Selected financial data

	[PLN thousand]		[EUR thousand]*	
	period **from 01.01.2020 to 31.12.2020**	period **from 01.01.2019 to 31.12.2019**	period **from 01.01.2020 to 31.12.2020**	period **from 01.01.2019 to 31.12.2019**
Net interest income	52,088.7	25,059.2	11,719.0	5,830.4
Net income on basic activities	**52,081.0**	**24,773.6**	**11,717.3**	**5,764.0**
General and administrative expenses	-24,629.5	-23,835.4	-5,541.2	-5,545.7
Gross profit (loss)	24,695.6	13.8	5,556.1	3.2
Net profit (loss)	**19,827.6**	**-188.9**	**4,460.9**	**-44.0**
Profit/loss per ordinary share (PLN)	94.42	-0.91	21.24	-0.21

	[PLN thousand]		[EUR thousand]*	
	as at **31.12.2020**	as at **31.12.2019**	as at **31.12.2020**	as at **31.12.2019**
Amounts due from banks	65,823.7	7,249.2	14,263.6	1,702.3
Debt securities	50,186.9	264,803.9	10,875.2	62,182.4
Loans and advances granted to customers	3,690,920.7	3,060,898.9	799,800.8	718,774.0
Total assets	**3,813,219.1**	**3,339,126.8**	**826,302.1**	**784,108.7**
Liabilities to other banks	1,969,597.2	2,488,153.6	426,800.1	584,279.3
Liabilities under issue of bonds	975,131.6	0.0	211,305.3	0.0
Liabilities under issue of covered bonds	399,480.6	400,359.9	86,565.1	94,014.3
Total liabilities	**3,351,435.7**	**3,067,574.7**	**726,236.4**	**720,341.6**
Share capital	380,000.0	210,000.0	82,343.8	49,313.1
Total equity	**461,783.4**	**271,552.1**	**100,065.7**	**63,767.1**

* Figures expressed in EUR have been calculated using the average NBP exchange rate of 31.12.2020 for the 2020 figures and of 31.12.2019 for the comparative figures.

The basic ratios

	as at **31.12.2020**	as at **31.12.2019**
ROA - return on assets (%)	0.52%	-0.01%
ROE - return on equity (%)	4.29%	-0.07%
DR - total debt ratio (%)	87.89%	91.87%
TCR - total capital ratio (%)	30.60%	17.03%
LR - leverage ratio (%)	11.76%	8.10%
LCR - liquidity coverage ratio (%)	8,555%	20,581%

ING

ING Bank Hipoteczny S.A.

Financial Statements

for the period
from 1 January 2020
to 31 December 2020

Table of contents

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Income statement

	note	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Interest income	7.1.	108,806.1	54,184.8
including, calculated using the effective interest method	7.1.	108,806.1	54,184.8
Interest costs	7.1.	-56,717.4	-29,125.6
Net interest income	7.1.	**52,088.7**	**25,059.2**
Fee and commission income	7.2.	523.9	211.3
Commission expenses	7.2.	-447.7	-326.9
Net commission income	7.2.	**76.2**	**-115.6**
FX result		-52.5	-36.3
Net income on other basic activities		-31.4	-133.7
Net income on basic activities		**52,081.0**	**24,773.6**
General and administrative expenses	7.3.	-24,629.5	-23,835.4
Expected loss provision	7.4.	-2,755.9	-924.4
Gross profit (loss)		**24,695.6**	**13.8**
Income tax	7.5.	-4,868.0	-202.8
Net profit (loss)		**19,827.6**	**-188.9**

Number of shares	380,000.0	210,000.0
Profit(+)/loss(-) per ordinary share - basic (in PLN)	52.18	-0.91
Profit(+)/loss(-) per ordinary share - diluted (in PLN)	52.18	-0.91

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Discontinued operation occurred in ING Bank Hipoteczny SA neither in 2020 nor in 2019.

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

Statement of comprehensive income

	Note	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Profit after tax for the period		**19,827.6**	**-188.9**
Total other comprehensive income, including:		**403.8**	**-140.0**
Items which can be reclassified to income statement		493.4	47.8
Unrealised result on measurement of HTC&S securities	7.19	493.4	47.8
including deferred tax		*-115.7*	*-11.2*
Items which will not be reclassified to income statement, including:		-89.6	-187.8
Actuarial gains/losses	7.19	-89.6	-187.8
including deferred tax		*21.0*	*44.1*
Net comprehensive income for the period		**20,231.4**	**-328.9**

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

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Statement of financial position

	note	as at **31.12.2020**	as at **31.12.2019**
Assets			
Amounts due from banks	7.7	65,823.7	7,249.2
Debt securities measured at fair value through other comprehensive income	7.8	50,186.9	34,823.5
Debt securities measured at amortized cost	7.8	0.0	229,980.4
Loans and advances granted to customers	7.9	3,690,920.7	3,060,898.9
Property, plant and equipment	7.10	739.4	988.3
Intangible assets	7.11	824.8	1,816.7
Deferred tax assets		942.2	1,585.1
Other assets	7.12	3,781.4	1,784.7
Total assets		**3,813,219.1**	**3,339,126.8**
Liabilities			
Liabilities to banks	7.13	1,969,597.2	2,488,153.6
Liabilities under issue of bonds	7.14	975,131.6	0.0
Liabilities under issue of covered bonds	7.15	399,480.6	400,359.9
Provisions	7.16	775.8	585.7
Current tax liabilities		98.8	113.1
Capital increase liabilities		0.0	170,000.0
Other liabilities	7.17	6,351.7	8,362.4
Total liabilities		**3,351,435.7**	**3,067,574.7**

Equity

Share capital	7.19	380,000.0	210,000.0
Supplementary capital - share premium		62,002.2	62,191.1
Accumulated other comprehensive income	7.20	-46.4	-450.1
Retained earnings	7.21	19,827.6	-188.9
Total equity		**461,783.4**	**271,552.1**
Total equity and liabilities		**3,813,219.1**	**3,339,126.8**

Carrying amount	461,783.4	271,552.1
Number of shares	380,000.0	210,000.0
Carrying amount per share (in PLN)	1,215.22	1,293.11

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

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Statement of changes in equity

for the period **from 01.01.2020 to 31.12.2020**

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	7.19	**210,000.0**	**62,191.1**	**-450.1**	**-188.9**	**271,552.1**
Issue of shares of series C	7.19	170,000.0	0.0	0.0	0.0	**170,000.0**
Coverage of losses from previous years		0.0	-188.9	0.0	188.9	**0.0**
Net result for the current period	7.21	0.0	0.0	0.0	19,827.6	**19,827.6**
Other net comprehensive income, including:	7.20	**0.0**	**0.0**	**403.7**	**0.0**	**403.7**
Unrealised result on measurement of HTC&S securities		0.0	0.0	493.3	0.0	493.3
Actuarial gains/losses		0.0	0.0	-89.6	0.0	-89.6
Closing balance of equity		**380,000.0**	**62,002.2**	**-46.4**	**19,827.6**	**461,783.4**

for the period **from 01.01.2019 to 31.12.2019**

	Note	Share capital	Supplementary capital - share premium	Accumulated other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	7.19	**120,000.0**	**0.0**	**-310.1**	**-7,379.4**	**112,310.5**
Issue of shares of series B	7.19	90,000.0	69,570.5	0.0	0.0	**159,570.5**
Coverage of losses from previous years		0.0	-7,379.4	0.0	7,379.4	**0.0**
Net result for the current period	7.21	0.0	0.0	0.0	-188.9	**-188.9**
Other net comprehensive income, including:	7.20	0.0	0.0	**-140**	0.0	**-140**
Unrealised result on measurement of HTC&S securities		0.0	0.0	47.8	0.0	**47.8**
Actuarial gains/losses		0.0	0.0	-187.8	0.0	**-187.8**
Closing balance of equity		**210,000.0**	**62,191.1**	**-450.1**	**-188.9**	**271,552.1**

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

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Cash flow statement

	Note	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Profit after tax		**19,827.6**	**-188.9**
Adjustments, of which:		**-616,402.5**	**-3,031,675.7**
Depreciation and amortisation	7.3, 7.10, 7.11	1,368.8	1,376.8
Interest accrued (from the income statement)	7.1	-52,088.7	-25,059.2
Interest paid		-43,999.3	-78.9
Interest received		110,390.8	47,168.4
Income tax (from the income statement)	7.5	-4,868.0	202.8
Income tax paid		5,496.6	0.0
Change in provisions	7.22	100.4	202.8
Change in loans and other receivables from banks	7.22	1,433.4	-1,433.5
Change in debt securities measured at fair value through other comprehensive income	7.22	493.4	47.8
Change in loans and other receivables from customers	7.22	-631,395.0	-3,060,898.9
Change in fixed assets due to recognition of lease		186.1	-851.5
Change in other assets	7.22	-2,299.8	-294.1
Change in liabilities to other banks	7.22	-56.3	1,598.1
Change in covered bonds liabilities	7.22	531.6	359.9
Change in other liabilities	7.22	-1,696.3	5,983.8
Net cash flow from operating activities		**-596,574.9**	**-3,031,864.6**
Purchase of property, plant and equipment	7.10	-11.0	-94.3
Purchase of securities measured at fair value through other comprehensive income	7.8	-15,914.4	-34,823.5
Purchase of securities measured at amortized cost	7.8	229,980.4	-229,980.4
Interest received on debt securities		339.7	236.9
Net cash flow from investing activities		**214,394.8**	**-264,661.3**
Proceeds from contributions to capital increase		0.0	170,000.0
Proceeds from the issue of shares	7.19	0.0	159,570.5
Proceeds from the issue of covered bonds	7.15	0.0	400,000.0
Proceeds from the issue of bonds		975,000.0	0.0
Long-term loans received		3,091,066.6	2,958,819.1
Long-term loans repaid		-3,608,517.9	-472,263.5
Interest on long-term loans repaid		-6,963.2	-24,980.4
Payment of interest on issued covered bonds		-8,082.9	0.0
Lease liabilities repaid		-314.4	-339.0
Net cash flow from financing activities		**442,188.2**	**3,190,806.7**
Net increase/decrease in cash and cash equivalents		60,008.0	-105,719.2
Opening balance of cash and cash equivalents		5,815.7	111,534.9
Closing balance of cash and cash equivalents	7.7, 7.22	65,823.7	5,815.7

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

Financial statements for the period from 1 January 2020 to 31 December 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 31 December 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.

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 Extraordinary General Meeting adopted on 11 December 2019.

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 31 December 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 2020, there were no changes in the composition of the Management Board of ING Bank Hipoteczny S.A.

As at 31 December 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 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 31 December 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,
- Mr Jacek Michalski, Secretary (independent member),
- Ms Joanna Erdman, Member,
- Mr Krzysztof Gmur, Member (independent member),
- Ms Bożena Graczyk, Member,
- Mr Lorenzo Tassan-Bassut, Member.

1.6. Auditing firm authorised to audit the financial statements

BDO Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw is the auditing firm authorised to audit the financial statements of ING Bank Hipoteczny S.A.

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 financial statements of the ING Bank Hipoteczny S.A. for the period from 1 January 2020 to 31 December 2020 have been signed by the Bank Management Board on 4 March 2021.

2. Significant events that occurred in 2020

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

In 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 31 December 2020, the Bank's LCR was 8,555% (20,581% as at 31 December 2019). Tier 1 ratio, equal to the Bank's total capital ratio, was 30.60% as at 31 December 2020 (17.03% as at 31 December 2019). The level of this ratio is currently almost three times higher than the required by law 10.5%.

Government measures put in place to support the economy

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

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

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

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 connection with the COVID-19 coronavirus pandemic, in April 2020 the Bank has implemented measures to assist customers facing financial difficulties. The measures implemented by the Bank are in line with the Polish Bank Association's "Position of banks on the standardization of principles of offering aid measures to banking sector customers" (i.e. a non-statutory moratorium within the meaning of the European Banking Authority Guidelines "EBA").

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 31 December 2020, a total of 587 customers benefited from the suspension of instalment repayments under the above said rules. As at the end of 2020, the suspension period was not yet over for 16 customers or 0.09% of the value of the Bank entire 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 31.12.2020, debt claims worth PLN 3,008.2 million were entered in the cover register (=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 month to 3 months, without charging interest for this period, and prolongs the credit repayment period accordingly.

In 2020, 22 borrowers benefited from the suspension of the loan agreement, with 12 of them still availing themselves of the suspension at the end of the year, which represented 0.08% of the value of the entire portfolio. Following the recommendations of the Polish Financial Supervisory Authority, the Bank has classified exposures under the statutory moratorium as impaired exposures (Stage 3).

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.

Significant increase in credit risk (SICR)

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.

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

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

An agreement with Bank Gospodarstwa Krajowego

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 Ordinary General Meeting of ING Bank Hipoteczny S.A. took place. The resolutions that were passed there concerned:

- Consideration and approval of the financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019.
- Review and approval of the Management Board Report on Operations of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019 including the Statement of the Management Board on observance of the Principles of corporate governance.
- Adoption of the reports of the Supervisory Board of ING Bank Hipoteczny S.A. for the period from 1 January 2019 to 31 December 2019.
- Method of covering the loss incurred by ING Bank Hipoteczny S.A. in the period from 1 January 2019 to 31 December 2019.
- Acknowledgement of the fulfilment of duties in 2019 by all Management Board Members and Supervisory Board Members,
- Changes in the Supervisory Board composition (as described in item 1.5. hereof).

On 25 September 2020, an Extraordinary General Meeting of ING Bank Hipoteczny S.A. was held at which a resolution was passed to elect ING Bank Slaski S.A. as the entity keeping the ING Bank Hipoteczny S.A. Shareholders Register.

3. Significant events after the end of the reporting period

COVID-19

In connection with the pandemic caused by COVID-19 and the declared epidemic emergency, the Bank is monitoring developments related to the continuing effects of the coronavirus proliferation on an ongoing basis. At present, the Bank is not able to foresee the impact of COVID-19 risks and (political, business or private) decisions related thereto on its financial situation. In the long run, a potential risk of failure to repay the loans is identified, however, the effect on financial results in consecutive reporting periods is hard to estimate. Therefore, the Bank revises the macroeconomic assumptions used in determining the ECL provisions on a quarterly basis.

