



**ING Bank Śląski S.A. Group
Annual Consolidated Financial
Statements for the year 2019**

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ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

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ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

Consolidated income statement

for the year ended 31 December

	Note	2019	2018
Interest income, including:	2	5 280.1	4 673.8
Interest income calculated using effective interest rate method	2	5 276.0	4 668.5
Other interest income	2	4.1	5.3
Interest expenses	2	986.2	914.5
Net interest income	2	4 293.9	3 759.3
Commission income	3	1 749.9	1 615.6
Commission expenses	3	378.2	310.7
Net commission income	3	1 371.7	1 304.9
Net income on financial instruments at fair value through profit or loss and FX result	4	108.3	90.9
Net income on the sale of securities measured at amortised cost	5	0.0	1.0
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	5	36.3	54.3
Net (loss)/income on hedge accounting	6	-14.3	7.9
Net (loss)/income on other basic activities	7	-6.1	14.4
Net income on basic activities		5 789.8	5 232.7
General and administrative expenses	8	2 497.4	2 326.8
Impairment for expected losses	9	605.5	500.9
including profit on sale of receivables		34.3	26.7
Tax on certain financial institutions	10	435.7	373.8
Share of profit/(loss) of associates accounted for using the equity method		6.6	-0.3
Gross profit		2 257.8	2 030.9
Income tax	11	599.1	507.1
Net profit		1 658.7	1 523.8
- attributable to shareholders of ING Bank Śląski S.A.		1 658.7	1 523.8
- attributable to non-controlling interests		0.0	0.0
Net profit attributable to shareholders of ING Bank Śląski S.A.		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 Consolidated Income Statement should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.

ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

Consolidated 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	698.2	679.4
Items which can be reclassified to income statement		685.9	674.0
debt instruments measured at fair value through other comprehensive income – gains 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
cash flow hedging – gains 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		2 356.9	2 203.2
- attributable to owners of ING Bank Śląski S.A.		2 356.9	2 203.2

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

ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

Consolidated statement of financial position

as at

	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	2 815.2
Loans and other receivables to other banks	14	798.5	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	33 824.5	31 937.3	29 465.1
Loans and other receivables to customers	20	118 288.1	103 125.8	87 274.6
Investments in associates	21	181.0	1.0	1.3
Property, plant and equipment	22	956.0	556.1	549.0
Intangible assets	23	429.9	439.2	431.0
Assets held for sale	24	3.6	10.9	11.1
Deferred tax assets	25	445.6	398.2	309.9
Other assets	26	204.8	486.0	409.2
Total assets		158 610.7	141 812.9	125 971.8
Liabilities				
Liabilities to other banks	27	6 256.1	5 195.8	4 109.0
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	130 473.5	117 682.5	104 503.3
Liabilities from debt securities issued	30	399.7	300.3	300.3
Subordinated liabilities	31	2 131.1	1 076.9	626.9
Provisions	32	205.7	152.4	108.8
Current income tax liabilities		381.3	280.3	232.9
Other liabilities	33	2 078.9	1 503.7	1 953.9
Total liabilities		143 387.4	128 491.3	114 437.5
Equity				
Share capital	34	130.1	130.1	130.1
Share premium	34	956.3	956.3	956.3
Accumulated other comprehensive income	34	1 867.3	1 169.7	494.3
Retained earnings	34	12 269.6	11 065.5	9 953.6
Equity attributable to shareholders of ING Bank Śląski S.A.		15 223.3	13 321.6	11 534.3
Non-controlling interests		0.0	0.0	0.0
Total equity		15 223.3	13 321.6	11 534.3
Total equity and liabilities		158 610.7	141 812.9	125 971.8
Carrying amount		15 223.3	13 321.6	11 534.3
Number of shares		130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)		117.01	102.40	88.66

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

ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

Consolidated 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	-	-	-	-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	697.6	0.6	0.0	698.2
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	39.5	-	-	39.5
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 gains/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	1 867.3	12 269.6	0.0	15 223.3

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 and other corrections	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 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 on revaluation carried through equity	-	-	1 033.1	-	-	1 033.1
cash flow hedging – reclassification to profit or loss	-	-	-339.4	-	-	-339.4
disposal of non-current assets	-	-	-4.0	4.0	-	0.0
actuarial gains/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 Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the consolidated financial statements being the integral part thereof.

ING Bank Śląski S.A. Group

Annual consolidated financial statements for the period from 1 January 2019 to 31 December 2019

(PLN million)

Consolidated cash flow statement

for the year ended 31 December

	Note	2019	2018
Net profit		1 658.7	1 523.8
Adjustments		-1 894.1	-4 220.5
Share of profit (loss) of associates accounted for using the equity method		-6.6	0.3
Depreciation and amortisation	8,22,23	276.8	193.5
Interest accrued (from the income statement)	2	-4 293.9	-3 759.3
Interest paid		-990.7	-891.6
Interest received		5 323.1	4 516.9
Dividends received	5	-7.0	-6.3
Gains (losses) on investing activities		-8.6	-1.0
Income tax (from the income statement)	11	599.1	507.1
Income tax paid from the income statement		-545.5	-548.0
Change in provisions	32, 41	53.3	43.6
Change in loans and other receivables to other banks	14, 41	-143.8	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	-1 048.7	-2 271.5
Change in hedge derivatives	17, 41	684.5	663.9
Change in loans and other receivables to customers	20, 41	-15 205.9	-15 860.3
Change in other assets	26, 41	266.6	-66.3
Change in liabilities to other banks	27, 41	265.1	772.3
Change in liabilities at fair value through profit or loss	16,28,41	-772.7	-214.8
Change in liabilities to customers	29, 41	12 789.0	13 178.2
Change in other liabilities	33, 41	161.5	-434.1
Net cash flow from operating activities		-235.4	-2 696.7
Purchase of property plant and equipment	22	-107.4	-132.2
Disposal of property plant and equipment		1.9	1.0
Purchase of intangible assets	23	-86.6	-98.4
Disposal of intangible assets		26.7	0.0
Disposal of assets held for sale		15.1	11.5
Purchase of shares in associates		-173.4	0.0
Purchase of equity instruments measured at fair value through other comprehensive income		-34.8	-1.2
Purchase of debt securities measured at amortized cost		-993.6	-3 263.6
Disposal of debt securities measured at amortized cost		204.0	3 222.6
Dividends received	5	7.0	6.3
Net cash flow from investing activities		-1 141.1	-254.0
Long-term loans received		2 543.8	1 746.2
Long-term loans repaid		-643.4	-991.9
Interest on long-term loans repaid		-26.5	-21.6
Interests from issued debt securities		-7.6	-7.6
Repayment of leasing liabilities*		-93.4	n/a
Proceeds from the issue of debt securities		400.0	0.0
Dividends paid		-455.4	-416.2
Redemption of debt securities		-300.0	0.0
Net cash flow from financing activities		1 417.5	308.9
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 Group has implemented the new IFRS 16 Leasing standard. The Group applied a modified retrospective approach to its leasing contracts and did not transform comparative data.

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

ING Bank Śląski S.A. Group

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(PLN million)

Accounting policy and additional notes

I. Bank and the Group details

1. Key Bank data

ING Bank Śląski S.A. ("Parent company", "parent entity", "Bank") with the registered office in Katowice, Sokolska Str. 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The parent entity 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. Additionally, through subsidiaries the Group conducts leasing and factoring activity, operates real estate, leasing of real estate and advisory and acts as a financial intermediary as well as provides other financial services. The duration of business of the parent entity 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

ING Bank Śląski S.A. Group

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(PLN million)

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

ING Bank Śląski S.A. Group

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(PLN million)

7. ING Bank Śląski S.A. Group

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group (“Capital Group”, “Group”). As at 31 December 2019, the composition of ING Bank Śląski S.A. Group was the following:

Name	Type of activity	Registered office	% of the Group share in equity	% of the Group share in the General Meeting votes	Recognition in the Group Financial Statements
ING Investment Holding (Polska) S.A.	financial holding	Katowice	100	100	full consolidation
ING Commercial Finance S.A.*	factoring services	Warsaw	100	100	full consolidation
ING Lease (Polska) Sp. z o.o.**	leasing services	Warsaw	100	100	full consolidation
ING Bank Hipoteczny S.A.	banking services	Katowice	100	100	full consolidation
ING Usługi dla Biznesu S.A.	accountancy services, payroll services	Katowice	100	100	full consolidation
Nowe Usługi S.A.	education and promotion for the financial market and TURBO Certificates	Katowice	100	100	full consolidation
Solver Sp. Z o.o.	holiday and training courses organisation	Katowice	100	100	full consolidation
NN Investment Partners TFI S.A.*	investment funds	Warsaw	45	45	equity method consolidation
Twisto Polska Sp. Z o.o	services in the area of information and computer technologies	Warsaw	20	20	equity method consolidation

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

**) 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.

On 31 July 2019, following the acquisition by ING Investment Holding (Polska) S.A. of 94 500 shares of NN Investment Partners TFI S.A. (hereinafter referred to as: NN TFI), the Group acquired a 45 per cent share in the share capital of NN TFI and 45 per cent of the total number of votes at the General Meeting of NN TFI. As a consequence, NN TFI became an associate of the ING Bank Śląski S.A. Group.

The Group applies the equity method to measure its share in that entity. At initial recognition, the Group recognised the investment at cost; after the date of acquisition it adjusted its value to account for its share in the net assets of NN TFI. The Group identified the customer relationships and distributor relationships as unrecognised intangible assets, measured them at fair value and determined the period of their amortisation. Goodwill was identified as part of the investment; goodwill represents the difference between the investment cost and the fair value of the identifiable assets acquired and liabilities assumed.

The result of the initial transaction settlement was as follows:

Investment cost	169.1
Fair value of the identifiable net assets	(61.9)
Goodwill	107.2

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(PLN million)

The investment in NN TFI, together with the goodwill associated with this investment, is presented in the statement of financial position as at 31 December 2019 in the line *Investments in associates*.

8. Approval of financial statements

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

The annual consolidated financial statements of the ING Bank Śląski S.A. Group 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 consolidated financial statements of the ING Bank Śląski S.A. Group 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 consolidated 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 consolidated financial statements the Group 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
<i>IFRS 16 Leasing</i>	The application of the new standard affects the recognition, presentation, measurement and disclosure of leased assets in the financial statements of the Group as a lessee. The implementation of the new standard had an impact on the amount of total assets of the Group presented on balance sheet, but it did not have a significant impact on the financial results of the Group. More detailed information on the impact of applying the new standard is presented below. Description of the Adopted accounting principles is provided in item III. <i>Significant accounting policies</i> .
<i>IFRS 9 Prepayment Features with Negative Compensation</i>	The application of the amendment to the standard did not have significant impact on the financial statements of the Group.
<i>IFRIC Interpretation 23 Uncertainty over Income Tax Treatments</i>	The application of the amendment to the standard did not have significant impact on the financial statements of the Group.
<i>IAS 28 Long-term interests in associates and joint ventures</i>	The application of the amendment to the standard did not have significant impact on the financial statements of the Group.
<i>IAS 19 Plan amendments, curtailments or settlements</i>	The application of the amendment to the standard did not have significant impact on the financial statements of the Group.
<i>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.</i>	The application of the amendment to the standard did not have significant impact on the financial statements of the Group.

ING Bank Śląski S.A. Group

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(PLN million)

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 Group:

Change	Influence on the Group statements
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 Group. 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 Group:

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

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 Group:

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

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

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 Group 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 Group decided to apply the modified retrospective approach to its lease contracts. Consequently, the Group did not restate comparative information.

At the date of initial application of the IFRS 16, the Group 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

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elements from non-lease elements. The Group does not apply the provisions of the standard to the lease of intangible assets. The Group 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 Group 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 Group 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 Group 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 0.33% for EUR and 1.94% 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 Group 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 Group assumes that the lease term is 4 years. The open-end contracts held by the Group 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 Group 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 4.1 million) and the leases of low-value assets. In this case, the Group 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 consolidated financial statements as at 1 January 2019 is presented in the table below.

Recognising a right-of-use asset:	486.3
real estate lease	470.1
car lease	15.5
other assets	0.7
Recognising a lease liability:	488.7
real estate lease	472.5
car lease	15.5
other assets	0.7
Accruals	-2.4

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	As at 31.12.2018	The impact of implementation of MSSF 16	As at 01.01.2019
Assets			
Property, plant and equipment	556.1	486.3	1 042.4
Including the right-of-use asset	0.0	486.3	486.3
Total assets	141 812.9	486.3	142 299.2
Liabilities			
Other liabilities, including:	1 489.0	486.3	1 975.3
Lease liability	0.0	488.7	488.7
Accruals	2.4	-2.4	0
Total liabilities	128 491.3	486.3	128 977.6
Equity attributable to shareholders of ING Bank Śląski S.A.	13 321.6	0.0	13 321.6
Total equity and liabilities	141 812.9	486.3	142 299.2

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	493.9		
opening balance adjustments in connection with the implementation of IFRS 16, including:		-5.2	
(-) discounting effect using the lessee's marginal interest rate as at 01.01.2019		-54.1	
(-) recognition exemption for short-term leases		-8.8	
(-) non-lease components of a contract		-50.6	
(+)/(-) options to extend or shorten contracts		108.8	
(-) other		-0.5	
Lease liability under IFRS 16			488.7

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 Group 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.

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Therefore, the Group 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 Group 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			Total
	Assets	Liabilities	up to 1 year	over 1 year and up to 3 years	over 3 year and up to 8 years	
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 consolidated financial statements of the ING Bank Śląski S.A. Group were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the date of publication, i.e. from 6 March 2020. As at the approval date hereof, the Bank Management Board have not identified any events that could pose a threat to the Group members continuing their operations during the period of 12 months from the date of publication as a result of intentional or forced abandonment or significant limitation of its operations by the Capital Group.

3. Discontinued operations

No material operations were discontinued during 2019 and 2018.

4. Financial statements scope and currency

These annual consolidated financial statements of the ING Bank Śląski S.A. Group for the year 2019 comprise the data of the Bank and its subsidiaries and associates (jointly referred to as the "Group").

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

5. Reporting period and comparable data

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

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

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

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6. Consolidation rules

The consolidated financial statements comprise the financial statements of the Bank as well as the financial statements of its subsidiaries. The documents were developed for the term of 12 months ended 31 December 2019.

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

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

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

III. Significant accounting principles

IFRS provide for the selected accounting policies that may be applied. The key areas where IFRS allow the entity to select the policy and which refer to the Group Accounting Policy 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 Group Accounting Policy complies with IFRS. Group decisions as to the admissible policy selection are presented below.

1. Basis for preparation of consolidated financial statements

The financial statements are prepared in Polish zlotys rounded to one million zlotys (unless otherwise stated). The concept of fair value has been applied in the statements for own real property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as measured at fair value through other comprehensive income. Other items of financial assets (including loans and advances) are presented at 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 accounting estimates, professional judgment of the management staff was of key significance.

2.1. Deferred tax assets

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

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

2.2. Classification of leases

When acting as a lessor, the Group classifies leases as operating or financial. The classification is based on the assessment to what extent the risks and rewards of ownership of the subject of the lease and in relation to the 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 Group classifies financial assets on the basis of both the business model for holding the financial assets and assessment whether under the contractual terms require solely payments of principal and interest on the principal amount outstanding. The detailed information about assumptions in this regard is presented in item 14.

3. Accounting estimates

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

Estimates and assumptions applied to the presentation of 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 Group.

3.1. Impairment

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

3.1.1. Impairment of financial assets

The Group applies IFRS 9 requirements regarding impairment in order to recognize and measure the 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

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economic standing of the borrower, the forecast value of the recovery amount from the legal collaterals of the credit exposure and the macroeconomic conditions.

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

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 Group 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 255 million (including 40 million for the corporate portfolio and 215 million for the retail portfolio) or higher by approximately PLN 660 million (respectively 260 million for the corporate portfolio and 400 million for the retail portfolio).

The estimates made on 31.12.2018 showed, respectively, hypothetical lower losses expected for assets in Phase 1 and 2 by about PLN 250 million or higher by about PLN 640 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.

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%	-21%	20%	474.6
	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%	36%	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%			

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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%	1 109.7
	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%	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%	1 584.3
	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%			

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	3 months' interest rate	1.6%	1.6%	1.6%		
	GDP	1.3%	-0.5%	0.6%		
Negative scenario	Unemployment	4.4%	5.6%	6.6%	15%	20%
	Real estate price index	1.2%	0.1%	4.3%		
	3 months' interest rate	1.3%	1.0%	0.6%		

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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			1 461.5
	Unemployment	3.1	2.4	1.9	-10%	20%	
	RHP	9.0	9.8	8.1			
Scenariusz bazowy Baseline scenario	GDP	3.6	3.2	3.0			
	Unemployment	3.5	3.5	3.4	-2%	60%	
	RHP	8.2	5.7	5.6			
Scenariusz negatywny	GDP	1.5	-0.4	0.6			
	Unemployment	5.0	6.2	7.0	+16%	20%	
	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 Intangible assets.

3.2. Measurement of financial instruments not quoted in active markets

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

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

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

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3.3. Provisions for retirement and pension benefit

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

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

The tables below present 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%)	50.07	55.91	62.84
Salary raise (-0.25% / base variant/ +0.25)	54.37	55.91	57.51

2018

	Provisions for retirement and pension benefit		
	Lower bracket	Base variant	Upper bracket
Discount Rate (+1% / base variant / - 1%)	37.38	41.46	46.28
Salary raise (-0.25% / base variant/ +0.25)	40.36	41.46	42.60

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 Group assessed whether there are significant costs of withdrawal from the contract. The contracts for an indefinite period owned by the Group are primarily property lease 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 Group 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

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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,

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- 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 Group'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 Group adapted its activities to the current interpretation of the regulations as follows:

- refunds regarding loans repaid by 11 September 2019 are based on the complaint path. The Group estimated the expected outflows resulting from returns of commissions to customers and included an appropriate provision in the item Other provisions. The provision was estimated based on the assumptions regarding the number of customers who can submit complaints to the Group and the sum of commission on overpaid loans. The Group created PLN 17.1 million provisions in this respect.
An increase in the number of complaints by 10% would increase the provision by PLN 1.7 million.
- 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

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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.

4. Consolidation policies

4.1. Subsidiaries

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

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

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

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

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

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

If the control ceases, the Bank:

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

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

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

4.2. Associates

Associates are all entities over which the Bank has significant influence but not control in financial or operational terms, generally accompanying a share of between 20% and 50% of the voting rights.

The consolidated financial statements include the Group share in profits or losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date the significant influence ceases.

Investments in associates are initially recognised at purchase price and then accounted for using the equity method. The Group investment includes goodwill (net of any accumulated impairment losses) identified upon acquisition. The share of the Group in the profits (losses) since the date of acquisition is recognised in the statement of profit or loss, whereas its share in changes in other capital since the

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date of acquisition – in other capital. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

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

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

4.3. Business combinations

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

The acquisition approach is applied when settling the purchase of entities from non-associated parties. At the acquisition date, the 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.

4.3.2. Transactions eliminated in consolidation process

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

5. Foreign currency

5.1. The functional currency and the presentation currency

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

5.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are 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.

