 PLN .7 million), working capital (PLN 3,725.1 million) and overdrafts (PLN 1,475.8 million). The portfolio of loans granted in 2021 also included lease receivables (PLN 5,173.0 million) and factoring receivables (PLN 3,092.1 million). In 2021, penalty interest in the amount of PLN 133.6 million was added to the gross carrying amount of loans and other receivables to customers, which was written off in full. At the end of 2021, the amount of penal interest written off, which was the subject of debt collection activities, amounted to PLN 422.6 million.



22. Investments in associates accounted for using the equity method

ING Bank Śląski S.A. holds an indirect share in the share capital of NN Investment Partners TFI through its subsidiary - ING Investment Holding (Polska) S.A. 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. The carrying amount of the share in NN Investment Partners TFI was PLN 178.9 million at the end of 2022 compared to PLN 184.8 million at the end of 2021.

Selected data regarding the associate

	2022	2021
Share in the capital of the entity	45%	45%
Assets, including:	169.7	170.6
Short-term	112.1	110.9
Long-term	57.6	59.7
Liabilities and provisions for liabilities, including:	49.2	41.8
Short-term	24.3	31.1
Long-term	24.9	10.7
Net assets	120.5	128.8
Profit (loss)	61.5	70.0
Revenues	137.6	144.4
Other comprehensive income	0.0	0.7
Total comprehensive income	61.5	70.7
Cash and cash equivalents	72.8	80.3
Short-term financial liabilities (excluding trade and other liabilities and provisions)	8.3	4.8
Long-term financial liabilities (excluding trade and other liabilities and provisions)	7.8	10.7
Depreciation and amortisation	1.2	1.4
Interest income	3.2	0.1
Interest expenses	0.1	0.1
Income tax charge or income	15.1	17.3

The reconciliation of the carrying amount of the investment in an associate for 2022 and 2021 is presented below.

	2022	2021
Opening balance	184.8	174.1
Valuation using the equity method in the period	25.6	29.3
Dividends received	-31.5	-18.6
Closing balance	178.9	184.8

23. Property, plant and equipment

	2022	2021
Right of use assets, including:	409.1	323.4
real estate	393.2	304.9
means of transport	15.8	18.5
other assets	0.1	0.0
Own real estate	245.0	259.2
Investments in non-owned fixed assets	88.1	51.4
Computer hardware	122.6	84.8
Other property, plant and equipment	58.8	73.8
Fixed assets under construction	26.4	38.6
Total	950.0	831.2

There are no legal constraints on property, plant and equipment at the end of 2022 and 2021.

The following pages present changes in the gross value and accumulated depreciation for individual groups of property, plant and equipment that took place in 2022 and 2021.



2022

	right of use assets				own real estate	investments in non-owned fixed assets	computer hardware	other property, plant and equipment	fixed assets under construction	Total
	real estate	means of transport	other assets	Total						
Opening gross value	566.9	40.8	0.9	608.6	422.1	347.5	378.4	450.9	38.6	2,246.1
Additions, including:	196.8	8.3	0.4	205.5	12.9	132.8	82.4	20.8	121.1	575.5
new contracts for the right of use	53.8	6.9	-	60.7	-	-	-	-	-	60.7
adjustment of the asset in connection with the recalculation of the lease	143.0	1.4	0.4	144.8	-	-	-	-	-	144.8
purchases	-	-	-	0.0	-	28.4	0.1	0.5	121.1	150.1
investment takeovers	-	-	-	0.0	12.5	12.5	82.3	18.7	-	126.0
reclassification to/from another category of property, plant and equipment	-	-	-	0.0	0.4	91.9	-	1.6	-	93.9
Reductions, including:	-32.2	-4.4	0.0	-36.6	-8.1	-3.8	-1.2	-86.2	-133.3	-269.2
early termination of the contract	-23.9	-3.7	-	-27.6	-	-	-	-	-	-27.6
adjustment of the asset in connection with the recalculation of the lease	-8.3	-0.7	-	-9.0	-	-	-	-	-	-9.0
sale and liquidation	-	-	-	0.0	-2.2	-1.4	-1.2	-0.3	-	-5.1
investment takeovers	-	-	-	0.0	-	-	-	-	-126.0	-126.0
reclassification to non-current assets held for sale	-	-	-	0.0	-5.4	-0.1	-	-0.9	-	-6.4
reclassification to/from another category of property, plant and equipment	-	-	-	0.0	-0.5	-1.5	-	-85.0	-6.9	-93.9
other	-	-	-	0.0	-	-0.8	-	-	-0.4	-1.2
Fair value change, including:	0.0	0.0	0.0	0.0	-7.1	0.0	0.0	0.0	0.0	-7.1
included in income statement*	-	-	-	0.0	-7.1	-	-	-	-	-7.1
Closing gross value	731.5	44.7	1.3	777.5	419.8	476.5	459.6	385.5	26.4	2,545.3
Opening accumulated depreciation	-262.0	-22.3	-0.9	-285.2	-162.9	-296.1	-293.6	-377.1	0.0	-1,414.9
Changes in the period, including:	-76.3	-6.6	-0.3	-83.2	-11.9	-92.3	-43.4	50.4	0.0	-180.4
depreciation charges	-93.1	-10.7	-0.3	-104.1	-14.2	-29.3	-43.9	-13.1	-	-204.6
reduction in scope and early termination of the contract	16.8	4.1	-	20.9	-	-	-	-	-	20.9
reclassification to non-current assets held for sale	-	-	-	0.0	1.8	0.1	-	0.9	-	2.8
reclassification to/from another category of property, plant and equipment	-	-	-	0.0	0.5	-63.1	-	62.6	-	0.0
other	-	-	-	0.0	-	-	0.5	-	-	0.5
Closing accumulated depreciation	-338.3	-28.9	-1.2	-368.4	-174.8	-388.4	-337.0	-326.7	0.0	-1,595.3
Closing net value	393.2	15.8	0.1	409.1	245.0	88.1	122.6	58.8	26.4	950.0

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



2021

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

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

**Contractual obligations to purchase property, plant and equipment**

In 2022, the Group concluded agreements with counterparties that in the future will affect increase in the value of property, plant and equipment of PLN 20.0 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 2021, the Group had contracts (partly of a framework nature) regarding real estate (buildings and structures), investments in foreign fixed assets, fixed assets under construction and other fixed assets for the total amount of PLN 1.1 million

24. Intangible assets

	2022	2021
Goodwill obtained as a result of a branch of ING Bank NV contributed in kind	223.3	223.3
Software	169.2	138.9
Outlays for intangible assets	23.3	14.1
Other intangible assets	1.4	1.1
Total	417.2	377.4

Changes in 2022 and 2021 in particular groups of intangible assets are presented below.

2022

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	Total
Opening gross value	223.3	1,309.2	14.1	18.0	1,564.6
Additions, including:	0.0	106.6	118.1	1.3	226.0
purchases	-	-	118.1	-	118.1
investment takeovers	-	106.6	-	1.3	107.9
Reductions, including:	0.0	-2.6	-108.9	0.0	-111.5
investment takeovers	-	-	-107.9	-	-107.9
other	-	-2.6	-1.0	-	-3.6
Closing gross value	223.3	1,413.2	23.3	19.3	1,679.1
Opening accumulated depreciation	0.0	-1,170.3	0.0	-16.9	-1,187.2
Changes in the period, including:	0.0	-73.7	0.0	-1.0	-74.7
depreciation charges	-	-73.7	-	-1.0	-74.7
Closing accumulated depreciation	0.0	-1,244.0	0.0	-17.9	-1,261.9
Closing net value	223.3	169.2	23.3	1.4	417.2

2021

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



Contractual obligations to purchase intangible assets

In 2022, the Group concluded agreements with contractors for the future purchase of intangible assets for a total amount of PLN 70.9 million, however, due to the framework nature of some of the agreements, this amount is not the target amount. These agreements, as in the previous year, concern the purchase of licenses and the implementation of computer software.

At the end of 2021, the Group had contracts (partly of a framework nature) for the purchase of licenses and software implementation for a total amount of PLN 25.0 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 13.34% representing the weighted average cost of capital, estimated on the basis of the risk-free rate (6.86%), beta factor (1.08) and share price risk premium (6.00%), was used to discount the flows as at 2022 yearend. As at 2021 yearend, the discount rate used to discount the flows was 8.97% and was estimated based on a risk-free rate of 3.67%, a beta factor of 1.06 and a share price risk premium of 5.00%. Other assumptions include the nominal growth rate after the forecast period (3.5% at the end of 2022 and 2.5% at the end of 2021).

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cash flows generated during the continued use. The cash flow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cash flow forecasts are based on mid-term plan approved by the Group and the strategy covering the maximum period of the next three

years. The data regarding the subsequent years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Group’s forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

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

As at 31 December 2022, the sensitivity analysis of the goodwill impairment test shows that:

- 1) increasing the discount rate by 1 p.p. would result in a decrease in the surplus of net cash flows over the net book value of the cash-generating unit by 28% (compared to 27% at the end of 2021),
- 2) reduction of the discount rate by 1 p.p. would result in an increase in the surplus of net cash flows over the net book value of the cash-generating unit by 34% (compared to 36% at the end of 2021).

**25. Deferred tax****Movements in temporary differences during the year****2022**

	Opening balance	Changes carried through profit or loss	Changes carried through other comprehensive income	Closing balance
Deferred tax assets				
impairment for expected credit losses	340.3	63.7	-	404.0
valuation of operational leasing	116.7	49.0	-	165.7
revaluation of financial instruments	421.8	-338.5	58.6	141.9
employee benefits	75.9	1.0	-	76.9
provisions	105.1	37.8	-	142.9
settlement of the difference between tax and balance sheet depreciation	14.5	3.6	-	18.1
tax losses	544.5	493.6	-	1,038.1
effective interest rate adjustment	0.0	90.9	-	90.9
other	12.2	0.3	-	12.5
Total	1,631.0	401.4	58.6	2,091.0
Deferred tax losses				
revaluation of financial instruments	123.2	-	-22.5	100.7
accrued interest	213.3	-52.7	-	160.6
effective interest rate adjustment	45.7	-45.7	-	0.0
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	0.9	-0.2	-	0.7
valuation of financial leasing	1.3	-0.7	-	0.6
other	1.6	-1.4	-	0.2
Total	386.0	-100.7	-22.5	262.8
Deferred tax disclosed in the balance sheet, of which:	1,245.0	502.1	81.1	1,828.2
Deferred tax assets				1,828.6
Deferred tax losses				0.4

2021

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

**Deferred tax recognised directly in equity**

	2022	2021
Deferred tax in accumulated other comprehensive income, due to:	-27.4	55.0
financial assets valued through other comprehensive income - debt instruments	-12.0	42.6
financial assets valued through other comprehensive income - equity instruments	18.4	27.2
property, plant and equipment	0.1	0.1
cash flow hedges	-29.6	-9.9
actuarial gains/losses	-4.3	-5.0
Deferred tax in retained earnings due to:	1.3	0.0
incentive employee programs	1.3	0.0
Total	-26.1	55.0

26. Other assets

	2022	2021
Prepayments, including:	105.1	164.2
accrued income	55.6	95.0
due to commissions	2.0	22.5
due to general and administrative expenses	47.5	46.7
Other assets, including:	52.7	122.3
settlements with recipients	17.0	16.2
public and legal settlements	23.7	104.9
non-current assets held for sale	2.2	0.0
other	9.8	1.2
Total	157.8	286.5
including financial assets	50.5	122.3

Non-current assets held for sale

The amount of non-current assets held for sale as at 31 December 2022 consisted of one property, reclassified from property, plant and equipment. The property is available for immediate sale in its current condition. The Group intends to sell this property using the services of specialized companies that search for buyers using a variety of available means (advertisements, dedicated mailing, contact with other brokerage offices, etc.). The real estate is to be sold within 12 months from the date of reclassification.

As at 31 December 2021, the Group did not have any non-current assets held for sale.

The table below presents the change in non-current assets held for sale in 2022 and 2021.

	2022	2021
Opening value	0.0	3.6
Additions, including:	3.6	4.6
reclassification from property, plant and equipment	3.6	4.6
Reductions, including:	-0.9	-8.2
sale	-0.9	-8.0
reclassification to property, plant and equipment	-	-0.2
fair value change, including:	-0.5	0.0
included in income statement*	-0.5	0.0
Closing value	2.2	0.0

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

**26.1. Quality of other financial assets**

	2022			2021		
	gross	impairment for expected credit loss	net	gross	impairment for expected credit loss	net
assets in Stage 1	50.5	0.0	50.5	122.3	0.0	122.3
assets in Stage 3	44.0	-44.0	0.0	42.6	-42.6	0.0
Total	94.5	-44.0	50.5	164.9	-42.6	122.3

Changes in impairment for expected credit losses

	2022			2021		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Opening balance impairment	0.0	42.6	42.6	0.0	41.0	41.0
Changes in the period, including:	0.0	1.4	1.4	0.0	1.6	1.6
additional provision for expected credit losses	0.0	7.0	7.0	0.0	6.6	6.6
exclusion from the statement of financial position as a result of write-down	0.0	-0.8	-0.8	0.0	-1.9	-1.9
exclusion from the statement of financial position due to repayment	0.0	-4.8	-4.8	0.0	-3.1	-3.1
Odpis na koniec okresu	0.0	44.0	44.0	0.0	42.6	42.6

Reconciliation of the gross carrying amount

	2022			2021		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Opening balance of gross carrying amount	122.3	42.6	164.9	76.4	41.0	117.4
Changes in the period, including:	-71.8	1.4	-70.4	45.9	1.6	47.5
transfer to Stage 3	-7.0	7.0	0.0	-6.6	6.6	0.0
exclusion from the statement of financial position due to write-down	0.0	-0.8	-0.8	0.0	-1.9	-1.9
recognition of new financial instruments, repayments and other changes	-64.8	-4.8	-69.6	52.5	-3.1	49.4
Closing gross value	50.5	44.0	94.5	122.3	42.6	164.9

27. Liabilities to other banks

	2022	2021
Current accounts	487.7	413.4
Interbank deposits	71.5	3,507.1
Loans received*	4,994.0	3,871.7
Repo transactions	0.0	1,991.4
Received call deposits	80.0	242.2
Other liabilities	6.4	25.2
Total	5,639.6	10,051.0

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

Liabilities to other banks by maturity

	2022	2021
without specified maturity	491.4	412.7
up to 1 month	663.4	5,948.6
over 1 month and up to 3 months	875.4	288.6
over 3 months and up to 1 year	2,775.1	814.2
over 1 year and up to 5 years	635.1	2,474.2
over 5 years	199.2	112.7
Total	5,639.6	10,051.0

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

	2022	2021
Valuation of derivatives	1,602.3	949.0
Other financial liabilities measured at fair value through profit or loss, including:	601.5	730.6
book short position in trading securities	437.3	486.2
financial liabilities held for trading, including:	164.2	244.4
repo transactions	164.2	244.4
Total	2,203.8	1,679.6

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

Financial liabilities at fair value through profit or loss (excluding valuation of derivatives) by maturity

	2022	2021
up to 1 month	164.2	244.4
over 1 year and up to 5 years	263.6	211.5
over 5 years	173.7	274.7
Total	601.5	730.6

29. Liabilities to customers

	2022	2021
Deposits, including:	189,156.9	168,458.5
Corporate banking	84,656.4	69,029.9
current deposits	53,684.1	55,776.1
saving deposits	18,053.5	12,462.4
term deposits	12,918.8	791.4
Retail banking	104,500.5	99,428.6
current deposits	27,265.1	28,641.5
saving deposits	69,381.1	69,286.6
term deposits	7,854.3	1,500.5
Other liabilities, including:	3,574.4	2,151.4
liabilities under monetary hedges	742.9	476.3
call deposits	11.4	12.5
other liabilities	2,820.1	1,662.6
Total	192,731.3	170,609.9

Liabilities to customers by maturity

	2022	2021
without specified maturity	169,461.8	168,013.3
up to 1 month	12,403.0	1,086.4
over 1 month and up to 3 months	5,237.6	507.1
over 3 months and up to 1 year	5,587.0	955.2
over 1 year and up to 5 years	41.5	40.1
over 5 years	0.4	7.8
Total	192,731.3	170,609.9



30. Liabilities from debt securities issued

	2022	2021
Liabilities under issue of debt securities, including:		
Covered bonds issued by ING Bank Hipoteczny S.A.	404.8	396.8
Bonds issued by ING Bank Hipoteczny S.A.	0.0	575.6
Total	404.8	972.4

Liabilities under issue of debt securities by maturity

	2022	2021
up to 1 month	0.0	150.6
over 1 month and up to 3 months	0.0	425.0
over 1 year and up to 5 years	404.8	396.8
Total	404.8	972.4

Bond Programme

In 2022, under the Bond Issue Program (Bond Programme), the Group's subsidiary - ING Bank Hipoteczny S.A. – issued bonds with a total nominal value of PLN 361 million (i.e. 722 bonds with a nominal value of PLN 500 thousand each). The bonds were issued in three series:

- Series 7 with a nominal value of PLN 79 million and a redemption period of 3 months,
- Series 8 with a nominal value of PLN 148 million and a redemption period of 3 months,
- Series 9 with a nominal value of PLN 134 million and a redemption period of 3 months.

The bonds were registered with the National Depository for Securities in Warsaw. The bonds were fully acquired by an entity from the Bank's Capital Group.

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

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

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

In 2022, ING Bank Hipoteczny S.A. redeemed all bonds issued under the Bond Program in 2021 and series 7 and 8 bonds issued in 2022.

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

At the end of 2022, the total nominal value of own bonds issued and not redeemed by entities from the Group amounted to PLN 0 million, compared to PLN 575 million at the end of 2021.

Covered bonds

At the end of 2022 and 2021, the Group had liabilities arising from the issue of covered bonds issued as part of the ING Bank Hipoteczny S.A. covered bond issue programme established in 2019 (Covered Bond Programme). The purpose of establishing the Programme was to create a legal infrastructure under which the Group will be able to issue covered bonds both on the local and foreign market. The funds obtained from the inaugural 5-year "green" issue, carried out under the Program, will be used to refinance PLN mortgage loans of natural persons secured on real estate belonging to 15% of the most energy-efficient buildings in Poland. The issue will be redeemed in October 2024.



31. Subordinated liabilities

ING Bank Śląski has in its balance sheet two subordinated loans resulting from agreements with the parent entity, i.e. with ING Bank N.V. based in Amsterdam. These are:

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

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

At the end of 2022, the carrying amount of subordinated loans totaled PLN 1,643.9 million (PLN 1,610.3 million at the end of 2021).

32. Provisions

	2022	2021
Provision for off-balance sheet liabilities	107.9	78.6
Provision for retirement benefits	74.0	73.9
Provision for disputes	34.9	42.4
Provision for restructuring	49.4	67.6
Provision for legal risk of FX mortgage loans *	53.7	37.6
Other provisions	39.1	36.8
Total	359.0	336.9

*) The figures presented for 2022 and 2021 represent the provision relating to CHF-indexed mortgages derecognised from the statement of financial position. With respect to CHF-indexed mortgage loans recognised in the statement of financial position, the Group estimates the adjustment to the gross carrying amount and recognises it in the consolidated statement of financial position, under *Loans and other receivables to customers measured at amortised cost*. In Chapter III. *Significant accounting principles*, in item **3.6. Write-downs and portfolio provisions related to the portfolio of mortgage loans indexed to the CHF exchange rate** are presented the change in 2022 and 2021 of both provisions and adjustment to the gross carrying amount due to the legal risk of CHF-indexed mortgages.

The tables below present the movements in the individual provisions in 2022 and 2021.



2022

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for disputes	Provision for restructuring	Provision for legal risk	Other provisions	Total
	Stage 1	Stage 2	Stage 3	Total						
Opening balance	32.8	22.4	23.4	78.6	73.9	42.4	67.6	37.6	36.8	336.9
provisions recognised/ reversed	6.5	31.6	-8.8	29.3	4.8	24.1	-	21.4	6.2	85.8
reclassification due to full repayment of loans	-	-	-	0.0	-	-	-	3.0	-	3.0
utilisation	-	-	-	0.0	-0.1	-31.6	-18.2	-8.3	-3.9	-62.1
actuarial gains/losses	-	-	-	0.0	-4.6	-	-	-	-	-4.6
Closing balance	39.3	54.0	14.6	107.9	74.0	34.9	49.4	53.7	39.1	359.0
Expected provision settlement period:										
up to 1 year				0.0	5.5	13.6	4.1	0.0	12.8	36.0
over 1 year				107.9	68.5	21.3	45.3	53.7	26.3	323.0

2021

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



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 2022 stood at 7% (2.8 % at the end of 2021). The actuarial valuation-based provision is recognised and reviewed per annum.

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

	2022	2021
Opening balance	73.9	63.8
Costs included in the income statement, including:	6.8	4.8
regular employment costs	4.8	4.1
costs of interest	2.0	0.7
Actuarial gains / losses	-4.9	7.0
Paid benefits	-1.8	-1.7
Closing balance	74.0	73.9

Provision for disputes

The value of the proceedings conducted in 2022 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 2022 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Group’s financial liquidity, individually or in total.

Provision for restructuring

The provision for restructuring was recognized as a result of the Bank’s transformation first initiated in 2016. The effect will be a gradual reduction of the number of employees due to, among others, switching to remote channels, digitalization and automation of processes and further reduction of the number of branches. The provision is expected to be utilised during 2023 and 2024.

Legal risk related to the portfolio of loans indexed to CHF

Significant assumptions regarding the calculation of the amount of the adjustment to gross carrying amount due to legal risk for the portfolio of CHF-indexed mortgage loans reported in the statement of financial position and the amount of provisions for CHF-indexed mortgage loans already removed from the statement of financial position as at 31 December 2022 are described in chapter III. *Significant accounting principles*, in point 3.6.

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.

The most important findings of the Court of Justice of the European Union (CJEU) and the Supreme Court in recent years regarding loan agreements indexed or denominated in foreign currencies are presented below.

On 3 October 2019, the CJEU issued a judgment concerning the possible consequences of recognizing by a national court that a given contractual provision is abusive. The Court confirmed that the evaluation of the contract should not be automatic. It is up to the national court to assess whether, after finding that a given provision is abusive, the contract - in accordance with national law - cannot continue to be in force without such a provision. It is also for the national court to assess the potential consequences for the consumer of the annulment of the credit agreement in question.

On 7 May 2021, the Civil Chamber of the Supreme Court, composed of 7 judges, adopted a resolution, at the same time giving this resolution the force of a legal principle, which means that it will affect the jurisprudence of the courts. The Supreme Court decided that the provision considered abusive (ineffective) from the beginning is not binding. In addition, according to this resolution, if the court finds the loan agreement invalid, each party will settle separately. Thus, the Supreme Court upholds the position that the bank's and the consumer's claims are independent and do not automatically offset each other. The Supreme Court did not decide that each indexed or denominated loan agreement should be annulled. A finding that a contractual provision is abusive should, as a rule, result in the application by national courts of such solutions that restore the balance. According to the Supreme Court, the contract should be considered definitively ineffective if the consumer - duly informed about the consequences - does not agree to be bound by a provision considered abusive.

On 11 May 2021, a meeting of the full composition of the Civil Chamber of the Supreme Court took place. During the session, the motion of the First President of the Supreme Court of 29 January 2021 was to be considered to adopt a resolution on legal issues related to loans denominated and indexed in foreign currencies, such as:

- whether it is possible to adopt a different method of determining the foreign currency exchange rate in the loan agreement resulting from the law or custom,
- if it is impossible to adopt a foreign currency exchange rate resulting from the provisions of law or custom, the contract may be binding in the remaining scope,
- whether in the event of invalidity or ineffectiveness of the contract, separate claims of the parties to the contract arise, or does one compensated benefit arise,



- whether in the event of invalidity or ineffectiveness of the agreement, the party (parties) is entitled to demand remuneration for the use of its funds by the other party.

The Civil Chamber of the Supreme Court adjourned the meeting indefinitely. Until the date of approval of these financial statements, the meeting has still not been held.

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 statement of financial position.

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

On 8 September 2022, the CJEU issued a judgment on mortgage loans denominated in a foreign currency. This judgment confirmed the position already presented by the Court in the past, i.e. in the judgment of 3 October 2019, according to which, if the consumer objects to it, the national court cannot replace the unfair contract term concerning the exchange rate with an optional provision of domestic law. Nor can the national court remove only the element of a contractual term which renders it genuinely unfair, leaving the remainder of it effective, if such removal would amount to altering the content of the term which affects its substance. If the loan agreement cannot continue to apply without a clause containing an unfair term, it should be declared invalid in absolute terms. The Tribunal also stated that the limitation period for the customer's claims may begin only when the consumer becomes aware of the unfair terms of the contract. The date of signing the contract does not matter.

On 16 February 2023, the Advocate General of the CJEU issued an opinion in case regarding the answer to the question of the referring court as to whether the provisions of EU law preclude judicial interpretation of national provisions, according to which if a loan agreement concluded by a bank and the consumer is invalid from the beginning due to the conclusion of unfair contract terms, the parties, in addition to the refund of money paid in the

performance of this contract (bank - loan principal, consumer - installments, fees, commissions and insurance premiums) and statutory interest for delay from the time of request to payment, may also demand any other benefits, including receivables (in particular remuneration, compensation, reimbursement of costs or indexation of the benefit).

The Advocate General pointed out that Directive 93/13 does not regulate how the parties to an indexed credit agreement should settle accounts if it is deemed invalid. Therefore, the answer to the question whether the consumer may request the bank to reimburse the costs of using the installments paid should be sought in national law. If national law allows such a consumer claim, the Directive does not prevent it. As to the bank's claims, the Advocate General indicated that Directive 93/13 precluded these claims.

The Advocate's opinion does not prejudice the decision and is not binding on the CJEU. Therefore, the judgment of the CJEU may be different from the one proposed by the Advocate General.

Settlement programme

From 25 October 2021, the Bank offers the possibility for borrowers to conclude voluntary settlements in accordance with the proposal presented in December 2020 by the Chairman of the Polish Financial Supervision Authority. The Bank's customers may submit a request for mediation through the Mediation Center of the Court of Arbitration of the Polish Financial Supervision Authority. The mediation process can be used by customers who have a housing mortgage loan or a housing construction and mortgage loan indexed with the CHF exchange rate at the Bank for their own housing purposes, excluding mortgage loans and the above-mentioned loans, where one of the purposes of lending was to consolidate non-housing liabilities. A mediation agreement can only be signed for one of the active housing loans. The conversion takes place on the terms presented by the Chairman of the Polish Financial Supervision Authority. Detailed rules for the settlement of the loan and determination of the type of interest rate for the future are the subject of arrangements in the mediation process before the Polish Financial Supervision Authority in accordance with the current offer of settlements offered by the Bank.

From the moment the settlement programme was launched until the end of 2022, clients filed 1,236 settlement applications and the Bank concluded 459 agreements under the programme.



Other provisions

Provision for commission refunds on prepaid consumer loans

On 11 September 2019, the CJEU announced its judgment on consumer credit agreements. Detailed information on the judgment and the related position of the President of UOKiK is presented in Chapter III. *Significant accounting principles*, in point 3.7.)

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

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

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

Proceedings on the application of practices infringing collective consumer interests regarding unauthorized transactions

On 22 June 2021, the UOKiK opened an investigation against ING concerning the Bank's replies to customer reports of unauthorized transactions, including the reimbursement of transaction amounts at D+1. In the course of the proceedings, the Bank repeatedly provides the explanations and documents required by the Office.

