

# ING Bank Śląski S.A. Group

Management Board Report on Operations  
in H1 2017

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## H1 2017 ING Bank Śląski S.A. Group results overview

<p><b>Increase in the number of clients</b></p>	<p>In June 2017, the Bank served <b>4.4 million clients</b>, including:</p> <ul style="list-style-type: none"> <li>● 4 053 thousand individual clients (up by 107 thousand from 2016 yearend),</li> <li>● 341 thousand entrepreneurs (up by 14 thousand in H1 2017),</li> <li>● 52 thousand corporate clients (up by 3.7 thousand from December 2016).</li> </ul>
<p><b>Optimal and stable balance sheet</b></p>	<p>As at the end of H1 2017, the Group recorded:</p> <ul style="list-style-type: none"> <li>● <b>12.0% growth y/y in loans and other receivables from clients</b>, including: <ul style="list-style-type: none"> <li>○ 16.5% growth y/y in household receivables (market share up by 60 bp y/y to 5.3%), including: <ul style="list-style-type: none"> <li>▪ 24.4% growth y/y in cash loans,</li> <li>▪ 14.6% growth y/y in mortgage loans;</li> </ul> </li> <li>○ 8.9% growth y/y in institutional clients receivables (market share up by 26 bp 10.7%).</li> </ul> </li> <li>● <b>4.5% growth y/y in the balance of deposits</b> and other liabilities due to customers, including 28% y/y growth in savings in current accounts: <ul style="list-style-type: none"> <li>○ balance of household liabilities went up by 3.3% y/y (market share of 9.0%),</li> <li>○ balance of institutional clients liabilities went up by 7.1% y/y (market share up by 43 bp y/y to 8.5%);</li> </ul> </li> <li>● <b>LTD ratio increase by 5.7 p.p. y/y to 85.3%</b></li> </ul>
<p><b>High operating effectiveness</b></p>	<p>In H1 2017, the Company posted:</p> <ul style="list-style-type: none"> <li>● <b>Net profit of PLN 660.6 million</b>, drop by less than 1% y/y despite important positive one-offs in H1 2016,</li> <li>● Growth in interest margin by 34 bp to 2.84%,</li> <li>● C/I ratio improvement by 2.0 p.p. to 46.2%,</li> <li>● <b>ROE of 11.5%</b>, up by 0.1. p.p. y/y.</li> </ul>

## I. Macroeconomic situation of Polish banking sector growth in H1 2017

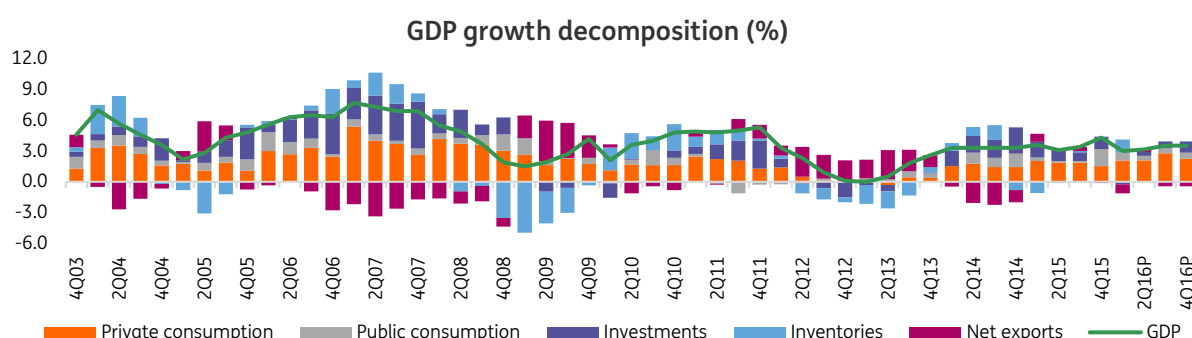
### 1. Major trends in Polish economy

#### Gross Domestic Product

Q1 2017 saw GDP grow at a high pace of +4% y/y after a temporary slowdown in 2016 (+2.8% y/y), triggered by a break in implementation of public investment projects co-funded by the EU. Although the Q1 2017 growth was still fuelled by private consumption first and foremost (up by +4,7% y/y), still the investment projects improved their pace from -9.8% y/y in Q4 2016 to -0.4% y/y.

In subsequent quarters, Polish GDP will keep its pace being close to +4% y/y, while the growth structure will show much more equilibrium. ING Bank Śląski S.A. economists are of the opinion that it will average at 3.9% y/y throughout 2017. The progress in contracts for projects co-financed with the EU funds (approximately PLN 160 billion by the end of H1 2017) allows us to expect a marked revival for public investments in Q3 and Q4 2017. At the same time, private businesses from certain sectors, like the power sector for instance, declare a rise in their investment plans. Consequently, investments will probably report growth of over +6.5% y/y in H2 2017.

At the same time, ING economists anticipate a gradual decline in consumption (below +4% y/y in H2 2017), due to a lower dynamics of real wages and expiration of 500+ programme effects. The sustained high growth rate of consumption and investment revival will worsen the trade balance too; as a result, net exports will adversely affect the total growth.



Source: Central Statistical Office, ING forecast

#### Labour market and payroll

In H1 2017, the unemployment rate continued to fall, arriving at 7.2% in June according to the estimates of the Ministry of Family, Labour and Social Policy. At the same time, the labour market reveals employee shortage problems which are partly offset by incoming Ukrainian migrants. High employment continues to be accompanied by moderate wage pressure. In H1 2017, salaries went up at the average pace of +4.6% y/y.

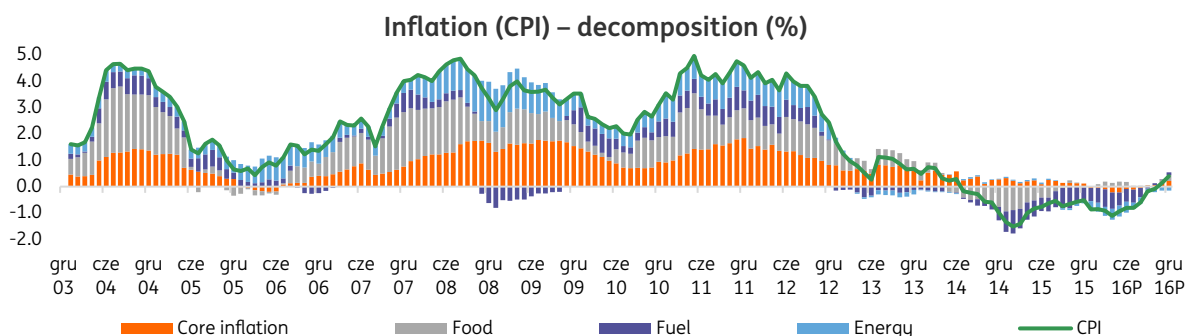
ING Bank Śląski S.A. economists anticipate that H2 2017 will see a further intensification of the wage pressure in domestic economy. As a result of lowering the retirement age, in Q4 2017 on average there will be 200 thousand people more to retire than in the years before, whereby the current employee shortage problems will deepen. As a result, ING economists estimate that the nominal wage growth rate will be high (+6.5% y/y at the onset of 2018).

#### Inflation

After over 2 years of deflation, in H1 2017, CPI inflation came back to the NBP target range (2.5%/-1% y/y). The rebound was triggered by statistical effects on prices of energy and fuel and higher food prices, among other factors. Core inflation was relatively low in that period, nonetheless.

In the view of Bank economists, in H2 2017 CPI inflation will hover around 1.5-2.0% y/y; in winter (November-December), it will drop below the bottom of the NBP target range. Further, the inflationary pressure triggers will change considerably at that time (vis-a-vis H1 2017). The positive contribution of

fuel prices will come to an end. Also the food prices will lose their importance. All this will be offset by a higher pace of core inflation growth.



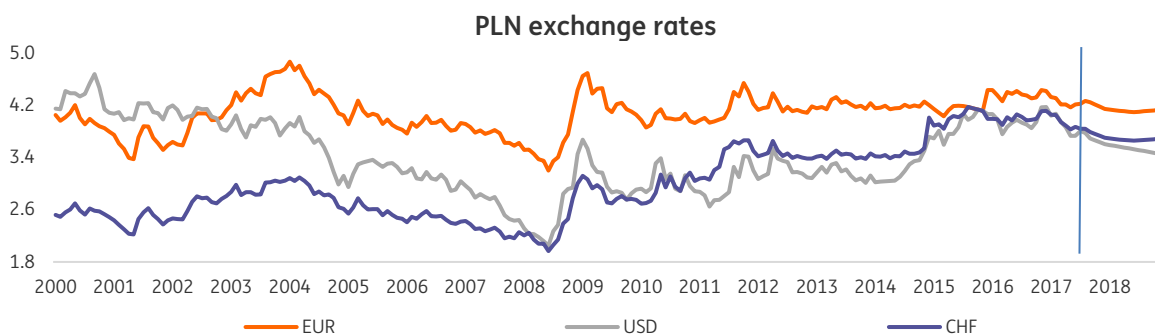
Source: Central Statistical Office, ING forecast

### Impact of global financial markets on Polish economy

H1 2017 saw domestic assets consolidate after the 2016 depreciation. PLN appreciated against the currencies of main economies. Domestic bonds became less profitable, also versus the German curve. A visible improvement in tax collection limited considerably the concerns about the uncontrolled increase in the public deficit (stimulated by higher social expenditure). At the same time, the plans to convert FX mortgage loans mandatorily (and probably as a one-off exercise), whereby the Polish currency would depreciate rapidly, were abandoned. The lower risk of the Polish economy was mirrored inter alia in the rating of the Moody's agency, which upgraded the outlook for Polish economy from negative to stable (in other words, the agency does not envisage rating downgrade in the nearest future).

Local assets valuations were helped by the international situation too. First and foremost, the risk of rising protectionism in the global trade went down, accompanied by a severe tightening of the Federal Reserve policy. The rhetoric of the US administration indicated that the risk of trade wars (which are detrimental to the developing economies in particular) was limited. At the same time, a significant economic upturn in the Eurozone supported growth outlooks of other EU member states and demand for the financial assets.

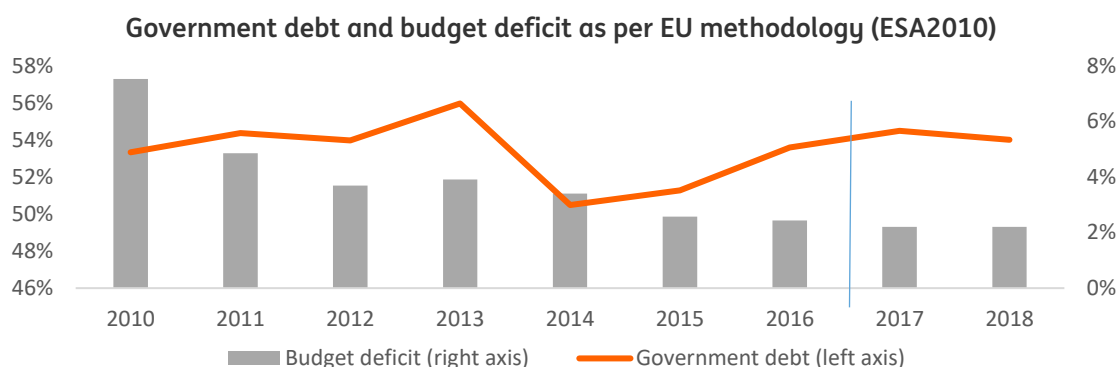
ING Bank Śląski S.A. economists are of the opinion that in H2 2017 and 2018 the valuations of local assets will be most threatened by the anticipated tightening of the policy by the main central banks, and the European Central Bank and the Federal Reserve in particular. This will boost the net supply of US and Eurozone T-bonds, pressurizing them into becoming more profitable, and consequently will most probably result in the devaluation (higher profitability) of local T-bonds. In the view of ING Bank Śląski S.A. economists, the impact of such scenario on the Polish zloty will be limited, nonetheless. The macroeconomic pillars of the Polish zloty are relatively sound (a high GDP growth, and also the rising expectations about interest rate increase by the Monetary Policy Council, for example), while the ING Bank Śląski S.A. economists' estimates show that the currency itself is not overvalued.



Source: NBP, ING forecast

## Public finance

In H1 2017, public finance was pretty positive. The onset of the year saw tax income rise considerably, due to one-off factors: (1) accelerated VAT refunds in December 2016, (2) introduction of reverse charge VAT in construction industry and (3) limitation of quarterly VAT settlements in favour of monthly ones. These changes caused tax income to go up +24% in Q1 2017 from the same period last year. In Q2, tax income slowed to grow visibly; still it remained pretty positive. This confirms that the positive impact of tax system sealing sustains. In May 2017, tax income was +10% higher from the same period last year. In turn, public expenditures were 3-3.5% below the ones planned in the Finance Act and only slightly (by 1-1.5%) higher than in H1 2016. Consequently, as at the end of May, the public deficit did not overpass PLN 300 million, whereby the government could limit the supply of T-bonds (it is to be PLN 3-10 billion in Q3 2017).



Source: Years 2010-2016 - Central Statistical Office, years 2017 and 2018 - ING forecast

In H2 2017, ING Bank Śląski S.A. economists expect a gradual deterioration in tax income, mainly due to the fading of one-off effects from the beginning of the year. Higher public expenditures are also probable, because of finalisation of some governmental investment plans and lowering of the retirement age (in October), which entails more retirement payments. ING Bank Śląski S.A. economists anticipate that in 2017 the public deficit will be PLN 34 billion or 2.2% of GDP as per EU methodology. The amount is much below the one planned in the Finance Act (deficit of PLN 59 billion or 2.9% of GDP). This will enable government debt reduction to 54% of GDP (from 54.4% as at 2016 yearend). The earlier concerns (of the rating agencies, for example) about the mid-term stability of public finance in Poland did not come true.

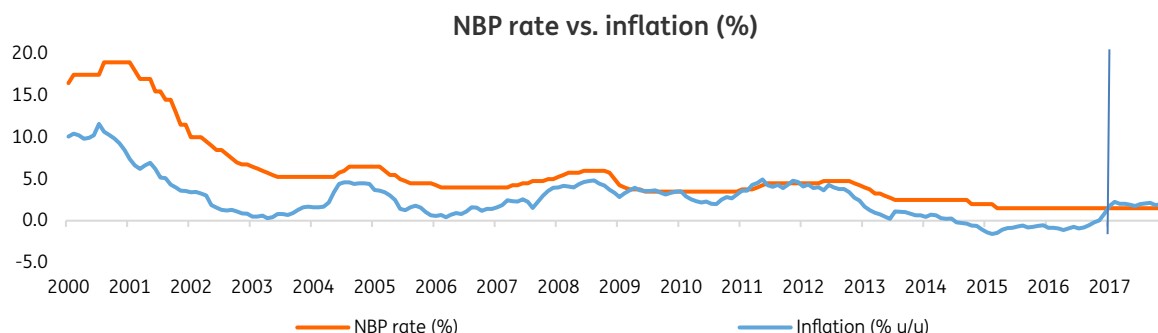
## 2. Monetary policy

In H1 2017, the Monetary Policy Council decided to keep the interest rates unchanged, i.e.:

- reference rate – 1.50%,
- rediscount rate – 1.75%,
- lombard rate – 2.50%,
- deposit rate – 0.50%.

The MPC is of the opinion that the economic boom and appearing employee shortage problems do not generate the risk of uncontrolled inflation growth. Committee members signal that stabilisation of interest rates in the coming quarters is the most optimal strategy. The President of the National Bank of Poland, Adam Glapiński, suggests that rates should not be raised, even in 2018.

In the view of ING Bank Śląski S.A. economists, the MPC will initiate the cycle of tightening the monetary policy in H2 2018. A considerable increase in core inflation due to the wage pressure, high economic activity and negative real rate outlook will be among the arguments for raising interest rates.

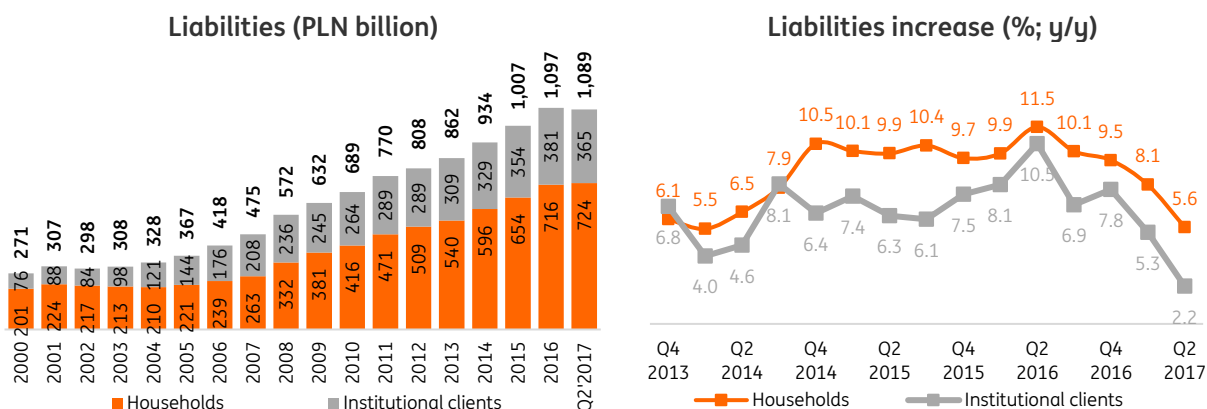


Source: Central Statistical Office, National Bank of Poland, ING forecast

### 3. Banking sector<sup>1</sup>

As at the end of June 2017, the main monetary categories were as follows:

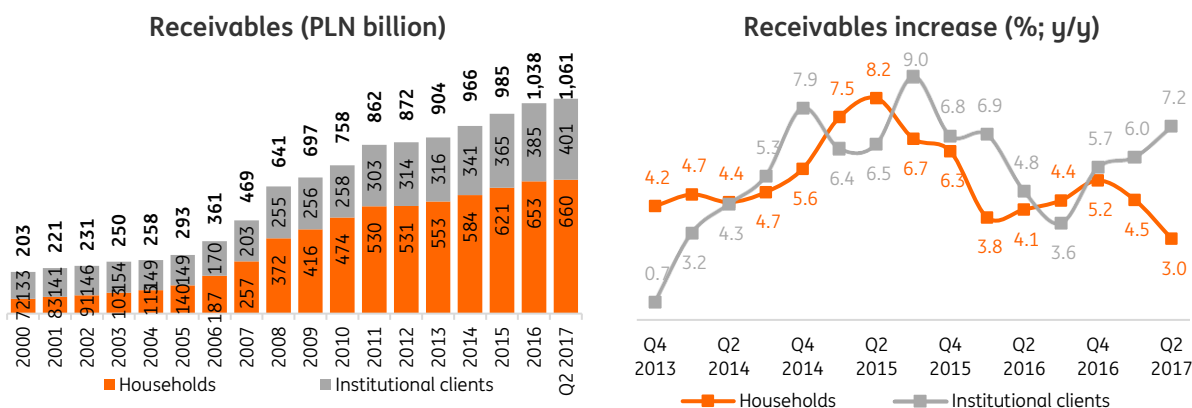
- Liabilities to households went up by PLN 38.7 billion versus the end of June 2016 and reached PLN 724.4 billion, up by 5.6% from the year before.
- Liabilities to institutional clients amounted to PLN 364.8 billion, up by 2.2% from the previous year. The volume increase of PLN 7.8 billion can be mainly attributed to higher liabilities to enterprises (up by 1.3%, or by PLN 3.2 billion) and local government institutions and social insurance funds (up by 8.8%, or by PLN 2.9 billion). As at the end of June 2017, liabilities to non-monetary financial institutions were lower by PLN 0.3 billion (-0.6%) than the year before. Liabilities to non-commercial institutions for households augmented by 9.6%, that is by PLN 2.1 billion, in that period.



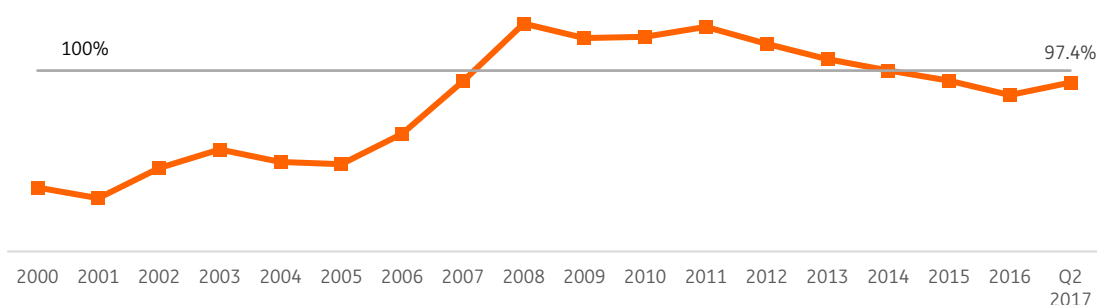
- In June 2017, receivables from households amounted to PLN 659.9 billion, up by 3.0% from the year before. Housing loans, which formed the main part of the banks' credit exposure towards households, grew by 1.1% to PLN 391.6 billion (including PLN-denominated housing loans which rose by 10.5%, arriving at PLN 245.1 billion). According to the preliminary data of the Polish Bank Association, during the first six months of 2017, banks granted mortgage loans totalling approx. PLN 22.2 billion (PLN 20.7 billion in the same period last year); 98.6% of which were PLN loans. Other retail loans grew relatively fast. They reached PLN 268.3 billion in June 2017, up by PLN 14.9 billion (or +5.9%) from the end of June 2016.
- Receivables from institutional clients went up by PLN 26.8 billion (or +7.2%) as compared with June 2016, arriving at PLN 400.8 billion. They were composed of the following:

<sup>1</sup>The amounts discussed are for receivables and liabilities of monetary financial institutions from/ to other domestic sectors.  
Source: NBP, file NALEZ\_ZOBOW\_MIF.xls – June 2017

- receivables from enterprises rose by PLN 16.3 billion (or +5,5%),
- receivables from non-monetary financial institutions rose by +28.3% y/y (PLN 12.2 billion) from June 2016,
- receivables from local government institutions and social insurance funds dropped by -6.9% y/y (PLN -2.1 billion),
- receivables from non-commercial institutions for households went up by +7.3% y/y (PLN +0.5 billion).



### L/D ratio for the banking sector



In the first five months of 2017, the growth of general and administrative expenses (+4.3% y/y) was the main factor impacting the financial result of the banking sector. At the beginning of 2017, the principles of making contributions to the Bank Guarantee Fund by banks changed. The deposit guarantee contribution is made quarterly, i.e. it equally affects the results of banks on a quarterly basis throughout the year – like in 2016. The compulsory resolution contribution is due for the entire year upfront – as opposed to the previous year, where it was paid quarterly. This disrupts comparability of data y/y. The bank levy (applicable for all five months of 2017) also affected general and administrative expenses (in 2017, it affected only the results of four months, starting from February). We could also observe higher salaries of employees (+3.1% y/y) and lower amortisation/depreciation costs (-15.6% y/y). A decrease in other income – down by -28.5% y/y – is yet another significant driver.

On the other hand, the sector's financial result was positively affected by improved net interest income (11.1% y/y). On the one hand, it was driven by higher interest income (+6.6% y/y), on the other by lower interest expenses (-3.5% y/y). The sector's result improved also due to positive dynamics of the net income on fees and commissions (+9.5% y/y).

As a consequence of a costs increase and lower income growth rate (+4.1% y/y), the C/I ratio deteriorated slightly by 20 bps (from 59.5% to 59.7%).

Loan and cash loan impairment losses grew in this period by +5.5% as compared with the first five months of 2016. Risk costs stood at 65 bps, or remained flat versus the same period of 2016.

The sector's profit before tax went up by 2.4%, i.e. to PLN 7.1 billion, when compared with five months



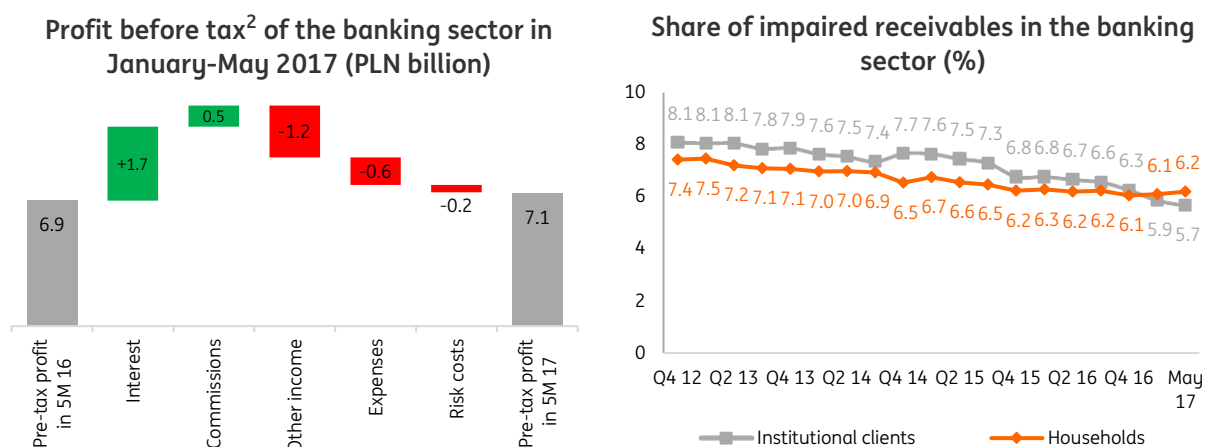
of 2016. Due to the fact that the bank levy and as of the beginning of 2017 BGF deposit guarantee contribution are not tax deductible, the net profit went down by -2.2% y/y.

The core effectiveness measures of the banking sector looked as follows:

- return on assets (ROA) was 0.7% as compared with 0.8% the year before, and
- return on equity (ROE) came down from 7.2% to 6.6%.

The share of impaired receivables in total receivables from the non-financial sector in May 2017 was 6.0% (6.4% in May 2016). The portfolio quality improvement was reported primarily for receivables from institutional clients. The share of impaired loans in that group of clients came down from 6.7% in May 2016 to 5.7% in May 2017.

The share of impaired receivables from households remained flat at 6.2% in the analysed period. The share of non-performing housing loans was also stable, at 2.9%, while the share of other non-performing retail loans fell from 11.3% to 11.0%.



The main changes introduced in H1 2017 by the Polish Financial Supervision Authority as regards regulatory requirements were as follows:

- Implementation as of 1 January 2017 of Recommendation C on concentration risk management, issued in 2016,
- Publication of Recommendation H on internal control system at banks to be implemented by 2017 yearend.

#### 4. Asset-backed funding market

##### Leasing

H1 2017 was another period of growth of the leasing sector, triggered by a good economic situation and improving financial standing of companies. The amount of contracts made by leasing companies rose from H1 2016 by 11.6% and reached PLN 31.8 billion<sup>[1]</sup>. Thus, the sector affirmed its status as the second biggest (after a capex loan) source of investment project financing in the economy. The active portfolio of lease contracts for movables totalled PLN 109.1 billion as at the end of June 2017 (to compare: as at the end of June 2017, the capex loans granted by banks amounted to PLN 120.7 billion).

Vehicles with the approved gross vehicle weight up to 3.5 tons were the biggest segment of the market (with the share of 44.3%). In H1 2017, the assets of that category funded by leasing companies equalled PLN 14.1 billion (+17.4% y/y). The total worth of passenger cars financed by leasing companies rose from H1 2016 by 20.3%; for delivery vans with the approved gross vehicle weight up

<sup>2</sup>Going concern profit before tax

<sup>[1]</sup> Based on the data of the Polish Leasing Association.

to 3.5 tons it went up by 4.4%.

The heavy transport funding being the second market segment in terms of its market share (27.3%) experienced negative turnover. It closed with PLN 8.7 billion (or -2.4% y/y). That category decline was caused by a lower sales of buses (-11.9% y/y), planes, ships and trains (-11.1% y/y), which was partly offset by a higher sales of heavy goods vehicles of the approved weight above 3.5 tons (+5.3% y/y).

