ING Bank Hipoteczny S.A.

Interim Condensed Financial Statements

for a six-month period ending on

30 June 2020

Selected financial data

Data from income statement

	[in PLN thousand]		[in EUR thousand]*	
	the period from 01 Jan 2020 to 30 Jun 2020	the period from 01 Jan 2019 to 30 Jun 2019	the period from 01 Jan 2020 to 30 Jun 2020	the period from 01 Jan 2019 to 30 Jun 2019
Net interest income	26 993.6	6 361.4	6 044.2	1 496.1
Net income on other basic activities	**27 107.2**	**6 164.2**	**6 069.7**	**1 449.7**
General and administrative expenses	-13 290.8	-10 386.0	-2 976.0	-2 442.6
Profit (loss) before tax	12 975.8	-4 476.1	2 905.5	-1 052.7
Profit (loss) after tax	**10 329.2**	**-3 636.5**	**2 312.9**	**-855.2**
Earnings (loss) per ordinary share (PLN)	27.18	-17.32	6.09	-4.07

Data from statement of financial position

	[in PLN thousand]		[in EUR thousand]*	
	as at **30 Jun 2020**	as at **31 Dec 2019**	as at **30 Jun 2020**	as at **31 Dec 2019**
Amounts due from banks	68 937.5	7 249.2	15 436.1	1 702.3
Debt securities	49 740.7	264 803.9	11 137.6	62 182.4
Loans and advances granted to customers	3 896 687.3	3 060 898.9	872 522.9	718 774.0
Total assets	**4 023 536.8**	**3 339 126.8**	**900 926.3**	**784 108.7**
Liabilities to other banks	3 161 279.8	2 488 153.6	707 854.9	584 279.3
Liabilities under issue of covered bonds	399 872.0	400 359.9	89 536.9	94 014.3
Total liabilities	**3 571 741.5**	**3 067 574.7**	**799 763.0**	**720 341.6**
Share capital	380 000	210 000	85 087.3	49 313.1
Total equity	**451 795.3**	**271 552.1**	**101 163.3**	**63 767.1**

* Data expressed in EUR have been calculated at the NBP fixing rate of June 30, 2020 for the data for the first half of 2020 and as of December 31, 2019 and June 28, 2019 for comparative data.

Key performance indicators

	as at **30 Jun 2020**	as at **31 Dec 2019**
ROA - return on assets (%)	0.43%	-0.01%
ROE - return on equity (%)	4.07%	-0.07%
DR - total debt ratio (%)	88.77%	91.87%
TCR - total capital ratio (%)	24.81%	17.03%
LR - leverage ratio (%)	11.13%	8.10%
LCR - liquidity coverage ratio (%)	2861%	20581%

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Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Interim condensed income statement

	Note	**1st half of 2020** period from 01.01.2020 to 30.06.2020	**1st half of 2019** period from 01.01.2019 to 30.06.2019
Interest income, including:	7.1.	64,662.5	9,573.3
calculated using the effective interest method	7.1.	64,662.5	9,573.3
Interest costs	7.1.	-37,668.9	-3,211.8
Net interest income	7.1.	**26,993.6**	**6,361.4**
Fee and commission income	7.2.	231.9	48.2
Commission expenses	7.2.	-90.7	-230.1
Net commission income	7.2.	**141.2**	**-181.9**
FX result		**7.2**	**-2.4**
Net income on other basic activities		**-34.8**	**-13.0**
Net income on core activities		**27,107.2**	**6,164.1**
General and administrative expenses	7.3.	-13,290.8	-10,386.0
Expected loss provision	7.4.	-840.6	-254.3
Profit (loss) before tax		**12,975.8**	**-4,476.2**
Income tax	7.5.	-2,646.6	839.6
Profit (loss) after tax		**10,329.2**	**-3,636.6**
Number of shares		380,000.0	210,000
Earnings (loss) per ordinary share - basic (PLN)		27.18	-17.32
Earnings (loss) per ordinary share - diluted (PLN)		27.18	-17.32

There were discontinued operations at ING Bank Hipoteczny SA neither in the period that ended 30 June 2020 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 Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Interim condensed statement of comprehensive income

	Note	**1st half of 2020** period from 01.01.2020 to 30.06.2020	**1st half of 2019** period from 01.01.2019 to 30.06.2019
Profit (loss) after tax for the period		**10,329.2**	**-3,636.6**
Total other comprehensive income, including:		**-86.0**	**-8.8**
Items which can be reclassified to income statement		**-86.0**	-8.8
Unrealised result on measurement of HTC&S securities	7.16.	-86.0	-8.8
including deferred tax		20.2	2.1
Net comprehensive income for the period		**10,243.2**	**-3,645.4**

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 Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Interim condensed statement of financial position

	Note	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Assets				
Amounts due from banks	7.6.	68,937.5	7,249.2	369,682.8
Debt securities at fair value through other comprehensive income	7.7.	49,740.7	34,823.5	24,728.8
Debt securities measured at amortized cost	7.7.	0.0	229,980.4	152,974.5
Loans and advances granted to customers	7.8.	3,896,687.3	3,060,898.9	1,320,666.4
Property, plant and equipment	7.9.	893.3	988.3	1,311.0
Intangible assets	7.10.	1,320.7	1,816.7	2,312.6
Deferred income tax assets		986.4	1,585.1	2,483.5
Other assets	7.11.	4,970.9	1,784.8	713.7
Total assets		**4,023,536.8**	**3,339,126.8**	**1,874,873.3**
Liabilities				
Liabilities to other banks	7.12.	3,161,279.8	2,488,153.6	1,600,350.5
Liabilities under issue of covered bonds	7.13.	399,872.0	400,359.9	0.0
Provisions	7.14.	669.6	585.7	382.9
Tax liabilities		107.3	113.1	0.0
Capital increase liabilities		0.0	170,000.0	0.0
Other liabilities	7.15.	9,812.8	8,362.4	5,904.3
Total liabilities		**3,571,741.5**	**3,067,574.7**	**1,606,637.7**
Equity				
Share capital		380,000.0	210,000.0	210,000.0
Supplementary capital – share premium		62,002.2	62,191.1	62,191.1
Accumulated other comprehensive income	7.16.	-536.1	-450.1	-318.9
Retained earnings		10,329.2	-188.9	-3,636.6
Total equity		**451,795.3**	**271,552.1**	**268,235.6**
Total equity and liabilities		**4,023,536.8**	**3,339,126.8**	**1,874,873.3**
Carrying amount		451,795.3	271,552.1	268,235.6
Number of shares		380,000	210,000	210,000
Carrying amount per share (PLN)		1,188.94	1,293.11	1,277.31

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 Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Interim condensed statement of changes in equity

for the period **from 01.01.2020 to 30.06.2020**

	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total capitals**
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	-	-	-	**170,000.0**
Coverage of losses from previous years		-188.9	-	188.9	**0.0**
Net result for the current period	-	-	-	10,329.2	**10,329.2**
Other net comprehensive income, including:	-	-	**-86.0**	-	**-86.0**
Unrealised result on measurement of HTC&S securities	-	-	-86.0	-	-86.0
Closing balance of equity	**380,000.0**	**62,002.2**	**-536.1**	**10,329.2**	**451,795.3**

for the period **from 01.01.2019 to 31.12.2019**

	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total capitals**
Opening balance of equity	**120,000.0**	**0.0**	**-310.1**	**-7,379.4**	**112,310.5**
Issue of shares of series B	90,000.0	69,570.5	-	-	**159,570.5**
Coverage of losses from previous years		-7,379.4		7,379.4	**0.0**
Net result for the current period	-	-	-	-188.9	**-188.9**
Other net comprehensive income, including:	-	-	**-140.0**	-	**-140.0**
Unrealised result on measurement of HTC&S securities	-	-	47.8	-	47.8
Actuarial gains/losses	-	-	-187.8	-	-187.8
Closing balance of equity	**210,000.0**	**62,191.1**	**-450.1**	**-188.9**	**271,552.1**

for the period from **01.01.2019** to **30.06.2019**

	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total capitals**
Opening balance of equity	**120,000.0**	**0.0**	**-310.1**	**-7,379.4**	**112,310.5**
Issue of shares of series B	90,000.0	69,570.5	-	-	**159,570.5**
Coverage of losses from previous years		-7,379.4		7,379.4	**0.0**
Net result for the current period	-	-	-	-3,636.6	**-3,636.6**
Other net comprehensive income, including:	-	-	**-8.8**	-	**-8.8**
Unrealised result on measurement of HTC&S securities	-	-	-8.8	-	-8.8
Closing balance of equity	**210,000.0**	**62,191.1**	**-318.9**	**-3,636.6**	**268,235.6**

