ING Bank Śląski S.A.

Annual Financial Statements for the year 2017

Contents

Annual financial statements of the ING Bank Śląski S.A.

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Income statement
for the year ended 31 December

	Note	2017	2016
Going concern*			
Interest income	2	4 155.5	3 778.5
Interest expenses	2	837.2	953.5
Net interest income	2	**3 318.3**	**2 825.0**
Commission income	3	1 285.5	1 145.4
Commission expenses	3	152.8	130.3
Net commission income	3	**1 132.7**	**1 015.1**
Net income on financial instruments at fair value through profit or loss and FX result	4	79.5	55.7
Net income on investments	5	54.0	245.3
Net income on hedge accounting	6	-9.2	-2.6
Net income on other basic activities	7	-5.8	-2.5
Net income on basic activities		**4 569.5**	**4 136.0**
General and administrative expenses	8	2 035.4	2 009.7
Impairment losses and provisions for off-balance sheet liabilities	9	399.6	268.5
Tax on certain financial institutions	10	330.1	280.2
Gross profit (loss)		**1 804.4**	**1 577.6**
Income tax	11	455.9	368.9
Net profit (loss)		**1 348.5**	**1 208.7**

Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)	12	10.37	9.29

*) As far as comparable data are concerned. there were no discontinued operations at the Bank in the year ended 31 December 2017.

The diluted earnings per share are the same as the profit per one ordinary share.

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

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Statement of comprehensive income
for the year ended 31 December

	Note	2017	2016
Net profit for the period		**1 348.5**	**1 208.7**
Total other comprehensive income, including:		**-83.5**	**-895.9**
Items which can be reclassified to income statement, including:		**-77.1**	**-898.1**
Gains/losses on revaluation of available-for-sale financial assets carried through equity	35	192.9	-76.2
including deferred tax		*-45.2*	*17.9*
Reclassification to the financial result due to sale of available-for-sale financial assets	35	-31.7	-183.7
including deferred tax		*7.5*	*43.1*
Settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	35	*-0.2*	*0.0*
including deferred tax		*0.0*	*0.0*
Settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	35	-32.1	-32.2
including deferred tax		*7.5*	*7.6*
Effective part of cash flow hedging relationship	35	-206.0	-606.0
including deferred tax		*10.7*	*148.0*
Items which will not be reclassified to income statement, including:		**-6.4**	**2.2**
Revaluation of non-current assets	35, 36	0.0	0.6
including deferred tax		*0.0*	*-0.2*
Disposal of non-current assets	35, 36	-0.1	0.0
including deferred tax		*4.8*	*0.0*
Actuarial gains/losses	35	-6.3	1.6
including deferred tax		*1.4*	*-0.4*
Net comprehensive income for the reporting period		**1 265.0**	**312.8**

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

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Statement of financial position

as at 31 December

	Note	2017	2016
Assets			
Cash in hand and balances with the Central Bank	13	2 815.1	1 825.0
Loans and other receivables to other banks	14	2 234.5	1 113.4
Financial assets at fair value through profit or loss	15	530.1	2 826.8
Valuation of derivatives	16	784.7	1 117.1
Investments	17	25 907.4	25 721.3
Derivative hedge instruments	19	967.2	1 338.6
Loans and other receivables to customers	20	87 338.9	78 038.0
Receivables from customers under repo transactions	21	19.8	0.0
Investments in controlled entities	22	240.5	239.2
Non-financial assets	23	961.3	991.2
Assets held for sale	24	11.1	31.8
Tax assets	25	130.9	154.2
Other assets	26	163.7	132.8
Total assets		**122 105.2**	**113 529.4**
Liabilities			
Liabilities to other banks	27	1 044.6	2 019.9
Financial liabilities at fair value through profit or loss	28	735.1	474.8
Valuation of derivatives	16	979.2	1 116.0
Derivative hedge instruments	19	699.2	1 468.1
Liabilities to customers	29	104 075.8	95 168.4
Liabilities to customers under repo transactions		0.0	0.0
Liabilities under issue of debt securities	30	300.3	866.4
Subordinated liabilities	31	626.9	664.9
Provisions	32	97.3	71.2
Tax liabilities	25	220.2	119.6
Other liabilities	33	1 765.6	1 265.2
Total liabilities		**110 544.2**	**103 234.5**
Equity			
Share capital	34	130.1	130.1
Supplementary capital - issuance of shares over nominal value		956.3	956.3
Revaluation reserve	35	493.0	576.8
Retained earnings	36	9 981.6	8 631.7
Total equity		**11 561.0**	**10 294.9**
Total equity and liabilities		**122 105.2**	**113 529.4**
Carrying amount		11 561.0	10 294.9
Number of shares		130 100 000	130 100 000
Carrying amount per share (PLN)		88.86	79.13

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

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Statement of changes in equity

the period from 01 Jan 2017 to 31 Dec 2017

Notes: 35, 36, 37

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Retained earnings	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**576.8**	**8 631.7**	**10 294.9**
Net result for the current period	-	-	-	1 348.5	**1 348.5**
Other net comprehensive income, including:	**0.0**	**0.0**	**-83.8**	**0.3**	**-83.5**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	192.9	-	192.9
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-31.7	-	-31.7
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	-	-	-0.2	-	-0.2
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	-	-	-32.1	-	-32.1
effective part of cash flow hedging relationship	-	-	-206.0	-	-206.0
revaluation of non-current assets	-	-	0.0	0.0	0.0
disposal of non-current assets	-	-	-0.4	0.3	-0.1
actuarial gains/losses	-	-	-6.3	-	-6.3
Other changes in equity, including:	**0.0**	**0.0**	**0.0**	**1.1**	**1.1**
valuation of share-based payments	**-**	-	-	1.1	1.1
Closing balance of equity	**130.1**	**956.3**	**493.0**	**9 981.6**	**11 561.0**

the period from 01 Jan 2016 to 31 Dec 2016

Notes: 35, 36, 37

	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Retained earnings	**Total equity**
Opening balance of equity	**130.1**	**956.3**	**1 474.1**	**7 924.7**	**10 485.2**
Net result for the current period	-	-	-	1 208.7	**1 208.7**
Other net comprehensive income, including:	**0.0**	**0.0**	**-897.4**	**1.5**	**-895.9**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	-76.2	-	-76.2
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-183.7	-	-183.7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-	-	-32.2	-	-32.2
effective part of cash flow hedging relationship	-	-	-606.0	-	-606.0
revaluation of non-current assets	-	-	0.6	-	0.6
disposal of non-current assets	-	-	-1.5	1.5	0.0
actuarial gains/losses	-	-	1.6	-	1.6
Other changes in equity, including:	**0.0**	**0.0**	**0.1**	**-503.2**	**-503.1**
valuation of share-based payments	-	-	-	1.1	1.1
settlement of subsidiary acquisition	-	-	0.1	55.1	55.2
profit distribution with dividend payout allocation	-	-	-	-559.4	-559.4
Closing balance of equity	**130.1**	**956.3**	**576.8**	**8 631.7**	**10 294.9**

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

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Cash flow statement

for the year ended 31 December

	Note	2017	2016
Net profit (loss)		**1 348.5**	**1 208.7**
Adjustments		**4 249.5**	**-494.3**
Depreciation and amortisation	8. 23	181.3	208.8
Interest accrued (from the income statement)	2	-3 318.3	-2 825.0
Interest paid		-808.4	-936.6
Interest received		3 943.8	3 672.8
Dividends received	5	-14.1	-18.5
Gains (losses) on investing activities		-0.9	2.9
Income tax (from the income statement)	11	455.9	368.9
Income tax paid		-332.0	-557.2
Change in provisions	32	26.1	7.4
Change in loans and other receivables to other banks	14. 43	-269.3	12.5
Change in financial assets at fair value through profit or loss	15. 43	2 296.8	-1 700.6
Change in available-for-sale financial assets	17. 43	3 070.4	-163.3
Change in valuation of derivatives	16	195.6	-13.0
Change in hedge derivatives	19	-603.5	147.4
Change in loans and other receivables from customers	20.21.43	-9 260.2	-7 084.8
Change in other assets		31.2	130.2
Change in liabilities to other banks	27. 43	-975.3	164.4
Change in liabilities at fair value through profit or loss	28	259.0	-154.6
Change in liabilities to customers	29. .43	8 914.0	7 754.5
Change in other liabilities		457.4	489.5
Net cash flow from operating activities		**5 598.0**	**714.4**
Purchase of property plant and equipment	23	-82.0	-75.1
Disposal of property. plant and equipment		0.7	3.2
Purchase of intangible assets	23	-73.1	-111.3
Purchase of shares in controlled entities	22	-1.3	0.0
Disposal of assets held for sale		8.1	11.8
Purchase of held-to-maturity financial assets	17	-3 211.3	-2 416.4
Interest received from held-to-maturity financial assets		186.7	140.5
Dividends received	5	14.1	18.5
Net cash flow from investing activities		**-3 158.1**	**-2 428.8**
Long-term loans received	31	0.0	654.8
Interest on long-term loans repaid		-12.4	-10.1
Interest on debt securities issued		-23.0	-22.6
Redemption of debt securities	30	-565.0	0.0
Dividends paid		0.0	-559.4
Net cash flow from financing activities		**-600.4**	**62.7**
Effect of exchange rate changes on cash and cash equivalents		-359.1	135.9
Net increase/decrease in cash and cash equivalents		**1 839.5**	**-1 651.7**
Opening balance of cash and cash equivalents		**2 758.7**	**4 410.4**
Closing balance of cash and cash equivalents	43	**4 598.2**	**2 758.7**

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

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

Accounting policy and additional notes

I. Bank details

1. Key Bank data

ING Bank Śląski S.A. ("Bank", "Company") with the registered office in Katowice, at ul. Sokolska 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Bank statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75.

2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered to individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies. The Bank is also active in the domestic and foreign financial markets. The duration of the Bank business was determined as indefinite in the Bank's charter.

3. Share capital

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares of a par value of PLN 1.00 each. Bank's shares are quoted on the Warsaw Stock Exchange (sector: banks).

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2017 held 75% share in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2017, the shareholders owning 5% and more votes at the General Meeting of ING Bank S.A. were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97.575.000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	10 396 594	7.99

5. ING Bank Śląski S.A. Management Board and Supervisory Board composition

On 21 April 2017, the Chairman of the ING Bank Śląski S.A. Supervisory Board received letters of resignation tendered by Mr. Mirosław Boda– resignation from the capacity of Vice-President of the Management Board of ING Bank Śląski S.A., effective as of 31 May 2017. At the same time, on 21 April 2017, the Supervidory Board appointed Ms Bożena Graczyk to the position of the Vice-President of the Bank's Management Board, effective as of 1 June 2017.

As at the end of 2017, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr Brunon Bartkiewicz - Bank Management Board President,
- Ms Bożena Graczyk - Bank Management Board Vice-President,
- Mr Michał Bolesławski - Bank Management Board Vice-President,
- Ms Joanna Erdman - Bank Management Board Vice-President,
- Mr Marcin Giżycki - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Patrick Roesink- Bank Management Board Vice-President.

Also, on 15 March 2017, the Chairman of ING Bank Śląski S.A. Supervisory Boeard received letter of resignation submitted by Mr. Roland Boekhout - resignation from the position of a member of the Supervisory Board of ING Bank Śląski S.A, effective as of 15 March 2017. The reason for resignation was Mr Roland Boekhout's assumption of another position in the ING Group. At the same time, on 21 April 2017, the General Meeting appointed Mr. Norman Tambach to the Supervisory Board of ING Bank Śląski S.A.

As at the end of 2017, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chair,
- Ms Małgorzata Kołakowska - Deputy Chair,
- Mr Aleksander Galos - Secretary,
- Mr Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Mr Norman Tambach – Member,
- Mr Aleksander Kutela – Member,
- Mr Christopher Steane – Member.
- Mr Christopher Steane – Member.

6. Entity authorised to audit the financial statements

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with registered office in Warsaw is the entity authorised to audit the financial statements.

7. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2017 to 31 December 2017 have been approved by the Bank Management Board on 9 March 2018.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 01 January 2017 to 31 December 2017 shall be published and approved on the same day as the standalone financial statements.

The annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2016 to 31 December 2016 were approved by the General Meeting on 2 March 2016.

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

II. Statement of compliance with International Financial Reporting Standards

These annual financial statements for the period from 01 January 2017 to 31 December 2017 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of the standards and interpretations approved by the EU except for the standards and interpretations mentioned in item 1 below, which either await approval by the EU or have been already approved by the EU but shall take effect after the balance sheet date.

1. Changes to accounting standards

In these annual financial statements the Bank took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 01 January 2017:

Change (EU effective date provided for in the parentheses)	Influence on the Bank statements
IAS 12 *"Recognition of deferred tax assets for unrealised losses"* (the accounting year starting on 1 January 2017 or later)	Amendment implementation has no impact on the financial statements of the Bank.
IAS 7 *Disclosure initiative* (the accounting year starting on 1 January 2017 or later)	Applying the amendment to the standard will have an impact only on the scope and structure of the analytical information disclosed in the Bank cash flow statement.

The published standards and interpretations which were already issued and approved by the European Union as at 31 December 2017 but were not previously applied by the Bank:

Change (EU effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 9 *Financial Instruments* (the accounting year starting on 01 January 2018 or later)	The Bank is working on implementation of the requirements of the new standard as part of the dedicated project. The new standard is expected to have a material impact on the financial statements upon its initial application due to the need of its retrospective application. Given the project works performed, the Bank did not decide to apply the standard earlier. More detailed information was presented in item 1.1.
IFRS 15 *Revenue from Contracts with Customers taking account of the application date change* (the accounting year starting on 01 January 2018 or later)	The analyses show that the application of the explanations to the standard will not have a material impact on the Bank's financial statements..
IFRS 16 *Leasing* (the accounting year starting on 01 January 2019 or later)	The Bank's analysis shows that the application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets under operational leasing in the Bank's financial statements as the lessee. The Bank's analysis shows that the implementation of the new standard will have an impact on the balance sheet total of the Bank's assets, but will not have a significant impact on the Bank's financial results. Lease payments by maturity are presented in note 42.1.

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IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (the accounting year starting on 01 January 2018 or later)	Amendment implementation will have no impact on the financial statements of the Bank.
IFRS 15 *Revenue from Contracts with Customers* (the accounting year starting on 01 January 2018 or later)	The Bank carried out a detailed analysis of the requirements and an assessment of the impact of IFRS 15 on the Bank's financial statements. In particular, the contracts for the delivery of goods or services to the client have been evaluated, taking into account the following requirements of the new standard: ➢ goods and services are subject to ordinary activities ➢ goods and services are provided in exchange for remuneration. The Bank stated that the items of the income statement, which will be recognized in accordance with IFRS 15, are: ➢ commission income ➢ other revenues / costs, in the range not covered by other standards, i.e. except for items that have been excluded from the scope of IFRS 15. A detailed analysis of the revenue recognition, taking into account the principle of five steps in accordance with the requirements of IFRS 15, did not show differences between the current recognition of revenues and the recognition according to IFRS 15. The Bank did not identify positions for which a change in accounting should be required. In view of the above, the Bank estimates that the implementation of IFRS 15 will not have a material impact on the Bank's financial statements.

The published standards and interpretations which were already issued but were not approved by the European Union as at 31 December 2017 and were not previously applied by the Bank:

Change **(expected IASB effective date provided for in the parentheses)**	**Influence on the Bank statements**
IFRS 10 and IAS 28 *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* (the accounting year starting on 01 January 2016 or later) EU approval was postponed for an indefinite period.	Status of approval of the changes has not changed since 12 February 2016. Nevertheless, the potential implementation of changes in the published form will not affect the Bank's financial statements.
IFRS 2 *Clarifications of classification and measurement of share based payment transactions* (the accounting year starting on 01 January 2018 or later)	The Bank is in the process of analyzing the impact of amendments to the standard on the Bank's financial statements.
Changes resulting from the review of IFRS implemented as part of the 2014-2016 cycle (published in December 2016. Related to IFRS 1, IFRS 12 and IAS 28 (the accounting year starting on 01 January 2018 /01 January 2017)	The amendments will not have a material impact on the Bank's financial statements.
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (the accounting year starting on 01 January 2018)	The amendments will not have a material impact on the Bank's financial statements.
IAS 40 *Reclassification of investment property* (the accounting year starting on 01 January 2018)	The change will not have a material impact on the financial statements of the Bank.
IFRS 17 Insurance Contracts (the accounting year starting on 01 January 2021)	Not applicable
IFRIC 23 *Uncertainty over Income Tax Treatments* (the accounting year starting on 01 January 2019)	The Bank is in the process of analyzing the impact of amendments to the standard on the Bank's financial statements.

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IFRS 9 *Prepayment features with negative compensation* (the accounting year starting on 01 January 2019)	The amendments will not have a material impact on the Bank's financial statements.
IAS 28 *Long-term Interests in Associates and Joint Ventures* (the accounting year starting on 01 January 2019)	The analysis so far shows that the implementation of the amendment to the standard will not affect the Bank's financial statements
Changes resulting from the review of IFRS implemented as part of the 2015-2017 cycle (published in December 2017) *Related to IFRS 3, IFRS 11, IAS 12 and IAS 23.* (the accounting year starting on 01 January 2019)	The Bank is in the process of analyzing the impact of amendments to the standard on the Bank's financial statements.

The European Union has decided not to start the process of approving IFRS 14 *Regulatory Deferral Accounts* (the accounting year starting on 1 January 2016 or later) and wait for the final version of the standard.

1.1. IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" was published by the International Accounting Standards Board in July 2014 and approved by the European Union in November 2016. IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement" and provides for the requirements as to classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The new requirements take effect on 1 January 2018. The Bank took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 January 2018, without adjusting comparative periods.

In October 2017, the International Accounting Standards Board published an amendment to IFRS 9 concerning prepayment features with negative compensation. The change made enabled valuation at amortized cost or at fair value through other comprehensive income of financial assets which provide for such contractual terms. The change shall become effective as of 1 January 2019. The Bank did not resolve to apply earlier the said change. Yet, the change will not have a material impact on the financial statements of the Bank.

IFRS 9 implementation project management and status of works

The IFRS 9 implementation project was structured into two work areas: classification, measurement and hedge accounting – coordinated by the Finance Division and impairment – coordinated by the Risk Division. Finance Division and Risk Division experts participated in works of both streams. Experts from other organisational units of the Bank as Treasury Division, Operations, IT and business units were engaged in performance of certain tasks lying within the confines of their competence. The IFRS 9 Steering Committee is the decision-making body for the project. It is composed of the management staff of the Finance Division, Credit and Market Risk Division, Treasury Division and IT. The Management Board and the Audit Committee were periodically informed about the progress of implementation project works.

In 2017, the project team focused on:

- publishing parallel reports to ensure readiness as at the date of first application of the new IFRS 9 guidelines i.e. 1 January 2018;
- implementation and validation of credit risk models;
- finalisation of technical interpretations of IFRS 9 requirements;
- finalisation of assessment and implementation of the business model management processes at the Bank;

- finalisation of conclusions and implementation of management processes for the SPPI criterion;
- update of manuals, operating and reporting processes by embedding there the controls for new guidelines; and
- implementation and testing of system changes.

Throughout 2017, project works were examined in the course of the regulatory inspection and external and internal audit.

At present, the Bank is finishing the works on the opening balance sheet as at 1 January 2018. The reported impact of IFRS 9 application as at 1 January 2018 may change, in particular due to the fact that:

- the banking sector in Poland is still discussing the interpretation of new requirements in certain areas, e.g. presentation of gross amounts of credit receivables or valuation of credit receivables at fair value through profit or loss;
- the PFSA is expected to publish regulatory recommendations for individual elements of the classification, measurement and impairment process, in particular due to the expected by the banking sector amendment to the PFSA Recommendation R.