On 22 November 2022, the Bank received a notice from the UOKiK to initiate proceedings for a practice damaging the collective interests of consumers, together with a request to respond to the following allegations:

- 1) non-reimbursement to consumers within D+1 of the consumer requesting the return of the unauthorized transaction or restoring the account to the condition that would have existed if the unauthorized payment transaction had not taken place; the only exceptions, according to the UOKiK, are situations where the Bank informs the law enforcement authorities of the suspicion of a criminal offense by the consumer or 13 months have elapsed from the date on which the transaction was debited or the day on which the transaction was to

be executed; UOKiK claims that this may infringe Article 46(1) of the Payment Services Act and compromise the collective interests of consumers and, and may therefore constitute a practice that would be affected;

- 2) providing misleading information in response to a complaint by suggesting that the use of individual credentials means correct authentication, which in turn means demonstrating a correct authorization of transactions, which may mislead consumers regarding the obligations of the trader under Article 46 of the Act and the distribution of the burden of proof that the payment transaction has been authorized - which, according to the UOKiK, may constitute an unfair market practice and undermine the collective interests of consumers, and consequently constitute a practice that infringes the collective interests of consumers;
- 3) providing consumers with misleading, incorrect information about the correct authorization of transactions in response to a complaint, while pointing out the lack of consent of consumers to carry out a transaction (i.e. a lack of authorization) by indicating that the customer has led to the transaction as a result of a breach of one of the obligations referred to in Article 42 of the Act and that the customer is therefore fully liable for the transaction being advertised, and the recovery is possible as a result of action by the law enforcement authorities at the request of the injured party, which may constitute an unfair market practice and, consequently, constitute a practice which infringes the collective interests of consumers.

On 16 January 2023, the Bank sent a letter in the proceedings containing a very comprehensive explanation of its position rejecting the above-mentioned allegations, indicating both the correct interpretation of the provisions of the Payment Services Act in the Bank's opinion and the analysis of certain cases described in the order by the Office of Competition and Consumer Protection.

As at 31 December 2022, the Group has not identified any rationale for making provisions on this account.

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

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

The scope of the procedure relates to the provisions in various general terms and conditions, regulations and contracts concluded with consumers: for cash loans, overdraft limit, granting and repayment of loans in a brokerage account, using a credit card – in the version effective from 7 March 2016; for checking and checking accounts and



savings accounts – in the version effective from 9 November 2015; for maintaining payment accounts – in the version applicable from 6 August 2018; for prepaid cards – in the version valid from 1 January 2016.

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

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

In the letter of 13 May 2021, the Office for Competition and Consumer Protection notified the Bank that the collection of evidence had been completed. The Office for Competition and Consumer Protection decided to extend the deadline for the completion of the proceedings until 30 April 2023.

As at 31 December 2022, the Group has not identified any rationale for making 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

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

From this decision, among others The bank appealed to the Court of Competition and Consumer Protection (SOKiK). By ruling on 12 November 2008, SOKiK changed the decision of UOKiK, so that it did not find any practice restricting competition. On 22 April 2010, this judgment was quashed by a judgment of the Court of Appeal, which referred the case to SOKiK for re-examination. On 27 April 2021, the files of the main case regarding the interchange fee were submitted to SOKiK. After an exchange of pleadings between the parties, a hearing was held on 29 November 2022.

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 2022, the value of the provision was PLN 14.1 million.

PFSA proceedings

- On 12 October 2018, the Polish Financial Supervision Authority imposed a fine on the Bank in the amount of PLN 500 thousand, pursuant to Art. 232 sec. 1 of the Act on Investment Funds and Alternative Investment Funds Management, in the wording before the amendment made by the Act of 31 March 2016, in connection with the breach of 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. In the judgment of 7 April 2021, the Provincial Administrative Court overruled the decision of 12 October 2018 and the decision of the Polish Financial Supervision Authority of 12 August 2020 upholding this decision.

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

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



Rynku Polskiego 2 and Article 9() of the above mentioned Act. The proceedings were extended to August 2021, then to November 2021.

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

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

The fine of PLN 4.3 million was paid. On 21 November 2022, the Bank filed a complaint with the Provincial Administrative Court. Pursuant to the content of the complaint, the Bank demands that the Decision imposing an administrative penalty be repealed in its entirety.

- On 8 June 2021, the Bank received a notice from the Polish Financial Supervision Authority (PFSA) on the initiation of ex officio administrative proceedings for the imposition of an administrative penalty in connection with suspected breaches identified as a result of an audit conducted from 20 to 24 May 2019 in the area of anti-money laundering and terrorist financing.

On 20 January 2022, the Bank received a decision under which the PFSA imposed an administrative penalty of PLN 3.0 million on the Bank for breaches relating to:

- 1) incorrect application of financial security measures involving the ongoing monitoring of the client's business relations,
- 2) a failure to apply, and adequately intensify, financial security measures on an ongoing basis where there is a higher risk of money laundering or terrorist financing,
- 3) lack of documentation on the financial security measures applied to investigate the source of funds and assets of Private Banking segment clients.

In 2022, the Bank paid the above-mentioned administrative fine.

Other proceedings

- On 27 June 2021, the Bank received a notification from the General Inspector of Financial Information (GIFI) on the initiation of ex officio administrative proceedings regarding the imposition of an administrative penalty in connection with the suspected breach of obligations under the Act on counteracting money laundering and terrorist financing identified as part of an inspection carried out at the Bank in the period from 16 November 2020 to 7 March 2021.

On 31 August 2022, the Bank received a decision pursuant to which the GIFI imposed an administrative penalty on the Bank in the amount of PLN 21.7 million for violations related to:

- 1) apply and document security measures necessary to build customer knowledge and risk assessment, and
- 2) provide GIFI with full information regarding payments required by Art. 72 and Article 76 of the Act on counteracting money laundering and financing of terrorism.

In 2022, the Bank paid the above-mentioned administrative fine.

- On 23 January 2020, the Bank received a notice from the President of the Office for Personal Data Protection (President of the DPA) regarding the audit of the compliance of the processing of personal data with personal data protection regulations, i.e. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) and the Act of 10 May 2018 on personal data protection. On 9 December 2021, the Bank received a notice from the President of UODO on the initiation of ex officio administrative proceedings in this area. The Bank shall take the action required by law during the proceedings.

As at 31 December 2022, the Group has not identified any rationale for making provisions on this account.

**33. Other liabilities**

	2022	2021
Accruals, including:	952.0	889.9
due to employee benefits	333.4	348.0
of which variable remuneration programme	64.6	93.2
due to commissions	193.5	180.9
due to general and administrative expenses	425.1	361.0
Other liabilities, including:	3,597.6	1,733.5
lease liabilities	422.9	335.6
interbank settlements	2,355.9	709.1
settlements with suppliers	138.2	123.4
public and legal settlements	172.3	121.4
liability to pay to the BFG guarantee fund	171.6	155.5
liability to pay to the BFG resolution fund	199.0	148.0
other:	137.7	140.5
Total	4,549.6	2,623.4
Including financial liabilities	3,597.6	1,733.5

34. Equity**34.1. Share capital**

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

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

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

34.2. Accumulated other comprehensive income

The following table presents the balances of accumulated other comprehensive income as at 31 December 2022 and 31 December 2021, respectively. The tables on next page show the reconciliation of changes in accumulated other comprehensive income during 2022 and 2021.

	2022	2021
Accumulated other comprehensive income, including:		
from financial assets measured through other comprehensive income – debt instruments, including:	-347.5	79.7
deferred tax	12.0	-42.6
current tax *	69.2	23.7
from financial assets measured through other comprehensive income – equity instruments, including:	78.2	115.9
deferred tax	-18.4	-27.1
from property, plant and equipment, including:	0.4	0.3
deferred tax	-0.1	-0.1
from cash flow hedges, including:	-7,751.9	-2,994.5
deferred tax	29.6	9.8
current tax **	1,788.7	692.5
from actuarial gains / losses, including:	-18.5	-22.4
deferred tax	4.3	5.0
Total	-8,039.3	-2,821.0

*) 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 method of determining tax results on the purchase/sale of debt securities results in a different distribution of the results achieved in terms of valuation than for accounting purposes. Accounting unrealised valuation in accumulated other comprehensive income for CIT purposes becomes a real-ised valuation, on which the Bank pays current tax. For this reason the current tax is recorded for the part of the unre-alised 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 “settlement-to-market”, or “STM”, provided for by the Regulation of the KDPW/LCH/EUREX (CCP) in respect of the approach to the settlement of IRS and FRA instruments. Even though the effective portion of the de-rivative hedge instruments resulting from the measurement of derivative hedging instruments is recognised in other comprehensive income, due to the STM mechanism it is settled in cash and the amount paid to/ received from CCP represents tax income/ expense for the purpose of the corporate income tax (CIT). That is why the current tax is recognised in other comprehensive income. Details on the STM services are presented in note 17. *Valuation of derivatives*.



2022

	changes in the fair value of financial assets measured through other comprehensive income		property, plant and equipment	cash flow hedges	actuarial gains / losses	Total
	debt instruments	equity instruments				
Accumulated other comprehensive income - opening balance	79.7	115.9	0.3	-2,994.5	-22.4	-2,821.0
gains/losses on revaluation carried through equity	-411.3	-37.7	-	-6,064.6	-	-6,513.6
transfer to financial result in connection with the sale	-15.9	0.0	-	1,307.2	-	1,291.3
fixed assets revaluation	-	-	0.1	-	-	0.1
actuarial gains/losses	-	-	-	-	3.9	3.9
Accumulated other comprehensive income - closing balance	-347.5	78.2	0.4	-7,751.9	-18.5	-8,039.3

In the item *financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity* in relation to debt securities, changes in the fair value of items classified in this category have been presented, without taking into account the changes resulting from the valuation of the hedged risk , in terms of items covered by the fair value hedge accounting.

With respect to cash flow hedges:

- gains/losses on revaluation carried through equity - the amount of the effective part of the hedging relationship in the cash flow hedging strategy of the portfolio of financial assets/liabilities is presented.
- in the item *transfer to the financial result* - the amortization of the effective part of the hedging relationship of the cash flow hedging strategy was presented on the dates when the hedged item results in the profit or loss.

The rules relating to the above items are described in detail in Chapter III. *Significant accounting principles* in item 13.9.1. and in the section *Risk and capital management* in chapter III.1.10. *Hedge accounting*.

2021

	changes in the fair value of financial assets measured through other comprehensive income		property, plant and equipment	cash flow hedges	actuarial gains / losses	Total
	debt instruments	equity instruments				
Accumulated other comprehensive income - opening balance	353.4	100.8	5.8	3,480.0	-16.6	3,923.4
gains/losses on revaluation carried through equity	-248.0	22.2	-	-5,566.7	-	-5,792.5
transfer to financial result in connection with the sale	-25.7	-	-	-907.8	-	-933.5
sale of equity instruments measured at fair value through other comprehensive income	-	-7.1	-	-	-	-7.1
fixed assets revaluation	-	-	-0.3	-	-	-0.3
disposal of fixed assets	-	-	-5.2	-	-	-5.2
actuarial gains/losses	-	-	-	-	-5.8	-5.8
Accumulated other comprehensive income - closing balance	79.7	115.9	0.3	-2,994.5	-22.4	-2,821.0



34.3. Retained earnings

	2022	2021
Other supplementary capital	314.7	314.7
Reserve capital	12,994.3	10,868.8
General risk fund	1,215.2	1,215.2
Valuation of share-based payments	58.6	52.3
including deferred tax	-1.3	0.0
Retained earnings from previous years	0.0	506.7
Result for the current year	1,714.4	2,308.3
Total	16,297.2	15,266.0

2022

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share- based payments	Retained earnings from previous years	Result for the current year	Total
Retained earnings - opening balance	314.7	10,868.8	1,215.2	52.3	2,815.0	0.0	15,266.0
net result for the current period	-	-	-	-	-	1,714.4	1,714.4
profit written off to reserve capital	-	2,125.5	-	-	-2,125.5	-	0.0
dividend payment *	-	-	-	-	-689.5	-	-689.5
valuation of share-based payments	-	-	-	6.3	-	-	6.3
Retained earnings - closing balance	314.7	12,994.3	1,215.2	58.6	0.0	1,714.4	16,297.2

*) In 2022, the Bank paid a dividend from the profit for 2021 in the amount of PLN 689.5 million, i.e. PLN 5.30 per share.

2021

	Other supplementary capital	Reserve capital	General risk fund	Valuation of share- based payments	Retained earnings from previous years	Result for the current year	Total
Retained earnings - opening balance	314.7	10,193.4	1,215.2	51.9	1,833.3	0.0	13,608.5
net result for the current period	-	-	-	-	-	2,308.3	2,308.3
profit written off to reserve capital	-	675.4	-	-	-675.4	-	0.0
dividend payment *	-	-	-	-	-663.5	-	-663.5
disposal of fixed assets	-	-	-	-	5.2	-	5.2
sale of equity instruments measured at fair value through other comprehensive income	-	-	-	-	7.1	-	7.1
valuation of share-based payments	-	-	-	0.4	-	-	0.4
Retained earnings - closing balance	314.7	10,868.8	1,215.2	52.3	506.7	2,308.3	15,266.0

*) In 2021, the Bank paid a dividend from the profit for 2020 in the amount of PLN 663.5 million, i.e. PLN 5.10 per share.

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserve capital

The reserve capital is created irrespective of the supplementary capital from profit after tax write-offs, in the amount passed by the General Meeting. The reserve capital may be allocated to cover special costs and expenses, and also to increase the share capital from the Bank's funds. The decision on activation of the reserve capital is taken by the General Meeting.

General Risk Fund

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

Dividend payout

The dividend is paid based on the financial result determined in the separate annual financial statements of the Parent company and the Group companies. Details of the Group's dividend policy and divided payout constraints are included in the section Risk and equity management, in item **I.1.5. Dividend Policy**.



35. FX structure of assets and liabilities

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

	31 Dec 2022	31 Dec 2021
EUR	4.6899	4.5994
USD	4.4018	4.0600
CHF	4.7679	4.4484

2022

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	1,810.0	315.6	67.3	177.1	40.2	5.0	1.0	29.9	2,337.6
Loans and other receivables to other banks	760.2	4,066.0	867.0	73.1	16.6	1.5	0.3	260.3	5,161.1
Financial assets measured at fair value through profit or loss	1,699.2	75.0	16.0	54.3	12.3	0.0	0.0	123.8	1,952.3
Derivative hedge instruments	65.5	73.7	15.7	0.0	0.0	0.0	0.0	0.0	139.2
Investment securities	41,655.2	6,777.6	1,445.1	0.0	0.0	0.0	0.0	0.0	48,432.8
Transferred assets	125.2	0.0	0.0	0.0	0.0	0.0	0.0	38.6	163.8
Loans and other receivables to customers measured at amortised cost	129,654.5	23,695.2	5,052.4	758.7	172.4	132.6	27.8	733.6	154,974.6
Investments in associates accounted for using the equity method	178.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	178.9
Property, plant and equipment	950.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	950.0
Intangible assets	417.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	417.2
Current income tax assets	572.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	572.2
Deferred tax assets	1,828.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,828.6
Other assets	148.1	4.9	1.0	4.4	1.0	0.0	0.0	0.4	157.8
Total assets	179,864.8	35,008.0	7,464.5	1,067.6	242.5	139.1	29.1	1,186.6	217,266.1



2022

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Liabilities									
Liabilities to other banks	551.7	5,086.0	1,084.5	1.4	0.3	0.0	0.0	0.5	5,639.6
Financial liabilities measured at fair value through profit or loss	1,573.0	298.1	63.6	96.9	22.0	0.1	0.0	235.7	2,203.8
Derivative hedge instruments	282.1	87.4	18.6	0.0	0.0	0.0	0.0	0.0	369.5
Liabilities to customers	161,719.7	24,375.2	5,197.4	5,371.6	1,220.3	67.8	14.2	1,197.0	192,731.3
Liabilities from debt securities issued	404.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	404.8
Subordinated liabilities	0.0	1,643.9	350.5	0.0	0.0	0.0	0.0	0.0	1,643.9
Provisions	349.0	9.0	1.9	1.0	0.2	0.0	0.0	0.0	359.0
Current income tax liabilities	19.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.9
Deferred tax loss	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Other liabilities	4,250.1	296.4	63.2	2.1	0.5	1.0	0.2	0.0	4,549.6
Total liabilities	169,150.7	31,796.0	6,779.7	5,473.0	1,243.3	68.9	14.4	1,433.2	207,921.8
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Share premium	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Accumulated other comprehensive income	-7,970.9	-68.4	-14.6	0.0	0.0	0.0	0.0	0.0	-8,039.3
Retained earnings	16,298.4	-0.7	-0.1	-0.5	-0.1	0.0	0.0	0.0	16,297.2
Total equity	9,413.9	-69.1	-14.7	-0.5	-0.1	0.0	0.0	0.0	9,344.3
Total equity and liabilities	178,564.6	31,726.9	6,765.0	5,472.5	1,243.2	68.9	14.4	1,433.2	217,266.1
Contingent liabilities granted	39,402.0	7,475.2	1,593.9	1,257.5	285.7	0.0	0.0	23.5	48,158.2
Contingent liabilities received	15,984.1	1,008.3	215.0	410.2	93.2	0.0	0.0	78.6	17,481.2



2021

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Assets									
Cash in hand and balances with the Central Bank	842.0	180.0	39.1	38.1	9.4	3.1	0.7	36.8	1,100.0
Loans and other receivables to other banks	465.6	174.9	38.0	17.4	4.3	2.6	0.6	44.3	704.8
Financial assets measured at fair value through profit or loss	1,270.6	65.7	14.3	56.1	13.8	8.7	2.0	137.2	1,538.3
Derivative hedge instruments	142.2	108.2	23.5	0.0	0.0	0.0	0.0	0.0	250.4
Investment securities	39,580.0	6,004.4	1,305.5	0.0	0.0	0.0	0.0	0.0	45,584.4
Transferred assets	2,280.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,280.9
Loans and other receivables to customers measured at amortised cost	126,133.3	16,731.2	3,637.7	829.6	204.3	479.5	107.8	2,362.4	146,536.0
Investments in associates accounted for using the equity method	184.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	184.8
Property, plant and equipment	831.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	831.2
Intangible assets	377.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	377.4
Current income tax assets	734.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	734.5
Deferred tax assets	1,245.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,245.0
Other assets	278.0	7.9	1.7	0.4	0.1	0.0	0.0	0.2	286.5
Total assets	174,365.5	23,272.3	5,059.8	941.6	231.9	493.9	111.1	2,580.9	201,654.2



2021

	PLN	EUR		USD		CHF		other currencies	Total
		converted to PLN	in currency	converted to PLN	in currency	converted to PLN	in currency	converted to PLN	
Liabilities									
Liabilities to other banks	3,885.3	6,126.8	1,332.1	1.2	0.3	0.0	0.0	37.7	10,051.0
Financial liabilities measured at fair value through profit or loss	1,550.6	59.4	12.9	29.6	7.3	0.1	0.0	39.9	1,679.6
Derivative hedge instruments	117.7	117.7	25.6	0.0	0.0	0.0	0.0	0.0	235.4
Liabilities to customers	146,844.8	19,000.0	4,131.0	3,874.5	954.3	24.5	5.5	866.1	170,609.9
Liabilities from debt securities issued	972.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	972.4
Subordinated liabilities	0.0	1,610.3	350.1	0.0	0.0	0.0	0.0	0.0	1,610.3
Provisions	330.6	4.7	1.0	1.6	0.4	0.0	0.0	0.0	336.9
Current income tax liabilities	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9
Other liabilities	2,419.8	195.3	42.5	6.4	1.6	1.8	0.4	0.1	2,623.4
Total liabilities	156,125.1	27,114.2	5,895.2	3,913.3	963.9	26.4	5.9	943.8	188,122.8
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Share premium	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Accumulated other comprehensive income	-2,894.0	73.0	15.9	0.0	0.0	0.0	0.0	0.0	-2,821.0
Retained earnings	15,266.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15,266.0
Total equity	13,458.4	73.0	15.9	0.0	0.0	0.0	0.0	0.0	13,531.4
Total equity and liabilities	169,583.5	27,187.2	5,911.1	3,913.3	963.9	26.4	5.9	943.8	201,654.2
Contingent liabilities granted	41,191.6	6,118.9	1,330.4	1,348.8	332.2	2.3	0.5	32.2	48,693.8
Contingent liabilities received	20,083.5	1,110.5	241.4	376.4	92.7	0.0	0.0	75.0	21,645.4



36. Contingent liabilities

36.1. Contingent liabilities granted

	2022	2021
Undrawn credit facilities	37,223.5	38,972.4
Guarantees	7,455.1	6,215.5
Undrawn overdrafts in current account	1,549.7	1,563.2
Credit card limits	1,548.2	1,549.1
Letters of credit	381.7	393.6
Total	48,158.2	48,693.8

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

	2022	2021
up to 1 month	301.3	130.1
over 1 month and up to 3 months	726.0	893.7
over 3 months and up to 1 year	3,037.7	2,224.8
over 1 year and up to 5 years	2,555.6	2,110.2
over 5 years	834.5	856.7
Total	7,455.1	6,215.5

36.2. Contingent liabilities received

	2022	2021
Guarantees received	16,737.4	14,663.0
Financing	743.8	6,982.4
Total	17,481.2	21,645.4

Guarantee commitments received consist of collateral values for loans granted by the Bank. Funding commitments received include the value of deposits and loans that do not meet the criteria for recognition in the statement of financial position at the time of the financial statements.

37. Fair value

Wartość godziwa to kwota, za jaką składnik aktywów mógłby być wymieniony, lub zobowiązanie wykonane, pomiędzy dobrze poinformowanymi i zainteresowanymi stronami w bezpośrednio zawartej transakcji, innej niż sprzedaż pod przymusem lub likwidacja i jest najlepiej odzwierciedlona przez cenę rynkową, jeśli jest dostępna.

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

Based on the employed methods of determining the fair value, the Group classifies individual financial assets / liabilities into one of three categories, the so-called Valuation level. The description of the individual levels of valuation is included in Chapter III. *Significant accounting principles*, in item 13.7.

The tables below present the carrying amount of financial assets and liabilities broken down by individual measurement levels.



2022

	Level 1	Level 2	Level 3	Total
Financial assets, including:	16,300.7	1,591.7	175.6	18,068.0
Valuation of derivatives	-	974.9	-	974.9
Financial assets held for trading, including:	443.3	477.6	-	920.9
debt securities, including:	443.3	0.0	-	443.3
treasury bonds in PLN	441.7	-	-	441.7
Czech Treasury bonds in CZK	1.2	-	-	-
European Investment Bank bonds	0.4	-	-	0.4
repo transactions	-	477.6	-	477.6
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	1.8	-	54.7	56.5
loans are obligatorily measured at fair value through profit or loss	-	-	54.6	54.6
equity instruments	1.8	-	0.1	1.9
Derivative hedge instruments	-	139.2	-	139.2
Financial assets measured at fair value through other comprehensive income, including:	15,691.8	-	120.9	15,812.7
debt securities, including:	15,691.8	-	-	15,691.8
treasury bonds in PLN	12,153.8	-	-	12,153.8
treasury bonds in EUR	1,803.4	-	-	1,803.4
European Investment Bank bonds	1,308.9	-	-	1,308.9
Austrian government bonds	425.7	-	-	425.7
equity instruments	-	-	120.9	120.9
Transferred assets, including:	163.8	-	-	163.8
Treasury bonds in PLN from the portfolio of financial assets measured at fair value through profit or loss	125.2	-	-	125.2
bonds of the Czech State Treasury in CZK from the portfolio of financial assets measured at fair value through profit or loss	38.6	-	-	38.6
Financial liabilities, including:	437.3	2,136.0	0.0	2,573.3
Valuation of derivatives	-	1,602.3	-	1,602.3
Other financial liabilities measured at fair value through profit or loss, including:	437.3	164.2	-	601.5
book short position in trading securities	437.3	-	-	437.3
financial liabilities held for trading, including:	-	164.2	-	164.2
repo transactions	-	164.2	-	164.2
Derivative hedge instruments	-	369.5	-	369.5

2021

	Level 1	Level 2	Level 3	Total
Financial assets, including:	16,026.9	1,404.4	245.9	17,677.2
Valuation of derivatives	-	629.3	-	629.3
Financial assets held for trading, including:	301.1	524.7	-	825.8
debt securities, including:	301.1	0.0	-	301.1
treasury bonds in PLN	259.2	-	-	259.2
Czech Treasury bonds in CZK	41.4	-	-	-
European Investment Bank bonds	0.5	-	-	0.5
repo transactions	-	524.7	-	524.7
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	4.7	-	78.5	83.2
loans are obligatorily measured at fair value through profit or loss	-	-	78.4	78.4
equity instruments	4.7	-	0.1	4.8
Derivative hedge instruments	-	250.4	-	250.4
Financial assets measured at fair value through other comprehensive income, including:	14,211.5	-	167.4	14,378.9
debt securities, including:	14,211.5	-	-	14,211.5
treasury bonds in PLN	11,765.9	-	-	11,765.9
treasury bonds in EUR	1,022.9	-	-	1,022.9
European Investment Bank bonds	941.4	-	-	941.4
Austrian government bonds	481.3	-	-	481.3
equity instruments	-	-	167.4	167.4
Transferred assets, including:	1,509.6	-	-	1,509.6
treasury bonds in PLN from portfolio of financial assets measured at fair value through profit or loss	243.2	-	-	243.2
treasury bonds in PLN from portfolio of financial assets measured at fair value through other comprehensive income	1,266.4	-	-	1,266.4
Financial liabilities, including:	486.2	1,428.8	0.0	1,915.0
Valuation of derivatives	-	949.0	-	949.0
Other financial liabilities measured at fair value through profit or loss, including:	486.2	244.4	-	730.6
book short position in trading securities	486.2	-	-	486.2
financial liabilities held for trading, including:	-	244.4	-	244.4
repo transactions	-	244.4	-	244.4
Derivative hedge instruments	-	235.4	-	235.4



Movements between valuation levels

In 2021, as in 2020, there were no movements between the valuation levels.

Valuation of financial instruments classified to level 2

The Group classifies derivatives and repo transactions to level 2 of valuation.

Derivatives

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

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

The following are the input data for the models:

- the FX rate – obtained by the parties from the National Bank of Poland’s website,
- implied volatilities – obtained from Bloomberg,
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash flows at the transaction level. The fair value determined in that manner is the PV of those cash flows.

All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers. Market data quality is controlled during the daily contribution process for revaluation rates.

Derivatives are generally valued according to the concept of OIS curves with the assumption of the existence of transaction valuation collateral in the form of a deposit bearing interest at the ESTR rate. The exceptions are transactions in PLN and CZK subject to settlement within central clearing houses (LCH, KDPW, EUREX) and bilateral transactions concluded on the basis of an ISDA agreement with a CSA annex in the collateral currency of PLN or without the annex. For these transactions, the NPV is settled in the original currency, which is reflected in the valuation curves used (discount curve based on IBOR, FRA and IRS quotes).

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Valuation of financial instruments classified to level 3

The financial assets classified to level 3 of the valuation as at 31 December 2022 and as at 31 December 2021 include unlisted equity instruments and loans that did not meet the SPPI criterion according to IFRS 9.

Equity instruments

Fair value measurement of unquoted equity interests in other companies is based on the discounted cash flow, dividend or economic value added model. Estimates of future cash flows were prepared based on medium-term profitability forecasts prepared by the Management Boards of these companies. The discount rate is based on the cost of equity estimated using the CAPM (Capital Asset Pricing Model). At the end of 2022, it was in the range of 13.2%-15.2%, depending on the company, compared to 9.1%-11.1% at the end of 2021. Fair value measurement of unquoted equity interests in other companies as at 31 December 2022 and 31 December 2021 covered the following entities: Biuro Informacji Kredytowej S.A., Krajowa Izba Rozliczeniowa S.A. and Polski Standard Płatności sp. z o.o.

As at 31 December 2022, the sensitivity analysis of the valuation of equity instruments shows that:

- 1) adoption of the target dividend payout rate of +10 p.p. / -10p.p. compared to the base scenario, would result in an increase / decrease in the valuation by 10% (by 19% as at 31 December 2021), respectively;
- 2) adopting the cost of equity by -0.5 p.p. / +0.5pp compared to the base scenario, would result in a 6% increase / 5% decrease in the valuation (8%/7% as at 31 December 2021);
- 3) combining the effects of points 1) and 2) would result in an increase in the valuation by 17% / a decrease in the valuation by 15% (28%/24% as at 31 December 2021) respectively.