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

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

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

In the case of financial assets or a group of similar financial assets 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 Group and comprises i.a. fees for extending a loan, the Group's commitment to extend a loan, cards issue, cash management services, brokerage services, insurance products-related services and asset management services. Commission income comprises also margins on FX derivatives transactions.

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

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

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

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

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

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- 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 Group 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 Group performs a key operation,
- when there is an actual benefit from the perspective of the customer.

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

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

Income and costs under bancassurance commission

Fees and commission related to insurance products are recognised in the 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 Group analyses features of the insurance product and also the link between the insurance product and the banking product. In this analysis, the Group takes account of the prevalence

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of the economic content over the legal form. The factors analysed by the Group include but are not limited to:

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

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

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

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

The Group recognises the income on such insurance in the commission income on insurance products. The Group analogically presents the costs directly related to these insurance products.

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

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

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

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

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

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

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

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

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

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

The Group is a party to lease contracts, on the basis of which it transfers for payable usufruct non-current assets for an agreed period.

Lease contracts are classified by the Group based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

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

- the contract transfers the asset ownership to the lessee before the end of lease term,
- the contract includes the right of lessee to purchase the asset at the price which, as expected, is that lower than the fair value agreed as at the date when purchase right execution becomes feasible that at the leasing commencement date it is certain that the lessee shall take advantage of this right,

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

The lease contracts whereunder the lessor basically retains all the risk

as well as benefits arising from holding of leased asset are classified as operational lease contracts.

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

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

In case of lease contracts, which result in transferring substantially all the risks and rewards following holding of the leased asset (financial lease), the subject of such lease contract is 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 Group 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 Group 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 Group.

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 Group 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

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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 Group 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, Group 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.

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Business model assessment

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

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

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

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

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

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

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

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

The Group took the following assumptions:

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

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- quotient of realised result from sales transaction to net interest margin of the entire portfolio held within particular business model.

Assessment of cash flow characteristics

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

- principal – means fair value of the financial asset at initial recognition in 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 Group 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 Group performs a quantitative assessment. The quantitative assessment is based on comparison of the difference between:

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

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

14.3. Classification of financial liabilities

The Group classifies financial 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.

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

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

- the Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- the Group 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 Group 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 Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Group :

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

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

The Group derecognizes financial assets or their part, if the rights pertaining to the financial assets expire, the 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.

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

- change of the debtor with the consent of the 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 Group recalculates gross carrying amount of the financial asset and it recognises a modification gain or loss in profit or loss.

14.6. Measurement

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, except for the financial assets at 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 Group acting as an acquirer in a business combination to which IFRS 3 applies, which it shall subsequently be measured at fair value through profit or loss.

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.

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

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

Dividends on an equity instrument are recognised in the 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 presents retained earnings.

If any objective evidence exists that a debt financial asset at fair value through other comprehensive income is impaired, the Group 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 Group establishes the fair value with the use of valuation techniques that include using recent arm's length market transactions, discounted cash flow analysis and option pricing models and other techniques commonly used by market players. 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 Group can access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

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

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

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

In justified circumstances, the Group decides to make changes to the fair value measurement methodology and their effective date construed as the circumstances change date. Then, it assesses the impact of changes on the classification to the individual categories of the fair value measurement

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hierarchy. Any amendments to the measurement methodology and their rationale are subject to detailed disclosures in a separate note to the financial statements.

14.9. Cost basis of debt and equity securities

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

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

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

14.10. Derivative instruments and hedge accounting

Derivative instruments are 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 Group. This approach provides for the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated) and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Group insolvency are calculated by analogy.

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

The two types of fair value adjustments as mentioned above were differently reflected in the financial statements. Fair value adjustments due to risk for non-matured transactions were presented 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.

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

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

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

14.10.1. Hedge accounting

The Group applies the hedge accounting requirements of IAS 39.

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

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

- formalised documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Group. In the documentation, the Group designates the hedging instrument to hedge a given position or transaction, and specifies the type of risk to be hedged against. The Group specifies the manner for assessing the effectiveness of the hedging instrument in offsetting changes in cash flows due to the hedged transaction in terms of mitigation of risk the Group hedges against,
- the hedging instrument and hedged instrument are similar, especially nominal value, maturity date and sensitivity to interest rate and 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

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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 Group applies the fair value hedge accounting in order to hedge changes in fair value of fixed-rate debt instruments classified to the portfolio of assets 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 Group applies cash flow hedge accounting in order to hedge the amount of future cash flows of certain portfolios of assets/liabilities of the Group or the portfolio of highly probable planned transactions against the interest rate risk and the highly probable planned transactions against the FX risk.

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

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

14.10.2. Derivative instruments not qualifying as hedging instruments

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

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14.11. Offsetting financial instruments

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

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

14.12. Repo, reverse repo transactions

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

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

14.13. Impairment

Estimation of the 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 Group 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 Group measures the expected loss allowance for that financial asset at an amount equal to 12-month expected credit losses.

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

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

Three stage approach

During the process of estimating credit provisions, the change of the credit quality for a particular credit exposure since initial recognition is described in the Group based on three stages on various measurement 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).

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- Stage 3 – impaired exposures, which means non-performing loans. A provision shall be measured based on lifetime expected credit losses and PD = 100%.

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

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

- significant increase in the lifetime PD at reporting date comparing to the lifetime PD at initial recognition occurring over the period from the reporting date till maturity date;
- watch list status,
- forbearance status,
- more than 30 days past due,
- the exposure constitutes a mortgage loan indexed in 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 Group assesses whether a financial assets item or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired if and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. The Group recognizes the expected credit losses based on reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 Group, a client or by another Group. For

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retail credit exposures, it applies only where it is the Group 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 Group,
- the credit exposure becomes due and payable as a consequence of the Group's having terminated the loan agreement,
- the Group 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 Group 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 Group and the client's assets are not disclosed,
- serious financial problems of the client, including but not limited to:
 - for corporate credit exposure, the Group 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 (applied to 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 Group 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 Group 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 Group due to the financial problems of the issuer/client, which may adversely impact future cash flows from a given financial assets item,

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- 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 Group or the Group 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 Group 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 group 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

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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 Group 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 Group uses the adjusted to IFRS 9 requirements the existing regulatory capital models (PD, LGD, EAD) developed for the Advanced Internal Ratings Based (AIRB) approach.

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

The amount of the revaluation charge calculated collectively is based on the history of losses for asset portfolios with similar credit risk characteristics. For the purposes of determining risk parameters, the 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 Group 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.

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

$$LEL_{stage\ 3} = EAD_{in_default}^{Pit} \times LGD_{in_default}^{Pit}$$

where PD equals 100% and the $LGD_{in_default}^{Pit}$ and $EAD_{in_default}^{Pit}$ represent characteristics of defaulted exposures.

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

- the discount factor between the moment of default and the moment of debt recovery. It is used for the parameters of the regulatory LGD models,
- 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 Group assumes that for each time window of 12 months the event of default occurs on average in the middle of the period 0-12 months.

The Group measures the expected credit losses as the probability weighted average of the few macroeconomic scenarios (mostly three: a baseline, stress and best-case-scenario) with different probability to occur. The expected loss is determined separately for each scenario and the probability weighted average results from the weights (probabilities) assigned to each scenario (sum of weights = 100%). Such approach fulfils IFRS 9 requirements that the provision (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 Group determined the relation between the observable parameters of expected loss (PD, LGD) and macroeconomic factors as functions, based on which – at predicted macroeconomic factors – Bank computes the predicted parameter values of expected loss in a given year in the future in accordance with forward looking “point in time” approach.

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

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

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

The LGD parameter, which is a function of used 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 Group uses the so-called the Policy of full provision whereunder for defaulted exposures from at least 2 years, the value of LGD parameter equals 100%. In a similar way, regarding the retail clients segment, the

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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 Group 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 Group 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 Group 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 Group's opinion positively impacts client's situation has become probable or the Group's exposure on the client has been considerably reduced, or the Group has obtained new significant exposure collateral,
- no delays in repayment,
- the Group assesses that the client will repay all their liabilities towards the Group, 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.

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

The Group assesses as at each balance sheet date whether there is any objective evidence of impairment of debt financial assets classified as measured at fair value through other comprehensive income. Confirmation of the objective evidence of impairment is 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 Group books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Recognition of 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 Group recognises as the separate category, the purchased or originated credit impaired financial assets at initial recognition.

Such assets may be recognized due to following reasons:

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- 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 three stage approach described in item 14.13 and are classified to impaired assets till the derecognition date.

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

14.15. Forbearance and non-performing exposure

The Group set the principles of identification of and reporting on forbearance and non-performing exposures under the Commission Implementing Regulation (EU) 2015/1278 of 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 Group has decided to extend forbearance to the client so as to enable them to pay the contractual liabilities or to prevent future default on payment,
- forbearance has been extended neither on commercial grounds nor on market conditions; it would not have been extended provided that the client had not suffered financial difficulties; the amended agreement contains the terms and conditions that are more favourable than the market ones, i.e. those that could be offered by the Group at the same time to other debtors with a similar risk profile,
- the client accepted forbearance, i.e. the terms and conditions of the agreement binding so far have been changed or a refinancing agreement has been signed or an "embedded forbearance clause" has taken effect or the Group has abandoned actions in the event of the client materially breaching the essential financial clause.

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

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

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

Exposures are also classified as non-performing exposures when arrears of more than 30 days past due occur for the forbearance exposure or when another forbearance is granted for such exposure, while that 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

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- 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 Group allocates the initial value of the property, plant and equipment into its significant parts.

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

The revaluation effect is reflected in other comprehensive income in case of the value increase, or carried through the 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 1 January 2019)

The Group 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 Group 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 Group identifies leasing and non-leasing elements in concluded contracts.

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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 Group recognizes assets due to the right to use the assets and liabilities arising from leasing. The initial valuation of the lease liability is determined by the Group at the present value of future lease payments. To determine the discounted value of leasing fees, the Group uses the leasing interest rate, and if the rate is not easily available, the Group uses the marginal interest rate. The Group determines the leasing interest rate as the sum of swap interest rate and internal transfer price, taking into account currencies in which 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 Group recognizes assets due to the right to use at the cost, which is based on the amount of the initial measurement of the lease liability. The cost of an asset due to the right of use also includes:

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

The right to use is depreciated over the duration of the lease and is reduced for impairment losses. The value of the right to use is updated during the lease period as a result of the revaluation of the lease liability. Identifying future lease payments requires a lease period to be determined. When determining the leasing period, the Group 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 Group 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 Group takes into account all relevant facts and circumstances that create an economic incentive to use or not to use these options. The Group 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 Group estimates the lease period.

The Group uses the exemption for:

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

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

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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 Group 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 Group, 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

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

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

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

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

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

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

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

17. Other financial assets

Other financial assets include trade receivables and other receivables.

The Group introduced the simplified approach regarding to measurement of the expected credit loss 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.

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18. Provisions

Provisions, including provisions for off-balance sheet liabilities, are recognized in the balance sheet when the Group has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability. 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 Group establishes provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Group is in possession of the specific, formal restructuring plan determining at least the operations or part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

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

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

The Group applies the above principles to legal claims that do not affect expected cash flows from financial assets recognized in the statement of financial position - in this case the Group 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 Group by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in Other assets item.

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

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

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

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

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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.

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

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

23.3. Tax on certain financial institutions

The tax on certain financial institutions (instituted by virtue of the Act of 15 January 2016, Journal of Laws 2016 item 68) is not income tax and is shown in the 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 consolidated financial statements for previous periods, in the Annual Consolidated Financial Statements for the period from 1 January 2019 to 31 December 2019, the Group amended the manner of presentation of individual items of the consolidated income statement, consolidated statement of financial position and consolidated 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 Group 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 Group 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 Group, the change helped increase the transparency and informational value of the consolidated statement of profit and loss.

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- 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 consolidated profit and loss account according to the values presented in the consolidated 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 Consolidated Financial Statements for 2018 (approved data)	change a)	change b)	in Consolidated Financial Statements for 2019 (comparable data)
Interest income	4 673.8			4 673.8
Interest expenses	914.5			914.5
Net interest income	3 759.3			3 759.3
Commission income	1 460.2		155.4	1 615.6
Commission expenses	155.3		155.4	310.7
Net commission income	1 304.9		0.0	1 304.9
Net income on financial instruments at fair value through profit or loss and FX result	90.9			90.9
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	14.4			14.4
Net income on basic activities	5 232.7		0.0	5 232.7
General and administrative expenses	2 326.8			2 326.8
Impairment losses and provisions for off-balance sheet liabilities	500.9			500.9
Tax on certain financial institutions	371.7	2.1		373.8
Share in net profits of associates accounted for using the equity method	-0.3			-0.3
Gross profit (loss)	2 033.0	-2.1	0.0	2 030.9
Income tax	507.1			507.1
Net profit (loss)	1 525.9	-2.1	0.0	1 523.8

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The table below presents individual items of the consolidated statement of financial position according to the values presented in the annual consolidated financial statements for 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 consolidated 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 Consolidated Financial Statements for 2018 (approved data)		change a)		in Consolidated Financial Statements for 2019 (comparable data)	
Assets						
Cash in hand and balances with the Central Bank	2 815.2	1 237.4			2 815.2	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	87 274.6	103 125.8			87 274.6	103 125.8
Investments in associates	1.3	1.0			1.3	1.0
Property, plant and equipment	549.0	556.1			549.0	556.1
Intangible assets	431.0	439.2			431.0	439.2
Assets held for sale	11.1	10.9			11.1	10.9
Deferred tax assets	309.9	398.2			309.9	398.2
Other assets	409.2	486.0			409.2	486.0
Total assets	125 782.9	141 589.6	188.9	223.3	125 971.8	141 812.9
Liabilities						
Liabilities to other banks	4 109.0	5 195.8			4 109.0	5 195.8
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	104 503.3	117 682.5			104 503.3	117 682.5
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	108.8	152.4			108.8	152.4
Current income tax liabilities	232.9	280.3			232.9	280.3
Other liabilities	1 941.3	1 489.0	12.6	14.7	1 953.9	1 503.7
Total liabilities	114 236.0	128 253.3	201.5	238.0	114 437.5	128 491.3
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	125 782.9	141 589.6	188.9	223.3	125 971.8	141 812.9

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

	the period from 1 Jan 2018 to 31 Dec 2018			
	in Consolidated Financial Statements for 2018 (approved data)	change a)	change c)	in Consolidated Financial Statements for 2019 (comparable data)
Net cash flow from operating activities	-3 225.9	0.0	529.2	-2 696.7
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	-436.2	2.1		-434.1
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	-12 297.9		-3 562.4	-15 860.3
Net cash flow from investing activities	275.2	0.0	-529.2	-254.0
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

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V. Notes to the consolidated financial statements

1. Segment reporting

Segments of operation

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

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

- retail banking segment,
- corporate banking segment.

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

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

Retail banking segment

Within the framework of retail banking, the Group provides services for individual customers (segments of mass customers and wealthy customers) 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 Group's operations carried out through NN IP TFI S.A., so the segment's results include the Group'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, capital market operations conducted by the parent, products related to leasing and factoring services offered by ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

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

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Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Group, included in notes describing applied accounting standards. In particular, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS). Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price – coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtainment of long-term liquidity, matching of the Group's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations. Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Group presents segment's interest income reduced by the cost of the interest. In 12 months 2019, the Group revised the allocation key for the ALCO's income. The data for previous periods presented herein were made comparable.

Geographical segments

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

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2019

	Retail banking segment	Corporate banking segment	TOTAL
Income total	3 325.7	2 464.1	5 789.8
net interest income	2 721.3	1 572.6	4 293.9
commission income, including:	851.5	898.4	1 749.9
transaction margin on currency exchange transactions	77.4	312.3	389.7
account maintenance fees	127.4	168.2	295.6
lending commissions	58.3	259.5	317.8
payment and credit cards fees	323.9	28.0	351.9
participation units distribution fees	74.5	0.0	74.5
insurance product offering commissions	113.5	22.0	135.5
factoring and lease agreements commissions	37.4	15.9	53.3
other commissions	39.1	92.5	131.6
commission expenses	304.4	73.8	378.2
net commission income	547.1	824.6	1 371.7
other income/expenses	57.3	66.9	124.2
General and administrative expenses	1 524.2	973.2	2 497.4
including: depreciation and amortization	212.0	64.8	276.8
Segment result	1 801.5	1 490.9	3 292.4
Impairment losses	309.3	296.2	605.5
Tax on certain financial institutions	190.5	245.2	435.7
Share of profit (loss) of associates accounted for using the equity method	6.6	0.0	6.6
Gross profit	1 308.2	949.6	2 257.8
Income tax	-	-	599.1
Net profit	-	-	1 658.7
- attributable to shareholders of ING Bank Śląski S.A.	-	-	1 658.7
Assets of the segment	73 995.4	82 617.7	156 613.1
Segment investments in associates accounted for using the equity method	176.7	4.3	181.0
Other assets (not allocated to segments)	-	-	1 816.6
Total assets	74 172.1	82 622.0	158 610.7
Segment liabilities	94 497.4	46 224.1	140 721.5
Other liabilities (not allocated to segment)	-	-	2 665.9
Equity	-	-	15 223.3
Total equity and liabilities	94 497.4	46 224.1	158 610.7
Capital expenditure	118.4	75.6	194.0
Net cash flow from operating activities	3 245.5	-3 439.7	-194.2
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-41.2
Net cash flow from operating activities total	3 245.5	-3 439.7	-235.4
Net cash flow from investment activities	-686.4	-454.7	-1 141.1
Net cash flow from financial activities	0.0	1 417.5	1 417.5

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2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	3 041.4	2 191.3	5 232.7
net interest income	2 386.4	1 372.9	3 759.3
commission income, including:	730.6	885.0	1 615.6
transaction margin on currency exchange transactions	84.6	278.6	363.2
account maintenance fees	127.2	159.7	286.9
lending commissions	69.4	228.1	297.5
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	91.1	18.4	109.5
factoring and lease agreements commissions	8.6	48.9	57.5
other commissions	102.0	28.0	130.0
commission expenses	216.3	94.4	310.7
net commission income	514.3	790.6	1 304.9
other income/expenses	140.7	27.8	168.5
General and administrative expenses	1 385.2	941.6	2 326.8
including: depreciation and amortization	141.3	52.2	193.5
Segment result	1 656.2	1 249.7	2 905.9
Impairment losses	271.0	229.9	500.9
Tax on certain financial institutions	154.9	218.9	373.8
Share of profit (loss) of associates accounted for using the equity method	0.0	-0.3	-0.3
Gross profit	1 230.3	800.6	2 030.9
Income tax	-	-	507.1
Net profit	-	-	1 523.8
- attributable to shareholders of ING Bank Śląski S.A.	-	-	1 523.8
Assets of the segment	62 664.2	77 480.6	140 144.8
Segment investments in associates accounted for using the equity method	-	1.0	1.0
Other assets (not allocated to segments)	-	-	1 667.1
Total assets	62 664.2	77 481.6	141 812.9
Segment liabilities	82 663.5	43 891.4	126 554.9
Other liabilities (not allocated to segment)	-	-	1 936.4
Equity	-	-	13 321.6
Total equity and liabilities	82 663.5	43 891.4	141 812.9
Capital expenditure	137.3	93.3	230.6
Net cash flow from operating activities	3 368.3	-4 918.9	-1 550.6
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-1 146.1
Net cash flow from operating activities total	3 368.3	-4 918.9	-2 696.7
Net cash flow from investment activities	-145.1	-108.9	-254.0
Net cash flow from financial activities	0.0	308.9	308.9

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2. Net interest income

	2019	2018
Interest income, including:	5 280.1	4 673.8
Interest income calculated using effective interest rate method, including:	5 276.0	4 668.5
Interest on financial instruments measured at amortized cost	4 841.9	4 272.7
interest on loans and receivables to other banks measured at amortised cost	42.0	36.4
interest on loans and receivables to customers measured at amortised cost	4 539.9	3 955.7
interest on securities measured at amortised cost	260.0	280.6
Interest on securities measured at fair value through other comprehensive income	434.1	395.8
Other interest income, including:	4.1	5.3
interest on loans and receivables to other banks measured at fair value through profit or loss	4.1	5.3
Interest expense, including:	986.2	914.5
interest on deposits from other banks	58.3	58.3
interest on deposits from customers	891.1	835.5
interest on issue of debt securities	9.8	7.6
interest on subordinated liabilities	19.7	13.1
Interest on lease liabilities*	7.3	n/a
Net interest income	4 293.9	3 759.3

*) Starting from 1 January 2019, the Group has implemented the new IFRS 16 Leasing standard. The Group applied a modified retrospective approach to its leasing contracts and did not transform 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 89.3 million represents interest income on financial assets for which impairment loss was recognised. In 2018, the amount reached PLN 70.3 million.

