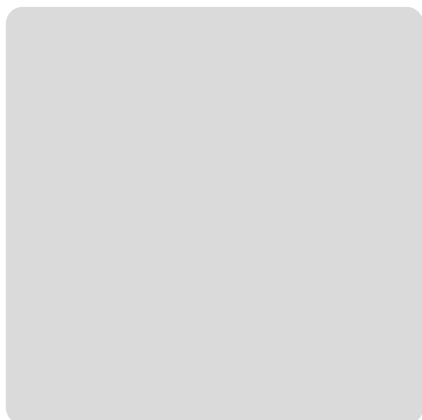


ING Bank Śląski S.A.

Annual Financial Statements for the year 2019

ING

Contents

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

Income statement 1

Statement of comprehensive income 2

Statement of financial position 3

Statement of changes in equity 4

Cash flow statement 5

Accounting policy and additional notes 6

I Bank details 6

II Statement of compliance with International Financial Reporting Standards 8

III Significant accounting principles 12

IV Comparability of financial data 54

V Notes to the financial statements 57

1 Segment reporting 57
2 Net interest income 61
3 Net commission income 62
4 Net income on financial instruments at fair value through profit or loss and FX result 63
5 Net income on the sale securities and dividend income 63
6 Net income on hedge accounting 63
7 Net income on other basic activities 64
8 General and administrative expenses 64
9 Impairment for expected losses 67
10 Tax on certain financial institutions 67
11 Income tax 68
12 Earnings per ordinary share 68
13 Cash in hand and balances with the Central Bank 69
14 Loans and receivables to other banks 69
15 Financial assets held for trading 70
16 Valuation of derivatives 70
17 Hedge accounting 73
18 Investments securities 73
19 Assets securing liabilities 74
20 Loans and receivables to customers 75
21 Investments in subsidiaries 82
22 Property, plant and equipment 83
23 Intangible assets 86
24 Assets held for sale 88
25 Deferred tax 88
26 Other assets 90
27 Liabilities to other banks 91
28 Financial liabilities at fair value through profit or loss 91
29 Liabilities to customers 92
30 Liabilities under issue of debt securities 92
31 Subordinated liabilities 93
32 Provisions 93
33 Other liabilities 99
34 Equity 99
35 FX structure of assets and liabilities 102
36 Contingent liabilities 107
37 Fair value 108
38 Offsetting financial instruments 115
39 Custody activities 117
40 Operating leases 117
41 Additional information on cash flow statement 118
42 Related entities 122
43 Transactions with the management staff and employees 124
44 Headcount 126
45 Significant events after the balance sheet date 126

Risk and capital management 127

I. Risk and capital management system 127
II. Credit risk 136
III. Market risk 163
IV. Funding and liquidity risk 180
V. Non-financial risk 193
VI. Model risk 199
VII. Business risk 200

Income statement

for the year ended 31 December

	Note	2019	2018
Interest income, including:	2	5 071.2	4 526.8
Interest income calculated using effective interest rate method	2	5 067.1	4 521.5
Other interest income	2	4.1	5.3
Interest expenses	2	981.4	907.7
Net interest income	2	**4 089.8**	**3 619.1**
Commission income	3	1 681.5	1 548.9
Commission expenses	3	385.7	312.3
Net commission income	3	**1 295.8**	**1 236.6**
Net income on financial instruments at fair value through profit or loss and FX result	4	107.6	90.6
Net income on the sale of securities measured at amortised cost	5	0.0	1.0
Net income on the sale of financial assets measured at fair value through other comprehensive income and dividend income	5	5.4	54.3
Net income on hedge accounting	6	-14.3	7.9
Net income on other basic activities	7	-3.9	4.1
Net income on basic activities		**5 480.4**	**5 013.6**
General and administrative expenses	8	2 369.8	2 212.9
Impairment for expected losses	9	568.9	476.6
including profit on sale of receivables		34.3	26.7
Tax on certain financial institutions	10	435.7	373.8
Share of profit of subsidiaries and associates accounted for using the equity method		110.5	59.3
Gross profit		**2 216.5**	**2 009.6**
Income tax	11	557.8	485.8
Net profit		**1 658.7**	**1 523.8**
Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)	12	12.75	11.71

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

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

Statement of comprehensive income

for the year ended 31 December

	Note	2019	2018
Net profit for the period		**1 658.7**	**1 523.8**
Total other comprehensive income, including:	34	**589.7**	**679.4**
Items which can be reclassified to income statement		**577.4**	**674.0**
debt instruments measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity		17.3	12.1
debt instruments measured at fair value through other comprehensive income – reclassification to the financial result due to sale		-23.7	-31.8
gains/losses on revaluation of available-for-sale financial assets carried through equity		-108.5	0.0
cash flow hedging – gains/losses on revaluation carried through equity		1 083.3	1 033.1
cash flow hedging – reclassification to profit or loss		-391.0	-339.4
Items which will not be reclassified to income statement		**12.3**	**5.4**
equity instruments measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity		22.2	6.3
fixed assets revaluation		0.3	0.0
actuarial gains/losses		-10.2	-0.9
Net comprehensive income for the reporting period		**2 248.4**	**2 203.2**

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements being the integral part thereof.

Statement of financial position

as at 31 December

	Note	31.12.2019	31.12.2018	01.01.2018
Assets				
Cash in hand and balances with the Central Bank	13	1 402.9	1 237.4	2 815.1
Loans and other receivables to other banks	14	3 285.3	776.5	2 234.5
Financial assets held for trading	15,16	1 224.2	1 934.9	1 503.7
Derivative hedge instruments	17	851.6	909.6	967.2
Investment securities	18	33 559.6	31 937.3	29 465.1
Loans and other receivables to customers	20	110 536.5	99 125.8	83 534.3
Investments in subsidiaries and associates	21	1 112.2	634.6	466.2
Property, plant and equipment	22	932.8	550.4	542.8
Intangible assets	23	408.4	425.0	418.5
Assets held for sale	24	3.6	10.9	11.1
Deferred tax assets	25	270.8	209.0	182.7
Other assets	26	329.4	183.4	155.7
Total assets		**153 917.3**	**137 934.8**	**122 296.9**
Liabilities				
Liabilities to other banks	27	2 622.5	1 807.7	1 044.6
Financial liabilities at fair value through profit or loss	28,16	915.1	1 687.6	1 903.2
Derivative hedge instruments	17	546.0	611.8	699.2
Liabilities to customers	29	130 036.8	117 293.8	104 075.8
Liabilities from debt securities issued	30	0.0	300.3	300.3
Subordinated liabilities	31	2 131.1	1 076.9	626.9
Provisions	32	201.9	149.5	106.8
Current income tax liabilities		377.9	264.5	220.2
Other liabilities	33	1 971.2	1 421.1	1 785.6
Total liabilities		**138 802.5**	**124 613.2**	**110 762.6**
Equity				
Share capital	34	130.1	130.1	130.1
Supplementary capital - issuance of shares over nominal value	34	956.3	956.3	956.3
Accumulated other comprehensive income	34	1 758.8	1 169.7	494.3
Retained earnings	34	12 269.6	11 065.5	9 953.6
Total equity		**15 114.8**	**13 321.6**	**11 534.3**
Total equity and liabilities		**153 917.3**	**137 934.8**	**122 296.9**
Carrying amount		15 114.8	13 321.6	11 534.3
Number of shares		130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)		116.18	102.40	88.66

The Statement of Financial Position shall be read in conjunction with the notes to financial statements being the integral part thereof.

Statement of changes in equity

2019

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

2018

Note: 34	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**494.3**	**9 966.2**	**0.0**	**11 546.9**
adjustment in recognition the repo transactions	-	-	-	-12.6	**-**	**-12.6**
Opening balance of equity adjusted for changes to the accounting principles	**130.1**	**956.3**	**494.3**	**9 953.6**	**0.0**	**11 534.3**
Profit for the current period	-	-	-	1 523.8	**-**	**1 523.8**
Other net comprehensive income, including:	**0.0**	**0.0**	**675.4**	**4.0**	**0.0**	**679.4**
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	18.4	-	-	18.4
debt securities measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-31.8	-	-	-31.8
cash flow hedging – gains/losses on revaluation carried through equity	-	-	1 033.1	-	-	1 033.1
cash flow hedging – reclassification to profit or loss	-	-	-339.4	-	-	-339.4
fixed assets revaluation						
disposal of fixed assets	-	-	-4.0	4.0	-	0.0
actuarial losses	-	-	-0.9	-	-	-0.9
Other changes in equity, including:	**0.0**	**0.0**	**0.0**	**-415.9**	**0.0**	**-415.9**
valuation of share-based payments	-	-	-	0.3	-	0.3
dividends paid	-	-	-	-416.2	-	-416.2
Closing balance of equity	**130.1**	**956.3**	**1 169.7**	**11 065.5**	**0.0**	**13 321.6**

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements being the integral part thereof.

Cash flow statement

for the year ended 31 December

	Note	2019	2018
Net profit		**1 658.7**	**1 523.8**
Adjustments		**-751.3**	**-3 816.6**
Share of profit (loss) of associates accounted for using the equity method		-110.5	-59.3
Depreciation and amortisation	8,22,23	268.3	190.0
Net interest income (from the profit and loss account)	2	-4 089.8	-3 619.1
Interest paid		-954.6	-884.5
Interest received		5 123.8	4 370.6
Dividends received	5	-7.0	-6.3
Gains (losses) on investing activities		-8.4	-0.8
Income tax (from the income statement)	11	557.8	485.8
Income tax paid from the income statement		-506.2	-467.8
Change in provisions	32, 41	52.4	42.7
Change in loans and other receivables to other banks	14, 41	-2 630.7	387.4
Change in financial assets held for trading	15,16,41	710.3	-430.5
Change in debt securities at fair value through other comprehensive income	18, 41	-1 157.1	-2 271.5
Change in hedge derivatives	17, 41	684.5	663.9
Change in loans and other receivables to customers	20, 41	-11 463.8	-15 601.4
Change in other assets	26, 41	-159.0	-30.5
Change in liabilities to other banks	27, 41	816.9	761.0
Change in liabilities at fair value through profit or loss	16,28,41	-772.7	-214.8
Change in liabilities to customers	29, 41	12 741.1	13 216.9
Change in other liabilities	33, 41	153.4	-348.4
Net cash flow from operating activities		**907.4**	**-2 292.8**
Purchase of property plant and equipment	22	-106.4	-131.5
Disposal of property plant and equipment		1.6	0.7
Purchase of intangible assets	23	-74.2	-80.7
Disposal of intangible assets		26.7	0.0
Disposal of assets held for sale		15.1	11.5
Purchase of shares in subsidiaries and associates		-377.6	-120.0
Purchase of equity instruments measured at fair value through other comprehensive income		0.0	-1.2
Purchase of debt securities measured at amortized cost		-763.6	-3 263.6
Disposal of debt securities measured at amortized cost		204.0	3 222.6
Dividends received	5	16.6	16.9
Net cash flow from investing activities		**-1 057.8**	**-345.3**
Long-term loans received		1 064.6	432.6
Long-term loans repaid		0.0	0.0
Interest on long-term loans repaid		-19.4	-12.5
Interests from issued debt securities		-7.6	-7.6
Repayment of leasing liabilities*		-90.8	n/a
Proceeds from the issue of debt securities		0.0	0.0
Dividends paid		-455.4	-416.2
Redemption of debt securities		-300.0	0.0
Net cash flow from financing activities		**191.4**	**-3.7**
Effect of exchange rate changes on cash and cash equivalents		67.3	73.6
Net increase/(decrease) in cash and cash equivalents		**41.0**	**-2 641.8**
Opening balance of cash and cash equivalents		**1 956.4**	**4 598.2**
Closing balance of cash and cash equivalents	41	**1 997.4**	**1 956.4**

*) Starting from 1 January 2019, the Bank implemented the new IFRS 16 Leasing standard. The Bank applied a modified retrospective approach to its leasing contracts and did not transform the comparative data.

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

Accounting policy and additional notes

I. Bank details

1. Key Bank data

ING Bank Śląski S.A. ("Bank") with the registered office in Katowice, Sokolska Str. 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Bank 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. The Bank is also active in the domestic and foreign financial markets. As set out in Bank's Statutes, the duration of business of the Company is indefinite.

3. Share capital

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

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2019 held 75% share in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2019, the shareholders owning 5% and more votes at the General Meeting of ING Bank S.A. were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97 575 000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA Santander	10 923 351	8.40

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

On 1 January 2019, Mr. Lorenzo Tassan-Bassut took the position of the Vice President of the Bank's Management Board, in accordance with the resolution of the Supervisory Board of 23 November 2018.

On 1 October 2019, Mr. Sławomir Soszyński took the position of the Vice President of the Bank's Management Board, in accordance with the resolution of the Supervisory Board of 24 June 2019.

On 20 September 2019, Mr. Patrick Roesink resigned from the function of the Vice President of the Management Board of ING Bank Śląski S.A. with effect at the end of 31 March 2020. At the same time, on 23 December 2019, the Supervisory Board, after hearing the opinion of the President of the Management Board and the recommendation of the Remuneration and Nomination Committee, adopted a resolution on entrusting Ms. Joanna Erdman with the position of Vice President of the Management Board of ING Bank Śląski S.A. responsible for supervising the management of material risk in the Bank's operations (CRO Division), provided that the required consent of the Polish Financial Supervision Authority is obtained. The resolution will enter into force on the day of giving the above consent, however not earlier than on 1 April 2020.

As at the end of 2019, the composition of ING Bank Śląski S.A. Management Board was as follows:

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

In connection with the expiry of the term of office of the Supervisory Board, on 29 March 2019, the General Meeting of ING Bank Śląski S.A. appointed the current members of the Supervisory Board for a new term of office.

As at the end of 2019, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr. Antoni F. Reczek - Chair,
- Ms. Małgorzata Kołakowska - Deputy Chair,
- Mr. Aleksander Galos - Secretary,
- Mr. Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Mr Norman Tambach – Member,
- Mr. Aleksander Kutela – Member,
- Mr. Michał Szczurek – Member.

On 27 February 2020, Mr. Ad Kas resigned from the function of a member of the Supervisory Board of ING Bank Śląski S.A. on the day of the General Meeting.

6. Entity authorised to audit the financial statements

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

7. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2019 to 31 December 2019 have been approved by the Bank Management Board on 5 March 2020.

The consolidated annual financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2019 to 31 December 2019 will be published and approved on the same day as the standalone financial statements.

The annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2018 to 31 December 2018 were approved by the General Meeting on 29 March 2019.

II. Statement of compliance with International Financial Reporting Standards

These annual financial statements of the ING Bank Śląski S.A. for the period from 1 January 2019 to 31 December 2019 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of the standards and interpretations approved by the EU except for the standards and interpretations mentioned in item 1 below, which either await approval by the EU or have been already approved by the EU but shall take effect after the balance sheet date.

1. Changes to accounting standards

In these annual financial statements the Bank took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 1 January 2019:

Change	Influence on the Group statements
IFRS 16 *Leasing*	The application of the new standard affects the recognition, presentation, measurement and disclosure of leased assets in the financial statements of the Bank as a lessee. The implementation of the new standard had an impact on the amount of total assets of the Bank presented on balance sheet, but it did not have a significant impact on the financial results of the Bank. More detailed information on the impact of applying the new standard is presented below. Description of the Adopted accounting principles described in item *III. Significant accounting policies*.
IFRS 9 *Prepayment Features with Negative Compensation*	The application of the amendment to the standard did not have significant impact on the financial statements of the Bank.
IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*	The application of the amendment to the standard did not have significant impact on the financial statements of the Bank.
IAS 28 *Long-term interests in associates and joint ventures*	The application of the amendment to the standard did not have significant impact on the financial statements of the Bank.
IAS 19 *Plan amendments, curtailments or settlements*	The application of the amendment to the standard did not have significant impact on the financial statements of the Bank.
Changes resulting from the review of IFRS implemented as part of the 2015-2017 cycle (published in December 2017). They apply to IFRS 3, IFRS 11, IAS 12 and IAS 23.	The application of the amendment to the standard did not have significant impact on the financial statements of the Bank.

The published changes to the standards, which were issued and approved by the European Union as effective for annual periods beginning on 1 January 2020 and were early adopted by the Bank:

IFRS 9, IAS 39 and IFRS 7 *Benchmark interest rate reform*	The change in standards results from the reform of reference interest rates and concerns the consequences of the reform on the application of hedge accounting principles in the period before replacing the existing benchmark with an alternative interest rate. Earlier application of the amendment to the standards did not have a material impact on the financial statements of the Bank. A detailed description of the impact of applying these changes is provided in section 1.2 below.

The published standards and interpretations which were already issued and approved by the European Union as at 31 December 2019 but were not early adopted by the Bank:

Change **(EU effective date provided for in the parentheses)**	**Influence on the Bank statements**
Amendments to References to the Conceptual Framework in IFRS Standards (financial year beginning on 1 January 2020)	The Bank's analysis shows that the implementation of this interpretation will have no impact on the financial statements of the Bank.
IAS 1 and IAS 8 Definition of materiality (financial year beginning on 1 January 2020)	The Bank's analysis shows that the implementation of this interpretation will have no impact on the financial statements of the Bank.

The published standards and interpretations which were already issued but were not endorsed by the European Union as at 31 December 2019 and were not early adopted by the Bank:

Change **(expected IASB effective date provided for in the parentheses)**	**Influence on the Bank statements**
IFRS 17 Insurance Agreements (financial year beginning on 1 January 2021)	The Bank's analysis shows that the implementation of this interpretation will have no significant impact on the financial statements of the Bank.
Amendment to IFRS 3 *Definition of a business* *(financial year beginning on 1 January 2020)*	The Bank's analysis shows that the implementation of this interpretation will have no significant impact on the financial statements of the Bank.

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

1.1. Impact of applying IFRS 16 Leasing on the financial statements

IFRS 16 *Leases* was published by the International Accounting Standards Board in January 2016 and approved for application by the European Union in 2017. IFRS 16 supersedes IAS 17 *Leases* and concerns the recognition, measurement, presentation and disclosure of leases. The key changes apply to the lessee.

The Bank did not decide to implement the standard earlier, and therefore it applies the IFRS 16 Leases for the first time for the reporting period beginning on 1 January 2019. The Bank decided to apply the modified retrospective approach to its lease contracts. Consequently, the Bank did not restate comparative information.

At the date of initial application of the IFRS 16, the Bank made a full analysis of the contracts to assess whether a contract is a lease contract or whether it contains a lease, and decided to separate lease

elements from non-lease elements. The Bank does not apply the provisions of the standard to the lease of intangible assets. The Bank acts as a lessee in the real estate lease contracts (including contracts on the perpetual usufruct right to land), car leases, IT infrastructure leases and office equipment leases.

The new regulation implements uniform rules for the lessee to record lease contracts, while accounting for the exemptions included in the standard. As a consequence, it is necessary to recognise the right-of-use asset and the lease liability.

On 1 January 2019, the Bank recognized a right-of-use asset in an amount equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to the lease, recognized in the statement of financial position immediately prior to the date of first application.

At the moment of the first application of the new regulation, the Bank used transitional provisions

and measured the leasing liability at the present value of other leasing fees, discounted by applying the lessee's marginal interest rate on the date of first application.

The Bank determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which leasing contracts are denominated and contract maturities. The weighted average marginal interest rate of the lessee used to measure the lease liabilities recognized in the statement of financial position as at the date of first application was 0.30% for EUR and 1.95% for PLN.

The lease term is determined upon accounting for the extension and shortening options available in the lease contracts, if the use of the option is probable. In the case of open-end lease contracts with a termination option available for both parties to the contract, the Bank evaluates whether or not there are any material costs relating to the termination of the agreement. If there are no material costs, the notice period available to both parties to the contract is set as the lease term. When the costs of terminating the contract are material, the Bank assumes that the lease term is 4 years. The open-end contracts held by the Bank are primarily the real estate lease contracts. The term adopted results from the strategy relating to the physical presence in a given location, ensuring flexibility and business effectiveness while accounting for the customer expectations and preferences.

The Bank applied the simplified approach envisaged for short-term leases (including lease contracts with a lease term ending 12 months after the date of initial application of the standard - the costs incurred in this respect amount to PLN 3.9 million) and the leases of low-value assets. In this case, the Bank recognises the systematic lease payments in profit or loss. A contract may be classified as a short-term contract if the duration of the contract does not exceed 12 months. Assets may be classified as low-value assets if the acquisition price of a new asset does not exceed EUR 5 000.

The impact of IFRS 16 on the financial statements as at 1 January 2019 is presented in the table below.

Recognising a right-of-use asset:	**467.0**
real estate lease	452.4
car lease	13.9
other assets	0.7
Recognising a lease liability:	**469.3**
real estate lease	454.7
car lease	13.9
other assets	0.7
Accruals	**-2.3**

	As at 31.12.2018	The impact of implementation of MSSF 16	As at 01.01.2019
Assets			
Property, plant and equipment	550.4	467.0	1 017.4
Including the right-of-use asset	0.0	467.0	467.0
Total assets	**137 934.8**	**467.0**	**138 401.8**
Liabilities			
Other liabilities, including:	1 421.1	467.0	1 888.4
Lease liability	0.0	469.3	469.3
Accruals	2.3	-2.3	0.0
Total liabilities	**124 613.2**	**467.0**	**125 080.2**
Equity attributable to shareholders of ING Bank Śląski S.A.	**13 321.6**	**0.0**	**13 321.6**
Total equity and liabilities	**137 934.8**	**467.0**	**138 401.8**

The table below contains a reconciliation of differences between operating lease commitments disclosed in accordance with IAS 17 as at 31 December 2018 and lease liabilities as at 1 January 2019 i.e. at the date of implementation of IFRS 16.

	As at 31.12.2018	opening balance adjustments	As at 01.01.2019
Future rental commitments under MSR 17	**483.5**		
opening balance adjustments in connection with the implementation of IFRS 16, including:		**-14.2**	
(-) discounting effect using the lessee's marginal interest rate as at 01.01.2019		-54.1	
(-) recognition exemption for short-term leases		-8.6	
(-) non-lease components of a contract		-51.6	
(+)/(-) options to extend or shorten contracts		100.1	
Lease liability under IFRS 16			**469.3**

1.2. Impact of early adoption of the amendments to IAS 39, IFRS 7 and IFRS 9 on the financial statements

The concerned change to standards results from the reform of key reference rates of interest rates in connection with the guidelines of the Regulation of the European Parliament and of the Council (EU) 2016/11 of 8 June 2016. The guidelines of the Regulation can be applied by strengthening existing reference indicators or by developing alternative reference rates, which by definition would be almost entirely risk-free.

The Bank applies hedge accounting principles to hedge interest rate risk resulting from changes in reference rates: Wibor, Euribor and Libor CHF, therefore the scope of the implemented reform has a direct impact on the application of hedge accounting principles.

The amendments to IAS 39, IFRS 7 and IFRS 9 introduce temporary deviations in the application of hedge accounting principles, so that it is possible to meet the current requirements, assuming that the existing benchmarks do not change as a result of the reform.

The published assumptions of the implementation of the requirements of Regulation No. 2016/11 show that the Libor CHF rate will be replaced by the alternative SARON reference rate, while the Wibor and Euribor rates will be strengthened by adjusting the requirements of the above Regulation.

Therefore, the Bank assumes that the reference interest rate of highly probable planned transactions in CHF and interest rate derivatives based on Libor CHF does not change as a result of the reform of market benchmark rates.

The table below presents the fair value and nominal value of hedging instruments as at 31 December 2019, to which the Bank applied the amendment to IAS 39 due to the uncertainty arising from the reform of the Libor CHF benchmark rate.

	Fair value		Nominal value of hedging instruments with the period remaining to maturity			
	Assets	**Liabilities**	**up to 1 year**	**over 1 year and up to 3 years**	**over 3 year and up to 8 years**	**Total**
CIRS CHF/PLN (float-float)	0.0	38.3	-	-	-	-
float CHF	-	-	39.2	98.0	176.5	313.7
float PLN	-	-	34.0	89.8	153.4	277.2

2. Going-concern

These annual financial statements of the ING Bank Śląski S.A. were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the date of publication, i.e. from March 6, 2020. As at the approval date hereof, the Bank Management Board have not identified any events that could pose a threat to the Bank continuing their operations during the period of 12 months from the date of publication as a result of intentional or forced abandonment or significant limitation of its operations by the Capital Group.

3. Discontinued operations

No material operations were discontinued during 2019 and 2018.

4. Financial statements scope and currency

The Bank is the parent company of ING Bank Śląski Group and besides these financial statements it also produces the consolidated financial statements compliant with IFRS.

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

5. Reporting period and comparative data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 1 January 2019 to 31 December 2019 and include the comparative data:

- for the statement of financial position as at 31 December 2018 and 1 January 2018,
- for line items from the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 1 January 2018 to 31 December 2018.

In connection with the implementation of IFRS 16 replacing IAS 17 *Leasing* from 1 January 2019, the Bank decided to apply a modified retrospective approach to its leasing contracts and did not transform comparative data.

III. Significant accounting principles

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

- 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. Increase in fair value is recognised in the revaluation reserve (other comprehensive income). Decrease in fair value is carried through the income statement.

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

1. Basis for preparation of financial statements

The financial statements are prepared in Polish zlotys rounded to one million zlotys (unless otherwise stated). The concept of fair value has been applied in the statements for own real property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as measured at fair value through other comprehensive income. Other items of financial assets (including loans and advances) are presented at amortized cost less impairment or at purchase price less impairment. Non-current assets held for sale are recognised at the lower of their carrying amount and the fair value less sales costs.

2. Professional judgement

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

2.1. Deferred tax assets

The Bank recognizes deferred tax assets based on the assumption that it is probable to generate sufficient taxable profit to fully recover the deferred tax asset.

2.2. Classification of leases

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

3. Accounting estimates

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

Estimates and assumptions applied to the presentation of 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 recognized in the period when the estimate was changed provided that the adjustment applies to this period alone or in the period when the estimate was changed and in the following periods, should the adjustment impact both the current and future periods.

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

3.1. Impairment

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

3.1.1. Impairment of financial assets

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

The expected losses are measured as the probability-weighted average from several macroeconomic scenarios with different probability. The final level of the provisions results from the sum of the expected credit losses estimated each year in the future till the maturity date including discount.

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

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

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto are described in item 14.13 *Impairment*.

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

Determining the threshold for a significant increase in credit risk requires judgment and is a significant source of uncertainty in estimates of expected losses. Classification for Stage 2 based on changes in PD calculated for the entire life period is based on a relative or absolute change in PD. The thresholds that, if exceeded, result in reclassification to Stage 2 are set for the strategic customer portfolio at 100bp, for the corporate sales network at 250bp and for the retail portfolio at 75bp (in 2018 100bp, 100bp and 75bp, respectively). Other factors resulting in the identification of a significant increase in credit risk are indicated in section 14.13 *Impairment.*

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

- all these financial assets would be below the threshold for a significant increase in credit risk and have an expected loss of 12 months, and
- all these assets would exceed this threshold for a significant increase in credit risk and have been assigned expected losses over their entire lifetime.

These estimates show, respectively, hypothetical lower losses expected for assets in Phase 1 and 2 by approximately PLN 245 million (including 35 million for the corporate portfolio and 210 million for the retail portfolio) or higher by approximately PLN 645 million (respectively 250 million for the corporate portfolio and 395 million for the retail portfolio).

The estimates made on 31.12.2018 showed, respectively, hypothetical lower losses expected for the assets in Stage 1 and 2 by approximately PLN 245 million or higher by approximately PLN 620 million.

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

2019

Corporate portfolio							
		2020	**2021**	**2022**	**Expected losses not weighted by probability - deviation from losses reported in%**	**Weight assigned to the scenario**	**Reported expected losses (collective assessment in Stage 1, 2 and 3)**
Upside scenario	GDP	4.2%	6.1%	5.0%	-20%	20%	459.7
	Unemployment	2.5%	1.9%	1.5%			
	Real estate price index	5.9%	8.8%	7.5%			
	3 months' interest rate	1.8%	1.9%	2.3%			
Baseline scenario	GDP	3.5%	3.0%	2.9%	-6%	60%	
	Unemployment	2.8%	2.7%	2.7%			
	Real estate price index	5.1%	4.9%	4.9%			
	3 months' interest rate	1.6%	1.6%	1.6%			
Negative scenario	GDP	1.3%	-0.5%	0.6%	33%	20%	
	Unemployment	4.4%	5.6%	6.6%			
	Real estate price index	1.2%	0.1%	4.3%			
	3 months' interest rate	1.3%	1.0%	0.6%			

Retail portfolio							
		2020	**2021**	**2022**	**Expected losses not weighted by probability - deviation from losses reported in%**	**Weight assigned to the scenario**	**Reported expected losses (collective assessment in Stage 1, 2 and 3)**
Upside scenario	GDP	4.2%	6.1%	5.0%	-6%	20%	1 106.2
	Unemployment	2.5%	1.9%	1.5%			
	Real estate price index	5.9%	8.8%	7.5%			
	3 months' interest rate	1.8%	1.9%	2.3%			
Baseline scenario	GDP	3.5%	3.0%	2.9%	0%	60%	
	Unemployment	2.8%	2.7%	2.7%			
	Real estate price index	5.1%	4.9%	4.9%			
	3 months' interest rate	1.6%	1.6%	1.6%			
Negative scenario	GDP	1.3%	-0.5%	0.6%	7%	20%	
	Unemployment	4.4%	5.6%	6.6%			
	Real estate price index	1.2%	0.1%	4.3%			
	3 months' interest rate	1.3%	1.0%	0.6%			

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

The table below presents the macroeconomic forecasts of key indicators adopted as at 31 December 2018 and the deviation of losses expected in the positive, baseline and negative scenario from the reported expected losses, weighted by the probability of scenarios for the entire loan portfolio.

2018

Total portfolio							
		2019	**2020**	**2021**	**Expected losses not weighted by probability - deviation from losses reported in%**	**Weight assigned to the scenario**	**Reported expected losses (collective assessment in Stage 1, 2 and 3)**
Upside scenario	GDP	4.4	6.2	5.1	-9%	20%	1 433.3
	Unemployment	3.1	2.4	1.9			
	RHP	9.0	9.8	8.1			
Scenariusz bazowy Baseline scenario	GDP	3.6	3.2	3.0	-2%	60%	
	Unemployment	3.5	3.5	3.4			
	RHP	8.2	5.7	5.6			
Scenariusz negatywny	GDP	1.5	-0.4	0.6	+14%	20%	
	Unemployment	5.0	6.2	7.0			
	RHP	3.7	1.3	5.4			

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

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

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

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

The relevant recording rules were delineated in item 15.4. *Impairment of other non-financial assets.*

Detailed information on the impairment test in relation to goodwill is presented in Note 23 In*tangible assets.*

3.2. Measurement of financial instruments not quoted in active markets

The fair value of financial instruments not quoted in active markets is measured using valuation models. For non-option derivatives, the models based on discounted cash flows apply. Options are measured using appropriate option valuation models.

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

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

3.3. Provisions for retirement and pension benefit

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

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

The tables below show model sensitivity to the values adopted for individual assumptions as at 31 December 2019 and 31 December 2018.

2019

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

2018

	Provisions for retirement and pension benefit		
	Lower bracket	Base variant	Upper bracket
Discount Rate (+1% / base variant / - 1%)	35.09	38.84	43.28
Salary raise (-0.25% / base variant/ +0.25%)	37.83	38.84	39.89

3.4. Lease period for perpetual contracts

The leasing period was determined taking into account the option of extension and shortening available in the concluded contracts, if the option is likely to be used. In the case of contracts concluded for an indefinite period with the option of termination for both parties to the contract, the Bank assessed whether there are significant costs of withdrawal from the contract. The contracts for an indefinite period owned by the Bank are primarily property lease agreements. If there are no significant costs, the notice period for both parties to the contract has been set as the leasing period.

If the costs of leaving the contract are significant, the Bank has adopted a period of 4 years as the leasing 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.

At the time of the first application of the standard, the Bank had 12.5% contracts for an indefinite period, among all property lease contracts classified as long-term.

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

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

The bank has a portfolio of mortgage loans indexed to the Swiss franc exchange rate with a gross value of PLN 915.9 million as at 31 December 2019. The loans were mainly granted by the Bank in 2008.

In the fourth quarter of 2019, the Bank analyzed the recognition and presentation of existing provisions for legal risk related to the portfolio of mortgage loans indexed to the CHF exchange rate. As a result of the analysis, the Bank clarified the accounting policy, reflecting in it the portfolio nature of this risk and its allocation to the portfolio of receivables still disclosed in the statement of financial position and receivables already removed from the Bank's books (e.g. as a result of repayment).

The previous approach assumed:

- recognition of all receivables from borrowers with a CHF mortgage in any bank in stage 2 of impairment and calculation of the expected loss over the entire product life horizon,
- creating provisions for court cases based on an individual assessment of the probability of cash outflow.

The current approach is as follows:

- financial assets still disclosed in the statement of financial position:
  - recognition of all mortgage loans in CHF at ING Bank Śląski in stage 2 of impairment and collective calculation of the expected loss over the entire product life horizon (change of premises is due to the fact that in the Bank's opinion it is less likely that having a loan in CHF will negatively affect credit risk regarding other customer exposures),
  - creating impairment losses based on a portfolio assessment of the probability of impairment of still active loans (due to the fact that court judgments may result in the loss of expected cash flows as a result of modification of entries or cancellation of part of loan agreements),
- financial assets already removed from the statement of financial position: creation of provisions for legal risk based on a portfolio assessment of the probability of cash outflow (in this case there is no asset in the Bank's books whose value could be reduced).

The relevant changes to the Accounting Policy have been reflected in items 14.13 and 19 disclosed below.

Potential losses from legal risk are estimated using the portfolio method as a probability weighted average of three scenarios - base, positive and negative - with equal 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 current analysis of the market situation,
- the probability of occurrence of various possible court judgments,
- the estimates include the estimation of the costs of legal proceedings,
- A four-year forecast horizon was used for the calculation of the judicial proceedings brought by the clients.

As at 31 December 2019, the amounts of write-downs and provisions resulting from legal risk for the portfolio of mortgage loans indexed to CHF (above the standard write-downs for expected credit losses resulting from the recognition of CHF in Stage 2) amounted to PLN 35.0 million for financial assets still disclosed in the statement of financial position.

Standard write-offs for expected loan losses on the portfolio of mortgage loans indexed to the CHF exchange rate resulting from the recognition of these loans in Stage 2 as at 31 December 2019 amounted to PLN 8.6 million.

In addition, as at December 31, 2019, a provision in the amount of PLN 9.6 million was recognized for financial assets already removed from the statement of financial position. It is presented in liabilities in the "Provisions" line item.

Analysis of sensitivity of respect to changes in assumptions:

- a 20% increase in the number of court cases in each scenario would result in a deterioration of the Bank's financial result by PLN 9.0 million,
- a change in the weights of the scenarios, i.e. doubling the probability of a negative scenario in favor of reducing the likelihood of a positive scenario, would result in a deterioration of the Bank's financial result by PLN 16.0 million,
- shortening the time horizon for calculating the provision to 3 years would result in an increase in the financial result by PLN 9.0 million, while an extension to 5 years would cause an additional burden on the financial result by PLN 16.7 million.

Detailed information on court cases is provided in Note 32.

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

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

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

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

- refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Bank estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision estimate is based on the Bank's expectations regarding the percentage of customers who can submit complaints to the Bank and the sum of commission on overpaid loans. The Bank created PLN 17.1 million provisions in this respect.
  An increase in the number of complaints by 10% would increase the provision by PLN 1.7 million.
- 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 recognized using the effective interest method, which has a faster rate of revenue recognition than the straight-line method used to calculate returns. In order to properly take into account the impact on the valuation of receivables and the financial result, the Group estimated the difference between the settlement of revenues using the effective rate method and the straight-line method based on expected returns using historical data on prepayment profiles of loans with different tenors. As a result, the gross value of receivables from consumer loans and mortgage loans valued at amortized cost and the Group's interest income decreased by PLN 21.0 million.

3.7. Business combinations

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

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

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

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

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

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

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

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

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

5. Foreign currency

5.1. The functional currency and the presentation currency

The items contained in 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 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 recognized in the statement of profit or loss under the specific item FX result, which is an element of Net income on financial instruments at fair value through profit or loss and FX result.

Foreign exchange differences under changes to the fair value of financial instruments classified as financial assets at fair value through other comprehensive income are recognized in the revaluation reserve for the financial assets assigned to this financial category.

6. Net interest income

Interest income and expense for all financial instruments are recognized in the profit and loss account.

Revenue from interest on financial assets measured at amortized cost and measured at fair value through other comprehensive income is recognized in the profit and loss account at amortized 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 amortized cost of an asset or financial liability (or group of financial assets or financial liabilities) and of assigning interest income or expense to the appropriate periods. The effective interest rate is the rate that discounts the estimated future cash inflows or payments made in the expected period until the expiry of the financial instrument, and in justified cases in the shorter period, to the net carrying amount of the asset or financial liability.

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

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

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

In the case of financial assets or a group of similar financial assets for which an impairment loss has been made, interest income is accrued from the present value of the receivable (i.e. value reduced by the revaluation write-off) using the interest rate used to discount future cash flows for the purpose of estimating impairment losses.

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

7. Commission income and costs

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

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

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

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

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

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

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

If during the life of the contract the terms and conditions of credit exposure are changed, the whole outstanding part of commission is recognised in the statement of profit or loss on the day when the terms and conditions are updated, provided that the outstanding amount of commission is insignificant.

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 abovementioned criterion.

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

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

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

- once the service has been delivered (also for upfront fees) i.e. at transfer of the control over the goods or services,

- over time, if the service delivery is over time,
- at point-in-time, when the Bank performs a key operation,
- when there is an actual benefit from the perspective of the customer.

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

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

Income and costs under bancassurance commission

Fees and commission related to insurance products are recognised in the statement of profit or loss according to their economic content and classified as:

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

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

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

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

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

Therefore, the income on insurance products settled monthly is recognised in the statement of profit or loss also on a monthly basis.

The Bank recognises the income on such insurance in the commission income on insurance products.

The Bank analogically presents the costs directly related to these insurance products.

Such an approach ensures compliance with the matching principle. At the same time, the Bank monitors the level of income on insurance products linked to the lending products in terms of

legitimacy of division into interest income and commission income. At present such a division would not materially impact the Bank's statement of profit or loss. The Bank applies an analogical approach to real property insurance with mortgage loans. Taking account of the materiality principle, the Bank presents full income on this insurance in the net commission income.

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

Commissions under insurance products not linked to banking products are recognised in the statement of profit or loss:

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

Should there be a risk of refund of the fee under the insurance product, the Bank decreases its income by the amounts of estimated provisions.

The provisions for refunds are established based on the historical data on actual refunds made in the past and based on projections as to the amount of refunds in the future.

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

Net income on financial instruments measured at fair value through profit or loss and FX result includes gains and losses arising from disposal and change of fair value of assets and liabilities at fair value through profit or loss and designated at initial recognition at fair value through profit or loss. The result on financial instruments measured by the profit and loss account and the result on foreign exchange also includes fair value adjustments for pre-settlement credit risk and analogous risk generated by the Bank (bilateral value adjustment).

9. Result on the sale of securities measured at fair value through other comprehensive income and dividend income

The result on the sale of securities measured at fair value through other comprehensive income consists of realized gains and losses arising from the sale of debt securities measured at amortized cost, measured at fair value through other comprehensive income and dividend income.

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

10. Net 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 income on other basic activities

Net income on other basic activities includes cost and income not attributed directly to Bank's banking and brokerage activity. These include in particular: sale of assets (non-current assets and intangible assets), income on sales of other services, income due to recovered bad debts, received and paid damages, penalties and fines.

12. Net profit attributable to non-controlling interests

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

13. Lease contracts and factoring services

13.1. The Bank as lessor

The Bank 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 Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

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

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

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

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

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

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 derecognized from the statement of financial position. A receivable amount is recognized 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 lease is presented in Interest income, in the item: Interest on loans and other receivables to customers, further split into Interest on leases.

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

13.2. Factoring services

The Bank provides factoring services in local and international trade. Handling and financing receivables as well as risk management are their essence. Further, as part of factoring, the Bank offers additional services being financial limits for debtors, debt recovery and takeover of trading risk. Local factoring without taking over risk (with recourse) prevails in the factoring operations of the Bank.

Factoring receivables are purchased by the Bank under agreements negotiated with clients case by case. The said receivables are recognized in the statement of financial position as an increase in financial assets or decrease in cash, or increase in financial liabilities. Receivables can be held until maturity and maturity dates can be postponed.

Interest income is shown in the statement of profit or loss, in item Net interest income, while commission income is shown in item Net commission income.

14. Financial assets and liabilities

14.1. Initial recognition

The Bank recognizes financial assets or liabilities on the statement of financial position when, and only when it becomes a party to the contractual provisions of the instrument.

Purchase and sale transactions of financial assets carried at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity. Loans and receivables are recognized upon disbursement of funds to the borrower.

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

14.2. Classification of financial assets

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

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

Financial assets measured at amortised cost

Financial asset 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 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 shall be measured at fair value through other comprehensive income in case the Bank makes an irrevocable election at initial recognition for particular investment in equity instruments that it will 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 fulfil the conditions for classification to financial assets at amortised cost, debt financial assets at fair value through other comprehensive income or equity instruments measured at fair value through other comprehensive income, are classified to financial assets measured at fair value through profit or loss.

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

Business model assessment

The Bank assesses the objectives of the business model at the level of the Bank's unit that manages financial assets and is a so-called business owner of the particular financial assets portfolio.

The following business models are identified for managing the financial assets i.e. in order to:

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

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

During assessment, the Bank verifies all areas of 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 Bank's portfolio, including but not limited to:

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

- assessment of expectations regarding sales activities in the future.

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

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

The Bank took the following assumptions:

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

Assessment of cash flow characteristics

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

- principal – means fair value of the financial asset at initial recognition in 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 realized cash flows are solely repayment of principal and interest on the principal amount outstanding. The Bank verifies the contractual terms, which have influence on the timing of realized cash flows and the amount of the cash flow realised on particular financial asset.

In particular 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 realized 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 realized cash flow characteristics, the Bank performs a quantitative assessment. The quantitative assessment is based on comparison of the difference between:

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

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

14.3. Classification of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

Derivatives that are liabilities and financial liabilities from short position in debt securities are measured at fair value through profit or loss after initial recognition.

Financial liabilities measured at amortized cost

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

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss they incur because a specified debtor fails to make repayment when due in accordance with the original or modified terms of a debt instrument.

14.4. Derecognition

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

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

- transfer the contractual rights to receive the cash flows or
- retains the contractual rights to receive the cash flows but assumes a contractual obligation to pay the cash flows.

When the Bank retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay those cash flows, the Bank treats the transaction as a transfer of financial assets if and only if, all the following tree conditions are met:

- the Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- the Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipient for the obligation to pay them cash flows,

- the Bank has an obligation to remit any cash flows it collects from original asset during the short settlement period from the collection date to the date of required remittance to the eventual recipients.

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

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

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

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

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

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

14.5. Modification of contractual cash flows

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

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

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

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

14.6. Measurement

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, except for the financial assets at amortized 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 carried 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 recognized 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 the loss allowance, and
  - the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with principles of IFRS 15,
- contingent consideration recognised by the Bank acting as an acquirer in a business combination to which IFRS 3 applies, which it shall subsequently be measured at fair value through profit or loss.

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 recognized at the initial recognition, adjusted with the settled amount of commission received for granting the guarantee.

14.7. Reclassification

A particular financial asset may be reclassified to another financial category only if the business model changes. In such case, that financial asset is transferred to financial category in accordance with current business model.

Reclassification shall apply prospectively (i.e. from reclassification date).

In case of reclassification of:

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

14.8. Gains and losses resulting from subsequent measurement

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

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

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

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

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

Dividends on an equity instrument are recognised in the statement of profit or loss 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 at fair value through other comprehensive income denominated in foreign currency are recognized directly in equity only with regard to non-monetary assets. Foreign exchange gains and losses arising from monetary financial assets (e.g. debt securities) denominated in foreign currency are recognized directly in the statement of profit or loss.

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

- regarding debt financial assets are recognised in profit or loss
- regarding equity instruments are recognised in the relevant equity item, in which it presentes retained earnings.

If any objective evidence exists that a debt financial asset at fair value through other comprehensive income is impaired, the Bank recognizes impairment in accordance with the provisions of the item concerning impairment of financial assets at fair value through other comprehensive income.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined on the basis of the bid price for long position and offer price for short position. Should there be no active market for a given instrument or for the securities not quoted on an active market, the Bank establishes the fair value with the use of valuation techniques that include using recent arm's length market transactions, discounted cash flow analysis and option pricing models and other techniques commonly used by market players. The fair value of financial assets and liabilities is determined with the use of the prudence principle. This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

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

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

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

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

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

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

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

14.9. Cost basis of debt and equity securities

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

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

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

14.10. Derivative instruments and hedge accounting

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

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

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

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

The two types of fair value adjustments as mentioned above were differently reflected in the financial statements. Fair value adjustments due to risk for non-matured transactions were presented under the item Net income on instruments through profit or loss and FX result, whereas the impairments losses for matured transactions under the item Impairment losses for financial assets and provisions for off-balance-sheet liabilities.

If a transaction whose fair value was adjusted in the previous reporting period under the item Net income on instruments 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 losses and the added part of the impairment loss for such already matured transaction is presented in the statement of profit or loss in the item Impairment losses for financial assets and provisions for off-balance-sheet liabilities. Therefore the financial result is impacted only by the amount of surplus of the current impairment loss (or write-down) for a mature transaction above the amount of the fair value adjustment made before the transaction has matured.