In 2022, the change in the valuation of equity instruments classified to level 3 included in other comprehensive income amounted to PLN -37.7 million (in 2021: PLN 22.2 million).

**Loans**

The fair value methodology of the loan portfolio is based on the discounted cash flow method. Under this method, for each contract being valued, expected cash flows are estimated, discount factors for particular payment dates and the value of discounted cash flows is determined as at the valuation date. Valuation models are powered by business parameters for individual contracts and parameters observable by the market, such as interest rate curves, liquidity cost and cost of capital. The change in the parameters adopted for the valuation did not have a significant impact on the valuation value as at 31 December 2022.

The discount rates for the above loans as at the end of 2022 amounted to approximately 6.7% (compared to approximately 2% at the end of 2021), while the sensitivity analysis of the fair value as at 31 December 2022 and 31 December 2021 indicates that with a change in the discount rate by + 1/-1 p.p. and no change in expected cash flows causes a change in fair value by approximately +/- 1%.

Both in 2022 and in 2021, the impact of the valuation of loans classified to valuation level 3 was insignificant (PLN 0 million in 2022 and PLN 0.2 million in 2021) 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

	2022			2021		
	loans obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	equity instruments measured at fair value through other comprehensive income	loans obligatorily measured at fair value through profit or loss	equity instruments measured at fair value through profit or loss	equity instruments measured at fair value through other comprehensive income
Opening balance	78.4	0.1	167.4	106.2	0.1	157.7
Additions, including:	0.0	0.0	0.0	0.2	0.0	17.9
valuation referred to accumulated other comprehensive income	-	-	-	-	-	17.9
Reductions, including:	-23.8	0.0	-46.5	-28.0	0.0	-8.2
loan repayments / disposal of investments	-23.8	-	-	-28.0	-	-7.1
valuation referred to accumulated other comprehensive income	-	-	-46.5	-	-	-
impairment of equity investments	-	-	-	-	-	-1.1
Closing balance	54.6	0.1	120.9	78.4	0.1	167.4



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

2022

	Level 1	Level 2	Level 3	Total
Own real property	-	-	245.0	245.0
Non-current assets held for sale	-	-	2.2	2.2

2021

	Level 1	Level 2	Level 3	Total
Own real property	-	-	259.2	259.2

Changes in non-financial assets classified to level 3 of the measurement are presented in this statement, note 23. Property, plant and equipment and 26. Other assets.

Fair value measurement

Own real property

The Group measures its property measured at fair value. Valuation is carried out by an independent appraiser using the income method in accordance with the applicable rules of property valuation.

As at 31 December 2022, the sensitivity analysis of the valuation of own real estate shows that assuming a capitalization rate of -0.5 p.p. / +0.5 p.p. compared to the baseline scenario, this would result in a 7% (PLN 19.5 million) increase / 6% (PLN 16.9 million) decrease in the valuation, respectively.

As at 31 December 2021, the sensitivity analysis of the valuation of own real estate shows that assuming a capitalization rate of -0.5 p.p. / +0.5 p.p. compared to the baseline scenario, this would result in a 7% (PLN 15.4 million) increase / 8% (PLN 17.6 million) decrease in the valuation, respectively

The results of real properties appraisals were presented in the income statement in the item General and administrative expenses (in note 8 in detailed item maintenance costs of buildings and real estate valuation to fair value).

As at 31 December 2022, the amount of PLN 0.1 million (including deferred tax) was recorded in the accumulated other comprehensive income related to real estate measured at fair value. As at 31 December 2021, this amount was PLN 0.3 million.

The value of the property measured at historical cost, taking into account impairment and amortization charges, would amount to PLN 244.5 million as at 31 December 2022, compared to PLN 258.8 million as at 31 December 2021.

Non-current assets held for sale

The Group recognizes non-current assets held for sale at the lower of the two: carrying amount and fair value less the costs of disposal of these assets. As at 31 December 2022, the amount of non-current assets held for sale consisted of one property reclassified from property, plant and equipment.

37.3. Financial assets and liabilities not measured at fair value in statement of financial position

The tables on the next page present a comparison of the carrying amount with the fair value for investment securities measured at amortized cost, the loan portfolio and amounts due to customers, liabilities arising from the issue of securities 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.

In 2022, the Group changed the valuation level for bonds for the National Road Fund issued by Bank Gospodarstwa Krajowego. In previous periods, they were presented in level 1 of the valuation, and starting from 2022, the Group presents them in level 2 of the valuation. In 2021, there were no shifts between valuation levels.



2022

	Carrying amount	Level 1	Fair value Level 2	Level 3	Total
Investment securities at amortised cost	32,620.1	20,778.2	8,287.3	0.0	29,065.5
treasury bonds in PLN	13,352.5	11,892.2	-	-	11,892.2
treasury bonds in EUR	3,192.1	2,838.1	-	-	2,838.1
European Investment Bank bonds	6,815.7	6,047.9	-	-	6,047.9
bonds of the Polish Development Fund (PFR)	3,858.4	-	3,124.8	-	3,124.8
Bank Gospodarstwa Krajowego bonds	1,802.1	-	1,564.0	-	1,564.0
NBP bills	3,599.3	-	3,598.5	-	3,598.5
Loans and receivables to customers at amortised cost, including:	154,974.6	0.0	0.0	156,104.1	156,104.1
Corporate banking segment, including:	90,285.8	0.0	0.0	91,692.1	91,692.1
loans and advances (in the current account and term ones)	66,462.9	-	-	67,771.6	67,771.6
lease receivables	12,363.5	-	-	12,406.4	12,406.4
factoring receivables	7,682.0	-	-	7,682.0	7,682.0
corporate and municipal debt securities	3,777.4	-	-	3,832.1	3,832.1
Retail banking segment, including:	62,805.4	0.0	0.0	62,528.6	62,528.6
mortgages	54,886.5	-	-	54,024.6	54,024.6
other loans and advances	7,918.9	-	-	8,504.0	8,504.0
Other receivables	1,883.4	-	-	1,883.4	1,883.4
Liabilities to customers	192,731.3	-	-	192,670.3	192,670.3
Liabilities from debt securities issued	404.8	-	-	409.8	409.8
Subordinated liabilities	1,643.9	-	-	1,298.8	1,298.8

2021

	Carrying amount	Level 1	Fair value Level 2	Level 3	Total
Investment securities at amortised cost	31,205.5	24,519.3	5,251.9	0.0	29,771.2
treasury bonds in PLN	15,311.5	14,533.1	-	-	14,533.1
treasury bonds in EUR	4,028.8	4,052.3	-	-	4,052.3
European Investment Bank bonds	5,695.2	5,431.6	-	-	5,431.6
bonds of the Polish Development Fund (PFR)	3,855.2	-	3,557.5	-	3,557.5
Bank Gospodarstwa Krajowego bonds	2,299.8	502.3	1,679.4	-	2,181.7
NBP bills	15.0	-	15.0	-	15.0
Transferred assets, including:	771.3	710.1	-	-	710.1
treasury bonds in PLN from portfolio of financial assets measured at amortised cost	771.3	710.1	-	-	710.1
Loans and receivables to customers at amortised cost, including:	146,536.0	0.0	0.0	146,008.6	146,008.6
Corporate banking segment, including:	77,756.3	0.0	0.0	78,216.9	78,216.9
loans and advances (in the current account and term ones)	56,524.2	-	-	57,056.2	57,056.2
lease receivables	11,090.0	-	-	11,275.0	11,275.0
factoring receivables	6,823.8	-	-	6,823.8	6,823.8
corporate and municipal debt securities	3,318.3	-	-	3,061.9	3,061.9
Retail banking segment, including:	65,530.4	0.0	0.0	64,542.4	64,542.4
mortgages	57,192.3	-	-	55,756.7	55,756.7
other loans and advances	8,338.1	-	-	8,785.7	8,785.7
Other receivables	3,249.3	-	-	3,249.3	3,249.3
Liabilities to customers	170,609.9	-	-	170,609.2	170,609.2
Liabilities from debt securities issued	972.4	-	-	961.6	961.6
Subordinated liabilities	1,610.3	-	-	1,594.7	1,594.7



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

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

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

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

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

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

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

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

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

In the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of loans granted in the last two-month period.

For that purpose, the following assumptions are adopted:

- use of the loans granted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

As a result for loans and other receivables, the fair value, that arises during calculation, is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio, the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio).

In the case of the portfolio of mortgage loans in PLN, the income method is used to measure them at fair value.

Key assumptions:

- for the needs of the valuation, the original schedule of principal and interest repayments is adjusted by taking into account prepayments, credit risk and adopting a timely structure of interest rates,
- credit risk parameters, i.e. PD lifetime and LGD, discounted for the purposes of the valuation, are included in the expected cash flows,
- for the purposes of estimating cash flows, prepayments are taken into account, estimated based on the analysis of historical data on the basis of the prepayment model used,
- the calculation of the discount rate adopted to estimate the value of cash flows takes into account all risks and costs, excluding the prepayment risk and credit risk costs reflected in the flows,
- prepayment risk and credit risk costs are reflected in cash flows,
- application of a calibration margin determined on the basis of the most recent production of the portfolio of mortgage loans, analogous to the portfolio being valued.

The fair value of the loan is calculated as the sum of discounted cash flows from principal repayments and interest payments, taking into account the prepaid capital and the cost of credit risk.

In the case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value.



Investment securities measured at amortised cost

In the case of investment securities measured at amortized cost, the fair value of disclosure securities that are quoted on an active market is determined based on the price in this market, for other securities in this portfolio the model described above in Loans and other receivables is used.

38. Offsetting financial instruments

The following disclosure relates to offsetting financial assets and financial liabilities that are subject to an enforceable contingent master agreement. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Group. Additional collateral for derivative exposures are security deposits, which the Group makes and receives as part of the so-called Credit Support Annex (CSA), i.e. attachments to ISDA agreements.

2022

Financial assets

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	1,114.1	1,114.1	-678.0	-90.2	345.9
valuation of derivatives	974.9	974.9	-552.7	0.0	422.2
derivative hedge instruments	139.2	139.2	-125.3	0.0	13.9
derivatives collateral	0.0	0.0	0.0	-90.2	-90.2
Securities loans with repurchase agreements received, including:	4,237.1	4,237.1	0.0	-4,129.6	107.5
transactions classified as loans and other receivables to other banks	3,759.5	3,759.5	0.0	-3,658.4	101.1
transactions classified as held for trading financial assets	477.6	477.6	0.0	-471.2	6.4
Total					453.4

Financial Liabilities

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,971.8	1,971.8	-678.0	-420.1	873.7
valuation of derivatives	1,602.3	1,602.3	-552.7	0.0	1,049.6
derivative hedge instruments	369.5	369.5	-125.3	0.0	244.2
derivatives collateral	0.0	0.0	0.0	-420.1	-420.1
Securities loans with repurchase agreements received, including:	164.2	164.2	0.0	-161.8	2.4
transactions classified as held for trading financial liabilities	164.2	164.2	0.0	-161.8	2.4
Total					876.1



2021

Financial assets

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	879.7	879.7	-556.2	-253.4	70.1
valuation of derivatives	629.3	629.3	-428.4	0.0	200.9
derivative hedge instruments	250.4	250.4	-127.8	0.0	122.6
derivatives collateral	0.0	0.0	0.0	-253.4	-253.4
Securities loans with repurchase agreements received, including:	524.7	524.7	0.0	-508.7	16.0
transactions classified as held for trading financial assets	524.7	524.7	0.0	-508.7	16.0
Total					86.1

Financial Liabilities

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including	1,184.4	1,184.4	-556.2	-214.3	413.9
valuation of derivatives	949.0	949.0	-428.4	0.0	520.6
derivative hedge instruments	235.4	235.4	-127.8	0.0	107.6
derivatives collateral	0.0	0.0	0.0	-214.3	-214.3
Securities loans with repurchase agreements received, including:	2,235.8	2,235.8	0.0	-2,202.1	33.7
transactions classified as held for trading financial liabilities	244.4	244.4	0.0	-243.1	1.3
transactions classified as liabilities to banks / customers	1,991.4	1,991.4	0.0	-1,959.0	32.4
Total					447.6

39. Custody activities

As at 31 December 2022, the Group maintained 485 securities accounts where securities for the Group's clients were stored (556 as at 31 December 2021). These accounts do not meet the definition of assets and are not included in the Group's consolidated financial statements.

At the end of 2022, the parent company of the Group acted as a custodian bank for 108 investment funds and sub-funds, 2 pension funds and performed the valuation of net asset value and net asset value per participation unit of 8 insurance capital funds (118 funds in total). For comparison, at the end of 2021, the parent company of the Group acted as a custodian bank for 122 investment funds and sub-funds, 2 pension funds and performed the valuation of net asset value and net asset value per participation unit of 8 insurance capital funds (132 funds in total).

40. Leasing – the Group as a lessor

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:

	2022	2021
up to 1 year	4.0	3.9
over 1 year and up to 2 years	3.2	3.7
over 2 years and up to 3 years	3.2	3.1
over 3 years and up to 4 years	3.2	3.1
Total	13.6	13.8

Finance lease

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



41. Additional information on consolidated cash flow statement

Cash and its equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts in other banks.

	2022	2021
Cash in hand (presented in note 14)	932.6	599.1
Balances with the Central Bank (presented in note 14)	1,405.0	500.9
Current accounts in other banks (presented in note 15)	329.1	95.0
O/N deposits in other banks (presented in note 15)	21.9	0.0
Other current receivables in other banks (presented in note 15)	361.1	182.6
Total	3,049.7	1,377.6

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.

Investing activity includes the purchase and sale of property, plant and equipment, intangible assets and equity instruments measured at fair value through other comprehensive income, as well as debt securities measured at amortized cost (excluding short-term treasury bills). Inflows from investing activities also includes dividends received from holding shares in other entities.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Group, including, for example, long-term loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of long-term liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Group and payment of dividends to the owners.

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

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

Difference 1:

Changes in the balance of individual assets and liabilities have been adjusted for interest, which is presented in the item *Interest received* (from assets) or *Interest paid* (from liabilities).

Difference 2:

The *Change in loans and other receivables to other banks* excludes the change in the balance of receivables constituting cash equivalents (accounts at other banks) and is presented under *Increase/decrease in net cash*.

Difference 3:

Changes in the valuation of fair value recognized in other comprehensive income are excluded from the changes in the balances of individual assets and liabilities.

Difference 4:

The items *Change in financial assets measured at fair value through profit or loss* and *Change in investment securities* include changes in debt securities presented in accordance with IFRS 9.3.2.23 (a), in a separate line item in the statement of financial position as *Transferred assets*.

Difference 5:

Changes related to the acquisition and sale or redemption of debt securities measured at amortized cost as well as changes related to the acquisition of equity instruments measured at fair value through other comprehensive income are excluded from the *Change in investment securities*. These changes are presented as cash flows from investing activities.

Difference 6:

The *Change in other assets* includes non-cash - apart from depreciation - changes in the carrying amount of property, plant and equipment and intangible assets as well as equity investments (cash changes related to these items are presented in cash flows from investing activities).

Difference 7:

The amount of repayment of lease liabilities, which was presented in cash flows from financing activities, was excluded from the *Change in other liabilities*.

Difference 8:

The *Change in other liabilities* includes non-cash - other than accrued and unpaid interest - changes in the balance sheet value of subordinated liabilities and liabilities from issuance of securities. The cash changes related to these items are presented in cash flows from financing activities.

Difference 9:

The *Change in other assets* includes a change in current income tax receivables, resulting from the deduction of tax liabilities for other taxes (tax on certain financial institutions and value added tax) from the overpayment for 2021.

Difference 10

The *Changes in liabilities to other banks* exclude the amounts of loans taken and the amounts of loan repayments for long-term financing of subsidiaries, which, together with the amount of interest repayment on these loans, were presented in cash flows from financing activities.

In the tables below, individual differences have been numbered in accordance with the above list.

2022

	change of balance		difference, including:	Difference 1	Difference 2	Difference 3	Difference 4	Difference 5	Difference 6	Difference 7	Difference 8	Difference 9	Difference 10
	in consolidated statement of financial position	in consolidated cash flow statement											
change in provisions	22.1	26.7	4.6	-	-	4.6	-	-	-	-	-	-	-
change in loans and other receivables to other banks	-4,456.3	-4,014.9	441.4	6.9	434.5	-	-	-	-	-	-	-	-
change in financial assets measured at fair value through profit or loss	-414.0	-325.7	88.3	8.9	-	-	79.4	-	-	-	-	-	-
change in investment securities	-2,848.4	-533.6	2,314.8	135.3	-	-573.7	2,037.7	715.5	-	-	-	-	-
change in hedge derivatives	245.3	-5,628.1	-5,873.4	-	-	-5,873.4	-	-	-	-	-	-	-
change in loans and other receivables to customers measured at amortised cost	-8,438.6	-8,197.2	241.4	241.4	-	-	-	-	-	-	-	-	-
change in other assets, including:	-	238.3		-	-	-	-	-	-	-	-	-	-
change in 'other assets' in the consolidated statement of financial position	128.7	128.7	0.0	-	-	-	-	-	-	-	-	-	-
other changes	-	109.6	109.6	-	-	-	-	-	-144.6	-	-	254.2	-
change in liabilities to other banks	-4,411.4	-5,517.5	-1,106.1	-5.1	-	-	-	-	-	-	-	-	-1,101.0
change in liabilities to customers	22,121.4	21,735.6	-385.8	-385.8	-	-	-	-	-	-	-	-	-
change in other liabilities, including:	-	2,071.4		-	-	-	-	-	-	-	-	-	-
change in 'other liabilities in the consolidated statement of financial position	1,926.2	2,030.6	104.4	-	-	-	-	-	-	104.4	-	-	-
other changes	-	40.8	40.8	-	-	7.6	-	-	-	-	33.2	-	-



2021

	change of balance		difference, including:	Difference 1	Difference 2	Difference 3	Difference 4	Difference 5	Difference 6	Difference 7	Difference 8	Difference 10
	in consolidated statement of financial position	in consolidated cash flow statement										
change in provisions	80.6	73.4	-7.2	-	-	-7.2	-	-	-	-	-	-
change in loans and other receivables to other banks	-0.2	-82.6	-82.4	0.8	-83.2	-	-	-	-	-	-	-
change in financial assets measured at fair value through profit or loss	279.3	233.3	-46.0	-2.9	-	-	-43.1	-	-	-	-	-
change in investment securities	8,586.2	5,571.7	-3,014.5	-61.6	,	-311.8	-1,274.8	-1,366.3	-	-	-	-
change in hedge derivatives	621.3	-7,371.8	-7,993.1	-	-	-7,993.1	-	-	-	-	-	-
change in loans and other receivables to customers measured at amortised cost	-21,880.7	-21,840.3	40.4	40.4	-	-	-	-	-	-	-	-
change in other assets, including:	-	-21.5	-	-	-	-	-	-	-	-	-	-
change in 'other assets' in the consolidated statement of financial position	-3.7	-3.7	0.0	-	-	-	-	-	-	-	-	-
other changes	-	-17.8	-17.8	-	-	-	-	-	17.8	-	-	-
change in liabilities to other banks	1,823.0	1,457.0	-366.0	-0.2	-	-	-	-	-	-	-	-365.8
change in liabilities measured at fair value through profit or loss	148.8	148.7	-0.1	-0.1	-	-	-	-	-	-	-	-
change in liabilities to customers	19,581.4	19,583.3	1.9	1.9	-	-	-	-	-	-	-	-
change in other liabilities, including:	-	432.0	-	-	-	-	-	-	-	-	-	-
change in 'other liabilities in the consolidated statement of financial position	317.4	426.2	108.8	-	-	-	-	-	-	108.8	-	-
other changes	-	5.8	5.8	-	-	-	-	-	-	-	5.8	-

Change in the balance of liabilities presented in financial activities of the consolidated statement of cash flows

2022

	loans received	liabilities from debt securities issued	subordinated liabilities	lease liabilities
Opening balance	3,871.7	972.4	1,610.3	335.6
changes from cash flows recognised in financing activities of the consolidated statement of cash flows, of which:	1,101.0	-589.9	-24.0	-104.4
incurring liabilities / issuing debt securities	2,423.8	-	-	-
repayment of liabilities / redemption of debt securities	-1,311.2	-575.0	-	-104.4
interest payments on liabilities	-11.6	-14.9	-24.0	-
non-cash changes included in operating activities of the consolidated statement of cash flows	21.3	22.3	57.6	191.7
Closing balance	4,994.0	404.8	1,643.9	422.9

2021

	loans received	liabilities from debt securities issued	subordinated liabilities	lease liabilities
Opening balance	3,517.1	1,370.5	2,309.2	393.7
changes from cash flows recognised in financing activities of the consolidated statement of cash flows, of which:	365.8	-404.3	-730.3	-108.8
incurring liabilities / issuing debt securities	1,852.6	575.0	-	-
repayment of liabilities / redemption of debt securities	-1,486.8	-975.0	-702.2	-108.8
interest payments on liabilities	-	-4.3	-28.1	-
non-cash changes included in operating activities of the consolidated statement of cash flows	-11.2	6.2	31.4	50.7
Closing balance	3,871.7	972.4	1,610.3	335.6

**42. Related entities**

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2022 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 2022, ING Bank Śląski S.A. had exposure to one of the Supervisory Board members at the end of 2022 in the form of a used credit card limit of PLN 5 thousand (PLN 12 thousand at the end of 2021).

The table below presents numerical information on receivables and payables, revenues and expenses as well as expenditures on fixed assets, which result from transactions concluded between entities related to the Group.

	2022			2021		
	ING Bank N.V.	Other ING Group entities	Associates	ING Bank N.V.	Other ING Group entities	Associates
Receivables						
Nostro accounts	2.2	174.4	-	5.8	6.0	-
Deposits placed	227.7	-	-	-	-	-
Loans	-	10.5	-	1.2	8.8	-
Positive valuation of derivatives	207.4	-	-	140.0	-	-
Reverse repo	3,759.3	-	-	-	-	-
Other receivables	4.4	3.8	-	4.8	1.4	-
Liabilities						
Deposits received	11.0	156.4	9.3	3,378.5	142.1	13.6
Loans received	4,994.0	-	-	3,871.6	-	-
Subordinated loan	1,643.8	-	-	1,610.4	-	-
Loro accounts	59.5	32.4	-	39.1	40.1	-
Negative valuation of derivatives	208.2	-	-	102.1	-	-
Other liabilities	92.0	9.7	-	119.3	2.5	-
Off-balance-sheet operations						
Off-balance sheet liabilities granted	532.2	759.2	0.1	503.1	790.1	0.1
Off-balance sheet liabilities received*	2,405.9	21.6	-	2,186.5	19.0	-
FX transactions	16,307.9	-	-	17,884.0	8.7	-
IRS	187.1	-	-	554.6	-	-
Options	400.5	-	-	1,020.1	16.7	-
Income and expenses						
Income, including:	-232.1	3.1	39.0	-34.0	11.4	52.6
net interest and commission income	-57.1	7.6	39.0	-36.3	6.2	52.6
net income on financial instruments	-177.3	-5.4	-	1.0	3.9	-
net (loss)/income on other basic activities	2.3	0.9	-	1.3	1.3	-
General and administrative expenses	-176.8	-42.7	-	-171.4	-10.9	-
Outlays for non-current assets						
Outlays for intangible assets	3.1	-	-	-	-	-



*) At the end of 2022, the amount of *Off-balance sheet liabilities received* from ING Bank N.V. includes PLN 1,219.4 million due to the non-preferred senior loan agreement (NPS). On 22 December 2022 the Bank concluded with ING Bank N.V. the non-preferred senior loan agreement (“Loan”). The Loan amount is EUR 260 million. The Loan was granted for 6 years. The Bank has the right to prepay the Loan after the lapse of 5 years, provided the relevant approval of the Bank Guarantee Fund has been obtained. The Loan granted by ING Bank N.V. is the element of the SPE strategy for ING Group. Interest will be paid quarterly at the 3M EURIBOR rate plus margin. The Bank shall recognise the funds obtained from the Loan under the eligible liabilities for the purpose of the minimum requirement for own funds and eligible liabilities (“MREL”) at the transaction processing date being 5 January 2023.

43. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the ING Bank Śląski S.A. Group use loans on the same terms as other customers of the Bank (there are no preferential loans for employees). Loans to employees are included in the amount of loans to customers and as at 31 December 2022 amounted to PLN 390.5 million (excluding loans from the Social Fund). As at 31 December 2021, their value was PLN 213.8 million.

Granting a loan, cash loan, bank guarantee and surety for persons in the Bank's management is defined by a separate procedure and monitoring in accordance with the Regulation of the President of ING Bank Śląski S.A.

The financial statements for 2022 include credits, cash loans, bank guarantees and sureties for the management of the Bank (within the meaning of Art. 79 of the Banking Law) in the amount of PLN 56.2 million. As at 31 December 2021, their value was PLN 32.7 million.

In-House Social Benefits Fund

Employees can take advantage of various forms of social assistance under the Company Social Benefit Funds established in the entities of the Group. The balance of loans granted from the Company Social Benefits Fund as at 31 December 2022 amounted to PLN 1.1 million, compared to PLN 1.5 million as at 31 December 2021. The Company Social Benefits Fund amounted to PLN 19.0 million as at 31 December 2022 compared to PLN 11.4 million as at 31 December 2021.

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 2022 was presented in the chapter I. Bank and the Group details in point 7. ING Bank Śląski S.A. Management Board and Supervisory Board composition.

Emoluments of ING Bank Śląski S.A. Management Board Members

	2022	2021
Short-term employee benefits, including:		
remuneration	11.8	10.2
benefits	2.2	1.9
Total	14.0	12.1

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

	2022		2021	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	3.0	2.2	3.6	2.9
Phantom stock	1.5	1.1	3.6	2.9
Own stock	1.6	1.2	0.0	0.0
Total	6.1	4.5	7.2	5.8

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 2022 under the Variable Remuneration Programme have not yet been awarded.

In accordance with the remuneration system in force at the Bank, Members of the Bank's Management Board may be entitled to a bonus for 2022, part of which will be paid in 2023, and part will be deferred for subsequent years (2024 - 2030). The maximum achievable amount of the bonus for 2022, for which the provision was created, is PLN 10.6 million, including PLN 3.0 million for the cash payment in 2023, and PLN 7.6 million for the deferred part of the bonus. The final decision regarding the amount of the bonus will be made by the Supervisory Board of the Bank.

As at 31 December 2021, the provision for the cash payment of bonuses for Members of the Management Board of the Bank amounted to PLN 13.0 million. The bonus amount approved by the Supervisory Board in 2022, which concerned 2021, amounted to PLN 9.3 million.



In the years ended 31 December 2022 and 31 December 2021, no post-employment benefits were paid to Members of the Management Board.

Members of the Management Board have concluded non-competition agreements after ceasing to perform their functions in the Management Board of the Bank. In the event of not being appointed for a new term of office or being dismissed, Members of the Management Board are entitled to severance pay. Information on severance payments due to Members of the Management Board is included in their employment contracts and is payable only in the event of termination of the employment contract by the Bank for reasons other than those entitling to terminate the employment contract without notice.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members

The composition of ING Bank Śląski S.A. Supervisory Board as at the end of 2021 was presented in the chapter I. Bank and the Group details in point 7. ING Bank Śląski S.A. Management Board and Supervisory Board composition.

Emoluments of ING Bank Śląski S.A. Supervisory Board Members

	2022	2021
Short-term employee benefits, including:		
remuneration	0.9	0.8
Total	0.9	0.8

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2022, 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 2022 into the public domain.

44. Headcount

The headcount in the Group at the end of 2022 and 2021 was, respectively:

	2022	2021
Individuals	8,399	8,694
FTEs	8,358.4	8,642.9



45. Significant events after the balance sheet date

Resignation of a Member of the Supervisory Board.