The segment of machinery and equipment (IT included) underwent a different scenario and reported a 19.8% rise (to PLN 8.5 billion) from H1 2016. Each segment group went up from H1 2016. The said growths can be attributed to the started absorption of EU funds under the 2014-2020 EU Financial Framework and a good economic situation of the industrial sector. Machines used in plastic production and metal processing (+31.1% y/y), agricultural machines (+29.8% y/y) and other machines and equipment (+11.9% y/y) fuelled that segment growth in particular.

H1 2016 saw a modest real property funding increase to PLN 381 million (or by 1.2% y/y). Lease of office buildings as well as retail centres and business parks went up considerably (+267% y/y and +130% y/y, respectively). Hotels and recreational facilities, industrial facilities and other real properties saw a decline (-38.7% y/y, -10.9% y/y and -86.6% y/y, respectively).

### Factoring

In H1 2017, the turnover of the factoring companies belonging to the Polish Factors Association grew by +13.6% y/y, arriving at PLN 83.6 billion (versus PLN 73.6 billion in H1 2016). Local non-recourse factoring and export non-recourse factoring services saw the highest growth as regards client's interest (+23% y/y and +18% y/y, respectively).

The reasons behind the turnover growth were the greater number of clients that went up to over 8.1 thousand (7.2 thousand at the end of H1 2016). Factoring was most popular (as for the turnover) in the manufacturing and distribution sectors of the Polish economy.

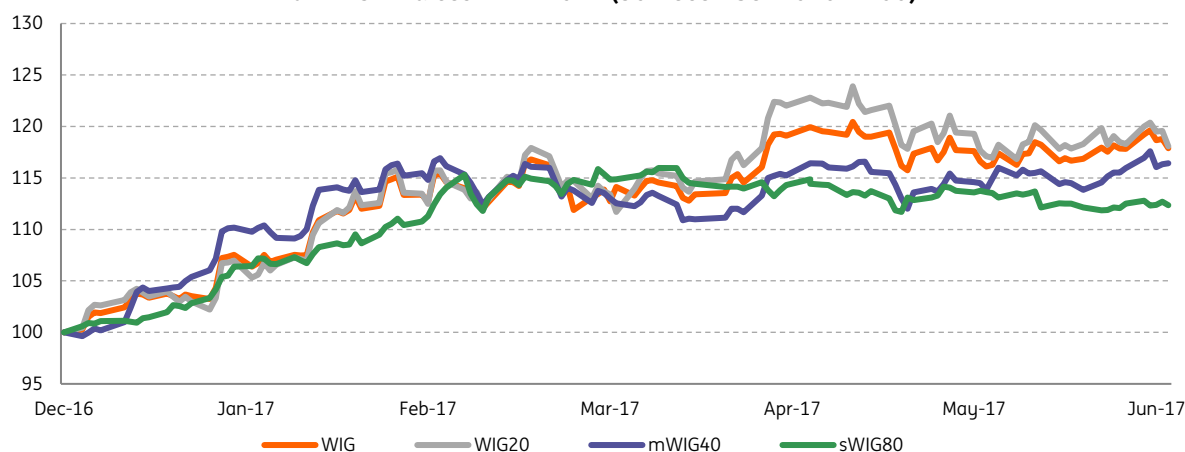
## 5. Capital market

### Warsaw Stock Exchange

The first half of 2017 was favourable for investors on the Warsaw Stock Exchange. The situation on the stock exchange was driven both by internal factors (such as strong data about Polish economy) and a favourable situation on global markets.

As at the end of H1 2017, the main indices were higher than as at 2016 yearend. The broad market index WIG improved by +17.9% versus 30 December 2016. The result of the indices grouping top large-cap companies was even better – WIG20 and WIG30 went up by +18.1% and +18.7% respectively. Also the indices of smaller companies sWIG80 and mWIG40 were positive as at the end of H1 2017. They went up by +12.7% and 16.4% respectively. The NewConnect market index posted lower results – NCIndex went up by +6.7% from 2016 yearend.

Main WSE indices in H1 2017 (30 December 2016 = 100)



As far as sector indices are concerned, WIG-oil&gas recorded the highest increase in H1 2017 (+25.8%). Next, were WIG-construction (+21.5%) and WIG-energy (+19.1%). Only one sector index recorded a drop – WIG-telecom (-2.3%). The WIG-banking index went up by +15.9% from 2016 yearend.

As at the end of June 2016, there were 483 companies listed on the WSE main floor, including 51 foreign ones. The domestic companies were worth PLN 645.0 billion, up by +15.8% from December 2016. Domestic and foreign companies were worth PLN 1,115.7 billion in total, up by +18.0% from December 2016. The first half of the year saw 6 IPOs and delisting of 10 companies.

As at the end of June 2017, there were 404 companies quoted on the alternative market. The said companies were worth PLN 10.3 billion in total. In H1 2016, there were 5 IPOs on the alternative market.

H1 2017 saw fewer main floor trades. Trading volumes went up by +46.5% from the same period last year and amounted to PLN 124.9 billion. Total trading (block trades included) went up by +56.9%, arriving at PLN 140.8 billion. Total trading on the alternative stock market NewConnect went up as well and reached PLN 0.9 billion, up by +24.5% from H1 2016.

The issues of non-government bonds on the Catalyst market totalled PLN 83.3 billion versus PLN 81.8 billion as at 2016 yearend. However, the value of trading in those instruments fell down – in H1 2017, it totalled PLN 0.8 billion, down by -41.0% from a year ago (mainly due to lower value of block trades).

In H1 2017, the volume of stock index contracts went up by +3.5% from H1 2016.

#### **Mutual funds**

As at the end of June 2017, the mutual funds assets totalled PLN 272.2 billion, up by PLN 13.3 billion (or +5.1%) from the 2016 yearend. The growth was primarily due to the increment in funds deposited in the funds available for the mass market that is untargeted ones (PLN +12.5 billion reaching PLN 148.1 billion). Targeted funds, that is the funds offered to a target group of investors, often created for private purposes of affluent individuals or companies, built up at a slower pace (+PLN 0.8 billion reaching PLN 124.2 billion).

The situation of the untargeted funds market was favourable. It was shaped by the encouraging economic situation of the Polish and foreign financial markets. Consequently, in H1 2017, share funds grew most in nominal terms. Their accumulated funds went up by PLN 3.9 billion to PLN 28.1 billion. Mixed funds also accumulated (by PLN 2.3 billion to PLN 26.7 billion). So did yields (by PLN 1.4 billion to PLN 11.5 billion).

Given the low interest rates, the cash, money and bond funds formed an attractive alternative to bank deposits. In H1 2017, cash and money market funds assets built up by PLN 2.5 billion to PLN 36.2 billion. Bond funds posted a slightly lower growth (by PLN 1.9 billion to PLN 38.4 billion).

In H1 2017, the structure of untargeted funds' assets did not change considerably from 2016 yearend. Bond funds continue to represent the highest market portion (25.9%). Cash and money funds follow (24.4%). Later come share funds, mixed funds and absolute rate of return funds (19.0%, 18.0% and 14.2% respectively). The money accumulated in commodities, real property, securitisation and FIZAN (Polish enterprises) funds accounted for 4.9% of untargeted funds' assets in total.

#### **Open-end pension funds**

A good situation in financial markets positively affected the funds accumulated in pension funds. In June 2017, Open-End Pension Fund's assets amounted to PLN 174.7 billion, up by PLN 21.2 billion (+13.8%) from 2016 yearend. As at the end of June 2017, 85.6% of those assets were domestic and foreign issuers' stock.

### **6. Macroeconomic factors to affect ING Bank Śląski S.A. operations in H2 2017**

The main central banks of the G20 economies start to tighten their monetary policy. The European Central Bank signalled a retreat from further interest rate cuts and is expected to announce closure of

the asset purchase programme in the coming months. ING Bank Śląski S.A. economists are of the opinion that in H1 2018 the monthly volume of purchased assets will go down from EUR 60 billion to EUR 20-40 billion (or the annual rate of purchase will be effectively reduced from 5% of the Eurozone GDP to 2-3%). In the US, the Federal Reserve will continue the cycle of raising interest rates – the current projections of the FOMC members indicate the tightening of the target range around 100 bp until 2018 yearend. Further, H2 2017 will probably witness the Fed embark on the balance sheet reduction. ING economists estimate that for ING this stands for no reinvestment of US bonds by the Fed, totalling USD 197 billion in 2018 (or equalling 1% of the US GDP). Both developments will make the underlying, emerging and Polish markets more profitable.

High main stock indices and the (commercial in particular) real property market situation give rise to additional concerns. The President of the Federal Reserve, Janet Yellen, warned that the US financial assets were overvalued. So read the reports of the European Systemic Risk Council (ESRB) with respect to the Scandinavian countries, for example.

Finally, the situation of the company sector in China is also impactful. The restructuring programme pursued by the Chinese authorities at state-owned companies and the attempts to reduce their debt intensified concerns about the economic growth in the coming years.

The situation in the labour market is the primary risk to the economic growth in Poland – in 2018 the outflux of employees will for the first time be higher than their influx. Yet, influx of foreigners (and the Ukrainians in particular) substantially reduces the potential resultant disturbances.

The available data do not suggest that a rise in political or fiscal risk should impact adversely the inflow of direct investment projects to Poland. Investment processes can be however pretty long. Hence, ING Bank Śląski S.A. economists perceive a lower inflow of direct investment projects to Poland as a risk for the national economy. ING Bank Śląski S.A. economists are of the opinion that the deteriorated picture of Poland that foreign investors have may translate into greater volatility of the Polish zloty exchange rate should the situation in the international financial markets worsen again.

Domestic regulatory landscape remains the source of uncertainty for the banking sector. H2 2017 will see an array of new regulations on FX mortgage loans (and CHF ones in particular) take effect. They will tighten the capital requirements for the banks with large mortgage portfolios (through the SREP, increase in risk weights and fixing of the minimum LGD parameter for FX loans). Further, the Parliament is working on the act on partial refunding of spreads collected by the banks when converting currencies for the loans awarded. The impact of that solution is still not known (the costs of the banking sector are estimated at PLN 6-9 billion). What's more, a proposal to form a new Mortgage Support Fund subfund was mentioned in the recent public debate. Its funds would be earmarked for currency conversion of mortgage loans of the persons in a difficult financial situation. The final solutions and their impact on the banking sector are still not known.

Polish economy in 2009-2018										
	2009	2010	2011	2012	2013	2014	2015	2016	2017F	2018F
GDP growth (%)	2.6	3.7	5.0	1.6	1.4	3.3	3.9	2.8	3.9	3.8
Sector debt general government debt as per the EU methodology (% of GDP)	49.4	53.1	54.1	53.7	55.7	50.2	51.1	54.4	54.8	54.2
M3 money supply (PLN billion)	720	784	882	921	979	1,059	1,155	1,266	1,365	1,476
Producer Price Index growth (%)	-3.6	11.0	7.2	1.4	2.3	3.4	4.9	3.0	6.0	4.2
Inflation (CPI) average annual inflation (CPI) (%)	3.4	2.6	4.3	3.7	0.9	0.0	-0.9	-0.6	1.8	2.1
Unemployment rate (%)	12.1	12.4	12.5	13.4	13.4	11.4	9.7	8.3	6.6	5.5
PLN/USD exchange rate (yearend)	2.85	2.96	3.42	3.10	3.01	3.51	3.90	4.18	3.61	3.45
PLN/EUR exchange rate (yearend)	4.10	3.98	4.46	4.07	4.15	4.26	4.26	4.42	4.15	4.14
WIBOR 3M (yearend)	4.3	3.9	5.0	4.1	2.7	2.1	1.7	1.7	1.7	2.0

## II. Major achievements of ING Bank Śląski S.A. Group in H1 2017

### 1. Increase in number of clients

In H1 2017, the number of ING Bank Śląski S.A. clients went up by 125 thousand (or 2.9%) to 4,446 thousand clients. The Bank's client base consisted of the following segments:

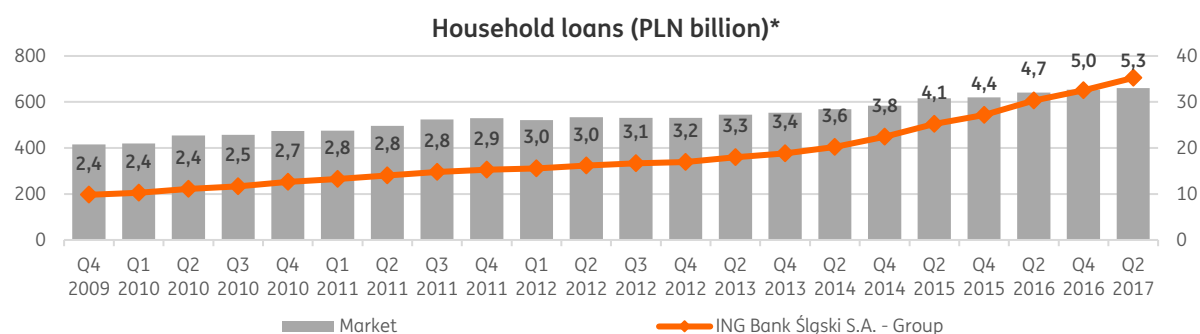
- 4,393 thousand retail clients, including:
  - 4,052 thousand individual clients (up by 107 thousand clients throughout H1 2017),
  - 341 thousand entrepreneurs (up by 14 thousand clients throughout H1 2017),
- 52 thousand corporate clients (mid and big companies and holdings).

The constantly growing number of ING Bank Śląski S.A. clients (both individuals and businesses) is the result of the activities pursued by the Bank to reinforce long-term relationships with clients. These relationships are based on the trusted brand of the Bank, transparent product offer tailored to the ever-changing preferences of clients and a continuously developed, modern distribution and customer service system.

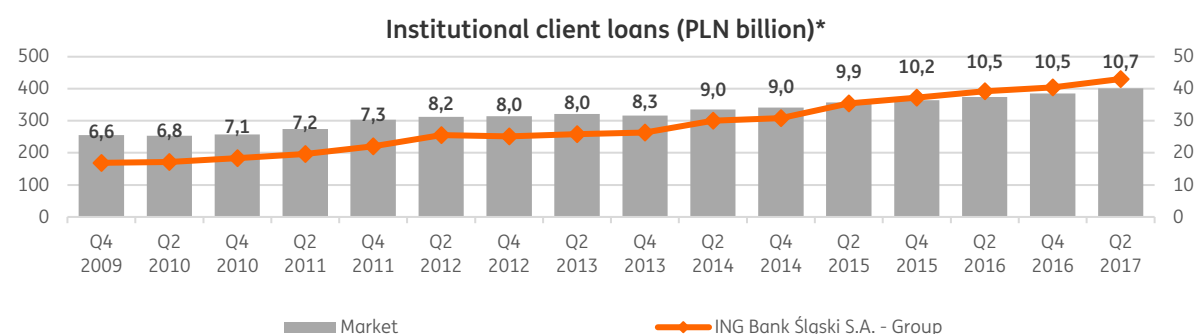
### 2. Better position on credit market

As at the end of June 2017, net loans and other receivables granted to clients amounted to PLN 83.3 billion. Throughout H1 2017, they went up by nearly 6.7% (PLN 5.2 billion) and nearly 12.0% (almost PLN 8.9 billion) year on year.

The Group was estimated to have a 7.4%-share in the total amount of loans extended to clients as part of the banking industry (up by 0.4 p.p. from the end of 2016).



\* The figures denote the ING Bank Śląski S.A. Group's share in the market



\* The figures denote the ING Bank Śląski S.A. Group's share in the market

Changes to balances of individual categories of liabilities to customers are presented in the table below:

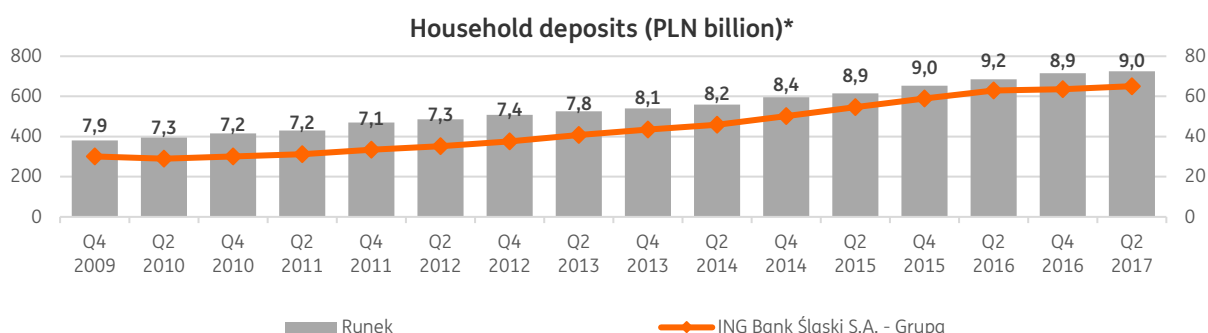
### Loans and other receivables to customers of ING Bank Śląski S.A. Group (PLN million)

	30.06.2017	31.12.2016	30.06.2016	Change in H1 2017		Change y/y	
	PLN million	PLN million	PLN million	PLN million	%	PLN million	%
Credit receivables from households, including:	35,576.7	32,865.4	30,550.6	2,711.3	8.2%	5,026.1	16.5%
Loans and advances	34,577.6	31,931.4	29,770.8	2,646.2	8.3%	4,806.8	16.1%
Leasing receivables	954.2	854.9	731.0	99.3	11.6%	223.2	30.5%
Factoring receivables	44.9	79.1	48.8	-34.2	-43.2%	-3.9	-8.0%
Credit receivables from institutional clients <sup>3</sup> , including:	47,736.5	45,204.1	43,849.0	2,532.4	5.6%	3,887.5	8.9%
Loans and advances	35,655.9	33,475.8	32,562.8	2,180.1	6.5%	3,093.1	9.5%
- Business entities	31,611.5	29,452.9	28,266.4	2,158.6	7.3%	3,345.1	11.8%
- Financial entities (other than banks)	2,075.7	1,878.1	1,865.5	197.6	10.5%	210.2	11.3%
- Entities of the sector of central and local government	1,968.7	2,144.8	2,430.9	-176.1	-8.2%	-462.2	-19.0%
Debt securities <sup>4</sup>	2,289.2	2,512.8	2,526.0	-223.6	-8.9%	-236.8	-9.4%
Leasing receivables	5,143.4	4,855.2	4,713.1	288.2	5.9%	430.3	9.1%
Factoring receivables	4,578.2	4,271.7	3,978.7	306.5	7.2%	599.5	15.1%
Other receivables	69.8	88.6	68.4	-18.8	-21.2%	1.4	2.0%
<b>Total net credit receivables</b>	<b>83,313.2</b>	<b>78,069.5</b>	<b>74,399.6</b>	<b>5,243.7</b>	<b>6.7%</b>	<b>8,913.6</b>	<b>12.0%</b>
- Eurobonds	3,589.1	3,910.0	3,909.0	-320.9	-8.2%	-319.9	-8.2%
Total net loans and other receivables to customers	86,902.3	81,979.5	78,308.6	4,922.8	6.0%	8,593.7	11.0%

### 3. Strengthening position on deposits market

As at the end of H1 2017, the funds deposited by clients in Bank accounts totalled over PLN 97.7 billion. In H1 2017, this sum went up by 2.0% (PLN 1.9 billion) and by almost 4.5% (PLN 4.2 billion) year on year.

As at the end of H1 2017, the Bank held 8.8% of the total value of funds deposited in the sector<sup>5</sup>, which indicates that the Bank was the fourth largest deposit bank in Poland.



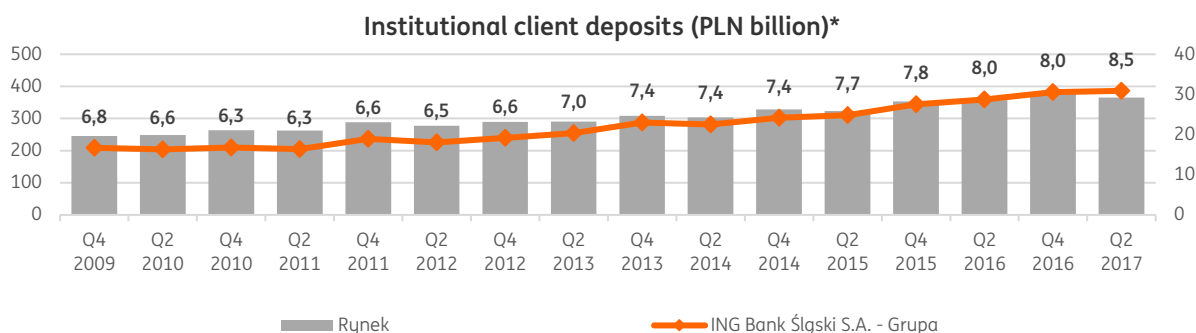
\* The figures denote the ING Bank Śląski S.A. Group's share in the market

<sup>3</sup> Excluding receivables from customers under repo transactions.

<sup>4</sup> Eurobonds excluded.

<sup>5</sup> NBP, file NALEZ\_ZOBOW\_BANKI.xlsm - June 2017





\* The figures denote the ING Bank Śląski S.A. Group's share in the market

Changes to balances of individual categories of liabilities to customers are presented in the table below:

Liabilities to customers of ING Bank Śląski S.A. Group (PLN million)							
	30.06.2017	31.12.2016	30.06.2016	Change in H1 2017		Change y/y	
	PLN million	PLN million	PLN million	PLN million	%	PLN million	%
Household liabilities, including:	65,147.4	63,615.6	63,074.2	1,531.8	2.4%	2,073.2	3.3%
Deposits	65,081.1	63,548.0	63,008.8	1,533.1	2.4%	2,072.3	3.3%
Other liabilities	66.3	67.6	65.4	-1.3	-1.9%	0.9	1.4%
Liabilities to institutional clients <sup>6</sup> , including:	32,568.0	32,209.8	30,409.1	358.2	1.1%	2,158.9	7.1%
Deposits	30,900.0	30,565.4	28,719.3	334.6	1.1%	2,180.7	7.6%
- Business entities	25,099.7	25,395.4	23,805.9	-295.7	-1.2%	1,293.8	5.4%
- Financial entities (other than banks)	4,044.7	3,429.2	2,661.1	615.5	17.9%	1,383.6	52.0%
- Entities of the sector of central and local government agencies	1,755.6	1,740.8	2,252.3	14.8	0.9%	-496.7	-22.1%
Other liabilities	1,668.0	1,644.4	1,689.8	23.6	1.4%	-21.8	-1.3%
<b>Total liabilities due to customers</b>	<b>97,715.4</b>	<b>95,825.4</b>	<b>93,483.3</b>	<b>1,890.0</b>	<b>2.0%</b>	<b>4,232.1</b>	<b>4.5%</b>

#### 4. Awards and honourable mentions

The first half of 2017 brought numerous awards and honourable mentions for ING Bank Śląski S.A., such as:

For the attractive offering and customer service quality:

- Gwiazda Bankowości (Banking Star) title granted for the overall performance in 2016 and #1 in the Innovativeness category as well as #2 in categories: Pace of Development and Profitability and Effectiveness in the ranking developed by Dziennik Gazeta Prawna and PwC.
- #1 in the mWIG40 index Company of the Year granted as part of the Byki i Niedźwiedzie (Bulls and Bears) awards by the Stock Exchange Gazette Parkiet.
- ING Bank Śląski S.A. was the only bank among the top ten in the Listed Company of the Year ranking organised by Puls Biznesu.
- #2 in the 2017 Best Bank ranking organised by Gazeta Bankowa in the Large Commercial Banks category.
- #2 in the Banks Financing Real Properties category in the ranking 50 Largest Banks in Poland

<sup>6</sup> Excluding liabilities to customers under repo transactions.



organised by the monthly magazine BANK.

- Market Leader title for Treasury BondSpot Poland contingent transactions in 2016 granted by Treasury BondSpot Poland.
- #2 in the category: Highest Volume and Highest Value of OTC Transactions Cleared in KDPW\_CCP in 2016.
- #1 in the brokerage accounts ranking, compiled by the Puls Biznesu daily.
- #2 in the brokerage accounts ranking, compiled by the Bankier.pl website.
- #2 in the ranking of corporate accounts compiled by the najlepszekonto.pl website.
- #3 in the ranking of corporate accounts compiled by the TotalMoney.pl website.
- 2017 Service Quality Star in the category: Banks and Service Quality Star of the Decade 2007-2017 in the tenth edition of the Polish Service Quality Programme.
- #1 in the first edition of the Bank Retail Clients' Satisfaction Ranking by the ARC Rynek and Opinia dla Rzeczypospolitej.
- #3 in the 2016 Institution of the Year ranking in the category: Best Customer Service Quality in Branches, based on the experts survey on the moжебankowanie.pl website.
- ING Bank Śląski was the award winner of the Banking World and Insurance Leader Competition in the Friendliest Bank category and for the Po Prostu project (Plain Language).
- #2 in the User-friendliness of the online account opening process ranking compiled by the moжебankowanie.pl portal editorial team.
- ING Bank Śląski S.A. as the very first bank in Poland received a plain language certificate issued by the Plain Polish Laboratory of the University of Wrocław.

For marketing actions:

- Golden Banker for the best advertisement and the best bank on the social media.
- #1 in the Leopards competition, rewarding the best bank brands creations.
- 5 awards including Golden Sword of the Advertising Creators Club in the Digital & Mobile category and a special award Best of Facebook for the online campaign of ING Bank Śląski S.A. promoting the Aleo platform in the contest for the best and most interesting creations that shape the communication and marketing landscape in Poland.

For the manner of operating in the community and ability to effectively combine social responsibility with business values:

- Golden Banker in the Socially Sensitive Bank category.
- Silver CSR Leaf awarded by the POLITYKA weekly.
- #3 in the platinum category in the 2017 Socially Responsible Companies Ranking.
- International Top Employers Certificate awarded for the eighth time by the Top Employers Institute.
- #1 in the Most Desired Employers in the Opinion of Professionals and Managers study by Antal in the Banking category.
- ING Bank Śląski S.A. was one of the best employers in the Employer of the Year ranking made by AIESEC Poland.
- #3 in the investor relations study in WIG30 companies developed by the Stock Exchange magazine Parkiet and the Chamber of Brokerage Houses.
- Szpalty Roku 2017 (Columns of 2017) – 7 awards for the following publications and projects of

ING Bank Śląski. S.A. in four categories: Content marketing – finance and insurance; Magazine for Employees – over 1,000 copies in circulation; Portal for employees and content marketing strategy for employees.

ING Bank Śląski S.A. management received high praise:

- Banker of the Year title awarded to Brunon Bartkiewicz, President of ING Bank Śląski S.A., by the Forbes magazine.
- The title of Wizjoner Rynku Bankowego 2016 roku (2016 Banking Market Visionary) awarded to Brunon Bartkiewicz, President of ING Bank Śląski S.A.
- The award of R. Kaszubski granted to Roman Tyszkowski for outstanding achievements in banking development and for the vision and courage in IT architecture creation.

For more information about awards and honourable mentions please visit the Bank website, in the *Prizes* tab.

### III. Operations of ING Bank Śląski S.A. in H1 2017

#### 1. Retail banking

The aim of ING Bank Śląski S.A. is to maintain a strong position in the retail banking market. A wide and transparent product offer with good value proposition plus enhancement of marketing and operational communication with clients play a crucial role here; so does the extensive and innovative omnichannel distribution network. Furthermore, other important factors are: continuous simplification and automation of processes and higher significance of the internet and direct channels.

The main actions taken in H1 2017 to deliver on the strategic goals centred around:

- full leveraging on existing distribution power,
- adding new features to direct channels,
- implementing new payment solutions,
- ensuring convenient online and mobile processes for clients, and
- directing the branches towards the advisory services, including remote assistance service implementation.

The strategy translated into better sales results and sustainable higher deposits and loans balances. A higher x-buy ratio resulted in income increase and diversification. What is more, branches became more efficient and thus raised their cost effectiveness, direct distribution channels and customer service became more relevant and operations were automated.

