ING Bank Hipoteczny S.A.

Interim Condensed Financial Statement

for a six-month period ending on

30 June 2019

ING

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Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Income statement

for the period from 1 January 2019 to 30 June 2019

	Note	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Interest income, including:	5.1	9,573.3	365.8
calculated using the effective interest method	5.1	9,573.3	365.8
Interest charges, including:	5.1	-3,211.8	0.0
Net interest income	5.1	**6,361.4**	**365.8**
Fee and commission income	5.2	48.2	0.0
Commission expenses	5.2	-230.1	-0.2
Net commission income	5.2	**-181.9**	**-0.2**
FX result	5.3	**-2.4**	**0**
Net income on other basic activities		**-13.0**	**0.0**
Net income on basic activities		**6,164.1**	**365.5**
General and administrative expenses	5.4	-10,386.0	-1,698.7
Expected losses/Impairment losses for financial assets and provisions for off-balance sheet liabilities	5.5, 5.9	-254.3	0.0
Profit before tax		**-4,476.2**	**-1,333.1**
Income tax	5.6	839.6	135.7
Profit after tax		**-3,636.6**	**-1,197.5**
Number of shares		210,000	120,000
Earnings per ordinary share - basic (PLN)	5.7	-17.32	-9.98
Earnings per ordinary share - diluted (PLN)		-17.32	-9.98

Discontinued operation occurred neither in the period ending on 30 June 2019 nor in the corresponding period from 26 February 2018 to 30 June 2018.

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Statement of comprehensive income

for the period from 01.01.2019 to 30.06.2019

	Note	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Profit after tax for the period		**-3,636.6**	**-1,197.5**
Total other comprehensive income, including:		**-8.8**	**-**
Items which can be reclassified to income statement		-8.8	-
Unrealised result on measurement of HTC&S securities	5.16	-8.8	-
including deferred tax		*2.1*	-
Items which will not be reclassified to income statement, including:		-	-
Actuarial gains/losses	5.16	-	-
including deferred tax		-	-
Net comprehensive income for the period		**-3,636.6**	**-1,197.5**

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Statement of financial position

as at 30 June 2019

	Note	as of 30 June 2019	as of 31 December 2018
Assets			
Amounts due from banks	5.8	369,682.8	111,534.9
Securities measured at fair value through other comprehensive income	5.10	24,728.8	0.0
Securities measured at amortized cost	5.10	152,974.5	0.0
Loans and advances granted to customers	5.9	1,320,666.4	0.0
Property, plant and equipment	5.11	1,311.0	104.1
Intangible assets	5.12	2,312.6	2,808.5
Current income tax receivables		0.0	11.9
Deferred income tax assets		2,483.5	1,641.8
Other assets	5.13	713.7	86.4
Total assets		**1,874,873.3**	**116,187.7**
Liabilities			
Liabilities to other banks	5.14	1,600,350.5	0.0
Provisions	5.15	382.9	382.9
Other liabilities	5.16	6,287.1	3,494.3
Total liabilities		**1,606,637.7**	**3,877.2**
Equity			
Share capital	1.3	210,000.0	120,000.0
Supplementary capital – share premium		62,191.1	0.0
Accumulated other comprehensive income	5.17	-318.9	-310.1
Retained earnings	5.18	-3,636.6	-7,379.4
Total equity		**268,235.7**	**112,310.5**
Total equity and liabilities		**1,874,873.3**	**116,187.7**
Carrying amount		268,235.7	112,310.5
Number of shares		210,000	120,000
Carrying amount per share (PLN)		1,277.31	935.92

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Statement of changes in equity

for the period from 01.01.2019 to 30.06.2019

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		120,000.0	-310.1	-7,379.4	**112,310.5**
Issue of shares of series B		**90,000.0**	-	69,570.5	**159,570.5**
Net result for the current period		**-**	**-**	**-3,636.6**	**-3,636.6**
Other net comprehensive income, including:		**-**	**-8.8**	**-**	**-8.8**
Unrealised result on measurement of HTC&S securities		-	-8.8	-	-8.8
Actuarial gains/losses		-	-	-	0.0
Closing balance of equity		**210,000.0**	**-318.9**	**58,554.5**	**268,235.7**

for the period from 26 February 2018 to 31 December 2018

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		-	-	-	**-**
Issue of shares of series A		**120,000.0**	-	-	**120,000.0**
Net result for the current period		**-**	**-**	**-7,379.4**	**-7,379.4**
Other net comprehensive income, including:		**-**	**-310.1**	**-**	**-310.1**
Actuarial gains/losses		-	-310.1	-	-310.1
Closing balance of equity		**120,000.0**	**-310.1**	**-7,379.4**	**112,310.5**

for the period from 26 February 2018 to 30 June 2018

	Note	Share capital	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		-	-	-	**-**
Issue of shares of series A		**120,000.0**	-	-	**120,000.0**
Net result for the current period		**-**	**-**	**-1,197.5**	**-1,197.5**
Other net comprehensive income, including:		**-**	**-**	**-**	**-**
Actuarial gains/losses		-	-	-	-
Closing balance of equity		**120,000.0**	**-**	**-1,197.5**	**118,802.5**

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Cash flow statement

for the period from 01.01.2019 to 30.06.2019

	Note	the period from 01.01.2019 to 30.06.2019	the period from 26.02.2018 to 30.06.2018
Profit after tax		**-3,636.6**	**-1,197.5**
Adjustments, of which:		**-1,317,161.5**	**1,628.9**
Depreciation and amortisation	5.4, 5.11, 5.12	698.5	4.2
Interest accrued (from the income statement)	5.1	-6,361.4	-365.8
Interest paid		-9.8	0.0
Interest received		6,256.2	365.8
Income tax (from the income statement)	5.6	-839.6	-135.7
Income tax paid		0.0	-11.9
Change in loans and other receivables from customers		-1,320,666.4	0.0
Change in other assets		919.3	12.7
Change in liabilities to other banks		823.6	0.0
Change in other liabilities		2,187.9	1,759.6
Net cash flow from operating activities		**-1,320,628.5**	**431.4**
Purchase of property, plant and equipment	5.11	-83.4	-75.7
Purchase of intangible assets	5.12	0.0	-1,939.8
Purchase of securities measured at fair value through other comprehensive income		-24,728.8	0.0
Purchase of securities measured at amortized cost		-152,974.5	0.0
Interest received on securities measured at amortized cost		17.0	0.0
Net cash flow from investing activities		**-177,592.8**	**-2,015.4**
Proceeds from the issue of shares	1.3	159,570.5	120,000.0
Long-term loans received		1,599,526.9	0.0
Interest on long-term loans repaid		-2,381.9	0.0
Lease liabilities repaid		-169.5	0.0
Net cash flow from financing activities		**1,756,546.1**	**120,000.0**
Net increase/decrease in cash and cash equivalents		258,147.9	118,416.0
Opening balance of cash and cash equivalents		111,534.9	0.0
Closing balance of cash and cash equivalents		369,682.8	118,416.0

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

1. Bank details

1.1. Key Bank data

ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") with its registered office in Katowice, ul. Chorzowska 50, entered to the Register of Entrepreneurs of the National Court Register maintained by the District Court Katowice – Wschód in Katowice, 8th Commercial Division of the National Court Register under the number KRS 0000723965 on 20 March 2018. The Bank statistical number is REGON 369582281, and the tax identification number is NIP 205-000-51-99.

1.2. Scope and duration of operations

As at 30 June 2019, ING Bank Hipoteczny is a joint-stock company holding a permit issued by the Polish Financial Supervision Authority for running business based on the Mortgage/Covered Bonds and Mortgage Banks Act of 29 August 1997, the Bank Law Act of 29 August 1997, Commercial Companies and Partnerships Code and other commonly binding legal regulations, good banking practice principles and the Bank Charter.

In accordance with the business plan of the Bank, the key task of the Bank will be to issue mortgage bonds that will be used as the basic source of long-term, stable financing of the acquired by the Bank debts attributable to the housing mortgage loans for individual clients. The Bank runs its business in two locations: in its registered office in Katowice, 50 Chorzowska Street and in Warsaw, 2 Puławska Street.

1.3. Share capital

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 210,000,000.00 and is divided into 210,000.00 ordinary registered shares of nominal value of PLN 1,000 each.

Structure of the share capital

Series	Type of share	Number of shares	Nominal value of 1 share (PLN)	Series nominal value (PLN)	Date on which a resolution was passed by AGM	Issue date	Date of registration in the National Court Register (KRS)
A	ordinary	120,000	1,000.00	120,000,000	not applicable*	26.02.2018	20.03.2018
B	ordinary	90,000	1,000.00	90,000,000	03.01.2019	03.01.2019	06.02.2019

* Issue of shares of series A stems from the Deed of Incorporation of 26 February 2018.

The share capital has been fully covered with pecuniary contributions. Each ordinary share entitles its holder to dividend and one vote during the general meeting.

1.4. Shareholders of ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2019 held 100% share in the share capital of ING Bank Hipoteczny S.A. ING Bank Hipoteczny S.A. is a part of the capital group called herein the ING Bank Śląski S.A. Group.

1.5. ING Bank Hipoteczny S.A. Management Board and Supervisory Board composition

On 16 January 2018, the Polish Financial Supervision Authority approved the first Management Board of the Bank.

On 26 February 2018, in line with the decision of the Polish Financial Supervision Authority, composition of the first Management Board as well as of the Supervisory Board of ING Bank Hipoteczny S.A was approved with the Deed of Incorporation of ING Bank Hipoteczny S.A.

In the period covered with the interim condensed financial statements, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:

- Mr Mirosław Boda, President of the Management Board,
- Mr Jacek Frejlich, Vice President of the Management Board,
- Mr Roman Telepko, Vice President of the Management Board.

In the period covered with the interim condensed financial statements the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

1.6. Auditing firm authorised to audit financial statements

BDO Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw is the auditing firm authorised to audit the financial statements of ING Bank Hipoteczny S.A. Whereas these interim condensed financial statements were reviewed, but not audited, by the auditing firm.

1.7. Approval of financial statements

Annual financial statements of the ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018 have been approved by the General Meeting of ING Bank Hipoteczny S.A. on 3 April 2019.

These interim condensed financial statements were approved by the Management Board of the Bank on 13 August 2019.

2. Significant events in the first half of 2019

Polish Financial Supervision Authority's approval of operations commencement

On 2 January 2019, the Bank obtained information that the Polish Financial Supervision Authority approved operations commencement. ING Bank Hipoteczny S.A. commenced its operations on 7 January 2019.

Conclusion of the Debt Transfer Framework Agreement

On 17 January 2019, ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. signed the Debt Transfer Framework Agreement based on which mortgage-backed housing loans debt claims portfolios are bought in order to issue covered bonds in accordance with the terms and conditions specified, in particular, in the Act on Mortgage Banks.

Increase in share capital

On 3 January 2019, the General Meeting of Shareholders passed a resolution to increase the share capital of ING Bank Hipoteczny S.A. by PLN 90,000,000.00 by way of issuing 90,000 ordinary registered B-shares of the nominal value of PLN 1,000 each. The share issue price was PLN 1.778 each. The shares have been fully covered with pecuniary contributions.

General Meeting of ING Bank Hipoteczny S.A.

On 3 April 2019, the General Meeting of ING Bank Hipoteczny S.A. took place. The resolutions that were passed there concerned:

- approval of the annual financial statements for 2018,
- approval of the Management Report on operations of ING Bank Hipoteczny S.A. in 2018, inclusive of statements on observance of principles of corporate governance,
- acceptance of the 2018 reports of the Supervisory Board,
- acknowledgement of the fulfilment of duties in 2018 by the Management Board Members and Supervisory Board Members,
- covering losses from previous years.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

3. Significant events after the end of the reporting period

In the period from 1 July 2019 to the date of signing these financial statements, ING Bank Hipoteczny S.A. bought another mortgage-backed housing loans debt claims portfolio for the total amount of PLN 755,898,300 under the Debt Transfer Framework Agreement signed on 17 January 2019 with ING Bank Śląski S.A.

Moreover, in the second half of the year, keeping in mind future issues of covered bonds, the Bank started entering mortgage-backed credit debt claims to the register of collaterals for covered bonds.

4. Statement of compliance with International Financial Reporting Standards

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the first half of 2019 were prepared in compliance with the International Accounting Standard (IAS) 34 *Interim Financial Reporting* in a version approved by the European Commission and applicable as at the reporting date, that is as at 30 June 2019.
Interim condensed income statement, interim condensed statement of comprehensive income, interim condensed statement of changes in equity and interim condensed cash flow statement for the period from 01 January 2019 to 30 June 2019 and interim condensed statements of financial position as at 30 June 2019 together with comparable data have been prepared using the same accounting principles for each of the periods, except of the changes stemming from IFRS 16 that substituted IAS 17 *Leases*. The changes refer to recognition, measurement, presentation and disclosure of leases (the changes are shown later herein in 4.1.1 *Influence of application of IFRS 16 Leases on the financial statements*). To its lease contracts, the Bank applied a modified retrospective approach adopted at ING Bank Śląski S.A. Group and did not convert its comparable data.

4.1. Changes to accounting standards

In these interim condensed financial statements the same accounting principles were applied as the ones applied to the annual full financial statements for 2018 (Financial statements of ING Bank Hipoteczny S.A. for the period from 26 February 2018 to 31 December 2018) and standards and interpretations approved by the European Union applicable to annual periods starting on 1 January 2019 or thereafter, namely:

Change	Influence on the Bank's statements
IAS 19 *Plan amendment, curtailment or settlement*	Application of the new standard did not affect the financial statements of the Bank.
IAS 28 *Long-term Interests in Associates and Joint Ventures*	The Bank holds shares neither in associates nor in joint ventures, and thus, the change had no impact on the financial statements of the Bank.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

IFRS 16 *Leases*	Application of the new standard has an impact on the recognition, presentation, measurement and disclosure of assets under operational leasing in the financial statements of the Bank as the lessee. Implementation of the new standard has an impact on the balance sheet total of the Bank, but had no significant impact on the Bank's financial results. Increase in the balance sheet total attributable to recognition of the assets right-of-use total and lease liabilities total in the period of their initial application was approximately PLN 1.3 million.
IFRS 9 *Prepayment features with negative compensation*	Implementation of changes had no impact on the financial statements of the Bank.
Changes resulting from the review of IFRS implemented as part of the 2015-2017 cycle (published in December 2017) - ***refer to IFRS 3, IFRS 11, IAS 12 and IAS 23***.	Implementation of changes had no impact on the financial statements of the Bank.
IFRIC 23 *Uncertainty over Income Tax Treatments*	Implementation of changes had no impact on the financial statements of the Bank.