On 26 January 2023 the Bank has received from Mr Aris Bogdaneris a letter of resignation from the capacity as Member of the Bank Supervisory Board effective as at the date of the next Ordinary General Meeting of the Bank, due to his plans to leave ING Group.

Intention to acquire Paymento Financial

On 27 January 2023, the Polish Financial Supervision Authority (PFSA) stated that there are no grounds to object to the acquisition by ING Investment Holding (Polska) S.A. - a 100% subsidiary of ING Bank Śląski - of a controlling stake in Paymento Financial S.A. After receiving the decision from the PFSA, the parties will proceed to finalize the transaction.

Paymento Financial S.A. provides professional financial services and IT solutions for the financial sector. The company is a National Payment Institution and its activity is subject to the supervision of the Office of the PFSA.

The acquisition of the technology company means strengthening the e-commerce competences at ING Bank Śląski S.A. and support in further development of the offer in this area.

Opinion of the Advocate General of the CJEU

On 16 February 2023, the Advocate General of the Court of Justice of the European Union (CJEU) issued an opinion in case regarding the answer to the question of the referring court as to whether the provisions of EU law preclude judicial interpretation of national provisions, according to which if a loan agreement concluded by a bank and the consumer is invalid from the beginning due to the conclusion of unfair contract terms, the parties, in addition to the refund of money paid in the performance of this contract (bank - loan principal, consumer - installments, fees, commissions and insurance premiums) and statutory interest for delay from the time of request to payment, may also demand any other benefits, including receivables (in particular remuneration, compensation, reimbursement of costs or indexation of the benefit).

The Advocate General pointed out that Directive 93/13 does not regulate how the parties to an indexed credit agreement should settle accounts if it is deemed invalid. Therefore, the answer to the question whether the

consumer may request the bank to reimburse the costs of using the installments paid should be sought in national law. If national law allows such a consumer claim, the Directive does not prevent it. As to the bank's claims, the Advocate General indicated that Directive 93/13 precluded these claims.

The Advocate's opinion does not prejudice the decision and is not binding on the CJEU. Therefore, the judgment of the CJEU may be different from the one proposed by the Advocate General.

The Bank took into account the opinion of the CJEU Advocate in the estimates regarding these financial statements. Calculation assumptions, in particular taking into account decisions regarding remuneration, both the amount of adjustments to the gross carrying amount resulting from legal risk for the portfolio of CHF-indexed mortgage loans disclosed 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 2022, is described in Chapter III.

Significant accounting policies, in point 3.6.



**Risk and equity
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Risk and equity management

I. Risk and capital management system

1.1. Risk management system

The risk management system is an integrated set of rules, mechanisms and tools (including, among others, policies and procedures) relating to risk-related processes. The role of the risk management system is risk management, adequate to the size and profile of the risk borne by the Group, through constant identification, measurement or assessment, monitoring, risk control, including risk mitigation and risk reporting along with the assessment of the effectiveness of the risk mitigation measures taken. As part of risk control, the Group hedges against risk or limits it by introducing appropriate control mechanisms, a system of limits and an adequate level of provisions (allowances), as well as capital and liquidity buffers.

Within the risk management system, the Group:

- has a specific frequency of risk measurement or assessment, which is adequate to the scale and complexity of the activity,
- applies formalised rules that are used to determine the size of undertaken risks and rules governing risk management,
- applies formalised procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- applies formalised limits that mitigate the risk and the rules of procedure if the limits have been exceeded, including introducing ways and means to eliminate exceeding the limits in the future,
- 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,
- has qualified staff of risk management units and provides training for employees of the first and second line of defense.

The risk management system is defined in the *General Principles of Credit, Market, Liquidity, Funding and Operational Risk Management and Mitigation at ING Bank Śląski S.A.*

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

- First line of defence - responsible for compliance with the principles resulting from the approved policies, regulations, instructions and procedures. The scope of responsibilities of the first line of defense includes, among others, the analysis, control and management of risks in processes, including in relation to outsourced activities. These are the Bank's business and organizational units that support the business operationally and technologically and units responsible for environmental risk.
- Second line of defence - responsible for issuing regulations and providing risk management methods and tools, including supporting the first line of defense during this process. As part of its control activities, it performs its own independent assessment of the effectiveness of the functioning of the first line of defense through: inspections, tests, reviews and other forms of control. It also supports the first line of defense in terms of control mechanisms. The second line of defence consists of units from the area of:
 - operational risk
 - compliance risk
 - legal risk
 - credit and market risks
 - finance
 - HR management and Credit Risk Inspection Department and Model Validation Department.
- Third line of defence - provides an independent assessment of the adequacy and effectiveness of the risk management system and the internal control system in the first and second line of defense. The third line of defense is the Internal Audit Department.

The internal control system is defined in the *Internal Control System at ING Bank Śląski S.A. Policy*.

A special role in the risk management process is performed by the Bank's Management Board and Supervisory Board. The Bank operates a number of committees that are active in the management of specific risk types.



1.2. Principles of risk management

ING Bank Śląski S.A. manages credit, market and operational risks in compliance with Polish law, regulations of the Polish Financial Supervision Authority and other authorised authorities as well as in compliance with the standards set by the ING Group to the extent that does not breach the regulations referred to above and best practice documents.

Irrespective of the need to assure regulatory and legal compliance, the Group treats credit, market and operational risk management as a fundamental and integral part of overall management of the Group.

1.3. Risk appetite

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

- RAS covering capital adequacy,
- RAS covering liquidity and funding risk and market risk,
- RAS covering credit risk,
- RAS covering operational risk.

RAS on capital adequacy

In 2022, the Bank monitored the levels enabling the payment of dividend for the following capital ratios (with the dividend levels current as at a given date):

- Common Equity Tier 1 (CET1) ratio of at least 10.5%,
- Tier 1 (T1) ratio of at least 12.5%, and
- Total capital ratio (TCR) of at least 14.00%.

In RAS levels, the Bank maintained a systemic risk buffer of 3% for dividend purposes. The above RAS levels do not yet include the reduction of the buffer level of other systemically important institutions from 0.75% to 0.5%, of which the Bank was informed by the KNF on 20 December 2022.

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 2022 (as in 2021) was 2.5%,
 - the buffer of another systemic institution of 0.75% imposed by the decision of PFSA of 5 November 2021 (by the decision of the Polish Financial Supervision Authority received on 20 December 2022, the buffer level was reduced to 0.5%
 - the countercyclical buffer applies to the exposures to which such a buffer has been imposed by the competent authorities. The countercyclical buffer is variable over time depending on the structure of the relevant exposures and the levels of the countercyclical buffer rates imposed on the relevant exposures (at the end of December 2022 the countercyclical buffer was 0.005% effectively compared to 0.001% at the end of December 2021),
- Regulation of the Minister of Development and Finance of 1 September 2017 on the systemic risk buffer introducing a systemic risk buffer of 3% of the total risk exposure amount, applicable to all exposures located in the territory of the Republic of Poland (On 18 March 2020, the Ordinance of the Minister of Finance repealing the ordinance on the systemic risk buffer was published, however, following a prudent approach, the Bank monitors the dividend level, taking into account the size of the systemic risk buffer). For the purposes of the RAS, the dividend levels resulting from the dividend policy of the Polish Financial Supervision Authority do not include the capital add-on recommended under Pillar 2.

The capital adequacy RAS also defines capital limits for individual types of risk.

1.4. Own funds and capital requirements

1.4.1 Own funds

The Group's own funds consist of:

- Common Equity Tier 1 capital, which at the end of 2022 amounted to PLN 14,814.8 million,
- Tier 2 capital, which at the end of 2022 amounted to PLN 1,647.3 million.

As at 31 December 2022, the Group did not identify additional Tier 1 capital (AT1).



Own funds

	2022	2021*
Tier 1	14,814.8	15,125.0
Tier 1 core capital	14,814.8	15,125.0
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, including:	705.0	2,177.8
retained earnings in previous years	58.6	559.0
recognized profit	646.4	1,618.8
accumulated other comprehensive income	-287.4	173.4
reserve capital	13,309.0	11,183.5
general bank risk funds	1,215.2	1,215.2
goodwill and other intangible assets	-467.6	-425.1
transitional adjustments to Common Equity Tier 1 capital	379.2	280.5
value adjustments due to prudent valuation requirements	-20.1	-19.1
deferred tax assets based on future profitability and not arising from temporary differences after deducting related income tax liabilities	-1,038.1	-544.5
shortfall in credit risk adjustments against expected losses under the IRB approach	-60.0	0.0
shortfall in coverage for non-performing exposures	-6.8	-3.1
Tier 2	1,647.3	1,721.6
subordinated debt	1,641.5	1,609.8
surplus in provisions over the expected credit losses under the IRB approach	5.8	111.8
Own funds taken into account in total capital ratio calculation	16,462.1	16,846.6

*) On 7 April 2022, the Bank's General Meeting approved the distribution of profit for 2021. Including the net profit earned in 2021 as at 31 December 2021 in own funds resulted in an increase in own funds to PLN 16,846.6 million, which is presented in the table above. According to the value shown in the annual consolidated financial statements for 2021, the level of own funds amounted to PLN 15,689.9 million.

1.4.2 Capital requirement

In 2022 and 2021, for reporting purposes, the calculation of capital requirement relating to credit risk was made by the Group with an advanced method of internal ratings and the standard method. The Group obtained consent of the Polish Financial Supervision Authority and of the Dutch National Bank to apply the advanced internal rating method (AIRB) for the following exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z

o.o. In the area of operational risk, since June 2020, the Group applies the BIA (Basic Indicator Approach) method. In the area of market risk, the Group uses the basic method and the updated average return period method (depending on the type of risk). Additionally, the Group determines capital requirements relating to concentration risk, settlement risk and adjustment risk or credit valuation (CVA). In all the cases, the requirements are determined in compliance with the CRR.

The total capital requirement is dominated by the credit risk requirement. At the end of 2022, similarly to the end of 2021, it accounted for 88% of the total requirement.

1.4.3 Capital adequacy

On 31 December 2022, the total capital ratio (TCR) for the ING Bank Śląski Group amounted to 15.23% compared to 16.05% at the end of 2021, and the Tier 1 ratio amounted to 13.70% compared to 14.41% at the end of 2021.

The main drivers of the change in the total capital ratio are:

- as part of Common Equity Tier 1 capital:
 - increase in the negative impact of deferred tax assets based on future profitability and not resulting from temporary differences, in connection with the realized tax loss for 2022 as a result of the valuation of the IRS instrument portfolio - a decrease in the total capital ratio by 0.47 p.p.,
 - increase in the negative impact due to unrealized gains and losses on the portfolio measured at fair value through other comprehensive income, taking into account the temporary treatment in accordance with Art. 468 of Regulation 575/2013 - a decrease in the total capital ratio by 0.33 p.p.,
 - taking into account the profit for the first half of 2022, less expected dividends (PLN 646.4 million) - an increase in the total capital ratio by 0.60 p.p.,
- as part of the capital requirement:
 - increase in risk-weighted assets, including those resulting from model changes - a decrease in the total capital ratio by 0.46 p.p.

The excess of the total capital ratio over the regulatory requirement decreased from 4.80% to 3.72% and the excess of the Tier 1 ratio decreased from 5.16% to 4.19%.



Total capital ratio

	2022	2021*
Own funds used to calculate the total capital ratio	16,462.1	16,846.6
Capital requirements		
capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates	7,642.9	7,402.7
capital requirements relating to position risk, FX risk and risk of commodity prices	113.0	100.3
capital requirement for operational risk	893.1	893.1
Total capital requirement	8,649.0	8,396.1
Total capital ratio	15.23%	16.05%
Minimum required level	11.505%	11.251%
Surplus TCR ratio (p.p)	3.72	4.80
Tier 1 capital ratio	13.70%	14.41%
Minimum required level	9.505%	9.251%
Surplus T1 ratio (p.p)	4.19	5.16

*) On 7 April 2022, the Bank's General Meeting approved the distribution of profit for 2021. Including the net profit earned in 2021 as at December 31, 2021 in own funds resulted in an increase in the TCR and Tier1 ratios to 16.05% and 14.41%, respectively, which was presented in the table above. According to the values presented in the annual consolidated financial statements for 2021, the Group's TCR and Tier1 ratios as at 31 December 2021 were 15.08% and 13.47%, respectively.

In the calculation of capital ratios, the Group used transitional provisions to mitigate the impact of the implementation of IFRS 9 on the level of own funds. In addition, the Group applied the temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in accordance with Art. 468 of the CRR. If the Group does not apply the transition period for the purposes of implementing IFRS 9 or temporarily treat unrealized gains and losses measured at fair value through other comprehensive income in accordance with Art. 468 of the CRR Regulation, the total capital ratio as at 31 December 2022 would be 14.91% and the Tier 1 capital ratio at 13.39% (compared to 15.82% and 14.16% at the end of 2021, respectively).

Minimum capital requirements

On 20 December 2022, the Bank received a letter from the Polish Financial Supervision Authority regarding the change in the buffer level of other systemically important institutions, the adequate amount of which, based on the principles adopted by the Polish Financial Supervision Authority, was set at 0.5% of the total risk exposure amount. The KNF decision means that the buffer of other systemically important institution for the Bank has changed from 0.75% to 0.5%.

On 27 December 2022, the Bank received a letter from the Polish Financial Supervision Authority on the recommendation to limit the risk of the Bank's operations by maintaining own funds to cover the additional capital charge (P2G) to absorb potential losses resulting from the occurrence of stress conditions, in the amount of 0.50 p.p. at the consolidated level and 0.52 p.p. at the unit level. The Bank should meet the recommendation above the value of the total capital ratio (referred to in Article 92(1)(c) of Regulation No. 575/2013), increased by an additional requirement for own funds (P2R, referred to in Article 138(1)(c) of Regulation No. 575/2013). 2 point 2 of the Banking Law Act) and the combined buffer requirement (referred to in Article 55(4) of the Act on Macroprudential Supervision). P2G's capital add-on should consist entirely of Common Equity Tier 1 capital.

As a consequence, as at 31 December 2022, the minimum consolidated capital requirements for the Group are:

- CET1 \geq 8.00%,
- T1 \geq 9.50%,
- TCR \geq 11.50%.

1.5. Dividend policy

The most important assumptions of the Bank's dividend policy are as follows:

- stable realisation of dividend payments in a foreseeable perspective in the amount of up to 50% of the Bank's annual net profit in compliance with the prudent management principle and all regulatory requirements the Bank is obliged to comply with, and taking into account the adopted Best Practice for WSE Listed Companies 2021,
- a proposal to pay dividends in an amount higher than the ratio indicated above is possible if justified by the bank's financial situation (e.g. from retained earnings) and provided that all other requirements of the law and the dividend policy are met.
- possibility of dividend payouts from capital surplus over the minimum capital adequacy ratios and above the minimum levels of capital ratios determined by the Polish Financial Supervision Authority for dividend payouts.



When deciding on the proposed amount of dividend payment, the Bank’s Management Board takes into account the supervisory requirements communicated within the framework of the official communication of the PFSA concerning the dividend policy of banks, as well as the following considerations:

- the current economic and financial condition of the Bank and the Bank’s Group, including limitations when financial losses are generated or in case of low profitability (low return on assets / equity),
- assumptions of the management and risk management strategy of the Bank and the Bank’s Capital Group,
- 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,
- the need to reduce current period profits or unapproved annual profits included in own funds by foreseeable dividends, in accordance with Article 26 of EU Regulation No 575/2013,
- macroeconomic environment.

PFSA's guidelines with respect to dividend for 2022

On 6 December 2022, the Polish Financial Supervision Authority published its position on the dividend policy in 2023. An amount of up to 50% of the profit for 2022 can only be paid out by banks that meet the following criteria at the same time:

- they not pursue any recovery plan,
- are positively assessed as part of the Supervisory Review and Evaluation process (final SREP score not worse than 2.5),
- have a leverage level (LR) of more than 5%,
- have a Common Equity Tier 1 (CET1) ratio not lower than the required minimum: $4.5\% + 56\% \cdot P2R$ requirement + combined buffer requirement (including 3 p.p. supervisory buffer),
- have a Tier 1 (T1) capital ratio not lower than the required minimum: $6\% + 75\% \cdot P2R$ requirement + combined buffer requirement (including 3 p.p. supervisory buffer),
- have a total capital ratio (TCR) not lower than the required minimum: $8\% + P2R$ requirement + combined buffer requirement (including 3 p.p. supervisory buffer).

An amount of up to 75% of the profit from 2022 may be paid out only by banks that meet the criteria for a 50% payout, taking into account, as part of the capital criteria, the bank's sensitivity to an unfavorable macroeconomic scenario (measured by the level of P2G).

The amount up to 100% of the profit from 2022 may be paid out only by banks that meet the criteria for the payment of 75%, and whose portfolio of receivables from the non-financial sector is characterized by good credit quality (the share of NPL, including debt instruments, at a level not exceeding 5%).

The criteria set out in the above points should be met by the bank both at the individual and consolidated level.

Paid dividends

Based on the position of the Polish Financial Supervision Authority on the dividend policy of banks for 2022, on 7 April 2022, the Ordinary General Meeting of the Bank adopted a resolution on the payment of dividend from the profit for 2021. Based on this resolution, on 4 May 2022, the Bank paid a dividend in the total amount of PLN 689.5 million, i.e. PLN 5.30 gross per share.



II. Credit risk

1.1. Introduction

The superior documents regulating credit risk management are: *General Principles of credit risk management and mitigation, market risk, liquidity risk, funding risk and operational risk management at ING Bank Śląski* and *Credit risk management policy at ING Bank Śląski*.

Credit risk is understood as:

- a risk of a financial loss that may be suffered by the Group as a result of default by debtors in whole and at the agreed time on their credit obligations to the Group, or
- a risk of reduced economic value of credit exposures or groups of credit exposures as a result of impaired ability of debtors to service their debt at the agreed time.

Maximum credit risk exposure

	2022	2021
Loans and other receivables to other banks	5,161.1	704.8
Financial assets measured at fair value through profit or loss (excluding derivatives and equity instruments), including:	2,114.2	1,776.7
Financial assets held for trading	2,059.6	1,698.3
Valuation of derivatives	974.9	629.3
Other financial assets held for trading, including:	1,084.7	1,069.0
debt securities, including:	607.1	544.3
Treasury bonds in PLN	566.9	502.4
Czech Treasury bonds in CZK	39.8	41.4
European Investment Bank bonds	0.4	0.5
repo transactions	477.6	524.7
Financial assets other than those held for trading, measured at fair value through profit or loss, including:	54.6	78.4
loans obligatorily measured at fair value through profit or loss	54.6	78.4
Derivative hedge instruments	139.2	250.4
Investment securities (excluding equity instruments), including:	48,311.9	47,454.7
Measured at fair value through other comprehensive income, including:	15,691.8	15,477.9
Treasury bonds in PLN	12,153.8	13,032.3

Treasury bonds in EUR	1,803.4	1,022.9
European Investment Bank bonds	1,308.9	941.4
Austrian government bonds	425.7	481.3
Measured at amortised cost, including:	32,620.1	31,976.8
Treasury bonds in PLN	13,352.5	16,082.8
Treasury bonds in EUR	3,192.1	4,028.8
European Investment Bank bonds	6,815.7	5,695.2
Bonds of the Polish Development Fund (PFR)	3,858.4	3,855.2
Bank Gospodarstwa Krajowego bonds	1,802.1	2,299.8
NBP bills	3,599.3	15.0
Loans and other receivables to customers measured at amortised cost, including:	154,974.6	146,536.0
Corporate banking	90,285.8	77,756.3
loans in the current account	14,960.8	11,848.6
term loans and advances	51,502.1	44,675.6
lease receivables	12,363.5	11,090.0
factoring receivables	7,682.0	6,823.8
corporate and municipal debt securities	3,777.4	3,318.3
Retail banking	62,805.4	65,530.4
mortgages	54,886.5	57,192.3
loans in the current account	634.0	631.9
other loans and advances	7,284.9	7,706.2
Other receivables	1,883.4	3,249.3
Receivables under other assets	50.5	122.3
Granted off-balance sheet liabilities, of which:	48,158.2	48,693.8
Undrawn credit lines	37,223.5	38,972.4
guarantees	7,455.1	6,215.5
undrawn overdrafts in current account	1,549.7	1,563.2
credit card limits	1,548.2	1,549.1
letters of credit	381.7	393.6
Total	258,909.7	245,538.7



The Group's credit exposure portfolio risk policy takes into account the fact that activities generating credit risk may also be associated with other types of risk, i.e., among others: liquidity risk, market risk, operational risk, legal risk and reputational risk, which may reinforce each other, and takes into account the ESG risk.

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:

- supporting 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,
- maintaining an appropriate level of capital requirements for credit risk and provisions,
- ensuring compliance with the regulator's requirements.

1.2. Risk management strategy and risk appetite parameters

The Group treats credit risk management as a fundamental and integral part of overall management of the Group. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

Credit risk management strategy

The credit risk management strategy supports achievement of business objectives while maintaining the Bank's safe level of solvency and liquidity and an adequate level of provisions. The strategy is determined in order to ensure an optimum development of the credit portfolio while maintaining an adequate quality and profitability of credit operations and capital allocation. The primary goal of defining the credit risk management strategy is to optimise the risk/return on equity ratio, while considering information on the current and prospective macroeconomic environment, the Bank's portfolio and the level of execution of the RAS limits.

The credit risk management strategy provides for a “lookout to the future”, including the need to remain competitive, attractive and to develop the Bank's offer.



Risk Appetite Statement (RAS)

RAS means the Bank's risk appetite which is defined by setting key and specific limits. The determination and monitoring of the risk appetite level (RAS parameters) constitute an integral part of the planning process at the Bank and management of concentration risk by the Bank.

Types of RAS limits for credit risk:

- sales and portfolio limits,
- portfolio quality limits/ for the values of risk parameters,
- monitoring and collection efficiency limits,
- sector limits,
- concentration limits, including limits for the portfolio of mortgage-secured credit exposures resulting from the requirements of Recommendation S,
- RAS quality parameters for ESG risk.

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.

Group's largest exposures

The table below contains a specification of the Group's 20 largest exposures to entities / groups of related entities (including groups on entities where the Bank is the parent entity).

The amount of exposures includes the value of on-balance sheet assets (loans granted, placed deposits, debt securities), granted off-balance sheet liabilities and the book equivalent of derivative instruments. The exposures were reduced by amounts of exclusions permitted by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 and MF Regulation 1018 of 1 July 2016.

Entity/group of related entities	Group's exposures	
	2022	2021
Group 1	2,453.8	1,041.6
Group 2	2,264.2	1,717.3
Group 3 (banking)	2,181.0	2,058.2
Group 4	1,659.6	1,670.0
Group 5 (banking)	1,647.4	1,371.9
Group 6	1,431.2	1,230.6
Group 7 (banking)	1,323.6	936.1
Group 8	1,290.4	1,122.7
Group 9	1,233.4	724.6
Group 10	1,069.8	631.6
Group 11	998.0	1,162.9
Group 12	962.3	968.7
Group 13	930.4	604.9
Group 14	868.9	796.7
Group 15	858.4	925.0
Group 16	852.1	795.2
Group 17	813.6	814.4
Group 18	754.0	319.7
Group 19	742.3	487.5
Group 20	707.0	597.4



Concentration of exposures to corporate clients in national economy sectors

2022

National economy sector	balance sheet and off-balance sheet exposure in PLN million (gross carrying amount)				share in the total exposure (in %)
	Stage 1	Stage 2	Stage 3	Total	
wholesale trade	14,470.2	1,995.3	403.4	16,868.9	12.4%
property services	7,744.5	2,033.3	259.5	10,037.3	7.4%
construction	7,309.6	1,065.2	272.4	8,647.2	6.4%
retail trade	6,900.9	525.9	154.6	7,581.4	5.6%
other business operations	6,003.5	1,190.7	152.4	7,346.6	5.4%
financial intermediation	6,118.3	862.7	1.3	6,982.3	5.1%
production of foodstuffs and beverages	5,375.5	863.3	258.3	6,497.1	4.8%
manufacturing of metal final products	5,238.7	667.6	142.7	6,049.0	4.5%
land and pipeline transport	4,631.3	907.2	170.7	5,709.2	4.2%
rubber industry	4,172.5	498.3	46.6	4,717.4	3.5%
production of chemicals, chemical products	2,359.2	2,074.3	2.3	4,435.8	3.3%
power generation	3,869.8	14.0	111.4	3,995.2	2.9%
wood and paper industry	3,253.2	290.1	66.4	3,609.7	2.7%
rental of equipment	2,715.2	436.1	13.9	3,165.2	2.3%
public administration and national defence	1,416.5	1,682.0	0.0	3,098.5	2.3%
post and telecommunications	2,938.6	48.5	17.0	3,004.1	2.2%
sales, repair and maintenance of motor vehicles	2,591.5	267.5	73.6	2,932.6	2.2%
agriculture, forestry, fishery	2,043.0	292.6	111.7	2,447.3	1.8%
machine industry	2,067.4	251.3	54.1	2,372.8	1.7%
others	22,825.1	3,122.6	427.7	26,375.4	19.4%
Total	114,044.5	19,088.5	2,740.0	135,873.0	100%

2021

National economy sector	balance sheet and off-balance sheet exposure in PLN million (gross carrying amount)				share in the total exposure (in %)
	Stage 1	Stage 2	Stage 3	Total	
wholesale trade	12,989.8	1,053.1	487.0	14,529.9	12.0%
property services	9,432.4	708.2	280.9	10,421.5	8.6%
construction	6,458.0	569.8	289.2	7,317.0	6.0%
other business operations	5,836.5	482.6	313.9	6,633.0	5.5%
retail trade	5,764.8	347.4	192.7	6,304.9	5.2%
manufacturing of metal final products	5,362.2	374.1	137.2	5,873.5	4.8%
production of foodstuffs and beverages	4,858.1	537.9	230.1	5,626.1	4.6%
land and pipeline transport	4,492.3	494.2	160.3	5,146.8	4.2%
financial intermediation	4,921.6	4.7	7.7	4,934.0	4.1%
rubber industry	4,181.4	226.5	63.4	4,471.3	3.7%
power generation	3,631.3	13.4	125.3	3,770.0	3.1%
production of chemicals, chemical products	3,518.9	173.8	1.8	3,694.5	3.0%
wood and paper industry	2,890.2	175.5	55.5	3,121.2	2.6%
post and telecommunications	3,011.2	31.9	9.6	3,052.7	2.5%
public administration and national defence	2,939.3	0.3	0.0	2,939.6	2.4%
sales, repair and maintenance of motor vehicles	2,436.7	172.8	66.0	2,675.5	2.2%
rental of equipment	2,424.1	176.8	16.1	2,617.0	2.2%
agriculture, forestry, fishery	1,858.5	211.0	122.8	2,192.3	1.8%
machine industry	1,807.0	211.1	50.7	2,068.8	1.7%
others	21,101.8	2,608.2	383.7	24,093.7	19.8%
Total	109,916.1	8,573.3	2,993.9	121,483.3	100%

The Group does not identify any significant risk concentrations other than those presented in this chapter and in additional explanatory notes.



1.3. Credit risk management process

Credit risk management is a continuous process which includes all activities of the Bank related to its credit business. All units and persons that perform tasks in the credit process closely cooperate in order to:

- improve the effectiveness of risk management, and
- maintain risks at a level compliant with the Bank's strategy, risk appetite and financial appetite and the approved RAS level.

The credit risk management process is carried out at the Bank within three lines of defence that are independent organisationally and functionally.

The Bank applies organisational solutions providing for separation of the sales functions of banking products from the risk underwriting functions at all levels of the organisational structure, including the Bank's Management Board. Separation of the functions of monitoring and controlling the risk of credit exposures (including concentration risk) from the sales functions of banking products and the risk underwriting functions is maintained below the level of the Bank's Management Board; for retail credit exposures – also at the level of the Management Board.