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

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

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

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

14.10.1. Hedge accounting

The Group appllies the hedge accounting requirements of IAS 39.

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

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

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

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

Fair value hedge

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

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) is recognised in the statement of profit or loss; 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 statement of profit or loss. 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 statement of profit or loss.

If a hedged item is a component of financial assets 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 profit or loss resulting from non-hedged risk is recognised in equity.

The Bank applies the fair value hedge accounting in order to hedge changes in fair value of fixed-rate debt instruments classified to the portfolio of assets 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 statement of profit or loss.

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 statement of profit or loss.

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 statement of profit or loss.

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

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

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

portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

14.10.2. Derivative instruments not qualifying as hedging instruments

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

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

14.11. Offsetting financial instruments

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

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

14.12. Repo, reverse repo transactions

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

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

14.13. Impairment

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

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

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

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

Three stage approach

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

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

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

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

Significant increase in credit risk

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

- significant increase in the lifetime PD at reporting date comparing to the lifetime PD at initial recognition occurring over the period from the reporting date till maturity date;
- watch list status,
- forbearance status,
- more than 30 days past due,
- the exposure constitutes a mortgage loan indexed in Swiss franc at ING Group Śląski S.A..

Triggers for classification of assets at amortized costs to Stage 3

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

The evidence of impairment is:

- identification of an objective impairment evidence (for corporate and retail credit exposures) or
- the analysis (test) result showing impairment (for corporate credit exposures).

Objective impairment evidence of the corporate or retail credit exposure covers the occurrence of at least one of the following situations:

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +90 DPD, provided that the amount of arrears is higher than the materiality threshold defined for a given client segment or product,
- another forbearance has occurred or there is a delay of +30 DPD for corporate credit exposure with the forbearance status, however this does not apply to the exposures which were classified as serviced (working) since forbearance status assignment,
- a petition for bankruptcy with liquidation or conciliation bankruptcy has been filed or rehabilitation proceedings have been started by the Bank, a client or by another Group. For retail credit exposures, it applies only where it is the Bank that files the petition for the client bankruptcy,
- bankruptcy with liquidation is declared, conciliation bankruptcy or rehabilitation proceedings towards the client are approved – if they assume lack of full repayment towards the Bank,
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement,
- the Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item,
- the Bank initiates the debt enforcement proceedings,
- the client questions the balance sheet credit exposure in court,
- the client's whereabouts are unknown so the client is not represented in contacts with the Bank and the client's assets are not disclosed,
- serious financial problems of the client, including but not limited to:
  - for corporate credit exposure, the Bank has assessed with high probability (above 50%) that the client situation will preclude full repayment of the debt within the impairment analysis (test),
  - for retail credit exposure:
    - poor financial standing reflected in the worst risk rating of the client (appliesto clients from the Entrepreneurs segment),
    - restructuring of the non-performing retail credit exposure,
    - impairment on other accounts – within the product segment the client has other credit exposures where impairment evidence has been identified,
- for retail credit exposures – justified suspicion of fraudulent obtainment of a loan.

For retail credit exposures, the objective impairment evidence applies if the materiality threshold of PLN 500 is exceeded. As regards corporate credit exposures without risk rating, the materiality threshold for overdraft facilities with +90 DPD amounts to PLN 1 000. For the remaining corporate credit exposures, the Bank does not use the materiality threshold.

For corporate credit exposures, the impairment analysis (test) result determines whether

or not impairment is identified. The test is run upon identifying an impairment trigger. Impairment triggers for corporate credit exposures include:

- danger of bankruptcy or another financial reorganisation has been reported, both of which may lead to a failure to repay the financial asset or to delayed repayment,
- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +45 DPD,

- the Bank assesses that the client will face difficulties in repaying the debt, that is the client is undergoing material financial problems which may lead to a failure to repay the financial asset or to delayed repayment,
- significant breach of contractual conditions by the client which may adversely impact future cash flows from a given financial assets item,
- disappearance of an active market for a given financial assets item held by the Bank due to the financial problems of the issuer/client, which may adversely impact future cash flows from a given financial assets item,
- credit debt restructuring for non-commercial reasons, that is due to client's material financial hurdles. This refers to the situation when the client for the aforementioned reasons has requested forbearance from the Bank or the Bank has already applied forbearance towards the client which would not have been applied had the client not sustained financial problems (forbearance included). These can be in particular such situations as: lending tenor extension, reduction of credit instalments, suspension of principal repayment or interest payment,
- client's rating has deteriorated considerably,
- major conflict among shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no suitable succession, random incident leading to destruction of debtor's key assets.

During the impairment identification process, the Bank first assesses whether there exist impairment triggers for financial assets items.

The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients. For each strategic or corporate credit exposure impairment trigger identified, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows.

Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the necessity to carry out the impairment analysis (test).

If after the assessment we find that for a given financial assets item there are no reasons

for impairment, the item is included in the Bank of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under

to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment based on measurement of expected credit losses.

If there is any evidence of impairment loss for financial assets measured at amortised cost, then the amount of the impairment loss is the difference between the carrying amount of an asset and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

Practically, for assets from ISFA portfolio, impairment is calculated per assets item using the discounted future cash flows of a given assets item; for INSFA assets – it is calculated collectively with use of lifetime expected credit losses. When estimating future cash flows, the available debtor data are considered; the debtor's capacity to repay the exposure is assessed in particular. For backed credit exposures, the expected future cash flows on collateral execution are also used in the estimation, considering the time, costs and impediments of payment recovery under collateral sale, among other factors.

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 abovementioned financial assets, the impairment loss of assets equals their carrying amount.

The definition of default by the customer (default definition) is consistent with the definition of impairment.

The ING Group is preparing to implement a new definition of default (DoD) in the near future, in accordance with the supervisory requirements set out by the EBA (European Banking Authority) in the Guidelines on the application of the definition of default specified in art. 178 of Regulation (EU) No 575/2013 and in the RTS (Regulatory Technical Standards) of 19.10.2017 on uniform materiality thresholds and the local Regulation of the Minister of Finance, Investment and Development on the level of materiality of the past due credit obligation. Adaptation to the new DoD included systems and applications, reporting rules and internal regulations. The Bank does not expect a significant impact of the adjustment on the risk parameters of the loan portfolio.

Measurement of expected credit losses

In order to measure the expected credit losses under collective approach, the Bank uses the adjusted to IFRS 9 requirements the existing regulatory capital models (PD, LGD, EAD) developed for the Advanced Internal Ratings Based (AIRB) approach.

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

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

The Bank measures the lifetime expected credit losses (LEL – Lifetime Expected Loss) for the credit exposures that are not at default as the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months till maturity, computed based on the following formula:

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

Where:

- PD_t^{PiT} – marginal PD, the expected percentage of default events within time window of 12 months after "t",
- EAD_t^{PiT} – the expected exposure at default within time window of 12 months after "t",
- LGD_t^{PiT} - the expected loss given default to the EAD event within time window of 12 months after "t",
- EIR – Effective Interest Rate,

- T – remaining maturity,
- t – the following year between the reporting date and the expected exposure maturity date.

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

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

$$LEL_{stage\ 3} = EAD^{PiT}_{in_default} \times LGD^{PiT}_{in_default}$$

where PD equals 100% and the $LGD^{PiT}_{in_default}$ and $EAD^{PiT}_{in_default}$ represent characteristics of defaulted exposures.

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

- the discount factor between the moment of default and the moment of debt recovery. It is used for the parameters of the regulatory LGD models,
- the discount factor between the reporting date and the moment of default, which is additionally taken into account for computing of the lifetime expected losses. The Bank assumes that for each time window of 1 2months the event of default occurs on average in the middle of the period 0-12 months.

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

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

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

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

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

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

The level of LGD which is used for the estimation of the amount of the loss allowances according to the collective method for defaulted exposures (PD = 100%), depends on the period during which the exposure was identified as defaulted.

In addition, for corporate clients segment in the field of large and medium-sized companies, , the Bank uses the so-called the Policy of full provision whereunder for defaulted exposures from at least 2 years, the value of LGD parameter equals 100%. In a similar way, regarding the retail clients segment, the use of the Policy of the full provision rules (i.e. LGD = 100%) is contingent on the existence of the following circumstances:

- the impairment event took place and
  - the objective evidences of the impairment have existed incessantly science 2 years from the identification of the impairment in case of the corporate clients and enterprisers
  - current days past due exceeds 90 days
- the permanent loss of the credit-worthiness took place to repayment of the outstanding amount or part of outstanding amount and
  - client has no assets, from which Bank could recovered its receivables,
  - the lack of the triggers to change of those in the predictable future (i.e.: early write-off) – applied to the clients with identified impairment
- client is subject of the insolvency proceedings and there are reasonable triggers that Bank could not recover any or insignificant amounts during this process.

Measurement of expected losses for a risk other than credit risk

If the risk of impairment is identified due to reasons other than credit risk, e.g. due to legal risk related to the selected portfolio of assets, the Bank makes an additional provision in accordance with the methodology reflecting the nature of a given risk. Similarly as in the case of an allowance for credit risk, the Bank calculates the expected loss as a probability weighted average of several scenarios (usually three: baseline, positive and negative) with different probabilities of occurrence.

Recognition of expected credit loss allowances for assets at amortized cost

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

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

- the client's stay in the impaired portfolio (INSFA or ISFA) is not shorter than 12 months and minimum 3 calendar months have passed from the time the carrying amount of the exposure was recognised as equal to the present value of expected future cash flows. However, in the absence of impairment triggers, the exposure loss can be reversed immediately after an external significant event which in the Bank's opinion positively impacts client's situation has become probable or the Bank's exposure on the client has been considerably reduced, or the Bank has obtained new significant exposure collateral,
- no delays in repayment,

- the Bank assesses that the client will repay all their liabilities towards the Bank, and the impairment test carried out taking account of the expected future cash flows does not show impairment, and for the client having a forbearance exposure it is additionally required that it is classified to the portfolio of non-performing exposures for at least 12 months following forbearance identification.

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

The Bank assesses as at each balance sheet date whether there is any objective evidence of impairment of debt financial assets classified as measured at fair value through other comprehensive income. Confirmation of the objective evidence of impairment is 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 conditions which are presented hereinbelow:

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

Recognition of the loss allowances of the debt financial assets at fair value through other comprehensive income

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

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

14.14. Purchased or originated credit impaired financial assets

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

Such assets may be recognized due to following reasons:

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

Those assets are excluded from tree stage approach described in item 14.13 and are classified to impaired assets till the derecognition date.

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

14.15. Forbearance and non-performing exposure

The Bank set the principles of identification of and reporting on forbearance and non-performing exposures under the Commission Implementing Regulation (EU) 2015/1278 of 09 July 2015 amending Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.

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

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

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

For the retail segment – all exposures in restructuring are deemed forbearance exposures. As non-performing exposures the Bank recognises those exposures that meet at least one of the below criteria:

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

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

The forbearance can:

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

Then, accordingly:

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

15. Property, plant and equipment and intangible assets

15.1. Property, plant and equipment

Own property, plant and equipment

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

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

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

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

The revaluation effect is reflected in other comprehensive income in case of the value increase, or carried through the statement of profit or loss in case of the balance sheet asset's value decrease. However, the increase of value is recognised as income 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 (policy effective from January 1, 2019)

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

The Bank identifies leasing and non-leasing elements in concluded contracts.
Non-lease payments under contracts are recognized as an expense in the income statement on a straight-line basis over the term of the lease. Lease payments are recorded in accordance with the rules described below.
At the date of commencement of the lease, the Bank recognizes assets due to the right to use the assets and liabilities arising from leasing. The initial valuation of the lease liability is determined by the Bank at the present value of future lease payments. To determine the discounted value of leasing fees, the Bank uses the leasing interest rate, and if the rate is not easily available, the Bank uses the marginal interest rate. The Bank determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which leasing contracts and contract maturities are denominated. After the lease commencement date, the carrying amount of the liability:

- increased by accrued leasing interest, which is recognized in the profit and loss account and losses as interest expense,
- less lease payments paid,
- it is updated as a result of reassessment, changes in leasing or changes in essentially fixed leasing fees.

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

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

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

The Bank uses the exemption for:

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

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

15.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are deemed to include assets which fulfil the following requirements:

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

Goodwill

Goodwill arising on acquisition of an entity is recognized 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 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 recognized in the financial statements of the Bank was recognized 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 recognized at acquisition price less any accumulated impairment losses.

Computer software

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

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

Other intangible assets

Other intangible assets purchased by the Bank, are recognized 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 when it is probable that such expenditures will ensure future economic benefits for the Bank. In other cases, costs are recognised in the statement of profit or loss in the reporting period in which they were incurred.

15.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the

period of their useful lives. The depreciable/amortizable 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 recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through profit or loss).

In case of buildings 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 recognized in the statement of profit or loss. 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
- leaseholds improvements — rent and lease term of maximum 10 years
- devices — 3-7 years
- equipment — 5 years
- costs of development of software — 3 years
- software licenses — 3 years

15.4. Impairment of other non-financial assets

For each balance sheet date, the Bank assesses the existence of objective evidence indicating impairment of an asset. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

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

Recognition of impairment loss

If there are conditions of impairment of common property, i.e. the assets which do not generate cash independently from other assets or groups of assets, and the recoverable amount of the individual asset included among common property cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs.

An impairment loss is recognized 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 recognized in the statement of profit or loss.

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 recognized.

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

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

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

Where the criteria for classification as non-current assets held for sale are no longer met, the Bank will no longer classify that asset as an asset held for sale (or group of assets) but reclassify it as appropriate. In such a case, the Bank measures the asset that is no longer classified as an asset held for sale (or that is no longer part of a group of assets held for sale) at the lower of the following amounts:

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

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

17. Other financial assets

Other financial assets include trade and other receivables.

The Bank introduced the simplified approach regarding to measurement of the expected credit loos for this receivables and recognise the loss allowance at an amount equal to lifetime expected credit losses.

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

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

Budgetary receivables are recognized as part of other financial assets, except for corporate income tax receivables, which are a separate item on the balance sheet.

18. Provisions

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

Provisions for the irrevocable unutilised credit lines for corporate exposures are formed and recognised together with impairment losses for credit receivables.

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

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

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

The Bank applies the above principles to legal claims that do not affect expected cash flows from financial assets recognized in the statement of financial position - in this case the Bank applies IFRS 9, as described in item 14.13.

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

19. Prepayments and deferred income

19.1. Prepayments

Prepayments comprise of particular expenses which will be settled against the profit or loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in Other assets item.

19.2. Deferred income

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

20. Employee benefits

20.1. Benefits under the Act on employee pension programmes

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

20.2. Short-term employee benefits

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

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

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

20.3. Long-term employee benefits

20.3.1. Benefits under the Labour Code regulations

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

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

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

20.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two options:

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

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

As regards the benefits granted in the form of phantom stock a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year or three-year periods).

The employee who was granted the benefit shall not exercise the phantom stock-related rights during the retention period.

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

21. Equity

Equity comprises of the share capital, share premium, other comprehensive income and retained earnings. All balances of capital and funds are recognized 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 dominant 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.

Other comprehensive income

Other comprehensive income is created as a result of:

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

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

Retained earnings

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

22. Cash and cash equivalents

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

23. Taxes

23.1. Income tax

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

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

23.2. Deferred income tax

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

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

23.3. Tax on certain financial institutions

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

23.4. Other taxes

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

IV. Comparability of financial data

When compared with the annual financial statements for previous periods, in the Annual Financial Statements for the period from 1 January 2019 to 31 Demeber 2019, the Bank amended the manner of presentation of individual items of the income statement, statement of financial position and statement of cash flows.

The changes are as follows:

- *adjustment to recognition of transactions in the purchase and sale of treasury bonds (**change a**)*

Following the accounting principle of substance over form, the Bank changed the method of accounting for transactions on T-bonds from outright buy – outright sell transactions (separate buy and sell transactions) to buy-sell-back (BSB) and sell-buy-back (SBB). As a result of the adjustment, an additional charge due to the tax on other financial institutions was recognised in profit or loss for 2018 at PLN -2.1 million and PLN-14.7 million was recognised in retained earnings.

- *change in the presentation of commission income and commission expenses on account of cards (**change b**)*

The Bank changed the presentation of commission income and commission expenses on account of payment cards and credit cards, as presented in prior periods in net terms under Commission income.

As a result of the change, it was necessary to restate comparable data; however, it had not impact on the presented financial result. In the opinion of the Bank, the change helped increase the transparency and informational value of the statement of profit and loss.

- *change in flows from securities* (***change c***)

The Group changed the presentation of cash flows from the portfolio measured at amortized cost and the presentation of reclassifications related to the implementation of IFRS 9 in 2018.

The table below presents individual items of the profit and loss account according to the values presented in the financial statements for the period from 1 January 2018 to 31 December 2018 and according to the values presented in the current report.

	the period from 1 Jan 2018 to 31 Dec 2018			
	in Standalone Financial Statements for 2018 (approved data)	change a)	change b)	in Standalone Financial Statements for 2019 (comparable data)
Interest income	4 526.8			4 526.8
Interest expenses	907.7			907.7
Net interest income	**3 619.1**			**3 619.1**
Commission income	1 393.5		155.4	1 548.9
Commission expenses	156.9		155.4	312.3
Net commission income	**1 236.6**		**0.0**	**1 236.6**
Net income on financial instruments at fair value through profit or loss and FX result	90.6			90.6
Result on the sale of securities measured at amortized cost	1.0			1.0
Result on the sale of securities measured at fair value through other comprehensive income and dividend income	54.3			54.3
Net income on hedge accounting	7.9			7.9
Net income on other basic activities	4.1			4.1
Net income on basic activities	**5 013.6**		**0.0**	**5 013.6**
General and administrative expenses	2 212.9			2 212.9
Impairment losses and provisions for off-balance sheet liabilities	476.6			476.6
Tax on certain financial institutions	371.7	2.1		373.8
Share in net profits of associates accounted for using the equity method	59.3			59.3
Gross profit (loss)	**2 011.7**	**-2.1**	**0.0**	**2 009.6**
Income tax	485.8			485.8
Net profit (loss)	**1 525.9**	**-2.1**	**0.0**	**1 523.8**

The table below presents individual items of the statement of financial position according to the values presented in the annual financial statements for 2018 and according to the values presented in these financial statements. The data in the statement of financial position approved on 1 January 2018 in the table below are presented in accordance with Note 1.2 regarding the transition to IFRS 9 presented in the annual financial statements for 2018, i.e. after the transformation to IFRS 9.

	As at **1.01.2018**	As at **31.12.2018**	As at **1.01.2018**	As at **31.12.2018**	As at **1.01.2018**	As at **31.12.2018**
	in Standalone Financial Statements for 2018 (approved data)		change a)		in Standalone Financial Statements for 2019 (comparable data)	
Assets						
Cash in hand and balances with the Central Bank	2 815.1	1 237.4			2 815.1	1 237.4
Loans and other receivables to other banks	2 234.5	776.5			2 234.5	776.5
Financial assets held for trading	1 314.8	1 711.6	*188.9*	*223.3*	1 503.7	1 934.9
Derivative hedge instruments	967.2	909.6			967.2	909.6
Investment securities	29 465.1	31 937.3			29 465.1	31 937.3
Loans and other receivables to customers	83 534.3	99 125.8			83 534.3	99 125.8
Investments in associates	466.2	634.6			466.2	634.6
Property, plant and equipment	542.8	550.4			542.8	550.4
Intangible assets	418.5	425.0			418.5	425.0
Assets held for sale	11.1	10.9			11.1	10.9
Deferred tax assets	182.7	209.0			182.7	209.0
Other assets	155.7	183.4			155.7	183.4
Total assets	**122 108.0**	**137 711.5**	***188.9***	***223.3***	**122 296.9**	**137 934.8**
Liabilities						
Liabilities to other banks	1 044.6	1 807.7			1 044.6	1 807.7
Financial liabilities at fair value through profit or loss	1 714.3	1 464.3	*188.9*	*223.3*	1 903.2	1 687.6
Derivative hedge instruments	699.2	611.8			699.2	611.8
Liabilities to customers	104 075.8	117 293.8			104 075.8	117 293.8
Liabilities under issue of debt securities	300.3	300.3			300.3	300.3
Subordinated liabilities	626.9	1 076.9			626.9	1 076.9
Provisions	106.8	149.5			106.8	149.5
Current income tax liabilities	220.2	264.5			220.2	264.5
Other liabilities	1 773.0	1 406.4	*12.6*	*14.7*	1 785.6	1 421.1
Total liabilities	**110 561.1**	**124 375.2**	***201.5***	***238.0***	**110 762.6**	**124 613.2**
Equity						
Share capital	130.1	130.1			130.1	130.1
Share premium	956.3	956.3			956.3	956.3
Accumulated other comprehensive income	494.3	1 169.7			494.3	1 169.7
Retained earnings	9 966.2	11 080.2	*- 12.6*	*- 14.7*	9 953.6	11 065.5
Total equity	**11 546.9**	**13 336.3**	***-12.6***	***-14.7***	**11 534.3**	**13 321.6**
Total equity and liabilities	**122 108.0**	**137 711.5**	***188.9***	***223.3***	**122 296.9**	**137 934.8**

The table below presents individual items of the cash flow statement according to the values presented in the annual financial statements for the period from 1 January 2018 to 31 December 2018 and according to the values presented in these financial statements.

	the period from 1 Jan 2018 to 31 Dec 2018			
	in Standalone Financial Statements for 2018 (approved data)	change a)	change c)	in Standalone Financial Statements for 2019 (comparable data)
Net cash flow from operating activities	**-2 811.4**	**0.0**	**518.6**	**-2 292.8**
Net profit	1 525.9	-2.1		1 523.8
Change in financial assets held for trading	-396.1	-34.4		-430.5
Change in liabilities at fair value through profit or loss	-249.2	34.4		-214.8
Change in other liabilities	-350.5	2.1		-348.4
Change in other assets	-19.9		-10.6	-30.5
Change in debt securities at fair value through other comprehensive income	-6 363.1		4 091.6	-2 271.5
Change in loans and other receivables to customers	-12 039.0		-3 562.4	-15 601.4
Net cash flow from investing activities	**173.3**	**0.0**	**-518.6**	**-345.3**
Purchase of debt securities measured at amortized cost	-567.6		-2 696.0	-3 263.6
Disposal of debt securities measured at amortized cost	1 055.8		2 166.8	3 222.6
Dividends received	6.3		10.6	16.9

V. Notes to the financial statements

1. Segment reporting

Segments of operation

The management of Bank's activity is conducted within the areas defined in the Bank's business model.

The Bank's business model, above all for the purpose of management reporting, includes division of clients into two main segments:

- retail banking segment,
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of collected assets) and subject-related criteria. The specific rules of putting clients to respective segments are governed by the clients segmentation criteria specified in the Bank's internal regulations.

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

Retail banking segment

Within the framework of retail banking, the Bank provides services for individual customers (segments of mass customers and wealthy customers) and for sole traders.

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

The retail banking segment also includes the Bank's operations carried out through NN IP TFI S.A., so the segment's results include the Bank's share in the company's financial result calculated as a result of using the equity method.

Corporate banking segment

Corporate banking area encompasses as follows:

- providing services to institutional clients,
- Financial Markets products.

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

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

Measurement

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

Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Bank presents segment's interest income reduced by the cost of the interest. In 12 months 2019, the Bank revised the allocation key for the ALCO's income. The data for previous periods presented herein were made comparable.

Geographical segments

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

2019

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**3 268.5**	**2 211.9**	**5 480.4**
net interest income	2 686.4	1 403.4	4 089.8
commission income, including:	809.8	871.7	1 681.5
transaction margin on currency exchange transactions	77.4	313.3	390.7
account maintenance fees	127.4	169.2	296.6
lending commissions	60.6	270.1	330.7
payment and credit cards fees	323.9	28.1	352.0
participation units distribution fees	74.5	0.0	74.5
insurance product offering commissions	113.5	0.1	113.6
other	32.5	90.9	123.4
commission expenses	296.8	88.9	385.7
net commission income	**513.0**	**782.8**	**1 295.8**
other income/expenses	69.0	25.8	94.8
General and administrative expenses	**1 506.6**	**863.2**	**2 369.8**
including depreciation and amortisation	209.7	58.7	268.3
Segment result	**1 761.9**	**1 348.7**	**3 110.6**
Impairment losses	305.1	263.8	568.9
Tax on certain financial institutions	190.5	245.2	435.7
Share of profit (loss) of subsidiaries and associates accounted for using the equity method	21.5	89.0	110.5
Gross profit	**1 287.9**	**928.6**	**2 216.5**
Income tax	-	-	557.8
Net profit	**-**	**-**	**1 658.7**
Assets of the segment	71 035.4	80 048.0	151 083.4
Segment investments in subsidiaries and associates accounted for using the equity method	317.2	795.0	1 112.2
Other assets (not allocated to segments)	-	-	1 721.7
Total assets	**71 352.6**	**80 843.0**	**153 917.3**
Segment liabilities	92 177.0	44 074.5	136 251.5
Other liabilities (not allocated to segment)	-	-	2 551.0
Equity	-	-	15 114.8
Total equity and liabilities	**92 177.0**	**44 074.5**	**153 917.3**
Capital expenditure	114.8	65.8	180.6
Net cash flow from operating activities	4 483.6	-3 180.8	1 302.8
Net cash flow from operating activities (not allocated to segment)	-	-	-395.4
Net cash flow from operating activities total	4483.6	-3 180.8	907.4
Net cash flow from investment activities	-748.0	-309.8	-1 057.8
Net cash flow from financial activities	-	191.4	191.4

2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2 998.8**	**2 014.8**	**5 013.6**
net interest income	2 368.4	1 250.7	3 619.1
commission income, including:	712.4	836.5	1 548.9
transaction margin on currency exchange transactions	84.6	279.3	363.9
account maintenance fees	127.2	160.6	287.8
lending commissions	71.0	237.2	308.2
payment and credit cards fees	247.0	24.4	271.4
participation units distribution fees	0.7	98.9	99.6
insurance product offering commissions	91.0	0.4	91.4
other	90.9	35.7	126.6
commission expenses	218.9	93.4	312.3
net commission income	**493.5**	**743.1**	**1 236.6**
other income/expenses	136.9	21.0	157.9
General and administrative expenses	**1 374.3**	**838.6**	**2 212.9**
including depreciation and amortisation	150.4	39.6	190.0
Segment result	**1 624.5**	**1 176.2**	**2 800.7**
Impairment losses	267.9	208.7	476.6
Tax on certain financial institutions	154.9	218.9	373.8
Share of profit (loss) of subsidiaries and associates accounted for using the equity method	0.1	59.2	59.3
Gross profit	**1 201.8**	**807.8**	**2 009.6**
Income tax	-	-	485.8
Net profit	**-**	**-**	**1 523.8**
Assets of the segment	60 643.7	75 501.1	136 144.8
Segment investments in subsidiaries and associates accounted for using the equity method	162.7	471.9	634.6
Other assets (not allocated to segments)	-	-	1 155.4
Total assets	**60 806.4**	**75 973.0**	**137 934.8**
Segment liabilities	80 755.6	42 022.5	122 778.1
Other liabilities (not allocated to segment)	-	-	1 835.1
Equity	-	-	13 321.6
Total equity and liabilities	**80 755.6**	**42 022.5**	**137 934.8**
Capital expenditure	131.8	80.4	212.2
Net cash flow from operating activities	3 498.8	-4 847.5	-1 348.7
Net cash flow from operating activities (not allocated to segment)	-	-	-944.1
Net cash flow from operating activities total	3 498.8	-4 847.5	-2 292.8
Net cash flow from investment activities	-138.8	-206.5	-345.3
Net cash flow from financial activities	-	-3.7	-3.7

2. Net interest income

	2019	2018
Interest income, including:	**5 071.2**	**4 526.8**
Interest income calculated using effective interest rate method, including:	**5 067.1**	**4 521.5**
Interest on financial instruments measured at amortised cost	**4 357.7**	**4 125.7**
interest on loans and receivables to other banks measured at amortised cost	68.9	36.4
interest on loans and receivables to customers measured at amortised cost	4 030.2	3 808.7
interest on securities measured at amortised cost	258.6	280.6
interest on loans to customers measured at fair value through other comprehensive income	275.9	n/a
interest on securities measured at fair value through other comprehensive income	433.5	395.8
Other interest income, including:	**4.1**	**5.3**
interest on loans and receivables to other customers measured at fair value through profit or loss	4.1	5.3
Interest expense, including:	**981.4**	**907.7**
interest on deposits from other banks	54.3	50.9
interest on deposits from customers	892.7	836.1
interest on issue of debt securities	7.4	7.6
interest on subordinated liabilities	19.7	13.1
Interest on leasing liabilities (*)	7.3	n/a
Net interest income	**4 089.8**	**3 619.1**

(*) Starting from January 1, 2019, the Bank implemented the new IFRS 16 Leasing standard. The Bank applied a modified retrospective approach to its leasing contracts and did not restate the comparative data.

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

For impaired assets, interest income is calculated based on net exposure amounts, i.e. amounts that include write-offs for expected repayments.

In 2019, the amount of PLN 76.8 million represents interest income on financial assets for which impairment loss was recognised. In 2018, the amount reached PLN 60.8million.

3. Net commission income

	2019	2018
Commission income, including:		
transaction margin on currency exchange transactions	390.7	363.9
account maintenance fees	296.6	287.8
lending commissions	330.7	308.2
payment and credit cards fees*	352.0	271.4
participation units distribution fees	74.5	99.6
insurance product offering commissions	113.6	91.4
fiduciary and custodian fees*	28.2	29.3
foreign commercial business	36.4	35.5
agency in financial instruments transactions	6.2	13.3
brokerage activity fees	20.1	21.4
other commision	32.5	27.1
related to assets / liabilities not measured at fair value through profit and loss account	4.8	0.6
other	27.7	26.5
Total comission income	**1 681.5**	**1 548.9**
Commission expenses		
cards commission paid	204.7	155.4
intermediation in selling deposit products	54.8	45.7
disclosing credit information	16.4	16.2
cash handling services	20.9	20.7
brokerage activity fees	15.3	14.9
electronic banking services fees	12.3	12.7
costs of the National Clearing House (KIR)	11.3	10.1
agency in financial instruments transactions	2.0	7.5
trading in securities	8.8	8.4
other commision	39.2	20.7
related to assets / liabilities not measured at fair value through profit and loss account	7.0	6.2
other	32.2	14.5
Total commision expenses	**385.7**	**312.3**
Net commission income	**1 295.8**	**1 236.6**

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

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

- revenues in the total amount of PLN 984.1 million from maintaining customer accounts, granting loans, payment and credit cards, factoring and leasing services (PLN 868.0 million in 2018),
- costs in the total amount of PLN 295.2 million on account of paid commissions on cards, brokering the sale of deposit products, providing credit information, electronic banking and leasing services (PLN 236.2 million in 2018).

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

	2019	2018
FX result and net income on interest rate derivatives, including:	**44.9**	**34.8**
FX result	70.1	116.5
currency derivatives	-25.2	-81.7
Net income on interest rate derivatives	40.2	36.7
Net income on debt instruments held for trading	22.4	19.0
Result on measurement of loans to customers which are measured at fair value through profit or loss	0.1	0.1
Net income on financial instruments at fair value through profit or loss and FX result	**107.6**	**90.6**

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

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

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

	2019	2018
Net income on the sale of securities measured at amortised cost	**0.0**	**1.0**
Net income on the sale of financial assets measured at fair value through other comprehensive income and dividend income, including:	**5.4**	**54.3**
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income, including:	36.3	54.3
sale of debt securities	29.3	48.0
dividend income	7.0	6.3
Net income on the sale of loans	-30.9	0.0

Dividend income received in 2019 and 2018 come from entities which shares were maintained by the Bank in its portfolio respectively as at 31 December 2019 and as at 31 December 2018.

6. Net income on hedge accounting

	2019	2018
Fair value hedge accounting for securities:	**8.2**	**10.9**
valuation of the hedged transaction	34.3	129.5
valuation of the hedging transaction	-26.1	-118.6
Cash flow hedge accounting:	**-22.5**	**-3.0**
ineffectiveness under cash flow hedges	-22.5	-3.0
Net income on hedge accounting	**-14.3**	**7.9**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the financial statements in note no. III *Hedge accounting* in chapter *Risk and capital management.*

7. Net income on other basic activities

	2019	2018
Sale of other services	4.7	7.6
Net income on disposal of property, plant and equipment and intangible assets	-0.6	-1.9
Banking activity-related compensations and losses	-3.0	-5.4
Provision for commission return for historically earlier repayment of loans*	-17.1	n/a
Other	12.1	3.8
Total	**-3.9**	**4.1**

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

8. General and administrative expenses

	2019	2018
Personnel expenses, including:	**1 120.8**	**1 033.2**
wages and salaries, including:	918.8	843.9
variable remuneration programme	30.5	31.1
ING Group's incentive programme	0.2	0.3
retirement benefits	3.4	3.2
employee benefits	202.0	189.3
Cost of marketing and promotion	**117.9**	**117.2**
Depreciation and amortisation, including:	**268.3**	**190.0**
on property, plant and equipment	194.5	115.8
on right to use*	94.0	n/a
on intangible assets	73.8	74.2
Other general and administrative expenses, including:	**862.8**	**872.5**
IT costs	207.2	180.9
communication costs	49.5	50.0
transport and representation costs	33.2	42.2
maintenance, refurbishment and rental of buildings*	98.6	191.4
cost of short-term leasing and low-value assets leasing*	21.8	n/a
obligatory Bank Guarantee Fund payments	202.3	165.2
advisory and legal services, audit costs	86.7	87.2
donations	5.0	3.7
disputed claims	0.9	11.6
other	157.6	140.3
Total	**2 369.8**	**2 212.9**

*) Starting on 1 January 2019 the Bank implemented the new standard IFRS 16 Leasing. The Bank decided to apply the modified retrospective approach to its lease contracts and did not restate comparative data. As a result of implementation, long-term rental costs were allocated to depreciation and interest expenses, while short-term rental costs were transferred to the line: Costs of short-term leasing and low-value assets leasing. The costs of buildings maintenance show the costs associated with the maintenance and administration of real estate and non-leasing elements, not included in the calculation of leasing liabilities, including VAT.

8.1. Employee benefits

8.1.1. Varaible Remuneration Programme

In 2019, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to persons holding managerial positions having a material impact on the risk profile of the Bank (to satisfy the requirements under the Ordinance of the Minister of Development and Finance of 6 June 2017 regarding system of risk management and system of internal control, remuneration policy and detailed estimation method of internal capital in banks, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No.

604/2014 of 04 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter III. *Significant accounting principles* in item 21.3.2. *Variable Remuneration Programme benefits*.

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

Programme 2014							
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2015 – payable in 2016)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2016 – payable in 2017)*	*Phantom stock - 2 years of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 3 years of deferral (assigned in 2018 – payable in 2019)*	***Medin of share price for period from 10.10.2019-20.11.2019***
62	0.01	-	62	-	-	62	196.00
Programme 2015							
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2016 – payable in 2017)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 2 years of deferral (assigned in 2018 – payable in 2019)*	*Phantom stock - 3 years of deferral (assigned in 2019 – payable in 2020)*	***Medin of share price for period from 10.10.2019-20.11.2019***
14 263	2.8	-	14 263	-	138	14 125	196.00
Programme 2016							
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2017 – payable in 2018)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2018 – payable in 2019)*	*Phantom stock - 2 years of deferral (assigned in 2019 – payable in 2020)*	*Phantom stock - 3 years of deferral (assigned in 2020 – payable in 2021)*	***Medin of share price for period from 10.10.2019-20.11.2019***
19 076	3.7	-	19 076	-	9 523	9 553	196.00

Programme 2017									
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2018 – payable in 2019)**	**Deferred shares total**	*Phantom stock 2 years of deferral (assigned in 2020 – payable in 2021)*	*Phantom stock 3 years of deferral (assigned in 2021 – payable in 2022)*	*Phantom stock 4 years of deferral (assigned in 2022 – payable in 2023)*	*Phantom stock 5 years of deferral (assigned in 2023 – payable in 2024)*	*Phantom stock 6 years of deferral (assigned in 2024 – payable in 2025)*	***Medin of share price for period from 10.10.2019-20.11.2019***
25 150	4.9	-	25 150	8 073	8 118	8 160	398	401	196.00
Programme 2018									
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2018 – payable in 2019)**	**Deferred shares total**	*Phantom stock 2 years of deferral (assigned in 2021 – payable in 2022)*	*Phantom stock 3 years of deferral (assigned in 2022 – payable in 2023)*	*Phantom stock 4 years of deferral (assigned in 2023 – payable in 2024)*	*Phantom stock 5 years of deferral (assigned in 2024 – payable in 2025)*	*Phantom stock 6 years of deferral (assigned in 2025 – payable in 2026)*	***Medin of share price for period from 10.10.2019-20.11.2019***
65 886	12.9	39 509	26 377	8 618	8 646	8 685	214	214	196,00
Programme 2019									
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2020 – payable in 2021)**	**Deferred shares total**	*Phantom stock 2 years of deferral (assigned in 2022 – payable in 2023)*	*Phantom stock 3 years of deferral (assigned in 2023 – payable in 2024)*	*Phantom stock 4 years of deferral (assigned in 2024 – payable in 2025)*	*Phantom stock 5 years of deferral (assigned in 2025 – payable in 2026)*	*Phantom stock 6 years of deferral (assigned in 2026 – payable in 2027)*	***Medin of share price for period from 10.10.2019-20.11.2019***
76 558	15.0	45 686	30 872	9 909	9 954	9 983	513	513	196.00

8.1.2. ING Group's incentive programme

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

As at the balance sheet date, the Bank recognises in their books the measurement of instruments held by Bank employees. The fair value of options granted is recognised as personnel expenses (on the other side of the balance sheet – in capitals) and is allocated throughout the vesting period.

Parameters used in the valuation model

	2019		2018	
	min	*min*	*min*	*max*
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 years	9 years	5 years	9 years
current share price	2.9 EUR	25.42 EUR	2.9 EUR	25.42 EUR
expected volatility of share certificates	25%	84%	25%	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2019	2018	2019	2018
Opening balance	**41 073**	**145 914**	**5.13**	**13.50**
transferred	3 861	16 618	5.13	11.60
exercised	-1 501	-3 939	5.74	5.98
written off	0	0	0.00	0.00
expired	-21 832	-117 520	2.90	16.40
Closing balance	**21 601**	**41 073**	**7.35**	**5.14**

All options as at 31 December 2019 are 31 December 2018 are settled through issue of shares.

The range of exercise prices and weighted average remaining contractual life of options outstanding and exercisable are presented in the below table:

2019

Range of exercise prices (in EUR)	**Options outstanding as at 31 Dec 2019**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec2019**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
5.00 – 10.00	21 601	0.20	7.35	21 601	0.20	7.35
	21 601			**21 601**		

2018

Range of exercise prices (in EUR)	**Options outstanding as at 31 Dec 2018**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2018**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	20 431	0.21	2.90	20 431	0.21	2.90
5.00 - 10.00	20 642	1.20	7.35	20 642	1.20	7.35
	41 073			**41 073**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2019 was EUR 72 147 versus EUR 173 064 as at 31 December 2018.

9. Impairment for expected losses

Result on impairment

	2019	2018
Investment securities	**-1.6**	**4.7**
at fair value through other comprehensive income	-0.8	3.2
measured at amortized cost	-0.8	1.5
Loans and other receivables measured at amortized cost	**541.1**	**457.1**
corporate banking	235.6	196.7
including corporate and municipal securities	0.0	-0.2
retail banking	305.5	260.4
Provisions for off-balance sheet liabilities	**29.4**	**14.8**
Total	**568.9**	**476.6**

*) The values presented under the item *Loans and other receivables measured at amortised cost* cover i.a. repayments under previously derecognised liabilities which in 2019 were PLN 0.6 million (PLN 2.3 million in 2018).

Balance of impairment

	2019	2018
Investment securities	**5.6**	**7.2**
at fair value through other comprehensive income	4.0	4.8
measured at amortized cost	1.6	2.4
Loans and other receivables measured at amortized cost	**2 295.9**	**2 110.8**
corporate banking	1 176.6	1 106.2
including corporate and municipal securities	0.6	0.5
retail banking	1 119.3	1 004.6
Provisions for off-balance sheet liabilities	**107.1**	**78.5**
Total	**2 408.6**	**2 196.5**

10. Tax on certain financial institutions

Persuant to the Act on Tax on Certain Financial Institutions the Bank is obliged to pay the bank levy being 0.0366% of assets per month. The tax base is the sum of assets less PLN 4 billion and the value of own funds and treasury securities. For 2019, the tax totalled PLN 435.7 million (PLN 373.8 million for 2018).

11. Income tax

Income tax recognised in the income statement

	2019	2018
Current tax	582.6	507.7
Deferred tax, including:	-24.8	-21.9
Recognised and reversed temporary differences	-24.8	-21.9
Total income tax recognised in the income statement	**557.8**	**485.8**

Effective tax rate calculation

	2019	2018
A. Profit before tax	**2 216.5**	**2 009.6**
B. 19% of profit before tax	**421.1**	**381.8**
C. Increases – non-deductible expenses, including:	**158.6**	**116.6**
tax on certain financial institutions	82.8	71.0
fees in favour of BGF	38.5	31.4
provisions for disputable debt claims and other assets	1.7	2.9
impairment loss on receivables in a part not covered with the deferred tax	15.4	2.8
expenses due to loan and non-loan receivables written off	4.0	2.0
tax loss on the sale of receivables	0.0	1.4
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.3	1.2
representation expenses	0.6	0.5
provisions for legal risk related to the CHF portfolio and commission returns	12.4	1.9
other	1.9	1.5
D. Decreases – tax exempt income, including:	**21.9**	**12.6**
investments in subsidiaries and associates measured at equity method	21.0	11.2
release of provisions for disputable debt claims	0.9	1.4
revenues from received dividends	0.0	0.0
other	0.0	0.0
E. Income tax from the income statement (B+C-D)	**557.8**	**485.8**
Effective tax rate (E : A)*	**25.17%**	**24.17%**

*) The effective tax rate deviated above 19% in 2019 due to the tax on certain financial institutions in the amount of PLN 435.7 million (PLN 373.8 million in 2018) and payments to BGF (contribution to the guarantee fund of banks and contribution to the forced restructuring fund) in the amount of PLN 202.3 million (PLN 165.2 million in 2018).

12. Earning per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the Bank for 2019 was based on net profit in the amount of PLN 1 658.7 million (2018: PLN 1 523.8 million) and the weighted average number of ordinary shares at the end of 2019 and 2018 in 130 100 000.

	2019	2018
Net profit	1 658.7	1 523.8
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	**12.75**	**11.71**

Diluted earnings per share

In 2019 as well as in 2018, 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.

13. Cash in hand and balances with the Central Bank

	2019	2018
Cash in hand	733.9	1 117.6
Balances with the Central Bank	669.0	119.8
Total	**1 402.9**	**1 237.4**

The Bank maintains a mandatory provision – 3.5% of the value of deposits received by the Bank – in its current account kept with the National Bank of Poland.

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

- PLN 4 554.0 million for the period from 31 December 2018 to 31 January 2020,
- PLN 4 005.0 million for the period from 31 December 2018 to 31 January 2019.

Required reserves fund held on the current account in the National Bank of Poland bear interest during the reserve period in the amount determined by the Monetary Policy Council. As at 31 December 2019, the interest rate was 0.5% compared to 0.5% as at 31 December 2018.

14. Loans and receivables to other banks

	2019	2018
Current accounts	258.3	378.4
Interbank deposits:	74.1	5.0
overnights	0.0	0.0
Loans and advances	2 372.7	52.6
Placed call deposits	262.1	340.6
Receivables from a subsidiary due to deferred payment	318.1	-
Total (gross)	**3 285.3**	**776.6**
Impairment losses, including:	0.0	-0.1
concerning loans and advances	0.0	-0.1
Total (net)	**3 285.3**	**776.5**

Loans and receivables to other banks by maturity

	2019	2018
up to 1 month	600.6	728.9
over 1 month and up to 3 months	0.0	0.2
over 3 months and up to 1 year	132.7	30.0
over 1 year and up to 5 years	2 552.0	17.5
Total (gross)	**3 285.3**	**776.6**

15. Financial assets held for trading

	2019	2018
Valuation of derivatives *	**554.3**	**509.0**
Other financial assets held for trading, including:	**669.9**	**1 425.9**
Debt securities:	498.4	790.5
Treasury bonds	480.6	771.6
European Investment Bank bonds	17.8	18.9
Repo transactions	171.5	635.4
Total	**1 224.2**	**1 934.9**

*) Detailed disclosures on the nominal values of derivatives and their valuation split by type of instrument are presented in note 16. *Valuation of derivatives*

Other financial assets held for trading by maturity

	2019	2018
up to 1 month	174.8	637.5
over 3 months and up to 1 year	27.0	0.3
over 1 year and up to 5 years	134.4	497.7
over 5 years	333.7	290.4
Total	**669.9**	**1 425.9**

16. Valuation of derivatives

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

2019

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

The amount of fair value measurement of derivatives includes the credit value adjustment for counterparty insolvency (CVA) and debt value adjustment for Bank insolvency (DVA).