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 Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Interim condensed cash flow statement

	Note	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Profit (loss) after tax		**10,329.2**	**-3,636.6**
Adjustments, of which:		**-827,202.1**	**-1,317,161.5**
Depreciation and amortisation	7.3.	683.8	698.5
Interest accrued (from the income statement)	7.1.	-26,993.6	-6,361.4
Interest paid		-30,323.7	-9.8
Interest received		63,863.4	6,256.2
Income tax (from the income statement)	7.5.	-2,646.6	-839.6
Income tax paid		3,239.5	0.0
Change in provisions	7.14.	83.9	0.0
Change in loans and other receivables from banks	7.6.	1,337.0	0.0
Change in debt securities measured at fair value through other comprehensive income	7.7.	-86.0	0.0
Change in loans and advances granted to customers	7.8.	-835,105.9	-1,320,666.4
Change in fixed assets due to recognition of lease	7.9.	68.6	0.0
Change in other assets	7.11.	-3,336.6	919.3
Change in liabilities to other banks	7.12.	307.9	823.6
Change in covered bonds liabilities	7.13	98.8	0.0
Change in other liabilities	7.15	1,607.4	2,187.9
Net cash flow from operating activities		**-816,872.9**	**-1,320,628.5**
Purchase of property, plant and equipment	7.9.	-11.0	-83.4
Purchase of securities measured at fair value through other comprehensive income	7.7.	-14,813.2	-24,728.8
Purchase of securities measured at amortized cost	7.7.	0.0	-152,974.5
Disposal of instruments measured at amortised cost	7.7.	229,980.4	0.0
Interest received on debt securities		12.2	17.0
Net cash flow from investing activities		**215,168.4**	**-177,592.8**
Proceeds from the issue of shares		0.0	159,570.5
Long-term loans received	7.12.	1,532,066.6	1,599,526.9
Long-term loans repaid	7.12.	-860,000.0	0.0
Interest on long-term loans repaid		-2,534.4	-2,381.9
Payment of interest on issued covered bonds		-4,645.8	0.0
Lease liabilities repaid		-157.0	-169.5
Net cash flow from financing activities		**664,729.4**	**1,756,546.1**
Net increase/decrease in cash and cash equivalents		63,024.9	258,147.9
Opening balance of cash and cash equivalents		5,815.7	111,534.9
Closing balance of cash and cash equivalents	7.17	68,840.6	369,682.8

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

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (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 2020, 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 Bank Law Act of 29 August 1997, Commercial Companies and Partnerships Code and other commonly binding legal regulations, good banking practice principles and the Bank Charter.

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 2020 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 2020 there were no changes in the composition of the Management Board of ING Bank Hipoteczny S.A. As at 30 June 2020, 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 2020 there were changes in the composition of the Supervisory Board of ING Bank Hipoteczny S.A.

- On 23 March 2020, Mr Patrick Roesink tendered his resignation from the position of a member of the Bank's Supervisory Board effective end of 31 March 2020.
- On 8 April 2020, the Ordinary General Meeting of the Bank appointed Mr Lorenzo Tassan-Bassut as a member of the Supervisory Board.

As at 30 June 2020, the Supervisory Board of ING Bank Hipoteczny S.A. worked in the following composition:

- Mr Brunon Bartkiewicz, Chairman of the Supervisory Board,
- Mr Marcin Giżycki, Deputy Chair of the Supervisory Board,
- Mr Jacek Michalski, Secretary of the Supervisory Board (independent member),
- Ms Joanna Erdman, Member of the Supervisory Board,
- Mr Krzysztof Gmur, Member of the Supervisory Board (independent member),
- Ms Bożena Graczyk, Member of the Supervisory Board,
- Mr Lorenzo Tassan-Bassut, Member of the Supervisory Board.

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 2019, 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 2019 to 31 December 2019 were approved by the General Meeting of ING Bank Hipoteczny S.A. on 8 April 2020.

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the six-month period ended 30 June 2020 were approved by the Bank's Management Board on 24 August 2020.

2. Significant events that occurred in the first half of 2020

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

In the first half of 2020, the Bank's operating, business and financial activities were 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. 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.

Having identified the risk of COVID-19 pandemic, the Bank took all measures to maintain operational continuity, ongoing customer service included. 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 2020, the Bank's LCR was 2,861% (20,581% as at 31 December 2019). Tier 1 ratio, equal to the Bank's total capital ratio, was 24.81% as at 30 June 2020 (17.03% as at 31 December 2019). 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.

- *Monetary Policy Council decision on interest rate cuts*

On 17 March and 8 April 2020, the Monetary Policy Council decided to lower the interest rates, including the reference rate from 1.5% to 0.5% and the mandatory reserve rate from 3.5% to 0.5%. Another interest rate cut took place on 28 May 2020 - the reference rate was lowered to 0.1%.

The decision of the Monetary Policy Council (MPC) to reduce interest rates had a negative impact on the Bank's planned result in 2020, which was partially observed already in the second quarter 2020.

- *Decision of the Ministry of Finance on the systemic risk buffer*

The decision of the Ministry of Finance of 18 March 2020 repealing the regulation on the systemic risk buffer resulted in a decrease in capital requirements by 3 pp.

- *Covid-19 related activities of the Bank*

In April 2020, in conjunction with the COVID-19 pandemic, the bank implemented measures to help clients suffering financial difficulties. The said measures were in line with the "Position of banks on harmonising the rules for offering aid tools to banking sector clients" (i.e. a non-statutory moratorium within the meaning of the EBA Guidelines) issued by the Polish Bank Association.

First and foremost, as part of these activities, the Bank offered the borrowers a possibility to suspend their repayment of loan instalments (the principal part or full credit instalment) for up to 6 months. During the instalment suspension period, the Bank charges interest due on the loan, which the borrower shall repay on an ongoing basis (if repayment of the capital part of the instalment is suspended) or immediately after the end of the suspension period (if repayment of the full credit instalment is suspended). At the same time, the Bank extends the loan repayment period accordingly. Due to the epidemic threat, applications may be submitted to the Bank mainly via direct channels.

As at 30 June 2020, 570 clients availed themselves of the suspension of repayment in accordance with the above mentioned rules. The credit portfolio that the suspension of instalments referred to represented 3.32% of the total value of the Bank's mortgage debt claims portfolio.

The Bank carried out a simulation of the impact of the suspension of repayment of loan instalments on the Bank's ability to pay the amounts payable to the buyers of covered bonds. Keeping in mind high overcollateralization of the issue of covered bonds (as at 30.06.2020, debt claims worth PLN 2,991.9 million were entered in the register of collaterals for covered bonds), the analysis showed that the Bank is on the safe side and can settle its liabilities to investors on an ongoing basis.

Due to the effective entry of the Act of 2 March 2020 *on special arrangements for preventing, counteracting and combating COVID - 19, other contagious diseases and crisis situations caused by them,* the Bank also allowed the borrowers to suspend the execution of the loan agreement (from the effective date of the Act). Under the statutory solution, the Bank, at the customer's request, suspends the full repayment of the credit instalment for 1 to 3 months, without charging interest for this period, and prolongs the credit repayment period accordingly.

As at 30 June 2020, no clients availed themselves of the possibility to suspend the credit agreement. The first requests that were made by the clients were complied with in July, and now 6 clients of the Bank avail themselves of the suspension of the performance of the agreement, of which 2 clients used the suspension of instalment repayment for 3 months, and now they use the 3-month agreement suspension period.