In case of simplified, automatic credit process paths, the separation of the sales functions of banking products from the risk underwriting functions of credit exposures relies on the independence of the development and validation process of tools supporting the process of risk underwriting from the sales and operational functions. Competences with respect to credit decisions relating to individual credit transactions are separated from decision authority on the development of credit policies and credit risk management principles.

1.4. Risk management organisational structure

Within the CRO Division (Chief Risk Officer, Vice-President of the Management Board Responsible for Risk), three areas of credit risk have been distinguished, reporting to the Directors of the Bank:

- Transactional Credit Risk, including:
 - Central Credit Risk Department,
 - Regional Credit Risk Department,
 - Financial Institutions Credit Risk Position,
 - Management Support Team.
- Credit Risk, including:

- Consumer Credit Risk Department,
- Business Credit Risk Department.
- Credit risk –Models, Data and Reporting area, including:
 - Risk Model Department,
 - Risk Regulation Department,
 - Risk Systems Department.

In addition, the structure of the CRO Division includes the Corporate Credit Restructuring Department, the Model Validation Department, the Operational Risk Management Department, the Market Risk Management Department and the Credit Risk Inspection Department.

Each area controls and supervises the Bank's business and risk management processes assigned to them.

1.5. Principles of credit activity

The core principle that the Bank pursues in its credit activity is to comply with law and external regulations related to credit activity, for instance:

- Banking Law Act,
- Act on macro prudential supervision,
- Foreign Exchange Law,
- regulations relating to prevention to money laundering, etc.

The Bank does not enter into credit transactions and does not get involved in activities which ethical aspects raise doubts and that could cause harm to the Bank's reputation.

The following principles are complied with in credit activity:

- The Bank acquires and maintains credit exposures in its credit portfolio that ensure security of the Bank's deposits and equity,
- The Bank acts in clients' interests providing for their needs and potential; the Bank avoids situations as a result of which any approved financing could generate spiralling debts,
- The Bank attracts clients in compliance with the applicable regulations and requirements covering the provision of the required information, documentation, compliance with procedures,



- The Bank provides credit services effectively and professionally, respecting the interests of customers and the expectations of the Bank's shareholders regarding the increase in the value of ING Bank Śląski S.A. and taking into account the requirements resulting from the competitive environment,
- The Bank does not enter into transactions, credit exposures without learning and understanding the economic basis of transactions,
- The Bank accepts credit risk if it is able to control it effectively and – if payments are not made – the Bank is able to implement credit recovery procedures,
- The Bank does not approve exposures in which it may be exposed to reputational risk,
- The Bank takes decision concerning new types or areas of credit exposures (e.g. new markets, market segments, client groups, products) subject to prior analysis and review of new opportunities and the related risks,
- In its business relations, the Bank applies the principle of “equal rights” – it requires the same documents and information from the same clients (in terms of credit risk) and pays special attention to equal treatment,
- The Bank is involved in open communication with clients with respect to information requirements in the credit process.
- In its cooperation with business partners, the Bank complies with the following principles:
 - it verifies its business partners with whom the Bank collaborates in credit distribution,
 - it holds procedures of workflow between clients, business partners and the Bank,
 - it holds in place quality control procedures of business partners,
 - it does not grant powers of attorney or authority to take credit decisions in the name and on behalf of the Bank to grant (distribute) loans,
 - it determines the acceptable risk level for each distribution channel,
 - it monitors the quality of the loans granted through by its business partners.

1.6. Credit risk management

The Bank manages credit risk both at the level of credit exposure portfolio and at the level of individual transactions.

Risk management of the loan exposure portfolio

The objective of managing the credit risk of the Group's portfolio is to ensure the development of the portfolio in accordance with the adopted strategy, while maintaining the capital ratios of the Group and the Bank at an acceptable level, resulting from regulatory requirements, established risk appetite and planned changes in the structure of own funds.

Credit risk management of the loan exposure portfolio is performed with the following:

- defining the credit risk management strategy,
- agreeing with the business party on the quality parameters and quantitative parameters of RAS/their level,
- 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 Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012 and the Banking Law,
- determines, monitors and reports internal concentration limits for each sub-portfolio,



- defines changes to credit policies and product offer providing for economic cycles and changes in the property market,
- acquires market data on the quality of credit portfolios and compares them with its own credit portfolios.

Capital adequacy and recognition of impairment for expected credit losses

The Group secures impairment of credit exposures by recognising impairment for expected credit losses. The Group further secures fluctuating losses versus the average levels of expected losses (that is unexpected losses) by ensuring an adequate level of regulatory capital and economic capital

Risk-weighted assets and capital requirements are calculated by the Bank as follows:

- for exposures from the segment of retail clients and SE/Micro and Easy Lending clients - in accordance with the standardized approach,
- for corporate credit exposures - in accordance with the advanced method of internal ratings, excluding exposures to governments, central banks, local government units, public sector entities and all exposures of ING Commercial Finance S.A., for which the Group applies the standardized approach.

Provisions for credit risk at the Bank for all credit exposures are calculated in compliance with International Financial Reporting Standards.

Credit risk management of individually significant credit exposures

Credit risk management for individually significant credit exposures covers:

- determination of the credit risk management process for transactions exposed to credit risk,
- management of documentary requirements applicable to the Bank's credit clients,
- determination of credit analysis standards,
- determination of the maximum levels of DTI, LTV and the minimum levels of clients; own contribution for specific products, transaction types,
- development of principles of approving credit decisions and management of credit approval competencies,
- management of the principles relating to:
 - determination of risk measures applying risk models used at the Bank,
 - verification of timely repayments,

- client economic and financial situation monitoring,
- monitoring of compliance with contractual terms and conditions by clients,
- monitoring of other defined warning signals,
- acceptance and monitoring of collateral accepted by the Bank,
- utilisation and monitoring of limits approved by the Bank.
- rules of establishing impairment allowances to credit exposures and provisions for off-balance sheet liabilities,
- management of credit risk of portfolio clients at Stage 3.

The following activities are performed as part of the process of granting and managing individually significant credit exposures:

- client and transaction risk assessment,
- approving credit decisions,
- monitoring,
- restructuring and collection.

Client and transaction risk assessment

The major elements in the assessment process of client and transaction credit risk include:

- assessment of clients' creditworthiness

The Bank reviews clients' creditworthiness by:

- verifying compliance with minimum criteria,
- determining clients' rating or score in the rating or scoring process respectively.

Measurement of clients' risk in the rating or scoring process relies on an estimated PD (probability of default). Financing may be provided to clients when a rating or a score is determined at a pre-determined minimum level for each client type, credit process or product.

Review of creditworthiness of corporate clients in the rating process is made on the basis of:

- the rating assigned to the entity applying for credit exposure, providing collateral (e.g. surety, guarantee) and other entities if so required by the nature of collateral or transaction (e.g. debtors of receivables assigned to the Bank),



- the “four-eye principle”, that is among others:
 - commercial functions are separated from the rating approval functions that are performed by the CRO Risk Division units, or
 - the operating principles of automatic rating models approved by the Credit Policy Committee.

Review of creditworthiness of retail clients is made on the basis of:

- scoring,
- analysis of history of repayment of obligations to the Bank and other financial institutions,
- features of the borrowers that have material impact on compliance with the existing credit obligations (quality analysis), e.g.:
 - client's personal features: age, marital status, number of persons maintained, housing and financial status, education, employment history, form of employment, profession pursued, etc.,
 - history of the client's cooperation with the Bank: period of cooperation and history of account maintenance.

The Bank applies scoring models (application, behavioural models and BIK scoring) reflecting the client's statistical risk level. The applied clients' creditworthiness review models are subject to regular monitoring and validation to ensure good quality of the tools.

- review of creditworthiness (quantitative assessment)

Creditworthiness is reviewed by identifying the source of repayment and the amount and stability thereof throughout the lending process. This is an assessment of repayment potential by the clients of their credit exposures in the specified amounts, times and subject to terms and conditions determined by the Bank. The clients' potential is subject to a review of clients' creditworthiness in the rating and scoring process. The review of creditworthiness also provides for the FX risk and interest rate risk to which the debtors are exposed.

The analysis of the creditworthiness of a business client and WB (Wholesale Banking) may cover the following areas:

- clients' shareholding structure,
- the sector of their business,
- business and investment strategy,
- market position,

- sales markets and suppliers,
- financial analysis, including financial projections,
- identification and assessment of repayment sources,
- financial position versus comparable entities in the sector,
- factors from the global, macroeconomic, regional and sectoral environment existing now and that may exert material impact in the future on the company's financial condition in the future.

The analysis of individual clients' creditworthiness covers:

- determination of the amount and stability of the generated income (quantitative analysis),
- determination of the amount of the clients' financial obligations (credit and non-credit),
- identification of the amount of expenditures of households.

In the assessment of creditworthiness, financial measures are used based on mathematical formulas.

- assessment of collateral

The Bank applies collateral to mitigate credit risk and the amount of losses that may be suffered when clients' default on loan repayment. Before collateral is accepted, the Bank assesses the collateral and its value and effectiveness.

Apart from classic forms of collateral (material and personal), the Bank applies additional instruments to mitigate the risk of loss in the form of contractual conditions and clauses.

In order to calculate the capital requirement, the Bank applies the approved LGD models in which each collateral is assigned with an adequate recovery rate. Is the Group's policy to grant loans in amounts and subject to terms and conditions that ensure regular repayments without the need to resort to collateral.

- transactional risk assessment.

Assessing transactions, the Bank takes the following into account:

- results of the clients' creditworthiness and credit reliability,
- compliance with credit policy,
- purpose of lending,
- adequacy of the requested product,



- other risks such as:
 - business risks – macroeconomic, market, sectoral, seasonal risks,
 - structural risks – transaction structure, values of LTV and LGD, client's own contribution (if required), effectiveness of clauses, Bank's position versus other lenders,
 - management staff – employment history, experience, substitution risk of decision makers and succession risk,
 - financial risks – including FX and interest rate risks,
 - concentration risk – is the requested growth of exposure related to the utilisation of a limit set internally by the Bank,
 - reputational risk – can cooperation with the client adversely affect the Bank's reputation.
- relation of risk level to pricing conditions, etc.

Maximum recognisable amount of collateral or guarantee

The Group uses collateral on the following assets: financial resources (a deposit with the Bank or another bank), liquid securities, real estate, means of transport, receivables, machinery and equipment, inventories, intangible assets and other security..

The value of collateral for credit exposures in Stage 3 in the amount not exceeding the balances of individual loans as at 31 December 2022 was PLN 970.3 million compared to PLN 902.7 million at the end of 2021.

The tables present the value of collateral not exceeding the carrying amount of the related credit exposures. The presented values of collateral result from the assumptions adopted by the Group to determine the nominal value of collateral, the general principles of which for the main types of collateral are as follows:

- The value of the collateral on the property is the lower of the two values, i.e. the value determined as a result of the verification of the property value by the Group (not higher than the market value specified in the appraisal report or internal valuation report), less any previously incurred mortgage charges and the value of the mortgage entry in the land and mortgage register.
- The value of collateral for machines and devices is the lower of the insurance value of these items, the net book value and amounts specified in the contract for registered pledges.

- The value of the collateral for guarantees other than the parent company or another related company is the lower of two values, i.e. the amount up to which the guarantee is issued or the amount of credit exposure to which the security relates.

2022

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	51,324.5	20,743.1	119.7	19,542.9	9,713.9
other financial institutions	627.8	20.0	0.0	19.7	259.5
non-financial entities	514.3	18,474.6	116.5	16,697.2	8,474.6
households	50,182.4	2,245.6	3.2	2,822.1	979.8
including: loans to purchase residential properties	45,594.3	584.5	0.0	0.0	1.5
other entities (banks, budgetary sector)	0.0	2.9	0.0	3.9	0.0

2021

	Maximum recognisable amount of collateral or guarantee				financial guarantees received
	mortgage-backed loans		other secured loans		
	housing loans	commercial loans	cash funds (issued debt instruments)	others	
Loans and advances, of which:	47,910.1	20,107.3	153.6	18,335.0	7,551.4
other financial institutions	0.0	0.0	20.3	227.0	461.3
non-financial entities	154.5	17,750.8	129.4	15,198.1	6,105.5
households	47,755.6	2,347.6	3.9	2,906.2	683.7
including: loans to purchase residential properties	41,991.6	588.2	0.1	0.0	0.4
other entities (banks, budgetary sector)	0.0	8.9	0.0	3.7	300.9



Taking credit decisions

The authority to take credit decisions to accept risk of individual credit exposures is set by the Credit Policy Committee. If data is missing to assess risk, the application will not be approved and no decision will be taken.

Exposures for lower amounts, shorter terms, exposed to lower risk, are accepted at lower authority levels. Along with growing credit risk – that is a growth of individual or joint credit exposure, extension of the lending term, occurrence of non-standard elements in the application or deviations from the applicable internal regulations – the relevant decisions are taken at higher levels of credit authority.

Risk assessment and approval is based on expert judgment relying on the results of risk measurement made with supporting tools as specified in the credit policy and procedures. The following exceptions apply: automatic decisions approved by the IT system or semi-automatic decisions taken within simplified credit process paths.

Credit decisions are taken along with an adequate path on the basis of a comprehensive transaction risk analysis subject to transaction complexity and amount. With respect to paths with a higher automation level, the analysis of transaction list is based on clearly defined criteria, including behavioural criteria, and on an automatic calculation of the credit limit on the basis of an algorithm approved by the Credit Policy Committee.

Retail segment (mortgage and private client segment) and SE/Micro clients

Credit decisions for the regular portfolio shall be made:

- in automatic mode in accordance with specified criteria,
- in one or two person mode – by units from the Operations Division,
- on a two-person basis, in a higher-risk analysis unit, at the level of directors or management board members, for cases involving higher credit risk and non-standard cases.

Decisions for the non-performing portfolio are made in a dedicated recovery and restructuring unit.

Segment Business Clients segment excluding SE/Micro and Wholesale Banking clients)

Credit decisions for portfolios in Stage 1 and 2 (excluding automation) are taken:

- collectively by the Bank’s Credit Committee or Restructuring Committee – this applies to the largest credit exposures,
- in a two-person mode - by business units and credit risk transaction units or dedicated restructuring units,
- by one person – by the Risk Manager for small credit exposures.

Lending decisions for the business client portfolio (Easy Lending) are made according to the process path:

- automatically based on:
 - verification of the defined eligibility criteria,
 - verification of the client in BRNK, BIK and BIG databases,
 - calculation of the EL transaction limit calculated in accordance with the algorithm approved by the NCP,or
- expertly by the decision-maker of the crediting unit (Front Office) with appropriate credit expertise.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

Common rules

The mode of decision taking does not release any participant from their personal responsibility for the approved decisions.

Credit decision takers in the two-person approval mode are attributed individual personal credit authority with the amount subject to their knowledge and experience. Competence levels are correlated with the credit risk level. With a higher credit risk, credit decisions are taken by more experience persons. The principles of granting and revoking credit authority are separate for specific client segments. When setting an adequate level of credit authority for business clients (excluding SE & Micro clients) and Wholesale Banking, the Group’s total exposure to the client’s group of related entities is taken into account; in case of natural persons or sole proprietorships – the authority level depends on the Bank’s total exposure to the client. All transactions are underwritten in compliance with clearly defined decision rules and credit authority.

Monitoring

Monitoring applies to all credit exposures generating credit risk, including concentration risk and transactions in financial markets. The objective of monitoring is to identify early warning signals to prevent the occurrence of non-performing loans and to identify early impairment indications or evidence so that the Bank can take appropriate mitigation actions. The monitoring of approved credit exposures includes:

- history of repayments to the Bank (timely repayments),
- compliance by the client with other contractual terms and conditions,
- client’s financial and/or economic condition,



- application of the funding in compliance with the financing goal (if specified),
- progress of investment (in case of investment loans),
- verification of warning signals concerning the client or transaction,
- occurrence of objective impairment evidence or indications,
- periodic review of the quality and value of collateral.

Restructuring and collection

The Bank provides supports to its clients at each stage of financing. The Bank offers products suited to their needs; should delays occur in repayment, the Bank proposes flexible repayment schedules. In case of more serious problems in repayment, the Bank may offer to restructure the debt. Then, jointly with the client, the Bank sets the best form of support or a settlement.

The main objective of the actions taken in the portfolio in Stage 3 is to mitigate the risk of losses to the Bank or mitigate the volume of such losses.

The Bank applies the following strategies in the portfolio in Stage 3:

- debt restructuring – in cooperation with the client which in particular may consist in modifications to contractual terms and conditions in order to adapt debt repayment to the client’s financial potential, e.g.:
 - extension of the repayment period,
 - sales of assets,
 - sales of a part of the borrower’s business,
 - remission of a part of financial obligations.

Decisions to open restructuring are taken after a detailed review and approval by the competent decision-taking body of the Bank. After a successful restructuring process, the borrower is again subject to standard monitoring procedures of credit risk.

- debt collection – enforcement by the Bank of its receivables from the provided collateral or other property of the client or the property of other obliged third persons. The Bank may claim its receivables by initiating enforcement procedures or by participating in bankruptcy proceedings; in case of retail clients – by way of amicable collection: offering the clients voluntary repayment as a part of collection strategy.

Forbearance

Forbearance occurs when the Bank determines that the client is not able to comply with their financial obligations due to financial difficulties (identified or expected) and decides to grant forbearance.

Forbearance is identified if all of the following conditions are satisfied:

- the client is unable to meet its financial obligations under the loan agreement with the Bank due to existing or expected financial difficulties and,
- the bank grants a facility to ease the terms of the contract, which would not be granted if the customer did not have financial difficulties.

Retail exposures meeting the criteria of statutory moratoria were classified to Stage 3 with simultaneous recognition of emergency restructuring.

The tables below present the division of the loan portfolio into the performing and non-performing portfolio, specifying the exposures with the granted forbearance facility. In the quarantine class, the Group classifies exhibitions for which facilities were applied in the past, and which are currently in the observation period before full recovery.

**Split of the credit portfolio into performing or non-performing portfolios with details of exposures with forbearance****2022**

	Performing exposures	including forbearance	modification of terms and conditions	refinancing	quarantine	Non-performing exposures	including forbearance	modification of terms and conditions	refinancing	overdue portfolio	impaired portfolio
Gross loan portfolio, of which:	152,779.5	2,298.7	2,298.7	0.0	2,132.7	3,580.9	1,470.2	1,467.8	2.5	902.2	1,454.3
Corporate banking, of which:	89,823.4	1,592.9	1,592.9	0.0	1,451.0	2,654.6	1,108.6	1,106.2	2.5	768.5	1,092.7
loans in the current account	14,867.7	177.5	177.5	0.0	176.6	577.1	173.5	173.5	0.0	108.5	173.5
term loans and advances	51,353.8	1,270.1	1,270.1	0.0	1,267.8	1,667.2	881.3	878.8	2.5	608.8	865.3
lease receivables	12,149.5	136.9	136.9	0.0	0.0	329.6	37.4	37.5	0.0	37.5	37.5
factoring receivables	7,670.3	8.4	8.4	0.0	6.6	80.7	16.4	16.4	0.0	13.7	16.4
corporate and municipal debt securities	3,782.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	62,956.1	705.8	705.8	0.0	681.7	926.3	361.6	361.6	0.0	133.7	361.6
mortgages	54,876.2	571.9	571.9	0.0	547.8	279.4	143.3	143.3	0.0	34.4	143.3
loans in the current account	648.6	2.3	2.3	0.0	2.3	48.9	3.1	3.1	0.0	1.3	3.1
other loans and advances	7,431.3	131.6	131.6	0.0	131.6	598.0	215.2	215.2	0.0	98.0	215.2
Impairment for expected credit losses, including:	-1,170.8	-88.2	-88.2	0.0	-85.1	-2,098.4	-809.7	-809.6	-1.6	-598.1	-809.7
Corporate banking, of which:	-687.5	-62.2	-62.2	0.0	-59.1	-1,504.7	-611.0	-610.9	-0.2	-506.6	-611.0
loans in the current account	-121.0	-5.0	-5.0	0.0	-5.0	-363.0	-105.8	-105.8	0.0	-84.6	-105.8
term loans and advances	-494.4	-54.3	-54.3	0.0	-54.1	-1,024.5	-483.7	-483.6	-0.2	-401.4	-483.7
lease receivables	-50.7	-2.8	-2.8	0.0	0.0	-64.9	-12.8	-12.8	0.0	-12.8	-12.8
factoring receivables	-16.7	-0.1	-0.1	0.0	0.0	-52.3	-8.7	-8.7	0.0	-7.8	-8.7
corporate and municipal debt securities	-4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	-483.3	-26.0	-26.0	0.0	-26.0	-593.7	-198.7	-198.7	-1.4	-91.5	-198.7
mortgages	-152.0	-11.1	-11.1	0.0	-11.1	-117.1	-53.3	-53.3	-1.4	-16.9	-53.3
loans in the current account	-29.7	-0.2	-0.2	0.0	-0.2	-33.8	-1.7	-1.7	0.0	-0.9	-1.7
other loans and advances	-301.6	-14.7	-14.7	0.0	-14.7	-442.8	-143.7	-143.7	0.0	-73.7	-143.7
Net loan portfolio, of which:	151,608.7	2,210.5	2,210.5	0.0	2,047.6	1,482.5	660.5	658.2	0.9	304.1	644.6
Corporate banking, of which:	89,135.9	1,530.7	1,530.7	0.0	1,391.9	1,149.9	497.6	495.3	2.3	261.9	481.7
loans in the current account	14,746.7	172.5	172.5	0.0	171.6	214.1	67.7	67.7	0.0	23.9	67.7
term loans and advances	50,859.4	1,215.8	1,215.8	0.0	1,213.7	642.7	397.6	395.2	2.3	207.4	381.6
lease receivables	12,098.8	134.1	134.1	0.0	0.0	264.7	24.6	24.7	0.0	24.7	24.7
factoring receivables	7,653.6	8.3	8.3	0.0	6.6	28.4	7.7	7.7	0.0	5.9	7.7
corporate and municipal debt securities	3,777.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	62,472.8	679.8	679.8	0.0	655.7	332.6	162.9	162.9	-1.4	42.2	162.9
mortgages	54,724.2	560.8	560.8	0.0	536.7	162.3	90.0	90.0	-1.4	17.5	90.0
loans in the current account	618.9	2.1	2.1	0.0	2.1	15.1	1.4	1.4	0.0	0.4	1.4
other loans and advances	7,129.7	116.9	116.9	0.0	116.9	155.2	71.5	71.5	0.0	24.3	71.5

**Split of the credit portfolio into performing or non-performing portfolios with details of exposures with forbearance****2021**

	Performing exposures	including forbearance	modification of terms and conditions	refinancing	quarantine	Non-performing exposures	including forbearance	modyfikacja warunków	modification of terms and conditions	refinancing	quarantine
Gross loan portfolio, of which:	142,593.7	1,560.6	1,560.2	0.4	1,396.1	3,806.6	1,554.6	1,551.4	3.3	946.3	1,544.2
Corporate banking, of which:	77,120.3	1,392.2	1,391.8	0.4	1,230.7	2,794.2	1,156.6	1,153.4	3.3	851.4	1,146.2
loans in the current account	11,707.2	119.8	119.8	0.0	119.8	701.4	202.2	201.9	0.3	165.6	202.2
term loans and advances	44,416.4	1,112.2	1,111.8	0.4	1,108.5	1,700.9	905.0	902.1	3.0	640.7	894.6
lease receivables	10,876.0	149.7	149.7	0.0	0.0	304.0	38.5	38.5	0.0	38.5	38.5
factoring receivables	6,802.1	10.5	10.5	0.0	2.4	87.9	10.9	10.9	0.0	6.6	10.9
corporate and municipal debt securities	3,318.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	65,473.4	168.4	168.4	0.0	165.4	1,012.4	398.0	398.0	0.0	94.9	398.0
mortgages	57,081.9	92.4	92.4	0.0	89.4	328.3	200.7	200.7	0.0	21.9	200.7
loans in the current account	636.7	2.5	2.5	0.0	2.5	49.2	2.8	2.8	0.0	1.1	2.8
other loans and advances	7,754.8	73.5	73.5	0.0	73.5	634.9	194.5	194.5	0.0	71.9	194.5
Impairment for expected credit losses, including:	-633.5	-51.1	-51.1	0.0	-48.9	-2,480.1	-894.5	-891.6	-2.9	-625.7	-894.5
Corporate banking, of which:	-387.1	-41.9	-41.9	0.0	-39.8	-1,771.1	-677.6	-674.7	-2.9	-553.4	-677.6
loans in the current account	-66.4	-0.9	-0.9	0.0	-0.9	-493.6	-124.3	-124.0	-0.3	-114.2	-124.3
term loans and advances	-292.8	-39.3	-39.3	0.0	-38.9	-1,148.9	-534.8	-532.2	-2.6	-422.2	-534.8
lease receivables	-21.9	-1.7	-1.7	0.0	0.0	-68.1	-12.2	-12.2	0.0	-12.2	-12.2
factoring receivables	-5.7	0.0	0.0	0.0	0.0	-60.5	-6.3	-6.3	0.0	-4.8	-6.3
corporate and municipal debt securities	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	-246.4	-9.2	-9.2	0.0	-9.1	-709.0	-216.9	-216.9	0.0	-72.3	-216.9
mortgages	-66.0	-3.6	-3.6	0.0	-3.5	-151.9	-77.2	-77.2	0.0	-14.8	-77.2
loans in the current account	-15.2	-0.1	-0.1	0.0	-0.1	-38.8	-1.6	-1.6	0.0	-0.9	-1.6
other loans and advances	-165.2	-5.5	-5.5	0.0	-5.5	-518.3	-138.1	-138.1	0.0	-56.6	-138.1
Net loan portfolio, of which:	141,960.2	1,509.5	1,509.1	0.4	1,347.2	1,326.5	660.1	659.8	0.4	320.6	649.7
Corporate banking, of which:	76,733.2	1,350.3	1,349.9	0.4	1,190.9	1,023.1	479.0	478.7	0.4	298.0	468.6
loans in the current account	11,640.8	118.9	118.9	0.0	118.9	207.8	77.9	77.9	0.0	51.4	77.9
term loans and advances	44,123.6	1,072.9	1,072.5	0.4	1,069.6	552.0	370.2	369.9	0.4	218.5	359.8
lease receivables	10,854.1	148.0	148.0	0.0	0.0	235.9	26.3	26.3	0.0	26.3	26.3
factoring receivables	6,796.4	10.5	10.5	0.0	2.4	27.4	4.6	4.6	0.0	1.8	4.6
corporate and municipal debt securities	3,318.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking segment, including:	65,227.0	159.2	159.2	0.0	156.3	303.4	181.1	181.1	0.0	22.6	181.1
mortgages	57,015.9	88.8	88.8	0.0	85.9	176.4	123.5	123.5	0.0	7.1	123.5
loans in the current account	621.5	2.4	2.4	0.0	2.4	10.4	1.2	1.2	0.0	0.2	1.2
other loans and advances	7,589.6	68.0	68.0	0.0	68.0	116.6	56.4	56.4	0.0	15.3	56.4



Exposures with approved forbearance by risk classes

	2022				2021			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	1,592.9	73.5	1,108.6	12.6	1,392.2	256.9	1,156.6	13.2
classes corresponding to investment grade (risk classes 1 to 10)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
classes corresponding to speculative ratings (risk classes 11 to 17)	1,263.8	42.8	0.0	0.0	1,066.0	238.5	0.0	0.0
classes of potentially non-performing exposures (risk classes 18-19)	329.0	30.7	0.0	0.0	326.2	18.4	0.0	0.0
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	1,108.6	12.6	0.0	0.0	1,156.6	13.2
Retail banking	705.8	0.6	361.6	0.0	168.4	0.0	398.0	0.1
classes corresponding to investment grade (risk classes 1 to 10)	505.4	0.6	0.0	0.0	62.7	0.0	0.0	0.0
classes corresponding to speculative ratings (risk classes 11 to 17)	181.9	0.0	0.0	0.0	96.0	0.0	0.0	0.0
classes of potentially non-performing exposures (risk classes 18-19)	18.5	0.0	0.0	0.0	9.7	0.0	0.0	0.0
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	361.6	0.0	0.0	0.0	398.0	0.1
Total (gross)	2,298.7	74.1	1,470.2	12.6	1,560.6	256.9	1,554.6	13.3

**Exposures with approved forbearance by overdue periods**

	2022				2021			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure	balance sheet exposure	off-balance sheet exposure
Corporate banking	1,592.9	73.5	1,108.6	12.6	1,392.2	256.9	1,156.6	13.2
0	1,560.1	73.5	525.2	12.6	1,365.8	256.9	490.7	13.2
1-30	10.7	0.0	17.0	0.0	6.4	0.0	46.8	0.0
31-60	22.0	0.0	14.3	0.0	19.7	0.0	8.6	0.0
61-90	0.1	0.0	18.9	0.0	0.3	0.0	7.1	0.0
91-180	0.0	0.0	17.9	0.0	0.0	0.0	21.8	0.0
181-365	0.0	0.0	40.8	0.0	0.0	0.0	49.8	0.0
>365	0.0	0.0	474.5	0.0	0.0	0.0	531.8	0.0
Retail banking	705.8	0.6	361.6	0.0	168.4	0.0	398.0	0.1
0	662.2	0.6	232.3	0.0	146.8	0.0	303.0	0.1
1-30	36.1	0.0	29.8	0.0	16.9	0.0	19.9	0.0
31-60	6.2	0.0	7.2	0.0	3.8	0.0	7.9	0.0
61-90	1.3	0.0	7.1	0.0	0.9	0.0	4.9	0.0
91-120	0.0	0.0	4.9	0.0	0.0	0.0	3.5	0.0
121-150	0.0	0.0	5.4	0.0	0.0	0.0	4.3	0.0
151-180	0.0	0.0	6.4	0.0	0.0	0.0	3.3	0.0
>180	0.0	0.0	68.5	0.0	0.0	0.0	51.2	0.0
Total (gross)	2,298.7	74.1	1,470.2	12.6	1,560.6	256.9	1,554.6	13.3

In the income statement for 2022, the item *Interest income - interest on loans and receivables to customers* includes interest income on exposures with forbearance in the amount of PLN 160.5 million (PLN 64.4 million for 2021), with of which PLN 112.6 million relates to exposures in the performing portfolio and PLN 47.9 million relates to exposures in the non-performing portfolio (PLN 41.7 million and PLN 22.7 million respectively for 2021)



1.7. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions as well as capitals and liquidity buffers.