2018

	Fair value of derivatives		Notional amount of instruments with the remaining maturity			
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL
Interest rate derivatives, including:	**370.4**	**443.2**	**34 965.5**	**73 825.8**	**263 464.6**	**372 255.9**
Cleared by CCP	*56.4*	*48.9*	*34 071.3*	71 333.60	245 253.60	*350 658.5*
Forward rate agreements (FRA) - PLN	0.5	0.2	8 450.0	16 305.0	5 450.0	30 205.0
Interest rate swaps (IRS PLN) fixed - float	246.6	215.6	24 914.5	56 103.4	239 195.6	320 213.5
Interest rate swaps (IRS EUR) fixed - float	82.8	188.1	980.6	536.9	13 149.3	14 666.8
Interest rate swaps (IRS USD) fixed - float	34.3	33.1	620.4	206.8	3 599.5	4 426.7
CAP – EUR options	6.0	6.0	0.0	673.7	1 998.1	2 671.8
CAP – PLN options	0.2	0.2	0.0	0.0	72.1	72.1
FX derivatives, including:	**117.6**	**115.8**	**19 857.6**	**9 825.8**	**2 232.7**	**31 916.1**
FX contracts (swap, forward), including:	**96.3**	**89.4**	**18 478.2**	**7 212.9**	**1 049.6**	**26 740.7**
FX contracts (swap, forward) EUR/PLN	16.7	21.6	6 446.5	3 384.9	378.4	10 209.8
FX contracts (swap, forward) USD/PLN	38.8	52.4	5 231.7	2 422.7	5.8	7 660.2
FX contracts (swap, forward) EUR/USD	34.7	0.9	4 194.8	558.0	0.0	4 752.8
FX contracts (swap, forward) other	6.1	14.5	2 605.2	847.3	665.4	4 117.9
CIRS, including:	**13.2**	**16.9**	**809.8**	**1 409.8**	**1 168.3**	**3 387.9**
CIRS CHF/PLN (float-float)	3.2	5.0	0.0	0.0	184.8	184.8
CIRS EUR/PLN (float-float)	2.2	4.0	809.8	566.3	983.5	2 359.6
CIRS EUR/PLN (fixed-fixed)	7.8	7.9	0.0	843.5	0.0	843.5
CIRS EUR/USD (float-float)	0.0	0.0	0.0	0.0	0.0	0.0
CIRS USD/CHF (float-float)	0.0	0.0	0.0	0.0	0.0	0.0
Currency options (purchased), including:	**8.1**	**0.6**	**284.8**	**601.6**	**7.4**	**893.8**
CHF/PLN options	0.0	0.0	0.0	0.0	0.0	0.0
EUR/PLN options	7.8	0.6	284.7	600.1	6.8	891.6
USD/PLN options	0.3	0.0	0.1	1.5	0.6	2.2
Currency options (sold), including:	**0.0**	**8.9**	**284.8**	**601.5**	**7.4**	**893.7**
EUR/PLN options	0.0	8.6	284.7	600.1	6.8	891.6
USD/PLN options	0.0	0.3	0.1	1.4	0.6	2.1
Current off-balance sheet transactions, including:	**1.7**	**0.3**	**3 008.0**	**0.0**	**0.0**	**3 008.0**
FX operations	0.6	0.3	1 762.0	-	-	1 762.0
Securities operations	1.1	0.0	1 246.0	-	-	1 246.0
Fair value measurement of other financial instruments	**19.3**	**18.8**	-	-	-	-
Total	**509.0**	**578.1**	**57 831.1**	**83 651.6**	**265 697.3**	**407 180.0**

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" approach. Under the terms of this 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 value of individual transactions includes cash flows realized as part of the daily settlement of exposures arising therefrom.

Embedded derivatives

At the end of 2019 and 2018, the Bank had PLN deposits with embedded derivatives. Embedded instruments are FX options. As at 31 December 2019, embedded derivatives were valued at PLN 0.0 million versus PLN -0.1 million as at 31 December 2018.

17. Hedge accounting

In the financial statements prepared for 2019 (as in 2018), the Bank applies fair value hedge accounting and cash flow hedge accounting. The table below presents the valuation of hedging instruments, broken down into instruments securing the fair value of securities and cash flow hedging instruments. The valuation of hedging instruments is presented in the item Derivative hedge instruments in assets (positive valuation) and liabilities (negative valuation) of the statement of financial position of the Bank.

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Instruments hedging the fair value of securities	5.5	71.2	0.0	191.6
Cash flow hedging instruments	846.1	474.8	909.6	420.2
Total hedge instruments	**851.6**	**546.0**	**909.6**	**611.8**

Detailed information abount the hedge accounting applied at the Bank is presented in the further part of financial statement in note III.7 *Hedge accounting* in the chapter *Risk and capital management.*

18. Investment securities

	2019			2018		
	Stage 1			Stage 1		
	gross	expected credit loss allowance	net	gross	expected credit loss allowance	net
Measured at fair value through other comprehensive income (FVOCI), including:	**21 213.2**	**-4.0**	**21 209.2**	**20 082.0**	**-4.7**	**20 077.3**
debt securities, including:	21 102.5	-4.0	21 098.5	19 998.7	-4.7	19 994.0
treasury bonds	18 651.3	-3.7	18 647.5	17 675.0	-4.6	17 670.4
treasury bonds in EUR	982.7	-0.2	982.6	903.1	-0.1	903.0
European Investment Bank bonds	1 021.5	0.0	1 021.5	985.6	0.0	985.6
Austrian government bonds	447.0	-0.1	446.9	435.0	0.0	435.0
equity instruments, including:	110.7	0.0	110.7	83.3	0.0	83.3
Biuro Informacji Kredytowej S.A.	63.8	0.0	63.8	57.7	0.0	57.7
Krajowa Izba Rozliczeniowa S.A.	14.7	0.0	14.7	11.9	0.0	11.9
other	32.2	0.0	32.2	13.7	0.0	13.7
Measured at amortised cost, including:	**12 352.0**	**-1.6**	**12 350.4**	**11 862.3**	**-2.3**	**11 860.0**
debt securities, including:	12 352.0	-1.6	12 350.4	11 862.3	-2.3	11 860.0
treasury bonds	5 963.6	-0.8	5 962.8	5 938.0	-1.3	5 936.7
treasury bonds in EUR	3 273.3	-0.6	3 272.7	3 144.5	-0.8	3 143.7
Bank Gospodarstwa Krajowego bonds	508.6	-0.1	508.5	513.0	-0.1	512.9
European Investment Bank bonds	2 606.5	-0.1	2 606.4	2 266.8	-0.1	2 266.7
Total	**33 565.2**	**-5.6**	**33 559.6**	**31 944.3**	**-7.0**	**31 937.3**

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 porspective of the Bank's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in note 37. *The fair value*. The Bank received in 2019 the related revenue in the form of a dividend in the amount of PLN 7.0 million, which was presented in the Income Statement in item *Net income on the sale of securities measured at fair value through other comprehensive income and dividend income.*

In 2019, the Bank did not sell from the investment securities portfolio. In 2018, the Bank sold the shares from the portfolio of investment securities measured at fair value through other comprehensive

income of shares of one of the companies and achieved a result on this transaction in the amount of PLN 0.3 million.

Changes in impairment for expected losses

	2019			2018		
	Investment securities measured at fair value through other comprehensive income	Investment securities measured at amortised cost	TOTAL	Investment securities measured at fair value through other comprehensive income	Investment securities measured at amortised cost	TOTAL
	Stage 1			Stage 1		
Opening balance of impairment	**4.7**	**2.3**	**7.0**	**0.0**	**2.1**	**2.1**
Changes in the period, including:	**-0.7**	**-0.7**	**-1.4**	**4.7**	**0.2**	**4.9**
establishment and release in the period	-0.7	-0.7	**-1.4**	4.7	0.2	**4.9**
Closing balance of impairment	**4.0**	**1.6**	**5.6**	**4.7**	**2.3**	**7.0**

In 2019 and 2018, changes in the gross value of investment securities measured at fair value through other comprehensive income and financial assets measured at amortized cost did not have a significant impact on the level of impairment for expected credit losses. In 2019 and 2018, there were no transfers of investment securities between stages with different methods of measuring expected credit losses.

Investment securities / Investments by maturity

	2019		2018	
	Measured at fair value through OCI	Measured at amortised cost	Measured at fair value through OCI	Measured at amortised cost
without a specific date	110.7	0.0	83.3	0.0
up to 1 month	0.0	159.0	0.0	0.0
from 3 months to 1 year	1 005.1	2 715.3	35.9	204.0
from 1 to 5 years	9 252.0	5 809.7	11 472.2	7 940.2
over 5 years	10 841.4	3 666.4	8 485.9	3 715.8
Total	**21 209.2**	**12 350.4**	**20 077.3**	**11 860.0**

19. Assets securing liabilities

Market value of assets securing liabilities

	2019	2018
Bonds from the portfolio of financial assets measured at fair value through profit and loss:		
treasury bonds pledged as collateral for liabilities arising from securities sold with repurchase agreements granted (sell-buy-back transactions)	80.0	83.5
Bonds and loan receivables from the portfolio of financial assets measured at amortized cost:		
treasury bonds pledged as collateral for liabilities under securities sold with repurchase agreements issued (repo transactions)	30.0	0.0

	2019	2018
Bonds from the portfolio of assets measured at fair value through other comprehensive income		
treasury bonds as collateral for the Bank Guarantee Fund	574.8	559.0
treasury bonds as collateral for a loan received by a subsidiary from the European Investment Bank	128.7	246.6
Austrian Government bonds as collateral for settlements with LCH	445.4	433.5
treasury bonds constituting a blockade under the obligation to pay due to contributions to the bank restructuring fund	88.4	44.6
treasury bonds constituting a blockade under the obligation to pay due to contributions to the bank guarantee fund	87.4	63.0
treasury bonds constituting a security deposit on the initial settlement deposit	60.0	60.0
securities as a security deposit for clearing transactions in EUREX	45.7	0.0
treasury bonds constituting the submission of security for the settlement fund	10.0	10.0
securities on the Euroclear account that are designated as collateral for transactions not transferred to clearing chambers	3.0	0.0

Securities are pledged on the terms provided for by:

- The Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Resolution,
- Regulation (EU) of the European Parliament and of the Council No 648/2012 of 4 July 2012,
- agreements, and
- liabilities under repo transactions.

The Bank has the call deposits which are collateral on derivative transactions. The receivables from this title are presented in the note no. 14. *Loans and receivables to other banks* and in the note no. 20. *Loans and receivables to customers.*

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

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 169.7 million as at 31.12.2019 compared to PLN 627.5 million as at 31.12.2018.

The majority of buy-sell-back/reverse repo transactions are effected assuming the option of legal transfer of securities' ownership being object of such transactions. The above indicates that the securities can be still sold back or that a pledge can be established thereone in accordance with the generally adopted market practice.

As at 31 December 2019, securities with a value of PLN 169.7 million were subject to resale (as at 31 December 2018 PLN 374.7 million).

Besides the instruments indicated herein, assets limited as to use also include the mandatory provision which the Bank has to maintain in the current account with NBP. For mandatory provision details, see note no. *13 Cash in hand and balances with the Central Bank.*

20. Loans and receivables to customers

	2019	2018
Measured at amortised cost	102 524.2	98 907.4
Measured at fair value through other comprehensive income	7 852.0	-
Measured at fair value through profit or loss	160.3	218.4
Total (net)	**110 536.5**	**99 125.8**

Part of mortgage loans may be sold to ING Bank Hipoteczny S.A. as part of the so-called transaction pooling. Taking into consideration that ING Bank Hipoteczny S.A. received approval for operating activities at the beginning of 2019, part of the mortgage loans were designated by the Bank for the new business model "Maintenance and Sales" and are currently measured at fair value through other comprehensive income. The book value of reclassified loans as at the reclassification date was PLN 7 904.6 million (gross carrying amount was PLN 7 906.7 million), while the fair value was PLN 7 820.6 million.

From the point of view of the consolidated financial statements, pooling loans continue to meet the criterion of the "Maintenance" business model, due to the fact that pooling transactions take place within the Capital Group.
The Bank uses the discounted cash flow model to value mortgage loans designated for the portfolio measured at fair value. Due to the use of input data in the valuation model that is not based on observable market data, the valuation technique belongs to Stage 3.

Loans and other receivables measured at amortised cost

	2019			2018		
	gross	impairment for expected losses	net	gross	impairment losses	net
Portfolio of loans, including:	**102 523.3**	**-2 295.9**	**100 227.4**	**100 067.6**	**-2 110.8**	**97 956.8**
Households	45 328.1	-1 227.1	44 101.0	46 917.5	-1 097.8	45 819.7
Business entities	54 183.0	-1 068.5	53 114.5	49 949.9	-1 012.9	48 937.0
The government and self-government institutions' sector	3 012.2	-0.3	3 011.9	3 200.2	-0.1	3 200.1
Total (gross), including:	**102 523.3**	**-2 295.9**	**100 227.4**	**100 067.6**	**-2 110.8**	**97 956.8**
Corporate banking segment	**59 911.0**	**-1 176.6**	**58 734.4**	**55 693.0**	**-1 106.2**	**54 586.8**
loans in the current account	13 311.1	-463.0	12 848.1	13 553.7	-460.1	13 093.6
term loans and advances	44 095.3	-713.0	43 382.3	39 329.5	-645.6	38 683.9
corporate and municipal debt securities	2 504.6	-0.6	2 504.0	2 809.8	-0.5	2 809.3
Retail banking segment	**42 612.3**	**-1 119.3**	**41 493.0**	**44 374.6**	**-1 004.6**	**43 370.0**
mortgages	29 741.6	-205.6	29 536.0	33 371.7	-224.9	33 146.8
loans in the current account	1 382.5	-101.5	1 281.0	1 329.2	-105.8	1 223.4
other loans and advances	11 488.2	-812.2	10 676.0	9 673.7	-673.9	8 999.8
Other receivables, including:	**2 296.8**	**0.0**	**2 296.8**	**950.6**	**0.0**	**950.6**
complex call deposits	1 598.6	0.0	1 598.6	733.0	0.0	733.0
receivables under repo transactions	0.0	0.0	0.0	0.0	0.0	0.0
other receivables	698.2	0.0	698.2	217.6	0.0	217.6
Total	**104 820.1**	**-2 295.9**	**102 524.2**	**101 018.2**	**-2 110.8**	**98 907.4**

Loans and other receivables to customer by maturity

	2019		2018	
	Measured at amortised cost	**Measured at fair value**	**Measured at amortised cost**	**Measured at fair value**
up to 1 month	20 059.4	27.5	18 815.0	0.1
over 1 month and up to 3 months	3 229.1	31.0	3 872.5	11.4
over 3 months and up to 1 year	11 984.2	186.2	9 842.2	39.9
over 1 year and up to 5 years	35 591.6	1 140.4	32 313.7	111.9
over 5 years	32 201.6	6 616.0	34 830.5	44.5
overdue	1 754.2	11.2	1 344.3	10.6
Total	**104 820.1**	**8 012.3**	**101 018.2**	**218.4**

20.1 Quality of loan portfolio

2019

	gross	impairment for expected losses	net
Corporate banking segment	**59 911.0**	**-1 176.6**	**58 734.4**
assets in stage 1	55 317.3	-47.8	55 269.5
assets in stage 2	2 618.4	-46.7	2 571.7
assets in stage 3	1 973.8	-1 082.1	891.7
including individually significant assets	1 487.1	-721.6	765.5
POCI assets	1.5	0.0	1.5
Retail banking segment	**42 612.3**	**-1 119.3**	**41 493.0**
assets in stage 1	37 208.2	-68.7	37 139.5
assets in stage 2	4 510.5	-394.6	4 115.9
- including CHF-indexed mortgage loans	*907.0*	*-48.5*	*858.5*
assets in stage 3	893.6	-656.0	237.6
- including CHF-indexed mortgage loans	*8.9*	*-4.2*	*4.7*
Total	**102 523.3**	**-2 295.9**	**100 227.4**
Total assets in stage 1	92 525.5	-116.5	92 409.0
Total assets in stage 2	7 128.9	-441.3	6 687.6
Total assets in stage 3	2 867.4	-1 738.1	1 129.3

The Bank identifies POCI financial assets whose carrying value as at 31 December 2019 is PLN 1.5 million (PLN 0.0 million as at 31 December 2018). These are exposures due to impaired receivables acquired in connection with the acquisition of SKOK Bieszczadzka in 2017 and exposures that were significantly modified as a result of restructuring, which involved the need to remove the original credit commitment and re-recognition of the asset in the statement of financial position.

In 2019, credit exposures in the amount of PLN 1 135.3 million were subject to modification of contractual cash flows, which did not result in their exclusion and re-recognition of the 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 write-offs for expected credit losses does not change. Granting customers facilities (forbearance) indicates a significant increase in credit risk, resulting in classification to Stage 2, in the case of granting another convenience, classification to Stage 3 follows the principles of estimating impairment losses described in point 14.13. Impairment.

For financial assets where the contractual cash flows have changed during the reporting period, while the corresponding write-down for expected credit losses was valued at an amount equal to the expected lifetime credit loss, the amortized cost before modification was PLN 208.9 million PLN, and the net loss on modification amounted to -1.8 million PLN.

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

The quality of the loan portfolio measured at fair value through other comprehensive income

2019

	gross	impairment for expected losses	net
Loans at fair value through other comprehensive income	**7 855.0**	**-3.0**	**7 852.0**
assets in stage 1	7 829.9	-2.0	7 827.9
assets in stage 2	25.0	-1.0	24.0
assets in stage 3	0.1	0.0	0.1

2018

	gross	impairment for expected losses	net
Corporate banking segment	**55 693.0**	**-1 106.2**	**54 586.8**
assets in stage 1	50 361.4	-49.6	50 311.8
assets in stage 2	3 643.7	-51.9	3 591.8
assets in stage 3	1 687.9	-1 004.7	683.2
including individually significant assets	1 242.6	-677.5	565.1
Retail banking segment	**44 374.6**	**-1 004.6**	**43 370.0**
assets in stage 1	37 821.8	-57.5	37 764.3
assets in stage 2	5 773.7	-361.3	5 412.4
- including CHF-indexed mortgage loans	*971.0*	*-17.5*	*953.5*
assets in stage 3	779.1	-585.8	193.3
- including CHF-indexed mortgage loans	*10.4*	*-6.7*	*3.6*
Total	**100 067.6**	**-2 110.8**	**97 956.8**
Total assets in stage 1	88 183.2	-107.1	88 076.1
Total assets in stage 2	9 417.4	-413.2	9 004.2
Total assets in stage 3	2 467.0	-1 590.5	876.5

Receivable sale

In 2019, the Bank made the following transactions of receivables sale:

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

In 2018, the Bank made the following transactions of receivables sale:

- Corporate portfolio
  - On 22 February 2018, the Bank concluded an agreement on the sale of corporate receivables from the impaired portfolio. As a result of the transaction, the portfolio of non-performing receivables decreased by PLN 85.6 million. The positive impact of the transaction on the Bank's gross result amounted to PLN 1.1 million.
- Retail portfolio

– On 31 August 2018, the Bank concluded an agreement on the sale of retail receivables from the impaired portfolio. As a result of the transaction, the portfolio of non-performing receivables decreased by PLN 166.9 million. The positive impact of the transaction on the Bank's gross result amounted to PLN 25.6 million.

The result on the sale of receivables is presented in the *Profit on sale of receivables line* in *Expenses due to losses expected* in the profit and loss account.

Collateral

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

Changes in impairment for expected losses

	2019				2018			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	**107.1**	**413.2**	**1 590.5**	**2 110.8**	**115.9**	**339.0**	**1 447.2**	**1 902.1**
Changes in the period, including:	**9.4**	**28.1**	**147.6**	**185.1**	**-8.8**	**74.2**	**143.3**	**208.7**
impairments for granted loans during the period	68.1	0.0	0.0	**68.1**	62.8	0.0	0.0	**62.8**
transfer to Stage 1	8.2	-97.4	-8.3	**-97.5**	5.1	-60.5	-8.6	**-64.0**
transfer to Stage 2	-26.3	225.6	-28.0	**171.3**	-25.3	237.6	-31.1	**181.2**
transfer to Stage 3	-6.8	-61.9	591.4	**522.7**	-6.5	-50.7	497.6	**440.4**
changed provisioning under expected losses	-31.8	-41.5	-58.0	**-131.3**	-45.2	-53.6	-62.4	**-161.2**
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-368.4	**-368.4**	0.0	0.0	-286.7	**-286.7**
calculation and write-off of effective interest	0.0	0.0	26.9	**26.9**	0.0	0.0	13.3	**13.3**
other	-2.0	3.3	-8.0	**-6.7**	0.3	1.4	21.2	**22.9**
Closing balance of impairment	**116.5**	**441.3**	**1 738.1**	**2 295.9**	**107.1**	**413.2**	**1 590.5**	**2 110.8**

Change in impairment for expected credit losses on loans and other receivables to customers measured at fair value through other comprehensive income

	Retail banking			
	[IFRS 9]			
	Stage 1	Stage 2	Stage 3	**Total**
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	**1.8**	**0.2**	**0.0**	**2.0**
Changes in the period, including:	**0.2**	**0.8**	**0.0**	**1.0**
impairments for granted loans during the period	1.0	0.0	0.0	**1.0**
transfer to Stage 1	0.0	-0.2	0.0	**-0.2**
transfer to Stage 2	0.0	1.0	0.0	**1.0**
transfer to Stage 3	0.0	0.0	0.0	**0.0**
changed provisioning under expected losses	-0.8	0.0	0.0	**-0.8**
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	0.0	**0.0**
calculation and write-off of effective interest	0.0	0.0	0.0	**0.0**
other	0.0	0.0	0.0	**0.0**
Closing balance of impairment	**2.0**	**1.0**	**0.0**	**3.1**

Movements in impairment losses / expected losses by client segment

2019

	Corporate banking				Retail banking				TOTAL
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	**49.6**	**51.9**	**1 004.7**	**1 106.2**	**57.5**	**361.3**	**585.8**	**1 004.6**	**2 110.8**
Changes in the period, including:	**-1.8**	**-5.2**	**77.4**	**70.4**	**11.2**	**33.3**	**70.2**	**114.7**	**185.1**
impairments for granted loans during the period	23.6	0.0	0.0	**23.6**	44.5	0.0	0.0	44.5	**68.1**
transfer to Stage 1	2.1	-14.5	-0.2	**-12.6**	6.1	-82.9	-8.1	-84.9	**-97.5**
transfer to Stage 2	-9.8	33.7	-0.8	**23.1**	-16.5	191.9	-27.2	148.2	**171.3**
transfer to Stage 3	-3.8	-11.2	278.4	**263.4**	-3.0	-50.7	313.0	259.3	**522.7**
changed provisioning under expected losses	-13.9	-13.1	-45.0	**-72.0**	-17.9	-28.4	-13.0	-59.3	**-131.3**
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-172.2	**-172.2**	0.0	0.0	-196.2	-196.2	**-368.4**
calculation and write-off of effective interest	0.0	0.0	25.0	**25.0**	0.0	0.0	1.9	1.9	**26.9**
other	0.0	-0.1	-7.8	**-7.9**	-2.0	3.4	-0.2	1.2	**-6.7**
Closing balance of impairment	**47.8**	**46.7**	**1 082.1**	**1 176.6**	**68.7**	**394.6**	**656.0**	**1 119.3**	**2 295.9**

2018

	Corporate banking				Retail banking				TOTAL
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	**57.7**	**50.5**	**908.3**	**1 016.5**	**58.2**	**288.5**	**538.9**	**885.6**	**1 902.1**
Changes in the period, including:	**-8.1**	**1.4**	**96.4**	**89.7**	**-0.7**	**72.8**	**46.9**	**119.0**	**208.7**
impairments for granted loans during the period	25.3	0.0	0.0	**25.3**	37.5	0.0	0.0	**37.5**	**62.8**
transfer to Stage 1	1.6	-12.1	-1.0	**-11.5**	3.5	-48.4	-7.6	**-52.5**	**-64.0**
transfer to Stage 2	-7.5	35.4	-0.3	**27.6**	-17.8	202.2	-30.8	**153.6**	**181.2**
transfer to Stage 3	-4.0	-6.2	247.4	**237.2**	-2.5	-44.5	250.2	**203.2**	**440.4**
changed provisioning under expected losses	-23.8	-15.9	-43.6	**-83.3**	-21.4	-37.7	-18.8	**-77.9**	**-161.2**
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-133.6	**-133.6**	0.0	0.0	-153.1	**-153.1**	**-286.7**
calculation and write-off of effective interest	0.0	0.0	18.7	**18.7**	0.0	0.0	-5.4	**-5.4**	**13.3**
other	0.3	0.2	8.8	**9.3**	0.0	1.2	12.4	**13.6**	**22.9**
Closing balance of impairment	**49.6**	**51.9**	**1 004.7**	**1 106.2**	**57.5**	**361.3**	**585.8**	**1 004.6**	**2 110.8**

Reconciliation of the gross carrying amount

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

2019

	Corporate banking					Retail banking					TOTAL
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	
Opening balance of gross carrying amount	**50 361.4**	**3 643.7**	**1 687.9**	**0.0**	**55 693.0**	**37 821.8**	**5 773.7**	**779.1**	**0.0**	**44 374.6**	**100 067.6**
Changes in the period, including:	**4 955.9**	**-1 025.3**	**285.9**	**1.5**	**4 218.0**	**-613.6**	**-1 263.2**	**114.5**	**0.0**	**-1 762.3**	**2 455.7**
loans granted in the period	14 499.8	0.0	0.0	1.5	14 501.3	14 007.6	0.0	0.0	0.0	14 007.6	28 509.0
repayment (total and partial) and the release of new tranches	-8 817.5	-1 098.6	-195.0	0.0	-10 111.1	- 6 689.7	-861.8	-117.6	0.0	-7 669.1	- 17 780.2
calculation of penalty interest (for delay)	0.0	0.0	121.9	0.0	121.9	0.0	0.0	48.5	0.0	48.5	170.4
transfer to Stage 1	1 335.8	-1 333.5	-2.3	0.0	0.0	2 231.3	-2 221.5	-9.8	0.0	0.0	0.0
transfer to Stage 2	-1 610.7	1 613.3	-2.6	0.0	0.0	-2 032.3	2 073.1	-40.8	0.0	0.0	0.0
transfer to Stage 3	-451.5	-206.5	658.0	0.0	0.0	-225.9	-253.0	478.9	0.0	0.0	0.0
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-172.2	0.0	-172.2	0.0	0.0	-196.2	0.0	-196.2	-368.4
transfer to portfolio measured at fair value through other comprehensive income	0.0	0.0	0.0	0.0	0.0	-7 904.6	0.0	0.0	0.0	-7 904.6	-7 904.6
writing down interest (for delay)	0.0	0.0	-121.9	0.0	-121.9	0.0	0.0	-48.5	0.0	-48.5	-170.4
Closing balance of gross carrying amount	**55 317.3**	**2 618.4**	**1 973.8**	**1.5**	**59 911.0**	**37 208.2**	**4 510.5**	**893.6**	**0.0**	**42 612.3**	**102 523.3**

Changes in the gross carrying amount of the loan portfolio measured at fair value through other comprehensive income are presented in Note 37.1.

2018

	Corporate banking					Retail banking					TOTAL
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	
Opening balance of gross carrying amount	**46 356.8**	**0.0**	**1 430.2**	**0.0**	**47 787.0**	**36 142.7**	**0.0**	**671.7**	**0.0**	**36 814.4**	**84 601.4**
the impact of changes in accounting policies related to the implementation of IFRS 9	-3 756.1	3 447.8	97.0	0.0	**-211.3**	-4 803.5	4 797.9	46.5	0.0	40.9	**-170.4**
Opening balance of gross carrying amount after chages in accounting policies	**42 600.7**	**3 447.8**	**1 527.2**	**0.0**	**47 575.7**	**31 339.2**	**4 797.9**	**718.2**	**0.0**	**36 855.3**	**84 431.0**
Changes in the period, including:	**7 760.7**	**196.0**	**160.6**	**0.0**	**8 117.3**	**6 482.6**	**975.8**	**60.9**	**0.0**	**7 519.3**	**15 636.6**
loans granted in the period	13 596.2	0.0	0.0	0.0	13 596.2	11 196.8	0.0	0.0	0.0	11 196.8	24 793.0
repayment (total and partial) and the release of new tranches	-4 139.9	-946.3	-259.1	0.0	-5 345.3	-2 811.5	-602.7	-110.3	0.0	-3 524.5	-8 869.8
calculation of penalty interest (for delay)	0.0	0.0	99.7	0.0	99.7	0.0	0.0	41.5	0.0	41.5	141.2
transfer to Stage 1	837.5	-836.8	-0.7	0.0	0.0	672.2	-663.1	-9.1	0.0	0.0	0.0
transfer to Stage 2	-2 110.9	2 110.9	0.0	0.0	0.0	-2 383.3	2 429.9	-46.6	0.0	0.0	0.0
transfer to Stage 3	-422.2	-131.8	554.0	0.0	0.0	-191.6	-188.3	379.9	0.0	0.0	0.0
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-133.6	0.0	-133.6	0.0	0.0	-153.0	0.0	-153.0	-286.6
writing down interest (for delay)	0.0	0.0	-99.7	0.0	-99.7	0.0	0.0	-41.5	0.0	-41.5	-141.2
Closing balance of gross carrying amount	**50 361.4**	**3 643.8**	**1 687.8**	**0.0**	**55 693.0**	**37 821.8**	**5 773.7**	**779.1**	**0.0**	**44 374.6**	**100 067.6**

Among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8 953.0 million), moreover, financial loans for individuals (PLN 3 074.7 million). A significant part is also short-term loans: revolving loans (PLN 1 424.7 million), working loans (PLN 3 989.6 million) and overdrafts (PLN 1 395.3 million).

Additionally, during 2019 the penalty interest amounted to PLN 170.44 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off.

Among loans granted during 2018, the most important item are mortgage loans for individuals (PLN 6 815.7 million), moreover, advances for individuals (PLN 2 646.3 million). A significant part is also short-term loans: revolving loans (PLN 1 380.7 million), working loans (PLN 3 422.5 million) and overdrafts (PLN 1 502.7 million).

Additionally, during 2018 the penalty interest amounted to PLN 141.2 million were accrued to gross carrying amount of loans and other receivables to customers. All these interest were written off.

21. Investments in subsidiaries

Name	Type of capital relationship	% of the Bank share in equity	Balance sheet value (at purchase price)	
			2019	2018
ING Investment Holding (Polska) S.A. including the use equity method in indirect subsidiaries and associates:	subsidiary	100.00%	776.7	497.0
ING Lease (Polska) Sp. z o.o.	*subsidiary*	*100.00%*	*262.9*	*215.8*
ING Commercial Finance Polska S.A.	*subsidiary*	*100.00%*	*78.9*	*47.8*
NN Investment Partners TFI S.A.	*associated*	*45.00%*	*7.5*	*-*
ING Bank Hipoteczny S.A. (IBH)	subsidiary	100.00%	293.2	112.3
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	21.2	7.6
Solver Sp. z o.o.	subsidiary	100.00%	16.5	16.4
Nowe Usługi S.A.	subsidiary	100.00%	0.3	0.3
Twisto	associated	20.00%	4.3	1.0
Total			**1 112.2**	**634.6**

*) ING Bank Śląski S.A. has an indirect share in the company via ING Investment Holding (Polska) S.A. The ING Lease (Polska) Sp. z o.o Group incorporates 9 special-purpose vehicles wherein ING Lease Polska Sp. z o.o holds 100% of shares.

In 2019, ING Bank Śląski S.A. increased the share capital of two subsidiaries and an associated company:

- increase in the share capital of ING Bank Hipoteczny S.A. in the amount of PLN 160.0 million,
- increase in the share capital of ING Investment Holding (Polska) S.A. in the amount of PLN 202.5 million,
- Increase in the share capital of ING Usługi dla Biznesu S.A. in the amount of PLN 10.8 million,
- increase in the share capital of TWISTO Polska Sp z o.o. in the amount of PLN 4.3 million.

The reconciliation of the carrying amount of investments in subsidiaries for 2019 and 2018 is presented below.

	2019	2018
Carrying amount at the beginning of the period	**634.6**	**466.2**
Purchase of shares	377.6	120.0
Valuation using the equity method in the period	110.5	59.3
Dividends received	-9.6	-10.6
Other	-0.9	-0.3
Carrying amount at the end of the period	**1 112.2**	**634.6**

22. Property, plant and equipment

	2019	2018
Real estate and investments in foreign fixed assets	326.5	329.2
Computer hardware	106.3	103.5
Other property, plant and equipment	75.7	85.6
Construction in progress	44.0	32.1
Right of use assets*	380.3	n/a
Total	**932.8**	**550.4**

*) recognition of right of use assets in connection with the entry into force of IFRS 16

2019

Changes to property, plant and equipment, excluding the right of use assets

	Real estate and investments in foreign fixed assets	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	**704.8**	**258.6**	**378.8**	**32.1**	**1 374.3**
Additions, including:	**28.7**	**43.4**	**24.9**	**106.3**	**203.3**
purchases	-	-		106.4	106.4
investment takeovers	26.7	42.9	24.8	-	94.4
reclassification to another group within PPE	-	0.1	-	-	0.1
reclassification from assets held for sale	2.0	-	0.1	-	2.1
other	-	0.4	-	-0.1	0.3
Disposals, including:	**-13.4**	**-0.5**	**-3.7**	**-94.4**	**-112.0**
sale and liquidation	-0.2	-0.5	-1.3	-	-2.0
investment takeovers	-	-	-	-94.4	-94.4
reclassification to assets held for sale	-13.2	-	-2.3	-	-15.5
reclassification to another group within PPE	-	-	-0.1	-	-0.1
Revaluation:	**7.1**	**0.0**	**0.0**	**0.0**	**7.1**
included in other comprehensive income	0.4	-	-	-	0.4
included in profit or loss*	6.7	-	-	-	6.7
Closing gross value	**727.2**	**301.5**	**400.0**	**44.0**	**1 472.7**
Opening accumulated depreciation	**-375.6**	**-155.1**	**-293.2**	**0.0**	**-823.9**
Movements. including:	**-25.1**	**-40.1**	**-31.1**	**0.0**	**-96.3**
depreciation charges	-29.3	-40.1	-31.1	-	-100.5
reclassification to assets held for sale	-0.8	-	-0.1	-	-0.9
reclassification from assets held for sale	5.0	-	2.2	-	7.2
reclassification to another group within PPE	-	-	-	-	0.0
impairment	-	-	-2.1	-	-2.1
Closing accumulated depreciation	**-400.7**	**-195.2**	**-324.3**	**0.0**	**-920.2**
Closing net value	**326.5**	**106.3**	**75.7**	**44.0**	**552.5**

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

2019

Changes in right of use assets

	Right of use assets			
	Real estate	Means of transport	Other assets	TOTAL
Opening gross value	**452.4**	**13.9**	**0.7**	**467.0**
Additions, including:	**52.1**	**14.2**	**0.0**	**66.3**
new contracts	25.9	14.2	0.0	40.1
asset adjustment in connection with the recalculation of the leasing liability	26.2	0.0	0.0	26.2
Disposals, including:	**-61.0**	**-0.5**	**0.0**	**-61.6**
impairment	0.0	0.0	0.0	0.0
Range reduction and early termination of the contract	-60.0	-0.4	0.0	-60.4
asset adjustment in connection with the recalculation of the leasing liability	-1.0	-0.1	0.0	-1.1
Closing gross value	**443.5**	**27.6**	**0.7**	**471.7**
Opening accumulated amortisation	**0.0**	**0.0**	**0.0**	**0.0**
Movements, including:	**-84.5**	**-6.7**	**-0.3**	**-91.4**
amortisation charges	-87.0	-6.8	-0.3	-94.0
range reduction and early termination of the contract	2.5	0.1	0.0	2.6
Closing accumulated amortisation	**-84.5**	**-6.7**	**-0.3**	**-91.4**
Closing net value	**359.0**	**20.9**	**0.4**	**380.3**

2018

	Real estate and investments in foreign fixed assets	Computer hardware	Other property plant and equipment	Construction in progress	**TOTAL**
Opening gross value	**704.7**	**243.5**	**413.2**	**13.0**	**1 374.4**
Additions, including:	**30.1**	**71.7**	**24.2**	**131.5**	**257.5**
purchases	-	-	-	131.5	131.5
investment takeovers	20.5	71.7	20.2	-	112.4
reclassification to another group within PPE	-	-	2.6	-	2.6
reclassification from assets held for sale	9.6	-	1.4	-	11.0
Disposals, including:	**-37.7**	**-56.6**	**-58.6**	**-112.4**	**-265.3**
sale and liquidation	-12.7	-55.8	-50.2	-	-118.7
investment takeovers	-	-	-	-112.4	-112.4
reclassification to assets held for sale	-25.0	-	-4.9	-	-29.9
reclassification to another group within PPE	-	-0.8	-	-	-0.8
impairment	-	-	-3.5	-	-3.5
Revaluation:	**7.7**	**0.0**	**0.0**	**0.0**	**7.7**
included in profit or loss*	7.7	-	-	-	7.7
Closing gross value	**704.8**	**258.6**	**378.8**	**32.1**	**1 374.3**
Opening accumulated depreciation	**-365.1**	**-173.3**	**-293.2**	**0.0**	**-831.6**
Movements, including:	**-10.5**	**18.2**	**0.0**	**0.0**	**7.7**
depreciation charges	-29.1	-37.8	-48.9	-	-115.8
sale and liquidation	12.5	55.3	48.2	-	116.0
reclassification to assets held for sale	11.4	-	2.7	-	14.1
reclassification from assets held for sale	-5.3	-	-1.3	-	-6.6
reclassification to another group within PPE	-	0.7	-0.7	-	0.0
Closing accumulated depreciation	**-375.6**	**-155.1**	**-293.2**	**0.0**	**-823.9**
Closing net value	**329.2**	**103.5**	**85.6**	**32.1**	**550.4**

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

There are no legal constraints on property, plant and equipment at the end of 2019 and 2018.

Contractual obligations to purchase property, plant and equipment

In 2019, the Bank concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment of PLN 3.5 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.

In 2018, the Bank had contracts (partly of a framework nature) regarding real estate (buildings and structures), investments in foreign fixed assets, fixed assets under construction and other fixed assets for the total amount of PLN 13.9 million.

23. Intangible assets

	2019	2018
Goodwill	223.3	223.3
Software	169.9	180.6
Outlays for intangible assets	13.6	19.9
Other	1.6	1.2
Total	**408.4**	**425.0**

2019

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**1 063.0**	**19.9**	**14.9**	**1 321.1**
Additions, including:	**0.0**	**78.5**	**74.2**	**1.7**	**154.4**
purchases			74.2		74.2
investment takeovers		78.5		1.7	80.2
Disposals, including:	**0.0**	**0.0**	**-80.5**	**0.0**	**-80.5**
investment takeovers			-80.2		-80.2
other			-0.3		-0.3
Closing gross value	**223.3**	**1 141.5**	**13.6**	**16.6**	**1 395.0**
Opening accumulated amortisation	**0.0**	**-882.4**	**0.0**	**-13.7**	**-896.1**
Movements, including:	**0.0**	**-89.2**	**0.0**	**-1.3**	**-90.5**
amortisation charges		-72.5		-1.3	-73.8
sale and liquidation		-16.7			-16.7
Closing accumulated amortisation	**0.0**	**-971.6**	**0.0**	**-15.0**	**-986.6**
Closing net value	**223.3**	**169.9**	**13.6**	**1.6**	**408.4**

2018

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**977.3**	**26.0**	**13.8**	**1 240.4**
Additions, including:	**0.0**	**85.7**	**80.7**	**1.1**	**167.5**
purchases	-	-	80.7	-	80.7
investment takeovers	-	85.7	-	1.1	86.8
Disposals, including:	**0.0**	**0.0**	**-86.8**	**0.0**	**-86.8**
investment takeovers	-	-	-86.8	-	-86.8
Closing gross value	**223.3**	**1 063.0**	**19.9**	**14.9**	**1 321.1**
Opening accumulated amortisation	**0.0**	**-809.8**	**0.0**	**-12.1**	**-821.9**
Movements, including:	**0.0**	**-72.6**	**0.0**	**-1.6**	**-74.2**
amortisation charges	-	-72.6	-	-1.6	-74.2
Closing accumulated amortisation	**0.0**	**-882.4**	**0.0**	**-13.7**	**-896.1**
Closing net value	**223.3**	**180.6**	**19.9**	**1.2**	**425.0**

Contractual obligations to purchase intangible assets

In 2019, the Bank concluded agreements with contractors for the future acquisition of intangible assets for a total amount of PLN 4.4 million, however, due to the framework nature of some contracts, this amount is not target. As in the previous year, these agreements concern the purchase of licenses and implementation of computer software.

At the end of 2018, the Bank had (partly framework) agreements to purchase a license and implement software for a total amount of PLN 13.0 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 objective evidence of impairment.

At the Bank, the impairment test is made for the goodwill created as a result of the in-kind contribution of ING Bank NV branch, which was assigned to the Bank's corporate activity. The smallest identifiable cash-generating units (corporate segment) 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.

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 free cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. To discount the cash flows, the discount rate of 7.41 % is used that represents the average weighted cost of capital. Other assumptions are: projected income tax rates (29.4%), nominal growth rate after the forecast horizon (3%) and projected 3M WIBOR (1.73%).

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

As at 31 December 2019, net present value of cash flows was PLN 6 542.9 million (PLN 6 552.9 million as at 31 December 2018). The test showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 4 491.5 million (PLN 4 613.4 million as at 31 December 2018) thus, no impairment was determined.

The table below shows discount rate sensitivity of the impairment test for the cash-generating units.

	31.12.2019	Discount rate change	
		- 1 p.p.	+ 1 p.p.
Surplus of cash flows net value over the net book value (PLN million)	4 491.5	6 523.6	3 222.2

	31.12.2018	Discount rate change	
		- 1 p.p.	+ 1 p.p.
Surplus of cash flows net value over the net book value (PLN million)	4 613.4	6 295.3	3 474.8

24. Assets held for sale

	2019	2018
Opening value	**10.9**	**11.1**
Additions, including:	**16.4**	**14.0**
reclassification from property, plant and equipment	16.4	14.0
Disposals, including:	**-23.7**	**-14.2**
sale	-14.4	-9.8
reclassification to property, plant and equipment	-9.3	-4.4
Revaluation:	**0.0**	**0.0**
included in profit or loss*	0.0	0.0
Closing value	**3.6**	**10.9**

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

As at 31 December 2019, the amount of *Assets held for sale* included 4 real estate properties which were reclassified from Property, plant and equipment. The real estate properties are available to be immediately sold in their current condition. The Bank intends to sell the abovementioned real estate properties using services of a specialized company that searches for potential buyers with the use of various, available sources (advertisements, direct mailing, contact with other real property agencies, etc.). The real estate property should be sold within 12 months from the reclassification date.