Standards and interpretations that have been released, but are not applicable yet because they have not been approved by the European Union, or they have been approved by the European Union but have not been earlier applied by the Bank have been presented in the annual financial statements of the Bank for 2018. In the first half of this year, no amendments to the accounting standards were published.
As at the date of approving these statements for publication – in consideration of the pending EU process of implementing the IFRS standards and the activity of the Bank with regard to the accounting principles applied by the Bank – there is no difference between the IFRS standards which came into force and the IFRS standards approved by the EU.

4.1.1. Influence of application of IFRS 16 *Leases* on the financial statements

IFRS 16 *Leases* was published by the International Accounting Standards Board in January 2016 and was adopted by the European Union in October 2017. IFRS 16 replaces IAS 17 *Leases* and it regards recognition, measurement, presentation and disclosure of leases. Key changes concern the lessee.

The Bank did not decide to implement the standard earlier, and thus it applies the International Financial Reporting Standard 16 *Leases* for the first time for the reporting period starting on 1 January 2019. The Bank decided to apply the retrospective approach to its lease contracts. Thus, the Bank did not convert comparable data.
As at the date of initial application of the standard, the Bank carried out full analysis of contracts in terms of assessment whether a contract is for lease or includes lease, and decided to recognise lease elements separately from non-lease ones. The Bank does not apply the standard to lease of intangible assets. The Bank acts as a lessee in the real estate/car lease contracts.

The new regulation implements uniform principles of recognition of lease contracts for lessee, taking into account exceptions provided for in the standard. It imposes a requirement to recognise a right-of-use assets item and lease liability. On 01 January 2019, the Bank recognised a right-of-use asset in the amount equal to the lease liability. As at the initial application of the new regulation, the Bank measured the lease liability at present value of remaining lease payments, discounted by applying the lessee's incremental borrowing rate on the date of initial application.

In order to determine the present value of lease payments the Bank applied the lessee's incremental borrowing rate to all leases. The Bank determined the interest rate for lease as the sum of the interest rate for swaps and internal transfer price, taking into account currencies of the lease contracts and maturity dates of the contracts.

Lease period was determined taking into account contractual options to prolong or shorten lease period if it is probable that such an option would be used. In case of contracts concluded for an indefinite period with an option to terminate them by any of the parties thereto, the Bank assessed whether there would be any significant costs of contract termination. Contracts signed for an indefinite period by the Group are mostly real estate lease contracts. If there are no significant costs, the lease period was determined as a notice period to which both parties to the contract are entitled. If the costs of contract termination are significant, the Bank assumed a 4-year period as the lease period. The assumed period results from the strategy of physical presence in a given location that ensures flexibility and business efficacy. The Bank availed itself of the simplified approach for short-term leases (inclusive of leases whose period ends 12 months after the date of initial application of the standard) and for leases of low-value assets. In this case, the Bank carries systematic lease payments through profit or loss. A contract may be classified as a short-term one if the contract period does not exceed 12 months. Assets may be classified as low-value assets if the cost of acquisition of a new one is not higher than EUR 5,000.

A table herein below shows the impact of implementation of IFRS 16 on the financial statements as at 01 January 2019 (PLN thousands):

	As at **31.12.2018**	IFRS 16 implementation impact	As at **01.01.2019**
Assets			
Property, plant and equipment, including:	104.1	1,343.3	1,447.4
right-of-use assets, including:	0.0	1,343.3	1,343.3
- lease of real estate	0.0	1,242.9	1,242.9
- lease of cars	0.0	100.4	100.4
Total assets	**116,187.7**	**1,343.3**	**117,531.0**
Liabilities			
Other liabilities, including:	3,494.3	1,343.3	4,837.6
lease liabilities, including:	0.0	1,343.3	1,343.3
- lease of real estate	0.0	1,242.9	1,242.9
- lease of cars	0.0	100.4	100.4
Total liabilities	**3,877.2**	**1,343.3**	**5,220.5**
Equity per one shareholder of ING Bank Hipoteczny	**112,310.5**	**0.0**	**112,310.5**
Total equity and liabilities	**116,187.7**	**1,343.3**	**117,531.0**

The table below shows reconciliation of the difference between the amounts of future fees being the Bank's obligation under operating lease, disclosed under IAS 17 as at 31 December 2018, and lease liabilities as at 1 January 2019, or as at the implementation date of IFRS 16.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

	As at **31.12.2018**	adjustments of opening balance sheet	As at **01.01.2019**
Future lease liabilities according to IAS 17	**1,435.7**		
adjustments of opening balance sheet in connection with implementation of IFRS 16, including:		**-92.5**	
(-) discounting effect incident to the use of the lessee's incremental interest rate of 01 January 2019		-42.5	
(-) exemption for short-term lease agreements -		-21.9	
(-) other than lease elements of agreements		-28.1	
Lease liabilities according to IFRS 16			**1,343.3**

4.2. Going concern

These interim condensed financial statements of the Bank were prepared on a going concern basis, as regards foreseeable future, that is within at least 12 months from the end of the reporting period. As at the date of approval hereof by the Bank Management Board, no facts or circumstances were identified that could pose a threat to the Bank's operation as a going concern for at least 12 months from the end of the reporting period due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

4.3. Discontinued operations

No material operations were discontinued in the first half of 2019 and in 2018.

4.4. Financial statements scope and currency

The Bank is the parent entity and the major investor for associated entities and joint subsidiaries. Thus, ING Bank Hipoteczny S.A. does not prepare consolidated financial statements of the Group that would cover the financial data of such entities.

The parent entity of ING Bank Hipoteczny S.A. is ING Bank Śląski S.A. The latter prepares consolidated financial statements of the ING Bank Śląski S.A. Group. Whereas ING Bank Śląski S.A. is a part of the capital group that is called herein as the ING Group. ING Groep N.V. is the top entity of the Group.

These interim condensed financial statements have been developed in Polish Zloty ("PLN"). Unless otherwise specified, financial data are presented after rounding to one thousand zloty. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

4.5. Reporting period and comparable data

Interim condensed financial statements of ING Bank Hipoteczny Spółka Akcyjna ("Bank", "Company") cover the period from 1 January 2019 to 30 June 2019. As the operations were started on 26 February 2018, comparable data cover the period from 26 February 2018 to 30 June 2018 for the interim condensed income statement, interim condensed statement of comprehensive income and interim condensed cash flow statement, additionally as at 31 December 2018 for the interim condensed statement of changes in equity, and in case of interim condensed statements of financial position - the data as at 31 December 2018.

5. Significant accounting principles

The presented herein below accounting policy of the Bank follows the requirements of IFRS.

The accounting principles and calculation methods applied for the needs of preparation of these interim condensed financial statements are consistent with the principles binding in the financial year ending on 31 December 2018.

As the Bank applies to its lease contracts a decision not to convert comparable data in connection with effective entry of IFRS 16, material principles of accounting within a scope referring to IFRS 16 were presented under 3.7 *Leases* showing the principles binding before and after 1 January 2019.

In the interim financial statements, the right-of-use assets were presented in the statements of financial position under "*Property, plant and equipment*" whereas lease liability was presented under "*Other liabilities*". Costs incurred by the Bank are presented in the income statement under *Interest costs* (interest on lease liabilities) and *General and administrative expenses* (depreciation of the right-of-use and other costs connected with assets taken on lease).

5.1. Basis for preparation of financial statements

In the interim condensed financial statements, the concept of fair value of financial assets and liabilities measured at fair value was applied, including derivative instruments and financial assets carried at fair value through other comprehensive income, excluding those for which the fair value cannot be determined in a reliable manner. Other items of financial assets are presented at amortized cost less impairment or at purchase price less impairment.

Property, plant and equipment and intangible assets are recognised at cost less cumulative amortisation and impairment.

All major items of costs and revenue are recognised by the Bank on the following bases: accrual, matching of revenues and expenses, recognition and measurement of assets and liabilities, creation of impairment losses.

5.2. Professional judgement

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

5.2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results deteriorate in the future.

5.2.2. Classification of financial assets

The Bank classifies financial assets based on assessment of a business model under which assets are held and based on assessment whether terms and conditions entail only payments of principal and interests thereon. Detailed information about the assumptions made in this respect are presented under 5.5.1 below.

5.3. Accounting estimates

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

Estimations and assumptions applied to the presentation of amounts of assets, liabilities, income and costs are made using 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 estimations 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.

Estimates and assumptions are reviewed on a current basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the adjustment applies to this period alone. Whereas, should the adjustments affect both the period when the estimation was changed as well as the following periods, they are recognised in the period when the estimation was changed and in the following periods.

Below, there are the most significant accounting estimates made by the Bank.

5.3.1. Impairment

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

5.3.1.1. Impairment of financial assets

The Bank applies the requirements of IFRS 9 as regards impairment in order to recognise and measure loss allowance for expected credit losses attributable to financial assets that are measured at amortised cost or at fair value through other comprehensive income.

Expected loss is calculated as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The final level of reserves results from the total expected losses calculated each year in future, taking into account, among others, maturity dates, stages and discounting.

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto are described hereinafter, and in the "Principles of creating impairment losses (provisions) for credit exposure according to IFRS at ING Bank Hipoteczny S.A."

5.3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors.

To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given assets item. When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers which are based on estimates by and large.

5.3.2. Provisions for retirement and pension benefit

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards their 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 raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the accounting year.

5.3.3. Valuation of incentive schemes

5.3.3.1. Valuation of variable remuneration programme benefits

As at the balance sheet date, the Bank presents in the books the estimated value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. The programme was launched in 2018.

Value of benefits granted in a form of financial instruments entitling to receive cash is estimated based on book value of net assets of ING Bank Hipoteczny S.A. per share, adjusted with factors affecting the said assets, other than the financial result.

The value of the deferred benefit element is adjusted with the reduction factor which accounts for probability of occurrence of an event requiring adjustment of the value of the granted benefit which the employee is not fully eligible to as at the balance sheet date. The catalogue of events has been defined in the programme assumptions.

5.3.4. Amortisation period and method for intangible assets

The amortisation period and method for intangible assets are verified at the end of each financial year. Changes to the useful life or expected pattern of consumption of the future economic benefits embodied in the intangible asset are recognised by changing the amortisation period or method, accordingly, and are deemed to be changes in the estimates. The Bank applies the established by the ING Bank Śląski S.A. Group capitalisation limit for purchase (PLN 440,000) or in-house production (PLN 10 million) of computer software. Expenditure for acquisition of items of intangible assets below the capitalisation limit are recognised by the Bank directly in expenses when incurred.

5.4. Foreign currency

5.4.1. Functional currency and presentation currency

The items given in presentations of the Bank are priced in the currency of the basic economic environment in which a given entity operates ("functional currency").

These financial statements are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.4.2. 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 income statement under the specific item *FX result*, which is an element of the *FX result.*

5.5. Financial assets and liabilities

5.5.1. Classification of financial assets

Financial assets are classified by the Bank to one of the following categories:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income and measured at fair value through profit or loss;

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated to 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
- 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

A debt financial assets item is measured at fair value through other comprehensive income if both of the following conditions are met and it is not designated to 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 or to sell the financial assets item,
- 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.

Financial assets measured at fair value through profit or loss

All financial assets that do not meet the conditions to be classified as financial assets measured at amortised cost, debt financial assets measured 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.

Moreover, at initial recognition, the Bank may irrevocably designate a given financial assets item to be measured at fair value through income statement, even though, satisfying the terms and conditions of classification, it can be measured at amortised cost or at fair value through other comprehensive income. It is a prerequisite to confirm that the purpose of such a designation is to eliminate or limit significantly any accounting mismatch that would occur without the said designation.

5.5.2. Recognition

The Bank recognises financial assets or liabilities item in the statement of financial position when it becomes a party to the instrument-related contract. Purchase and sale transactions of financial assets carried at fair value through profit or loss, held to maturity and available for sale are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity.

The purchased mortgage loans related debt claims are recognised as at the transaction date [1]based on the Debt Transfer Contract in order to issue covered bonds (hereinafter referred to as: "Transfer Contracts").

5.5.3. Business Model Assessment

The Bank assesses goals of the business model per organisational unit of the Bank that manages a given portfolio of financial assets and is its owner.

There are the following business models of holding financial assets; namely assets are held:

- to receive contractual cash flows,

[1]Transaction Date is a date following the conclusion of a given Transfer Contract being the date, referring to the Portfolio transferred thereunder, at which the first application for entering of ING Bank Hipoteczny S.A. as a mortgage creditor in the Land and Mortgage Register maintained for the real property encumbered with the Mortgage securing the Debt from that Portfolio is submitted, or the next consecutive date;

- to receive contractual cash flows or to sell,
- for other reasons (including, but not limited to, in order to maximise profit on sales).

Business models are set at the level that reflects best the Bank's approach to management of financial assets items in order to achieve business goals and to generate cash flows.

During assessment, the Bank verifies all areas of operation of the business unit of the owner of the ring fenced portfolio of financial assets that may affect decisions about holding the assets in the Bank's portfolio, including, especially:

- assumptions of the product offer structure,
- organisational structure of the unit,
- assumptions concerning assessment of the yield from the portfolio of assets (for instance, approach to planning, management information assumptions, or key ratios of assessment),
- approach to remuneration for the key management in relation to the portfolio results and cash flows,
- risk of the assets portfolio and management approach to that risk,
- analysis of transactions of sale from the assets portfolio (frequency, volume and reasons for the decisions taken),
- analysis of projected future sales.

The Bank allows transactions of sale of financial assets held to get contractual cash flows, due to the following reasons:

- increase in credit risk,
- closeness to maturity date,
- occasional sale,
- sale of insignificant value,
- in response to regulatory/supervisory requirements,
- during liquidity crisis (stress situations),
- change of the credit limit for a given customer.

The Bank assumes that:

- any sale close to the maturity date is the sale of financial assets:
  - if the initial maturity date is longer than 1 year - less than 6 months before the maturity date,
  - if the initial maturity date is shorter than 1 year - less than 3 months before the maturity date,
- occasional sale means the sale at the level below 10% of the sales transactions in relation to the average number of items within a given business model
- sale of insignificant value means sale at the level lower than a ratio determined based on the quotient of 10% rate and the average maturity term of the portfolio in relation to one of the following values:
  - quotient of the carrying amount of the sold position in relation to the carrying amount of the whole portfolio under a given business model
  - quotient of the realised result in relation to net interest margin of the whole portfolio held under a given business model.