The credit risk management system at the Bank is composed of the following:

- general rules governing management and mitigation of credit risk,
- RAS strategies and limits,
- policies, instructions and procedures relating to credit risk management,
- systems, tools and model relating to credit risk,
- a management reporting system that provides for risk level monitoring,
- an organisational structure that is adjusted to the size and profile of the credit risk that the Bank incurs.

The actions taken by the Bank within its risk management system may be as follows:

- risk avoidance – closing or restricting certain types of activity that generate too high risks or types of risks that may not be effectively controlled,
- risk mitigation – actions aimed at mitigating the likelihood of occurrence of disadvantageous events of mitigating the effects of such events,
- risk transfer – risk transfer in whole or in part to another entity, e.g. by insurance or securitisation of the credit portfolio,
- risk acceptance – refraining from taking the actions specified above due to economic or practical reasons, within the Bank's risk appetite.

Within its risk management system, the Bank applies its formalised:

- rules to determine the volume of undertaken risks and rules governing risk management,
- procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded.

Additionally, the Bank:

- applies the adopted management reporting system that provides for risk level monitoring,
- has an organisational structure in place that is adjusted to the size and profile of the risk that the Bank incurs,
- has an appropriately defined assessment and measurement process of credit risk, independent of the loan underwriting function, covering:
 - an effective rating system,
 - an effective process of acquiring information, including projections, used to assess expected credit losses,
 - an assessment policy ensuring that the estimation of expected credit losses is made with an individual or collective method,
 - an effective model validation process ensuring that the models keep generating accurate, consistent and objective projections and estimates,
 - clearly formulated, formal communication and coordination of actions of all employees involved in the process of risk assessment and estimation of anticipated credit losses.

The credit risk management system existing at the Bank, including its organisational structure, organisation of the credit process, the system of internal regulations, the applied tools and models, are subject to ongoing verification and adjustment in order to ensure the implementation of the Bank's strategy, including risk appetite. Thus, the Bank follows the objective of the adequacy of its actions relating to identification, assessment, measurement, monitoring and management of activity exposed to credit risk and to maintenance of consistency and compliance with regulatory requirements.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. The calculation of capital requirements for business clients (excluding SE&Micro and Easy Lending clients) and Wholesale Banking is based on the Advanced Internal Ratings Based Approach. Also with respect to its retail portfolio the Bank intends to obtain the PFSA's approval to apply the method for the portfolios of mortgage and consumer loans. The models applied by the Bank for risk management are regularly validated and developed.



The systems and models supporting the assessment of the clients' creditworthiness and credit reliability:

- from Business Clients and Wholesale Banking – are built and monitored in accordance with the requirements of the Advanced Capital Requirements Approach for credit risk and ING Group standards (excluding SE&Micro and Easy Lending clients),
- from the Business Clients Division (SE&Micro and Easy Lending clients) – are application and behavioural scoring models reflecting the statistical level of client risk, built in accordance with the requirements contained in supervisory regulations,
- from the Retail Division – are scoring models (application models, behavioural models and BIK scoring) reflecting the statistical level of client risk, built in accordance with the requirements contained in supervisory regulations.

In its assessment of credit risk, the Bank uses the following models:

- PD (Probability of Default),
- LGD (Loss given Default),
- EAD (Exposure at Default).

The models are designed in compliance with the requirements set forth in supervisory regulations and are applied inter alia to determine the volume of provisions, economic capital for credit risk for internal and external reporting requirements, reporting to the supervisory authority, to determine loan pricing and client profitability. The effectiveness of the models is reviewed on the basis of monitoring and validation processes.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. In the credit risk reporting process, information relating to AIRB models is included at a frequency adapted to the materiality and type of information presented and the position of the recipient. In principle, detailed information relating to the AIRB approach is presented to the senior management, in particular to:

- The Bank's Management Board – results of monitoring of the correctness of functioning of the AIRB approach in compliance with the "Policy of Changes and Monitoring of the Internal Rating Method at ING Bank Śląski S.A.",
- the Credit Policy Committee – results of monitoring of credit risk models, in compliance with the "Credit risk model management instruction at ING Bank Śląski S.A." and the results of model validation in compliance with the "Risk model validation policy".

- the Assets and Liabilities Committee (ALCO) – stress tests in accordance with the "Stress Testing Policy".

As part of the Risk Division's quarterly report, the results of the analysis of the credit risk profile of the corporate and retail mortgage-backed exposure portfolios are presented to the Bank's Management Board and the Risk Committee of the Supervisory Board in accordance with the model monitoring process, in particular:

- risk profiles by categories,
- migration among the categories,
- estimation of relevant parameters in individual categories,
- comparison of realised factors of default, realised LGD values, and realised credit conversion factors (CCF) with expected values.

The Bank also takes into account in its credit risk management process data on write-downs (credit provisions), which are presented in the MB Report: "Credit, Market and Non-Financial Risk Management Report". The monthly MB Report in an abridged version is presented to the Bank's Management Board. The quarterly MB Report in full and abridged version is presented to the Bank's Supervisory Board.

1.8. Rules of risk management in subsidiary entities

Credit risk management in subsidiaries of ING Lease (Polska) Sp. z o.o., ING Commercial Finance S.A. and ING Bank Hipoteczny S.A. is subject to the same main principles as at ING Bank Śląski S.A., taking into account the specific nature of the operations of these 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, the Bank's representatives are members of the Supervisory Boards of subsidiaries, as the activities of the companies, similarly to the activities of the Bank, are related to the generation of credit risk.

Additional aspects of risk management in subsidiary entities

- ING Lease Polska Sp. z o.o.:
 - it owns the financed assets under lease contract that constitute the core collateral to the transactions,
 - when a lease contract is terminated, the company may take over physical control over the collateral and sell it which reduces or completely eliminates losses on the credit exposure,
 - it holds a developed verification procedure of the suppliers and leased assets to mitigate the risk of fraud and the risk related to leased assets having physical or legal defects,
 - to the extent specified in internal procedures, it verifies both the supplier (if necessary, also entities related to the supplier) / the intermediary in trading in the financed asset which mitigates the delivery risk of the financed assets.
- ING Commercial Finance Polska S.A.:
 - the core repayment source of exposures are receivables covered with factoring, both in case of recourse and non-recourse factoring,
 - as a rule, it acquires receivables accepting the solvency risk of the buyers subject to prior insurance of the receivables,

- it offers factoring to clients with accepted risk of the buyers' solvency subject to the insurance contracts concluded by the clients with insurance companies – “take-over of rights and duties of the client's insurance contract”.
- ING Bank Hipoteczny S.A.:
 - ING Bank Hipoteczny S.A. acquires receivables from ING BSK S.A. which – subject to a review of their potential role as collateral to the loans granted and identification of the bank and mortgage value of the property – constitute collateral to issues of mortgage bonds,
 - ING Bank Hipoteczny S.A. bases its business on daily and close cooperation with the CRO Division and the COO Division of ING Bank Śląski S.A.

1.9. Exposure portfolio structure

Exposures to clients by risk classes

Risk classes can be divided into four basic groups:

- a group of classes corresponding to investment grade (risk classes 1 to 10),
- a group of classes corresponding to speculative ratings (risk classes 11 to 17),
- a group of classes of potentially non-performing exposures (risk classes 18-19),
- a group of classes of non-regular exposures (risk classes 20-22).

The risk class range 1-10 corresponds to Moody's short-term ratings of Aaa to Baa3, the risk class range 11-17 corresponds to Moody's short-term ratings of Ba1 to Caa3 and the risk class range 18-19 to Ca to C. For ratings 20-22, the probability of default is 100%.



2022

risk rating	Exposures to corporate clients										Exposures to retail clients									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
classes corresponding to investment grade (risk classes 1 to 10)	28,563.9	16,853.2	3,360.7	2,215.3	0.0	0.1	0.0	0.0	31,924.6	19,068.6	49,588.8	2,914.4	4,180.2	132.6	0.0	0.0	0.0	0.0	53,769.0	3,047.0
classes corresponding to speculative ratings (risk classes 11 to 17)	46,945.6	21,366.9	9,921.1	2,366.9	367.0	2.1	0.0	0.0	57,233.7	23,735.9	7,349.8	356.3	1,514.3	54.6	0.0	0.0	1.8	0.0	8,865.9	410.9
classes of potentially non-performing exposures (risk classes 18-19)	12.2	302.6	1,019.9	204.6	14.2	3.1	0.0	0.0	1,046.3	510.3	3.7	0.2	319.2	1.5	0.0	0.0	0.1	0.0	323.0	1.7
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	0.0	0.0	2,220.6	80.2	52.8	0.0	2,273.4	80.2	0.0	0.0	0.0	0.0	924.3	4.1	0.2	0.0	924.5	4.1
Total Gross	75,521.7	38,522.7	14,301.7	4,786.8	2,601.8	85.5	52.8	0.0	92,478.0	43,395.0	56,942.3	3,270.9	6,013.7	188.7	924.3	4.1	2.1	0.0	63,882.4	3,463.7
impairment for expected credit losses	-196.5	-11.5	-491.0	-30.3	-1,504.7	-2.7	0.0	0.0	-2,192.2	-44.5	-191.0	-27.8	-292.3	-23.6	-593.7	-11.9	0.0	0.0	-1,077.0	-63.3
Net total	75,325.2	38,511.2	13,810.7	4,756.5	1,097.1	82.8	52.8	0.0	90,285.8	43,350.5	56,751.3	3,243.1	5,721.4	165.1	330.6	-7.8	2.1	0.0	62,805.4	3,400.4

2021

risk rating	Exposures to corporate clients										Exposures to retail clients									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 1		Stage 2		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
classes corresponding to investment grade (risk classes 1 to 10)	27,272.9	19,700.0	198.5	208.6	3.7	0.4	0.0	0.0	27,475.1	19,909.0	55,417.7	4,816.3	149.3	130.0	0.0	0.0	0.0	0.0	55,567.0	4,946.3
classes corresponding to speculative ratings (risk classes 11 to 17)	43,366.6	19,461.4	5,445.2	1,733.7	305.1	127.3	0.0	0.0	49,116.9	21,322.4	8,678.6	529.6	960.4	45.0	0.0	0.0	2.0	0.0	9,641.0	574.6
classes of potentially non-performing exposures (risk classes 18-19)	14.6	102.9	822.5	163.3	11.5	0.0	0.0	0.0	848.6	266.2	6.3	0.0	261.1	0.8	0.1	0.0	0.2	0.0	267.7	0.8
classes of non-regular exposures (risk classes 20-22)	0.0	0.0	0.0	0.0	2,422.8	71.2	51.1	0.0	2,473.9	71.2	0.0	0.0	0.0	0.0	1,010.1	2.8	0.0	0.0	1,010.1	2.8
Total Gross	70,654.1	39,264.3	6,466.2	2,105.6	2,743.1	198.9	51.1	0.0	79,914.5	41,568.8	64,102.6	5,345.9	1,370.8	175.8	1,010.2	2.8	2.2	0.0	66,485.8	5,524.5
impairment for expected credit losses	-168.7	-28.9	-218.4	-19.3	-1,771.1	-20.8	0.0	0.0	-2,158.2	-69.0	-107.0	-3.8	-139.4	-3.1	-709.0	-2.7	0.0	0.0	-955.4	-9.6
Net total	70,485.4	39,235.4	6,247.8	2,086.3	972.0	178.1	51.1	0.0	77,756.3	41,499.8	63,995.6	5,342.1	1,231.4	172.7	301.2	0.1	2.2	0.0	65,530.4	5,514.9



Exposures to clients by DPD

2022

number of days past due	Exposures to corporate clients										Exposures to retail clients									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 2		Stage 1		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
0	74,035.8	38,521.4	13,780.9	4,786.8	707.3	85.5	52.8	0.0	88,576.8	43,393.7	56,719.4	3,270.9	5,332.4	188.7	306.4	4.1	1.6	0.0	62,359.8	3,463.7
1-30	1,484.2	1.3	362.4	0.0	75.3	0.0	0.0	0.0	1,921.9	1.3	222.9	0.0	567.0	0.0	49.9	0.0	0.3	0.0	840.1	0.0
31-60	1.0	0.0	127.1	0.0	62.0	0.0	0.0	0.0	190.1	0.0	0.0	0.0	86.1	0.0	20.4	0.0	0.1	0.0	106.6	0.0
61-90	0.5	0.0	28.1	0.0	59.8	0.0	0.0	0.0	88.4	0.0	0.0	0.0	28.1	0.0	20.6	0.0	0.0	0.0	48.7	0.0
91-180	0.2	0.0	2.5	0.0	121.2	0.0	0.0	0.0	123.9	0.0	0.0	0.0	0.1	0.0	84.5	0.0	0.0	0.0	84.6	0.0
181-365	0.0	0.0	0.7	0.0	173.5	0.0	0.0	0.0	174.2	0.0	0.0	0.0	0.0	0.0	123.4	0.0	0.0	0.0	123.4	0.0
>365	0.0	0.0	0.0	0.0	1,402.7	0.0	0.0	0.0	1,402.7	0.0	0.0	0.0	0.0	0.0	319.1	0.0	0.1	0.0	319.2	0.0
Total Gross	75,521.7	38,522.7	14,301.7	4,786.8	2,601.8	85.5	52.8	0.0	92,478.0	43,395.0	56,942.3	3,270.9	6,013.7	188.7	924.3	4.1	2.1	0.0	63,882.4	3,463.7

2021

number of days past due	Exposures to corporate clients										Exposures to retail clients									
	Stage 1		Stage 2		Stage 3		POCI		Total		Stage 2		Stage 1		Stage 3		POCI		Total	
	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet	balance sheet	off-balance sheet
0	70,407.4	39,262.1	6,168.6	2,105.6	631.2	198.9	51.1	0.0	77,258.3	41,566.6	63,918.4	5,345.9	923.9	175.8	373.2	2.8	1.8	0.0	65,217.3	5,524.5
1-30	245.9	2.2	207.3	0.0	104.5	0.0	0.0	0.0	557.7	2.2	184.2	0.0	356.9	0.0	33.4	0.0	0.4	0.0	574.9	0.0
31-60	0.2	0.0	76.9	0.0	63.8	0.0	0.0	0.0	140.9	0.0	0.0	0.0	70.0	0.0	18.4	0.0	0.0	0.0	88.4	0.0
61-90	0.6	0.0	11.7	0.0	34.9	0.0	0.0	0.0	47.2	0.0	0.0	0.0	19.9	0.0	12.1	0.0	0.0	0.0	32.0	0.0
91-180	0.0	0.0	0.6	0.0	73.5	0.0	0.0	0.0	74.1	0.0	0.0	0.0	0.1	0.0	58.5	0.0	0.0	0.0	58.6	0.0
181-365	0.0	0.0	0.2	0.0	166.6	0.0	0.0	0.0	166.8	0.0	0.0	0.0	0.0	0.0	114.3	0.0	0.0	0.0	114.3	0.0
>365	0.0	0.0	0.9	0.0	1,668.6	0.0	0.0	0.0	1,669.5	0.0	0.0	0.0	0.0	0.0	400.3	0.0	0.0	0.0	400.3	0.0
Total Gross	70,654.1	39,264.3	6,466.2	2,105.6	2,743.1	198.9	51.1	0.0	79,914.5	41,568.8	64,102.6	5,345.9	1,370.8	175.8	1,010.2	2.8	2.2	0.0	66,485.8	5,524.5



Kredyty i inne należności wobec innych banków oraz dłużne papiery wartościowe

As at 31 December 2022, all debt securities from the portfolio of financial assets held for trading and the portfolio of investment securities were in low-risk classes with ratings from 1 to 09 (from 1 to 11 at the end of 2021). Both at the end of 2022 and at the end of 2021, all debt securities from the portfolio of investment securities were in Stage 1.

As at 31 December 2022 and 31 December 2021, approximately 99% of loans and other receivables from other banks were in low risk classes (rating 1-10), the rest in medium and high risk classes with ratings from 11 to 15 (from 11 to 14 at the end of 2021). Exposures in the amount of PLN 5,161.3 million were entirely in Stage 1 (PLN 704.9 million as at 31 December 2021).

The change in the level of the allowance for expected credit losses in 2022 and 2021 resulted from changes in the credit parameters of these portfolios.

III. Market risk

1.1. Introduction

The core objectives of credit risk management at ING Bank Śląski S.A. include: ensuring that awareness and understanding exists of the Bank's market risk exposure and that the exposure is adequately managed and falls within the approved limits when applicable. Market risk is defined as a potential loss that may be suffered by the Bank in connection with unfavourable changes to market prices (such as profitability curves, FX rate, prices in capital markets), market parameters (volatility of market prices, correlation between price changes) and client behaviour (e.g. loan prepayments).

1.2. Market risk management process

The Market Risk Department has normative documents that describe the department's scope, rules and responsibilities. In order to optimize the market risk management process, the *Market Risk Management* Policy at ING Bank Śląski S.A. was developed. It describes the bank's approach to market risk management. It defines the principles and methodology of market risk management and measurement at the Bank, as well as the general principles of process management

The document is an elaboration of the *General Principles of Credit, Market and Operational Risk Management and Mitigation at ING Bank Śląski*, which is approved by the bank's Supervisory Board, based on the recommendation of the Risk Committee. The policy is subject to approval by the Management Board of the Bank.

Another document is the policy describing the bank's approach to the process of defining the risk appetite in the area of market risk, liquidity and capital adequacy (*Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy*). This policy is also approved by the Bank's Management Board

The market risk management process at the Bank covers risk identification, measurement, monitoring and reporting. The Market Risk Management Department (DZRR) provides managers of the Financial Markets Area in the Wholesale Banking Division and the Center of Expertise Treasury, selected members of the Management Board and ALCO with regular risk reports. Additionally, ALCO, the Bank's Management Board and Supervisory Board are provided with periodic reports with the major measures of market risk. The approval of individual market risk limits is carried out at the level of the ALCO committee, the Bank's Management Board or the Supervisory Board, in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy. Employees of the Market Risk Management Department are qualified specialists and the independence of the department is assured by its separation from the risk generating units.

Market risk management in the Bank also includes the Product Control function which assures correct pricing of products of the Financial Markets in the Wholesale Banking Division and the Center of Expertise Treasury by monitoring the adequacy of pricing models and quality control of market data used to the evaluation and calculation of financial results. Decisions related to the pricing process such as: sources of market data used for valuation, calculation of adjustments concerning market pricing models (bid-offer spread and BVA), are taken by the Parameterization of Products of the Financial Markets Division, Wholesale Banking and Center of Expertise Treasury Committee.

In the period under report, the market risk profile and the risk management methods were not materially changed.

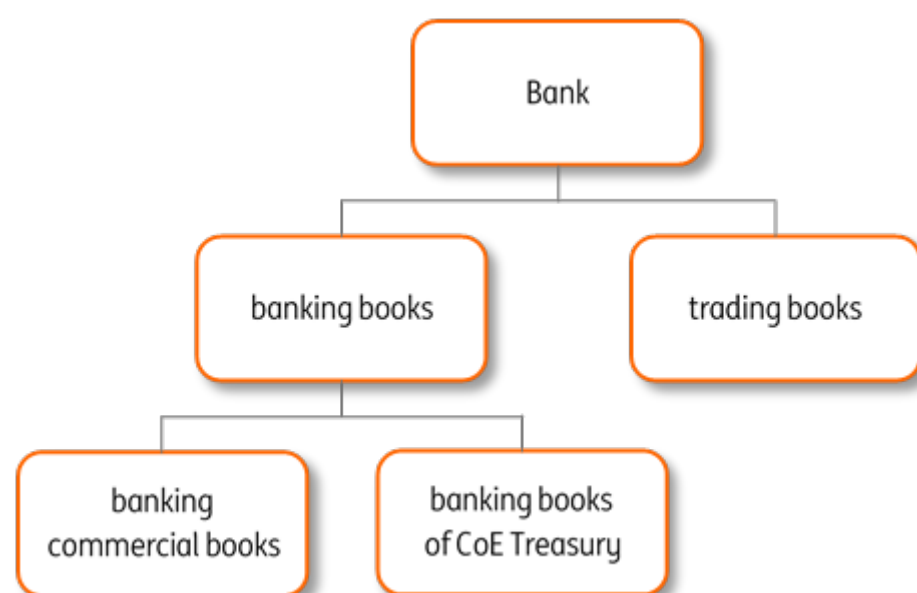
1.3. Structure of the books and methods of risk management

The Bank maintains the structure of its books relying on intentions which is translated into multiple processes, including market risk management. The book structure reflects the types of market risk that are anticipated and accepted in the Bank's areas and of the fact that market risk should be internally transferred/mitigated. The books are grouped by an intention to maintain positions split into:

- “trading” (positions taken in order to generate benefits in a short period of time due to market price fluctuations), and
- “banking” (all other positions).



The overall structure of the Bank's books is as follows:



The Banking Books are split into Banking Commercial Books and Banking Books of the Centre of Expertise Treasury (CoE Treasury). The Banking Commercial Books include books of the retail and corporate divisions containing deposits and commercial loans. The risks relating to those positions are transferred to:

- banking books of the Centre of Expertise Treasury (CoE Treasury) (for interest rate risk, base and liquidity risk), and
- commercial books of the Financial Markets Area in Wholesale Banking Division (for FX risk) via internal transactions.

The process ensures that the banking commercial books do not retain any material economic market risk. However, as described in more detail further below, the short-term financial result in those books is sensitive to changes of market rates. The commercial activity of the subsidiary companies are included in the Bank's commercial books.

The Banking Books of the Centre of Expertise Treasury are books used to manage:

- the Bank's liquidity risk as a whole, and
- interest rate risk in the banking book.

Maintenance of open positions is permissible within the approved market risk limits:

- for the banking book - NIIaR (Net Interest Income at Risk), EVE (Economic Value of Equity), NPVaR (Net Present Value at Risk),

- for the trading book – VaR (Value at Risk), Slope risk (negative impact on the result caused by an uneven shift of the yield curve), CS01 (change in the market value of a security due to an increase in the credit spread), BPV (Basis Point Value),
- CS RRaR (Credit Spread Revaluation Reserve at Risk) – the measure shows the potential impact of changing credit spreads on the level of revaluation reserve,
- IR RRaR (Interest Rate Revaluation Reserve at Risk) – the measure shows the potential impact of changing interest rates on the level of revaluation reserve.

Hedge accounting is a tool supporting the management of interest rate risk in the banking book. The developed assumptions to the hedging strategy are applied consistently with the approach to market risk management within the approved market risk limits as described above. Detailed information on the assumptions underlying each strategy in hedge accounting are described in this chapter, in item [1.10. Hedge Accounting](#).

Trading Books are the books of the Financial Markets Area in Wholesale Banking Division: FX and interest rate books. The books embrace positions maintained for a short time in order:

- to be resold, or
- to obtain financial benefits on the current price fluctuations or expected within a short time,
- or positions opened for arbitration purposes.

1.4. Measurement of interest rate risk in the banking book

In its measurements of interest rate risk in its banking book, the Bank applies measures required by the European Banking Authority (EBA/GL/2018/02). The core measures are as follows:

- Net Interest Income at Risk – a measure of sensitivity of the reported results of positions recognised on an accrual basis on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- Net Present Value at Risk – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes on the basis of a set of interest rate scenarios which provide for various potential shifts of the profitability curve.
- net present value of discounted future flows at risk (Economic Value of Equity – EVE) – a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes.



Additionally, the Bank measures in its banking books:

- option risk – potential losses on the positions resulting from premature deposit withdrawal and/or loan prepayment,
- residual risk – a potential loss on those positions resulting from the application of non-standard pricing mechanisms that are transferred to the Centre of Expertise 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 Centre of Expertise Treasury are usually subject to valuation at amortised cost, the Bank monitors BPV which limits economic risk of interest rate positions. Additionally, fluctuations of the revaluation reserve are restricted with CS01, IR RRaR and CS RRa limits.

1.5. Measurement of market risk in the trading book

The VaR measured by the Bank is compliant with the best market practices. In the calculation of VaR, the Bank applies the following assumptions:

- one-day positions, 99% confidentiality level,
- 260-day observation period.

In order to reinforce risk control, in the area of FX risk books the Bank has additionally implemented the measurement and monitoring of the risk in the context of the approved limits on intra-day basis.

The Bank calculates also Stressed VaR. Stressed VaR is a measure replicating the calculation of historic simulations with an assumption that the current portfolio is used for the measurement and historic market data from a continuous 12-month period characterised with major fluctuations of market parameters that are material for the portfolio.

Every six months, a general stress-test is performed covering inter alia market risk, liquidity risk and credit risk on the basis of a regulatory scenario and scenarios developed by the Bank's economists and approved by ALCO. Additionally, on a quarterly basis a stress test is held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

1.6. Sensitivity to the currency risk in the trading book

The tables below present VaR* (PLN thousand) for 2022 and 2021:

FX area	Limit	at the end of year	Medium	Min.	Max.
2022	1,875.9	87.37	317.16	9.5	1,625.0
2021	1,839.7	359.2	225.3	6.8	969.0

*) All VaR limits and their utilisation at ING Bank Śląski S.A. are expressed in EUR. Limit levels and their utilisation were translated into PLN at NBP's daily fixing exchange rates specially for the presentation in financial statements; the "limit" column the amounts calculated at the fixing FX rates are on the last day of the year.