The Bank performed simulations to check the effects of the suspension of the performance of the agreement on the Bank's result and on the possibility of settling 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, however 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.

- Expected credit loss provisioning

As of 30 June 2020, the forecasts of macroeconomic indicators were revised to recognise 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. It is assumed that the projected GDP ratio for 2020 will be lower but will rebound in subsequent years. The expected unemployment rate has also been increased. The table below shows the assumed levels of indicators for particular scenarios. The weights of the scenarios have been left at the current levels.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Scenario	Macroeconomic indicator	2020	2021	2022	Scenario weight
Positive	GDP	-4.0%	6.3%	5.3%	20%
	Unemployment	7.2%	5.2%	3.4%	
	Property price index	3.5%	7.9%	8.0%	
	3M interest rate	0.7%	1.8%	2.1%	
Base scenario	GDP	-4.2%	4.3%	3.3%	60%
	Unemployment	7.2%	5.7%	4.2%	
	Property price index	3.4%	5.9%	5.0%	
	3M interest rate	0.2%	0.3%	0.4%	
Negative	GDP	-4.7%	0.5%	-0.2%	20%
	Unemployment	8.2%	8.1%	7.9%	
	Property price index	1.0%	0.1%	2.5%	
	3M interest rate	-0.1%	0.1%	0.0%	

In 1H2020, the increase in COVID-19 related expected credit loss provisions was approximately PLN 0.3 million.

In view of the dynamic development of the pandemic and great uncertainty about the future, the projections we made may not fully reflect impact of the pandemic on the macroeconomic situation both in the short and long run.

The macroeconomic assumptions used to determine the ECL provisions are reviewed on a quarterly basis. Thus, the estimated impact of COVID-19 on macroeconomic parameters will be 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.

- <u>Significant increase in credit risk (SICR)</u>

The Bank does not identify the possibility of deferring loan repayment under a non-statutory moratorium offered to its clients since the end of March 2020 as SICR indication.

Agreement with the Bank Guarantee Fund

On 18 May 2020, ING Bank Hipoteczny S.A. signed an agreement with Bank Gospodarstwa Krajowego ("BGK") concerning the provision by BGK of support and loans for the repayment of debt to the Bank's borrowers, pursuant to the Act of 9 October 2015 *on support for borrowers who took a housing loan and face financial difficulty*.

General Meeting of ING Bank Hipoteczny S.A.

On 8 April 2020, the 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 2019,
- consideration and approval of the Management Board Report on Operations of ING Bank Hipoteczny S.A. for 2019 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 2019,
- the method of covering the loss for 2019,
- acknowledgement of the fulfilment of duties in 2019 by the Management Board Members and Supervisory Board Members,
- Changes in the Supervisory Board composition (as described in item 1.5. hereof).

Payment of interest coupon on covered bonds

On 10 April 2020, the first payment of the interest coupon on the covered bonds issued by the Bank in October 2019 took place. The amount of interest paid was PLN 4,645,800.

Contribution to the compulsory resolution fund

On 15 April 2020, 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 2020. It amounts to PLN 950,600 and includes the contribution due for 2020 in the amount of PLN 496,000 and the contribution for the full 11 months of operation in 2019 in the amount of PLN 454,600. The amount of the contribution was charged to the costs of the second quarter of 2020 and paid in July 2020.

Acquisition of debt claims attributable to mortgage-backed housing loans

In the first half of 2020 ING Bank Hipoteczny S.A. purchased from ING Bank Śląski S.A. two mortgage-backed housing loans debt claims portfolios:

- on 31 January 2020 under the Debt Transfer Contract in order to effect the issue of covered bonds No. 10 for the total amount of PLN 562,709,000,
- on 28 February 2020 under the Debt Transfer Contract to effect the issue of covered bonds No. 11 for the total amount of PLN 457,957,200.

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.

Entry of debt claims attributable to mortgage-backed housing loans in the register of collaterals for covered bonds

With a view to future issues of covered bonds, the Bank continued to enter mortgage-backed credit debt claims to the register of collaterals for covered bonds. As at the end of June 2020, there were 15,559 debt claims entered to the register of collaterals for covered bonds.

Signing an annex to the Credit Facility Agreement with ING Bank Śląski S.A.

On 31 January 2020, the Bank signed an annex to the Credit Facility Agreement concluded with ING Bank Śląski S.A. on 31 January 2019, whereby the exposure was increased to PLN 4.2 billion.

Increase in share capital

On 9 January 2020, an entry was made in the Register of Entrepreneurs of the National Court Register concerning the increase of the share capital of ING Bank Hipoteczny S.A. by the amount of PLN 170,000,000.00 through the issue of 170,000 ordinary registered shares of C series, of nominal value of PLN 1,000 each. The share issue price equalled their par value. The shares were fully paid in cash. The share capital was increased by virtue of a Resolution of the Shareholders Meeting adopted on 11 December 2019.

3. Significant events after the end of the reporting period

According to the information announced in mass media by the Polish Financial Supervision Authority and the Ministry of Finance, work is currently underway to develop a model of mortgage banking aimed at increasing the attractiveness of the use by banks in Poland of long-term covered bonds secured on mortgage debt claims. As stated in the said announcement, potential changes may concern three areas: a) possible modification or even change of the covered bond issuer model, b) facilitation at the operational level for issuers, e.g. acceleration of entries to the land and mortgage registers, c) increasing the liquidity and size of the Polish covered bonds market by affecting the market demand and facilitating issuers' access to derivatives hedging against FX risk and interest rate risk in case of issues on foreign markets. The above may significantly affect the operation and functioning of mortgage banks in Poland.

4. Statement of compliance with International Financial Reporting Standards

These interim condensed financial statements of ING Bank Hipoteczny S.A. for the six-month period ended 30 June 2020 have been prepared in accordance with the International Accounting Standard (IAS) 34 *Interim Financial Reporting* as approved by the European Commission and valid as at the reporting date, i.e. 30 June 2020, and in accordance with the requirements set out in the Regulation of the Minister of Finance of 29 March 2018 on current and interim information published by issuers of securities and the conditions for recognizing as equivalent information required by the law of a non-member state (Journal of Laws of 2018, item 757).

The presented financial statements were prepared in a condensed version. The interim condensed financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Bank's financial statements for the year ended 31 December 2019, which was approved by the General Meeting of ING Bank Hipoteczny S.A. on 8 April 2020.

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 2020 to 30 June 2020 and interim condensed statements of financial position as at 30 June 2020 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 2019 and standards and interpretations approved by the European Union applicable to annual periods starting on 1 January 2020 or thereafter, namely:

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Change	Influence on the Bank's statements
References to IFRS conceptual framework *(financial year starting on 1 January 2020)*	The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.
IAS 1 and IAS 8 *Definition of Material* *(financial year starting on 1 January 2020)*	The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.
IFRS 3 *Definition of a Business* *(financial year starting on 1 January 2020)*	The Bank's analyses show that the implementation of these changes will have no significant impact on the financial statements of the Bank.