5.5.4. Cash flows assessment

For the needs of cash flows assessment, the Bank assumes the following definitions:

- principal – is defined as fair value of the financial assets item at initial recognition in the Bank's books,
- interest – is defined as payment that includes:
  - fee for the change in time value of money,
  - fee for the credit risk of the principal amount due and payable throughout a stipulated period of time,
  - fee for other basic credit-related risks and costs (for instance, liquidity risk and overheads) and
  - profit margin.

Assessment is to find out whether cash flows are effected solely to repay principal and interest due and payable thereon. The Bank verifies the contractual clauses affecting both the time of cash flows and their amount resulting from specific financial assets.

Most notably, the following terms and conditions are verified:

- contingencies affecting the amount or timelines of cash flows,
- leverages,
- terms and conditions of early payment or prolongation of financing,
- terms and conditions limiting the right to sue attributable to the cash flows realised,
- terms and conditions modifying the fee for the change in time value of money.

The terms and conditions modifying the change in time value of money are assessed using qualitative or quantitative analysis.
Should the qualitative appraisal not be enough to confirm the conclusion concerning characteristics of the realised cash flows, the Bank carries out the quantitative one. Quantitative appraisal is carried out by comparing:

- undiscounted cash flows resulting from the analysed contract with
- undiscounted cash flows from the reference asset that does not have any terms and conditions modifying the fee for the change in time value of money.

If the analysed cash flows differ significantly from each other, the assessed asset has to be classified for measurement at fair value through the income statement, because cash flows are not effected solely to repay principal and interest due and payable thereon.

5.5.5. Classification of financial liabilities

Financial liabilities are classified by the Bank to one of the following categories:

- financial liabilities measured at fair value through profit or loss,
- financial liabilities measured at amortised cost;

Financial liabilities measured at fair value through profit or loss

Financial liabilities recognised as a result of a short sale of securities are measured after initial recognition at fair value through profit or loss.

Other financial liabilities

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, loan received or a financial liability recognised as a result of a sale of a financial assets item that cannot be derecognized.

5.5.6. Derecognition

The Bank derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset.

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

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

The Bank removes a financial liability (or a 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.

5.5.7. Modification of contractual cash flows

If, after renegotiation of the terms and conditions of a credit facility or loan agreement, cash flows from a given financial assets item are subject to modification, the Bank assesses whether the modification is major and whether it leads to derecognition of that financial assets item.

The Bank assumes that modification of the terms and conditions of an agreement is major in case of:

- a change in debtor with the consent of the Bank, or
- a change in legal form/type of financial instrument, or
- currency conversion of the credit facility unless it was provided for in the contractual terms and conditions in advance.

If a modification is not major and does not lead to derecognition of the financial assets item, the Bank recalculates the gross carrying amount of the financial assets item and recognises modification gain or loss through P/L.

5.5.8. Measurement

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.

Other financial liabilities are measured at amortised cost or the amount of due payment.

5.5.9. Impairment

Assessment of impairment is based on measurement of expected credit losses. Such an approach is applied to debt financial assets, credit exposure, committed financial liabilities and financial guarantees, except of capital investments.

At each reporting date, the Bank will assess loss allowance for expected credit losses of the financial asset in the amount equal to the lifetime expected credit losses if the credit risk on a given financial instrument has increased significantly since initial recognition. If as at the reporting date the credit risk on a given financial instrument has not increased significantly since initial recognition, the Bank assesses loss allowance for expected credit losses of that asset in the amount equal to 12-month expected credit losses.

The Bank measures expected credit losses taking into account:

- unencumbered and probability weighted amount that is determined by assessing numerous possible results;
- time value of money; and
- reasonable and supportable information that is available without undue cost or effort as at the reporting date, referring to past events, current conditions and projections concerning future business conditions.

5.5.10. Gains and losses resulting from later 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 carried at fair value through profit or loss is recognized in the income statement;
- a gain or loss on a financial assets item carried at fair value through other comprehensive income is recognized directly in equity through the statement of changes in equity.

Settlement of interest using the effective interest method

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

- purchased or originated credit-impaired financial assets. For these financial assets items, the Bank applies credit-adjusted effective interest rate to amortised cost of the financial assets item since initial recognition;

- financial assets items other than purchased or originated credit-impaired financial assets, which then became credit-impaired financial assets (Stage 3). In case of such financial assets items, the Bank applies credit-adjusted effective interest rate to (net) amortised cost of the financial assets item in later reporting periods.

Non-interest elements

FX gains and losses arising from a change in financial assets item measured at fair value through other comprehensive income denominated in foreign currency are recognized directly in equity only in case of non-monetary assets, whereas FX differences generated by monetary assets (for instance, debt securities) are recognised in the income statement.
At the moment of derecognition of financial assets, cumulated gains or losses that were recognised in equity:

- are recognised in the income statement as far as debt financial assets are concerned,
- are recognised under equity item where retained earnings are presented, as far as equity instruments are concerned.

If any objective evidence exists that a debt financial assets item measured at fair value through other comprehensive income impaired, the Bank recognises impairment loss as described in an item concerning impairment of financial assets measured at fair value through other comprehensive income.

Fair value of financial assets and liabilities quoted on an active market (including securities) is determined using a bid price for a long position and an offer price for a short position. If there is no alternative market for a given instrument, or in case of securities that are not quoted on an active market, the Bank determines the fair value using valuation techniques, including but not limited to, using recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach. 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 volume of effected transactions as well as access to information about quoted prices which by and large should be delivered on a continuous basis.
The main market and the most beneficial one at the same time is the market the Bank can access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

Based on the employed fair value methods, financial assets/liabilities are classified as:

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market,
- Level II: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations,
- Level III: 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 Bank verifies on a monthly basis whether any changes occurred to the quality of the input data used in individual measurement techniques and determines the reasons and their impact on the fair value calculation for the financial assets/liabilities item. Each identified case is reviewed individually. Following detailed analyses, the Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

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

5.6. Non-financial assets

5.6.1. Property, plant and equipment

5.6.1.1. 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 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 are recognised using the model based on the purchase price or manufacturing cost, namely, after initial recognition they are recognized at historical cost less depreciation/amortization and impairment.

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

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

5.6.1.2. Subsequent costs

Under the property, plant and equipment item of the balance sheet the Bank recognizes the costs of replacement of certain elements thereof at the time they are incurred if it is probable that the Bank is likely to earn any asset-related prospective economic benefits and the purchase price or the manufacturing cost may be measured reliably. Other costs are recognised in the income statement at the time they are incurred.

5.6.2. 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, and
- they 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.

5.6.2.1. 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. Costs of computer software development or maintenance are recognized when incurred.

5.6.2.2. 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 income statement as costs when incurred.

5.6.3. 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, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through profit or loss).

Depreciation and amortization charges of property, plant and equipment are recognized in the income statement.

The depreciation/amortization periods are as follows:

- devices 3 - 7 years
- equipment 5 years
- costs of software development 3 years
- software licenses 3 years

5.6.4. Impairment of other non- financial assets

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

5.6.5. 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.

5.6.6. Reversing impairment loss

An impairment loss of other assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss can be reversed only up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation/amortization charge, would be established, if no impairment loss had been recognized.

5.7. Lease contracts

Principles applicable before 1 January 2019

The Bank is a party to operating lease contracts, under which it takes non-current assets for an agreed period for payable use.

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

Lease payments for operating lease and consecutive lease instalments are recognized as costs in the income statement using the straight-line method, throughout the period of lease, and are shown in the General and administrative expenses, in the item: Costs of lease.

Principles applicable after 1 January 2019

The Bank is a party to lease contracts, under which it receives the right to control the use of an identified assets item in a given period for a fee. The Bank applies the stipulations of IFRS 16 to recognition of all lease contracts, except for intangible assets lease contracts and with exceptions provided for in the standard and described herein below.

Lease and non-lease elements are identified in contracts by the Bank.

Non-lease payments for contracts are recognised in income statement as expenses, using the straight-line method, throughout the period of lease. Lease payments are recognised in accordance with the principles described herein below.

As at the beginning of lease, the Bank recognises right-of-use assets and lease liabilities. Initially, lease liabilities are measured by the Bank at present value of future lease payments. To determine the discounted value of lease payments, the Bank applies lease interest rate, and if such a rate is hardly available, the Bank applies the marginal interest rate. The Bank determines the interest rate for lease as the sum of the interest rate for swaps and internal transfer price, taking into account currencies of the lease contracts and maturity dates of the contracts. After the initial lease date, the carrying amount of the liability:

- is increased by accrued lease interest that is recognised in the income statement as interest expenses,
- is decreased by effected lease payments,
- is revised as a result of re-assessment, change in lease or change in generally fixed lease payments.

As at the initial lease date, the Bank recognises right-of-use assets at cost, the basis of which is the amount of the initial measurement of lease liability. The cost of the right-of-use assets item includes also:

- lease payments made at or prior to commencement of lease, less the received lease incentives,
- initial direct costs incurred by the lessee,
- costs to be incurred by the lessee in order to return the assets item to its initial condition.

The right-of-use is depreciated throughout the lease period and is impaired. During the term of lease, the right-of-use value is reset as a result of re-measurement of the lease liability.

To identify future lease payments, the lease term has to be determined. Doing it, the Bank takes into account an irrevocable lease period together with the periods for which the lease may be extended and the periods in which the lease may be terminated. At the commencement of the lease contract, the Bank assesses whether it can be reasonably assumed that the Bank will exercise an option to extend the lease, or it will not exercise an option to terminate the lease. To carry out the assessment, the Bank takes into account all major facts and circumstances that give economic incentive to exercise or not to exercise the said options. The Bank reviews the lease term in order to re-assess major events or circumstances that may affect the estimated lease term. Lease is no longer enforceable when both the lessee and the lessor have the right to terminate the lease without a prior permit of the other party, which would result in minor penalty at most. For lease contracts concluded for an indefinite period, in case of which both parties may exercise the option to terminate and in case of which there are potentially high costs of contract termination, the Bank assesses the lease term.

The Bank avails itself of exemption for:

- short-term leases - a contract may be classified as a short-term one if the contract term is not longer than 12 months, and there is no option to buy the object of the lease contract.
- leases of low-value objects of lease - assets may be classified as low-value assets if the gross price of acquisition of a new assets item is not higher than EUR 5,000, and the object of lease contract neither is nor will be sub-leased.

Lease payments under the abovementioned contracts are recognised by the Bank in the income statement as expenses throughout the lease term on a systematic basis.

5.8. Other balance sheet items

5.8.1. Other trade receivables and other receivables

Other trade receivables and other receivables are recognized and carried at original invoice amount less an allowance for doubtful accounts.
An allowance for doubtful accounts is made when collection of the full amount of receivables is no longer probable. 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 current value, with 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.

Other trade receivables and other receivables embrace settlements with off-takers in particular. 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.

5.8.2. Liabilities

Other liabilities comprise in particular: payables for the benefit of tax office under VAT, settlements with suppliers and payables due to received prepayments which will be settled by means of delivering goods, services or non-current assets. Other liabilities are recognized in the amounts due.

5.8.3. Cash and cash equivalents

Cash and cash equivalents for the purposes of a cash flow statement consists of cash and cash equivalents, however ING Bank Hipoteczny does not keep cash but only cash equivalents, namely balances on current accounts and term deposit accounts held by other banks.

5.9. Equity

Equity comprises of: share capital, supplementary capital from the sale of shares above their nominal value, retained earnings and cumulated other net comprehensive income. The equity is established by the Bank in accordance with the applicable law and the Charter.

5.9.1. Share capital

Share capital is presented at nominal value, in accordance with the charter and entry to the Register of Entrepreneurs.

5.9.2. Share premium

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

5.9.3. 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. The retained earnings include the net financial result. The financial result after tax represents the result before tax from the income statement for the current year adjusted with the amount owed or due under the corporate income tax.

5.9.4. Accumulated other net comprehensive income

Accumulated other comprehensive income occurs as a result of:

- measurement of financial instruments classified to be measured through other comprehensive income,
- measurement of financial derivatives for the element being the effective cash flow hedge, and
- actuarial profits / losses.

Changes in the deferred tax assets and liabilities resulting from recognition of the said measurements are carried through accumulated other comprehensive income. The accumulated other comprehensive income is not distributable.

5.10. Prepayments and deferred income

5.10.1. Prepayments

Prepayments comprise particular expenses which will be carried through the income statement as being accrued over the future reporting periods. Prepayments include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as subscription and IT services costs paid in advance to be settled in the future periods. Prepayments are presented in the statement of financial position in the Other assets item.

5.11. Employee benefits

5.11.1. Benefits under the Act on employee pension programmes

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

5.11.2. Short term employee benefits

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

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other balance sheet liabilities. The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

5.11.3. Long-term employee benefits

5.11.3.1. Benefits under the Labour Code regulations

Provisions for retirement severance pay 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 *Other liabilities* from the Statement of financial position in correspondence with costs of labour in the income statement. The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

5.11.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two parts:

- one paid in cash (no more than 50%), and
- value of benefits granted in a form of financial instruments entitling to receive cash whose value is conditional on the book value of net assets of ING Bank Hipoteczny S.A. per share, adjusted with factors affecting the said assets, other than the financial result.

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 non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement. As regards the benefits granted in the form of financial instruments a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year, three-year periods, etc.). During the holding period, the employee who was granted the benefit shall not exercise the rights from the granted instruments . The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement.

5.12. Provisions

Provisions are liabilities whose amount and due date are not certain. Provisions are established when the Bank is under current (legal or customarily expected) obligation resulting from past events and when it is probable that fulfilment of that obligation will call for funds with economic benefits embedded therein and a reliable assessment of that obligation may be made.

When time value of money is of significance, the provision is determined by way of discounting the projected future cash flows to current value, at a pre-tax discount rate reflecting the actual market prices regarding time value of money and the potential risk related to a given liability.

5.13. Income statement

5.13.1. Net interest income

Interest income and expenses on all financial instruments are recognized in the income statement. Interest income on financial assets measured at amortized cost and measured at fair value through other comprehensive income is recognised in income statement at amortized cost using the effective interest rate or credit-adjusted effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial assets item or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, an estimate of cash flows is made considering all contractual terms of the financial instrument but future credit losses are not considered. The calculation includes all fees and commissions paid or received (external) by the parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Potential future credit losses are taken into account only and exclusively in case of financial assets that are credit-impaired at initial recognition. This is done in order to calculate the credit-adjusted effective interest rate.

