Selected financial data

	[in PLN thousand]		[in EUR thousand]*	
	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Net interest income	25,663.4	26,993.6	5,651.7	6,114.6
Net income on basic activities	**25,103.0**	**27,107.2**	**5,528.3**	**6,140.4**
General and administrative expenses	-16,099.2	-13,290.8	-3,545.4	-3,010.6
Gross profit (loss)	9,189.2	12,975.8	2,023.7	2,939.3
Net profit (loss)	**6,526.2**	**10,329.2**	**1,437.2**	**2,339.8**
Profit/loss per ordinary share (PLN)	17.17	27.17	3.78	6.16

* Figures expressed in EUR have been calculated using the weighted average NBP exchange rate from the first half of 2021 for the reporting period and the weighted average NBP exchange rate from the first half of 2020 for the comparative figures.

	[in PLN thousand]			[in EUR thousand]*		
	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
Amounts due from banks	31,847.6	65,823.7	68,937.5	7,044.7	14,263.6	15,436.1
Debt securities	83,084.2	50,186.9	49,740.7	18,378.2	10,875.2	11,137.6
Loans and advances granted to customers	4,173,149.3	3,690,920.7	3,896,687.3	923,099.7	799,800.8	872,522.9
Total assets	**4,293,452.5**	**3,813,219.1**	**4,023,536.8**	**949,710.8**	**826,302.1**	**900,926.3**
Liabilities to other banks	3,262,954.3	1,969,597.2	3,161,279.8	721,764.8	426,800.1	707,854.8
Liabilities under issue of bonds	150,153.0	975,131.6	0.0	33,213.8	211,305.3	0.0
Liabilities under issue of covered bonds	399,619.8	399,480.6	399,872.0	88,395.8	86,565.1	89,537.0
Total liabilities	**3,825,262.4**	**3,351,435.7**	**3,571,741.5**	**846,147.2**	**726,236.4**	**799,763.0**
Share capital	380,000.0	380,000.0	380,000.0	84,055.9	82,343.8	85,087.3
Total equity	**468,190.1**	**461,783.4**	**451,795.3**	**103,563.6**	**100,065.7**	**101,163.3**

* Figures expressed in EUR have been calculated using the average NBP exchange rate of 30.06.2021 for the reporting date and of 31.12.2020 and 30.06.2020 for the comparative figures.

The basic ratios

	as at 30.06.2021	as at 30.06.2020
ROA - return on assets (%)	0.39%	0.43%
ROE - return on equity (%)	3.53%	4.07%
DR - total debt ratio (%)	89.10%	88.77%
TCR - total capital ratio (%)	26.82%	24.81%
LR - leverage ratio (%)	10.83%	11.13%
LCR - liquidity coverage ratio (%)	11,160%	2,861%

ING Bank Hipoteczny S.A.

Interim condensed financial statements

for a six-month period ending on
30 June 2021

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Interim condensed income statement

	note	period from 01.01.2021 to 30.06.2021	[in PLN thousand] period from 01.01.2020 to 30.06.2020
Interest income	7.1.	39,707.2	64,662.5
including, calculated using the effective interest method	7.1.	*39,707.2*	*64,662.5*
Interest costs	7.1.	-14,043.8	-37,668.9
Net interest income	**7.1.**	**25,663.4**	**26,993.6**
Fee and commission income	7.2.	227.5	231.9
Commission expenses	7.2.	-749.4	-90.7
Net commission income	**7.2.**	**-521.9**	**141.2**
FX result		-5.6	7.2
Net income on other basic activities		-32.9	-34.8
Net income on basic activities		**25,103.0**	**27,107.2**
General and administrative expenses	7.3.	-16,099.2	-13,290.8
Expected loss provision	7.4.	248.6	-840.6
Tax on certain financial institutions		-63.2	0.0
Gross profit (loss)		**9,189.2**	**12,975.8**
Income tax	7.5.	-2,663.0	-2,646.6
Net profit (loss)		**6,526.2**	**10,329.2**
Number of shares		380,000	380,000
Profit(+)/loss(-) per ordinary share - basic (in PLN)		17.17	27.18
Profit(+)/loss(-) per ordinary share - diluted (in PLN)		17.17	27.18

There were discontinued operations at ING Bank Hipoteczny SA neither in the period that ended 30 June 2021 nor in the same period last year.
The interim condensed income statement should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

Interim condensed statement of comprehensive income

	Note	period from 01.01.2021 to 30.06.2021	[in PLN thousand] period from 01.01.2020 to 30.06.2020
Profit (loss) after tax for the period		**6,526.2**	**10,329.2**
Other net comprehensive income		**-119.5**	**-86.0**
Items which can be reclassified to income statement		-119.5	-86.0
Unrealised result on measurement of HTC&S securities	7.17	-119.5	-86.0
including deferred tax		*28.0*	*20.2*
Items which will not be reclassified to income statement		0.0	0.0
Actuarial gains/losses	7.17	0.0	0.0
including deferred tax		*0.0*	*0.0*
Net comprehensive income for the period		**6,406.7**	**10,243.2**

The interim condensed statement of comprehensive income should be read in conjunction with the notes to the interim condensed financial statements, which form an integral part thereof.

Interim condensed statement of financial position

	note	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
				[in PLN thousand]
Amounts due from banks	7.6	31,847.6	65,823.7	68,937.5
Debt securities measured at fair value through other comprehensive income	7.7	50,084.3	50,186.9	49,740.7
Debt securities measured at amortized cost	7.7	32,999.9	0.0	0.0
Loans and advances granted to customers	7.8	4,173,149.3	3,690,920.7	3,896,687.3
Property, plant and equipment	7.9	573.2	739.4	893.3
Intangible assets	7.10	328.9	824.8	1,320.7
Deferred tax assets		1,087.8	942.2	986.4
Other assets	7.11	3,381.5	3,781.4	4,970.9
Total assets		**4,293,452.5**	**3,813,219.1**	**4,023,536.8**
Liabilities to banks	7.12	3,262,954.3	1,969,597.2	3,161,279.8
Liabilities under issue of bonds	7.13	150,153.0	975,131.6	0.0
Liabilities under issue of covered bonds	7.14	399,619.8	399,480.6	399,872.0
Provisions	7.15	775.8	775.8	669.6
Current tax liabilities		673.1	98.8	107.3
Other liabilities	7.16	11,086.4	6,351.7	9,812.8
Total liabilities		**3,825,262.4**	**3,351,435.7**	**3,571,741.5**
Share capital		380,000.0	380,000.0	380,000.0
Supplementary capital - share premium		62,002.2	62,002.2	62,002.2
Accumulated other comprehensive income	7.17	-165.8	-46.4	-536.1
Retained earnings		26,353.7	19,827.6	10,329.2
Total equity		**468,190.1**	**461,783.4**	**451,795.3**
Total equity and liabilities		**4,293,452.5**	**3,813,219.1**	**4,023,536.8**
Carrying amount		468,190.1	461,783.4	451,795.3
Number of shares		380,000	380,000	380,000
Carrying amount per share (in PLN)		1,232.08	1,215.22	1,188.93

The interim condensed statement of financial position should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

Interim condensed statement of changes in equity

the period from 01.01.2021 to 30.06.2021

[in PLN thousand]

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		**380,000.0**	**62,002.2**	**-46.4**	**19,827.6**	**461,783.4**
Net result for the current period		0.0	0.0	0.0	6,526.2	6,526.2
Other net comprehensive income	7.17	0.0	0.0	-119.5	0.0	-119.5
Unrealised result on measurement of securities measured at fair value through other comprehensive income		0.0	0.0	-119.5	0.0	-119.5
Closing balance of equity		**380,000.0**	**62,002.2**	**-165.8**	**26,353.7**	**468,190.1**

period from 01.01.2020 to 30.06.2020

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity		**210,000.0**	**62,191.1**	**-450.1**	**-188.9**	**271,552.1**
Issue of shares of series C		170,000.0	0.0	0.0	0.0	170,000.0
Coverage of losses from previous years		0.0	-188.9	0.0	188.9	0.0
Net result for the current period		0.0	0.0	0.0	10,329.2	10,329.2
Other net comprehensive income	7.17	0.0	0.0	-86.0	0.0	-86.0
Unrealised result on measurement of HTC&S securities		0.0	0.0	-86.0	0.0	-86.0
Closing balance of equity		**380,000.0**	**62,002.2**	**-536.1**	**10,329.2**	**451,795.3**

The interim condensed statement of changes in equity should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

Interim condensed cash flow statement

	Note	period from 01.01.2021 to 30.06.2021	[in PLN thousand] period from 01.01.2020 to 30.06.2020
Profit after tax		**6,526.2**	**10,329.2**
Adjustments		**-461,517.2**	**-827,202.1**
Depreciation and amortisation	7.3, 7.10, 7.11	677.9	683.8
Interest accrued (from the income statement)	7.1	-25,663.4	-26,993.6
Interest paid		-156.8	-30,323.7
Interest received		39,851.6	63,863.4
Income tax (from the income statement)	7.5	-2,663.0	-2,646.6
Income tax paid		3,091.7	3,239.5
Change in provisions	7.22	0.0	83.9
Change in loans and other receivables from banks	7.22	-0.1	1,337.0
Change in debt securities measured at fair value through other comprehensive income	7.22	-93.9	-86.0
Change in loans and other receivables from customers	7.22	-482,365.8	-835,105.9
Change in fixed assets due to recognition of lease		146.7	68.6
Change in other assets	7.22	237.3	-3,336.6
Change in liabilities to other banks	7.22	363.8	307.9
Change in liabilities under issue of covered bonds	7.22	154.7	98.8
Change in other liabilities	7.22	4,902.1	1,607.4
Net cash flow from operating activities		**-454,991.0**	**-816,872.9**
Purchase of property, plant and equipment	7.10	0.0	-11.0
Purchase of securities measured at fair value through other comprehensive income	7.8	0.0	-14,813.2
Purchase of securities measured at amortized cost	7.8	-32,999.9	0.0
Disposal of securities measured at amortized cost	7.8	0.0	229,980.4
Interest received on debt securities		70.0	12.2
Net cash flow from investing activities		**-32,929.9**	**215,168.4**
Long-term loans received		2,008,996.9	1,532,066.6
Long-term loans repaid		-716,000.0	-860,000.0
Interest on long-term loans repaid		-11,360.2	-2,534.4
Proceeds from the issue of bonds		150,000.0	0.0
Redemption of bonds		-975,000.0	0.0
Payment of interest on issued bonds		-950.8	0.0
Payment of interest on issued covered bonds		-1,573.8	-4,645.8
Lease liabilities repaid		-167.4	-157.0
Net cash flow from financing activities		**453,944.8**	**664,729.4**
Net increase/decrease in cash and cash equivalents		-33,976.1	63,024.9
Opening balance of cash and cash equivalents		65,823.7	5,815.7
Closing balance of cash and cash equivalents	7.7, 7.22	31,847.6	68,840.6

The interim condensed cash flow statement should be read in conjunction with notes to the interim condensed financial statements, which form an integral part thereof.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

Accounting policy and additional notes

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 2021, ING Bank Hipoteczny S.A. 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 Banking 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.

The strategic objective of ING Bank Hipoteczny is to acquire and then to increase the share of long-term financing in the Bank's balance sheet through the issue of covered bonds and to become one of the main issuers of these debt instruments on the Polish market.

1.3. Share capital

The share capital of ING Bank Hipoteczny S.A. amounts to PLN 380,000,000.00 and is divided into 380,000.00 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 one 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
C	ordinary	170,000	1,000.00	170,000,000	11.12.2019	11.12.2019	09.01.2020

* 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 2021 held 100% of the share capital of ING Bank Hipoteczny S.A. The Bank is 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

Management Board

In the first half of 2021 there were no changes in the composition of the Management Board of ING Bank Hipoteczny S.A.

As at 30 June 2021, 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.

Supervisory Board

In the first half of 2021 there were changes in the composition of the Supervisory Board of ING Bank Hipoteczny S.A.

- On 21 January 2021, Mr Lorenzo Tassan-Bassut tendered his resignation from the position of a member of the Bank Supervisory Board effective end of 31 January 2021.
- On 14 June 2021, Mr Brunon Bartkiewicz tendered his resignation from the position of Chairman of the Supervisory Board of the Bank, effective as of the end of 14 June 2021, while remaining a Member of the Supervisory Board.
- On 14 June 2021, the Bank's Supervisory Board elected Ms Bożena Graczyk as Chairwoman of the Bank's Supervisory Board, effective from 15 June 2021.

As at 30 June 2021, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Ms Bożena Graczyk, Chairwoman,
- Mr Marcin Giżycki - Deputy Chairman,
- Mr Jacek Michalski, Secretary (independent member),
- Mr Brunon Bartkiewicz, Member,
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member (independent member),

1.6. Auditing firm authorised to audit the 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. These interim condensed financial statements, similarly to the interim condensed financial statements for the six-month period ended 30 June 2020, were subject to review, but not audit, by an auditing firm.