1.7. Sensitivity of the net interest income to interest rate risk

In order to present the sensitivity of the net interest income to changes in interest rates, the Bank analyzed the impact of the shock changes in the yield curve (compared to that of 31 December 2022) on the net interest income for 2023 compared to the baseline scenario. Taking into account the spectrum of possible changes in interest rates, the analysis was prepared on the basis of six scenarios, three for a parallel shift of the curve up and down, by 50 bp, 100 bp and 150 bp respectively, which would take place on 1 January 2023.

Impact on the net interest income (PLN million)	50 bp	100 bp	150 bp
parallel upward shift of the yield curve *	274	548	823
parallel downward shift of the yield curve*	-225	-449	-674

*) compared to the data for 31 December 2022

In the above calculations, the assumption was made, inter alia, constant level of balance sheet balances as at 31 December 2022, taking into account a number of assumptions regarding changes in the level of financing costs, which may differ from those resulting from actual business decisions.



1.8. Sensitivity of economic results and regulatory capital to interest rate risk

The sensitivity to interest rate risk is presented below:

- sensitivity of the results to interest rate changes resulting from the banking book - the observed changes in the EVE measurement result mainly from two factors:
 - changes (growth) in product volumes and
 - changes to model parameters used to determine the economic value of non-maturity product portfolios.

changes to economic results with an amended curve		
	-2%	2%
2022	-373.9	-122.5
2021	259.1	-945.1

- sensitivity of equity to changes in interest rates resulting from debt instruments measured at fair value through other comprehensive income in the Center of Expertise Treasury portfolio:
 - There were slight changes in the sensitivity of the portfolio of debt instruments measured at fair value through other comprehensive income compared to the previous year. The BPV measure of the portfolio (short position BPV) increased from PLN 75 million to PLN 117 million.

approximate change in the regulatory capital base as the curve moves				
	-2%	-1%	+1%	+2%
2022	234.6	117.3	-117.3	-234.6
2021	148.9	74.5	-74.5	-148.9

1.9. The impact of the benchmark rate reform

Interbank offered rates (IBORs), such as WIBOR and EURIBOR, are widely used as benchmarks to set interest rates across a broad range of financial products and contracts. In line with recommendations from the Financial Stability Board, regulators have undertaken a fundamental review and reform of the major interest rates benchmarks. This review and the reform have been already implemented across several major currencies.

As of 31 december 2022, the Group was exposed to two significant interest rate benchmarks that are expected to be discontinued:

- USD LIBOR, which is expected to be discontinued after 30 June 2023 and is replaced by SARON; and,
- WIBOR, which is expected to be discontinued after 31 December 2024 and is replaced by WIRON.

These changes in the reference rate affect the Group, its customers and the financial industry as a whole and expose the Group to risks. These risks include legal, operational risk and financial risk. Legal risks are related to any required changes to documentation for new and existing transactions. Operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes to the new benchmark rates. Financial risks (predominantly limited to interest rate risk) as a consequence of changes in the valuation of financial instruments linked to such benchmarks and declining liquidity may impact a contract directly or the ability to hedge the risks in that contract. Changes in valuation, interest calculation methodology or documentation may also result in customer complaints or litigation.

To mitigate these risks, the Group established an IBOR programme. This programme has an extensive governance in place, with progress being tracked by a steering committee. The programme assesses and coordinates the actions necessary to manage the required changes to internal processes and systems, including pricing, risk management, legal documentation and the impact on customers. The Group continues to monitor market developments, and the outcome of several remaining uncertainties such as the availability of term rates and any regulatory standards governing the transitions, to anticipate the impact on the programme, customers and related risks.

USD LIBOR

During 2022, the Group to continued amending terms of contracts that reference USD LIBOR.

The Group applied the IFRS 9 IBOR Phase 2 amendments to account for the changes in the contractual terms of the financial instruments for the purpose of implementing the reform of USD LIBOR. The IFRS 9 Phase 2 amendments allow the Group to not recognise modification gains and losses on debt instruments whose contractual terms were amended if those modifications are necessary to implement the IBOR Reform and that the new basis for calculating



cash flows is ‘economically equivalent’ to the previous basis. Instead, the changes to debt instruments resulting from IBOR Reform are treated as a reset to the instrument’s variable interest rate and changes the instrument’s effective interest rate. The Group applied the Phase 2 amendments to all changes in the contractual terms of the financial instruments that reference USD LIBOR. As a result, the Group did not recognize material modification gains and losses for these changes.

WIBOR

The possibility to replace WIBOR was incorporated in Polish law through the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers (Ustawa z dnia 7 lipca 2022 r.o finansowaniu społecznościowym dla przedsięwzięć gospodarczych i pomocy kredytobiorcom). In response, a national working group was established under the leadership of the Polish banking supervisor (KNF) with representatives of the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, the benchmark administrator and the banking sector. In September 2022 the national working group issued a roadmap to replace WIBOR with a new rate called the Warsaw Interest Rate Overnight (WIRON). The roadmap foresees a replacement of WIBOR in 2025.

The planned replacement of WIBOR results in uncertainty in WIBOR cash flows designated in macro cash flow hedge accounting relationships and WIBOR assets designated in fair value hedge accounting relationships. As a result, the Group applied the IAS 39 Phase 1 amendments. The IAS 39 Phase 1 amendments describe that in determining whether a forecast transaction and in assessing hedge effectiveness, it must be assumed that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. Therefore, for the affected fair value and cash flow hedge relationships the Group assumes that the WIBOR based cash flows from the hedging instruments and hedged items will remain unaffected. The same assumption is used to assess the likelihood of occurrence of the forecast transactions that are subject to cash flow hedges. As a result, the Group continued the hedge accounting relationships. The IAS 39 Phase 1 amendments cease to apply when uncertainty arising from WIBOR replacement is no longer present with respect to the timing and amount of the WIBOR-based cash flows of the relevant instruments. The table below presents the notional amount of hedging instruments that are referencing WIBOR.

The Group has not started to amend contractual provisions of financial instruments in anticipation of the discontinuation of WIBOR.

net nominal value of the position on the hedging instrument				
2022		2021		
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	87,728.0	31,206.7	92,322.7	24,087.7
Fair value hedges	812.0	-	4,452.0	-

Structure of financial assets and liabilities according to reference rates

As at 31 December 2022, the following financial instruments refer to the reference rate, which is planned to be discontinued and is significant for the Group. Non-derivative financial assets and liabilities are presented at gross carrying amount, off-balance sheet items are presented at the commitment amount and derivatives are presented at nominal value.

Instruments referencing WIBOR

2022		2021		
	with maturity date after 31 Dec 2022	with maturity date after 31 Dec 2024	with maturity date after 31 Dec 2022	with maturity date after 31 Dec 2024
Non-derivative financial assets	133,457.9	115,362.5	120,852.3	104,714.0
Non-derivative financial liabilities	2,752.4	0.2	3,120.1	0.1
Derivatives	958,446.8	454,755.9	619,237.2	361,571.8
Off-balance sheet items	8,269.1	2,711.8	6,945.5	5,763.8

Instruments referencing USD LIBOR

2022		2021		
	with maturity date after 31 Dec 2022	with maturity date after 30 Jun 2023	with maturity date after 31 Dec 2022	with maturity date after 30 Jun 2023
Non-derivative financial assets	325.4	272.5	432.2	341.7
Non-derivative financial liabilities	4.4	2.4	2.6	0.0
Derivatives	2,131.7	2,018.5	2,337.0	2,202.2



1.10. Hedge accounting

Fair Value Hedge accounting

In fair value hedge accounting, the risk is equivalent to change in the fair value of a financial asset as a result of changes to interest rates. The hedge covers the fair value of debt instruments with a fixed interest rate that is a position (a part of position) in a security that is classified to a portfolio of assets kept to collect contractual cash flows or for sale (hereinafter: HTC&S) which at the time a hedge relationship is established holds a specific fair value recognised in other comprehensive income and a position (a part of position) in a security classified to a portfolio of financial assets kept to collect contractual cash flows (hereinafter: HTC).

For the needs of the strategy, the recognition of a part change to the fair value due to the hedged risk is made on the basis of valuation models relying on assumptions that are similar to those applicable to valuation models of interest rate derivative instruments. The valuation curves applied in the model are designed on the basis of market rates corresponding to repricing tenors of variable interest rates of hedging instruments.

Interest Rate Swap, swapping fixed interest rate into variable interest rate is the hedging instrument. The above shows that changes to the fair value of the hedging instrument manifest a trend that is opposite to changes of the fair value of the hedged position. In this connection, as a result of the established hedge relationship, the profit and loss account contains a compensating effect of changes to the fair value of the hedging instrument and the hedged position due to the hedged risk. In order to confirm the effectiveness of the strategy, the Group carries out:

- prospective effectiveness test:
 - qualitative based on the maturity of the hedged item and the hedging instrument, and
 - quantitative based on the BPV (basis point value) ratio of the hedged item and a hedging instrument,
- retrospective effectiveness test as the quotient of changes in the hedging instrument measurement and changes in the measurement of the hedged item due to the risk being hedged.

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves (that is: interest rate derivative instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- changes to credit risk constituting a valuation component to fair value of the hedged position from the HTC&S portfolio,
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type, as well as transactions forwarded for settlement on a daily basis via the Central Counterparty,
- component of the valuation of hedging instruments due to settlement of the price alignment amount resulting from “settled to marked” approach to settlement 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.

2022

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk ka	cumulative part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity		
		Assets	Liabilities				3 to 8 years	over 8 years	Total
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	-	2.3	254.1	-	-	812.0	1,449.2	2,261.2
settled via CCP		-	0.8	254.1	-	-	812.0	1,449.2	2,261.2
Interest rate swaps (IRS PLN) fixed – float		-	2.3	92.7	-	-	812.0	-	812.0
Interest rate swaps (IRS EUR) fixed – float		-	-	161.5	-	-	0.0	1,449.2	1,449.2
Hedged instruments, of which:		2,013.5	-	-350.3	264.7	-615.0	812.0	1,449.2	2,261.2
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	2,013.5	-	-350.3	264.7	-615.0	812.0	1,449.2	2,261.2
State Treasury bonds	Note 19	870.1	-	-164.1	115.0	-279.1	-	933.3	933.3
European Investment Bank bonds	Note 19	1,143.4	-	-186.2	149.7	-335.9	812.0	515.9	1,327.9

*) presented in the comprehensive income statement in the position: debt securities measured at fair value via other comprehensive income – gains/losses on revaluation carried through equity

In its recognition of interest rate derivative instruments IRS/FRA, the Group applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Group cooperates. See note 17. *Valuation of derivatives* for further information.



2021

	item in the statement of of financial position – number of note	fair value		unrealised valuation result	cumulative valuation adjustment due to the hedged risk ka	cumulative part of valuation of unsecured risks recognised in other comprehensive income	nominal value of instruments with remaining maturity		
		Assets	Liabilities				under 1 year	3 to 8 years	Total
Instruments hedging fair value of securities, of which:	Derivative hedge instruments	0.1	16.8	359.6	-	-	299.0	4,452.0	4,751.0
settled via CCP		0.1	-	360.3	-	-	0.0	4,452.0	4,452.0
Interest rate swaps (IRS PLN) fixed – float		0.1	3.4	360.3	-	-	0.0	4,452.0	4,452.0
Interest rate swaps (IRS EUR) fixed – float		-	13.4	-0.7	-	-	299.0	0.0	299.0
Hedged instruments, of which:		4,602.4	0.0	-423.1	-386.8	-35.6	0.0	4,452.0	4,751.0
Investment securities measured at fair value through other comprehensive income, including:	Investment securities	4,290.3	-	-423.1	-387.5	-35.6	0.0	4,452.0	4,452.0
State Treasury bonds	Note 19	3,514.2	-	-377.3	-350.5	-26.8	-	3,640.0	3,640.0
European Investment Bank bonds	Note 19	776.1	-	-45.8	-37.0	-8.8	-	812.0	812.0
Investment securities measure at amortised cost, including:	Investment securities	312.1	-	-	0.7	-	-	-	299.0
State Treasury bonds in EUR	Note 19	312.1	-	-	0.7	-	299.0	-	299.0
Instruments for which the hedging relationship was cancelled, of which:									
Investment securities measure at amortised cost, including:	Investment securities	576.9	-	-	1.3	-	551.9	-	551.9
State Treasury bonds in EUR	Note 19	576.9	-	-	1.3	-	551.9	-	551.9

**Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments****2022**

		nominal value of instruments with remaining maturity			
		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	812.0	2.69%	-	-
	variable %		7.30%		-
Interest rate swaps (IRS EUR) fixed – float	fixed %	-	-	1,449.2	1.75%
	variable %		-		2.33%

2021

		nominal value of instruments with remaining maturity			
		under 1 year		3 to 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	-	-	4,452.0	1.93%
	variable %		-		0.42%
Interest rate swaps (IRS EUR) fixed – float	fixed %	299.0	4.03%	-	-
	variable %		-0.55%		-

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 instruments including component due to the settlement of the price alignment amount 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	2022			2021		
	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	-357.0	331.3	-25.7	-1,075.8	1,019.7	-56.1
Hedging of debt securities in EUR	-170.5	160.8	-9.7	-14.5	14.6	0.1
Total	-527.6	492.2	-35.4	-1,090.3	1,034.3	-56.0

Cash flow hedge accounting

The Group applies hedge accounting principles for cash flows to a specified portfolio of assets / liabilities / highly probable planned financial transactions of the Group (e.g. extrapolations of financial flows resulting from renewable deposits / overdraft facilities). The applied hedging strategies are aimed at hedging the Group's exposures against the risk of changes to future cash flows resulting from interest rate risk.

The hedge applies to a specified portfolio of financial assets and/or liabilities or a portfolio of planned transactions that cover variable interest rate financial instruments (financial products based on WIBOR/ EURIBOR) and thus that are exposed to the risk of changes to future cash flows due to changes to market rates – WIBOR/EURIBOR.

For its strategy relating to calculations of changes to the fair value of future cash flows in the hedged portfolio, the Group applies the method of a “hypothetical derivative” (being a method which provides for a possibility to reflect the hedged position and nature of the hedged risk in the form of a derivative instrument). The valuation principles are similar to the valuation principles of interest rate derivative instruments. Strategy effectiveness research also includes:

- prospective high-probability test of future cash flows,
- retrospective high-probability test of future cash flows confirming, on the basis of actual values, that the adopted model works correctly,
- retrospective test of homogeneity of the portfolio of the hedged item based on statistical analysis (regression method).



The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,
- mismatch resulting from the use of various valuation curves of the hedging instrument and the hypothetical derivative into PLN denominated positions (that is: interest rate derivative hedging instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type.

From the viewpoint of economic relationships, the Group's existing hedging strategies contain the following types of hedge relationships:

- the hedging instrument for active positions in the interest rate risk hedging strategy is the position on the Interest Rate Swap of the "pay floating, receive the fixed" type, while the
- hedging instrument hedging the liability is the position on the Interest Rate Swap of the "pay fixed, receive variable".

Due to the fact that the hedged position covered with specific strategies keeps affecting the profit and loss account) (by measurement at amortised cost), net interest of the derivative instruments hedging the portfolio:

- of financial assets is presented as interest on loans and other receivables granted to customers, measured at amortised cost,
- of financial liabilities is presented as interest on liabilities to customers.

The tables below present the fair values and nominal values of hedged instruments in cash flow hedge accounting. Notional amounts of the derivatives were presented in the amounts purchased.

2022

	fair value		nominal value of instruments with remaining maturity				
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	over 8 years	Total
Cash flow hedges, of which:	139.2	367.2	32,709.6	109,455.0	159,760.0	20,977.3	322,901.9
settled via CCP	64.0	65.6	30,706.2	101,067.2	159,760.0	20,977.3	312,510.7
Interest rate swaps (IRS PLN) fixed – float	65.6	279.8	31,123.5	91,138.6	131,217.3	16,137.3	269,616.7
Interest rate swaps (IRS EUR) fixed – float	73.6	87.4	1,586.1	18,316.4	28,542.7	4,840.0	53,285.2

2021

	fair value		nominal value of instruments with remaining maturity				
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	over 8 years	Total
Cash flow hedges, of which:	250.3	218.6	32,625.3	63,656.4	119,984.2	25,811.1	242,077.0
settled via CCP	28.9	31.6	31,310.3	54,132.3	119,200.2	25,811.1	230,453.9
Interest rate swaps (IRS PLN) fixed – float	142.1	114.3	28,932.0	55,395.0	98,806.3	22,366.1	205,499.4
Interest rate swaps (IRS EUR) fixed – float	108.2	104.3	3,693.3	8,261.4	21,177.9	3,445.0	36,577.6

As at 31 December 2022, the amount of PLN -7,751.9 million (net of tax) related to the effective part of the hedging relationship in cash flow hedge accounting was recorded in other comprehensive income (PLN -2,994.5 million as at 31 December 2021). The ineffective part of the hedging relationship resulting from the mismatch in offsetting changes in the fair value of the hedging instrument and the hedged item recognized in the income statement in 2022 amounted to PLN -4.0 million compared to PLN 3.4 million in 2021.

**Impact of the application of cash flow hedge accounting on profit and loss account and other comprehensive income****2022**

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income		
	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***	resulting interest income from existing hedging relationships	amortization of the result of the completed strategy security	
Cash flow hedges, of which:	139.2	367.2	-5,875.5	5,871.5	-4.0	-1,375.8	1.9	
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	34.1	263.3	-6,584.3	6,546.9	-37.4	-2,176.8	-	
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	23.5	47.5	-756.5	756.5	0.0	28.1	-	
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	31.5	16.5	1,314.4	-1,281.0	33.4	788.9	-	
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	50.1	39.9	150.9	-150.9	0.0	-16.0	0.8	
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-	-	-	-	-	-	0.3	
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR	-	-	-	-	-	-	0.8	

*) disclosed in the statement of financial position as *Derivative hedge instruments***) disclosed in the statement of financial position as *Accumulated other comprehensive income* and in note [34.2](#). (the amount in the table does not include tax)***) disclosed in the profit and loss account in the dedicated line item *Net (loss)/income on hedge accounting* and in note [6](#).**2021**

	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			amount reclassified from other comprehensive income		
	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	resulting interest income from existing hedging relationships	amortization of the result of the completed strategy security	
Cash flow hedges, of which:	250.3	218.6	-7,987.9	7,991.3	3.4	1,094.1	1.8	
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	138.8	59.3	-11,028.8	11,034.4	5.6	1,406.1	-	
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	36.7	9.5	-144.0	144.9	0.9	51.7	-	
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	3.3	55.0	3,154.3	-3,157.1	-2.8	-351.0	-	
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	71.5	94.8	30.6	-30.9	-0.3	-12.7	0.8	
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-	-	-	-	-	-	0.2	
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR	-	-	-	-	-	-	0.8	

**Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments****2022**

		notional value of the position on the hedging instrument with a 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 %	12,610.5	2.83%	27,531.8	2.45%	40,192.4	2.96%	7,393.3	4.03%
	variable %		7.37%		7.39%		7.40%		7.42%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	-4,038.0	1.66%	12,156.8	2.09%	17,605.9	4.66%	5,482.0	5.22%
	variable %		7.43%		7.38%		7.42%		7.55%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	85.4	0.74%	3,998.1	0.47%	3,390.8	0.30%	450.2	0.87%
	variable %		1.70%		1.71%		1.75%		1.83%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	-	-	-65.7	1.03%	220.4	0.45%	919.2	1.59%
	variable %		-		1.20%		1.34%		1.67%

2021

		notional value of the position on the hedging instrument with a remaining maturity							
		up to 1 year		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %	7,668.0	2.19%	20,901.0	2.48%	49,769.0	1.99%	13,984.7	1.46%
	variable %		1.07%		0.95%		0.95%		1.03%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	874.0	2.35%	3,665.0	1.55%	13,509.3	1.26%	6,039.4	2.12%
	variable %		1.00%		1.09%		0.87%		0.95%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	-1,352.2	0.18%	695.4	0.48%	2,361.8	0.07%	1,780.0	-0.10%
	variable %		-0.58%		-0.57%		-0.58%		-0.57%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	41.4	0.17%	-133.4	1.12%	579.5	0.36%	239.2	0.07%
	variable %		-0.53%		-0.53%		-0.53%		-0.54%



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.

2022

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)		
	inflows (assets)	outflows (liabilities)	net cash flows	inflows (assets)	outflows (liabilities)	net cash flows
up to 1 year	5,875.1	-2,360.8	3,514.3	53.3	-7.0	46.3
1-3 years	7,495.0	-3,625.7	3,869.3	90.2	-14.4	75.8
3-8 years	7,446.4	-4,850.3	2,596.1	44.1	-32.6	11.5
over 8 years	420.0	-323.0	97.0	4.8	-5.8	-1.0

2021

	cash flows in PLN (PLN million)			cash flows in EUR (EUR million)		
	inflows (assets)	outflows (liabilities)	net cash flows	inflows (assets)	outflows (liabilities)	net cash flows
up to 1 year	2,987.3	-766.5	2,220.8	-3.9	0.7	-3.2
1-3 years	5,867.2	-1,818.2	4,049.0	-0.8	0.0	-0.8
3-8 years	6,460.2	-1,609.9	4,850.3	11.0	-2.3	8.7
over 8 years	422.4	-185.3	237.1	2.2	-0.5	1.7

Impact of the reform of key interest rate benchmarks on the Group's hedging strategies

Group applies fair value and cash flow hedge accounting in accordance with IAS 39, and interest rate and foreign currency risks are designated as hedged risks in various micro and macro models. The hedged exposures are mainly loan portfolios, purchased debt securities and savings/deposits.

Group applied the amendments to IAS 39 issued in September 2019 to hedging relationships that are based on WIBOR due to the work already undertaken on the reform of this benchmark, inaccordance with the disclosures in the note **III.1.9. The impact of the benchmark rate reform.** Therefore the Group assumes that the WIBOR based cash flows from the hedging instruments and hedged items will remain unaffected and thereby continue the hedge accounting relationships in unchanged scope.

In terms of the hedge accounting relationships that based on EURIBOR aforementioned amendments to IAS 39 are not applied because this ratee have already been reformed and publication of this benchmark will be continued. Therefore impact of the IBOR reform on hedge accounting relationships is very limited.

1.11. The approach to risk management in subsidiaries

The policies of ING Bank Śląski S.A. with respect to market risk management in its subsidiary companies provides for maintaining market risk at a low level. The core market risk categories that may occur in connection with the business of the subsidiary companies include FX risk and interest rate risk. Ongoing control and monitoring of market risk level is performed with periodic measurements of market risk categories related to the business of the subsidiary companies.

The company operating on an autonomous basis is ING Bank Hipoteczny S.A. This unit operates within the risk appetite accepted by ING Bank Śląski S.A. and managed at the level of ING Bank Hipoteczny S.A. The market risk management process at ING Bank Hipoteczny S.A. was built based on the best practices of ING Bank Śląski SA. Some technical activities are outsourced to ING Bank Śląski SA, in accordance with the signed SLA agreement between both banks. The ALCO Committee of ING Bank Śląski S.A. plays a supervisory role in relation to the ALCO Committee of ING Bank Hipoteczny S.A.

The Bank’s Management Board, ALCO, the Market Risk Management Department, the Centre of Expertise Finance Support and Innovations and other competent units of the Bank are involved in market risk management. Determination of limits mitigating market risk for each subsidiary company at a consolidated level is a major elements of the market risk management process in the Group of ING Bank Śląski S.A.. The measurement techniques of market risk in the Group are the same as for the Bank. In accordance with the Bank’s policies, risk volumes and compliance with the approved risk limits are monitored on a monthly basis.



IV. Liquidity and funding risk

1.1. Introduction

ING Bank Śląski S.A. recognises the process of stable management of liquidity and funding risk as a major process at the Bank.

Liquidity and funding risk is understood by the Bank as the risk of the lack of ability to perform financial liabilities under on- and off-balance sheet items at reasonable prices. The Bank maintains liquidity so that the Bank's financial liabilities can always be repaid with the available funds, inflows from maturing transactions, available funding sources at market prices and/or liquidation of negotiable assets.

1.2. Liquidity and funding risk management process

In order to optimise the liquidity and funding risk management process, the Bank has developed the *Liquidity and Funding Risk Management Policy 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. Supplementing the *Liquidity and Funding Risk Management Policy at ING Bank Śląski S.A.* is the *Contingency Financing Plan* Manual, which defines the organization and activities aimed at eliminating liquidity shortages in stressed conditions.

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.

The acceptable level of liquidity and funding risk is defined by a multi-element system. This approach is consistent with the approach described in the *Policy for determining and monitoring risk appetite in the area of market risk, liquidity and capital adequacy*.

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 organized and designed regular inspections and monitoring are essential for good risk management. Appropriate reporting provides managers with the information they need to manage risk.

In accordance with Recommendation S, the Bank makes a detailed analysis of long-term liquidity with focus on mortgage loans. The above liquidity analysis shows risk levels related to long-term funding of mortgage loans.

The Bank pursues an active policy of liquidity management with reference to core currencies. For those currencies, liquidity risk measurement and limitation is made per currency and the management of operational liquidity is performed separately for each currency and it is incorporated in the risk transfer system.

Intraday liquidity is actively managed by the Centre of Expertise Treasury. The process manages the position and risk of short-term liquidity (one day and intraday). The objective is to comply with payment and settlement duties in a timely manner in regular operations and in extraordinary/stress situations.

The Bank operates a risk transfer system within which market risks, including liquidity risk, are transferred to the Centre of Expertise Treasury. Applying adequate tools, it manages the risks in a centralised manner within the limit system applied by the Bank.

The liquidity risk management procedures adopted at the Bank are presented annually to the relevant bank employees involved in the bank's liquidity management process. Persons involved in the bank's liquidity management process confirm that they have familiarized themselves with and understand the procedures used and control the correctness of their implementation.



1.3. Risk types

The Bank splits liquidity risk into two groups:

- liquidity risk resulting from external factors, and
- risk of internal factors relating to the specific bank.

The Bank's goal is a conservative approach to liquidity risk management that will allow safely survive events specific for ING Bank Śląski S.A. and for the entire banking sector.

In terms of time horizon, the Bank splits liquidity risk into:

- operational – focused on current funding of the Bank’s position and on managing intraday liquidity,
- strategic – focused on ensuring that the Bank's structural liquidity positions are at an acceptable level.

Considering the tenor and clients’ behaviour (the two aspects affecting the Bank’s liquidity), the Bank identifies three types of liquidity and funding risk:

- structural – understood as a potentially adverse impact on the Bank's revenues due to a mismatch between the anticipated maturities of the Bank's assets and liabilities as well as the risk of no re-financing possibilities in the future,
- related to clients’ behaviour – understood as a potentially adverse impact on the Bank's revenues due to the embedded liquidity options in the products offered by the Bank,
- related to stress conditions – understood as a risk of lack of possibility by the Bank to comply with its financial obligations when due to insufficient available funds or when the generation of such funds is impossible at any price which results in immediate insolvency of the Bank.

1.4. Structure and organisation of the risk management process

The structure of risk and control at the Bank is based on a model of three lines of defence.

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

The Supervisory Board is responsible for:

- approving the liquidity risk tolerance, the overall accepted level of liquidity and funding risk (in HL RAS) presented to the Supervisory Board by the Management Board.

The Bank's Management Board is responsible for:

- designing a strategy related to liquidity and funding risk, the target liquidity position, the relevant funding methods and liquidity risk profile,
- determination of an acceptable risk level (risk appetite) and submission thereof to the Supervisory Board for approval,
- acceptance of changes to the limits of liquidity and funding risk (in MB RAS),
- acceptance of a liquidity and funding risk management policy and major modifications thereto, in particular limits adequate to the general level of acceptable risk approved by the Supervisory Board,
- ensuring the allocation of adequate human resources and ITC resources in the Bank to implement the policy.
- approving the levels of liquidity bonuses based on the level advised by the Centre of Expertise Treasury resulting from the liquidity premium review and / or adjusts it when deemed necessary due to strategic changes in the balance sheet or other factors.