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3. Net commission income

	2019	2018
Commission income, including:		
transaction margin on currency exchange transactions	389.7	363.2
account maintenance fees	295.6	286.9
lending commissions	317.8	297.5
payment and credit cards fees	351.9	271.4
participation units distribution fees	74.5	99.6
insurance product offering commissions	135.5	109.5
factoring and lease agreements commissions	53.3	57.5
brokerage activity fees	20.1	21.4
fiduciary and custodian fees*	28.2	29.3
foreign commercial business	36.0	35.1
agency in financial instruments transactions	6.2	13.4
other commission	41.1	30.8
related to assets / liabilities not measured at fair value through profit and loss account	4.8	0.6
other	36.3	30.2
Total commission income	1 749.9	1 615.6
Commission expenses		
card fees paid	204.7	155.4
commission paid on intermediation in selling deposit products	54.8	45.7
brokerage activity fees	15.3	14.9
commission paid on disclosing credit information	16.6	16.2
commission paid on cash handling services	20.9	20.7
electronic banking services fees	12.3	12.7
commission paid on trading in securities	8.8	8.4
costs of the National Clearing House (KIR)	11.3	10.1
agency in financial instruments transactions	2.0	7.5
lease agreements fees	2.9	1.0
other commission	28.6	18.1
related to assets / liabilities not measured at fair value through profit and loss account	7.0	6.2
other	21.6	11.9
Total commission expenses	378.2	310.7
Net commission income	1 371.7	1 304.9

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

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

- revenues in the total amount of PLN 1 023.4 million from maintaining customer accounts, granting loans, payment and credit cards, factoring and leasing services (PLN 913.9 million in 2018),
- costs in the total amount of PLN 298.3 million due to paid commission on cards, brokering the sale of deposit products, providing credit information, electronic banking and leasing services (PLN 237.2 million in 2018).

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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:	46.4	35.7
FX result	68.4	114.6
currency derivatives	-22.0	-78.9
Net income on interest rate derivatives	39.4	36.1
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	108.3	90.9

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

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

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

	2019	2018
Net income on the sale of securities measured at amortised cost	0.0	1.0
Net income on 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

Dividend income received in 2019 and 2018 comes from entities whose shares the Group maintained in its portfolio as at 31 December 2019 and 31 December 2018, respectively.

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 Group, refer to the subsequent part of the financial statements, note no. III.7. Hedge accounting in the chapter Risk and capital management.

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7. Net income on other basic activities

	2019	2018
Sale of other services	13.8	16.1
Net income on disposal of property, plant and equipment and intangible assets	-0.2	-1.6
Banking activity-related compensations and losses	-3.0	-5.4
Provision for commission refunds for early loan repayments *	-17.1	0.0
Other	0.4	5.3
Total	-6.1	14.4

* 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:	1 202.6	1 104.7
wages and salaries, including:	985.2	902.4
variable remuneration programme	34.2	33.3
ING Group's incentive programme	0.2	0.3
retirement benefits	3.7	3.6
employee benefits	217.4	202.3
Cost of marketing and promotion	119.4	118.1
Depreciation and amortisation, including:	276.8	193.5
on property, plant and equipment	198.7	117.1
including depreciation of the right to use *	96.8	n/a
on intangible assets	78.1	76.4
Other general and administrative expenses, including:	898.6	910.5
IT costs	221.3	196.2
communication costs	51.0	51.1
transport and representation costs	37.0	46.7
maintenance, refurbishment and rental of buildings*	n/a	197.2
maintenance and refurbishment of buildings*	100.0	n/a
costs of short-term leasing and low-value leasing *	22.0	n/a
obligatory Bank Guarantee Fund payments	202.3	165.2
advisory and legal services, audit costs	90.0	91.8
donations	5.0	3.9
disputed claims	0.6	12.0
other	169.4	146.4
Total	2 497.4	2 326.8

*) Starting from 1 January 2019, the Group has implemented the new IFRS 16 Leasing standard. The Group applied a modified retrospective approach to its leasing contracts and did not transform comparative data. As a result of implementation, the costs of long-term rental were allocated to depreciation and interest costs, while the costs of short-term rental were moved to the line: Costs for short-term leasing and leasing of low-value assets. The costs of maintaining buildings present the costs associated with the maintenance and administration of real estate, as well as non-leasing elements not included in the calculation of the leasing liability, including VAT.

8.1. Employee benefits

8.1.1. Variable 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 Group (in order to meet the guidelines arising from the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and a detailed method of capital estimation in banks, to satisfy the requirements under Directive

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2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile).

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter III. *Significant accounting principles* in item 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 Group'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)	Median share prices for the period 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)	Median share prices for the period 10.10.2019-20.11.2019
14 659	2.9	-	14 659	-	138	14 521	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)	Median share prices for the period 10.10.2019-20.11.2019
19 696	3.9	-	19 696	-	9 833	9 863	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)	Median share prices for the period 10.10.2019-20.11.2019
26 985	5.3	-	26 985	8 683	8 729	8 774	398	401	196.00

Programme 2018

Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2019 – payable in 2020)	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)	Median share prices for the period 10.10.2019-20.11.2019/ net asset value as at 30 November 2019
71 700	14.5	43 064	28 636	9 362	9 400	9 446	214	214	196.00 / 1296.59

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Programme 2019 – established reserve for the program - actual award in 2020

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)	Median share prices for the period 10.10.2019-20.11.2019/ net asset value as at 30 November 2019
83 414	17.1	49 869	33 545	10 791	10 846	10 882	513	513	196.00 / 1296.59

8.1.2. ING Group's incentive programme

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

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

Parameters used in the valuation model

	2019		2018	
	min	max	min	max
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 years	9 years	5 years	9 years
current share price	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 and 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:

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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 exercisable as at 31 Dec 2019	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 exercisable 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

	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	577.7	481.4
corporate banking	268.0	217.9
including corporate and municipal securities	0.0	-0.2
retail banking	309.7	263.5
Provisions for off-balance sheet liabilities	29.4	14.8
Total	605.5	500.9

*) 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 0.9 million (PLN 2.4 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	2 481.3	2 270.0
corporate banking	1 355.3	1 261.5
including corporate and municipal securities	0.6	0.5
retail banking	1 126.0	1 008.5
other receivables	0.0	0.0
Provisions for off-balance sheet liabilities	107.1	78.5
Total	2 594.0	2 355.7

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10. Tax on certain financial institutions

Persuant to the Act on Tax on Certain Financial Institutions the Group 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	628.1	592.9
Deferred tax, including:	-29.0	-85.8
Recognised and reversed temporary differences	-29.0	-85.8
Total income tax recognised in the income statement	599.1	507.1

Effective tax rate calculation

	2019	2018
A. Profit before tax	2 257.8	2 030.9
B. 19% of profit before tax	429.0	385.9
C. Increases – non-deductible expenses, including:	172.6	122.7
tax on certain financial institutions	82.8	71.0
prudential fee in favour of BGF	38.5	31.4
impairment loss on receivables in a part not covered with the deferred tax	23.5	5.4
provisions for disputable debt claims and other assets	3.3	2.9
expenses due to loan and non-loan receivables written off	4.0	2.1
tax loss on the sale of receivables	0.0	1.4
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.4	1.3
representation expenses	0.6	0.6
provisions for legal risk related to the CHF portfolio and commission returns	12.4	1.9
other	6.1	4.7
D. Decreases – tax exempt income, including:	2.5	1.5
release of provisions for disputable debt claims	0.9	1.4
valuation using the equity method of subsidiaries	1.3	0.0
other	0.3	0.1
E. Income tax from the income statement (B+C-D)	599.1	507.1
Effective tax rate (E : A)*	26.53%	24.97%

*) 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).

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12. Earning per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the parent company 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 attributable to ING Bank Śląski S.A. shareholders	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 Group's parent maintains a mandatory reserve of 3.5% of the value of deposits received by the parent on the current account at the National Bank of Poland.

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

- PLN 4 554.0 million for the period from 31 December 2019 to 30 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
Loans and advances	204.1	52.6
Placed call deposits	262.1	340.6
Total (gross)	798.6	776.6
Impairment losses / impairment for expected losses, including: concerning loans and advances	-0.1 -0.1	-0.1 -0.1
Total (net)	798.5	776.5

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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	0.0	30.0
over 1 year and up to 5 years	198.0	17.5
Total (gross)	798.6	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	174.9	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 Group's consolidated 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.

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2019

	Fair value of derivatives		Notional amount of instruments with the remaining maturity			TOTAL
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	
Interest rate derivatives, including:	429.9	555.8	54 656.9	114 843.5	301 532.9	471 033.3
<i>Cleared by CCP</i>	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 Group insolvency (DVA).

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2018

	Fair value of derivatives		Notional amount of instruments with the remaining maturity			TOTAL
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	
Interest rate derivatives, including:	370.4	443.2	34 965.5	73 825.8	263 464.6	372 255.9
<i>Cleared by CCP</i>	56.4	48.9	34 071.3	71 333.6	245 253.6	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 / market settlement" approach. Under the terms of the said service, the balance sheet exposure resulting from the transaction is settled on a daily basis based on the change in the fair value of individual transactions. As a result, no Variation Margin margin is placed. The carrying amount 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 Group 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.

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17. Hedge accounting

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

	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

18. Investment securities

	2019			2018		
	gross	Stage 1 expected credit loss allowance	net	gross	Stage 1 expected credit loss allowance	net
Measured at fair value through other comprehensive income (FVOCI), including:	21 248.2	-4.1	21 244.1	20 082.0	-4.7	20 077.3
debt securities, including:	21 137.5	-4.1	21 133.4	19 998.7	-4.7	19 994.0
treasury bonds	18 686.2	-3.8	18 682.4	17 675.0	-4.6	17 670.4
treasury bonds in EUR	982.8	-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:	12 581.9	-1.5	12 580.4	11 862.3	-2.3	11 860.0
debt securities, including:	12 581.9	-1.5	12 580.4	11 862.3	-2.3	11 860.0
treasury bonds	5 963.7	-0.8	5 962.9	5 938.0	-1.3	5 936.7
treasury bonds in EUR	3 273.2	-0.5	3 272.7	3 144.5	-0.8	3 143.7
Bonds of Bank Gospodarstwa Krajowego	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
NBP money market bills	229.9	0.0	229.9	0.0	0.0	0.0
Razem	33 830.1	-5.6	33 824.5	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 perspective of the Group's operations. The approach to the fair value measurement of these instruments is described in the further part of the report in note 37. *The fair value*. In 2019 the Group received the related revenue in the form of a dividend in the amount of PLN 7.0 million, which was presented in the Consolidated 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 Group did not make any sales from the equity portfolio. In 2018, the Group made a sale from the portfolio of equity securities valued at fair value through other comprehensive income of

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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:	-0.6	-0.6	-1.3	4.7	0.2	4.9
establishment and release in the period	-0.6	-0.6	-1.3	4.7	0.2	4.9
Closing balance of impairment	4.1	1.5	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 write-offs on expected credit losses. In 2019 and 2018, there were no transfers of investment securities between stages with different methods of measuring expected loan losses.

Investment securities / Investments by maturity

	2019		2018	
	Measured at fair value through other comprehensive income	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at amortised cost
without a specific date	110.7	0.0	83.3	0.0
up to 1 month	0.0	388.9	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	5 809.8	11 472.2	7 940.2
over 5 years	10 876.3	3 666.4	8 485.9	3 715.8
Total	21 244.1	12 580.4	20 077.3	11 860.0

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19. Assets securing liabilities

Market value of assets securing liabilities

	2019	2018
Bonds from the portfolio of financial assets at fair value through profit and loss:		
Treasury bonds securing the liabilities arising from the securities sold valuable with a repurchase agreement (sell-buy-back transactions)	80.0	83.5
Bonds and loan receivables from the portfolio of valued financial assets at amortized cost:		
Treasury bonds securing the liabilities arising from the securities sold valuable with a repurchase agreement (repo transactions)	30.0	0.0
mortgage claims as collateral for mortgage bonds	632.7	0.0
	2019	2018
Bonds from the portfolio of assets measured at fair value through other comprehensive income		
treasury bonds constituting collateral to the Bank Guarantee Fund	574.8	559.0
treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	128.7	246.6
austrian government bonds to hedge settlements with the LCH	445.4	433.5
treasury bonds constituting a blockage under the obligation to pay a premium bank restructuring fund	88.4	44.6
treasury bonds constituting a blockage under the obligation to pay a premium bank guarantee fund	87.4	63.0
treasury bonds constituting a security deposit in securities on account of the initial settlement	60.0	60.0
deposit securities as a security deposit for clearing transactions in EUREX	45.7	0.0
bonds constituting the security for the settlement fund	10.0	10.0
securities on the Euroclear account which are intended for security for transactions not submitted to clearing chambers	3.0	0.0
treasury bonds constituting security on the covered bonds account	14.8	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) No 648/2012 of the European Parliament and of the Council of 4 July 2012,
- agreements, and
- liabilities under repo transactions.

The mortgage claims indicated above as collateral for mortgage bonds are described in Note 30.

The Group 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 constituting the Group's assets accepted as collateral for liabilities under repo transactions

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

Overwhelming majority of buy-sell-back / reverse repo transactions are carried out with the option of legal ownership of the securities being the subject of such transactions. The above means that the possibilities of further resale or pledge are retained, in accordance with generally accepted market practice in this respect.

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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).

To restricted assets, except for instruments presented in this note, the value of the required reserve which the parent entity of the Group is obliged to keep on the current account with the NBP is also included. More information on the required reserve is provided in note 13. Cash and balances with the Central Bank.

20. Loans and receivables to customers

	2019	2018
Measured at amortised cost	118 127.8	102 907.4
Measured at fair value through profit or loss	160.3	218.4
Total (net)	118 288.1	103 125.8

Loans and other receivables measured at amortised cost

	2019			2018		
	gross	impairment for expected losses	net	gross	impairment for expected losses	net
Portfolio of loans, including:	118 312.3	-2 481.3	115 831.0	104 226.8	-2 270.0	101 956.8
Households	58 524.1	-1 239.2	57 284.9	48 631.3	-1 105.6	47 525.7
Business entities	56 769.0	-1 241.8	55 527.2	52 388.2	-1 164.3	51 223.9
The government and self-government institutions' sector	3 019.2	-0.3	3 018.9	3 207.3	-0.1	3 207.2
Total (gross), including:	118 312.3	-2 481.3	115 831.0	104 226.8	-2 270.0	101 956.8
Corporate banking segment	63 300.5	-1 355.3	61 945.2	58 863.5	-1 261.5	57 602.0
loans in the current account	10 778.0	-463.0	10 315.0	10 782.9	-460.1	10 322.8
term loans and advances	36 616.6	-791.8	35 824.8	33 243.9	-726.6	32 517.3
leasing receivables	8 073.2	-59.8	8 013.4	7 165.0	-46.9	7 118.1
factoring receivables	5 328.1	-40.1	5 288.0	4 861.9	-27.4	4 834.5
corporate and municipal debt securities	2 504.6	-0.6	2 504.0	2 809.8	-0.5	2 809.3
Retail banking segment	55 011.8	-1 126.0	53 885.8	45 363.3	-1 008.5	44 354.8
mortgages	40 807.0	-209.6	40 597.4	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
leasing receivables	1 323.6	-2.3	1 321.3	979.1	-3.6	975.5
other loans and advances	11 498.7	-812.6	10 686.1	9 683.3	-674.2	9 009.1
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
other receivables	698.2	0.0	698.2	217.6	0.0	217.6
Total	120 609.1	-2 481.3	118 127.8	105 177.4	-2 270.0	102 907.4

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Loans and other receivables to customers by maturity

	2019		2018	
	Measured at amortised cost	Measured at fair value	Measured at amortised cost	Measured at fair value
up to 1 month	17 289.9	0.0	15 725.1	0.1
over 1 month and up to 3 months	4 160.5	1.3	4 465.7	11.4
over 3 months and up to 1 year	16 056.0	37.6	13 900.6	39.9
over 1 year and up to 5 years	39 271.1	84.7	34 729.2	111.9
over 5 years	42 047.1	25.5	35 003.4	44.5
overdue	1 784.5	11.2	1 353.4	10.6
Total	120 609.1	160.3	105 177.4	218.4

20.1. Receivables from financial leasing

As at 31 December 2019, the largest share in the portfolio of leased items were vehicles (49% of the portfolio value), and a 21% increase in the value of new vehicle financing agreements was recorded compared to the end of 2018.

A significant share in the portfolio are also machinery and equipment (30% of the portfolio value) with a simultaneous increase of 19.5% compared to the value of financed machinery and equipment at the end of 2018, other movables constituted 10% of the portfolio value (an increase of 15.1% compared to the end of 2018).

At the same time, the financial commitment in the area of property leasing decreased in 2019 - 11% of the portfolio value (a decrease of 10.2% compared to the end of 2018).

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

	2019	2018
up to 1 year	3 269.9	2 706.0
over 1 year and up to 2 years	2 527.5	2 009.5
over 2 year and up to 3 years	1 667.4	1 660.1
over 3 year and up to 4 years	1 073.5	791.5
over 4 year and up to 5 years	499.5	545.7
over 5 years	359.1	431.3
Total	9 396.9	8 144.1

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

	2019	2018
up to 1 year	3 509.6	2 916.3
over 1 year and up to 2 years	2 678.5	2 145.1
over 2 year and up to 3 years	1 752.3	1 738.9
over 3 year and up to 4 years	1 117.0	833.6
over 4 year and up to 5 years	518.0	568.1
over 5 years	380.1	457.6
Total	9 955.5	8 659.6

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The present value of minimum lease instalments is as follows:

	2019	2018
(Gross) receivables under financial lease	9 955.5	8 659.6
Undue interest	558.7	515.5
Present value of minimum lease instalments	9 396.8	8 144.1

Revenues realized by the Group from financial leasing contracts are as follows:

	2019	2018
Profit from the sale of fixed assets (leasing items)	3.4	2.6
Net interest income from leasing investment	286.2	236.9
Variable leasing fees (commission fees)	10.4	7.7
Total	300.0	247.2

In 2018 and 2019, no significant modifications of financial leasing agreements were found.