1.7. Approval of financial statements

The annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2020 to 31 December 2020 were approved by the General Meeting of ING Bank Hipoteczny S.A. on 24 March 2021.

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the six-month period ended 30 June 2021 were approved by the Bank's Management Board on 16 August 2021.

2. Significant events that occurred in the first half of 2021

Information on the impact of the COVID-19 epidemic on the operations of ING Bank Hipoteczny S.A.

In the first half of 2021, the Bank's operating, business and financial activities were still influenced by the COVID-19 epidemic. The Polish and global economy are in the period of deep shock and uncertainty, and state institutions and regulators take a number of steps and offer aid programmes to limit the recession.

During the reporting period the Bank's Management Board analysed the COVID-19 related developments on a current basis. They identified the risks attributable to increased delay in loan repayment and a potential decrease in property prices. Throughout the six months, the Bank monitored, among other things, the number and volume of loans in respect of which borrowers requested a suspension of loan instalment repayments (the Bank's offer) or a suspension of the execution of the loan agreement (the so-called "statutory credit moratoria"), as well as monitored the impact of the solutions offered to customers on issues related to securing the issue of covered bonds, the cost of risk and the Bank's result.

The Bank also analyses the market situation regarding covered bonds and changes in the regulatory and economic environment on an ongoing basis. Moreover, it is monitored all the time whether the suppliers are able to provide services.

During the COVID-19 pandemic, the Bank takes measures to maintain operational continuity, including ongoing customer service. Preventive measures were also taken to protect employees' health by introducing, for instance, remote working. The Bank's standing is good in terms of its liquidity and capital position. In fact, it significantly exceeds the required regulatory levels. As at 30 June 2021, the Bank's LCR was 11,160% (2,861% as at 30 June 2020). Tier 1 ratio, equal to the Bank's total capital ratio, was 26.82% as at 30 June 2021 (24.81% as at 30 June 2020). The level of this ratio is currently more than twice higher than the required by law 10.5%.

Government measures put in place to support the economy

To alleviate the economic impact of the COVID-19 pandemic, the Government and the National Bank of Poland offer tax and cash support to help companies and employees to keep going, and to ensure access to liquidity for the financial sector. The tools used to support the economy include:

- co-financing of a part of the payroll costs,
- subsidising business activities, for instance in the form of subsidies and partial payment of interest,
- launching the system of guarantees and warranties for entrepreneurs,
- exempting from/postponing payment of contributions and taxes,
- putting off the deadlines for some reporting obligations,
- introducing a maximum level of non-interest bearing costs,
- suspending the running of the time limits in the administrative proceedings,
- allowing the suspension of loan agreements for three months for these borrowers who have lost their jobs or their main source of income.

The above measures were supported by the Anti-Crisis Shield of the Polish Development Fund (PFR):
The Financial Shield for Micro Enterprises and the Financial Shield for Small and Medium-Sized Enterprises launched in 2Q 2020 (the deadline for subvention applications was 31 July 2020), and the PFR Financial Shield for Large Enterprises launched at the beginning of 3Q 2020.

COVID-19 related activities of the Bank

In connection with the ongoing COVID-19 coronavirus pandemic, in the first half of 2021, the Bank continued to carry out activities aimed at assisting the customers facing financial difficulties. The measures implemented by the Bank are in line with the Polish Bank Association's "Position of banks on the standardization of principles of offering aid measures to banking sector customers" (i.e. a non-statutory moratorium within the meaning of the European Banking Authority Guidelines "EBA").

Since 7 April 2020, the Bank has made it possible for the borrowers to suspend repayment of loan instalments (principal part of the instalment or the full loan instalment) for a period of up to 6 months. This was in line with the Polish Bank Association's "Position of banks on the standardization of principles of offering aid measures to banking sector customers" (i.e. a non-statutory moratorium within the meaning of the EBA Guidelines). Since 24 June 2020, the Bank has made it possible for the borrowers to suspend the execution of the loan agreement (under the amended Act on special arrangements for preventing, counteracting and combating COVID - 19, other contagious diseases and crisis situations caused by them). As at 30 June 2021, 30 borrowers have availed themselves of the suspension of the execution of the loan agreement (applications under statutory moratorium).

As at 30 June 2021, there are no receivables in the Bank's portfolio for which the Borrowers would still benefit from the suspension of loan instalments or the suspension of performance of the loan agreement. By 30 June 2021, the suspension of loan instalment or suspension of performance of loan agreement applied to a total of 601 loan agreements.

The Bank performed a simulation of the impact of the suspension of the repayment of the credit instalments on the Bank's result and its ability to settle its amounts payable to the buyers of covered bonds. The Bank assumed, among other things, the worst case scenario in which all clients who take advantage of the suspension of instalments avail themselves of the suspension of the performance of the credit agreement. Keeping in mind high overcollateralization of the issue of covered bonds (as at 30 June 2021, debt claims worth PLN 3,232,981,900 were entered in the cover register, the analysis showed that the Bank is on the safe side and can settle its liabilities to investors on an ongoing basis.

The analysis shows that the Bank is highly resilient to the risk of growing number of persons availing themselves of such suspension. The simulation shows that the Bank's standing remains to be good, and the Bank is able to pay its liabilities to investors.

Purchase of mortgage receivables portfolios, issues of covered bonds

In the first half of 2021, another transfer of mortgage receivables was carried out, while due to investor uncertainty in global financial markets in connection with the ongoing COVID-19 pandemic, the Bank decided not to issue covered bonds in 2021.

Expected credit loss provisioning

As at 30 June 2021, the Bank has revised its projections concerning macroeconomic indicators, which also include the effect of the COVID-19 impact. The macroeconomic assumptions used to determine the expected credit losses were based on the forecasts agreed upon in the ING Bank Śląski S.A. Group. In view of the ongoing pandemic and great uncertainty about the future, the Bank is unable to predict the impact of COVID-19 risks and the projections we made may not fully reflect impact of the macroeconomic situation on the expected credit losses level both in the short and long run.Therefore, the Bank revises the macroeconomic assumptions used in determining the ECL provisions on a quarterly basis.

The estimated impact of COVID-19 on macroeconomic parameters is updated on an ongoing basis in subsequent quarters depending on, among others, the scale of the pandemic, its duration, the impact of government support on the economy and external conditions.

The Bank applies the same methodology for the calculation of expected losses as the one used in the Bank's financial statements in the corresponding period of 2020.

Change in the interest rate formula for a mortgage-backed loan from a variable interest rate to a periodically fixed interest rate.

On 30 June 2021, the Bank adjusted its processes to the requirements of the amended Recommendation S of the Polish Financial Supervision Authority (PFSA), implementing, among others, the option to change the loan interest rate formula from a variable rate to a periodically fixed one. Due to the business model of ING Bank Hipoteczny S.A., the Bank does not identify any significant impact directly affecting it in connection with the entry into force of Recommendation S of the PFSA.

A new model of operation of mortgage banking and covered bonds in Poland

On 16 October 2020, the Polish Financial Supervision Authority (UKNF) in cooperation with the Ministry of Finance issued a communication on the work in progress on a new model of operation of mortgage banking and covered bonds in Poland. The said work takes place at the same time as the work on the implementation of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU. The cooperation in this area is to result in a proposal for regulatory action leading to increase in the attractiveness of the use of covered bonds by banks while maintaining the requirements of stability of the issuer and safety of the instrument for the investor.

Representatives of the National Bank of Poland and the Bank Guarantee Fund are also involved in consultations on this issue.

Amount of the annual contribution to the BGF compulsory resolution fund in 2021

On 20 April 2021, the Management Board of the Bank was informed by the Bank Guarantee Fund about the amount of the annual contribution to the banks' compulsory resolution fund in 2021. The total cost for the Bank is PLN 4.7 million, including the adjustment of contributions for 2020. The entire amount has been recognised under the costs of the first quarter of 2021.

General Meeting of ING Bank Hipoteczny S.A.

On 24 March 2021, the Ordinary General Meeting of ING Bank Hipoteczny S.A. took place. The resolutions that were passed there concerned:

- Consideration and approval of the financial statements of ING Bank Hipoteczny S.A. for 2020,
- Consideration and approval of the Management Board Report on Operations of ING Bank Hipoteczny S.A. for 2020 inclusive of Statements of the Management Board on observance of corporate governance principles,
- Acceptance of reports of the Supervisory Board of ING Bank Hipoteczny S.A. for 2020,
- Distribution of the profit generated by ING Bank Hipoteczny S.A. in the period from 1 January 2020 to 31 December 2020,
- Acknowledgement of the fulfilment of duties in 2020 by all Management Board Members and Supervisory Board Members,

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

3. Significant events after the end of the reporting period

There were no material events in ING Bank Hipoteczny S.A. after the end of the reporting period.

4. Statement of compliance with International Financial Reporting Standards

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2021 to 30 December 2021 were prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") version approved by the European Union.

The financial statements take into account the requirements of the standards and interpretations approved by the European Union except for the standards and interpretations mentioned in item 4.1 below, which either await approval by the European Union or have been already approved by the European Union but shall take effect after the balance sheet date.

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 2021 to 30 June 2021 and interim condensed statements of financial position as at 30 June 2021 together with comparable data have been prepared using the same accounting principles for each of the periods.

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 2020 and standards and interpretations approved by the European Union applicable to annual periods starting on 1 January 2021 or thereafter, namely:

Change	Influence on the Bank's statements
Changes to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Benchmark rate reform - Phase II*	Implementation of the amendments involves the possibility to continue recognition and presentation of financial instruments affected by the benchmark rate reform and increased scope of disclosures. Change in benchmark rates has not affected the Bank's financial statements.
Amendments to IFRS 4 *Insurance Contracts* *Extension of the temporary exemption from IFRS 9*	Application of the amendment has not affected the financial statements of the Bank.

Standards and interpretations that have been released by 30 June 2021, 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 2020. In the first half of 2021 the following amendments to the standards were published:

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

Change (expected IASB effective date is given in the parentheses)	**Influence on the Bank's statements**
Amendments to IAS 1 and practical stand to IFRS *Disclosures concerning the Accounting Policy (financial year beginning on 1 January 2023)*	Amendment regarding the scope of disclosure of significant accounting principles in the financial statements. In accordance with the implemented amendments, the disclosures will apply only to these accounting policies that have a material effect on the information in the financial statements. The practical position attached to the amendment provides a detailed illustrative example. The implementation of the amendment will have a significant impact on the scope of disclosure of significant accounting principles in the Bank's financial statements.
Amendment to IAS 8: *definition of accounting estimates (financial year beginning on 1 January 2023)*	The amendment clarifies the definition of accounting estimates, i.e.: monetary amounts in the financial statements that are subject to measurement uncertainty. The implementation of the amendment will not have a significant impact on the Bank's financial statements.
Amendment to IFRS 16: *Covid-19 related rent concessions beyond 30 June 2021* *(financial year beginning on 1 April 2021)*	Lease modification amendment to extend by 1 year the period of exemption from assessing a lease modification when the change in lease payments is a direct consequence of the Covid-19 pandemic. Amendment implementation will have no impact on the financial statements of the Bank.
Amendment to IAS 12: *Deferred tax related to assets and liabilities arising from a single transaction* *(financial year beginning on 1 January 2023)*	The amendment clarifies the rules for recognizing income tax and the applicable exemption from deferred tax recognition. The amendment specifies that this exemption does not apply to leases and decommissioning obligations, i.e. transactions for which an asset and a liability are recognised at the same time. Amendment implementation will have no impact on the financial statements of the Bank.

As at the date of approving these statements for publication, given the ongoing process of implementing the IFRS standards in the EU as well as the Bank's operations, 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.

4.2. Going concern

These interim condensed financial statements of ING Bank Hipoteczny S.A. were prepared on a going concern basis, as regards at least 12 months from the publication date, that is from 17 August 2021. As at the date of signing these financial statements, the Bank Management Board, identify no facts or circumstances that could pose a threat to the Bank's operation as a going concern for at least 12 months from the publication date due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

4.3. Discontinued operations

Material operations were discontinued neither in the first half of 2021 nor in 2020.

4.4. Financial statements scope and currency

The Bank is neither the parent entity nor the major investor for associates, jointly controlled entities or subsidiaries. Thus, ING Bank Hipoteczny S.A. does not prepare consolidated financial statements of the Group covering 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 ultimate parent of the Group.

These interim condensed financial statements of the Bank 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

The interim condensed financial statements of the Bank cover the period from 1 January 2021 to 30 June 2021 and include comparative data:

- for the period from 1 January 2020 to 30 June 2020 for items from the income statement, statement of comprehensive income, cash flow statement,
- for the period from 1 January 2020 to 31 December 2020 and for the period from 1 January 2020 to 30 June 2020 for the statement of changes in equity,
- as at 31 December 2020 and 30 June 2020 for items from the statement of financial position.