Interest income comprises interest and commission (received or due) recognized in the calculation of the effective interest rate due to: loans with repayment schedule, intrabanking deposits.

In case impairment is recognized for a financial assets item or group of similar financial assets, interest income is accrued based on the present value of the receivable (that is the value reduced by impairment loss) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

Interest income on debt securities measured at fair value through profit or loss or designated to be measured at fair value through profit or loss is recognised under interest income.

Result from accrued interest and settlement of discount or premium on debt securities measured at fair value through profit or loss or classified to be measured at fair value through profit or loss is recognized as interest income.

5.13.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises, among others, fees for certificates about credit liabilities owed/repaid, commission for early repayment of mortgage loans.

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

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

- commission for amending the credit agreement as to the amount, currency or schedule of repayments;

Other commissions that are interwoven with occurrence of assets without defined schedules are cleared on a straight line basis throughout the contract.

Other fees and commissions relating to the financial services offered by the Bank are recognised in the income statement taking into account the five steps principle:

1) identification of an agreement signed with a customer,
2) identification of specific liabilities in the agreement,
3) setting of the transaction price,
4) price allocation to specific contractual liabilities, and
5) recognition of income when specific liabilities are met.

Based on the carried out analyses, the Bank recognises fees and commission income:

- on a one-off basis, when the service was provided (also for advance payments), that is when the control over goods or services is transferred;
- over time, if the services are provided over certain period of time;
- at a specific point-in-time when the Bank performs key activities;
- when, from the customer's point of view, there is an actual benefit.

After an obligation to provide service is met (or in the period when it is being met), the Bank recognises as income the transaction price assigned thereto.
Commission income that was accrued and is due but was not paid on time is derecognised from the Bank's financial result upon the lapse of 90 days.

5.13.3. FX result

FX result includes positive and negative FX differences, both the realised ones as well as the ones that are not realised, resulting from daily valuation of FX assets and liabilities at the average exchange rate announced by the National Bank of Poland and applicable as at the end of the reporting period.

5.13.4. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to banking activity.

5.14. Taxes

5.14.1. Income tax

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

5.14.2. Deferred income tax

The Bank creates a provision for deferred tax in respect of a temporary difference caused by different moment of recognising income as generated and costs as incurred in accordance with the accounting regulations and 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 income tax provision is created by using the balance-sheet method for all positive temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

Deferred tax assets are recognized for all negative temporary 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 temporary differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an asset or liability.

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 component.

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

Income tax for the items directly recognized in equity is recognized in equity.

The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

5.14.3. 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 a 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 an item of receivables or liabilities.

6. Comparability of financial data

In the annual financial statement prepared for the period from 1 January 2019 to 30 June 2019 ING Bank Hipoteczny S.A. did not change the method of presentation of the financial data in relation to the annual financial statements for the period from 26 February 2018 to 31 December 2018.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

5.1. Net interest income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Interest income, including	**9,573.3**	**365.8**
Interest income calculated using the effective interest method, of which:	**9,573.3**	**365.8**
interest on loans and other receivables from customers measured at amortised cost	7,232.4	0.0
interest on other receivables from banks measured at amortised cost	1,566.6	365.8
interest on securities measured at amortised cost	531.3	0.0
interest on securities measured through other comprehensive income	242.9	0.0
Interest expenses, of which:	**-3,211.8**	**0.0**
interest on received loans	-2,945.2	0.0
interest on deferred payment attributable to purchase of debt claims	-256.8	0.0
interest on lease liabilities*	-9.8	0.0
Net interest income	**6,361.4**	**365.8**

*) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.2. Net commission income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Commission income	**48.2**	**0.0**
commission for early repayment of mortgage loans	43.4	0.0
Other	4.9	0.0
Commission expenses	**-230.1**	**-0.2**
fees and commissions for other financial entities, inclusive of fees and commissions for disclosure of credit information	-215.1	0.0
Other	-15.0	-0.2
Net commission income	**-181.9**	**-0.2**

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

5.3. FX result

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
FX result	**-2.4**	**0.0**
FX result	**-2.4**	**0.0**

5.4. General and administrative expenses

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Personnel expenses, including:	**-5,295.7**	**-937.4**
wages and salaries, including:	-4,465.9	-779.1
variable remuneration programme	-912.2	-165.5
employee benefits	-829.8	-158.2
Other general and administrative expenses, including:	**-5,090.3**	**-761.3**
costs of auxiliary activities provided under the Cooperation Agreement[1]	-2,971.5	-23.1
Depreciation and amortisation	-698.5	-4.2
consumption of materials and assets other than non-current assets	-68.5	-19.5
legal services	-350.9	0.0
other advisory and consulting costs	-87.4	0.0
other third-party services	-132.1	-61.2
costs of news service platforms	-72.4	0.0
communications costs	-49.1	0.0
IT costs	-237.7	0.0
costs of rental of buildings	-42.0	-35.8
representation costs	-167.4	-4.6
taxes and charges	-17.6	-602.9
Other	-195.3	-10.0
General and administrative expenses	**-10,386.0**	**-1,698.7**

**) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.5. Expected losses/Impairment losses for financial assets

Due to the fact that ING Bank Hipoteczny S.A. started its operations in 2019, the Bank did not make any impairments in previous reporting periods. Thus, the data concerning expected losses/impairment losses for financial assets made in the reporting period from 1 January 2019 to 30 June 2019 are equal to data concerning the same and presented in Note 5.9.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

5.6. Income tax

Income tax recognized in the income statement

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Current tax	**0.0**	**0.0**
Deferred tax, including:	**839.6**	**1,569.1**
Recognized and reversed temporary differences	839.6	1,569.1
1. recognized and reversed negative temporary differences	1,458.2	1,627.3
attributable to:		
1) tax loss	*901.9*	*1,088.4*
2) costs of provision for personnel, tangible and others expenses	*278.7*	*534.2*
3) expenses attributable to accrued but not paid interest	*155.8*	*0.0*
4) costs and income settled at the effective interest rate	*72.0*	*0.0*
5) other	*49.8*	*4.7*
2. recognized and reversed positive temporary differences	-618.6	-58.1
attributable to:		
1) income on accrued but not paid interest	*-545.9*	*-22.7*
2) difference between tax and balance sheet depreciation/amortization	*-63.0*	*-35.4*
3) other	*-9.7*	*-4.7*
Total tax recognized in the income statement	**839.6**	**1,569.1**

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Effective tax rate calculation

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
A. Profit before tax	**-4,476.2**	**-8,948.5**
B. 19% profit before tax	**-850.5**	**-1,700.2**
C. Increases - 19% costs other than tax deductible cost, including:	**10.9**	**131.2**
civil law tax	0.0	114.3
Other	10.9	16.8
D. Decreases - 19% tax exempt income	**0.0**	**0.0**
E. Income tax from income statement [-(B+C-D)]	**839.6**	**1,569.1**
Effective tax rate (-E : A)*	**18.8%**	**17.5%**

*) The effective tax rate deviated below 19% in the first half of 2018 due to the civil law tax paid in connection with formation of the company and bringing cash contributions for the share capital of the company in the amount of PLN 600,000.

Income tax recognized in other comprehensive income

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 30.06.2018
Deferred tax, including:	**2.1**	**0.0**
Recognized and reversed temporary differences	2.1	0.0
including recognized and reversed temporary differences related to unrealised result from valuation of securities measured at fair value through other comprehensive income	*2.1*	*0.0*
including recognized and reversed negative temporary differences attributable to actuarial losses	*0.0*	*0.0*
Total income tax recognized in other comprehensive income	**2.1**	**0.0**

5.7. Earnings per ordinary share

Basic earnings per share

The calculation of basic earnings per share of the Bank for the first half of 2019 was based on net loss in the amount of - PLN 3,636,603.47 and the number of ordinary shares at 30 June 2019 being 210,000.

Diluted earnings per share

In 1 half of 2019, there were no factors that would dilute the profit per one share. In the described period, ING Bank Hipoteczny S.A. issued neither bonds convertible to shares nor stock options. 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.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

NOTES TO STATEMENT OF FINANCIAL POSITION

5.8. Amounts due from banks

	As at 30.06.2019	As at 31.12.2018
Current accounts	1,570.3	0.0
Term deposits in banks, of which:	368,112.6	111,534.9
Overnights	2,305.0	16,415.5
Total (gross)	**369,682.8**	**111,534.9**
Impairment loss	0.0	0.0
Total (net)	**369,682.8**	**111,534.9**

Amounts due from banks include short-term deposits in PLN at ING Bank Śląski S.A.

The Bank has no overdue or impaired amounts due from banks. As the Bank concludes interbank transactions with ING Bank Śląski S.A. exclusively, it is estimated that the credit risk resulting therefrom is significantly limited and thus the Bank does not establish any provisions for expected loss. ING Bank Hipoteczny S.A. does not identify any FX risk or interest rate risk for the said deposits.

5.9. Loans and receivables to customers

Loans and other receivables measured at amortised cost

	30.06.2019			31.12.2018		
	gross	expected loss allowance	**net**	gross	expected loss allowance	**net**
Loans and other receivables measured at amortised cost, of which:	**1,320,914.4**	**-248.0**	**1,320,666.4**	**0.00**	**0.00**	**0.00**
Customer loan portfolio, including:	**1,320,914.4**	**-248.0**	**1,320,666.4**	**0.0**	**0.0**	**0.0**
Retail Banking (individuals)	**1,320,914.4**	**-248.0**	**1,320,666.4**	**0.0**	**0.0**	**0.0**
Mortgages	1,320,914.4	-248.0	1,320,666.4	0.0	0.0	0.0

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Lending portfolio quality

	30.06.2019			31.12.2018		
	gross	expected loss allowance	**net**	gross	expected loss allowance	**net**
Retail banking	**1,320,914.4**	**-248.0**	**1,320,666.4**	**0.0**	**0.0**	**0.0**
assets in stage 1	1,313,950.0	-175.2	1,313,774.8	0.0	0.0	0.0
assets in stage 2	6,964.4	-72.8	6,891.6	0.0	0.0	0.0
assets in stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1,320,914.4**	**-248.0**	**1,320,666.4**	**0.0**	**0.0**	**0.0**

Change in loss allowance for expected credit losses/impairment loss

	the period from 01.01.2019 to 30.06.2019				the period from 26.02.2018 to 30.06.2018			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Allowance at the beginning of the period	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Movements in the period, including:	**-175.2**	**-72.8**	**0.0**	**-248.0**	**0.0**	**0.0**	**0.0**	**0.0**
allowance for loans acquired in the period	-175.2	-72.8	0.0	-248.0	0.0	0.0	0.0	0.0
Allowance at the end of the period	**-175.2**	**-72.8**	**0.0**	**-248.0**	**0.0**	**0.0**	**0.0**	**0.0**

5.10. Debt securities

	as at 30.06.2019	as at 31.12.2018
Debt securities measured at fair value through other comprehensive income, of which:	24,728.8	0.0
T-bonds	24,728.8	0.0
Debt securities measured at amortised cost in the investment securities portfolio	152,974.5	0.0
cash bills of the National Bank of Poland	152,974.5	0.0
Total	**177,703.2**	**0.00**

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5.11. Property, plant and equipment

	As at **30.06.2019**	As at **31.12.2018**
Right-of-use assets*	1,151.8	0.0
Computer hardware	191.8	108.4
Other property, plant and equipment	16.9	16.9
Total (gross)	**1,360.5**	**125.3**
Closing accumulated depreciation/amortisation of the computer hardware	-47.0	-20.3
Closing accumulated depreciation/amortisation of other property, plant and equipment	-2.5	-0.8
Total (net)	**1,311.0**	**104.1**

*) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.12. Intangible assets

	As at **30.06.2019**	As at **31.12.2018**
Software	2,975.8	2,975.8
Total (gross)	**2,975.8**	**2,975.8**
Closing accumulated depreciation/amortisation of software	-663.2	-167.3
Total (net)	**2,312.6**	**2,808.5**

From the point of view of the Bank, in 2018 significant intangible assets included expenditure for purchasing of and adjusting the Register of Collaterals of Covered Bonds software for the amount of PLN 1,114,000 and purchase of the licence for SAS (CSS) software for the amount of PLN 1,387,000. As the process of adjustment has been completed, the said intangible assets were accepted for use. Expected economic life of the software is 3 years.
In the first half of 2019, the Bank did not incur any expenditure for intangible assets.

5.13. Other assets

	As at **30.06.2019**	As at **31.12.2018**
Prepayments, including:	**624.8**	**32.3**
prepaid bank operating expenses	522.9	32.3
costs of the planned issue of covered bonds to be settled at EIR	101.9	0.0
Other assets, including:	**88.9**	**54.1**
settlements with customers	3.6	54.1
Other	85.3	0.0
Total	**713.7**	**86.4**

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

5.14. Liabilities to banks

	As at 30.06.2019	As at 31.12.2018
Loans received	990,792.1	0.0
Liabilities due to refinancing*	609,554.9	0.0
Other liabilities	3.5	0.0
Total	**1,600,350.5**	**0.0**

*ING Bank Hipoteczny S.A. provides for ING Bank Śląski S.A. the services of refinancing of the mortgage debts portfolios by way of payment of the Refinancing Amount determined in accordance with the stipulations of Debt Transfer Framework Agreement to Issue Covered Bonds (hereinafter referred to as the Framework Agreement) and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

5.15. Provisions

	As at 30.06.2019	As at 31.12.2018
Provisions, including:	**382.9**	**382.9**
referring to valuation of liabilities due to certain post-employment benefits - actuarial gains and losses	382.9	382.9
Total	**382.9**	**382.9**

5.16. Other liabilities

	As at 30.06.2019	As at 31.12.2018
Accruals, including:	**3,689.7**	**2,515.6**
due to employee benefits, of which	1,718.4	715.7
variable remuneration programme	1,136.8	475.4
due to Cooperation Agreement*	1,500.0	0.0
due to legal services	10.0	1,066.1
due to purchase of licenses and software other than non-current assets	0.0	391.9
due to communication costs	269.4	181.6
Other	191.8	160.3
Other liabilities, including:	**2,214.6**	**978.7**
lease liabilities**	1,156.6	0.0
settlements with suppliers	162.8	118.6
settlements with employees	594.1	651.2
public and legal settlements	295.6	208.8
Other	5.5	0.0
Total	**5,904.3**	**3,494.3**

*) A scope of services provided by ING Bank Śląski S.A. for ING Bank Hipoteczny S.A. resulting from the Cooperation agreement is described in Note 5.22 *Transactions with related entities*.