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

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

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

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20.2. Quality of loan portfolio

2019

	gross	impairment for expected losses	net
Corporate banking segment	63 300.5	-1 355.3	61 945.2
assets in stage 1	56 469.2	-51.7	56 417.5
assets in stage 2	4 257.0	-52.5	4 204.5
assets in stage 3	2 572.8	-1 251.1	1 321.7
including individually significant assets	1 487.10	-721.6	765.5
POCI assets	1.5	0.0	1.5
Retail banking segment	55 011.8	-1 126.0	53 885.8
assets in stage 1	49 309.2	-71.5	49 237.7
assets in stage 2	4 746.6	-396.6	4 350.0
- including CHF-indexed mortgage loans	907.0	-48.5	858.5
assets in stage 3	956.0	-657.9	298.1
- including CHF-indexed mortgage loans	8.9	-4.2	4.7
Total	118 312.3	-2 481.3	115 831.0
Total assets in stage 1	105 778.4	-123.2	105 655.2
Total assets in stage 2	9 003.6	-449.1	8 554.5
Total assets in stage 3	3 528.8	-1 909.0	1 619.8

The Group 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 1 144.0 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.

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2018

	gross	impairment for expected losses	net
Corporate banking segment	58 863.5	-1 261.5	57 602.0
assets in stage 1	51 733.2	-56.0	51 677.2
assets in stage 2	5 038.9	-62.8	4 976.1
assets in stage 3	2 091.4	-1 142.7	948.7
including individually significant assets	1 589.0	-808.5	780.5
Retail banking segment	45 363.3	-1 008.5	44 354.8
assets in stage 1	38 633.0	-58.2	38 574.8
assets in stage 2	5 916.7	-362.0	5 554.7
- including CHF-indexed mortgage loans	971.0	-17.5	953.5
assets in stage 3	813.6	-588.3	225.3
- including CHF-indexed mortgage loans	10.4	-6.7	3.6
Total	104 226.8	-2 270.0	101 956.8
Total assets in stage 1	90 366.2	-114.2	90 252.0
Total assets in stage 2	10 955.6	-424.8	10 530.8
Total assets in stage 3	2 905.0	-1 731.0	1 174.0

Receivable sale

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

- Corporate portfolio
 - On 31 January 2019, the Group 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 Group's gross result was PLN 9.8 million.
- Retail portfolio
 - On 21 and 22 November 2019, the Group 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 Group's gross result was PLN 24.5 million.

In 2018, the Group 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 Group 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.

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Collateral

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

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	114.2	424.8	1 731.0	2 270.0	122.5	350.0	1 572.4	2 044.9
Changes in the period, including:	9.0	24.3	178.0	211.3	-8.3	74.8	158.6	225.1
impairments for granted loans during the period	70.9	0.0	0.0	70.9	68.2	0.0	0.0	68.2
transfer to Stage 1	8.4	-100.4	-9.0	-101.0	5.3	-63.8	-8.6	-67.1
transfer to Stage 2	-28.4	230.2	-28.1	173.7	-27.7	245.6	-31.1	186.8
transfer to Stage 3	-7.1	-64.4	624.4	552.9	-6.7	-51.6	511.9	453.6
changed provisioning under expected losses	-34.8	-45.5	-46.2	-126.5	-47.7	-56.8	-53.5	-158.0
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-381.6	-381.6	0.0	0.0	-294.6	-294.6
calculation and write-off of effective interest	0.0	0.0	26.9	26.9	0.0	0.0	13.3	13.3
other	0.0	4.4	-8.4	-4.0	0.3	1.4	21.2	22.9
Closing balance of impairment	123.2	449.1	1 909.0	2 481.3	114.2	424.8	1 731.0	2 270.0

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	56.0	62.8	1 142.7	1 261.5	58.2	362.0	588.3	1 008.5	2 270.0
Changes in the period, including:	-4.3	-10.3	108.4	93.8	13.3	34.6	69.6	117.5	211.3
impairments for granted loans during the period	25.6	0.0	0.0	25.6	45.3	0.0	0.0	45.3	70.9
transfer to Stage 1	2.3	-17.3	-0.8	-15.8	6.1	-83.1	-8.2	-85.2	-101.0
transfer to Stage 2	-11.7	37.5	-0.8	25.0	-16.7	192.7	-27.3	148.7	173.7
transfer to Stage 3	-4.0	-13.5	309.9	292.4	-3.1	-50.9	314.5	260.5	552.9
changed provisioning under expected losses	-16.5	-16.9	-35.9	-69.3	-18.3	-28.6	-10.3	-57.2	-126.5
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-181.1	-181.1	0.0	0.0	-200.5	-200.5	-381.6
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	-7.9	-8.0	0.0	4.5	-0.5	4.0	-4.0
Closing balance of impairment	51.7	52.5	1 251.1	1 355.3	71.5	396.6	657.9	1 126.0	2 481.3

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2018

	Corporate banking				Retail banking				TOTAL
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Opening balance of impairment	78.4	-	960.6	1 039.0	163.8	-	464.0	627.8	1 666.8
The impact of changes to the accounting principles in connection with the implementation of IFRS 9	-14.5	61.0	71.5	118.0	-105.2	289.0	76.3	260.1	378.1
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	63.9	61.0	1 032.1	1 157.0	58.6	289.0	540.3	887.9	2 044.9
Changes in the period, including:	-7.9	1.8	110.6	104.5	-0.4	73.0	48.0	120.6	225.1
impairments for granted loans during the period	30.0	0.0	0.0	30.0	38.2	0.0	0.0	38.2	68.2
transfer to Stage 1	1.8	-15.3	-1.0	-14.5	3.5	-48.5	-7.6	-52.6	-67.1
transfer to Stage 2	-9.7	42.8	-0.3	32.8	-18.0	202.8	-30.8	154.0	186.8
transfer to Stage 3	-4.1	-7.0	260.0	248.9	-2.6	-44.6	251.9	204.7	453.6
changed provisioning under expected losses	-26.2	-18.9	-35.6	-80.7	-21.5	-37.9	-17.9	-77.3	-158.0
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-140.2	-140.2	0.0	0.0	-154.4	-154.4	-294.6
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	9.0	9.5	0.0	1.2	12.2	13.4	22.9
Closing balance of impairment	56.0	62.8	1 142.7	1 261.5	58.2	362.0	588.3	1 008.5	2 270.0

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	51 733,2	5 038,9	2 091,4	0,0	58 863,5	38 633,1	5 916,6	813,6	0,0	45 363,3	104 226,8
Changes in the period, including:	4 736,0	-781,9	481,4	1,5	4 437,0	10 676,1	-1 170,0	142,4	0,0	9 648,5	14 085,5
loans granted in the period	19 313,8	0,0	0,0	1,5	19 315,3	14 728,7	0,0	0,0	0,0	14 728,7	34 044,0
repayment (total and partial) and the release of new tranches	-12 889,5	-1 533,8	-273,8	0,0	-14 697,1	-3 853,4	-883,4	-143,0	0,0	-4 879,8	-19 576,9
calculation of penalty interest (for delay)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
transfer to Stage 1	1 874,7	-1 870,3	-4,4	0,0	0,0	2 279,7	-2 268,1	-11,4	0,0	0,2	0,2
transfer to Stage 2	-3 017,3	3 020,4	-3,1	0,0	0,0	-2 209,8	2 252,4	-42,6	0,0	0,0	0,0
transfer to Stage 3	-545,7	-398,2	943,8	0,0	-0,1	-269,1	-270,9	540,0	0,0	0,0	-0,1
derecognition from the balance sheet (write-downs, sale)	0,0	0,0	-181,1	0,0	-181,1	0,0	0,0	-200,6	0,0	-200,6	-381,7
writing down interest (for delay)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Closing balance of gross carrying amount	56 469,2	4 257,0	2 572,8	1,5	63 300,5	49 309,2	4 746,6	956,0	0,0	55 011,8	118 312,3

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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	49 178.0	0.0	1 796.8	0.0	50 974.9	36 809.0	0.0	700.0	0.0	37 509.0	88 483.8
the impact of changes in accounting policies related to the implementation of IFRS 9	-4 869.4	4 556.2	101.9	0.0	-211.4	-4 881.6	4 876.0	46.5	0.0	40.9	-170.4
Opening balance of gross carrying amount after changes in accounting policies	44 308.6	4 556.2	1 898.7	0.0	50 763.5	31 927.4	4 876.0	746.5	0.0	37 549.9	88 313.4
Changes in the period, including:	7 424.6	482.7	192.7	0.0	8 100.0	6 705.6	1 040.6	67.1	0.0	7 813.4	15 913.4
loans granted in the period	20 068.9	0.0	0.0	0.0	20 068.9	11 833.3	0.0	0.0	0.0	11 833.3	31 902.3
repayment (total and partial) and the release of new tranches	-9 577.6	-1 943.1	-306.8	0.0	-11 827.5	-3 066.7	-662.4	-137.9	0.0	-3 867.0	-15 694.5
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	1 820.7	-1 820.0	-0.7	0.0	0.0	744.2	-733.1	-11.1	0.0	0.0	0.0
transfer to Stage 2	-4 448.3	4 448.3	0.0	0.0	0.0	-2 601.2	2 648.9	-47.7	0.0	0.0	0.0
transfer to Stage 3	-439.2	-202.5	641.7	0.0	0.0	-204.0	-212.7	416.7	0.0	0.0	0.0
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-141.5	0.0	-141.5	0.0	0.0	-153.0	0.0	-153.0	-294.4
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	51 733.2	5 038.9	2 091.4	0.0	58 863.5	38 633.0	5 916.6	813.6	0.0	45 363.3	104 226.8

Among loans granted during the year, the most important item are mortgage loans for individuals (PLN 8 953.0 million), moreover, financial loans for individuals (PLN 3 074.7 million). A significant part is also short-term loans: revolving loans (PLN 1 424.7 million), working loans (PLN 3 989.6 million) and overdrafts (PLN 1 395.3 million). In addition, in the portfolio of loans granted during the year there are also leasing receivables (PLN 3 979.0 million) and factoring receivables (PLN 1 556.1 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, financial loans 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). In addition, in the portfolio of loans granted during the year there are also leasing receivables (PLN 3 917.7 million) and factoring receivables (PLN 3 191.5 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.

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21. Investments in associates

	2019	2018
NN Investment Partners TFI S.A.	176.7	0.0
Twisto Polska Sp. z o.o.	4.3	1.0
Ending balance	181.0	1.0

In 2019, ING Bank Śląski S.A. acquired 45% of shares in the share capital of NN Investment Partners TFI (NN IP TFI). The company's business is the creation and management of funds and investment portfolios. The Group recognizes shares as an investment in an associate and measures it using the equity method in accordance with IAS 28.

Selected data regarding the associate:

	Twisto Polska Sp. z o.o.		NN Investment Partners TFI S.A.*
	2019	2018	2019
Share in the capital of the entity	20%	20%	45%
Assets, including:	22.4	4.9	128.5
Short-term	22.3	4.8	123.7
Long-term	0.1	0.1	4.8
Liabilities and provisions for liabilities, including:	1.2	0.3	28.5
Short-term	1.2	0.3	25.3
Long-term	0.0	0.0	3.2
Net assets	21.1	4.6	100.0
Profit (loss)	-5.0	-1.8	41.7
Revenues	0.2	0.0	116.6
Profit or loss after tax from discontinued operations	0.0	0.0	0.0
Other comprehensive income	0.0	0.0	0.1
Total comprehensive income	21.1	4.6	116.7
Cash and cash equivalents	7.1	4.2	99.6
Short-term financial liabilities (excluding trade liabilities and other liabilities and provisions)	0.0	0.0	2.5
Long-term financial liabilities (excluding trade liabilities and other liabilities and provisions)	0.0	0.0	3.2
Depreciation	0.0	0.0	17.8
Interest income	0.0	0.1	0.5
Interest expense	0.0	0.0	0.3
Income tax expense or income	0.0	0.0	21.3

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

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

	2019	2018
Opening balance of gross carrying amount	1.0	1.3
Purchase of shares	173.4	0.0
Valuation using the equity method in the period	6.6	-0.3
Closing balance of gross carrying amount	181.0	1.0

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22. Property, plant and equipment

	2019	2018
Real estate and investments in foreign fixed assets	330.8	334.0
Computer hardware	106.8	104.0
Other property, plant and equipment	76.0	86.0
Construction in progress	44.0	32.1
Right of use assets*	398.4	n/a
Total	956.0	556.1

*) 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	712.4	263.0	385.4	32.1	1 392.9
Additions, including:	28.7	44.0	25.4	106.6	204.7
purchases	-	0.3	0.5	106.6	107.4
investment takeovers	26.7	43.1	24.8	-	94.6
reclassification from assets held for sale	2.0	-	0.1	-	2.1
reclassification to another group within PPE	-	0.1	-	-	0.1
other	-	0.5	-	-	0.5
Disposals, including:	-13.7	-0.5	-3.7	-94.7	-112.6
sale and liquidation	-0.5	-0.5	-1.3	-	-2.3
investment takeovers	-	-	-	-94.6	-94.6
reclassification to assets held for sale	-13.2	-	-2.3	-	-15.5
reclassification to another group within PPE	-	-	-0.1	-	-0.1
other	-	-	-	-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	734.5	306.5	407.1	44.0	1 492.1
Opening accumulated depreciation	-378.4	-159.0	-299.4	0.0	-836.8
Movements, including:	-25.3	-40.7	-31.7	0.0	-97.7
depreciation charges	-29.6	-40.5	-31.8	-	-101.9
reclassification to assets held for sale	-0.8	-	-0.1	-	-0.9
reclassification from assets held for sale	5.0	-	2.2	-	7.2
impairment	-	-	-2.1	-	-2.1
other	0.1	-0.2	0.1	-	0.0
Closing accumulated depreciation	-403.7	-199.7	-331.1	0.0	-934.5
Closing net value	330.8	106.8	76.0	44.0	557.6

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

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2019**Changes in right of use assets**

	Right of use assets			TOTAL
	Real estate	Means of transport	Other assets	
Opening gross value	470.1	15.5	0.7	486.3
Additions, including:	51.9	15.9	0.0	67.8
new contracts	25.8	15.9	0.0	41.6
asset adjustment in connection with the recalculation of the leasing liability	26.2	0.0	0.0	26.2
Disposals, including:	-61.0	-0.6	0.0	-61.6
impairment	0.0	0.0	0.0	0.0
Range reduction and early termination of the contract	-60.0	-0.5	0.0	-60.5
asset adjustment in connection with the recalculation of the leasing liability	-1.0	-0.1	0.0	-1.1
Closing gross value	461.0	30.8	0.7	492.5
Opening accumulated depreciation	0.0	0.0	0.0	0.0
Movements, including:	-86.2	-7.6	-0.3	-94.1
depreciation charges	-88.7	-7.7	-0.3	-96.8
range reduction and early termination of the contract	2.5	0.1	0.0	2.7
Closing accumulated depreciation	-86.2	-7.6	-0.3	-94.1
Closing net value	374.8	23.2	0.4	398.4

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2018

	Real estate and investments in foreign fixed assets	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	712.3	247.5	419.4	13.0	1 392.2
Additions, including:	30.2	73.9	24.4	131.5	260.0
purchases	0.1	0.4	0.2	131.5	132.2
investment takeovers	20.5	71.7	20.2	-	112.4
reclassification from assets held for sale	9.6	-	1.4	-	11.0
reclassification to another group within PPE	-	1.8	2.6	-	4.4
Disposals, including:	-37.8	-58.4	-58.4	-112.4	-267.0
sale and liquidation	-12.8	-55.8	-50.2	-	-118.8
investment takeovers	-	-	-	-112.4	-112.4
reclassification to assets held for sale	-25.0	-	-4.9	-	-29.9
reclassification to another group within PPE	-	-2.6	-	-	-2.6
impairment	-	-	-3.5	-	-3.5
other	-	-	0.2	-	0.2
Revaluation:	7.7	0.0	0.0	0.0	7.7
Included in profit or loss*	7.7	-	-	-	7.7
Closing gross value	712.4	263.0	385.4	32.1	1 392.9
Opening accumulated depreciation	-367.5	-176.8	-298.9	0.0	-843.2
Movements, including:	-10.9	17.8	-0.5	0.0	6.4
depreciation charges	-29.5	-38.2	-49.4	-	-117.1
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	-378.4	-159.0	-299.4	0.0	-836.8
Closing net value	334.0	104.0	86.0	32.1	556.1

*) 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 Group 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.

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

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23. Intangible assets

	2019	2018
Goodwill	223.3	223.3
Software	189.2	194.6
Outlays for intangible assets	15.8	20.1
Other	1.6	1.2
Total	429.9	439.2

2019

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

2018

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	224.1	1 007.5	28.1	13.8	1 273.5
Additions, including:	0.0	99.2	90.3	1.1	190.6
purchases	-	8.1	90.3	-	98.4
investment takeovers	-	91.1	-	1.1	92.2
Disposals, including:	0.0	0.0	-98.3	0.0	-98.3
investment takeovers	-	-	-92.2	-	-92.2
settlement of payments for projects	-	-	-3.6	-	-3.6
settlement of software development expenses	-	-	-2.5	-	-2.5
Closing gross value	224.1	1 106.7	20.1	14.9	1 365.8
Opening accumulated amortisation	-0.8	-829.6	0.0	-12.1	-842.5
Movements, including:	0.0	-82.5	0.0	-1.6	-84.1
amortisation charges	-	-74.8	-	-1.6	-76.4
impairment	-	-7.7	-	-	-7.7
Closing accumulated amortisation	-0.8	-912.1	0.0	-13.7	-926.6
Closing net value	223.3	194.6	20.1	1.2	439.2

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Contractual obligations to purchase intangible assets

In 2019, the Group concluded agreements with contractors for the future acquisition of intangible assets for a total amount of PLN 5.2 million, however, due to the framework nature of some contracts, this amount is not target. As in the previous year, these agreements concern the purchase of licenses and implementation of computer software.

At the end of 2018, the Group had (partly framework) agreements to purchase a license and implement software for a total amount of PLN 14.9 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. The smallest identifiable cash-generating units were determined and goodwill totalling PLN 223.3 million was assigned thereto. No other additional elements of intangible value and indefinite useful life were identified that could be assigned to the identified cash-generating units.