5. Significant accounting principles and key estimates

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

The detailed accounting principles and key estimates applied for the needs of preparation of these financial statements are consistent with the principles binding in the financial year ending on 31 December 2020.

In the first half of 2021, no material changes were made to the accounting principles applied by the Bank.

At the same time, as a result of the COVID-19 epidemic, key estimates were changed, which are described in point 5.3 hereof.

5.1. Basis for preparing the financial statements

In the interim condensed financial statements, the concept of fair value of financial assets and financial liabilities measured at fair value and financial assets classified as measured at fair value through other comprehensive income was applied, except for those for which fair value cannot be reliably determined. Other items of financial assets are presented at amortized cost less impairment or at cost 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 applying the accounting principles to the issues indicated below, the professional judgement of the management was of utmost importance, apart from accounting estimates.

5.2.1. Deferred tax asset

The Bank recognises deferred tax assets assuming that it will probably have sufficient taxable income to fully realise the deferred tax asset.

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 the contractual 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 interim condensed financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect directly the amounts reported in the annual financial statements and notes thereto.

Estimations and assumptions applied to the presentation of amounts of assets and liabilities, as well as revenues 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 in the portfolio of individually non-significant exposures is calculated collectively as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The final level of provisions on exposures in Stage 2 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

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 (provisions for the portfolio at Stage 3 subject to collective evaluation) 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. Provisions for the portfolio at Stage 3 subject to collective evaluation 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 risk parameters assessment (PD, LGD, EAD/CCF).

Some examples of impairment evidence and triggers for financial assets, methodology of impairment computation and the recording rules applied thereto were described later herein.

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.

5.3.1.3. Provisions for retirement and pension benefits

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 financial year.

5.3.2. Valuation of incentive schemes

5.3.2.1. 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.

5.3.3. 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 capitalisation limit established by the ING Bank Śląski S.A. Group 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 *FX result.*

5.5. Financial assets and liabilities

5.5.1. Initial recognition

The Bank recognises financial assets or liabilities item in the statement of financial position when it becomes bound with the stipulations of the instrument-related contract.

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

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.

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").

5.5.2 Classification of financial assets

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

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

Financial assets measured at amortised cost

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

[1]Transaction Date is a date falling on or after 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.

A debt financial asset 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 or debt financial assets 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.

5.5.3. 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,
- 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

The Bank classifies its financial liabilities into categories measured at amortised cost.

Financial liabilities measured at amortized cost are financial liabilities that are contractual obligations 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 from the statement of financial position, due to the issue of covered bonds and other securities.

5.5.6. Derecognition

The Bank derecognizes a financial asset from the Bank's statement of financial position when, and only when the contractual rights to the cash flows from the financial asset expire or the Bank transfers the financial asset and the transfer meets the conditions for derecognition.

The Bank transfers the financial asset if and only if:

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

When the Bank retains contractual rights to cash flows, but assumes a contractual obligation to transfer those cash flows, the Bank treats such a transaction as a transfer of a financial asset only if all three of the following conditions are met:

- the Bank is not obliged to pay the amount to eventual recipients until it has received the corresponding amounts that result from the original asset,
- under the transfer contract, the Bank may not sell or pledge the original asset, other than as security for the obligation to transfer cash flows established in favour of eventual recipients,
- the Bank is obliged to transfer all cash flows received from the original asset without material delay.

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 derecognises the financial asset from the statement of financial position,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the statement of financial position,
- 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. If control is retained, the financial asset continues to be recognised in the Bank's balance sheet; accordingly, if control is not retained, the financial asset is derecognised from the statement of financial position up to the amount resulting from continuing involvement.

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

The Bank derecognizes a financial asset or a part thereof from the statement of financial position if the rights resulting from that asset expire, the Bank waives those rights, sells the receivables, is redeemed or as a result of a material modification of the terms and conditions of the loan or credit agreement.

The Bank shall reduce the gross carrying amount of a financial asset if there is no reasonable prospect of recovering the financial asset in whole or in part.

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

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 from the Bank's statements of financial position.

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 from the Bank's statements of financial position, 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

After initial recognition, the Bank measures financial assets, at fair value, except for financial assets measured at amortised cost using the effective interest rate.

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

5.5.9. Impairment

Assessment of impairment is based on measurement of expected credit losses. Such an approach is applied to debt financial assets and credit exposure.

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.

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 date on which its past due credit obligation is deemed material. The Bank defines the materiality of a credit obligation as exceeding two materiality thresholds jointly: PLN 400 and 1% of the balance sheet exposure amount.

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.

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 in excess of 90 days is a default on the client's part.

The definitions of default, impaired and non-performing exposures have also been clarified by the Bank, by which the Bank has aligned its approach to regulatory requirements in this respect. A debtor or an exposure that is assessed as defaulted is simultaneously considered as impaired and non-performing.

Approach based on 3 stages

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 (or to the remaining maturity if less than 12 months).
- **Stage 2** – covers exposures working with recognised significant increase in the credit risk since the date on which they were granted. The provision is calculated based on lifetime expected credit loss of the exposure, namely from the reporting date to the remaining maturity.
- **Stage 3** – the exposures with identified impairment, namely in default. The provision is calculated based on the assets' lifelong expected credit loss for PD = 100%.

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

1. Identification of the impaired exposures and classifying them to Stage 3.
2. Allocation of exposures to Stage 2 based on the criteria of a significant increase in credit risk.
3. Allocation of the remaining exposures to Stage 1.

Definition of a significant increase in credit risk

A significant increase in credit risk, resulting in the classification to Stage 2, is evidenced by the occurrence of at least one of the following prerequisites, the leading one being the first:

- a significant increase in the PD over the exposure lifetime determined for the reporting date in relation to the PD 'lifetime' as of the date the exposure was granted in the perspective of the period remaining from the reporting date to the maturity date,
- granting of forbearance to the client,
- restructuring without identified impairment – risk ratings 18/19,
- delay in debt repayment in excess of 30 days.

Rationale for classifying an asset measured at amortised cost to Stage 3

At each balance sheet date, the Bank assesses whether a financial asset or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired, if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. The Bank recognises expected credit losses based on 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.

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

Impairment triggers applied to retail credit exposures include the occurrence of one or more of the following situations:

- there have been a minimum of three failed debt repayment arrangements in row under the current Debt Episode,
- an individual who has given a surety in the ING Bank Śląski Group for material liabilities of his company is in default or an individual is a Debtor of the Bank and his company is in default,
- if an individual client is in default, it is a default premise for his company, if the company is in default, it is a default premise for the individual,

- not willing or not able to repay - the Bank assesses whether the Debtor is not willing or not able to repay. Liability cannot be repaid when the debtor's sources of income are insufficient to pay the instalments due,

  Examples when clients from the retail segment may not be able to repay their debt:

  - loss of job,
  - discontinuation of social benefits payments,
  - divorce,
  - serious illness,
  - Debtor' death,
  - closure of the company,
  - learning by the Bank about the untimely service of debt of significant value in another bank (pastdue debt over 90 DPD) or about initiation of enforcement/collection actions by another bank.
- granting a forbearance to a client who is unable to meet his financial obligations under a loan agreement concluded with the Bank due to existing or expected financial difficulties,
- credit fraud - credit fraud made by the client and targeted at the Bank.

  In the case of retail credit exposures, a justified suspicion of credit fraud, i.e. a commitment whose credit documentation or established facts indicate that it was granted as a result of a deliberate misrepresentation of the Bank by presenting documents, certificates or statements inconsistent with the facts. In particular, the following events occur:

  - the account has been registered by the Bank as a suspected credit fraud,
  - after an analysis, a suspected crime has been reported,
  - termination of the credit facility and establishing 100% reserve for the debt are recommended.
  - the Bank decided to terminate the credit facility and establish 100% reserve for the debt.
- the occurrence of at least 2 forbearances within 5 years of the application of the first forbearance.

Objective evidence 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 evidence of impairment may be:

- **a state** - i.e., it works as long as the condition that applies to it exists; or
- **an event** - it occurs at a specific moment.

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

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of more than 90 days, provided that the amount of the arrears is higher than both materiality thresholds indicated in item 5.5.9,
- the exposure has been recognised as impaired under IFRS9 (due to the unification of the definition, the default is equivalent to impaired exposure),
- for retail credit exposures - restructuring of non-performing (event),
- filing a bankruptcy petition by the client (state),
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement. For retail credit exposures - termination: the Bank demands early repayment of the loan in full by the Debtor, which results in termination of the relationship with the Bank (event),
- amortization or write-off of retail credit exposures by the Bank:
  - 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,

- written-off, and the balance amount increased by the written-off amount plus interest exceed the materiality threshold (event),

- the Bank sold credit liabilities (or some of them) at a loss>5% of its balance sheet exposure, and a decision to sell was taken due to the deteriorating quality of the exposure (event),
- the occurrence of overdue amount for more than 30 days on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),
- the granting of a further forbearance on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),

Should an objective evidence of impairment be identified on the exposure of a given client, it is assumed that impairment is also recognised on other exposures of that client.

Identification of the objective impairment evidence requires downgrading the client to the worst risk rating. For the 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 entire lending portfolio of retail clients is tested for exposure impairment.

If after the assessment we find that for a given financial assets item there are no reasons for impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment based on measurement of expected credit losses. If there is any evidence of impairment of assets item measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an asset and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

In practice, this means that for Stage 3 portfolio (financial assets that individually are insignificant) - the loss is determined with the collective impairment calculation method using the lifetime expected credit loss of the asset. When estimating future cash flows, available information on the debtor is taken into account, in particular the possibility of repayment of the exposure is assessed, and for backed credit exposures, the expected future cash flows on collateral execution are also used in the estimation, considering the time, costs and impediments of payment recovery under collateral sale, among other factors.

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

Measurement of the expected credit losses

To measure expected credit loss in a collective approach, the Bank uses regulatory models of estimating risk parameters of PD, LGD and EAD adjusted to the requirements of IFRS 9, built for the needs of the Advanced Internal Ratings Based Approach (AIRB method). The risk parameter models for the purposes of IFRS 9 maintain the same structure as the regulatory models, while the method of estimating specific parameter values (PD, LGD, EAD) is adapted to the requirements of IFRS 9, and in particular includes 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. 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.

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 lifetime of 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 results from the total expected losses calculated each year in future to the remaining maturity, taking into account discounting.

The impairment loss calculated collectively is based on historical loss experience for assets portfolios with similar credit risk characteristics.

The Bank measures the Lifetime Expected Loss (LEL) on an exposure without recognised impairment (Stage 2) as the discounted total of partial losses over the lifetime of exposure, relating to events of default in each 12-month time window remaining to the maturity date of the exposure.

The Bank calculates the expected credit loss as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The expected loss is calculated for each scenario separately and the probability weighted average results from the weights (probabilities) assigned to each scenario (sum of weights = 100%). Such an approach meets the requirement of the standard that a provision (impairment loss) is an unencumbered and probability-weighted amount determined based on a range of possible outcomes.

The projection (valuation) of the expected loss is made at each point in time in the future, depending on the economic conditions expected at a given point. Based on historical data, the Bank has defined the relations between the observed parameters of expected loss (PD, LGD) and macroeconomic factors as functions based on which - with the given projections of macroeconomic factors - the expected values of the parameters of expected loss in a given year in the future are calculated according to the forward looking PiT approach.

For the needs of estimating the expected loss, the Bank determines the level of EAD exposure only for irrevocable credit obligations by applying CCF conversion factors (percentage of the use of the free part of the credit limit in the period from the reporting date to the occurrence of a default) from regulatory EAD models (estimated according to the TTC approach - 'through the cycle'). EAD decreases over time in line with the repayment schedule of a given exposure.

For exposures with a specified final repayment date the time to maturity is limited to 30 years.

The LGD parameter, which is a function of the applied credit risk mitigation techniques and which is expressed as a percentage of EAD, is estimated at the product and exposure level based on parameters from regulatory LGD models calibrated for the needs of IFRS 9 (estimated according to the TTC approach - 'through the cycle').

The level of the LGD parameter used to calculate the amount of impairment loss using the collective approach for impaired exposures (PD = 100%) depends additionally on how long the credit exposure defaults.

Recognition of a write-down of an expected credit loss on assets measured at amortised cost

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

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment loss is reversed through the income statement by a proper adjustment.

The Bank applies the same criteria to the customer's exit from the default and reversal of an impairment loss. The trial period and then the recovery process, i.e. transition from the non-performing portfolio to the performing one is carried out:

- for mortgage loan clients - at the business segment level, unless it concerns a situation recognised at the debtor level (e.g. bankruptcy).