Standards and interpretations that have been released, but are not applicable yet because they have not been approved by the European Union, or they have been approved by the European Union but have not been earlier applied by the Bank have been presented in the annual financial statements of the Bank for 2019. In the first half of 2020 the following amendments to the accounting standards were published:

Change (expected IASB effective date is provided for in the parentheses)	**Influence on the Bank's statements**
IAS 1 *Presentation of financial statements: classification of financial liabilities as short-term or long-term* *(financial year beginning 1 January 2022)*	Classification of financial liabilities as long-term will depend on the existence of rights to prolong the liability for a period longer than 12 months and on meeting the conditions for such prolongation as at the balance sheet date. Implementation of the change will have no impact on the financial statements of the Bank.
IFRS 16 *Rental concessions attributable to COVID-19* *(financial year beginning 1 June 2020 with the possible earlier application, financial statements not approved for publication as at 28 May 2020 included)*	A change in lease modification to ensure that the assessment of a lease modification can be waived where the change in lease payments is a direct consequence of COVID-19 pandemic (e.g. 'lease holiday' or temporary suspension/reduction of lease payments). The application of this change by the lessee will require additional disclosures. Implementation of the change will have no impact on the financial statements of the Bank.
IFRS 3 *Reference to the conceptual framework* *(financial year beginning 1 January 2022)*	Amendment introducing references to conceptual assumptions published in May 2018. Implementation of the change will have no impact on the financial statements of the Bank.
IAS 37 *Onerous Contracts — Cost of Fulfilling a Contract* *(financial year beginning 1 January 2022)*	The amendment clarifies the notion of the costs of meeting the obligations arising from contracts where the costs exceed the economic benefits arising from them. Implementation of the change will have no impact on the financial statements of the Bank.
IAS 16 *Property, Plant and Equipment — Proceeds before Intended Use* *(financial year beginning 1 January 2022)*	The change consisting in the exclusion of the possibility of deducting from the cost of production of property, plant and equipment the amounts received from the sale of products produced at the stage of pre-implementation tests. Such sales revenue and corresponding costs should be recognised in the income statement. Implementation of the change will have no impact on the financial statements of the Bank.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Changes resulting from the periodical review of IFRS 2018-2020 *(financial year beginning 1 January 2022)*	Changes concerning: IFRS 1 - first-time adopter subsidiary IFRS 9 - fees in the '10 per cent' test (to determine whether it is possible to exclude financial liabilities from the statement of financial position) - according to the change in the test, all fees paid or received, including those settled by the borrower or lender on behalf of other entities, should be included Illustrative examples for IFRS 16 - Lease incentives IAS 41 - Agriculture: taxation in fair value measurements. Implementation of changes will have no impact on the financial statements of the Bank.
IFRS 4 *Extension of the temporary exemption from IFRS 9* *(financial year beginning 1 January 2021)*	The amendment extends the period of exemption from the application of IFRS 9 to annual reporting periods beginning on 1 January 2023. Implementation of the change will have no impact on the financial statements of the Bank.
IFRS 17 *Insurance contracts*	Amendments made to facilitate the implementation of the standard published in June 2020, in response to the comments made on standard guidelines. The Bank's analyses indicate that the implementation of the changes will not affect the Bank's financial statements.

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 the Bank were prepared on a going concern basis, as regards foreseeable future, that is within at least 12 months from the financial statements publication date. 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

No material operations were discontinued in the first half of 2020 and in 2019.

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 that would cover the financial data of such entities.

The parent entity of ING Bank Hipoteczny S.A. is ING Bank Śląski S.A. The latter prepares consolidated financial statements of the ING Bank Śląski S.A. Group. Whereas ING Bank Śląski S.A. is a part of the capital group that is called herein as the ING Group. ING Groep N.V. is the 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 2020 to 30 June 2020 and include comparative data:

- for the period from 1 January 2019 to 30 June 2019 for items from the income statement, statement of comprehensive income and cash flow statement,
- for the period from 1 January 2019 to 31 December 2019 and for the period from 1 January 2019 to 30 June 2019 for the statement of changes in equity
- as at 31 December 2019 and 30 June 2019 for items from the statement of financial position.

5. Significant accounting principles

The presented herein below accounting policy of the Bank follows the requirements of IFRS. The accounting principles and calculation methods applied for the needs of preparation of these financial statements are consistent with the principles binding in the financial year ending on 31 December 2019.

In the first half of 2020, 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 2 hereof (Significant events in the first half of 2020, Information on the impact of the COVID-19 epidemic on the operations of ING Bank Hipoteczny S.A.

The definitions of default, impaired and non-performing exposures in accordance with the European Banking Authority (EBA) guidelines EBA/GL/2016/07 have also been clarified, by which ING Bank Hipoteczny S.A. 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. This change had no impact on the financial result of ING Bank Hipoteczny S.A. Detailed information in this respect is presented below.

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

5.2.2. Classification of financial assets

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

5.3. Accounting estimates

The development of 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 interim condensed 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 and Stage 3 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 accounting 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 Carrying amount 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.

5.3.2.2. 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. 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

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 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.

5.5.2. 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").

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

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

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.

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 the MTG portfolio) 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 17/18/19,
- 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.

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),
- interest-free status (no interest accrue) for the credit exposure (status).

Should an objective evidence of impairment be identified on the exposure, it is assumed that impairment is also recognised on other exposures (in MTF portfolio).

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 and Stage 3 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 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 on how long the credit exposure defaults.

Valuation of expected loss attributable to the risk other than credit one

If the risk of impairment is identified that results from reasons other than credit risk, e.g. due to legal risk related to a selected portfolio of assets, the Bank makes an additional impairment loss according to the methodology reflecting the nature of a given risk. Similarly as in the case of a write-off for credit risk, the Bank calculates the expected loss as a probability-weighted average of several scenarios (most often three: base, positive and negative) with different probability of occurrence.

Recognition of an expected credit loss provision 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 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 provision for 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 later measurement

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

- a gain or loss on a financial asset or financial liability carried at fair value through 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 transferred to the income statement.

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.

The Bank as a Lessor

The Bank concludes no lease contracts as a lessor.

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. The Bank applies the following rules established in ING Bank Śląski S.A. Group with respect to 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.
- The capitalisation limit for expenditure on computer software is:
  - in terms of acquisition: PLN 440,000,
  - in terms of production on their own: PLN 10 million.

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 Carrying amount 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 Carrying amount of impaired asset does not exceed its Carrying amount, 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. Share premium

Share premium is formed from agio obtained from the issue of shares less the attributable direct costs incurred 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 under 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 Carrying amount 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 present 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, interbank 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 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 2020 to 30 June 2020, compared to the previous financial statements for the period from 1 January 2019 to 30 June 2019, ING Bank Hipoteczny S.A. did not make any significant changes in the manner of presentation of financial data.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

7.1. Net interest income

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Interest income, including	**64,662.5**	**9,573.3**
Interest income calculated using the effective interest method, of which:	**64,662.5**	**9,573.3**
interest on loans and other receivables from customers measured at amortised cost	62 779,0	7,232.4
interest on receivables from banks measured at amortised cost	605,5	1,566.7
interest on securities measured at amortized cost	828.8	531.3
purchase of securities measured at fair value through other comprehensive income	449.2	242.9
Interest expenses, of which:	**-37,668.9**	**-3,211.8**
interest on liabilities to other banks	-33,461.5	-2,945.2
interest on liabilities under issue of covered bonds	-4,202.6	-256.8
interest on lease liabilities	-4.8	-9.8
Net interest income	**26,993.6**	**6,361.4**

7.2. Net commission income

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Commission income	**231.9**	**48.2**
commission for early repayment of mortgage loans	310.3	43.3
other	-78.4	4.9
Commission expenses	**-90.7**	**-230.1**
fees and commissions for other financial entities, inclusive of fees and commissions for disclosure of credit information	-43.9	-215.1
other	-46.8	-15.0
Net commission income	**141.2**	**-181.9**

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.3. General and administrative expenses

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Personnel expenses, including:	**-5,656.6**	**-5,295.7**
wages and salaries, including:	-4,587.9	-4,465.9
variable remuneration programme	-551.6	-912.2
employee benefits	-1,068.7	-829.8
Other general and administrative expenses, including:	**-7,634.2**	**-5,090.3**
depreciation and amortisation	-683.8	-698.5
costs of auxiliary activities provided under the Cooperation Agreement*	-3,078.2	-2,971.5
Bank Guarantee Fund contribution to the compulsory resolution fund**	-950.6	0.0
IT costs	-495.6	-237.7
costs of news service platforms	-158.6	-72.4
costs of rental of buildings	-137.1	-42.0
legal services	-385.1	-350.9
communications costs	-116.8	-49.1
other advisory and consulting costs	-61.6	-87.4
consumption of materials and assets other than non-current assets	-49.9	-68.5
taxes and charges	-3.8	-17.6
representation costs	-2.0	-167.4
other third-party services	-1,002.7	-132.1
other costs	-508.4	-195.3
General and administrative expenses	**-13,290.8**	**-10,386.0**

*) 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 7.21 *Transactions with related companies*.