#### **Changes to product offer and customer service rules**

##### *Savings, investments*

The main actions taken in H1 2017 for the savings and investments offer focused on:

- continuation of retention actions and operations stabilising the portfolio (volume) of retail deposits, with focus placed on the long-term deposit portfolio,
- further offering of periodical, special terms and conditions for new funds under the special offer, i.e. Bonus for Start and Bonus Open Savings Account,
- continued support for the sale of investment products with the aim to increase the number of clients having investment products in the individual client segment – and thus ensuring a higher number of clients with an active relationship (Primary Banking),
- keeping sustained growth of savings deposited by bank clients and a high growth of mutual funds,
- actions geared towards digitalisation of transactions with the aim to reduce the number of cash transactions made at tellers,
- promoting regular savings and investments by, among others, encouraging clients to set up a Regular Investment Instruction,
- promoting the Money Coach – a tool supporting clients in finance management – investment digitalization,
- continuing the educational strategy centred around the “from saving to investing” concept, and
- promoting saving for retirement.

In H1 2017, the Bank continued the promotions started in 2016 for the special offer of PLN 100 for regular investing. As in its previous round, the promotion was targeted at investing clients. First of all, it was to encourage new clients to invest regularly via the Moje ING electronic banking system.

The Bank continued investment digitalization works. The Bank was encouraging clients to use the Moje ING tools. In April, a media campaign was launched – Money Coach appeared in the commercials, on

billboards and in the press. Further, until 31 May, clients were offered a promotional code after using the Money Coach feature.

The Bank also embarked on a promotion of ING BSK Index Funds "Term deposit of 3% with index fund" where clients were offered higher interest on the term deposit upon satisfying promotion terms and conditions. The promotion was first and foremost to draw clients' attention to index funds, with which clients may invest in equity funds mirroring changes of the underlying index (WIG20, S&P 500 or MSCI EMU). Clients select only the market to invest on and their funds are automatically invested in the largest and the most liquid companies of a given region.

In March, the Bank rolled out an IKE ING pension solution, based on the mutual funds managed by NN Investment Partners TFI S.A. With this new product, our clients got access to 23 funds in total. For the clients who are not certain which fund to choose, the Bank prepared a solution based on life cycle funds within the NN Perspektywa SFIO fund; fully-fledged investors may choose from up to 17 funds offering various strategies in turn. They include both safe and more risky funds, investing in Poland and on a global scale.

### Brokerage business

#### Brokerage account offer simplification

In March, the Bank introduced a new Table of Brokerage Fees and Commissions. Thus, our Brokerage Office was the first in the market to set transparent rules for fee reduction for online orders (in the Active Account).

The most active clients could lower their stock trading fees to 0.14% even and to PLN 5 for futures contracts. In that manner, the Bank resigned from negotiating fees and offers clients fee thresholds which depend on their trading volumes in the previous month.

#### Acquisition of new clients

As at the end of June, the Brokerage Office maintained nearly 63 thousand brokerage accounts. From the beginning of the year, the Office opened over 4.3 thousand brokerage accounts, out of which 78% electronically – via Moje ING.

There are more and more active investors month by month. The number of active stock investors went up by +94% y/y. Our share in the number of total brokerage accounts is also growing gradually. As at the end of June 2017, it stood at 4.49% (4.03% as at the end of H1 2016).

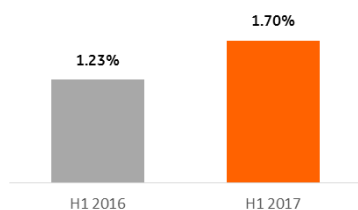
#### Stock trading market position

In H1 2017, the stock trading volumes of the ING Bank Śląski Brokerage Office clients built up to almost PLN 4.3 billion (+103% y/y). The market saw trading go up to almost PLN 250 billion (or by +46% y/y) in that period; over PLN 32 billion (+59% y/y) of that volume was attributed to retail investors. In H1 2017, the share of our Brokerage Office in the stock trading total arrived at 1.7% (13.1% in the retail investors segment).

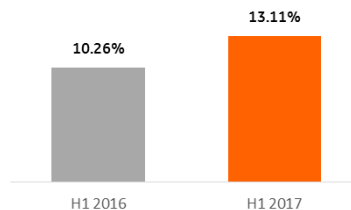


Source: own calculations based on WSE data on WSE members' trading shares

### Market share (%)



### Retail market share (%)

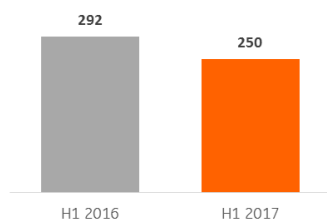


Source: own calculations based on WSE data on WSE members' trading shares

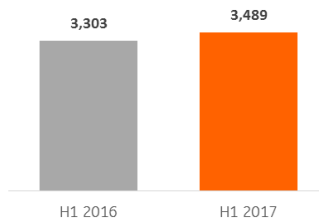
### Futures contracts market position

In H1 2017, the futures trading volumes of the ING Bank Śląski Brokerage Office clients went down to 250 thousand contracts (or by -14,4% y/y). The market saw trading go up to over PLN 7.7 million contracts (or by +5,6% y/y) in that period; over 3.4 million contracts (+5,6% y/y) of that volume were made by retail investors. In H1 2017, the share of our Brokerage Office in the futures contracts total settled at 3.2% (7.2% in the retail investors segment).

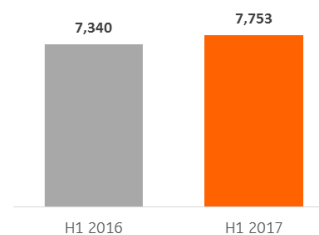
### ING Bank Śląski S.A. Brokerage Office (thousand)



### WSE estimated retail market (thousand)

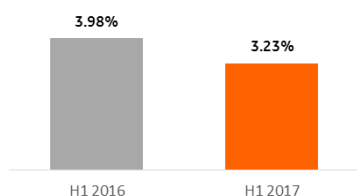


### WSE entire market (thousand)

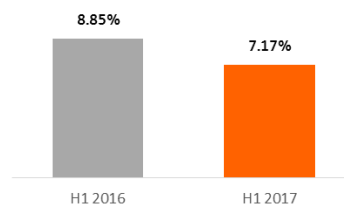


Source: own calculations based on WSE data on WSE members' trading shares

### Market share (%)



### Retail market share (%)



Source: own calculations based on WSE data on WSE members' trading shares

### Lending products

#### Unsecured loans for individual clients

In H1 2017, the Bank strongly developed its lending offer and processes as part of pursuing the strategy of constant and balanced growth of lending product exposure.

The following promotional campaigns were among the supporting factors:

- “Cash loan with a bonus” – a campaign in which the Bank encouraged clients to pursue their plans with a cash loan of over PLN 25 thousand; clients could get PLN 100 as a prize,
- “Get it cheaper via Moje ING” – a campaign in which the Bank encouraged clients to apply for a cash loan via Moje ING; clients could get a partial credit fee refund,
- “Cheaper with the code online” – a campaign in which the Bank encouraged clients to apply for a cash loan via Moje ING; with the promotional code, clients could get a refund of interest on the first loan instalment.

In January, the Bank continued the campaign of a new, personal banking functionality – Moje ING. The new campaign release introduced another system functionality – Cash loan with a click in Moje ING – which provides fast access to extra money, even on the smartphone.

In May, the Bank started to include the 500+ programme income in the additional income for the cash loan applications with the tenor of up to 36 monthly instalments.

Credit sale processes (for credit cards, overdrafts and cash loans) were developed in the Moje ING online banking system for individual clients. A promotional code field was added. It is used in the promotional campaigns run by the Bank. Since January 2017, 62% of cash loan agreements have been made online.

#### Mortgage products

The Bank watched the market and was customising its offer of mortgage loans on an ongoing basis. The Bank ran subsequent rounds of the special offer “Live without compromise”, targeting young people looking for residential real property purchase funding. Further, the Bank made additional time-limited promotions, based on attractive pricing conditions “New Year sale” and “Spring sale”.

The Bank strove after improving the existing functionalities in the credit system, whereby the process is more efficient and clients can be served faster. By doing so, the number of automated decisions made for real properties went up, the mechanisms used to value the real property were simplified and the lending process was shortened.

The Bank accommodated itself to the requirements of the new Act on Mortgage Loans and Supervision over Mortgage Loan Brokers and Agents. The Act lays down the rules of credit approval and business activity of brokers and agents. The amendments affect the lending process, communication with clients as well as training and certification of the employees selling mortgage loans.

In April, the Bank submitted the application for licence to establish a mortgage bank to the Polish Financial Supervision Authority. This is how the Bank plans to consolidate its market position and continue to develop in the mortgage products area.

The Bank consistently pursues its sales strategy. For a few years now, the Bank has been among the main mortgage lenders in Poland. It is third on the market in terms of the PLN mortgage portfolio volume. It is also among the leaders as far as the new production is concerned.

#### Products for entrepreneurs

The Bank conducted numerous promotional activities concerning the lending offer for entrepreneurs. In March, the online cash loan application process was launched for new clients (e-Application).

In June, the Bank expanded the offer for Entrepreneurs with an EU subsidy-tied loan and provided the clients applying for the subsidy with a 12M commitment letter.

In February, the Bank embarked on the cooperation with a start-up, InviPay, to offer microfactoring services to ING Bank clients. The new service solves the problem of payment backlogs which are really troublesome for small businesses. Contrary to traditional factoring, clients can settle single invoices at any time, without having to declare the amount or the number of invoices provided. Clients may use the “ING” name to receive special pricing conditions from InviPay. In June, the Bank offered clients a new service – assistance in acquiring EU funds to perform investment projects together with EBF.

### Insurance products

In the area of insurance products, the Bank launched a new stand-alone insurance offer for individual clients (insurance not tied to bank products):

- motor vehicle insurance in cooperation with PZU – offered since April 2017,
- property insurance in cooperation with PZU – offered since April 2017,
- travel insurance in cooperation with Aviva – offered since April 2017,
- health insurance in cooperation with Nationale-Nederlanden – offered since May 2017.

New insurance products are offered online – in Moje ING and on the Bank's website, ingbank.pl. In consequence of the implementation of a new stand-alone insurance offer, on 30 March 2017, the Bank finished the cooperation with its stand-alone insurance provider, AXA TUIR S.A. (motor vehicle, property and travel insurance). In H1 2017, the Bank also activated new sales processes for account and debit card insurance in the Moje ING online banking system.

As part of cooperation with Aviva, Nationale-Nederlanden and PZU, in H1 2017, the Bank ran a comprehensive training and examination programme aimed at obtaining the certificate of natural persons acting as insurance agents (OFWCA) for life and non-life insurance. All the sales staff members could take 4 OFWCA exams, whereby advisors could upgrade their broking licences.

In the insurance area, the Bank focuses on the introduction of a new insurance offer for bank products with Aviva and Nationale-Nederlanden companies. The new products will be rolled out in H2 2017 and at the beginning of 2018. The Bank is also developing the insurance sale processes through its digital channels.

### Accounts and payments

In H1 2017, ING Bank Śląski S.A. ran promotions for new and existing individual clients. The Bank continued the 2016 promotional campaign targeting the clients who opened their personal accounts online and who could get extra funds upon making a card or BLIK transaction in a preset amount. In April 2017, the "Recommend our account to your friend" promotion campaign started. It encourages the existing clients of our Bank to use their accounts actively and to recommend personal accounts to their friends. In the promotion, clients recommend personal account opening at our Bank. From 16 April to the end of May 2017, the Bank promoted the personal account in the nationwide media campaign. The campaign was run at nationwide and local stations, online and at Bank branches as well as on billboards at the biggest Polish cities.

ING Bank Śląski S.A. also promoted mobile payments. In H1 2017, the Bank continued the communication and education activities aimed at raising the volume of BLIK transactions and worked on the optimisation of the already available services. In March 2017, ING Bank Śląski S.A. broadened its offer of BLIK payments. One-click payments were launched. After saving a specific store, clients do not have to enter a 6-digit BLIK code to make subsequent payments. They just need to confirm the operation in the mobile application. In May 2017, BLIK phone payments facilities were launched. These are phone transfers which can be made using shortcuts before login to the mobile application and the option to upload the phone number for the transfer from the phone directory. In June 2017, clients were enabled to make deposits at ING Bank Śląski S.A. machines with the BLIK functionality. The Bank also launched the BLIK service for the Open Savings Account with which clients may withdraw/deposit money from/to those accounts via ATMs. Further, ING Bank Śląski S.A. participated in the promotions of the BLIK mobile payments system such as a free ticket to Multikino or a promotional voucher for the Allegro service.

In March 2017, the Table of Fees and Commissions was revised. The rules of deposits, withdrawals and transfers made at Bank branches by individual clients were changed, for example. Further, the fee for cash withdrawals made at ATMs abroad was lowered to 3% for individual clients and entrepreneurs.

In March 2017, ING Bank Śląski S.A. launched modern mobile payments via the payment card installed on the client's smartphone – Mastercard®. With this card clients may make payments wherever mobile payments are accepted. From 24 April to 25 June, the Mastercard® was promoted as well. For



card activation and one payment made, clients could get vouchers to the empik.com online store.

In May 2017, ING Bank Śląski S.A. enabled the following features in the Moje ING online and mobile banking system:

- debit card order for the account by a minor of 13-18 years of age upon the consent of the statutory representative; minors can order cards (like Mastercard® and a card to EUR account) to PLN accounts on their own,
- storage of private documents like a scanned image of the passport, ID card or insurance in the folder: "My documents". With this service, clients obtain permanent access to their documents and can manage those documents easily in the Moje ING system,
- currency exchange (PLN, EUR, GBP and USD) at the rate set case by case in the exchange functionality; the service is available to adult individual clients and their proxy holders as well as to sole proprietors; the service is free of charge and is activated automatically. Individual clients need to have personal accounts, while entrepreneurs must have current accounts (save for the Open Savings Accounts) to convert currencies.

In June 2017, ING Bank Śląski S.A. launched a multi-currency functionality for the holders Visa payWave cards. The feature enables clients to use their FX accounts with one card only. The selected EUR, GBP or USD account can be pinned to or unpinned from the card via the online or mobile banking application, or at the Bank branch at any time. In that way, clients can make transactions directly in EUR, GBP or USD without having to pay the currency conversion fee (provided there is a sufficient amount available in the requested currency in the pinned FX account). Clients do not have to order a separate card to use the new feature. It is available for each Visa payWave card. Clients choose the preferred card on their own. From 7 June to 23 July 2017, the Bank promoted the multi-currency card in the nationwide media campaign where it emphasised the issue of foreign payments during holiday trips. Engaging activities were also run on Facebook.

From 5 June to 30 September 2017, as part of the special offer, ING Bank Śląski S.A. offers clients a "Package of cash withdrawals abroad". Upon paying one fee of PLN 15, clients can withdraw cash from all ATMs worldwide. No fees under the Table of Fees and Commissions are charged. The package is "active" for 30 days, counted from the day following its purchase by the user.

#### Network of cash self-service machines

In March 2017, ING Bank Śląski S.A. adapted recyclers to handle the PLN 500 banknote. Banknotes are accepted as deposits.

In June 2017, the Bank activated the BLIK deposit service for our clients at all recyclers installed at ING Branches. The service supports making cash deposits directly to the personal or savings account without using one's card.

#### Offer for entrepreneurs

In 2017, the Bank continued to expand the Moje ING system with new features boosting customer satisfaction. Below, some of the features which were earlier unavailable in the online and mobile banking systems are introduced.

In H1 2017, the Bank offered clients the options to:

- make multiple transactions under one instruction (a batch of transfers),
- open a personal account by the entrepreneur,
- issue a new consent for payment processing under direct debit,
- change account type,
- make a quick transfer without login between own accounts,
- apply for a payment terminal.



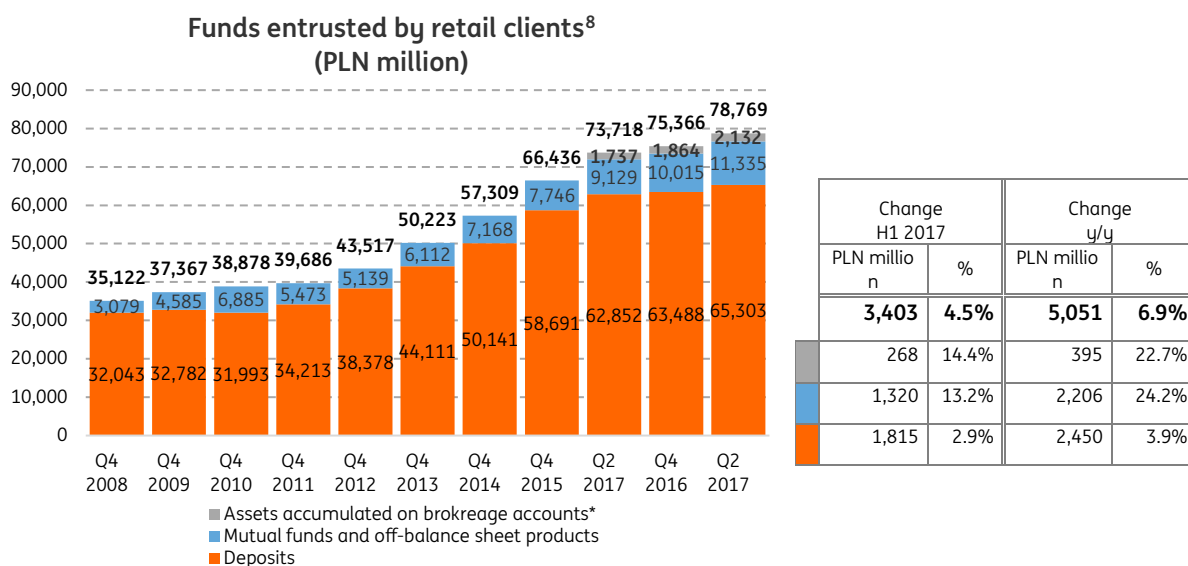
In May 2017, the Bank enabled Moje ING and Moje ING mobile applications for proxy holders representing sole proprietorships. In June 2017, the Bank changed the rules of charging and cancelling card fees for entrepreneurs. The change applies to Mastercard Business (Standard), Mastercard Business (Premium) and Mastercard on the phone cards. One limit is the feature with which the Bank sums up all non-cash payments as needed to release the client from paying the card fee for the clients having more than one MasterCard. In June 2017, the Bank rolled out for the clients having the Moje ING mobile application a feature enabling them to make deposits in ING CDMs with the BLIK code. Furthermore, the Bank embarked on a six-month pilot programme for the modified remote sale of accounts to Entrepreneurs via its representatives. The account is sold at one meeting with the bank representative during which a personal account is set up without a card, the Moje ING system is activated and the client opens a business account at Moje ING on their own.

ING was among the banking front-runners of the trusted profile service in the Moje ING banking system. With this service, Bank clients may set up their business without having to visit the municipality. Taking advantage of the competitive edge, in Q1 2017, we ran an online campaign for the Direct Account for Business and supported it with sales promotion.

### Deposits<sup>7</sup>

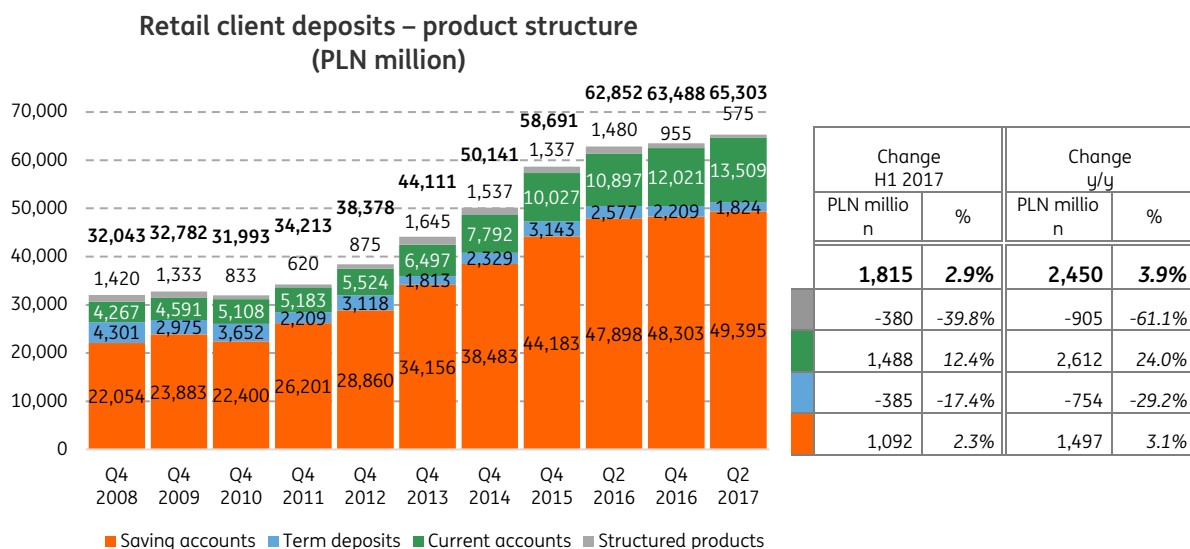
As at 30 June 2017, funds entrusted to ING Bank Śląski S.A. by retail clients totalled PLN 78.8 billion, up by more than PLN 3.4 billion (+4.5%) over H1 2017 and by more than PLN 5.1 billion (+6.9%) y/y.

The fact that the deposit base grew faster than the volumes in the sector translated into higher share in the household deposits market in H1 2017. At the end of June, it was 9.0% versus 8.9% at the end of December 2016.

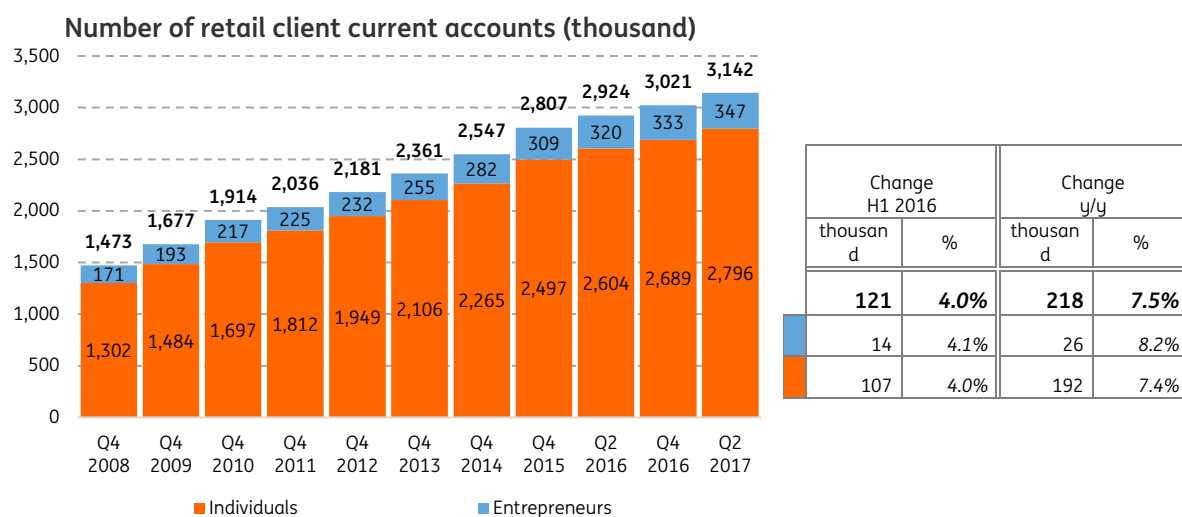


<sup>7</sup>Due to availability of more detailed product-related information, the description is made based on the data from the management information system.

<sup>8</sup>Clients' assets in brokerage accounts are presented from the beginning of 2016 when the brokerage business was incorporated into the Bank's structures.



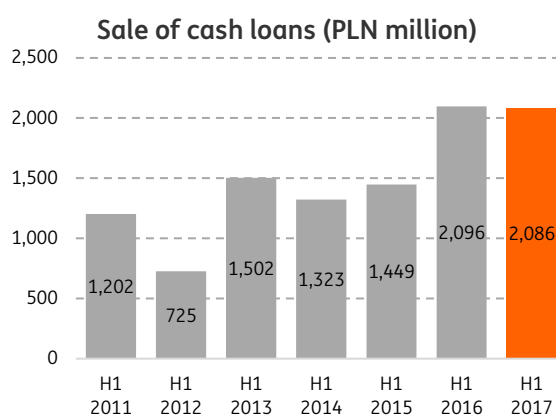
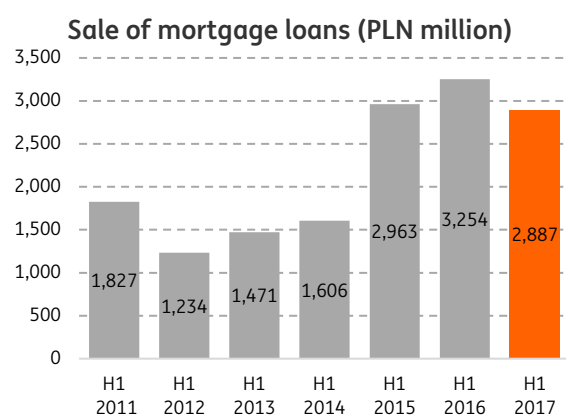
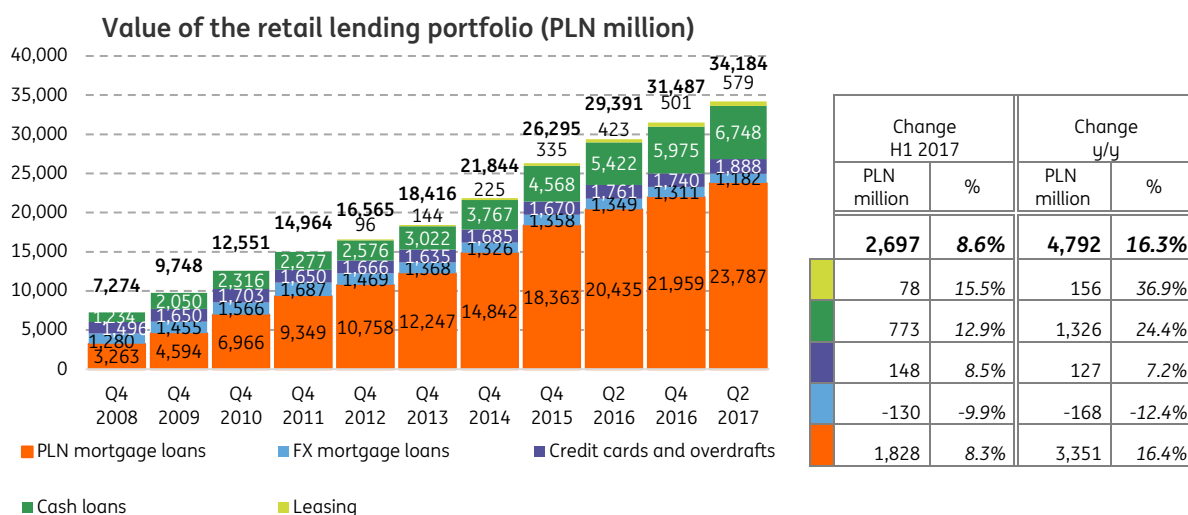
Throughout H1 2017, the array of settlement services rendered by the Bank to its retail clients grew significantly. As at the end of June 2017, ING Bank Śląski S.A. maintained 3,142 thousand personal accounts for retail clients. The majority of the accounts (81%) were Direct accounts.



### Lending<sup>9</sup>

As at the end of June 2017, credit receivables from retail customers totalled PLN 34.2 billion. In H1 2017, the Bank's credit exposure towards retail clients went up by PLN 2.7 billion, i.e. nearly +8.6%. The Bank increased its share in the household credit receivables market to 5.3% (versus 5.0% in December 2016).