If a debtor is in the impaired portfolio and has no exposure with forbearance granted, he is deemed recovered and qualified to the performing portfolio if all the conditions are met in the following order:

- no evidence of impairment or impairment trigger which is a source of default or which indicates a high probability of default is active,

- at least 3 months have elapsed since the end date of the evidence of impairment/impairment trigger (trial period) and during that period the client's conduct (intention to repay) and his situation (ability to repay) has been positively assessed,
- the client made regular repayments, i.e. no amounts past due >30 days during the trial period,
- after the end of the trial period, the client was deemed to be able to repay the credit obligations in full without making use of the collateral,
- there are no overdue amounts exceeding the absolute limit; should there be overdue amounts exceeding the absolute limit, the trial period shall be extended until the amount of the arrears falls below the limit.

A client classified to an impaired portfolio who holds exposure with forbearance granted is deemed to be recovered and classified to the performing portfolio if all the following conditions are met:

- no evidence of impairment or impairment trigger which is a source of default or which indicates a high probability of default is active,
- at least 12 months (trial period) have elapsed since the last of the following events:
  - granting of the last means under restructuring, namely forbearance,
  - the exposure was given a default status,
  - end of the grace period specified in the restructuring agreement,
- during the trial period, the client made substantial/regular repayments:
  - having made regular payments in accordance with the agreed restructuring terms and conditions, the client has repaid a substantial amount being earlier overdue payments (if there were any overdue amounts) or amortisation (if there were no overdue amounts),
  - the client made regular repayments, in accordance with the new schedule taking into account the terms and conditions of restructuring, i.e. no amounts past due > 30 days during the trial period.
- at the end of the trial period, the client has no overdue amounts and there are no concerns about the full repayment of the exposure under the terms and conditions of the restructuring agreement.

The Bank established the following additional terms and conditions for impairment reversal / exit from the default status applicable to all clients:

- if during the trial period evidence or indication of impairment is identified as being the source of default / indicating a high probability of non-payment, the end date of the trial period shall be re-established and the trial period shall start again from the expiry of the evidence / indication of impairment,
- if during the trial period and after the grace period, a DPD event > 30 has occurred, the end date of the trial period will be reset and the trial period will start again from the date when the DPD has fallen below 31 days.
- all terms and conditions for impairment reversal / exit from default should also be met with regard to new exposures of the client, especially if that client's previous credit exposures that were under restructuring have been disposed of or permanently written off.
- an exception to the principle of no active evidence / indication of impairment being the source of the default is the evidence 'classification to Stage 3/ provision' - its existence does not withhold the start of the trial period (because it is an effect and not a cause of default) - classification to Stage 3 and the provision are also upheld during the trial period.

Rationale for classification of a financial asset measured at fair value through other comprehensive income to Stage 3

At each balance sheet date, the Bank assesses whether there is any objective evidence of impairment of debt financial assets classified as measured at fair value through other comprehensive income. Confirmation that such an objective evidence of impairment occurred is a premise for the classification of an asset to Stage 3.

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

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

Recognition of a write-down of an expected credit loss on debt financial assets measured at fair value through other comprehensive income

If there is objective evidence that debt financial assets measured at fair value through other comprehensive income are impaired, the part of the measurement corresponding to the amount of the impairment loss is derecognised from other comprehensive income and recognised in the income statement, even if the financial asset is not derecognised from the statement of financial position.

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

5.5.10. Gains and losses resulting from subsequent measurement

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

- a gain or loss on a financial asset or financial liability carried at fair value through income statement 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 a debt financial asset from the statements of financial position, cumulated gains and losses recognized previously in equity:

- are recognised in the income statement as far as debt financial assets 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. Non-current assets leased

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.

The identification of future lease payments requires the determination of the lease term. 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.

5.6.1.3. 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 the initial recognition of an acquired intangible asset are capitalised only if the criteria binding in the Bank are met. 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 property, plant and equipment items. 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 indications 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. Other items of the statement of financial position

5.7.1. Trade debtors and other receivables

The Bank applied a simplified approach to the assessment of a loss allowance for expected credit losses and recognises the allowance in the amount equal to the receivables lifetime expected credit losses.

Trade receivables are covered by impairment loss when they are past due 60 days, except when, despite the delay, repayment is highly probable.

In justified cases, and in particular in the case of receivables due for shortages and damages, claims contested by debtors and other receivables for which the risk of non-recovery is assessed by the Bank as high, impairment losses are made earlier.

If the effect of the time value of money is material, the value of receivable is determined by discounting the projected future cash flows to present value, using a discount rate reflecting the current time value of money. If the discounting method has been applied, the increase in receivables due to time lapse is recognized as financial income.

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

5.7.2. 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 S.A. does not keep cash but only cash equivalents, namely balances on current accounts and term deposit accounts held by other banks.

5.8. Equity

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

5.8.1. Share capital

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

5.8.2. Supplementary capital - share premium

This capital is formed from the share premium less any direct costs incurred in connection with that issue.

5.8.3. 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.

5.8.4. 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,
- actuarial gains / 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.

5.9. Prepayments and deferred income

5.9.1. 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, insurance 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.

5.10. Employee benefits

5.10.1. 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.

5.10.2. 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 liabilities from the statements of financial position.

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.

5.10.3. Long-term employee benefits

5.10.3.1. 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 *Provisions* item of the statements 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.

5.10.3.2. 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.

5.11. 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.

5.12. Income statement

5.12.1. 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 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.

The main items of the Bank's statement of financial position in case of which the effective interest rate method is applied are loans and advances granted to customers, as well as liabilities due to the issue of covered bonds. The main transaction costs related to loans and advances granted to customers are the costs of purchasing receivables attributable to mortgage loans (costs of court entries related to the transfer of a mortgage and costs of extended inspections included), whereas with regard to liabilities arising from the issue of covered bonds, the costs of court entries related to the mention of the loan being entered in the cover register (=register of collaterals of covered bonds) may be listed among the examples of transaction costs settled with the effective interest rate method.

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.

5.12.2. 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 for commissioned real estate inspection in connection with a change in collateral by the client.

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 includes, for example, commission for amending the credit agreement as to the amount or schedule of loan repayments as commissions adjusting the effective interest rate;

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 obligations in the agreement,
3. setting of the transaction price,
4. price allocation to specific contractual obligations, and
5. recognition of income when specific obligations 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.

No insurance products are offered by the Bank together with loans and advances.

5.12.3. 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.

5.12.4. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to banking activity, including costs of the created provision for the reimbursement of a part of credit cost resulting from prepayments of consumer loans.

5.13. Taxes

5.13.1. 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 type of temporary differences.

Current tax is a liability calculated based on taxable income at the binding tax rate at the balance sheet date including adjustments of prior year tax liability.

5.13.2. 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 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.

5.13.3. 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 interim condensed financial statements drawn up for the period from 1 January 2021 to 30 June 2021, compared to the previous financial statements for the period from 1 January 2020 to 30 June 2020, ING Bank Hipoteczny S.A. did not make any significant changes in the manner of presentation of financial data.

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

7.1. Net interest income

[in PLN thousand]

	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Interest income	**39,707.2**	**64,662.5**
Interest income calculated using the effective interest method	**39,707.2**	**64,662.5**
Interest on loans and other receivables from customers measured at amortised cost	39,487.4	62,779.0
Interest on receivables from banks measured at amortised cost	3.5	605.5
Interest on securities measured at amortized cost	101.3	828.8
Purchase of securities measured at fair value through other comprehensive income	115.0	449.2
Interest expenses	**-14,043.8**	**-37,668.9**
Interest on liabilities to other banks	-11,356.6	-33,461.5
Interest on liabilities under issue of bonds	-972.2	0.0
Interest on liabilities under issue of covered bonds	-1,712.9	-4,202.6
Interest on lease liabilities	-2.1	-4.8
Net interest income	**25,663.4**	**26,993.6**

7.2. Net commission income

		[in PLN thousand]
	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Commission income	**227.5**	**231.9**
Commission for early repayment of mortgage loans	206.4	310.3
Other commission income	21.1	-78.4
Commission expenses	**-749.4**	**-90.7**
Fees and commissions to the National Depository for Securities (KDPW), issue registration included	-9.2	-0.3
Fees and commissions to other financial entities, inclusive of fees and commissions for disclosure of credit information	-79.7	-43.9
Fees and commissions to banks for issued guarantees	-252.3	0.0
Fees and commissions to banks for granted loans	-185.8	0.0
Other commission expenses	-222.4	-46.5
Net commission income	**-521.9**	**141.2**

7.3. General and administrative expenses

		[in PLN thousand]
	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Personnel expenses	**-5,468.5**	**-5,656.6**
Wages and salaries	-4,573.4	-4,587.9
of which variable remuneration programme	*-705.9*	*-551.6*
Employee benefits	-895.1	-1,068.7
Other general and administrative expenses	**-10,630.7**	**-7,634.2**
Depreciation and amortisation	-677.9	-683.8
Costs of auxiliary activities provided under the Cooperation Agreement*	-3,088.3	-3,078.2
Bank Guarantee Fund charges**	-4,698.2	-950.6

IT costs	-473.4	-495.6
Costs of news service platforms	-153.9	-158.6
Costs of rental of buildings	-86.4	-137.1
Legal services	-52.2	-385.1
Communications costs	-68.9	-116.8
Other advisory and consulting costs	-80.0	-61.6
Consumption of materials and assets other than non-current assets	-31.2	-49.9
Taxes and charges	-2.4	-3.8
Representation costs	0.0	-2.0
Other third-party services	-671.9	-1,002.7
Other costs	-546.0	-508.4
General and administrative expenses	**-16,099.2**	**-13,290.9**

*) 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 7.22 Transactions with related companies.

**) On 20 April 2021, the Management Board of ING Bank Hipoteczny S.A. got information from the Bank Guarantee Fund on the amount of the annual contribution to the banks' compulsory resolution fund for 2021, with the adjustment of the 2020 contribution factored in. The total cost to the Bank is PLN 4.7 million, the 2020 contribution adjustment included. The amount of the contribution was charged to the costs of the second quarter of 2021 and paid in July 2021.

7.4. Expected loss provision

		[in PLN thousand]
	period **from 01.01.2021 to 30.06.2021**	period **from 01.01.2020 to 30.06.2020**
Establishment of expected loss provisions	**-316.8**	**-841.5**
Loans and other receivables from clients	-313.9	-832.7
Debt securities at fair value through other comprehensive income	-2.9	-8.8
Release of expected loss provisions	**565.4**	**0.9**
Loans and other receivables from clients	562.6	0.0
Debt securities measured at amortized cost	0.0	0.9
Debt securities at fair value through other comprehensive income	2.8	0.0
Expected loss provision	**248.6**	**-840.6**

7.5. Income tax

Income tax recognized in the income statement

		[in PLN thousand]
	period **from 01.01.2021 to 30.06.2021**	period **from 01.01.2020 to 30.06.2020**
Current tax	**-2,780.7**	**-2,027.8**
Deferred tax	**117.7**	**-618.8**
Recognized and reversed temporary differences	117.9	-618.8
Recognized and reversed negative temporary differences due to:	91.0	-402.3
2018 tax losses	0.0	-544.2
Costs of provision for personnel, tangible and others expenses	-34.7	-128.7
Expenses attributable to accrued but not paid interest	94.8	59.8

Loan loss provisioning (LLP)	47.2	159.7
Income settled at the effective interest rate	15.6	42.4
Other	-32.1	8.7
Recognized and reversed positive temporary differences due to:	26.9	-216.5
Income on accrued but not paid interest	-27.6	-147.1
Difference between tax and balance sheet depreciation/amortization	97.5	-46.5
Measurement of securities	-43.0	-22.9
Total tax recognized in the income statement	**-2,663.0**	**-2,646.6**

Effective tax rate calculation

		[in PLN thousand]
	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
A. Profit before tax	**9,189.2**	**12,975.8**
B. (-) 19% of profit before tax	**-1,746.0**	**-2,465.4**
C. Increases - 19% of costs other than tax deductible cost, including:	**-917.1**	**-181.2**
Bank Guarantee Fund contribution to the banks' compulsory resolution fund	-892.7	-180.6
Tax on certain financial institutions	-12.0	0.0
Other	-12.4	-0.6
D. Decreases - 19% of tax exempt income	**0.0**	**0.0**
E. Income tax from income statement [B+C-D]	**-2,663.0**	**-2,646.6**
Effective tax rate (-E : A)*	**28.98%**	**20.40%**

In 2021, the difference in the effective tax rate from 19% was mainly affected by the Bank Guarantee Fund contribution to the compulsory resolution fund in the amount of PLN 4.7 million.

NOTES TO STATEMENT OF FINANCIAL POSITION

7.6. Amounts due from banks

			[in PLN thousand]
	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
Current accounts	31,847.6	3,823.6	4,839.9
Term deposits in banks	0.0	62,000.1	64,000.7
Other amounts due from banks	0.0	0.0	96.9
Total (gross)	**31,847.6**	**65,823.7**	**68,937.5**
Expected loss provision	0.0	0.0	0.0
Total (net)	**31,847.6**	**65,823.7**	**68,937.5**

Amounts due from banks as at 30 June 2020 include cash on current accounts with ING Bank Śląski S.A. and in the comparative periods most notably short-term deposits in PLN with ING Bank Śląski S.A.
The Bank has no 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 amounts due.