25. Deferred tax

Movements in temporary differences during the year

2019

	opening balance	changes carried through profit or loss	changes carried through equity	**closing balance**
Deferred tax asset				
impairment losses on credit receivables	-264.1	-12.0	-	**-276.1**
revaluation	-144.3	-10.1	-1.2	**-155.6**
settlement of the difference between tax and balance sheet depreciation	-	-2.2	-	**-2.2**
other provisions	-57.6	-10.8	-	**-68.4**
employee benefits	-38.1	-4.3	-	**-42.4**
correction due to effective interest rate	-12.3	-	-18.5	**-30.8**
other	-15.9	-	-	**-15.9**
Total	**-532.3**	**-39.4**	**-19.7**	**-591.4**

	opening balance	changes carried through profit or loss	changes carried through equity	**closing balance**
Deferred tax provision				
revaluation	212.1	-	-17.3	**194.8**
accrued interest	79.8	24.4	-	**104.2**
settlement of the difference between tax and balance sheet depreciation	12.2	-12.2	-	**0.0**
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	2.8	-1.7	-	**1.1**
other	16.4	4.1	-	**20.5**
Total	**323.3**	**14.6**	**-17.3**	**320.6**
Deferred tax disclosed in the balance sheet	**-209.0**	**-24.8**	**-37.0**	**-270.8**
deferred tax assets				**-270.8**

2018

	opening balance	changes carried through profit or loss	changes carried through equity	closing balance
Deferred tax asset				
impairment losses on credit receivables	**-177.4**	-86.7	-	**-264.1**
revaluation	**-127.1**	-11.7	-5.5	**-144.3**
other provisions	**-50.1**	-7.5	-	**-57.6**
employee benefits	**-40.6**	2.5	-	**-38.1**
correction due to effective interest rate	**-12.3**	-	-	**-12.3**
accrued interest	**0.0**	-	-	**0.0**
other	**-15.9**	-	-	**-15.9**
Razem	**-423.4**	**-103.4**	**-5.5**	**-532.3**

	opening balance	changes carried through profit or loss	changes carried through equity	closing balance
Deferred tax provision				
revaluation	203.8	-	8.3	**212.1**
accrued interest	6.5	73.3		**79.8**
settlement of the difference between tax and balance sheet depreciation	15.2	-3.0	-	**12.2**
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	4.0	-1.2	-	**2.8**
other	9.6	6.8	-	**16.4**
Total	**239.1**	**75.9**	**8.3**	**323.3**
Deferred tax disclosed in the balance sheet	**-184.3**	**-27.5**	**2.8**	**-209.0**

Deferred tax recognised directly in equity

	31 Dec 2019	31 Dec 2018
Revaluation of financial asset measured at FVOCI – debt securities	63.1	64.6
Revaluation of financial asset measured at FVOCI – equity instruments	16.4	11.2
Revaluation of available-for-sale financial assets	-18.6	n/a
Property, plant and equipment	1.6	1.7
Cash flow hedging instruments	55.8	75.7
Actuarial gains/losses	-2.8	-0.7
Total	**115.5**	**152.5**

26. Other assets

	2019	2018
Prepayments, including:	**138.5**	**119.0**
accrued income	51.3	37.4
commission-related settlements	43.2	45.0
prepaid bank operating expenses	43.1	34.8
expenses to be settled	0.9	1.2
other	0.0	0.6
Other assets, including:	**190.9**	**64.4**
interbank settlements	0.0	19.3
settlements with customers	12.5	14.8
public and legal settlements	1.1	0.8
other	177.3	29.5
- including receivables from ING Bank Hipoteczny S.A. due to the capital increase	*170.0*	*0.0*
Total	**329.4**	**183.4**
Including financial assets	190.9	64.4

26.1. Quality of other receivables

2019

	gross	write-off for expected losses	net
assets in Stage 1	190.9	0.0	190.9
assets in Stage 3	56.3	-56.3	0.0
Total	**247.2**	**-56.3**	**190.9**

2018

	gross	write-off for expected losses	net
assets in Stage 1	64.4	0.0	64.4
assets in Stage 3	59.5	-59.5	0.0
Total	**123.9**	**-59.5**	**64.4**

Change in write-off for expected credit losses

	2019			2018		
Write-off at the beginning of the period adjusted for changes to the accounting principles	**0.0**	**59.5**	**59.5**	**0.0**	**64.1**	**64.1**
Changes during the period, including:	**0.0**	**-3.2**	**-3.2**	**0.0**	**-4.6**	**-4.6**
deduction of expected losses	0.0	10.1	**10.1**	0.0	20.1	**20.1**
exclusion from the statement of financial position in result of redemption	0.0	-10.8	**-10.8**	0.0	-9.7	**-9.7**
exclusion from the statement of financial position due to repayment	0.0	-2.5	**-2.5**	0.0	-15.0	**-15.0**
Write-off at the end of the period	**0.0**	**56.3**	**56.3**	**0.0**	**59.5**	**59.5**

Reconciliation of the gross carrying amount

	2019			2018		
	Stage 1	Stage 3	**Total**	Stage 1	Stage 3	**Total**
Gross carrying amount at the beginning of the period	**64.4**	**59.5**	**123.9**	**64.4**	**64.1**	**128.5**
Changes during the period, including:	**126.5**	**-3.2**	**123.3**	**0.0**	**-4.6**	**-4.6**
transfer to Stage 3	-10.1	10.1	**0.0**	-20.1	20.1	**0.0**
exclusion from the statement of financial position due to redemption	0.0	-10.8	**-10.8**	0.0	-9.7	**-9.7**
recognition of new financial instruments, repayments and other changes	136.6	-2.5	**134.1**	20.1	-15.0	**5.1**
Gross carrying amount at the end of the period	**190.9**	**56.3**	**247.2**	**64.4**	**59.5**	**123.9**

27. Liabilities to other banks

	2019	2018
Current accounts	474.9	324.0
Interbank deposits	1 565.3	876.1
Repo transactions	31.1	-
Received call deposits	549.2	592.1
Other liabilities	2.0	15.5
Total	**2 622.5**	**1 807.7**

Liabilities to other banks by maturity

	2019	2018
up to 1 month	2 622.2	1 799.3
over 1 month and up to 3 months	0.3	8.4
Total	**2 622.5**	**1 807.7**

28. Financial liabilities at fair value through profit or loss

	2019	2018
Valuation of derivatives *	**667.2**	**578.1**
Other financial liabilities at fair value through profit or loss, including:	**247.9**	**1 109.5**
Book short position in trading securities	167.2	1 024.9
financial liabilities held for trading, including:	80.7	84.6
repo transactions	80.7	84.6
Razem	**915.1**	**1 687.6**

*) Detailed disclosures regarding the nominal value of derivatives and their valuation by individual types are presented in note 16. *Valuation of derivatives*.

Financial liabilities at fair value through profit or loss by maturity

	2019	2018
up to 1 month	80.7	84.6
over 3 months and up to 1 year	0.0	109.6
over 1 year and up to 5 years	85.9	36.1
over 5 years	81.3	879.2
Total	**247.9**	**1 109.5**

29. Liabilities to customers

	2019	2018
Deposits, including:	**128 997.0**	**116 102.7**
Households	87 643.7	78 255.5
Business entities	36 388.1	35 929.7
Government and self-government institutions' sector	4 965.2	1 917.5
Total, including:	**128 997.0**	**116 102.7**
Corporate banking	**41 086.3**	**37 784.7**
current accounts	28 444.8	25 613.6
savings accounts	10 959.6	9 982.1
term deposits	1 681.9	2 189.0
Retail banking	**87 910.7**	**78 318.0**
current accounts	21 998.4	18 051.1
savings accounts	63 387.7	57 948.1
term deposits	2 524.6	2 318.8
Other liabilities, including:	**1 039.8**	**1 191.1**
liabilities under cash collateral	400.1	329.5
call deposits	11.6	-
liabilities under repo transactions	0.0	0.0
other liabilities	628.1	861.6
Total	**130 036.8**	**117 293.8**

Liabilities due to customers by maturity

	2019	2018
up to 1 month	127 994.5	114 798.3
over 1 month and up to 3 months	818.3	1 020.8
over 3 months and up to 1 year	1 093.5	1 239.2
over 1 year and up to 5 years	127.9	87.3
over 5 years	2.6	148.2
Total	**130 036.8**	**117 293.8**

30. Liabilities under issue of debt securities

	2019	2018
Liabilities under issue of debt securities, including:	0.0	300.3
- Bonds issued by ING Bank Śląski S.A.	0.0	300.3
Total	**0.0**	**300.3**

Liabilities under issue of debt securities by maturity

	2019	2018
over 3 months to 1 year	0.0	300.3
over 1 year to 5 years	0.0	0.0
Total	**0.0**	**300.3**

As at December 31, 2019, the Bank did not have liabilities arising from the issue of debt securities.
As at December 31, 2018, the Bank had liabilities arising from the issue of debt securities issued under the Program of issuing own debt securities of ING Bank Śląski S.A. The bonds were redeemed in December 2019.

31. Subordinated liabilities

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

- Agreement concluded on 23 February 2016 for the amount of EUR 150.0 million. By decision of the Polish Financial Supervision Authority of 19 April 2016, the Bank obtained permission to recognize loan amount under Tier 2 capital.
- Agreement concluded on 30 October 2018 for the amount of EUR 100.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 30 January 2019.
- Agreement concluded on 30 September 2019 for the amount of EUR 250.0 million. After signing the loan agreement, the Bank applied to the PFSA for permission to classify the loan as Tier 2 capital. The consent 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 (1.66% for the 2019 loan, 1.22% for loan from 2018 and 2.25% for loan from 2016). The financial terms and conditions of the loans were set on an arm's length basis. ING Bank N.V. is the parent company, holding 75% of shares and votes at the Bank General Meeting.

As at the end of 2019, the carrying amount of the subordinated loans was PLN 2 131.1 million (PLN 1,076.9 million as at the end of 2018).

32. Provisions

	2019	2018
Provision for off-balance sheet liabilities	107.1	78.5
Provision for retirement benefits	52.1	38.8
Provision for disputes	18.1	32.2
Other provisions	24.6	-
Total	**201.9**	**149.5**

2019

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for issues in dispute	Other provisions	TOTAL
	Stage 1	Stage 2	Stage 3	Total`				
Opening balance	26.6	17.8	34.1	**78.5**	38.8	32.2	0.0	**149.5**
provisions recognised/ reversed	-4.3	-0.3	33.9	**29.3**	3.4	0.8	17.0	**50.5**
provisions utilised	-	-	-	**0.0**	-1.6	-0.3	-2.0	**-3.9**
actuarial gains/losses	-	-	-	**0.0**	11.5	-	-	**11.3**
transition from individual provision to portfolio provision for mortgage loans in CHF	-	-	-	**0.0**	-	-14.6	9.6	**-5.0**
other	-	-	-0.7	**-0.7**	-	-	-	**-0.7**
Closing balance	**22.3**	**17.5**	**67.3**	**107.1**	**52.1**	**18.1**	**24.6**	**201.9**
Expected provision settlement period:								
up to 1 year					3.4		14.9	**18.3**
over to 1 year				107.1	48.7		9.7	**165.5**

2018

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for issues in dispute	TOTAL
	Stage 1	Stage 2	Stage 3	Total`			
Opening balance	20.5	-	25.4	**45.9**	37.0	7.0	**89.9**
The impact of changes to the accounting principles in connection with the IFRS 9	5.8	12.1	-0.2	**17.7**	-	-	**17.7**
Opening balance adjusted for changes to the accounting principles	**26.3**	**12.1**	**25.2**	**63.6**	**37.0**	**7.0**	**107.6**
provisions recognised/ reversed	0.2	5.8	8.8	**14.8**	3.3	11.4	**27.0**
provisions utilised	-	-	-	**0.0**	-2.5	-0.1	**-0.1**
actuarial gains/losses	-	-	-	**0.0**	1.0	-	**1.0**
settlement of the return of the penalty from UOKiK	-	-	-	**0.0**	-	14.1	**14.1**
other	0.1	-0.1	0.1	**0.1**	-	-0.2	**-0.1**
Closing balance	**26.6**	**17.8**	**34.1**	**78.5**	**38.8**	**32.2**	**149.5**
Expected provision settlement period:							
up to 1 year				0.0	3.8	11.8	**15.6**
over to 1 year				78.5	35.0	20.4	**133.9**

Provision for issues in dispute

The value of the proceedings conducted in 2019 concerning liabilities and debt claims did not exceed 10% of the Bank's equity. The Bank is of the opinion that none of the proceedings conducted in 2019 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Bank's financial liquidity, individually or in total.

Other provision

This item includes provisions for repaid mortgage loans indexed by the Swiss franc and provisions for the refund of commission on consumer loans pre-paid by customers.

Legal risk related to the portfolio of loans indexed to CHF

The court cases, including those relating to the CHF-indexed mortgage portfolio, are subject to regular assessment pursuant to the Bank's internal procedures.

As at 31 December 2019, the Bank had PLN 915.9 million gross worth of retail mortgage loans indexed in CHF (in total loans indexed to various currencies amounted to PLN 986.7 million). The Bank does not have any loans denominated in foreign currencies.

As at 31 December 2019, the Bank had 156 pending court cases relating to agreements on PLN-loans indexed to the Swiss franc. The total balance sheet value of the exposures covered by the said proceedings was PLN 50.2 million.

As described in Note 3.8. Write-downs and portfolio provisions related to the portfolio of mortgage loans indexed to the Swiss franc exchange rate in the Significant accounting principles chapter, in 2019 The Bank analyzed the current recognition and presentation of provisions for legal risk related to the portfolio of mortgage loans indexed to the CHF rate . As a result of the analysis, the Bank clarified the accounting policy, reflecting in it the portfolio nature of this risk and its allocation to the portfolio of receivables still disclosed in the statement of financial position and receivables already removed from the Bank's books (e.g. as a result of repayment). As at 31 December 2019, the total amounts of write-downs and provisions resulting from legal risk for the portfolio of mortgage loans indexed to CHF amounted to PLN 35.0 million, respectively, for loans still disclosed in the statement of financial position and PLN 9.6 million for loans already removed from the statement from financial situation.

The Bank has not received any class action lawsuit; also, no clause used by the Bank in its agreements has been entered to the Register of Prohibited Clauses.

In relation to a lawsuit against a Polish bank brought before the Regional Court in Warsaw, in April 2018 the said court asked the Court of Justice of the European Union (hereinafter CJEU) for a preliminary ruling on the unfair terms in consumer contracts and effects of the abusiveness, if any, of the terms of an agreement on a mortgage loan indexed to the Swiss franc.

The opinion of the Advocate General of the CJEU was published on 14 May 2019. Under the opinion, if the exchange difference clause is found unlawful, the agreement on a loan indexed to CHF may be turned into a loan in the domestic currency based on the LIBOR for CHF or it may be annulled; however, it is for the national court to assess the facts of each specific case and to settle the dispute based on the effective provisions of the national law.

On 3 October 2019, the CJEU gave a judgement that did not refer to an assessment of clauses of loan contracts indexed to CHF in terms of their unfairness, but rather focused on the possible consequences if a given term is found unfair by a national court. The judgement gives some guidance to the national courts. The CJEU again confirmed that contracts should not be assessed automatically. It is also for the national court to assess whether or not, upon determining that a given term is unfair, the contract may continue to be binding in the absence of such a term. Only after the court finds that the contract may not continue in force without a condition that had been found unfair, the client either consents to keeping the terms that were found unfair or explicitely rejects them. The assessment of potential consequences for the consumer if a given loan contract is found invalid is also up to the national court. CJEU also expressed its concerns regarding the possibility of transforming the loan into a PLN loan bearing interest based on LIBOR. According to CJEU the option of transforming FX loans into PLN loans and keeping the LIBOR rate might be a too far reaching intrusion into the main subject matter of the contract.

In July 2019 the Polish Bank Association (hereinafter PBA) requested the President of the Supreme Court that the Supreme Court analyse the concept of turning the agreement on a loan indexed to CHF into a PLN-loan based on LIBOR, which is expressed in the opinion of the CJEU Advocate General and which is flawed from both the legal- and economic perspective. In August this year The Supreme Court issued a publication in which the above solution was, however, accepted.

In light of the above, the Bank is of the opinion that the verdicts of national courts in such cases may still vary. That is because the opinion of the Advocate General does not resolve all issues relating to the loans indexed to CHF; it only gives Polish courts general guidelines concerning selected issues relating to the settlement of such cases and ultimately it will be the national courts that will be required to assess the facts of each specific case and settle the dispute based on domestic law.

Provision for commission refunds on prepaid consumer loans

On 11 September 2019, the European Court of Justice (CJEU) announced its 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 Act on consumer credit in force in Poland (UKK) contains in art. A similar provision, which up to 2016 had no interpretation doubts, and banks, as a rule, charging a commission for granting a loan, did not return to the client in the event of early repayment (except for withdrawal from the contract). Discussion on the interpretation of art. 49 UKK started UOKiK by issuing a joint position with the Financial Ombudsman in 2016, according to which in the event of early repayment of a consumer loan all possible costs of such a loan should be reduced, irrespective of their nature and regardless of when these costs were actually borne by the borrower this reduction is to be proportional, i.e. refer to the period from the date of actual repayment of the loan to the date of final repayment specified in the contract. The judgment of the CJEU resolves this issue in such a way that in the event of early repayment of consumer credit, the Bank should:

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

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

In connection with the judgment of the CJEU and the statement of the Office of Competition and Consumer Protection, the Bank currently automatically returns proportionally the commission in the event of early repayment of consumer credit (for repayments made after 11 September 2019). For early repayments made before 11 September 2019, the Bank makes returns if the customer submits a complaint and its verification shows that the return is justified.

On 9 October 2019, the Bank was notified of the initiation of the investigation by the Office of Competition and Consumer Protection and a call for information regarding banking products on offer from 16 May 2016, to which the provisions of the Consumer Credit Act apply, including art. 49 of this Act (reference number: RWR.403.5.2019.ARS). The explanatory proceedings concern the bank's settlement of commission returns in cases of early repayment of consumer loans. The bank provided the requested information to UOKIK by letter of 29.10.2019 (CAKiU / 023/19 / AB). On 24 December 2019, the Bank received another letter from UOKIK in the same proceedings with a request for additional information. The Bank replied by letter of 03.01.2020 (TKiU / 001/2020 / AB).

The amount of the provision for returns made on the complaint path in 2019 was PLN 17.1 million. In addition, the gross value of receivables from consumer loans measured at amortized cost decreased by PLN 20.2 million as a result of the recognition of expected future payments in the calculation of the effective interest rate.

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

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

- *Proceedings concerning 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)*

On 1 April 2019 The President of OCCP instituted proceedings regarding the recognition of a standard contract as prohibited in the scope of 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 proceedings refers to the provisions in various general terms of contracts, regulations and contracts concluded with consumers: for cash loans, account debt limit, granting and repayment of loans in a brokerage account, using a credit card - in the version effective from 7 March 2016; for savings and billing accounts and savings accounts - in the version in force from 9 November 2015; for keeping payment accounts - in the version in force from 6 August 2018; for pre-paid cards - in the version effective from 1 January 2016.

According to the President of OCCP, the analysed modified clauses may constitute prohibited contratual provisions due to:

– the possibility of unilaterally changing the general terms and conditions of the agreement as to its essential provisions, as regards contracts enabling the generation of indebtedness on the part of consumers, concluded for a specific period of time,

- general, unspecified nature of the conditions for a unilateral change of the contract, which does not give consumers the possibility to verify them correctly, and in some cases there are no time limits as to the scope of changes,
- no provisions regarding the possibility of continuing a contract concluded for a specific period of time relating to the crediting of consumer needs on the current basis in the event of non-acceptance of unilateral proposals for changes directed by the bank.

The Bank responded to the objections and submitted an application for a commitment decision, which may include also a change to the modification clauses. By letter of 1 August 2019, OCCP extended the proceedings.

- *Proceedings regarding the application of practices violating collective consumer interests*
  - Before the President of the OCCP there are the proceedings pending which were initiated ex officio by the Office President on 9 July 2014 regarding the application of the practices infringing collective consumer interests by the Bank. The practices consist in: making cards replacement during the payment card contract from cards which are not equipped with the contactless function to the contactless cards without changing the content of the contract, derive the legal consequences from Announcement to General terms and conditions of providing by ING Bank Śląski S.A. services as part of maintaining personal accounts and savings accounts for individuals, not provided consumers with information about the opportunities and principles for using payment cards to contactless transactions, spending limits for payment transactions executed by these cards, on paper or on another durable medium, in time before conclusion of the contract All proposals of the bank's liabilities towards OCCP in the framework of the above-mentioned proceedings have been implemented. On 18 December 2018, OCCP decided to extend the proceedings.

- *Proceedings regarding the allegation of practices limiting competition on the market of acquiring services for the payments made with payment cards in Poland*

Following the antimonopoly proceedings conducted against ING Bank Śląski S.A. and other banks upon the request of the Polish Trade and Distribution Organization – Employers' Confederation, on 29 December 2006, the President of the Office of Competition and Consumer Protection issued a decision stating that the Bank applied the practices limiting competition. The Office of Competition and Consumer Protection deemed as competition limiting the practice whereby various Polish banks, the Bank included, participated in the arrangement limiting competition on the market of acquiring services for clearance of consumer liabilities towards merchants under the payment of goods and services acquired by consumers using payment cards in Poland by setting together the interchange fees charged on the transactions made using the Visa and MasterCard system cards in Poland. In consequence of recognition of the practices limiting competition, the Office of Competition and Consumer Protection imposed fines on banks, the Bank included – of PLN 14.1 million.

The decision was appealed against inter alia by the Bank with the Court of Competition and Consumer Protection. With its judgement of 12 November 2008, the Court of Competition and Consumer Protection changed the decision of the Office of Competition and Consumer Protection in that it did not recognise the practice limiting competition. On 22 April 2010, the judgement was repealed with the judgement of the Court of Appeal which referred the case for re-review.

With its judgment of 21 November 2013, the Court did not change the decision of the Office of Competition and Consumer Protection on the allegation of limiting competition, but reduced the Bank's fine to PLN 403,209. Nonetheless, the judgement of the Court of Competition and Consumer Protection was changed with the judgment of the Court of Appeal of 6 October 2015 which ruled to change the judgment of the Court of Competition and Consumer Protection in that all appeals were dismissed in their entirety. Following the ruling, the President's decision became final and binding and in October 2015 the Bank paid the fine of PLN 14.1 million as ruled.

The Bank and other banks participating in the proceedings alike lodged a complaint for annulment of the judgment of the Court of Appeal. On 25 October 2017, the Supreme Court repealed the judgment of the Court of Appeal and referred the case thereto for re-review. In line with the position of the Office of Competition and Consumer Protection, the fine paid was refunded to the Bank. Currently, proceedings are pending before the Court of Appeal, which on October 24, 2018 adjourned the hearing without setting a date for the next hearing, and imposing specific obligations on the parties' representatives regarding the submission of declarations or documents.

Due to the lack of final decisions, the amount of the penalty returned was not included in the profit and loss account. As at December 31, 2019, the Bank maintains a provision of PLN 14.1 million

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 2019 stood at 2.0 % (3.2% at the end of 2018). The actuarial valuation-based provision is recognised and reviewed per annum.

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

	2019	2018
Opening balance	38.8	37.0
Costs included in the income statement, including:	3.4	3.3
regular employment costs	2.3	2.2
costs of interest	1.1	1.1
Actuarial gains / losses	11.5	1.0
Paid benefits	-1.6	-2.5
Closing balance	**52.1**	**38.8**

33. Other liabilities

	2019	2018
Accruals, including:	**391.1**	**375.8**
due to employee benefits	257.2	239.5
variable remuneration programme	57.6	60.1
due to commissions	129.2	129.3
other	4.7	7.0
Other liabilities, including:	**1 580.1**	**1 045.3**
interbank settlements	569.4	522.8
settlements with suppliers	270.9	222.2
public and legal settlements	87.7	87.7
other, including:	652.1	212.6
leasing liabilities*	385.8	n/a
Total	**1 971.2**	**1 421.1**
Including financial liabilities	1 580.1	1 045.3

* Starting from 1 January 2019, the Bank has implemented the new IFRS 16 Leasing standard. The Bank applied a modified retrospective approach to its leasing contracts and did not restate comparative data.

34. Equity

34.1. Share capital

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

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

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

34.2. Accumulated other comprehensive income

	2019	2018
Revaluation of financial assets measured at fair value through OCI - debt securities	268.9	275.3
- including deferred tax	*-63.1*	-64.6
Revaluation of financial assets measured at fair value through OCI - equity instruments	69.9	47.7
- including deferred tax	*-16.4*	-11.2
Revaluation of financial assets measured at fair value through OCI - loans	-108.5	n/a
- including deferred tax	*18.6*	n/a
Property, plant and equipment	7.1	7.4
- including deferred tax	*-1.6*	-1.7
Cash flow hedging instruments	1 534.6	842.3
- including deferred and current tax*	*-360.0*	-197.6
Actuarial gains / losses	-13.2	-3.0
- including deferred tax	*2.8*	0.7
Total	**1 758.8**	**1 169.7**

*) The Bank uses the service “settled to market”, or “STM”, provided for by the Regulation of the KDPW CCP and London Clearing House Clearnet (LCH) in respect of the approach to the settlement of IRS and FRA instruments. Even though the effective portion of the hedging relationship resulting from the measurement of derivative hedging instruments is recognised in other comprehensive income, due to the STM mechanism it is settled in cash and the amount paid to/ received from LCH and KDPW CCP represents tax income/ expense for the purpose of the corporate income tax (CIT). That is why the current tax is recognised in other comprehensive income. Details on the STM services are presented in explanatory note no. 16. Valuation of derivatives.

2019

	Revaluation of FVOCI debt securities	Revaluation of FVOCI - equity instruments	Revaluation of FVOCI - loans	Property, plant and equipment	Cash flow hedging instruments	Actuarial gains / losses	TOTAL
Opening balance	**275.3**	**47.7**	**0.0**	**7.4**	**842.3**	**-3.0**	**1 169.7**
financial assets measured at fair value through OCI – gains / losses from revaluation carried through equity	17.3	22.2	-108.5	-	-	-	**-69.0**
financial assets measured at fair value through OCI – reclassification to the financial result due to the sale	-23.7	0.0	0.0	-	-	-	**-23.7**
cash flow hedging – revaluation gains / losses carried through equity	-	-	-	-	1 083.3	-	**1 083.3**
cash flow hedging - reclassification to the financial result	-	-	-	-	-391.0	-	**-391.0**
fixed assets revaluation	-	-	-	0.3	-	-	**0.3**
disposal of fixed assets	-	-	-	-0.6	-	-	**-0.6**
actuarial gains / losses	-	-	-	-	-	-10.2	**-10.2**
Closing balance	**268.9**	**69.9**	**-108.5**	**7.1**	**1 534.6**	**-13.2**	**1 758.8**

2018

	Revaluation of FVOCI debt securities	Revaluation of FVOCI - equity instruments	Revaluation reserve from measurement of available-for-sale financial assets	Property, plant and equipment	Cash flow hedging instruments	Actuarial gains / losses	TOTAL
Opening balance	**295.0**	**41.4**	**0.0**	**11.4**	**148.6**	**-2.1**	**494.3**
financial assets measured at fair value through OCI – gains / losses from revaluation carried through equity	12.1	6.3	-	-	-	-	**18.4**
financial assets measured at fair value through OCI – reclassification to the financial result due to the sale	-31.8	0.0	-	-	-	-	**-31.8**
cash flow hedging – revaluation gains / losses carried through equity			-	-	1 033.1	-	**1 033.1**
cash flow hedging - reclassification to the financial result			-	-	-339.4	-	**-339.4**
disposal of fixed assets	-	-	-	-4.0	-	-	**-4.0**
actuarial gains / losses	-	-	-	-	-	-0.9	**-0.9**
Closing balance	**275.3**	**47.7**	**0.0**	**7.4**	**842.3**	**-3.0**	**1 169.7**

34.3. Retained earnings

	2019	2018
Other supplementary capital	314.7	314.7
Reserve capital	9 043.3	8 232.9
General risk fund	1 215.2	1 215.2
Valuation of share-based payments	51.9	51.7
Retained earnings	-14.2	-272.8
Result for the current year	1 658.7	1 523.8
Total	**12 269.6**	**11 065.5**

2019

	other supplementary capital	reserve capital	general risk fund	valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	**314.7**	**8 232.9**	**1 215.2**	**51.7**	**1 265.7**	**0.0**	**11 080.2**
adjustment in recognition the repo transactions	-	-	-	-	-14.7	-	**-14.7**
Opening balance adjusted for changes to the accounting principles	**314.7**	**8 232.9**	**1 215.2**	**51.7**	**1 251.0**	**0.0**	**11 065.5**
net result for the current period	-	-	-	-	-	1 658.7	**1 658.7**
profit written off to reserve capital	-	810.4	-	-	-810.4	-	**0.0**
dividend	-	-	-	-	-455.4	-	**-455.4**
disposal of fixed assets	-	-	-	-	0.6	-	**0.6**
valuation of share-based payments	-	-	-	0.2	-	-	**0.2**
Closing balance	**314.7**	**9 043.3**	**1 215.2**	**51.9**	**-14.2**	**1 658.7**	**12 269.6**

In 2019, dividends were paid in the amount of PLN 455.4 million, i.e. PLN 3.50 per share.

2018

	other supplementary capital	reserve capital	general risk fund	valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	**272.9**	**7 243.7**	**1 215.2**	**51.7**	**1 431.7**	**0.0**	**10 215.2**
the impact of changes in accounting principles due to the implementation of the equity method of valuation for subsidiaries	-	-	-	-	-249.0	-	**-249.0**
adjustment in recognition the repo transactions	-	-	-	-	-12.6	-	**-12.6**
Opening balance of equity adjusted for changes to the accounting principles and other adjustments	**272.9**	**7 243.7**	**1 215.2**	**51.7**	**1 170.1**	**0.0**	**9 953.6**
net result for the current period	-	-	-	-	-	1 523.8	**1 523.8**
profit written off to supplementary capital	41.8	-	-	-	-41.8	-	**0.0**
profit written off to reserve capital	-	989.2	-	-	-989.2	-	**0.0**
dividend	-	-	-	-	-416.2	-	**-416.2**
disposal of fixed assets	-	-	-	-	4.0	-	**4.0**
Valuation of share-based payments	-	-	-	-	0.3	-	**0.3**
Closing balance	**314.7**	**8 232.9**	**1 215.2**	**51.7**	**-272.8**	**1 523.8**	**11 065.5**

In 2019, dividends were paid in the amount of PLN 416.3 million, i.e. PLN 3.20 per share.

Supplementary capital

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

Reserve capital

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

General Risk Fund

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

Dividend payout

Details of the Bank's dividend policy and divided payout constraints are included in the risk management part of this report, in chapter I. *Risk and Capital Management, in item 9. Dividend Policy.*

35. FX structure of assets and liabilities

Herein below, the statement of financial position of the Bank and off-balance sheet liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31.12.2019	31.12.2018
EUR	4.2585	4.3000
USD	3.7977	3.7597
CHF	3.9213	3.8166

2019

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*after translation into PLN*		
Assets									
Cash in hand and balances with the Central Bank	1 071.60	252.7	*59.3*	39.6	*10.4*	5.4	*1.4*	33.6	**1 402.9**
Loans and other receivables to other banks	2 884.80	283.6	*66.6*	90.4	*23.8*	0.4	*0.1*	26.1	**3 285.3**
Financial assets held for trading	1 074.8	89.9	*21.1*	44.2	*11.6*	3.8	*1.0*	11.5	**1 224.2**
Derivative hedge instruments	680.5	171.1	*40.2*	0.0	*0.0*	0.0	*0.0*	0.0	**851.6**
Investments	28 418.8	5 140.8	*1 207.2*	0.0	*0.0*	0.0	*0.0*	0.0	**33 559.6**
Loans and other receivables to customers	96 564.90	11 129.70	*2 613.5*	608.4	*160.2*	880.3	*224.5*	1 353.20	**110 536.5**
Investments in subsidiaries	1 112.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**1 112.2**
Property, plant and equipment	932.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**932.8**
Intangible assets	408.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**408.4**
Assets held for sale	3.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**3.6**
Deferred tax assets	270.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**270.8**
Other assets	320.6	8.1	*1.9*	0.3	*0.1*	0.0	*0.0*	0.4	**329.4**
Total assets	**133 743.8**	**17 075.9**	***4 009.8***	**782.9**	***206.1***	**889.9**	***227.0***	**1 424.8**	**153 917.3**

2019

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Liabilities									
Liabilities to other banks	2 092.4	519.0	*121.9*	2.2	*0.6*	0.1	*0.0*	8.8	**2 622.5**
Financial liabilities at fair value through profit or loss	684.6	184.5	*43.3*	39.7	*10.5*	0.0	*0.0*	6.3	**915.1**
Derivative hedge instruments	324.9	221.1	*51.9*	0.0	*0.0*	0.0	*0.0*	0.0	**546.0**
Liabilities to customers	113 390.7	13 124.5	*3 081.9*	2 705.1	*712.3*	36.4	*9.3*	780.1	**130 036.8**
Liabilities under issue of debt securities	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
Subordinated liabilities	0.0	2 131.1	*500.4*	0.0	*0.0*	0.0	*0.0*	0.0	**2 131.1**
Provisions	191.0	4.3	*1.0*	6.6	*1.7*	0.0	*0.0*	0.0	**201.9**
Current income tax liabilities	377.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**377.9**
Other liabilities	1 783.9	183.2	*43.0*	2.5	*0.7*	1.5	*0.4*	0.1	**1 971.2**
Total liabilities	**118 845.4**	**16 367.7**	***3 843.4***	**2 756.1**	***725.8***	**38.0**	***9.7***	**795.3**	**138 802.5**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Supplementary capital - issuance of shares over nominal value	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Accumulated other comprehensive income	1 658.3	100.5	*23.6*	0.0	*0.0*	0.0	*0.0*	0.0	**1 758.8**
Retained earnings	12 269.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**12 269.6**
Total equity	**15 014.3**	**100.5**	***23.6***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**15 114.8**
Total equity and liabilities	**133 859.7**	**16 468.2**	***3 867.0***	**2 756.1**	***725.8***	**38.0**	***9.7***	**795.3**	**153 917.3**

Contingent liabilities granted	32 119.00	4 110.90	*965.3*	1 338.20	*352.4*	1.2	*0.3*	13.8	**37 583.1**
Contingent liabilities received	73 162.30	22 875.40	*5 371.7*	466.7	*122.9*	38.6	*9.8*	78.1	**96 621.1**

2018

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*after translation into PLN*		
Assets									
Cash in hand and balances with the Central Bank	878.3	264.9	*61.6*	47.8	*12.7*	6.8	*1.8*	39.6	**1 237.4**
Loans and other receivables to other banks	349.0	361.7	*84.1*	21.3	*5.7*	2.3	*0.6*	42.2	**776.5**
Financial assets held for trading	1 751.3	105.9	*24.6*	69.7	*18.5*	3.4	*0.9*	4.6	**1 934.9**
Derivative hedge instruments	751.0	158.6	*36.9*	0.0	*0.0*	0.0	*0.0*	0.0	**909.6**
Investments	27 012.3	4 925.0	*1 145.3*	0.0	*0.0*	0.0	*0.0*	0.0	**31 937.3**
Loans and other receivables to customers	86 155.0	10 609.5	*2 467.3*	774.8	*206.1*	974.2	*255.3*	612.3	**99 125.8**
Investments in subsidiaries	634.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**634.6**
Property, plant and equipment	550.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**550.4**
Intangible assets	425.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**425.0**
Assets held for sale	10.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**10.9**
Deferred tax assets	209.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**209.0**
Other assets	164.9	17.5	*4.1*	0.8	*0.2*	0.0	*0.0*	0.2	**183.4**
Total assets	**118 891.7**	**16 443.1**	***3 823.9***	**914.4**	***243.2***	**986.7**	***258.6***	**698.9**	**137 934.8**

ING Bank Śląski S.A.
Annual financial statements for the period from 1 January 2019 to 31 December 2019 (PLN million)

2018

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Liabilities									
Liabilities to other banks	1 207.7	587.7	*136.7*	2.8	*0.7*	0.0	*0.0*	9.5	**1 807.7**
Financial liabilities at fair value through profit or loss	1 420.2	205.3	*47.7*	34.8	*9.3*	0.6	*0.2*	26.7	**1 687.6**
Derivative hedge instruments	294.1	317.7	*73.9*	0.0	*0.0*	0.0	*0.0*	0.0	**611.8**
Liabilities to customers	101 632.2	12 094.9	*2 812.8*	2 747.0	*730.6*	13.8	*3.6*	805.9	**117 293.8**
Liabilities under issue of debt securities	300.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**300.3**
Subordinated liabilities	0.0	1 076.9	*250.4*	0.0	*0.0*	0.0	*0.0*	0.0	**1 076.9**
Provisions	140.7	7.3	*1.7*	1.5	*0.4*	0.0	*0.0*	0.0	**149.5**
Current income tax liabilities	264.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**264.5**
Other liabilities	1 378.2	40.2	*9.3*	1.1	*0.3*	1.5	*0.4*	0.1	**1 421.1**
Total liabilities	**106 637.9**	**14 330.0**	***3 332.5***	**2 787.2**	***741.3***	**15.9**	***4.2***	**842.2**	**124 613.2**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Supplementary capital - issuance of shares over nominal value	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Accumulated other comprehensive income	1 115.0	54.7	*12.7*	0.0	*0.0*	0.0	*0.0*	0.0	**1 169.7**
Retained earnings	11 065.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**11 065.5**
Total equity	**13 266.9**	**54.7**	***12.7***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**13 321.6**
Total equity and liabilities	**119 904.8**	**14 384.7**	***3 345.2***	**2 787.2**	***741.3***	**15.9**	***4.2***	**842.2**	**137 934.8**

Contingent liabilities granted	26 668.6	4 056.4	*943.3*	1 218.6	*324.1*	0.0	*0.0*	15.2	**31 958.8**
Contingent liabilities received	73 763.9	17 569.9	*4 086.0*	963.8	*256.4*	39.8	*10.4*	146.9	**92 484.3**

36. Contingent liabilities

36.1. Contingent liabilities granted

	2019	2018
Undrawn credit facilities	29 314.1	24 097.0
Guarantees	5 257.0	4 943.8
Undrawn overdrafts in current account	1 425.6	1 371.2
Credit card limits	1 390.4	1 251.7
Letters of credit	196.0	295.1
Total	**37 583.1**	**31 958.8**

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

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

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

Financial guarantee contracts by maturity

	2019	2018
up to 1 month	141.0	113.8
over 1 month and up to 3 months	461.9	560.1
over 3 months and up to 1 year	1 795.9	2 067.5
over 1 year and up to 5 years	2 060.7	1 491.1
over 5 years	797.5	711.3
Total	**5 257.0**	**4 943.8**

36.2. Contingent liabilities received

	2019	2018
Guarantees received	96 546.8	92 315.1
Financing	74.3	169.2
Total	**96 621.1**	**92 484.3**

37. Fair value

Fair value, which is best reflected by a market price, if available is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

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

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

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

2019

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**21 768.4**	**1 405.9**	**8 123.0**	**31 297.3**
Valuation of derivatives	-	554.3	-	554.3
Financial assets held for trading, including:	669.9	-	-	669.9
debt securities, including:	498.4	-	-	498.4
treasury bonds	480.6	-	-	480.6
European Investment Bank bonds	17.8	-	-	17.8
repo transactions	171.5	-	-	171.5
Derivative hedge instruments	-	851.6	-	851.6
Financial assets measured at fair value through other comprehensive income, including:	21 098.5	-	7 962.7	29 061.2
debt securities, including:	21 098.5	-	-	21 098.5
treasury bonds	18 647.5	-	-	18 647.5
treasury bonds in EUR	982.6	-	-	982.6
European Investment Bank bonds	1 021.5	-	-	1 021.5
Austrian Government bonds	446.9	-	-	446.9
equity instruments	-	-	110.7	110.7
Loans and other liabilities measured at fair value through other comprehensive income	-	-	7 852.0	7 852.0
Loans and other liabilities measured at fair value through profit or loss	-	-	160.3	160.3
Financial liabilities, including:	**247.9**	**1 213.2**	**-**	**1 461.1**
Valuation of derivatives	-	667.2	-	667.2
Other financial liabilities measured at fair value through profit or loss, including:	247.9	-	-	247.9
book short position in trading securities	167.2	-	-	167.2
financial liabilities held for trading	80.7	-	-	80.7
Derivative hedge instruments	-	546.0	-	546.0

2018

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**21 419.90**	**1 418.6**	**301.7**	**23 140.2**
Valuation of derivatives	-	509.0	-	509.0
Financial assets held for trading, including:	1 425.9	0	0	1 425.9
debt securities, including:	790.5	0	0	790.50
treasury bonds	771.6	0	0	771.6
European Investment Bank bonds	18.9	0	0	18.9
repo transactions	635.4	0	0	635.4
Derivative hedge instruments	-	909.6	-	909.6
Financial assets measured at fair value through other comprehensive income, including:	19 994.0	-	83.3	20 077.3
debt securities, including:	19 994.0	-	-	19 994.0
treasury bonds	17 670.4	-	-	17 670.4
treasury bonds in EUR	903.0	-	-	903.0
European Investment Bank bonds	985.6	-	-	985.6
Austrian Government bonds	435.0	-	-	435.0
equity instruments	-	-	83.3	83.3
Loans and other liabilities measured at fair value through other comprehensive income	-	-	-	-
Loans and other liabilities measured at fair value through profit or loss	-	-	218.4	218.4
Financial liabilities, including:	**1 109.5**	**1 189.9**	**-**	**2 299.4**
Valuation of derivatives	-	578.1	-	578.1
Other financial liabilities measured at fair value through profit or loss, including:	1 109.5	-	-	1 109.5
book short position in trading securities	1 024.9	-	-	1 024.9
financial liabilities held for trading	84.6	-	-	84.6
Derivative hedge instruments	-	611.8	-	611.8

Movements between valuation levels

In 2019, there were no movements between valuation levels.

Valuation of financial instruments classified to level 2

The Bank classifies derivatives, cash bills of the National Bank of Poland and repo transactions to level 2 of valuation.

Derivatives

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

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

The following are the input data for the models:

- the foreign exchange rate – obtained by the parties from the National Bank of Poland's website,
- implied volatilities – obtained from Bloomberg, and
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cashflows at the transaction level. The fair value determined in that manner is the PV of those cash flows. All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points

among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers. Market data quality is controlled during the daily contribution process for revaluation rates.

Derivative instruments are valued according to the OIS curve concept on the assumption that the transaction valuation is hedged with a deposit at the EONIA rate. PLN transactions settled in central clearing houses (London Clearing House, Central Securities Depository of Poland) are exception, where NPV settlement is in the original currency which is reflected in the applied valuation curves (initial zero curve based on WIBOR and IRS quotations).

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Measurement adjustment

The Bank adopted prudent valuation for financial assets and liabilities measured at fair value and based the said measurement on the guidelines provided for in the Technical Standards of the European Banking Authority (i.e.: EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

In 2019, the prudent valuation adjustments ceased to be incuded in the accounting books. In accordance with art. 34 and 105 of CRR, the Market Risk Management Department calculates prudent valuation adjustments as a Tier I deduction. As at the end of 2019 the deduction amounted to PLN 48.3 million.

Valuation of financial instruments classified to the level 3

Financial assets classified to level 3 of the valuation as at 1 January 2019 and as at 31 December 2018 include unlisted equity instruments and loans that did not meet the SPPI criterion in accordance with IFRS 9.

Fair value measurement of unlisted shares in other companies is based on the dividend discount model. The estimates concerning future dividend payments were prepared on the basis of mid-term profitability forecasts prepared by the management boards of those companies. The discount rate is based on the cost of equity which is estimated according to the CAPM, or the Capital Asset Pricing Model. At the end of 2019, it amounted to 9.2%, while at the end of 2018 - 10.8%. The fair value measurement of unlisted equity in other companies as at 31 December 2019 included the following entities: Biuro Informacji Kredytowej S.A., Krajowa Izba Rozliczeniowa S.A. and Polski Standard Płatności sp. z o.o., while as at 31 December 2018, this valuation included Biuro Informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A.

The sensitivity analysis of the equity instruments valuation shows that 1) upon adoption of a target dividend payout rate that is +10p.p. / -10p.p. versus the baseline scenario, the valuation would, respectively, increase/ decrease by 12%; 2) upon adoption of the cost of equity that is -0.5% / +0.5% versus the baseline scenario, the valuation would, respectively, increase by 8%/ decrease by 7%; 3) upon combining the effects of 1) and 2), the valuation would, respectively, increase by 21%/ decrease by 18%.

Methodology of the fair value measurement of the lending portfolio is based on the discounted cash flow method. In this method, the expected cash flows and individual payment dates discount factors are estimated for each measured contract; the value of the discounted cash flows as at the measurement date is also determined. Pricing models are fed with business parameters for individual contracts and parameters observable by the market such as interest rate curves, liquidity cost and

capital cost. The change of the parameters used in the measurement did not have a material impact on the measurement as at 31 December 2019.

Discount rates for mortgage loans at fair value through other comprehensive income at the end of 2019 averaged 3.7%, while the analysis of fair value sensitivity as at December 31, 2019 indicates that when the discount rate changed by + 0.5 / -0 , 5 pp in the absence of a change in expected cash flows, the fair value changes by approximately -3.6% / + 3.7%, respectively. At the end of 2018, the Bank did not have loans measured at fair value through other comprehensive income.

At the end of 2018 and 2019, discount rates for loans measured at fair value through profit and loss accounted for around 2%, while the analysis of fair value sensitivity as at December 31, 2019 and December 31, 2018 shows that when the discount rate changes by + 1 / -1 pp in the absence of a change in expected cash flows, the fair value changes by approximately +/- 3%.

In 2019, the revaluation of the equity instruments classified to measurement stage 3 recognised in the comprehensive income totalled PLN 27.4 million. The measurement impact for the loans classified to measurement stage 3 totalled PLN 0.1 million and was recognised 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

	2019			2018	
	Equity instuments measured at fair value through OCI	Loans and other receivables measured at fair value through OCI	Loans and other receivables measured at fair value through profit and loss	Equity instuments measured at fair value through OCI	Loans and other receivables measured at fair value through profit and loss
Opening balance	**83.3**	**0.0**	**218.4**	**67.4**	**278.7**
reclassification of the portfolio held for sale	0.0	7 904.6	0.0	0.0	0.0
Stan na początek okresu po uwzględnieniu reklasyfikacji	**83.3**	**7 904.6**	**218.4**	**67.4**	**278.7**
Increases, including:	**27.4**	**3 366.0**	**0.0**	**16.1**	**0.0**
loans granted	0.0	3 366.0	0.0	0.0	0.0
valuation recognized in accumulated other comprehensive income	27.4	0.0	0.0	16.1	0.0
Disposals, including:	**0.0**	**-3 418.7**	**-58.1**	**-0.2**	**-60.3**
repayment of loans	0.0	-55.7	-58.0	0.0	-60.2
valuation recognized in accumulated other comprehensive income	0.0	-127.1	0.0	0.0	0.0
valuation recognized in the income statement *	0.0	0.0	-0.1	0.0	-0.1
sale to ING Bank Hipoteczny	0.0	-3 235.8	0.0	0.0	0.0
sale of SWIFT shares	0.0	0.0	0.0	-0.2	0.0
Closing balance	**110.7**	**7 852.0**	**160.3**	**83.3**	**218.4**

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

37.2. Non-financial assets at fair value in statement of financial position

2019

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	260.2	**260.2**
Property, plant and equipment held for sale	-	-	3.6	**3.6**

2018

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	260.1	**260.1**
Property, plant and equipment held for sale	-	-	10.9	**10.9**

Changes in non-financial assets classified to level 3 of the measurement is presented in this statement, note no. 22. *Plant, property and equipment* and 24. *Assets held for sale.*

Fair value measurement

Own real estate properties

The Bank measures its property at fair value. Valuation is carried out by an independent appraiser using the income method in accordance with the applicable rules of property valuation.