<sup>9</sup>Due to availability of more detailed product-related information, the description is made based on the data from the management information system.



In H1 2017, the Bank sold PLN 2,887 million worth mortgage loans, which stands for a decline of PLN 367 million (or 11%) versus H1 2016. According to the data published by the Polish Bank Association, in H1 2017 ING Bank Śląski S.A. was third on the market with a 13.0% share in the sales of housing loans for private individuals.

The growing cash loan balance results from the intensified Bank operations as regards the offer and sale. In H1 2017, approximately 138 thousand cash loans totalling PLN 2.1 billion were granted. The figures show that sales was close to that in H1 2016.

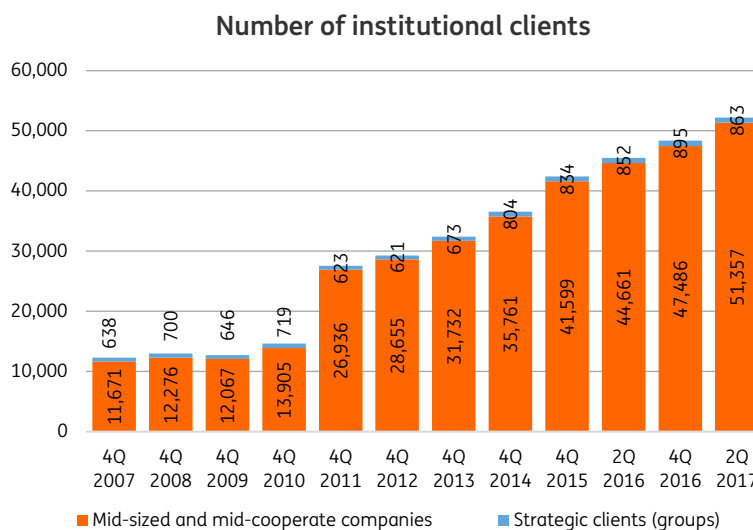
## 2. Corporate banking

### Number of clients

In June 2017, 52.3 thousand corporate clients used the ING Bank Śląski S.A. services, and this included:

- 51.4 thousand mid and big companies, and
- 863 strategic clients (holdings).

During H1 2017, the Bank entered into relationships with 6.1 thousand corporate clients, whereby the number of companies tended to by the Bank went up by 3.9 thousand from 2015 yearend.



### Product offer and modifications introduced

When corporate clients choose their bank, they take into account not only the reputation of a stable and trustworthy institution, but also high quality of the offer, matching their specific needs. Constant enhancements to the offer, process streamlining and distribution channels' improvement are an inherent element of the Bank's operations.

#### Accounts and settlements

ING Bank Śląski S.A. offers companies a very modern and comprehensive array of cash transaction processing solutions. The Bank continues to develop its network of electronic depositories, formed of 140 machines. In June 2017, we activated a new cash process for our clients. It allows clients to apply in ING Business for the closed cash deposit service to bank depositories. Relationship Managers do not need to assist clients in the fast track application for a closed cash deposit to bank depositories service. Client access to ING Business suffices here. The service is available for clients who have held an account with us for at least for 6 months on which PLN credit entries are booked. In the fast-track procedure, the funds are booked on the client's account as soon as they have been deposited.

The Bank's network of light depositories is also growing. These are machines installed at the client's premises; they make transactions even more convenient and safer. At present, there are 42 such machines. Moreover, ING Bank Śląski S.A. provided additional mini and micro CDMs, i.e. small devices installed at the company's registered office for placing open deposits. All CDMs can be used 24/7 and deposits are booked on the selected accounts as soon as they are made (on-line mode).

The Bank also continuously encourages clients to make use of the ING Direct Business offer via online application available on the Bank's website. The application is filled in 5 minutes only, because external databases are used and client's personal data are verified. Only the basic information about the company is required – Statistical Identification Number (REGON) and Tax Identification Number (NIP) as well as ID cards of the company representatives that sign the account agreement. Upon filling in the application, clients receive access to ING Business online banking where they will find an agreement to be signed electronically. All documents and access are generated automatically. The account is activated within an hour from agreement signature. The key advantage of this process is the speed of starting the relationship with the client.

Clients could also use the ING Direct Business activation service with the assistance of Business Centre

Relationship Managers. The Business Centre Relationship Manager acquires data for the agreement, which is signed in the system.

### Cards

In H1 2017, we implemented the NFC feature for all cards issued by ING Bank Śląski S.A. In April, we implemented the NFC feature for payment cards issued for the account, while since June all newly issued and renewed company, individual PLN charge cards and individual deposit identification cards have been embossed and NFC-enabled. The NFC technology enables faster payments – all it takes is to tap the card over the reader. Payments up to PLN 50 (in Poland) do not require PIN confirmation. When abroad, you can make NFC transactions without a PIN up to the amount specified in a given country (PLN equivalent).

The NFC feature also enables cash withdrawals from ATMs without inserting the card into the machine (all machines of ING Bank Śląski S.A. and in the future of the Planet Cash network).

### POS terminals

On 1 March 2017, the Bank started to offer a new service to corporate and strategic clients of accepting card payments on the POS terminal. Corporate clients now use over 271 terminals where they processed over 46 thousand transactions worth over PLN 6 million.

The service includes acceptance of card and BLIK payments and full support for all those transactions. Offer advantages

- The entire service (bank account, payment processing and POS terminal maintenance) is delivered under one relationship with ING Bank Śląski S.A.
- The modern, mobile terminal enables clients to accept payments anywhere.
- Fast and secure transaction settlement – monies under the POS terminal transactions are booked on the client's account the following business day, until 10:00 hours.
- Access to online data in the ING POS system – the client can see the transactions made on the terminal as soon as they have been processed.
- Clear and transparent service fees that are presented to the client both on the bank account as in the ING POS system.

Corporate and strategic clients can order the service fast and easy via helpline or with their relationship manager.

### Loans

In 2017, ING Bank Śląski S.A. continued to automate and optimise its lending processes. These actions translate into tangible benefits, visible in e.g. a regular growth of the share of Fast Track and Easy Lending credit decisions in the total portfolio of decisions. The Fast Track/Easy Lending ratio representing the share of Fast Track decisions plus the number of Easy Lending transactions out of all decisions taken in a given month went up from 58.1% as at 2016 yearend to 73.9% as at the end of May 2017.

The streamlining actions taken in the area of loan disbursement/handling contribute to a regular increase in the number of disbursed loans that were processed automatically. In the case of Fast Track, they grew considerably from 76% as at 2016 yearend to 92% as at the end of May 2016, while in the case of Normal Track from 38% to 84% respectively. The above statistics are a representative example of the adopted strategy whose purpose is to shorten and further streamline the lending process.

Furthermore, in H1 2017, a number of effectiveness-oriented changes were implemented in the lending area for the lending products and process. As regards the loans approved by the Bank on the basis of behavioural criteria verification:

- we unified the algorithm for credit limits calculation based on inflows in the clients' accounts in FT and EL,

- we expanded the catalogue of products available in these tracks from two to seven (including trade finance products),
- we implemented standard FT qualification rules based on inflows and prescoring criteria like in EL, and allowed their overriding by the Risk Unit,
- we broadened the group of Clients wherefor the new limit is calculated on the basis of FT inflows.

Furthermore, we implemented a verification option for client/group entities in the Credit Information Bureau in the FT and NT lending processes. Online query is always made prior to the credit decision in the ING CMS system.

In H1 2017, we continued the Easy Lending project-related works. The Easy Lending project's objective is to devise and implement a new lending process for smaller credit exposures that would be based on a new assessment of clients' creditworthiness and the automation of the majority of process-related tasks. In 2016, pilot programmes of the prescoring process were carried out under the project. The first pilot programme was manual and closed in April with 354 cash loans granted, totalling PLN 64.2 million. In September, under the latter pilot programme, an automated mechanism verifying an array of behavioural criteria, tracking the client's history with the Credit Information Bureau and computing the creditworthiness was deployed. The sale part of the process was still handled manually. By the end of June 2017, it was used to build a portfolio of 529 loans totalling PLN 64 million (outstanding). In H2 2017, full automation of this process will be possible. At the same time, works on other releases under the project are underway.

In the area of Fast Track products, the acceptable commitment period and grace period for the Corporate Loan was extended to 12 months. As of the beginning of June 2017, the Loan with the bonus from the BGK Thermomodernisation Fund was withdrawn. It will be ultimately replaced with a new product, i.e. a loan for homeowner associations and housing cooperatives based on retail solutions.

On top of process- and product-related changes, the Bank implemented new rules of issuing credit capacity certificates for corporate clients from the regular portfolio. The new tool used for estimation of the amount for the certificate is the approval of a "Maximum Reference Credit Limit" in ING CMS, which will simplify credit capacity determination rules.

In H1 2017, the General Terms and Conditions of Rendering Credit Facilities and Other Services Exposed to Credit Risk for Corporate Clients at ING Bank Śląski S.A. were also amended. The changes involved adjusting the document wording to the product- and process-related modifications and those resulting from the legal developments.

Since its launch in 2014, the ING Monitoring application used to monitor the client's satisfaction of liabilities under credit agreements concluded with the Bank and watch the Client's financial standing has been constantly improved. In H1 2017, a series of pre-planned modifications and improvements were introduced. These include: automation of the margin increase process in case of default on the covenant on minimum flows on bank account for the EL portfolio or automation of financial covenant settlement based on updated financials. In March, we implemented an automatic annual review for the clients with exposures of up to PLN 6 million.

The simplified monitoring process for the EL portfolio was expanded with another group of clients with exposures below PLN 400 thousand and revolving loans granted in FT Inflows path or with non-revolving exposures or card limits approved in any of the tracks. The central collateral review process was implemented for that group of clients. It is less labour-intensive for local business units.

H1 2017 saw a few rounds of calls for subsidy proposals under the centralised Operational Programmes. From the lending perspective, calls arranged by the PARP agency (Commercialisation of the Research) and BGK (Technology innovation credit) played a part here. Our Bank pays special attention to supporting innovative enterprises, which is why we are a leader in terms of issued commitment letters and credit facility agreements. Calls aimed at funding the implementation of new technologies are an example here. Despite a higher risk of such projects, our Bank one more time issues



the highest number of commitment letters which are a requisite condition for confirming the financial viability of the project. In calls of H1 2017, our commitment letters were attached to 69 applications out of 417 (17%). The volume of subsidies applied for by our clients was around PLN 200 million, while the volume of forecast loans exceeded PLN 500 million. In all categories, our Bank was first in the ranking compiled by BGK.

In Q1 2017, our Bank was awarded for “actively supporting the sale of guarantees from the monies available under the Innovative Economy Operational Programme Guarantee Fund”. The 10M guarantee programme under the Innovative Economy Operational Programme Guarantee Fund was addressed to innovative enterprises.

The Bank keeps the fifth place in the sale market of BGK de minimis guarantees extended since 15 March 2013 to corporate clients (their share as regards the amount of guarantees granted stands at 8%). At present, the Bank holds 1,442 de minimis guarantees totalling PLN 1 billion with the loans totalling PLN 2 billion. At the same time, the share of PLG-COSME guarantees, launched in 2016 and completing the offer of de minimis guarantees is systematically growing.

We held meetings with the Polish Bank Association, the Ministry of Finance and BGK. During the meetings, we presented the initiatives streamlining BGK guarantee programmes and ensuring service process optimisation as well as boosting the sale of those programmes, including the option to accept electronic guarantee applications.

### *Trade finance*

For off-balance sheet products (letters of credit and guarantees), in H1 2017, the Bank's exposure went up by approximately 8% from the same period 2016. The worth of the Bank guarantees doubled. In H1 2017, the ratio of electronic guarantee and letter of credit applications remained high (over 95% per each product). More than 90% of letter of credit applications were processed remotely (without the Relationship Manager being involved). This agrees with the Bank's strategy promoting direct distribution channels. E-guarantees are another tool supported by this strategy. They become more and more popular. Throughout H1 2017, the number of issued e-guarantees doubled versus the entire 2016.

In 2017, we launched our products in the new ING Business online banking release. More modifications and improvements to this means of communication with clients are planned.

Further, works continue on streamlining the operational service of trade finance products. In H1 2017, we rolled out a new IWA2 application release, whereby we automated the guarantee handling process to some extent. Automatic verification of warning flags in ING Monitoring, automatic bookings in credit accounts and automatic one-off fee charging were launched. H2 2017 will see the implementation of further automation stages, aimed at limiting the service costs and shortening the time to market. Beneficiaries of e-guarantees will be soon provided with the Bank signature on-line verification feature.

In the long-term, the actions will be oriented at standardising the letter of credit- and guarantee-related processes, verifying the capacity for blockchain technology use in the trade finance products and analysis of the entrepreneurs needs in terms of trade exchange with other countries.

### *Aleo & ING Accounting*

In H1 2017 ING Usługi dla Biznesu S.A. continued its actions to increase the number of active users of the Aleo platform. There are over 60 thousand companies registered on the platform.

The Bank continues to add new features to the Aleo Platform. They include the solutions enabling companies to verify their business partners in particular. To that end, the platform was fed with small business data (sole proprietorships) to enable them to check their identity and business ties.

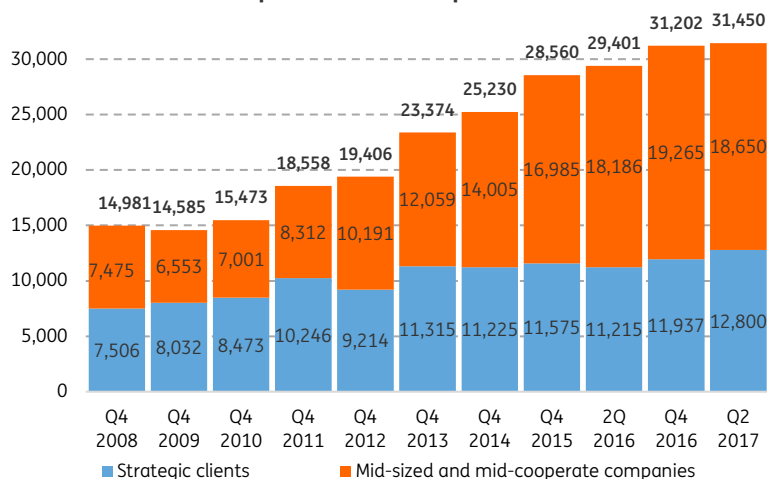
As part of the ING Accounting service, actions focused mainly on improving customer service and further cooperation with the Corporate Sales Network of ING Bank Śląski S.A. as regards distribution of accountancy and payroll services in the new distribution model. Thanks to the new sales model, the share of the most income-generating clients in the portfolio approximated to 30%, accounting for 2/3

of services-related income.

### Deposits and settlements<sup>10</sup>

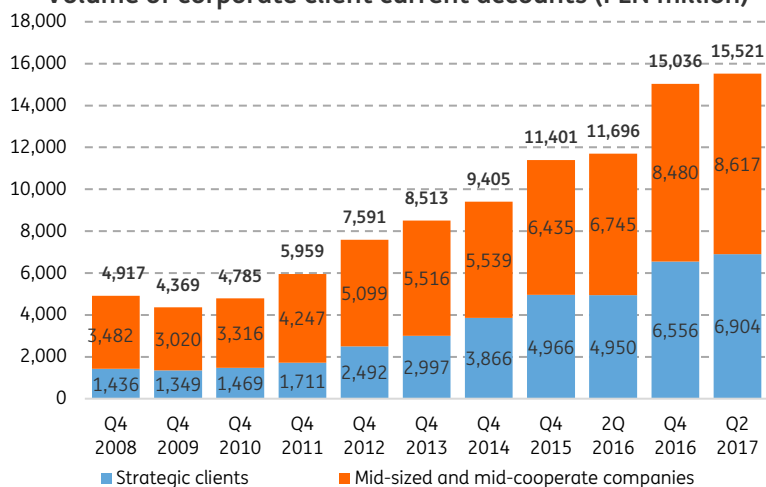
As at the end of June 2017, the funds deposited by corporate clients at the Bank totalled PLN 31.5 billion, thus the Bank had an 8.5%-share in the institutional client deposit market (an increase by 0.5 p.p. compared to 2016 yearend).

Value of corporate client deposits (PLN million)



Change H1 2017		Change y/y	
PLN million	%	PLN million	%
248	0.8%	2,049	7.0%
-615	-3.2%	464	2.6%
864	7.2%	1,585	14.1%

Volume of corporate client current accounts (PLN million)



Change H1 2017		Change y/y	
PLN million	%	PLN million	%
485	3.2%	3,825	32.7%
137	1.6%	1,872	27.7%
348	5.3%	1,954	39.5%

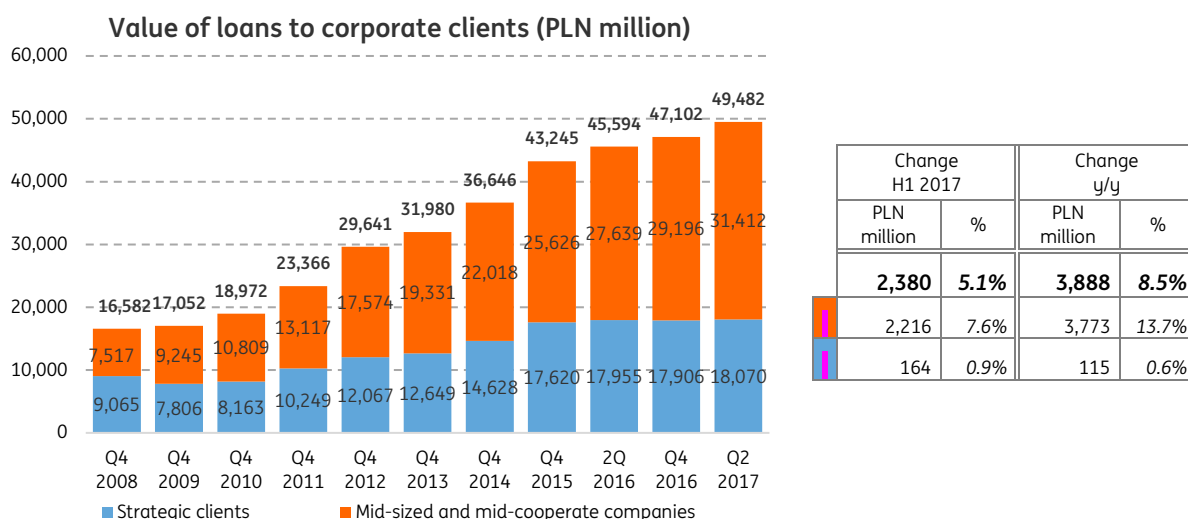
### Lending<sup>11</sup>

As at the end of H1 2017, corporate client funding granted by the ING Bank Śląski S.A. Group totalled nearly PLN 49.5 billion. Throughout H1 2017, the said amount went up by over PLN 2 billion (+5.1%). The Bank is estimated to have held 10.7% of the institutional credit market share in June 2017 (versus 10.5% at the end of H1 2016).

<sup>10</sup>Due to availability of more detailed product-related information, the description is made based on the data from the management information system.

<sup>11</sup> Ze względu na dostępność bardziej szczegółowych informacji produktowych i klientów opis na podstawie danych z systemu informacji zarządczej.





### 3. Money markets and capital markets

As at the end of H1 2017, the Bank traded securities of 90 corporate, bank and municipality issuers. As at the end of May 2017, the nominal value of debt securities of corporate issuers (except for banks) as issued through the agency of the Bank totalled PLN 10.7 billion, which translated into the third place in the market with the share of 12.6%. PLN 2.7 billion of this value was represented by short-term securities (the second place in the market and the share of 17.2%).

ING Bank Śląski S.A. was the co-arranger and dealer (within a syndicate with 5 other banks) in the issue of unsecured subordinated bonds of PZU S.A. in the amount of PLN 2.25 billion, with a 10-year maturity and with the option of earlier redemption by the issuer after 5 years. It is the largest PLN issue by a financial institution under Polish law, conducted in our domestic market and the second largest one out of all the issues held in Poland (following the PGNiG issue that we also so-arranged in 2012). The PZU issue marks also the first issue of subordinated bonds by an insurer with the registered office in Poland.

The Treasury Department together with the new Administrator – GPW Benchmark S.A. – introduced a new WIBID/WIBOR quotation process.

In Q1 2017, the Financial Markets Division was ranked second in the Highest Quality of OTC Transactions Cleared in KDPW\_CCP in 2016. The Treasury Department was awarded the title of the Market Leader for Treasury BondSpot Poland contingent transactions.

The Economists of the Economic Research Section held 73 meetings with over 210 Bank clients, 82 of whom were Financial Markets clients.

In H1 2017, the Economic Research Section employees were featured in the media more than 500 times and the corresponding media value equivalent reached over PLN 25 million.

Forecast ranking:

- The Economic Research Section Economists were ranked first in the Parkiet daily ranking in the GDP forecasts category for Q1 and Q2 and the EUR/PL forecasts accuracy category for Q2.
- They were also ranked fourth in the forecast ranking of the Reuters website summarising the year 2016. It covers the readings of the six most important macroeconomic indicators (production, pay, PMI, GDP, interest rates) for the last twelve months.
- The Economic Research Section Economists were ranked by Bloomberg second in the ranking summarising PMI forecasts, third in the ranking summarising the employment forecasts and fourth in the ranking summarising GDP forecasts (rankings cover forecasts for the last 6 quarters).

## IV. Business operations of ING Bank Śląski S.A. Group key companies

### 1. Structure of ING Bank Śląski S.A. Group

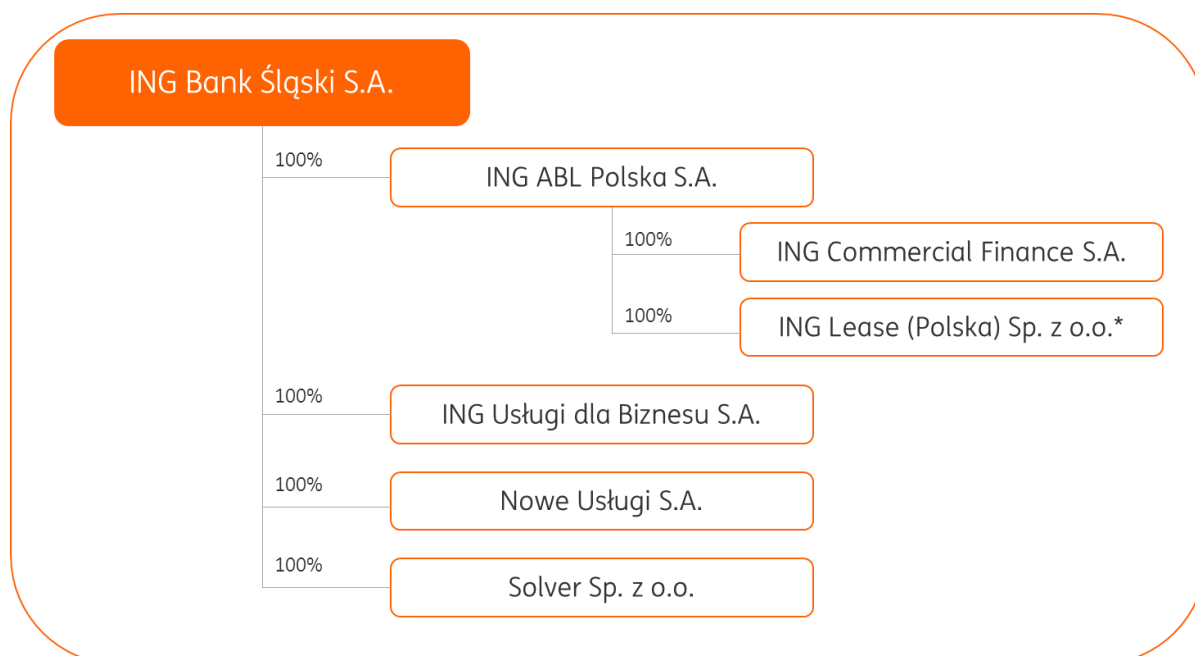
ING Bank Śląski S.A. is an all-round commercial bank which offers a wide range of banking services for individual and institutional clients pursuing business in Poland. ING Bank Śląski S.A. Group comprises financial institutions operating in the banking, leasing and factoring markets.

Under Article 4.1.48 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the Bank and all Bank subsidiaries, on the consolidated basis, have the registered office within the Republic of Poland.

The ING Bank Śląski S.A. Group comprises companies operating predominantly in the financial market. ING Bank Śląski S.A. – as the parent entity – takes key decisions concerning both the scope of operations and the finances of the Group members. The Group members have their current accounts and deposit their free funds in term deposits at ING Bank Śląski S.A. The Bank also finances business operations of some of its subsidiaries. Transactions of ING Bank Śląski S.A. with its subsidiaries are performed on an arm's length basis.

In H1 2017, there was a change in the Group structure. On 19 May 2017, the Extraordinary General Meeting of Solver Sp. z o.o. passed a resolution on voluntary redemption of shares by reducing the Company's share capital and changing its Articles of Association. In consequence, the Shareholder (ING for Children Foundation) and the Company signed the agreement to transfer 11.07% of shares for the purposes of redemption. The shares will be redeemed against payment upon completion of the procedure notifying the creditors of share capital reduction, as referred to in Article 264 of the Commercial Companies and Partnerships Code. As at the end of H1 2017, the Bank held 100% of voting rights in Solver Sp. z o.o.

As at 30 June 2017, the composition of the ING Bank Śląski S.A. Group was the following:



\*The ING Lease Polska Sp. z o.o. Group is composed of 10 special purpose vehicles wherein ING Lease Polska Sp. z o.o. holds 100% of shares.

On 26 April 2017, ING Bank Śląski S.A. filed an application with the Polish Financial Supervision Authority for permission to establish a mortgage bank under the name of ING Bank Hipoteczny S.A. with its registered office in Katowice. The share capital of ING Bank Hipoteczny S.A. will amount to PLN 50 million and will be fully taken up by ING Bank Śląski S.A. The shares of ING Bank Hipoteczny S.A. will be covered by cash.

## **2. ING Lease (Polska) Sp. z o.o.**

ING Lease has been present in the market since 1996. Since 2012, it has been the member of ING Bank Śląski S.A. Group. The company offers all basic types of lease (operating, financial and sale-and-leaseback) and a cash loan which can be used to finance both movables (being passenger cars and light-duty vehicles up to 3.5 tonnes, machinery and equipment, technological lines, commercial vehicles, medical and IT equipment) and immovables (office buildings, commercial facilities and logistics centres). Company services are targeted at all market segments: large, medium and small enterprises as well as clients from the micro-enterprises segment.

As at the end of June 2017, the portfolio of receivables from clients of ING Lease went up to PLN 6.9 billion (up by 8.4% from the end of June 2016). The latest available data of the Polish Leasing Association (as at 31 December 2016) read that the company has the fifth biggest portfolio of receivables out of all leasing companies in Poland. Further, the Polish Leasing Association data as the end of June 2017 rank the company sixth among the leasing companies in Poland in terms of the worth of active leasing agreements and assets provided in H1 2017 (market share estimated at 5.9%).

Modified offering and processes allowed the company to continue its dynamic growth in the movables lease area (particularly vehicles as well as machinery and equipment) and to remain among the leaders in the immovables lease market at the same time. By focusing on process and system modifications enabling effective transaction service, the company was able to dynamically expand its portfolio and the number of served clients (up by approx. 29% from the end of H1 2016), while increasing the number of employees only slightly.

## **3. ING Commercial Finance Polska S.A.**

ING Commercial Finance offers factoring products. The company was incorporated in 1994 under the name of Handlowy Heller. Upon its incorporation into ING Group, since 2006 the company has been operative under the name of ING Commercial Finance. Since 2012, it has been the member of the ING Bank Śląski S.A. Group – like ING Lease. As per the Polish Factors Association's data, since 2014, ING Commercial Finance has been the leader of the factoring market in Poland.