Supervisory Board

In 2021, the composition of the Supervisory Board of ING Bank Hipoteczny S.A. changed.

- On 21 January 2021, Mr Lorenzo Tassan-Bassut tendered his resignation from the position of a member of the Bank Supervisory Board effective end of 31 January 2021.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

4. Statement of compliance with International Financial Reporting Standards

These annual financial statements of ING Bank Hipoteczny S.A. for the period from 1 January 2020 to 31 December 2020 were prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") version approved by the European Union.

The financial statements take into account the requirements of the standards and interpretations approved by the European Union except for the standards and interpretations mentioned in item 1 below, which either await approval by the European Union or have been already approved by the European Union but shall take effect after the balance sheet date.

Income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 01 January 2020 to 31 December 2020 and statements of financial position as at 31 December 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 annual financial statements the following binding standards and new interpretations approved by the European Union for annual periods starting on or after 1 January 2020 were taken into account:

Change	Influence on the Bank's statements
References to IFRS conceptual framework *(financial year starting on 1 January 2020)*	A change in the content of a number of standards and interpretations to standards updating the references to conceptual assumptions in IFRS published in May 2018. Application of the change to the standard has not affected significantly the Bank's financial statements.
IAS 1 and IAS 8 *Definition of Material* *(financial year starting on 1 January 2020)*	The amendment is intended to clarify the definition of materiality and to provide guidance to improve consistency in the application of the concept of materiality in already applicable standards. Application of the change to the standard has not affected significantly the Bank's financial statements.
IFRS 3 *Definition of a Business* *(financial year starting on 1 January 2020)*	The amendment clarifies the definition of a business. It also enables the use of a simplified approach to assess whether the acquisition of a certain activity or asset is an acquisition of a business or an acquisition of assets. Application of the change to the standard has not affected significantly the Bank's financial statements.
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. Application of the change to the standard has not affected significantly the Bank's financial statements due to the lessor's non-application of rent concessions.
IFRS 9, IAS 39 and IFRS 7 *Reform of interest rate benchmarks*	Change in interest rate benchmarks has not affected the Bank's financial statements due to the non-application of hedge accounting in 2020.

The published standards and interpretations which were issued by 31 December 2020 and approved by the European Union but were not previously applied by the Bank:

Change **(EU effective date is given in the parentheses)**	**Influence on the Bank's statements**
Amendments to IFRS 4 Insurance Contracts *Extension of the temporary exemption from IFRS 9*	Amendment implementation will have no impact on the financial statements of the Bank.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

The published standards and interpretations which were issued by 31 December 2020, but were not approved by the European Union as at 31 December 2020 and were not previously applied by the Bank.

Change (expected IASB effective date is given in the parentheses)	**Influence on the Bank's statements**
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Reform of interest rate benchmarks - phase II* *(financial year beginning 1 January 2021)*	The analyses effected by the Bank show that the implementation of the amendments will involve the possibility to continue recognition and presentation of financial instruments affected by the benchmark rate reform and increased scope of disclosures. Implementation of the change will have no impact on the financial statements of the Bank.
IAS 1 *Presentation of financial statements: classification of financial liabilities as short-term or long-term, taking into account the postponement of the date of application* *(financial year beginning 1 January 2023)*	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 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.
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 17 *Insurance contracts, taking into account the extension of the temporary exemption from the application of IFRS 9.* *(financial year beginning 1 January 2023)*	The Bank's analyses show that the implementation of these changes will have no significant impact on the 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 annual 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 annual financial statements, the Bank Management Board, identify no facts or circumstances that could pose a threat to the Bank's operation as a going concern for at least 12 months from the publication date due to intended or forced discontinuation or significant limitation by the Bank of its current operations.

4.3. Discontinued operations

Material operations were discontinued neither in 2020 nor 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 covering the financial data of such entities.

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

These annual 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 annual financial statements of the Bank cover the period from 01 January 2020 to 31 December 2020 and include comparative data:

- for the period from 01 January 2019 to 31 December 2019 for the items in the income statement, statement of comprehensive income, cash flow statement and statement of changes in equity,
- as at 31 December 2019 for the items from the statement of financial position.

5. Significant accounting principles and key estimates

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

The detailed accounting principles and key estimates applied for the needs of preparation of these financial statements are consistent with the principles binding in the financial year ending on 31 December 2019.

In 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 5.3 hereof.

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.

5.1. Basis for preparing the financial statements

In the annual financial statements, the concept of fair value of financial assets and financial liabilities measured at fair value and financial assets classified as measured at fair value through other comprehensive income was applied, except for those for which fair value cannot be reliably determined. Other items of financial assets are presented at amortized cost less impairment or at cost less impairment.

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

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

5.2. Professional judgement

In the process of applying the accounting principles to the issues indicated below, the professional judgement of the management was of utmost importance, apart from accounting estimates.

5.2.1. Deferred tax asset

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

5.2.2. Classification of financial assets

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

5.3. Accounting estimates

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

Estimations and assumptions applied to the presentation of amounts of assets and liabilities, as well as revenues and costs are made using historical data available and other factors considered to be relevant in given circumstances. The assumptions applied for the future and available data sources are the base for making estimations regarding the carrying amount of assets and liabilities, which cannot be determined explicitly on the basis of other sources. The estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date. The actual results may differ from estimates.

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

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

5.3.1. Impairment

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

5.3.1.1. Impairment of financial assets

The Bank applies the requirements of IFRS 9 as regards impairment in order to recognise and measure loss allowance for expected credit losses attributable to financial assets that are measured:

- at amortised cost or
- at fair value through other comprehensive income.

Expected loss in the portfolio of individually non-significant exposures is calculated collectively as a probability weighted average based on a few macroeconomic scenarios of various probability of occurrence. The final level of provisions on exposures in Stage 2 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.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

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 given assets item. When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers which are based on estimates by and large.

5.3.1.3. Provisions for retirement and pension benefits

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

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

The table below shows model sensitivity to the values adopted for individual assumptions as at 31 December 2020 and 31 December 2019.

2020

	Provisions for retirement and pension benefits		
	Lower bracket	Base variant	Upper bracket
Discount Rate (+1% / base variant / - 1%)	670.7	755.8	856.8
Salary raise (-0.25% / base variant/ +0.25%)	731.5	755.8	781.1

2019

	Provisions for retirement and pension benefits		
	Lower bracket	Base variant	Upper bracket
Discount Rate (+1% / base variant / - 1%)	522.4	585.7	660.4
Salary raise (-0.25% / base variant/ +0.25%)	569.0	585.7	603.0

5.3.2. Valuation of incentive schemes

5.3.2.1. Valuation of variable remuneration programme benefits

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

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

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

5.3.3. Amortisation period and method for intangible assets

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

5.4. Foreign currency

5.4.1. Functional currency and presentation currency

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

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

5.4.2. Transactions in foreign currency

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

5.5. Financial assets and liabilities

5.5.1. Initial recognition

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

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

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

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

[1] Transaction Date is a date falling on or after the conclusion of a given Transfer Contract being the date, referring to the Portfolio transferred thereunder, at which the first application for entering of ING Bank Hipoteczny S.A. as a mortgage creditor in the Land and Mortgage Register

5.5.2 Classification of financial assets

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

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

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and it is not designated to measurement at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets measured at fair value through other comprehensive income

A debt financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it is not designated to measurement at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows or to sell the financial assets item,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through profit or loss

All financial assets that do not meet the conditions to be classified as financial assets measured at amortised cost or debt financial assets measured at fair value through other comprehensive income, are classified to financial assets measured at fair value through profit or loss.
Moreover, at initial recognition, the Bank may irrevocably designate a given financial assets item to be measured at fair value through income statement, even though, satisfying the terms and conditions of classification, it can be measured at amortised cost or at fair value through other comprehensive income. It is a prerequisite to confirm that the purpose of such a designation is to eliminate or limit significantly any accounting mismatch that would occur without the said designation.

5.5.3. Business Model Assessment

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

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

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

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

maintained for the real property encumbered with the Mortgage securing the Debt from that Portfolio is submitted, or the next consecutive date.

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

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

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

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

The Bank assumes that:

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

5.5.4. Cash flows assessment

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

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

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

Most notably, the following terms and conditions are verified:

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

The terms and conditions modifying the change in time value of money are assessed using qualitative or quantitative analysis.

Should the qualitative appraisal not be enough to confirm the conclusion concerning characteristics of the realised cash flows, the Bank carries out the quantitative one. Quantitative appraisal is carried out by comparing:

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

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

5.5.5. Classification of financial liabilities

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

Financial liabilities measured at amortized cost are financial liabilities that are contractual obligations to deliver cash or other financial asset to another entity not carried at fair value through profit or loss, being a deposit, loan received or a financial liability recognised as a result of a sale of a financial assets item that cannot be derecognized from the statement of financial position, due to the issue of covered bonds and other securities.

5.5.6. Derecognition

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

The Bank transfers the financial asset if and only if:

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

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

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

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

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset from the statement of financial position,

- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognise the financial asset in the statement of financial position,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, then the Bank determines whether it has retained control of the financial asset. If control is retained, the financial asset continues to be recognised in the Bank's balance sheet; accordingly, if control is not retained, the financial asset is derecognised from the statement of financial position up to the amount resulting from continuing involvement.

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

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

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

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

5.5.7. Modification of contractual cash flows

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

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

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

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

5.5.8. Measurement

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

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

5.5.9. Impairment

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

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

For accounting and regulatory purposes, the Bank assumes that the past due positions include major financial assets for which there was a delay in repayment of principal or interest. The days past due are calculated starting from the date on which its past due credit obligation is deemed material. The Bank defines the materiality of a credit obligation as exceeding two materiality thresholds jointly: PLN 400 and 1% of the balance sheet exposure amount.

The Bank measures expected credit losses taking into account:

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

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

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

Any delay in performance of any major credit obligations of the client towards the Bank, parent entity in excess of 90 days is a default on the client's part.

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

Approach based on 3 stages

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

- **Stage 1** – covers exposures working without any recognised significant increase in the credit risk since the date on which they were granted. Each loan is in Stage 1 at the time it is granted. A provision is calculated based on a 12-month expected loss (or to the remaining maturity if less than 12 months).
- **Stage 2** – covers exposures working with recognised significant increase in the credit risk since the date on which they were granted. The provision is calculated based on lifetime expected credit loss of the exposure, namely from the reporting date to the remaining maturity.
- **Stage 3** – the exposures with identified impairment, namely in default. The provision is calculated based on the assets' lifelong expected credit loss for PD = 100%.

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

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

Definition of a significant increase in credit risk

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

- a significant increase in the PD over the exposure lifetime determined for the reporting date in relation to the PD 'lifetime' as of the date the exposure was granted in the perspective of the period remaining from the reporting date to the maturity date,

- granting of forbearance to the client,
- restructuring without identified impairment – risk ratings 18/19,
- delay in debt repayment in excess of 30 days.

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

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

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

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

- there have been a minimum of three failed debt repayment arrangements in row under the current Debt Episode,
- an individual who has given a surety in the ING Bank Śląski Group for material liabilities of his company is in default or an individual is a Debtor of the Bank and his company is in default,
- if an individual client is in default, it is a default premise for his company, if the company is in default, it is a default premise for the individual,
- not willing or not able to repay - the Bank assesses whether the Debtor is not willing or not able to repay. Liability cannot be repaid when the debtor's sources of income are insufficient to pay the instalments due,

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

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

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

  - the account has been registered by the Bank as a suspected credit fraud,
  - after an analysis, a suspected crime has been reported,
  - termination of the credit facility and establishing 100% reserve for the debt are recommended.
  - the Bank decided to terminate the credit facility and establish 100% reserve for the debt.

- the occurrence of at least 2 forbearances within 5 years of the application of the first forbearance.

Objective evidence of impairment

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

Objective evidence of impairment may be:

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

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

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of more than 90 days, provided that the amount of the arrears is higher than both materiality thresholds indicated in item 5.5.9,
- the exposure has been recognised as impaired under IFRS9 (due to the unification of the definition, the default is equivalent to impaired exposure),
- for retail credit exposures - restructuring of non-performing (event),
- filing a bankruptcy petition by the client (state),
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement, For retail credit exposures - termination: the Bank demands early repayment of the loan in full by the Debtor, which results in termination of the relationship with the Bank (event),
- amortization or write-off of retail credit exposures by the Bank:
  - amortization of the balance of the principal or/and interest in the total amount exceeding PLN 200, however the debt together with the amortized amount exceed the materiality threshold,
  - written-off, and the balance amount increased by the written-off amount plus interest exceed the materiality threshold (event),
- the Bank sold credit liabilities (or some of them) at a loss>5% of its balance sheet exposure, and a decision to sell was taken due to the deteriorating quality of the exposure (event),
- the occurrence of overdue amount for more than 30 days on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),
- the granting of a further forbearance on a credit exposure initially classified as Forbearance Non-Performing, but subsequently remedied and of the Forbearance Performing status in the trial period (event),

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

Identification of the objective impairment evidence requires downgrading the client to the worst risk rating. For the credit portfolio of the Bank current monitoring of the timely repayment of the amounts due to the Bank is carried out based on available tools and reports, which makes it possible to identify any threat of future indications or objective evidence of impairment before they crystallize.

The entire lending portfolio of retail clients is tested for exposure impairment.