**) Detailed information about the contribution to the Bank Guarantee Fund for the compulsory resolution fund is shown herein under 2 *Significant events that occurred in the first half of 2020*.

7.4. Expected loss provision

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Establishment of expected loss provisions	**-841.5**	**-254.3**
loans and other receivables from clients	-832.7	-248.0
debt securities measured at fair value through other comprehensive income	-8.8	-6.3
Release of expected loss provisions	**0.9**	**0.0**
debt securities measured at amortized cost	0.9	0.0
Expected loss provision	**-840.6**	**-254.3**

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.5. Income tax

Income tax recognized in the income statement

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
Current tax	**-2,027.8**	**0.0**
Deferred tax, including:	**-618.8**	**839.6**
Recognized and reversed temporary differences	-618.8	839.6
recognized and reversed negative temporary differences due to:	-402.3	1,458.2
2018 tax losses	-544.2	*901.9*
costs of provision for personnel, tangible and others expenses	-128.7	*278.7*
expenses attributable to accrued but not paid interest	59.8	*155.8*
loan loss provisioning (LLP)	159.7	0.0
income settled at the effective interest rate	42.4	*72.0*
other	8.7	*49.8*
recognized and reversed positive temporary differences due to:	-216.5	-618.6
income on accrued but not paid interest	-147.1	*-545.9*
difference between tax and balance sheet depreciation/amortization	-46.5	*-63.0*
measurement of securities	-22.9	*-9.7*
Total tax recognized in the income statement	**-2,646.6**	**839.6**

Effective tax rate calculation

	1st half of 2020 period from 01.01.2020 to 30.06.2020	1st half of 2019 period from 01.01.2019 to 30.06.2019
A. Profit before tax	**12,975.8**	**-4,476.2**
B. (-) 19% of profit before tax	**-2,465.4**	**850.5**
C. Increases - 19% of costs other than tax deductible cost, including:	**-181.2**	**-10.9**
Bank Guarantee Fund contribution to the banks' compulsory resolution fund for 2020	-180.6	0.0
other	-0.6	-10.9
D. Decreases - 19% of tax exempt income	**0.0**	**0.0**
E. Income tax from income statement (B+C-D)	**-2,646.6**	**839.6**
Effective tax rate (-E : A)*	**20.4%**	**18.8%**

*) The difference in the effective tax rate from 19% in the first half of 2020 was mainly influenced by the BFG contribution to the forced restructuring fund in the amount of PLN 950,600.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

NOTES TO STATEMENT OF FINANCIAL POSITION

7.6. Amounts due from banks

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Current accounts	4,839.9	316.6	1,570.3
Term deposits in banks	64,000.7	5,499.1	368,112.5
Other	96.9	1,433.5	0.0
Total (gross)	**68,937.5**	**7,249.2**	**369,682.8**
Impairment loss	0.0	0.0	0.0
Total (net)	**68,937.5**	**7,249.2**	**369,682.8**

Amounts due from banks include, most notably, short-term deposits in PLN at 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 expected loss provisions. ING Bank Hipoteczny S.A. does not identify any FX risk or interest rate risk for the said amounts due.

7.7. Debt securities

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Debt securities measured at fair value through other comprehensive income, of which:	49,740.7	34,823.5	24,728.8
T-bonds	49,740.7	34,823.5	24,728.8
Debt securities measured at amortized cost, of which:	0.0	229,980.4	152,974.5
cash bills of the National Bank of Poland	0.0	229,980.4	152,974.5
Total	**49,740.7**	**264,803.9**	**177,703.3**

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.8. Loans and advances granted to customers

	as of 30.06.2020			as of 31.12.2019			as of 30.06.2019		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
Retail banking (individuals), including:	**3,898,437.4**	**-1,750.1**	**3,896,687.3**	**3,061,815.8**	**-917.0**	**3,060,898.9**	**1,320,914.4**	**-248.0**	**1,320,666.4**
Mortgages	3,898,437.4	-1,750.1	3,896,687.3	3,061,815.8	-917.0	3,060,898.9	1,320,914.4	-248.0	1,320,666.4
Total	**3,898,437.4**	**-1,750.1**	**3,896,687.3**	**3,061,815.8**	**-917.0**	**3,060,898.9**	**1,320,914.4**	**-248.0**	**1,320,666.4**

Lending portfolio quality

	as of 30.06.2020			as of 31.12.2019			as of 30.06.2019		
	gross	expected loss provision	**net**	gross	expected loss provision	**net**	gross	expected loss provision	**net**
assets in Stage 1	3,870,187.7	-874.2	3,869,313.5	3,042,149.5	-423.8	3,041,725.7	1,313,950.0	-175.2	1,313,774.8
assets in Stage 2	27,696.2	-680.3	27,015.9	19,181.6	-343.9	18,837.7	6,964.4	-72.8	6,891.6
assets in Stage 3	553.5	-195.6	357.9	484.8	-149.3	335.5	0.0	0.0	0.0
Total	**3,898,437.4**	**-1,750.1**	**3,896,687.3**	**3,061,815.9**	**-917.0**	**3,060,898.9**	**1,320,914.4**	**-248.0**	**1,320,666.4**

Change in expected loss provision/impairment loss

	1st half of 2020 the period from 01.01.2020 to 30.06.2020				**1st half of 2019** the period from 01.01.2019 to 30.06.2019			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
Allowance at the beginning of the period	**-423.8**	**-343.9**	**-149.3**	**-917.0**	**0.0**	**0.0**	**0.0**	**0.0**
Movements in the period, including:	**-450.4**	**-336.4**	**-46.3**	**-833.1**	**-175.2**	**-72.8**	**0.0**	**-248.0**
allowance for loans acquired in the period	-294.7	0.0	0.0	-294.7	-175.2	-72.8	0.0	-248.0
change in estimation	-171.5	-119.0	-19.8	-310.3	0.0	0.0	0.0	0.0
transfer to stage 1	-1.0	56.2	0.0	55.2	0.0	0.0	0.0	0.0
transfer to stage 2	11.8	-289.3	0.0	-277.5	0.0	0.0	0.0	0.0
transfer to stage 3	0.0	3.5	-26.5	-23.0	0.0	0.0	0.0	0.0
repayment in full	5.0	12.2	0.0	17.2	0.0	0.0	0.0	0.0
Allowance at the end of the period	**-874.2**	**-680.3**	**-195.6**	**-1,750.1**	**-175.2**	**-72.8**	**0.0**	**-248.0**

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.9. Property, plant and equipment

	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Gross value, of which:	**1,013.5**	**1,071.1**	**1,360.5**
Right-of-use assets	782.9	851.5	1,151.8
Computer hardware	206.4	202.7	191.8
Non-current assets under construction	7,3	0,0	0,0
Other property, plant and equipment	16,9	16,9	16,9
Accumulated depreciation/amortisation, of which:	**-120.2**	**-82.8**	**-49.5**
Computer hardware	-114.3	-78.6	-47.0
Other property, plant and equipment	-5.9	-4.2	-2.5
Total (net), of which:	**893.3**	**988.3**	**1,311.0**
Right-of-use assets	782.9	851.5	1,151.8
Computer hardware	92.1	124.1	144.8
Non-current assets under construction	7,3	0,0	0,0
Other property, plant and equipment	11,0	12,7	14,4

7.10. Intangible assets

	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Gross value, of which:	**2,975.8**	**2,975.8**	**2,975.8**
Software	2,975.8	2,975.8	2,975.8
Accumulated depreciation/amortisation, of which:	**-1,655.1**	**-1,159.1**	**-663.2**
Software	-1,655.1	-1,159.1	-663.2
Total (net)	**1,320.7**	**1,816.7**	**2,312.6**