7.7. Debt securities

			[in PLN thousand]
	as at	as at	as at

	30.06.2021	31.12.2020	30.06.2020
Debt securities at fair value through other comprehensive income	50,084.3	50,186.9	49,740.7
T-bonds	50,084.3	50,186.9	49,740.7
Debt securities measured at amortized cost	32,999.9	0.0	0.0
Cash bills of the National Bank of Poland	32,999.9	0.0	0.0
Total	**83,084.2**	**50,186.9**	**49,740.7**

7.8. Loans and advances granted to customers

[in PLN thousand]

	as at 30.06.2021			as at 31.12.2020			as at 30.06.2020		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
Retail Banking (individuals)	**4,176,627.3**	**-3,478.0**	**4,173,149.3**	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,898,437.4**	**-1,750.1**	**3,896,687.3**
Mortgages	4,176,627.3	-3,478.0	4,173,149.3	3,694,594.4	-3,673.7	3,690,920.7	3,898,437.4	-1,750.1	3,896,687.3
Total	**4,176,627.3**	**-3,478.0**	**4,173,149.3**	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,898,437.4**	**-1,750.1**	**3,896,687.3**

Lending portfolio quality

[in PLN thousand]

	as at 30.06.2021			as at 31.12.2020			as at 30.06.2020		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
Assets in Stage 1	4,144,830.4	-766.5	**4,144,063.9**	3,660,501.3	-781.6	**3,659,719.7**	3,870,187.7	-874.2	**3,869,313.5**
Assets in Stage 2	24,708.0	-715.7	**23,992.3**	28,596.2	-967.7	**27,628.5**	27,696.2	-680.3	**27,015.9**
Assets in Stage 3	7,088.9	-1,999.8	**5,093.1**	5,496.9	-1,924.4	**3,572.5**	553.5	-195.6	**357.9**
Total	**4,176,627.3**	**-3,478.0**	**4,173,149.3**	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,898,437.4**	**-1,750.1**	**3,896,687.3**

Change in expected loss provision/impairment loss

[in PLN thousand]

	period from 01.01.2021 to 30.06.2021				period from 01.01.2020 to 30.06.2020			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Allowance at the beginning of the period	**-781.6**	**-967.7**	**-1,924.4**	**-3,673.7**	**-423.8**	**-343.9**	**-149.3**	**-917.0**
Movements in the period	**15.1**	**252.0**	**-71.4**	**195.7**	**-450.4**	**-336.4**	**-46.3**	**-833.1**
Allowance for loans acquired in the period	-163.0	0.0	0.0	**-163.0**	-294.7	0	0	**-294.7**
Change in estimation	161.8	48.8	314.8	**525.4**	-171.5	-119	-19.8	**-310.3**
Transfer to stage 1	-3.9	216.3	0.0	**212.4**	-1	56.2	0	**55.2**
Transfer to stage 2	5.1	-159.4	202.3	**48.0**	11.8	-289.3	0	**-277.5**
Transfer to stage 3	2.0	46.8	-672.3	**-623.5**	0	3.5	-26.5	**-23.0**
Repayment in full	13.1	99.5	83.8	**196.4**	5	12.2	0	**17.2**
Allowance at the end of the period	**-766.5**	**-715.7**	**-1,995.8**	**-3,478.0**	**-874.2**	**-680.3**	**-195.6**	**-1,750.1**

In the first half of 2021 ING Bank Hipoteczny S.A. purchased from ING Bank Śląski S.A. one mortgage-backed housing loans debt claims portfolio under the Debt Transfer Contract to effect the issue of covered bonds No. 12 for the total amount of PLN 710,665,000.

The basis for the purchase of debt portfolios by ING Bank Hipoteczny S.A. from ING Bank Śląski S.A. is the Debt Transfer Framework Agreement concerning transfer of debt in order to issue covered bonds, signed in 2019, on the terms and conditions specified in particular in the Act on Covered Bonds and Mortgage Banks.

7.9. Property, plant and equipment

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Gross value	**1,138.8**	**1,522.4**	**1,384.8**
Right-of-use assets	908.2	1,291.9	1,154.1
Computer hardware	213.7	213.6	206.4
Other property, plant and equipment	16.9	16.9	24.2
Accumulated depreciation/amortisation	**-565.6**	**-783.2**	**-491.4**
Right-of-use assets	-389.5	-626.5	-371.2
Computer hardware	-166.8	-149.0	-114.3
Other property, plant and equipment	-9.3	-7.6	-5.9
Total (net)	**573.2**	**739.3**	**893.3**
Right-of-use assets	518.7	665.3	782.9
Computer hardware	46.9	64.6	92.1
Other property, plant and equipment	7.6	9.3	18.3

7.10. Intangible assets

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Gross value	**2,975.8**	**2,975.8**	**2,975.8**
Software	2,975.8	2,975.8	2,975.8
Accumulated depreciation/amortisation	**-2,646.9**	**-2,151.0**	**-1,655.1**
Software	-2,646.9	-2,151.0	-1,655.1
Total (net)	**328.9**	**824.8**	**1,320.7**
Software	328.9	824.8	1,320.7

*) From the Bank's point of view, in the reporting period, significant intangible assets were:
the Cover Register software that was rendered for use in 2018, whose carrying amount as at 30 June 2021 was PLN 185,800, and the SAS (CSS) software license, whose carrying amount as at 30 June 2021 was PLN 77,200. Expected economic life of the software is 2 years.
Neither in the first half of 2021 nor in the first half of 2020, the Bank incurred expenditure for intangible assets.

7.11. Other assets

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Prepayments and deferred income	**3,254.5**	**3,694.1**	**4,527.7**
Prepaid general and administrative expenses	3,254.5	3,694.1	4,527.7
Other assets, including:	**127.0**	**87.2**	**443.2**
Public and legal settlements	103.2	87.1	212.6
Settlements with suppliers	0.0	0.0	0.0

Other	23.8	0.0	230.6
Total	**3,381.5**	**3,781.4**	**4,970.9**

7.12. Liabilities to banks

			[in PLN thousand]
	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
Loans received	3,191,942.0	1,969,596.1	2,739,396.6
Liabilities due to refinancing*	71,012.3	0.0	421,882.8
Other	0.0	1.1	0.4
Total	**3,262,954.3**	**1,969,597.2**	**3,161,279.8**

*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 and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

7.13. Liabilities under issue of bonds

			[in PLN thousand]
	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
Liabilities arising from the issue of bonds with a repayment period	150,153.0	975,131.6	0.0
From 1 month to 3 months	0.0	925,127.40	0.0
From 3 months to 6 months	0.0	50,004.20	0.0
From 6 months to 9 months	150,153.0	0.0	0.0
Total	**150,153.0**	**975,131.6**	**0.0**

7.14. Liabilities under issue of covered bonds

			[in PLN thousand]
	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
Liabilities on account of issuing covered bonds with a repayment period	399,619.8	399,480.6	399,872.0
From two to five years	399,619.8	399,480.6	399,872.0
Total	**399,619.8**	**399,480.6**	**399,872.0**

Cover Register

Covered bonds are secured with the Bank's receivables on account of mortgage loans with the highest priority established for the Bank. The basis for the issue of covered bonds is also a part of the Bank's funds invested in T-bonds referred to in note 7.7.

As at 30 June 2021, the value of the outstanding principal of the debt attributable to the mortgage loans entered in the cover register and being a collateral for the issue of covered bonds was PLN 3,232,981,900, whereas the value of additional collateral in the form of securities issued by the State Treasury was PLN 13,444.300.

With a view to future issues of covered bonds, the Bank continued to enter mortgage-backed credit debt to the cover register. As at the end of June 2021, there were 17,480 debt claims entered to the cover register.

7.15. Provisions

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Provisions for retirement and pension benefits	755.8	755.8	585.7
Other	20.0	20.0	83.9
Total	**775.8**	**775.8**	**669.6**

7.16. Other liabilities

	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Prepayments and deferred income	**9,492.1**	**4,183.2**	**7,282.5**
Due to employee benefits	3,392.6	2,891.3	2,542.5
of which variable remuneration programme	*2,727.8*	*2,030.2*	*1,937.1*
Due to costs of Bank Guarantee Fund contribution to the compulsory resolution fund	4,698.2	0.0	950.6
Due to Cooperation Agreement*	469.0	551.8	524.3
Due to IT costs	140.0	93.8	510.0
Due to legal services	0.0	60.0	250.4
Due to communication costs	50.0	17.2	60.0
Other	742.3	569.1	2,444.7
Other liabilities	**1,594.3**	**2,168.5**	**2,530.3**
Lease liabilities	519.2	668.2	815.9
Settlements with employees	0.0	792.5	393.8
Public and legal settlements	504.8	484.0	631.6
Settlements with suppliers	555.9	197.3	675.7
Other	14.4	26.5	13.3
Total	**11,086.4**	**6,351.7**	**9,812.8**

*) 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 7.22 Transactions with related companies.

7.17. Accumulated other comprehensive income

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Actuarial gains / losses	-587.5	-587.5	-497.9
including deferred tax	137.8	137.8	116.8

Securities measured at fair value through other comprehensive income	421.7	541.1	-38.2
including deferred tax	-98.9	-126.9	9.0
Total	**-165.8**	**-46.4**	**-536.1**

OTHER NOTES

7.18. Additional information to the cash flow statement

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances of current accounts and short-term deposits (made over a period up to 3 months) with other banks.

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Current accounts	31,847.6	3,823.6	4,839.9
Term deposits in banks	0.0	62,000.1	64,000.7
Total cash and cash equivalents	**31,847.6**	**65,823.7**	**68,840.6**

7.19. Fair value

The table below presents the balance-sheet figures for financial assets per individual measurement categories (levels). In the first half of 2021, there were no movements between the measurement levels, similarly as in the first half of 2020.

Financial assets carried at fair value in statement of financial position

as at 30.06.2021

				[in PLN thousand]
	Level 1	Level 2	Level 3	TOTAL
Financial assets	50,084.2	0.0	0.0	**50,084.2**
Debt securities measured at fair value through other comprehensive income	50,084.2	0.0	0.0	**50,084.2**
of which T-bonds	*50,084.2*	*0.0*	*0.0*	*50,084.2*

as at 31.12.2020

				[in PLN thousand]
	Level 1	Level 2	Level 3	TOTAL
Financial assets	50,186.9	0.0	0.0	**50,186.9**
Debt securities measured at fair value through other comprehensive income	50,186.9	0.0	0.0	**50,186.9**
of which T-bonds	*50,186.9*	*0.0*	*0.0*	*50,186.9*

as at 30.06.2020

	Level 1	Level 2	Level 3	[in PLN thousand] TOTAL
Financial assets	49,740.7	0.0	0.0	**49,740.7**
Debt securities measured at fair value through other comprehensive income	49,740.7	0.0	0.0	**49,740.7**
of which T-bonds	*49,740.7*	*0.0*	*0.0*	***49,740.7***

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

Below is a comparison of the carrying amount with the fair value of the loan portfolio, of liabilities attributable to bonds and covered bonds issue. For other financial assets and liabilities not measured at fair value in the statement of financial position, the fair value is similar to the carrying amount. In 2021, the measurement techniques for Levels 2 and 3 have not changed.

as at 30.06.2021

						[in PLN thousand]
	Carrying amount	**Method of measurement**	**Fair value**			**TOTAL**
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	4,173,149.3	discounted cash flows	0.0	0.0	4,101,541.5	**4,101,541.5**
Liabilities						
Liabilities under issue of bonds	150,153.0	discounted cash flows	0.0	150,376.3	0.0	**150,376.3**
Liabilities under issue of covered bonds	399,619.8	discounted cash flows	0.0	406,042.1	0.0	**406,042.1**

as at 31.12.2020

						[in PLN thousand]
	Carrying amount	**Method of measurement**	**Fair value**			**TOTAL**
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	3,690,920.7	discounted cash flows	0.0	0.0	3,627,696.9	**3,627,696.9**
Liabilities						
Liabilities under issue of bonds	975,131.6	discounted cash flows	0.0	975,131.6	0.0	**975,131.6**
Liabilities under issue of covered bonds	399,480.6	discounted cash flows	0.0	403,363.2	0.0	**403,363.2**

as at 30.06.2020

						[in PLN thousand]
	Carrying amount	**Method of measurement**	**Fair value**			**TOTAL**
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	3,896,687.3	discounted cash flows	0.0	0.0	3,847,405.3	**3,847,405.3**
Liabilities						
Liabilities under issue of covered bonds	399,872.0	discounted cash flows	0.0	419,024.9	0.0	**419,024.9**

The methodology of fair value measurement of the loan portfolio is based on the discounted cash flow method. Under this method, for each valued contract, expected cash flows are estimated, discounting factors for particular due dates and the value of discounted cash flows is determined as at the valuation date. Valuation models are fed by business parameters for individual contracts and parameters observed by the market, such as interest rate curves, liquidity cost and cost of capital.