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

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

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

Measurement of the expected credit losses

To measure expected credit loss in a collective approach, the Bank uses regulatory models of estimating risk parameters of PD, LGD and EAD adjusted to the requirements of IFRS 9, built for the needs of the Advanced Internal Ratings Based Approach (AIRB method). The risk parameter models for the purposes of IFRS 9 maintain the same structure as the regulatory models, while the method of estimating specific parameter values (PD, LGD, EAD) is adapted to the requirements of IFRS 9, and in particular includes reasonable and supportable information that is available without undue cost or effort as at the reporting date, referring to past events, current conditions and projections concerning future business conditions. Parameters of these models were calibrated in line with the PIT (point-in-time) approach and forecasted for 30 years. Parameter EAD takes account of schedules of repayments in accordance with the credit agreements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- no evidence of impairment or impairment trigger which is a source of default or which indicates a high probability of default is active,
- at least 12 months (trial period) have elapsed since the last of the following events:
    - granting of the last means under restructuring, namely forbearance,
    - the exposure was given a default status,
    - end of the grace period specified in the restructuring agreement,

- during the trial period, the client made substantial/regular repayments:

  - having made regular payments in accordance with the agreed restructuring terms and conditions, the client has repaid a substantial amount being earlier overdue payments (if there were any overdue amounts) or amortisation (if there were no overdue amounts),

  - the client made regular repayments, in accordance with the new schedule taking into account the terms and conditions of restructuring, i.e. no amounts past due > 30 days during the trial period.

- at the end of the trial period, the client has no overdue amounts and there are no concerns about the full repayment of the exposure under the terms and conditions of the restructuring agreement.

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

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

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

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

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

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

of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

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

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

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

5.5.10. Gains and losses resulting from 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 recognised in the income statement as far as debt financial assets are concerned.

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

Fair value of financial assets and liabilities quoted on an active market (including securities) is determined using a bid price for a long position and an offer price for a short position. If there is no alternative market for a given instrument, or in case of securities that are not quoted on an active market, the Bank determines the fair value using valuation techniques, including but not limited to, using recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach. This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

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

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

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

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

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

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

5.6. Non-financial assets

5.6.1. Property, plant and equipment

5.6.1.1. Own property, plant and equipment

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

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

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

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

5.6.1.2. Non-current assets leased

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

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

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

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

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

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

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

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

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

The Bank avails itself of exemption for:

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

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

5.6.1.3. Subsequent costs

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

5.6.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are deemed to include assets which fulfil the following requirements:

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

5.6.2.1. Computer software

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

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

5.6.2.2. Subsequent costs

Subsequent costs incurred after the initial recognition of an acquired intangible asset are capitalised only if the criteria binding in the Bank are met. In other cases, costs are recognised in the income statement as costs when incurred.

5.6.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives. The depreciable/amortizable amount is the purchase price or production cost of an asset, less its residual value. The useful life, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is in accordance with IAS 8 carried through profit or loss).

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

The depreciation/amortization periods are as follows:

- devices: 3 - 7 years
- equipment: 5 years
- costs of software development: 3 years
- computer software: 3 years

5.6.4. Impairment of other non- financial assets

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

5.6.5. Recognition of impairment loss

If there are indications of impairment of common property, i.e. the assets which do not generate cash independently from other assets or groups of assets, and the recoverable amount of the individual asset included among common property cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs. An impairment loss is recognized if the book value of the asset or cash-generating unit exceeds its recoverable amount.

5.6.6. Reversing impairment loss

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

5.7. Other items of the statement of financial position

5.7.1. Trade debtors and other receivables

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

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

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

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

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

5.7.2. Cash and cash equivalents

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

5.8. Equity

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

5.8.1. Share capital

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

5.8.2. Supplementary capital - share premium

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

5.8.3. Retained earnings

Retained earnings are created from profit write-offs and are allocated for purposes specified in the Articles of Association (the Company's Charter) or other legal regulations. The retained earnings include the net financial result. The financial result after tax represents the result before tax from the income statement for the current year adjusted with the amount owed or due under the corporate income tax.

5.8.4. Accumulated other net comprehensive income

Accumulated other comprehensive income occurs as a result of:

- measurement of financial instruments classified to be measured through other comprehensive income,
- actuarial gains / losses.

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

5.9. Prepayments and deferred income

5.9.1. Prepayments

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

5.10. Employee benefits

5.10.1. Benefits under the Act on employee pension programmes

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

5.10.2. Short-term employee benefits

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

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

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

5.10.3. Long-term employee benefits

5.10.3.1. Benefits under the Labour Code regulations

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

Provisions for long-term employee benefits are recognised in the *Provisions* item of the statements of financial position in correspondence with costs of labour in the income statement.

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

5.10.3.2. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two parts:

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

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which employees obtain benefits and during the deferral period – adequate benefit components). The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement. As regards the benefits granted in the form of financial instruments a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year, three-year periods, etc.). During the holding period, the employee who was granted the benefit shall not exercise the rights from the granted instruments. The value of non-deferred benefit is recognised as liability towards employees in correspondence with the income statement, whereas value of the deferred benefit is recognised as accruals and deferred payments in correspondence with the income statement.

5.11. Provisions

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

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

5.12. Income statement

5.12.1. Net interest income

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

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

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

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

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

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

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

5.12.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises, among others, fees for certificates about credit liabilities owed/repaid, commission for early repayment of mortgage loans, fees for commissioned real estate inspection in connection with a change in collateral by the client.

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

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

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

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

1. identification of an agreement signed with a customer,

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

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

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

After an obligation to provide service is met (or in the period when it is being met), the Bank recognises as income the transaction price assigned thereto.

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

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

5.12.3. FX result

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

5.12.4. Net income on other basic activities

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

5.13. Taxes

5.13.1. Income tax

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

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

5.13.2. Deferred income tax

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

The deferred income tax provision is created by using the balance-sheet method for all positive temporary differences occurring as at the balance-sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements.

Deferred tax assets are recognized for all negative temporary differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements and unused tax losses.

Deferred tax assets are recognized in such amount in which taxable income is likely to be earned allowing to set off negative temporary differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an asset or liability.

The carrying amount of a deferred tax asset shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realization of the deferred tax component.

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

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

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

5.13.3. Other taxes

Income, costs and assets are recognised less the value added tax, tax on civil law acts, and other sales taxes, except where the sales tax, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item. The net amount of sales tax recoverable from or payable to the tax authorities is recognized in the statement of financial position as an item of receivables or liabilities.

6. Comparability of financial data

In the annual financial statements prepared for the period from 1 January 2020 to 31 December 2020 ING Bank Hipoteczny S.A. did not change materially the method of presentation of the financial data in relation to the annual financial statements for the period from 01 January 2019 to 31 December 2019.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7. Notes to the financial statements

NOTES TO INCOME STATEMENT

7.1. Net interest income

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Interest income, including	**108,806.1**	**54,184.8**
Interest income calculated using the effective interest method, of which:	**108,806.1**	**54,184.8**
interest on loans and other receivables from customers measured at amortised cost	106,730.5	49,909.8
interest on receivables from banks measured at amortised cost	621.8	2,378.8
interest on securities measured at amortized cost	831.8	1,314.8
purchase of securities measured at fair value through other comprehensive income	622.0	581.4
Interest expenses, of which:	**-56,717.4**	**-29,125.6**
interest on liabilities to other banks	-49,618.4	-26,903.3
interest on liabilities under issue of bonds	-131.6	0.0
interest on liabilities under issue of covered bonds	-6,958.7	-2,206.1
interest on lease liabilities	-8.7	-16.1
Net interest income	**52,088.7**	**25,059.2**

7.2. Net commission income

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Commission income	**523.9**	**211.3**
commission for early repayment of mortgage loans	597.7	224.1
other commission income	-73.9	-12.7
Commission expenses	**-447.7**	**-326.9**
Fees and commissions to the National Depository for Securities (KDPW), issue registration included	-99.1	0.0
Fees and commissions to other financial entities, inclusive of fees and commissions for disclosure of credit information	-91.6	-287.1
Fees and commissions to banks for issued guarantees	-118.3	0.0
other commission expenses	-138.7	-39.8
Net commission income	**76.2**	**-115.6**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.3. General and administrative expenses

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Personnel expenses, including:	**-11,069.4**	**-10,407.2**
wages and salaries	-9,454.2	-8,876.7
of which variable remuneration programme	-1,012.4	-1,659.6
employee benefits	-1,615.2	-1,530.5
Other general and administrative expenses, including:	**-13,560.1**	**-13,428.2**
depreciation and amortisation	-1,368.8	-1,376.8
costs of auxiliary activities provided under the Cooperation Agreement*	-6,274.1	-6,028.8
Bank Guarantee Fund charges**	-950.6	0.0
IT costs	-785.2	-1,526.0
costs of news service platforms	-246.6	-201.7
costs of rental of buildings	-203.9	-85.8
legal services	-637.4	-531.8
communications costs	-129.1	-40.2
other advisory and consulting costs	-106.5	-165.0
consumption of materials and assets other than non-current assets	-222.5	-342.7
taxes and charges	-3.9	-883.9
representation costs	-2.4	-178.1
other third-party services	-1,142.8	-1,389.5
other costs	-1,486.3	-677.9
General and administrative expenses	**-24,629.5**	**-23,835.4**

*) 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 7.26 Transactions with related companies.

**) 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.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.4. Expected loss provision

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Establishment of expected loss provisions	**-2,763.5**	**-924.8**
loans and other receivables from clients	-2,754.7	-917.8
debt securities measured at fair value through other comprehensive income	-8.8	-7.0
Release of expected loss provisions	**7.6**	**0.4**
debt securities measured at amortized cost	2.1	0.4
debt securities measured at fair value through other comprehensive income	5.5	0.0
Expected loss provision	**-2,755.9**	**-924.4**

7.5. Income tax

Income tax recognized in the income statement

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
Current tax	**-4,280.0**	**-113.1**
Deferred tax, including:	**-588.0**	**-89.6**
Recognized and reversed temporary differences	-588.0	-89.6
recognized and reversed negative temporary differences due to:	-813.1	1,201.7
2018 tax losses	-544.2	-544.2
costs of provision for personnel, tangible and others expenses	-360.8	779.9
expenses attributable to accrued but not paid interest	-483.2	731.7
loan loss provisioning (LLP)	523.6	175.6
income settled at the effective interest rate	43.2	56.6
other	8.3	2.1
recognized and reversed positive temporary differences due to:	225.1	-1,291.3
income on accrued but not paid interest	300.3	-1,158.0
difference between tax and balance sheet depreciation/amortization	-42.2	-110.5
measurement of securities	-33.0	-22.8
Total tax recognized in the income statement	**-4,868.0**	**-202.8**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Effective tax rate calculation

	period from 01.01.2020 to 31.12.2020	period from 01.01.2019 to 31.12.2019
A. Profit before tax	**24,695.6**	**13.8**
B. (-) 19% of profit before tax	**-4,692.2**	**-2.6**
C. Increases - 19% of costs other than tax deductible cost, including:	**-197.5**	**-200.1**
Bank Guarantee Fund contribution to the banks' compulsory resolution fund for 2020	-180.7	0.0
civil law tax	0.0	-162.8
Other	-16.8	-37.4
D. Decreases - 19% of tax exempt income	**-21.7**	**0.0**
Other	-21.7	0.0
E. Income tax from income statement [B+C-D]	**-4,868.0**	**-202.8**
Effective tax rate (-E : A)*	**19.7%**	**1,469.6%**

In 2020, the difference in the effective tax rate from 19% was mainly affected by the Bank Guarantee Fund contribution to the compulsory resolution fund in the amount of PLN 950,600.

Income tax recognised in the statement of financial position

	31.12.2020	Income statement	31.12.2019
Interest accrued on loans and advances extended to customers, accrued interest and securities discount	880.4	-300.3	1,180.7
The difference between the carrying amount and tax value of tangible and intangible assets	188.2	42.2	146.0
Measurement of securities	55.8	33.0	22.8
Gross deferred tax provision recognised in profit or loss	**1,124.4**	**-225.1**	**1,349.5**

	31.12.2020	Income statement	31.12.2019
2018 tax loss	0.0	-544.2	544.2
Payable expenses	953.3	-360.8	1,314.1
Interest accrued on liabilities to other banks, accrued interest and discount on liabilities attributable to the issue of covered bonds	248.5	-483.2	731.7
Expected loss provisions	699.2	523.6	175.6
Expenses settled at the effective interest rate	99.8	43.2	56.6
Difference between the depreciation of a right-of-use asset and the cost of financing the lease (IFRS 16)	0.4	-1.7	2.1
Adjustment of interest on bonds acquired	45.3	45.3	0
of which, bonds acquired in 2019	39.8	39.8	0
Other	9.2	4.6	4.7
Gross deferred tax assets recognised in profit or loss	**2,055.6**	**-773.3**	**2,829.0**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

	31.12.2020	Other comprehensive income	31.12.2019
Unrealised result on measurement of securities measured at fair value through other comprehensive income	-126.9	-115.7	-11.2
Gross deferred tax provision recognised in other comprehensive income	**-126.9**	**-115.7**	**-11.2**

	31.12.2020	Other comprehensive income	31.12.2019
Actuarial losses	137.8	21.0	116.8
Gross deferred tax assets recognised in other comprehensive income	**137.8**	**21.0**	**116.8**

<u>Income tax recognized in other comprehensive income</u>

	period from 01.01.2020 to 31.12.2020	Period from 01.01.2019 to 31.12.2019
Deferred tax, including:	**-94.7**	**32.8**
Recognized and reversed temporary differences	-94.7	32.8
including recognized and reversed temporary differences related to unrealised result from valuation of securities measured at fair value through other comprehensive income	-115.7	-11.2
including recognized and reversed temporary differences attributable to actuarial losses	21.0	44.1
Total income tax recognized in other comprehensive income	**-94.7**	**32.8**

7.6. Earnings per ordinary share

<u>Basic earnings per share</u>

The calculation of basic earnings per share of the Bank for 2020 was based on net profit in the amount of PLN 19,827,595.17 and the number of ordinary shares at 31 December 2020 being 380,000.

<u>Diluted earnings per share</u>

In 2020, there were no factors that would dilute the profit per one share. In the described period, ING Bank Hipoteczny S.A. issued neither bonds convertible to shares nor stock options. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

NOTES TO STATEMENT OF FINANCIAL POSITION

7.7. Amounts due from banks

	as at 31.12.2020	as at 31.12.2019
Current accounts	3,823.6	316.6
Term deposits in banks	62,000.1	5,499.1
Other amounts due from banks	0.0	1,433.5
Total (gross)	**65,823.7**	**7,249.2**
Impairment loss	0.0	0.0
Total (net)	**65,823.7**	**7,249.2**

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.