7.11. Other assets

	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Prepayments, including:	**4,527.7**	**1,605.8**	**624.8**
prepaid general and administrative expenses	4,527.7	757.9	624.8
Other assets, including:	**443.2**	**178.9**	**88.9**
public and legal settlements	212.6	173.0	49.6
other	230.6	5.9	39.3
Total	**4,970.9**	**1,784.8**	**713.7**

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.12. Liabilities to banks

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Loans received	2,739,396.6	2,168,644.9	990,792.1
Liabilities due to refinancing*	421,882.8	319,507.3	609,554.9
Other liabilities	0.4	1.4	3.5
Total	**3,161,279.8**	**2,488,153.6**	**1,600,350.5**

*) 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 covered bonds

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Liabilities on account of issuing covered bonds with a repayment period:	399,872.0	400,359.9	0.0
from one year to five years	399,872.0	400,359.9	0.0
Total	**399,872.0**	**400,359.9**	**0.0**

Register of Collaterals of Covered Bonds

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 December 2020, the value of the outstanding principal of the debt attributable to the mortgage loans entered in the register of collaterals of covered bonds and being a collateral for the issue of covered bonds was PLN 2,976,884,400 as at 30 June 2020 (compared to PLN 631,330,000 as at 31 December 2019), whereas the value of additional collateral in the form of securities issued by the State Treasury was PLN 11,553,400 (compared to PLN 10,347,300 as at 31 December 2019).

7.14. Provisions

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Provisions for retirement benefits	585.7	585.7	382.9
Other provisions*	83.9	0.0	0.0
Total	**669.6**	**585.7**	**382.9**

*) provision for return of a part of the credit cost due to early repayment of mortgage loans

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.15. Other liabilities

	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Prepayments, including:	**7,282.5**	**6,653.9**	**3,689.7**
due to employee benefits, of which	2,542.5	2,734.1	1,718.5
variable remuneration programme	1,937.1	2,175.2	1,136.8
due to costs of contribution to the Bank Guarantee Fund for the compulsory resolution fund*	950,6	0,0	0,0
due to Cooperation Agreement**	524.3	1,527.4	1,500.0
due to IT costs	510.0	720.4	0.0
due to legal services	250.4	7.0	10.0
due to communication costs	60.0	13.2	269.4
other	2 444,7	1,651.8	191.8
Other liabilities, including:	**2,530.3**	**1,708.5**	**2,214.6**
lease liabilities	815.9	857.0	1,156.6
settlements with employees	393.8	393.8	594.1
public and legal settlements	631.6	421.3	295.6
settlements with suppliers	675.7	19.3	162.8
other	13.3	17.1	5.5
Total	**9,812.8**	**8,362.4**	**5,904.3**

*) Detailed information about the contribution to the Bank Guarantee Fund for the compulsory resolution fund is shown herein under 2 *Significant events that occurred in the first half of 2020*.

**) 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 7.21 *Transactions with related companies*.

7.16. Accumulated other comprehensive income

	as at 30.06.2020	as at 31.12.2019	as at 30.06.2019
Actuarial gains / losses, including	**-497.9**	**-497.9**	**-310.1**
deferred tax	116.8	116.8	72.7
Securities measured at fair value through other comprehensive income, of which:	**-38.2**	**47.8**	**-8.8**
deferred tax	9.0	-11.2	2.1
Total	**-536.1**	**-450.1**	**-318.9**

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OTHER NOTES

7.17. 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.

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Current accounts	4,839.9	316.6	1,570.3
Term deposits in banks	64,000.7	5,499.1	368,112.5
Total cash and cash equivalents	**68,840.6**	**5,815.7**	**369,682.8**

7.18. Fair value

The table below presents the balance-sheet figures for financial assets per individual measurement categories (levels). As at the end of the first half of 2020, similarly as at the end of comparable periods, there were neither financial liabilities nor non-financial assets measured at fair value in the Bank.

In the first half of 2020, there were no movements between the measurement levels, similarly as in 2019.

Financial assets carried at fair value in statement of financial position

as of **30.06.2020**

	Level 1	**Level 2**	**Level 3**	**TOTAL**
Financial assets, including:				
Debt securities measured at fair value through other comprehensive income, of which:	49,740.7	0.0	0.0	49,740.7
T-bonds	49,740.7	0.0	0.0	49,740.7

as of **31.12.2019**

	Level 1	**Level 2**	**Level 3**	**TOTAL**
Financial assets, including:	**34,823.5**	**0.0**	**0.0**	**34,823.5**
Debt securities measured at fair value through other comprehensive income, of which:	34,823.5	0.0	0.0	34,823.5
T-bonds	34,823.5	0.0	0.0	34,823.5

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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 and liabilities attributable to covered bonds. 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 the first half of 2020, the measurement techniques for Levels 2 and 3 have not changed.

as of **30.06.2020**

	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**

as of **31.12.2019**

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Loans and receivables to customers	3,060,898.9	discounted cash flows	0.0	0.0	3,037,207.5	**3,037,207.5**
Liabilities						
Liabilities under issue of covered bonds	400,359.9	regulated market quotations	0.0	400,359.9	0.0	**400,359.9**

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. The estimate is based on euro market quotations adjusted for the EUR/PLN swap.

It leads to fair value being the sum of the net present value of the security-related cash flows.

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.19. 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 2020 to 30 June 2020.

7.20. Off-balance sheet items

	as at **30.06.2020**	as at **31.12.2019**	as at **30.06.2019**
Off-balance sheet liabilities received, including	1,463,249.6	333,248.6	1,510,196.5
unused revolving credit facility received from ING Bank Śląski S.A.	1,463,000.0	333,000.0	1,510,000.0
unused revolving credit facility for credit cards to the current account maintained for the Bank in ING Bank Śląski S.A.	249.6	248.6	196.5
Total off-Balance Sheet items	**1,463,249.6**	**333,248.6**	**1,510,196.5**

7.21. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 30 June 2020 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. Additionally, ING Bank Hipoteczny S.A. uses a credit line from ING Bank Śląski S.A. to finance its operating activities, as well as a credit line made available to the company's employees in connection with the use of ING Bank Śląski S.A. bank cards.

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, 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 outsourced in accordance with the provisions of the Banking Law Act, however all decision-making processes related to the pursued business 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. and IT applications hosting services provided by ING Business Shared Services B.V. sp. z o.o. (branch in Poland).

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

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

Income and expenses

presented as per their net value (VAT excluded)

the period **from 01.01.2020 to 30.06.2020**

	Parent company	**Other related entities**
Income, including:	**3.2**	-
interest income	3.2	-
Expenses, including	**-2,337.9**	**-267,4**
interest costs	-3.5	-
commission expenses	-17,7	-
general and administrative expenses	-2,331.3	-267,4

the period **from 01.01.2019 to 30.06.2019**

	Parent company	**Other related entities**
Income, including:	**1,566.6**	-
interest income	1,566.6	-
Expenses, including	**-6,188.5**	**-244,8**
interest costs	-3,202.0	-
commission expenses	-15.0	-
general and administrative expenses	-2,971.5	-244,8

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

Receivables and liabilities

as of **30.06.2020**

	Parent company.	Other related entities
Receivables	**69,560.8**	-
amounts due from banks	68,937.5	-
property, plant and equipment	623.3	-
Liabilities	**3,162,950.8**	-
liabilities to other banks	3,161,279.8	-
other liabilities	1,671.0	35.9
Off-balance-sheet operations	**1,463,249.6**	-
off-balance sheet liabilities received	**1,463,249.6**	-

as of **31.12.2019**

	Parent company	Other related entities
Receivables	**7,978.9**	-
amounts due from banks	7,249.2	-
property, plant and equipment	729.6	-
Liabilities	**2,660,959.0**	-
liabilities to other banks	2,488,153.6	-
liabilities on account of equity increase	170,000.0	-
other liabilities	2,805.4	61,1
including: accruals	*1,767.6*	*61,1*
Off-balance-sheet operations	**333,248.6**	-
off-balance sheet liabilities received	333,248.6	-

as of **30.06.2019**

	Parent company	Other related entities
Receivables	**369,682.8**	-
amounts due from banks	369,682.8	-
Other assets	3.6	-
Liabilities	**1,600,350.5**	**9.5**
liabilities to other banks	1,600,350.5	-
other liabilities	-	9.5
Off-balance-sheet operations	**1,510,196.5**	-
off-balance sheet liabilities received	1,510,196.5	-

Interim Condensed Financial Statements for a six-month period ending on 30 June 2020 (in PLN thousand)

7.22. 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 30.06.2020 was PLN 87,000, whereas as at 31.12.2019 and 30.06.2019 it was PLN 46,300 and PLN 54,100 respectively.