Having regard to the above, the actual adjustment of the opening balance sheet as at 1 January 2018 in consequence of application of IFRS 9 principles may differ.

Classification and measurement

IFRS 9 is based on the uniform approach to the classification and valuation of financial assets based on the business model for management of financial assets and characteristics of contractual cash flows for the financial assets item.

As per IFRS 9, the financial assets are categorised as follows:

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

IFRS 9 implements two criteria that determine classification and measurement of financial assets:

- business model assessment – made to determine how the financial assets item is managed in the context of its categorisation as:
  - held to collect within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
  - held to collect and sell within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; or
  - held for other business purposes and
- assessment whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated. Analysis conclusions form the confirmation whether the assets item is measured in line with the business model or at fair value through profit or loss.

Business models

Business model structure reflects the current organisational framework of the Bank. It was analysed thoroughly and assessed using business decision triggers as to financial assets management.

Following the assessment, the Bank assigned all debt instruments and credit receivables to one of the business models:

- "Hold to collect" which assumes holding financial assets to collect contractual cash flows – the financial assets which were classified under IAS 39 as "Loans and receivables" and "Investments held to maturity" were assigned to this model;
- "Hold to collect and sell", i.e. the financial assets held to collect contractual cash flows and sell; the financial assets which were classified under IAS 39 as "Available-for-sale financial assets" were assigned to this model;
- "Other" – held for other business purposes which under IAS 39 were classified as financial assets held for trading.

Cash flows analysis

The financial assets held under individual business models were divided into smaller portfolios based on the analysis of contractual terms of the product offer. Their cash flows were examined using a selected sample of agreements from those portfolio through analysis of contractual terms and based on the analysis of system data which define the timing and amount of realised cash flows. The analyses sought to identify the elements which are not payments of principal and interest on the principal amount outstanding. The following aspects of agreements were analysed:

- terms and conditions on credit facility prepayment,
- financial leverages which increase the variability of cash flows, whereby they do not have the economic characteristics of interest,
- the terms which could potentially limit the legal claims to certain assets of the borrower,
- the terms which modify the time value of money.

The financial assets wherefor the contractual cash flows are not payments of principal and interest on the principal amount outstanding are mandatorily measured at fair value through profit or loss regardless of the business model applied.

Financial liabilities

IFRS 9 does not change considerably the requirements for financial liabilities vis-à-vis the IAS 39 ones. The only change pertains to the presentation of the measurement component reflecting the credit risk for the liabilities designated for measurement at fair value through profit or loss at initial recognition. The component is presented in the relevant item of other comprehensive income. The change of the relevant requirements did not impact the financial statements of the Bank, because the Bank did not designate the liabilities for measurement at fair value through profit or loss.

Impact of changes in classification and measurement

Application of IFRS 9 guidelines in the classification and measurement area brought the following major changes:

- For the financial assets of the Bank, the credit exposures which have a financial leverage element in their interest structure were identified. In line with IFRS 9 requirements, the cash flows under those assets are not solely payments of principal and interest on the principal amount outstanding, and thus they are obligatorily measured at fair value though profit or loss. As at 1 January 2018, the carrying amount of those credit exposures was PLN 278 million. Since the difference in the fair value of those assets versus their measurement at amortized cost (as per IAS 39) is immaterial, the issue does not impact the level of Bank's capital but only disclosures for loans and receivables. Due to the lack of an unambiguous interpretation and the ongoing discussions, in that part of the portfolio the Group did not include the exposures which in the interest formula do not have the financial leverage element; however still, that element was introduced in the maximum interest formula description.

- The minority strategic capital investments of the Bank are measured at acquisition price as per IAS 39. The Bank took an irrevocable decision to classify the said capital investments for measurement through other comprehensive income as per IFRS 9. The relevant IFRS 9 guidelines limit the possibility of application of the measurement of those assets as at acquisition price. Recognition of estimated fair value of those financial assets as at the date of initial application of IFRS 9 led to increasing the revaluation reserve at PLN 62.2 million (without tax effect). Adjustment no. 2 in table with the summary of the impact below).
- Before application of IFRS 9 principles, some portfolios of assets were reclassified between the financial categories as per IAS 39 guidelines. Reclassified assets included the items covered with the fair value hedge accounting wherefor hedge links were invalidated in consequence of reclassification. By applying IFRS 9 principles retrospectively, unamortised recording adjustments made under IAS 39 were removed from the balance sheet. As at 1 January 2018, the adjustment had a negative impact on the equity of PLN 77.6 million (without tax effect, Adjustment no. 3 in table with the summary of the impact below).

Hedge accounting

Based on IFRS 9 transitional requirements, the bank selected the policy which means that it will continue to apply IAS 39 on hedge accounting. On 1 January 2018, the Bank applies new requirements for disclosures concerning the hedge accounting as per amended IFRS 7 "Financial Instruments: Disclosures".

Impairment

Implementation of IFRS 9 will have a material impact on the impairment loss estimation methodology for the financial assets measured at amortized cost.

The expected credit loss concept is based on the forward-looking approach. Expected credit losses are measured in the manner factoring in unencumbered and probability-weighted amount set by assessing a series of possible results, considering rational and possible to document information on past events, current conditions and forecasts of future economic conditions. The value of expected credit losses mirrors the impact of a few (most frequently three) macroeconomic scenarios with different probabilities and factors in the change in the time value of money. The new estimation model for expected credit losses applies to financial assets measured at amortised cost, debt financial assets measured at fair value through other comprehensive income and off-balance sheet liabilities and financial guarantees.

To estimate the expected credit losses, the Bank uses the regulatory models of risk parameters estimation, which were built for the Advanced Internal Ratings Based Approach purposes and adapted to IFRS 9 requirements. For the portfolios using the Standard Approach to estimate the regulatory capital, the Bank developed new models to measure the expected credit losses as per IFRS 9.

Approach based on 3 stages

The Bank applies the 3-stage approach to calculate the expected credit losses:

- Stage 1: measurement of the impairment loss being the amount of 12-month expected credit losses versus the financial assets for which no significant credit risk increase was reported (probability of default – PD) from the initial recognition date. Impairment loss in Stage 1 is calculated based on the 12-month expected credit loss, reflecting the expected loss for assets, for which a specific probability of default may materialise within maximum 12 months.

- Stage 2: measurement of the impairment loss being the amount of the lifetime expected credit losses versus the financial assets for which a significant credit risk increase was reported from the initial recognition date. Impairment loss in Stage 2 is calculated based on the lifetime expected credit loss, reflecting the expected loss for assets for which it is probable that they will default in the remaining maturity period.
- Stage 3: measurement of the impairment loss being the amount of the lifetime expected credit losses versus the impaired assets, i.e. in default (PD+100%). Impairment loss in Stage 3 is calculated based on the lifetime expected credit loss.

Stages are defined for each single financial assets item.

Additionally, for POCI assets (*purchased or originated credit-impaired financial assets*) the expected losses are recognised for the lifetime of the instrument. As at the initial recognition date, POCI are recognised at fair value accounting for the expected credit losses.

Determining significant increase in credit risk

At each reporting date, the Bank will assess whether the credit risk on a given financial instrument has increased significantly since initial recognition. The Bank identifies a significant credit risk increase resulting in the classification of the exposure to Stage 2, based on the following triggers:

- A material increase in the probability of default in the lifetime of the exposure.
- Classification of the client exposure to the "watch list",
- Forbearance,
- 30+ DPD,
- Changed conditions of the issue of the client's bonds due to credit-related reasons,
- The Client has a CHF mortgage loan at ING BSK or another bank.

A material increase in the probability of default in the lifetime of the exposure is the key trigger for Stage 1 to Stage 2 migration. The trigger is set by comparing the probability of default from initial recognition to the probability of default at the reporting date based on the analysis of PD curves, which at the reporting date cover the period to maturity.

Criterion of classification of a financial asset to Stage 3: impairment

Criteria of financial assets classification to Stage 3 under IFRS 9 guidelines are the same as for classification of financial assets to impaired assets under IAS 39 requirements.

Macroeconomic scenarios

Under IFRS 9 requirements, the expected loss should be determined as a probability-weighted amount, which was realised by calculation of the expected credit loss as the weighted average from results for a number of macroeconomic scenarios (usually: optimistic, the best estimation and stress). The expected loss is calculated for each scenario separately and the average probability weighted EL value results from the weights assigned to each scenario.

Measurement

Measurement of expected credit losses is based on the model parameters of the expected loss (PD, LGD, EAD) used at present to estimate the regulatory capital, internal capital and collective impairment losses under IAS 39. The models were adjusted by:

1. removing prudential conservatism imposed on parameters (such as e.g. the minimum acceptable PD) and
2. including expected changes in parameters in the future (PD, LGD, EAD) in the point-in-time approach depending on the changes of macroeconomic indicators, i.e. unemployment rate, GDP growth and

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3. analysis of credit risk in the 12-month horizon or in the lifetime.

Expected credit loss parameters are defined on the basis of historical statistical correlations between the parameters and macroeconomic indicators based on the current macroeconomic forecasts for those indicators. PD, LGD and EAD model parameters were calibrated using the point-in-time approach.

To calculate the expected credit losses, the Bank applies the formula PD x LGD x EAD. For increased credit risk exposures (Stage 2), the lifetime expected loss (LEL) is calculated based on the PD, LGD and EAD parameters estimated also for the exposure lifetime. The Bank defines LEL as a discounted total of partial losses in the exposure lifetime, referring to the events of default in each 12-month time window. For impaired exposures (Stage 3), the PD parameter = 100%, while LGD and EAD parameters reflect the characteristics of the exposures which are in default.

Impact of changes in the impairment principles

Following the application of new IFRS 9 requirements, the Bank expects that credit risk impairment loss will go up by PLN 276 million (without the tax effect), including around PLN 17 million which concerns off-balance sheet items (Adjustment No. 1 in the table with impact summary below).

Summary of the IFRS 9 implementation impact on the statement of financial position as at 1 January 2018 versus IAS 39 data as at 31 December 2017

The table below shows the initial estimated impact of elements described above plus separated elements (adjustments 1-3) having a material impact on the consolidated capital of the Bank.

	31 December 2017 IAS 39	[1] IFRS 9 impairment losses	[2] Measurement of equity interests	[3] Elimination of the impact of historical reclassification of financial instruments	Reclassification in assets structure	Impact total	IFRS 9 1 January 2018
Assets							
Financial assets measured at fair value through profit or loss	530.1	0.0	0.0	0.0	278.7	278.7	808.8
Investments	25 907.4	0.0	62.2	-74.9	8.0	-4.7	25 902.7
Loans and other receivables to customers	87 338.9	-258.8	0.0	-1.7	-278.7	-539.2	86 799.7
Tax assets	130.9	49.0	-11.8	14.6	0.0	51.8	182.7
Other assets	163.7	0.0	0.0	0.0	-8.0	-8.0	155.7
Total Assets	**122 105.2**	**-209.7**	**50.4**	**-62.1**	**0.0**	**-221.4**	**121 883.8**
Liabilities							
Provisions	97.3	16.9	0.0	0.0	0.0	16.9	114.2
Total liabilities	**110 544.2**	**16.9**	**0.0**	**0.0**	**0.0**	**16.9**	**110 561.1**
Equity							
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	130.1
Supplementary capital – sale of shares over nominal value	956.3	0.0	0.0	0.0	0.0	0.0	956.3
Revaluation reserve	493.0	1.3	50.4	-40.3	-9.0	2.4	495.4
Retained earnings	9 981.6	-227.9	0.0	-21.7	9.0	-240.6	9 741.0
Total equity	**11 561.0**	**-226.6**	**50.4**	**-62.1**	**0.0**	**-238.3**	**11 322.7**
Total equity and liabilities	**122 105.2**	**-209.7**	**50.4**	**-62.1**	**0.0**	**-221.4**	**121 883.8**

Impact on the capital requirements

Application of IFRS 9 principles will impact the regulatory capital of the Bank due to recognition of recording adjustments caused by changed accounting principles at the date of initial application. The Basel Committee pointed out that the approach to impairment losses both in the Standard Approach and Advanced Internal Ratings Based Approach remains unchanged. Nonetheless, for domestic jurisdictions, the application to impairment losses of the option of amortisation of impact of the implementation of new IFRS 9 principles is admitted.

On 12 December 2017, Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State was published. The regulation is to apply a progressive transition period which would mitigate the impact of a new model of IFRS 9 provisions by reversing a part of a negative impact of IFRS 9 on the Tier 1 capital.

The transition period lasts 5 years at maximum and starts in 2018. Some forecasted provisions for credit losses which may be reversed in the Tier 1 capital should over time go down to zero to ensure the full implementation of IFRS 9 at the date immediately following the transition period (in 2018: 0.95; in 2019: 0.85; in 2020: 0.7; in 2021: 0.5; in 2022: 0.25).

Taking a decision to apply transitional solutions entails the need of adequate notification of a competent authority. In the transitional period, the decision made can be reversed once, provided a prior approval of the relevant authority thereof is obtained.

The Bank resolved to use the transitional solutions discussed hereinabove. In the transitional period, the Bank will make disclosures of own funds, capital ratios as well as the leverage ratio considering and not considering the impact on above-referred transitional solutions.

The estimated as at 1 January 2018 total impact of application of new IFRS 9 principles on Tier 1 ratio (in bp) is approximately 36 bp without a transition period applied. Considering the transition periods, the impact as at 1 January 2018 is 4 bp.

2. Going-concern

These annual financial statements were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date. As at the approval date hereof, the Bank Management Board have not identified any events that could pose threat to ING Bank Śląski S.A. continuing their operations.

3. Discontinued operations

No material operations were discontinued during 2017 and 2016.

4. Financial statements scope and currency

The Bank is the dominant entity of the ING Bank Śląski S.A. Group and besides these financial statements they also produce the consolidated financial statements compliant with IFRS.

These annual financial statements have been developed in Polish Zloty ("PLN"). Unless provided for otherwise, all values were given rounded up to PLN million. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

5. Reporting period and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 01 January 2017 to 31 December 2017 and include the comparative data:

- the consolidated statement of financial position as at 31 December 2016,
- items from the statement of financial position as at 31 December 2016,
- items in the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 01 January 2016 to 31 December 2016.

III. Significant accounting principles

IFRS provide for the selected accounting policies that may be applied. The key areas where IFRS allow the entity to select the policy and which refer to the Bank Accounting Policy are:

- selection of accounting policy for valuation of investment properties at fair value through profit or loss,
- selection of accounting policy for valuation of buildings and land at revalued amount, being its fair value at the balance sheet date. Increase in fair value is recognised in the revaluation reserve (other comprehensive income). Decrease in fair value is carried through the income statement.

The Bank Accounting Policy complies with IFRS. Bank decisions as to the admissible policy selection are presented below.

1. Basis for preparation of financial statements

The concept of fair value has been applied in the statements for own real property and investment property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as available-for-sale, excluding those for which the fair value cannot be determined in a reliable manner. Other items of financial assets (including loans and receivables) are presented at amortized cost less impairment or at purchase price less impairment. Non-current assets held for sale are recognised at the lower of their carrying amount and the fair value less sales costs.

2. Professional judgement

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

2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results deteriorate in the future. For details of deferred tax assets, see the note 25.

2.2. Classification of leases

Leases are classified by the Bank as operating or financial leases based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee. The substance of each transaction is used to make the said assessment. For details of leases, see the note 42.

2.3. Classification of financial assets as financial assets held to maturity

The Bank classifies debt securities as assets held to maturity when they can be held until maturity. For details of the debt securities classified as financial assets held to maturity, see the note 17.

2.4. Classification of real properties as investment properties

The Bank classifies real properties as investment properties on the assumption that the part used to provide services and perform administrative tasks is immaterial.

3. Accounting estimates

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

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

The estimations and assumptions are reviewed on an on-going basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the adjustment applies to this period alone or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

Below are the most significant booking estimates made by the Bank.

3.1. Impairment

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

3.1.1. Impairment of financial assets

Objective evidence of impairment of financial assets stems from occurrence of one or more events which have a direct impact on valuation of future asset-related cash flows.
The estimates can take into account observable data indicating occurrence of unfavourable payment situation on the part of borrowers from a certain group or unfavourable economic situation of a given country or its part, which translates into the problems sustained by this group of assets.

For significant assets classified to the ISFA portfolio (Individually Significant Financial Assets), impairment is calculated as a difference between the present value of a credit exposure and expected discounted future cash flows for a given exposure.

For assets from IBNR (Incurred But Not Reported) and INSFA (Individually Non-Significant Financial Assets) portfolios, current exposure is computed with the use of PD, EAD and LIP parameters.

Detailed informations as to credit risk estimation models used by the Bank are presented further in this report, see Chapter: *Risk Management at ING Bank Śląski S.A.*, item I discussing credit risk management.

To determine impairment (or reverse it), the present value of expected future cash flows has to be calculated. The methodology and assumptions used to estimate both the amount and the time of future cash flows are regularly reviewed and adjusted as needed.

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto were described in item *Impairment* (item *6.11* of this chapter).

The table below shows the estimated impact of the change to the present value of expected future cash flows in the ISFA portfolio on the change to loan loss provisions and provisions for off-balance sheet liabilities.

2017

	Scenario (FCF change)	
	-10%	**+10%**
Estimated LLP change [PLN million]	(57.91)	55.55
Estimated LLP change [%]	(9.00%)	8.64%

3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors. To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given assets item.

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

The relevant recording rules were delineated in item *8.4. Impairment of other non-financial assets*.

The table below shows discount rate sensitivity of the impairment test for the cash-generating units.

(PLN million)	31.12.2017	Discount rate change	
		- 1 p.p.	+ 1 p.p.
Surplus of cash flows net value over the net book value.	2.607.3	3.602.1	1.923.1

3.2. Credit risk of derivative instruments

The approach employed by the Bank to estimate credit risk for derivatives with future settlement date (active deals unsettled as at the balance sheet date) is consistent with its approach to assessing credit risk for credit receivables.

For details of fair value measurement of derivative instruments considering credit risk, see item *6.8. Derivative instruments and hedge accounting.*

3.3. Measurement of financial instruments that do not have a quoted market price

The fair value of financial instruments not quoted in active markets is measured using valuation models. For non-option derivatives, the models based on discounted cash flows apply. Options are measured using appropriate option valuation models.

Valuation models used by the Bank are verified prior to their usage. Where possible, in models the Bank uses observable data from active markets. However, in certain circumstances, to choose the right valuation parameter, the Bank makes an estimation by comparing a given instrument to another one present in another market but having similar or identical features. Application of the prudence principle requiring to choose the lower value of assets and the higher value of liabilities as being more probable – especially in the conditions of lower liquidity or/and volatility of the financial markets – is fundamental in the valuation made under this approach. Change of assumptions concerning these factors may impact on valuation of some financial instruments.

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3.4. Retirement and pension benefit provision

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

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

The table below shows model sensitivity to the values adopted for individual assumptions.

	Retirement and pension benefit provision		
	Lower bracket	**Base variant**	**Upper bracket**
Discount Rate (+1% / base variant / - 1%)	35.15	39.03	43.65
Salary raise (-0.25% / base variant/ +0.25)	37.99	39.03	43.65

3.5. Valuation of incentive schemes

3.5.1. Valuation of variable remuneration programme benefits

As at the balance sheet date, the Bank presents in the books the estimated present value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. The programme was launched in 2012.

Benefits granted as phantom stock are valued with the use of the median of closing prices of Bank's shares on the Warsaw Stock Exchange during a certain period.

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

The present value of the said benefits is determined at market discount rate.

3.5.2. Valuation of options granted under ING Group incentive system benefits

The fair value of the options granted under the ING Group incentive scheme was measured with the Monte Carlo simulation. The model takes the risk-free interest (from 2.02% to 4.62%) as well as the expected exercise date for the options granted (from 5 to 9 years), the option exercise price, the present option price (EUR 2.9 – EUR 26.05), the expected volatility of ING Group's share certificates (25% – 84%) and the expected dividend yield (from 0.94% to 8.99%).