In 2019, the following real estate properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice (Sokolska) – as at 31 December 2019, the building's value was PLN 106.1 million; the change in the value of this real property for the year 2019 increased the financial result by PLN 5.1 million (PLN 4.2 million including the deferred tax),
- ING Bank Śląski S.A. Head Office in Katowice (Chorzowska 50) – as at 31 December 2019, the building's value was PLN 127.1 million; the change in the value of this real property for the year 2019 decreased the financial result by PLN 1.6 million (PLN 1.3 million including the deferred tax), and
- 12 other real estate properties located across Poland; change in the value of the real properties for the year 2019 increased the revaluation reserve by PLN 0.3 million (PLN 0.3 million including the deferred tax) and increased the financial result for 2019 by PLN 0.03 million (PLN 0.03 million including the deferred tax).

The sensitivity analysis of the own real estate valuation shows that upon adoption of a capitalisation rate that is -0.5% / +0.5% versus the baseline scenario, the valuation would, respectively, increase by 9% (PLN 16.3 million) / decrease by 8% (PLN -14.3 million).

In 2018, the following real estate properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice (Sokolska) – as at 31 December 2018, the building's value was PLN 100.8 million; the change in the value of this real property for the year 2018 decreased the financial result by PLN 2.6 million (PLN 2.1 million including the deferred tax),
- ING Bank Śląski S.A. Head Office in Katowice (Chorzowska 50) – as at 31 December 2018, the building's value was PLN 123.3 million; the change in the value of this real property for the year 2018 increased the financial result by PLN 3.2 million (PLN 2.6 million including the deferred tax), and
- 18 other real estate properties located across Poland; change in the value of the real properties for the year 2018 decreased the revaluation reserve by PLN 0.05 million (PLN 0.04 million including the deferred tax) and reduced the financial result for 2018 by PLN 0.05 million (PLN 0.04 million including the deferred tax).

The results of real properties appraisals were presented in the income statement in the item *Operating costs* (in note no. 8 in detailed item *Maintenance and rental of buildings*).

As at 31 December 2019, PLN 7.1 million, which amount (including deferred tax) refers to the real estate properties assessed at fair value, was recognised in the accumulated other comprehensive income / revaluation reserve. As at 31 December 2018, the same item amounted to PLN 7.4 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 317.8 million as at 31 December 2019 compared to PLN 320.1 million as at 31 December 2018.

37.3. Financial assets and liabilities not carried at fair value in statement of financial position

The following tables present comparison of the carrying amount with the fair value of the loan portfolio, deposit portfolio and subordinated liabilities. For other financial assets and liabilities as well as off-balance sheet guarantees and liabilities not measured at fair value in the statement of financial position, the fair value is close to the carrying amount.

2019

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Investment securities measured at amortized cost	**12 350.4**	**12 127.1**	-	-	**12 127.1**
treasury bonds	5 962.8	5 806.4	-	-	5 806.4
treasury bonds in EUR	3 272.7	3 223.2	-	-	3 223.2
European Investment Bank bonds	508.5	525.3	-	-	525.3
European Investment Bank bonds	2 606.4	2 572.2	-	-	2 572.2
Loans and other receivables measured at amortised cost	**102 524.2**	**-**	**-**	**102 342.6**	**102 342.6**
Corporate banking, including:	58 734.4	-	-	58 620.0	58 620.0
loans and borrowings (term and in the current account and term)	56 230.4	-	-	56 275.1	56 275.1
debt securities (corporate and municipal)	2 504.0	-	-	2 344.9	2 344.9
Retail banking, including:	41 493.0	-	-	41 425.8	41 425.8
mortgage loans and borrowings	29 536.0	-	-	29 240.4	29 240.4
other loans and borrowings	11 957.0	-	-	12 185.4	12 185.4
Other receivables	2 296.8	-	-	2 296.8	2 296.8
Subordinated liabilities	**2 131.1**	-	-	**2 139.0**	**2 139.0**

2018

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Investment securities measured at amortized cost	**11 860.0**	**11 976.0**	-	-	**11 976.0**
treasury bonds	5 936.7	6 008.0	-	-	6 008.0
treasury bonds in EUR	3 143.7	3 139.2	-	-	3 139.2
European Investment Bank bonds	512.9	556.5	-	-	556.5
European Investment Bank bonds	2 266.7	2 272.3	-	-	2 272.3
Loans and other receivables measured at amortised cost	**98 907.4**	**-**	**-**	**98 957.7**	**98 957.7**
Corporate banking, including:	54 586.8	-	-	54 427.4	54 427.4
loans and borrowings (term and in the current account and term)	51 777.5	-	-	51 680.3	51 680.3
debt securities (corporate and municipal)	2 809.3	-	-	2 747.1	2 747.1
Retail banking, including:	43 370.0	-	-	43 579.7	43 579.7
mortgage loans and borrowings	33 146.8	-	-	32 957.7	32 957.7
other loans and borrowings	10 223.2	-	-	10 622.0	10 622.0
Other receivables	950.6	-	-	950.6	950.6
Subordinated liabilities	**1 076.9**	-	-	**1 118.3**	**1 118.3**

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

For calculation purposes, 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 loans and deposits measured at amortized cost and financial liabilities measured at amortized 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 amortized cost; in the case of financial assets measured at amortized cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

Credit loss estimations reflect the loan loss provisioning model in place at the Bank.

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

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

For mortgage portfolio, the prepayment model is applied. Data on the maturity of PLN and CHF mortgage portfolios are used to determine the estimated prepayments according to the model maturity structure. On the basis thereof, the average interest rate weighted with unmatured principal is calculated separately for PLN and CHF portfolios. A model schedule of principal and interest payments is aggregated on the basis of the model maturity structure and future interest flows measured at average interest rate separately for PLN and CHF.

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.

To estimate the fair value of CHF mortgage loans portfolio, an average margin used when extending EUR mortgage loans adjusted with swap instruments quotations for CHF/EUR currencies was applied on account of active market dissaperance.

As a result, the fair value 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).

For FX loans, measurement of fair value doesn't include impact of potential future regulatory changes in this matter but includes expected losses related to legal 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 amortized cost

In the case of financial assets classified into the portfolio held to maturity used an approach that for the purpose of determining the fair value measurement parameters were adopted, which would be applied if these assets were included in the portfolio of financial assets measured at fair value through other comprehensive income.

38. Offseting financial instruments

The below disclosure concerns offsetting of financial assets and liabilities subject to enforceable master agreements. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Bank.

Margins additionally hedge derivative exposures; the Bank deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

Financial assets

2019

	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 and financial instruments received as collateral	
Derivatives, including:	1 405.9	1 405.9	-598.1	-560.7	247.1
valuation of derivatives	554.3	554.3	-275.3	0.0	279.0
derivative hedge instruments	851.6	851.6	-322.8	0.0	528.8
derivatives collateral	0.0	0.0	0.0	-560.7	-560.7
Securities loans with repurchase agreements received, including:	171.5	171.5	0.0	-169.7	1.8
transactions classified as held for trading financial assets	171.5	171.5	0.0	-169.7	1.8
transactions classified into loans and other receivables to customers	0.0	0.0	0.0	0.0	0.0
Total					**248.9**

2018

	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 and financial instruments received as collateral	
Derivatives, including:	1 419.3	1 419.3	-602.0	-600.7	216.6
valuation of derivatives	509.7	509.7	-233.1	0.0	276.6
derivative hedge instruments	909.6	909.6	-368.9	0.0	540.7
derivatives collateral	0.0	0.0	0.0	-600.7	-600.7
Securities loans with repurchase agreements received, including:	635.4	635.4	0.0	-627.5	7.9
transactions classified as held for trading financial assets	635.4	635.4	0.0	-627.5	7.9
transactions classified into loans and other receivables to customers	0.0	0.0	0.0	0.0	0.0
Total					**224.5**

Financial liabilities

2019

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including:	1 213.2	1 213.2	-598.1	-270.1	345.0
valuation of derivatives	667.2	667.2	-275.3	0.0	391.9
derivative hedge instruments	546.0	546.0	-322.8	0.0	223.2
derivatives collateral	0.0	0.0	0.0	-270.1	-270.1
Securities loans with repurchase agreements received, including:	111.8	111.8	0.0	-110.7	1.1
transactions classified as held for trading financial liabilities	80.7	80.7	0.0	-79.9	0.8
transactions classified as liabilities to banks / customers	31.1	31.1	0.0	-30.8	0.3
Total					**346.1**

2018

	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:	1 189.9	1 189.9	-602.0	-341.6	246.3
valuation of derivatives	578.1	578.1	-233.1	0.0	345.0
derivative hedge instruments	611.8	611.8	-368.9	0.0	242.9
derivatives collateral	0.0	0.0	0.0	-341.6	-341.6
Securities loans with repurchase agreements received, including:	84.6	84.6	0.0	-83.5	1.1
transactions classified as held for trading financial liabilities	84.6	84.6	0.0	-83.5	1.1
transactions classified as liabilities to banks / customers	0.0	0.0	0.0	0.0	0.0
Total					**247.4**

39. Custody activities

As at 31 December 2019, the Bank maintained 764 (781 as at 31 December 2018) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the financial statements of the Bank.

As at the end of 2019, the Bank acted as the custodian bank for 151 mutual funds and subfunds, 1 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (161 funds in total). To compare, as at the end of 2018, the Bank acted as the custodian bank for 149 mutual funds and subfunds, 2 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (160 funds in total).

40. Leasing - Bank as a lessor

40.1. Operating lease

The Bank earns income from renting own real estate. Those agreements are treated as operating lease agreements. They do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the option of prolongation or price change; however they do not warrant the purchase option.

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

	2019	2018
up to 1 year	1.5	1.7
over 1 year and up to 2 years	1.1	1.2
over 2 year and up to 3 years	1.1	1.1
over 3 year and up to 4 years	0.7	1.1
over 4 year and up to 5 years	0.0	0.7
over 5 years	0.0	0.0
Total	**4.4**	**5.8**

41. Additional information on cash flow statement

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts and overnight deposits in other banks.

	2019	2018
Cash in hand (presented in note 13)	733.9	1 117.6
Balances with the Central Bank (presented in note 13)	669.0	119.8
Current accounts in other banks (presented in note 14)	258.3	378.4
Overnights in other banks (presented in note 14)	74.1	0.0
Current receivables in other banks	262.1	340.6
Total	**1 997.4**	**1 956.4**

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

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

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

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including, for example, longterm 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 longterm liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

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

2019

	change of balance														
	in statement of financial position	in cash flow statement	**difference*, including:**	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)
Change in loans and other receivables to other banks	-2 508.8	-2 630.7	**121.9**	2.6	-124.5									
Change in financial assets held for trading	710.7	710.3	**0.4**	-0.4										
Change in derivative hedging instruments	-7.8	684.5	**-692.3**			692.3								
Change in investment securities / investments	-1 622.3	-1 157.1	**-465.2**	-1.7			-92.7	559.6						
Change in loans and other receivables to customers	-11 410.7	-11 463.8	**53.1**	-53.1										
Change in other assets	-146.0	-159.0	**13.0**						0.9	-13.9				
Change in liabilities due to other banks	814.8	816.9	**-2.1**	2.1										
Change in financial liabilities measured at fair value through profit or loss	-772.6	-772.7	**0.1**	-0.1										
Change in liabilities due to customers	12 743.0	12 741.1	**1.9**	-1.9										
Change in other liabilities	550.2	153.4	**396.8**	-5.8							-10.0	-10.6	96.6	-467.0

*) each difference is explained on the next page

The reasons for differences between changes recognised in statement of financial position and in cash flow statement are as follows:

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position *Interest received/ paid*.
2) Change in the receivables being an equivalent of cash (deposits at other banks) was excluded from the position *change in loans and other receivables to other banks*; it was disclosed in the position *net increase/decrease in cash and cash equivalents*.
3) Change in *derivative hedging instruments* includes changes concerning hedging derivatives which are included in the other comprehensive income.
4) Change in *investment securities* does not account for the part of securities valuation that was carried through other comprehensive income.
5) The change in securities presented in investment activity was excluded from the *change in investment securities*.
6) Change in the value of Investments in controlled entities.
7) The amount relates to changes in the carrying amount of property, plant and equipment and intangible assets not related to cash flow or depreciation.
8) The change in other liabilities does not include changes in other comprehensive income regarding the valuation of employee incentive plans and actuarial gains / losses.
9) The amount of change in the balance sheet value of subordinated liabilities not related to cash flow (accrued and unpaid interest, exchange rate differences).
10) The value of the total cash outflow from leasing shown in financing activities.
11) The effect of implementing IFRS 16 under other liabilities (note 22).

2018

	change of balance												
	in statement of financial position	in cash flow statement	**difference*, including:**	1)	2)	3)	4)	5)	6)	7)	8)	9)
Change in loans and other receivables to other banks	1 458.0	387.4	**1 070.6**	-6.5	-1 064.1							
Change in financial assets held for trading	-431.2	-430.5	**-0.7**	0.7								
Change in derivative hedging instruments	-29.8	663.9	**-693.7**			693.7						
Change in investment securities / investments	-2 472.2	-2 271.5	**-200.7**	171.9			-12.2	41.0				
Change in loans and other receivables to customers	-15 591.5	-15 601.4	**9.9**	-9.9								
Change in other assets	-27.7	-30.5	**2.8**						0.3			-3.1
Change in liabilities due to other banks	763.1	761.0	**2.1**	-2.1								
Change in financial liabilities measured at fair value through profit or loss	-215.6	-214.8	**-0.8**	0.8								
Change in liabilities due to customers	13 218.0	13 216.9	**1.1**	-1.1								
Change in other liabilities	-364.5	-348.4	**-16.1**							-0.6	16.7	

*) each difference is explained on the next page

The reasons for differences between changes recognised in statement of financial position and in cash flow statement are as follows:

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position *Interest received/ paid*.
2) Change in the receivables being an equivalent of cash (deposits at other banks) was excluded from the position *change in loans and other receivables to other banks*; it was disclosed in the position *net increase/decrease in cash and cash equivalents*.
3) Change in *derivative hedging instruments* includes changes concerning hedging derivatives which are included in the other comprehensive income.
4) Change in *investment securities* does not account for the part of securities valuation that was carried through other comprehensive income.
5) The change in securities presented in investment activity was excluded from the *change in investment securities*.
6) Change in the value of Investments in subsidiaries.
7) The change in other liabilities does not include changes recognized in other comprehensive income, regarding the valuation of employee incentive plans and actuarial gains / losses.
8) Amount of change in the balance sheet value of subordinated liabilities not related to cash flow (accrued and unpaid interest, exchange rate differences).
9) The amount relates to costs and revenues from the sale of property, plant and equipment and intangible assets presented in the income statement.

42. Related entities

The Bank has shares in subsidiares and associated entities:

- ING Investment Holding (Polska) S.A. – it owns 100% shares in ING Commercial Finance S.A. and ING Lease (Polska) Sp. z o.o. and 45% shares in NN Investment Partners TFI S.A.,
- ING Bank Hipoteczny S.A.,
- ING Usługi dla Biznesu S.A.,
- Nowe Usługi S.A.,
- Solver Sp. z o.o.,
- Twisto Polska Sp. z o.o. (associated entity)

In the capital group of ING Lease (Polska) Sp. z o.o. there are 9 special purpose vehicles in which ING Lease (Polska) Sp. z o.o. owns 100% shares.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2019 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders. 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.

There were also other transactions between the related entities and ING Bank Śląski. These are both short-term deposits and loans, as well as operations in derivatives. The Bank keeps also ING Group's entities bank accounts. The abovementioned 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 in the provision of system resource hosting services for various applications, IT equipment leasing, monitoring of the availability and performance of applications and IT infrastructure as well as penetration tests and IT security monitoring.

Costs are presented as per their net value (VAT excluded).

As at 31 December 2019, ING Bank Śląski S.A. had no financial exposure to the Supervisory Board Members (in the composition as at the end of 2018) or any entities connected with them in equity or organisational terms.

Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	Subsidiaries	Associates	ING Bank NV	Other ING Group entities	Subsidiaries	Associates
	as at 31 Dec 2019				as at 31 Dec 2018			
Receivables								
Current accounts	6.6	17.9	-	-	-	-	-	-
Nostro accounts	74.1	-	-	-	1.9	37.6	-	-
Loans	-	0.2	11 734.0	-	-	0.2	8 611.1	-
Positive valuation of derivatives	49.8	34.9	2.5	-	48.5	48.3	1.8	-
Other receivables	9.9	2.9	172.4	-	5.4	2.4	0.1	-
Liabilities								
Deposits received	791.0	47.8	202.4	4.6	48.7	33.1	194.7	4.3
Subordinated loan	2 131.1	-	-	-	1 076.9	-	-	-
Loro accounts	11.7	33.6	0.3	-	21.4	23.9	-	-
Negative valuation of derivatives	38.4	32.6	-	-	45.0	45.8	-	-
Other liabilities	82.6	2.7	0.6	-	64.7	1.5	1.8	-
Off-balance-sheet operations								
Off-balance sheet liabilities granted	419.4	677.4	5 143.2	-	478.6	472.1	1 394.8	-
Off-balance sheet liabilities received	380.7	720.5	8 650.0	-	449.5	483.9	-	-
FX transactions	6 666.5	-	-	-	7 210.2	140.9	-	-
Forward transactions	-	-	40.8	-	116.1	-	-	-
IRS	2 312.7	2 403.9	59.0	-	2 768.7	2 575.8	64.1	-
Options	2 851.9	31.3	-	-	1 732.8	37.6	-	-
	2019				2018			
Income and expenses	46.3	27.1	210.9	36.3	77.8	-0.9	180.5	-0.1
Income, including:	-16.0	7.3	240.0	36.3	0.5	-1.7	179.5	-0.1
interest and commission income/ expenses	59.9	6.5	1.3	-	74.9	-6.0	1.0	-
income on financial instruments	2.4	13.3	0.5	-	2.4	6.8	-	-
net income on other basic activities	-	-	-30.9	-	-	-	-	-
General and administrative	85.3	6.7	-3.1	-	64.8	4.1	5.8	-
Outlays for non-current assets								
Outlays for intangible assets	-	1.4	0.8	-	-	6.1	1.8	-

*) In 2019, the Group sold an IT system for handling card transactions to an ING Group entity. The sale price was PLN 26.7 million, while the carrying amount of the sold asset was PLN 16.4 million.

In 2019, the Bank made eight sales transactions to ING Bank Hipoteczny S.A. (a subsidiary of the Bank) of the mortgage-secured housing loan portfolio in the total amount of PLN 3 235.8 million. The purchase price was determined at the market value. Receivable from ING Bank Hipoteczny S.A. regarding deferred payment for these sales transactions in the amount of PLN 318.1 million was recognized as at 31 December 2019 in the line item *Loans and other receivables to other banks*.

43. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the ING Bank Śląski S.A Group are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2019 amounted to PLN 167.7 million excluding loans from the In-House Social Benefits Fund. As at 31 December 2018, their value amounted to PLN 167.5 million.

Granting of a loan, cash loan, bank guarantee and surety for the Bank's senior management group is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.

The financial statements for 2019 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 32.1 million. As at 31 December 2018, their value amounted to PLN 34.3 million.

Remuneration of ING Bank Śląski S.A. Management Board Members

The composition of ING Bank Śląski S.A. Management Board as at the end of 2019 was presented in the chapter I. *Information about the Bank and it's Capital Group* in point 5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition.*

Emoluments of ING Bank Śląski S.A. Management Board Members

	2019	2018
Short-term employee benefits, including:	12.7	12.4
- remuneration	10.2	9.9
- benefits	2.5	2.5
Total	**12.7**	**12.4**

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

	2019		2018	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.7	2.2	2.5	2.1
Phantom stock	2.7	2.2	2.5	2.1
Total	**5.4**	**4.4**	**5.0**	**4.2**

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part.

Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2019 under the Variable Remuneration Programme have not yet been awarded.

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2019 bonus; some part of it will be paid out in 2020, and some part will be deferred for the upcoming years (2021-2027). The maximum obtainable amount of the bonus for 2019,

for which a reserve was established, arrives at PLN 9.8 million, including cash pay-out in 2019 of PLN 2.7 million, and for the deferred part of the bonus PLN 7.1 million. The Bank Supervisory Board will take the final decision on the bonus amount.

As at 31 December 2017, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.2 million. The bonus for 2019 approved in 2018 by the Bank Supervisory Board was PLN 5.2 million.

In the years ended 31 December 2019 and 31 December 2018, there were no post-employment benefits paid out to the Bank Management Board Members.

The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Bank employees have participated in the ING Group long-term program until 2012. After this year, ING Bank Śląski S.A. launched its internal program based on ING Bank Śląski S.A. phantom shares. Currently, the last tranches of group programs, or financial instruments, which were allocated to the Bank's employees by ING foreign companies for the time of performing their functions in these companies are being implemented.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members

The composition of ING Bank Śląski S.A. Supervisory Board as at the end of 2019 was presented in the chapter I. *Information about the Bank and it's Capita Group* in point 5. *ING Bank Śląski S.A. Management Board and Supervisory Board composition.*

Emoluments of ING Bank Śląski S.A. Supervisory Board Members

	2019	2018
Short-term employee benefits, including:	0.8	0.8
- remuneration	0.8	0.8
Total	**0.8**	**0.8**

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2019, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidate financial statements of the ING Bank Śląski S.A. Group for 2019 into the public domain.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds established in the Bank entities. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2019 amounts to PLN 2.7 million versus PLN 3.7 million as at 31 December 2018. The balance of the In-House Social Benefits Fund as at 31 December 2019 was PLN 8.5 million versus PLN 7.8 million as at 31 December 2018.

44. Headcount

The headcount in the Bank as at 31 December was as follows:

	2019	2018
Individuals	7 690	7 665
FTEs	7 640.7	7 615.7

45. Significant events after the balance sheet date

- *Management Board's intention regarding payment of dividend from profit for 2019*

On February 6, 2019, the Bank's Management Board announced that it intends to recommend to the General Meeting to adopt a resolution on the allocation of approximately 30% of the Bank's standalone profit for 2019 for the payment of dividends. The Bank meets the criteria and requirements of the Polish Financial Supervision Authority ("PFSA") enabling the payment of dividends from profit for 2019. However, by the date of approval of these financial statements, the Bank has not yet received the individual dividend recommendation of the PFSA for 2019 confirming the possibility of paying such a dividend.

- *The minimum level of own funds and liabilities subject to redemption or conversion ("MREL") set by BGF for ING Bank Śląski S.A.*

On February 5, 2020, the Bank received a letter from the Bank Guarantee Fund ("BGF") regarding the minimum level of own funds and liabilities subject to redemption or conversion ("MREL").

The MREL requirement for the Bank was set at the consolidated level at 11.679% of the total own funds and total liabilities ("TLOF"), which corresponds to 21.280% of the total risk exposure amount ("TRE"). This requirement should be met by December 31, 2022.

In addition, BGF has set mid-term MREL goals at the consolidated level, which in relation to:

- TLOF are 7,665% at the end of 2019, 9,003% at the end of 2020 and 10,341% at the end of 2021, and

- TRE amounts to 13.967% at the end of 2019, 16.405% at the end of 2020 and 18.842% at the end of 2021.

The MREL requirement has been determined based on consolidated balance sheet data as at December 31, 2018. The MREL target set by BGF at the end of 2019 has been met.

- *Registration of changes in the ING Bank Śląski S.A. Statute*

On January 29, 2020, changes to the Bank's Statute were registered, adopted by Resolution No. 27 of the Ordinary General Meeting of April 5, 2018. The registration was based on the decision of the Katowice-Wschód District Court in Katowice, VIII Commercial Department of the National Court Register (KRS) of January 24, 2020, corrected by the decision of January 29, 2020. Registration includes a change in § 8 para. 2 point 7) of the Statute, which shall read as follows: "7) issuing electronic money,".

Risk and capital management

I. Risk and capital management system

1. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Group is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions (allowances) as well as capitals and liquidity buffers.

Within the risk management system, the Group:

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

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

- The first line of defence – Business Managers at the Bank. The managers of each business unit are primarily responsible for the activity, operations, compliance with standards and effective control of risks affecting the respective business unit. Business Managers are involved in the process of liquidity and funding risk management at all levels of the organisation.
- The second line of defence – Risk and finance risk Managers. The risk management functions and – when applicable – finance management functions are implemented by:
  - development of policies, standards and guidelines for each risk area,
  - coordination, supervision and control of actions taken by the first line of defence with respect to their tasks, management, control and reporting of risks generated by the first line of defence,
  - escalation/vetoing of the activities of the unit that could generate risks unacceptable to the Bank.
- The third line of defence – Internal Audit Department. The Internal Audit Department is responsible for assuring an independent assessment and opinion on:
  - designing and effectiveness of internal audits of risks resulting from the Bank’s operations,
  - designing and effectiveness of risk management carried out by the first and second lines of defence.

A special role in the risk management process is performed by the Bank's Management Board and Supervisory Board. The Bank operates a number of committees that are active in the management of specific risk types.

2. Principles of risk management

ING Bank Śląski S.A. manages credit, market and operational risks in compliance with Polish law, regulations of the Polish Financial Supervision Authority and in compliance with the standards set by the ING Group to the extent that does not breach the regulations referred to above and best practice documents.

Irrespective of the need to assure regulatory and legal compliance, the Group treats credit, market and operational risk management as a fundamental and integral part of overall management of the Group.

3. Internal capital adequacy assessment process

In the Group of ING Bank Śląski S.A., the identification process of core risk types, basic elements concerning risk quantification and management rules of capital adequacy are regulated in the *Capital Management Policy at ING Bank Śląski S.A.*

Relying on the document, the Group identifies the following risk types:

- permanently material risks – due to the nature of the Group's business they are and will remain material in the future. The nature of the Group's business is understood as its activity in the sphere of deposit and lending services and the following related thereto: management of liquidity, interest rates and FX rates as well as management of risk relating to incompliance or unreliability of internal processes, people and technical systems or external events.
- material risks – which may generate potential losses with a frequency of occurrence of values qualifying them as material in compliance with the following table:

Risk classification as material

Potential loss (PLN)	up to 0.2% of equity	0.2% to 1% of equity	1% to 5% of equity	in excess of 5% of equity
At least every year	immaterial	material	material	material
At least once every 5 years	immaterial	Immaterial	material	material
Less than once in five years	immaterial	Immaterial	immaterial	material

Each month the Group prepares standalone and consolidated reports containing accomplished and planned capital requirements related to all material risk types. The related information is provided the Asset and Liabilities Committee (ALCO) and the Bank's Management Board. On a quarterly basis, the Supervisory Board is informed of the Bank's and Group's capital adequacy, including the adequacy of internal capital.

Once a year, a review of the internal capital adequacy assessment process (ICAAP) is performed and a review report is submitted to the Management Board and Supervisory Board of ING Bank Śląski S.A. Additionally, the internal audit unit performs an independent audit of ICAAP.

4. Risk categories

In its ICAAP process, in Q1 2019 the Bank held a workshop on risk materiality assessment. As a result, the Bank classified the risk of financial results as an immaterial risk.

Risk type		Permanently material	Material	Immaterial
Credit risk				
Risk of non-payment and counterparty risk*		✓		
Residual risk**		✓		
Concentration risk		✓		
Transfer risk				✓
Risk of other not-credit assets			✓	
Risk of "default" definition				✓
Market risk				
Risk of operations in financial markets	FX risk	✓		
	General and specific interest rate risk in the trading book	✓		
	Interest rate risk in the banking book: total mismatch	✓		
	Interest rate risk in the banking book: residual convexity risk		✓	
	Interest rate risk in the banking book: base risk			✓
	Interest rate risk in the banking book: option risk			✓
Investment risk in commercial properties and properties held for one's own use				✓
Risk of equity securities	Risk of equity securities in the banking book			✓
	General and specific rate of equity securities in the trading book			✓
Risk of customers' conduct			✓	
Business risk				
Financial result risk				✓
Macroeconomic risk			✓	
Risk of FX mortgage portfolio			✓	
Risk of excessive leverage				✓
Liquidity and funding risk		✓		
Operational risk* **		✓		
Model risk			✓	

*) the risk definition contains the risk of delivery settlement

**) the capital requirement estimated in the method for payment default and counterparty risk

***) covers model risk (the risk is identified separately in the Bank and in the Group for the purposes of risk management), compliance risk and legal risk as well as IT risk that is managed within the risk.

5. Risk appetite

Risk appetite determines the maximum risk volume which the Group is ready to accept thus supporting stability and further development. Within risk and equity capital management the Group sets parameters of risk appetite (RAS – Risk Appetite Statement) in the following basic areas:

- RAS covering capital adequacy,
- RAS covering liquidity and funding risk and market risk,
- RAS covering credit risk,
- RAS covering operational risk.

RAS covering the Group's capital adequacy was set in 2019 for the following capital ratios[1]:

- core capital ratio Tier 1 (CET1) at the minimum level of 10.5%,
- Tier 1 (T1) at the minimum level of 12%, and
- total capital ratio (TCR) at the minimum level of 14%.

RAS concerning capital adequacy results from the duty to maintain minimum levels of capital ratios resulting from the following external regulations:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (4.5% for CET1, 6% for T1 and 8% for TCR),
- Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system sanctioning additional equity buffers, including:
  - capital conservation buffer which was 2.5% in 2019 (1.875% in 2018),
  - the buffer of another systemic institution of 0.5% imposed by the decision of PFSA of 19 December 2017 and reiterated in PFSA's letters of 2 August 2018 and 19 August 2019,
  - 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 (as at December 2019 the countercyclical buffer was 0.002% effectively, comparing to 0.006% as at December 2018)
- Regulation of the Minister for Economic Development and Finance on systemic risk buffer of 1 September 2017 introducing a systemic risk buffer of 3% of the total risk exposure amount applicable to all exposures in the territory of the Republic of Poland (since the Group has a small portfolio of foreign exposures, the effective level of systemic risk buffer is variable over time (as at 31 December 2019 it was 2.953%, comparing to 2.961% as at 31 December 2018).

Within RAS concerning capital adequacy, capital limits for each risk type are also set.

6. Economic capital, equity and capital requirement

6.1. Economic capital

Now the Group of ING Bank Śląski S.A. estimates capital for the following risk types:

- repayment default risk and counterparty risk and residual risk – risk of losses in case of default by counterparties/debtors on their obligations to the Group (including settlement of transactions or delivery of instruments at the agreed time) and the risk of reducing the value of credit exposures as a result of the counterparties' deterioration of the ability to repay their obligations. Economic capital is determined with a modified AIRB (INCAP) method covering capital for credit risk of the central counterparty and the risk of credit valuation adjustment (CVA) as well as the requirements concerning the risk of settlement, delivery that are calculated in compliance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. In June 2014, LGD from the recession period (residual risk) was incorporated in capital calculations.
- risk of other non-credit assets – the risk of failure by the Group to recover the book value of on-balance sheet non-credit assets (DTA, equity exposures and other items). Equity is determined in compliance with Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013.

[1] The reference levels set in RAS rely on nominal levels of each capital buffer. The applied approach means that RAS for capital adequacy is somewhat higher than resulting from regulatory minimum levels of capital ratios relying on effective and time variable levels of certain capital buffers.

- concentration risk – the risk resulting from excessive exposures to an individual entity, related entities or similar entities that as a result are exposed to higher credit risk (e.g. sectoral concentration). The capital requirements are estimated as follows:
  - vis-a-vis individual entities or entities related by capital or organisation – in compliance with the rules of determining capital requirements as specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.
  - vis-a-vis entities from the same industry, economic sector, pursuing the same activity or trading in similar groups – as a surplus of exposure over the approved concentration limit for the group of exposures, reduced by impairment allowances.
- FX risk – the risk of losses due to changing FX rates. Capital requirements are calculated with the VaR method.
- general and specific interest rate risk in the trading book – the risk of losses on items in the trading book due to changing interest rates. Capital requirements are calculated with the VaR method.
- interest rate risk in the banking book: residual convexity risk – the risk of losses resulting from an unexpected non-linear shift of interest rate curves. Capital requirements are calculated with a simulated change of interest rates.
- interest rate risk in the banking book: total mismatch – the risk of losses on positions in the banking book due to interest rate changes. Capital requirements are calculated with the VaR method.
- risk of customers' conduct – the risk of potential losses due to uncertainty as to customers' conduct with respect to product with embedded options. Capital requirements for the risk is determined as a composition of two elements: Monte Carlo simulation and measurement of the existing replication portfolio.
- macroeconomic risk – the risk due to macroeconomic changes and their impact on the levels of minimum capital requirements. The methodology to determine the capital requirement relies on internal stress tests for a moderate recession scenario and the required level of capital adequacy measures.
- risk of the FX mortgage portfolio – the risk resulting from financial losses due to the need to convert FX mortgage loans to PLN loans. Risk measurement is made on the basis of estimated implementation costs of the proposed solutions and the stage of the legislative process of the regulation.
- liquidity and funding risk – the risk of the lack of ability to perform financial liabilities under on- and off-balance sheet items at reasonable prices. The Group maintains liquidity so that the Groups 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. Economic capital is the cost of acquiring additional funding to restore internal supervisory levels of liquidity limits.
- model risk – the risk of a loss that the Group may suffer as a result of decisions that could be primarily based on data obtained from the models used by the Group in its internal processes due to errors in the development, implementation or application of the models. Capital requirements are estimated for material and medium material models with an increased or high model risk and are based on expert assessment.
- operational risk – the risk of a direct or indirect financial loss as a result of maladjustment or unreliability of internal processes, people, technical systems or external events. Operational risk covers also factors and effects of the occurrence of reputational risk, business risk and concentration risk (with reference to the operational risk area). The Group uses the advanced method AMA to calculate economic capital. The applied model is a hybrid one providing for risk measurement on the basis of internal and external data on operational risk events, scenario analysis and factors in the business environment and internal control.

In 2019 and 2018, the level of equity was above the level of internal capital.

6.2. Equity

The Group's equity is composed of:

- core capital Tier 1 which at the end of 2019 was PLN 12 473.7 million,
- Tier 2 capital which at the end of 2019 was PLN 2 129.3 million.

As at 31 December 2019, the Group did not identify additional Tier 1 capital (AT1).

Equity

	2019	2018
Equity		
A. Tier 1 equity	**12 473.7**	**11 304.6**
A.I. Tier I core capital	**12 473.7**	**11 304.6**
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 profit	887.0	521.0
– profit retained in previous years	37.7	-221.2
– recognised profit or recognised loss	849.3	742.2
total other comprehensive income	224.1	327.4
reserve capital	9 358.0	8 547.6
general bank risk funds	1 215.2	1 215.2
intangible assets	-408.4	-425.0
shortage of adjustments to credit risk in view of the expected losses with the IRB method	-59.6	-178.1
adjustment in the interim period due to adaptation to the requirements of IFRS 9	219.4	213.4
adjustment of the value of requirements relating to prudent valuation	-48.4	-3.3
A.II. Additional Tier 1 equity	**0.0**	**0.0**
B. Tier 2 ratio	**2 129.3**	**645.0**
subordinated liabilities	2 129.3	645.0
shortage of adjustments to credit risk in view of the expected losses with the IRB method	0.0	0.0
Equity used to calculate the total capital ratio	**14 603.0**	**11 949.6**

6.3. Capital requirement

In 2019 and 2018, 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, the Group applies the BIA (Basic Indicator Approach) method. In the area of market risk, the Group applies standard methods. 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 Regulation.

The total capital requirement is dominated with the requirement relating to credit risk. As at the end of 2019 and 2018 it accounted for as much as 87% of the total requirement.

6.4. Capital adequacy

On 31 December 2019, the TCR ratio for the ING Bank Śląski was 18.30% versus 17.17% at the end of 2018 and the Tier 1 ratio was 15.63% versus 16.24% as at the end of December 2018. The changes to the capital ratios are due to the following factors:

- incorporation in equity of a part of net profit generated in 2018 after the General Meeting has approved a resolution on 2018 profit distribution net of the amount classified by the Bank to equity during 2018 (PLN 328 million) and a part of the Bank's profit for the first 9 months of 2019 (PLN 849 million),
- incorporation of EUR 350 million of subordinated loans to Tier 2 capital after receipt of PFSA's approval
- providing for the impact of IFRS 9,
- growth of business volumes and operational activity,
- review of the calculation methods of risk-weighted assets and a review of recognition of collateral.

Total capital ratio

	2019	2018
Equity used to calculate the total capital ratio	**14 603.0**	**11 949.6**
Capital requirements		
capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates	5 551.6	4 839.6
capital requirements relating to position risk, FX risk and risk of commodity prices	157.1	130.6
capital requirement for operational risk	671.4	598.2
amounts of exposure to risk	3.5	n/a
Total capital requirement	**6 383.6**	**5 568.4**
Total capital ratio	**18.30%**	**17.17%**
Tier 1 capital ratio	**15.63%**	**16.24%**

In its calculations of capital ratios, the Group was applying interim regulations mitigating the implementation effects of IFRS 9 on equity. If the implementation effect of IFRS 9 were fully recognised as at the end of 2019, the total capital requirement would have been 18.05% and the Tier I ratio – 15.38% (compared to 16.89% and 15.97% in 2018 respectively).

7. Financial leverage

The regulatory financial leverage ratio for ING Bank Śląski S.A. as at 31 December 2019 and 31 December 2018 was calculated on the basis of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter: "Regulation 2015/62").

Financial leverage ratio is calculated by dividing the measure of Tier 1 capital by the total exposure and expressed as a percentage. The measure of total exposure is the sum of exposures specified in Regulation 2015/62 covering all assets and off-balance sheet items not deducted when determining the Tier 1 capital measure.

Calculation of leverage ratio of ING Bank Śląski S.A.

	2019	2018
Tier 1 ratio	12 473.7	11 304.6
Total exposure	154 067.6	138 108.8
Financial leverage ratio (%)	**8.10**	**8.19**

On the basis of the CRD IV Directive and secondary regulations, the Group has developed and implemented the "Procedure of preparing the Leverage Ratio report". The document identifies the recipients and detailed rules of determining the financial leverage ratio in the LIREP application in the reports submitted to NBP.

The Group has implemented processes to manage the risk, including e.g. the implementation of the "Management policy of the risk of excessive financial leverage" and the "Planning procedure of financial leverage". The documents detail the responsibility of individual departments and ALCO in the management process of the risk. The Policy also defines actions supporting the maintenance of the ratio at the required level. The Group has also incorporated the risk in stress tests.

In 2019 and 2018, the financial leverage ratio was maintained at levels above the internal and regulatory minimum. The regulatory minimum leverage ratio is 3%.

8. Stress tests

In compliance with the *Stress text policy at ING Bank Śląski S.A.*, the Group holds stress tests for economic capital and capital requirements. The results of the stress tests are submitted to ALCO, the Bank's Management Board and the Bank's Supervisory Board.

As at 30 June 2019, the Bank held stress tests on a consolidated basis relying on assumptions developed by the Chief Economist. The stress tests covered:

- scenario tests: a scenario of moderate recession, a scenario of long-term recession and a scenario of a rapid recession,
- sensitivity tests (growth of interest rates by 400 bps and 200 bps; drop of property prices by 30%; PLN exchange rate weakening by 30% and 50%; reduced GDP growth to -5%; growth of unemployment to 20%; drop of salaries by 10%; drop of demand to -10%),
- concentration tests,
- tests of financial leverage ratio.

As a result of the completed stress tests, the Group receives information on changes to capital requirements, economic capital and equity in case of occurrence of the assumed macroeconomic parameters.

The results of the mild recession scenario are taken into account when determining the additional economic capital for macroeconomic risk, so that the Group protects itself against materialization of this scenario in advance. The allocated economic capital is marginal. For other macroeconomic scenarios, actions are not required due to the very low probability of their implementation.

Sensitivity analyzes indicate the largest impact on the Group of macroeconomic parameters: a decrease in wages in the economy, unemployment and a decrease in the value of real estate.

Concentration tests confirmed the adequacy of the concentration limits applied in the Group.

Leverage ratio tests confirmed the Group's resistance to adverse macroeconomic conditions. The minimum value of the leverage ratio during the stress period was well above the minimum level of 3%.

9. Dividend policy

The Bank's dividend policy provides for the following:

- stable dividend payouts over a long time horizon subject to the principle of prudent management and compliance with all regulatory requirements applicable to the Bank,
- possibility of dividend payouts from capital surplus over the minimum capital adequacy ratios and above the minimum levels of capital ratios determined by the Polish Financial Supervision Authority ("PFSA") for dividend payouts.

Determining the proposed amount of dividend, the Management Board takes the following into account in particular:

- the current economic and financial condition of the Bank and the Bank's Group, including limitations when financial losses are generated or in case of low profitability (low return on assets / equity),
- assumptions underlying the management strategy of the Bank and the Bank's Group, including risk management strategy,
- PFSA's position on banks' dividend policies,
- restrictions resulting from Art. 56 of the Act on Macro-prudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015.

PFSA's guidelines with respect to dividend for 2018

On 3 December 2019, the Polish Financial Supervision Authority approved its position on dividend policies of banks in 2020 (dividend for 2019). PFSA recommends that dividend of up to 50% of the profit earned in 2019 can only be distributed by those banks that fulfil all of the following criteria:

- that do not pursue any remedy plan;
- have a final BION rating not less than 2.5;
- with financial leverage level (LR) of no more than 5%;
- that hold their Tier 1 (CET1) core capital ratio not lower than the required minimum: 4.5% + 56%*add-on + combined buffer requirement in force since 2020;
- that hold their Tier 1 (T1) capital ratio not lower than the required minimum: 6% + 75%*add-on + combined buffer requirement in force since 2020;
- that hold their total capital ratio (TCR) not lower than the required minimum: 8% + add-on + combined buffer requirement in force since 2020.

Additionally, PFSA provided for a possibility of payout:

- up to 75% – if banks meet all the criteria for dividend up to 50% subject to the additional buffer of 1.5 pp in capital requirements;
- up to 100% – if banks meet all the criteria for dividend up to 75% subject to the bank's sensitivity to unfavourable macroeconomic scenarios (ST) in capital requirements. The bank's sensitivity to unfavourable macroeconomic scenarios measured with supervisory stress tests defined as: the difference between TCR in the reference scenario and TCR in a shock scenario at the end of 2021, providing for supervisory adjustments.

The sensitivity to unfavourable macroeconomic scenarios was set for ING Bank Śląski S.A. in PFSA's letter of 24 December 2019 at 0.00%.

In compliance with the guidelines, PFSA's requirements vis-a-vis ING Bank Śląski S.A. for the purposes of dividend payout for 2019 up to 50% of net profit are as follows (subject to nominal values of capital buffers):

- CET1 >= 10.5% (and 12% with dividend in excess of 50%),
- T1 >= 12% (and 13.5% with dividend in excess of 50%),
- TCR >= 14% (and 15.5% with dividend in excess of 50%).

Declared and paid dividend

The Bank's Management Board intends to recommend to the General Meeting a dividend for 2019 in the total amount of PLN 494.4 million, which represents 29.8% of the individual profit of ING Bank Śląski.

The proposed value of dividend per share is PLN 3.80 gross. The proposed dividend day is 23 April 2020, and the proposed dividend payment day is 11 May 2020. The amount of the proposed dividend takes into account both the current financial standing of the Group and the Bank as well as its development plans.

10. Remedy plan and enforced restructuring

On 28 May 2019, ING Bank Śląski S.A. received a positive administrative decision from PFSA on an updated of the Remedy Plan. The Bank Guarantee Fund (BGF) was also consulted in the issue of the decision by PFSA. The remedy plan is compliant with Polish regulations transposing the BRR Directive – the Act on the Bank Guarantee Fund of 10 June 2016 and the related secondary regulations.

Parallel to works by the Bank on the Remedy Plan, BGF – in line with the Act – is obliged to develop, update and review the feasibility of Enforced Restructuring Plans for domestic entities. In its letter of 29 January 2020, BGF upheld a restructuring strategy for ING Bank Śląski S.A. in the form of remission and conversion of liabilities ("bail-in") to cover the incurred losses and to recapitalise the Bank and to restore market confidence in the Bank in respect to its potential to pay its debt. BGF determined the MREL requirement for the Bank and the Bank was obliged to comply therewith starting on 31 December 2022.

BGF set the MREL requirement for the Bank at 21.28% of risk-weighted assets (11.679% of total equity and total liabilities). The MREL requirement, in compliance with the BGF's current methodology for the bail-in strategy with respect to risk-weighted assets can be estimated with the following formula:

$$(CRR_{TCR} + BFX + OSII) + [1 - (CRR_{TCR} + BFX + OSII)] * (CRR_{TCR} + BFX + OSII + BZ + BRS + BA)$$

- CRR_{TCR} – The minimum required by CRR with respect to the total capital ratio,
- BFX – Pillar 2 or add-on for exposures under FX mortgage loans,
- OSII – Buffer of another systemically-important institution,
- BZ – Capital conservation buffer,
- BRS – Systemic risk buffer,
- BA – Countercyclical buffer.

The restructuring strategy and the MREL requirement may be changed, in particular as a result of work in supervisory bodies, including in connection with common supervisory decisions as well as the implementation of the Banking Packet (CRR2, BRRD2 and CRD V).

II. Credit risk

1. Introduction

Credit risk is understood as:

- a risk of a financial loss that may be suffered by the Group as a result of default by debtors in whole and at the agreed time on their credit obligations to the Group, or
- a risk of reduced economic value of credit exposures or groups of credit exposures as a result of impaired ability of debtors to service their debt at the agreed time.