The fair value of liabilities due to the issue of covered bonds is calculated by applying a discounting factor to each cash flow. In this case, the discounting factor is the sum of:

- the market rate based on the yield curve at the balance sheet date and

- an estimate of the current margin that would be offered if a commitment were made. This value is based on an indicative euro market quote and the cost of hedging the currency mismatch risk.

7.20. 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 2021 to 30 June 2021.

7.21. Off-balance sheet items

			[in PLN thousand]
	as at **30.06.2021**	as at **31.12.2020**	as at **30.06.2020**
Off-balance sheet liabilities received	1,809,200.0	3,031,198.9	1,463,249.6
Unused revolving credit facility received from ING Bank Śląski S.A.	1,809,000.0	3,031,000.0	1,463,000.0
Unused revolving credit facility for credit cards to the current account maintained for the Bank in ING Bank Śląski S.A.	200.0	198.9	249.6
Guarantees	154,500.0	309,000.0	0.0
Total	**1,963,700.0**	**3,340,198.9**	**1,463,249.6**

7.22. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2021 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 and Transfer Agreements, in return for transfer of the said portfolios on ING Bank Hipoteczny S.A.

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 revolving credit facility 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.

Since January 2019 ING Bank Śląski S.A. has performed for ING Bank Hipoteczny S.A. activities of basic importance under Cooperation Agreement signed by and between the two banks. The services are provided in the following areas: Accounting and Taxes, Controlling, IT, IT Security, 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. Some of the activities are performed as part of outsourcing, in accordance with the provisions of the Banking Law Act, while all decision-making processes related to the conducted activity are performed by ING Bank Hipoteczny S.A.

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.

All the above mentioned transactions are carried out on an arm's length basis.

Income and expenses

presented after deduction by the sales structure factor (VAT)

the period from 01.01.2021 to 30.06.2021

		[in PLN thousand]
	parent entity	other related entities
Income	**3.5**	**0.0**
Interest income	3.5	0.0
Expenses	**-15,217.3**	**-60.6**
Interest costs	-11,405.1	0.0
Commission expenses	-628.9	0.0
General and administrative expenses	-3,183.3	-60.6

period from 01.01.2020 to 30.06.2020

		[in PLN thousand]
	parent entity	other related entities
Income	**3.2**	**0.0**
Interest income	3.2	0.0
Expenses	**-2,337.9**	**-267.4**
Interest costs	-3.5	0.0
Commission expenses	-17.7	0.0
General and administrative expenses	-2,331.3	-267.4

Receivables and liabilities

as at 30.06.2021

		[in PLN thousand]
	parent entity	other related entities
Receivables	**32,259.9**	**0.0**
Amounts due from banks	31,847.6	0.0
Property, plant and equipment	412.3	0.0
Liabilities	**3,263,964.3**	**0.0**
Liabilities to other banks	3,262,954.3	0.0
Other liabilities	1,010.0	0.0
including: accruals	*469.0*	*0.0*
Off-balance-sheet operations	**1,963,700.0**	**0.0**
Off-balance sheet liabilities received	1,809,200.0	0.0
Guarantees	154,500.0	0.0

as at 31.12.2020

		[in PLN thousand]
	parent entity	other related entities
Receivables	**66,356.2**	**0.0**
Amounts due from banks	65,823.7	0.0
Property, plant and equipment	532.4	0.0
Liabilities	**1,970,289.6**	**55.6**
Liabilities to other banks	1,969,597.2	0.0
Other liabilities	692.4	55.6
including: accruals	*576.8*	*17.1*

Off-balance-sheet operations	**3,340,198.9**	**0.0**
Off-balance sheet liabilities received	3,031,198.9	0.0
Guarantees	309,000.0	0.0

as at 30.06.2020

[in PLN thousand]	parent entity	other related entities
Receivables	**69,560.8**	**0.0**
Amounts due from banks	68,937.5	0.0
Property, plant and equipment	623.3	0.0
Liabilities	**3,162,950.8**	**35.9**
Liabilities to other banks	3,161,279.8	0.0
Other liabilities	1,671.0	35.9
including: accruals	*426.3*	*0.0*
Off-balance-sheet operations	**1,463,249.6**	**0.0**
Off-balance sheet liabilities received	1,463,249.6	0.0

7.23. 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 the In-House Social Benefits Funds. The balance of the In-House Social Benefits Fund as at 30 June 2021 was PLN 123,000, whereas as at 30 June 2020 was PLN 87,000.

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

[in PLN thousand]	period from 01.01.2021 to 30.06.2021	period from 01.01.2020 to 30.06.2020
Short term employee benefits*	**806.1**	**793.6**
Remuneration*	756.8	746.5
Benefits	49.3	47.1

* exclusive of the variable remuneration programme

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

Emoluments of Members of the ING Bank Hipoteczny S.A. Management Board for 2020 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 2020 bonus; some part of it has been paid out in 2021, and some part has been deferred for the upcoming years (2022-2026).

No post-employment benefits payments were made to the Management Board Members in the period from 1 January 2021 to 30 June 2021 and from 1 January 2020 to 30 June 2020. 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.

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

		[in PLN thousand]
	period **from 01.01.2021 to 30.06.2021**	period **from 01.01.2020 to 30.06.2020**
Short-term employee benefits	**60.0**	**60.0**
Wages and salaries	60.0	60.0

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 2021 and as at 30 June 2020, respectively, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

7.24. Headcount

The headcount at ING Bank Hipoteczny S.A. was 36 FTEs as at 30 June 2021 and 41 FTEs as at 30 June 2020.

By resolution of the Supervisory Board of 5 May 2021, the Organisational Bylaw was updated. The Treasury Area was separated out of the Management Area and now it reports to the Vice President in charge of the Operations, IT and Finance Area.

7.25. Segment reporting

Due to the specifics of business activity, the Bank did not analyse its business results by segments in the reporting period and last year.

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

RISK AND EQUITY MANAGEMENT

The principles and organization of risk and capital management at ING Bank Hipoteczny S.A. are described in detail in the Bank's financial statements for the year ended 31 December 2020, which was approved by the General Meeting of ING Bank Hipoteczny S.A. on 24 March 2020.
The most significant changes in the process of risk and equity management that took place in the first half of 2021 and selected quantitative data are presented herein below.

7.26. Qualitative information

Capital management

In the first half of 2021, the Bank continued its efforts to implement its capital management strategy.

As the Minister of Finance signed the Regulation on the dissolution of the systemic risk buffer of 18 March 2020, the following minimum levels of capital ratios apply in 2021:

- CET1 >= 7.0%,
- T1 >= 8.5%,
- TCR >= 10.5%

Credit risk

- *Credit risk management framework*

In the first half of 2021 there were the following changes in the organisational structure of the Risk Management Area: The Risk Team was replaced by separate positions: Credit Risk Position, Market Risk Position and Operational Risk Position.

- *The main modifications of the Bank's lending policy*

In the first half of 2021, ING Bank Hipoteczny S.A. implemented the provisions of the new Recommendation S. As the Bank does not grant loans, the provisions concerning the DSTI ratio and the income buffer were implemented only in the process of annexing and monitoring loans. Moreover, the Bank's customers were offered an option to convert a variable credit rate to a fixed one for a period of time. For now, the Bank will not offer its customers a key for debt option.

- *Credit risk during COVID-19 pandemic*

The Bank introduced temporary changes mitigating the credit risk attributable to COVID-19 pandemic, including, but not limited to:

- actions were taken to support the Bank's clients during COVID-19 pandemic, including the option to suspend repayment of loan instalments for 3 or 6 months (principal only or principal and interest). As of the end of June 2021, the suspension period has ended for all submitted applications.
- The mortgage lending value of the real estate is determined prudently, taking into account the specifics of the property's location and the potential impact of COVID-19 on the value of the property on the local market.

- *Key modelling actions*
  - The total early repayment rate (ESR) in the EL model used in the LLP process has been updated.

- *Stress testing*

In accordance with the "Stress Testing Policy", the Bank conducted internal stress tests to assess the impact of potential events or changes in macroeconomic conditions on its capital requirement, economic capital, risk profile and financial result. The report on the stress-tests results was approved by the Bank's Management Board and presented to the Supervisory Board.

Stress testing was conducted on the data as at 31 December 2020.

They included:

- Scenario stress tests: mild recession scenario, long-term recession scenario and fast recession scenario,
- sensitivity tests (increase of interest rate by 400 bps and 200 bps, decrease of real estate prices by 30%, decrease of GDP dynamics to -5%, increase of unemployment to 20%, decrease of salaries by 10%, decrease of domestic demand by 10%).
- reverse stress tests,
- concentration tests.

The results obtained showed very good resilience of the Bank. The capital adequacy ratio was maintained at a safe level in the tested scenarios.

Market risk

As regards market risk, the Bank manages the risk in accordance with the developed principles, methodologies and approved policies. In the first half of 2021, no regulatory and internal limits on market risk were exceeded.

Liquidity and funding risks

In the first half of 2021, the Bank continued activities aimed at mitigating liquidity and funding risks in accordance with the liquidity and funding risk management policy and regulatory requirements. No regulatory and internal limits for liquidity and funding risks were exceeded. The Bank monitored the COVID-19 related liquidity situation, in particular the share of mortgage loans with suspended principal-and-interest payments in the Bank's loan portfolio.

In April 2021, the Bank received the PFSA's approval to include the proceeds from undrawn funds under the committed credit facility agreement concluded with ING Bank Śląski S.A. as liquidity inflows in the LCR measurement. The credit facility agreement is for PLN 1 billion. As at 30 June 2021, the amount of unused funds was PLN 98 million.

Model risk

In the first half of 2021, the Bank continued activities related to model risk management. The models applied at the Bank were subject to quarterly reviews and risk analysis, as well as a materiality review and validation. In this period, the Bank did not record any high or increased risk models. Model risk related economic capital remained below the adopted limit for this risk.

The Model Risk Management Policy at ING Bank Hipoteczny S.A. was also reviewed and updated.

Operational risk

In the first half of 2021, the COVID-19 related safety of the Bank's customers and employees continued to be of great importance. Co-ordinating the emergency response, ensuring the safety of remote working and verifying that employees could return to the office were among the most important aspects of the Bank's operations.

As part of the improvement of the internal control system, the Bank prepared Control Function Matrices for two additional processes identified as significant still in 2020 and ensured that the data contained in the Control Function Matrix for the remaining processes is updated on an ongoing basis. A further review of the list of material processes and verification and detailed planning for the required testing of key controls included in the Control Function Matrix were also carried out.

The Bank continued to work on ensuring full compliance with the EBA requirements on outsourcing.

The Bank continues to optimise the IT security and continuity risk assessment methods.

- *Business continuity*

Ensuring business continuity is a priority for the Bank and it is implemented in two stages. First, the Bank maintains and improves the business continuity management system. Second, the Operational Recovery Strategy was implemented to ensure monitoring and control of the quality of activities performed by the Bank's main provider, namely ING Bank Śląski S.A., and to ensure adequate response to any disruptions on the part of the provider.

The business continuity management system identifies processes that are of the utmost importance for the Bank. For them, contingency plans are prepared that enable the Bank to operate in case of process failure or in case other threats occur. In addition to contingency plans, the Bank also maintains and tests disaster recovery plans (for IT area), which allow to restore the key applications in the required time.

The bank always tries to prevent any disturbance. In case of events that have a material impact on the Bank's operations, a crisis management team is established to coordinate the activities of all the units involved.

In the first half of 2021, the Crisis Management Plan (CMP) and the Disaster Recovery Plan (DRP) for the Computer Centre were tested.

- *Business continuity during COVID-19*

Starting from 2020, COVID-19 pandemic forced the introduction of a number of restrictions resulting from the announced state of pandemic, as well as a change in behaviour, needs and economic situation of clients. The Bank responded by establishing in 2020 a Crisis Management Team which decided to initiate the Bank's contingency plans and to have the employees work from home. Moreover, the Bank established the Crisis Committee for streamlining the process of agreeing and communicating decisions to organizational units. The Bank kept working in this mode in the first half of 2021. Furthermore, since 2020 the representatives of the Bank have been participating in the meetings of the Crisis Team of ING Bank Śląski Group on a regular basis.

Due to the long-term and unpredictable nature of the pandemic, the Bank's activities are based on a flexible feedback and fast adjustment to the current and anticipated situation. In 2020, all Business Continuity Plans (BCPs) were activated and a rotating office work model was put in place. Due to the next wave of infections, BCPs (remote working model) were reinstated, which means that all Business Continuity Plans (BCPs) have been actually tested in the first half of 2021 continuously since 19 October 2020.

The actions taken by the Bank during the pandemic were to adjust the Bank's operations in terms of at least the manner/form of work, the sanitary measures in place, internal and external communication and monitoring and reporting.