The ING's incentive scheme determines the volatility used to price stock options, which is defined by the volatility of market data and not the historical volatility.

3.6. Residual value of leased assets

The expected residual value is usually the agreed future price of non-current asset purchase by the client after the end of the leasing term. The value is calculated as at the leasing commencement, based on the non-current asset initial value. The residual values are usually established based on certain contractual amount and recognized in net leasing investment position. Recovery of non-current asset residual value in leasing operations depends on the fulfilment of terms and conditions of leasing contract and completion thereof.

3.7. Amortisation period and method for intangible assets

The amortisation period and method for intangible assets are verified at the end of each accounting year. Changes to the useful life or expected pattern of consumption of the future economic benefits embodied in the intangible asset are recognised by changing the amortisation period and method, accordingly. The said changes are approached as changes to estimates.
As a result of verification of rates and useful life of intangible assets, the useful life for the intangible assets created under strategic projects was determined as 5 years.
Strategic applications are made under strategic projects that are key to the Bank's operations.
The Group established the capitalisation limit for purchase (PLN 440,000) or in-house production (PLN 10 million) of computer software.

4. Consolidation policies

4.1. Legal consolidation of subsidiaries

When settling the transactions of consolidating the Bank with their subsidiary (subject to joint control), the Bank applies the approach consistent with the terms and conditions of the approach whereunder shares are consolidated under the Accounting Act of 29 September 1994, following implementation of IAS 8 guidelines.

Under this approach, individual items of relevant assets and liabilities of the consolidated subsidiary are included in the separate financial statements of the Bank in the amounts recognized in the consolidated financial statements of the dominant entity as at the consolidation date. The consolidation does not affect the comparable data; thus the data do not require any change.

4.2. Assumption of control over an entity subject to joint control under IFRS 3

The Bank applies the method discussed in item *4.1.* hereinabove also to recognise the fact of control assumption over the entity subject to joint control under IFRS 3 in the consolidated financial statements.

The Bank adopted the approach whereunder comparable data are not adjusted when control is assumed over an entity subject to joint control under IFRS 3.

4.3 Associated entities and entities under common control

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a share of between 20% and 50% of the voting rights. The consolidated financial statements include the Bank's share in profits or losses of associates according to its share in net assets of associates, from the date of obtaining significant influence until the date, the significant influence ceases.

Investments in associates are initially accounted at purchase price and then accounted for using the equity method. The Bank's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The share of the Bank in the profits (losses) of associates since the date of acquisition is recognised in the income statement, whereas its share in changes in other reserves since the date of acquisition – in other reserves. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

When the share of the Bank in the losses of an associate becomes equal or greater than the share of the Bank in that associate, the Bank discontinues the recognition of any further losses or creates provision only to such amount, it has assumed obligations or has settled payments on behalf of the respective associate.

Investments in associates meeting the criteria of classification as assets held for sale are recognised as per the rules described in item Non-current assets held for sale and discontinued operations (item 10.3).

4.4. Assumption of control over an entity other than the ING Group member

The takeover approach is applied when settling the purchase of entities from non-associated parties. At the takeover date, the Bank recognizes, separately from goodwill, purchased identifiable assets and taken over identifiable liabilities, taking into account recognition criteria and all non-controlling interests in the taken over entity.

5. Foreign currency

5.1. Functional currency and presentation currency

The items given in presentations of the Bank are priced in the currency of the basic economic environment in which a given entity operates ("the functional currency"). These financial statements are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are recognized in the income statement under the specific item *FX result*, which is an element of *Net income on instruments at fair value through profit or loss and FX result.*

Foreign exchange differences under changes to the fair value of financial instruments classified as available-for-sale financial assets are recognized in the revaluation reserve for the financial assets assigned to this financial category.

6. Financial assets and liabilities

6.1. Classification

The Bank classifies financial instruments to the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, investments held to maturity and available-for-sale financial assets.

6.1.1. Financial assets and liabilities at fair value through profit or loss

These are financial assets or financial liabilities that meet either of the following conditions:

- are classified as held for trading. A financial assets item or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments),
- upon initial recognition they are classified by the Bank as carried at fair value through profit or loss. Such classification can be made only if:

- the classified financial assets item or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden;
- usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (the so called booking mismatch due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them);
- the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

6.1.2. Investment held to maturity

Those are the financial assets other than derivatives with payments specified or possible to specify and with the maturity date specified, other than those defined as loans or receivables, which the Bank intends to and is able to hold by the maturity date. In case of sale or reclassification of more than an insignificant amount of held-to-maturity investments in relation to the total held to maturity investments before maturity all the assets of this category are reclassified to the available for sale category. In such a case, the Bank must not classify any financial assets as investments held to maturity for 2 years.

The above mentioned sanction is not applied:

- if sale was so close to maturity (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the asset's fair value,
- if the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments, or
- for an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

6.1.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity upon initial recognition carries at fair value through profit or loss;
- those that the entity upon initial recognition classifies as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit service deterioration, which are classified as available for sale.

Loans and receivables include credit facilities and cash loans granted to other banks and clients including repurchased debt claims, debt securities reclassified from the portfolio of financial assets available for sale and debt securities not listed in the active market, that satisfy the definition of loans and receivables.

6.1.4. Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

6.1.5. Other financial liabilities

Financial liabilities being a contractual obligation to deliver cash or other financial asset to another entity not carried at fair value through profit or loss, being a deposit or loan received.

6.1.6. Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

6.2. Recognition

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

6.3. Derecognition

The Bank derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset. On transferring the financial asset, the Bank evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

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

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is satisfied or cancelled or expires.

The Bank is of the opinion that change in the settlement of IR derivatives via the central counterparty:

- from the collateralised to market approach
- to settled to market one

does not comply with the IAS 39 terms and conditions of derecognition.

The Bank derecognizes loans and receivables or their part, if the rights pertaining to the loan agreement expire, the Bank waives such rights, sells the loan or when as a result of modification of the terms and conditions of the loan or cash loan agreement the current value of future cash flows of the primary exposure and the post-modification exposure differs by more than 10%.

The Bank most frequently writes down receivables as impairment loss when irrevocability of financial assets is declared, and also when repayment claim costs exceed the amount of the receivable.

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

6.4. Measurement

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

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, except for the following financial assets:

- loans and receivables which are measured at amortized cost using the effective interest method,
- held-to-maturity investments which are measured at amortised cost using the effective interest method,
- investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which are measured at cost.

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

- financial liabilities carried at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument which fair value cannot be reliably measured and which is measured at cost,
- financial liabilities resulting from the transfer of a financial asset which does not qualify for being excluded from the balance sheet or recognized on a continuing involvement basis.

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

Granted financial guarantees are measured at the higher of:

- the amount being the most appropriate estimation of the expenditures needed to fulfil the current obligation arising from the financial guarantee, considering the probability of materialisation thereof;
- the amount recognized at the initial entry, adjusted with the settled amount of received guarantee commission.

6.5. Reclassification

A particular financial asset classified as available for sale may be reclassified should it satisfy the definition of loans and receivables and should the Bank intend and be able to maintain this financial asset in the foreseeable future or until its maturity. The fair value of the financial asset at the reclassification date is deemed as its new cost or new amortised cost, respectively.

In the event of a maturing financial asset, the profits or losses recognized as equity until the date of reclassification are amortised and carried through profit or loss for the remaining term until maturity. All differences between the new amortised cost and the amortisation amount are amortised for the remaining term until the instrument's maturity, similarly to the amortisation of premium or discount. Amortisation is made using the effective interest rate method.

6.6. Gains and losses resulting from subsequent measurement

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

- a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized in the income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in equity.

The interest calculated using the effective interest rate method is recognized in the income statement.

As of impairment of items of financial assets or a group of financial assets, the Bank carries the amount of contractual interest not paid at the impairment date through profit or loss. Since then, the Bank accrues interest on the items of financial assets or a group of financial assets less impairment. Interest is accrued at the interest rate used to calculate impairment for the financial assets affected. Later, the value is adjusted for the contractual interest paid in a given period.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the entity's right to receive payment is established.

Foreign exchange gains and losses arising from a change in the fair value of a non-monetary financial assets item available for sale denominated in foreign currency are recognized directly in equity. Foreign exchange gains and losses arising from monetary financial assets (e.g. debt securities) denominated in foreign currency are recognized directly in the income statement.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognized previously in equity, are transferred to the income statement. If any objective evidence exists that an available-for-sale financial assets item is impaired, the Bank recognises impairment as described in item *6.11.2* concerning determination of impairment of available-for-sale financial assets.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined using the bid price for long position and offer price for short position. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach and is based on the guidelines given in the technical standards of the European Banking Authority (EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

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

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

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

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market,
- Level II: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations,

- Level III: financial assets/liabilities measured using the measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

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

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

6.7. Valuation cost basis of debt and capital securities

Estimation of fair value of and result on sale of securities requires application of a certain cost basis for investment. The cost basis for investment applied in that respect is based on the interpretation resulting in application by an analogy to the guidelines given in IAS 2 _Inventories_, however only as far as possible considering the unique nature of the financial instruments of this type.

The Bank applies the “weighted average purchase price” as the effective cost basis for investment to estimate fair value of and result on sale of securities with the capital rights.

The Bank applies the “first-in first-out” (FIFO) method as the cost basis of investment for debt securities.

6.8. Derivative instruments and hedge accounting

Derivative instruments are measured at fair value without transactional costs, which are to be incurred at the moment of its sale. The base of initial fair value measurement of derivative instruments is value at cost, i.e. fair value of received or paid amount.

The carrying amount of IR derivatives settled via the central counterparty reflects transaction settlement under the settled to market approach.

The credit risk component is included in the fair value measurement for derivative instruments through additional valuation adjustments. Valuation adjustments are estimated per counterparty considering the expected presettlement exposures and the same risk incurred by the Bank. This approach provides for the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated) and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Bank insolvency are calculated by analogy.

In addition for matured or terminated and unsettled transactions as at the balance sheet date, the Bank establishes impairment losses using the methodology applied to assessing the risk of impaired loans.

The two types of fair value adjustments as mentioned above were differently reflected in the financial statements. Fair value adjustments due to risk for non-matured transactions were presented under the item _Net income on instruments at fair value through profit or loss and FX result_, whereas the impairments losses for matured transactions under the item _Impairment losses for financial assets and provisions for off-balance-sheet liabilities_.

If a transaction whose fair value was adjusted in the previous reporting period under the item

Net income on instruments at fair value through profit or loss and FX result becomes mature or subject to restructuring, then the amount of the previous fair value adjustment is moved to the item *Impairment losses* and the added part of the impairment loss for such already matured transaction is presented in the income statement in the item *Impairment losses for financial assets and provisions for off-balance-sheet liabilities*.

Therefore the financial result is impacted only by the amount of surplus of the current impairment loss (or write-down) for a mature transaction above the amount of the fair value adjustment made before the transaction has matured.

The Bank separates and recognizes in the statement of financial position derivative instruments that are a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes some or all of the cash flows arising from the host contract to be modified considering a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

The Bank separates embedded derivatives from the host contract and accounts for them as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the host contract is not carried at fair value through profit or loss. An embedded derivative is measured at fair value, and its changes are recognized in the income statement.

The Bank uses derivative instruments to hedge against FX and interest rate risk, inherent in their operations. Those derivatives which were not designated as hedge instruments under the hedge accounting principles are classified as trading instruments and carried at fair value.

6.8.1. Hedge accounting

Hedge accounting presents the offset effects of fair value changes of both hedging instruments and hedged items which impact the income statement.

The Bank defines certain derivatives for hedging fair value or cash flows. The Bank uses hedge accounting, if the following conditions are met:

- formalised documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Bank. In the documentation, the Bank designates the hedging instrument to hedge a given position or transaction, and specifies the type of risk to be hedged against. The Bank specifies the manner for assessing the effectiveness of the hedging instrument in compensating for changes in cash flows due to the hedged transaction in terms of mitigation of risk the Bank hedges against,
- the hedging instrument and hedged instrument are similar, especially in terms of nominal value, maturity date and volatility to interest rate and foreign exchange changes,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge may be assessed credibly, so the fair value of the hedged item or the cash flows of the said item as well as fair value of a hedge instrument may be valued credibly,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Fair value hedge: a hedge of the exposure against changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from re-measuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) is recognized in the income statement; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the income statement. In view of the above, any ineffectiveness of the strategy (i.e. lack of full compensation for changes to the fair value of the hedged item and changes to the fair value of the hedged instrument) is immediately disclosed in the income statement.

If a hedged item is a component of financial assets available for sale, the profit or loss resulting from the hedged risk is recognized in the income statement, and the profit or loss resulting from non-hedged risk is recognized in equity.

The Bank applies the fair value hedge accounting to hedge against changes in fair value of fixed-rate debt instruments classified to the portfolio of available-for-sale assets and fixed-rate debt instruments classified to the portfolio of loans and receivables before the risk resulting from interest rate changes.

Cash flow hedge

Cash flow hedge: exposure hedge against volatility in cash flows that:

- is attributable to a particular risk associated with a recognized assets item or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction,
- could affect the income statement.

A cash flow hedge is accounted for as follows: the changes of the fair value of the hedge instrument, which are an effective part of hedging relationship, are recognised directly in equity through the statement of comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned future transaction, are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

The Bank applies cash flow hedge accounting to hedge the amount of future cash flows of certain portfolios of assets/liabilities of the Bank or the portfolio of highly probable planned transactions against the interest rate risk and the highly probable planned transaction against the FX risk.

Further, the Bank applies the hedging strategy to hedge against the FX risk and base risk being the consequence of funding the CHF- or EUR-indexed mortgage portfolio with PLN liabilities using FX interest rate swaps; i.e. Currency Interest Rate Swap (CIRS).

With one economic link between the concluded CIRS transactions and the extended CHF or EUR loans as well as PLN deposits used to fund them, the sets two hedge links for cash flow hedge accounting purposes. The foregoing is made by separating the real CIRS transaction part hedging the portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

6.8.2. Derivative instruments not qualifying as hedging instruments

Changes in fair value of derivatives that do not fulfil the criteria of hedge accounting are disclosed in the income statement for the current period. Changes in fair value of IR-derivatives arising from ongoing accrual of interest coupon are disclosed under *Interest result on derivatives*, whereas the remaining part of changes in the fair value of IR-derivatives are presented under *Net income on financial instruments at fair value through profit or loss and FX result.*

Changes in the fair value of FX-derivatives are decomposed into three elements, which are presented as follows:

- changes in fair value arising from ongoing accrual of swap/forward points are presented under *Interest result on derivatives*,
- changes in fair value due to changes of foreign exchange rates are presented under *Net income on financial instruments at fair value through profit or loss and FX result,*
- the remaining part of change in fair value (i.e. due to the change of interest rates) is presented under *Net income on financial instruments at fair value through profit or loss and FX result.*

6.9. Offsetting financial instruments

The Bank offsets financial assets and financial liabilities and reports them in the net amount in the statement of financial position when and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In order to mitigate credit risk, the Bank concludes special master agreements with counterparties, with which the Bank concludes transactions. These special master agreements provide for offsetting financial assets and liabilities in case of a breach of the master agreement.

6.10. Repo/reverse repo transactions

The Bank presents sold financial assets with the repurchase clauses (repo, sell-buy-back transactions) in their statement of financial position, simultaneously recognizing a financial liability under a repurchase clause. This is done in order to reflect the risks and benefits arising on this assets item that are retained by the Bank after the transfer.

For the securities purchased with a repurchase clause (reverse repo, buy-sell-back), the financial assets held are presented as receivables arising from repurchase clause, hedged with securities.

Transactions are measured in line with their intention. Accordingly, the transactions made for the category of financial instruments held for trading are carried at fair value through profit or loss. Other transactions are recognised at amortized cost using the effective interest method.

6.11. Impairment

6.11.1. Assets valued at amortized cost

At each balance sheet date, the Bank assesses whether there is any evidence that a financial assets item or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

The evidence of impairment is:

- identification of an objective impairment evidence
- the analysis (test) result showing impairment

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

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +90 DPD, provided that the amount of arrears is higher than the materiality threshold defined for a given client segment or product,
- another forbearance has occurred or there is a delay of +30 DPD for a forborne corporate credit exposure, this does not apply, however, to the exposures which were classified as serviced (working) since forbearance status assignment,
- a petition for bankruptcy with liquidation or conciliation bankruptcy has been filed or rehabilitation proceedings have been started by the Bank, a client or by another bank. For retail credit exposures, it applies only where it is the Bank that files the petition for the client bankruptcy,
- bankruptcy with liquidation is declared, conciliation bankruptcy or rehabilitation proceedings towards the client are approved – if they assume lack of full repayment towards the Bank,
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement,
- the Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item,
- the Bank initiates the debt enforcement proceedings,
- the client questions the balance sheet credit exposure in court,
- the client's whereabouts are unknown so the client is not represented in contacts with the Bank and the client assets are not disclosed,
- serious financial problems of the client, including but not limited to:
  - for corporate credit exposure, the Bank has assessed with high probability (above 50%) that the client situation will preclude full repayment of the debt within the impairment analysis (test),
  - for retail credit exposure:
    - poor financial standing reflected in the worst risk rating of the client (applies to clients from the Entrepreneurs segment),
    - restructuring of the non-performing retail credit exposure,
    - impairment on other accounts – within the product segment the client has other credit exposures where impairment evidence has been identified,
- for retail credit exposures – justified suspicion of fraudulent obtainment of a loan.

For retail credit exposures, the objective impairment evidence applies if the materiality threshold of PLN 500 is exceeded. As regards corporate credit exposures without risk rating, the materiality threshold for overdraft facilities with +90 DPD amounts to PLN 1,000. For the remaining corporate credit exposures, the Bank does not use the materiality threshold.

During the impairment identification process, the Bank first assesses whether there exist impairment triggers for financial assets items.

For retail credit exposures, in case when the Bank obtain information about financial difficulties of the client it is a trigger for prepare of the assessment whether it is an impairment evidence.

For corporate credit exposures, the impairment analysis (test) result determines whether

or not impairment is identified. The test is run upon identifying an impairment trigger. Impairment triggers for corporate credit exposures include::

- danger of bankruptcy or another financial reorganisation has been reported, both of which may lead to a failure to repay the financial asset or to delayed repayment,
- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +45 DPD,

- the Bank assesses that the client will face difficulties in repaying the debt, that is the client is undergoing material financial problems which may lead to a failure to repay the financial asset or to delayed repayment,
- significant breach of contractual conditions by the client which may adversely impact on future cash flows from a given financial assets item,
- disappearance of an active market for a given financial assets item held by the Bank due to the financial problems of the issuer/client, which may have a negative influence on future cash flows from a given financial assets item,
- credit debt was restructured for non-commercial reasons, that is due to client's material financial problems. This is the case where for the aforementioned reasons the client has requested forbearance from the Bank or the Bank has already applied forbearance towards the Client which would not have been applied had the client not sustained financial problems (forbearance included). These can be in particular such situations as: lending tenor extension, reduction of credit instalments, suspension of principal repayment or interest payment,
- client's rating has deteriorated considerably,
- major conflict among shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no suitable succession, random incident leading to destruction of debtor's key assets.

For retail credit exposures there is one impairment evidence, which it is not the objective impairment evidence i.e. obtaining information about financial difficulties of the client, among others job loss or untimely servicing of the debt which is significant in value (past due more than 90 days or introduction of the enforcement/recovery actions by other bank).
The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients.
Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the necessity to carry out the impairment analysis (test).