The test input data cover the economic capital, risk-weighted assets and profit before tax per segment. 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 Group and the strategy covering the maximum period of the next three years. The data regarding the subsequent three years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Group's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

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.

	as at 31 Dec 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

	as at 31 Dec 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

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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 Group 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	-266.5	-8.6	-	-275.1
revaluation	-146.2	-9.4	-1.2	-156.8
settlement of the difference between tax and balance sheet depreciation	0.0	-1.6	-	-1.6
other provisions	-85.1	-7.5	-	-92.6
employee benefits	-41.4	-5.5	-	-46.9
correction due to effective interest rate	-14.6	10.6	-	-4.0
valuation of operational leasing	-144.3	-23.5	-	-167.8
valuation of financial leasing	-2.6	3.7	-	1.1
tax losses	-1.2	0.5	-	-0.7
other	-23.6	1.7	-	-21.9
Total	-725.5	-39.6	-1.2	-766.3

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	Opening balance	Changes carried through profit or loss	Changes carried through equity	Closing balance
Deferred tax provision				
revaluation	231.2	0.2	-17.2	214.2
interest ocured	80.7	24.7	-	105.4
settlement of the difference between tax and balance sheet depreciation	12.8	-12.8	-	0.0
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	2.6	-1.5	-	1.1
Total	327.3	10.6	-17.2	320.7
Deferred tax disclosed in the balance sheet	-398.2	-29.0	-18.4	-445.6
deferred tax assets				-445.6

2018

	Opening balance	Changes carried through profit or loss	Changes carried through equity	Closing balance
Deferred tax asset				
impairment losses on credit receivables	-177.6	-88.9	-	-266.5
revaluation	-128.9	-11.8	-5.5	-146.2
other provisions	-72.3	-12.8	-	-85.1
employee benefits	-43.1	1.7	-	-41.4
correction due to effective interest rate	-14.3	-0.3	-	-14.6
valuation of operational leasing	-105.0	-39.3	-	-144.3
valuation of financial leasing	9.6	-12.2	-	-2.6
tax losses	-0.1	-1.1	-	-1.2
other	-27.1	3.5	-	-23.6
Total	-558.8	-161.2	-5.5	-725.5

	Opening balance	Changes carried through profit or loss	Changes carried through equity	Closing balance
Deferred tax provision				
revaluation	222.4	0.5	8.3	231.2
interest ocured	6.9	73.8	-	80.7
settlement of the difference between tax and balance sheet depreciation	15.8	-3.0	-	12.8
settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	3.8	-1.2	-	2.6
Total	248.9	70.1	8.3	327.3
Deferred tax disclosed in the balance sheet	-309.9	-91.1	2.8	-398.2
deferred tax assets				-398.2

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
Property, plant and equipment	1.6	1.7
Cash flow hedging instruments	55.8	75.7
Actuarial gains/losses	-2.8	-0.7
Total	134.1	152.5

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26. Other assets

	2019	2018
Prepayments, including:	165.2	125.9
accrued income	56.5	41.6
commission-related settlements	43.2	45.0
prepaid bank operating expenses	56.8	36.7
expenses to be settled	8.7	2.0
other	0.0	0.6
Other assets, including:	39.6	360.1
interbank settlements	0.0	19.3
settlements with customers	13.0	17.8
public and legal settlements	7.2	304.0
other	19.4	19.0
Total	204.8	486.0
Including financial assets	39.6	360.1

26.1. Quality of other receivables
2019

	gross	write-off for expected losses	net
assets in Stage 1	38.0	0.0	38.0
assets in Stage 3	56.3	-56.3	0.0
Total	94.3	-56.3	38.0

2018

	gross	write-off for expected losses	net
assets in Stage 1	360.1	0.0	360.1
assets in Stage 3	59.5	-59.5	0.0
Total	419.6	-59.5	360.1

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

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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	360.1	59.5	419.6	312.0	64.1	376.1
Changes during the period, including:	-322.1	-3.2	-325.3	48.1	-4.6	43.5
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	-312.0	-2.5	-314.5	68.2	-15.0	53.2
Gross carrying amount at the end of the period	38.0	56.3	94.3	360.1	59.5	419.6

27. Liabilities to other banks

	2019	2018
Current accounts	474.9	324.0
Interbank deposits	1 559.5	876.1
Loans received*	3 639.5	3 388.2
Repo transactions	31.1	0.0
Received call deposits	549.2	592.1
Other liabilities	1.9	15.4
Total	6 256.1	5 195.8

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

Liabilities to other banks by maturity

	2019	2018
up to 1 month	2 812.3	1 974.5
over 1 month and up to 3 months	174.0	271.2
over 3 months and up to 1 year	807.5	641.0
over 1 year and up to 5 years	2 373.8	2 211.3
over 5 years	88.5	97.8
Total	6 256.1	5 195.8

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
Total	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*.

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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:	128 800.1	115 908.0
Households	87 643.7	78 255.5
Business entities	36 191.2	35 735.0
Government and self-government institutions' sector	4 965.2	1 917.5
Total (gross), including:	128 800.1	115 908.0
Corporate banking	40 889.3	37 589.9
current accounts	28 415.4	25 478.6
savings accounts	10 937.4	9 969.3
term deposits	1 536.5	2 142.0
Retail banking	87 910.8	78 318.1
current accounts	21 998.5	18 051.2
savings accounts	63 387.7	57 948.1
term deposits	2 524.6	2 318.8
Other liabilities, including:	1 673.4	1 774.5
liabilities under cash collateral	400.1	329.5
other liabilities	1 273.3	1 445.0
call deposits	11.6	8.6
liabilities under repo transactions	0.0	0.0
other liabilities	1 261.7	1 436.4
Total	130 473.5	117 682.5

Liabilities due to customers by maturity

	2019	2018
up to 1 month	127 964.6	114 746.7
over 1 month and up to 3 months	929.7	1 077.0
over 3 months and up to 1 year	1 361.2	1 590.5
over 1 year and up to 5 years	176.9	94.0
over 5 years	41.1	174.3
Total	130 473.5	117 682.5

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
- Mortgage bonds issued by ING Bank Hipoteczny S.A.	399.7	0.0
Total	399.7	300.3

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Liabilities under issue of debt securities by maturity

	2019	2018
over 3 months to 1 year	2.1	300.3
over 1 year to 5 years	397.6	0.0
Total	399.7	300.3

As at 31 December 2019, the Group had liabilities arising from the issue of mortgage bonds issued as part of the ING Bank Hipoteczny S.A. covered bond issue program established in 2019. ("Program"). The purpose of establishing the Program was to create a legal infrastructure under which the Group will be able to issue covered bonds both on the local and foreign market. The funds obtained from the inaugural 5-year "green" issue, carried out under the Program, will be used to refinance PLN mortgage loans of natural persons secured on real estate belonging to 15% of the most energy-efficient buildings in Poland. The issue will be redeemed in October 2024.

As at December 31, 2018, the Group had liabilities arising from the issue of bonds 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

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

- Agreement concluded on 23 February 2016 for the amount of EUR 150.0 million. By decision of the Polish Financial Supervision Authority of 19 April 2016, the Bank obtained permission to recognize loan amount under Tier 2 capital.
- Agreement concluded on 30 October 2018 for the amount of EUR 100.0 million. After signing the loan agreement, the Bank applied to the Polish Financial Supervision Authority for permission to recognize the amount of the loan under Tier 2 capital. The permission was obtained on 30 January 2019.
- Agreement concluded on 30 September 2019 for the amount of EUR 250.0 million. After signing the loan agreement, the Bank applied to the 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	55.9	41.4
Provision for disputes	18.1	32.5
Other provisions	24.6	-
Total	205.7	152.4

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

2018

	Provision for off-balance sheet liabilities				Provision for retirement benefits	Provision for issues in dispute	TOTAL	
	Stage 1	Stage 2	Stage 3	Total ¹				
Opening balance	20.5	-	25.4	45.9	39.0	7.0	91.9	
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	39.0	7.0	109.6	
provisions recognised/ reversed	0.2	5.8	8.8	14.8	3.7	11.7	30.2	
provisions utilised	-	-	-	0.0	-2.5	-0.1	-2.6	
actuarial gains/losses	-	-	-	0.0	1.2	-	1.2	
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	41.4	32.5	152.4	
Expected provision settlement period:								
up to 1 year					0.0	4.0	11.8	15.8
over to 1 year				78.5	37.4	20.7		136.6

Provision for issues in dispute

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

Other provisions

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.

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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 explicitly 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.

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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 Group 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 Group 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 21.0 million as a result of the recognition of expected future payments in the calculation of the effective interest rate.

The Group 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.

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

- 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 contractual 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

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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 Group 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	41.4	39.0
Costs included in the income statement, including:	3.8	3.6
regular employment costs	2.6	2.5
past service cost	0.0	0.0
costs of interest	1.2	1.1
Actuarial gains / losses	12.6	1.3
Paid benefits	-1.9	-2.5
Closing balance	55.9	41.4

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33. Other liabilities

	2019	2018
Accruals, including:	417.1	401.9
due to employee benefits	281.1	260.3
variable remuneration programme	63.0	65.1
due to commissions	131.4	131.8
other	4.6	9.8
Other liabilities, including:	1 661.8	1 101.8
interbank settlements	569.4	522.8
settlements with suppliers	317.1	271.1
public and legal settlements	97.2	93.8
Other, including:	678.1	214.1
leasing liabilities*	404.5	n/a
Total	2 078.9	1 503.7
Including financial liabilities	1 661.8	1 101.8

* Starting from 1 January 2019, the Group has implemented the new IFRS 16 Leasing standard. The Group applied a modified retrospective approach to its leasing contracts and did not transform 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
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	1 867.3	1 169.7

*) The Group uses the service "settled to market", or "STM", provided for by the Regulation of the KDPW CCP and London Clearing House Clearnet (LCH) in respect of the approach to the settlement of IRS and FRA instruments. Even though the effective portion of the 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*.

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2019

	Revaluation of FVOCI debt securities	Revaluation of FVOCI - equity instruments	Property, plant and equipment	Cash flow hedging instruments	Actuarial gains / losses	TOTAL
Opening balance	275.3	47.7	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	-	-	-	39.5
financial assets measured at fair value through OCI - reclassification to the financial result due to the sale	-23.7	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	7.1	1 534.6	-13.2	1 867.3

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

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34.3. Retained earnings

	2019	2018
Other supplementary capital	393.6	314.7
Reserve capital	9 052.8	8 232.9
General risk fund	1 215.2	1 215.2
Valuation of share-based payments	51.9	51.7
Retained earnings	-102.6	-272.8
Result for the current year	1 658.7	1 523.8
Total	12 269.6	11 065.5

2019

	other suppleme ntary 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 after adjustments	314.7	8 232.9	1 215.2	51.7	1 251.0	0.0	11 065.5
net result for the current period	-	-	-	-	-	1 658.7	1 658.7
profit written off to supplementary capital	78.9	-	-	-	-78.9	-	0.0
profit written off to reserve capital	-	819.9	-	-	-819.9	-	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	393.6	9 052.8	1 215.2	51.9	-102.6	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 suppleme ntary 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 to the accounting principles in connection with the implementation of IFRS 9	-	-	-	-	-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 2018, dividends were paid in the amount of PLN 416.2 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.

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Reserve capital

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

General Risk Fund

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

Dividend payout

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

Details of the Group's dividend policy and dividend 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 contingent 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

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2019

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		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	1 071.6	252.7	59.3	39.6	10.4	5.4	1.4	33.6	1 402.9
Loans and other receivables to other banks	397.9	283.7	66.6	90.4	23.8	0.4	0.1	26.1	798.5
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
Investment securities	28 683.7	5 140.8	1 207.2	0.0	0.0	0.0	0.0	0.0	33 824.5
Loans and other receivables to customers	100 530.0	14 866.8	3 491.1	628.5	165.5	906.8	231.3	1 356.0	118 288.1
Investments in associates measured at equity method	181.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	181.0
Property, plant and equipment	956.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.0
Intangible assets	429.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	429.9
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	445.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	445.6
Other assets	193.4	10.7	2.5	0.3	0.1	0.0	0.0	0.4	204.8
Total assets	134 648.0	20 815.7	4 888.0	803.0	211.4	916.4	233.8	1 427.6	158 610.7

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2019

CONSOLIDATED 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	2 087.2	4 110.9	965.3	2.2	0.6	47.0	12.0	8.8	6 256.1
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	113 594.6	13 332.7	3 130.8	2 725.1	717.6	38.0	9.7	783.1	130 473.5
Liabilities under issue of debt securities	399.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	399.7
Subordinated liabilities	0.0	2 131.1	500.4	0.0	0.0	0.0	0.0	0.0	2 131.1
Provisions	194.8	4.3	1.0	6.6	1.7	0.0	0.0	0.0	205.7
Current income tax liabilities	381.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	381.3
Other liabilities	1 854.1	220.7	51.8	2.5	0.7	1.5	0.4	0.1	2 078.9
Total liabilities	119 521.2	20 205.4	4 744.5	2 776.2	731.1	86.5	22.1	798.3	143 387.4
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Share premium	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Accumulated other comprehensive income	1 766.8	100.5	23.6	0.0	0.0	0.0	0.0	0.0	1 867.3
Retained earnings	12 269.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12 269.6
Total equity	15 122.8	100.5	23.6	0.0	0.0	0.0	0.0	0.0	15 223.3
Total equity and liabilities	134 644.0	20 305.9	4 768.1	2 776.2	731.1	86.5	22.1	798.3	158 610.7
Contingent liabilities granted	30 190.2	4 867.7	1 143.1	1 431.1	376.8	1.2	0.3	57.5	36 547.7
Contingent liabilities received	73 522.3	22 875.4	5 371.7	466.7	122.9	38.6	9.8	78.1	96 981.1

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2018

CONSOLIDATED 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		
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 receivables to other banks	349.0	361.7	84.1	21.3	5.7	2.3	0.6	42.2	776.5
Financial assets at fair value through profit or loss	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 receivables to customers	86 580.8	14 124.1	3 284.7	796.6	211.9	1 001.2	262.3	623.1	103 125.8
Investments in associates measured at equity method	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Property, plant and equipment	556.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	556.1
Intangible assets	439.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	439.2
Assets held for sale	10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.9
Tax assets	398.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	398.2
Other assets	466.2	18.8	4.4	0.8	0.2	0.0	0.0	0.2	486.0
Total assets	119 194.3	19 959.0	4 641.6	936.2	249.0	1 013.7	265.6	709.7	141 812.9

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2018

CONSOLIDATED 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	1 208.2	3 927.6	913.4	2.8	0.7	47.6	12.5	9.6	5 195.8
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	101 782.5	12 299.5	2 860.3	2 768.6	736.4	15.3	4.0	816.6	117 682.5
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	143.6	7.3	1.7	1.5	0.4	0.0	0.0	0.0	152.4
Current income tax liabilities	280.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	280.3
Other liabilities	1 434.1	66.9	15.6	1.1	0.3	1.5	0.4	0.1	1 503.7
Total liabilities	106 863.3	17 901.2	4 163.0	2 808.8	747.1	65.0	17.1	853.0	128 491.3
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	120 130.2	17 955.9	4 175.7	2 808.8	747.1	65.0	17.1	853.0	141 812.9
Contingent liabilities granted	27 934.7	4 941.4	1 149.2	1 358.5	361.3	0.0	0.0	49.5	34 284.1
Contingent liabilities received	73 763.9	18 304.7	4 256.9	963.8	256.4	39.8	10.4	146.9	93 219.1

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36. Contingent liabilities

36.1. Contingent liabilities granted

	2019	2018
Undrawn credit facilities	27 699.0	25 791.0
Guarantees	5 837.2	5 575.6
Undrawn overdrafts in current account	1 425.6	1 371.2
Credit card limits	1 389.9	1 251.2
Letters of credit	196.0	295.1
Total	36 547.7	34 284.1

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

The Group issues guarantees and letters of credits to secure fulfilment of obligations of the 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 Group charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Financial guarantee contracts by maturity

	2019	2018
up to 1 month	141.0	113.7
over 1 month and up to 3 months	458.0	555.1
over 3 months and up to 1 year	2 380.0	2 704.4
over 1 year and up to 5 years	2 060.7	1 491.1
over 5 years	797.5	711.3
Total	5 837.2	5 575.6

36.2. Contingent liabilities received

	2019	2018
Guarantees received	96 546.8	92 315.1
Financing	434.3	904.0
Total	96 981.1	93 219.1

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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	271.0	23 445.3
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	-	110.7	21 209.2
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 receivables 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

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2018

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	21 419.9	1 418.6	301.7	23 140.2
Valuation of derivatives	-	509.0	-	509.0
Financial assets held for trading, including:	1 425.9	-	-	1 425.9
debt securities, including:	790.5	-	-	790.5
treasury bonds	771.6	-	-	771.6
European Investment Bank bonds	18.9	-	-	18.9
repo transactions	635.4	-	-	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 receivables measured at fair value through profit or loss	-	-	218.4	218.4
Financial liabilities, including:	1 109.5	1 189.9	0.0	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	0.0	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 Group classifies derivatives and repo transactions to level 2 of valuation.

Derivatives

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

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

The following are the input data for the models:

- the 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

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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 Group 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 included 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

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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.

The discount rates for the above loans at the end of 2018 and 2019 were around 2%, while the analysis of fair value sensitivity as at 31 December 2019 and 31 December 2018 indicates that when the discount rate changed by + 1 / -1 p.p. in the absence of a change in expected cash flows, the fair value changes by approximately +/- 3%.

During 2019, the change in valuation of equity instruments classified to level 3 valuation included in other comprehensive income amounted to PLN 27.4 million (in 2018: PLN 7.8 million). In 2019, the impact of the valuation of loans classified to level 3 valuation amounted to PLN -0.1 million (in 2018: PLN -0.1 million) and was included in the income statement in the item 'Result on financial instruments valued through the income statement and losses and net foreign exchange gains'.

Movements in financial assets/liabilities classified to the level 3 of measurement

	2019		2018	
	Equity instruments measured at fair value through OCI	Loans and other receivables	Equity instruments measured at fair value through OCI	Loans and other receivables
Opening balance	83.3	218.4	67.4	278.7
Increases, including:	27.4	0.0	16.1	0.0
valuation recognized in accumulated other comprehensive income	27.4	0.0	16.1	0.0
Disposals, including:	0.0	-58.1	-0.2	-60.3
repayment of loans	0.0	-58.0	0.0	-60.2
valuation recognized in the income statement *	0.0	-0.1	0.0	-0.1
sale of SWIFT shares	0.0	0.0	-0.2	0.0
Closing balance	110.7	160.3	83.3	218.4

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

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37.2. Non-financial assets at fair value in statement of financial position
2019

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	263.4	263.4
Property, plant and equipment held for sale	-	-	3.6	3.6

2018

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	263.9	263.9
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 Group 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

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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 the amount relating to the real estate properties assessed at fair value that was recognised in the accumulated other comprehensive income / revaluation reserve was PLN 7.1 million (including deferred tax). 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 322.1 million as at 31 December 2019 against PLN 324.9 million as at 31 December 2018.