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**) Starting from 1 January 2019, the Bank implemented the new IFRS 16 *Leases*. As it is described in item 4. *Compliance with International Financial Reporting Standards*, the Bank applied to its lease contracts a modified retrospective approach and did not convert its comparable data.

5.17. Accumulated other comprehensive income

	As at **30.06.2019**	As at **31.12.2018**
Actuarial gains / losses, including	**-310.1**	**-310.1**
deferred tax	72.7	72.7
Measurement of securities measured at fair value through other comprehensive income, including:	**-8.8**	**0.0**
deferred tax	2.1	0.0
Total	**-318.9**	**-310.1**

5.18. Retained earnings

	As at **30.06.2019**	As at **31.12.2018**
Result for the current year	-3,636.6	-7,379.4
Total	**-3,636.6**	**-7,379.4**

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

OTHER NOTES

5.19. 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.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement categories (levels). In the first half of 2019, there were no movements among measurement levels, and measurement techniques for Levels 1 through 3 did not change.

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

as of 30 June 2019

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**24,728.8**	**0.0**	**0.0**	**24,728.8**
Securities measured at fair value through other comprehensive income, of which:	24,728.8	0.0	0.0	24,728.8
T-bonds	24,728.8	0.0	0.0	24,728.8
Financial liabilities	**0.0**	**0.0**	**0.0**	**0.0**

In the period from 26 February 2018 to 30 June 2018, there were neither financial assets nor non-financial assets measured at fair value at ING Bank Hipoteczny S.A.

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

As of 30 June 2019

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	369,682.8	required payment	0.0	369,682.8	0.0	**0.0**
Securities measured at amortized cost	152,974.5	regulated market quotations	0.0	152,955.3	0.0	**0.0**
Loans and receivables to customers	1,320,666.4	discounted cash flows	0.0	0.0	1,317,491.3	**0.0**
Liabilities						
Liabilities to other banks	1,600,350.5	required payment	0.0	1,600,350.5	0.0	**0.0**

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

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

as of 31 December 2018

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	111,534.9	required payment	0.0	111,534.9	0.0	**0.0**

5.20. Factors that may affect financial results in consecutive quarters

Factors that may affect financial results in consecutive quarters are described in the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 30 June 2019.

5.21. Off-Balance Sheet items

	As at **30.06.2019**	As at **31.12.2018**
Received credit lines, including	1,510,196.5	94.4
- revolving credit facility (RCF)	1,510,000.0	0.0
- unused credit card limits	196.5	94.4
Total off-Balance Sheet items	**1,510,196.5**	**94.4**

5.22. Seasonal or cyclical nature of business

Business of ING Bank Hipoteczny S.A. is neither seasonal nor cyclical as defined in Article 21 of IAS 34.

5.23. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2019 held 100% share in share capital of ING Bank Hipoteczny S.A. and 100% shares in the total number of votes at the General Meeting of ING Bank Hipoteczny S.A.

Starting from 2019, ING Bank Hipoteczny S.A. provides for ING Bank Śląski S.A. the services of refinancing of the mortgage debts portfolios by way of payment of the Refinancing Amount determined in accordance with the stipulations of Debt Transfer Framework Agreement to Issue Covered Bonds (hereinafter referred to as the Framework Agreement) and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

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Whereas, ING Bank Śląski S.A. maintains current accounts, short-term deposit accounts and securities accounts for ING Bank Hipoteczny S.A. Moreover, ING Bank Hipoteczny S.A. avails itself of the credit line from ING Bank Śląski S.A. used for financing of its operations as well as the credit line rendered available to the employees of the company in connection with using bank cards of ING Bank Śląski S.A.

Moreover, since January 2019 ING Bank Śląski S.A. has performed for ING Bank Hipoteczny S.A. activities of basic importance, which are a part of financial services provided by ING Bank Hipoteczny S.A. under Cooperation Agreement signed by and between the two banks. Support services are provided in the following areas: Accounting and Taxes, Controlling, IT, Credit Risk and Models Validation, Market Risk, Liquidity Risk, Operating Risk, Information (Technology) Risk, Procurement Services, HR Services, Business and Operations, Treasury, Legal Services, Data Management, Compliance Risk and Audit. Any activities performed under the Cooperation Agreement are of technical support nature[2], whereas any decision-taking is made by ING Bank Hipoteczny S.A.

All the above mentioned transactions are carried out on an arm's length basis. ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. make also transactions resulting from agreements for sub-lease of premises used for the registered office of the Bank, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

Furthermore, ING Bank Hipoteczny S.A. makes use of services provided by other related entities, that is SWIFT operating services provided by ING Belgium N.V., financial and accounting services provided by ING Usługi dla Biznesu S.A. and hosting of IT applications provided by ING Business Shared Services B.V. sp. Z o.o. (branch in Poland).

Income and expenses

presented as per their net value (VAT excluded)

for the period from 01.01.2019 to 30.06.2019

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Income, including:	**1,566.6**	**-**	**-**	**-**
Interest income	1,566.6	-	-	-
Expenses, including	**-6,188.5**	**-46.1**	**-56.87**	**-141.8**
Interest costs	-3,202.0	-	-	-
Commission expenses	-15.0	-	-	-
General and administrative expenses	-2,971.5	-46.1	-56.9	-141.8

[2] In certain areas (for instance, in the Area of Legal Services or Taxes) support activities are limited exclusively to making available newsletters with information about significant legislative changes affecting banking activities.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

for the period from 28.02.2018 to 30.06.2018

	ING Bank Śląski S.A.	ING Belgium N.V.	ING Usługi dla Biznesu S.A.	ING Business Shared Services B.V. sp. Z o.o.
Income, including:	**365.8**	**-**	**-**	**-**
Interest income	365.8	-	-	-
Expenses, including	**-59.2**	**-**	**-49.27**	**-**
Interest costs	-	-	-	-
Commission expenses	-0.2	-	-	-
General and administrative expenses	-58.9	-	-49.3	-

Receivables and liabilities

as of 30 June 2019

	ING Bank Śląski S.A.	**ING Belgium N.V.**	**ING Usługi dla Biznesu S.A.**	**ING Business Shared Services B.V. sp. Z o.o.**
Receivables	**369,682.83**	**-**	**-**	**-**
Amounts due from banks	369,682.83	-	-	-
Other assets	3.6	-	-	-
Liabilities	**1,600,350.5**	**-**	**9.5**	**-**
Liabilities to other banks	1,600,350.5	-	-	-
Other liabilities	-	-	9.5	-
Off-balance-sheet operations	**1,510,196.5**	**-**	-	**-**
Off-balance sheet liabilities received	1,510,196.5	-	-	-

as at 31 December 2018

	ING Bank Śląski S.A.	**ING Belgium N.V.**	**ING Usługi dla Biznesu S.A.**	**ING Business Shared Services B.V. sp. Z o.o.**
Receivables	**111,534.93**	**-**	**-**	**-**
Amounts due from banks	111,534.93	-	-	-
Other assets	47.5	-	-	-
Liabilities	**-**	**-**	**-**	**-**
Other liabilities	-	-	-	-
Off-balance-sheet operations	**94.4**	**-**	**-**	**-**
Off-balance sheet liabilities received	94.4	-	-	-

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

5.24. Transactions with the management staff and employees

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of the In-House Social Benefits Fund as at 30 June 2019 was PLN 54,100, whereas as at 31 December 2018 was PLN 17,400.

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

As at the end of the first half of 2019, the composition of the Management Board of ING Bank Hipoteczny S.A. was as follows:
- Mr Mirosław Boda, President of the Management Board,
- Mr Jacek Frejlich, Vice President of the Management Board,
- Mr Roman Telepko, Vice President of the Management Board.

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 31.12.2018
Short-term employee benefits, including:	620.1	0.0
– remuneration	607.7	0.0
- benefits	12.4	0.0
Total	**620.1**	**0.0**

* exclusive of the variable remuneration programme

Short-term employee benefits comprise: base remuneration, mutual fund contributions, medical care and other benefits awarded by the Supervisory Board.

Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for 2018 under the Variable Remuneration Programme have been awarded in accordance with the remuneration system binding at the Bank. The Bank Management Board Members are entitled to the 2018 bonus; some part of it has been paid out in 2019, and some part has been deferred for the upcoming years (2021-2026).
Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for the first half of 2019 under the Variable Remuneration Programme have not yet been awarded. The Bank Supervisory Board will take the final decision on the bonus amount.
In the period from 01 January 2019 to 30 June 2019, and also from 26 February 2018 to 31 December 2018 no post-employment emoluments were paid to the 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.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Remuneration of ING Bank Hipoteczny S.A. Supervisory Board Members

As at the end of the first half of 2019, the composition of the Supervisory Board of ING Bank Hipoteczny S.A. was as follows:

- Mr Brunon Bartkiewicz, Chair,
- Mr Marcin Giżycki, Deputy Chair,
- Mr Jacek Michalski, Secretary,
- Ms Bożena Graczyk, Member,
- Mr Patrick Roesink, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member.

	period from 01.01.2019 to 30.06.2019	period from 26.02.2018 to 31.12.2018
Short-term employee benefits, including:	60.0	28.0
– remuneration	60.0	28.0
Total	**60.0**	**28.0**

The Management Board Members and other persons employed by ING Bank Hipoteczny 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 Hipoteczny S.A. shares held by Bank Management Board and Supervisory Board Members

As at 30 June 2019 and as at 31 December 2018, respectively, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

5.25. Headcount

The headcount at ING Bank Hipoteczny S.A. was 37 FTEs as at 30 June 2019 and 30 FTEs as at 31 December 2018.

5.26. Segment reporting

Due to the specifics of business activity, the Bank did not analyse its business results by segments in the reporting period ending on 30 June 2019.

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

RISK AND EQUITY MANAGEMENT

Taking into account the scale and specifics of the Bank's operations, the Bank discloses selected information concerning capital adequacy in its financial statements and in the Management Board Report on Operations of the Bank. The information refers in particular to:

- risk management goals and strategy,
- own funds for the needs of capital adequacy,
- capital requirements,
- capital buffers,
- financial leverage,
- credit risk related adjustments,
- applied credit risk mitigation techniques,
- operational risk, in accordance with the requirements provided for in Recommendation M,
- liquidity risk management system and liquidity position, in accordance with Recommendation P,
- requirements referred to in Article 111a of the Banking Law and in Recommendation H,
- remuneration policy concerning persons whose professional activities are considered to have a material impact on the risk profile of the Bank.

Each time, the Bank assesses adequacy of the disclosed information in terms of providing the market participants with complex information about the risk profile of the Bank.

The Bank, being a part of the ING Bank Śląski S.A. Group, provides the information also to the parent company in order to include it in the consolidated data.

Specific information about the scope of disclosed information, method of its verification and publication is presented in the document called: "Policy of Disclosure of Qualitative and Quantitative Information About Capital Adequacy and Other Information to be Disclosed at ING Bank Hipoteczny S.A."

5.27. Risk management goals and rules

The goal of risk management at ING Bank Hipoteczny S.A. is to ensure an effective risk control and to keep the risk within the risk appetite approved by the Bank despite of the changing macroeconomic and legal landscape, keeping in mind the assumed business activity level. The assumed risk level is an important factor of the planning process.

The Bank monitors execution of the strategy, the risk management strategy included, whereas strategic goals are allocated to specific organisational units or persons. The tasks execution is supervised by the Management Board.

The aim of:

- the **credit risk management system** is to support effective accomplishment of business goals through proactive risk management and organic growth-oriented activities, while at the same time keeping solvency and liquidity at a safe level and keeping provisions at an appropriate level,
- the **operational risk management system** is to mitigate exposure of the Bank to the non-financial risk and to minimize consequences of operational risk crystallisation,

- the **funding and liquidity risk management system** is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions,
- the **interest rate risk management system** is to keep variability of the financial result and revaluated balance sheet value of equity incident to changes in the interest rates, within the limits that do not pose any risk for the Bank and are acceptable for the Supervisory Board,
- the **compliance risk management system** is to identify the threats to the operation of the organisation attributable to non-compliance with legal and internal regulations, most notably, as regards bank products and services, to monitor the incidents that occurred, and also to take auxiliary and remedy actions.

The aim of the **internal control system** is to provide support to decision-taking processes to contribute to ensuring effectiveness and efficiency of the operation of the Bank, reliability of the financial statements and compliance with legal and internal regulations. Audit is aimed at adding value and improving operational activities of the Bank, and also providing support to achieve targets of the Bank by ensuring effectiveness of processes operating within the Bank and by providing advisory services.

All goals of the complex risk management system are presented in detail in the risk management strategy prepared by the Management Board and approved by the Supervisory Board.

Risk management rules

Risk management at ING Bank Hipoteczny S.A. is based in particular on the following rules:

- risk management process, including lending process, is defined and regulated by strategies, policies and procedures adopted by the Management Board and Supervisory Board of ING Bank Hipoteczny S.A.,
- the Bank manages all identified types of the bank risk and carries out the ICAAP process (Internal Capital Adequacy Assessment Process), where:
    a) risk management process is adequate to the scale of operations and materiality, scale and complexity of a given risk and is adjusted to the new risk factors and sources on a current basis,
    b) risk management methods, models and their risk measurement systems and their assumptions are adjusted to the scale and complexity of the risk and are verified and validated periodically,
- organisational structure of risk management guarantees independence of the risk area, including independence of real estate appraisal and taking credit decisions, from business activity,
- risk management process is integrated with the planning and controlling processes and supports execution of the Bank strategy, while complying with risk management strategy, most notably as regards risk appetite,
- risk management process is cohesive with the rules of risk management at ING Bank Śląski S.A. Group, also as regards the use of the group risk models, adjusted to the specifics of operation of ING Bank Hipoteczny S.A., and approved by competent authorities of ING Bank Hipoteczny S.A.,
- stress tests are performed in the Bank based on previously approved scenarios. Stress-tests results are discussed at the meetings of competent committees (described herein below) and at the meetings of the Bank Management Board. Reporting of risk sources and factors as well as reporting of risk level measurement makes it possible to take appropriate preventive and remedy actions.

5.28. Organisation of risk management

Risk management process is supervised by the **Supervisory Board** who are informed on a regular basis about the risk profile of ING Bank Hipoteczny S.A. and about the most important actions taken in relation to risk management.