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

Practically, for significant assets, impairment is calculated per assets item using the discounted future cash flows of a given assets item; for insignificant assets – it is calculated collectively. When estimating future cash flows, the available debtor data are considered; the debtor's capacity to repay the exposure is assessed in particular. For backed credit exposures, the expected future cash flows on collateral execution are also used in the estimation, considering the time, costs and impediments of payment recovery under collateral sale, among other factors.

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

The impairment loss calculated collectively is estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data (to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based), and also through elimination of the effects of conditions in the historical period that do not exist currently.

The Bank regularly verifies the methodology and assumptions adopted to estimate future cash flows in order to mitigate the differences between estimated and actual losses.

For the purposes of calculation of the provision for the balance sheet and off-balance sheet exposures shown as EAD, the probability of default (PD) method (modified PD parameter) is applied, among others.

The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and related loss identification periods as well as the historical loss adjustments made using the currently available data (in line with the Point-in-Time philosophy). Interest and penalty payments are recognised using the cash-basis accounting method and they do not form the basis for creation of impairment losses.

For IBNR (Incurred But Not Reported) and INSFA (Individually Non- Significant Financial Assets) portfolios, calculations are made with the use of PD, EAD and LGD parameters plus the loss identification period as per the following formula:

Impairment loss $= PD_{LIP} \times (EAD + EI) \times LGD$

Where:

- PD_{LIP} – probability of default over the LIP consistent with the approach accounting for the given portfolio current risk profile (Point-in-Time philosophy). A loss identification period (LIP) expressed in months, which depending on business segment is:
    - 8 months for small enterprises and consumer credits,
    - 9 months for strategic clients, mid-sized and mid corporates, and
    - 12 months for retail mortgage loans,
- EAD (exposure at default) – current balance sheet exposure plus the projected balance sheet equivalent of unutilised credit lines and off-balance sheet liabilities including the conversion rate (the so called CCF or K-factor) in line with relevant EAD models.
- EI (effective interest) – contractual interest accrued and unpaid including outstanding commissions and effective interest rate adjustment for those exposures for which the effective interest rate is set and contractual interest accrued and unpaid for those exposures for which the effective interest rate is not set,
- LGD – the expected loss ratio, which is the complement to unity of the ratio of the recoverable amount and the basis for impairment losses including all direct costs incurred as of the impairment date until the end of the debt recovery process. Historical loss parameters are adjusted with the data coming from current observations in order to account for current market factors which were not present during the period covered with historical observations and exclusions of effects of past developments which are no longer present today.

The PD parameter is 100% for impaired exposures (INSFA). The LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired.

Moreover, for separated portfolios that comprise exposures defaulted for at least 2 or 3 years (depending on the segment) the LGD parameter is also 100%.

The Bank also verifies the conversion rate (the so-called CCF or K-factor) of utilisation of the free part of the credit limit in the period from the reporting date to the default date to assure compliance with IAS 37 concerning provisions for contingent off-balance sheet liabilities.

This approach allows specifically for identification of:

- the losses that have already occurred, and
- the losses that occurred as at the impairment date, but have not been documented yet (the so-called provision for incurred but not reported losses – IBNR).

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the income statement for the period. For the medium-sized and mid-corp clients, after 2 years of client being in default and when it is not possible to reclassify the client to the non-impaired portfolio, exposure is fully (100%) covered with impairment loss or written off. For the segment of retail clients in the same situation, the exposure is in 100% covered with the impairment loss after the lapse of:

- 3 years for mortgage loans,
- 2 years for other credit exposures.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment loss is reversed through the income statement by a proper adjustment. With regard to strategic clients and corporate clients of the sales network the Bank determined the events whereunder it is possible to reverse credit exposure impairment (all of the below mentioned conditions have to be met jointly):

- the client's stay in the impaired portfolio (INSFA or ISFA) is shorter than 12 months and minimum 3 calendar months have passed from the time the carrying amount of the exposure was recognised as equal to the present value of expected future cash flows. However, in the absence of impairment triggers, the exposure loss can be reversed immediately after an external significant event which in the Bank's opinion positively impacts client's situation has become probable or the Bank's exposure on the client has been considerably reduced, or the Group has obtained new exposure collateral,
- no delays in repayment,
- the Bank assesses that the client will repay all their liabilities towards the Bank, and the impairment test carried out taking account of the expected future cash flows does not show impairment, and for the client having a forbearance exposure it is additionally required that it is classified to the portfolio of non-performing exposures for at least 12 months following forbearance identification.

6.11.2. Financial assets available for sale

The Bank assesses as at each balance sheet date whether there is any objective evidence of impairment of financial assets classified as available for sale.

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

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- breach of contractual terms and conditions, specifically with regard to default or delay in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,
- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,

- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset, or
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Bank books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Additional conditions indicating the possibility of impairment which, due their nature, concern equities:

- significant or long-lasting decrease in fair value of equities below their price/cost of purchase,
- decrease in fair value of equities is disproportionately high as compared to equities issued by other entities from the same sector,
- significant unexpected deterioration of the issuer's profits, flows or net assets as of the purchase date,
- reduction or cessation of dividend payout, and
- significant reduction of the issuer's credit rating which took place after their purchase/initial recognition in the Bank books.

Significant or long-lasting decrease in fair value is evaluated on the basis of the following quantitative criteria pointing to the possibility of impairment occurrence:

- the current market price stays 25% below the purchase price for longer than 6 months,
- the current market price stays 40% below the purchase price, or
- the current market price stays 10%-25% below the purchase price for longer than 12 months.

The quantitative criteria are used objectively (i.e. their occurrence constitutes the basis for impairment identification), however in case of confirming indisputable evidence it is also possible that:

- impairment is not identified, or
- impairment is identified, although quantitative criteria do not confirm it, yet other available, identified and confirmed conditions prove that such impairment has occurred.

In case of objective evidence for impairment of available-for-sale financial assets item, the aggregated losses so far recognized directly as equity are derecognized therefrom and recognized in the income statement, even if financial assets item has not been excluded from the balance sheet.

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

Impairment losses recognised in the income statement for an investment in an equity instrument classified as available for sale is not reversed through income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

6.11.3. Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

6.12. Forbearance and non-performing exposures

The Bank set the principles of identification of and reporting on forbearance and non-performing exposures under the Commission Implementing Regulation (EU) 2015/1278 of 09 July 2015 amending Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.

Pursuant to the definition adopted, forbearance refers to the following:

- the client's default on paying their financial liabilities has been confirmed or is expected in the short term;
- because of the above, the Bank has decided to extend forbearance to the client so as to enable them to pay the contractual liabilities or to prevent future default on payment;
- forbearance has been extended neither on commercial grounds nor on market conditions; it would not have been extended provided that the client had not suffered financial difficulties; the amended agreement contains the terms and conditions that are more favourable than the market ones, i.e. those that could be offered by the Bank at the same time to other debtors with a similar risk profile;
- the client accepted forbearance, i.e. the terms and conditions of the agreement binding so far have been changed or a refinancing agreement has been signed or an "embedded forbearance clause" has taken effect or the Bank has abandoned actions in the event of the client materially breaching the essential financial clause.

Forbearance is recognised in the above-said situations regardless of the client's compensation thereunder and the collateral accepted by the Bank.

For the retail segment – all exposures in restructuring are deemed forbearance exposures.

As non-performing exposures the Bank recognises those exposures that meet at least one of the below criteria:

- significant exposure is overdue over 90 days,
- the Bank is of the opinion that there is little probability that the client will meet all their credit liabilities without the Bank having to take actions such as satisfaction from collateral (regardless of the overdue amount and the number of days past due),
- credit exposure impairment has been reported.

Exposures are also classified as non-performing exposures when arrears of +30 DPD occur for the forbearance exposure or when another forbearance is granted for such exposure, while that refers exclusively to the cases when the client with the forbearance status was after obtaining that status in the non-performing portfolio and subsequently was upgraded to the performing portfolio.

The forbearance can:

- not significantly change the material conditions or expected future cash flows of an existing financial asset, or

- change significantly the material conditions or expected future cash flows versus the conditions or expected future cash flows of the existing financial asset.

Then, accordingly:

- the expected future cash flows for the changed financial asset subject to forbearance will be recognised in the valuation of the existing financial asset on the basis of the expected exercise period and the amounts discounted with the initial effective interest rate for the existing financial asset, or
- the existing financial asset is derecognised and the new financial asset is carried through the balance sheet at fair value as at the initial recognition date, while the difference between the existing and the new assets is carried through profit and loss. Such recognition is independent of the change or lack of change of the transaction legal form and is based on its economic content.

7. Investment property

Investment property is property (land or a building, or part of a building, or both) held by the Bank (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both. At the same time, such a real property is:

- occupied by the Bank only to a small extent, and
- it is not for sale as part of the regular operations of the Bank.

Therefore, an investment property generates cash flows largely independent of the other assets held by the Bank. An investment property is measured initially at its cost (purchase price and any directly attributable expenditure). After the initial recognition, investment property value is not depreciated. It is measured with the use of the fair value model. A gain or loss arising from a change in the value of investment property is recognised in the income statement for the period in which it arises and is shown in *Net income on other basic activities*, in the item: *Fair value measurement of investment properties*. The fair value of investment property reflects market conditions at the balance sheet date.

8. Non-financial assets

8.1. Property, plant and equipment

8.1.1. Own property, plant and equipment

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

Property, plant and equipment, with the exception of land and buildings, are recorded at historical costs less depreciation and impairment. The historical costs are made up of the purchase price/ manufacturing cost and the costs directly related to the purchase of assets.

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

Land and buildings are carried in accordance with the revaluation model, after initial recognition at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The revaluation effect is reflected in the revaluation reserve/ revaluation allowance in case of the value increase, or carried through the income statement in case of the carrying amount decrease. However, the increase in value is recognised as income insofar as it reverses the decrease of value due to revaluation of the same asset that was previously recognised as costs of a given period. Similarly, the decrease of the asset's value resulting from revaluation shall be set off against the relevant surplus resulting from the previous revaluation of the same asset. The entire revaluation surplus is carried through retained earnings at the time of withdrawing from use or selling the asset item.

8.1.2. Subsequent costs

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

8.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are deemed to include assets which fulfil the following requirements:

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

8.2.1. Goodwill

Goodwill arising on acquisition of an entity is recognized at the acquisition price being the surplus of the aggregate of:

- provided payment,
- sums of all non-controlling shares in the acquired entity, and
- in the case of entities combination made gradually at fair value as at the day of acquiring share in the capital of the acquired entity, previously belonging to the acquiring entity,

over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

The goodwill shown in the financial statements of the Bank was recognized pursuant to the requirements binding on the day of first application of IFRS i.e. at acquisition price being a surplus of the cost of combining the business entities over the interest of the acquirer's in the fair value of all identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is recognized at acquisition price less any accumulated impairment losses.

8.2.2. Computer software

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

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

8.2.3. Other intangible assets

Other intangible assets purchased by the Bank, are recognized at purchase price or production cost less depreciation and total amount of impairment losses.

8.2.4. Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible assets item are capitalised when it is probable that such expenditures will ensure an inflow of economic benefits to the Bank. In other cases, costs are carried through profit or loss in the reporting period in which they were incurred.

8.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives.

The depreciable/amortizable amount is the cost of an assets item, or other amount substituted for cost, less its residual value. The useful life, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is carried through profit or loss in accordance with IAS 8).

In case of buildings valued at fair value, the accumulated depreciation balance at the revaluation date is removed from the carrying value gross, and the net carrying amount adjusted to the revalued value.

Depreciation and amortization charges are recognized in the income statement. At each balance sheet date goodwill and other intangible assets with indefinite useful life are regularly tested for impairment. The amortization periods are as follows:

- land and buildings — 50 years
- leaseholds improvements — rent and lease term of maximum 10 years
- vehicles and others — 3 - 7 years
- equipment — 5 years
- costs of software development — 3 years
- software licenses — 3 years

8.4. Impairment of other non- financial assets

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

As regards company goodwill, it is tested for impairment as at the balance sheet date regardless of whether or not there are conditions of impairment in place.

8.4.1. Recognition of impairment loss

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

The goodwill impairment is determined by estimating the recoverable amount of the cash-generating unit the given goodwill applies to. Should the recoverable amount of the cash-generating unit be lower than the carrying amount, impairment loss is made. The impairment loss is recognized in the income statement.

Impairment losses for cash-generating units reduce the goodwill of the cash-generating units (group of units) in the first place and then reduce proportionally the book value of other assets in the unit (group of units).

8.4.2. Reversing impairment loss

Goodwill impairment loss is not subject to reversal. An impairment loss of an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount.

An impairment loss can be reversed only up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if no impairment loss had been recognized.

9. Leasing contracts and factoring services

9.1. The Bank as lessor

The Bank is a party to lease contracts, on the basis of which it grants and is paid for the use or the benefits on the non-current assets and intangible assets. Leasing agreements are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

A leasing agreement is considered as financial leasing provided the following terms and conditions are met individually or jointly:

- the agreement transfers the asset ownership to the lessee before the end of leasing term,
- the agreement includes the right of lessee to purchase the asset at the price which, as expected, is that lower than the fair value agreed as at the date when purchase right execution becomes feasible that at the leasing commencement date it is certain that the lessee shall take advantage of this right,
- the leasing term corresponds in majority to the term of asset economic lifetime, even if the legal title is not transferred,
- the present value of minimum leasing fees as at the leasing commencement date in principle equals the leased asset fair value,
- the leased assets are specialised enough that only the lessee may take advantage thereof, without making major modifications thereto,
- the lessee may prolong the agreement (or conclude a new one) for additional term for the fee which is materially lower compared to the market,
- the lessee may terminate the agreement and any losses of the lessor arising therefrom shall be covered by the lessee, or
- profits or losses from/of fluctuation of asset residual value are attributable to the lessee.

The leasing agreements whereunder the lessor basically retains all the risk as well as benefits arising from holding of leased asset are classified as operational leasing agreements.

The leasing agreement shall be concluded for the term ranging from five to ten years, including transfer of the legal title to the beneficiary (lessee) after leasing agreement expiry. The ownership of leased asset is the collateral for the liabilities arising from leasing agreements.

There are no conditional leasing fees within the Bank. There are no unguaranteed residual values attributable to the lessor within the Bank.

In case of lease contracts, which result in transferring substantially all the risks and rewards following the ownership of that asset under lease the object of such lease agreement is derecognized from the balance sheet. A receivable amount is recognized, in an amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such a way as to reach a fixed rate of return from the outstanding receivables.

Interest on financial lease is presented in *Interest income*, in the item: *Interest on loans and other receivables to customers*, further split into *Interest on leases*.

Lease payments for contracts which do not fulfil the requirements of a finance lease are recognized as income in the income statement, using the straight-line method, throughout the period of lease.

9.2. The Bank as a lessee

The Bank is also a party to lease contracts, under which it takes another party's non-current assets or intangible assets for an agreed period for paid use or other benefits.

In case of lease contracts, under which essentially all risks and rewards resulting from ownership of the leased assets are transferred, subject of such lease agreement is recognized as a non-current asset, and a liability is recognized in the amount equal to the present value of minimum lease payments as of the date of commencement of the lease. Lease payments are divided into financial costs and reduction of the balance of the liability in such way as to reach the fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets which are the basis of the finance lease contract are depreciated/amortized in the manner defined for the Bank's non-current assets. However, if it is uncertain whether the ownership of an asset has been transferred, then non-current assets used pursuant to finance lease contracts are depreciated over the shorter of two: the expected useful life or the period of lease.

Lease payments for contracts which do not qualify as financial lease are recognized as costs in the income statement using the straight-line method throughout the period of lease and are shown in the *General and administrative expenses*, in the item: *Overheads*, further split into *Material and leasing costs*.

9.3. Factoring services

The Bank provides factoring services in local and international trade. Handling and financing receivables as well as risk management are their essence. Further, as part of factoring, the Bank offers additional services being financial limits for debtors, debt recovery and takeover of trading risk. Local factoring without taking over risk (without recourse) prevails in the factoring operations of the Bank.

Factoring amounts due are classified at the purchase date (initial recognition date) as cash loans and amounts due are thus measured at amortised cost at effective interest rate considering commission income.

Factoring receivables are purchased by the Bank under agreements negotiated with clients case by case. The said receivables are recognized in the balance sheet as an increase in financial assets or decrease in cash, or increase in financial liabilities. Receivables can be held until maturity and maturity dates can be postponed.

Factoring receivables with recourse and without recourse are presented differently in the financial statements. Factoring receivables with recourse are presented in the balance sheet as net amounts due; i.e., only financed receivables less the amount of the security deposit. The factoring receivables without recourse are presented separately; i.e., all financial and non-financial receivables are presented as amounts due, while receivables excluded from funding and the security deposit are shown as liabilities.

The base income on factoring operations comprises commissions and interest on the advance payments made for the receivables purchased. Commission income is carried through profit or loss at the time of execution of activity under the factoring agreement concluded.

Income on provision of factoring services comprises factoring commissions, limit fees, preparation fees, insurance fees, handling fees and other fees as given in the price list.

Interest income includes regular and discount interest. Interest is accrued monthly on the actual factoring exposure. Discount interest is charged up-front on the amount of factoring receivables acquired, considering their maturity.

Interest income is shown in the income statement, in item *Net interest income*, while commission income is shown in item *Net commission income*.

10. Other balance sheet items

10.1. Other trade receivables and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the current value, with applying the discount rate that reflects the current market assessments of time value of money. If the method consisting in discounting has been applied, the increase of receivables due to time lapse is recognized as financial revenues.

Trade and other receivables include settlements with off-takers in particular.

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

10.2. Liabilities

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

10.3. Non-current assets held for sale and discontinued operation

The Bank classifies a non-current assets item (or disposal group) as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of two: their carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated/amortized.

Where the criteria for classification as non-current assets for sale are no longer met, the Bank will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Bank measures the asset that is no longer classified as the asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

- its carrying amount from the period before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the decision not to sell.

Discontinued operations are components of the Bank that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are a subsidiary acquired exclusively with a view to resale. The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Operations held for sale, which are to be no longer used, can be also classified as a discontinued operation.

10.4. Cash and cash equivalents

Cash and cash equivalents for the purposes of a cash flow statement include: cash in hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by other banks.

11. Equity

Equity comprises the share capital, share premium, revaluation allowance and retained earnings. All balances of capital and funds are recognized at nominal value.

11.1. Share capital

Share capital is presented at nominal value, in accordance with the charter and entry into the commercial register of the dominant entity.

11.1.1. Own shares

If the Bank acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is recognized as a change in the equity. Acquired own shares are treated as own shares and disclosed as reduction of the equity.

11.1.2. Dividends

Dividends for the financial year which have been approved by the General Meeting, but not paid as at the balance sheet day are disclosed as dividend liabilities shown in the item *Other Liabilities*.

11.2. Share premium

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

11.3. Revaluation allowance

Revaluation allowance is formed as a result of:

- revaluation of financial instruments classified as available for sale,
- valuation of derivatives for the element being the effective cash flow hedge, and
- revaluation of non-current assets carried at fair value.

The deferred tax assets and liabilities resulting from above mentioned revaluation are included in the revaluation reserve. The revaluation reserve is not subject to profit distribution.

11.4. Retained earnings

Retained earnings are formed from profit charges and are allocated for the purposes specified in the company's charter) or other regulations. Retained earnings comprise:

- other supplementary capital,
- other reserve capital,
- general banking risk fund,
- undistributed result from previous years, and
- net result of current year.

Other supplementary capital, other reserve capital and general banking risk fund are formed from profit charges and are allocated for the purposes specified in the company's charter or other regulations.

General banking risk fund is formed in accordance with the Banking Act of 29 August 1997 with subsequent amendments, from profit after tax.

The net financial result represents the gross result under the performance statement for the current year, adjusted with the corporate income tax.

12. Prepayments and deferred income

12.1. Prepayments

Prepayments comprise particular expenses which will be carried through profit or loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the balance sheet under *Other assets* item.