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

The following is a 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 at amortised cost	12 580.4	12 127.2	229.9	-	12 357.1
treasury bonds	5 962.9	5 806.5	-	-	5 806.5
treasury bonds in EUR	3 272.7	3 223.2	-	-	3 223.2
Bank Gospodarstwa Krajowego bonds	508.5	525.3	-	-	525.3
European Investment Bank bonds	2 606.4	2 572.2	-	-	2 572.2
NBP bills	229.9	-	229.9	-	229.9
Loans and receivables to customers at amortised cost	118 127.8	-	-	117 932.6	117 932.6
Corporate banking segment, including:	61 945.2	-	-	61 829.4	61 829.4
loans and advances (in the current account and term ones)	46 139.8	-	-	46 184.5	46 184.5
leasing receivables	8 013.4	-	-	8 012.0	8 012.0
factoring receivables	5 288.0	-	-	5 288.0	5 288.0
corporate and municipal debt securities	2 504.0	-	-	2 344.9	2 344.9
Retail banking segment, including:	53 885.8	-	-	53 806.4	53 806.4
mortgages	40 597.4	-	-	40 289.6	40 289.6
other loans and advances	13 288.4	-	-	13 516.8	13 516.8
Other receivables	2 296.8	-	-	2 296.8	2 296.8
Subordinated liabilities	2 131.1	-	-	2 139.0	2 139.0

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2018

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Investment securities at amortised 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
Bank Gospodarstwa Krajowego bonds	512.9	556.5	-	-	556.5
European Investment Bank bonds	2 266.7	2 272.3	-	-	2 272.3
Loans and receivables to customers at amortised cost	102 907.4	-	-	102 974.1	102 974.1
Corporate banking segment, including:	57 602.0	-	-	57 459.0	57 459.0
loans and advances (in the current account and term ones)	42 840.1	-	-	42 742.9	42 742.9
leasing receivables	7 118.1	-	-	7 134.5	7 134.5
factoring receivables	4 834.5	-	-	4 834.5	4 834.5
corporate and municipal debt securities	2 809.3	-	-	2 747.1	2 747.1
Retail banking segment, including:	44 354.8	-	-	44 564.5	44 564.5
mortgages	33 146.8	-	-	32 957.7	32 957.7
other loans and advances	11 208.0	-	-	11 606.8	11 606.8
Other receivables	950.6	-	-	950.6	950.6
Subordinated liabilities	1 076.9	-	-	1 118.3	1 118.3

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

For 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 assets 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 Group.

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

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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.

The prepayment model is used for the CHF mortgage portfolio. To determine the estimated prepayments, data on the maturity of the mortgage portfolio are used according to the model maturity structure, based on which the average interest rate weighted with maturity is calculated. Based on the model maturity structure and future interest flows calculated using the average interest rate, an aggregate model schedule of capital and interest payments is created. 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 disappearance.

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, fair value is measured without impact of potential future regulatory changes, instead it 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. Offsetting 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 Group.

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

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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 collateral received	
Derivatives, including:	1 405.9	1 405.9	-598.1	-560.7	247.1
valuation of derivatives	554.3	554.3	-275.3	0.0	279.0
derivative hedge instruments	851.6	851.6	-322.8	0.0	528.8
derivatives collateral	0.0	0.0	0.0	-560.7	-560.7
Securities loans with repurchase agreements received, including:	171.5	171.5	0.0	-169.7	1.8
transactions classified as held for trading financial assets	171.5	171.5	0.0	-169.7	1.8
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 collateral received	
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	634.5	0.0	-627.5	7.9
transactions classified as held for trading financial assets	635.4	634.5	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:	1 213.3	1 213.3	-598.1	-270.1	345.1
valuation of derivatives	667.2	667.2	-275.3	0.0	391.9
derivative hedge instruments	546.0	546.0	-322.8	0.0	223.2
derivatives collateral	0.0	0.0	0.0	-270.1	-270.1
Securities loans with repurchase agreements received, including:	111.8	111.8	0.0	-110.7	1.1
transactions classified as held for trading financial liabilities	80.7	80.7	0.0	-79.9	0.8
transactions classified as liabilities to banks / customers	31.1	31.1	0.0	-30.8	0.3
Total					346.2

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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 Group 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 Group.

As at the end of 2019, the Group 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 Group 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 – the Group as a lessor

40.1. Operating lease

The Group cooperates with a lease company in respect of car leasing and fleet management. The Group also incurs costs under the lease of dwelling units, recognised as operating leases. Those agreements 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 their prolongation or price change.

Contracts do not include purchase options.

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

	2019	2018
up to 1 year	1.3	1.4
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	4.2	5.5

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40.2. Finance lease

Disclosures regarding financial leasing in which the Group is the lessor are described in note 20.1 Receivables from financial leasing.

41. Additional information on cash flow statement

Cash and cash equivalents

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

	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 (presented in note 14)	262.1	340.6
Total	1 997.4	1 956.4

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

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

Investment activity covers purchase and sale of shares and holdings in associated entities, intangible assets and property, plant and equipment, equity instruments measured at fair value through other comprehensive income, as well as debt securities measured at 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 Group and payment of dividends to the owners and other outflows due to profit distribution.

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

2019

	change of balance		difference, including	1)	2)	3)	4)	5)	6)	7)	8)	9)	10)	11)	12)
	in consolidated statement of financial position	in consolidated cash flow statement													
Change in loans and other receivables to other banks	-22.0	-143.8	121.8	2.7	-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	-1 887.2	-1 048.7	-838.5	-1.7			15.8	824.4							
Change in loans and other receivables to customers	-15 162.3	-15 205.9	43.6	-43.6											
Change in other assets	281.2	266.6	14.6						-14.6						
Change in liabilities due to other banks	1 060.3	265.1	795.2	33.5						-828.7					
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	12 791.0	12 789.0	2.0	-2.0											
Change in other liabilities	575.4	161.5	413.9	-3.8							-10.1	-10.6	99.3	-2.4	-486.3

*) each difference is explained on the next page

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The reasons for the differences between the changes in the consolidated statement of financial position and the consolidated statement of cash flows are as follows:

- 1) Changes in individual assets and liabilities have been adjusted for interest, which is presented under Interest received / paid.
- 2) The change in the balance of Loans and other receivables granted to other banks excluded the change in the balance of some cash equivalent receivables (accounts at other banks) and was presented in the item Net increase / decrease in cash.
- 3) Change in derivative hedging instruments takes into account changes in hedging instruments recognized in other comprehensive income.
- 4) The change in the status of Investment securities does not include the part of the valuation of securities that has been recognized in other comprehensive income.
- 5) The change in investment securities, which was presented in the investment activity, was excluded from the change in the status of Investment securities.
- 6) The amount relates to changes in the carrying amount of property, plant and equipment and intangible assets not related to cash flow or depreciation.
- 7) The change in liabilities due to repayment of loans for long-term financing of subsidiaries was excluded from the change in the balance of liabilities towards other banks.
- 8) 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.
- 9) 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 disclosed in the financial activity.
- 11) Balance sheet change regarding own issue not presented in interest and in the part concerning financial activities.
- 12) The effect of implementing IFRS 16 under other liabilities (note 22).

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2018

	change of balance		difference, including:	1)	2)	3)	4)	5)	6)	7)	8)	9)
	in consolidated statement of financial position	in consolidated cash flow statement										
Change in loans and other receivables to other banks	1 458.00	387.4	1 070.6	-6.6	-1 064.00							
Change in other financial assets held for trading	-431.20	-430.5	-0.7	0.7								
Change in derivative hedging instruments	-29.80	663.9	-693.7			693.7						
Change in investment securities / investments	-2 472.20	-2 271.5	-200.7	171.9			-12.2	41.0				
Change in loans and other receivables to customers	-15 851.20	-15 860.3	9.1	-9.1								
Change in other assets	-76.8	-66.3	-10.5						10.5			
Change in liabilities due to other banks	1 086.80	772.3	314.5	-1.9						-312.6		
Change in financial liabilities measured at fair value through profit or loss	-215.60	-214.8	-0.8	0.8								
Change in liabilities due to customers	13 179.20	13 178.2	1.0	-1.0								
Change in other liabilities	-450.2	-434.1	-16.1								-0.6	16.7

*) each difference is explained on the next page

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The reasons for differences between changes recognised in consolidated statement of financial position and in consolidated 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* (2017: change in *available-for-sale financial assets*) does not account for the part of financial assets 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) The amount of PLN 10.5 million relates to changes in the balance sheet value of property, plant and equipment and intangible assets that are not related to cash flows or depreciation
- 7) The change caused by repayment of loans for long-term funding of subsidiaries was excluded from the *change in liabilities due to other banks*.
- 8) The changes in valuation of share-based payments and in actuarial gains/losses included in the other comprehensive income were excluded from the *change in other liabilities*.
- 9) The amount of PLN 16.7 million relates to changes in the balance sheet value of subordinated liabilities that are not related to cash flows (accrued and unpaid interest, FX differences).

42. Related entities

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 company 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. Moreover, ING Lease Sp. z o.o. received long-term funding for leasing contracts in EUR ("matched funding"). All of the above transactions are carried out on an arm's length basis.

Operating costs incurred by the Bank for the parent entity result primarily from contracts for the provision of consultancy and advisory services, data processing and analysis, provision of software licenses and IT support. In terms of costs incurred by the Bank for other related entities, outsourcing agreements play a dominant role regarding the provision of system resource hosting services for various applications, leasing of IT equipment, monitoring the availability and performance of applications and IT infrastructure as well as penetration testing and IT security monitoring.

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

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

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Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	Associates	ING Bank NV	Other ING Group entities	Associates
	as at 31.12.2019			as at 31.12.2018		
Receivables						
Nostro accounts	6.6	17.9	-	1.9	37.6	-
Deposits made	74.1	-	-	-	-	-
Loans	32.0	35.6	-	34.8	44.0	-
Positive valuation of derivatives	49.8	34.9	-	48.5	48.3	-
Other receivables	9.9	2.9	-	5.4	2.4	-
Liabilities						
Deposits received	791.0	47.8	4.6	48.7	33.1	4.3
Loans received	3 472.8	-	-	3 135.4	-	-
Subordinated loan	2 131.1	-	-	1 076.9	-	-
Loro accounts	11.7	33.6	-	21.4	23.9	-
Negative valuation of derivatives	38.4	32.6	-	45.0	45.8	-
Other liabilities	82.6	2.7	-	64.7	1.5	-
Off-balance-sheet operations						
Off-balance sheet liabilities granted	470.7	750.3	-	535.1	538.3	-
Off-balance sheet liabilities received	740.7	720.5	-	1 184.3	483.9	-
FX transactions	6 666.5	-	-	7 210.2	140.9	-
Forward transactions	-	-	-	116.1	-	-
IRS	2 312.7	2 403.9	-	2 768.7	2 575.8	-
Options	2 851.9	31.3	-	1 732.8	37.6	-
	2019			2018		
Income and expenses						
Income, including:	40.7	28.3	36.3	70.3	0.6	-0.1
interest and commission income/expenses	-22.0	8.6	36.3	-7.3	-0.2	-0.1
income on financial instruments	59.8	6.5	-	74.8	-6.0	-
net income on other basic activities*	2.9	13.2	-	2.8	6.8	-
General and administrative expenses	85.1	9.7	-	67.0	6.7	-
Outlays for non-current assets						
Outlays for intangible assets	-	1.4	-	-	6.1	-

*) 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.

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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 174.9 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 35.8 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. Bank and the Group details in point 5. ING Bank Śląski S.A. Management Board and Supervisory Board composition.

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

	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

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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 2018, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.2 million. The bonus for 2018 approved in 2019 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.

Group employees participated in the ING Group long-term program until 2012. After this year, ING Bank Śląski S.A. launched its internal program based on ING Bank Śląski S.A. phantom shares. Currently, the last tranches from group programs, or financial instruments, which have been allocated to employees of the Group by foreign ING companies for the time of performing their functions in these companies are being implemented.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

The composition of ING Bank Śląski S.A. Supervisory Board as at the end of 2019 was presented in the chapter I. Bank and the Group details in point 5. ING Bank Śląski S.A. Management Board and Supervisory Board composition.

Emoluments of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

	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 consolidated 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 Group 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.

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44. Headcount

The headcount in the Group as at 31 December was as follows:

	2019	2018
Individuals	8 135	8 086
FTEs	8 071.6	8 033.6

45. Significant events after the balance sheet date

- Management Board's intention regarding payment of dividend from profit for 2019

On 6 February 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 5 February 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 31 December 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 31 December 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 5 April 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 24 January 2020, corrected by the decision of 29 January 2020. Registration includes a change in § 8 para. 2 point 7) of the Statute, which shall read as follows: "7) issuing electronic money,".

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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 predictable risk level in the future,
- applies formalised limits that mitigate the risk and the rules of procedure if the limits have been exceeded,
- applies the adopted management reporting system that provides for risk level monitoring,
- 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

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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 Group held a workshop on risk materiality assessment. As a result, the Group classified the risk of financial results as an immaterial risk.

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Risk type	Permanently material	Material	Immaterial
Credit risk			
Risk of non-payment and counterparty risk*	✓		
Residual risk**	✓		
Concentration risk	✓		
Residual value 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.

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RAS covering the Group's capital adequacy was set in 2019 for the following capital ratios¹:

- 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.

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- 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.
- risk of residual value – the risk resulting from the residual value of the leased assets which is the difference between the value of the leased assets and the sum of lease instalments. The counterparty may buy the leased assets but is not obliged to. Equity requirement is determined in compliance with Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013.
- 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.

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- **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 12 462.4 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	12 462.4	11 288.8
A.I. Tier I core capital	12 462.4	11 288.8
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	798.6	521.0
– profit retained in previous years	-50.7	-221.2
– recognised profit or recognised loss	849.3	742.2
total other comprehensive income	332.7	327.4
reserve capital	9 446.4	8 547.6
general bank risk funds	1 215.2	1 215.2
intangible assets	-521.5	-435.0
shortage of adjustments to credit risk in view of the expected losses with the IRB method	-67.4	-185.5
adjustment in the interim period due to adaptation to the requirements of IFRS 9	220.3	215.0
adjustment of the value of requirements relating to prudent valuation	-48.3	-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	14 591.7	11 933.8

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,

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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 88% of the total requirement.

6.4. Capital adequacy

On 31 December 2019, the TCR ratio for the ING Bank Śląski Group was 16.87% versus 15.58% at the end of 2018 and the Tier 1 ratio was 14.41% versus 14.74% 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	14 591.7	11 933.8
Capital requirements		
capital requirements relating to credit risk, counterparty credit risk, dilution risk and risk of delivery with postponed settlement dates	6 056.6	5 370.9
capital requirements relating to position risk, FX risk and risk of commodity prices	157.1	130.6
capital requirement for operational risk	701.0	626.9
amounts of exposure to risk	3.5	n/a
Total capital requirement	6 918.1	6 128.4
Total capital ratio	16.87%	15.58%
Tier 1 capital ratio	14.41%	14.74%

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 at the consolidated level, the total capital requirement would have been 16.64% and the Tier I ratio – 14.18% (comparing to 15.32% and 14.48% in 2018 respectively).

7. Financial leverage

The regulatory financial leverage ratio for the Group of 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

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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 the Group of ING Bank Śląski S.A.

	2019	2018
Tier 1 ratio	12 462.4	11 288.8
Total exposure	172 479.4	152 242.9
Financial leverage ratio (%)	7.23	7.41

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.

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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%.

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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 \geq 10.5% (and 12% with dividend in excess of 50%),
- T1 \geq 12% (and 13.5% with dividend in excess of 50%),
- TCR \geq 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, the Group of 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).

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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	798.5	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:	33 713.8	31 854.0
Measured at fair value through other comprehensive income (FVOCI), including:	21 133.4	19 994.0
treasury bonds	18 682.3	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:	12 580.4	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
NBP money market bills	229.9	-
Loans and receivables to customers, including:	118 288.1	103 125.8
Corporate banking segment	61 945.2	57 602.0
loans in the current account	10 315.0	10 322.8
term loans and advances	35 824.8	32 517.3
leasing receivables	8 013.4	7 118.1
factoring receivables	5 288.0	4 834.5
corporate and municipal debt securities	2 504.0	2 809.3
Retail banking segment	53 885.8	44 354.8
mortgages	40 597.4	33 146.8
loans in the current account	1 281.0	1 223.4
leasing receivables	1 321.3	975.5
other loans and advances	10 686.1	9 009.1
Other receivables	2 296.8	950.6
Measured to fair value through profit and loss	160.3	218.4
Receivables under other assets	38.0	360.1
Granted off-balance sheet liabilities, of which:	36 547.7	34 284.1
- unutilised credit lines	27 699.0	25 791.0
- guarantees	5 837.2	5 575.6

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	2019	2018
- undrawn overdraft facilities	1 425.6	1 371.2
- credit card limits	1 389.9	1 251.2
- letters of credit	196.0	295.1
Total	191 461.9	173 245.0

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 Group treats credit risk management as a fundamental and integral part of overall management of the Group. The core elements of risk management include determination and monitoring of strategy implementation and RAS parameters (Risk Appetite Statement).

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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	12.570.5	13.5%	12.008.1	13.8%
property services	8.346.5	9.0%	8.175.4	9.4%
financial intermediation	5.584.2	6.0%	5.363.8	6.1%
production of foodstuffs and beverages	4.847.0	5.2%	4.473.5	5.1%
construction	4.747.8	5.1%	4.320.0	4.9%
retail trade	4.617.2	5.0%	4.217.8	4.8%
manufacturing of metal final products	4.332.0	4.7%	3.785.8	4.3%
power generation	3.690.7	4.0%	3.723.8	4.3%
public administration and national defence	3.593.8	3.9%	3.604.5	4.1%
other business activity	3.267.2	3.5%	3.537.9	4.1%
rubber industry	3.104.7	3.3%	2.911.6	3.3%
land and pipeline transport	2.998.2	3.2%	2.666.5	3.1%
rental of equipment	2.661.5	2.9%	2.290.8	2.6%
wood and paper industry	2.365.0	2.5%	2.194.6	2.5%
postal services and telecommunications	2.072.7	2.2%	1.834.9	2.1%
other non-metal material industry	1.800.4	1.9%	1.757.0	2.0%
sales, repair and maintenance of motor vehicles	1.797.9	1.9%	1.750.0	2.0%
agriculture, forestry, fishery	1.722.9	1.9%	1.717.6	2.0%
machine industry	1.616.6	1.7%	1.530.3	1.8%
other	17.335.1	18.6%	15.430.5	17.7%
Total	93.071.9	100.0%	87.294.4	100.0%

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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)	1 488.9	1 227.0
Group 4	1 155.7	904.5
Group 5	1 135.6	29.1
Group 6	1 053.3	1 049.0
Group 7	1 027.9	792.6
Group 8	989.4	913.6
Group 9	907.2	861.9
Group 10	858.0	858.6
Group 11	761.1	705.3
Group 12	708.1	602.3
Group 13	679.7	874.9
Group 14	576.8	584.7
Group 15	573.1	479.7
Group 16	550.4	550.2
Group 17	536.4	503.9
Group 18	513.3	521.1
Group 19	511.1	307.5
Group 20	500.2	472.9

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.