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

	1st half of 2020 period from 01.01.2020 to 30.06.2020	**1st half of 2019** period from 01.01.2019 to 30.06.2019
Short-term employee benefits*, including	793.6	620.1
remuneration	746.5	607.7
benefits	47.1	12.4
Total	**793.6**	**620.1**

* 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 2019 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 2019 bonus; some part of it has been paid out in 2020, and some part has been deferred for the upcoming years (2021-2025).

Emoluments of the ING Bank Hipoteczny S.A. Management Board Members for 2020 under the Variable Remuneration Programme have not yet been awarded. The Bank Supervisory Board will take the final decision on the bonus amount.

In the period from 01 January 2020 to 30 June 2020 and from 01 January 2019 to 31 December 2019, and also from 26 February 2018 to 31 December 2018 no post-employment emoluments were paid to the Management Board Members. The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

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

	1st half of 2020 period from 01.01.2020 to 30.06.2020	**1st half of 2019** period from 01.01.2019 to 30.06.2019
Short-term employee benefits, including:	60,0	60.0
remuneration	60.0	60.0
Total	**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 2020 and as at 31 December 2019 and 30 June 2019 respectively, the members of the Bank's Management Board and Supervisory Board did not hold any shares in ING Bank Hipoteczny S.A.

7.23. Employment

The headcount at ING Bank Hipoteczny S.A. was 41 FTEs as at 30 June 2020 and 39 and 37 FTEs as at 31 December 2019 and 30 June 2019 respectively.

7.24. 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 CAPITAL 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 2019, which was approved by the General Meeting of ING Bank Hipoteczny S.A. on 8 April 2020.
The most significant changes in the process of risk and equity management that took place in the first half of 2020 and selected quantitative data are presented herein below.

7.25. Qualitative information

Capital management

In the first half of 2020, the Bank continued its efforts to implement its capital management strategy. As the Minister of Finance signed the Regulation on the solution of the systemic risk buffer of 18 March 2020, the following minimum levels of capital ratios apply in 2020:

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

Credit risk

- _Credit risk management framework_

In the first half of 2020 there were no changes in the organisational structure of the Risk Management Area.

- _The main modifications of the Bank's lending policy_

In the first half of 2020, ING Bank Hipoteczny S.A. implemented a new definition of default which is consistent with the European Banking Authority Guidelines EBA/GL/2016/07 of 18 January 2017, effective as of 1 January 2021. The schedule and basic rules of implementation were adjusted to the implementation plan in ING Bank Śląski Group and ING Group. The plan was agreed with the European Central Bank and the Polish Financial Supervision Authority on an ongoing basis and took into account the need to apply a new definition of default in the process of reconstruction of credit risk models covered by the Advanced Internal Ratings Based Approach (IRB) in the ING Bank Śląski Group.

The new default definition is now applied to all credit and management processes within the ING Group as expected by supervisory authorities. The new requirements concern, in particular, the manner in which days past due are counted, materiality thresholds for initiating the calculation of days past due, evidence of default, default triggers and default exit criteria. Its comprehensive implementation in the Group included the adjustment of systems and applications, reporting and regulatory principles, construction of a local "Default Engine" for the calculation of delinquency in accordance with EBA Guidelines.

- _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) - 569 loans were suspended, which is 3.3% of the Bank's credit portfolio balance,

- 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 first monitoring of capital and Loan Loss Provisioning (LLP) models was conducted.
  - 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 its first internal stress tests to assess the impact of potential events or changes in macroeconomic conditions on its capital requirement, economic capital, liquidity, risk profile and profitability. The report on the stress-tests results was approved by the Bank's Management Board and presented to ALCO and the Supervisory Board.

Stress testing was conducted on the data as at 31 December 2019.

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%).

Test results showed that the Bank is highly resilient. The solvency ratio remained 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 2020, no regulatory and internal limits on market risk were exceeded.

Liquidity and funding risks

In the first half of 2020, 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.

Model risk

In the first half of 2020, 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 2020, the safety of the Bank's clients and employees during the COVID-19 pandemic was of the utmost importance. The coordination of emergency measures, ensuring the safety of remote work and geting prepared for the return of employees to the office were the priority.

To improve the internal control system, the Bank supplemented the criteria for assessing the effectiveness and adequacy of the internal control system with measurable quantitative criteria and ensured that the data contained in the Control Function Matrix is constantly updated. 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 organisation (CMO) is established to coordinate the activities of all the units involved.

- *Business continuity during COVID-19*

COVID-19 pandemic forced the introduction of a number of restrictions imposed when the state of pandemic was announced, as well as a change in behaviour, needs and economic situation of clients. The Bank responded by establishing 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 representatives of the Bank participate in 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. 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 2020, the Bank continued activities related to ensuring the Bank's compliance with regulatory requirements, including the improvement of controls in the key processes of the Bank, the Know Your Customer area included. These activities were supported by intensified control and monitoring activities undertaken by Compliance and other organisational units of the Bank. 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 2020, the Bank conducted full capital tests as at the fourth quarter of 2019.

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.

7.26. 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 7.27. *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 2020, the Bank identified no exceeded interest rate risk limits. As at 30 June 2020 and 31 December 2019, the core measures were at the following levels:

Risk measure	as at 30.06.2020	as at 31.12.2019
BPV (PLN thousand)	54.3	22.5
NIIaR (PLN thousand)	478.5	79.8
EVEaR to own funds	1.9%	1.68%

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- *FX risk*

The Bank does not hold significant positions in foreign currencies. As at 30 June 2020, 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 2020, the Bank held the FX position of EUR 45,000 (short position). This position resulted from internal administration and generated VaR of PLN 3,103.

- *Liquidity and funding risks*

As at 30 June 2020 and 31 December 2019 the regulatory liquidity measures for ING Bank Hipoteczny S.A. were as follows

	Liquidity metrics	Minimum value	as at 30.06.2020	as at 31.12.2019
LCR	Liquidity coverage ratio	100%	2,861%	20,581%
NSFR	Net stable funding ratio	nd*	101%	119%

*) in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, the target regulatory limit for the NSFR is not yet in force, as from 28 June 2021, in accordance with Regulation (EU) No 2019/876 of the European Parliament and of the Council, a minimum level of the ratio should be 100%.

7.27. 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.

7.27.1. 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.