Compliance risk

In the first half of 2021, the Bank continued activities related to ensuring the Bank's compliance with regulatory requirements, including the monitoring, analysis and implementation of regulatory changes, improvement of controls in the key processes of the Bank, the Know Your Customer area included. Actions to make and reinforce awareness of Bank employees of the key compliance areas are taken on a regular basis.

Business risk

Macroeconomic risk is distinguished by the Bank as significant business risk.

- *Macroeconomic risk*

Macroeconomic risk is the risk resulting from changes in macroeconomic factors and their impact on minimum capital requirements. The Bank manages this risk through regular internal stress testing, which allows for on-going monitoring of the sensitivity of the minimum capital requirements to macroeconomic factors. In the first half of 2021, the Bank conducted full capital tests as at the fourth quarter of 2020.

In line with the applied approach, the Bank estimates the additional capital requirement based on internal stress test results for the mild recession scenario. Stress-test results showed that should the mild recession risk materialise it would not affect a decline in the capital adequacy below the required level.

7.27. Quantitative information

Credit risk

For data on the quality of the credit portfolio, see notes no. 7.8. herein *Loans and other receivables to customers* and 7.28. *Capital adequacy disclosures*.

Market risk

- *Interest rate risk*

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

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

In the first half of 2021, the Bank identified no exceeded interest rate risk limits. As at 30 June 2021, 31 December 2020, and 30 June 2020 the core measures were at the following levels:

Risk measure	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
BPV (PLN thousand)	42.9	57.0	54.3
NIIaR (PLN thousand)	2,324.5	1,203.6	478.5
EVEaR to own funds	1.63%	1.17%	1.9%

- *FX risk*

The Bank does not hold significant positions in foreign currencies. As at 30 June 2021, the FX risk is deemed non-material. The Bank uses the following measures of the FX risk:

- a measure of the position in particular currencies,
- value at FX risk (VaR).

As at 30 June 2021, the Bank held the FX position of EUR 28,000 (short position). This position resulted from internal administration and generated VaR of PLN 1,700.

- *Liquidity and funding risks*

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

As at 30 June 2021 and 31 December 2020 the regulatory liquidity measures for ING Bank Hipoteczny S.A. were as follows

	Liquidity metrics	Minimum value	as at 30.06.2021	as at 31.12.2020	as at 30.06.2020
LCR	Liquidity coverage ratio	100%	11,160%	8,555%	2,861%
NSFR	Net stable funding ratio	100%*	145%	109%	101%

*) in accordance with Regulation (EU) No 2019/876 of the European Parliament and of the Council, the minimum level of the NSFR is applicable from 28 June 2021.

In the first half of 2021, the Bank applied a different approach to the calculation of the liquidity coverage ratio for mortgage loans entered in the collateral register of covered bonds, which provide overcollateralisation for the issued covered bonds, compared to the first half of 2020. The said overcollateral is now shown in the calculation of the NSFR ratio as unencumbered assets. As a result, the NSFR as at 30 June 2021 was 145% vs. 101% as at 30 June 2020.

Table EU LIQB on qualitative information on LCR

a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	In the first half of 2020, the Bank's liquid assets consisted exclusively of T-bonds of PLN 34,545,000, whereas in the first half of 2021 the Bank's liquid assets consisted of both the T-bonds mentioned above of PLN 35,021,000 and cash bills of PLN 32,997,600 (debt securities are described in note 7.7). At the same time, as at 30 June 2021, the projected liquidity outflows are materially lower than in the same period last year due to lower interest rates in the market.
b)	Explanations on the changes in the LCR over time	In the first half of 2021, the Bank's LCR was 11,160% compared to 2,861% in the first half of 2020. This was due to the reasons detailed in a) above.
c)	Explanations on the actual concentration of funding sources	In the first half of 2021, there were no major changes in the actual concentration of financing sources compared to the first half of 2020. Nevertheless, compared to the first half of 2020, the Bank expanded the used funding sources by issuing bonds. The nominal value of bonds issued by the Bank was PLN 150,000,000 at the end of the first half of 2021 (liabilities under issue of bonds are described in note 7.13).
d)	High-level description of the composition of the institution's liquidity buffer	Changes in the liquidity buffer in the first half of 2021 compared to the first half of 2020 amounted to approximately PLN 33,473,600 and resulted in particular from the purchase of cash bills in the amount indicated in point a) above.
e)	Derivative exposures and potential collateral calls	Not applicable
f)	Currency mismatch in the LCR	Not applicable
g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	Not applicable

7.28. Capital adequacy disclosures

Taking into account the scale and specifics of the Bank's operations, the Bank discloses selected information on capital adequacy in the interim condensed financial statements. The information refers in particular to:

- own funds for the needs of capital adequacy,
- capital requirements,
- credit risk related adjustments,
- applied credit risk mitigation techniques.

In accordance with the requirements of the EBA/GL/2020/07 Guidelines, the Bank also presents detailed quantitative data on the exposures covered by the measures applied in response to the crisis caused by COVID-19.

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.

Own funds and capital requirements

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:

- for credit risk – using the standardised approach,
- for the CVA risk – using the standardised approach,
- for delivery and settlement risk – using the standardised approach,
- for operational risk – using the basic indicator approach (BIA),
- for market risk (FX risk) using the standardised approach.

As at 30 June 2021, 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.

Total capital ratio

		[in PLN thousand]
	as at **30.06.2021**	as at **30.06.2020**
Own funds		
A. Equity capitals from the statement of financial position, including:	**468,190.1**	**451,795.3**
A.I. Equity capitals recognised under own funds, including:	461,663.9	441,466.1
Share capital	380,000.0	380,000.0
Supplementary capital – share premium	62,002.2	62,002.2
Retained earnings from previous years	18,241.4	0.0
Loss for the current period	0.0	0.0
Accumulated other comprehensive income	-165.8	-536.1
Reserve capital	1,586.2	0.0
A.II. Equity capitals not recognised under own funds, including:	6,526.2	10,329.2
Profit for the current period	6,526.2	10,329.2
B. Other components (decreases and increases) of own funds, including:	**-369.0**	**-1,370.5**
Intangible assets	-318.9	-1,320.7
Value adjustment due to the requirements for prudent valuation	-50.1	-49.8
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	**461,295.0**	**440,095.6**
Tier 1 capital	461,294.98	440,095.60
Risk weighted assets, including:	**1,720,201.84**	**1,773,709.00**
credit risk weighted assets	1,671,476.28	1,716,355.00

operational risk weighted assets	48,725.56	57,354.00
Total capital requirements	**137,616.15**	**141,896.72**
Total capital ratio (TCR)	**26.82%**	**24.81%**
minimum required level	10.50%	10.50%
excess TCR	280,673.79	253,856.16
Tier 1 ratio (T1)	**26.82%**	**24.81%**
minimum required level	8.50%	8.50%
excess T1	315,077.82	289,330.34
Common Equity Tier 1 ratio (CET1)	**26.82%**	**24.81%**
minimum required level	7.00%	7.00%
excess T1	340,880.85	315,935.97

Risk weighted assets and capital requirements

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

				[in PLN thousand]
	Gross value of exposures	**Net exposure****	**Risk weighted assets (RWA)**	**Requirement for own funds**
Exposures to central governments and central banks	84,182.4	84,182.4	2,719.6	217.6
Exposures to institutions	31,847.6	31,847.6	0.0	0.0
Retail exposures*	497,457.0	497,174.6	372,880.9	29,830.5
Exposures secured by mortgages on immovable properties	3,672,081.4	3,670,614.6	1,286,436.0	102,914.9
Exposures in default	7,088.9	5,166.1	5,166.1	413.3
Other exposures	4,273.6	4,273.6	4,273.6	341.9
Total	**4,296,931.0**	**4,293,258.9**	**1,671,476.2**	**133,718.1**

*) They arise from a part of exposures relating to purchased mortgage loan related debt claims that is not fully and completely secured, namely, that is in the transitional period, that is, until the collateral is established, or it exceeds 80% of mortgage lending value of the real estate.

**) Value of balance sheet exposures and equivalent of the balance sheet liabilities and contingent transactions, taking into account specific credit risk adjustments and credit conversion factor (CCF).

Selected quantitative information about capital adequacy

The following tables present detailed quantitative information on capital adequacy, as required by Commission Implementing Regulation 2021/637:

- Template EU KM1 - Key metrics template
- Template EU OV1 – Overview of total risk exposure amounts
- Template EU CC1 – Composition of regulatory own funds
- Template EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements
- Template EU LIQ1 – Quantitative information of LCR
- Template EU LIQ2 – Net Stable Funding Ratio
- Template EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
- Template EU CCyB2 – Amount of institution-specific countercyclical capital buffer

- Template EU LR1–LRSum – Summary reconciliation of accounting assets and leverage ratio exposures
- Template EU LR2–LRCom – Leverage ratio common disclosure
- Template EU LR3-LRSpl – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)
- IFRS 9/Article 468-FL – Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR
- Template EU CR1 – Performing and non-performing exposures and related provisions
- Template EU CR1-A – Maturity of exposures
- Template EU CR2 – Changes in the stock of non-performing loans and advances
- Template EU CQ1 – Credit quality of forborne exposures
- Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques
- Template EU CR4 – Standardised approach – Credit risk exposure and CRM effects
- Template EU CR5 – Standardised approach

Template EU KM1 - Key metrics template [in PLN thousand]

		a
		as at 30.06.2021
	Available own funds (amounts)	
1	Common Equity Tier 1 (CET1) capital	461,295.0
2	Tier 1 capital	461,295.0
3	Total capital	461,295.0
	Risk-weighted exposure amounts	
4	Total risk exposure amount	1,720,201.8
	Capital ratios (as a percentage of risk-weighted exposure amount)	
5	Common Equity Tier 1 ratio (%)	26.82%
6	Tier 1 ratio (%)	26.82%
7	Total capital ratio (%)	26.82%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)	
EU 7d	Total SREP own funds requirements (%)	8.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)	
8	Capital conservation buffer (%)	2.50%
11	Combined buffer requirement (%)	2.50%
EU 11a	Overall capital requirements (%)	10.50%
	Leverage ratio	
13	Total exposure measure	4,261,042.4
14	Leverage ratio (%)	10.83%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)	
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	3.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)	
EU-14e	Overall leverage ratio requirement (%)	3.00%

Template EU OV1 - Overview of total risk exposure amounts [in PLN thousand]

		a	c
		Total risk exposure amounts (TREA)	Total own funds requirements
		as at 30.06.2021	as at 30.06.2021
1	**Credit risk (excluding CCR)**	**1,671,476.2**	**133,718.1**
2	Of which the standardised approach	1,671,476.2	133,718.1
23	**Operational risk**	**48,725.6**	**3,898.0**
EU-23a	Of which basic indicator approach	48,725.6	3,898.0
29	**Total**	**1,720,201.8**	**137,616.1**

Template EU CC1 - Composition of regulatory own funds [in PLN thousand]

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	442,002.2	(h)
2	Retained earnings	18,241.4	(b)
3	Accumulated other comprehensive income (and other reserves)	1,420.4	(c)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**461,663.9**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-50.1	
8	Intangible assets (net of related tax liability) (negative amount)	-318.9	(a) minus (d)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-369.0**	
29	**Common Equity Tier 1 (CET1) capital**	**461,295.0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**461,295.0**	
59	**Total capital (TC = T1 + T2)**	**461,295.0**	
60	**Total risk exposure amount**	**1,720,201.8**	
	Capital ratios and buffers		
61	Common Equity Tier 1 capital	26.82%	
62	Tier 1 capital	26.82%	
63	Total capital	26.82%	
64	Institution CET1 overall capital requirement	7.00%	
65	of which: capital conservation buffer requirement	2.50%	

Template EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	c
		Balance sheet as in published financial statements	Reference
		as at 30.06.2021	
	Assets – Breakdown by asset classes according to the balance sheet in the published financial statements		
2	Loans and other receivables to other banks	31,847.6	
5	Investment securities	83,084.2	
6	Loans and other receivables to customers measured at amortised cost	4,173,149.3	
8	Property, plant and equipment	573.2	
9	Intangible assets	328.9	(a)
12	Deferred tax assets	1,087.8	(c)
13	Other assets	3,381.5	

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

14	**Total assets**	**4,293,452.6**	
Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements			
1	Liabilities to other banks	3,262,954.3	
5	Liabilities under issue of securities	549,772.8	
7	Provisions	775.8	
8	Current tax liabilities	673.1	
10	Other liabilities	11,086.5	
11	**Total liabilities**	**3,825,262.5**	
Shareholders' Equity			
1	Share capital	380,000.0	(d)
2	Supplementary capital – issuance of shares over nominal value	62,002.2	(d)
3	Accumulated other comprehensive income	-165.8	(e)
4	Retained earnings	26,353.7	(f)
5	**Total shareholders' equity**	**468,190.1**	