12.2. Deferred income

Deferred income comprises mainly fees amortized on a straight-line basis and other types of income collected in advance which will be carried through profit or loss in future reporting periods. Deferred income is presented under *Other liabilities* balance sheet item.

13. Employee benefits

13.1. Benefits under the Act on employee pension schemes

Expenses incurred under the defined contributions scheme are recognised as costs in the income statement.

13.2. Short-term employee benefits

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

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

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

13.3. Long-term employee benefits

13.3.1. Benefits under the Labour Code regulations

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

Provisions for long-term employee benefits are recognised in the balance sheet item *Provisions* in correspondence with costs of labour in the income statement. The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

13.3.2. ING Group long-term incentive system benefits

By 2012, the Bank was a participant of a long-term incentive system introduced by ING Group. The system provides for the following rewards:

- share options cleared in shares or cash,
- share-based payments.

The rewards granted in the programme have a 10Y maturity and may be exercised after 3 years from their issue, provided that the option holder is an employee of the Bank (or another ING Group entity) or has retired. The value of the reward is set as the difference between the share price quoted by Euronext Amsterdam at the exercise date in the so-called “open” period and the initial price, guaranteed at award date (i.e. the option exercise price).

The fair value of options granted is recognised as personnel costs (and on the other side of the balance sheet under capital) and is allocated throughout the vesting period.

13.3.3. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two options:

- in the former, the benefit has two parts:
  - one paid in cash (no more than 50%), and
  - one granted as phantom stock (at least 50%, after rounding up to full instrument), making the holder eligible to obtain cash whose final amount will be conditional on the price of ING Bank Śląski's shares,
- in the latter, the entire benefit is granted as phantom stock.

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which employees obtain benefits and during the deferral period – adequate benefit components). The value of benefit is recognised as liability towards employees in correspondence with the income statement.

As regards the benefits granted in the form of phantom stock a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year or three-year periods). The employee who was granted the benefit shall not exercise the phantom stock-related rights during the holding period.

The fair value of phantom stock determined using the principles adopted (i.e. based on the estimates made upon applying the reduction factor) is allocated throughout the vesting period. The value of benefit is recognised as liability towards employees in correspondence with the income statement.

14. Provisions

Provisions, including provisions for off-balance sheet liabilities, are reported when the Bank has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

This is also applicable for the recognition of provisions for risk-bearing off-balance sheet liabilities including guarantees, letters of credit and irrevocable unused credit lines.

Provisions for the irrevocable unused credit lines for corporate exposures are formed and recognised together with impairment losses for credit receivables.

The Bank establishes provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Bank is in possession of the specific, formal restructuring plan determining at least the operations or a part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

The Bank maintains the detailed record of court cases and other amounts due of legal claims nature. Potential future settlements will be recognised under established provisions.

The Bank recognises the provisions for all estimated losses. In certain justified cases, despite the fact that the Bank is entitled to reimburse the funds due to the provisions established, because of the uncertainty whether the expected economic benefits be earned or not, the Bank may decide not to recognise the assets there under in the financial statements.

15. Income statement

15.1. Net interest income

Interest income on financial assets classified as available for sale, loans and advances and financial assets held to maturity are recognized in the income statement at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial assets item or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an estimate of cash flows is made considering all contractual terms of the financial instrument but future credit losses are not considered. The calculation includes all fees and commissions paid or received (external) between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income comprises interest and commission (received or due) recognized in the calculation of the effective interest rate due to: loans with repayment schedule, intrabanking deposits and securities held to maturity available for sale, held for trading and the ones which meet the definition of loans and cash loans, and are classified to cash loans and receivables.

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

Interest income on debt securities classified to trading portfolio or carried at fair value through profit or loss are recognized under Interest income.

Interest revenue/ costs on interest rate derivatives and Interest revenue/ costs on current accrual of the swap/forward points on FX-derivatives classified as held for trading are recognized under *Interest result on derivatives.*

Interest revenue/ costs on derivatives designated as hedging instruments in the hedge accounting are recognized under *Net interest income*.

15.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises fees for extending loans, the Bank's pledge to extend loans, cards issue, cash management services, brokerage services, insurance products-related services and asset management services. Commission income comprises also margins on FX derivatives transactions.

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

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

- commissions for application review and credit commitment letter issue;
- commissions for limit/overdraft granted;

- commissions for loan or limit/overdraft extension;
- commissions for receivables/bills of exchange purchased, for bill of exchange discount;
- commission for restructured loan processing;
- commission for amending the credit agreement as to the amount, currency or schedule of repayments; and
- costs of credit and cash loan agency commissions.

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

The Bank recognizes the following commissions as the ones cleared on a straight line basis:

- the commissions described as the commissions adjusting the effective interest rate for the loans for whose commissions no cash flows can be estimated (first of all, current account overdrafts, working capital loans and revolving loans);
- commissions for issuing, confirming or prolonging the time and increasing the amount of the guarantee or letter of credit;
- commissions for multi-facility agreements; and
- commissions for the loan or limit/ overdraft granted to start another lending year.

If during the life of the contract the terms and conditions of credit exposure are changed, the whole outstanding part of commission is recognised in the income statement on the day when the terms and conditions are updated, provided that the outstanding amount of commission is insignificant.

Fees on pledge to extend a loan, which is likely to be taken, are deferred and as at the date of financial assets rise are settled as the component of effective interest rate or using straight-line method based on above mentioned criterion.

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement at the time of service provision.

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

15.2.1. Commission income and costs of bancassurance services

Fees and commissions for insurance products are recognised in the income statement as per their economic content and are classified as:

- commissions being part and parcel of a fee under a financial instrument wherewith the insurance product is linked,
- fee for agency service, and
- fee for additional services after the insurance product sale.

Prior to implementation of the insurance product, in order to recognise it properly in the income statement, the Bank analyses features of the insurance product and also the link between the insurance product and banking product. In this analysis, the Bank takes account of the prevalence of the economic content over the legal form. The factors analysed by the Bank include:

- manner in which an insurance product is offered, option of purchasing a banking product without the insurance product as well as option of purchasing only the insurance product at the Bank,
- pricing conditions of the two products sold together and separately,

- profitability of the insurance and banking products sold together and separately,
- sales target of combined products versus sales target of the same banking products sold without insurance,
- option of concluding an insurance agreement outside the Bank,
- number of resignations and the value of refunded insurance premiums,
- settlement cycle with a client, and
- scope of activities performed by the Bank for the insurer and their duration.

Insurance products offered with loans are treated by the Bank as linked to lending products, mainly because of lack of the possibility to purchase at the Bank an insurance product without a loan or a cash loan.

For the absolute majority of insurance products linked with lending products functioning at the Bank, the income on insurance products is earned based on monthly settlements with both the insurer and the client. Since the client may resign at any time from the insurance coverage for the following month, the Bank treats such insurances as renewed each month and settled for each month separately. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Bank recognises the income on such insurances in the commission income on insurance products.

The Bank analogically presents the costs directly related to these insurance products.

Such an approach ensures compliance with the matching principle. At the same time, the Bank monitors the level of costs under insurance products linked to the lending products in terms of legitimacy of division into interest income and commission income. At present such a division would not materially impact the Bank's income statement. The Bank applies an analogical approach to real property insurance with mortgage loans. Taking account of the materiality principle, the Bank presents full income on this insurance in the net commission income.

Most insurance products linked with the Bank's deposit products (current accounts and savings accounts) use the monthly-settlement structure. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Bank recognises the income on such insurances in the commission income on insurance products.

Commissions under insurance products not linked to banking products are recognised in the income statement:

- on a straight-line basis during the insurance policy term – if the Bank, apart from other sales operations, also provides additional services during the insurance term, and
- on a one-off basis – if the Bank does not provide any additional services during the insurance policy term.

Should there be a risk of refund of the fee under the insurance product, the Bank decreases its income by the amounts of estimated provisions. The provisions for refunds are established based on the historical data on actual refunds made in the past and based on projections as to the amount of refunds in the future.

15.3. Net income on financial instruments at fair value through profit or loss and FX result

Net income on financial instruments at fair value through profit or loss and FX result includes gains and losses arising from disposal and change of fair value of assets and liabilities held for trading and designated at initial recognition at fair value through profit or loss.

Result on financial instruments at fair value through profit or loss and FX result also includes adjustments of fair value due to risk for unexecuted FX-options transactions.

Result from accrued interest and settlement of discount or premium on debt securities held for trading or at fair value through profit or loss is recognized as interest income.

15.4. Net income on investments

The net income on investments comprises profits or losses resulting from sale of financial assets classified as available for sale and earnings from dividends. Dividend income is recognized in the income statement when the shareholders' right to receive payment is established.

15.5. Net income on hedge accounting

This item includes the measurement of hedged and hedging transactions under fair value hedging accounting and the result on measurement of hedging instruments in the ineffective part of hedge relationship of cash flows hedge accounting.

15.6. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to Bank's banking activity. These include in particular: the result due to holding an investment property, sale of assets (non-current assets and intangible assets), income on sale of other services, income due to recovered bad debts, received and paid damages, penalties and fines.

16. Taxes

16.1. Income tax

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

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

16.2. Deferred income tax

The Bank forms a provision for deferred tax for all taxable temporary differences and deferred tax assets with regard to all deductible temporary differences to extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as *Deferred tax provision*. A negative net difference is recognized under *Deferred tax assets*.

The deferred tax reserve is made using the balance sheet method for all positive temporary differences as of the balance sheet date arising between tax value of assets and liabilities and their carrying value disclosed in the financial report, except for situations where deferred tax provision arises from:

- initial recognition of goodwill;
- goodwill, which amortization has no taxable expense; or
- initial recognition of an assets item or liability with a transaction which does not constitute a merger of economic entities and which on its origination has no impact on the net financial profit or taxable income or loss.

Deferred tax assets are recognized for all negative timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements and unused tax losses. Deferred tax assets are recognized in such amount in which taxable income is likely to be achieved allowing to set off negative timing differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an assets item or liability with a transaction which does not constitute a merger of economic entities and on its origination have no impact on the net financial profit or taxable income or loss.

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

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

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

Deferred tax assets and provisions are recognized by the Bank in the statement of financial position after offsetting at the level of each consolidated entity. The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

16.3. Tax on certain financial institutions

The tax on certain financial institutions (instituted by virtue of the Act of 15 January 2016, Journal of Laws 2016 item 68) is not income tax and is shown in the income statement *Tax on certain financial institutions*.

16.4. Other taxes

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

The net amount of sales tax recoverable from or payable to the tax authorities is recognized in the statement of financial position as an item of receivables or liabilities.

IV. Comparability of financial data

In the annual financial statement prepared for the period from 1 January 2017 to 31 December 2017 did not change the method of presentation in relation to the annual financial statements for the period from 1 January 2016 to 31 December 2016.

V. Notes to the financial statements

In the annual consolidated financial statement prepared for the period from 1 January 2017 to 31 December 2017 the Bank did not change the method of presentation in relation to the annual consolidated financial statements for the period from 1 January 2016 to 31 December 2016.

1. Segment reporting

Segments of operation

The management of ING Bank Śląski is conducted within the areas defined in the Bank's business model.

The Bank's business model, above all for the purpose of management reporting, includes division of clients into two main segments:

- retail banking segment,
- corporate banking segment.

The segments are separated based on the financial (especially turnover, level of collected assets) and subject-related criteria. The specific rules of putting clients to respective segments are governed by the clients segmentation criteria specified in the Bank's internal regulations.

ING Bank Śląski S.A. has separated in organisational terms the operations performed by the Bank Treasury. The Bank Treasury manages short-term and long-term liquidity risk in line with the effective regulations and risk appetite internally set at the Bank, manages interest rate risk and invests surpluses obtained from business lines while maintaining the liquidity buffer in the form of liquid assets. The Bank Treasury's net income on operations is allocated to the business lines considering its support function for the Bank's business lines.

Retail banking segment

Within the framework of retail banking, the Bank provides services for individual customers (segments of mass customers and wealthy customers) and for sole traders.

This activity is analysed by the leading products, including i.e.: credit products (overdraft on the savings and settlement account - ROR, loans related to cards, hire purchase loans, housing loans, mortgage loans), deposit products (current accounts, term deposits, savings accounts), structured product, ING fund units, brokerage services and bank cards.

Corporate banking segment

Corporate banking area encompasses as follows:

- providing services to institutional clients,
- Financial Markets products.

Services to institutional clients encompasses strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations conducted by the parent.

Financial Markets products encompass operations performed in money and capital markets, conducted both on the proprietary basis as well as for the customers' benefit. Within the framework of this activity, currency, money and derivative instrument market products and securities operations (treasury securities, shares and notes) are specified.

Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Bank, included in notes describing applied accounting standards. In particular, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS). Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price – coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtainment of long-term liquidity, matching of the Bank's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations. Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Bank presents segment's interest income reduced by the cost of the interest. In 12 months 2017, the Bank revised the allocation key for the ALCO's income. The data for previous periods presented herein were made comparable.

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Geographical segments

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

2017

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2 647.3**	**1 922.2**	**4 569.5**
net interest income	2 131.4	1 186.9	3 318.3
net commission income	406.4	726.3	1 132.7
other income/expenses	109.6	8.9	118.5
General and administrative expenses	**1 266.2**	**769.2**	**2 035.4**
Segment result	**1 381.1**	**1 153.0**	**2534.1**
Impairment losses and provisions for off-balance sheet liabilities	158.2	241.4	399.6
Tax on certain financial institutions	126.5	203.6	330.1
Gross profit	**1 096.4**	**708.0**	**1 804.4**
Income tax	-	-	455.9
Net profit	**-**	**-**	**1 348.5**
Assets of the segment	52 584.6	68 236.4	120 821.0
Segment investments in controlled entities	24.5	216.0	240.5
Other assets (not allocated to segments)	0.0	0.0	1 043.7
Total assets	**52 609.1**	**68 452.4**	**122 105.2**
Segment liabilities	69 670.7	38 790.4	108 461.1
Other liabilities (not allocated to segment)	0.0	0.0	2 083.1
Equity	0.0	0.0	11 561.0
Total equity and liabilities	**69 670.7**	**38 790.4**	**122 105.2**
Capital expenditure	96.5	58.6	155.1
Net cash flow from operating activities	2 232.1	3 381.1	5 613.2
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-15.2
Net cash flow from operating activities total	2 232.1	3 381.1	5 598.0
Net cash flow from investment activities	-84.4	-3 073.7	-3 158.1
Net cash flow from financial activities	0.0	-600.4	-600.4

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2016

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**2 440.5**	**1695.5**	**4 136.0**
net interest income	1 849.5	975.5	2 825.0
net commission income	368.4	646.7	1 015.1
other income/expenses	222.6	73.3	295.9
General and administrative expenses	**1 230.6**	**779.1**	**2 009.7**
Segment result	**1 209.9**	**916.4**	**2 126.3**
Impairment losses and provisions for off-balance sheet liabilities	137.5	131.0	268.5
Tax on certain financial institutions	101.7	178.5	280.2
Gross profit	**970.8**	**606.8**	**1 577.6**
Income tax	-	-	368.9
Net profit	**-**	**-**	**1 208.7**
Assets of the segment	46 527.8	65 675.7	112 203.5
Segment investments in controlled entities	21.0	218.2	239.2
Other assets (not allocated to segments)	0.0	0.0	1 086.2
Total assets	**46 561.2**	**65 882.0**	**113 529.4**
Segment liabilities	65 657.1	36 121.4	101 778.5
Other liabilities (not allocated to segment)	0.0	0.0	1 456.0
Equity	0.0	0.0	10 294.9
Total equity and liabilities	**65 657.1**	**36 121.4**	**113 529.4**
Capital expenditure	114.0	72.2	186.2
Net cash flow from operating activities	3 078.1	-2 329.2	748.9
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-34.5
Net cash flow from operating activities total	3 078.1	-2 329.2	714.4
Net cash flow from investment activities	-101.7	-2 327.1	-2 428.8
Net cash flow from financial activities	0.0	62.7	62.7

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2. Net interest income

	2017	2016
Interest income		
Corporate banking	**1 843.7**	**1 690.4**
interest on loans and advances*	1 813.3	1 669.1
interest on factoring agreements	30.2	21.1
interest on other receivables	0.2	0.2
Retail banking	**1 561.7**	**1 290.2**
interest on loans and advances*	1 561.7	1 290.2
Interest on loans and other receivables granted to other banks	56.2	51.2
Interest on repo transactions made with customers	2.4	9.6
Interest on financial assets held for trading	18.1	17.5
Interest on available-for-sale financial assets	442.9	510.4
Interest on financial assets held to maturity	207.5	133.3
Net interest income on derivatives **	23.0	75.9
Total interest income	**4 155.5**	**3 778.5**
Interest expenses		
Corporate banking	**315.8**	**351.5**
interest on deposits	314.0	349.4
interest on other payables	1.8	2.1
Retail banking	**436.8**	**539.7**
interest on deposits*	436.5	539.3
interest on other payables	0.3	0.4
Interest on liabilities to other banks	47.9	27.2
Interest on repo transactions made with customers	0.7	0.2
Interest on issue of debt securities	21.9	22.7
Interest on subordinated liabilities	12.5	11.2
Interest on financial liabilities held for trading	1.6	1.0
Total interest expense	**837.2**	**953.5**
Net interest income	**3 318.3**	**2 825.0**

*) The Bank applies the principles of cash-flow hedge accounting for a certain portfolio of financial assets/liabilities. The hedging strategies used are to secure the Bank against the risk of change to the future cash flows due to IR risk. For the strategy used for the portfolio of mortgage loans denominated in a foreign currency or indexed to CHF or EUR, the change due to IR risk and FX risk is hedged against simultaneously. The net interest income of the reporting period shows the result on cash-flow hedge accounting of PLN 407.2 million in 2017 (PLN 494.4 million in interest income, PLN 87.2 million in interest expense) versus PLN 443.9 million in 2016 (PLN 535.4 million in interest income, PLN 91.5 million in interest expense).The hedge accounting strategy of the Bank has been detailed in the latter part hereof: explanatory note *19. Hedge accounting*
**) The Net interest income on derivatives item shows the net interest income on derivatives whereto no hedge accounting applies; it includes net interest income on IR instruments (IRS, CIRS) and interest element of FX derivatives (FX Swap, FX Forward).

Interest income on financial assets is calculated on the basis of the net exposure amounts; i.e. the amounts including effective impairment losses.
In 2017, the amount of PLN 57.1 million represents interest income on financial assets for which impairment loss was recognised. In 2016, the amount reached PLN 37.5 million.

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3. Net commission income

	2017	2016
Commission income		
transaction margin on currency exchange transactions*	343.1	282.0
account maintenance fees	273.9	252.6
lending commissions	272.1	255.4
payment and credit cards fees	113.3	115.6
participation units distribution fees	101.4	88.6
insurance product offering commissions	67.7	49.9
fiduciary and custodian fees**	28.5	24.6
foreign commercial business	30.0	24.3
agency in financial instruments transactions	10.1	13.3
brokerage activity fees***	24.0	15.9
other	21.4	23.2
Total comission income	**1 285.5**	**1 145.4**
Commission expenses		
commission paid on intermediation in selling deposit products	42.2	37.0
commission paid on disclosing credit information	15.7	15.4
commission paid on cash handling services	12.6	12.6
brokerage activity fees***	13.1	10.2
electronic banking services fees	9.7	10.1
costs of the National Clearing House (KIR)	9.1	8.1
agency in financial instruments transactions	10.7	8.1
commission paid on trading in securities	10.2	7.9
other	29.5	20.9
Total commision expenses	**152.8**	**130.3**
Net commission income	**1 132.7**	**1 015.1**

*) Transaction margin on FX transactions covers the margin on all buy/sell transactions made with spot delivery value date or forward delivery value date.