7.8. Debt securities

	as at 31.12.2020	as at 31.12.2019
Debt securities at fair value through other comprehensive income	50,186.9	34,823.5
T-bonds	50,186.9	34,823.5
Debt securities measured at amortized cost	0.0	229,980.4
cash bills of the National Bank of Poland	0.0	229,980.4
Total	**50,186.9**	**264,803.9**

7.9. Loans and advances granted to customers

	as of **31.12.2020**			as of **31.12.2019**		
	Gross	expected loss provision	**net**	gross	expected loss provision	**net**
Retail Banking (individuals), including	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,061,815.8**	**-917.0**	**3,060,898.9**
Mortgages	3,694,594.4	-3,673.7	3,690,920.7	3,061,815.8	-917.0	3,060,898.9
Total	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,061,815.8**	**-917.0**	**3,060,898.9**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Lending portfolio quality

	as of **31.12.2020**			as of **31.12.2019**		
	Gross	Expected loss provision	**net**	gross	expected loss provision	**net**
assets in Stage 1	3,660,501.3	-781.6	3,659,719.7	3,042,149.4	-423.8	3,041,725.7
assets in Stage 2	28,596.2	-967.7	27,628.5	19,181.6	-343.9	18,837.7
assets in Stage 3	5,496.9	-1,924.4	3,572.5	484.8	-149.3	335.5
Total	**3,694,594.4**	**-3,673.7**	**3,690,920.7**	**3,061,815.8**	**-917.0**	**3,060,898.9**

Change in expected loss provision/impairment loss

	the period from 01.01.2020 to 31.12.2020				the period from 01.01.2019 to 31.12.2019			
	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:	**-357.8**	**-623.8**	**-1,775.1**	**-2,756.7**	**-423.8**	**-343.9**	**-149.3**	**-917.0**
allowance for loans acquired in the period	-283.5	0.0	0.0	-283.5	-457.7	0.0	0.0	-457.7
change in estimation	-120.8	-147.0	-31.0	-298.8	0.0	0.0	0.0	0.0
transfer to stage 1	-2.9	165.5	0.0	162.6	0.0	0.0	0.0	0.0
transfer to stage 2	21.6	-658.2	0.0	-636.6	30.9	-343.9	0.0	-313.0
transfer to stage 3	16.5	3.5	-1,744.1	-1,724.1	3.0	0.0	-149.3	-146.3
repayment in full	11.3	12.4	0.0	23.7	0.0	0.0	0.0	0.0
Allowance at the end of the period	**-781.6**	**-967.7**	**-1,924.4**	**-3,673.7**	**-423.8**	**-343.9**	**-149.3**	**-917.0**

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

- on 1 February 2020 under the Debt Transfer Contract 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.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.10. Property, plant and equipment

	as at 31.12.2020	as at 31.12.2019
Right-of-use assets	1,291.9	1,174.8
Computer hardware	213.6	202.7
Other property, plant and equipment	16.9	16.9
Total (gross)	**1,522.4**	**1,394.4**
Closing accumulated depreciation (amortisation) of the right-of-use asset	-626.5	-323.3
Closing accumulated depreciation (amortisation) of the computer hardware	-149.0	-78.6
Closing accumulated depreciation (amortisation) of other property, plant and equipment	-7.6	-4.2
Total (net)	**739.3**	**988.3**

Movements in property, plant and equipment, exclusive of right-of-use

the period **from 01.01.2020 to 31.12.2020**

	Computer hardware	Other property, plant and equipment	TOTAL
Opening gross value	**202.7**	**16.9**	**219.6**
Additions, including:	10.9	0.0	10.9
Purchases	10.9	0.0	10.9
Closing gross value	**213.6**	**16.9**	**230.5**
Opening accumulated depreciation (amortisation)	**-78.6**	**-4.2**	**-82.8**
Additions, including:	-72.8	-3.4	-76.2
amortisation charges	-72.8	-3.4	-76.2
Disposals, including:	2.4	0.0	2.4
Other	2.4	0.0	2.4
Closing accumulated depreciation (amortisation)	**-149.0**	**-7.6**	**-156.6**
Closing net value	**64.6**	**9.3**	**73.9**

the period **from 01.01.2019 to 31.12.2019**

	Computer hardware	Other property, plant and equipment	TOTAL
Opening gross value	**108.4**	**16.9**	**125.3**
Additions, including:	94.3	0.0	94.3
Purchases	94.3	0.0	94.3
Closing gross value	**202.7**	**16.9**	**219.6**
Opening accumulated depreciation (amortisation)	**-20.3**	**-0.8**	**-21.1**
Additions, including:	-78.6	-4.2	-82.8
amortisation charges	-78.6	-4.2	-82.8
Closing accumulated depreciation (amortisation)	**-78.6**	**-4.2**	**-82.8**
Closing net value	**124.1**	**12.7**	**136.8**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Movements in right-of-use assets

the period **from 01.01.2020 to 31.12.2020**

	Right-of-use assets		
	Real properties	Means of transport	TOTAL
Opening gross value	**1,011.0**	**163.8**	**1,174.8**
Additions, including:	52.5	64.6	117.1
new contracts	0.0	64.6	64.6
Other	52.5	0.0	52.5
Closing gross value	**1,063.5**	**228.4**	**1,291.9**
Opening accumulated depreciation (amortisation)	**-281.4**	**-41.9**	**-323.3**
Additions, including:	-249.7	-53.5	-303.2
amortisation charges	-249.7	-53.5	-303.2
Closing accumulated depreciation (amortisation)	**-531.1**	**-95.4**	**-626.5**
Closing net value	**532.4**	**133.0**	**665.4**

the period **from 01.01.2019 to 31.12.2019**

	Right-of-use assets		
	Real properties	Means of transport	TOTAL
Opening gross value	**1,242.9**	**100.4**	**1,343.3**
Additions, including:	0.0	63.4	63.3
new contracts	0.0	63.4	63.3
Disposals, including:	231.9	0.0	231.9
decrease in scope and early termination of the contract	231.9	0.0	231.9
Closing gross value	**1,011.0**	**163.8**	**1,174.8**
Opening accumulated depreciation (amortisation)	**0.0**	**0.0**	**0.0**
Additions, including:	-281.4	-41.9	-323.3
amortisation charges	-281.4	-41.9	-323.3
Closing accumulated depreciation (amortisation)	**-281.4**	**-41.9**	**-323.3**
Closing net value	**729.6**	**121.9**	**851.5**

There are no legal constraints on property, plant and equipment as at the end of 2020.

Contractual obligations to purchase property, plant and equipment

In 2020, the Bank had no agreements with counterparties that in the future would result in the increase in the value of property, plant and equipment.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.11. Intangible assets

	as at 31.12.2020	as at 31.12.2019
Software*	2,975.8	2,975.8
Total (gross)	**2,975.8**	**2,975.8**
Closing accumulated depreciation (amortisation) of software	-2,151.0	-1,159.1
Total (net)	**824.8**	**1,816.7**

*) From the Bank's point of view, in 2020, significant intangible assets were the Cover Register software that was rendered for use in 2018, whose carrying amount as at the end of 2020 was PLN 371,500, and the SAS (CSS) software license, whose carrying amount as at the end of 2020 was PLN 308,400. Expected economic life of the software is 2 years.

In 2020, the Bank did not incur any expenditure for intangible assets.

the period **from 01.01.2020 to 31.12.2020**

	Software	TOTAL
Opening gross value	**2,975.8**	**2,975.8**
Additions/disposals	0.0	0.0
Closing gross value	**2,975.8**	**2,975.8**
Opening accumulated depreciation (amortisation)	**-1,159.1**	**-1,159.1**
Additions, including:	-991.9	-991.9
amortisation charges	-991.9	-991.9
Closing accumulated depreciation (amortisation)	**-2,151.0**	**-2,151.0**
Closing net value	**824.8**	**824.8**

the period **from 01.01.2019 to 31.12.2019**

	Software	TOTAL
Opening gross value	**2,975.8**	**2,975.8**
Additions/disposals	0.0	0.0
Closing gross value	**2,975.8**	**2,975.8**
Opening accumulated depreciation (amortisation)	**-167.3**	**-167.3**
Additions, including:	-991.8	-991.8
amortisation charges	-991.8	-991.8
Closing accumulated depreciation (amortisation)	**-1,159.1**	**-1,159.1**
Closing net value	**1,816.7**	**1,816.7**

Contractual obligations to purchase intangible assets

In 2020, the Bank had no agreements with counterparties for the acquisition of intangible assets in the future.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.12. Other assets

	as at 31.12.2020	as at 31.12.2019
Prepayments, including:	**3,694.1**	**1,605.8**
prepaid general and administrative expenses	3,694.1	1,605.8
Other assets, including:	**87.2**	**178.9**
public and legal settlements	87.1	173.0
settlements with customers	0.1	1.7
Other	0.0	4.2
Total	**3,781.4**	**1,784.8**

7.13. Liabilities to banks

	as at 31.12.2020	as at 31.12.2019
Loans received	1,969,596.1	2,168,644.9
Liabilities due to refinancing*	0.0	319,507.3
Other liabilities to banks	1.1	1.4
Total	**1,969,597.2**	**2,488,153.6**

*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.

7.14. Liabilities under issue of bonds

	as at 31.12.2020	as at 31.12.2019
Liabilities arising from the issue of bonds maturing within:	975,131.6	0.0
1 month to 3 months	925,127.4	0.0
3 to 6 months	50,004.2	0.0
Total	**975,131.6**	**0.0**

Issued bonds as at 31.12.2020

ISIN	Currency	Nominal value	interest rate + bank margin	Issue date	Redemption date	Guaranteed amount	Quotation market
PLO262900015	PLN	675,000	.WIBOR3M + margin	18.12.2020	18.03.2021.	Not applicable	Not applicable
PLO262900023	PLN	250,000	WIBOR3M + margin	22.12.2020	22.03.2021	257,500	Not applicable
PLO262900031	PLN	50,000	WIBOR3M + margin	22.12.2020	22.06.2021	51,500	Not applicable

In 2019, the Bank did not issue bonds.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

In 2020, under the Bond Issue Programme, the Bank issued bonds of the total nominal value of PLN 975,000,000 (i.e. 1,950 bonds of a nominal value of PLN 500,000 each).
In December 2020, the Bank issued three series of bonds under the above programme, namely:

- Series 1 (INGBH001) worth PLN 675,000,000 and maturing after 3 months,
- Series 2 (INGBH002) worth PLN 50,000,000 and maturing after 6 months,
- Series 3 (INGBH003) worth PLN 250,000,000 and maturing in 3 months.

The bonds were addressed to qualified investors exclusively and were registered with the Central Securities Depository of Poland (KDPW) in Warsaw.
The bond issue in question is governed by the Bond Issue Programme Agreement concluded with ING Bank Śląski S.A. The Agreement provides that the maximum nominal value of issued and unredeemed bonds is PLN 4,000,000,000.
At the same time INGBH002 and INGBH03 series are covered by a bank guarantee granted by ING Bank Śląski S. A. (Guarantor), under which the Guarantor undertakes to purchase bonds should the Bank fail to perform its monetary obligations at the maturity date of the bonds of the above said series. As at 31 December 2020, the Bank's obligation attributable to the bonds issued under the Bond Issue Programme was PLN 975,000,000 in nominal terms.

7.15. Liabilities under issue of covered bonds

	as at 31.12.2020	as at 31.12.2019
Liabilities on account of issuing covered bonds with a repayment period:	399,480.6	400,359.9
from one year to five years	399,480.6	400,359.9
Total	**399,480.6**	**400,359.9**

Issued covered bonds as at 31.12.2020

ISIN	Currency	Nominal value	Interest as of 31.12.2020	Interest rate + bank margin / fixed rate	Issue date	Redemption date	Rating	Quotation market
XS2063297423	PLN	400,000	0.79%	0.53% + WIBOR6M	10.10.2019	10.10.2024	Aa1	LuxSE, parallel market of WSE

In 2020, the Bank did not issue covered bonds.

Issue of green covered bonds

ING Bank mortgage S.A. made an inaugural issue of green covered bonds denominated in PLN of series 1 on 10 October 2019.

ING Bank N.V. and ING Bank Śląski S.A. were the Joint Lead Managers. The demand from local financial institutions enabled the Bank to place the papers worth PLN 400 million. Interest rate was set at 0.53% over the 6M WIBOR. The papers are to mature on 10 October 2024. The funds acquired from the issue will be earmarked for refinancing PLN mortgage loans of natural persons which are secured with real estates from the group of 15% of the most energy-efficient buildings in Poland.

The issue was conducted under the Programme of issue of covered bonds by ING Bank Hipoteczny S.A. accepted on 5 September 2019 by Commission de Surveillance du Secteur Financier, with its registered office in Luxembourg.

The papers issued were quoted on the Stock Exchange in Luxemburg (Bourse de Luxembourg) and placed in the parallel market of the Warsaw Stock Exchange. Further, they may secure the lombard and technical loans and the repo operations of the National Bank of Poland.

The Moody's Investors Service confirmed the high quality of the portfolio of mortgage loans securing the issued securities and assigned rating Aa3 to the bonds issued (at that time the highest possible for Poland Country Ceiling). Now, the rating has been upgraded to Aa1, which confirms the high quality of the portfolio of mortgages used as collateral for the said debt securities.

Since the fourth quarter 2019, the Green Covered Bonds Committee (GCBC) has been in place in the Bank. It is responsible for all green aspects of covered bonds.

As at 31 December 2020, the nominal value of the covered bonds in trading that were issued by the Bank did not change from the end of 2019 and totalled PLN 400 million.

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.

On 12 October 2020, the second 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 3,437,100.

In 2020, due to adverse market conditions caused by the COVID-19 pandemic, the Bank did not issue covered bonds, but in order to diversify more the existing funding sources, it established a programme for issuing its own bonds under which the first issues of short-term bonds were effected.