Bank Management Board are responsible for risk management, including but not limited to, overseeing and monitoring of actions undertaken by the Bank in this respect. The Bank Management Board take the most important decisions affecting risk level of the Bank and resolve internal regulations concerning risk management.

Risk management is effected in three independent lines of defence:

1) The first line of defence

The first line of defence is in charge of developing, implementing and executing controls designed to ensure that general and specific goals of internal control system are achieved. This LoD performs also independent monitoring of compliance with controls by current verification and/or horizontal testing.

The first line of defence is responsible for acting in compliance with the principles resulting from the approved policies, regulations, manuals and procedures. The scope of responsibilities of the first line of defence includes, among others, analysis, control and management of the risks in the processes.

The tasks of the first line of defence are realised by these organisational units that realise and directly support business goals.

2) The second line of defence

The second line of defence performs the tasks stemming from its function and supports the first line of defence in order to achieve the goals of the internal control system.

It is responsible for:

a) issuing regulations and providing methods and tools within the internal control system,
b) monitoring of application of the regulations concerning internal control system by the first line of defence,
c) monitoring of observance of controls within the second line of defence,
d) vertical monitoring of the first line of defence as regards observance of controls.

Under control activities, the units from the second line of defence perform their own independent assessment of the effectiveness of operations of the first line of defence; they do it using tests, reviews and other forms of control.

3) The third line of defence

Internal auditor is the third line of defence and he provides the management with his independent, impartial statement about adequacy and effectiveness of the risk management system and internal control system in the first and second lines of defence.

The Policy – Audit Charter of ING Bank Hipoteczny S.A. – regulates the roles, powers, scope and nature of work, responsibilities of the Internal auditor and the principles of cooperation of the organisational units of the Bank with that position.

Organisational units responsible for risk management

The following organisational units of ING Bank Hipoteczny S.A. are responsible for risk management:

- **Risk Team** - dealing most notably with credit, market, liquidity and operational risks,
- **Assessment and Credit Decisions Team** - dealing most notably with the process of determining the mortgage lending value of the real estate independently from the sales function,
- **Models Validation Position** - dealing most notably with the model risk management and validation of risk models and assessment.

The risk management process is supported by:

Audit and Risk Committee of the Supervisory Board

The Committee supports the Supervisory Board especially by:

1) Monitoring of the financial reporting process,
2) Monitoring of the effectiveness of the internal control, internal audit and risk management systems, inclusive of their effectiveness as regards financial reporting,
3) Monitoring of financial audit activities, especially an audit carried out by the auditing firm, taking into account all the conclusions and findings of the audit supervision commission resulting from the audit carried out by the auditing firm,
4) Controlling and monitoring of the certified auditor's and auditing firm's independence, including but not limited to, when the auditing firm provides other services than an audit.

Furthermore, as regards risk, support is provided by way of:

1) Issuing opinion about the overall, current and future readiness of the Bank to take the risk,
2) Issuing opinion about the risk management strategy developed by the Management Board as regards the risk inherent in the Bank's operations, and about the Management Board's information concerning execution of that strategy,
3) Supervising of the implementation of the risk management strategy in the operations of the Bank by the higher-rank executive staff,
4) Verifying whether the prices of liabilities and assets offered to the customers reflect fully the Bank's business model and its risk strategy.

Assets and Liabilities Committee

The activities of the ALCO Committee include:

1) Managing the market and liquidity risk at ING Bank Hipoteczny S.A.,

2) Managing the balance sheet (assets and liabilities), methods and levels of transfer pricing system included,
3) Managing the equity and capital adequacy,
4) Carrying out the process of valuation of the financial instruments and calculating the valuation adjustments that take into account factors not included in the valuation in the Bank's systems,
5) Submitting the market risk and liquidity risk policy and valuations of financial instruments to the Management Board for their final approval,
6) Reviewing the internal legal acts on a current basis (once a year at the minimum) and adjusting them to the risk profile of the Bank and/or to the changes in macroeconomic and legal environment.

Credit Policy Committee

The activities of the Committee include:

1) Specifying credit risk appetite as regards specific risk limits and concentration limits,
2) Taking decisions about regulations concerning execution of the Credit Risk Management Policy at ING Bank Hipoteczny S.A.,
3) Specifying and modifying the principles of risk identification, assessment and control,
4) Taking decisions about acceptance of implementation of the new products entailing credit risk or modification of the existing ones,
5) Approving regulations on building, maintaining and using of the risk models, inclusive of:
    - principles of the credit risk models management,
    - methodology of building and monitoring of the models,
    - definitions of the credit risk models,
    - the scope of use of the credit risk models,
    - approval of reports showing the results of validation of the credit risk models.
6) Monitoring of the credit risk level, ensuring compliance with the law, supervisory regulations, and discussing and approving any other issues related to the credit and settlement risks.

Non-financial Risk Committee

The activities of the Committee include:

1) Approving of and advising on:
    a) internal normative documents of the Bank from the non-financial risk area,
    b) strategy, plans, projects and programmes related to non-financial risk management and control standards,
    c) annual plans and results of testing the controls,
    d) annual Plan of Risk Identification and Assessment and outcome of the Business Environment Assessment and scenario analyses, as well as results of Risk Identification and Assessment in case of identification of unacceptable risks,
    e) a schedule of tasks execution and a report on monitoring of the second line of defence under testing of key controls,
    f) NFR dashboards and recommendations for the Management Board concerning decisions on significant NFR issues,

g) periodical results of the review of the organisational structure of the Bank in terms of its compliance with the principles of the operational risk management,
h) a model for calculation of operational, economic and regulatory risks capital for operational risk,

2) Supervising of:
   a) the processes of NFR identification, assessment, monitoring and mitigation,
   b) the process of ensuring quality of the NFR processes.
3) Monitoring of the use of limits specified in the Risk Appetite Statement (loss limits included).
4) Assessment of:
   a) reports on reputational risk and issues concerning the conduct risk,
   b) non-financial risks related to significant changes in the structure of management of the Bank and significant elements of the outsourcing processes.

5.29. Credit risk

ING Bank Hipoteczny S.A. manages credit risk as required by the Polish law, regulations of the Polish Financial Supervision Authority and other competent bodies, and also in compliance with the ING Group standards as far as admissible under the aforementioned regulations and best practice documents.

Credit risk of the credit exposures portfolio is managed by:

- determining the credit risk management strategy,
- determining the risk appetite,
- determining the credit policy,
- building and developing the tools to support risk measurement and assessment,
- reporting and analysing the quality of the credit portfolio and value and quality of collaterals,
- specifying the concentration limits and credit risk limits for selected sub-portfolios,
- calculating the adequate level of provisions and capital requirements,
- performing and analysing the stress tests,
- training of staff members participating in the credit process,
- creating of and maintaining an incentive system addressed to the employees and aimed at compliance with internal credit standards,
- determining, in consultation with business units, the features and parameters of the debt claims purchased by the Bank.

Management of the credit risk of individual credit exposures, most notably, includes:

- assessing of the client and transaction risk,
- monitoring of a client and a credit transaction, inclusive of monitoring of the value of collaterals,
- determining the mortgage lending value of the real estate and monitoring of the value of collaterals.

To mitigate the credit risk, the Bank uses mortgage collaterals with the obtained mortgage entry in order to classify the exposure to the real estate mortgage backed exposure classes and to apply the preferential risk weight.

Under the risk management system, the Bank:

- applies formal risk tolerance determination rules and risk management rules,
- applies formal procedures intended to identify, measure or estimate and monitor risk, also accounting for projected future risk,
- applies formal risk limits and rules of conduct in the event of limit overrun,
- applies the approved management reporting system that allows risk level monitoring,
- has the organisational framework matching the size and profile of risk borne by the Bank,
- has adequately defined credit risk assessment and measurement process, independent from the business functions, which encompasses:
    - efficient process of acquiring adequate information, including forecasts, used to value expected credit losses,
    - assessment policy which ensures that expected credit losses are valued collectively,
    - efficient process of model validation which ensures that models return accurate, consistent and objective forecasts and estimates on an ongoing basis,
    - plain formal communication and coordination of the activities of all employees involved in the risk assessment process and valuation of expected credit losses.

Credit risk management objectives are achieved by way of:

- supporting of business initiatives through implementation of credit risk controls,
- keeping credit losses at the assumed level,
- verifying and assessing the adequacy and developing the applied procedures, models and other elements of the risk management system on an ongoing basis,
- adapting business to the changing environment,
- keeping adequate capital requirements for credit risk and provisions, and
- ensuring regulatory compliance.

The Bank manages the credit risk in an integrated way, based on strategic planning, coherent system of policies, procedures and tools used for risk management, inclusive of the ones used for risk identification, measurement and control.

Organisational structure of the Bank ensures at the Management Board level that the credit risk control function is separated from the commercial function that generates the credit risk. The credit risk management is effected in the Bank under the three lines of defence that are independent in organizational and functional terms.

All organizational units and persons performing tasks within the credit process cooperate closely with one other in order to improve effectiveness of the risk management and maintain the risk at the level consistent with the strategy, risk appetite and financial plans of the Bank.

The **reporting system** that comprises numerous reports, allows effective identification of risk sources and factors, measurement of the risk level, measurement of the risk costs; it supports business initiatives and allows for effective credit risk management while maintaining the accepted risk appetite. The goal of the credit risk reporting is:

to present indispensable information allowing for assessment of the credit exposure in order to ensure that portfolio development is in line with the risk management strategy and policy of the Bank,

- to measure and assess the risk level in relation to the assumed risk appetite,
- to identify the impaired exposures, or exposures at risk of impairment, in order to set loss provisions,
- to assess adequacy of provisioning,
- to identify weaknesses of the risk management process in order to start recovery actions.

The scope of reporting includes but is not limited to:

- quality of the credit exposures (for instance, DPDs and migration among specific DPD classes, etc.),
- write-offs (provisions) and risk parameters (PD/LGD/EAD),
- use and observance of the adopted limits,
- effectiveness of the process of monitoring of exposures and suing for debt claims,
- non-recovered amounts (credit losses),
- coverage of exposure with collaterals (especially, with the mortgage ones).

The reports may be prepared on a daily, monthly, quarterly or semi-annual basis.

Limits for credit risk appetite (RAS) are determined on the annual basis in the form of:

- high-level risk limits – approved by the Management Board and/or by the Supervisory Board of the Bank,
- specific limits for credit risk – approved by the Credit Policy Committee (inclusive of concentration limits).

Utilisation of the credit risk limits is checked at least once a month, and the information about the limit utilisation is conveyed at least to the authority that approved the limit. If the limits are overrun, the reasons thereof as well as remedy activities already taken or planned to be taken must be well described. In the period under examination no RAS limits were overran.

Keeping in mind a highly dispersed portfolio of the Bank in terms of exposures of single clients, the Bank identifies and assesses the concentration risk analysing the structure of portfolio taking into account the risk factors (features of the exposure) significant from the point of view of the credit risk and based thereon groups of exposures were ring-fenced as regards exposures whose excessive concentration is not desirable as in stress conditions it may generate losses higher than the credit risk appetite of the Bank.

Concentration risk is measured and controlled by determining the level of exposure generating the concentration risk and by referring that amount to the determined limits resulting from legal regulations and internal limits. In accordance with statutory recommendations and PFSA's regulations and recommendations, the Bank determines and controls internal limits taking into account concentration risk towards:

- specific clients and related groups,
- clients from the same geographic region.

During the first half of 2019, all RAS limits were at acceptable level - none of the high-level or specific credit risk limits was overrun.

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

Loans and advances for retail clients

The Bank applies impairment losses in accordance with CRR and secondary legislation thereto. The credit portfolio is of very good quality. As at 30 June 2019, no impaired exposure was identified.

Loans and advances for retail clients

	Principal balance - as at 30.06.2019
Credit facilities - stage 1, without identified impairment	1,311,210.9
Credit facilities - stage 2, without identified impairment	6,950.3
Credit facilities - stage 3, with identified impairment	0.0
Total loans	1,318,161.2
Impairment loss - stage 1, without identified impairment	-175.2
Impairment loss - stage 2, without identified impairment	-72.8
Impairment loss - stage 3, with identified impairment	0.0
Total impairment losses	-248.0

Loans and advances for retail clients - without identified impairment

	Principal balance - as at 30.06.2019
up to 30 days	1,318,161.2
from 31 to 60 days	0.0
from 61 to 90 days	0.0
Total loans	1,318,161.2
up to 30 days	100.0%
from 31 to 60 days	0.0%
from 61 to 90 days	0.0%
Total according to DPDs	100%

Credit risk related adjustments

Definitions of past due and impaired positions used in accounting

For accounting and regulatory purposes, the Bank assumes that the past due positions include major financial assets for which there was a delay in repayment of principal or interest. The days past due are calculated starting from the due date of the oldest due and payable payment and are specified in the agreement signed with the client. The Bank defines materiality of the financial asset for retail amounts due in the amount of PLN 500.

The Bank classifies balance sheet credit exposures as impaired, and impairment loss was incurred when the following two conditions are met:

- there is evidence of impairment resulting from one event or more events occurring after initial recognition of the balance sheet credit exposure in the accounting books,
- the event (or events) causing loss impacts (or impact) the expected future cash flows resulting from the balance sheet credit exposure or a group of the balance sheet credit exposures that can be reliably assessed.

Any delay in performance of any major credit obligations of the client towards the Bank, parent entity or any other of its subsidiaries in excess of 90 days is a default on the client's part. Definition of default on the client's part is coherent with the definition of impairment.

The Bank defined objective evidence of impairment the occurrence of which has a direct impact on valuation of future financial cash flows related to the credit receivables.

Objective impairment evidence is adjusted to the portfolio specifics and takes into account requirements of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013. Objective impairment evidence includes 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 more than 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 more than 30 DPD with a "forbearance" status (it does not refer to exposures that as at the moment of granting the "forbearance" status were classified as performing ones, and have not been reclassified to the non-performing ones by current).
- Announcement/Approval of the consumer bankruptcy - if they assume that the Bank will not be repaid in full - this situation should refer to all debtors of the specified credit exposure and all exposures of a given client.
- The credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement.
- The Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item. For retail credit exposures:
    - amortization of the balance of the principal or/and interest in the total amount exceeding PLN 200, however the debt together with the amortized amount exceed the materiality threshold,
    - writing-off, and the balance amount increased by the written-off amount plus interest exceed the materiality threshold.
- The Bank initiates the debt enforcement proceedings.
- The client questions the balance sheet credit exposure in court.
- The client's whereabouts are unknown so the client is not represented in contacts with the Bank.
- Significant financial difficulties of the Client, especially restructuring of the non-performing retail credit exposure.