Template EU LIQ1 – Quantitative information of LCR

		a	e
		Total unweighted value (average)	Total weighted value (average)
EU 1a		as at 30.06.2021	as at 30.06.2021
EU 1b	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)		131,038.27
CASH - OUTFLOWS			
5	Unprotected financing on the interbank market	81,329.2	81,329.2
8	*Unprotected debt*	81,329.2	81,329.2
10	Additional requirements	418.5	418.5
12	Outflows related to loss of funding on debt products	418.5	418.5
14	Other contractual funding obligations	2,591.1	2,412.5
16	TOTAL CASH OUTFLOWS		84,160.3
CASH - INFLOWS			
18	Inflows from fully performing exposures	24,979.2	3,648.5
19	Other cash inflows	69,833.5	8,174.6
20	**TOTAL CASH INFLOWS**	**91,995.2**	**83,650.1**
EU-20c	Inflows subject to 75% cap	91,995.2	83,650.1
TOTAL ADJUSTED VALUE			
EU-21	LIQUIDITY BUFFER		131,038.27
22	TOTAL NET CASH OUTFLOWS		77,410.5
23	LIQUIDITY COVERAGE RATIO		6,212.04%

Template EU LIQ2 – Net Stable Funding Ratio

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items		**461,295.0**	**9,759.9**	**152,945.7**	**3,663,288.6**	**4,201,056.5**
1	**Capital items and instruments**	**461,295.0**	**0.0**	**0.0**	**0.0**	**461,295.0**
2	*Own funds*	461,295.0	0.0	0.0	0.0	461,295.0
7	**Wholesale funding:**		**1,641.2**	**150,000.0**	**3,661,996.9**	**3,736,996.9**
9	*Other wholesale funding*		1,641.2	150,000.0	3,661,996.9	3,736,996.9

11	**Other liabilities:**		**8,118.8**	**2,945.7**	**1,291.7**	**2,764.6**
13	*All other liabilities and capital instruments not included in the above categories*		8,118.8	2,945.7	1,291.7	2,764.6
14	**Total available stable funding (ASF)**					**4,201,056.5**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**15,000.0**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**11,665.9**	**11,335.9**	**416,998.2**	**374,000.0**
17	**Performing loans and securities:**		**125,731.0**	**91,041.3**	**3,543,134.2**	**2,494,209.9**
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		31,847.6	0.0	0.0	3,184.8
22	*Performing residential mortgages, of which:*		93,883.4	91,041.3	3,543,134.2	2,491,025.2
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		83,149.3	80,713.2	3,065,506.3	2,074,510.4
26	**Other assets:**	**0.0**	**1,601.5**	**1,851.1**	**13,440.6**	**15,310.6**
31	*All other assets not included in the above categories*		1,601.5	1,851.1	13,440.6	15,310.6
33	**Total RSF**					**2,898,520.5**
34	**Net Stable Funding Ratio (%)**					145%

Template EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer [in PLN thousand]

		a	f	g	j	k
		General credit exposures	Total exposure value	Own fund requirements		Risk-weighted exposure amounts
		Exposure value under the standardised approach		Relevant credit exposures - credit risk	Total	
010	**Breakdown by country:**					
	PL	4,177,228.9	4,177,228.9	133,500.5	133,500.5	1,668,756.3
020	Total	4,177,228.9	4,177,228.9	133,500.5	133,500.5	1,668,756.3

Template EU CCyB2 - Amount of institution-specific countercyclical capital buffer [in PLN thousand]

		a
1	Total risk exposure amount	1,720,201.8
2	Institution specific countercyclical capital buffer rate	0.00%
3	Institution specific countercyclical capital buffer requirement	0.0

Template EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures [in PLN thousand]

		a
		Applicable amount
1	Total assets as per published financial statements	4,293,452.6

2		Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-4,261,605.0
	11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-3,722.2
EU-11a		(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-31,847.6
	12	Other adjustments	4,264,764.60
13		**Total exposure measure**	**4,261,042.40**

Template EU LR2 - LRCom: Leverage ratio common disclosure [in PLN thousand]

		a CRR leverage ratio exposures **as at 30.06.2021**
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	4,296,931.0
5	(General credit risk adjustments to on-balance sheet items)	-3,672.1
6	(Asset amounts deducted in determining Tier 1 capital)	-369.0
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	4,292,889.9
Derivative exposures		
Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-31,847.5
EU-22k	**(Total exempted exposures)**	-31,847.5
Capital and total exposure measure		
23	**Tier 1 capital**	461,295.0
24	**Total exposure measure**	4,261,042.4
Leverage ratio		
25	Leverage ratio (%)	10.83%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	0.00%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	10.823%
26	Regulatory minimum leverage ratio requirement (%)	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	3.00%
EU-26b	of which: to be made up of CET1 capital	3.00%
27	Leverage ratio buffer requirement (%)	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%
Disclosure of mean values		
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,261,042.4
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,261,042.4
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10.83%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	10.83%

Template EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) [in PLN thousand]

		a
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	4,261,411.3
EU-3	Banking book exposures, of which:	4,261,411.3
EU-5	Exposures treated as sovereigns	84,182.4
EU-8	Exposures secured by mortgages on immovable properties	3,670,614.6
EU-9	Retail exposures	497,174.6
EU-11	Exposures in default	5,166.1
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	4,273.6

IFRS 9/Article 468-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 468 of the CRR [in PLN thousand]

		as at 30.06.2021
	Capital available (amounts)	
1	CET1 capital	461,295.0
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	461,295.0
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied *	461,295.0
3	Tier 1 capital	461,295.0
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	461,295.0
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	461,295.0
5	Total capital	461,295.0
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	461,295.0
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	461,295.0
	Risk weighted assets (amounts)	
7	Total risk-weighted assets	1,720,201.8
8	Total risk-weighted assets as if FRS 9 or analogous ECLs transitional arrangements had not been applied	1,682,856.3
	Capital ratios	
9	CET1 (as a percentage of risk exposure amount)	26.82%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.41%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	26.82%
11	Tier 1 (as a percentage of the risk exposure amount)	26.82%
12	Tier 1 (as a percentage of the risk exposure amount) as if FRS 9 or analogous ECLs transitional arrangements had not been applied	27.41%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	26.82%
13	Total capital (as a percentage of risk exposure amount)	26.82%

Interim Condensed Financial Statements for a six-month period ending on 30 June 2021 (in PLN thousand)

14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.41%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	26.82%
	Leverage Ratio	
15	Leverage ratio total exposure measure	4,261,042.4
16	Leverage ratio	10.83%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10.83%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied *	10.83%

* The Bank does not apply the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR. The reported capital ratios, including the leverage ratio and Tier 1 capital already fully reflect the impact of unrealised gains and losses measured at fair value through other comprehensive income.

Template EU CR1: Performing and non-performing exposures and related provisions

		a	b	c	d	f	g	h	i	j	l	n	o
		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 3		
005	Cash balances at central banks and other demand deposits	31,847.6	31,847.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
010	**Loans and advances**	**4,169,538.4**	**4,144,830.4**	**24,708.0**	**7,088.9**	**7,088.9**	**-1,482.2**	**-766.5**	**-715.6**	**-1,995.8**	**-1,995.8**	**4,168,056.2**	**5,093.2**
080	*Households*	4,169,538.4	4,144,830.4	24,708.0	7,088.9	7,088.9	-1,482.2	-766.5	-715.6	-1,995.8	-1,995.8	4,168,056.2	5,093.2
090	**Debt securities**	**83,084.2**	**83,084.2**	**0.0**	**0.0**	**0.0**	**-10.5**	**-10.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
100	*Central banks*	32,999.9	32,999.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
110	*General governments*	50,084.3	50,084.3	0.0	0.0	0.0	-10.5	-10.5	0.0	0.0	0.0	0.0	0.0
220	***Total***	**4,284,470.2**	**4,259,762.2**	**24,708.0**	**7,088.9**	**7,088.9**	**-1,492.7**	**-777.0**	**-715.6**	**-1,995.8**	**-1,995.8**	**4,168,056.2**	**5,093.2**

Template EU CR1-A: Maturity of exposures

		b	c	d	e	f
		Net exposure value				
		<= 1 year	> 1 year <= 5 years	>5 years	No stated maturity	**Total**
1	Loans and advances	47.3	42,216.7	4,130,851.6	33.8	**4,173,149.4**
2	Debt securities	32,999.8	50,073.9	0.0	0.0	**83,073.7**
3	**Total**	**33,047.1**	**92,290.6**	**4,130,851.6**	**33.8**	**4,256,223.1**

Template EU CR2: Changes in the stock of non-performing loans and advances

		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**5,496.9**
020	Inflows to non-performing portfolios	1,592.0
060	**Final stock of non-performing loans and advances**	**7,088.9**

Template EU CQ1: Credit quality of forborne exposures

		a	b	c	d	e	f
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
			Non-performing forborne				
		Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures
010	**Loans and advances**	**1,589.6**	**6,326.4**	**6,326.4**	**6,326.4**	**-24.2**	**-1,804.0**
070	*Households*	1,589.6	6,326.4	6,326.4	6,326.4	-24.2	-1,804.0
100.00	***Total***	**1,589.6**	**6,326.4**	**6,326.4**	**6,326.4**	**-24.2**	**-1,804.0**

Template EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

		a	b	c
		Unsecured carrying amount	Secured carrying amount	
				Of which secured by collateral
1.00	Loans and advances	0.0	4,173,149.4	4,173,149.4
2.00	Debt securities	83,084.2	0.0	0.0
3.00	**Total**	**83,084.2**	**4,173,149.4**	**4,173,149.4**
4.00	*Of which non-performing exposures*	0.0	5,093.2	0.0
EU-5	*Of which defaulted*	0.0	5,093.2	

Template EU CR4 – standardised approach – Credit risk exposure and CRM effects [in PLN thousand]

		a	b	c	d	e	f
	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance sheet exposures	On-balance-sheet exposures	Off-balance sheet exposures	RWAs	RWAs density (%)
1	Exposures to central governments and central banks	84,182.40	0.00	84,182.40	0.00	2,719.60	3.23%
6	Exposures to institutions	31,847.60	0.00	31,847.60	0.00	0.00	0.00%
8	Retail exposures	497,174.60	0.00	497,174.60	0.00	372,880.90	75.00%
9	Exposures secured by mortgages on immovable properties	3,670,614.60	0.00	3,670,614.60	0.00	1,286,436.00	35.05%
10	Exposures in default	5,166.10	0.00	5,166.10	0.00	5,166.10	100.00%
16	Other items	4,273.60	0.00	4,273.60	0.00	4,273.60	100.00%
17	**TOTAL**	4,293,258.90	0.00	4,293,258.90	0.00	1,671,476.20	38.93%

Template EU CR5 – standardised approach [in PLN thousand]

		a	f	i	j	k	l	p	q
	Exposure classes	**Risk weight**						**Total**	Of which unrated
		0%	35%	75%	100%	150%	250%		
1	Exposures to central governments and central banks	83,094.60	0.00	0.00	0.00	0.00	1,087.80	84,182.40	84,182.40
6	Exposures to institutions	31,847.60	0.00	0.00	0.00	0.00	0.00	31,847.60	31,847.60
8	Retail exposures	0.00	0.00	497,174.60	0.00	0.00	0.00	497,174.60	497,174.60
9	Exposures secured by mortgages on immovable properties	0.00	3,669,118.10	0.00	0.00	1,496.50	0.00	3,670,614.60	3,670,614.60
10	Exposures in default	0.00	0.00	0.00	5,166.10	0.00	0.00	5,166.10	5,166.10
16	Other items	0.00	0.00	0.00	4,273.60	0.00	0.00	4,273.60	4,273.60
17	**TOTAL**	114,942.20	3,669,118.10	497,174.60	9,439.70	1,496.50	1,087.80	4,293,258.90	4,293,258.90

Information on exposures covered by the measures applied in response to the COVID-19 related crisis

The table below shows detailed quantitative information on the exposures covered by the measures applied in response to the COVID-19 crisis, as required by the EBA/GL/2020/07 Guidelines:

EBA-compliant legislative and extended moratoria loans and advances by residual maturity of moratoria.

[in PLN thousand]

		Number of obligors	Gross carrying amount						
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria			
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
1	Loans and advances for which a moratorium is proposed	619	133,156.8						
2	EBA-compliant moratoria loans and advances (granted)	619	133,156.8	5,922.5	133,156.8	0.0	0.0	0.0	0.0
3	of which: households		133,156.8	5,922.5	133,156.8	0.0	0.0	0.0	0.0
4	*of which: collateralised by residential immovable property*		133,156.8	5,922.5	133,156.8	0.0	0.0	0.0	0.0

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

16 August 2021	**Mirosław Boda** *President of the Management Board*	*signed with electronic qualified signature*
16 August 2021	**Jacek Frejlich** *Vice-President of the Management Board*	*signed with electronic qualified signature*
16 August 2021	**Roman Telepko** *Vice-President of the Management Board*	*signed with electronic qualified signature*

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

16 August 2021	**Agnieszka Kukuczka** *Chief Accountant*	*signed with electronic qualified signature*