Further issues of covered bonds will directly depend on market conditions and the liquidity situation of ING Bank Śląski S.A. Group.

Cover Register

Covered bonds are secured with the Bank's receivables on account of mortgage loans with the highest priority established for the Bank. The basis for the issue of covered bonds is also a part of the Bank's funds invested in T-bonds referred to in note 7.8.

As at 31 December 2020, the value of the outstanding principal of the debt attributable to the mortgage loans entered in the cover register and being a collateral for the issue of covered bonds was PLN 3,008.2 million, whereas the value of additional collateral in the form of securities issued by the State Treasury was PLN 13,424.300.

With a view to future issues of covered bonds, the Bank continued to enter mortgage-backed credit debt to the cover register. As at the end of 2020, there were 16,094 debt claims entered in the cover register.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.16. Provisions

	as at 31.12.2020	as at 31.12.2019
Provisions for retirement and pension benefits:	755.8	585.7
Short-term	44.0	2.6
Long-term	711.8	583.1
Other	20.0	0.0
Long-term	20.0	0.0
Total	**775.8**	**585.7**

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2020 stood at 1.2% (2.1% at the 2019 yearend). The actuarial valuation-based provision is recognised and reviewed per annum.

the period **from 01.01.2020 to 31.12.2020**

	Provision for retirement benefits	Provision for pension benefits	TOTAL
Opening balance	**563.0**	**22.7**	**585.7**
regular employment costs	44.4	2.8	**47.2**
costs of interest	11.8	0.5	**12.3**
actuarial gains/losses, of which:	111.0	-0.4	**110.6**
attributable to changes in actuarial assumptions ex post	81.6	-0.4	**81.2**
attributable to changes in financial assumptions	26.8	-0.1	**26.7**
attributable to changes in demographic assumptions	2.6	0.1	**2.7**
other provisions	20.0	0.0	**20.0**
Closing balance	**750.2**	**25.6**	**775.8**

the period **from 01.01.2019 to 31.12.2019**

	Provision for retirement benefits	Provision for pension benefits	TOTAL
Opening balance	**367.2**	**15.6**	**382.9**
regular employment costs	21.9	1.4	**23.3**
costs of interest	9.9	0.4	**10.3**
paid benefits	-62.6	0.0	**-62.6**
actuarial gains/losses, of which:	226.6	5.2	**231.8**
attributable to changes in financial assumptions	123.5	3.4	**126.9**
Other	103.1	1.8	**104.9**
Closing balance	**563.0**	**22.7**	**585.7**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.17. Other liabilities

	as at 31.12.2020	as at 31.12.2019
Prepayments, including:	**4,183.2**	**6,653.9**
due to employee benefits	2,891.3	2,734.1
of which variable remuneration programme	2,030.2	2,175.2
due to Cooperation Agreement*	551.8	1,527.4
due to IT costs	93.8	720.4
due to legal services	60.0	7.0
due to communication costs	17.2	13.2
Other	569.1	1,651.8
Other liabilities, including:	**2,168.5**	**1,708.4**
lease liabilities	668.2	857.0
settlements with employees	792.5	393.8
public and legal settlements	484.0	421.3
settlements with suppliers	197.3	19.3
Other	26.5	16.9
Total	**6,351.7**	**8,362.3**

*) A scope of services provided by ING Bank Śląski S.A. for ING Bank Hipoteczny S.A. resulting from the Cooperation agreement is described in Note 7.26 *Transactions with related companies*.

7.18 Lease liabilities

as of **31.12.2020**

	Lease of office space	Lease of cars	TOTAL
Maturity of lease liabilities			
up to 1 month	22.8	4.5	27.5
over 1 month and up to 3 months	45.6	9.1	54.6
over 3 months to 1 year	204.3	40.5	244.8
over 1 year and up to 5 years	259.3	82.2	341.4
Total	**532.0**	**136.3**	**668.2**

as of **31.12.2019**

	Lease of office space	Lease of cars	TOTAL
Maturity of lease liabilities			
up to 1 month	20.8	4.7	25.5
over 1 month and up to 3 months	41.4	7.9	49.3
over 3 months to 1 year	185.3	28.2	213.5
over 1 year and up to 5 years	485.8	82.9	568.7
Total	**733.3**	**123.7**	**857.0**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.19. Share capital

The detailed structure of share capital as at 31 December 2020 is presented in section 1.3. *Share capital*

7.20. Accumulated other comprehensive income

	as at 31.12.2020	as at 31.12.2019
Actuarial gains / losses	-587.5	-497.9
including deferred tax	137.8	116.8
Securities measured at fair value through other comprehensive income	541.1	47.8
including deferred tax	-126.9	-11.2
Total	**-46.4**	**-450.1**

7.21. Retained earnings

	as at 31.12.2020	as at 31.12.2019
Result for the current year	19,827.6	-188.9
Total	**19,827.6**	**-188.9**

By decision of the Annual General Meeting of ING Bank Hipoteczny S.A. of 8 April 2020, the loss for 2019 was covered by the supplementary capital.

The Bank Management Board will request the Annual General Meeting to allocate 8% of the 2020 profit of PLN 1,586,207.61 to supplementary capital and to retain the remaining net profit of PLN 18,241,387.56.

OTHER NOTES

7.22. 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 **31.12.2020**	as at **31.12.2019**
Current accounts	3,823.6	316.6
Term deposits in banks	62,000.1	5,499.1
Total cash and cash equivalents	**65,823.7**	**5,815.7**

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

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

Investment activity covers purchase and sale of securities and related interest income, as well as the purchase and sale of intangible assets and property, plant and equipment.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. The inflows from financial activity indicate sources of financing of the Bank, including long-term loans and cash loans from other banks or issue of debt securities (covered bonds and bonds). The inflows also include liabilities attributable to contributions to the increase in share capital. Outflows from financial activity are mainly due to repayment of long-term liabilities by the Bank (e.g. repayment of received loans including interest, interest on debt securities issued and repayment of lease liabilities).

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

The reasons for differences between changes recognised in statement of financial position and in cash flow statement have been explained in the table herein below.

Moreover, changes in the individual assets and liabilities were adjusted with interest disclosed in the position *Interest received/ paid*.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

	Changes			
	in statement of financial position	in cash flow statement	**difference**	**Explanation**
Change in loans and other receivables from banks	-58,574.5	1,433.4	**-60,007.9**	The difference concerning the change in receivables from banks results in particular from the decrease of this item in *net cash flows from operating activities* by the change in current accounts and short-term deposits with a maturity of less than 3 months, which are presented under *increase/decrease in net cash and cash equivalents*.
Change in loans and advances granted to customers	-630,021.8	-631,395.0	**1,373.2**	The difference concerning the change in loans and advances granted to customers is due in particular to the reduction of this item in *net cash flow from operating activities* by accrued interest on loans granted to customers, which is presented under *Interest received*
Change in other assets	-1,996.7	-2,299.8	**303.1**	The difference concerning the change in other assets results in particular from including in *net cash flow from operating activities* not only the change in other assets but also, among others, other changes in property, plant and equipment and intangible assets
Change in liabilities to other banks	-518,556.4	-56.3	**-518,500.1**	The difference concerning the change in other liabilities to other banks results in particular from the decrease of this item in *net cash flows from operating activities* by the change in liabilities due to long-term financing, which were shown in *net cash flows from financing activities.*
Change in covered bonds liabilities	-879.3	531.6	**-1,410.9**	The difference concerning the change in covered bonds related liabilities results in particular from the increase of this item in *net cash flow from operating activities* by accrued interest on loans granted to customers, which is presented under *Interest received*
Change in provisions	190.1	100.4	**89.7**	The difference concerning the change in provisions results from including in *net cash flow from operating activities* not only the change in provisions but also, inter alia, the change in deferred corporate income tax recognised in *Accumulated other comprehensive income*
Change in other liabilities	-2,010.7	-1,696.3	**-314.4**	The difference concerning the change in other liabilities in *net cash flow from operating activities* results in particular from derecognising from this item of the cash flow statement, lease related cash flows that are shown in *net cash flows from financing activities*
Change in debt securities measured at fair value through other comprehensive income	403.7	493.4	**-89.7**	The difference concerning the change in debt securities measured at fair value through other comprehensive income results in particular from derecognising from this item of the cash flow statement, deferred corporate tax related cash flows that are shown under *Change in provisions*

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.23. Fair value

The table below presents the balance-sheet figures for financial assets per individual measurement categories (levels). In 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 **31.12.2020**

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**50,186.9**	**0.0**	**0.0**	**50,186.9**
Debt securities measured at fair value through other comprehensive income, of which:	50,186.9	0.0	0.0	50,186.9
T-bonds	50,186.9	0.0	0.0	50,186.9

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

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

Below is a comparison of the carrying amount with the fair value of the loan portfolio, of liabilities attributable to bonds and covered bonds issue. For other financial assets and liabilities not measured at fair value in the statement of financial position, the fair value is similar to the carrying amount. In 2020, the measurement techniques for Levels 2 and 3 have not changed.

as of **31.12.2020**

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	65,823.7	required payment	0.0	65,823.7	0.0	**65,823.7**
Loans and receivables to customers	3,690,920.7	discounted cash flows	0.0	0.0	3,627,696.9	**3,627,696.9**
Liabilities						
Liabilities to other banks	1,969,597.2	required payment	0.0	1,969,597.2	0.0	**1,969,597.2**
Liabilities under issue of bonds	975,131.6	discounted cash flows	0.0	975,131.6	0.0	**975,131.6**
Liabilities under issue of covered bonds	399,480.6	discounted cash flows	0.0	403,363.2	0.0	**403,363.2**
Lease liabilities	668.2	required payment	0.0	0.0	668.2	**668.2**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

as of **31.12.2019**

	Carrying amount	Method of measurement	Fair value			TOTAL
			Level 1	Level 2	Level 3	
Assets						
Amounts due from banks	7,249.2	required payment	0.0	7,249.2	0.0	**7,249.2**
Debt securities measured at amortized cost	229,980.4	regulated market quotations	0.0	229,980.4	0.0	**229,980.4**
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 to other banks	2,488,153.6	required payment	0.0	2,488,153.6	0.0	**2,488,153.6**
Liabilities under issue of covered bonds	400,359.9	regulated market quotations	0.0	400,359.9	0.0	**400,359.9**
Lease liabilities	857.0	required payment	0.0	0.0	857.0	**857.0**

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.

7.24. 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 31 December 2020.

7.25. Off-balance sheet items

	as at **31.12.2020**	as at **31.12.2019**
Off-balance sheet liabilities received, including	3,031,198.9	333,248.6
unused revolving credit facility received from ING Bank Śląski S.A.	3,031,000.0	333,000.0
unused revolving credit facility for credit cards to the current account maintained for the Bank in ING Bank Śląski S.A.	198.9	248.6
Total off-Balance Sheet items	**3,031,198.9**	333,248.6

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 increasing the maximum exposure amount to PLN 4.2 billion. Moreover, on 14 December 2020, the Bank signed an annex to the said Credit Facility Agreement by which the maximum

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

exposure amount was decreased to PLN 3 billion. At the same time, the Bank concluded 2 new Credit Facility Agreements with ING Bank Śląski S.A. for the amounts of PLN 1 billion (securing general liquidity) and PLN 1 billion (securing the issue of bonds), together with a Framework Agreement for the amount of PLN 1.2 billion (securing the issue of underwritten bonds).

7.26. Related party transactions

ING Bank Hipoteczny S.A. is a subsidiary of ING Bank Śląski S.A., which as at 31 December 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. Moreover, ING Bank Hipoteczny S.A. avails itself of the revolving credit facility from ING Bank Śląski S.A. used for financing of its operations as well as the credit line rendered available to the employees of the company in connection with using bank cards of ING Bank Śląski S.A.

Since January 2019 ING Bank Śląski S.A. has performed for ING Bank Hipoteczny S.A. activities of basic importance under Cooperation Agreement signed by and between the two banks. The services are provided in the following areas: Accounting and Taxes, Controlling, IT, Credit Risk and Models Validation, Market Risk, Liquidity Risk, Operating Risk, Information (Technology) Risk, Procurement Services, HR Services, Business and Operations, Treasury, Legal Services, Data Management, Compliance Risk and Audit. Some of the activities are performed as part of outsourcing, in accordance with the provisions of the Banking Law Act, while all decision-making processes related to the conducted activity are performed by ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. and ING Bank Śląski S.A. make also transactions resulting from agreements for sub-lease of premises used for the registered office of the Bank, the office in Warsaw and a backup centre, support agreements concerning IT and personnel and payroll services.

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

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

Income and expenses

presented after deduction by the sales structure factor (VAT)
the period **from 01.01.2020 to 31.12.2020**

	parent entity	other related entities
Income, including:	**621.8**	**0.0**
interest income	621.8	0.0
Expenses, including	**56,143.4**	**717.7**
interest costs	49,713.1	37.6
commission expenses	167.3	0.0
general and administrative expenses	6,263.1	680.1

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

the period **from 01.01.2019 to 31.12.2019**

	parent entity	other related entities
Income, including:	**2,378.8**	**0.0**
interest income	2,378.8	0.0
Expenses, including	**-33,792.4**	**-539.6**
interest costs	-26,946.5	-12.2
commission expenses	-39.8	0.0
general and administrative expenses	-6,806.1	-527.4

Receivables and liabilities

as of **31.12.2020**

	parent entity	other related entities
Receivables	**66,356.2**	**0.0**
amounts due from banks	65,823.7	0.0
property, plant and equipment	532.4	0.0
Liabilities	**1,970,289.6**	**52.4**
liabilities to other banks	1,969,597.2	0.0
capital increase liabilities	0.0	0.0
other liabilities	692.4	55.6
including: accruals	*576.8*	*17.1*
Off-balance-sheet operations	**3,031,198.9**	**0.0**
off-balance sheet liabilities received	3,031,198.9	0.0

as of **31.12.2019**

	parent entity	other related entities
Receivables	**7,978.9**	**0.0**
amounts due from banks	7,249.2	0.0
property, plant and equipment	729.6	0.0
Liabilities	**2,660,959.0**	**0.0**
liabilities to other banks	2,488,153.6	0.0
liabilities on account of equity increase	170,000.0	0.0
other liabilities	2,805.4	61.1
including: accruals	*1,767.6*	*61.1*
Off-balance-sheet operations	**333,248.6**	**0.0**
off-balance sheet liabilities received	333,248.6	0.0

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.27. 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 31 December 2020 was PLN 86,700, whereas as at 31 December 2019 was PLN 46,300.