Should an objective evidence of impairment be identified on the exposure, it is assumed that impairment is also recognised on other exposures of the same original account number.

The client's credit exposure is tested for impairment at the monitoring dates in place for the regular and irregular portfolios. Moreover, for the (regular and irregular) credit portfolio of the Bank current monitoring of the timely repayment of the amounts due to the Bank is carried out based on available tools and reports, which makes it possible to identify any threat of future indications or objective evidence of impairment before they crystallize.

The Bank makes provisions for credit exposure impairment in accordance with IFRS 9 for the assets measured at amortised cost (financial assets held to collect contracted cash flows) and assets measured at fair value through other comprehensive income (financial assets held to collect contracted cash flows or to sell).

Due to the specifics of its operations, the Bank distinguishes only collective provisions.

In compliance with IFRS 9, a collective provision is made for individually not significant financial assets (INSFA) if there is evidence of impairment for a single financial assets item or for a group of financial assets as a result of a single event or multiple events of default. INSFA provisions are made for financial assets falling into the risk rating 20, 21, 22. If after the assessment we find that for a given financial assets item there is no evidence of 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. For such groups, collective provisions are calculated and, in accordance with IFRS 9, they are defined as provisions for non-impaired assets. Provisions for non-impaired assets are made for financial assets falling into the risk rating 1-19.

Collective provisions are calculated with the collective provisioning method that uses, adjusted to the requirements of IFRS 9 (and IAS 37), models of the risk parameters assessment (PD, LGD, EAD/CCF).

The method of estimation of provisions applied by the Bank depends on the change in the level of credit risk of a given exposure to the risk level determined at the date on which the credit facility was granted. Based on the change in the credit risk level, exposure is classified to one of three stages differing in the method of calculation of the expected credit loss:

- Stage 1 – covers exposures working without any recognised significant increase in the credit risk since the date on which they were granted. Each loan is in Stage 1 at the time it is granted. A provision is calculated based on a 12-month expected loss.
- Stage 2 – covers exposures working with recognised significant increase in the credit risk since the date on which they were granted. A provision is calculated based on an expected loss within the whole life of the exposure (from the reporting date to the maturity date).
- Stage 3 – covers exposures with recognised impairment (default). A provision is calculated based on an expected loss within the whole life of the asset with PD = 100%.

Measurement of the expected credit loss (EL) according to IFRS 9 requires forecasting of changes in the risk parameters PD, LGD and EAD (EL = PD x LGD x EAD) in the period from the reporting date to the maturity date, namely within the entire life of the exposure. Forecasting is based on functional dependencies, worked out on historical data, of the changes in risk parameters on the changes in macroeconomic factors. The final level of provisions on exposures in Stage 2 and Stage 3 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

In compliance with IFRS 9, expected loss is calculated as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The current models PD, LGD and EAD, that were build for the needs of calculation of capital requirements with AIRB approach, are still used. However, in order to make provisions in accordance with IFRS 9, parameters of these models were calibrated in line with the PIT (point-in-time) approach and forecasted for 30 years. Parameter EAD takes account of schedules of repayments in accordance with the credit agreements.

Definition of impairment (default) and implications and evidence of impairment remain unchanged.

The Bank identifies a significant risk increase (classification to Stage 2) based on the following signals:

- Material increment in the PD parameter in the full lifetime of the exposure determined as at the reporting date to the PD lifetime as at the date of initial recognition in a perspective of the entire remaining period from the reporting date to the maturity date,
- Granting of forbearance,
- Restructuring without identified impairment – risk ratings 17/18/19,
- Delay in debt repayment in excess of 30 days,
- The Client has a CHF mortgage loan at another bank.

Application of credit risk mitigation techniques

To mitigate the credit risk, the Bank uses mortgage collaterals with the obtained mortgage entry in order to classify the exposure to the real estate mortgage backed exposure classes and to apply the preferential risk weight.

Established collaterals play the following role:

- financial:
  - they are intended to mitigate the losses on credit exposure in case of credit risk materialisation, that is, when the debtor fails to repay the debt as scheduled in the contract,
  - may be taken into account in the process of estimating capital requirements for the credit risk and in the process of estimating collective provisions for the lending portfolio in relation to impairment of assets if they fulfil the terms and conditions provided for in bank regulations on provisioning. Recovery rates assigned to specific categories of collaterals were determined based on relevant LGD model,
- non-financial:
  - they improve controlling rights of the Bank as a creditor by limiting the possible use by the security provider of the assets encumbered in favour of the Bank,
  - they strengthen the negotiation position of the Bank as regards the debtor (client), other creditors of the debtor and security provider.

The Bank identifies tangible collaterals that make it possible to recover debt claims by the Bank should the client default, by way of cashing a certain assets item of the security provider - funded credit protection.

The Bank uses the technique of credit risk mitigation in a form of funded credit protection related to tangible collaterals.

Regulations of the Bank concerning collaterals, include:

- indication of the criteria for recognition of collaterals in the process of calculation of the capital requirement for credit risk,
- specification of general rules to be followed by the Bank when selecting collaterals, taking into account the level of acceptable credit risk,
- specification of specific rules for individual types of tangible collaterals used for estimation of recovered amounts (including, but not limited to, as regards determining the value of collaterals, requirements concerning insurance of the object of tangible collateral).

Furthermore, regulations of the Bank on collaterals take into account especially these aspects of the Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 that refer to the application of LGD approach, legal certainty of collaterals and their monitoring.

Prior to acceptance of exposure for each real estate securing any credit exposure, the mortgage lending value of the real estate must be determined.

Acceptable forms of valuation of collaterals:

- Value of the real estate securing the Bank's debt claims is determined in a form of an expert opinion specifying the mortgage lending value of that real estate,
- Expert opinions about the mortgage lending value of the real estate must be prepared in accordance with the rules provided for in the Act on Mortgage Banks and Covered Bonds, Recommendation F of the Polish Financial Supervision Authority and General Terms and Conditions of Determination of the Mortgage Lending Value of Real Estate.

The following types of documents concerning value of real estates are acceptable:

- expert opinion of the mortgage lending value of the real estate prepared by an authorised employee of the Bank, Simplified expert opinion on the mortgage lending value of the real estate, included.

Specific rules of determining the mortgage lending value of the real estate are presented in the General Terms and Conditions of Determination of the Mortgage Lending Value of Real Estate and in the Manual of Determination of the Mortgage Lending Value of Real Estate.

Residential real estates securing the loans are subject to the process of monitoring and update of their value. In accordance with Article 208 of the Regulation of the European Parliament and of the Council No. 575/2013 of 26 June 2013, residential real estate may qualify as eligible collateral on the condition that the value of the property is monitored on a regular basis, every three years at the minimum.

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Quantitative information about credit risk

Credit risk related adjustments

The following tables show detailed quantitative information about credit risk related adjustments, in accordance with the requirements listed in Article 442 of the Regulation 575/2013 and EBA Guidelines/GL/2016/11:

- EU CR1-A: Credit quality of exposures by exposure class and instrument;
- EU CR1-B: Credit quality of exposures by industry or counterparty type;
- EU CR1-C: Credit quality of exposures by geography – all exposures of ING Bank Hipoteczny S.A. are domestic ones (Poland), and thus a decision was taken not to make a table showing that information;
- EU CR1-E: Non-performing and forborne exposures – as at 30 June 2019, there were no non-performing and forborne exposures at ING Bank Hipoteczny S.A., and thus a decision was taken not to make a table showing that information;
- EU CR2-A: Changes in the stock of general and specific credit risk adjustments;
- EU CR4: Standardised approach – Credit risk exposure and CRM effects;
- EU CR5: Standardised approach.

Credit quality of exposures by exposure class and instrument

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments in a period	Net values (a+b-c-d)
	Exposures in default	Exposures other than exposures in default					
Central governments or central banks		180,193.1					180,193.1
Institutions		369,682.8					369,682.8
Retail		1,117,830.7					1,117,830.7
Secured by a mortgage on immovable property		203,083.8					203,083.8
Other exposures		2,024.7					2,024.7
Standardised Approach Total		**1,872,815.1**					**1,872,815.1**
Total		**1,872,815.1**					**1,872,815.1**
Including: Loans		1,690,597.3					1,690,597.3
Including: Debt securities		177,709.6					177,709.6

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Credit quality of exposures by industry or counterparty types

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments	Net values (a +b-c-d)
	Exposures in default	Exposures other than exposures in default					
Financial and insurance business		369,682.8					369,682.8
Public administration and defence; mandatory social security		180,193.1					180,193.1
Others*		1,322,939.2					1,322,939.2
Total		**1,872,815.1**					**1,872,815.1**

* Including PLN 1,320,900 of exposures on retail clients (natural persons).

Changes in the stock of general and specific credit risk adjustments

	a)	b)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**0.0**	
Increases resulting from the amounts written down for credit loss estimates in the period	-254.8	
Closing balance*	**-254.8**	

**) Balance as at 30.06.2019 includes changes in adjustments for the first half of 2019. Calculation of RWA takes into account provisions as at 31.12.2018; ING Bank Hipoteczny S.A. did not carry out any operations at that period.*

Standardised approach – credit risk exposure and CRM effects

	a)	b)	c)	d)	e)	f)
	Exposures prior to application of the credit conversion factors and mitigation of the credit risk		Exposures after application of the credit conversion factors and mitigation of the credit risk		Risk weighted assets and their concentration	
Categories of exposures	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	Risk weighted assets	Concentration of risk-weighted assets
Central governments or central banks	180,193.1		180,193.1		6,208.8	3%
Institutions	369,682.8		369,682.8		73,936.6	20%
Retail	1,117,830.7		1,117,830.7		838,373.0	75%
Secured by a mortgage on immovable property	203,083.8		203,083.8		71,079.3	35%
Other items	2,024.7		2,024.7		2,024.7	100%
Total	**1,872,815.1**	**0.0**	**1,872,815.1**	**0.0**	**991,622.4**	**53%**

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Standardised approach - risk weights

	Risk weight						Total
Categories of exposures	0%	20%	35%	75%	100%	250%	
Central governments or central banks	177,709.6					2,483.5	**180,193.1**
Institutions		369,682.8					**369,682.8**
Retail				1,117,830.7			**1,117,830.7**
Secured by a mortgage on immovable property			203,083.8				**203,083.8**
Other items					2,024.7		**2,024.7**
Total	**177,709.6**	**369,682.8**	**203,083.8**	**1,117,830.7**	**2,024.7**	**2,483.5**	**1,872,815.1**

5.30. Funding and liquidity risk

Funding and liquidity risk is understood by the Bank as the risk of inability to meet, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that its cash liabilities could be paid at all times from the available funds and inflows from maturing transactions, available funding sources at market prices or from sale of marketable assets. Liquidity risk is material for the Bank.

Bank Supervisory Board oversees the liquidity risk management by accepting the general risk appetite level and by analysing Bank liquidity risk reports on a quarterly basis.

The Bank Management Board is responsible for:

- formulating the strategy for funding and liquidity risk, a target liquidity position, its funding methods and the liquidity risk profile,
- establishing the acceptable level of risk (risk appetite), liquidity risk tolerance and submitting it for the Supervisory Board approval,
- approving the liquidity and funding risk management policy and significant amendments thereto; in particular, the limits tailored to the overall acceptable level of risk approved by the Supervisory Board,
- ensuring allocation of relevant human and IT resources in order to realise the liquidity risk management process.

Structural liquidity risk is transferred to Treasury and managed there. Treasury is responsible for operational management of the short-term liquidity.

Assets and Liabilities Committee (ALCO) oversees and monitors the liquidity risk level and the funding structure of the Bank. ALCO manages the liquidity buffer under relevant limits approved by the Management Board; operational activities in this respect are delegated to Treasury.

The Bank uses the following liquidity risk measures:

- supervisory liquidity norms of the National Bank of Poland (M3, M4),
- liquidity coverage ratio (LCR),
- net stable funding ratio (NSFR),

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- structural liquidity gap,
- survival period in stress situation.

In the first half of 2019, the Bank identified no exceeded liquidity risk limits. As at 30 June 2019, the core liquidity measures were at the following levels:

Risk measure	As at 30.06.2019	Supervisory limit
M3	68.68	>1
M4	1.05	>1
LCR	149%	>100%

From time to time, the Bank makes projections of the main liquidity risk measures, especially each time before acquiring a mortgage debt claims portfolio.

As at 30 June 2019, the acquisition of the debt claims portfolio is funded mostly with a loan granted by the parent company. The first issue of covered bonds is planned for September 2019.

Daily, weekly, monthly and quarterly liquidity risk reports are being developed in the Bank. The weekly, monthly and quarterly ones are presented at the meetings of the Management Board. The Assets and Liabilities Committee get relevant information on a monthly basis, whereas the Supervisory Board receive it on a quarterly basis.

5.31. Market risk

Market risk is understood at the Bank broadly and it includes sensitivity of the position of the Bank to the changes in market parameters and customer behaviour. Sensitivity includes changes in economic results and financial results presented in relevant reporting, as well as changes in the coverage of regulatory requirements and of the economic capital. Market rates include interest rates, FX rates and prices of securities. Customer behaviour refers to possible early repayment, repayments past due or no repayments of mortgage loans in the Bank's portfolio.

Market risk limits are accepted by the Bank Management Board and are in compliance with the general risk appetite level accepted by the Bank Supervisory Board. Assets and Liabilities Committee realises the market risk management strategy and oversees and monitors the market risk level at the Bank.

Market risk is transferred to Treasury where it is managed within the approved limits.

Interest rate risk in the banking book is deemed to be a major risk. The Bank uses the following measures of the interest rate risk:

- sensitivity measure (BPV),
- net interest income at risk (NIIaR),
- economic value of the equity at risk (EVEaR),
- securities portfolio sensitivity measures.

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In the first half of 2019, the Bank identified no exceeded interest rate risk limits. As at 30 June 2019, the core measures were at the following levels:

Risk measure	As at 30 June
BPV	17.6
NIIaR	436.0
EVEaR to own funds	0.49%

The Bank does not hold significant positions in foreign currencies. As at 30 June 2019, the FX risk is deemed non-material.

5.32. Model risk management

In accordance with the model risk definition adopted by the Bank, the model risk is the potential loss that the Bank may incur as a result of decisions which may have substantially been based on data obtained using models in the Bank internal processes, due to errors in the development, implementation or application of such models.