Maximum credit risk exposure

	2019	2018
Loans and other receivables granted to other banks	**3 285.3**	**776.5**
Financial assets held for trading, including:	**1 224.2**	**1 934.9**
Valuation of derivatives	554.3	509.0
Other financial assets held for trading, including:	669.9	1 425.9
Debt securities:	498.4	790.5
Treasury bonds	480.6	771.6
European Investment Bank bonds	17.8	18.9
Repo transactions	171.5	635.4
Derivative hedging instruments	**851.6**	**909.6**
Investment securities (excluding equity instruments, including:	**33 448.9**	**31 854.0**
Measured at fair value through other comprehensive income (FVOCI), including:	21 098.5	19 994.0
treasury bonds	18 647.5	17 670.4
treasury bonds in EUR	982.6	903.0
European Investment Bank bonds	1 021.5	985.6
Austrian government bonds	446.9	435.0
Measured at amortised cost, including:	12 350.4	11 860.0
treasury bonds	5 962.9	5 936.7
treasury bonds in EUR	3 272.7	3 143.7
Bonds of Bank Gospodarstwa Krajowego	508.5	512.9
European Investment Bank bonds	2 606.4	2 266.7
Loans and receivables to customers, including:	**110 536.5**	**99 125.8**
Corporate banking segment	58 734.4	54 586.8
loans in the current account	12 848.1	13 093.6
term loans and advances	43 382.3	38 683.9
corporate and municipal debt securities	2 504.0	2 809.3
Retail banking segment	41 493.0	43 370.0
mortgages	29 536.0	33 146.8
loans in the current account	1 281.0	1 223.4
other loans and advances	10 676.0	8 999.8
Other receivables	2 296.8	950.6
Measured to fair value through OCI	7 852.0	-
Measured to fair value through profit and loss	160.3	218.4
Receivables under other assets	**190.9**	**64.4**
Granted off-balance sheet liabilities, of which:	**37 583.1**	**31 958.8**
– unutilised credit lines	29 314.1	24 097.0
– guarantees	5 257.0	4 943.8
– undrawn overdraft facilities	1 425.6	1 371.2
– credit card limits	1 390.4	1 251.7
– letters of credit	196.0	295.1
Total	**187 120.5**	**166 624.0**

The Group's Policy relating to the risk of the credit exposure portfolio provides for the fact that the activity generating credit risk may be related also to other risk types as follows: liquidity, market, operational, environmental, social, legal and reputational risks that may reinforce one another.

The Group optimises and mitigates losses relating to risk exposure by:

- setting internal limits,
- an adequate structure of credit products,
- applying collateral,
- applying functional controls,

- effective monitoring, restructuring and collection,
- monitoring of changes to the customers' credit worthiness and reliability,
- regular monitoring and validation of models used to identify and measure credit risk
- performing analyses of trends and the values of key risk indicators.

The Group's core objective in the process of credit risk management is to support effective accomplishment of business goals by active risk management and efforts supporting organic growth while:

- maintaining a secure level of solvency and liquidity and an adequate level of provisions,
- ensuring compliance with the law and supervisory requirements.

The Group manages credit risk in an integrated manner on the basis of:

- strategic planning,
- a consistent system of limits, policies and procedures, and
- tools for risk management, including those to identify, measure and control risks.

The integrated system includes all processes in the Group pursued in connection with credit activity.

Detailed credit risk management objectives are as follows:

- support to business initiatives,
- maintenance of credit losses at a pre-determined level,
- ongoing verification, review of adequacy and development of the applied procedures, models and other elements of the risk management system,
- adaptation of activities to the changing external conditions,
- maintenance of an adequate level of capital requirements related to credit risk and provisions,
- ensuring compliance with the regulator's requirements.

2. Risk management strategy and risk appetite parameters

The Bank treats credit risk management as a fundamental and integral part of overall management of the Bank. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

Credit risk management strategy

The credit risk management strategy supports implementation of business objectives while maintaining the Bank's safe level of solvency and liquidity and an adequate level of provisions. The strategy is determined in order to ensure an optimum development of the credit portfolio while maintaining an adequate quality and profitability of credit operations and capital allocation. The primary goal of defining the credit risk management strategy is to optimise the risk/return on equity ratio, while considering information on the current and prospective macroeconomic environment, the Bank's portfolio and the level of execution of the RAS limits.

The credit risk management strategy provides for a "lookout to the future", including the need to remain competitive, attractive and to develop the Bank's offer.

Risk Appetite Statement (RAS)

RAS means the Bank's risk appetite which is defined by setting key and specific limits. The determination and monitoring of the risk appetite level (RAS parameters) constitute an integral part of the planning process at the Bank and management of concentration risk by the Bank.

Types of RAS limits for credit risk:

- limits of portfolio volume,
- limits for the risk parameters of the portfolio and new sales,
- concentration limits, including limits for the mortgage-backed credit exposures resulting from Recommendation S of the Polish Financial Supervision Authority.

Apart from RAS limits, the Bank sets limits for credit risk for each area, business lines, products and transaction limits that are approved by the competent credit decision maker. Additionally, internal concentration limits are set for economic sectors, accepted collateral, regions and mortgage-backed credit exposures. The compliance with RAS limits is monitored and reported during the year on a monthly basis.

Concentration of exposures to corporate customers in national economy sectors

sector	gross exposure (on- and off-balance sheet)			
	2019		2018	
	exposure amount PLN million	share in the total exposure	exposure amount PLN million	share in the total exposure
wholesale trade	19 006.3	21.0%	14 597.9	17.9%
property services	9 478.0	10.5%	9 120.3	11.1%
financial intermediation	7 556.8	8.4%	7 340.4	9.0%
production of foodstuffs and beverages	4 118.9	4.6%	3 966.0	4.9%
construction	3 691.4	4.1%	3 713.7	4.5%
retail trade	3 584.2	4.0%	3 598.7	4.4%
manufacturing of metal final products	3 526.4	3.9%	3 330.2	4.1%
power generation	3 482.1	3.8%	3 107.6	3.8%
public administration and national defence	3 261.4	3.6%	3 022.9	3.7%
other business activity	3 075.5	3.4%	2 774.0	3.4%
rubber industry	2 387.9	2.6%	2 296.8	2.8%
land and pipeline transport	2 103.5	2.3%	1 756.9	2.2%
rental of equipment	1 809.9	2.0%	1 752.6	2.1%
wood and paper industry	1 714.8	1.9%	1 646.5	2.0%
postal services and telecommunications	1 548.3	1.7%	1 550.0	1.9%
other non-metal material industry	1 510.5	1.7%	1 469.1	1.8%
sales, repair and maintenance of motor vehicles	1 484.9	1.6%	1 421.8	1.7%
agriculture, forestry, fishery	1 452.1	1.6%	1 348.8	1.6%
machine industry	1 272.4	1.4%	1 224.2	1.5%
other	14 418.1	15.9%	12 805.7	15.6%
Total	**90 483.4**	**100.0%**	**81 844.1**	**100.0%**

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 01 July 2016.

Entity/group of related entities	exposure in PLN million	
	2019	2018
Group 1	1 872.3	1 797.1
Group 2 (banking)	1 513.4	1 413.0
Group 3 (banking)	1 338.3	1 058.9
Group 4	1 135.6	29.1
Group 5	1 027.9	792.6
Group 6	949.3	878.5
Group 7	907.2	861.9
Group 8	858.0	858.6
Group 9	805.1	167.5
Group 10	772.7	805.0
Group 11	761.0	705.3
Group 12	706.8	600.5
Group 13	679.5	874.4
Group 14	573.1	479.7
Group 15	550.4	550.2
Group 16	513.3	521.1
Group 17	511.1	307.5
Group 18	500.2	472.9
Group 19	491.0	443.2
Group 20	475.9	483.4

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. The separation of the monitoring functions and risk control of credit exposures (including concentration risk) from the sales functions of banking products and the risk underwriting functions is maintained below the level of the Bank's Management Board; for retail credit exposures – also at the level of the Management Board.

In case of simplified, automatic credit process paths, the separation of the sales functions of banking products from the risk underwriting functions of credit exposures relies on the independence of the development and validation process of tools supporting the process of risk underwriting from the sales and operational functions. Competences with respect to credit decisions relating to individual credit transactions are separated from decision authority on the development of credit policies and credit risk management principles.

4. Risk management organisational structure

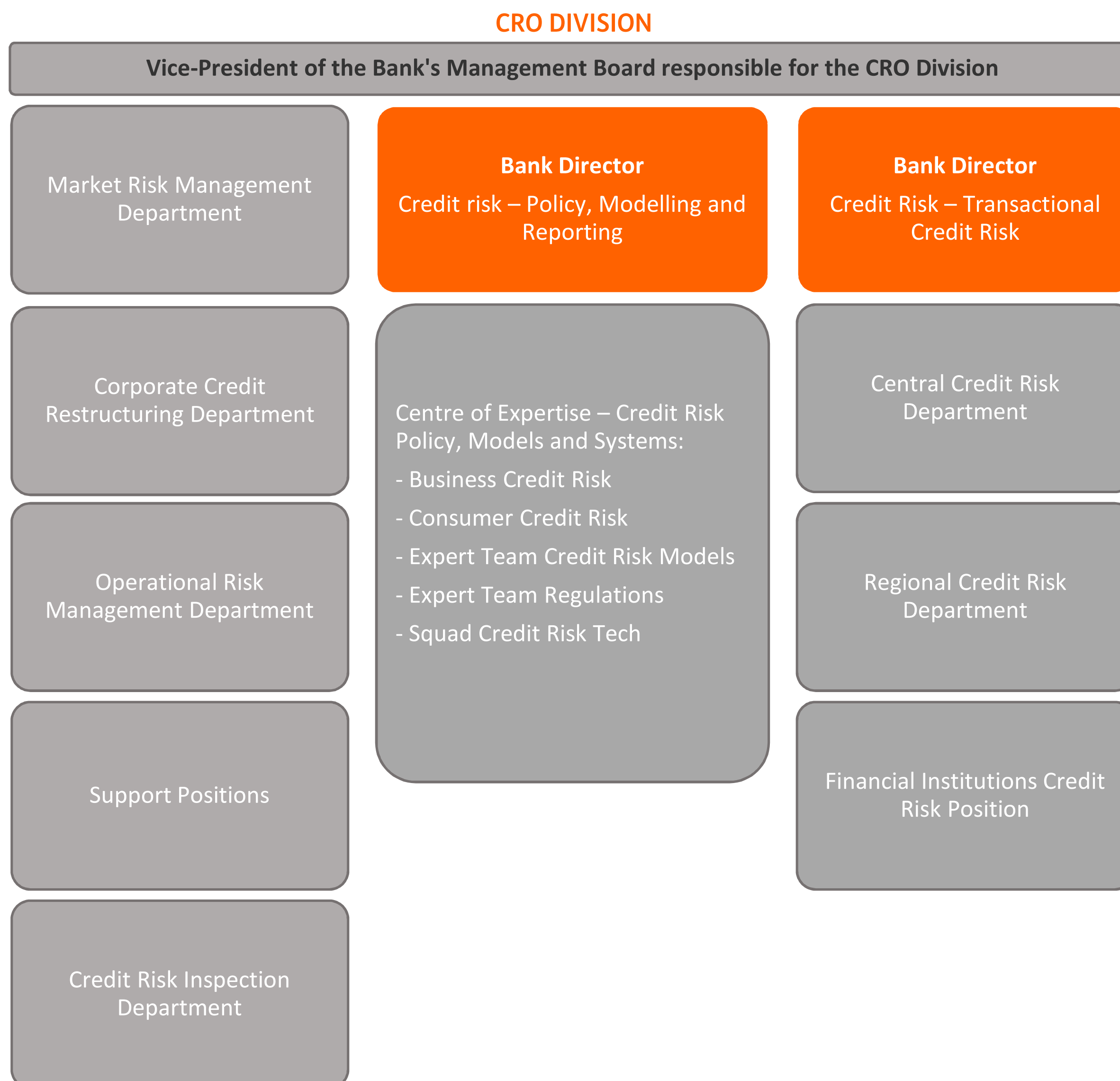
Within the CRO Division (Chief Risk Officer), two credit risk areas were identified that report to Bank Directors:

- Transactional Credit Risk, including:
  - Central Credit Risk Department,
  - Credit Risk Department in the Regions,

  - Financial Institutions Credit Risk Position.
- Centre of Expertise – Credit Risk Policy, Models and Systems.

Each area controls and supervises the Bank's business and risk management processes assigned to them.

Units involved in risk management processes



Key tasks of units in the CRO Division reporting to Directors

All units and persons performing tasks in the CRO Division closely cooperate in order to improve the effectiveness of risk management and to maintain risks at levels compliant with the Bank's strategy, risk appetite and financial plans.

Central Credit Risk Department:

- cooperates with the Bank's sales units in order to develop optimum transactional structures and the content and quality of credit packets,

- analyses risks, is consulted on transactions and takes credit decisions,
- verifies and approves risk classes of customers, also in the appeal process,
- monitors compliance with preliminary conditions to lending,
- monitors any instances of trespassing on the approved limits,
- monitors exposures with credit risk, including:
  - monitors the customers' economic and financial condition, timely repayments and compliance with other credit terms and conditions, including monitoring of collateral,
  - identifies customers with a deteriorated risk profile, including irregular customers and takes actions in relation to such customers compliant with the applicable regulations.

Credit Risk Department in the Regions:

- is consulted on credit risk by the Bank's sales units,
- cooperates with the Bank's sales units in order to develop optimum transactional structures and the content and quality of credit packets,
- analyses credit risks, is consulted on transactions and takes credit decisions,
- verifies and approves risk classes of customers, also in the appeal process,
- as a Risk Manager, is involved in monitoring of credit exposures, including
  - monitors the customers' economic and financial condition, timely repayments and compliance with other credit terms and conditions, including monitoring of collateral,
  - identifies customers with a deteriorated risk profile, including irregular customers and takes actions in relation to such customers compliant with the applicable regulations.

Financial Institutions Credit Risk Position:

- cooperates with the Bank's sales units in the development of optimum transactional structures and the content and quality of credit packets,
- analyses risks, is consulted on transactions and takes credit decisions,
- verifies and accepts risk classes of customers (local financial institutions), also within the appeal process of risk classes,
- monitors compliance with preliminary conditions to lending,
- supervises compliance with the limits imposed on counterparties and their transactions by the competent units of the Bank and external authorities supervising the Bank,
- supervises the management process of collateral to transactions by Financial Markets,
- verifies and approves counterparty risk classes.

Centre of Expertise Credit Risk Policy, Models and Systems:

- credit risk management is performed by identification, measurement, assessment and monitoring and control of credit risk,
- controlling if the risk level remains within the risk appetite (RAS limits) and active proposal of solutions in a risk exists that the limits may be exceeded,
- monitoring and clarification of changes in risk cost levels and suggesting preventive actions should they exceed the acceptable levels,
- development and implementation of the regulations and procedures with regard to credit risk management, including standards and rules of credit risk assessment and collateral,
- development of methodologies to design and monitor regulatory models of credit risk compliant with the requirements of supervisory authorities and internal standards of the Bank and the ING Group and the other credit risk models (also for stress tests) applied to support risk assessment and development of sales of banking products,

- design and regular monitoring of regulatory and other credit risk models (including stress tests),
- performance of stress tests for credit risk compliant with the requirements of supervisory authorities and internal standards of the Bank and the ING Group,
- designing the credit risk management policy at the Bank and supervision over and control of effective compliance with the requirements specified in the policy, legal regulations, supervisory regulations, recommendations of supervisory authorities and compliance with good practices and standards of the Bank and the ING Group,
- change management and monitoring of the quality of functioning of the advanced internal rating method (AIRB) at the Bank and preparation of the Bank's annual self-assessment in that area,
- coordination of credit risk management processes in the entire Bank, including setting risk appetite (RAS), stress tests, reporting to the Bank's Management Board and Supervisory Board,
- design, development and maintenance of tools and systems supporting credit risk management.

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 customers' 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 customers in compliance with the applicable regulations and requirements covering the provision of the required information, documentation, compliance with procedures,
- The Bank provides credit services effectively and professionally, respecting its customers' interests and expectations of the Bank's shareholders related to the growth of value of ING Bank Śląski S.A.,
- The Bank does not enter into transactions, credit exposures without learning and understanding the economic basis of transactions,
- The Bank accepts credit risk if it is able to control it effectively and – if payments are not made – the Bank is able to implement credit recovery procedures,
- The Bank does not approve exposures in which it may be exposed to reputational risk,
- The Bank takes decision concerning new types or areas of credit exposures (e.g. new markets, market segments, customer 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" – its requires the same documents and information from the same customers (in terms of credit risk) and pays special attention to equal treatment,
- The Bank is involved in open communication with customers 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 customers, business partners and the Bank,
- it holds in place quality control procedures of business partners,
- it does not grant powers of attorney or authority to take credit decisions in the name and on behalf of the Bank to grant (distribute) loans,
- it determines the acceptable risk level for each distribution channel,
- it monitors the quality of the loans granted through by its business partners.

6. Credit risk management

The Bank manages credit risk both at the level of credit exposure portfolio and at the level of individual transactions.

Risk management of the loan exposure portfolio

The objective of credit risk management of the Group's portfolio is to ensure portfolio growth in compliance with the approved strategy while maintaining the solvency ratio of the Group and the Bank at acceptable levels and within the determined and approved risk parameters.

Credit risk management of the loan exposure portfolio is performed with the following:

- determination of credit risk management strategy,
- reconciling RAS levels with business,
- development, implementation and monitoring of implementation of credit policies,
- analysis of the macroeconomic situation and individual sectors and generation of guidelines relating to lending directions,
- development and implementation of credit products,
- setting authority levels to approve deviations from credit policies and product exceptions,
- development and implementation of tools supporting risk measurement and assessment.
- analysis and assessment of credit processes and the scope of functional controls,
- administration of the credit exposure portfolio,
- training of staff members participating in the credit process,
- development and maintenance of an incentive system for employees, focused on compliance with internal credit standards.

Managing the credit risk profile, the Bank:

- determines, monitors and reports internal concentration limits for economic sectors, types of collateral, regions and mortgage-backed credit exposures,
- monitors and analyses the quality of accepted collateral,
- monitors and reports compliance with prudential standards resulting from the Banking Law Act,
- determines, monitors and reports internal concentration limits for each sub-portfolio,
- defines changes to credit policies and product offer providing for economic cycles and changes in the property market,

- acquires market data on the quality of credit portfolios and compares them with its own credit portfolios.

Capital adequacy and recognition of provisions for credit risk

The Group secures impairment of credit exposures by recognising provisions to cover impairment resulting from expected credit losses. The Group further secures fluctuating losses versus the average levels of expected losses (that is unexpected losses) by ensuring an adequate level of regulatory capital and economic capital.

Risk-weighted assets and capital requirements are calculated by the Bank as follows:

- for retail exposures – in compliance with the standard method.
- for corporate credit exposures – in compliance with the advanced internal rating method with the exception of exposures to sovereigns, central banks, local governments and public sector entities for which the Group applies the standard method.

Provisions for credit risk at the Bank for all credit exposures are calculated in compliance with International Financial Reporting Standards.

Stress tests

The objectives of stress tests include:

- assessment and measurement of the impact of disadvantageous (stress) conditions of the internal and external environment on the Bank's situation, e.g. on the credit portfolio, capital adequacy.
- identification of material risk factors by determining the Bank's sensitivity to changes of certain factors,
- identification of potential hazards and possibilities to develop hedging strategies.

The Bank performs sensitivity tests and tests of stress scenarios for economic and regulatory capital and for provisions. Analysis and reporting of the results of the tests covers the impact of changes of macroeconomic indicators on the levels of credit risk parameters such as:

- Probability of Default (PD),
- loss given default (LGD) in case of default by customers,
- amount of credit exposure at the time of default by customers (EAD),
- credit exposure amount to collateral (LTV),
- the ratio of expenses related to servicing loan liabilities and financial liabilities (other than loans) to the retail customers' income (DTI).

The results of stress tests are used inter alia in the following processes:

- setting RAS limits and internal limits mitigating credit risk,
- defining the calculation principles of credit worthiness and reliability, in particular to determine maximum levels of DTI and LTV.

Credit risk management of individual credit exposures

Credit risk management of individual credit exposures covers:

- determination of the credit risk management process for transactions exposed to credit risk,
- management of documentary requirements applicable to the Bank's credit customers,
- determination of credit analysis standards,
- determination of the maximum levels of DTI, LTV and the minimum levels of customers; 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,
  - customer economic and financial situation monitoring,
  - monitoring of compliance with contractual terms and conditions by customers,
  - 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 customers at Stage 3.

In the process of underwriting and managing individual credit exposures, the following actions are executed:

- customer and transaction risk assessment,
- approving credit decisions,
- monitoring.
- restructuring and collection.

Customer and transaction risk assessment

The major elements in the assessment process of customer and transaction credit risk include:

- <u>assessment of customers' creditworthiness</u>

  The Bank reviews customers' creditworthiness by:
  - verifying compliance with minimum criteria,
  - determining customers' rating or score in the rating or scoring process respectively.

  Measurement of customers' risk in the rating or scoring process relies on an estimated PD (probability of default). Financing may be provided to customers when a rating or a score is determined at a pre-determined minimum level for each customer type, credit process or product.

  Review of creditworthiness of corporate customers in the rating process is made on the basis of:
  - the rating assigned to the entity applying for credit exposure, providing collateral (surety, guarantee) and other entities if so required by the nature of collateral or transaction (e.g. debtors of receivables assigned to the Bank),
  - the "four-eye principle", that is:
    - commercial functions are separated from the rating approval functions that are performed by the CRO Risk Division units, or
    - the operating principles of automatic rating models approved by the Credit Policy Committee.

  Review of creditworthiness of retail customers 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.:

  - customer'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 customer'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 customer's statistical risk level. The applied customers' 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 customers of their credit exposures in the specified amounts, times and subject to terms and conditions determined by the Bank. The customers' potential is subject to a review of customers' creditworthiness in the rating and scoring process. The review of creditworthiness also provides for the FX risk and interest rate risk to which the debtors are exposed.

  The analysis of creditworthiness of corporate customers and enterprises may cover the following areas:

  – customers' 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 customers' creditworthiness covers:

  – determination of the amount and stability of the generated income (quantitative analysis),
  – determination of the amount of the customers' 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 customers' 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 customers' 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, customer'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 customer adversely affect the Bank's reputation.
  - Relation of risk level to pricing conditions, etc.

Impact of collateral on expected loss estimation models

With respect to corporate loans for which the Group applies the AIRB method, collateral is taken into account in LGD models by applying haircuts: the value of collateral multiplied by (1-Haircut) attributed to the specific type of collateral decreases the loss on an exposure in default if the exposure does not return to the performing portfolio:

LGD = (1-*Cure_Rate*) * [EAD – collateral_value * (1-*Haircut*) – Unsecured_Amount * *Unsecured_Recovery_Rate*] / EAD+*Costs*.

Core types of collateral and their attributable recovery rates (1-Haircut):

Collateral group	Recovery rate	
	LGD CORP model	SME LGD model
Funds (deposits with the Bank or another bank)	100%	95%
Liquid securities	75%	50%
Properties	60%	42%
Motor vehicles	55%	-
Receivables	50%	20%
Plant and machinery	45%	42%
Inventories	45%	15%
Intangible assets	10%	-
Other collateral	10%	0%

Guarantees / sureties	Recovery rate	
	LGD CORP model	SME LGD model
Export Credit Agencies (ECA): KUKE, Hermes	100%	99.59%
Sovereign	90%	90%
Banks: central banks, banks – investment rating 10 or better	90%	90%
Banks: central banks, banks – ratings of 11-15	80%	-
ING internal banking	100%	0%
ING internal banking (ING Group entities)	90%	0%
Non-banking financial institutions (NBFI), investment rating 10 or better	90%	60%
Non-banking financial institutions (NBFI), of 11-15	80%	10%
Corporations, annual sales in excess of EUR 100 million, investment rating of 10 or better	90%	30%
Parent entities or other related entities in line with the one-debtor principle, annual sales in excess of EUR 100 million, investment rating of 10 or better	70%	10%
Corporations, annual sales in excess of EUR 100 million, rating of 11-15	70%	30%
Parent entities or other related entities in line with the one-debtor principle, annual sales in excess of EUR 100 million, investment rating 11-15	50%	10%
Companies with annual sales from EUR 1,200 thousand to EUR 100 million, rating of 15 or better	40%	30%
Parent entities or other related entities in line with the one-debtor principle, annual sales in excess of EUR 1,200 thousand to EUR 100 million, investment rating of 15 or better	20%	10%
Private individuals	0%	0%

In case of retail loans, collateral affects the estimation of expected losses primarily for mortgage loans. Herebelow there is impact of LTV on LGD for mortgage loans as at 31.12.2019 and 31.12.2018.

Mortgage loans in Stage 3 – impact of LTV on LGD:

2019

LTV ratio	Average LGD ratio
0-50%	25%
50-100%	44%
above 100%	64%

2018

LTV ratio	Average LGD ratio
0-50%	29%
50-100%	43%
above 100%	62%

Maximum recognisable amount of collateral or guarantee

2019

	Maximum recognisable amount of collateral or guarantee				
	mortgage-backed loans		other secured loans		financial guarantees received
	housing loans	commercial loans	cash funds (issued debt instruments)	other	
Loans and advances, of which:	**37 141.8**	**21 375.9**	**171.5**	**6 814.7**	**17 676.1**
other financial institutions	0.0	0.0	20.5	597.2	7 437.0
non-financial entities	181.4	18 770.3	134.6	5 696.2	9 720.3
households	36 960.4	2 599.4	16.4	509.1	315.3
including: loans to purchase residential properties	34 801.2	517.5	0.2	0.2	0.0
other entities (banks. budgetary sector)	0.0	6.2	0.0	12.2	203.5

2018

	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)	other	
Loans and advances, of which:	**32 816.1**	**19 373.3**	**148.9**	**7 024.6**	**16 239.1**
other financial institutions	0.0	0.0	0.0	299.2	5 806.2
non-financial entities	153.5	17 029.4	144.5	6 216.8	10 093.0
households	32 661.7	2 310.9	4.4	485.8	287.9
including: loans to purchase residential properties	30 241.8	437.9	1.6	0.3	0.4
other entities (banks. budgetary sector)	0.9	33.0	0.0	22.8	52.0

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 judgement relying on the results of risk measurement made with supporting tools as specified in the credit policy and procedures. The following exceptions apply: automatic decisions approved by the IT system or semi-automatic decisions taken within simplified credit process paths.

Credit decisions are taken along with an adequate path on the basis of a comprehensive transaction risk analysis subject to transaction complexity and amount. With respect to paths with a higher automation level, the analysis of transaction list is based on clearly defined criteria, including behavioural criteria, and on an automatic calculation of the credit limit on the basis of an algorithm approved by the Credit Policy Committee.

Credit decisions for portfolios in Stage 1 and 2 are taken:

- collectively by the **Bank's Credit Committee** – this applies to the largest credit exposures,
- **by two persons –** by business units and units responsible for transactional credit risk,
- **by one person** – by the Risk Manager for small credit exposures.

The mode of decision taking does not release any participant from their personal responsibility for the approved decisions.

Credit decision takers in the two-person approval mode are attributed individual personal credit authority with the amount subject to their knowledge and experience. Competence levels are correlated with the credit risk level. With a higher credit risk, credit decisions are taken by more experience persons. The principles of granting and revoking credit authority are separate for specific customer segments.

When setting an adequate level of credit authority for corporate customers, the Group's total exposure to the customer'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 customer. All transactions are underwritten in compliance with clearly defined decision rules and credit authority.

Credit decisions relating to the portfolio in Stage 3 are taken by two persons or by the Restructuring Committee.

Monitoring

Monitoring applies to all credit exposures generating credit risk, including concentration risk and transactions in financial markets. The objective of monitoring is to identify early warning signals to prevent the occurrence of non-performing loans and to identify early impairment indications or evidence so that the Bank can take appropriate mitigation actions. The monitoring of approved credit exposures includes:

- history of repayments to the Bank (timely repayments),
- compliance by the customer with other contractual terms and conditions,
- customer'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 customer 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 customers 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 customer, the Bank sets the best form of support or a settlement.

The main objective of the actions taken in the portfolio in Stage 3 is to mitigate the risk of losses to the Bank or the volume of such losses.

The Bank applies the following strategies in the portfolio in Stage 3:

- debt restructuring – in cooperation with the customer which in particular may consist in modifications to contractual terms and conditions in order to adapt debt repayment to the customer'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 customer 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 customers – by way of amicable collection: offering the customers voluntary repayment as a part of collection strategy.

Forbearance

Forbearance occurs when the Bank determines that the customer is not able to comply with their financial obligations due to financial difficulties (identified or expected within a short time) and decides to grant forbearance.

Forbearance is identified if all of the following conditions are satisfied:

- problems have been identified with the repayment of financial obligations by the customer or the Bank anticipates such difficulties in the near future,
- The Bank has decided to grant forbearance to the customer with difficulties in order to facilitate repayment by the borrower or to prevent the occurrence of such difficulties in repayment,
- forbearance is not provided under commercial reasons and is granted under terms and conditions deviating from market conditions,
- the customer has accepted forbearance, i.e. the existing terms and conditions of the agreement have been amended, a refinancing agreement has been concluded or an embedded forbearance clause has come into effect, or the Bank has waived undertaking actions in a situation of a material default by the customer on a key financial clause.

Split of the credit portfolio into performing or non-performing portfolios with details of exposures with forbearance

2019	Performing exposures	including forbearance				Non-performing exposures	including forbearance				
			Modification of terms and conditions	Refinancing	Quarantine*			Modification of terms and conditions	Refinancing	Overdue portfolio	Impaired portfolio
Gross loan portfolio, of which:	**99 640.9**	**438.1**	**437.7**	**0.4**	**438.1**	**2 882.4**	**684.0**	**677.3**	**6.6**	**677.4**	**677.4**
Corporate banking, of which:	**57 933.0**	249.9	249.5	0.4	249.9	**1 978.0**	557.4	550.7	6.6	557.0	557.0
overdraft facilities	**12 614.2**	31.3	31.3	0.0	31.3	**696.9**	63.5	63.0	0.4	63.5	63.5
terms loans and borrowings	**42 814.2**	218.6	218.2	0.4	218.6	**1 281.1**	493.9	487.7	6.2	493.5	493.5
(corporate and municipal) debt securities	**2 504.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**41 707.9**	188.2	188.2	0.0	188.2	**904.4**	126.6	126.6	0.0	120.4	120.4
mortgage loans and borrowings	**29 547.5**	83.3	83.3	0.0	83.3	**194.1**	49.8	49.8	0.0	45.5	45.5
overdraft facilities	**1 309.5**	2.6	2.6	0.0	2.6	**73.0**	2.6	2.6	0.0	2.5	2.5
other loans and borrowings	**10 850.9**	102.3	102.3	0.0	102.3	**637.3**	74.2	74.2	0.0	72.4	72.4
Allowance for expected losses, of which:	**-555.6**	**-16.8**	**-16.7**	**-0.1**	**-16.8**	**-1 740.3**	**-338.9**	**-334.2**	**-4.7**	**-337.8**	**-337.8**
Corporate banking, of which:	**-94.4**	-3.9	-3.8	-0.1	-3.9	**-1 082.2**	-256.7	-252.0	-4.7	-256.7	-256.7
overdraft facilities	**-17.9**	-0.5	-0.5	0.0	-0.5	**-445.1**	-30.6	-30.4	-0.2	-30.6	-30.6
terms loans and borrowings	**-75.9**	-3.4	-3.3	-0.1	-3.4	**-637.1**	-226.1	-221.6	-4.5	-226.1	-226.1
(corporate and municipal) debt securities	**-0.6**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**-461.2**	-12.9	-12.9	0.0	-12.9	**-658.1**	-82.2	-82.2	0.0	-81.1	-81.1
mortgage loans and borrowings	**-105.5**	-4.0	-4.0	0.0	-4.0	**-100.1**	-25.4	-25.4	0.0	-24.7	-24.7
overdraft facilities	**-47.3**	-0.1	-0.1	0.0	-0.1	**-54.2**	-1.4	-1.4	0.0	-1.4	-1.4
other loans and borrowings	**-308.4**	-8.8	-8.8	0.0	-8.8	**-503.8**	-55.4	-55.4	0.0	-55.0	-55.0
Net loan portfolio, of which:	**99 085.3**	**421.3**	**421.0**	**0.3**	**421.3**	**1 142.1**	**345.1**	**343.1**	**1.9**	**339.6**	**339.6**
Corporate banking, of which:	**57 838.6**	246.0	245.7	0.3	246.0	**895.8**	300.7	298.7	1.9	300.3	300.3
overdraft facilities	**12 596.3**	30.8	30.8	0.0	30.8	**251.8**	32.9	32.6	0.2	32.9	32.9
terms loans and borrowings	**42 738.3**	215.2	214.9	0.3	215.2	**644.0**	267.8	266.1	1.7	267.4	267.4
(corporate and municipal) debt securities	**2 504.0**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**41 246.7**	175.3	175.3	0.0	175.3	**246.3**	44.4	44.4	0.0	39.3	39.3
mortgage loans and borrowings	**29 442.0**	79.3	79.3	0.0	79.3	**94.0**	24.4	24.4	0.0	20.8	20.8
overdraft facilities	**1 262.2**	2.5	2.5	0.0	2.5	**18.8**	1.2	1.2	0.0	1.1	1.1
other loans and borrowings	**10 542.5**	93.5	93.5	0.0	93.5	**133.5**	18.8	18.8	0.0	17.4	17.4

*) the Quarantine class includes those exposures to which forbearance was applied in the past and which are now in the watch process before complete return to performing loans

2018	Performing exposures	including forbearance				Non-performing exposures	including forbearance				
			Modification of terms and conditions	Refinancing	Quarantine*			Modification of terms and conditions	Refinancing	Overdue portfolio	Impaired portfolio
Gross loan portfolio, of which:	**97 578.2**	**565.8**	**563.5**	**2.3**	**565.8**	**2 489.4**	**629.4**	**628.2**	**1.2**	**611.8**	**611.8**
Corporate banking, of which:	**53 992.2**	377.8	375.5	2.3	377.8	**1 700.8**	502.2	501.0	1.2	490.2	490.2
overdraft facilities	**10 101.9**	129.3	127.4	1.9	129.3	**681.0**	75.7	75.7	0.0	72.4	72.4
terms loans and borrowings	**38 309.7**	248.5	248.1	0.4	248.5	**1 019.8**	426.5	425.3	1.2	417.8	417.8
(corporate and municipal) debt securities	**2 809.8**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**43 586.0**	188.0	188.0	0.0	188.0	**788.6**	127.2	127.2	0.0	121.6	121.6
mortgage loans and borrowings	**33 159.2**	90.5	90.5	0.0	90.5	**212.5**	57.4	57.4	0.0	53.5	53.5
overdraft facilities	**1 257.4**	2.7	2.7	0.0	2.7	**71.8**	2.3	2.3	0.0	2.2	2.2
other loans and borrowings	**9 169.4**	94.8	94.8	0.0	94.8	**504.3**	67.5	67.5	0.0	65.9	65.9
Allowance for expected losses, of which:	**-517.2**	**-16.4**	**-16.3**	**-0.1**	**-16.4**	**-1 593.6**	**-340.5**	**-339.9**	**-0.6**	**-338.4**	**-338.4**
Corporate banking, of which:	**-100.5**	-3.0	-2.9	-0.1	-3.0	**-1 005.7**	-255.5	-254.9	-0.6	-254.5	-254.5
overdraft facilities	**-22.1**	-0.6	-0.6	0.0	-0.6	**-438.0**	-38.5	-38.5	0.0	-38.5	-38.5
terms loans and borrowings	**-77.9**	-2.4	-2.3	-0.1	-2.4	**-567.7**	-217.0	-216.4	-0.6	-216.0	-216.0
(corporate and municipal) debt securities	**-0.5**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**-416.7**	-13.4	-13.4	0.0	-13.4	**-587.9**	-85.0	-85.0	0.0	-83.9	-83.9
mortgage loans and borrowings	**-101.4**	-4.3	-4.3	0.0	-4.3	**-123.5**	-32.0	-32.0	0.0	-31.1	-31.1
overdraft facilities	**-49.6**	-0.1	-0.1	0.0	-0.1	**-56.2**	-1.3	-1.3	0.0	-1.3	-1.3
other loans and borrowings	**-265.7**	-9.0	-9.0	0.0	-9.0	**-408.2**	-51.7	-51.7	0.0	-51.5	-51.5
Net loan portfolio, of which:	**97 061.0**	**549.4**	**547.2**	**2.2**	**549.4**	**895.8**	**288.9**	**288.3**	**0.6**	**273.4**	**273.4**
Corporate banking, of which:	**53 891.7**	374.8	372.6	2.2	374.8	**695.1**	246.7	246.1	0.6	235.7	235.7
overdraft facilities	**12 850.6**	128.7	126.8	1.9	128.7	**243.0**	37.2	37.2	0.0	33.9	33.9
terms loans and borrowings	**38 231.8**	246.1	245.8	0.3	246.1	**452.1**	209.5	208.9	0.6	201.8	201.8
(corporate and municipal) debt securities	**2 809.3**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking, of which:	**43 169.3**	174.6	174.6	0.0	174.6	**200.7**	42.2	42.2	0.0	37.7	37.7
mortgage loans and borrowings	**33 057.8**	86.2	86.2	0.0	86.2	**89.0**	25.4	25.4	0.0	22.4	22.4
overdraft facilities	**1 207.8**	2.6	2.6	0.0	2.6	**15.6**	1.0	1.0	0.0	0.9	0.9
other loans and borrowings	**8 903.7**	85.8	85.8	0.0	85.8	**96.1**	15.8	15.8	0.0	14.4	14.4

*) the Quarantine class includes those exposures to which forbearance was applied in the past and which are now in the watch process before complete return to performing loans

Exposures with approved forbearance by risk classes

risk rating	gross exposure in PLN million 2019				gross exposure in PLN million 2018			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
Corporate banking	**249.9**	**26.6**	**557.4**	**25.9**	**377.8**	**78.7**	**502.2**	**7.7**
low risk classes (rating 1-10)	0.0	1.0	0.0	0.0	-	-	-	-
medium and high risk classes (rating 11-17)	198.0	21.2	0.3	0.0	288.7	74.7	1.9	-
problem risk classes (rating 18-22)	51.8	4.4	557.1	25.9	89.0	4.0	500.3	7.7
Retail banking	**188.2**	**0.0**	**126.6**	**0.0**	**188.0**	**0.0**	**127.2**	**0.0**
low risk classes (rating 1-10)	44.7	0.0	0.0	0.0	45.8	-	0.1	-
medium and high risk classes (rating 11-17)	118.1	0.0	2.8	0.0	117.5	-	2.8	-
problem risk classes (rating 18-22)	25.5	0.0	123.8	0.0	24.8	-	124.3	-
Total	**438.1**	**26.6**	**684.0**	**25.9**	**565.8**	**78.7**	**629.4**	**7.7**

ING Bank Śląski S.A.
Annual financial statements for the period from 1 January 2019 to 31 December 2019 (PLN million)

Exposures with approved forbearance by overdue periods

number of days past due	gross exposure in PLN million 2019				gross exposure in PLN million 2018			
	performing portfolio		non-performing portfolio		performing portfolio		non-performing portfolio	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
Corporate banking	**249.9**	**26.6**	**557.4**	**25.9**	**377.8**	**78.7**	**502.2**	**7.7**
0	245.4	26.6	222.1	25.9	335.8	78.7	203.8	7.7
1-30	0.1	0.0	0.7	0.0	1.7	-	4.1	-
31-60	1.0	0.0	8.4	0.0	5.5	-	8.2	-
61-90	3.4	0.0	11.2	0.0	34.8	-	18.4	-
91-180	0.0	0.0	34.9	0.0	-	-	90.0	-
181-365	0.0	0.0	55.2	0.0	-	-	41.2	-
>365	0.0	0.0	224.9	0.0	-	-	136.5	-
Retail banking	**188.2**	**0.0**	**126.6**	**0.0**	**188.0**	**0.0**	**127.2**	**0.0**
0	152.5	0.0	57.1	0.0	156.0	-	52.6	-
1-30	28.6	0.0	15.1	0.0	27.0	-	25.3	-
31-60	5.4	0.0	10.3	0.0	4.0	-	10.8	-
61-90	1.7	0.0	5.4	0.0	1.0	-	4.1	-
91-120	0.0	0.0	2.4	0.0	-	-	2.3	-
121-150	0.0	0.0	1.4	0.0	-	-	1.2	-
151-180	0.0	0.0	1.6	0.0	-	-	2.7	-
>180	0.0	0.0	33.3	0.0	-	-	28.2	-
Total	**438.1**	**26.6**	**684.0**	**25.9**	**565.8**	**78.7**	**629.4**	**7.7**

In the profit and loss account for 2019, the item Interest income – interest on loans and other receivables from customers, contains interest income on exposures with forbearance of PLN 38.3 million (PLN 38.6 million for 2018), of which PLN 20.4 million relates to exposures in the performing portfolio and PLN 17.9 million relates to exposures in the non-performing portfolio (for 2018 – PLN 25.4 million and PLN 13.2 million respectively).

7. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions as well as capitals and liquidity buffers.

The credit risk management system at the Bank is composed of the following:

- general rules governing management and mitigation of credit risk,
- RAS strategies and limits,
- policies, instructions and procedures relating to credit risk management,
- systems, tools and model relating to credit risk,
- a management reporting system that provides for risk level monitoring,
- an organisational structure that is adjusted to the size and profile of the credit risk that the Bank incurs.

The actions taken by the Bank within its risk management system may be as follows:

- risk avoidance – closing or restricting certain types of activity that generate too high risks or types of risks that may not be effectively controlled,
- risk mitigation – actions aimed at mitigating the likelihood of occurrence of disadvantageous events of mitigating the effects of such events,
- risk transfer – risk transfer in whole or in part to another entity, e.g. by insurance or securitisation of the credit portfolio,
- risk acceptance – refraining from taking the actions specified above due to economic or practical reasons, within the Bank's risk appetite.

Within its risk management system, the Bank applies its formalised:

- rules to determine the volume of undertaken risks and rules governing risk management,
- procedures aimed at risk identification, measurement, or estimation that also includes a predicable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded,

Additionally, the Bank:

- applies the adopted management reporting system that provides for risk level monitoring,
- has an organisational structure in place that is adjusted to the size and profile of the risk that the Bank incurs.
- has an appropriately defined assessment and measurement process of credit risk, independent of the loan underwriting function, covering:
  - an effective rating system,
  - an effective process of acquiring information, including projections, used to assess expected credit losses,
  - an assessment policy ensuring that the estimation of expected credit losses is made with an individual or collective method,
  - an effective model validation process ensuring that the models keep generating accurate, consistent and objective projections and estimates,
  - clearly formulated, formal communication and coordination of actions of all employees involved in the process of risk assessment and estimation of anticipated credit losses.

The credit risk management system existing at the Bank, including its organisational structure, organisation of the credit process, the system of internal regulations, the applied tools and models, are subject to ongoing verification and adjustment in order to ensure the implementation of the Bank's

strategy, including risk appetite. Thus, the Bank follows the objective of the adequacy of its actions relating to identification, assessment, measurement, monitoring and management of activity exposed to credit risk and to maintenance of consistency and compliance with regulatory requirements.

Credit risk management at the Bank is performed on the basis of advanced credit risk assessment models. The calculation of capital requirements for the corporate credit portfolio is performed on the basis of the Advanced IRB Approach. Also with respect to its retail portfolio the Bank intends to obtain PFSA's approval to apply the method for the portfolios of mortgage and consumer loans. The models applied by the Bank for risk management are regularly validated and developed.

The systems and models supporting the assessment of the customers' creditworthiness and credit reliability:

- corporate customers – are developed and monitored in compliance with the advanced approach to calculate capital requirements for credit risk and with the standards of the ING Group,
- retail customers – those are scoring models (application, behavioural models and BIK scoring) reflecting the statistical level of customer risk, developed in compliance with the requirements set forth in supervisory regulations,

In its assessment of credit risk, the Bank uses the following models:

- PD (Probability of Default),
- LGD (Loss given Default),
- EAD (Exposure at Default).

The models are designed in compliance with the requirements set forth in supervisory regulations and are applied inter alia to determine the volume of provisions, economic capital for credit risk for internal and external reporting requirements, reporting to the supervisory authority, to determine loan pricing and customer profitability. The effectiveness of the models is reviewed on the basis of monitoring and validation processes.