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

	period **from 01.01.2020 to 31.12.2020**	period **from 01.01.2019 to 31.12.2019**
Short-term employee benefits, including:	1,586,7*	1,481.1
remuneration	1,503,4*	1,433.5
benefits	83.3	47.6
Total	**1,586.7**	**1,481.1**

* 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 31 December 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

	period **from 01.01.2020 to 31.12.2020**	period **from 01.01.2019 to 31.12.2019**
Short-term employee benefits, including:	120.0	120.0
Wages and salaries	120.0	120.0
Total	**120.0**	**120.0**

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 31 December 2020 and as at 31 December 2019, respectively, neither Management Board nor Supervisory Board Members held shares of ING Bank Hipoteczny S.A.

7.28. Headcount

The headcount at ING Bank Hipoteczny S.A. was 36 FTEs as at 31 December 2020 and 39 FTEs as at 31 December 2019.

7.29. Segment reporting

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

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

RISK AND EQUITY MANAGEMENT

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

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

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

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

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

7.30. Risk management goals and rules

Risk management at ING Bank Hipoteczny S.A. serves to ensure effective risk control and limitation within the risk appetite accepted by the Bank in volatile legal and macroeconomic conditions and considering the pre-set business targets. The assumed risk level is an important factor of the planning process.

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

The aim of:

- the **credit risk management system** is to support effective accomplishment of business goals through proactive risk management and organic growth-oriented activities, while at the same time keeping solvency and liquidity at a safe level and keeping provisions at an appropriate level,
- the **operational risk management system** is to mitigate exposure of the Bank to the non-financial risk and to minimize consequences of operational risk crystallisation,
- the **funding and liquidity risk management system** is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions,
- the **interest rate risk management system** is to keep variability of the financial result and revaluated balance sheet value of equity incident to changes in the interest rates, within the limits that do not pose any risk for the Bank and are acceptable for the Supervisory Board,
- the **compliance risk management system** is to identify the threats to the operation of the organisation attributable to non-compliance with legal and internal regulations, most notably, as regards bank products and services, to monitor the incidents that occurred, and also to take auxiliary and remedy actions.

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

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

Risk management rules

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

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

7.31. Organisation of risk management

The risk management process is supervised by the **Bank Supervisory Board** which regularly receive information about the risk profile at ING Bank Hipoteczny S.A. and key actions taken to manage risk.

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

Risk is managed through three independent lines of defence:

1) The first line of defence

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

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

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

2) The second line of defence

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

It is responsible for:

- publishing regulations and ensuring internal control system tools and methods,
- monitoring application of internal control system regulations by the first line of defence,
- monitoring of observance of controls within the second line of defence,
- vertical monitoring of the first line of defence as regards observance of controls.

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

3) The third line of defence

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

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

Organisational units responsible for risk management

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

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

The risk management process is supported by:

Audit and Risk Committee of the Supervisory Board

The Committee supports the Supervisory Board especially by:

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

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

- issuing opinion about the overall, current and future readiness of the Bank to take the risk,

- issuing opinion about the risk management strategy developed by the Management Board as regards the risk inherent in the Bank's operations, and about the Management Board's information concerning execution of that strategy,
- supervising of the implementation of the risk management strategy in the operations of the Bank by the higher-rank executive staff,
- verifying whether the prices of liabilities and assets offered to the customers reflect fully the Bank's business model and its risk strategy.

Assets and Liabilities Committee

The activities of the ALCO Committee include:

- market and liquidity risk management at ING Bank Hipoteczny S.A.,
- management of the Bank's balance sheet (assets and liabilities),
- capital and capital adequacy management,
- valuation of financial instruments and calculation of valuation adjustments, considering the factors not accounted for in the valuation in the Bank's systems.
- submitting the market risk and liquidity risk policy and valuations of financial instruments to the Management Board for their final approval,
- reviewing the internal legal acts on a current basis (once a year at the minimum) and adjusting them to the risk profile of the Bank and/or to the changes in macroeconomic and legal environment.

Credit Policy Committee

The activities of the Committee include:

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

Non-financial Risk Committee

The activities of the Committee include, but are not limited to:

- Initiating and recommending the changes and new solutions for the non-financial risk area.
- Performing the tasks resulting from the use of outsourcing as described in the ING Bank Hipoteczny S.A. Outsourcing Policy and the ING Bank Hipoteczny S.A. Outsourcing Manual.
- Approving, advising on and recommending plans, projects and programmes as well as control standards for non-financial risk management.
- Approving of and advising on:
  - operational risk management plan for the calendar year concerned,
  - waivers and deviations for the non-financial risks area,

- annual control testing plans and results,

- annual Risk Identification and Assessment Plan and the results of this process when unacceptable risks are identified as well as the outcome of the Business Environment Assessment,

- action plans and report on the 2LoD monitoring as part of key control testing,

- non-financial risk reports and recommendation to the Bank Management Board of decisions for material non-financial risk issues (including the risks attributable to product-related changes),

- periodical results of Bank's organisational framework reviews for compliance with the operational risk management rules,

- results of measurement of internal and regulatory capitals for operational risk, including quarterly monitoring of the capital required for operational risk and capital change drivers,

- mitigating actions,

- supervision of:
  - the processes of NFR identification, assessment, monitoring and mitigation,
  - the process of distribution of regulatory information to competent Bank units,
  - the quality assurance process for the non-financial risk management processes,
- monitoring of utilisation of the limits set in the non-financial risk appetite statement (loss limits included),
  - the processes of NFR identification, assessment, monitoring and mitigation, outsourcing area included,
  - the quality assurance process for the non-financial risk management processes,
  - the status of mitigation and enhancement activities related to non-financial risk programmes and projects in the Bank,
  - risk factors arising from the Business Environment Assessment.
- assessment of:
  - reputational risk reports and conduct risk matters,
  - non-financial risks for considerable changes to the Bank's governance structure and essential elements of outsourcing processes.

7.32. Credit risk

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

Credit risk of the credit exposures portfolio is managed by:

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

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

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

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

Under the risk management system, the Bank:

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

Credit risk management objectives are achieved by way of:

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

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

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

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

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

The goal of the credit risk reporting is:

- to present indispensable information allowing for assessment of the credit exposure in order to ensure that portfolio development is in line with the risk management strategy and policy of the Bank,
- to measure and assess the risk level in relation to the assumed risk appetite,
- to identify the impaired exposures, or exposures at risk of impairment, in order to set loss provisions,
- to assess adequacy of provisioning,
- to identify weaknesses of the risk management process in order to start recovery actions.

The scope of reporting includes but is not limited to:

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

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

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

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

Utilisation of the credit risk limits is checked at least once a month, and the information about the limit utilisation is conveyed at least to the authority that approved the limit.

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

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

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

In the entire 2020, all RAS limits were at acceptable level - none of the high-level or specific credit risk limits was overrun.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Retail clients loans and advances

The Bank applies impairment losses in accordance with CRR and secondary legislation thereto. The credit portfolio is of very good quality. As at 31 December 2020, 28 impaired exposures were identified for the approximate amount of PLN 5,460,800. Value of collaterals (according to the mortgage lending value) for the said cases was PLN 9,926,900.

	as at **31.12.2020**	as at **31.12.2019**
Principal balance		
Stage 1, without identified impairment	3,649,064.9	3,029,863.0
Stage 2, without identified impairment	28,499.5	19,104.1
Stage 3: with recognised impairment	5,460.8	483.7
Total	**3,683,025.2**	**3,049,450.8**
Expected loss provision		
Stage 1, without identified impairment	781.5	423.8
Stage 2, without identified impairment	967.8	343.9
Stage 3: with recognised impairment	1,914.0	149.3
Total	**3,663.3**	**917.0**

Loans and advances for retail clients - without identified impairment – by days past due

	as at **31.12.2020**	as at **31.12.2019**
Principal balance, by days past due		
up to 30 days	3,676,694.0	3,048,895.1
from 31 to 60 days	695.0	0.0
from 61 to 90 days	175.3	72.0
Above 90 days	0.0	0.0
Total	**3,677,564.3**	**3,048,967.1**
up to 30 days	99.976%	99.998%
from 31 to 60 days	0.019%	0.0%
from 61 to 90 days	0.005%	0.002%
Above 90 days	0.0%	0.0%
Total	**100%**	**100%**

Application of credit risk mitigation techniques

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

Established collaterals play the following role:

- financial:
  - they are intended to mitigate the losses on credit exposure in case of credit risk materialisation, that is, when the debtor fails to repay the debt as scheduled in the contract,

- may be taken into account in the process of estimating capital requirements for the credit risk and in the process of estimating collective provisions for the lending portfolio in relation to impairment of assets if they fulfil the terms and conditions provided for in bank regulations on provisioning. Recovery rates assigned to specific categories of collaterals were determined based on relevant LGD model,

- non-financial:
  - they improve controlling rights of the Bank as a creditor by limiting the possible use by the security provider of the assets encumbered in favour of the Bank,
  - they strengthen the negotiation position of the Bank as regards the debtor (client), other creditors of the debtor and security provider.

The Bank uses the technique of credit risk mitigation in a form of funded credit protection related to tangible collaterals that make it possible to recover debt claims by the Bank should the client default.

Regulations of the Bank concerning collaterals, include:

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

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

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

Acceptable forms of valuation of collaterals:

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

Expert opinions of the mortgage lending value of the real estate prepared by an authorised employee of the Bank are accepted.

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

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

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:

- Information on the nature and amounts of certain own funds items;
- LRSum: Statement concerning reconciliation of accounting assets and leverage ratio exposures;
- LRCom: Joint disclosure of the leverage ratio;
- Geographical distribution of relevant credit exposures for the calculation of the countercyclical capital buffer;
- The amount of institution-specific countercyclical capital buffer;
- IFRS 9/Article 468-FL: Comparison of an institution's own funds and capital and leverage ratios with and without the application of the transitional arrangements for IFRS 9 and analogous expected credit losses and with and without the application of the provisional treatment under Article 468 of CRR;
- EU OV1: Overview of risk-weighted assets;
- EU CRB-C: Geographical breakdown of exposures;
- EU CRB-D: Concentration of exposures by industry or counterparty type;
- EU CRB-E: Maturity of exposures;
- EU CRB-B: Total and average net exposure amount
- EU CR1-A: Credit quality of exposures by exposure class and instrument;
- EU CR1-B: Credit quality of exposures by industry or counterparty type;
- EU CR1-C: Credit quality of exposures by geography – all exposures of ING Bank Hipoteczny S.A. are domestic ones (Poland), and thus a decision was taken not to make a table showing that information;
- EU CR1-D: Ageing of past-due exposure;
- EU CR1-E: Non-performing and forborne exposures;
- 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;
- EU CR5: Standardised approach;
- EU CR2-B: Changes in the stock of defaulted or impaired loans and debt securities.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Information on the nature and amounts of certain own funds items

No.*	Description	Amount at the date of disclosure	Article reference of Regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1	Equity instruments and related share premium	**442,002.2**	26 (1), 27, 28, 29
	of which: ordinary share	**380,000.0**	EBA list 26 (3)
2	Retained earnings, of which:	**0.0**	26 (1) c
	valuation of share-based payments	**0.0**	
	retained earnings	**0.0**	
	transition adjustment due to adoption of IFRS 9	**0.0**	
3	Accumulated other comprehensive income (and other reserves)	**-46.4**	26 (1) (d)
3a	General bank risk fund	**0.0**	26 (1) (f)
5a	Independently verified profits of the current period after deduction of any foreseeable charges or dividends	**0.0**	26 (2)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**441,955.8**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	**-50.2**	34, 105
8	Intangible assets (net of related deferred income tax liability) (negative amount)	**-810.3**	36 (1) (b), 37
12	Negative amounts resulting from the calculation of expected loss amounts	**0.0**	36 (1) (d), 40, 159
28	**Total regulatory adjustments to Common Equity Tier 1 capital**	**-860.5**	
29	**Tier 1 capital**	**441,095.3**	
Additional Tier 1 capital: instruments			
36	**Additional Tier 1 capital before regulatory adjustments**	**0.0**	
Additional Tier 1 capital: regulatory adjustments			
43	**Total regulatory adjustments in Additional Tier 1 capital**	**0.0**	
44	**Additional Tier 1 capital**	**0.0**	
45	**Tier 1 capital (Tier 1 capital = Common equity Tier 1 capital + Additional Tier 1 capital)**	**441,095.3**	
Tier 2 capital: instruments and provisions			
46	Equity instruments and related share premium	0.0	62, 63
51	**Tier 2 capital before regulatory adjustments**	**0.0**	
Tier 2 capital: regulatory adjustments			
57	**Total regulatory adjustments in Tier 2 capital**		
58	**Tier 2 capital**	**0.0**	
59	**Total capital (total capital = Tier 1 capital + Tier 2 capital)**	**441,095.3**	
60	**Total risk-weighted assets**	**1,441,358.3**	
Capital ratios and buffers			
61	Common Equity Tier 1 capital (expressed as a percentage of the risk exposure amount)	**30.60%**	92 (2) (a)
62	Tier 1 capital (expressed as a percentage of the risk exposure amount)	**30.60%**	92 (2) (b)
63	Total capital (expressed as a percentage of the risk exposure amount)	**30.60%**	92 (2) (c)
64	Institution specific buffer requirement (Common Equity Tier 1 capital requirement under Article 92(1)(a) plus the requirements for the maintenance of the capital conservation buffer and the countercyclical capital buffer, as well as the systemic risk buffer and the systemically important institutions buffer (global systemically important institutions buffer or other systemically important institutions buffer) expressed as a percentage of risk exposure amount)	**36,034.0**	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer	**36,034.0**	