With the turnover of PLN 12.6 billion, H1 2017 proved all-time high 6 months for ING Commercial Finance. The turnover was up by +9% from H1 2015 compared to +14% growth for factors being members of the Polish Factors Association. The company is a factoring market leader in Poland and its market share in H1 2017 arrived at 15.1%. As at the end of June 2017, ING Commercial Finance had 102 staff members and 13 sales points.

The total number of invoices bought back by ING Commercial Finance in H1 2017 was 904 thousand, or up by 19% from H1 2015. The total number of clients served by ING Commercial Finance as at the end of H1 2017 was 1,579 or 230 clients more from the end of H1 2015 (+17% y/y). In turnover, clients from food (16%), chemical (13%), electronics (11%), and metal (9%) industries prevail.

## **4. ING Usługi dla Biznesu S.A.**

Although the company was formed in 2012 only, in 2013 it managed to offer its services to a larger group of corporate clients. ING Usługi dla Biznesu operates in two business areas:

- Aleo internet trading and auction platform for enterprises,
- accountancy and payroll services rendered under the ING Accounting brand.

In H1 2017, ING Usługi dla Biznesu S.A. continued its actions to increase the number of active users of the Aleo purchase platform and to provide them with sourcing support. New users are always welcomed in collaboration with the Corporate Sales Network of ING Bank Śląski S.A. In that way and with the use of the internet facility, the number of registered businesses went over 60 thousand. To further help companies to verify their counterparties, the platform was upgraded with small business

data (sole proprietorships) to enable them to check their identity and business links. The supplier finance service provided by ING Bank Śląski S.A. is yet another key and intensively developed element of the Aleo product offer. Clients use more and more credit limits for that product, on a regular basis.

As part of the ING Accounting service, actions focused mainly on the increase in customer service effectiveness and the cooperation with the Corporate Sales Network of ING Bank Śląski S.A. as regards distribution of accountancy and payroll services. Thanks to the new sales model, directed towards acquisition of companies with higher income potential (PLN 12-25 thousand per year), the portfolio of that type of clients was nearly 30%, accounting for 2/3 of services-related income.

## **5. Nowe Usługi S.A.**

Although the company was established in May 2014, it was not operative until May 2016. On 31 May 2016 – following the division of ING Securities S.A. into two parts – the operations relating to education and marketing were moved to Nowe Usługi S.A.

The Company operates in close cooperation within ING Group. As far as educational activities are concerned, the company runs the edukacjagiieldowa.pl. portal. It is a website about investment and stock exchange aspects, both for debuting and fully-fledged investors. The company holds on-line training courses which are given by experienced analysts of the brokerage office of ING Bank Śląski S.A. The training courses are available for those who invest or think about investing. Marketing activity centres around financial instruments – namely ING Turbo certificates. The instruments are issued by ING Bank N.V. and quoted on the Warsaw Stock Exchange. As part of that activity, the company operates an ING Turbo help-line, administers an ingturbo.pl website and conducts marketing campaigns designed to popularise ING Turbo certificates on the Polish market.

## **6. Solver Sp. z o.o.**

Solver Sp. z o.o. runs business being:

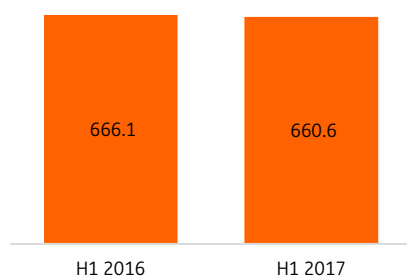
- arranging holidays for employees and their families as well as for pensioners of ING Bank Śląski S.A. This activity is carried out in the Pan Tadeusz Training and Recreational Centre in Krynica;
- managing hotel rooms at ul. Limanowskiego in Warsaw; The agreement concerning room management will be closed on 31 August 2017;
- renting seven residential premises in the building in Katowice at ul. Klimczoka 4.

## V. Financial standing of ING Bank Śląski S.A. Group in H1 2017

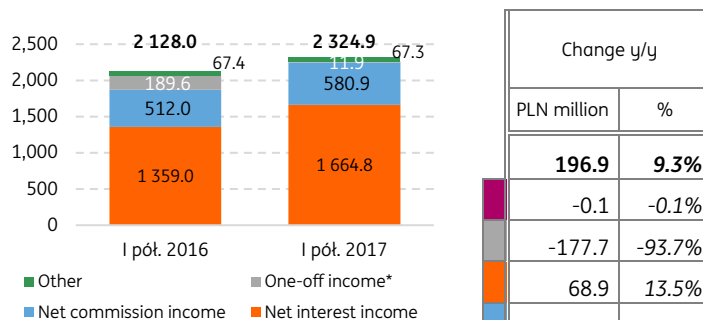
### 1. Profit before tax and net profit

When compared with last year, in H1 2017, the ING Bank Śląski S.A. Group recorded a slight decrease in its financial result, chiefly on account of one-off transactions from H1 2016. Net profit fell by -0.8% y/y, while operating income went up by +9.3% y/y.

Net profit of ING Bank Śląski S.A. Group  
(PLN million)



Operating income by category (PLN million)



Change y/y	
PLN million	%
196.9	9.3%
-0.1	-0.1%
-177.7	-93.7%
68.9	13.5%
305.8	22.5%

\* PLN 189.6 million worth of income from the Visa Europe transaction in Q2 2016 and PLN 11.9 million worth of income from the Visa Inc. transaction in Q2 2017

The factors which impacted the result before tax most, when compared with the same period last year, are given on the below chart:

Result before tax of ING Bank Śląski S.A. Group in H1 2017 (PLN million)



\* PLN 189.6 million worth of income from the Visa Europe transaction in Q2 2016 and PLN 11.9 million worth of income from the Visa Inc. transaction in Q2 2017; PLN 70.5 million of an annual contribution to the compulsory resolution fund – the contribution was included in full in Q1 2017 results, whereas on the graph it is presented assuming its spreading over quarters

### Basic consolidated income statement figures in analytical terms

	H1 2017	H1 2016	Change H1 2017/ H1 2016	
	PLN million	PLN million	PLN million	%
Net interest income	1,664.8	1,359.0	305.8	22.5%
Net commission income	580.9	512.0	68.9	13.5%
One-off income*	11.9	189.6	-177.7	-93.7%
Other income	67.3	67.4	-0.1	-0.1%
<b>Total income</b>	<b>2,324.9</b>	<b>2,128.0</b>	<b>196.9</b>	<b>9.3%</b>
General and administrative expenses	1,039.5	1,026.0	13.5	1.3%
One-off costs*	35.3	0.0	35.3	-
Impairment losses and provisions	200.5	112.4	88.1	78.4%
Bank levy*	159.8	127.3	32.5	25.5%
<b>Financial result before tax</b>	<b>889.9</b>	<b>862.3</b>	<b>27.6</b>	<b>3.2%</b>
Income tax	229.3	196.2	33.1	16.9%
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	-
<b>Net financial result</b>	<b>660.6</b>	<b>666.1</b>	<b>-5.5</b>	<b>-0.8%</b>
<b>Adjusted net result*</b>	<b>846.0</b>	<b>639.8</b>	<b>206.2</b>	<b>32.2%</b>

\* PLN 189.6 million worth of income from the Visa Europe transaction in Q2 2016 and PLN 11.9 million worth of income from the Visa Inc. transaction in Q2 2017; PLN 70.5 million of an annual contribution to the compulsory resolution fund – the contribution was included in full in Q1 2017 results, whereas in the table it is presented assuming its even spreading over quarters; bank levy is excluded from the adjusted results

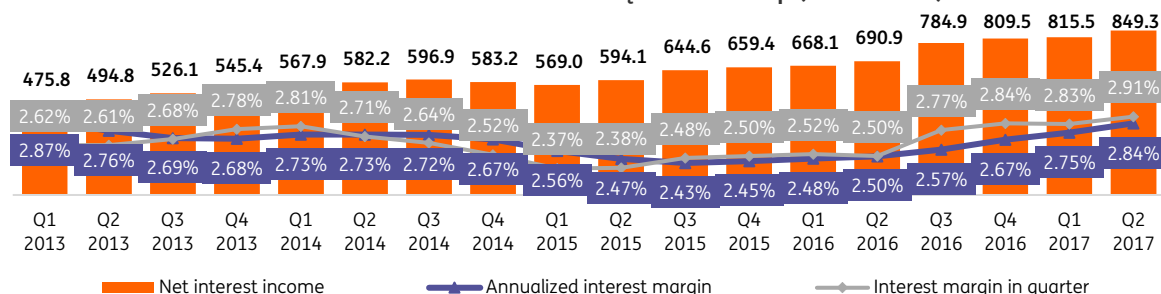
Total income of the ING Bank Śląski S.A. Group attributable to shareholders of the parent entity (including, apart from net profit, other items of income and expenses recognised in equity) was PLN 679.3 million in H1 2017 versus PLN 690.6 million in H1 2016.

## 2. Net interest income

In H1 2017, net interest income of ING Bank Śląski S.A. was 22.5% higher than in the same period last year. This is the result of significantly higher business volumes (the gross lending portfolio augmented by almost PLN 9 billion, or by 11% at that time), modification in the interest assets structure and tailoring of the deposit offer to market conditions.

The cumulative net interest margin<sup>12</sup> of the Bank rose by 34 basis points from 2.50% in H1 2016 to 2.84% in H1 2017.

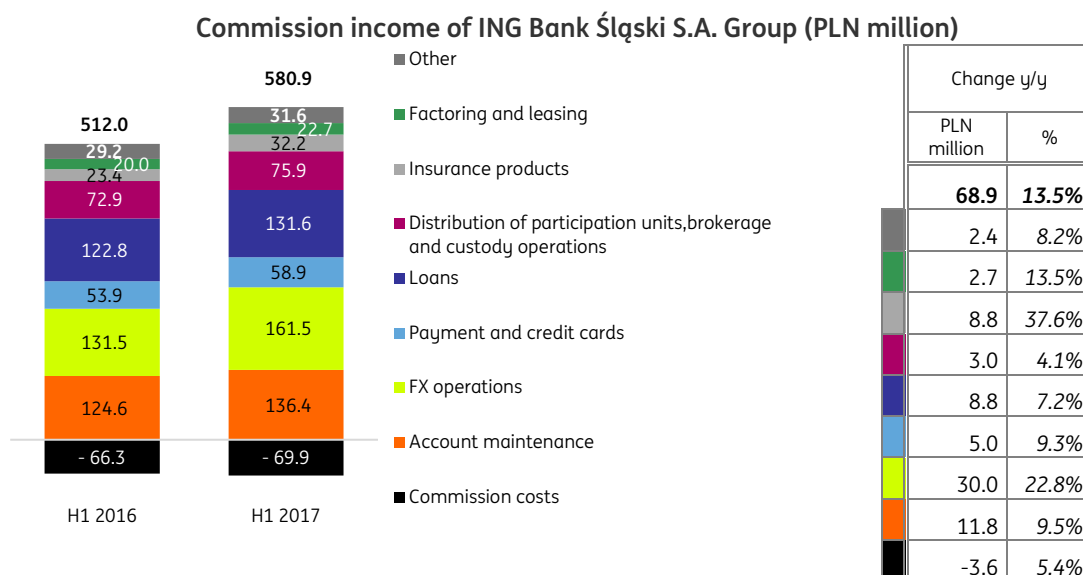
Net interest income of ING Bank Śląski S.A. Group (PLN million)



<sup>12</sup> Calculated as the total of the net interest income for the past 4 quarters vis-à-vis the average value of interest assets for the past 5 quarters.

### 3. Non-interest income

Net income on fees and commissions represented the major part of non-interest income of the ING Bank Śląski S.A. Group. In H1 2017, it totalled PLN 580.9 million and thanks to a considerably higher volume of transactions and number of clients serviced it was higher by PLN 68.9 million (or 13.5%) than in H1 2016.



The most significant increase in the income on fees and commissions was seen on the income on foreign currency translation which went up by PLN 30.0 million (or +22.8% y/y) and on the income on client account maintenance which rose by PLN 11.8 million (or +9.5% y/y). The Bank also reported a substantial increase in the line of income linked to the offer of insurance products (PLN +8.8 million, or +37.6% y/y) and credit facilities (PLN +8.8 million, or +7.2% y/y). On the other hand, fee and commission expenses rose by PLN +3.6 million (or +5.4% y/y).

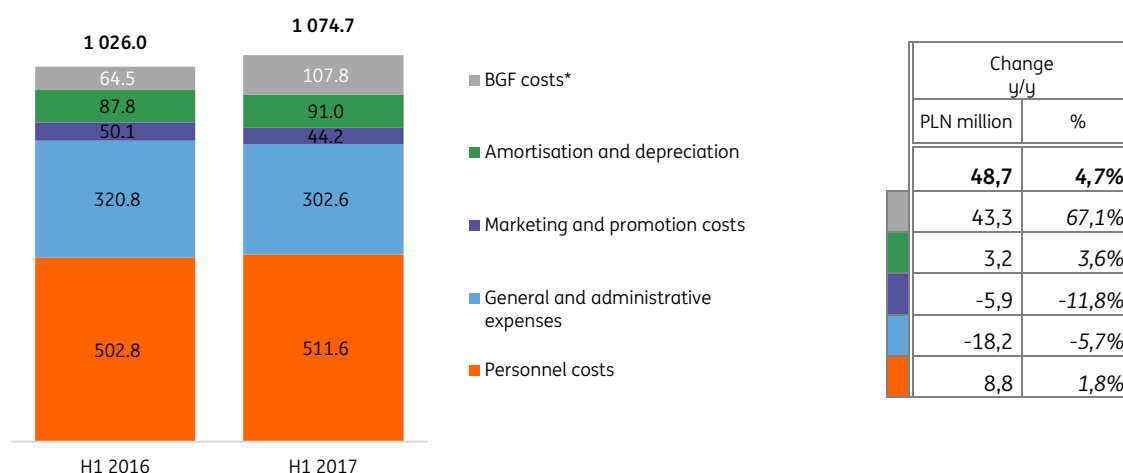
In H1 2017, other income of the Bank Group was PLN -177.8 million lower than in the previous year. The said result was primarily driven by the settlement transaction of Visa Europe Limited takeover by Visa Inc., whereby the Bank recognised PLN 189.6 million as income in H1 2016. The impact of this transaction was partially wiped out by the sale of Visa Inc. shares effected in H1 2017 (PLN 11.9 million).

### 4. General and administrative expenses

When compared with H1 2016, in H1 2017, the general and administrative expenses rose by +4.7% y/y, mainly due to the Bank Guarantee Fund costs. In 2017, the principles of financing the BGF changed and the contribution to the compulsory resolution fund (PLN 70.5 million) is recognised in Q1 results in the amount as for the full year. The contribution to the deposit guarantee fund is captured in quarterly results. The change distorts the comparability of the Bank costs versus 2016. Upon exclusion of the BGF costs, in H1 2017, the costs were +0.6% higher.



### Group costs by category (PLN million)

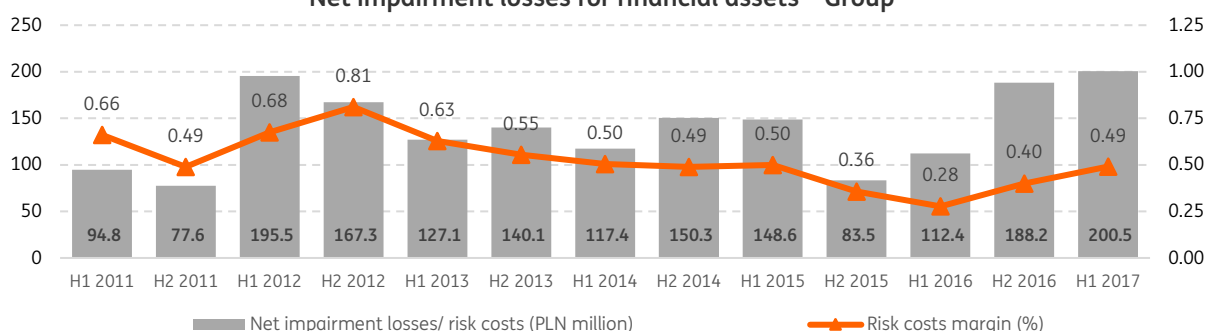


\* PLN 70.5 million of an annual contribution to the compulsory resolution fund – the contribution was included in full in Q1 2017 results

## 5. Impairment losses and provisions

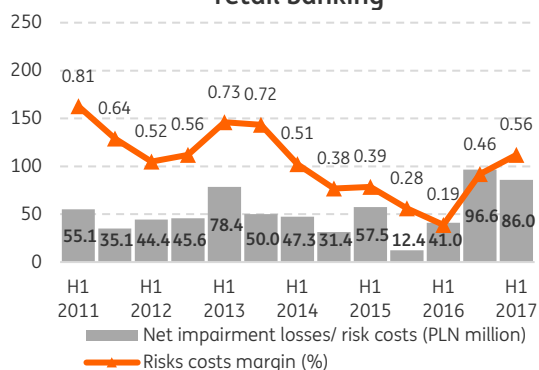
In H1 2017, the ratio of risk costs to the average gross lending portfolio increased (by 0.49% versus 0.28% in H1 2016). Higher net loan loss provisions made in H1 2017 when compared with the past year (up by PLN 88.1 million) were caused by a lower positive impact of the non-performing portfolio sale transaction and by a higher balance of loan loss provisions in the corporate segment (low base effect of H1 2017).

### Net impairment losses for financial assets – Group

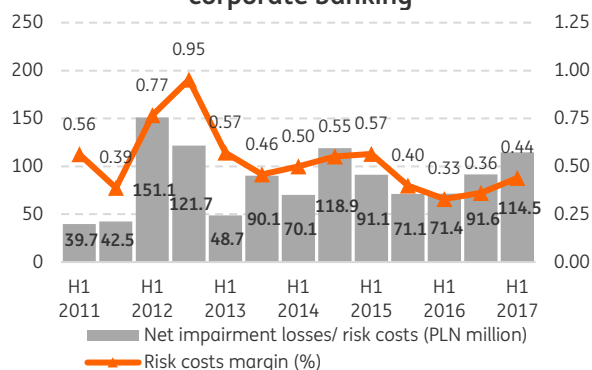


Both in Q1 and Q2 2017, the portfolio of corporate receivables recognized as impaired loans or entirely written off the balance sheet was sold. The positive impact of the transactions on risk costs was PLN 1.2 million in Q1 and PLN 9.5 million in Q2.

### Net impairment losses for financial assets – retail banking



### Net impairment losses for financial assets – corporate banking





## 6. Tax on certain financial institutions

In H1 2017, the Group withheld the tax on certain financial institutions (the so-called bank levy) of PLN 159.8 million (PLN 127.3 million in H1 2016). In keeping with the Act, the tax has been calculated monthly since February 2016.

## 7. Income tax

In H1 2017, the Group recorded the income tax of PLN 229.3 million, being markedly higher than in the previous year (up by 16.9% or PLN 33.1 million). In H1 2017, the effective tax rate was 25.8% versus 22.8% a year ago. This 2017 tax rate increase stemmed from:

- the tax on certain financial institutions which is not a tax deductible cost (paid for all 6 months of H1 2017, in 2016 – for 5 months), and
- both contributions to the BGF (in total, PLN 107.8 million in H1 2017) not being a tax deductible cost (in 2016, the compulsory contribution was a tax deductible cost).

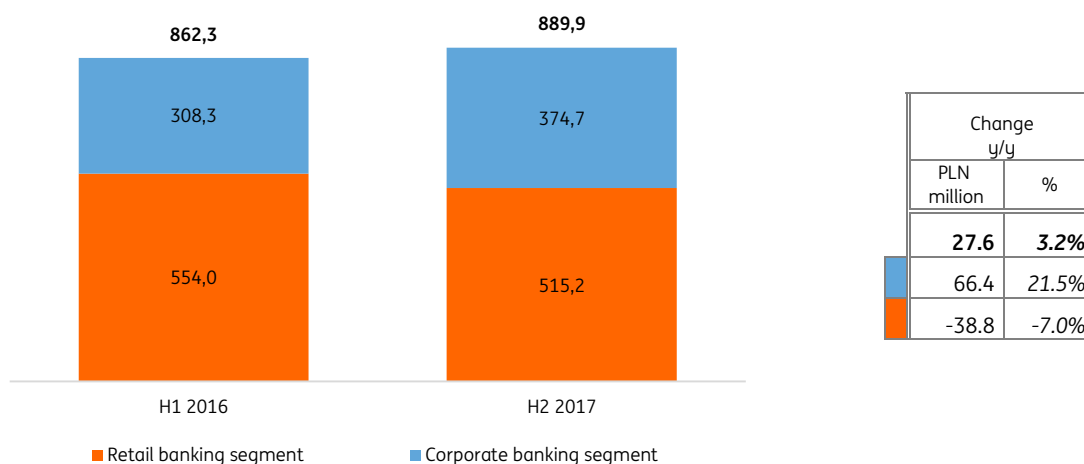
## 8. Share of individual business segments in the financial result

The Bank's business model is divided into two major segments:

- Retail banking segment, which encompasses private individuals (mass clients sub-segment and affluent clients sub-segment) and entrepreneurs (small businesses).
- Corporate banking segment, which comprises institutional clients and FM products' operations.

In H1 2017, the Group recorded a rise in the result before tax of the corporate segment and a drop of the retail one.

Result before tax per business segment (PLN million)



The result of the retail banking segment and of the corporate banking segment accounted for 57.9% and 42.1% of the Group's result before tax respectively (in 2016 it was 64.2% and 35.8%, respectively).

### Result before tax drivers for retail banking segment

	H1 2017	H1 2016	Change H1 2017 / H1 2016	
	PLN million	PLN million	PLN million	%
Net interest income	1,035.4	832.4	203.0	24.4%
Net commission income	211.9	182.3	29.6	16.2%
One-off income*	11.9	189.1	-177.2	-93.7%
Other income	53.3	39.1	14.2	36.3%
<b>Total income</b>	<b>1,312.5</b>	<b>1,242.9</b>	<b>69.6</b>	<b>5.6%</b>
General and administrative* expenses	651.0	606.5	44.5	7.3%
Impairment losses and provisions	86.0	37.0	49.0	132.4%
Bank levy	60.3	45.4	14.9	32.8%
<b>Financial result before tax</b>	<b>515.2</b>	<b>554.0</b>	<b>-38.8</b>	<b>-7.0%</b>
<b>Adjusted financial result before tax*</b>	<b>569.6</b>	<b>410.3</b>	<b>159.3</b>	<b>38,8%</b>

\* Adjusted for 1) PLN 189.1 million income from Visa Europe transaction in Q2 2016; 2) PLN 11.9 million income from Visa Inc. transaction in Q2 2017; 3) PLN 11.9 million of an annual contribution to the compulsory resolution fund – the contribution was included in full in Q1 2017 results, whereas in the table it is presented assuming its even spreading over quarters; and 4) Bank levy

### Result before tax drivers for corporate banking segment

	H1 2017	H1 2016	Change H1 2017 / H1 2016	
	PLN million	PLN million	PLN million	%
Net interest income	629.4	526.6	102.8	19.5%
Net commission income	369.0	329.7	39.3	11.9%
One-off income*	0.0	0.5	-0.5	-100.0%
Other income	14.0	28.3	-14.3	-50.5%
<b>Total income</b>	<b>1,012.4</b>	<b>885.1</b>	<b>127.3</b>	<b>14.4%</b>
General and administrative* expenses	423.7	419.5	4.2	1.0%
Impairment losses and provisions	114.5	75.4	39.1	51.9%
Bank levy	99.5	81.9	17.6	21.5%
<b>Financial result before tax</b>	<b>374.7</b>	<b>308.3</b>	<b>66.4</b>	<b>21.5%</b>
<b>Adjusted financial result before tax*</b>	<b>503.5</b>	<b>389.7</b>	<b>113.8</b>	<b>29.2%</b>

\* Adjusted for 1) PLN 0.5 million income from Visa Europe transaction in Q2 2016; 2) PLN 58.6 million of an annual contribution to the compulsory resolution fund – the contribution was included in full in Q1 2017 results, whereas in the table it is presented assuming its even spreading over quarters; and 3) Bank levy

## 9. Consolidated statement of financial position

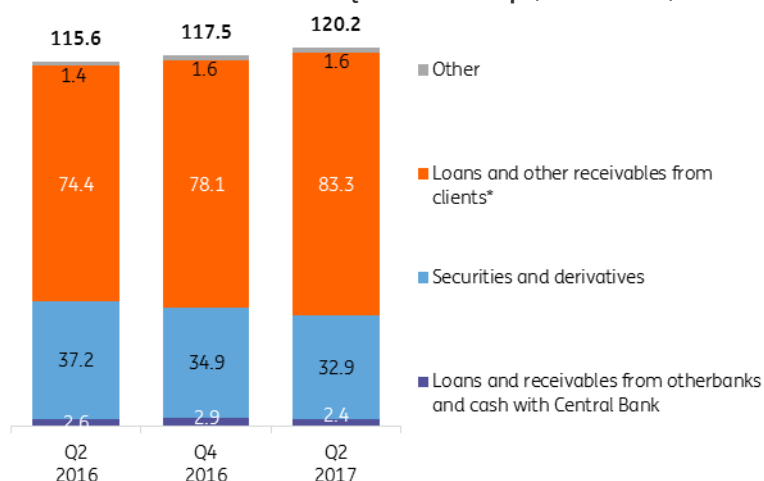
As at 30 June 2017, the balance sheet total of the ING Bank Śląski S.A. Group was PLN 120.2 billion, up by PLN 2.7 billion, or 2.3%, from the end of 2016.

The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of June 2017, the balance sheet total of ING Bank Śląski S.A. was PLN 116.2 billion (96.6% of the Group's balance sheet total) versus PLN 113.5 billion in December last year (up by 2.3%).

### Assets

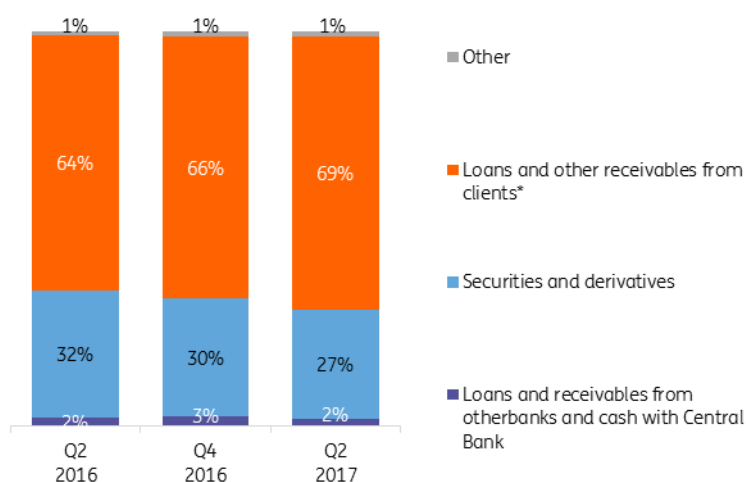
Loans and other receivables from customers represent the biggest item of the ING Bank Śląski S.A. Group's assets. As at 30 June 2017, they accounted for 69% of all the Group's assets.