**) Fiduciary and custodian fees show the commissions earned on custody services, where the Bank keeps or invests assets for their clients.

4. .Net income on financial instruments at fair value through profit or loss and FX result

	2017	2016
Net income on financial assets and liabilities held for trading, including:	**18.6**	**24.2**
Net income on debt instruments	19.9	25.0
Net income on derivatives, including:	-1.3	-0.8
- currency derivatives	-27.8	4.5
- interest rate derivatives	26.5	-5.3
FX result	**60.9**	**31.5**
Net income on financial instruments at fair value through profit or loss and FX result	**79.5**	**55.7**

Net income on debt instruments includes net income on trading in treasury securities and money market instruments (treasury bills) as well as result on fair value measurement of those instruments. Net income on derivatives includes net income on trading and fair value measurement of IR

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derivatives (FRA, IRS/CIRS, cap options), FX derivatives (swaps and options) as well as stock exchange index options.
Net interest income on the instruments listed above is shown under net interest income.

5. Net income on investments

	2017	2016
Dividend income	14.1	18.5
Net income on equity instruments *	12.0	189.6
Net income on debt instruments	27.9	37.2
Impairment losses	0.0	0.0
Net income on investments	**54.0**	**245.3**

*) In the amount presented for 2017, the item on equity instruments 11.9 refers to the result on the sale in 2017 of the Visa Inc. shares held by the Bank to ING Bank N.V. More information about this transaction is included below

The amount of PLN 189.6 million under the net income on equity instruments item shows the result under the settlement of the acquisition of Visa Europe Limited by Visa Inc. in June 2016.

Sale of the shares of Visa Inc.

In 2016, Visa Europe Limited (Visa Europe) was acquired by Visa Inc. ING Bank Śląski S.A. was one of the beneficiaries of the transaction (for membership in Visa Europe). One of the effects of the settlement of the aforementioned transaction was the Bank's inclusion 12.030 of the preferred shares of Visa Inc. series C.. In 2017, a sales agreement was signed for the shares of Visa Inc. held by the Bank to ING Bank N.V. (parent company of ING Bank Śląski S.A.). The gross result achieved on the sale transaction was PLN 11.9 million.

6. Net income on hedge accounting

	2017	2016
Fair value hedge accounting for securities:	**-7.5**	**-1.7**
valuation of the hedged transaction	-123.7	-276.7
valuation of the hedging transaction	116.2	275.0
Cash flow hedge accounting:	**-1.7**	**-0.9**
ineffectiveness under cash flow hedges	-1.7	-0.9
Net income on hedge accounting	**-9.2**	**-2.6**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the financial statements, note no *19 Hedge accounting*

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7. Net income on other basic activities

	2017	2016
Net income on the investment properties, including:	0.0	5.0
income from rental of the investment property	0.0	6.5
maintenance expenses relating to the investment property	0.0	-1.5
valuation of investment property to fair value	0.0	0.0
Banking activity-related compensations and losses	-3.6	-2.3
Net income on disposal of property, plant and equipment and intangible assets	-0.7	-4.0
Impairment on other non-financial assets	-0.1	0.0
Other	-1.4	-1.2
Total	**-5.8**	**-2.5**

8. General and administrative expenses

	2017	2016
Personnel expenses, including:	**975.2**	**970.1**
wages and salaries, including:	807.9	810.8
variable remuneration programme	40.3	32.3
ING Group's incentive programme	1.0	1.1
retirement benefits	2.6	9.3
employee benefits	167.3	159.3
Cost of marketing and promotion	**93.0**	**94.0**
Depreciation and amortisation, including:	**181.3**	**208.9**
on property, plant and equipment	108.0	105.9
on intangible assets	73.3	103.0
Other general and administrative expenses, including:	**785.9**	**736.7**
maintenance, refurbishment and rental of buildings	244.5	245.6
IT costs	73.8	71.9
consulting	68.2	68.3
material and leasing costs	87.1	42.5
obligatory Bank Guarantee Fund payments*	145.7	143.9
cash handling services	19.2	20.7
other	147.4	143.8
Total	**2 035.4**	**2 009.7**

*) Pursuant to the Act of 10.06.2016 on the Bank Guarantee Fund, deposit guarantee system and forced restructuring (Journal of Laws, item 996, as amended), starting from 2017, the Bank is obliged to pay to the Bank Guarantee Fund (BFG) the following contributions:

- contribution to the Bank's Guarantee Fund (paid quarterly) and
- contribution to the bank resolution fund (paid once a year).

Until 2016, the Bank was obliged to pay the obligatory fee and the prudence fee to BFG (both paid quarterly). In the data for 2016, in the amount of fees paid to BFG, apart from obligatory fees and prudential fees, there was also amount of PLN 12.2 intended for the payment of guaranteed funds to depositors of Bank Spółdzielczy in Nadarzyn.

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2017, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to:

- persons holding managerial positions having a material impact on the risk profile of the Group (to satisfy the requirements under Polish Financial Supervision Authority Resolution No.258/2011, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 04 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile), and
- employees displaying special potential and skills (part involving award of a financial instrument).

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter III. Significant accounting principles in item *13.3.3. Variable Remuneration Programme benefits.*
The below table presents basic information about the Programme addressed to persons holding managerial positions having material impact on the Bank's risk profile.

Programme 2013						
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2014 – payable in 2015)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2015 – payable in 2016)*	*Phantom stock - 2 years of deferral (assigned in 2016 – payable in 2017)*	*Phantom stock - 3 years of deferral (assigned in 2017 – payable in 2018)*
10 672	2.1	-	10 672	-	-	10 672
Programme 2014						
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2015 – payable in 2016)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2016 – payable in 2017)*	*Phantom stock - 2 years of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 3 years of deferral (assigned in 2018 – payable in 2019)*
19 454	3.9	-	19 454	-	9 720	9 734
Programme 2015						
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2016 – payable in 2017)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2017 – payable in 2018)*	*Phantom stock - 2 years of deferral (assigned in 2018 – payable in 2019)*	*Phantom stock - 3 years of deferral (assigned in 2019 – payable in 2020)*
42 293	8.5	-	42 293	14 068	14 100	14 125
Programme 2016						
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2017 – payable in 2018)**	**Deferred shares total**	*Phantom stock - 1 year of deferral (assigned in 2018 – payable in 2019)*	*Phantom stock - 2 years of deferral (assigned in 2019 – payable in 2020)*	*Phantom stock - 3 years of deferral (assigned in 2020 – payable in 2021)*
70 424	14.1	41 849	28 575	9 499	9 523	9 553

Programme 2017*								
Number of shares	**Value of shares (in PLN million)**	**Number of nondeferred shares - held 1 year (assigned in 2018 –payable in 2019)**	**Deferred shares total**	*Phantom stock 1 year of deferral (assigned in 2019 – payable in 2020)*	*Phantom stock 2 years of deferral (assigned in 2020 – payable in 2021)*	*Phantom stock 3 years of deferral (assigned in 2021 – payable in 2022)*	*Phantom stock 4 years of deferral (assigned in 2022 – payable in 2023)*	*Phantom stock 5 years of deferral (assigned in 2023 – payable in 2024)*
70 424	14.1	41 849	28 575	9 499	9 523	9 553	70 424	14.1

*) 2017 data account for the provision established for the programme, the actual benefits will be awarded in 2018.

8.1.2. ING Group's incentive programme

To the end of 2012, the Bank participated in the long-term incentive programme of ING Group (LSPP– Longterm Sustainable Performance Plan), formerly known as LEO (Long-term Equity Ownership). Description of system variants is included in Chapter *IV. Significant accounting principles in item 13.3.2. ING Group's long-term incentive system benefits.*
As at the balance sheet date, the Bank recognises in their books the measurement of instruments held by Bank employees. The fair value of options granted is recognised as personnel expenses (on the other side of the balance sheet – in capitals) and is allocated throughout the vesting period.

Parameters used in the valuation model

	2017		**2016**	
	min	***max***	***min***	***Max***
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 lat	9 lat	5 lat	9 lat
current share price	2.9 EUR	25.42 EUR	2.9 EUR	25.42 EUR
expected volatility of share certificates	25%	84%	25%	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2017	**2016**	**2017**	**2016**
Opening balance	**319 171**	**357 313**	**14.76**	**16.79**
transferred	-2 795	41 674	14.17	13.95
exercised	-80 860	-2 225	6.54	2.90
written off	-2 502	-5 794	15.56	16.31
expired	-87 100	-71 797	24.51	24.62
Closing balance	**145 914**	**319 171**	**13.50**	**14.76**

All options as at 31 December 2017 are 31 December 2016 are settled through issue of shares.

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The range of exercise prices and weighted average remaining contractual life of options outstanding and exercisable are presented in the below table:

2017

Range of exercise prices (in EUR)	**Options outstanding as at 31 Dec 2017**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2017**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0.00 - 5.00	19 351	1.21	2.90	19 351	1.21	2.90
5.00 - 10.00	19 168	2.21	7.35	19 168	2.21	7.35
10.00 - 15.00	7 209	0.71	14.36	7 209	0.71	14.36
15.00 - 20.00	100 186	0.20	16.66	100 186	0.20	16.66
	145 914			**145 914**		

2016

Range of exercise prices (in EUR)	**Options outstanding as at 31 Dec 2016**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	**Options excercisable as at 31 Dec 2016**	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0,00 - 5,00	37 477	2.21	2.90	37 477	2.21	2.90
5,00 - 10,00	81 513	3.21	7.35	81 513	3.21	7.35
10,00 - 15,00	9 122	1.71	14.36	9 122	1.71	14.36
15,00 - 20,00	105 448	1.20	16.66	105 448	1.20	16.66
20,00 - 25,00	85 611	0.22	24.72	85 611	0.22	24.72
	319 171			**319 171**		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2017 was EUR 400,486 versus EUR 883,092 as at 31 December 2016.

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9. Impairment losses and provisions for off-balance sheet liabilities

	2017	2016
Loans and other receivables		
Impairment losses on loans and other receivables	879.8	920.2
Release of impairment losses *	-500.3	-653.2
Net impairment losses on loans and other receivables, including:	**379.5**	**267.0**
- losses on loans and other receivables with evidence of impairment	348.5	241.7
- losses on loans and other receivables with no evidence of impairment (IBNR)	31.0	25.3
Financial assets held to maturity		
Establishment of impairment losses	0.5	1.1
Release of impairment losses	0.0	0.0
Net impairment losses, including:	**0.5**	**1.1**
- non-impaired portfolio loss (IBNR)	0.5	1.1
Provisions for off-balance sheet liabilities		
Establishment of impairment losses	36.7	22.9
Release of impairment losses	-17.1	-22.5
Net impairment losses and provisions for off-balance sheet liabilities, including:	**19.6**	**0.4**
- for the impaired portfolio	16.8	-9.5
- for the non-impaired portfolio	2.8	9.9
Total increase in impairment losses and provisions	**917.0**	**944.2**
Total reversed impairment losses and provisions	**-517.4**	**-675.7**
Net impairment losses and provisions for off-balance sheet liabilities	**399.6**	**268.5**

The values presented under the item *Loans and other receivables – Release of impairment losses* cover i.a. repayments under previously derecognised liabilities which in 2017 were PLN 0.8 million (PLN 3.7 million in 2016).

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Impairment losses on loans and other receivables by client sector

	2017	2016
Impairment losses on loans and other receivables		
corporate banking clients	475.1	513.3
retail banking clients	404.7	406.9
Total, including:	**879.8**	**920.2**
banks	0.2	0.6
entities from the financial sector other than banks	0.2	0.4
entities from the non-financial sector	879.1	919.0
entities from the government and self-government institutions' sector	0.3	0.2
Reversed impairment losses on loans and other receivables		
corporate banking clients	-252.6	-379.5
retail banking clients	-247.7	-273.7
Total, including:	**-500.3**	**-653.2**
Banks	-0.3	0.0
entities from the financial sector other than banks	-0.4	-0.4
entities from the non-financial sector	-499.4	-652.6
entities from the government and self-government institutions' sector	-0.2	-0.2
Net impairment losses on loans and other receivables		
corporate banking clients	222.5	133.8
retail banking clients	157.0	133.2
Total, including:	**379.5**	**267.0**
Banks	-0.1	0.6
entities from the financial sector other than banks	-0.2	0.0
entities from the non-financial sector	379.7	266.4
entities from the government and self-government institutions' sector	0.1	0.0

10. Tax on certain financial institutions

On 01 February 2016, the Act on Tax on Certain Financial Institutions came into force. Pursuant to the Act, since February 2016, banks, insurance companies, credit unions and lending companies, to name a few, have been obliged to pay the bank levy being 0.0366% of their assets per month. The tax base is the entity's assets less PLN 4 billion, own funds and T-securities. The bank levy was paid first in March 2016. For 2017, the tax totalled PLN 330.1 million (PLN 280.3 million for 2016).

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11. Income tax

Income tax recognised in the income statement

	2017	2016
Current tax, including:	**450.6**	**439.8**
Current year	450.6	440.1
Adjustment of last-year tax settlement	0.0	-0.3
Deferred tax, including:	**5.3**	**-70.9**
Recognised and reversed temporary differences	5.3	-70.9
Total income tax recognised in the income statement	**455.9**	**368.9**

Effective tax rate calculation

	2017	2016
A. Profit before tax	**1 804.4**	**1 577.6**
B. 19% of profit before tax	**342.8**	**299.7**
C. Increases – non-deductible expenses, including:	**115.9**	**73.5**
tax on certain financial institutions	62.7	53.2
prudential fee in favour of BGF	27.7	8.0
expenses due to loan and non-loan receivables written off	3.5	2.3
provisions for disputable debt claims and other assets	3.8	2.7
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.2	1.2
impairment on receivables in the part not covered with the deferred tax	5.8	-0.2
representation expenses	0.6	0.7
tax loss on the sale of debt	3.6	4.1
other	7.0	1.5
D. Decreases – tax exempt income, including:	**2.8**	**4.3**
revenues from received dividends	1.4	2.5
release of provisions for disputable debt claims	1.3	1.7
other	0.1	0.1
E. Income tax from the income statement (B+C-D)	**455.9**	**368.9**
Effective tax rate (E : A)*	**25.27%**	**23.38%**

*) The effective tax rate deviated in 2017 above 19% due to the tax on certain financial institutions of PLN 330.1 million and payments to the BFG (contribution to the guarantee fund of banks and contribution to the forced restructuring fund) of PLN 145.7 million.

The effective tax rate deviation in 2016 below 19% was substantially impacted by the the tax on certain financial institutions of PLN 280.2 million and prudential fee for BFG of PLN 42.3 million.

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12. Earnings per ordinary share

Basic earnings per share

Basic earnings per one share of the parent company for 2017 were calculated based on net profit of PLN 1,348.5 million (in 2016, it was PLN 1,208.7 million) and weighted average number of ordinary shares at the end 2017 and 2016 being 130,100,000.

	2017	2016
Net profit attributable to ING Bank Śląski S.A. shareholders	1 348.5	1 208.7
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	**10.37**	**9.29**

Diluted earnings per share

In 2017 as well as in 2016, there were no factors that would dilute the profit per one share. In the described periods, ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

13. Cash in hand and balances with the Central Bank

	2017	2016
Cash in hand	1 188.7	1 056.6
Balances with the Central Bank	1 626.4	768.4
Total	**2 815.1**	**1 825.0**

The Bank maintains a mandatory provision – 3.5% of the value of deposits received by the Bank – in its current account kept with the National Bank of Poland.
The arithmetic mean of balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 3,546.3 million for the period from 30 November 2017 to 01 January 2018, and
- PLN 3,264.9 million for the period from 30 December 2016 to 01 January 2017.

The Bank can avail itself of the credit line from the National Bank of Poland against the pledge on securities. As at 31 December 2017, the line was PLN 7,675.1 million versus PLN 9,398.8 million as at 31 December 2016.

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14. Loans and receivables to other banks

	2017	2016
Current accounts	785.4	933.7
Interbank deposits, including:	997.7	0.0
One-day deposits:	997.7	0.0
Loans and advances	451.6	180.0
Total (gross)	**2 234.7**	**1 113.7**
Impairment losses, including:	-0.2	-0.3
- concerning loans and advances	-0.2	-0.3
Total (net)	**2 234.5**	**1 113.4**

Loans and receivables to other banks by maturity

	2017	2016
up to 1 month	1 889.7	944.8
over 1 month and up to 3 months	2.5	19.0
over 3 months and up to 1 year	300.0	144.7
over 1 year and up to 5 years	42.5	5.2
Total (gross)	**2 234.7**	**1 113.7**

15. Financial assets at fair value through profit or loss

Financial assets held for trading

	2017	2016
Debt instruments, including:	469.6	2 805.2
Treasury bonds	422.6	2 795.7
European Investment Bank bonds	47.0	9.5
Transactions with the buy-back commitment	60.5	21.6
Total financial assets held for trading	**530.1**	**2 826.8**

Financial assets at fair value through profit or loss by maturity

	2017	2016
up to 1 month	63.3	117.0
over 3 months and up to 1 year	45.7	141.7
over 1 year and up to 5 years	207.4	2 109.3
over 5 years	213.7	458.8
Total	**530.1**	**2 826.8**

Interest income on financial assets carried at fair value through profit or loss is recognised in the net interest income. Profits and losses due to movements in fair value of the said assets are recognised in item *Net income on financial instruments at fair value through profit or loss and FX result.*

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16. Valuation of derivatives

The below table shows face values for derivatives whose valuation is presented on the assets side (positive valuation) and liabilities side (negative valuation) of the Bank's statement of financial position.
Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

2017	Fair value measurement of derivatives		Face value of instruments with the remaining maturity			
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL
Interest rate derivatives, including:	**352.5**	**544.2**	**44 402.7**	**72 368.8**	**218 207.7**	**334 979.2**
Cleared by CCP	*23.0*	*22.1*	*43 419.8*	*70 134.0*	*198 239.4*	*311 793.2*
Forward rate agreements (FRA) - PLN	0.7	0.7	30 440.0	29 840.0	7 030.0	67 310.0
Interest rate swaps (IRS PLN) fixed - float	209.9	210.9	13 498.6	40 800.4	192 110.4	246 409.4
Interest rate swaps (IRS EUR) fixed - float	74.6	262.1	42.8	1 157.9	12 994.6	14 195.3
Interest rate swaps (IRS USD) fixed - float	58.7	61.9	8.1	0.0	3 548.8	3 556.9
CAP – EUR options	8.4	8.4	213.2	570.5	2 447.7	3 231.4
CAP – PLN options	0.2	0.2	200.0	0.0	76.2	276.2
FX derivatives, including:	**428.5**	**431.2**	**29 421.4**	**17 643.6**	**4 696.5**	**51 761.5**
FX contracts (swap, forward), including:	**335.2**	**325.9**	**26 319.1**	**10 607.1**	**1 058.9**	**37 985.1**
FX contracts (swap, forward) EUR/PLN	103.0	112.2	10 362.2	3 132.3	958.1	14 452.6
FX contracts (swap, forward) USD/PLN	195.4	185.9	9 945.9	6 114.4	60.9	16 121.2
FX contracts (swap, forward) EUR/USD	29.4	16.0	4 598.6	1 161.3	0.0	5 759.9
CIRS, including:	**9.4**	**26.2**	**1 079.0**	**2 733.7**	**1 925.8**	**5 738.5**
CIRS CHF/PLN (float-float)	0.9	1.6	0.0	0.0	178.6	178.6
CIRS EUR/PLN (float-float)	7.3	11.0	1 079.0	437.1	916.6	2 432.7
CIRS EUR/PLN (fixed-fixed)	1.2	1.1	0.0	0.0	830.6	830.6
CIRS EUR/USD (float-float)	0.0	5.3	0.0	1 120.2	0.0	1 120.2
CIRS USD/CHF (float-float)	0.0	7.2	0.0	1 176.4	0.0	1 176.4
Currency options (purchased), including:	**82.0**	**1.1**	**1 092.3**	**2 151.4**	**855.9**	**4 099.6**
CHF/PLN options	0.0	0.0	161.3	0.0	0.0	161.3
EUR/PLN options	34.5	1.1	442.1	529.2	853.8	1 825.1
USD/PLN options	47.5	0.0	488.9	1 622.2	2.1	2 113.2
Currency options (sold), including:	**1.9**	**78.0**	**931.0**	**2 151.4**	**855.9**	**3 938.3**
EUR/PLN options	1.9	30.5	442.1	529.2	853.8	1 825.1
USD/PLN options	0.0	47.5	488.9	1 622.2	2.1	2 113.2
Current off-balance sheet transactions, including:	**1.2**	**1.4**	**3 282.5**	**0.0**	**0.0**	**3 282.5**
FX operations	1.1	1.4	2 579.2	-	-	2 579.2
Securities operations	0.1	0.0	703.3	-	-	703.3
Fair value measurement of other financial instruments	**2.5**	**2.4**	-	-	-	-
Total	**784.7**	**979.2**	**77 106.6**	**90 012.4**	**222 904.2**	**390 023.2**

The amount of fair value measurement of derivatives includes the credit value adjustment for counterparty insolvency(CVA) and debt value adjustment for Bank insolvency (DVA).