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

66	of which: countercyclical capital buffer	**0.0**	
67	of which: systemic risk buffer	**0.0**	
67a	of which: global systemically important institutions buffer or other systemically important institutions buffer	**0.0**	CRD 131
Amounts below deduction thresholds (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of associated deferred tax liabilities where the conditions of Article 38(3) are met)	**942.2**	36 (1) (c), 38, 48

**) numbering according to Annex VI of Commission Implementing Regulation (EU) No 1423/2013*

Reconciliation of accounting assets and leverage ratio exposures

		Amount applicable
1	Total assets according to published financial statements	3,813,219.1
EU-6a	(Adjustment for intra-group exposures excluded from the total exposure measure comprising the leverage ratio in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-65,823.7
7	Other adjustments	2,701.9
8	**Total exposure measure comprising the leverage ratio**	**3,750,097.3**

Joint disclosure of the leverage ratio

		Leverage ratio exposures defined in the Capital Requirements Regulation
Balance sheet exposures (excluding derivatives and securities financing transactions)		
1	Balance sheet items (excluding derivatives, securities financing transactions and trust assets but including collateral)	3,816,781.5
2	(Amounts of assets deducted in determining Tier 1 capital)	-860.5
3	**Total balance sheet exposures (excluding derivatives, securities financing transactions and trust assets) (sum of lines 1 and 2)**	**3,815,921.0**
Exposures excluded in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on- and off-balance sheet)		
EU-19a	(Exclusion of intra-group exposures (on an unconsolidated basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on- and off-balance sheet))	-65,823.7
Capital and total exposure measure		
20	**Tier 1 capital**	441,095.3
21	**Total exposure measure comprising the leverage ratio (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**3,750,097.3**
Leverage ratio		
22	**Leverage ratio**	**11.76**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Institution-specific countercyclical capital buffer amount

010	Total risk exposure amount	1,381,648.8
020	Institution specific countercyclical capital buffer rate (%)	0.0
030	Institution specific countercyclical capital buffer requirement	0.0

Geographical distribution of relevant credit exposures for the purposes of the calculation of the countercyclical capital buffer

	General credit exposures		Exposure included in the trading book		Securitisation exposure		Own funds requirements				Weightings applied to the own funds requirement	Countercyclical capital buffer rate
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of the trading book	Value of exposures included in the trading book under the internal models approach	Exposure value under the standardised approach	Exposure value under the IRB approach	Of which: General credit exposures	Of which: Exposures included in the trading book	Of which: Securitisation exposures	Total		
Breakdown by country	**010**	**020**	**030**	**040**	**050**	**060**	**070**	**080**	**090**	**100**	**110**	**120**
Poland	3,699,008.5	0.0	0.0	0.0	0.0	0.0	110,531.9	0.0	0.0	110,531.9	100.0	0.0

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Geographical breakdown of exposures

	Net value								
	POLAND	UNITED STATES OF AMERICA	THE NETHERLANDS	SWITZERLAND	MALAYSIA	LUXEMBOURG	SINGAPORE	Other	Total
Central governments or central banks	51,139.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51,139.0
Institutions	65,823.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	65,823.7
Retail	195,722.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	195,722.7
Secured by a mortgage on immovable property	3,491,159.5	361.6	331.8	314.3	173.7	159.5	106.8	0.0	3,492,607.2
Exposures in default	5,347.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,347.6
Other	5,331.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,331.0
Total (SA)	**3,814,523.5**	**361.6**	**331.8**	**314.3**	**173.7**	**159.5**	**106.8**	**0.0**	**3,815,971.2**
Total	**3,814,523.5**	**361.6**	**331.8**	**314.3**	**173.7**	**159.5**	**106.8**	**0.0**	**3,815,971.2**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Non-performing and forborne exposures

	Gross balance sheet amount/ Nominal value								Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				
		Performing	Regular or past due <= 30 days	Past due > 30 days <= 90 days	Non-performing	It is hardly probable that the debt will be repaid when due, but it is still not past due or it is past due < = 90 days	Past due > 1 year <= 5 years	including: impaired		Performing exposures - Accumulated impairment and provisions	Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	It is hardly probable that the debt will be repaid when due, but it is still not past due or it is past due < = 90 days	Past due > 1 year <= 5 years
Loans and advances	3,760,418.2	3,754,921.2	3,754,041.3	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5
Financial sector	65,823.7	65,823.7	65,823.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary financial institutions	65,823.7	65,823.7	65,823.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other monetary financial institutions	65,823.7	65,823.7	65,823.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks and branches of credit institutions	65,823.7	65,823.7	65,823.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial sector	3,694,594.4	3,689,097.5	3,688,217.5	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5
Households	3,694,594.4	3,689,097.5	3,688,217.5	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5
Private individuals	3,694,594.4	3,689,097.5	3,688,217.5	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5
of which: loans secured with residential properties	3,694,594.4	3,689,097.5	3,688,217.5	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Exposures measured at cost or amortised cost	3,760,418.2	3,754,921.2	3,754,041.3	879.9	5,496.9	5,425.7	71.3	5,496.9	3,673.7	1,749.3	1,924.4	1,893.9	30.5
Debt instruments	50,197.2	50,197.2	50,197.2	0.0	0.0	0.0	0.0	0.0	10.3	10.3	0.0	0.0	0.0
Government and self-government institutions' sector	50,197.2	50,197.2	50,197.2	0.0	0.0	0.0	0.0	0.0	10.3	10.3	0.0	0.0	0.0
Central government institutions	50,197.2	50,197.2	50,197.2	0.0	0.0	0.0	0.0	0.0	10.3	10.3	0.0	0.0	0.0
Exposures measured at fair value through other comprehensive income or at fair value through capitals - subject to impairment	50,197.2	50,197.2	50,197.2	0.0	0.0	0.0	0.0	0.0	10.3	10.3	0.0	0.0	0.0
Exposures other than held for trading	3,810,615.3	3,805,118.4	3,804,238.5	879.9	5,496.9	5,425.7	71.3	5,496.9	3,684.0	1,759.6	1,924.4	1,893.9	30.5

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Comparison of an institution's own funds and capital and leverage ratios with and without the application of the transitional arrangements for IFRS 9 and analogous expected credit losses and with and without the application of the provisional treatment under Article 468 of CRR

		as at **31.12.2020**
	Capital available (amounts)	
1	Common Equity Tier 1 (CET1)	441,095.3
2	Common Equity Tier 1 (CET1) if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	441,095.3
2a	Common Equity Tier 1 capital if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	441,095.3
3	Tier 1 capital	441,095.3
4	Tier 1 capital if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	441,095.3
4a	Tier 1 capital if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	441,095.3
5	Total capital	441,095.3
6	Total capital if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	441,095.3
6a	Total capital if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	441,095.3
	Risk weighted assets (amounts)	
7	Total risk-weighted assets	1,441,358.3
8	Total risk-weighted assets if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	1,441,358.3
	Capital ratios	
9	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	30.6%
10	Common equity tier 1 capital (as a percentage of the risk exposure amount) if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	30.6%
10a	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	30.6%
11	Tier 1 capital (as a percentage of the risk exposure amount)	30.6%
12	Tier 1 capital (as a percentage of the risk exposure amount) if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	30.6%
12a	Tier 1 capital (as a percentage of the risk exposure amount) if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	30.6%
13	Total capital (as a percentage of risk exposure amount)	30.6%
14	Total capital (as a percentage of the risk exposure amount) if the transitional arrangements for IFRS 9 or analogous expected credit losses had not been applied	30.6%
14a	Total capital (as a percentage of the risk exposure amount) if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	30.6%
	Leverage Ratio	
15	Total exposure measure comprising the leverage ratio	3,750,097.3
16	Leverage ratio	11.76%

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

17	Leverage ratio if no transition treatment for IFRS 9 or analogous expected credit losses had been applied	11.76%
17a	Leverage ratio if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income under Article 468 of CRR had not been applied *	11.76%

Overview of risk-weighted assets

			Risk weighted assets	Minimum capital requirements
			as at **31.12.2020**	as at **31.12.2019**
	1	**Credit risk (except counterparty credit risk)**	**1,381,648.8**	**110,531.9**
Article 438(c) and (d)	2	of which: standardised approach (SA)	1,381,648.8	110,531.9
article 107 Article 438(c) and (d)	6	**Counterparty credit risk**	**0.0**	**0.0**
Article 438(e)	13	**Settlement risk**		
Article 449(o) and (i)	14	**Securitisation exposures in the banking book (net of cap)**	**0.0**	**0.0**
Article 438(e)	19	**Market risk**	**0.0**	**0.0**
Article 438(f)	23	**Operational risk**	**57,354.0**	**4,588.3**
	24	Including the Basic Indicator Method	57,354.0	4,588.3
Article 437(2)), Article 48 and Article 60	27	**Amounts below the thresholds for deduction (subject to a 250% risk weight)**	**2,355.5**	**188.4**
article 500	28	**Adjustment for floor**		
	29	**Total**	**1,441,358.3**	**115,308.7**

Total and average net exposure amount

Standardised approach (SA)	Net exposure value at the end of 2020	Average net exposure value in the reporting period	Net exposure value at the end of 2019
Central governments or central banks	51,139.0	68,912.9	266,281.6
Institutions	65,823.7	51,967.5	5,815.7
Retail	195,722.7	729,205.9	1,157,667.7
of which: SME	0.0	0.0	0.0
Secured by a mortgage on immovable property	3,492,607.2	3,114,371.1	1,903,662.9
of which: SME	0.0	0.0	0.0
Exposures in default	5,347.6	2,143.3	484.9
Other	5,331.0	5,455.7	4,211.7
Total	**3,815,971.2**	**3,972,056.5**	**3,338,124.5**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Exposure concentration by industry or counterparty risk

	Financial and insurance business	Public administration and defence; mandatory social security	Other Services	Total
Central governments or central banks	0.0	50,196.7	942.3	51,139.0
Institutions	65,823.7	0.0	0.0	65,823.7
Retail	0.0	0.0	195,722.7	195,722.7
Secured by a mortgage on immovable property	0.0	0.0	3,492,607.2	3,492,607.2
Exposures in default	0.0	0.0	5,347.6	5,347.6
Other	0.0	0.0	5,331.0	5,331.0
Total	**65,823.7**	**50,196.7**	**3,699,950.8**	**3,815,971.2**

Maturity of exposures

	Net exposure				
	No specific maturity date or on request	<1 year	1-5 years	>5 years	Total
Exposures to central governments and central banks	942.2	0.0	0.0	50,196.8	51,139.0
Retail (SA Retail) - of which SME	0.0	0.0	1,473.0	194,249.7	195,722.7
Exposures secured by mortgages on immovable properties	0.0	71.0	32,586.1	3,459,950.1	3,492,607.2
Exposures in default	68.4	0.0	0.0	5,279.2	5,347.6
Other items	5,331.0	0.0	0.0	0.0	5,331.0

Credit quality of exposures by exposure class and instrument

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts						Net values
	Exposures in default	Exposures other than exposures in default	Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments in a period	(a+b-c-d)
Central governments or central banks	0.0	51,139.4	0.4	0.0	0.0	0.0	51,139.0
Institutions	0.0	65,823.7	0.0	0.0	0.0	0.0	65,823.7
Retail	0.0	195,792.0	69.3	0.0	0.0	0.0	195,722.7
including SME	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_
Secured by a mortgage on immovable property	0.0	3,493,305.5	698.3	0.0	0.0	0.0	3,492,607.2
including SME	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_	_0.0_
Exposures in default	5,496.9	0.0	149.3	0.0	0.0	0.0	5,347.6
Other exposures	0.0	5,331.0	0.0	0.0	0.0	0.0	5,331.0

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Standardised Approach Total	**5,496.9**	**3,811,391.6**	**917.3**	**0.0**	**0.0**	**0.0**	**3,815,971.2**
Total	**5,496.9**	**3,811,391.6**	**917.3**	**0.0**	**0.0**	**0.0**	**3,815,971.2**
Of which: Loans	5,496.9	3,754,921.2	916.9	0.0	0.0	0.0	3,759,501.2
Of which: Debt securities	0.0	50,197.2	0.4	0.0	0.0	0.0	50,196.8

Credit quality of exposures by industry or counterparty types

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments	Net values
	Exposures in default	Exposures other than exposures in default					(a +b-c-d)
Financial and insurance business	0.0	65,823.7	0.0	0.0	0.0	0.0	65,823.7
Public administration and defence; mandatory social security	0.0	50,197.1	0.4	0.0	0.0	0.0	50,196.7
Other (individuals included)	5,496.9	3,695,370.8	916.9	0.0	0.0	0.0	3,699,950.8
Total	**5,496.9**	**3,811,391.6**	**917.3**	**0.0**	**0.0**	**0.0**	**3,815,971.2**

Credit quality of exposures by geographical distribution

	a)	b)	c)	d)	e)	f)	g)
	Gross balance sheet amounts		Specific credit risk adjustment*	General credit risk adjustment	Cumulated forgiveness	Add-ons resulting from credit risk adjustments	Net values
	Exposures in default	Exposures other than exposures in default					(a +b-c-d)
POLAND	5,496.9	3,809,942.7	916.1	0.0	0.0	0.0	3,814,523.5
UNITED STATES OF AMERICA	0.0	361.9	0.3	0.0	0.0	0.0	361.6
THE NETHERLANDS	0.0	332.1	0.3	0.0	0.0	0.0	331.8
SWITZERLAND	0.0	314.6	0.3	0.0	0.0	0.0	314.3
MALAYSIA	0.0	173.8	0.1	0.0	0.0	0.0	173.7
LUXEMBOURG	0.0	159.6	0.1	0.0	0.0	0.0	159.5
SINGAPORE	0.0	106.9	0.1	0.0	0.0	0.0	106.8
OTHER	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**5,496.9**	**3,811,391.6**	**917.3**	**0.0**	**0.0**	**0.0**	**3,815,971.2**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Changes in the stock of defaulted or impaired loans and debt securities

	a) Gross value of exposures in default
Opening balance	**484.9**
Loans and debt securities that have defaulted or impaired since the last reporting period	5,025.6
Other changes	-13.6
Closing balance	**5,496.9**