### Assets of ING Bank Śląski S.A. Group (PLN billion)

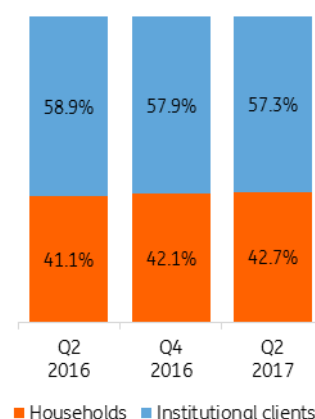


Change H1 2017		Change y/y	
PLN million	%	PLN million	%
2.7	2.3%	2.7	2.3%
0.0	2.2%	0.0	2.2%
5.2	6.7%	5.2	6.7%
-2.0	-5.8%	-2.0	-5.8%
-0.5	-18.3%	-0.5	-18.3%

### Assets of ING Bank Śląski S.A. Group (%)



### Net loans by client group (%)



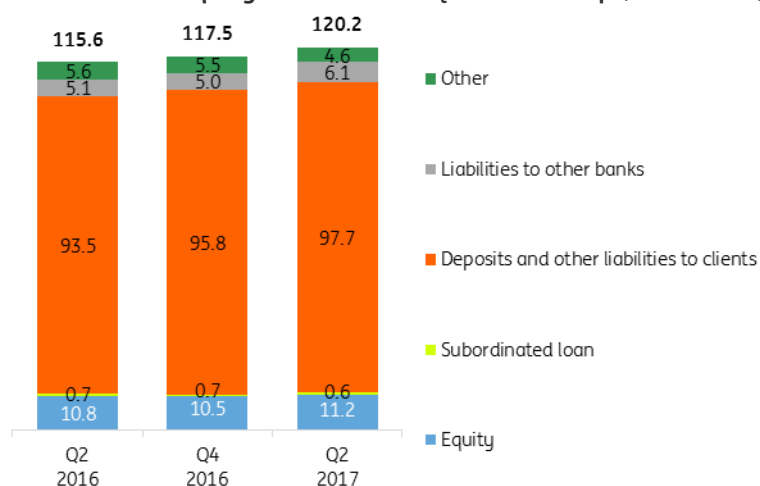
\* Eurobonds excluded

T-bonds (Eurobonds included) and derivatives represented a major item of PLN 32.9 billion (or 27% of assets) in the statement of financial position of the Bank Group. Debt securities composed of investment assets of PLN 24.4 billion (including available-for-sale assets of PLN 17.3 billion and financial assets held to maturity of PLN 7.1 billion) dominated the portfolio.

### Liabilities and equity

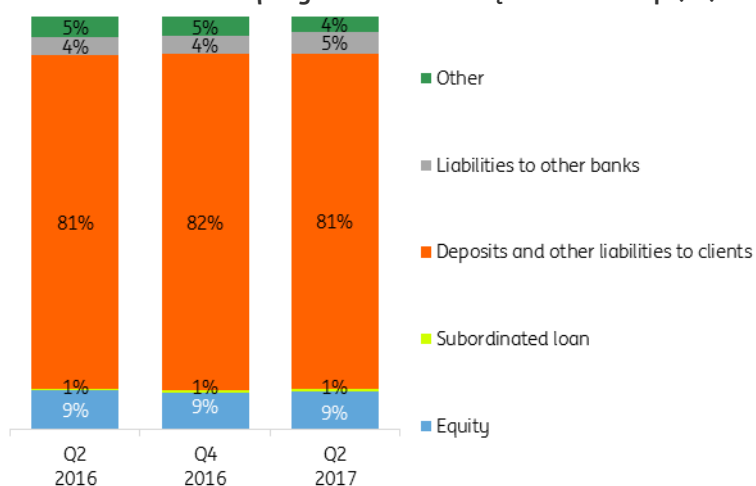
The funds deposited with the Bank by clients constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. In June 2017, the liabilities to customers amounted to PLN 97.7 billion, or 81% of all liabilities.

### Liabilities and equity of ING Bank Śląski S.A. Group (PLN billion)

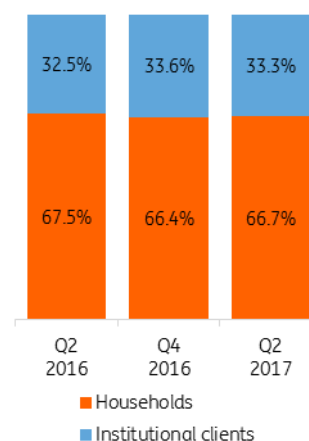


Change H1 2017		Change y/y	
PLN million	%	PLN million	%
2.7	2.3%	2.7	2.3%
-0.9	-16.6%	-0.9	-16.6%
1.1	21.6%	1.1	21.6%
1.9	2.0%	1.9	2.0%
0.0	-4.5%	0.0	-4.5%
0.7	6.5%	0.7	6.5%

### Liabilities and equity of ING Bank Śląski S.A. Group (%)



### Deposits by client group (%)



Equity was another most important funding source. As at the end of June 2017, it stood at PLN 11.2 billion and represented 9% of total liabilities

## VI. Management of key risks

### 1. Credit risk management

#### General information

ING Bank Śląski S.A. manages credit risk end-to-end, based on strategic planning and a consistent system of policies and procedures as well as the risk management tools, including risk identification, measurement and control.

The primary goal of the Bank in the credit risk management process is to support effective accomplishment of business goals through proactive risk management and organic growth-oriented activities, with:

- solvency and liquidity kept at a safe level and provisions retained at a proper level, and
- legal and regulatory compliance ensured.

The credit risk management objective is pursued by:

- supporting business initiatives,
- keeping credit losses at the assumed level,
- verifying and assessing the adequacy and development of 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 risk management strategy sets out short-, mid- and long-term goals for the credit risk management area as well as their accomplishment manner. The strategy is defined to warrant optimum development of the lending portfolio while keeping adequate quality and profitability of credit operations and capital allocation. Risk appetite, which translates the Bank's strategy into a consistent set of portfolio measures, defined as maximum thresholds for the lending portfolio, is an element of the that strategy. The credit risk management strategy is approved by the Supervisory Board. The Supervisory Board also periodically assess the degree of accomplishment of strategic goals by the Bank Management Board.

Lending policy mirrors the market strategy of the Bank. It defines the quality brackets for credit risk acceptance. It is operated based on principles of secure and prudent credit risk management. It is put into practice by the Bank Management Board that established the Credit Policy Committee to take decisions as regards credit risk management on a daily basis.

ING Bank Śląski S.A. defines credit risk as the risk of incurring a financial loss by the Bank due to a debtor's failure to perform their obligations towards the Bank under credit exposure in full and when due or the risk of lowering economic value of the credit exposure (or a group of credit exposures) due to deterioration of the debtor's capacity to service their debt as agreed.

Lending-related losses are a consequence of risk and the Bank's mitigation actions in that regard. In order to keep the losses at or below the level set in the planning documents, the Bank impacts their level using accepted risk limits, risk exposure amounts plus risk hedging instruments and in case the risk materializes by direct actions reducing the losses.

The credit risk management system used by ING Bank Śląski S.A., including the organisational structure, the lending process framework, the system of internal regulations and the applied tools and models, is verified on an ongoing basis and adapted as needed to ensure that the Bank's strategy, the risk appetite included, is accomplished. This is how the Bank strives for the identification, assessment, measurement, monitoring and management actions taken for the business bearing credit risk to be

adequate and, at the same time, consistent and compliant with the regulatory requirements.

ING Bank Śląski S.A. manages its credit risk with the use of advanced credit risk assessment models. For the corporate credit portfolio, capital requirements are computed using the Advanced Internal Rating-Based Approach (AIRB). Also for the retail portfolio, the Bank aspires to obtain the Polish Financial Supervision Authority's approval of using this method for the mortgage and consumer portfolios. The risk management models applied by the Bank are systematically validated and developed.

The Bank conducts stress tests to:

- assess and measure the impact of adverse (stress) internal and external conditions on the Bank's standing (lending portfolio and capital adequacy included),
- identify significant risk factors through determination of the Bank's sensitivity to changes of certain factors, and
- identify potential threats (possibility to work out hedging strategies).

The Bank actively uses stress tests to manage credit risk on an ongoing basis, inter alia to set the RAS limits and internal limits capping credit risk as well as to define the principles of credit capacity and viability quantification.

ING Bank Śląski S.A. maintains the credit risk management model based on three lines of defence:

- 1st line of defence: business and operational units of the Bank which pursue day-to-day business under the approved lending policy and risk limits; they are supervised by the unit managers,
- 2nd line of defence:
  - credit risk – it identifies and measures the risk stemming from the commercial operations on an ongoing basis and controls its materialisation within the approved risk parameters,
  - credit inspection – it conducts an unbiased assessment of efficiency, adequacy and effectiveness of the actions taken in the lending process and their compliance with the internal regulations of the Bank,
  - 3rd line of defence: internal audit – it conducts a detailed periodical verification of compliance of the actions of the 1st and 2nd lines of defence with the regulatory requirements and top banking standards.

Credit decisions are taken following a comprehensive transaction risk analysis – in the proper credit approval track, determined by the transaction complexity and amount. For more automated paths, transaction risk is analysed on the basis of clearly defined criteria, including behavioural ones, and based on the credit limit computed automatically using the algorithm approved by the Credit Policy Committee. All transactions are accepted in line with the explicitly defined credit mandate. The persons taking credit decisions are personally liable for them.

The credit mandates exercised in respect of sale and risk acceptance for individual credit transactions are separated from the activities in the lending policy area and the construction and validation processes for the tools assisting the risk management process.

In H1 2017, the organisational structure of the Risk Division was changed in the Credit Risk Policy, Modelling and Reporting area. The teams handling day-to-day matters and departments responsible for implementation of credit risk projects were separated. Owing to this change, the Bank may use its resources better and respond faster to the changing landscape.

### *Lending policy*

In 2017, the lending policy of ING Bank Śląski S.A. was modified so as to ensure proper and stable functioning and continuous improvement of the credit risk management system in the changing legal, economic and business landscape. Ensuring policy compliance with the approved credit risk appetite

was the primary objective. The modifications took account of Poland's overall economic situation and the financial standing of individual groups of borrowers, among other factors.

The said modifications were particularly aimed at the following:

- continuing to make the lending process more effective while ensuring adequate credit risk identification, measurement and control mechanisms,
- making the lending offer of the Bank more attractive for clients on the assumption that the Bank's credit risk is maintained at an acceptable level,
- adapting the internal regulations of the Bank to the changes in the legal landscape, inter alia:
  - Regulation of the European Parliament and of the Council No. 648/2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR) of 04 July 2012 and the implementing act (RTS) with the EMIR concerning the requirements for bilateral exchange of collateral for derivatives,
- continuing development of credit risk reporting and monitoring systems to support fast and effective risk identification and measurement in the corporate and retail credit portfolios,
- strengthening further active sectorial policy management through quarterly reviews of the situation in individual industries and appropriate diversification of lending policy principles on the basis of client qualification to pre-defined industry risk groups (preferred, neutral, under watch, and non-preferred industries).

The main modifications of the Bank's lending policy for corporate clients were as follows:

- standardisation of the client creditworthiness calculation algorithm in fast-track lending process paths, based on client account inflows and extension of the range of products available in those paths
- optimisation of client criteria classification for the fast-track lending process,
- automated client verification in external databases (Credit Information Bureau, BIG InfoMonitor) in the lending process,
- introduction of automatic annual reviews for some clients, approved with the in-house creditworthiness verification method,
- broadening of the catalogue of standard covenants to limit the risk of customisation of individual provisions of credit documents,
- simplification of credit approval authorities to accept lasting limit overruns by financial institutions,
- update of the Bank's approach to FX and FX-index funding, while upholding the conservative approach; i.e. as a rule, clients get funding in the currency of their business proceeds,
- update of lending lines within the industry policy which names the preferred and non-preferred lending portfolio growth areas,
- set-up of new standard collateral agreements for strategic clients of the Bank,
- adaptation of the counterparty risk management rules to the implementing act (RTS) issued with the EMIR and concerning the requirements for bilateral exchange of collateral for derivatives,
- update and elaboration of provisioning rules in individual approach,
- increase of credit approval authorities for the non-performing portfolio.

The main modifications of the Bank's lending policy for retail clients were as follows:

- update of the parameters used to compute credit burdens and elaboration of the rules used



to set the cap on the unsecured exposures in the entrepreneurs segment,

- introduction of commitment letters for EU subsidy award in the entrepreneurs segment,
- lowering of the maximum exposure amount in the entrepreneurs segment from PLN 2.0 million to PLN 1.2 million, save for housing communities,
- modification of the risk grouping concept for the consumer credits segment, whereby credits were made less available for the most risky clients,
- implementation of the rule, whereby verification of the form and object of collateral became of decisive significance in the process of approving cash loans and brokerage loans for the Private Banking segment,
- performance of a number of tests to optimise the lending policy and develop the sales channels.

Furthermore, the Bank continued to test the process of early identification of financial standing deterioration for corporate clients which will supplement the current process of ongoing monitoring for corporate clients

The Bank also further tested – within the present limits – the automated credit risk assessment paths for small transactions made with corporate clients; they are geared towards making the lending process more effective while streamlining the risk/reward ratio per transaction and per portfolio.

A pilot programme of a summary collateral review was launched and the scope of summary monitoring for selected corporate clients with the total exposure of up to PLN 400 thousand was widened.

#### *Credit risk modelling and reporting*

In 2017, ING Bank Śląski S.A. remains compliant with the requirements of the Advanced Internal Rating-Based Approach (AIRB) under Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR/CRD IV) and other regulations and recommendations of the Polish Financial Supervision Authority.

Modelling and reporting actions included but were not limited to:

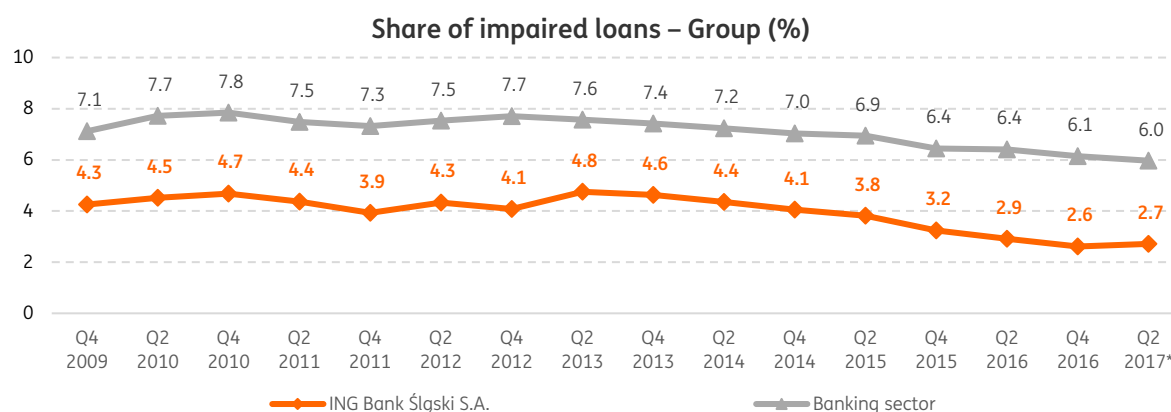
- recalibration of retail PD and LGD models for consumer credits and mortgage loans and for entrepreneurs (small business); the models are used to compute credit impairment losses (provisions),
- revamping of retail Basel models in accordance with the Advanced Internal Rating-Based Approach (AIRB) requirements,
- update of provisioning rules,
- performance of 2016 CRR compliance sign-off procedure as part of the annual Bank's self-assessment for the AIRB Approach regulations,
- approval of a new application model in the credit approval process for the entrepreneurs segment,
- introduction of a new behavioural model in the provisioning process and approval process for the entrepreneurs segment,
- running of stress tests for the corporate and retail portfolios for the purpose of periodical reviews in keeping with the Stress-Testing Policy in ING Bank Śląski S.A. The C Recommendation-compliant stress tests for concentration risk were run for the first time in that review.
- validation of a new credit risk stress testing methodology, based on the replication of risk model factors in stress.

Further, an array of changes streamlining and automating the retail and corporate portfolio reporting process were made in the credit risk reporting area. Dedicated reconciliation and quality reports were introduced for data used in management information.

Together with ING Group, the Bank continued to work on adapting the Bank to new accounting standards (IFRS 9). The IFRS 9-compliant modelling standard, developed by ING Group, provides for the use of the Bank's IRB models customised to meet IFRS 9 requirements.

### Quality of lending portfolio and provisioning

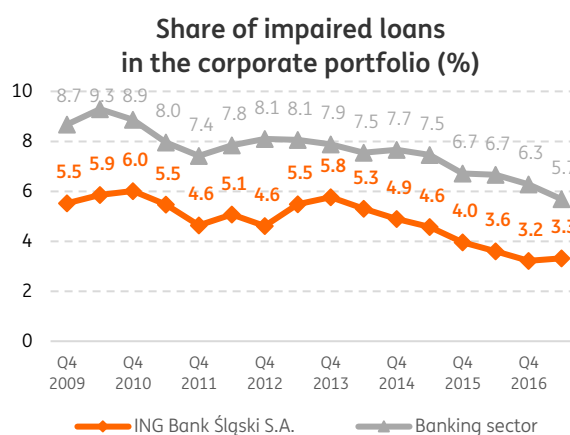
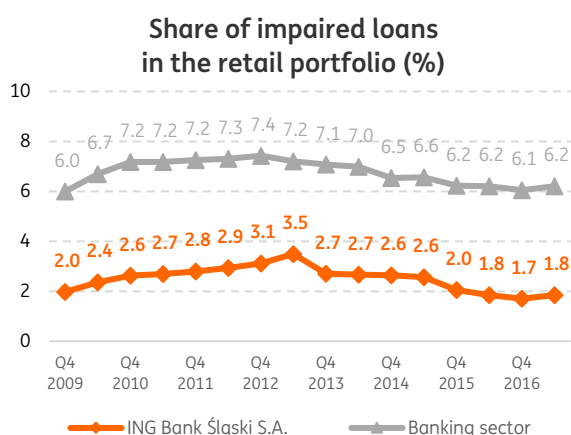
During H1 2017, the quality of lending portfolio of the Bank Group deteriorated – the share of the impaired portfolio in the entire lending portfolio went up from 2.6% in December 2016 to 2.7% as at the end of June 2017. Impaired loans were worth PLN 2,305.8 million versus PLN 2,076.8 million as at 2016 yearend.



\* Market ratios – estimate based on the data published by NBP, data for May 2017.

In H1 2017, the quality of the Bank's portfolio was impacted, apart from the prudent lending policy, by two sale transactions of corporate receivables classified as impaired loans or written off the balance sheet in full. The first transaction contributed to a PLN 15.8 million decrease in the impaired lending portfolio. The second transaction reduced the impaired lending portfolio by PLN 76.8 million.

As at the end of H1 2017, the ING Bank Śląski S.A. Group provisioned PLN 1,307.8 million (as 2016 yearend, PLN 1,254.9 million) for the lending portfolio with impairment trigger. The impaired portfolio provisioning ratio was 56.7% (vs 60.4% as at 2016 yearend).



\* Market ratios – estimate based on the data published by NBP, data for May 2017.

## 2. Market risk management

### General information

At ING Bank Śląski S.A. we apply a broad definition of market risk which takes into account (both at solo and consolidated levels) sensitivity to changes to the market parameters and liquidity-related behaviours of clients, where:

- sensitivity encompasses both changes to the economic results and presentation in the relevant reports of financial results, changes to the extent where to the statutory and economic capital requirements are covered, as well as the Bank's capacity to cover liabilities once they become due and payable,
- market parameters cover FX rates, interest rates, prices of real property and securities, implied variability of FX rates and interest rates. Liquidity-related behaviour of clients covers the profile of Bank's depositaries in terms of renewal and premature termination and profile of Bank's debtors in terms of prepayments, past due repayments and default.

### General approach to market risk management

Market risk management process at ING Bank Śląski S.A. covers market risk identification, measurement, monitoring and reporting, both within the Bank itself and in its subsidiaries. Being independent from the Bank units generating market risk, the Market Risk Management Department provides the Supervisory Board Members, the Management Board Members, the Assets and Liabilities Management Committee, the Financial Markets Division Management and the Treasury Department with market risk updates. An important advisory role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V.

The Market Risk Management Department is sub-divided into two sections:

- the Trading Risk Management and FM Product Control Section which deals with risk generated by the Bank's trading operations, and
- the ALCO Management Section, concentrated on the Bank's balance sheet and liquidity risk management.

The Bank books structure is based on intentions of concluded transactions and it reflects the types and areas of market risk existing at the Bank, which should be internally transferred and hedged. Notably, the structure of books includes the following purposes of the Bank's activity:

- Trading Book. It includes books of the Financial Markets Division area (FX and interest rate books). These books include items kept for short-term in order to sell them back or to obtain financial benefits due to current or expected in short-term changes to prices or items included for arbitrary purposes. The examples are: own trading items, items resulting from servicing the client and/or market making.
- Banking Book. It includes Commercial Banking Books and Banking Books of the Treasury Department. Commercial Banking Books are banking books of the retail and corporate divisions, including commercial deposits and loans. The risk embedded in these items is transferred via internal transactions to the Treasury Department's banking books, where it is further managed under the market risk limits adopted by the Bank.

### Risk models

Risk models are calibrated to the profile, scale and complexity of market risk at ING Bank Śląski S.A. The models take into account both the current and the planned scopes of Bank's business. All models are periodically (at least once a year) reviewed (models' assumptions in particular). The review includes back-testing.

Risk models cover:

- VaR models – used to manage interest rate risk and FX risk,

- ALM models comprising:
  - liquidity models – regulatory and internal models applied in liquidity risk management (covering assets and liabilities),
  - interest rate models – applied in interest rate risk management, including demand deposits replication.
  - internal capital adequacy models – applied to the economic capital requirements calculation.

When particularised, the model life cycle can be split into the following elements:

- model development or change initiation,
- model development and testing,
- model pre-validation preceding its acceptance,
- model acceptance,
- model implementation,
- Validation of model implementation,
- model functioning and its monitoring, and
- periodical validation.

### **3. Interest rate risk and FX risk management**

#### *General information*

Interest rate risk may be defined as a risk of loss due to changes to the specified features of interest rates. Interest rate risk management applies to all balance and off-balance sheet items of the Bank sensitive to interest rate changes.

FX risk is a risk of loss due to FX rates changes.

#### *General approach to interest rate risk and FX risk management*

The methods of interest rate risk management are adjusted to the structure of books at the Bank. The risk transfer system plays a key role in the banking books. The risk transfer process is intended to transfer the interest rate risk (including the underlying risk) and the liquidity risk (understood as the revaluation risk of the liquidity premium) of products registered in the commercial books (loans and deposits) to the Treasury Department's books where the risk is further managed under the risk appetite adopted by the Bank. Risk transfer encompasses the risk modelling process (optionality risk in particular) and internal pricing of the products recorded in the commercial books.

The acceptable level of interest rate risk (risk appetite) is expressed as a set of limits used to manage the interest rate risk level. The limits system is adjusted to the general level of risk as approved by the Supervisory Board.

The Bank manages the FX risk by transferring it internally to the Financial Markets Division where the risk is further managed under the system of internal limits for FX risk, as accepted by the Bank Management Board, reflecting the general risk level approved by the Supervisory Board.

For subsidiaries, the Bank's intent is to keep the market risk low, which is reflected in the limits for FX risk and IR risk accepted by the Bank Management Board. When needed, subsidiaries close their FX positions and IR exposures with the Bank.

#### *Main methods of IR risk and FX risk measurement*

Value at Risk (VaR) is the main methodology used to measure market risk both in FM books (trading) and the Treasury Department's books (banking). The VaR index specifies a potential loss, which in line

with expectations should not be exceeded with a given confidence (probability) level assumed. The Bank calculates VaR separately for individual interest rate and FX transaction portfolios. The Market Risk Management Department applies the historical simulation method for trading books and banking books of the Treasury Department. The VaR metrics does not present a full picture of the risk, as it fails to show potential loss under stressed circumstances. In order to cover the abovementioned risk, the Market Risk Management Department calculates a Stressed VaR and runs stress tests for market risk.

Additionally, to measure interest rate risk for banking book items (both for the Treasury Department and for trading books) the Bank applies:

- measurement of value of the earnings at risk (with the use of the simple and advanced methods: Earnings at Risk – EaR, Advanced Earnings at Risk – AeaR) with the use of adverse scenarios,
- measurement of the NPV of the discounted future cash flows at risk (NPV at Risk), which is a yardstick of the sensitivity of the economic interest rate position to abrupt interest rate changes,
- measurement of mismatch between the position transferred to the Treasury Department's books and the model-based position (for demand deposits), and
- measurement of residual risk, which was not transferred to the books of the Treasury Department.

Market risk (underlying risk included) is transferred and centralised via the Risk Transfer System (RTS). The underlying risk is valued and then transferred to the Treasury Department's books, where it is actively managed. The "Earnings at Risk" (EaR) concept is applied to measure that risk which is part of the interest rate risk. The Bank measures the revaluation reserve change risk. The level of the revaluation reserve resulting from keeping the AFS portfolio is sensitive to changes to the yield curve following the changes to the interest rates and asset swap levels.

The Bank uses the following revaluation reserve change risk metrics:

- IR RRaR (Interest Rate Revaluation Reserve at Risk) shows a potential impact of interest rate changes on the revaluation reserve level,
- CS RRaR (Credit Spread Revaluation Reserve at Risk) shows a potential impact of the credit spread change on the revaluation reserve.

#### *VaR limits and exposures in 2017*

In H1 2017, the Bank maintained the following trading exposure versus the binding limits:

- low exposure for FX risk – average VaR limit utilization by the FX Section was 6%,
- moderate exposure for interest rate risk – average VaR limit utilization of 43%.

Average utilization of VaR limits for interest rate risk of the banking book (Treasury Department's items) was below 62%.

In H1 2017, the Bank did not identify any VaR limits overruns.

## **4. Liquidity risk management**

### *General information*

Liquidity and funding risk is understood by ING Bank Śląski S.A. as the risk consisting in inability to fulfil, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that the Bank's cash liabilities could be met at all times with the use of available funds and inflows from maturing transactions.

The liquidity risk management can be broken down as follows depending on the timeframe:

- operational liquidity management – focused on current funding of Bank's positions and

management of nostro positions, and

- strategic liquidity management – focused on ensuring that structural (all maturity dates) liquidity items of the Bank are at acceptable levels.

#### *General approach to liquidity risk management*

The general approach to funding and liquidity risk management consists of the cycle of five repetitive actions: risk identification, assessment, control, monitoring and reporting.

The binding Internal Liquidity Adequacy Assessment Process (ILAAP) originates from the Basel Committee on Banking Supervision. Meeting ILAAP principles by the Bank may be perceived as “compliance with industry’s best practices, which is not directly required under Polish supervisory regulations”. It needs to be highlighted that ILAAP and Polish regulations do not clash, on the contrary, they do overlap in many areas. Meeting ILAAP requirements is compliant with the ING Bank N.V. policy.

The liquidity and funding risk management relating to the stress understood as risk of Bank’s inability to satisfy its own financial liabilities once they mature due to insufficient funds available or due to failure to generate such funds at any price is a specific element of that process.

The contingency funding plan which provides guidance as regards active identification of the liquidity crisis and actions to be taken to survive it.

The acceptable level of liquidity risk is defined by a two-element system:

- overall level of Bank’s acceptable risk, which is approved by the Supervisory Board (upon Management Board recommendation). The Supervisory Board are updated on compliance with the said metrics at least on a quarterly basis,
- a set of limits based on Bank’s strategic objectives, identified liquidity risks and principles specified by regulatory bodies. The limits are used in planning processes (i.e. accomplishment of the adopted targets cannot lead to limit overrunning). In the majority of cases, the limits have a warning level defined for their over- or underrunning. The acceptable level of liquidity risk is set and updated at least once a year.

Regular stress tests are an additional and material element of the process. The Bank launched the stress tests programme, based on Recommendation P issued by the Polish Financial Supervision Authority, which ensures that stress tests are planned, developed, run and analysed in order to indicate the sources of potentially limited liquidity and to specify how such situations can be prevented so that the current exposures remain within the set limits.

#### *Main methods of liquidity risk measurement and replicating portfolios*

ING Bank Śląski S.A. applies the following liquidity risk measures:

- NBP and EBA liquidity ratios,
- intraday liquidity norms,
- funding concentration per client and per client segment,
- structural liquidity gap,
- Cash&Collateral gap, and
- liquidity gap for the stress scenario.

The basic model employed to manage liquidity risk is the model used in establishing a stable and volatile deposit bases. We use the internal statistical model to that purpose.

Due to the balance sheet structure, and the Bank’s deposit base in particular, ING Bank Śląski S.A. applies the advanced approach to modelling the risks associated with demand deposits – the replicating portfolio concept. It consists in “replicating”, i.e. reproducing the actual period during which clients keep demand deposits at the Bank as well as the Bank’s pricing policy. This concept makes it



possible to convert demand deposits into interest rate forwards. The reinvestment mode of the acquired funds is different for the “volatile” and “stable” parts.