8. Exposure portfolio structure

Exposures to customers by risk classes

2019

risk rating	Exposures to corporate customers (PLN million)								Exposures to retail customers (PLN million)							
	Stage 1		Stage 2		Stage 3		TOTAL		Stage 1		Stage 2		Stage 3		TOTAL	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
low risk classes (rating 1-10)	30 687.9	17 237.9	164.3	17.9	0.0	0.0	**30 852.2**	**17 255.8**	28 414.7	3 777.6	839.8	32.1	0.1	0.0	**29 254.6**	**3 809.7**
medium and high risk classes (rating 11-17)	24 627.9	13 013.9	2 254.3	129.0	5.0	0.9	**26 887.2**	**13 143.8**	8 793.4	1 205.5	3 098.7	135.4	8.1	0.6	**11 900.2**	**1 341.5**
problem loan classes (rating 18-22)	1.4	78.3	199.8	5.3	1 970.3	89.2	**2 171.6**	**172.8**	0.1	2.9	572.0	2.6	885.4	2.1	**1 457.5**	**7.6**
Total Gross	**55 317.3**	**30 330.1**	**2 618.4**	**152.2**	**1 975.3**	**90.1**	**59 911.0**	**30 572.4**	**37 208.2**	**4 986.0**	**4 510.5**	**170.1**	**893.6**	**2.7**	**42 612.3**	**5 158.8**
allowance for expected losses	-47.8	-18.7	-46.7	-8.5	-1 082.1	-64.9	**-1 176.6**	**-92.1**	-68.7	-3.7	-394.6	-9.2	-656.0	-2.3	**-1 119.3**	**-15.2**
Net total	**55 269.5**	**30 311.4**	**2 571.7**	**143.7**	**893.2**	**25.2**	**58 734.4**	**30 480.3**	**37 139.5**	**4 982.3**	**4 115.9**	**160.9**	**237.6**	**0.4**	**41 493.0**	**5 143.6**

2018

risk rating	Exposures to corporate customers (PLN million)								Exposures to retail customers (PLN million)							
	Stage 1		Stage 2		Stage 3		TOTAL		Stage 1		Stage 2		Stage 3		TOTAL	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
low risk classes (rating 1-10)	27 550.1	13 970.7	104.6	0.6	0.0	0.0	**27 654.7**	**13 971.3**	30 245.2	3 199.7	2 277.5	192.1	0.4	0.1	**32 523.1**	**3 391.9**
medium and high risk classes (rating 11-17)	22 811.2	11 703.2	3 287.0	330.1	2.7	0.0	**26 100.9**	**12 033.3**	7 576.4	704.0	2 989.8	160.9	4.1	1.8	**10 570.3**	**866.7**
problem loan classes (rating 18-22)	0.1	111.8	252.1	2.4	1 685.2	32.3	**1 937.4**	**146.5**	0.2	0.0	506.4	4.0	774.6	0.5	**1 281.2**	**4.5**
Total Gross	**50 361.4**	**25 785.7**	**3 643.7**	**333.1**	**1 687.9**	**32.3**	**55 693.0**	**26 151.1**	**37 821.8**	**3 903.7**	**5 773.7**	**357.0**	**779.1**	**2.4**	**44 374.6**	**4 263.1**
allowance for expected losses	-49.6	-23.4	-51.9	-7.6	-1 004.7	-32.3	**-1 106.2**	**-63.3**	-57.5	-3.1	-361.3	-10.3	-585.8	-1.8	**-1 004.6**	**-15.2**
Net total	**50 311.8**	**25 762.3**	**3 591.8**	**325.5**	**683.2**	**0.0**	**54 586.8**	**26 087.8**	**37 764.3**	**3 900.6**	**5 412.4**	**346.7**	**193.3**	**0.6**	**43 370.0**	**4 247.9**

Exposures to customers by DPD

2019

number of days past due	Exposures to corporate customers (PLN million)								Exposures to retail customers (PLN million)							
	Stage 1		Stage 2		Stage 3		TOTAL		Stage 1		Stage 2		Stage 3		TOTAL	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
0	55 276.8	30 330.1	2 574.8	152.2	396.3	89.8	**58 247.9**	**30 572.1**	36 977.6	4 983.8	3 599.6	169.9	127.1	2.7	**40 704.3**	**5 156.4**
1-30	40.4	0.0	9.5	0.0	71.7	0.0	**121.6**	**0.0**	230.6	2.2	701.6	0.1	41.5	0.0	**973.7**	**2.3**
31-60	0.0	0.0	27.3	0.0	58.1	0.0	**85.4**	**0.0**	0.0	0.0	150.4	0.1	28.8	0.0	**179.2**	**0.1**
61-90	0.0	0.0	5.9	0.0	28.0	0.0	**33.9**	**0.0**	0.0	0.0	56.3	0.0	26.1	0.0	**82.4**	**0.0**
91-180	0.0	0.0	0.7	0.0	180.7	0.0	**181.4**	**0.0**	0.0	0.0	1.8	0.0	110.0	0.0	**111.8**	**0.0**
181-365	0.0	0.0	0.1	0.0	280.9	0.0	**281.0**	**0.0**	0.0	0.0	0.3	0.0	185.1	0.0	**185.4**	**0.0**
>365	0.1	0.0	0.1	0.0	959.6	0.3	**959.8**	**0.3**	0.0	0.0	0.5	0.0	375.0	0.0	**375.5**	**0.0**
Total Gross	**55 317.3**	**30 330.1**	**2 618.4**	**152.2**	**1 975.3**	**90.1**	**59 911.0**	**30 572.4**	**37 208.2**	**4 986.0**	**4 510.5**	**170.1**	**893.6**	**2.7**	**42 612.3**	**5 158.8**

2018

number of days past due	Exposures to corporate customers (PLN million)								Exposures to retail customers (PLN million)							
	Stage 1		Stage 2		Stage 3		TOTAL		Stage 1		Stage 2		Stage 3		TOTAL	
	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet	on-balance sheet	off-balance sheet
0	50 339.0	25 785.7	3 551.4	333.1	461.7	32.3	**54 352.1**	**26 151.1**	37 606.6	3 892.5	4 918.1	355.9	103.5	2.0	**42 628.2**	**4 250.4**
1-30	22.3	0.0	18.8	0.0	4.2	0.0	**45.3**	**0.0**	215.1	11.2	670.0	0.6	45.4	0.0	**930.5**	**11.8**
31-60	0.0	0.0	23.2	0.0	19.8	0.0	**43.0**	**0.0**	0.0	0.0	138.6	0.3	24.3	0.0	**162.9**	**0.3**
61-90	0.0	0.0	50.1	0.0	55.6	0.0	**105.7**	**0.0**	0.0	0.0	44.5	0.0	25.7	0.0	**70.2**	**0.0**
91-180	0.0	0.0	0.1	0.0	124.0	0.0	**124.1**	**0.0**	0.0	0.0	1.7	0.2	93.1	0.0	**94.8**	**0.2**
181-365	0.0	0.0	0.0	0.0	222.7	0.0	**222.7**	**0.0**	0.0	0.0	0.3	0.0	141.6	0.4	**141.9**	**0.4**
>365	0.1	0.0	0.1	0.0	799.9	0.0	**800.1**	**0.0**	0.1	0.0	0.5	0.0	345.5	0.0	**346.1**	**0.0**
Total Gross	**50 361.4**	**25 785.7**	**3 643.7**	**333.1**	**1 687.9**	**32.3**	**55 693.0**	**26 151.1**	**37 821.8**	**3 903.7**	**5 773.7**	**357.0**	**779.1**	**2.4**	**44 374.6**	**4 263.1**

Loans and other receivables to other banks and debt securities

All debt securities in the portfolio of financial assets available for trading and in the portfolio of investment securities are classified in low-risk classes with ratings from 1 to 7. All debt securities in the portfolio of investment securities are classified in Stage 1.

Loans and other receivables due from other banks in over 99% are classified as low risk (rating 1-10), the remaining ones are medium and increased risk (rating 11-14). The exposures for PLN 3 285.3 million are fully in Stage 1.

9. Core modifications to the Bank's credit policy in 2019

The modifications to the Bank's credit policy introduced in 2019 were aimed at ensuring a correct and stable functioning of the credit risk management system in the changing legal, economic and business environment and at keeping it enhanced regularly. Additionally, another objective was to ensure compliance of the policy with the approved credit risk appetite. The modifications provided inter alia for the overall economic situation in Poland and the financial condition of each borrower group.

Objectives of the modifications

- Further improvement of the effectiveness of credit processes while ensuring adequate mechanisms to identify, measure and control credit risk.
- Increased attractiveness of the Bank's credit offer for its customers assuming the Bank's credit risk remains at an acceptable level.
- Adaptation of the Bank's internal regulations to changes in the legal environment.
- Further development of the credit risk reporting and monitoring systems in order to support fast and effective risk identification and measurement.
- Further reinforcement of active management of sectoral policies by:
  - quarterly reviews of the situation in individual economic sectors, and
  - differentiation of the principles of credit policies on the basis of customer classification to sectoral risk groups (preferred sectors, neutral, watch and non-preferred sectors).

Core modifications to the Bank's credit policy in the retail customer segment

- A periodic update of assessment parameters of creditworthiness in all retail segments,
- Completion of tests of granting credit products (other than mortgage) in the channel of banking representatives in the segment of enterprises and individual customers with the launch of the process permanently to the Bank's offer,
- Adaptation of the Bank's regulations to EBA guidelines on the management of non-performing and restructured exposures,
- Suspension of preferences for individual customers classified as Premium in order to improve quality ratios of the portfolio,
- Launch of a new credit card – Visa Infinite for customers in the Private Banking and Wealth Management segments,
- With reference to mortgage loans:
  - modifications to credit risk regulations to mitigate the risk resulting from reduced income when borrowers retire,
  - determination of the borrowers' maximum age at loan repayment to 75 years,
- With reference to non-mortgage loans to individual customers:
  - implementation of a new CARE model using artificial intelligence and change to rejection criteria for electronic channels,

- permanent implementation to the offer (after a summary of completed tests) of the possibility to grant loans without the spouse's consent,
- implementation of automatic verification of inflows for applications in electronic channels (MING),
- implementation of additional documentary requirements in external channels for income from business activity,
- commencement of new tests: e-cash offers addressed mainly to new customers, possibility to consolidate loans with a BIK history of less than 6 months,

- With reference to loans to enterprises:
  - Commencement of a test for e-application processes in the unsecured offer,
  - Tightening of assessment criteria for loan applications submitted by customers acquired through external channels,
  - An update to the assessment principles of Housing Communities in the granting process of investment loans,
  - change to the monitoring principles of customers' economic and financial situation.

Core modifications to the Bank's credit policy in the corporate customer segment

- Optimisation of the calculation and reporting processes of provisions for expected credit losses under exposures from transactions in financial markets with an update of the FM Methodology,
- Enhancement of the credit process for Investment Fund Companies (pilot program) by implementing an automatic monthly monitoring,
- Adaptation of the Bank's regulations to EBA guidelines on the management of non-performing and restructured exposures.
- Implementation of part automation of decisions taken in remote renewal processes,
- Adding an electronic process of signing credit documentation to shorten the time to sign agreements and thus simplifying the entire sales process of credit products,
- Implementation of a possibility to approve ratings in the ING CMS system for corporate customers with annual sales up to EUR 100 million thus incorporating the IT system to the list of systems of the AIRB approach,
- Incorporation of one more business activity to be covered with the regulation concerning Environmental and Social Risk along with an extension of the coverage of the Exclusion Policy (inter alia: manufacturing, delivery and trade in asbestos fibres),
- Implementation of modifications to the regulations concerning the credit Fast Track as a result of a new limit dedicated to trade finance products secured with cash,
- Implementation of modifications to the credit risk regulations as a result of a review of the rules on collateralisation of credit exposures.

Core activities in the modelling area

- Ensuring progress in the reconstruction process of SME capital models. Development of a PD model approved by the working group, completion of works on the structure of the EAD model and work on calibration, determination of achieved parameters of the LGD model and work on risk drivers.
- Cooperation with ING Bank N.V. over the enhancement of group standards for model design that are used to calculate capital requirements with an Advanced Internal Rating-Based approach.

- Development of a tool to simulate provisions in line with IFRS 9. Adaptation of a new SICR threshold for the SME segment to business expectations. First monitoring of IFRS 9 models. Update of the estimation methodology of total repayment rates (ESR) used in the provision calculation process.
- Development of a specification for data structure to support the application of analytical tables for risks in the following processes: modelling, monitoring, model re-implementation, ad-hoc analyses, provision of data for other projects. The first evidence for the anticipated functionality of the analytical tables is the application of data from the structures in the development process of a model for personalised (pre-approved) offers for retail customers.
- Development of a new application PD model for corporate customers handled in the Easy Lending path. The project is to be completed in Q2 2020.
- Implementation of modifications of a new version of the CARE model, supporting the process of retail customer risk assessment in remote channels.
- Model monitoring in line with monitoring plan. Work on automation of the monitoring process of capital models.
- Completion of stress tests for credit risk in all stress-test processes, also in compliance with the requirements of the Polish Financial Supervision Authority.

The methodology and assumptions used in estimating write-offs for expected credit losses on financial assets that are measured at amortized cost or at fair value through other comprehensive income, in terms of both the amount and moments of future cash flows, are regularly reviewed and updated as necessary .

In accordance with the methodology adopted by the Bank, changes in the level of write-offs on expected credit losses are affected, among others, by changes in estimates of the macroeconomic indicators used. In addition, as part of the regular validation process of impairment models in 2019, the following was done:

- update of the assumptions in the area of significant change in credit risk (SICR) for the SME portfolio,
- the cure rate parameter in the LGD model for the retail mortgage portfolio were updated, and
- a recalibrated version of the LGD model for leasing exposures was implemented, which aimed to improve the quality of model prediction.

III. Market risk

1. Introduction

The core objectives of credit risk management at ING Bank Śląski S.A. include: ensuring that awareness and understanding exists of the Bank's market risk exposure and that the exposure is adequately managed and falls within the approved limits when applicable.

Market risk is defined as a potential loss that may be suffered by the Bank in connection with unfavourable changes to market prices (such as profitability curves, FX rate, prices in capital markets), market parameters (volatility of market prices, correlation between price changes) and customer behaviour (e.g. loan prepayments).

2. Policy of market risk management

The market risk management process at the Bank covers risk identification, measurement, monitoring and reporting. The Market Risk Management Department (DZRR) provides managers of the Financial Market Division and the Group Treasury, selected members of the Management Board and ALCO with

regular risk reports. Additionally, ALCO, the Bank's Management Board and Supervisory Board are provided with periodic reports with the major measures of market risk. Employees of the Market Risk Management Department are qualified specialists and the independence of the department is assured by its separation from the risk generating units.

Credit risk management in the Bank also includes the Product Control function which assures correct pricing of products of the Financial Markets and the Group Treasury by monitoring the adequacy of pricing models and quality control of market data used to the evaluation and calculation of financial results. Decisions related to the pricing process such as: sources of market data used for valuation, calculation of provisions concerning market pricing models, are taken by the Parametrisation Committee which is composed of representatives of DZRR, the Financial Markets Division, the CFO Division, including the Group Treasury.

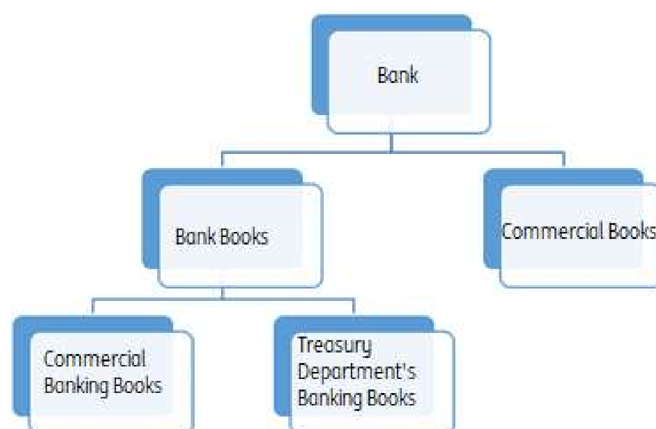
In the period under report, the market risk profile and the risk management methods were not materially changed.

3. Structure of the Bank's books and methods of risk management

The Bank maintains the structure of its books relying on intentions which is translated into multiple processes, including market risk management. The book structure reflects the types of market risk that are anticipated and accepted in the Bank's areas and of the fact that market risk should be internally transferred/mitigated. The books are grouped by an intention to maintain positions split into:

- “trading” (positions taken in order to generate benefits in a short period of time due to market price fluctuations), and
- “banking” (all other positions).

The overall structure of the Bank's books is as follows:



The Banking Books are split into Banking Commercial Books and Banking Books of the Group Treasury. The Banking Commercial Books include books of the retail and corporate divisions containing deposits and commercial loans. The risks relating to those positions are transferred to:

- banking books of the Group Treasury (for interest rate risk, base and liquidity risk), and
- commercial books of the Financial Markets 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 is included in the Bank's commercial books.

The Banking Books of the Group Treasury are books used to manage:

- the Bank's liquidity risk as a whole, and
- interest rate risk in the banking book.

Maintenance of open positions is permissible within the approved market risk limits:

- NIIaR (Net Interest Income at Risk)– the limit applies to the entire banking book.
- EVE (Economic Value of Equity)– the limit applies to the entire banking book.
- NPVaR (Net Present Value at Risk) – the limit applies to the entire banking book.
- Slope – see the description concerning trading books,
- CS01 – this is a change to the market value of securities as a result of the credit spread growing by 1 basis point,
- 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,
- BPV – see the description concerning trading books.

Hedge accounting is a tool supporting the management of interest rate risk in the banking book. The developed assumptions to the hedging strategy are applied consistently with the approach to market risk management within the approved market risk limits as described above. Detailed information on the assumptions underlying each strategy in hedge accounting are described in point 7.

Trading Books are the books of the Financial Markets area: FX and interest rate books. The books embrace positions maintained for a short time in order:

- to be resold, or
- to obtain financial benefits on the current price fluctuations or expected within a short time,
- or positions opened for arbitration purposes.

The open positions in the trading books are limited with the following risk measures:

- Value at Risk – VaR shows the potential loss level which should be exceeded with a certain assumed confidentiality level (probability). The Bank determines VaR for interest rate and FX portfolios applying the method of historic simulation,
- Slope – The "slope" risk shows the risk of an adverse impact on the result due to an uneven shift of the profitability curve – the underlying assumption is a change of the curve slop by one basis point every year. The "slope" risk is calculated for each currency and jointly at the trading portfolio level (including netting of positions among currencies),
- Basis Point Value (BPV) – BPV is defined as a change to the value of future flows (NPV) as a result of a parallel shift of the profitability curve. This is a measure of portfolio sensitivity to interest rate changes.

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. Scenarios are updated that provide for gradual:
  - parallel shift of the curve,

  - steepening of the curve,
  - flattening of the 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. Scenarios are updated that provide for sudden:
  - parallel shift of the curve,
  - steepening of the curve,
  - flattening of the 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. In EVE measurements, the Bank applies scenarios and methodologies specified in EBA regulations as a shock regulatory scenario and additional six scenarios resulting from BCBS standards. The idea of EVE calculation is based on deducting NPV for the base scenario from appropriate NPV values for regulatory scenarios.

Additionally, the Bank measures in its banking books:

- option risk – potential losses on the positions resulting from premature deposit withdrawal and/or loan prepayment,
- residual risk – a potential loss on those positions resulting from the application of non-standard pricing mechanisms that are transferred to the Group Treasury managing interest rate risk.

The above risks have an immaterial status (potential losses account for a very negligible proportion in historic and projected results).

Due to the fact that the positions of the Group Treasury are usually subject to valuation at amortised cost, the Bank monitors BPV which limits economic risk of interest rate positions. Additionally, fluctuations of the revaluation reserve are restricted with CS01, IR RRaR and CS RRa limits.

Method of income exposed to risk (NIIaR)

The measurement of income at risk is applied to all positions in the banking books. Two approaches are used to the measurements:

- basic" – used for the positions including term transactions and small volumes of demand positions. The approach provides that:
  - prices of positions with variable interest rates are updated on repricing dates in compliance with the applicable interest rate index,
  - positions with fixed interest rates are renewed in compliance with the structure set for the date of the analysis,
  - results on positions of the Group Treasury are calculated with an assumption that the position structure remains unchanged during the analysis;
- "advanced" – applied for major volumes of positions on demand. Now this is a demand deposit base in PLN and EUR and internal investments in the banking books of the Group Treasury. The measurement sets changes to the Bank's results due to:
  - current (internal) investments of the funds and revolving investments since the investments expire and/or new volumes occur; future investments (re-investments) are projected with an assumed continuation of the existing investment principles,
  - assessment of relations between changes to interest rates and the rates that the Bank must pay to customers in order to retain the volumes.

Both approaches cover an annual horizon and show potential changes to the results in case of market changes resulting from the analyses scenarios.

The method of net present value of discounted future flows at risk (EVE)

The measurement of the net present value of discounted future flows at risk (EVE) is a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes. The measurement is made subject to the following assumptions:

- curve change in a scenario by applying a dynamic level limit (floor): -1% (for 0 years) and 0% (for 20 years),
- a risk-free curve is applied for discounting,
- equity is excluded from liabilities,
- flows resulting from interest rates are discounted (interest is disregarded accrued as credit margins).

The measurement is applied for all positions in the banking books and is subject to regulatory limits as follows:

- 20% of equity – for a regulatory scenario +- 2%,
- 15% of Tier1 capital – for six BCBS scenarios.

The method of net present value of discounted future flows at risk (NPVaR)

The measurement of the net present value of discounted future flows at risk (NPVaR) is a measure of sensitivity of the economic value of interest rate positions to sudden interest rate changes. The measurement is made subject to the following assumptions:

- no restriction (floor) for curve changes in the scenario,
- a risk-free curve is applied for discounting,
- equity is included in liabilities,
- all flows resulting from interest rates are discounted (interest accrued as credit margins are included).

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.

The adequacy of the VaR model for trading books is verified in daily VaR backtesting. The "daily" and "hypothetical" financial result (determined as the daily change of the value of positions kept at the day end and thus excluding all intra-day transactions) is compared to VaR. Instances of exceeded results are investigated and clarified in detail.

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 is aware of the fact that VaR does not provide a full picture of market risk of each portfolio since it fails to provide for losses in case of extreme changes of market conditions. In his connection, the Bank calculates Stressed VaR. Stressed VaR is a measure replicating the calculation of historic simulations with an assumption that the current portfolio is used for the measurement and historic market data from a continuous 12-month period characterised with major fluctuations of market parameters that are material for the portfolio.

Every six months, a general stress-test is performed covering inter alia market risk, liquidity risk and credit risk on the basis of a regulatory scenario and scenarios developed by the Bank's economists and approved by ALCO. Additionally, on a quarterly basis a stress test i held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

Value at Risk (VaR)

The Financial Markets Area has been actively opening trading positions in interest rates while mitigating commercial FX risk. The average use of VaR limits in 2019 was:

- 24% for interest rates, and
- 7% for FX positions.

During the year, the VaR limit has not been exceeded in trading activity. During an annual review, the VaR limit for FX risk was maintained at EUR 400 thousand while the VaR limit for interest rate risk – due to limited trading operations – was reduced to EUR 900 thousand.

The tables below present VaR* (PLN thousand) for 2019 and 2018:

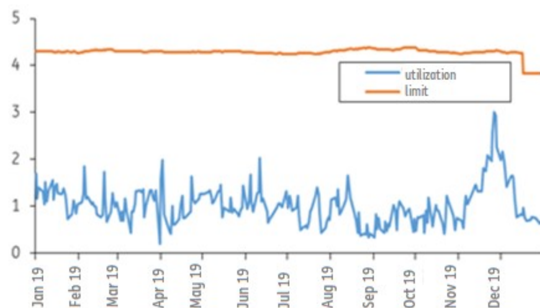
Area	Limit	as at 31.12.2019	Medium	Min.	Max.
Interest rate	3 833	676.0	1 038.9	203.3	3 017.1
FX	1 703	67.4	128.2	6.9	824.0

Area	Limit	as at 31.12.2018	Medium	Min.	Max.
Interest rate	4 300	1 750.0	770.7	208.7	2 286.9
FX	2 365	74.1	109.5	17.9	315.8

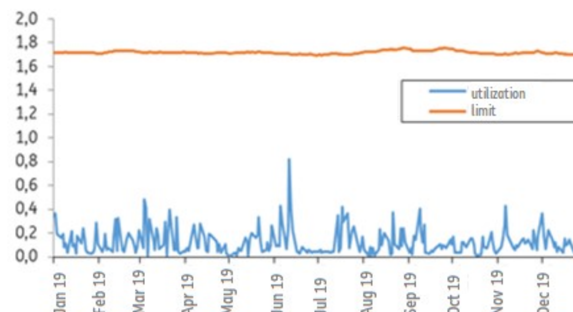
*) All VaR limits and their utilisation at ING Bank Śląski S.A. are expressed in EUR. Limit levels and their utilisation in the tables and in charts were translated into PLN at NBP's daily fixing exchange rates specially for this document; the "limit" column the amounts calculated at the fixing FX rates are on the last day of the year.

The charts below show VaR limits for the Financial Markets Area:

VaR limit for interest rate risk and its utilisation (PLN million)



VaR limit for FX risk and its utilisation (PLN million)



The tables below show BPV (in EUR) as total and for main currencies as at 31 December 2019 and 31 December 2018:

2019

Area	TOTAL	PLN	EUR	USD
BPV in the banking book	-264 603	-654 871	182 011	224 458
BPV in the trading book	-21 081	-19 232	-524	-1 128

2018

Area	TOTAL	PLN	EUR	USD
BPV in the banking book	528 744	273 514	85 096	183 429
BPV in the trading book	47 897	47 822	715	-901

6. Sensitivity of profit and equity to interest rate risk

The tables below present a review of the Bank's consolidated sensitivity to interest rate risk:

- banking book – the changes observed in the measurements both for NII and EVE result primarily from two factors:
  - changes (growth) of product volumes, and
  - changes to model parameters applied to determine the economic value of product portfolios without maturity
- market value of debt instruments classified HTC&S in the portfolio of the Group Treasury:
  - slight changes were observed to the sensitivity of the HTC&S portfolio versus the previous year. The portfolio BPV measure (short BPV position) has decreased from PLN 1.36 million to PLN 1.13 million.

The sensitivity of results to interest rate changes resulting from the banking book:

(PLN million)	Changes to economic results with an amended curve		Changes to the reported financial results with an amended curve	
	-2%	2%	-2% gradual	2% gradual
2019	495.1	-1 438.8	-116.5	16.8
2018	-1 107.2	-154.8	-77.8	5.4

The table below presents sensitivity of net interest to changes in interest rate scenarios:

	Change to net interest income	
	2019	2018
parallel +120 bps	9.8	2.4
parallel -120 bps	-55.4	-31.9
growth of short-term interest rates	-3.6	-14.1
drop of short-term interest rates	-29.8	-4.5
growth of long-term interest rates	16.8	31.6
drop of long-term interest rates	-15.1	-31.6
“twist” drop of short-term interest rates	3.5	23.1
“twist” growth of short-term interest rates	-9.8	-26.7

The sensitivity of equity to changes of interest rates under HTC&S debt securities:

(PLN million)	Approximate change in the regulatory capital base with a curve shift			
	-2%	-1%	+1%	+2%
2019	225.5	112.7	-112.7	-225.5
2018	221.0	110.5	-110.5	-221.0

7. Hedge accounting

Fair Value Hedge accounting

In fair value hedge accounting, the risk is equivalent to change in the fair value of a financial asset as a result of changes to interest rates. The hedge covers the fair value of debt instruments with a fixed interest rate that is a position (a part of position) in a security that is classified to a portfolio of assets kept to collect contractual cash flows or for sale (hereinafter: HTC&S) which at the time a hedge relationship is established holds a specific fair value recognised in other comprehensive income and a position (a part of position) in a security classified to a portfolio of financial assets kept to collect contractual cash flows (hereinafter: HTC).

For the needs of the strategy, the recognition of a part change to the fair value due to the hedged risk is made on the basis of valuation models relying on assumptions that are similar to those applicable to valuation models of interest rate derivative instruments. The valuation curves applied in the model are designed on the basis of market rates corresponding to repricing tenors of variable interest rates of hedging instruments.

Interest Rate Swap, swapping fixed interest rate into variable interest rate is the hedging instrument. The above shows that changes to the fair value of the hedging instrument manifest a trend that is opposite to changes of the fair value of the hedged position. In this connection, as a result of the established hedge relationship, the profit and loss account contains a compensating effect of changes to the fair value of the hedging instrument and the hedged position due to the hedged risk.

. In order to confirm the effectiveness of the strategy, the Bank carries out:

- prospective effectiveness test:
  - qualitative, based on the maturity of the hedged item and the hedging instrument, and
  - quantitative, based on the BPV (basis point value) of the hedged item and hedging instrument,
- retrospective effectiveness test as the quotient of changes in the valuation of the hedging instrument and changes in the valuation of the hedged item for the hedged risk.

The sources of ineffectiveness of strategies that is manifested in the profit and loss account, may result from:

- differences in the timing of cash flows of the hedged positions versus the timing of cash flows under derivative hedging instruments,

- mismatch resulting from the use of various valuation curves (that is: interest rate derivative instruments are valued on the basis of valuation curves developed on the basis of daily hedges of valuation exposures – OIS discounting),
- changes to credit risk constituting a valuation component to fair value of the hedged position from the HTC&S portfolio,
- adjustments to valuation of hedging instruments due to pre-settlement credit risk (bilateral value adjustment); however, those do not have material impact on the presented values due to the fact that only interbank market transactions were designated as hedging instruments and that are additionally hedged with a deposit margin placed or received respectively, depending on the exposure type, as well as transactions forwarded for settlement on a daily basis via the Central Counterparty.

Since hedging covers only one type of risk (interest rate risk), changes to the fair value of the hedged position classified as HTC&S resulting from other unhedged risks are recognised as other comprehensive income.

From the viewpoint of economic relationships, the Group's existing hedging strategies contain two types of hedge relationships:

- hedge of the fair value of securities in PLN with a fixed interest coupon classified as HTC&S with IRS transactions "pay fixed, collect variable", denominated in PLN,
- hedge of the fair value of securities in EUR with a fixed interest coupon classified as HTC with IRS transactions "pay fixed, collect variable", denominated in EUR.

The table below presents the fair values and nominal values of hedging and hedged instruments in fair value hedge accounting.

2019

	item in the statement of financial position – number of note	fair value		unrealised measurement result	cumulated adjustment to measurement due to the hedged risk	cumulated part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity				
		Assets	**Liabilities**				**up to 1 year**	**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Instruments hedging fair value of securities, of which:	Derivative hedging instruments	**5.5**	**71.2**	**-26.2**	**-**	**-**	**696.3**	**5 201.8**	**4 687.0**	**335.0**	**10 920.1**
settled via CCP		*5.5*	*2.5*	*-73.7*	-	-	-	*4 925.0*	*4 687.0*	*335.0*	*9 947.0*
Interest rate swaps (IRS PLN) fixed – float		5.5	2.5	-73.7	-	-	-	4 925.0	4 687.0	335.0	*9 947.0*
Interest rate swaps (IRS EUR) fixed – float		-	68.7	47.6	-	-	696.3	276.8	-	-	*973.1*
Hedged instruments, of which:		**11 385.7**	**0.0**	**79.2**	**150.8**	**-36.3**	**711.2**	**5 201.8**	**4 687.0**	**335.0**	**10 935.0**
Investment securities measured at fair value through other comprehensive income, of which:	Investment Securities	10 329.0	-	79.2	115.5	-36.3	-	4 925.0	4 687.0	335.0	9 947.0
State Treasury Bonds	Note No. 18	9 473.0	-	45.9	71.7	-25.8	-	4 925.0	3 875.0	335.0	9 135.0
bonds of the European Investment Bank	Note No. 18	856.0	-	33.3	43.8	-10.5	-	-	812.0	-	812.0
Investment securities measured at amortised cost, of which:	Investment Securities	1 056.7	-	-	35.3	-	711.2	276.8	-	-	988.0
State Treasury bonds in EUR	Note No. 18	1 056.7	-	-	35.3	-	711.2	276.8	-	-	988.0
Instruments for which the hedging relationship was cancelled, of which:											
Investment securities measured at amortised cost, of which:	Investment Securities	1 393.9	-	-	60.0	-	574.9	723.9	-	-	1 298.8
State Treasury bonds in EUR	Note No. 18	1 393.9	-	-	60.0	-	574.9	723.9	-	-	1 298.8

*) presented in the comprehensive income statement in the position: debt securities measured at fair value via other comprehensive income – profit / loss on revaluation recognised in equity

In its recognition of interest rate derivative instruments IRS/FRA, the Bank applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Bank cooperates. See Note 16 *Measurement of derivative instruments* for further information.

2018

	item in the statement of financial position – number of note	fair value		unrealised measurement result	cumulated adjustment to measurement due to the hedged risk	cumulated part of valuation of unsecured risks recognised in other comprehensive income*	nominal value of instruments with remaining maturity			
		Assets	**Liabilities**				**1 to 3 years**	**3 to 8 years**	**above 8 years**	**Total**
Instruments hedging fair value of securities, of which:	Derivative hedging instruments	**0.0**	**191.6**	-	-	-	**8 239.1**	**4 543.5**	**200.0**	**12 982.6**
settled via CCP		*0.0*	*3.3*	-	-	-	*7 536.0*	*3 877.0*	*200.0*	*11 613.0*
Interest rate swaps (IRS PLN) fixed – float		0.0	10.7	-	-	-	7 536.0	3 877.0	200.0	11 613.0
Interest rate swaps (IRS EUR) fixed – float		0.0	180.9	-	-	-	703.1	666.5	0.0	1 369.6
Hedged instruments, of which:		**13 443.3**	**0.0**	69.78	**194.0**	-7.00	**8 254.1**	**4 534.9**	**200.0**	**12 989.0**
Investment securities measured at fair value through other comprehensive income, of which:	Investment Securities	11 885.2	0.0	69.78	76.8	-7.00	7 536.0	3 877.0	200.0	11 613.0
State Treasury Bonds	Note No. 18	11 065.5	0.0	73.25	55.6	17.64	7 536.0	3 065.0	200.0	10 801.0
bonds of the European Investment Bank	Note No. 18	819.7	0.0	-3.47	21.2	-24.65	0.0	812.0	0.0	812.0
Investment securities measured at amortised cost, of which:	Investment Securities	1 558.1	0.0	-	117.2	-	718.1	657.9	0.0	1 376.0
State Treasury bonds in EUR	Note No. 18	1 558.1	0.0	-	117.2	-	718.1	657.9	0.0	1 376.0
Instruments for which the hedging relationship was cancelled, of which:										
Investment securities measured at amortised cost, of which:	Investment Securities	927.0			63.1		580.5	352.6		933.1
State Treasury bonds in EUR	Note No. 18	927.0			63.1		580.5	352.6		933.1

*) presented in the comprehensive income statement in the position: debt securities measured at fair value via other comprehensive income – profit / loss on revaluation recognised in equity

Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2019

		Nominal value of instruments with remaining maturity							
		1 to 3 years		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	-		4 925.0	1.89%	4 687.0	2.25%	335.0	1.85%
	variable %	-			1.79%		1.79%		1.79%
Interest rate swaps (IRS EUR) fixed – float	fixed %	696.3	4.34%	276.8	4.03%	-	0.0%	-	-
	variable %		-0.40%		-0.41%		0.0%		-

2018

		Nominal value of instruments with remaining maturity					
		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS PLN) fixed – float	fixed %	7 536.0	1.85%	3 877.0	2.49%	200.0	2.84%
	variable %		1.79%		1.79%		1.78%
Interest rate swaps (IRS EUR) fixed – float	fixed %	703.1	4.34%	666.5	4.11%	-	-
	variable %		-0.30%		-0.32%		-

Net interest on derivative hedging instruments is disclosed as interest on securities measured at amortised cost and interest on securities measured through other comprehensive income which presents net interest of positions hedged within the described strategy.

Measurements of hedging and hedged transactions are presented in the Group's consolidated profit and loss account as *Result of hedge accounting* and in note No. 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	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	
Hedging of debt securities in PLN	73.07	-73.75	-0.68
Hedging of debt securities in EUR	-43.98	47.57	3.61
	29.09	-26.16	2.93

Cash flow hedge accounting

The Group applies hedge accounting principles for cash flows to a specified portfolio of assets / liabilities / highly probable planned financial transactions of the Group (e.g. extrapolations of financial flows resulting from renewable deposits / overdraft facilities). The applied hedging strategies are aimed at hedging the Group's exposures against the risk of changes to future cash flows resulting from interest rate risk. The Group further applies a hedging strategy to its CHF or EUR indexed mortgage loan portfolios in order to hedge both interest rate and FX rate risks simultaneously.

The hedge applies to a specified portfolio of financial assets and/or liabilities or a portfolio of planned transactions that cover variable interest rate financial instruments (financial products based on WIBOR/ EURIBOR/LIBORCHF) and thus that are exposed to the risk of changes to future cash flows due to changes to market rates – WIBOR/EURIBOR, EURIBOR/LIBORCHF and – in the part of the portfolio denominated in CHF/EUR – exposed to FX risk due to changing FX rates.

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:

- a prospective test of high probability of future cash flows,
- retrospective test of high probability of future cash flows confirming, based on real values, that the adopted model works correctly,
- retrospective homogeneity test of the hedged item portfolio 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:

- Interest Rate Swaps: "pay variable, collect fixed" are the hedging instruments to assets in the interest rate risk hedging strategy, Interest Rate Swaps: "pay fixed, collect receivable" are the hedging instruments to liabilities and the identified parts of Currency Interest Rate Swaps that reflect Interest Rate Swaps: "pay fixed, collect variable".
- Identified parts of Currency Interest Rate Swaps that reflect the transactions: "pay variable in CHF/EUR, collect fixed in PLN" are the hedging instruments to assets in the strategies hedging both interest rate risk and FX risk.

Due to the fact that the hedging position covered with specific strategies keeps affecting the profit and loss account) (by measurement at amortised cost), net interest of the derivative instruments hedging the portfolio:

- of financial assets is presented as *interest on loans and other receivables granted to customers, measured at amortised cost,*
- of financial liabilities is presented as *interest on liabilities to customers.*

The table below presents the fair values and nominal values of hedged instruments in cash flow hedge accounting. Nominal values of derivative instruments for single currency transactions are disclosed as purchased amounts while in case of two-currency transactions – both as purchased and sold amounts.

2019

	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:	**846.1**	**474.8**	**17 565.2**	**34 841.0**	**56 914.1**	**22 737.5**	**132 057.8**
settled via CCP	*37.1*	*123.7*	*15 027.3*	*29 716.6*	*46 544.0*	*22 737.5*	*114 025.4*
Interest rate swaps (IRS PLN) fixed – float	675.0	284.1	16 200.8	32 247.1	46 652.5	18 253.3	113 353.7
Interest rate swaps (IRS EUR) fixed – float	171.1	152.4	1 291.2	2 406.1	9 931.7	4 484.2	18 113.2
CIRS CHF/PLN (float-float)	0.0	38.3	-	-	-	-	-
float CHF	-	-	39.2	98.0	176.5	0.0	313.7
float PLN	-	-	34.0	89.8	153.4	0.0	277.2
CIRS EUR/PLN (float-float)	0.0	0.0	-	-	-	-	-
float EUR	-	-	0.0	0.0	0.0	0.0	0.0
float PLN	-	-	0.0	0.0	0.0	0.0	0.0

2018

	fair value		nominal value of instruments with remaining maturity				
	Assets	**Liabilities**	**under 1 year**	**1 to 3 years**	**3 8 years**	**over 8 years**	**Total**
Cash flow hedges, of which:	**909.6**	**420.2**	**22 320.0**	**32 075.8**	**48 527.8**	**13 841.2**	**116 764.8**
settled via CCP	*32.7*	*11.0*	*15 793.6*	*25 922.3*	*36 188.5*	*13 841.2*	*91 745.6*
Interest rate swaps (IRS PLN) fixed – float	751.0	234.8	20 272.0	29 697.9	39 191.5	10 857.0	100 018.4
Interest rate swaps (IRS EUR) fixed – float	158.6	136.8	1 795.3	2 305.7	8 398.8	2 984.2	15 484.0
CIRS CHF/PLN (float-float)	0.0	47.6	-	-	-	-	-
float CHF	-	-	133.6	38.2	267.2	0.0	439.0
float PLN	-	-	119.1	34.0	243.2	0.0	396.3
CIRS EUR/PLN (float-float)	0.0	1.0	-	-	-	-	-
float EUR	-	-	0.0	0.0	215.0	0.0	215.0
float PLN	-	-	0.0	0.0	212.1	0.0	212.1

As at 31.12.2019, other comprehensive income discloses the amount of PLN 1 534.6 million (including tax) concerning the effective part of the hedging relationship in cash flow hedge accounting (PLN 842.3 million as at 31.12.2018). The ineffective part of the hedging relationship resulting from mismatch in compensating changes to the fair value of the hedging instrument and the hedged position disclosed in the profit and loss account in 2019 was PLN -22.5 million versus PLN -3.0 million in 2018.

Impact of the application of cash flow hedge accounting on profit and loss account and other comprehensive income

2019

	Cash flow hedges						
	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			Amount reclassified from other comprehensive income and recognised in the profit and loss account	
	Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedge relationships	amortisation of the result of closed hedging strategies
Cash flow hedges, of which:	**846.1**	**474.8**	**782.8**	**-783.7**	**-22.5**	**481.2**	**1.3**
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	660.4	132.9	746.6	-746.6	-25.6	515.0	
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	63.8	11.6	70.8	-72.1	0.5	42.5	
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN including IRS transactions resulting from decomposition of CIRS CHF/PLN and CIRS EUR/PLN transactions	14.6	171.9	-17.1	17.1	2.7	-72.7	0.0
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	107.3	140.8	-22.0	22.5	-0.1	-11.5	1.0
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF		17.6	1.1	-1.1	0.0	4.8	-0.1
CIRS EUR/PLN resulting from decomposition of an actual transaction, hedging the portfolio of financial assets in EUR			3.5	-3.5	0.0	3.1	0.3

*) disclosed in the statement of financial position as *Derivative hedging instruments*
**) disclosed in the statement of financial position as *cumulated other comprehensive income* and in note No. 34.2. (the amount in the table does not include tax)
***) disclosed in the profit and loss account in the dedicated line item *Result on hedge accounting* and in note No. 6.

2018

	Change in fair value of the hedged item used to examine the effectiveness of the strategy	fair value		Cash flow hedges: changes to fair value of hedging instruments used to review the effectiveness of the strategy			Cash flow hedges: Amount reclassified from other comprehensive income and recognised in the profit and loss account	
		Assets	Liabilities	unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**	the ineffective part of the hedging relationship recognised in the profit and loss account***	net interest resulting from existing hedge relationships	amortisation of the result of closed hedging strategies
Cash flow hedges, of which:	**-864.5**	**909.6**	**420.2**	**862.0**	**864.9**	**-3.0**	**417.7**	**0.9**
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	-952.1	715.8	35.4	948.7	952.7	-4.0	458.0	0.0
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	-24.4	59.8	9.6	24.1	24.1	0.0	34.7	1.0
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	107.5	35.1	199.5	-107.0	-108.1	1.0	-75.4	-0.1
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	6.0	98.8	127.2	-5.4	-5.4	0.0	-7.7	0.0
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-1.9	0.0	47.6	1.9	1.9	0.0	8.1	0.0
IRS in PLN resulting from the decomposition of real transactions CIRS EUR / PLN and CHF / PLN securing the portfolio of financial liabilities in PLN	7.7	0.0	0.0	-7.7	-7.7	0.0	0.0	0.0
CIRS CHF/PLN resulting from decomposition of an actual CIRS transaction, hedging the portfolio of financial assets in CHF	-7.3	0.0	1.0	7.3	7.3	0.0	0.0	0.0

Time distribution profile of nominal amounts and the corresponding average interest rates of hedging instruments

2019

		Nominal value of instruments with remaining maturity							
		less than 1 year		1 to 3 years		3 to 8 years		over 8 years	
		nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %	nominal (PLN)	average %
Interest rate swaps (IRS) hedging the portfolio of financial assets in PLN	fixed %	6 189	2.24%	13 380	2.81%	31 692	2.66%	18 253	2.37%
	variable %		1.78%		1.79%		1.79%		1.79%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	1 736	2.26%	7 057	2.67%	4 518	2.73%	0	-
	variable %		1.79%		1.79%		1.79%		-
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	801	0.44%	1 082	0.28%	2 028	0.66%	1 908	0.25%
	variable %		-0.43%		-0.42%		-0.42%		-0.42%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	490	-0.06%	175	0.27%	119	0.95%	643	0.21%
	variable %		-0.34%		-0.37%		-0.35%		-0.38%
CIRS CHF/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in CHF and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in CHF	39.2	-0.62%	98.0	-0.70%	176.5	-0.68%	0	-
	variable % in PLN	34.0	1.79%	89.8	1.79%	153.4	1.79%	0	-
CIRS EUR/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in EUR and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in EUR	-	-	-	-	-	-	-	-
	variable % in PLN	-	-	-	-	-	-	-	-

2018

		Nominal value of instruments with remaining maturity							
		less than 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 %	16 064.0	2.67%	25 581.0	2.66%	34 373.5	2.90%	10 682.0	2.92%
	variable %		1.77%		1.78%		1.78%		1.79%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in PLN	fixed %	4 208.0	2.81%	4 116.9	2.42%	4 818.0	3.27%	175.0	3.07%
	variable %		1.73%		1.79%		1.79%		1.78%
Interest rate swaps (IRS) hedging the portfolio of financial assets in EUR	fixed %	965.4	0.23%	1 355.4	0.32%	3 901.0	0.69%	1 775.9	0.80%
	variable %		-0.33%		-0.34%		-0.34%		-0.32%
Interest rate swaps (IRS) hedging the portfolio of financial liabilities in EUR	fixed %	829.9	0.80%	950.3	0.08%	4 497.8	1.02%	1 208.3	0.89%
	variable %		-0.25%		-0.26%		-0.26%		-0.27%
CIRS CHF/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in CHF and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in CHF	133.6	-0.66%	38.2	-0.66%	267.2	-0.66%	0.0	0.00%
	variable % in PLN	119.1	1.79%	34.0	1.79%	243.2	1.79%	0.0	0.00%
CIRS EUR/PLN subject to decomposition into a CIRS transaction hedging the portfolio of financial assets in EUR and an IRS transaction hedging the portfolio of financial liabilities in PLN	variable % in EUR	0.0	0.00%	0.0	0.00%	215.0	-0.37%	0.0	0.00%
	variable % in PLN	0.0	0.00%	0.0	0.00%	212.1	1.79%	0.0	0.00%

The periods in which the Group expects the hedged cash flows in cash flow hedge accounting and thus which will affect the financial profit are presented below. The negative value results from negative interest rates in EUR and CHF.