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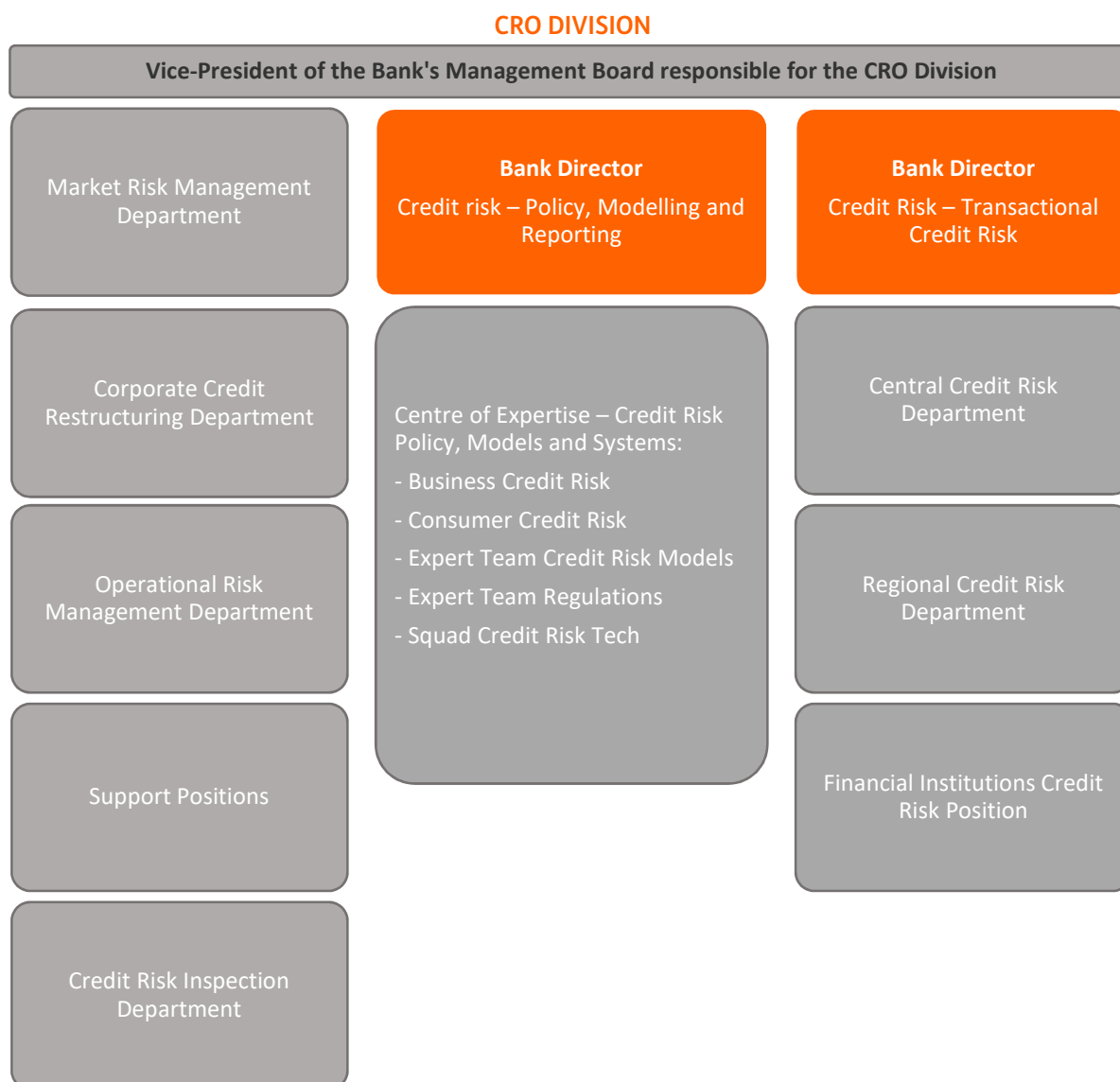
(PLN million)

4.**5. 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

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(PLN million)

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,

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(PLN million)

- 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.

6. 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,

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- 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.

7. 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,

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- 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.

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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:

- assessment of customers' creditworthiness

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:

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- 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.

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- 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:

$$LGD = (1 - Cure_Rate) * [EAD - collateral_value * (1 - Haircut) - Unsecured_Amount * Unsecured_Recovery_Rate] / EAD + Costs.$$

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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%

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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					financial guarantees received
	mortgage-backed loans		other secured loans			
	housing loans	commercial loans	cash funds (issued debt instruments)	other		
Loans and advances, of which:	40.197.1	22.240.4	188.3	18.214.6	11.740.7	
other financial institutions	0.0	0.0	20.5	597.4	1520.3	
non-financial entities	181.4	19.630.8	151.4	15.059.4	9.698.5	
households	40.015.7	2.603.4	16.4	2.538.7	318.4	
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	19.1	203.5	

2018

	Maximum recognisable amount of collateral or guarantee					financial guarantees received
	mortgage-backed loans		other secured loans			
	housing loans	commercial loans	cash funds (issued debt instruments)	other		
Loans and advances, of which:	32.816.1	20.384.5	166.1	16.843.4	11.116.9	
other financial institutions	0.0	0.0	0.0	311.1	681.2	
non-financial entities	153.5	18.036.9	161.7	14.375.4	10.091.0	
households	32.662.6	2.333.5	4.4	2.129.2	295.3	
including: loans to purchase residential properties	30.376.5	430.0	0.2	0.3	0.0	
other entities (banks, budgetary sector)	0.0	14.1	0.0	27.7	49.4	

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.

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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,

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- 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.

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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:	114 768.5	495.7	495.3	0.4	438.1	3 543.8	943.0	936.3	6.6	936.4	936.4
Corporate banking, of which:	60 723.5	306.7	306.3	0.4	249.9	2 577.0	814.4	807.7	6.6	814.0	814.0
overdraft facilities	10 081.1	31.3	31.3	0.0	31.3	696.9	63.5	63.0	0.4	63.5	63.5
terms loans and borrowings	35 130.3	220.7	220.3	0.4	218.6	1 486.3	727.7	721.5	6.2	727.3	727.3
lease receivables	7 740.6	28.2	28.2	0.0	0.0	332.6	18.3	18.3	0.0	18.3	18.3
factoring receivables	5 266.9	26.5	26.5	0.0	0.0	61.2	5.0	5.0	0.0	5.0	5.0
(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:	54 045.0	189.0	189.0	0.0	188.2	966.8	128.5	128.5	0.0	122.3	122.3
mortgage loans and borrowings	40 612.3	83.9	83.9	0.0	83.3	194.7	50.3	50.3	0.0	46.0	46.0
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
lease receivables	1 262.3	0.2	0.2	0.0	0.0	61.3	1.4	1.4	0.0	1.4	1.4
other loans and borrowings	10 860.9	102.3	102.3	0.0	102.3	637.8	74.2	74.2	0.0	72.4	72.4
Allowance for expected losses, of which:	-574.3	-17.0	-16.9	-0.1	-16.8	-1 907.0	-449.5	-334.3	-4.7	-448.4	-448.4
Corporate banking, of which:	-108.1	-4.0	-3.9	-0.1	-3.9	-1 247.2	-367.1	-252.0	-4.7	-367.1	-367.1
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	-76.6	-3.4	-3.3	-0.1	-3.4	-715.2	-328.9	-220.6	-4.5	-328.9	-328.9
lease receivables	-5.1	-0.1	-0.1	0.0	0.0	-54.7	-6.7	0.0	0.0	-6.7	-6.7
factoring receivables	-7.9	0.0	0.0	0.0	0.0	-32.2	-1.0	-1.0	0.0	-1.0	-1.0
(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:	-466.2	-12.9	-12.9	0.0	-12.9	-659.8	-82.3	-82.3	0.0	-81.2	-81.2
mortgage loans and borrowings	-109.4	-4.0	-4.0	0.0	-4.0	-100.2	-25.5	-25.5	0.0	-24.8	-24.8
overdraft facilities	-47.3	-0.1	-0.1	0.0	-0.1	-54.2	-1.4	-1.4	0.0	-1.4	-1.4
lease receivables	-0.8	0.0	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	0.0	0.0
other loans and borrowings	-308.7	-8.8	-8.8	0.0	-8.8	-503.9	-55.4	-55.4	0.0	-55.0	-55.0
Net loan portfolio, of which:	114 194.2	478.8	478.5	0.3	421.3	1 636.8	493.5	601.9	1.9	488.0	488.0
Corporate banking, of which:	60 615.4	302.6	302.3	0.3	246.0	1 329.8	447.3	555.7	1.9	446.9	446.9
overdraft facilities	10 063.2	30.8	30.8	0.0	30.8	251.8	32.9	32.6	0.2	32.9	32.9
terms loans and borrowings	35 053.7	217.3	217.0	0.3	215.2	771.1	398.8	500.9	1.7	398.4	398.4
lease receivables	7 735.5	28.1	28.1	0.0	0.0	277.9	11.6	18.3	0.0	11.6	11.6
factoring receivables	5 259.0	26.5	26.5	0.0	0.0	29.0	4.0	4.0	0.0	4.0	4.0
(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:	53 578.8	176.1	176.1	0.0	175.3	307.0	46.2	46.2	0.0	41.1	41.1

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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
mortgage loans and borrowings	40 502.9	79.9	79.9	0.0	79.3	94.5	24.7	24.7	0.0	21.1	21.1
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
lease receivables	1 261.5	0.2	0.2	0.0	0.0	59.8	1.4	1.4	0.0	1.4	1.4
other loans and borrowings	10 552.2	93.5	93.5	0.0	93.5	133.9	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

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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:	101 299.3	624.0	621.7	2.3	565.8	2 927.5	888.7	887.5	1.2	871.1	871.1
Corporate banking, of which:	56 759.1	436.0	433.7	2.3	377.8	2 104.4	760.5	759.3	1.2	748.5	748.5
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	32 022.9	248.8	248.4	0.4	245.8	1 221.0	660.6	659.4	1.2	651.9	651.9
lease receivables	7 017.6	39.4	39.4	0.0	0.0	147.4	14.4	14.4	0.0	14.4	14.4
factoring receivables	4 806.9	18.5	18.5	0.0	2.7	55.0	9.8	9.8	0.0	9.8	9.8
(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:	44 540.2	188.0	188.0	0.0	188.0	823.1	128.2	128.2	0.0	122.6	122.6
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
lease receivables	945.2	0.0	0.0	0.0	0.0	33.9	1.0	1.0	0.0	1.0	1.0
other loans and borrowings	9 178.4	94.8	94.8	0.0	94.8	504.9	67.5	67.5	0.0	65.9	65.9
Allowance for expected losses, of which:	-537.0	-16.7	-16.6	-0.1	-16.4	-1 733.0	-444.2	-340.0	-0.6	-442.1	-442.1
Corporate banking, of which:	-118.9	-3.3	-3.2	-0.1	-3.0	-1 142.6	-359.2	-255.0	-0.6	-358.2	-358.2
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	-78.5	-2.4	-2.3	-0.1	-2.4	-648.1	-314.0	-215.9	-0.6	-313.0	-313.0
lease receivables	-13.8	-0.3	-0.3	0.0	0.0	-33.1	-6.1	0.0	0.0	-6.1	-6.1
factoring receivables	-4.0	0.0	0.0	0.0	0.0	-23.4	-0.6	-0.6	0.0	-0.6	-0.6
(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:	-418.1	-13.4	-13.4	0.0	-13.4	-590.4	-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
lease receivables	-1.3	0.0	0.0	0.0	0.0	-2.3	0.0	0.0	0.0	0.0	0.0
other loans and borrowings	-265.8	-9.0	-9.0	0.0	-9.0	-408.4	-51.7	-51.7	0.0	-51.5	-51.5
Net loan portfolio, of which:	100 762.3	607.3	605.1	2.2	549.4	1 194.5	444.5	547.5	0.6	429.0	429.0
Corporate banking, of which:	56 640.2	432.7	430.5	2.2	374.8	961.8	401.3	504.3	0.6	390.3	390.3
overdraft facilities	10 079.8	128.7	126.8	1.9	128.7	243.0	37.2	37.2	0.0	33.9	33.9
terms loans and borrowings	31 944.4	246.4	246.1	0.3	243.4	572.9	346.6	443.5	0.6	338.9	338.9
lease receivables	7 003.8	39.1	39.1	0.0	0.0	114.3	8.3	14.4	0.0	8.3	8.3
factoring receivables	4 802.9	18.5	18.5	0.0	2.7	31.6	9.2	9.2	0.0	9.2	9.2
(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:	44 122.1	174.6	174.6	0.0	174.6	232.7	43.2	43.2	0.0	38.7	38.7
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
lease receivables	943.9	0.0	0.0	0.0	0.0	31.6	1.0	1.0	0.0	1.0	1.0
other loans and borrowings	8 912.6	85.8	85.8	0.0	85.8	96.5	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

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Exposures with approved forbearance by risk classes

risk rating	gross exposure in PLN million				gross exposure in PLN million			
	2019				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	306.6	41.4	814.4	25.9	435.9	89.3	760.5	7.7
low risk classes (rating 1-10)	0.0	1.0	0.0	0.0	0.4	0.0	0.0	0.0
medium and high risk classes (rating 11-17)	242.6	36.0	0.3	0.0	337.5	85.3	1.9	0.0
problem risk classes (rating 18-22)	64.0	4.4	814.1	25.9	98.0	4.0	758.6	7.7
Retail banking	189.1	0.0	128.5	0.0	188.1	0.0	128.2	0.0
low risk classes (rating 1-10)	45.3	0.0	0.0	0.0	45.8	0.0	0.1	0.0
medium and high risk classes (rating 11-17)	118.3	0.0	2.8	0.0	117.5	0.0	2.8	0.0
problem risk classes (rating 18-22)	25.5	0.0	125.7	0.0	24.8	0.0	125.3	0.0
Total	495.7	41.4	943.0	25.9	624.0	89.3	888.7	7.7

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Exposures with approved forbearance by overdue periods

number of days past due	gross exposure in PLN million				gross exposure in PLN million			
	2019				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	306.6	41.4	814.4	25.9	436.0	89.3	760.5	7.7
0	292.6	41.4	438.0	25.9	378.5	89.3	426.4	7.7
1-30	6.5	0.0	0.7	0.0	9.8	-	4.1	-
31-60	1.9	0.0	8.4	0.0	10.6	-	10.1	-
61-90	4.6	0.0	11.6	0.0	34.8	-	18.4	-
91-180	0.1	0.0	36.4	0.0	1.3	-	90.0	-
181-365	0.0	0.0	56.8	0.0	-	-	65.9	-
>365	0.9	0.0	262.5	0.0	0.9	-	145.6	-
Retail banking	189.7	0.0	128.5	0.0	188.0	0.0	128.2	0.0
0	154.0	0.0	58.8	0.0	156.0	-	53.3	-
1-30	28.6	0.0	15.1	0.0	27.0	-	25.6	-
31-60	5.4	0.0	10.4	0.0	4.1	-	10.8	-
61-90	1.7	0.0	5.4	0.0	1.0	-	4.1	-
91-120	0.0	0.0	2.5	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	496.3	41.4	943.0	25.9	624.0	89.3	888.7	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 100.3 million (PLN 44.9 million for 2018), of which PLN 78.5 million relates to exposures in the performing portfolio and PLN 21.8 million relates to exposures in the non-performing portfolio (for 2018 – PLN 27.8 million and PLN 17.1 million respectively).

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8. Risk management system

The risk management system is an integrated set of rules, mechanisms, and tools (including, among others, policies and procedures) concerning processes related to risks. The role of the risk management system is to permanently identify, measure or estimate and monitor the risk to which the Bank is exposed and to mitigate potential losses with adequate control mechanisms, a limit system and an adequate level of provisions as well as capitals and liquidity buffers.

The credit risk management system at the Bank is composed of the following:

- general rules governing management and mitigation of credit risk,
- RAS strategies and limits,
- policies, instructions and procedures relating to credit risk management,
- systems, tools and model relating to credit risk,
- a management reporting system that provides for risk level monitoring,
- an organisational structure that is adjusted to the size and profile of the credit risk that the Bank incurs.

The actions taken by the Bank within its risk management system may be as follows:

- risk avoidance – closing or restricting certain types of activity that generate too high risks or types of risks that may not be effectively controlled,
- risk mitigation – actions aimed at mitigating the likelihood of occurrence of disadvantageous events of mitigating the effects of such events,
- risk transfer – risk transfer in whole or in part to another entity, e.g. by insurance or securitisation of the credit portfolio,
- risk acceptance – refraining from taking the actions specified above due to economic or practical reasons, within the Bank's risk appetite.

Within its risk management system, the Bank applies its formalised:

- rules to determine the volume of undertaken risks and rules governing risk management,
- procedures aimed at risk identification, measurement, or estimation that also includes a predictable risk level in the future,
- limits that mitigate the risk and the rules of procedure if the limits have been exceeded,

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

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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.

9. Rules of risk management in subsidiary entities

Credit risk management at the subsidiary companies: ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. is subject to the same core principles as in ING Bank Śląski S.A., subject to the nature of the business of the entities.

As part of the risk management process, the Bank exercises supervision over:

- the credit portfolio of the subsidiary entities by assessing the size and the risk profile of the credit portfolio related to their business,
- rules of risk identification, measurements, and mitigation and credit risk management of individual credit transactions of the subsidiary entities,
- market risk level (including liquidity risk) in the subsidiary companies by establishing and monitoring of positions.

The related entities are supervised by the Bank by:

- applying uniform credit risk models in the rating process,
- application of standardised rules of analysing and assessment of transactions exposed to credit risk subject to the specific nature of the business of the related entity,
- application of standardised rules and levels of credit authority,
- granting authorisations to approve credit decisions,
- setting contractual terms and conditions of cooperation in the sphere of providing financing for selected transactions exposed to credit risk,

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- exchanging information on solutions and tools supporting credit risk management that are preferred by the Bank,
- provision of information on sectoral policies pursued by the Bank and other sectoral documents,
- co-operation in terms of preparation of credit risk reports.

In the area of establishing and reporting on impairments for credit exposures and provisions for off-balance sheet credit exposures, the associated entities are obliged to apply the rules applicable at the Bank. Levels of impairment allowances and provisions established by the related entities are presented at quarterly meetings of the LLP Committee. Additionally, representatives of the Bank are members of Supervisory Boards and Transaction Committees of the subsidiary entities since the business of the companies – similarly to the Bank – is related to generation of credit and/or market risk.

Additional aspects of risk management in subsidiary entities

- ING Lease Polska Sp. z o.o.:
 - it owns the financed assets under lease contract that constitute the core collateral to the transactions,
 - when a lease contract is terminated, the company may take over physical control over the collateral and sell it which reduces or completely eliminates losses on the credit exposure,
 - it holds a developed verification procedure of the suppliers and leased assets to mitigate the risk of fraud and the risk related to leased assets having physical or legal defects,
 - to the extent specified in internal procedures, it verifies both the supplier (if necessary, also entities related to the supplier) / the intermediary in trading in the financed asset which mitigates the delivery risk of the financed assets.
- ING Commercial Finance Polska S.A.:
 - the core repayment source of exposures are receivables covered with factoring, both in case of recourse and non-recourse factoring,
 - as a rule, it acquires receivables accepting the solvency risk of the buyers subject to prior insurance of the receivables,
 - it offers factoring to customers with accepted risk of the buyers' solvency subject to the insurance contracts concluded by the customers with insurance companies – “take-over of rights and duties of the customer's insurance contract”.
- ING Bank Hipoteczny S.A.:
 - ING Bank Hipoteczny SA acquires receivables from ING BSK SA which – subject to a review of their potential role as collateral to the loans granted and identification of the bank and mortgage value of the property – constitute collateral to issues of mortgage bonds,
 - ING BH SA bases its business on daily and close cooperation with the CRO Division and the COO Division of ING BSK SA.