Market risk (liquidity risk included) is transferred and centralised via the Risk Transfer System (RTS). This process covers full transfer of (modelled) liquidity risk to the Treasury Department's books in particular.

#### *Liquidity limits in 2017*

In H1 2017, the Bank did not identify any cases of liquidity risk-related regulatory limits overruns.

### **5. Operational risk management**

In H1 2017, ING Bank Śląski S.A. continued its actions oriented at managing operational and anti-fraud risks pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulatory bodies as well as by abiding by the standards developed by ING Group.

Operational risk is recognised at ING Bank Śląski S.A. as the risk of sustaining direct or indirect material loss or reputational damage resulting from inadequate or failing internal processes, people, technical systems or external events. Reputation and business risk factors and the consequent impact are also watched within the operational risk domain.

Following approval by the Supervisory Board, the Bank Management Board defined the operational and anti-fraud risk management strategy so as to mitigate the risk consequences. Internal prescriptive documents that regulate the scope, principles and duties of Bank employees relating to limiting the effects and probability of incidence occurrence in that area are updated on an ongoing basis.

Furthermore, in liaison with the Supervisory Board, the Bank Management Board adopted the Non-Financial Risk Appetite Statement in 2017, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full compliance with the law and regulatory requirements. Limit utilisation is monitored and presented from time to time to the Bank Management Board, Audit Committee, Risk Committee and Supervisory Board. The Non-Financial Risk Appetite Statement was updated in June 2017 following changes in operational risk exposure thresholds. At present, the Risk Appetite Statement is in the approval process by the Bank Management Board and Supervisory Board.

In H1 2017, the Policy – Internal Control System was updated. The owner of the Policy is now the Operational Risk Management Department. That change followed primarily the taking effect of the substantially modified Recommendation H of the Polish Financial Supervision Authority. The new Policy sets out, among others, the internal control framework as well as functioning and monitoring of the controls and control function matrix.

The important role in ensuring the continuity and coherence of risk management is still played by the Bank Non-Financial Risk Committee and business line task forces that support it in the performance of supervisory and decision functions as well as the ICT Environment Security Council at ING Bank Śląski S.A.

In 2017, caring about the safety of funds entrusted by clients and in order to ensure them access to the services offered by the Bank as well as to maintain the acceptable operational risk level, the Bank continued its efforts to ensure compliance with the new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- analysing key business development-related threats to the Bank operations and analysing threat trends,
- verifying the effectiveness of finalised recovery actions and monitoring the risk mitigating actions to ensure their timely performance,
- updating the regulations on the key control testing process, risk mitigation and issue/recommendation monitoring, on the business continuity, physical security of individuals



and the Bank's property, anti-fraud actions and information risk (Identity Management, Security Monitoring),

- issuing independent opinions and expert reports regarding operational risk,
- verifying the quality of testing the controls mitigating key risks at the Bank,
- monitoring and testing business continuity mechanisms for key processes, the crisis management system and the mechanisms ensuring physical security of individuals and the Bank's property,
- monitoring Key Risk Indicators,
- compiling integrated operational risk reports and monitoring data quality,
- managing incidents through their monitoring and analysis and providing support in preparation of "Lessons Learnt",
- counteracting cybercrimes relating to payment transactions and identity or funds theft,
- running a series of risk analyses for the technical applications essential for business and for support applications, including an in-depth analysis of IT systems security vulnerabilities (particularly for transactional and e-banking systems), penetration tests and monitoring of the electronic banking systems,
- renewing the local insurance programme of the ING Bank Śląski S.A. Group as regards third-party liability and property insurance adjusted to the current market situation,
- raising the staff awareness in the area of information security at the Bank and also in conjunction with the organisational changes based on the PACE and AGILE methodologies,
- introducing the planned APT (Advanced Persistent Threats) risk mitigating actions in line with the adopted strategy,
- shifting to the new IT risk assessment model on the basis of defined quality criteria in the IT domain and finishing the pilot programme of the new risk calibration methodology in the business continuity area (Business Continuity Management System - BCMS),
- developing the integrated system supporting the operational risk management processes, and
- showing zero tolerance towards any forms of criminal activity; proven instances of crime are reported to the law enforcement bodies. The Bank closely cooperates with the law enforcement bodies with regard to counteracting and detecting criminal activity.

## **6. Compliance risk management**

On 1 January 2017, the internal structure of the Compliance Department was simplified through liquidation of two sections and formation of one Compliance Advisory and Monitoring Team which has standard compliance tasks in scope and a Group of Compliance Experts who report to the Department Director directly. Further, to adapt the scope of tasks to the new Internal Control System approach, the functional control tasks were moved to 1LoD units. Change in the compliance function will enable effective organisation of tasks, improvement of cooperation with business units and adaptation to new regulatory requirements applicable to compliance units.

In H1 2017, the following internal compliance regulations were introduced:

- Common Reporting Standard (CRS) Policy,
- updated Financial Economic Crime Policy with the Minimum Standards, and
- updated Competition Law Observance Policy.

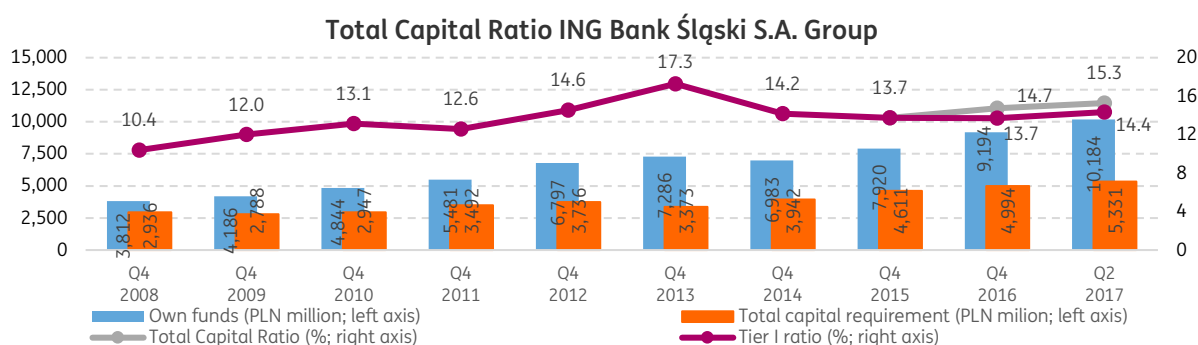
The Bank was very active in the regulatory projects being: MIFID II, BGF and government programmes: STIR and Split Payment.

With the aim to ensure effective compliance risk management, the Compliance Department continued to perform independent controls, develop and monitor performance of training programmes and issue guidance and recommendations within the advice-seeking process concerning changes in products, legislation and marketing materials.

H1 2017 saw no material compliance risk events.

## 7. Capital adequacy

As at the end of H1 2017, the total capital ratio and the Tier 1 ratio stood at 15.3% and 14.4% respectively. The said values betoken a safe position of the Group as regards capitals and further lending capacity growth.



In order to calculate capital requirements, the Group recognises the supplementary amount to the overall level of capital requirements in line with the local regulator's guidelines. Starting with reporting for subsequent quarters, the Group plans to adjust its recognition manner of the regulatory floor to the requirements of Article 500 of CRR No. 575/2013. The change is to unify the calculation of capital ratios with the approach applied by the parent company and is consistent with the practice adopted in UE countries. The changed approach to regulatory floor recognition in the calculation of capital ratios was agreed with the local regulator. If the Group had applied the changed approach to regulatory floor recognition already as at the end of Q2 2017, the total capital ratio and Tier 1 ratio would have arrived at 15.7% and 14.7%, respectively, as at 30 June 2017 on a consolidated basis.

In December 2017, the Regulation of the Minister of Development and Finance of 25 May 2017 on the higher risk weight for the property mortgage-backed exposures will take effect. The Group will apply the new regulations starting with the report as at 31 December 2017. At the same time, the Group plans to implement a change, whereby it will apply a preferential risk weight of 35% to the portion of the loan backed with residential property to 80% of the property market value (now, it is 50%).

Starting from January 2017, the Group's calculation of own funds has included 80% of unrealised profits and 100% of unrealised losses from the valuation of available-for-sale financial assets presented in the revaluation reserve (as per Article 171a of the Banking Law). In 2016, the Group recognised 60% of unrealised profits and 100% of unrealised valuation losses, respectively, in the calculation of own funds.

## VII. Organisation and Infrastructure Development at ING Bank Śląski S.A. Group in H1 2017

### 1. IT and Operations

#### IT

The main focus of IT actions at ING Bank Śląski S.A. is on developing valuable business solutions while keeping high quality, accessibility and the top security standards.

From among the key tasks performed in H1 2017, the following deserve to be mentioned:

- further development of the online banking system for retail clients, including:
  - possibility of opening the ePUAP trusted profile via online banking giving clients access to a wide range of public administration services in Moje ING application,
  - introduction of mobile authorisation that constitutes an additional authentication method for clients when making transactions in Moje ING. Transactions initiated by clients online can be confirmed via the mobile application,
  - addition of the documents safe storage feature in Moje ING for agreements, invoices, tax returns (PIT forms), for example,
  - opening of eKantor enabling a remote currency exchange,
  - pilot activation of the “aggregator” feature allowing clients to preview and manage accounts from other banks in the Moje ING application (upon importing the data from the file),
- issue of a multi-currency card enabling processing of cashless foreign transactions without any commissions,
- launch of another client-Bank digital communication channel, namely of a chat through which Bank employees respond to questions about the Bank offer,
- addition of the feature of funds withdrawal using BLIK codes directly from the Open Savings Accounts,
- migration of corporate and strategic clients to the new online banking system and its further development, including implementation of a new lease module enabling clients to manage their agreements, invoices and insurance policies,
- further upgrade of the system handling electronic flow of documents (IWA2), including:
  - rollout of Trade Finance processes (guarantees and letters of credit) and automation of accounting in credit accounts and commission accrual,
  - implementation of the accounting module in the IWA2 system,
- extension of the ING CMS that supports the corporate clients credit service,
- further development of the ING Monitoring system.

In the past six months, changes supporting increased availability of transaction systems were also implemented; these concerned card systems (Cache Visiona), online banking (Quark system for Moje ING) and a new system for monitoring Bank internal systems (Splunk).

To ensure the top quality of the services provided, significant organisational changes were also introduced in the period reported, allowing full utilisation of Agile software development methods. The changes covered the IT domain in the part dedicated to development and maintenance of software and business units, both in the retail and corporate areas.

Works continue on using the BigData environment to improve the security of banking systems and construct models supporting better banking offer customisation.

## Operations

There were also many changes implemented in the Operations area to ensure continuous development and streamlining of processes. As of 1 January 2017, together with the Retail Banking and IT areas we started working in the new model. Operations teams, currently supporting product management, became part of the Agile organisation. At the same time, a new framework of the entire Operations Division was introduced – 11 Centres providing services for all business lines.

Furthermore, the following projects, among others, were continued in H1 2017:

- Cash machinery modernisation continued.
  - first EUR ATMs (15 machines) were introduced,
  - as at the end of H1 2017, ING Bank Śląski S.A. had the network of 753 own self-service cash machines with proximity readers and closed-loop cash management (the so-called recyclers) and the network of 140 electronic depositories, including 10 depositories in the dual machine (ATM/CDM) casing,
  - the network of cash machines located outside bank branches was extended and transferred for service to an external company under co-branding (357 machines),
  - the machines for corporate and strategic clients, installed directly at clients' premises, were diversified – 39 electronic depositories, 47 light depositories, 15 fee collection machines, 14 mini CDMs and 1 micro CDM.
- The application ensuring access to external databases (such as BIK, CEiDG, PESEL, RDO, MSiG, KRS, DHL, KRD, REGON and Poczta Polska) was developed, whereby architecture was streamlined, service costs optimised and labour consumption trimmed (data are acquired electronically instead of in hard copies).
- A new complaint handling model was introduced, whereby interdisciplinary teams combining the customer service-related knowledge and experience of the Operations and Contact Centre Department employees were put together (handling complaints and messages written by clients via electronic and mobile banking channels). The aim of the project is the first contact resolution and sharing of knowledge and competence.
- Paper communication with clients was optimised by reducing its scale and shifting to electronic communication; also, the selection of colours became more efficient and the number of returns was decreased.
- In the mortgage loans process, the number of automatic real property appraisals was increased and active forms were introduced providing for automatic copying of information to banking applications.
- A multi-currency card was introduced for effecting transactions in the following three currencies: EUR, GBP and USD.
- As part of the Robotics & AI group project, RPA (Robotic Process Automation) solutions were introduced at the Bank, and other ING Group countries were supported: France, Netherlands, Belgium, Luxembourg and Romania.
- Outsourcing of handling credit documents sent to nationwide IFAs was introduced.

## 2. Development of electronic distribution channels

### Mobile banking

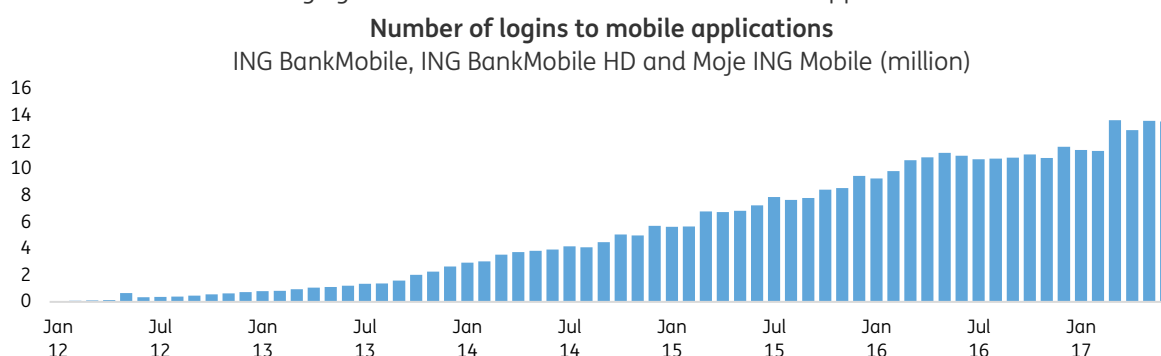
At the end of February, the option to download the previous ING Bank Mobile application was disabled. At the same time, the Bank runs an array of activities to assist clients in migration to the new application.

In H1 2017, the Bank developed the new Moje ING mobile application:

- the Bank launched “Mastercard on your phone” payments in the HCE technology which enable

making payments with one's smartphone (with the Android system),

- the Bank added a few modifications improving the pre-login application usability; they include: customised home page (users can set shortcuts to selected system functions and their display sequence), fast transfer from the savings account to the personal account and 3D Touch service for iPhones,
- the Bank enabled BLIK code-based payments to savings accounts,
- the Bank rolled out mobile transfer authorisation; in the first stage, transfers made in the Moje ING online banking system can be authorised via the mobile application.



### Moje ING online banking

In H1 2017, the Bank developed the Moje ING mobile application:

- the Bank launched the My documents option, where clients may store private documents in the Moje ING system. To start, bank clients get 100MB of storage space,
- in March, a new programme, My discounts, was rolled out for Bank clients; upon login, clients may download promotional codes which they may lower the prices of products purchased; the service is available upon login to Moje ING.

### The Bank's website (ingbank.pl)

As part of its website service, the Bank revamped and created new pages for entrepreneurs, the "Offer for a start" included. Further, the service was optimised, based on the findings of the Forbes 2016 survey (navigation or search engine), among other items. We enabled the chat service and set up a new contact page. We remodelled a number of pages, including the mobile application ones and the "Investments" section. We launched the pension calculator on the "Pension" site and rebuilt the display of Brokerage Office expert analyses.

We also set up new pages for:

- capex loan for housing communities,
- the page dedicated to EU subsidies,
- the general website – cash loans and credit facilities,
- the mobile authorisation page,
- the page for the My documents service,
- insurance-dedicated pages,
- property broking pages,
- Visa payWave with a multi-currency feature page,
- IPO Play page – public offer.

### Corporate clients' internet banking

In H1 2017, ING Bank launched a new online banking system release for corporate and strategic clients – ING Business. It was activated for 99% of corporate clients. Since 6 February each new corporate client opening their account at ING Bank has received access to the new ING Business release only.

The NPS results for new ING clients using the new ING Business version were positive. The result after three survey rounds is 27% as per NPS methodology. After three polls, the level of satisfaction with the ING Business online banking hovers around 8.45 (for the scale 0-10).

The new release of online banking has great personalisation features: each user can customise the system with widgets designed for specific bank products. Access to data is instant thanks to context search features implemented in the system. The system now has a fresh look, possible through the application of uniform graphics guidelines, corresponding with the current trends.

As at the end of June 2017, ING Business was used by 53 thousand entities (registered businesses) and 112 thousand users. Throughout H1 2017, nearly 96 thousand electronic applications were processed in the system.

### 3. Network and bank outlets

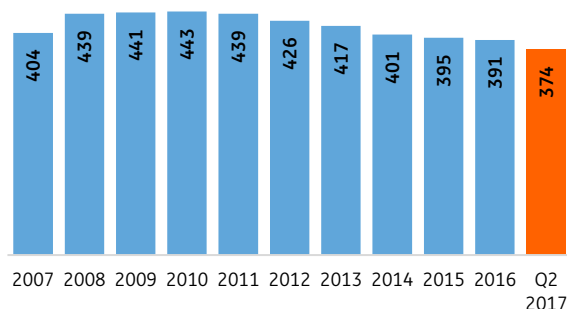
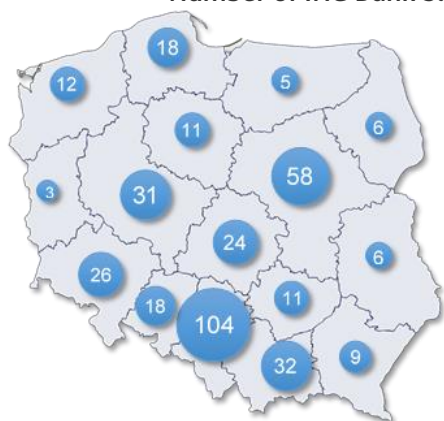
As at the end of H1 2017, ING Bank Śląski S.A. had a network of 374 retail branches (including 97 branches with a modern cash service – meaning cash in ATMs, CDMs and dual machines only). All our branches have self-banking zones where clients can make both cash withdrawals and deposits on their own. The Bank continues the process of face-lifting retail branches, during which furnishings and fittings are modernized and new functional solutions are introduced.

As at the end of June 2017, the Bank had 252 branches in the new standard. Optimisation works also continue: branches are relocated and consolidated in the locations most appealing to clients in business terms in towns/cities and regions.

As at the end of H1 2017, the Bank had 66 sales points deployed in the largest shopping malls in Poland. The net of ING Express points was formed in response to expectations of clients who want their bank to be available anytime and anywhere.

Corporate clients from MID and BIG segments were served at the Bank by 36 corporate branches and 15 corporate banking centres. Almost all of them were operating in the same locations as retail branches. The largest corporate clients were served by the Strategic Clients Department located in Warsaw and by its regional office in Katowice.

Number of ING Bank Śląski S.A. branches (as at 30 June 2017)





## 4. Human resources management

### Headcount

As at 30 June 2017, the ING Bank Śląski S.A. Group had 7,980 employees (ING Bank Śląski S.A. had 7,624 employees). There were 45 persons (or 0.6%) fewer than in December last year. The headcount decline recorded by the Group was first and foremost the result of the Fit for Future project with which the structure of individual Bank areas was revised and processes were digitalised.

Headcount in the ING Bank Śląski S.A. Group				
	30 June 2017		31 December 2016	
	staff members	%	staff members	%
Retail Banking	3,757	49.3%	3,821	49.8%
Corporate Banking and Financial Markets	1,176	15.4%	1,184	15.4%
Operations / IT / Services	1,896	24.9%	1,879	24.5%
Risk / Organisation / Finance / HR	795	10.4%	785	10.2%
<b>Bank Total</b>	<b>7,624</b>	<b>100.0%</b>	<b>7,669</b>	<b>100.0%</b>
ING ABL Polska S.A.	-	0.0%	1	0.3%
ING Lease (Polska) Sp. z o.o.	198	55.6%	187	52.5%
ING Commercial Finance Polska S.A.	102	28.7%	99	27.8%
Solver Sp. z o.o.	4	1.1%	19	5.3%
ING Usługi dla Biznesu Sp. z o.o.	49	13.8%	47	13.2%
Nowe Usługi S.A.	3	0.8%	3	0.8%
<b>Subsidiaries</b>	<b>356</b>	<b>100.0%</b>	<b>356</b>	<b>100.0%</b>
<b>ING Bank Śląski S.A. Group</b>	<b>7,980</b>		<b>8,025</b>	

### Remuneration policy

In H1 2017, ING Bank Śląski S.A. upheld its remuneration policy, the aim whereof is to effectively support the strategic goals. The assumptions of the policy are to offer marked-to-market, transparent and coherent remuneration to employees.

On 1 April 2017, the Bank performed the pay rise exercise. The pay rise amount depended on employee's current remuneration. Furthermore, the minimum base remuneration was raised.

Once again, the Bank settled the bonuses for employees covered by the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. In compliance with the Policy, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to cash dependent on the value of ING Bank Śląski S.A. shares.

In H1 2017, the non-deferred 2016 bonus and the deferred bonus for 2015, 2014 and 2013 were paid out to the persons holding managerial positions. Thus, the entire 2013 bonus for the persons holding managerial positions was settled.

The Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. is reviewed regularly for changes in laws and regulatory requirements. Since January 2017, the Policy has been adapted to the Regulation of the Minister of Development and Finance of 6 March 2017 on risk management system and internal control system, remuneration policy and detailed manner of internal capital quantification at banks, the Banking Law Act of 29 August 1997, EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 and Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission



Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

Furthermore, the ING Bank Śląski S.A. Group Remuneration Policy was introduced which lays down the key assumptions for shaping the principles of remuneration so as to attract and retain employees, by ensuring the remuneration that is competitive versus the market. The Policy also defines remuneration components.

The following took place at the Ordinary General Meeting held on 21 April 2017:

- the remuneration of the Bank Supervisory Board Members was set. With Resolution No. 29 of the Ordinary General Meeting, the ING Bank Śląski S.A. Supervisory Board Members Remuneration Policy was adopted. The document elaborates the manner of remuneration determination for the Supervisory Board members holding additional functions on its Committees,
- the report on assessment of the Remuneration Policy at ING Bank Śląski S.A. in 2016 was presented in line with the Principles of Corporate Governance for Supervised Institutions.

### *Recruitment and employer branding*

In H1 2017, ING Bank Śląski S.A. took employer branding activities geared towards professionals and students.

Initiatives addressed to the persons with experience covered: joining job fairs, developing a new employer profile on employment websites, communicating with the candidates through Social Media (in this period, much focus was placed on presentation of employer branding activities on the LinkedIn website).

The Bank continued actions dedicated to people entering the labour market (students and graduates), among others:

- Ambassadors Programme – 12 students representing the Bank at universities under the mentorship of the Bank employees who support Ambassadors in learning about ING and shaping their career paths. Thanks to the cooperation with Ambassadors, additional initiatives took place like a meeting with the Authorities of Management Department of the Częstochowa University of Technology and representatives of Student Research Circles of the Cracow University of Economics or preparation of a field game “Figure out career paths with ING”.
- Traineeship with the Lion – a new traineeship programme which superseded the Internship with the Lion one. The Bank ran multiple internal and external consultations with students which led to the formation of a traineeship programme which is already available for first-year students of various faculties. One may participate for the period of from 2 to 9 months in the programme during the entire academic year. Part-time and flexible work time is possible. In the programme recruitment process, the Bank used the assessment centre in the form of escape rooms which were appreciated by candidates.
- The ChallengeING traineeship programme – it was continued in the IT and customer intelligence area. Under two programme paths, 7 participants were employed. They work in line with the Agile methodology.
- ING International Talent Programme – it covers 6 business paths (Risk, IT, Retail and Corporate Banking, Finance and HR) and gives its participants the possibility to join projects, take development actions and participate in international assignments which are considered to be crucial for the Bank.
- Meetings with the Lion – a series of workshops conducted by Bank experts. The workshops made the students familiar with the aspects of banking and IT. In the spring round, we organised 9 events together with Ambassadors.
- Promotion of ING at universities – ING career zones (12 events), cooperation with student

research clubs, student organisations and student councils at selected universities as well as participation in their projects.

- Participation in spring job fairs (9 events, 5 IT-dedicated).

Vast offer and quality of internships within the HR area conducted at ING Bank Śląski S.A. were appreciated by external research and ranking institutions.

In February, Top Employers Institute awarded its certificates to the companies that offer the best working conditions to their employees. ING Bank Śląski S.A. was awarded the Top Employers Poland statuette and the Top Employers Europe distinction for the eighth and third times respectively. In the seventh round of "The Most Desired Employers in the Opinion of Professionals and Managers", ING Bank Śląski S.A. was ranked first in the Banking category. In the twenty-fifth round of the Employer of the Year survey organised by AIESEC, the Bank was ranked fourth, based on the scores given by the fourth- and fifth-year students of the universities of economics across Poland.

### *Employee development and training courses*

In H1 2017, the Bank pursued development actions in correspondence with the strategic goals of the Bank and HR in the domains of leadership, innovativeness as well as acquisition and retention of exceptional employees.

There were 4 areas of focus:

- Fostering corporate culture (including but not limited to the development programme for senior leaders, a multifaceted programme for fledgling managers and persons aspiring to that role, or actions to consolidate the values and behaviours forming the Orange Code).
- Upgrading employees' competences and behaviours (through, above all, training courses on products and sales quality as well as with the use of a wide offer of development actions covering inter alia meetings with inspirers, knowledge sharing and work with coaches or mentors plus consultations and development assignment programmes).
- The specialist and expert knowledge (through, above all, highly specialised training courses, domestic and international sector conferences geared towards field specialists as well as certifications).
- Dedicated development programmes for indicated organisational units or identified audience as a response to strategic challenges, such as: credit process analysis, knowledge sharing or retail sale management.

Apart from in-house development actions, we used third-party training courses, workshops and conferences. The Bank also supports self-enhancement of professional qualifications by employees, through certification, post-graduate studies or the Polish Bank Association standards. Employee development was supported by on-line tools, the Development Navigator, for example.

Development actions are addressed to employees of the Retail and Corporate Sales Networks and of the Head Office units (including new employees, specialists and managers).

### *Agile – new work culture*

In 2016, ING Bank Śląski S.A. Management Board resolved to gradually incorporate agile management methods in its business operations area. The decision was made in response to the dynamic technological changes and the fast pace and growing scale of changes in the market. Agile is a work methodology that supports quick delivery of business value. Task are delivered in an incremental and iterative manner; the feedback is instantaneous, knowledge is quickly acquired and improvement happens continuously as the work progresses. Such an approach means that better solutions are more probable to be built quicker.

In practice, Agile is a model in which work on new products and solutions for clients is performed by the so-called scrums being small, interdisciplinary teams of just a few people. In scrums you may find people specialising in different fields (most commonly in: Business, Operations, IT); together they form

a complementary team aiming for the same target that has been set for the given scrum and meets clients' particular needs. Big assignments are decomposed into smaller tasks that are easier to plan and verify. Scrums deliver value through iterations usually standardised to two or three weeks known as sprints. This enables quick verification of usefulness and relevance of the solutions developed (this way of working is also based on continuous verification with the client of whether the thing we are working on is actually something they need). This also allows us to identify failures at the very early stage of work and to introduce necessary corrections, which translates into measurable cost cuts. The work leads to the development of a product that is best adjusted to the clients' needs and ready to be applied and implemented in practice.

This type of a work model facilitates cooperation and direct employee-to-employee interactions going beyond the hierarchical structure of the Bank. It also enables all process participants to be actively involved in work, vests more responsibility in teams, cuts down the red tape and allows performance-based management and increases business potential. However, this model does not change the current approach to standards, policies and procedures effective at the Bank (particularly IT security policies and standards). Agile is not about the organisational structure but about the work culture.