The Asset and Liability Committee (ALCO) is responsible for:

- implementation of the Bank's strategy with respect to liquidity and funding risk,
- management of a liquidity buffer within the relevant policies and limits approved by the Bank's Management Board, the related operational actions are delegated to the Centre of Expertise Treasury,
- supervision and monitoring of liquidity risk levels as well as the funding structure in the Bank's balance sheet,
- monthly analysis of the short-, medium- and long-term liquidity profile (strategic liquidity positions) presented in reports defined by the regulator and internal reports, in the event of identified structural problems (e.g. the need for very high refinancing in the future) ALCO is responsible for issuing instructions to the appropriate business units in order to obtain an appropriate liquidity profile,
- 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,



- approving assumptions for reports and models used to measure, monitor and control liquidity and funding risk.

1.5. Framework risk management principles

The framework liquidity and funding risk management principles contain all material methods with respect to intraday, shorty-term, medium-term and long-term liquidity and funding risk management. This is made up of the following key elements:

- limit system and liquidity risk measurement,
- monitoring of funding sources and concentration risk,
- liquidity reserve management,
- management of intraday liquidity,
- management of hedging items,
- stress tests and contingency plans.

Limit system and liquidity risk measurement

Formal limits are set by the regulator of the banking sector and/or the Bank for various liquidity risk measures. The acceptable level of funding and liquidity risk is defined by a several-element system: the general level of the Bank's acceptable risk, which is approved by the Bank's Supervisory Board, and the system of limits, which is approved in accordance with the division of responsibilities in determining the levels of limits defined in the Policy for determining and monitoring risk appetite. in the area of market risk, liquidity and capital adequacy. The Supervisory Board is provided with information on compliance with the measures, minimum on a quarterly basis.

The limit level is based on the Bank's strategic objectives, identified liquidity risks, results of stress tests and the principles set forth by regulatory authorities. The limits are taken into account in planning processes (implementation of the approved plans may not result in the limits being exceeded). In most instances, the limits have a pre-defined warning level, set above (or below) supervisory limits. The admissible liquidity risk level is determined and updated minimum once a year.

The limit system is more detailed than the risk level approved by the Supervisory Board. The admissible risk level is guaranteed by risk monitoring in various reports concerning liquidity and funding risk in the course of the Bank's normal/regular activity and in extraordinary/extreme situations. Inter alia, the Bank monitors funding concentration risk, the internal liquidity safety buffer and verifies the stability of external funding.

On a weekly basis, the Bank's Management Board receives a liquidity risk report with information on key liquidity measures, On a monthly basis, the Bank's Management Board and the ALCO Committee receive comprehensive information on liquidity risk.

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

In accordance with the obligations and principles set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council, as amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council and Commission Delegated Regulations (EU) 2015/61 and 2018/1620, the Bank calculates supervisory liquidity measures:

- short-term liquidity measures (LCR – Liquidity Covered Ratio) – this is to ensure that the Bank holds adequate liquid high quality assets to cover liquidity needs for 30 calendar days in stress conditions. In 2022 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. In 2022, the regulatory cap was 100%.

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

At the end of 2022 and 2021, the consolidated supervisory liquidity measures were:

Liquidity measures		Minimum value	2022	2021
LCR	Liquidity coverage ratio	100%	152%	164%
NSFR	Net stable funding ratio	100%	155%	158%



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 2022 and 2021 yearend. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

Level 1 liquid assets	2022	2021
Cash	932.6	599.1
Cash in nostro accounts with the Central Bank net of the required reserve	3.3	16.6
Other exposures to the Central Bank (O/N deposit, cash bills)	3,713.0	15.0
Unencumbered Treasury bonds	30,356.0	29,230.4
Unencumbered European Investment Bank bonds	6,513.3	6,034.9
Unencumbered BGK bonds	1,559.4	2,128.4
Total	43,077.6	38,024.4

In level 1 liquid assets, securities are presented by their market value. The Group's liquidity position is reduced by encumbered securities (constituting collateral, blocked) and increased by securities received as hedged by reverse-repo transactions.

Additional liquidity monitoring measures (ALMM)

In compliance with the Commission Implementing Regulations (EU) 2016/313, the Bank reports a set of additional monitoring rations for liquidity reporting. The reports include:

- mismatch by maturity,
- financial concentration by counterparty,
- financial concentration by product type,
- prices for various financing periods,
- prolonged financing,
- concentration of ability to balance liquidity by issuer.

Internal liquidity reports

Another major element in the Bank's liquidity management risk process covers internally defined reports presenting detailed and varied approach by the Bank to measurement and management of the risk. The Bank models liquidity characteristics, both of its assets and liabilities in order to provide for clients' anticipated/actual behaviour. Modelling is mixed. This means than an analysis of clients' behaviour relies on historic data and expert judgment.

A structural liquidity report is one of such internal liquidity reports. The report presents the gap between the Bank's assets and liabilities in time buckets on correctly functioning markets. The report is used to monitor and manage medium- and long-term liquidity positions. It serves as a support in the planning process of the balance sheet and funding. It also indicates all major funding needs in the future.

The report is a scenario for the current balance sheet in normal market conditions. It does not cover any additional projections of balance sheet development. However, it provides for clients' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans, cash loans, loans in the current account provide for prepayments and cash flows for savings accounts and current accounts are allocated subject to characteristics of liquidity.

Report of structural liquidity

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
2022						
Liquidity gap	23,006.2	12,685.1	33,137.4	-7,007.7	-51,524.8	-10,296.2
Cumulative liquidity gap	23,006.2	35,691.4	68,828.8	61,821.0	10,296.2	0.0
2021						
Liquidity gap	33,879.6	13,575.6	26,684.3	2,233.5	-67,993.2	-8,379.8
Cumulative liquidity gap	33,879.6	47,455.2	74,139.5	76,373.0	8,379.8	0.0

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 2022 and 2021 yearend, split into direct and mutual funding. Direct funding covers products where transaction is "one-sided": funds are taken and then repaid. Mutual funding covers products where funding is simultaneously given and taken (in separate currencies or in separate products). Direct funding is provided mainly by retail and corporate clients while mutual funding comprised primarily funds acquired from other banks.

Direct funding:

Core client segments	2022		2021	
	direct funding	share	direct funding	share
Banks	128	0.1%	3,518	1.8%
Corporate clients	71,830	34.2%	55,035	28.8%
Retail clients	117,813	56.2%	113,848	59.5%
Own issue / subordinated loan	2,041	1.0%	2,185	1.1%
Equity	17,884	8.5%	16,768	8.8%

Mutual funding:

Core client segments	2022		2021	
	mutual funding	share	mutual funding	share
Banks	23,494	95.0%	27,626	100.0%
Corporate clients	1,235	5.0%	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 2022 and 31 December 2021:

	2022	2021
Structure of the liquidity buffer	share	share
Treasury bonds or bonds issued by the central bank (PLN)	60.2%	61.8%
Treasury bonds or bonds issued by the central bank (EUR)	14.2%	12.3%
bonds of BGK and EIB	25.6%	25.9%

The Bank provides for realistic reductions due to impairment of securities with the level thereof being regularly reviewed and approved by ALCO. The reductions are assessed inter alia on the basis of market liquidity and depth, volatility of market prices, requirements of the central bank.

The Bank also observes asset concentrations ensuring their safe diversification in terms of issuer, maturity and currency.

Management of intraday liquidity

The Bank actively manages positions and risks of short-term (one-day and intraday) liquidity in order to comply with its payment and settlement obligations when due in normal market conditions and in extraordinary/stress situations.

The intraday liquidity management process is critical for correct functioning of the Bank as a whole and applies to normal market conditions and extraordinary (crisis) situations. It is a component of current operational liquidity



management. Managing its intraday liquidity, the Bank applies intraday ratios. Intraday liquidity ratios are monitored on an ongoing basis and presented to the competent liquidity risk management units and to ALCO.

Intraday liquidity management includes the maintenance of readiness to comply with the Bank's obligations also in crisis circumstances. In this connection, it is necessary to maintain an adequate liquidity buffer on the basis of information on the potential worsening of the Bank's access to intraday liquidity as a result of a market stress. In order to maintain an adequate liquidity buffer, the Bank applies intraday stress tests in its stress test program.

Management of hedging items

The management of hedging items covers both positions under CSA and GIMRA contracts as well as positions of liquid assets related to operations with the central bank. This is performed on the level corresponding to the provided services, the Bank's portfolio, funding profile and liquidity requirements.

Most of the Bank's counterparties in derivative transactions have signed Credit Support Annexes (CSA) to ISDA agreements. They regulate the issue of support to portfolios of derivative transactions. They provide for the right to demand margin deposits by parties whose valuation of the portfolio is positive on a specific day (the party's portfolio is in-the-money) and the right to demand release of the margin when the valuation changes. Within the strategy of setting margins for each counterparty to CSA, the transaction portfolio is measured daily for margin requirements.

Derivative instruments such as FRA and IRS are settled via CCP (Central Clearing Party) clearing houses. This provides for effective management of margin deposits and mitigates the counterparty settlement risk. ING Bank Śląski S.A. has signed agreements with KDPW CCP and London Clearing House (LCH) and EUREX.

1.6. Analysis of the maturity of financial assets and liabilities according to contractual payment terms

The tables below present financial assets and liabilities (excluding valuation of derivatives) split by remaining (from the reporting date) contractual maturities. The presented values provide for future interest payments. With respect to contingent liabilities granted, the maturity analysis covers the closest possible performance of the liabilities by the Group.

2022

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets, including:	18,434.3	10,803.4	39,888.9	120,029.7	106,994.6
Cash in hand and balances with the Central Bank	2,297.7	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	329.1	782.9	166.8	371.6	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	1.8	523.0	95.9	590.4	120.8
Investment securities	120.9	3,798.1	1,984.1	43,056.8	7,400.0
Loans and other receivables to customers measured at amortised cost	15,684.8	5,651.9	37,628.5	76,010.9	99,473.8
Other assets	0.0	47.5	13.6	0.0	0.0
Financial Liabilities, including:	169,743.1	10,534.9	20,237.1	1,842.5	2,934.4
Liabilities to other banks	571.4	573.1	3,660.9	635.1	199.2
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	164.2	12.1	412.1	178.7
Liabilities to customers	169,045.3	7,277.8	15,850.2	110.7	447.3
Liabilities from debt securities issued	0.0	0.0	32.1	432.2	0.0
Subordinated liabilities	0.0	3.3	55.9	237.5	1,735.2
Other liabilities	126.4	2,516.5	625.9	14.9	374.0
Contingent liabilities granted	3,197.5	1,192.8	19,296.5	15,108.2	9,363.2



2021

	without a specific date	up to 1 month	1- 12 months	1-5 years	over 5 years
Financial assets, including:	13,897.2	8,136.1	36,355.8	91,920.1	80,440.8
Cash in hand and balances with the Central Bank	1,099.9	0.0	0.0	0.0	0.0
Loans and other receivables to other banks	199.9	355.5	322.4	2,459.2	0.0
Financial assets measured at fair value through profit or loss (excluding the valuation of derivatives)	4.8	536.6	37.8	577.5	133.3
Investment securities	167.4	1,188.2	3,642.5	35,459.7	10,717.6
Loans and other receivables to customers measured at amortised cost	12,425.2	5,930.8	32,342.3	53,423.7	69,589.9
Other assets	0.0	125.0	10.8	0.0	0.0
Financial Liabilities, including:	168,403.9	7,865.0	3,698.9	3,285.2	2,722.3
Liabilities to other banks	610.0	5,739.1	1,115.0	2,474.2	112.7
Financial liabilities measured at fair value through profit or loss (excluding the valuation of derivatives)	0.0	244.4	0.0	211.5	274.7
Liabilities to customers	167,677.1	844.2	1,585.7	128.7	374.3
Liabilities from debt securities issued	0.0	150.8	508.7	407.0	0.0
Subordinated liabilities	0.0	0.8	14.9	47.0	1,666.1
Other liabilities	116.8	885.7	474.6	16.8	294.5
Contingent liabilities granted	3,239.1	1,396.1	16,963.0	13,563.2	13,532.8

The tables below present a maturity analysis of derivative financial instruments with a negative valuation as at the reporting date. The analysis is based on remaining contractual maturities.

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on a net basis cover IRS, FRA, options and FX Forward NDF transactions. The data in tables reflect – 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 2022 and 31 December 2021 respectively.

2022

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	1,183.8	4,151.3	-2,028.7	-1,030.1
hedging transactions in hedge accounting	345.5	1,053.3	-1,045.6	-878.0
other derivatives	-27.5	-66.2	-29.5	0.0

2021

	up to 1 month	1- 12 months	1-5 years	over 5 years
IRS transactions, of which:	171.0	263.2	95.8	328.7
hedging transactions in hedge accounting	95.0	100.4	-112.8	59.1
other derivatives	-4.0	-28.8	-4.0	0.0

Derivative instruments settled in gross amounts

Derivative financial instruments settled by the Bank on a gross basis cover FX Swap, FX Forward and CIRS transactions. The data in tables reflect non-discounted contractual cash outflows and inflows of nominals and – in case of CIRS transactions – as interest, as at 31 December 2022 and 31 December 2021 respectively.

2022

	up to 1 month	1- 12 months	1-5 years
outflows	-5,244.5	-8,133.8	-2,160.2
inflows	5,143.3	7,726.5	2,126.2

2021

	up to 1 month	1- 12 months	1-5 years
outflows	-13,422.6	-7,613.2	-1,200.5
inflows	13,290.2	7,416.1	1,209.0



1.7. Centralised organisation of the risk management process

The liquidity risk management process is fully centralised in treasury and risk management functions. Liquidity risk (along with the generated liquidity position) of each business line is transferred to the Centre of Expertise Treasury for central management.

The Bank provides for costs and benefits of various types of liquidity risks in the system of internal transfer pricing, in its measurement of profitability and the approval process of new products in all major business areas (both on- and off-balance sheet). The Centre of Expertise Treasury manages the positions transferred to its books over the risk transfer system, including the management of liquidity risk related to resetting the premium for liquidity.

In order to ensure correct, independent and centralised performance of the tasks in the liquidity risk management process (including risk management and reporting as well as preparation, review and updates of documentation), the Bank operates the Market Risk Management Department which reports to a Deputy President of the Management Board.

1.8. Reporting and liquidity risk management system

Liquidity risk reporting and measurement processes are automated. The Bank holds tools automatically generating a set of liquidity reports on a daily or monthly basis. Information of risk measures supports ongoing monitoring of liquidity profiles and control of basic measures. The reports on liquidity risk are submitted to units involved in the risk management process.

1.9. Risk management in subsidiaries

ING Bank Hipoteczny S.A. performs an important role in managing the Group’s long-term liquidity. Its role is to raise long-term liquidity so that the Group:

- improves funding stability,
- ensures diversified funding for the mortgage loan portfolio,
- is able to better manage any mismatch of its assets and liabilities.

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 S.A.

Liquidity risk of the Bank’s other subsidiary companies is maintained at a minimum level with funding being provided within the ING Group.

V. Other risks

1.1. ESG risk

In accordance with the approach presented in the *ECB Guide on climate-related and environmental risks 2020* and the *EBA Report on management and supervision of ESG risks for credit institutions and investment firms 2021*, the Bank does not treat ESG risk as a separate risk category, but as a reinforcing factor existing at the Bank basic risk categories (credit, market, liquidity and funding risks as well as non-financial risks). The Bank defines ESG risk as the risk of a negative financial impact of ESG factors on the Bank - the risk of their direct or indirect impact (indirect - through the impact of these factors on the Bank's clients/contractors).

The Bank manages ESG risk by incorporating its identification, measurement, assessment, mitigation, monitoring and reporting mechanisms into standard processes as part of credit, market, operational, liquidity and funding risk management as well as non-financial risk management. Due to the exceptional nature of this risk (expected intensification of this risk in the future), the Bank adapted its organizational structure to manage it in the best possible way and to ensure effective supervision over it and to ensure the intensity of work related to the implementation of mechanisms related to this risk.

At the beginning of 2022, the Supervisory Board approved the Risk Management Strategy, in which the key objectives for 2022-2024 include the continuation of activities aimed at better identification, measurement and assessment of ESG risk, as well as activities to ensure compliance of the bank's policies, procedures and processes with requirements resulting from external regulations.

As at the date of the report, the *ESG risk management policy* was in force at the Bank - a document specifying the method of ESG risk management at the Bank, including the method of incorporating ESG risk management into the existing framework for credit, market, liquidity and funding risk management as well as non-financial risk.

ESG risk management organizational structure

The Bank's Management Board, Supervisory Board and management staff attach particular importance to the identification of risks and opportunities as well as ESG risk management at the Bank. Among other things, the Management Board initiated the creation of appropriate organizational structures that ensure a comprehensive approach to the topic of ESG from the point of view of risk management, business issues and reporting / disclosures as well as the appropriate flow of information and knowledge sharing between units responsible for individual ESG aspects, the Management Board and other employees.



The Management Board has established a comprehensive ESG Program coordinating ESG issues within separate working teams focused on risk, business and reporting/disclosure issues.

Supervision over ESG risk management was entrusted to the Member of the Bank's Management Board supervising the CRO Division.

By decision of the Management Board of the Bank, on 8 February 2022, the ESG Risk Committee was established in the form of a standing committee. The main tasks of the ESG Risk Committee are:

- creating an ESG risk management policy,
- approving the ESG risk management methodology,
- approving tools used for ESG risk assessment,
- defining standards for credit analysis of ESG risk and the course of the ESG risk assessment and monitoring process, as well as the rules for taking ESG risk into account in collateral valuation.

Within the CRO Division, an ESG Risk Team was established within the Risk Regulation Department responsible for managing ESG risk and initiating and coordinating further activities aimed at comprehensive implementation of this risk management to the existing credit, market, liquidity and operational risk management system and meeting expectations indicated in supervisory documents.

ESG risk management principles

The environmental and social risk assessment covers the client and the transaction. The Bank makes the assessment to the best of its knowledge. At the customer level, the Bank assesses whether the activity is conducted with respect for human rights, the principles of environmental protection and whether it is not covered by the exclusion policy. At the transaction level, the Bank assesses whether it is compliant with the requirements of specific policies.

The Bank does not establish relations with corporate clients whose core business is covered by the exclusion policy of ING Bank Śląski. The Bank does not grant new exposures directly financing activities related to thermal coal, including steam coal mines (new and existing) as well as power plants and coal-fired CHP plants. The Bank does not provide financing related to controversial weapons, including the production, maintenance or trade of anti-personnel mines, cluster munitions, phosphorus bombs, munitions containing depleted uranium and nuclear, chemical and biological weapons. The Bank does not provide new financing to customers involved in the cultivation, processing, production and sale of tobacco and tobacco products as well as e-cigarettes. Exclusions also cover activities related to asbestos, fur farming and gambling. The Bank does not establish relations with companies that

violate human rights, have a negative impact on protected areas (e.g. the Ramsar Convention), violate the rules ensuring animal welfare, harvest with harmful methods, harvest timber illegally or harmfully, dismantle ships without appropriate environmental certification. Past relationships with these types of customers have ended or an exit path is agreed.

The Bank identifies and properly manages relations with corporate clients who operate in areas more vulnerable to social or environmental threats. The Bank applies detailed policies that are designed to support environmental protection and minimize risks in exposed business areas.

Assessment of the ESG risk of credit customers and the assessment of ESG risk at the portfolio level (by sector) is performed as part of the standard credit risk management process.

The Bank took into account the definition of ESG risk in its internal regulations on credit risk and indicated factors of transformation risk and physical climate risk (chronic and sudden) that may have a potential impact on the client's financial results and, as a result, on the quality of the credit portfolio (*Credit Risk Management Policy, ESG Manual*).

From the point of view of ESG risk, the Bank assesses the client in accordance with the double materiality rule, i.e. taking into account both the impact of environmental, climatic and social factors on the client's financial results, as well as the potential impact of the client's activity on the environment, which may in the future result in the risk of transformation. This is in line with the approach presented in the *EBA Report on management and supervision of ESG risks for credit institutions and investment firms 2021*.

When examining the potential impact of ESG factors and climate risk on the client's financial results, the Bank focuses on significant risk factors and assesses the client's sensitivity to ESG factors (whether they may increase credit risk) and the client's ability to mitigate this risk, e.g. by having a strategy / action plan regarding the transition to environmentally sustainable operations and other factors mitigating ESG risk. If a high level of ESG risk is identified, it is possible to appeal (downgrade) the customer's rating.

1.2. Non-financial risks

Non-financial risk includes operational and compliance risk management functions based on a common framework defining clear rules and standards for risk identification, assessment, monitoring, mitigation and reporting. The Bank manages non-financial risk in accordance with the Strategy adopted by the Bank's Management Board and the Declaration of Appetite for Non-Financial Risk, which defines limits and risk tolerance. Compliance with the declared risk appetite is monitored using the periodic Non-Financial Risk Report (NFRD). In addition, the Bank has a Non-Financial Risk Committee appointed by the Bank's Management Board, which performs advisory functions for the Bank's Management Board in the field of non-financial risk management. The Supervisory Board, with the support of



the Risk Committee, supervises the management of operational risk by the Management Board and assesses the effectiveness of activities in this area at least once a year.

The common non-financial risk management framework allows the Bank to actively identify the main threats and gaps as well as the related risks that may cause undesirable events. They are supported by processes such as risk and control self-assessment, scenario analysis, monitoring of key risk indicators and testing of key controls. The results of analyzes of internal and external events constantly improve the adequacy and effectiveness of the internal control system functioning at the Bank.

The Bank is convinced that an effective control environment is necessary to build and maintain a sustainable business, as well as maintain and increase the trust of customers, employees and shareholders.

1.2.1 Operational risk

The Bank's objective in operational risk management is to ensure regular improvement of the safety of the Bank and its clients, reduction of operating costs and improvement of operating effectiveness.

The Bank's Management Board – subject to approval of the Supervisory Board – has developed a strategy of operational risk management. The Bank's management strategy of operational risk provides for legal and regulatory requirements and relies on good practices of the ING Group.

Additionally, the Management Board – also in agreement with the Supervisory Board – in its risk appetite statement defined the maximum acceptable loss limits, capital limits and risk scope that it is willing to accept in the pursuance of the planned business objectives – subject to full compliance with the law and regulations. The level of limit utilisation is monitored and periodically submitted to the Management Board, Risk Committee and the Supervisory Board.

The operational risk management system applies to all business spheres of the Bank and the activity of the Group, cooperation with clients, providers and partners. It is a cohesive, regular practice that covers the following elements:

- risk identification and assessment,
- mitigation or risks and monitoring of mitigation activities,
- performance of inspections,
- quality monitoring and assurance.

The Bank has a coherent and continuously updated set of internal normative documents in relation to operational risk management. The documents regulate the scope, principles and duties of organisational units and employees

to mitigate the effects and likelihood of financial and reputational losses in that respect. Knowledge of risk management issues, including risk awareness among the Bank's employees, is strengthened through a series of training and awareness-raising programmes.

1.2.2 Compliance risk

The Bank's mission in the field of ensuring compliance is to build a corporate culture based on knowledge and compliance with the law, internal regulations, market standards and ING Values and Behaviors, as defined in the Orange Code.

The Bank's Supervisory Board oversees compliance risk management, and the Bank's Management Board is responsible for effective compliance risk management, including:

- implementation of organizational solutions, regulations and procedures enabling effective compliance risk management and
- ensuring adequate resources and funds required for the implementation of tasks.

The Center of Expertise - Compliance is an organisationally separate, independent unit responsible for the organization and operation of the compliance risk management process. The aim of the Center of Expertise - Compliance is to develop solutions for identifying, assessing, controlling and monitoring the risk of non-compliance of the Bank's operations with the law, internal regulations and market standards, and to present reports in this area. Compliance activities are aimed at active participation of the Bank's employees in compliance risk management by shaping a risk culture based on knowledge and compliance with the law, internal regulations and market standards.

1.2.3 Transaction security and stability of IT systems

The security of customers' and partners' funds and data is a key issue to which the Bank pays special attention in its daily activities. It monitors threats on an ongoing basis and analyzes their impact on the ICT infrastructure (applications, systems, networks), as well as business processes, processes of its partners and service providers, and their potential impact on customers. On this basis, the Bank designs and implements appropriate organizational and technical solutions in the areas of prevention, detection and response. The Bank's ICT systems are protected by multi-layered cybersecurity mechanisms and systems.

1.2.4 Personal data security

The stability of IT systems also means protection of personal data of customers, business partners and employees. However, apart from IT security, the Bank also cares about the physical security of data and information stored in



the Bank and constantly improves its approach to the protection of personal data. The Bank's internal regulations strictly define the admissibility and rules for the presence of third parties in the offices and exclude connecting unverified devices to the bank's ICT network. Physical security is regularly tested, and the conclusions of the inspection inspire changes. Testing of physical security and all methods of remote access to the systems has become an integral part of the APT tests examining the resilience of the Bank's cyber security at the Bank.

In 2022, the Bank did not find any justified complaints regarding violations of customer privacy, although administrative proceedings are pending before the Voivodship Administrative Court in five jurisdictions, and before the Supreme Administrative Court in three cases.

As part of the Polish Bank Association, the Bank cooperates with other banks in order to develop "Principles of good practice in the processing and protection of personal data in the banking sector", as well as to develop coherent solutions related to the protection of personal data.

1.3. Model risk

Model risk management is performed in compliance with the *Model risk management policy at ING Bank Śląski*. The Policy provides for:

- model life cycle,
- principles for assessing the materiality and risk of models,
- functioning principles of the model register,
- principles for carrying out performance monitoring and model validation,
- principles for calculating risk capital for the models and applying model capital charges.

The Model Validation Department provides a model register, which is a repository of information on the risk and valuation models operating in the Group, and which is kept up to date by participants in the model risk management process, including model owners, validators and modellers. The register and model logs contain, among other things, information on the relevance of the models, the results of monitoring their effectiveness, and the results of model validation and their risk levels.

The Group regularly assesses the risks of individual models and, if required, allocates capital charges for models in accordance with the principles adopted in internal regulations.

The quality of the models' operation is verified as part of monitoring the effectiveness of the models and validating the models, during which the degree of their exposure to the sources of model risk is also assessed. Model validation is performed in accordance with the *Model Validation Policy at ING Bank Śląski* and validation instructions.

Management reporting to the Committees, the Management Board and the Supervisory Board of the status of activities in the field of model management and their validation includes, among others: model risk validation and assessment results, assessment of the aggregated model risk level in the context of the adopted risk tolerance level.

1.4. Business risk

Within the business risk, the Group distinguishes one significant risk - macroeconomic risk. Macroeconomic risk is the risk resulting from changes in macroeconomic factors and their impact on the level of minimum capital requirements. The Group manages this risk by conducting internal and supervisory stress tests on a regular basis, in accordance with the *Policy of conducting stress tests*, which allows for ongoing monitoring of the sensitivity of the minimum capital requirements to macroeconomic factors. In 2022, the Group conducted full internal capital tests twice: as at the end of the fourth quarter of 2021 and at the end of the second quarter of 2022. In addition, the Group took part in supervisory tests of the banking sector.

Based on the results of internal stress tests, in accordance with the *Methodology for estimating economic capital for business risk*, the Group estimates additional economic capital to protect itself against the materialization of the tested scenario. Due to the events of the previous year, incl. war in Ukraine, dynamic changes in the macroeconomic environment and the results of stress tests, the Group decided to allocate additional economic capital for macroeconomic risk.



SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2023-03-15	Brunon Bartkiewicz President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Joanna Erdman Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Marcin Giżycki Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Bożena Graczyk Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Ewa Łuniewska Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Michał H. Mrożek Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Sławomir Soszyński Vice-President	The original Polish document is signed with a qualified electronic signature
2023-03-15	Alicja Żyła Vice-President	The original Polish document is signed with a qualified electronic signature

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2023-03-15	Jolanta Alvarado Rodriguez Lead of Centre of Expertise Accounting Policy and Financial Reporting	The original Polish document is signed with a qualified electronic signature
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