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2016	Fair value measurement of derivatives		Face value of instruments with the remaining maturity			
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL
Interest rate derivatives, including:	**612.2**	**622.4**	**28 769.7**	**61 790.4**	**171 847.8**	**262 407.9**
Cleared by CCP	*68.5*	*80.9*	*26 717.2*	*56 703.8*	*147 988.6*	*231 409.6*
Forward rate agreements (FRA) - PLN	1.7	2.4	23 150.0	34 590.0	9 000.0	66 740.0
Interest rate swaps (IRS PLN) fixed - float	387.9	418.6	5 241.6	25 429.7	147 105.0	177 776.3
Interest rate swaps (IRS EUR) fixed - float	104.3	78.4	378.1	893.9	6 744.4	8 016.4
Interest rate swaps (IRS PLN) fixed - float	106.0	110.7	0.0	0.0	4 362.1	4 362.1
CAP – EUR options	12.2	12.2	0.0	876.8	4 380.1	5 256.9
CAP – PLN options	0.1	0.1	0.0	0.0	256.2	256.2
FX derivatives, including:	**502.2**	**490.6**	**37 559.8**	**27 834.8**	**14 608.8**	**80 003.4**
FX contracts (swap, forward), including:	**307.2**	**253.5**	**34 404.4**	**17 162.6**	**3 346.7**	**54 913.7**
FX contracts (swap, forward) EUR/PLN	51.2	47.0	13 865.8	6 989.9	2 202.4	23 058.1
FX contracts (swap, forward) USD/PLN	146.4	143.3	11 240.6	6 191.5	1 124.9	18 557.0
FX contracts (swap, forward) EUR/USD	96.2	55.2	4 304.4	3 457.4	0.0	7 761.8
CIRS, including:	**81.2**	**128.4**	**0.0**	**2 462.5**	**3 088.7**	**5 551.2**
CIRS CHF/PLN (float-float)	53.4	57.1	0.0	1 228.0	192.3	1 420.3
CIRS EUR/PLN (float-float)	12.8	56.4	0.0	1 234.5	2 040.5	3 275.0
CIRS EUR/PLN (fixed-fixed)	15.0	14.9	0.0	0.0	855.9	855.9
Currency options (purchased), including:	**111.1**	**2.0**	**1 577.7**	**4 237.1**	**4 086.7**	**9 901.5**
CHF/PLN options	1.9	0.0	0.0	264.5	0.0	264.5
EUR/PLN options	35.8	2.0	371.5	493.7	1 816.1	2 681.3
USD/PLN options	73.4	0.0	1 206.2	3 478.9	2 270.6	6 955.7
Currency options (sold), including:	**2.7**	**106.7**	**1 577.7**	**3 972.6**	**4 086.7**	**9 637.0**
EUR/PLN options	2.7	33.3	371.5	493.7	1 816.1	2 681.3
USD/PLN options	0.0	73.4	1 206.2	3 478.9	2 270.6	6 955.7
Current off-balance sheet transactions, including:	**1.2**	**1.6**	**4 252.1**	**0.0**	**0.0**	**4 252.1**
FX operations	0.9	1.6	1 391.1	-	-	1 391.1
Securities operations	0.3	0.0	2 861.0	-	-	2 861.0
Fair value measurement of other financial instruments	**1.5**	**1.4**	-	-	-	-
Total	**1 117.1**	**1 116.0**	**70 581.6**	**89 625.2**	**186 456.6**	**346 663.4**

Interest rate derivatives IRS/FRA settled to market

In 2017, the Group joined the new service provided by the Regulation of the CCP CSD in respect of the approach to the settlement of IRS and FRA instruments. Before the change, the net exposure under the CCP CSD transactions was collateralised with the variation margin as per the collateralised to market approach. In line with the terms and conditions of the new service, the transaction exposure is settled daily based on changed market value of specific transactions (i.e. under the settled to market approach). Therefore, no variation margin is placed. The fair value of individual transactions includes the daily exposure settlement flows. Since 2006 the Group has been using a similar service for settlement of derivatives sent to the London Clearing House (LCH).

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17. Investments

	Financial assets available for sale		Financial assets held to maturity	
	2017	**2016**	**2017**	**2016**
Debt instruments, including:	**17 551.6**	**20 508.4**	**8 350.5**	**5 164.1**
Fixed rate debt instruments, including:	14 445.2	15 729.2	7 901.0	4 813.7
Treasury bonds		14 902.1	5 503.3	3 006.4
BGK bonds	0.0	0.0	1 554.2	1 605.3
European Investment Bank bonds	789.3	294.1	843.5	202.0
Austrian government bonds	415.0	0.0	0.0	0.0
French government bonds	0.0	533.0	0.0	0.0
Floating rate debt instruments, including:	3 106.4	4 779.2	449.5	350.4
Treasury bonds	3 106.4	4 779.2	449.5	350.4
Total debt instruments, including:	17 551.6	20 508.4	8 350.5	5 164.1
listed instruments	17 551.6	20 508.4	8 350.5	5 164.1
Equity instruments:*	**5.3**	**48.8**	**0.0**	**0.0**
unlisted instruments	5.3	48.8	-	-
Total, including:	**17 556.9**	**20 557.2**	**8 350.5**	**5 164.1**
Items hedged in fair value hedge accounting, including:	11 031.1	12 191.3	-	-
Fixed rate debt instruments, including:	11 031.1	12 191.3	-	-
Treasury bonds	10 241.8	11 356.0	-	-
French government bonds	0.0	525.5	-	-
European Investment Bank bonds	789.3	309.8	-	-

*) The item Equity Instruments includes shares and interests in few entities not quoted on the stock exchange. In the amount shown for 2016 under the item Equity instruments, PLN 43.4 million represented the fair value of Visa Inc. shares received in settlement of the sale transaction of the Visa Europe Limited shares in 2016. The shares of Visa Inc. were sold in 2017. For transaction details, refer to explanatory note no. 5 hereof. Net income on investments.

The Group does not measure the shares or interests in other entities at fair value as it is difficult or impossible due to absence of active market for those instruments. The Group holds certain shares or interests due to the functioning of the Group units (National Clearing House, SWIFT, Credit Information Bureau, Polish Payment Standard).

**) The hedge accounting strategy of the Group has been detailed in the latter part hereof in explanatory note no. 19. Hedge accounting

Investments by maturity

	Financial assets available for sale		Financial assets held to maturity	
	2017	**2016**	**2017**	**2016**
up to 1 month	0.0	20.1	1 299.7	0.0
from 3 months to 1 year	763.3	1 557.0	991.0	0.0
from 1 to 5 years	12 551.4	16 562.2	5 633.8	3 865.6
over 5 years	4 242.2	2 417.9	426.0	1 298.5
Total	**17 556.9**	**20 557.2**	**8 350.5**	**5 164.1**

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Changes in available-for-sale financial assets

	Financial assets available for sale		Financial assets held to maturity	
	2017	2016	2017	2016
Opening balance	**20 557.2**	**20 678.0**	**5 164.1**	**2 800.7**
Increases, including:	**5 218.5**	**22 582.2**	**3 429.3**	**2 549.7**
purchase of debt securities	4 489.1	21 761.2	3 211.3	2 416.4
increase in the value of securities	729.4	784.9	0.0	0.0
purchase of shares in other parties	0.0	36.1	0.0	0.0
interests	0.0	0.0	189.1	133.0
Discount/premium amortisation	0.0	0.0	28.9	0.3
Decreases, including:	**8 218.8**	**22 703.0**	**242.9**	**186.3**
sales of debt securities	7 089.4	13 226.1	0.0	0.0
redemption of debt securities	585.0	8 199.7	0.0	0.0
decrease in the value of securities	498.2	1 083.1	0.0	0.0
sale of shares in other parties	46.2	194.1	0.0	0.0
interests paid	0.0	0.0	186.7	140.5
depreciation of the valuation recognised in the revaluation reserve	0.0	0.0	55.7	45.3
impairment loss	0.0	0.0	0.5	0.5
Closing balance	**17 556.9**	**20 557.2**	**8 350.5**	**5 164.1**

In 2017, the Bank sold the shares of 1 company (Visa Inc) from the investment portfolio, posting the result on sale of PLN +11.9 million. For transaction details, refer note no 5 *Net income on investments.*

In 2016, the Group sold shares of Visa Europe Limited and net income on sale of those shares was PLN +189.6 million.

17.1. Reclassification of debt securities

The Group presents the disclosures in connection with two reclassification of securities made in 2008 and 2015.

17.1.1. Reclassification in 2015

In 2015, the Bank reclassified a portion of debt securities (T-bonds) from the available-for-sale financial assets to the financial assets held to maturity. Reclassification aimed at making the Bank's capital less sensitive to the change in the fair value of securities.
As a result, the rules of debt securities valuation were changed from fair-value measurement to measurement at amortised cost. The fair value of debt securities of PLN 1,713.3 million as at the reclassification date was their new amortized cost.

17.1.2. Reclassification in 2008

In 2008, the Group reclassified a portion of debt securities from the available-for-sale financial assets to the loans and other receivables category.
The reason for reclassification was the absence of or inactiveness of the market, which in the opinion of the Group causes the above securities to match the definition of loans and receivables according to IAS, namely they "are financial assets other than derivatives, with the determined or possible to determine payments, and which are not quoted on active market", while the Group's intention pertaining thereto, i.e. Group's intention and possibility to hold them in a foreseeable future, did not change.
The reclassification resulted in a change in the basis of the debt securities measurement, that is from measurement at fair value to measurement at amortised cost. Fair value of debt securities as of reclassification date constituted their new amortised cost.

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Debt securities reclassified from available-for-sale category to loans and receivables

Name of security	Reclassification date	2017			2016		
		fair value as at the reclassification date	carrying amount	fair value	fair value as at the reclassification date	carrying amount	fair value
T-eurobonds	01.10.2008	1 242.9	1 030.3	1 002.8	1 242.9	1 802.8	1 751.6
Corporate bonds	19.12.2008	2.2	2.1	2.1	4.5	4.3	4.2
Municipal bonds	19.12.2008	0.0	0.0	0.0	5.0	5.0	4.9
Total		**1 245.1**	**1 032.4**	**1 004.9**	**1 252.4**	**1 812.1**	**1 760.7**

Upon reclassification, the above-named securities are presented in the financial statements under the item *Loans and other receivables to customers.*
T-bonds denominated in EUR (T-eurobonds) classified as at their purchase date to the available for-sale financial assets were the base instruments secured in the fair value hedge accounting against the interest rate risk. Upon reclassification, the original strategy of hedging the securities from the available-for-sale portfolio was closed. Due to the fact that the intention of the Bank was to sustain the hedging connection, from the reclassification date a new hedging strategy was started, i.e. the strategy which hedged the fair value against the interest rate risk of the securities classified to loans and other receivables category.

Fair value of gain or loss which would be presented in revaluation reserve once reclassification is not performed

Name of security	Fair value recognised in equity	
	2017	2016
T-eurobonds	-27.6	-51.2
Corporate bonds	-0.1	-0.2
Municipal bonds	0.0	-0.1
Total	**-27.7**	**-51.5**

Had the above securities not been re-classified to the category of loans and other receivables but left in the category of available-for-sale financial assets, the amounts of measurement at fair value would have been recognised in full in the revaluation reserve. The above figures have been estimated without including the impact that the further application of the fair value hedge accounting would have on the income statement or the capitals because in the opinion of the Bank such calculations would be prone to error and would rely on hypothetical assumptions that would be difficult to verify.

Costs and revenues included in the income statement

2017

Name of security	accrued interest (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying amount of hedged instruments in FVH strategy adjustment *)
T-eurobonds	69.6	-2.4	2.0	-90.8
Corporate bonds	0.1	0.0	0.0	0.0
Municipal bonds	0.1	0.0	0.0	0.0
Total	**69.8**	**-2.4**	**2.0**	**-90.8**

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2016

Name of security	accrued interest (coupon)	amortised discount/ premium	depreciation of the revaluation reserve	carrying amount of hedged instruments in FVH strategy adjustment *)
T-eurobonds	80.9	-3.0	2.0	-62.3
Corporate bonds	0.2	0.0	0.0	0.0
Municipal bonds	0.2	0.0	0.0	0.0
Total	**81.3**	**-3.0**	**2.0**	**-62.3**

**) measurement due to the hedged interest rate risk*

18. Assets securing liabilities

Market value of assets securing liabilities

	2017	2016
From the portfolio of financial assets at fair value through profit or loss:		
treasury bonds collateralising the liabilities due to securities sold with buy-back commitment (sell-buy-back transactions)	60.5	21.2
From the portfolio of available-for-sale financial assets:		
treasury bonds constituting collateral to the Bank Guarantee Fund	584.2	542.2
treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	338.8	294.6
French government bonds to hedge settlements with the LCH	0.0	521.3
Austrian government bonds to hedge settlements with the LCH	413.5	0.0

Securities are pledged on the terms provided for by:

- The Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Resolution (Journal of Laws of 10 June 2016, item 996),
- Commercial Companies and Partnerships Code, Article 495 (Journal of Laws of 2000, no. 94, item 1037 as amended),
- agrements, and
- the basic of the transaction.

The carrying amount of liabilities from repurchase transactions (sell-buy-back and repo) is presented in the following notes:

- note 27 *Liabilities due to other banks*
- note 28 *Financial liabilities at fair value through profit or loss*

Besides the instruments indicated herein, assets limited as to use also include the mandatory provision which the Bank has to maintain in the current account with NBP. For mandatory provision details, see note no. 13 *Cash in hand and balances with the Central Bank.*

The majority of sell-buy-back/repo transactions are effected assuming the option of legal transfer of ownership of the securities transacted. The above indicates that the counterparty who purchased ownership of securities can still sell them back or pledge them in accordance with the generally adopted market practice.

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Securities not recognised as the Bank's assets accepted as collateral for liabilities under repo transactions

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 60.5 million as at 31 December 2017, as compared with PLN 20.4 million as at 31 December 2016.
The majority of buy-sell-back/reverse repo transactions are effected assuming the option of legal transfer of ownership of the securities transacted. The above indicates that the securities can be still sold back or that a pledge can be established thereon in accordance with the generally adopted market practice.

19. Hedge accounting

The table below presents fair values and notional amounts of hedging instruments in the cash flow hedge accounting and fair values and notional amounts of hedging instruments and hedged items in the fair value hedge accounting. Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

2017

	Fair value		Notional amounts of instruments with time remaining to maturity				
	Assets	**Liabilities**	**up to 1 year**	**over 1 year and up to 3 years**	**over 3 year and up to 8 years**	**over 8 years**	**Total**
Cash flow hedge accounting							
Cash flow hedging instruments, including:	**963.1**	**444.8**	**24 102.1**	**27 133.8**	**47 409.7**	**10 025.0**	**108 670.6**
Cleared by CCP	*5.1*	*14.7*	*21 221.2*	*18 107.1*	*31 603.4*	*10 025.0*	*80 956.7*
Interest rate swaps (IRS PLN) fixed - float	796.4	294.3	22 520.6	24 147.8	40 022.1	7 439.0	94 129.5
Interest rate swaps (IRS EUR) fixed - float	156.7	129.8	1 506.5	2 672.3	6 474.1	2 586.0	13 238.9
CIRS CHF/PLN (float-float)	4.4	20.7	-	-	-	-	-
float CHF	-	-	35.7	160.5	249.7	0.0	445.9
float PLN	-	-	39.3	153.2	243.2	0.0	435.7
CIRS EUR/PLN (float-float)	5.6	0.0	-	-	-	-	-
float EUR	-	-	0.0	0.0	208.5	0.0	208.5
float PLN	-	-	0.0	0.0	212.1	0.0	212.1
Fair value hedge accounting							
Instruments hedging the fair value of securities, including:	**4.1**	**254.4**	**1 075.4**	**4 207.9**	**6 696.5**	**812.0**	**12 791.8**
Cleared by CCP	*4.1*	*0.4*	*450.0*	*3 526.0*	*6 050.0*	*812.0*	*10 838.0*
Interest rate swaps (IRS PLN) fixed - float	4.1	0.4	650.0	3 526.0	6 050.0	812.0	11 038.0
Interest rate swaps (IRS EUR) fixed - float	0.0	254.0	425.4	681.9	646.5	0.0	1 753.8
Hedged items, including:	**13 045.3**	**0.0**	**1 075.4**	**4 222.5**	**6 688.1**	**812.0**	**12 798.0**
Debt securities from available-for-sale portfolio, including:	11 031.1	0.0	650.0	3 526.0	6 050.0	812.0	11 038.0
Treasury bonds PLN	10 241.8	0.0	650.0	3 526.0	6 050.0	0.0	10 226.0
European Investment Bank bonds PLN	789.3	0.0	0.0	0.0	0.0	812.0	812.0
Debt securities from loans and other receivables portfolio, including:	2 014.2	0.0	425.4	696.5	638.1	0.0	1 760.0
Treasury bonds EUR	2 014.2	0.0	425.4	696.5	638.1	0.0	1 760.0
Total hedging instruments	**967.2**	**699.2**	**25 177.5**	**31 341.7**	**54 106.2**	**10 837.0**	**121 462.4**

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2016

	Fair value		Notional amounts of instruments with time remaining to maturity				
	Assets	**Liabilities**	**up to 1 year**	**over 1 year and up to 3 years**	**over 3 year and up to 8 years**	**over 8 years**	**Total**
Cash flow hedge accounting							
Cash flow hedging instruments, including:	**1 331.9**	**778.9**	**17 432.2**	**22 785.2**	**41 909.4**	**12 429.6**	**94 556.4**
Cleared by CCP	*16.1*	*43.3*	*11 750.9*	*13 307.9*	*24 466.9*	*11 215.0*	*60 740.7*
Interest rate swaps (IRS PLN) fixed - float	1 099.1	402.6	14 546.5	20 478.6	35 695.8	10 386.0	81 106.9
Interest rate swaps (IRS EUR) fixed - float	232.8	182.2	1 544.9	1 962.9	5 607.0	1 610.3	10 725.1
CIRS CHF/PLN (float-float)	0.0	191.0	-	-	-	-	-
float CHF	-	-	720.5	185.3	329.4	0.0	1 235.2
float PLN	-	-	620.3	158.4	277.2	0.0	1 055.9
CIRS EUR/PLN (float-float)	0.0	3.1	-	-	-	-	-
float EUR	-	-	0.0	0.0	0.0	221.2	221.2
float PLN	-	-	0.0	0.0	0.0	212.1	212.1
Fair value hedge accounting							
Instruments hedging the fair value of securities, including:	**6.7**	**689.2**	**840.0**	**2 893.0**	**11 469.4**	**310.0**	**15 512.4**
Cleared by CCP	*6.5*	*0.5*	*250.0*	*1 439.5*	*8 666.8*	*310.0*	*10 666.3*
Interest rate swaps (IRS PLN) fixed - float	6.7	31.5	840.0	1 840.0	8 627.0	310.0	11 617.0
Interest rate swaps (IRS EUR) fixed - float	0.0	657.7	0.0	1 053.0	2 842.4	0.0	3 895.4
Hedged items, including:	**16 095.5**	**0.0**	**840.0**	**2 888.5**	**11 445.1**	**310.0**	**15 483.6**
Debt securities from available-for-sale portfolio, including:	12 191.3	0.0	840.0	1 840.0	9 069.4	310.0	12 059.4
Treasury bonds PLN	11 356.0	0.0	840.0	1 840.0	8 627.0	0.0	11 307.0
French government bonds EUR	525.5	0.0	0.0	0.0	442.4	0.0	442.4
European Investment Bank bonds PLN	309.8	0.0	0.0	0.0	0.0	310.0	310.0
Debt securities from loans and other receivables portfolio, including:	3 904.2	0.0	0.0	1 048.5	2 375.7	0.0	3 424.2
Treasury bonds EUR	3 904.2	0.0	0.0	1 048.5	2 375.7	0.0	3 424.2
Total hedging instruments	**1 338.6**	**1 468.1**	**18 272.2**	**25 678.2**	**53 378.8**	**12 739.6**	**110 068.8**

The Bank uses the service "settled to market" provided for by the Regulation of the CCP CSD and London Clearing House in respect of the approach to the settlement of IRS and FRA instruments. For details, refer to explanatory note no. 16 hereof. *Measurement of derivatives.*

Fair value hedge accounting

In the financial statements for the year 2017 (similar to year 2016), the Bank used fair value hedge accounting for securities.
The hedged risk is the risk of the change of the fair value of the financial asset resulting from the change of the interest rates. The subject of hedging is the fair value of the fixed interest rate debt instrument, namely the position (or its part) on a given security in the available-for-sale portfolio, that as of establishing the hedging relationship has a specific fair value recognised in the revaluation reserve and the position (or its part) on a given security in the loans and other receivables portfolio as the result of reclassification from the available-for-sale portfolio.