2019

	Cash flows in PLN (PLN million)			Cash flows in EUR (EUR million)			Cash flows in CHF (CHF million)	
	Inflows (assets)	Outflows (liabilities)	**Net cash flows**	Inflows (assets)	Outflows (liabilities)	**Net cash flows**	Inflows (assets)	**Net cash flows**
up to 1 year	1 162.0	-220.4	**941.6**	-5.1	0.7	**-4.4**	-0.5	**-0.5**
1-3 years	1 955.1	-256.9	**1 698.2**	-6.4	0.5	**-5.9**	-0.6	**-0.6**
3-8 years	3 066.4	-149.7	**2 916.7**	4.1	-2.4	**1.7**	-0.1	**-0.1**
over 8 years	389.7	0.0	**389.7**	3.9	-1.7	**2.2**	0.0	**0.0**

2018

	Cash flows in PLN (PLN million)			Cash flows in EUR (EUR million)			Cash flows in CHF (CHF million)	
	Inflows (assets)	Outflows (liabilities)	**Net cash flows**	Inflows (assets)	Outflows (liabilities)	**Net cash flows**	Inflows (assets)	**Net cash flows**
up to 1 year	935.2	-156.3	**778.9**	-3.3	0.6	**-2.7**	-0.6	**-0.6**
1-3 years	1 585.2	-264.7	**1 320.5**	-1.8	0.1	**-1.7**	-0.6	**-0.6**
3-8 years	2 762.5	-270.4	**2 492.1**	19.9	-6.1	**13.8**	0.1	**0.1**
over 8 years	377.8	-0.6	**377.2**	4.1	-2.1	**2.0**	0.0	**0.0**

IV. Liquidity and funding risk

1. Introduction

ING Bank Śląski S.A. recognises the process of stable management of liquidity and funding risk as a major process at the Bank.

Liquidity and funding risk is understood by the Bank as the risk of the lack of ability to perform financial liabilities under on- and off-balance sheet items at reasonable prices

. The Bank maintains liquidity so that the Bank's financial liabilities can always be repaid with the available funds, inflows from maturing transactions, available funding sources at market prices and/or liquidation of negotiable assets.

2. Liquidity and funding risk management process

In order to optimise the liquidity and funding risk management process, the Bank has developed the Management policy of liquidity and funding risk at ING Bank Śląski S.A. which sets forth the principles ensuring adequate funding sources and mitigation of risks and costs related to funding. The Policy describes a general approach to the liquidity and funding risk management process in the Bank. The core objective of the liquidity and funding risk management process is to maintain an adequate liquidity level to ensure secure and stable operation of the Bank in normal market conditions and in crisis.

The Policy was developed on the basis of the market management strategy in business, approved by the Supervisory Board (including the liquidity and funding risk management strategy). In particular, it reflects the risk appetite specified in the strategy and approved by the Supervisory Board.

Additionally, the Bank prepares a report on the ILAAP process. In a comprehensive and consistent manner, it presents the core indicators and numbers relating to the Bank's liquidity risk profile. It provides for the strategy, funding plan and risk tolerance by the Bank. The results of the report are approved by the Management Board which informs the Supervisory Board of the results.

The general approach to liquidity and funding risk management is composed of five recurring activities: 1) risk identification, 2) risk assessment, 3) risk control, 4) monitoring, and 5) reporting.

- Risk identification and assessment. Risk identification is performed on an annual basis by organising risk identification workshops. Each identified risk is assessed in order to determine

its materiality for the Bank. Risk identification is also performed when new products are launched. Risk valuation and its materiality are assessed in terms of likelihood of risk occurrence and the financial effects should such risk materialise.

- Control. Risks are controlled with actions that mitigate the likelihood or risk occurrence or with actions that mitigate the effects should such risk materialise. Important elements of risk management include ongoing verification if the implemented controls are performed. Definition of acceptable risk levels is an element of risk control. Regular inspection should evidence that risk control actions are effective. Adequate reporting is a major element of the liquidity and funding risk management process which provides the managers with information required for risk management.
- Monitoring and reporting. Risk monitoring serves three important objectives: ongoing verification if the implemented risk control is performed; if risk control actions are effective. Such actions support their confidence which is a major element in banking. Well organised and designed regular controls or monitoring that are referred to as risk management are indispensable for correct risk management. Adequate reporting provides information to managers as is indispensable for risk management.

  In accordance with PFSA's resolution No. 386/2008 and Recommendation S, the Bank makes a detailed analysis of long-term liquidity with focus on mortgage loans. The above liquidity analysis shows risk levels related to long-term funding of mortgage loans.

The Bank pursues an active policy of liquidity management with reference to core currencies. For those currencies, liquidity risk measurement and limitation is made per currency and the management of operational liquidity is performed separately for each currency and it is incorporated in the risk transfer system.

Intraday liquidity is actively managed by the Group Treasury. The process manages the position and risk of short-term liquidity (one day and intraday). The objective is to comply with payment and settlement duties in a timely manner in regular operations and in extraordinary/stress situations.

The Bank operates a risk transfer system within which market risks, including liquidity risk, are transferred to the Group Treasury. Applying adequate tools, it manages the risks in a centralised manner within the limit system applied by the Bank.

3. Risk types

The Bank splits liquidity risk into two groups:

- liquidity risk resulting from external factors, and
- risk of internal factors relating to the specific bank.

The Bank's objective is to apply a conservative approach to liquidity risk management to support safe survival of events that are specified to ING Bank Śląski S.A. and the entire banking sector.

In terms of time horizon, the Bank splits liquidity risk into:

- operational – focused on current funding of the Bank's position and on managing intraday liquidity,
- strategic – focused on ensuring that the Bank's structural liquidity positions are at an acceptable level.

Considering the tenor and customers' behaviour (the two aspects affecting the Bank's liquidity), the Bank identifies three types of liquidity and funding risk:

- structural – understood as a potentially adverse impact on the Bank's revenues due to a mismatch between the anticipated maturities of the Bank's assets and liabilities as well as the risk of no re-financing possibilities in the future,
- related to customers' behaviour – understood as a potentially adverse impact on the Bank's revenues due to the embedded liquidity options in the products offered by the Bank,

- related to stress conditions – understood as a risk of lack of possibility by the Bank to comply with its financial obligations when due to insufficient available funds or when the generation of such funds is impossible at any price which results in immediate insolvency of the Bank.

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 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), liquidity risk tolerance and submission thereof to the Supervisory Board for approval,
- 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.

The Asset and Liability Committee (ALCO) is responsible for:

- implementation of the Bank's strategy with respect to liquidity and funding risk,
- management of a liquidity buffer within the relevant policies and limits approved by the Bank's Management Board, the related operational actions are delegated to the Group Treasury,
- supervision and monitoring of liquidity risk levels as well as the funding structure in the Bank's balance sheet,
- monthly analysis of short-, medium- and long-term liquidity profile (strategic liquidity positions) presented in the reports defined by the regulator and in internal reports,
- implementation of limits under the approved risk appetite (approved by the Bank's Management Board), approval of assumptions to reports and models,
- analysis of all proposed modifications to the liquidity and funding policies and submission of positively reviewed modifications to the Bank's Management Board.

5. Framework risk management principles

The framework liquidity and funding risk management principles contain all material methods with respect to intraday, shorty-term, medium-term and long-term liquidity and funding risk management. This is made up of the following key elements:

- limit system and liquidity risk measurement,
- monitoring of funding sources and concentration risk,
- liquidity reserve management,
- management of intraday liquidity,
- management of hedging items,
- stress tests and contingency plans.

Limit system and liquidity risk measurement

Formal limits are set by the regulator of the banking sector and/or the Bank for various liquidity risk measures. The admissible level of funding and liquidity risk is defined with a system composed of several elements: the general level of risk acceptable to the Bank, approved by the Supervisory Board,

and a limit system, approved by the Bank's Management Board. The Supervisory Board is provided with information on compliance with the measures, minimum on a quarterly basis.

The limit level is based on the Bank's strategic objectives, identified liquidity risks, results of stress tests and the principles set forth by regulatory authorities. The limits are taken into account in planning processes (implementation of the approved plans may not result in the limits being exceeded). In most instances, the limits have a pre-defined warning level, set above (or below) supervisory limits. The admissible liquidity risk level is determined and updated minimum once a year.

The limit system is more detailed than the risk level approved by the Supervisory Board.

The admissible risk level is guaranteed by risk monitoring in various reports concerning liquidity and funding risk in the course of the Bank's normal/regular activity and in extraordinary/extreme situations. Inter alia, the Bank monitors funding concentration risk, the internal liquidity safety buffer and verifies the stability of external funding.

M3-M4

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

- M3 – coverage ratio of illiquid assets with equity (minimum value: 1,00), and
- M4 – coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds (minimum value: 1.00).

The Bank is obliged to perform daily monitoring and comply with the limits set forth in PFSA's resolution for M3 and M4 measures. In 2019 the Bank maintained all liquidity standards above minimum values.

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

	Liquidity measures	Minimum value	2019	2018
M3	Coverage ratio of illiquid assets with equity	1	9.39	11.38
M4.	Coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds	1	1.17	1.15

Deposit base stability

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

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

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

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

In compliance with the duties and principles set forth in Regulation (EU) No 575/2013 of the European Parliament and of the Council and Commission Delegated Regulation (EU) No 2015/61, the Bank calculates the following regulatory liquidity measures:

- short-term liquidity measures (LCR – Liquidity Covered Ratio) – this is to ensure that the Bank holds adequate liquid high quality assets to cover liquidity needs for 30 calendar days in stress conditions. In 2019 a limit of 100% applied.
- long-term liquidity measures (NSFR – Net Stable Funding Ratio) – this is to ensure a minimum level of available funding in medium- and long-term.

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

As at 31 December 2019 and 31 December 2018, the supervisory liquidity measures for the Group of ING Bank Śląski S.A. were as follows:

	Liquidity measures	Minimum value	2019	2018
LCR	Liquidity coverage ratio	100%	135%	138%
NSFR	Stable funding ratio	n/a*	126%	127%

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

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

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

Such weighted inflows and outflows are calculated as values after application of inflow and outflow ratios. The presented numbers cover the values for each of the four calendar quarters in 2019. Those are average observed values at the end of each month in the 12-month period preceding the end of each quarter.

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

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

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

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

Net outflow coverage ratio

Scope of consolidation: solo Currency and units: TOTAL mln		TOTAL NOT-WEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
End of quarter (DD month RRRR)		31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
Number of data points used to calculate the averages		12	12	12	12	12	12	12	12
HIGH QUALITY LIQUID ASSETS									
1	**Total high quality liquid assets**					28 877	29 228	30 043	30 884
OUFLOWS OF CASH FUNDS									
2	Retails deposits and deposits from small enterprises, of which:	96 969	100 187	103 481	106 617	7 613	7 871	8 119	8 350
3	*Stable deposits*	61 948	63 983	66 180	68 366	3 097	3 199	3 309	3 418
4	*Less stable deposits*	35 021	36 204	37 302	38 251	4 515	4 671	4 810	4 932
5	Uncommitted wholesale funding	15 607	16 219	16 672	17 169	9 295	9 586	9 723	9 871
6	*Operational deposits (all counterparties) and deposits within the network of cooperating network of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	15 607	16 219	16 672	17 169	9 295	9 586	9 723	9 871
8	*Unsecured debt*					0	0	0	0
9	Committed wholesale funding					0	0	0	0
10	Additional requirements	21 689	22 008	22 188	22 286	2 848	2 880	2 920	2 947
11	*Outflows related to exposure to derivative instruments and other requirements related to hedges*	937	910	925	935	937	910	925	935
12	*Outflows related to loss of funding under debt products*	0	0	0	0	0	0	0	0
13	*Credit instruments and liquidity support instruments*	20 752	21 098	21 263	21 351	1 911	1 970	1 995	2 012
14	Other contractual liabilities relating to funding	5 939	6 089	6 096	6 290	5 827	5 964	5 952	6 129
15	Other conditional liabilities relating to funding	11 237	11 693	12 311	13 445	0	0	0	0
16	**TOTAL OUFLOWS OF CASH FUNDS**					25 583	26 301	26 714	27 297
INFLOWS OF CASH FUNDS									
17	Secured credit transactions (e.g. with a repurchase obligation)	43	75	184	245	1	1	2	3
18	Inflows from fully serviced exposures	2 860	2 881	2 936	3 013	1 644	1 680	1 714	1 749
19	Other cash inflows	2 071	2 126	1 952	1 733	2 071	2 126	1 952	1 733
EU-19a	(Difference between the sum of total weighted inflows and the sum of total weighted outflows resulting from transactions in third countries which apply transfer restrictions or transactions denominated in non-convertible currencies)								
EU-19b	(Surplus of inflows from related specialised credit institutions)								
20	**TOTAL INFLOWS OF CASH FUNDS**	4 974	5 082	5 072	4 991	3 716	3 807	3 668	3 485
EU-20a	***Totally excluded inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows subject to limitation of 90%***	0	0	0	0	0	0	0	0
EU-20c	***Inflows subject to limitation of 75%***	4 973	5 082	5 072	4 991	3 715	3 807	3 669	3 485
						TOTAL ADJUSTED VALUE			
21	**HEDGING AGAINST IMPAIRMENT**					28 877	29 228	30 043	30 884
22	**TOTAL NET INFLOWS OF CASH FUNDS**					21 868	22 493	23 047	23 811
23	**NET OUTFLOW COVERAGE RATIO (%)**					**1.32**	**1.30**	**1.31**	**1.30**

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 the end of 2019 and 2018. Level 1 liquid assets cover assets characterised with very high liquidity and credit quality.

	2019	2018
Level 1 liquid assets		
Cash	733.9	1 117.6
Cash in nostro accounts with the Central Bank net of the required reserve	1.2	23.6
Unencumbered Treasury bonds	27 685.3	26 713.6
Unencumbered BGK bonds	525.5	556.9
Unencumbered bonds of the European Investment Bank	3 554.2	3 267.8
Total	**32 500.2**	**31 679.5**

In level 1 liquid assets, securities are presented by their market value. The Group's liquidity position is reduced by encumbered securities (constituting collateral, blocked) and increased by securities received as collateral

in reverse-repo transactions.

Additional liquidity monitoring measures (ALMM)

In compliance with the Commission Implementing Regulations (EU) 2016/313, the Bank reports a set of additional monitoring rations for liquidity reporting.

The reports include:

- mismatch by maturity,
- financial concentration by counterparty,
- financial concentration by product type,
- prices for various financing periods,
- prolonged financing,
- concentration of ability to balance liquidity by issuer.

Internal liquidity reports

Another major element in the Bank's liquidity management risk process covers internally defined reports presenting detailed and varied approach by the Bank to measurement and management of the risk. The Bank models liquidity characteristics, both of its assets and liabilities in order to provide for customers' anticipated/actual behaviour. Modelling is mixed. This means than an analysis of customers' behaviour relies on historic data and expert judgement.

A structural liquidity report is one of such internal liquidity reports. The report presents the gap between the Bank's assets and liabilities in time buckets on correctly functioning markets. The report is used to monitor and manage medium- and long-term liquidity positions. It serves as a support in the planning process of the balance sheet and funding. It also indicates all major funding needs in the future.

The report is a scenario for the current balance sheet in normal market conditions. It does not cover any additional projections of balance sheet development. However, it provides for customers' typical behaviour observed in previous periods. For instance: cash flows under mortgage loans 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
2019 (PLN million)						
Liquidity gap	24 321.7	9 459.2	23 514.3	-718.7	-45 972.5	-10 604.0
Cumulated liquidity gap	24 321.7	33 780.9	57 295.1	56 576.4	10 604.0	0.0
2018 (PLN million)						
Liquidity gap	24 357.0	9 580.6	27 303.6	5 724.7	-57 139.0	-9 826.9
Cumulated liquidity gap	24 357.0	33 937.6	61 241.2	66 965.9	9 827.0	0.0

In the Group of ING Bank Śląski S.A., the Bank follows liquidity risk monitoring and limiting based on measurements of the cumulated gap.

Monitoring of funding sources and concentration risk

Minimum once a year, the Bank determines the Bank's overall business strategy and the resultant medium-term (3 years) financial plan with a general risk strategy. Financial plan is an indispensable element of the strategy which provides for an effective diversification of funding sources and tenors.

ALCO actively manages the funding base. Additionally, it monitors funding sources in order to:

- verify compliance with the strategy and financial plan,
- identify potential risks related to funding.

Customers' deposits (retail and corporate) are the core funding source for ING Bank Śląski S.A. The Bank monitors the funding structure and thus verifies concentration risk by analysing its deposit base split into:

- type of financing,
- customer segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

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

The existing funding structure is well diversified. Herebelow, there is the funding structure as at the end of 2019 and 2018, split into direct and mutual funding. Direct funding is provided mainly by retail and corporate customers while mutual funding comprised primarily funds acquired from other banks.

Direct funding:

	2019		2018	
Core customer segments	**direct funding**	**% share**	**Direct funding**	**% share**
Banks	1 612	1.1%	899	0.7%
Corporate customers.	41 362	28.3%	38 092	29.1%
Retail customers	87 877	60.1%	78 241	59.9%
Own issues	2 129	1.5%	1 375	1.1%
Equity	13 320	9.1%	12 105	9.3%

Mutual funding:

	2019		2018	
Core customer segments	**mutual funding**	**% share**	**mutual funding**	**% share**
Banks	8 994	99.5%	8 077	96.4%
Corporate customers.	43	0.5%	299	3.6%
Retail customers	0	0.0%	0	0.0%

Liquidity reserve management

Maintenance of an adequate liquidity buffer is a major element in managing the Bank's liquidity. The liquidity buffer presents the available liquidity, required to cover the gap between cumulated outflows and inflows within a relatively short time. It covers assets that are "unencumbered" and easily available to acquire liquidity. Unencumbered assets are understood as assets that are free of any legal, regulatory, contractual restrictions to have them disposed of by the Bank. The liquidity buffer is crucial in the times of a crisis when the Bank has to obtain liquidity in a short time when the standard funding sources are unavailable or insufficient.

The liquidity buffer is maintained as a safeguard against materialisation of various extraordinary scenarios, providing for needs of additional liquidity which may arise at any time in extraordinary circumstances and in normal conditions.

The tables below present the structure of the liquid asset buffer as at 31 December 2019 and 31 December 2018:

2019

Structure of the liquidity buffer	% share
Treasury bonds or bonds issued by the central bank (PLN)	75.9%
Treasury bonds or bonds issued by the central bank (EUR)	13.8%
bonds of BGK and EIB	10.3%

2018

Structure of the liquidity buffer	% share
Treasury bonds or bonds issued by the central bank (PLN)	76.7%
Treasury bonds or bonds issued by the central bank (EUR)	13.5%
bonds of BGK and EIB	9.7%

The Bank provides for realistic reductions due to impairment of securities with the level thereof being regularly reviewed and approved by ALCO. The reductions are assessed inter alia on the basis of market liquidity and depth, volatility of market prices, requirements of the central bank.

The Bank also observes asset concentrations ensuring their safe diversification in terms of issuer, maturity and currency.

Management of intraday liquidity

The Bank actively manages positions and risks of short-term (one-day and intraday) liquidity in order to comply with its payment and settlement obligations when due in normal market conditions and in extraordinary/stress situations.

The intraday liquidity management process is critical for correct functioning of the Bank as a whole and applies to normal market conditions and extraordinary (crisis) situations. It is a component of current operational liquidity management. Managing its intraday liquidity, the Bank applies intraday ratios. Intraday liquidity ratios are monitored on an ongoing basis and presented to the competent liquidity risk management units and to ALCO.

Intraday liquidity management includes the maintenance of readiness to comply with the Bank's obligations also in crisis circumstances. In this connection, it is necessary to maintain an adequate liquidity buffer on the basis of information on the potential worsening of the Bank's access to intraday liquidity as a result of a market stress. In order to maintain an adequate liquidity buffer, the Bank applies intraday stress tests in its stress test program.

Management of hedging items

The management of hedging items covers both positions under CSA and GMRA contracts as well as positions of liquid assets related to operations with the central bank. This is performed on the level corresponding to the provided services, the Bank's portfolio, funding profile and liquidity requirements.

Most of the Bank's counterparties in derivative transactions have signed Credit Support Annexes (CSA) to ISDA agreements. They regulate the issue of support to portfolios of derivative transactions. They provide for the right to demand margin deposits by parties whose valuation of the portfolio is positive on a specific day (the party's portfolio is in-the-money) and the right to demand release of the margin when the valuation changes. Within the strategy of setting margins for each counterparty to CSA, the transaction portfolio is measured daily for margin requirements.

Derivative instruments such as FRA and IRS are settled via CCP (Central Clearing Party) clearing houses. This provides for effective management of margin deposits and mitigates the counterparty settlement risk. ING Bank Śląski S.A. has signed agreements with KDPW CCP and London Clearing House (LCH).

Stress tests and contingency plans

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

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

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

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

Three variants are analysed in the tests:

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

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

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

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

The results of the tests held in 2019 confirm a stable and secure position of the Bank. The Bank holds liquidity reserves on an adequate level.

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

The Contingency Funding Plan is subject to periodic testing. The tests held in 2019 confirmed the adequacy of the actions detailed in the Contingency Funding Plan to overcome liquidity crises.

6. Maturity analysis of financial assets and liabilities and derivative financial instruments by contractual payment dates

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

2019 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Cash, funds with Central Bank	0.0	1 402.9	0.0	0.0	0.0	0.0
Loans and other receivables granted to other banks	0.0	602.6	10.6	179.0	2 591.3	0.0
Financial assets held for trading	0.0	174.7	25.5	2.5	250.8	254.3
Investment Securities	110.6	157.8	2 661.1	1 045.4	20 739.1	10 651.0
Loans and other receivables granted to customers	0.0	21 458.8	3 264.2	12 211.2	37 315.1	38 701.8
Other assets	0.0	159.0	14.7	17.2	0.0	0.0

2018 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Cash, funds with Central Bank	0.0	1 237.4	0.0	0.0	0.0	0.0
Loans and other receivables granted to other banks	0.0	733.9	0.4	25.7	17.6	0.0
Financial assets held for trading	0.0	637.4	0.3	2.0	727.7	158.0
Investment Securities	83.3	0.0	0.0	291.3	24 009.6	9 520.1
Loans and other receivables granted to customers	0.0	19 963.1	3 884.4	9 907.3	32 813.8	34 856.1
Other assets	0.0	11.3	13.4	39.7	0.0	0.0

The table below presents financial liabilities split by remaining (from the reporting date) contractual maturities. The presented values provide for future interest payments. With respect to contingent liabilities granted, the maturity analysis covers the closest possible performance of the liabilities by the Group.

2019 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Due to other banks	0.0	2 622.3	0.3	0.0	0.0	0.0
Financial liabilities measured at fair value through profit and loss account	0.0	80.7	0.0	0.0	85.9	81.3
Due to customers	0.0	127 999.3	822.5	1 100.6	128.7	2.6
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated liabilities	0.0	0.9	6.4	21.8	116.3	2 224.7
Other liabilities	0.0	683.2	231.2	276.5	23.1	366.1
Contingent liabilities granted	0.0	32 284.6	541.0	1 870.8	2 089.1	797.6

2018 (PLN million)	without a specific date	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
Due to other banks	0.0	1 799.5	9.4	0.0	0.0	0.0
Financial liabilities measured at fair value through profit and loss account	0.0	84.6	0.0	109.6	36.1	879.2
Due to customers	0.0	114 949.0	1 028.7	1 243.0	88.3	1.3
Debt securities issued	0.0	0.0	0.0	304.1	0.0	0.0
Subordinated liabilities	0.0	1.0	3.1	12.4	66.4	1 123.2
Other liabilities	0.0	649.4	157.4	238.2	0.0	0.3
Contingent liabilities granted	0.0	31 958.8	0.0	0.0	0.0	0.0

The tables below present a maturity analysis of derivative financial instruments with a negative valuation as at the reporting date. The analysis is based on remaining contractual maturities.

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on a net basis cover IRS, FRA, options and FX Forward NDF transactions. The data below reflects – in case of IRS transactions – non-discounted future interest cash flows; in case of other transactions, the cash flows equivalent to the valuation as at 31 December 2019 and 31 December 2018 respectively.

2019 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
IRS transactions, of which:	-97.6	90.7	249.3	-182.5	-299.0
hedging transactions in hedge accounting	10.0	38.2	80.3	-152.0	-175.7
other derivatives	-10.6	-8.0	-11.8	-24.1	0.0

2018 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
IRS transactions, of which:	-157.7	-291.5	-222.5	-39.4	284.9
hedging transactions in hedge accounting	-46.2	-84.2	4.7	-44.2	81.1
other derivatives	-10.4	-11.6	-18.5	-7.9	-0.1

Derivative instruments settled in gross amounts

Derivative financial instruments settled by the Bank on a gross basis cover FX Swap, FX Forward and CIRS transactions. The above data reflects non-discounted contractual cash outflows and inflows of nominals and – in case of CIRS transactions – as interest, as at 31 December 2019 and 31 December 2018 respectively.

2019 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
outflows	-2 799.0	-1 527.2	-1 502.1	-725.2	-252.1
inflows	2 786.3	1 514.6	1 477.5	659.4	244.4

2018 (PLN million)	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years
outflows	-2.472.1	-1.046.7	-1.326.2	-759.3	-313.9
inflows	2.461.0	1.016.4	1.307.4	769.5	311.0

7. Centralised organisation of the risk management process

The liquidity risk management process is fully centralised in treasury and risk management functions. Liquidity risk (along with the generated liquidity position) of each business line is transferred to the Group Treasury for central management.

The Bank provides for costs and benefits of various types of liquidity risks in the system of internal transfer pricing, in its measurement of profitability and the approval process of new products in all major business areas (both on- and off-balance sheet). The Group Treasury manages the positions transferred to its books over the risk transfer system, including the management of liquidity risk related to resetting the premium for liquidity.

In order to ensure correct, independent and centralised performance of the tasks in the liquidity risk management process (including risk management and reporting as well as preparation, review and updates of documentation), the Bank operates the Market Risk Management Department which reports to a Deputy President of the Management Board.

8. Reporting and liquidity risk management system

Liquidity risk reporting and measurement processes are automated. The Bank holds tools automatically generating a set of liquidity reports on a daily or monthly basis. Information of risk measures supports ongoing monitoring of liquidity profiles and control of basic measures. The reports on liquidity risk are submitted to units involved in the risk management process.

9. Summary up

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

V. Non-financial risks

1. Introduction

Non-financial risks cover management functions of operational and compliance risk based on a common framework, setting forth clear principles and standards of risk identification, assessment, monitoring, mitigation and reporting. The Bank manages non-financial risks in compliance with the Strategy and Risk Appetite Statement for Non-financial Risks approved by the Bank's Management Board that set forth risk limits and tolerance. Compliance with the declared risk appetite is monitored in a periodic report on non-financial risks (NFRD). Additionally, the Bank operates the Non-financial Risk Committee appointed by the Bank's Management Board – the Committee advises the Bank's Management Board with respect to the management of non-financial risks. The Supervisory Board supervises the management of operational risk by the Management Board and minimum on a yearly basis reviews the effectiveness of the related activities.

The common management framework of non-financial risks support the Bank in active identification of core hazards and gaps and the related risks which may result in undesirable events. The framework supports such processes as self-assessment of risks and controls, scenario analyses, monitoring of key risk indicators or testing of key controls. The results of analyses of internal and external events keep improving the adequacy and effectiveness of the internal control system functioning in the Bank.

The Bank is convinced that an effective control environment is required to development and maintenance of sustainable business as well as maintains and improves the trust of customers, employees and shareholders.

2. Operational risk

2.1. Introduction

The Bank defines the operational risk as a possibility of occurrence of a direct or indirect loss resulting from misalignment or failure of internal processes, people, and systems or from external events. The Bank identifies legal risk as an element of operational risk.

The definition of operational risk is broad and covers the following areas:

- Risk of errors in control – a risk of losses caused by failure to apply control mechanisms – established within management procedures or project management methods at our Bank.
- Risk of disallowed activities – a risk of losses caused by unauthorised actions by employees or breach of their authority.
- Risk of errors in processing – a risk of losses caused as a result of human errors or omission in data processing – due to the occurrence of unexpected or unforeseeable problems. This also covers the risk of a loss due to processing errors or incorrect management of processing. Usually the errors are not intended and are made when current business transactions are documented or finalised.
- Risk of irregular personnel practices and safety at work – a risk of losses due to failure to apply hiring practices and principles, labour law, OH&S regulations, agreements with employees or payment of damages for accidents at work or discrimination events.
- Risk of breach of people and resource safety – applies to criminal, civilisation or environmental hazards that may pose a threat to safety or have adverse impact on our personnel, customers or the Bank's resources.

- IT risk – a risk of losses due to loss of confidentiality, integrity or access to information as a result of incorrect safeguarding information or information resources.
- Risk of business disruption – a risk of events posing hazards to business continuation or lack of possibility to resume operations after a failure. This may result from such events as catastrophes, natural disasters, failures or unavailability of personnel.
- Risk of internal and external fraud – a risk of losses due to an intentional abuse of procedures, systems, funds, products or services with an aim of unlawful or dishonest generation of one's own or third party benefits.

2.2. Operational risk management process

The Bank's objective in operational risk management is to ensure regular improvement of the safety of the Bank and its customers, reduction of operating costs and improvement of operating effectiveness.

The Bank's Management Board – subject to approval of the Supervisory Board – has developed a strategy of operational risk management. The Bank has implemented a consistent package of internal normative documents. The documents regulate the scope, principles and duties of organisational units and employees to mitigate the effects and likelihood of financial and reputational losses in that respect. The Bank's management strategy of operational risk provides for legal and regulatory requirements and relies on good practices of the ING Group.

Additionally, the Management Board – also in agreement with the Supervisory Board – in its risk appetite statement defined the maximum acceptable loss limits, capital limits and risk scope that it is willing to accept in the pursuance of the planned business objectives – subject to full compliance with the law and regulations. The level of limit utilisation is monitored and periodically submitted to the Management Board, Risk Committee and the Supervisory Board.

The operational risk management system applies to all business spheres of the Bank and the activity of the Group, cooperation with customers, 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 management of operational risks in the Bank relies on the following general principles:

- we maintain a complete, consistent and transparent management structure of operational risk with explicitly assigned tasks and responsibilities.
- we recognise the nature of the internal and external environment – including limitations and weaknesses – we draw conclusions from external and internal events to identify root reasons and to identify potential irregularities in the control environment or identify unrecognised risk exposures.
- we identify the reasons, types and levels of risk that we are ready to accept. We set standards of control and mitigation activities that provide for risk transfer to the insurance market.
- we have an efficient and consistent identification and control or risks for all products, activities, processes and systems functioning in the Bank.
- we monitor and report the volume of the required capital, risk profile and risk exposure.
- we are focused in improving the awareness of employees and managers. We ensure that the employees have adequate qualifications to perform activities related to management of non-financial risks and are provided with adequate tools.

Our priorities include the effectiveness of risk management processes and high quality of the used data.

We recognise the following as core factors affecting risk levels:

- staff expertise and qualifications,
- working conditions,
- an adequate split of duties and supervision over compliance therewith,
- information security level,
- integrity of business processes and IT and technical systems,
- outsourcing,
- quality of internal and external documentation,
- external events related to changes in the business environment,
- natural calamities, failures and catastrophes.

2.3. Core modifications that occurred in 2019

In 2019 we continued the enhancement of the operational risk management system while focusing on ensuring compliance with new regulatory requirements, including inter alia:

- we have reinforced control mechanisms and scope of monitoring in the area of internal and external fraud prevention.
- we have analysed risk factors providing for business measures investigating their mutual relationships,
- we keep extending the use of stress tests in compliance with the EBA Stress tests guidelines.
- we have been optimising the Internal Control System by an appropriate selection of control mechanisms for key processes on the basis of a period effectiveness assessment
- we have reviewed risk management processes for optimisation of the first and second lines of defence and the use of the designed data management tools
- we have implemented an integrated calculation method of business continuity risk level;
- we have commenced work on ensuring compliance with EBA requirements concerning outsourcing.
- we have continued work of the security of the Bank's functioning after implementation of the PSD2 directive;
- we have enhanced the methods of crisis communication;
- we have introduced new or updated existing regulations, including the operational risk management policy, information security policy, policy concerning the internal control system, procedures concerning data management, risk assessment and testing of key controls.

We keep caring about the quality of the used data, we enhance our qualifications and we extend the possibilities to use advanced data analysis methods in the risk identification and monitoring processes. We also have been automating operations related to risk management with the use of RPA (Robotics Process Automation) tools.

We keep raising the Bank's employee awareness and that of our customers indicating current hazards and appropriate conduct. We draw lessons from events that occur. We clarify reasons thereof and implement solutions mitigating their recurrence.

3. Compliance risk

3.1. Introduction

The Bank's mission in the area of ensuring compliance is to develop a cultural function relying on knowledge and compliance with law, internal regulations, market standards and ING Values and Conduct as specified in the Orange Code.

Compliance risk management process

The Bank's Supervisory Board oversees the management of compliance risk at the Bank and the Bank's Management Board is responsible for effective management of compliance risk, including for: implementation of organisational solutions, regulations and procedures, supporting effective compliance risk management and for ensuring adequate resources and funds required to carry out the tasks.

The Compliance unit acts as a compliance risk management unit and is responsible for the organisation and functioning of the compliance risk management process understood as a process of identification, assessment, control and monitoring of compliance risk in the Bank's business in accordance with the law, internal regulations and market standards and submission of related reports.

Last year, the Compliance unit adjusted its organisation to the changing external environment in order to better manage compliance risk relying on activities of employees in all areas and responsibilities, focusing on its effective mitigation. The organisational change with a simultaneous reinforcement of employee competences will be translated into a reduction of errors in process designing and in risk identification in similar business processes in order to identify risks that remain omitted in single processes.

In order to effectively manage compliance risk, the Compliance unit continued independent inspections, designed and monitored training programs, issued recommendations in providing its opinion on product and legislative changes and marketing materials.

3.2. Core initiatives that occurred in 2019

In 2019 the Bank continued work to implement regulatory requirements: MIFID II Directive and Polish secondary regulations, Directive on payment services and secondary regulations (PSDII), Act on counteraction to money laundering and terrorism financing as well as regulations concerning counteraction to abuse of the financial sector for treasury fraud (STIR and Split Payment) and regulations relating to reporting tax schemes and tax avoidance (MDR).

4. Transaction security and IT system stability

4.1. Introduction

The security of our and our customers' and partners' funds is a key issue on which we focus in our daily activity. We keep observing hazards and analyse their impact on the ITC infrastructure (applications, systems, networks) and on our business processes, processes of our partners and their potential impact on customers. On that basis, we design and implement appropriate organisational and technical solutions in the areas of prevention, detection and response. Our ITC systems are protected with multi-layer mechanisms and cybersecurity systems.

Another major aspect of the Bank's efforts to ensure an appropriate level of banking services to customers is to ensure stable operations of our systems.

To this end, we pursue various actions such as:

- ensuring an adequate change management process in IT systems that guarantee adequate tests of impact of changes in system operation;

- ensuring an adequate system architecture of critical systems guaranteeing complete redundancy of component and resilience to failures,
- implementation of a mechanism monitoring correct system operation, supporting early detection of symptoms of incorrect operation of components and fast error diagnosis,
- implementation of a management process of increased demand for resources guaranteeing the adaptation of hardware and software resources to changes in business volumes and changes to customers' behaviour.

4.2. IT security management process

We approach the management of IT security in a systemic and regular way, starting from an appropriate delegation of tasks and attributed responsibility for execution. The security is ensured not only with the dedicated units and processes and additionally its aspects are embedded in all processes and operating actions of our Bank. Processes and roles are designed and organised in compliance with the best and recognised international standards (such as COBIT).

The ICT Environment Security Council operates in our Bank. The Council is composed inter alia of managers from business units, IT, cybersecurity, operational risk, data security, fraud prevention. The Council issues directional technological and procedural decisions ensuring an adequate cybersecurity level of our Bank. Daily, the tasks related to cybersecurity, including monitoring of security on an ongoing basis, lie within the responsibility of a dedicated unit.

At the level of technical solutions, first we design and update standards and security architectures in force at the Bank. On that basis, ICT systems are designed, developed and implemented in compliance with the principle to ensure security at the earliest possible time. During development, before implementation and cyclically after implementation, the systems are subject to various tests, including penetration tests.

For each ICT technology at our Bank, we develop model security requirements and their effectiveness and correct functioning are regularly verified within security tests and reviews as well as internal and external audits. Such audits and tests are carried out by renowned expert entities.

Components of our Bank's ICT systems are subject to an ongoing scanning process in order to detect all vulnerabilities and to eliminate them immediately. Additionally, the banking systems (network, infrastructure and applications) are monitored for security to detect anomalies, undesirable actions and security incidents.

The processes aimed at ensuring security are subject to ongoing review of effectiveness thus supporting regular enhancement of our processes and procedures related to counteraction, detection and responding to hazards as well as taking actions eliminating their potential effects (e.g. unavailability of banking services). Consistently, we have implemented additional authentication mechanisms and monitoring of activity of ICT system users and we have sealed the protection layer against malware (such as e.g., ransomware).

We apply solutions acquired from leading providers of cybersecurity tools and services and unique solutions developed by our own specialists. Additionally, we cooperate with ING Group entities and other companies and organisations in Poland (banks, sectoral associations, Police). As a result, we can follow trends, detect new vulnerabilities and prevent hazards in IT security in advance.

We also require an adequate security level from our cooperating Partners – in appropriate contractual provisions related to IT security and by verification of compliance therewith by cooperating companies in regular audits.

In our Internet banking, we apply the following security solutions:

- Transaction authorisation with one-off codes – the method provides for authorisation of instructions in the Internet banking system with an authorisation code. Users receive codes in an SMS message. The code is generated for one particular instruction and is valid for a pre-

determined time. Along with the code, customers get transaction details to verify the instructions additionally.

- Strict daily limit – an ceiling up to which transfers can be made on a day in Internet banking.
- Encrypted Internet connections – access to banking systems is possible only with an ID and password. Communication between customers' computers and the Bank's servers is encrypted with a TLS protocol. The ingbank.pl portal and the Internet banking system are protected with highly confidential digital certificates to protect connection over the encrypted HTTPS protocol. These guarantees fully secure data transfer in encrypted form, protect the data against third-party modifications and authenticate the computers that communicate with each other.
- 3D Secure (a standard of card payments over the Internet) – when our customers pay with cards in an Internet store handling 3D Secure, the payment is additionally confirmed with a one-off SMS code. To use payments in 3D Secure with our Bank, nothing has to be activated – a card suffices that handles Internet payments.
- Masked password – logging to the Internet banking system is made without providing the entire password – automatically the system selects only certain characters.
- Automatic log-out as a result of user inactivity – after 5 minutes of user inactivity, the system logs out automatically.

In our mobile banking, we apply the following security solutions:

- Transaction authorisation in the mobile application – the method is available to customers who use the Internet banking system Moje ING, who make transfers from their computers and have the Moje ING mobile application installed; it is applied interchangeably with SMS codes.
- Fingerprint logging – the option is available for phones with fingerprint readers. This logging method may be activated after logging to the application.
- Strict daily limit – a ceiling up to which transfers can be made on a day via the mobile application.
- Automatic log-out as a result of user inactivity – after 60 seconds of user inactivity, the system logs out automatically.

In case of a justified suspicion of cybercrime hazards or fraud against customers, we block the services protecting customers against interception of their data or funds by unauthorised persons.

5. Personal data security

5.1. Introduction

The stability of IT systems also includes protection of personal data of customers, business partners and employees. Apart from IT security, we also focus on physical security of data and information stored in our Bank. Our internal regulations strictly determine the presence of outsiders in our offices and prohibit the connection of unverified devices to out ITC network. We regularly test our physical security devices and conclusions from inspections inspire changes. Testing of physical security devices has become an integral part of APT tests verifying the Bank's cybersecurity resilience.

5.2. Management of personal data security

Last year we received no justified complaints concerning breaches of customer privacy.

We see to a high awareness level of our Bank's employees on protection of personal, financial and business data and the employees are obliged to attend mandatory training. We keep implementing programs to support regular enhancement of employee competencies in the sphere of data protection, indicating the importance of the privacy of customers, business partners and customers. For that purpose, we use meetings, workshops and periodic communication to employees.

Consistently to the changes, we have adapted our technical and procedural safeguards, required by law, internal regulations and good practices, in order to ensure better protection of our customers' data.

The security of using banking services is also up to our customers and therefore we share information with our customers on potential hazards and we recommend security solutions to devices with which customers access Internet banking. Each customer of our Bank has access to a set of rules how to use on-line banking correctly:

- we provide tips how to create a secure password,
- we keep informing about hazards in Internet banking,
- we remind of secure banking rules,
- we clarify how to safeguard against data theft in the Internet,
- we teach how to protect the devices used by our customers,
- we block access to services in justified instances thus protecting customers against interception of their data by unauthorised people,
- we make our customers aware of hazards during their meetings to our branches,
- we meet senior citizens so that being aware of hazards they can protect themselves more effectively,
- we attend academic workshops to enhance awareness.

We care about retail customers but we never forget about the security of our corporate customers. Similarly to previous years, we continue conferences for corporate and strategic customers at which we present hazards related to cybercrime and mechanisms of our applications and solutions to prevent abuse.

The Bank not only has implemented the requirements related to the Regulation of the European Union on personal data protection but the Bank also keeps analysing changes and implements them without delay into internal procedures and regulations. The most recent example of such ongoing analysis and updates of internal regulations is the implementation of the sectoral Act which – implementing GDPR to Poland's regulations – has amended the Banking Law thus providing easier access to information on automatic decisions relating to customers. Similarly to previous years, we cooperate with the Polish Bank Association, other banks in order to develop a common code of conduct and to develop common solutions related to personal data protection.

VI. Model risk

1. Introduction

Model risk management is performed in compliance with the *Model risk management policy at ING Bank Śląski S.A.* The Policy provides for:

- model life cycle,
- assessment principles of the model materiality,
- functioning principles of the model register,
- capital calculation rules for model risk
- validation principles.

2. Model risk management process

The Model Validation Department keeps a model register which is a repository of information on the risk models and valuation models functioning in the Bank's Group. The model register and logs contain inter alia information on model materiality, results of monitoring and results of model validation and their risk levels.

The Bank's Group regularly assesses the risk related to each model and estimates the related economic capital in compliance with the rules set forth in internal regulations. The calculation method of capital if material and medium material models are identified with an increased or high risk is set in the economic capital calculation methodology for model risk.

The quality of model functioning is subject to verification within model monitoring and validation when an assessment is made of the extent of their exposure to model risk. Model validation is performed in compliance with the Model Validation Policy at ING Bank Śląski S.A. and validation instructions.

Management reporting to Committees, the Management Board and the Supervisory Board of the status of actions related to model management and validation covers inter alia: results of model validation and risk assessment, assessment of the aggregated model risk level in the context of the approved risk tolerance as well as the capital assigned to model risk.

In 2019 the economic capital relating to model risk of PLN 138.5 million was allocated between January and December 2019.

VII.Business risk

1. Introduction

Business risk encompasses the following risks:

- macroeconomic risk,
- risk of FX mortgage portfolio.

2. Macroeconomic risk

Macroeconomic risk is the risk due to macroeconomic factors and their impact on the levels of minimum capital requirements. The Bank manages the risk by regular holding of internal stress tests to support ongoing monitoring of sensitivity or minimum capital requirements to macroeconomic factors. In 2019 the Bank carried out full capital tests twice: as at Q4 of 2018 and Q2 of 2019.

On the basis of results of internal stress tests for a mild recession scenario, the Bank's Group estimates an additional capital requirement to safeguard against the materialisation effect of the scenario. The results of the stress tests show that should a mild recession materialise, the Bank's capital adequacy will not drop below the required level.

3. Risk of FX mortgage portfolio

In the ICAAP process, as part of the Risk Significance Workshops that took place in the first quarter of 2019, the risk of currency mortgage portfolio was defined as the risk resulting from a financial loss due to the need to convert currency mortgage loans into PLN loans. During 2019, in connection with the judgment of the CJEU (C 260/18) and as a consequence of the increased risk of a significant enhancement in the number of litigations in the banking sector, the profile of this risk and the approach to estimating and presenting legal risk reserves changed.

At the end of 2019, the Bank had PLN 45.0 million of the portfolio provision for mortgage loans in CHF, which constituted 4.80% of this gross portfolio (including PLN 9.7 million as a provision for litigations for repaid exposures and 35.3 million PLN as a write-off due to losses of expected loans in stage 2 for current and future litigation for balance sheet exposures). In addition, the Bank had a PLN 4.6 million impairment loss expected due to classifying all mortgage loans in CHF as loans in stage 2. At the same time, due to this risk, the Bank maintains additional economic capital in Pillar II.

At the end of 2019, the value of the Group's mortgage loan portfolio amounted to PLN 863.2 million net.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

Date	Name	Signature
2020-03-05	**Brunon Bartkiewicz** *President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Michał Bolesławski** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Joanna Erdman** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Marcin Giżycki** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Bożena Graczyk** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Patrick Roesink** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Sławomir Soszyński** *Vice-President*	The original Polish document is signed with a qualified electronic signature
2020-03-05	**Lorenzo Tassan-Bassut** *Vice-President*	The original Polish document is signed with a qualified electronic signature

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

Date	Name	Position	Signature
2020-03-05	**Jolanta Alvarado Rodriguez**	Director of Accounting Department Chief Accountant	The original documents is signed with a qualified electronic signature

ING