The model risk management process at ING Bank Hipoteczny S.A. is compliant with the solutions applied in ING Group, keeping in mind the scale and profile of the operations of the Bank.

The models used in the Bank were subject to quarterly reviews and assessment of the exposure to model risk, as well as to model significance reviews. Model validation was carried out as planned, and validation reports were presented to relevant Committees dedicated to specific models. Cyclical validation reports were presented at the meetings of the Bank Management Board and Supervisory Board.

In the first half of 2019, aggregated model risk was below the tolerance level adopted by the Bank for that risk type.

5.33. Operational risk

ING Bank Hipoteczny S.A. manages its operational risk applying the requirements of legal regulations, recommendations and resolutions of the Polish Financial Supervision Authority and other regulators.

The operational risk management system was developed applying the proportionality principle, that is, taking into account the nature, scale and complexity of operations, as well as materiality of processes and operational risk profile of the Bank. It refers to all areas of the Bank's operations and is a consistent, fixed practice comprising the following elements:

- risk identification and assessment,
- risk mitigation,
- control, and
- quality assurance and monitoring.

Operational risk management is supervised at the Bank by the Bank Supervisory Board who use interim management information to assess effectiveness of operations in this field.

After the Bank Management Board get a consent of the Supervisory Board, they specify the operational risk management strategy by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of the Bank employees in the field of operational risk management.

Measurement of operational risk at ING Bank Hipoteczny S.A. is to specify the scale and profile of the threats related to operational risk using for that the determined risk measures.

In the first half of 2019, non-financial risk was at an acceptable level and its distribution results from the already started risk identification and assessment (RIA) cycle and a relatively short period of operation of ING BH. In that period, ING Bank Hipoteczny S.A. did not reported any operational risk losses.

The level of operational risk is reported on a regular, monthly basis under the cyclical management information with the Non-Financial Risk Dashboard (NFRD) presented at the meetings of the Non-Financial Risk Committee (NFRC) composed of all Members of the Management Board of ING Bank Hipoteczny.

For the needs of regulatory capital requirement, ING Bank Hipoteczny S.A. uses now the BIA approach for operational risk.

The limit for expected non-financial risk loss (ELT) projected in Risk Appetite Statement (RAS) for 2019 was used in 32% by the end of the first half of 2019. The level of recommendations identified in the risk identification and assessment process does not exceed the acceptable one. In the first half of the year, there were no losses due to operational risk incidents.

The Management Board takes actions when the level of operational risk in ING BH is high or critical.

Improving our organisational maturity, we perfect solutions and systems to ensure broadly understood security in ING BH.

Operations of ING BH include also oursourcing of some activities to third parties.

A major example thereof are activities outsourced to ING Bank Śląski S.A., which is specially monitored in terms of the quality of provided service and the risks related thereto, inclusive of business continuity risk.

Outsourcing makes it possible to reduce the risk by transferring some banking activities to another institution that has greater experience and better infrastructure to carry out these operations due to the scale of its own business. ING BH is responsible for outsourced activities as if they were performed by ING BH itself, and the decisions about outsourcing and method of outsourcing are taken by ING BH.

Now, ING BH is preparing itself to ensure compliance with the new guidelines of the European Banking Authority (EBA) as regards outsourcing (EBA Draft Guidelines on outsourcing arrangements) that are taking effect as at 30 September 2019.

5.34. Compliance Risk

Compliance risk at ING Bank Hipoteczny S.A. is understood as the risk of consequences of non-compliance with legal regulations, internal regulations and market standards in the processes that are in place in the Bank; it includes, but is not limited to, especially:

a) non-compliance resulting from non-implementation of the requirements of external regulations on financial institutions in the Bank's internal regulations; this regards universally applicable laws, recommendations of the regulators, court orders and decisions binding for the Bank under law, accepted codes of conduct,
b) non-compliance resulting from ineffective controls defined in bank policies and procedures in high-level compliance risk areas, including within the operations of the Compliance Area,
c) other identified non-compliance concerning universally applicable laws on financial institutions.

Should compliance risk materialize, it could lead to: deterioration of reputation or losses attributable to legal claims, financial penalties or sanctions of any other type imposed by regulators.

Compliance risk management is arranged in such a way to ensure management of that risk on three independent levels (lines of defence).

The first line of defence units are responsible for ensuring compliance of the performed tasks with legal regulations, internal regulations and market standards, including, but not limited to, identification and assessment - with the support of organisational units of the second line of defence - of the compliance risk for its processes, and also for management of that risk, inclusive of design, implementation and performance of controls.

The role of the Compliance Area, being the leading unit of the second line of defence in the compliance risk area is, most notably, providing support for the first line of defence in the process of identification and assessment of the compliance risk (independent analysis / polemics) and approval of their results, control, independent monitoring and complex reporting of the results of identification, assessment, control and monitoring of the compliance risk, based on the results of performance of its own activities and information received from other units of the first and second lines of defence.

Internal auditor (the third line of defence) ensures independent and objective assessment of effectiveness of internal controls.

As the Bank started its operations in January 2019, any activities taken in order to mitigate the compliance risk in the Bank were focused mostly on identification and assessment of the risk generated in key processes of the Bank, inclusive of assessment of adequacy of adopted controls, taking into account changes in business, regulatory and legal landscape, starting awareness and training programmes, as well as reporting on identification of gaps (also under current verification activities) and activities taken in conjunction therewith.

5.35. Business risk

The Bank identifies macroeconomic risk as major business risk. Identification of the macroeconomic risk is to secure the Bank against any adverse change in macroeconomic situation. The Bank monitors the macroeconomic landscape on a current basis and adjusts its business strategy. Financial projections take into account the changing market parameters. To determine its sensitiveness to the change in macroeconomic parameters, the Bank uses stress tests.

5.36. Capital management

The process of capital management is carried out in the Bank based on the implemented Capital Management Policy at ING Bank Hipoteczny S.A. that was developed on the basis of applicable regulations.

Capital management at ING Bank Hipoteczny S.A. is to make possible and facilitate development of the Bank in accordance with the accepted strategy and business model, while keeping, on an ongoing basis, its own funds on the level adequate to the scale and profile of risk inherent in the Bank's operations, taking into account supervisory requirements. Furthermore, it makes it possible to manage the capital actively, keeping in mind volume and dynamics of current and future changes.

The main objective of this process is to have sufficient and effective capitalisation of the Bank to effect its business strategy and development plans specified in the financial plans, while meeting at the same time all internal and external capital requirements. It stands for financial flexibility in the present and future landscape in order to adjust to the changing market and regulatory conditions. To this end, the capital management activities apply any available capital instruments and transactions both in the baseline scenario as well as in the adverse scenario.

External regulations regulate keeping a proper level of capital adequacy. The main capital constraints result from internal resistance to risk that is assessed, among others, in stress tests, in Supervisory Review and Evaluation Process (SREP), regulatory minimum levels of capital and leverage ratios and internal risk appetite.

This management includes:

- **Pillar 1:** minimum capital requirements provided for in the regulations,
- **Pillar 2:** internal capital, determined with the Bank's own models, for the risk types deemed to be material and permanently material.

Under capital management, the Bank:

a) plans internal capital and capital requirement as well as own funds,
b) sets internal limits in order to curtail the generated capital requirements and internal capital,
c) monitors potential threats to capital adequacy,
d) identifies and assesses materiality of the risk types inherent to its operations,
e) takes actions in order to assess and monitor internal capital, capital requirement and own funds,
f) allocates internal capital,
g) effects dividend policy resulting from a long-term capital objective and preferred capital structure,

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h) prepares capital contingency plans that define actions to be taken in case of a threat of decrease capital adequacy below "unacceptable" levels,
i) analyses the impact of the macroeconomic factors on capital adequacy in line with the "Stress Testing Policy at ING Bank Hipoteczny S.A."

As at 30 June 2019, the total capital ratio of the Bank was 25.78%.

Disclosures concerning Pillar 2: internal capitals were presented in the Management Board Report on Operations of ING Bank Hipoteczny S.A.

5.37. Total capital ratio

For the needs of capital adequacy, own funds of the Bank consist exclusively of Tier 1 core funds (CET 1) and they were set in accordance with the Banking Law Act, CRR and related regulations.

At the same time, in line with CRR, the Bank calculates requirements for its own funds for the following risk types:

- credit risk – with standardised approach,
- credit valuation adjustment (CVA) risk – with standardised approach,
- settlement and supply risk – with standardised approach,
- operational risk – with basic indicator approach (BIA),
- market risk (FX risk) – with basic approach.

In January 2019, the Regulator granted a permit to the Bank to run its business and thus the table below does not show any comparable values for earlier periods.

As at 30 June 2019, the Bank recognised zero values for the own funds requirements in relation to the credit valuation adjustment, settlement and supply and market risks. Having regard to the above, as at the date of this report, the total requirement for own funds consisted of the credit risk and operational risk requirements.

	as at **30.06.2019**
Own funds	**265,923.1**
A. Equity capitals from the statements of financial position,[1] including:	**268,260.4**
A.I. Equity capitals recognised under own funds, including	268,260.4
Share capital	*210,000.0*
Supplementary capital – share premium	*69,570.5*
Supplementary capital - result from previous years, and	*-7,379.4*
Result for the current period	*-3,636.6*
Accumulated other comprehensive income - securities measured at fair value through other comprehensive income[1)]	*16.0*
Accumulated other comprehensive income - actuarial gains and losses[1)]	*-310.1*
B. Other components (decreases and increases) of own funds, including:	**-2,337.3**

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Intangible assets	*-2,312.6*
Accumulated other comprehensive income - value adjustment due to the requirements for prudent valuation[1)]	*-24.8*
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	265,923.1
Tier 1 capital	265,923.1
Risk weighted assets, including:	**1,031,652.4**
credit risk weighted assets	991,622.4
operational risk weighted assets	40,030.0
Total capital requirements	**82,532.2**
Total capital ratio (TCR)	**25.78%**
minimum required level	8%
excess TCR (p.p.)	183,390.9
Tier 1 ratio (T1)	**25.78%**
minimum required level	6%
excess T1 (p.p.)	204,024.0
Common Equity Tier 1 ratio (CET1)	**25.78%**
minimum required level	4.5%
excess CET1 (p.p.)	219,498.7

1) Value of equity from the statement of financial position differs from the value stated in items A and A.I. of this note by PLN 24,800 because of the presentation of the value adjustments due to the requirements for prudent valuation (the so called AVA) in item B of this note.

Below, the Bank presents the risk-weighted assets values (RWA) together with the requirements for own funds and division into specific classes of exposures:

	Gross value of exposures	**Net value of exposures[2)]**	**Risk weighted assets (RWA)**	**Requirement for own funds**
Exposures to central governments and central banks	180,186.8	180,186.8	6,208.8	496.7
Exposures to institutions	369,682.8	369,682.8	73,936.6	5,914.9
Retail exposures[1)]	1,117,830.7	1,117,830.7	838,373.0	67,069.8
Exposures secured by mortgages on immovable properties	203,083.8	203,083.8	71,079.3	5,686.3
Other exposures	2,024.7	2,024.7	2,024.7	162.0
Total	**1,872,808.8**	**1,872,808.8**	**991,622.4**	**79,329.8**

[1)] Exposures that are not fully secured as they are in the transitional period, that is until a security is established or they exceed 80% of the mortgage lending value of the real estate.
[2)] Value of balance sheet exposures and equivalent of the balance sheet liabilities and contingent transactions, taking into account specific credit risk adjustments.

5.38. Capital buffers

In pursuance of the Macroprudential Supervision Act that transposes the regulations of CRD and in pursuance of the Regulation of the Minister for Economic Development and Finance of 1 September 2017 concerning system risk buffer (Journal of Laws of 2017, item 1776) the Bank is obliged to keep the capital ratios that take into account capital buffers at the following levels:

- total capital ratio (TCR) = 8% + combined buffer requirement,
- Tier 1 ratio (T1) = 6% + combined buffer requirement,
- Common Equity Tier 1 (CET1) = 4.5% + combined buffer requirement,

where the combined buffer requirement is the total of the applicable buffers, namely:

- capital conservation buffer of 2.5%,
- countercyclical capital buffer of 0% for credit exposures within the territory of the Republic of Poland,
- buffer of other systemically-important institution specified in individual decision of the Polish Financial Supervision Authority. PFSA did not consider ING Bank Hipoteczny SA to be the other systemically-important institution and thus there is no obligation to maintain any capital add-on for that,
- systemic risk buffer of 3%.

At the same time, in line with the regulations resulting from Article 138.1.2a of the Banking Law Act, the Polish Financial Supervision Authority, performing its supervisory function, may impose on the Bank a requirement to keep capital add-on in special cases listed in the above mentioned regulations.

The Bank is not under obligation to keep capital add-on.

5.39. Leverage

The process of excessive financial leverage risk management is carried out in the Bank based on the Excessive Financial Leverage Risk Management Policy at ING Bank Hipoteczny S.A. that implements especially the requirements resulting from the Regulation of the European Parliament and of the Council (CRR). The Policy governs excessive financial leverage risk (Leverage Ratio - LR) at ING Bank Hipoteczny S.A.

The excessive financial leverage risk is understood as the risk resulting from an institution's vulnerability to the threats attributable to leverage, which may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustment of its remaining assets.

Leverage Ratio (LR) means a relative size of the Bank's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of the Bank, compared to the Bank's own funds.

The Bank calculates the leverage in accordance with CRR.

Leverage ratio is subject to monitoring on a current basis. The Bank assumes that the ratio higher than 5% is safe and does not require taking any additional actions.

As at 30 June 2019, the leverage ratio was above the 3% level recommended for the banks by the Basel Committee and above the internally set limit.

Leverage

	As at 30.06.2019
.everage ratio (LR)	14.12%

Financial statements for the period from 1 January 2019 to 30 June 2019 (in PLN thousand)

These interim condensed financial statement of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 30 June 2019 have 76 consecutively numbered pages.

SIGNATURES OF MANAGEMENT BOARD MEMBERS OF ING BANK HIPOTECZNY S.A.

13 August 2019	**Mirosław Boda** *President of the Management Board*	....
13 August 2019	**Jacek Frejlich** *Vice-President of the Management Board*	....
13 August 2019	**Roman Telepko** *Vice-President of the Management Board*	....

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

13 August 2019	**Agnieszka Kukuczka** *Chief Accountant*	....