Standardised approach – credit risk exposure and CRM effects

	a)	b)	c)	d)	e)	f)
	Exposures prior to application of the credit conversion factors and mitigation of the credit risk		Exposures after application of the credit conversion factors and mitigation of the credit risk		Risk weighted assets and their concentration	
Categories of exposures	Balance sheet amount	Off-balance sheet amount	Carrying amount	Off-balance sheet amount	Risk weighted assets	Concentration of risk-weighted assets
Central governments or central banks	51,139.4	0.0	51,139.0	0.0	2,355.5	4.6%
Institutions	65,823.7	0.0	65,823.7	0.0	0.0	0.0%
Retail	195,792.0	0.0	195,722.7	0.0	146,792.0	75.0%
Secured by a mortgage on immovable property	3,493,305.5	0.0	3,492,607.2	0.0	1,224,077.3	35.0%
Exposures in default	5,496.9	0.0	5,347.6	0.0	5,448.5	101.9%
Other items	5,331.0	0.0	5,331.0	0.0	5,331.0	100.0%
Total	**3,816,888.5**	**0.0**	**3,815,971.2**	**0.0**	**1,384,004.3**	**36.3%**

Standardised approach - risk weights

	Risk weight						Total	Including, without rating
Categories of exposures	0%	35%	75%	100%	150%	250%		
Central governments or central banks	50,196.8	0.0	0.0	0.0	0.0	942.2	**51,139.0**	51,139.0
Institutions	65,823.7	0.0	0.0	0.0	0.0	0.0	**65,823.7**	65,823.7
Retail	0.0	0.0	195,722.7	0.0	0.0	0.0	**195,722.7**	195,722.7
Secured by a mortgage on immovable property	0.0	3,491,159.6	0.0	0.0	1,447.6	0.0	**3,492,607.2**	3,492,607.2
Exposures in default	0.0	0.0	0.0	5,145.7	201.9	0.0	**5,347.6**	5,347.6
Other items	0.0	0.0	0.0	5,331.0	0.0	0.0	**5,331.0**	5,331.0
Total	**116,020.5**	**3,491,159.6**	**195,722.7**	**10,476.7**	**1,649.5**	**942.2**	**3,815,971.2**	**3,815,971.2**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Ageing of past-due exposure

	Carrying amount								
	Non-impaired receivables without significant credit risk increase since initial recognition (Phase 1)/regular			Non-impaired receivables, significant credit risk increase since initial recognition (Phase 2)/WL			Impaired receivables (Phase 3)/non-performing		
	<= 30 days	> 30 days <= 90 days	> 90 days	<= 30 days	> 30 days <= 90 days	> 90 days	<= 30 days	> 30 days <= 90 days	> 90 days
Loans and advances	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
Non-financial sector	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
Households	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
Financial assets subject to impairment	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
Loans and advances - by product, collateral and subordination									
Other term loans	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
of which: loans secured with real properties	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8
including: loans for the purchase of residential properties	1,924.8	0.0	0.0	2,149.6	765.5	0.0	0.0	0.0	40.8

Changes in the stock of general and specific credit risk adjustments

	a) Accumulated general credit risk adjustment	b) Accumulated specific credit risk adjustment
Opening balance	**924.0**	**0.0**
Increases resulting from the amounts written down for credit loss estimates in the period	2,763.6	0.0
Decreases resulting from the amounts released due to credit loss estimates	-7.7	0.0
Other adjustments	4.1	0.0
Closing balance	**3,684.0**	**0.0**

Application of credit risk mitigation techniques

Division of collaterals and guarantees accepted as collaterals for credits and advances other than held for trading

	Loans secured with real properties		Other secured loans		Received financial guarantees
	Residential	Commercial	Cash and cash equivalents (issued debt instruments)	Other	
Loans and advances	**3,690,920.7**	**0.0**	**0.0**	**0.0**	**0.0**
of which: households	3,690,920.7	0.0	0.0	0.0	0.0
of which: loans for the purchase of residential properties	3,690,920.7	0.0	0.0	0.0	0.0
Total	**3,690,920.7**	**0.0**	**0.0**	**0.0**	**0.0**

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

Division of loans and advances not classified as held for trading by product

		Gross balance sheet amount	Carrying amount				
			Financial sector		Non-financial sector		Government and self-government institutions' sector
			Total	Other monetary financial institutions	Total	Households	
By products	On demand and short term (current account)	23,823.6	23,823.6	23,823.6	0.0	0.0	0.0
	Other term loans	3,736,594.5	42,000.1	42,000.1	3,690,920.7	3,690,920.7	0.0
	Loans and advances	3,760,418.2	65,823.7	65,823.7	3,690,920.7	3,690,920.7	0.0
By collaterals	of which: loans secured with real properties	3,694,594.4	0.0	0.0	3,690,920.7	3,690,920.7	0.0
By purposes	of which: loans for the purchase of residential properties	3,694,594.4			3,690,920.7	3,690,920.7	
By subordination	of which: project finance loans	0.0			0.0		

7.33. Funding and liquidity risk

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

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

The Bank Management Board is responsible for:

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

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

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

The Bank uses the following liquidity risk measures:

- supervisory liquidity norms of the National Bank of Poland (M3, M4),
- liquidity coverage ratio (LCR),
- net stable funding ratio (NSFR),
- structural liquidity gap,
- survival period in stress situation.

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

In 2020, the Bank identified no exceeded liquidity risk limits. As at 31 December 2020, the core liquidity measures were at the following levels:

Risk measure	as at 31.12.2020	As at 31.12.2019	Statutory limit
M3	291.09	61.3	>1
M4	1.03	1.03	>1
LCR	8,555%	20,581%	>100%

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

The term structure of mortgage loans by contract terms is as follows:

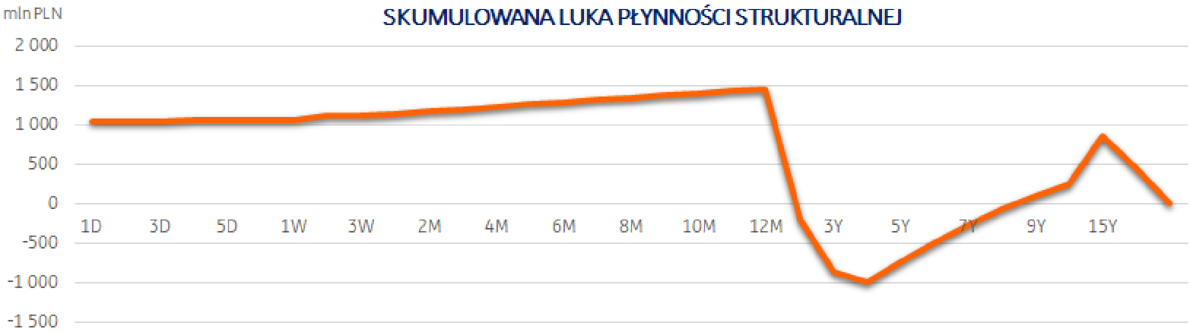
- exposures over 10 years represent 51% of retail mortgage loan exposures, with exposures over 15 years representing 30%,
- exposures up to 2 years represent 10% of mortgage exposures.

As at 31 December 2020, the acquisition of the debt claims portfolio is funded mostly with a loan granted by the parent company.

The Bank has raised PLN 975 million of funding from the issue of its own bonds and PLN 400 million from the issue of covered bonds. The remaining part of the mortgage portfolio is financed with equity and a loan from the parent company.

In December 2020, the Bank signed a Committed Credit Facility Agreement with its parent company allowing the Bank to raise the funding of PLN 1 billion for general liquidity risk management purposes.

The accumulated real structural liquidity gap as at 31 December 2020 is presented in the chart below:



The gap shows positive values in the period up to one year. This is due to the fact that a significant part of the Bank's assets are long-term mortgage loans, which are financed with liabilities of shorter maturity terms.

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

7.34. Market risk

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

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

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

Interest rate risk

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 2020, the Bank identified no exceeded interest rate risk limits. As at 31 December 2020, the core measures were at the following levels:

Risk measure	as at 31.12.2020	as at 31.12.2019
BPV (PLN thousand)	57.0	22.5
NIIaR (PLN thousand)	1,204	79.8
EVEaR to own funds	1.17%	1.68%

FX risk

The Bank does not hold significant positions in foreign currencies. As at 31 December 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 31 December 2020, the Bank held the FX position of EUR 37,000 (a short position). This position resulted from internal administration and generated VaR of PLN 3,500.

7.35. Model risk management

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

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

In 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. The validation of models was carried out based on the schedule set out in the validation plan, which was updated on an ongoing basis throughout the year. Validation reports were presented to relevant Committees dedicated to specific models. Cyclical validation reports were presented at the meetings of the Bank Management Board and Supervisory Board.

In 2020, aggregated model risk was below the tolerance level adopted by the Bank for that risk type.

7.36. Operational risk

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

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

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

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

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

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

In 2020, the non-financial risk was at an acceptable level. In that period, ING Bank Hipoteczny S.A. did not report any operational risk losses caused by operational risk incidents.

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

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

The limit for expected non-financial risk loss (ELT) projected in Risk Appetite Statement (RAS) for 2020 was nor exceeded by the end of 2020.

The Management Board takes actions when the level of operational risk in ING Bank Hipoteczny S.A. is high or critical.

Operations of ING Bank Hipoteczny S.A include also outsourcing of some activities to third parties.

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

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

In 2020, the Bank continued to work on ensuring full compliance with the EBA requirements on outsourcing.

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.

In 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.

<u>*Business continuity*</u>

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.

7.37. Compliance Risk

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

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

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

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

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

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

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

In 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.

7.38. 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.

7.39. Capital management

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

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

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

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

This management includes:

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

Under capital management, the Bank:

- plans internal capital and capital requirement as well as own funds;
- sets internal limits in order to curtail the generated capital requirements and internal capital;
- monitors potential threats to capital adequacy;

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

- identifies and assesses materiality of the risk types inherent to its operations;
- takes actions in order to assess and monitor internal capital, capital requirement and own funds;
- allocates internal capital;
- effects dividend policy resulting from a long-term capital objective and preferred capital structure,
- develops contingency capital plans which define the procedure for the risk of capital adequacy deterioration below the "inadmissible" levels,
- analyses the impact of the macroeconomic factors on capital adequacy in line with the "Stress Testing Policy at ING Bank Hipoteczny S.A."

As at 31 December 2020, the total capital ratio of the Bank was 30.60%.

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

7.40. Total capital ratio

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

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

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

As at 31 December 2020, the Bank reports zero values for the own funds requirements for the CVA risk, delivery and settlement risk, and market risk. 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 31.12.2020	as at 31.12.2019
Own funds		
A. Equity capitals from the statement of financial position, including:	**441,955.8**	**271,552.1**
Equity capitals recognised under own funds, including:	441,955.8	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	-46.4	-450.1
Equity capitals not recognised under own funds, including:	0.0	0.0
Profit for the current period	0.0	0.0
B. Other components (decreases and increases) of own funds, including:	**-860.5**	**-1,851.3**
Intangible assets	-810.3	-1,816.7
Accumulated other comprehensive income - value adjustment due to the requirements for prudent valuation	-50.2	-34.6
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	**441,095.3**	**269,700.8**
Tier 1 capital	441,095.3	269,700.8

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

	as at 31.12.2020	as at 31.12.2019
Risk weighted assets, including:	**1,441,358.3**	**1,583,319.0**
credit risk weighted assets	1,384,004.3	1,543,289.0
operational risk weighted assets	57,354.0	40,030.0
Total capital requirements	**115,308.7**	**126,665.5**
Total capital ratio (TCR)	**30.60%**	**17.03%**
minimum required level	10.5%	13.5%
excess TCR	289,752.7	55,952.7
Tier 1 ratio (T1)	**30.60%**	**17.03%**
minimum required level	8.5%	11.5%
excess T1	318,579.8	87,619.1
Common Equity Tier 1 ratio (CET1)	**30.60%**	**17.03%**
minimum required level	7.0%	10.0%
excess T1	340,200.2	111,368.9

*) Starting from these financial statements, the Bank no longer recognizes AVA in accumulated other comprehensive income, and the said adjustment has been recognized only as a reporting adjustment for the needs of meeting the requirements arising from the mentioned above Regulation (EU) of the European Parliament and of the Council.

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 exposure**	Risk weighted assets (RWA)	Requirement for own funds
Exposures to central governments and central banks	51,139.4	51,139.0	2,355.5	188.4
Exposures to institutions	65,823.7	65,823.7	0.0	0.0
Retail exposures*	195,792.0	195,722.7	146,792.0	11,743.4
Exposures secured by mortgages on immovable properties	3,493,305.5	3,492,607.2	1,224,077.3	97,926.2
Exposures in default	5,496.9	5,347.6	5,448.5	435.9
Other exposures	5,331.0	5,331.0	5,331.0	426.4
Total	**3,816,888.5**	**3,815,971.2**	**1,384,004.3**	**110,720.3**

*) 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).

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

7.41. Capital buffers

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

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

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

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

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

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

7.42. Leverage

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

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

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

The Bank calculates the leverage in accordance with CRR.

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

As at 31 December 2020, the leverage ratio was above the 3% level recommended for the banks by the Basel Committee and above the internally set limit.

<u>Leverage</u>

	as at **31.12.2020**	as at **31.12.2019**
Leverage ratio (LR)	11.76%	8.1%

Financial statements for the period from 1 January 2020 to 31 December 2020 (in PLN thousand)

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

2021-03-04	**Mirosław Boda** *President of the Management Board*	*signed with electronic qualified signature*
2021-03-04	**Jacek Frejlich** *Vice-President of the Management Board*	*signed with electronic qualified signature*
2021-03-04	**Roman Telepko** *Vice-President of the Management Board*	*signed with electronic qualified signature*

SIGNATURE OF A PERSON ENTRUSTED WITH KEEPING THE ACCOUNTS

2021-03-04	**Agnieszka Kukuczka** *Chief Accountant*	*signed with electronic qualified signature*