By choosing Agile methodology, the Bank will be able to respond to clients' new needs quicker and adjust to developments happening both inside and outside the organisation.

The new Agile way of working has been applied in product departments of the Retail Banking Business Line and the cooperating units of the IT and Operations Divisions since 1 January 2017. Eight Agile Centres employing approximately 600 persons have been established. These include the following:

- Agile Centre – Daily Banking,
- Agile Centre – Cards and Cash,
- Agile Centre – Savings and Investments,
- Agile Centre – Entrepreneurs,
- Agile Centre – Consumer Lending,
- Agile Centre – Mortgage and Insurance,
- Agile Centre – Customer Intelligence,
- Agile Centre – Digital Transformation.

On 1 June 2017, the Bank applied the Agile way of working in the corporate banking area as well, where eight Agile Centres employing 300 will be set up:

- Agile Centre – Funding,
- Agile Centre – Payment and Cash Management,
- Agile Centre – Digital Platforms,
- Agile Centre – SME/MC Management,
- Agile Centre – Development of Operations Processes,
- Agile Centre – Innovation Lab,
- Agile Centre – ALEO,
- Agile Centre – ING Accounting.

Examples of solutions rolled out in keeping with the Agile methodology in Moje ING in H1 2017 are as follows:

- Mobile authorisation – a new way to authorise transactions in the Moje ING system in which clients authorise a transaction in the mobile application and not with the traditional code received in a text message,

- Personalised homepage prior to logging in to the Moje ING mobile banking – the user can personalise the shortcuts displayed on the opening screen,
- Opening a personal account by a business client – option to open a personal account online made available for entrepreneurs in the Moje ING system,
- A quick transfer before logging in – possibility to make own money transfers quickly before logging into the mobile application.

Examples of other solutions and products rolled out in keeping with the Agile methodology in other areas in H1 2017 are as follows:

- Multi-currency card – payment card issued with the PLN account pinned to different foreign currency accounts (EUR, USD, GBP); the funds are automatically debited in the transaction currency,
- e-Application – online cash loan application option for new clients,
- BLIK deposit in the CDM – a feature enabling you to make deposits in ING CDMs with the BLIK code.

## VIII. Outlook on ING Bank Śląski S.A. Operations Development

The Preferred Bank strategy is based on three pillars:

- Client Centricity – all operations of the organisation focus on tailoring products and the service model to needs of clients from individual segments,
- Operational Excellence – keeping the position of the best online and mobile bank, and streamlining the processes,
- Top Employer – acquiring and retaining the best personnel by supporting employees' professional development and using modern communication tools.

In order to ensure long-term growth of the goodwill, the Bank undertakes actions aimed at reinforcing and then keeping the leading position in the Polish banking sector by harmonious development of core business activities; i.e. retail and corporate banking. The multichannel and integrated sales and client service model, with a special emphasis on enhancing the electronic and mobile banking systems, is further developed.

### 1. Retail banking

In 2017, ING Bank Śląski S.A. consistently strove after strengthening its position in the consolidating market environment and aimed at becoming the preferred bank. As in previous years, customer experience improvement and sustainable growth of both savings and loans volumes remained the main areas of focus. Moreover, the Bank paid more attention to the potential created by digitalisation and innovations when it comes to satisfying the client changing needs. The key principles which actively support the delivery of the strategic goals have proved successful, and therefore remain unchanged: clear and transparent offering with a good quality to price ratio, broad and innovative multichannel distribution network (374 branches, network of IFAs, direct channels: contact centre, electronic and mobile banking), client knowledge translated into personalised communication and tailored offering, strong brand recognition and high performing team.

Main goals for 2017:

- Increase in the number of clients for whom the Bank is the preferred bank accompanied by a higher x-buy ratio and sustained modern client relationship and satisfaction,
- Focus on the sale of flagship products with cash loans and investment products particularly emphasised,
- Sustainable growth of savings and loans,
- Improved performance courtesy of a new work organisation system (AGILE).

Further digitalisation of sales processes and consistent ING brand shaping will underlie the above measures. In order to achieve the above-mentioned priorities, ING Bank Śląski S.A. will strive to fully leverage on the potential of the multichannel distribution system and to ensure its clients top service quality. Extending the functionality of direct channels, implementing new payment solutions, providing clients with convenient online processes and orienting the branch role towards advisory services will allow the Bank to increase the number of transactions made by clients. Such a strategy should bring better sales results, higher deposits and loans balances as well as more clients for whom ING is the primary bank. A higher x-buy ratio (sales of insurance and investment products) will additionally result in income increase and diversification. While rising branches' efficiency, increased importance of direct distribution and service channels as well as operations automation will favour cost effectiveness improvement.

### 2. Corporate banking

Private habits more and more frequently shape the manner in which corporate clients want to use

banking services. In order to maintain the competitive edge in that market, the Bank makes necessary modifications in its strategy. In particular, the Bank puts more emphasis on direct distribution channels: online, mobile and phone banking. The purpose is to have a vast majority of client instructions submitted via those channels. The Bank will also aspire to welcome a dominant part of new clients and sell a meaningful number of products via direct channels. As part of those actions, there are also ongoing works aimed at implementing client identification with the use of a videoconference feature.

Likewise in the area of cash solutions, the Bank will be developing direct service processes and upgrading the devices dedicated to optimisation of cash processes on the side of the Bank and our clients.

Online banking is becoming more and more important for contacting clients. The Bank created an end-to-end transactional and communication platform where our clients have full access to the transactional and product offer of the Bank. The new online platform release for corporate clients, ING Business, draws on the latest usability solutions and is tailored to users' changing needs and behaviours. Thanks to the RWD technology, it can be accessed from various devices.

The Bank will also expand its offer in the payment service area. In 2017, we offered clients the payment card acquiring services. With the new service, the Bank offers payment terminals enabling acceptance of card and mobile payments (BLIK, Visa, MasterCard) and – in the future – sale of additional services, like GSM phone top-ups. In the next stages, the Bank plans to expand its offering with acceptance of online payments, a loyalty programme and many other features. With this offer, the Bank will cater for business clients from all segments, regardless of their business form and size.

While accommodating to the Payment Services Directive, the Bank will introduce a number of improvements for its clients. We are also planning to expand instant payments in EUR so as to enable our clients to make fast and safe settlements.

As regards financing, the Bank is planning further cooperation with the subsidiaries from the asset-backed funding area (leasing and factoring). The aim is to work out a coherent approach to offering credit, leasing and factoring products in a way that will guarantee transparent communication and optimal customisation of the offer to the needs of specific clients plus will ensure the most effective use of the Group's resources.

The Bank will continue its works aimed at streamlining and automation in the products area through introducing electronic solutions and leveraging the digitalisation of individual areas of e-state. This means that in the field of cooperation with external institutions, in the nearest future, we will keep on:

- offering BGK-guaranteed programmes that are widely appreciated by clients. At the same time, we will participate in developing together with the Polish Bank Association and BGK the assumptions of those programmes for the coming years. We strive to cooperate with BGK to reduce labour intensity and increase the sale of the programmes using innovative and digital solutions.
- Providing in bank systems the features of collecting data from external sources, that will both shorten and enhance the credit processes safety.

The results shown for the corporate banking and referring to the EU loans are strictly correlated with the implementation of operational programmes. Credit finance responds to the beneficiaries' needs for downpayment funding or pre-financing the bridge part of loans. The institutions implementing the EU programmes anticipate that 2017 should see a higher utilisation of the EU funds. This will entail a higher demand for credit financing. That trend should sustain until the end of the Financial Perspective 2014-2020. Concurrently, it can be expected that the growth in the need for credit instruments will be accompanied with automation of loan approval processes. Unification of financing requirements will enable products standardisation and substantial progress in the remote service of programmes supported from the EU funds. That expectation is in harmony with the processes of automation of the Bank's credit offer.

The Bank will continue the plans discussed above in correspondence with the digitalisation progress in individual areas of e-state and the institutions implementing the aforementioned programmes.

Besides the traditional banking offer, much emphasis is placed on the development of services supporting companies in their day-to-day business. ALEO purchase platform, ING Accounting and vendor finance are examples of recent solutions offered to clients.

With the aim to face up to the challenges associated with the ever-changing business landscape and growing client expectations, we established an Innovation Lab. It is a unit tasked with market monitoring, creation of innovative solution and ongoing cooperation with fintech companies.



## IX. Investor information

### 1. Shareholding structure

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 31 December 2016 had a 75% share in the share capital of ING Bank Śląski S.A. and a 75% share in the overall number of votes at the General Meeting – the number not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as domestic and foreign mutual funds, and by private investors. As at the end of H1 2017, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK was the largest among them. As per semi-annually reported assets structure of that Fund, as at 30 June 2017, it had a 6.77% share in the share capital and overall number of votes at the General Meeting. As at the date hereof, the Bank does not have any information about any other shareholder going over the threshold of 5% of the company's equity.

In H1 2017, neither the worth of ING Bank Śląski S.A.'s share capital nor the majority shareholder's share in the equity were changed.

#### Shareholding structure of ING Bank Śląski S.A.

Shareholder	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM	Shareholder	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM
30 June 2017			31 December 2016		
ING Bank N.V.	97,575,000	75.00%	ING Bank N.V.	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK <sup>13</sup>	8,811,020	6.77%	Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK <sup>14</sup>	10,796,936	8.30%
Other	23,713,980	18.23%	Other	21,728,064	16.70%
<b>Total</b>	<b>130,100,000</b>	<b>100.00%</b>		<b>130,100,000</b>	<b>100.00%</b>

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 35 million clients. ING Group companies have over 52 thousand employees and pursue business in over 40 countries in Europe, North and South Americas, in the Near East as well as in Asia and Australia. ING Group pursues business in four areas: Market Leaders – businesses in the Netherlands, Belgium and Luxembourg; Challengers – businesses in Germany, Austria, Spain, Italy, France, Australia and Czech Republic; Growth Markets – businesses in Poland, Romania, Turkey and Asia as well as through a global corporate banking network dedicated to strategic clients – Wholesale Banking.

A Dutch financial institution, ING Groep N.V., is the ING Group's parent company. It was incorporated in 1991 through the merger of a Dutch insurance company, Nationale-Nederlanden, with a Dutch bank, NMB Postbank Groep. In subsequent years, ING Group developed leveraging on both the organic growth and mergers and acquisitions. During the financial crisis, in 2008 and 2009 the Group received state aid (later repaid in 2009-2014) conditioned by a restructuring programme. Restructuring assumed inter alia a separation of banking from insurance and investments that should be divested. ING Group restructuring was finalised in April 2016.

ING Groep N.V. is a public company, listed on the stock exchanges in Amsterdam, Brussels and New York. Its shareholding is dispersed. As at 30 June 2017, there were only two shareholders with capital

<sup>13</sup>As per semi-annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 30 June 2017.

<sup>14</sup>As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 30 December 2016.

holdings of over 3%. These were: BlackRock Inc. (5.07%) and Artisan Investments GP LLC (3.01%).

In line with the Charter, the Bank's share capital is divided into 130,100,000 shares with the face value of PLN 1 each. Bank shares are ordinary bearer shares. No additional special controlling rights are attached thereto. The Bank Charter does not impose any restrictions on transferring ownership of shares issued by the Bank, exercising voting rights or any stipulations whereunder share-based equity rights are separated from share ownership.

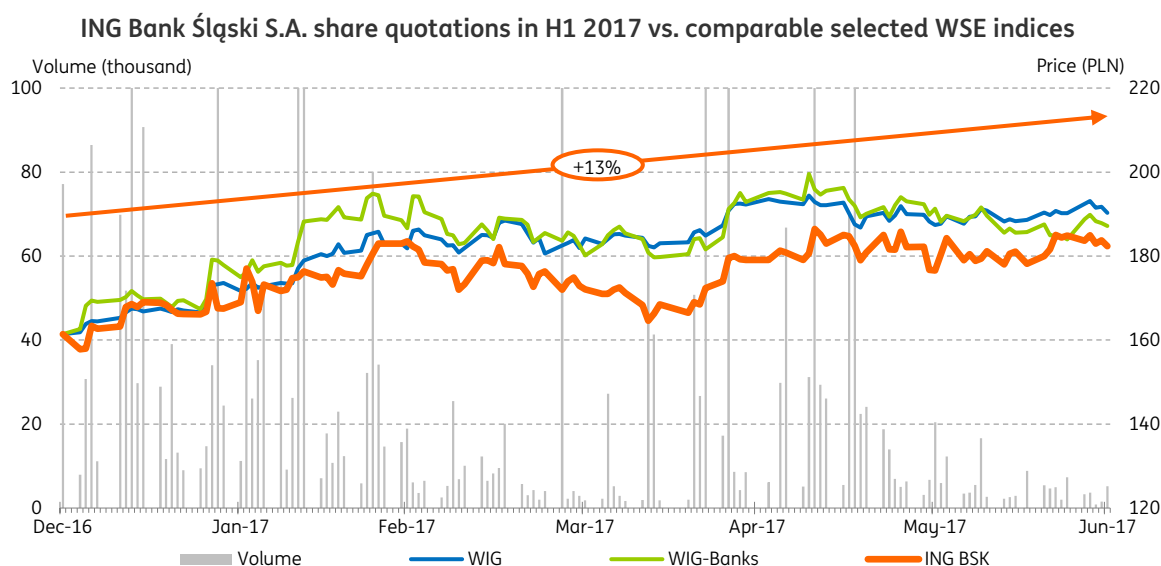
Pursuant to Resolution No. 27 of the ING Bank Śląski S.A. General Meeting of 21 April 2017, the Bank Charter was amended, whereby the Management Board was authorised to increase the share capital by the amount of up to PLN 26 million (meaning the issue of up to 26 million of shares) until 21 April 2020 (authorised capital) and to exclude the pre-emptive right for the issue of shares under authorised capital. Charter amendment was entered into the National Court Register on 22 May 2017. The Management Board decisions concerning issue price fixing and pre-emptive right exclusion shall be approved by the Supervisory Board.

As at the report's publication date, ING Bank Śląski S.A. did not have any information about agreements which might change the ratio of shares held by existing shareholders in the future.

## 2. ING Banku Śląskiego S.A. share price

In H1 2017, the price of ING Bank Śląski S.A. shares at the close of the WSE session hovered between PLN 157.80 (as quoted on 2 January) and PLN 186.45 (the session of 10 May). On 30 June 2017, the price of ING Bank Śląski S.A. share was 13.0% up from the last quotation date in 2016 (to compare: WIG-Banking sub-index went up by 15.9% at that time).

As at the end of June 2017, the Bank's market value was PLN 23.7 billion, while its book value amounted to PLN 11.2 billion (it implies P/BV ratio at x2.1).



## 3. Ratings

### Fitch Ratings Ltd.

Fitch Ratings Ltd. assigns full rating to ING Bank Śląski S.A. under the agreement between the Bank and the Agency. In the announcement of 20 April 2016, the Agency upgraded the Long-Term Issuer Default Rating (Long-Term IDR) for ING Bank Śląski S.A. from A- to A. The rating outlook is stable. The upgrade was the result of the same rating action taken towards ING Bank N.V. which is the Bank's dominant shareholder. Additionally, the Agency upheld the support rating at 1. On 9 November 2016, the Agency upheld the ratings for ING Bank Śląski S.A.

The Agency emphasised that the ratings upheld for ING Bank Śląski S.A. reflected the Bank's solid financial standing and strong capital position, high asset quality and stable funding source relying on client deposits.

On 21 March 2017, the Agency assigned national ratings to the Bank. The National Long-Term Rating was set at AAA (pol) with stable outlook, while the National Short-Term Rating – at F1+ (pol).

The full rating assigned to the Bank by Fitch as at the date of the Financial Statements publication was as follows:

Fitch Ratings Ltd.	
Long-term IDR	A
Outlook for sustaining the rating	Stable
Short-term IDR	F1
Viability rating	bbb+
Support rating	1
National Long-Term Rating	AAA (pol)
Outlook for sustaining the above rating	Stable
National Short-Term Rating	F1+ (pol)

#### Moody's Investors Service Ltd.

The Moody's Investors Service Ltd. Agency (Moody's) assigns a rating to ING Bank Śląski S.A. on the basis of common public information. On 14 July 2017, Moody's in its semi-annual review affirmed the ratings for ING Bank Śląski S.A. The Agency stressed in its announcement that the Bank's rating reflected its good financial results, including the quality of its assets above the sector's average and the self-financing nature of the Bank's operations.

The last change of rating took place on 21 May 2015, when LT Rating was increased from Baa1 to A3 and the perspective of the rating was changed from Rating under review for possible upgrade to Stable.

As at the Financial Statements' publication date, the Bank's financial viability ratings assigned by the Agency were as follows:

Moody's Investors Service Ltd.	
LT Rating	A3
ST Rating	P-2
Baseline Credit Assessment (BCA)	baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa2
Outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A2 / P-1

#### 4. Investor relations

ING Bank Śląski S.A. strives after the highest standards of capital market communications. The Bank pays particular attention to reliable and transparent information and to equal treatment of all stakeholders as well as observes all the laws regarding disclosure duties of listed companies. Important financial and business information in the form of financial reports, current reports, investor presentations and editable files with key company data are presented to the broad capital market. The Investor Relations Bureau is responsible for investor and share analyst communications (e-mail: [investor@ingbank.pl](mailto:investor@ingbank.pl), phone no.: +48 (22) 820 44 16).

In H1 2017, the representatives of the Management Board and the Investor Relations Bureau held over 50 individual and group meetings with investors and participated in key investor conferences.

As a rule, open meetings for investors and analysts are held once a quarter, at the quarterly report publication date. Each time, approximately 30 representatives of brokerage houses and investors attend such a conference.

The Bank pays a lot of attention to the quality of communication with stakeholders through its website: <http://en.ingbank.pl/company-profile/investor-relations>. The website offers up-to-date information such as ING BSK shares quotations on the WSE, company shareholding structure, General Meetings, dividend payout track or ratings. Current, interim and annual reports, results presentations, Excel sheets with key financial and business information as well as video footage from the quarterly meetings dedicated to Bank's results are also published on the website. The website has been designed in the RWD technology, so it is adjusted to mobile devices – tablets and smartphones.

ING Bank Śląski S.A. is one of the companies that are watched and analysed by the market. As at the end of H1 2017 yearend, analysts representing 13 financial institutions published reports and recommendations for the Bank's shares.

On its website, the Bank regularly updates the list of analysts' recommendations together with the average target price as well as the market consensus based on the averaged expectations; see a separate tab Analysts: <http://en.ingbank.pl/company-profile/investor-relations/analysts>. As at 30 June 2017, the structure of share recommendations for ING Bank Śląski S.A. was as follows:

Recommendation	Buy / Accumulate	Hold / Neutral	Reduce / Sell
Number of recommendations	4	4	5

## 5. Dividend policy and dividend payout

### Dividend policy

On 15 September 2016, the Supervisory Board approved the ING Bank Śląski S.A. Dividend Policy as recommended by the Bank Management Board. On 3 March 2017, the Supervisory Board approved the amended Dividend Policy.

The Bank's dividend policy:

- a long-term stable process of dividend payout in adherence to the rules of prudent management and any and all regulatory requirements which the Bank shall comply with, and
- the option to pay dividend from the capital surplus over the minimum capital adequacy ratios and over the minimum Tier 1 capital ratio of 13.75% set for the Bank by the Polish Financial Supervision Authority for dividend payout purposes.

When determining the recommended dividend payout amount, the Bank Management Board will review in particular:

- the current financial standing of the Bank and the Bank Group, including limitations in the case of sustaining financial loss or low profitability (low ROA/ROE),
- assumptions of the Bank's and Bank Group's management strategy, including risk management strategy,
- PFSA's stance on the banks' dividend policy,
- limitations under Article 56 of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 05 August 2015.

### Allocation of 2016 net profit

Following the decision of the Ordinary General Meeting of 21 April 2017, the Bank did not pay the dividend for 2016. The net profit of PLN 1,208.7 million was allocated to the reserve capital (PLN 1,153.7 million) and general risk fund (PLN 55.0 million).

## 6. Changes to the Statutory Authorities of ING Bank Śląski S.A.

### Supervisory Board

On 15 March 2017, Mr Roland Boekhout, Supervisory Board Deputy Chairperson, tendered his

resignation from the capacity as the Supervisory Board Member. Mr Roland Boekhout tendered his resignation as he intended to take up another job within ING Group.

On 21 April 2017, the Ordinary General Meeting appointed Mr Norman Tambach as Member of the Supervisory Board. Furthermore, during the meeting on 21 April 2017, the Bank Supervisory Board appointed Ms Małgorzata Kołakowska Deputy Chairperson of the Supervisory Board.

As at 30 June 2017, the Supervisory Board of ING Bank Śląski S.A. operated in the following composition:

- Mr Antoni Reczek Chairperson, Independent Member,
- Ms Małgorzata Kołakowska Deputy Chairperson,
- Mr Aleksander Galos Secretary, Independent Member,
- Mr Ad Kas Member,
- Mr Aleksander Kutela Member, Independent Member,
- Mr Christopher Steane Member, and
- Mr Norman Tambach Member.

#### Bank Management Board

On 21 April 2017, Mr Mirosław Boda tendered his resignation from the capacity of Vice-President of the Management Board, effective as of 31 May 2017.

At the same time, on 21 April 2017 the Supervisory Board appointed Ms Bożena Graczyk to the position of Vice-President of the Management Board, effective as of 1 June 2017.

As a result of the aforementioned changes, as at 30 June 2017 the Bank Management Board composition and the division of competence among the Management Board Members were as follows:

#### Scope of responsibilities of Bank Management Board Members (as at 30 June 2017)

● Mr Brunon Bartkiewicz	<b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Macroeconomic Research Bureau, Internal Audit Department, Legal Department, Compliance Department, HR units)
● Mr Michał Bolesławski	<b>Vice-President of the Bank Management Board</b> in charge of the Corporate Clients Business Line
● Ms Joanna Erdman	<b>Vice-President of the Bank Management Board</b> in charge of the Strategic Clients Business Line and the Financial Markets Division
● Mr Marcin Giżycki	<b>Vice-President of the Bank Management Board</b> in charge of the Retail Clients Business Line
● Ms Bożena Graczyk	<b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department
● Ms Justyna Kesler	<b>Vice-President of the Bank Management Board</b> in charge of: Operations Division, Services Division and IT Division, IT Security Department, Transformation and Change Management Department, ING Hub Services Department, Process Monitoring and Control Centre, Data Management Centre and Management Board Representative for the Environmental Management System

## 7. Remuneration of the Members of the Management Board and the Supervisory Board of ING Bank Śląski S.A.

### Emoluments due to Members of ING Bank Śląski S.A. Management Board for H1 2017 (PLN million)

Period	Remuneration	Other benefits*	Total
H1 2017	4.8	2.5	7.3
H1 2016	4.4	1.2	5.6

\* / Other benefits cover, among other things: insurance, payments towards the mutual funds, medical care and other benefits awarded by the Bank Supervisory Board.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2017 under the Variable Remuneration Programme have not been awarded yet.

Following the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2017 bonus to be paid out in the years 2018-2025. Accordingly, a reserve was formed for the 2017 cash bonus for the Bank Management Board Members, which as at 30 June 2017 was PLN 3.1 million. The Bank Supervisory Board will take the final decision on the bonus amount.

### Emoluments paid to Management Board Members of ING Bank Śląski S.A. in H1 2017 (PLN million)

Period	Remuneration	Awards*	Other benefits**	Total
H1 2017	4.8	6.3	2.6	13.6
H1 2016	4.4	6.2	1.2	11.8

\*Awards for H1 2017 cover the following items:

- Bonus under the Variable Remuneration Programme: for 2016 non-deferred cash, for 2015 1st tranche of deferred cash, for 2014 2nd tranche of deferred cash and for 2013 3rd tranche of deferred cash,
- Phantom Stocks under the Variable Remuneration Programme: for 2015 retained stock, for 2014 1st tranche of deferred stock, for 2013 2nd tranche of deferred stock and for 2012 3rd tranche of deferred stock,

Awards for H1 2016 cover the following items:

- Bonus under the Variable Remuneration Programme: for 2015 non-deferred cash, for 2014 1st tranche of deferred cash, for 2013 2nd tranche of deferred cash and for 2012 3rd tranche of deferred cash,
- Phantom Stocks under the Variable Remuneration Programme: for 2014 retained stock, for 2013 1st tranche of deferred stock and for 2012 2nd tranche of deferred stock.

\*\*Other benefits cover, among other things: insurance, payments to the mutual funds, medical care and other benefits awarded by the Bank Supervisory Board.

The remuneration due and paid out by ING Bank Śląski S.A. in H1 2017 to its Supervisory Board Members totalled PLN 0.3 million.

### Remuneration of Members of the Supervisory Board of ING Bank Śląski S.A. in H1 2017 (PLN million)

Period	Remuneration and awards	Other benefits	Total
H1 2017	0.3	0.0	0.3
H1 2016	0.3	0.0	0.3

As at 30 June 2017, neither Bank Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A.

## 8. Selection of chartered auditor

On 27 November 2015, the Bank Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski S.A. and the ING Bank Śląski S.A. Group for the period of 2016-2017.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. was entered on the list of entities authorised to audit financial statements, which is kept by the National Board of Statutory Auditors (KRBR).



## X. ING Bank Śląski S.A. Management Board statements

### 1. Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the financial data for H1 2017 and the comparable data presented in the interim condensed consolidated financial statements of the ING Bank Śląski S.A. Group were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank Group and its financial result. The Management Board Report being part of this document is a true presentation of the development, achievements and situation (including a description of key risk types) of the Bank Group in H1 2017.

### 2. Corporate governance

The Principles of Corporate Governance applied by the ING Bank Śląski S.A. Group are described in the Management Board Report on Operations for 2016.

### 3. Selection of entity authorised to audit financial statements

The entity authorised to audit the financial statements that audited the interim condensed financial statements of the Bank Group was selected according to the effective laws and Bank's regulations. The entity and the chartered auditors fulfilled the conditions required to make an impartial and independent report on their review, as required by the applicable Polish laws.

### 4. Additional information

#### **Agreements concluded**

The Bank Management Board declare that as at 30 June 2017 ING Bank Śląski S.A. did not have any:

- significant cash loan agreements, sureties or guarantees not concerning operating activity, or
- liabilities towards the Central Bank.

As at 30 June 2017, the Bank had PLN 866.3 million worth of contractual liabilities under the issued own bonds and PLN 635,3 million worth subordinated bonds.

#### **Enforcement proceedings**

To safeguard the Bank against the lending-related risk, the Bank accepts various personal and tangible legal collaterals such as: bank guarantee, surety under the civil law, blank promissory note, draft guarantee, assignment of receivables, mortgage, registered pledge, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank account and freezing of funds in the bank account.

The liabilities or debt claims under the proceedings pending in H1 2017 before court, a body competent for arbitration proceedings or a public administration body did not exceed 10% of the Bank's equity.

The Bank is of the opinion that the individual proceedings that were in progress in H1 2016 and that were heard before any court of justice or arbitration, or before any public administration authority as well as all the proceedings in total do not pose a threat to the financial liquidity of the Bank.



**Signatures of Management Board Members of ING Bank Śląski S.A.:**

**Brunon Bartkiewicz**

President of the Bank Management Board  
(signed on the Polish original)

**Michał Boleśławski**

Vice-President of the Bank Management Board  
(signed on the Polish original)

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**Joanna Erdman**

Vice-President of the Bank Management Board  
(signed on the Polish original)

**Marcin Giżycki**

Vice-President of the Bank Management Board  
(signed on the Polish original)

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**Bożena Graczyk**

Vice-President of the Bank Management Board  
(signed on the Polish original)

**Justyna Kesler**

Vice-President of the Bank Management Board  
(signed on the Polish original)

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**Patrick Roesink**

Vice-President of the Bank Management Board  
(signed on the Polish original)

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1 August 2017