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As at 30 June 2020, 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

	as at 30.06.2020	as at 31.12.2019
Own funds		
A. Equity capitals from the statement of financial position, including:	**451,795.3**	**271,552.1**
A.I. Equity capitals recognised under own funds, including:	441,466.1	271,552.1
Share capital	380,000.0	210,000.0
Supplementary capital – share premium	62,002.2	62,191.1
Loss for the current period	0.0	-188.9
Accumulated other comprehensive income	-536.1	-450.1
A.II. Equity capitals not recognised under own funds, including:	10,329.2	0.0
Profit for the current period	10,329.2	0.0
B. Other components (decreases and increases) of own funds, including:	**-1,370.5**	**-1,851.3**
Intangible assets	-1,320.7	-1,816.7
Value adjustment due to the requirements for prudent valuation	-49.8	-34.6
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	**440,095.6**	**269,700.8**
Tier 1 capital	440,095.6	269,700.8
Risk weighted assets, including:	**1,773,709.0**	**1,583,319.0**
credit risk weighted assets	1,716,355.0	1,543,289.0
operational risk weighted assets	57,354.0	40,030.0
Total capital requirements	**141,896.7**	**126,665.5**
Total capital ratio (TCR)	**24.81%**	**17.03%**
minimum required level	10.5%	13.5%
excess TCR	253,856.2	55,952.7
Tier 1 ratio (T1)	**24.81%**	**17.03%**
minimum required level	8.5%	11.5%
excess T1	289,330.3	87,619.1
Common Equity Tier 1 ratio (CET1)	**24.81%**	**17.03%**
minimum required level	7.0%	10.0%
excess T1	315,936.0	111,368.9

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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:

	Gross value of exposures	Net value of exposures**	Risk weighted assets (RWA)	Requirement for own funds
Exposures to central governments and central banks	50,742.9	50,742.5	2,465.9	197.3
Exposures to institutions	68,937.5	68,937.5	0.0	0.0
Retail exposures*	855,846.9	855,637.2	641,727.9	51,338.2
Exposures secured by mortgages on immovable properties	3,042,037.3	3,041,479.4	1,065,892.9	85,271.4
Exposures in default	553.5	404.2	404.1	32.3
Other exposures	5,864.2	5,864.2	5,864.2	469.2
Total	**4,023,982.3**	**4,023,065.0**	**1,716,355.0**	**137,308.4**

*) 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).

7.27.2. Selected quantitative information about credit risk

Credit risk related adjustments

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

- EU CR1-A: Credit quality of exposures by exposure class and instrument;
- EU CR1-B: Credit quality of exposures by industry or counterparty type;
- EU CR2-A: Changes in the stock of general and specific credit risk adjustments;
- EU CR3: Application of credit risk mitigation techniques
- EU CR4: Standardised approach – credit risk exposure and CRM effects

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EU CR1-A: Credit quality of exposures by exposure class and instrument

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments in a period	Net values (a+b-c-d)
	Exposures in default	Exposures other than exposures in default					
Central governments or central banks	0.0	50,742.9	0.4	0.0	0.0	0.0	50,742.5
Institutions	0.0	68,937.5	0.0	0.0	0.0	0.0	68,937.5
Retail	0.0	855,846.9	209.7	0.0	0.0	0.0	855,637.2
Secured by a mortgage on immovable property	0.0	3,042,037.3	557.9	0.0	0.0	0.0	3,041,479.4
Exposures in default	553.5	0.0	149.3	0.0	0.0	0.0	404.2
Other exposures	0.0	5,864.2	0.0	0.0	0.0	0.0	5,864.2
Standardised Approach Total	**553.5**	**4,023,428.8**	**917.3**	**0.0**	**0.0**	**0.0**	**4,023,065.0**
Total	**553.5**	**4,023,428.8**	**917.3**	**0.0**	**0.0**	**0.0**	**4,023,065.0**
Of which: Loans	553.5	3,966,821.7	916.9	0.0	0.0	0.0	3,966,458.3
Of which: Debt securities	0.0	49,756.5	0.4	0.0	0.0	0.0	49,756.1

EU CR1-B: Credit quality of exposures by industry or counterparty types

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments	Net values (a +b-c-d)
	Exposures in default	Exposures other than exposures in default					
Financial and insurance business	0.0	68,937.5	0.0	0.0	0.0	0.0	68,937.5
Public administration and defence; mandatory social security	0.0	49,756.5	0.4	0.0	0.0	0.0	49,756.1
Other (individuals included)	553.5	3,904,734.8	916.9	0.0	0.0	0.0	3,904,371.4
Total	**553.5**	**4,023,428.8**	**917.3**	**0.0**	**0.0**	**0.0**	**4,023,065.0**

EU CR2-A: Changes in the stock of general and specific credit risk adjustments

	a)	b)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**924.0**	**0.0**
Increases resulting from the amounts written down for credit loss estimates in the period	841.5	0.0
Decreases resulting from the amounts released due to credit loss estimates	-0.9	0.0
Other adjustments	1.3	0.0
Closing balance	**1,765.9**	**0.0**

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EU CR3: Application of credit risk mitigation techniques

Maximum eligible amount of security or guarantee

	Loans secured with real properties		Other secured loans		Received financial guarantees
	Residential	Commercial	Cash and cash equivalents (issued debt instruments)	Other	
Loans and advances	**3,896,647.8**	**0.0**	**0.0**	**0.0**	**0.0**
of which: households	3,896,647.8	0.0	0.0	0.0	0.0
including: loans for the purchase of residential properties	3,896,647.8	0.0	0.0	0.0	0.0
Total	**3,896,647.8**	**0.0**	**0.0**	**0.0**	**0.0**

EU CR4: Standardised approach – credit risk exposure and CRM effects

	a)	b)	c)	d)	e)	f)
	Exposures prior to application of the credit conversion factors and mitigation of the credit risk		Exposures after application of the credit conversion factors and mitigation of the credit risk		Risk weighted assets and their concentration	
Categories of exposures	Carrying amount	Off-balance sheet amount	Carrying amount	Off-balance sheet amount	Risk weighted assets	Concentration of risk-weighted assets
Central governments or central banks	50,742.9	0.0	50,742.5	0.0	2,465.9	5%
Institutions	68,937.5	0.0	68,937.5	0.0	0.0	0%
Retail	855,846.9	0.0	855,637.2	0.0	641,727.9	75%
Secured by a mortgage on immovable property	3,042,037.3	0.0	3,041,479.4	0.0	1,065,892.9	35%
Exposures in default	553.5	0.0	404.2	0.0	404.1	100%
Other items	5,864.2	0.0	5,864.2	0.0	5,864.2	100%
Total	**4,023,982.3**	**0.0**	**4,023,065.0**	**0.0**	**1,716,355.0**	**43%**

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

The tables below show 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:

- Template 1: EBA-compliant legislative and extended moratoria loans and advances,
- Template 2: EBA-compliant legislative and extended moratoria loans and advances by residual maturity of moratoria.

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Template 1: EBA-compliant legislative and extended moratoria loans and advances

		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk				
			Performing			Non-performing		Performing			Non-performing
				Of which: exposures covered by forbearance measures	Of which: instruments for which there has been a significant increase in credit risk since their initial recognition but which are not impaired as regards credit risk (Stage 2)				Of which: exposures covered by forbearance measures	Of which: instruments for which there has been a significant increase in credit risk since their initial recognition but which are not impaired as regards credit risk (Stage 2)	
1	EBA-compliant moratoria loans and advances	130,196.9	130,196.9	0.0	3,364.4	0.0	127.2	127.2	0.0	67.4	0.0
2	of which: households	130,196.9	130,196.9	0.0	3,364.4	0.0	127.2	127.2	0.0	67.4	0.0
3	*of which: Collateralised by residential immovable property*	130,196.9	130,196.9	0.0	3,364.4	0.0	127.2	127.2	0.0	67.4	0.0

Template 2: EBA-compliant legislative and extended moratoria loans and advances by residual maturity of moratoria.

		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 year
1	Loans and advances for which a moratorium is proposed	569	130,196.9							
2	EBA-compliant moratoria loans and advances (granted)	569	130,196.9	0.0	0.0	28,322.3	100,971.6	903.0	0.0	0.0
3	of which: households		130,196.9	0.0	0.0	28,322.3	100,971.6	903.0	0.0	0.0
4	*of which: Collateralised by residential immovable property*		130,196.9	0.0	0.0	28,322.3	100,971.6	903.0	0.0	0.0

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These interim condensed financial statements of ING Bank Hipoteczny S.A. for the six-month period ended 30 June 2020 comprise 68 pages numbered consecutively.

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

24 August 2020	**Mirosław Boda** *President of the Management Board*	*[the original Polish document is signed with a qualified electronic signature]*
24 August 2020	**Jacek Frejlich** *Vice-President of the Management Board*	*[the original Polish document is signed with a qualified electronic signature]*
24 August 2020	**Roman Telepko** *Vice-President of the Management Board*	*[the original Polish document is signed with a qualified electronic signature]*

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

24 August 2020	**Mariola Cimander** *Chief Accountant*	*[the original Polish document is signed with a qualified electronic signature]*