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10. 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)	23 830.7	13 583.2	204.6	18.1	0.0	0.0	24 035.3	13 601.3	39 213.7	3 779.5	863.5	32.1	0.1	0.0	40 077.3	3 811.6
medium and high risk classes (rating 11-17)	32 630.6	15 707.8	3 736.5	271.2	27.6	0.9	36 394.7	15 979.9	10 093.6	1 297.5	3 309.2	137.0	8.1	0.6	13 410.9	1 435.1
problem loan classes (rating 18-22)	7.8	83.9	316.0	10.4	2 546.7	95.9	2 870.5	190.2	1.9	5.2	573.9	2.7	947.8	2.5	1 523.6	10.4
Total Gross	56 469.2	29 374.9	4 257.0	299.7	2 574.3	96.8	63 300.5	29 771.4	49 309.2	5 082.2	4 746.6	171.8	956.0	3.1	55 011.8	5 257.1
allowance for expected losses	-51.7	-18.7	-52.5	-8.5	-1 251.1	-64.9	-1 355.3	-92.1	-71.5	-3.7	-396.6	-9.2	-657.9	-2.3	-1 126.0	-15.2
Net total	56 417.5	29 356.2	4 204.5	291.2	1 323.2	31.9	61 945.2	29 679.3	49 237.7	5 078.5	4 350.0	162.6	298.1	0.8	53 885.8	5 241.9

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)	21 552.2	13 453.1	150.1	0.6	-	-	21 702.3	13 453.7	30 271.1	3 199.7	2 284.1	192.1	0.4	0.1	32 555.6	3 391.9
medium and high risk classes (rating 11-17)	30 171.6	14 198.6	4 524.2	622.2	3.0	-	34 698.8	14 820.8	8 360.6	746.7	3 124.8	162.7	4.1	1.8	11 489.5	911.2
problem loan classes (rating 18-22)	9.4	116.4	364.6	5.7	2 088.4	34.3	2 462.4	156.4	1.3	0.3	507.8	4.1	809.1	0.9	1 318.2	5.3
Total Gross	51 733.2	27 768.1	5 038.9	628.5	2 091.4	34.3	58 863.5	28 430.9	38 633.0	3 946.7	5 916.7	358.9	813.6	2.8	45 363.3	4 308.4
allowance for expected losses	-56.0	-23.4	-62.8	-7.6	-1 142.7	-32.3	-1 261.5	-63.3	-58.2	-3.1	-362.0	-10.3	-588.3	-1.8	-1 008.5	-15.2
Net total	51 677.2	27 744.7	4 976.1	620.9	948.7	2.0	57 602.0	28 367.6	38 574.8	3 943.6	5 554.7	348.6	225.3	1.0	44 354.8	4 293.2

Exposures to customers by DPD

2019

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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	56 165.0	29 374.9	4 027.3	299.7	826.3	96.5	61 018.6	29 771.1	49 016.3	5 080.0	3 790.1	171.6	146.1	3.1	52 952.5	5 254.7
1-30	274.0	0.0	161.8	0.0	87.2	0.0	523.0	0.0	284.0	2.2	727.5	0.1	52.1	0.0	1 063.6	2.3
31-60	19.1	0.0	50.5	0.0	81.6	0.0	151.2	0.0	7.5	0.0	162.1	0.1	41.0	0.0	210.6	0.1
61-90	1.6	0.0	12.3	0.0	37.5	0.0	51.4	0.0	0.6	0.0	61.3	0.0	29.9	0.0	91.8	0.0
91-180	2.2	0.0	3.1	0.0	194.6	0.0	199.9	0.0	0.3	0.0	4.0	0.0	118.4	0.0	122.7	0.0
181-365	4.5	0.0	1.0	0.0	304.1	0.0	309.6	0.0	0.4	0.0	0.9	0.0	189.4	0.0	190.7	0.0
>365	2.8	0.0	1.0	0.0	1 043.0	0.3	1 046.8	0.3	0.1	0.0	0.7	0.0	379.1	0.0	379.9	0.0
Total Gross	56 469.2	29 374.9	4 257.0	299.7	2 574.3	96.8	63 300.5	29 771.4	49 309.2	5 082.2	4 746.6	171.8	956.0	3.1	55 011.8	5 257.1

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	51 459.0	27 768.1	4 823.4	628.5	741.4	34.3	57 023.8	28 430.9	38 389.6	3 935.5	5 038.3	357.8	113.3	2.4	43 541.2	4 295.7
1-30	236.6	-	109.8	-	19.2	-	365.6	0.0	238.4	11.2	681.3	0.6	53.0	-	972.7	11.8
31-60	29.9	-	46.0	-	31.1	-	107.0	0.0	4.5	-	145.2	0.3	30.2	-	179.9	0.3
61-90	0.8	-	54.5	-	61.2	-	116.5	0.0	0.2	-	47.5	-	28.1	-	75.8	0.0
91-180	1.8	-	4.1	-	131.2	-	137.1	0.0	0.1	-	3.2	0.2	96.6	-	99.9	0.2
181-365	0.9	-	0.2	-	262.9	-	264.0	0.0	0.1	-	0.6	-	145.1	0.4	145.8	0.4
>365	4.2	-	0.9	-	844.4	-	849.5	0.0	0.1	-	0.6	-	347.3	-	348.0	0.0
Total Gross	51 733.2	27 768.1	5 038.9	628.5	2 091.4	34.3	58 863.5	28 430.9	38 633.0	3 946.7	5 916.7	358.9	813.6	2.8	45 363.3	4 308.4

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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 798.5 million are fully in Stage 1.

11. 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,

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- 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.

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- 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 Group, 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

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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.

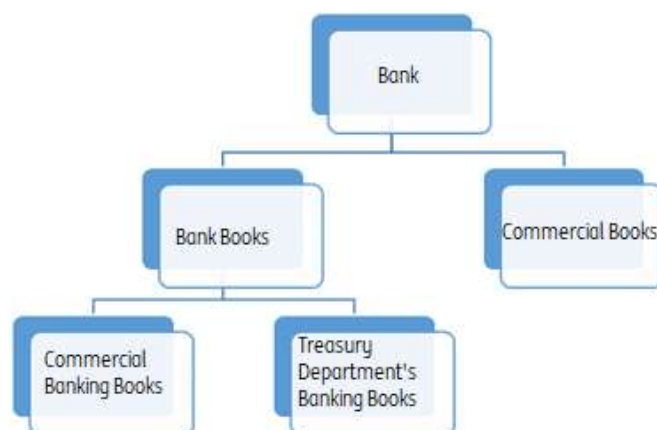
In the period under report, the market risk profile and the risk management methods were not materially changed.

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:

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(PLN million)

- 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 slope 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,

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- 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.

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(PLN million)

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.

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Every six months, a general stress-test is performed covering inter alia market risk, liquidity risk and credit risk on the basis of a regulatory scenario and scenarios developed by the Bank's economists and approved by ALCO. Additionally, on a quarterly basis a stress test is held of derivative instruments showing the impact of shock market changes on the valuation of those instruments.

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:

- 18% for interest rates, and
- 6% 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	1 958.4	121.6	127.9	28.5	305.0

Area	Limit	as at 31.12.2018	Medium	Min.	Max.
Interest rate	4 300	1 750.0	770.7	208.3	3 017.1
FX	2 365.0	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.

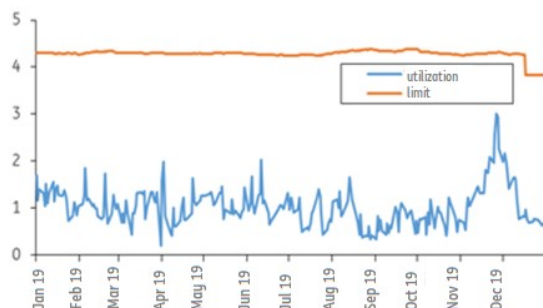
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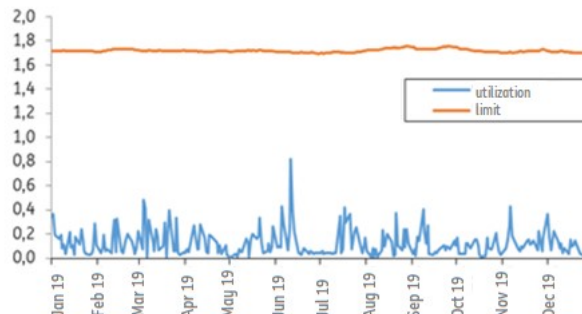
(PLN million)

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 consolidated results to interest rate changes resulting from the banking book:

(PLN million)	Changes to economic results		Changes to the reported financial results	
	with an amended curve		with an amended curve	
	-2%	2%	-2% gradual	2% gradual
2019	-503.9	-1 433.7	-115.5	15.8
2018	-1 104.0	-158.5	-76.3	3.9

The table below presents sensitivity of net interest to changes in interest rate scenarios:

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(PLN million)

	Change to net interest income	
	2019	2018
parallel +120 bps	9.1	2.4
parallel -120 bps	-54.7	-31.9
growth of short-term interest rates	-4.1	-14.1
drop of short-term interest rates	-29.3	-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	3.6	23.1
"twist" growth of short-term interest rates	-9.9	-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 Group carries out:

- prospective effectiveness test:
 - qualitative, based on the maturity of the hedged item and the hedging instrument, and
 - quantitative, based on the BPV (basis point value) 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,

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(PLN million)

- 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.

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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				Total
		Assets	Liabilities				up to 1 year	1 to 3 years	3 to 8 years	above 8 years	
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
<i>settled via CCP</i>		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 Group applies the settled to market service, as specified in the regulations of Central Counterparties/CCP with which the Group cooperates. See Note 16 Measurement of derivative instruments for further information.

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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			Total
		Assets	Liabilities				1 to 3 years	3 to 8 years	above 8 years	
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
<i>settled via CCP</i>		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

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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	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 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	47.58	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

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(PLN million)

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.

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2019

	fair value		nominal value of instruments with remaining maturity				Total
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	over 8 years	
Cash flow hedges, of which:	846.1	474.8	17 565.2	34 841.0	56 914.1	22 737.5	132 057.8
<i>settled via CCP</i>	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				Total
	Assets	Liabilities	under 1 year	1 to 3 years	3 to 8 years	over 8 years	
Cash flow hedges, of which:	909.6	420.2	22 320.0	32 075.8	48 527.8	13 841.2	116 764.8
<i>settled via CCP</i>	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.

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Impact of the application of cash flow hedge accounting on profit and loss account and other comprehensive income
2019

	Cash flow hedges						Amount reclassified from other comprehensive income and recognised in the profit and loss account	
	fair value		changes to fair value of hedging instruments used to review the effectiveness of the strategy			net interest resulting from existing hedge relationships		amortisation of the result of closed hedging strategies
	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***			
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 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 6.

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2018

	Change in fair value of the hedged item used to examine the effectiveness of the strategy	fair value		Cash flow hedges			Amount reclassified from other comprehensive income and recognised in the profit and loss account	
		Assets	Liabilities	changes to fair value of hedging instruments used to review the effectiveness of the strategy		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
				unrealised result on revaluation recognised in the period*	the effective part of the hedge recognised in other comprehensive income in the period**			
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	-	-	-	-	-	-	-	-

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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

8. Risk management in subsidiaries

The policies of ING Bank Śląski S.A. with respect to market risk management in its subsidiary companies provides for maintaining market risk at a low level. The core market risk categories that may occur in connection with the business of the subsidiary companies include FX risk and interest rate risk. Ongoing

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control and monitoring of market risk level is performed with periodic measurements of market risk categories related to the business of the subsidiary companies.

The Bank's Management Board, ALCO, the Market Risk Management Department, the Accounting Department and other competent units of the Bank are involved in market risk management. Determination of limits mitigating market risk for each subsidiary company at a consolidated level is a major element of the market risk management process in the Group of ING Bank Śląski S.A. The measurement techniques of market risk in the Group are the same as for the Bank. In accordance with the Bank's policies, risk volumes and compliance with the approved risk limits are monitored on a monthly basis.

IV. Liquidity and funding risk

1. 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

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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.

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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.

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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:

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- 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%	130%	133%
NSFR	Stable funding ratio	n/a*	130%	131%

*) 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.

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Net outflow coverage ratio

Scope of consolidation:		TOTAL NOT-WEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
Currency and units		TOTAL mln							
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					28 892	29 274	30 132	31 006
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	15 424	15 931	16 343	16 840	9 118	9 304	9 400	9 548
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)	15 424	15 931	16 343	16 840	9 118	9 304	9 400	9 548
8	Unsecured debt					0	0	0	0
9	Committed wholesale funding					0	0	0	0
10	Additional requirements	22 384	22 711	22 900	22 995	2 912	2 945	2 988	3 015
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	21 447	21 801	21 975	22 060	1 975	2 035	2 063	2 080
14	Other contractual liabilities relating to funding	6 421	6 608	6 646	6 847	6 290	6 462	6 480	6 666
15	Other conditional liabilities relating to funding	12 730	12 952	13 371	13 757	0	0	0	0
16	TOTAL OUFLOWS OF CASH FUNDS					25 933	26 582	26 987	27 579
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	2 362	2 403	2 488	2 567	952	987	1 019	1 028
19	Other cash inflows	2 155	2 210	2 029	1 809	2 155	2 210	2 029	1 809
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	4 560	4 688	4 701	4 621	3 108	3 198	3 050	2 840
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%	4 560	4 688	4 702	4 621	3 108	3 198	3 050	2 840
						TOTAL ADJUSTED VALUE			
21	HEDGING AGAINST IMPAIRMENT					28 892	29 274	30 132	31 006
22	TOTAL NET INFLOWS OF CASH FUNDS					22 826	23 383	23 937	24 739
23	NET OUTFLOW COVERAGE RATIO (%)					1.27	1.25	1.26	1.25

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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	733.8	1 117.6
Cash in nostro accounts with the Central Bank net of the required reserve	1.2	23.6
Other exposures to the Central Bank (O/N deposit, cash bills)	229.9	0.0
Unencumbered Treasury bonds	27 705.1	26 713.6
Unencumbered BGK bonds	525.6	556.9
Unencumbered bonds of the European Investment Bank	3 554.2	3 267.8
Total	32 749.9	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 ratios for liquidity reporting.

The reports include:

- mismatch by maturity,
- financial concentration by counterparty,
- financial concentration by product type,
- prices for various financing periods,
- prolonged financing,
- concentration of ability to balance liquidity by issuer.

Internal liquidity reports

Another major element in the Bank's liquidity management risk process covers internally defined reports presenting detailed and varied approach by the Bank to measurement and management of the risk. The Bank models liquidity characteristics, both of its assets and liabilities in order to provide for customers' anticipated/actual behaviour. Modelling is mixed. This means that 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:

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	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. In order to properly exercise supervision over liquidity risk in the Group entities, limits are set separately for each company.

Monitoring of funding sources and concentration risk

Minimum once a year, the Bank determines the Bank's overall business strategy and the resultant medium-term (3 years) financial plan with a general risk strategy. Financial plan is an indispensable element of the strategy which provides for an effective diversification of funding sources and tenors.

ALCO actively manages the funding base. Additionally, it monitors funding sources in order to:

- verify compliance with the strategy and financial plan,
- identify potential risks related to funding.

Customers' deposits (retail and corporate) are the core funding source for ING Bank Śląski S.A. The Bank monitors the funding structure and thus verifies concentration risk by analysing its deposit base split into:

- type of financing,
- customer segment,
- product type,
- currencies,
- geographical region, and
- concentration of large deposits.

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

The existing funding structure is well diversified. Herebelow, there is the funding structure as at the end of 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.

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Direct funding:

Core customer segments	2019		2018	
	direct funding	% share	Direct funding	% share
Banks	1 606	1.1%	899	0.7%
Corporate customers.	41 362	28.2%	38 092	29.1%
Retail customers	87 877	60.0%	78 241	59.9%
Own issues	2 129	1.5%	1 375	1.1%
Equity	13 590	9.3%	12 105	9.3%

Mutual funding:

Core customer segments	2019		2018	
	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)	76.0%
Treasury bonds or bonds issued by the central bank (EUR)	13.7%
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.

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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.

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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	46.2	237.4	0.0
Financial assets held for trading	0.0	174.7	25.5	2.5	250.8	254.3
Investment Securities	110.6	388.1	2 661.4	1 045.4	20 741.6	10 687.0
Loans and other receivables granted to customers	0.0	18 482.6	4 230.2	16 403.7	41 034.7	42 037.3
Other assets	0.0	1.5	14.9	23.2	0.0	0.0

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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	16 769.7	4 500.2	14 077.6	35 433.6	35 046.2
Other assets	0.0	14.7	13.5	331.9	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	2 812.4	174.0	807.5	2 373.8	88.5
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	127 969.6	933.9	1 368.3	177.7	41.1
Debt securities issued	0.0	0.0	4.7		437.1	0.0
Subordinated liabilities	0.0	0.9	6.4	21.8	116.3	2 224.7
Other liabilities	0.0	741.2	233.5	296.4	24.6	366.0
Contingent liabilities granted	0.0	30 669.0	537.1	2 454.9	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	1 974.7	272.2	641.0	2 211.3	97.8
Financial liabilities measured at fair value through profit and loss account		84.6		109.6	36.1	879.2
Due to customers	0.0	114 897.4	1 084.9	1 594.3	95.0	27.4
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	692.2	159.4	248.5	0.7	1.2
Contingent liabilities granted	0.0	34 284.1	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.

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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.

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9. Risk management in subsidiaries

ING Bank Hipoteczny S.A. performs an important role in managing the Group's long-term liquidity. Its role is to raise long-term liquidity so that the Group:

- improves funding stability,
- ensures diversified funding for the mortgage loan portfolio,
- is able to better manage any mismatch of its assets and liabilities.

In 2019 ING Bank Hipoteczny issued mortgage bonds under its International Mortgage Bond Program for PLN 500 million.

Liquidity risk of the Bank's other subsidiary companies is maintained at a minimum level with funding being provided within the ING Group.

10. Summary up

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

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:

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- 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:

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- 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;

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- 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).

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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.

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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 our 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.

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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.

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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.

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SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2020-03-05	Brunon Bartkiewicz <i>President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Michał Bolesławski <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Joanna Erdman <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Marcin Giżycki <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Bożena Graczyk <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Patrick Roesink <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Sławomir Soszyński <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature
2020-03-05	Lorenzo Tassan-Bassut <i>Vice-President</i>	The original Polish document is signed with a qualified electronic signature

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2020-03-05	Jolanta Alvarado Rodriguez	Director of Accounting Department Chief Accountant	The original documents is signed with a qualified electronic signature
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