For the strategy purposes, the part of the fair value change under the hedged risk is separated with the use of valuation models based on the same assumptions as for interest rate derivatives ones. The valuation curves applied in the model are based on market rates corresponding to revaluation tenors of variable interest rate hedging instruments.
Interest Rate Swap, changing fixed interest rate into the floating one, is the hedging instrument. As a result, changes to the fair value of the hedging instrument show the opposite trend from the changes to the fair value of the hedged item. Therefore, owing to the established hedging relationship, the fair values of the hedging instrument and the hedged item offset one another in the income statement. The mismatch element caused by application of different valuation curves (i.e. interest rate derivatives measured using valuation curves made taking account of the OIS discounting) impacts effectiveness of the hedging strategy, which is visible in the income statement. Since only one type of risk (interest rate risk) is hedged against, changes to the fair value of the hedged item included in the available-for-sale assets portfolio and caused by other unsecured risks are carried through the revaluation fund.
The net interest income on derivative hedge instruments is presented in the item Interest on available-for-sale financial assets wherein the interest income on the hedged instrument is presented under the described strategy.
The valuation of hedging and hedged transactions is presented in the Bank's income statement under the *Net income on hedge accounting* item. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market and additionally hedged with a margin made or received, depending on the exposure, as well as transactions forwarded for daily clearing through the agency of LCH and KDPW CCP Central Counterparty were designated as the hedging instrument.

Cash flow hedge accounting

In the financial statements for the year 2017 (similar to year 2016), the Bank applied the rules of accounting of cash flow hedges with regard to a specific portfolio of assets/ liabilities/ highly probable planned financial transactions of the Bank (e.g. extrapolation of cash flows arising from revolving deposits/overdrafts). Hedging strategies are used to hedge the Bank's exposure against changes in the size of future cash flows arising from interest rate risk. In 2012, the Bank implemented the new strategy for hedging the mortgage loans indexed to EUR or CHF against changes arising from interest rate risk and foreign currency risk at the same time.
The hedged item is the specified portfolio of assets and/or financial liabilities or the portfolio of planned transactions, which includes financial instruments with variable interest rate (financial products based on the WIBOR/EURIBOR/LIBORCHF market interest rate) that are therefore exposed to the risk of future cash flows arising from the change of the WIBOR/EURIBOR, EURIBOR/LIBORCHF market interest rate and in part of the portfolio denominated in CHF/EUR exposed to foreign exchange risk arising from changes in the exchange rate.
For the strategy purposes, as regards changes to the fair value calculation for the future cash flows of the portfolio being hedged, the Bank applies the hypothetical derivative approach (i.e. the method whereunder it is possible to reflect the hedged item and the nature of the risk hedged in the form of a derivative). The measurement principles are the same as for the interest rate derivatives. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market, additionally hedged with a margin made or received, depending on the exposure, were designated as the hedging instrument.
The instrument hedging asset items in the strategy hedging the risk of interest rate changes are the Pay-Variable, Receive-Fixed Interest Rate Swaps, while the instrument hedging liabilities items are the Pay-Fixed, Receive-Variable Interest Rate Swaps and the separated parts of the Currency Interest Rate Swap that reflect the Pay-Fixed, Receive-Variable Interest Rate Swaps. The instrument hedging asset items in the strategy of hedging both the risk of interest rate changes and the currency risk are the separated parts of the Currency Interest Rate Swap that reflect the Pay-Variable in CHF/EUR, Receive-Fixed in PLN Currency Swaps.

Considering the fact that the hedging instrument being the object of individual strategies has impact on the income statement on a continuous basis (i.e. by measurement at the amortized cost), the net interest income on derivative instruments to hedge the portfolio of:

- financial assets is presented in the item Interest on loans and other receivables to customers,
- financial liabilities is presented in the item Interest on deposits from customers.

As at 31 December 2017, the revaluation reserve included PLN 148.6 million (including deferred tax) relating to the effective part of the hedging relationship in the cash flow hedge accounting (PLN 354.6 million as at 31 December 2016). In 2016, the ineffective part of the hedging relationship resulting from the mismatch in compensating changes in fair value of the hedging instrument and hedged item recognised in the income statement totalled PLN -1.7 million compared with PLN -0.9 million in 2016.

The periods in which the Bank expects that the cash flows hedged within hedge accounting will appear and have impact on the financial result are presented below.

2017

	Cash flows (PLN million)			Cash flows (EUR milion)			Cash flows (CHF milion)	
	Cash inflows (assets)	Cash outflows (liabilities)	**Net cash flows**	Cash inflows (assets)	Cash outflows (liabilities)	**Net cash flows**	Cash inflows (assets)	**Net cash flows**
up to 1 year	871.0	-186.5	**684.5**	-3.4	0.6	**-2.8**	-0.8	**-0.8**
over 1 year and up to 3 years	1 605.6	-370.7	**1 234.9**	0.3	-0.4	**-0.1**	-0.4	**-0.4**
over 3 year and up to 8 years	2 789.0	-458.1	**2 330.9**	22.4	-4.8	**17.6**	0.4	**0.4**
over 8 years	172.2	-17.1	**155.1**	4.0	-3.5	**0.5**	0.0	**0.0**

2016

	Cash flows (PLN million)			Cash flows (EUR milion)			Cash flows (CHF milion)	
	Cash inflows (assets)	Cash outflows (liabilities)	**Net cash flows**	Cash inflows (assets)	Cash outflows (liabilities)	**Net cash flows**	Cash inflows (assets)	**Net cash flows**
up to 1 year	827.7	-169.1	**658.6**	-3.3	0.0	**-3.3**	-1.2	**-1.2**
over 1 year and up to 3 years	1 450.3	-286.5	**1 163.8**	-3.9	0.0	**-3.9**	-1.0	**-1.0**
over 3 year and up to 8 years	2 915.1	-483.8	**2 431.3**	10.6	-1.8	**8.8**	0.3	**0.3**
over 8 years	260.0	-37.7	**222.3**	4.5	-0.2	**4.3**	0.0	**0.0**

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20. Loans and receivables to customers

20.1. Customer loan portfolio

	2017			2016		
	gross	write-off	net	gross	write-off	net
Customer loan portfolio, including:	**85 161.1**	**-1 533.8**	**83 627.3**	**75 367.9**	**-1 328.5**	**74 039.4**
Households	38 428.7	-691.1	37 737.6	32 567.5	-582.4	31 985.1
Business entities	43 884.3	-841.5	43 042.8	39 383.3	-744.9	38 638.4
Government and self-government institutions' sector	2 848.1	-1.2	2 846.9	3 417.1	-1.2	3 415.9
Total, including:	**85 161.1**	**-1 533.8**	**83 627.3**	**75 367.9**	**-1 328.5**	**74 039.4**
Corporate banking	**48 346.7**	**-908.0**	**47 438.7**	**44 230.0**	**-802.3**	**43 427.7**
loans in the current account	12 530.0	-310.7	12 219.3	10 250.6	-265.4	9 985.2
term loans	33 268.4	-581.2	32 687.2	31 449.5	-519.8	30 929.7
debt securities (corporate and municipal bonds)	2 548.3	-16.1	2 532.2	2 529.9	-17.1	2 512.8
Retail banking	**36 814.4**	**-625.8**	**36 188.6**	**31 137.9**	**-526.2**	**30 611.7**
loans in the current account	1 315.8	-75.2	1 240.6	1 218.9	-74.0	1 144.9
Mortgages	27 959.4	-183.5	27 775.9	23 887.1	-195.0	23 692.1
other loans and advances	7 539.2	-367.1	7 172.1	6 031.9	-257.2	5 774.7
Other receivables, including:	**3 712.3**	**-0.7**	**3 711.6**	**3 999.3**	**-0.7**	**3 998.6**
concerning T-eurobonds	3 564.8	-0.7	3 564.1	3 910.7	-0.7	3 910.0
Other	147.5	0.0	147.5	88.6	0.0	88.6
Total:	**88 873.4**	**-1 534.5**	**87 338.9**	**79 367.2**	**-1 329.2**	**78 038.0**

In 2008, the Bank reclassified a portion of the debt securities portfolio from available-for-sale financial assets to loans and other receivables category. The said securities included, but were not limited to, T-bonds (eurobonds) and corporate and municipal bonds that after reclassification are presented herein. T-bonds are hedged against IR risk under the fair value hedge accounting. Specific disclosures on reclassification are presented in note no. 17.1.

Loans and receivables to customers by maturity

	2017	2016
up to 1 month	16 717.0	13 835.3
over 1 month and up to 3 months	3 055.8	2 715.8
over 3 months and up to 1 year	9 557.4	8 031.0
over 1 year and up to 5 years	30 525.2	28 859.1
over 5 years	27 809.9	24 995.4
overdue	1 208.1	930.6
Total	**88 873.4**	**79 367.2**

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Fair value hedge-hedged items

The below table presents value of securities classified to the category of loans and other receivables and hedged under FVH accounting.

	2017	2016
Fixed rate debt instruments, including:	3 564.8	3 910.7
T-eurobonds	3 564.8	3 910.7
Total	**3 564.8**	**3 910.7**

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the report, note no. 19 Hedge accounting.

20.2 Quality of customer loan portfolio

Customer loan portfolio division by impairment condition and impairment loss estimation method

	2017			2016		
	gross	write-off	net	gross	write-off	net
Corporate banking segment	**48 346.7**	**-908.0**	**47 438.7**	**44 230.0**	**-802.3**	**43 427.7**
unimpaired (IBNR*)	46 916.4	-71.1	46 845.3	43 071.0	-64.7	43 006.3
impaired, including:	1 430.3	-836.9	593.4	1 159.0	-737.6	421.4
- measured individually (ISFA*)	1 099.4	-606.0	493.4	884.7	-530.8	353.9
- measured as the portfolio (INSFA*)	330.9	-230.9	100.0	274.3	-206.8	67.5
Retail banking segment	**36 814.4**	**-625.8**	**36 188.6**	**31 137.9**	**-526.2**	**30 611.7**
unimpaired (IBNR*)	36 142.7	-163.2	35 979.5	30 606.9	-141.5	30 465.4
impaired	671.7	-462.6	209.1	531.0	-384.7	146.3
Total customer loan portfolio, including:	**85 161.1**	**-1 533.8**	**83 627.3**	**75 367.9**	**-1 328.5**	**74 039.4**
unimpaired (IBNR) portfolio	83 059.1	-234.3	82 824.8	73 677.9	-206.2	73 471.7
impaired portfolio	2 102.0	-1 299.5	802.5	1 690.0	-1 122.3	567.7

**) IBNR – Incurred But Not Reported; ISFA – Individually Significant Financial Assets; INSFA – Individually Non- Significant Financial Assets*

Receivable sale

In 2017, the Bank made the following transactions of receivables sale:

- 21 December 2017 – the Bank concluded a sales agreement for a portion of corporate receivables from the impaired portfolio. As a result of the transaction, the portfolio of non-performing receivables decreased by PLN 51.3 million. The positive impact of the transaction on the Bank's result before tax was PLN 25.4 million (total risk costs).
- On 26 July 2017, the Bank concluded a sales agreement for a portion of retail receivables from the impaired portfolio. As a result of the transaction, the portfolio of non-performing receivables decreased by PLN 69.8 million. The positive impact of the transaction on the Bank's result before tax was PLN 14.7 million (including PLN 11.0 million of risk costs).
- On 7 June 2017, the Bank concluded a sales agreement for a portion of corporate receivables from the impaired portfolio. As a result of the transaction, the portfolio of non-performing receivables decreased by PLN 78.1 million. The positive impact of the transaction on the Bank's result before tax was PLN 12.1 million (including PLN 9.5 million of risk costs).

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- On 2 February 2017, the Bank concluded a sales agreement for a portion of corporate receivables from the impaired portfolio. The positive impact of the transaction on the Bank's risk costs was PLN 1.2 million.

In 2016, the Bank made the following transactions of receivables sale:

- 19 December 2016 – the Bank concluded a sales agreement for a portion of corporate receivables from the impaired portfolio. The positive impact of the transaction on the Bank's result before tax was PLN 11.5 million, including a decrease of PLN 10.7 million in risk costs.
- On 27 July 2016, the Bank entered into an agreement on the sale of the portfolio of non-performing loans, unsecured loans in particular. The receivables sold under the agreement totalled PLN 139.7 million (principal, interest and other costs). The positive impact of the transaction on the result before tax was PLN 13.8 million PLN, including a decrease of PLN 10.1 million in risk costs. As a consequence of the aforesaid agreement, the Bank decreased its portfolio of non-performing loans by PLN 84.7 million.

Repayment security

In line with the lending policy, the Group accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in chapter VI *Risk and capital management*, in item 2.6. *Credit risk management*.

20.3.Changes in impairment losses concerning customer loan portfolio

	2017	2016
Opening balance	**1 328,5**	**1 437,0**
Movements in impairment losses, including:	**205,3**	**-108,5**
recognised during the period	879,8	920,2
reversed during the period	-500,3	-653,2
receivables written off *	-172,4	-352,9
amounts recovered from loans previously written off	0,8	3,7
unwinding interest	-1,7	9,8
other	-0,9	-36,1
Closing balance	**1 533,8**	**1 328,5**

*) In 2017, the amount of written-off receivables covered PLN -148.7 million worth (PLN -324.7million in 2016) of redemptions under the sale transactions of receivables discussed in item 20.2.

In 2016, the Bank changed the recognition of the interest and commission-related provisions. Prior to the change, the amount of the interest and commission-related provisions was presented as a component of the impairment loss, while after the change the amount adjusts in minus the gross carrying amount of loans and other receivables. As the change has no impact on the total assets in the statement of financial position and no material impact on the impaired portfolio coverage ratio, the Bank abandoned transforming the data for previous periods.

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Movements in impairment losses concerning customer loan portfolio by client segment

2017

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**785.2**	**17.1**	**802.3**	**195.0**	**331.2**	**526.2**	**1 328.5**
Movements in impairment losses, including:	**106.7**	**-1.0**	**105.7**	**-11.5**	**111.1**	**99.6**	**205.3**
recognised and reversed during the period	223.2	-1.0	**222.2**	-3.0	160.3	**157.3**	**379.5**
receivables written off	-108.8	-	**-108.8**	-5.7	-57.9	**-63.6**	**-172.4**
amounts recovered from loans previously written off	-	-	**0.0**	0.2	0.6	**0.8**	**0.8**
unwinding interest	-4.7	0.4	**-4.3**	0.5	2.1	**2.6**	**-1.7**
other	-3.0	-0.4	**-3.4**	-3.5	6.0	**2.5**	**-0.9**
Closing balance	**891.9**	**16.1**	**908.0**	**183.5**	**442.3**	**625.8**	**1 533.8**

2016

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	**818.5**	**103.5**	**922.0**	**197.1**	**317.9**	**515.0**	**1 437.0**
Movements in impairment losses, including:	**-33.3**	**-86.4**	**-119.7**	**-2.1**	**13.3**	**11.2**	**-108.5**
recognised and reversed during the period	122.9	11.0	**133.9**	42.0	91.1	**133.1**	**267.0**
receivables written off	-117.0	-116.4	**-233.4**	-39.7	-79.8	**-119.5**	**-352.9**
amounts recovered from loans previously written off	0.1	0.0	**0.1**	0.6	3.0	**3.6**	**3.7**
unwinding interest	0.8	1.7	**2.5**	1.1	6.2	**7.3**	**9.8**
other	-40.1	17.3	**-22.8**	-6.1	-7.2	**-13.3**	**-36.1**
Closing balance	**785.2**	**17.1**	**802.3**	**195.0**	**331.2**	**526.2**	**1 328.5**

21. Receivables from customers under repo transactions

The Bank has been presenting customer receivables under reverse repo and buy-sell-back transactions in a separate item of the statement of financial position. Such presentation is to ensure separate recognition of highly volatile assets measured at amortised cost from stable assets.
Reverse repo/ buy-sell-back transactions (purchase of financial instruments to be sold back in the future at the same price plus interest determined upfront) are used as a liquidity management tool to deposit cash surplus short-term.

As at 2017 yearend, the carrying amount of receivables from customers under repo transactions was PLN 19.8 million. As at 2016, there were no repo transactions entered into with Group clients.

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22. Investments in controlled entities

The Bank has shares in subsidiares and associated entities. All the Bank's subsidiaries operate in Poland.

Name of entity	Type of capital link	Bank's percentage share in the business's equity	Carrying amount of shares (at cost)	
			2017	2016
ING ABL Polska S.A.	subsidiary	100.00%	206.1	206.1
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	15.9	15.9
Nowe Usługi S.A.	subsidiary	100.00%	0.2	0.2
Solver Sp. z o.o.*	subsidiary	100.00%	17.0	17.0
Twisto Polska sp. z o.o. **	associated	20.00%	1.3	0.0
Total			**240.5**	**239.2**

*) As at 2016 yearend, the Bank held 88.93% of shares in the company's share capital. 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. As a consequence of passing the resolution, the Shareholder (ING for Children Foundation) and the Company signed an agreement to transfer 11.07% of shares for the purposes of redemption. As at 2017 yearend, the Bank held 100% of voting rights in Solver Sp. z o.o.

**) On 22 August 2017, ING Bank Śląski S.A. signed an agreement with Twisto Payments a.s. with its registered office in Prague (a joint-stock company registered and operating under the law of the Czech Republic) on contribution of EUR 1,500,000 as new equity to Twisto Polska sp. z o.o. in exchange for newly issued shares in Twisto Polska sp. z o.o. As a result of signing the agreement, ING Bank Śląski S.A. shall contribute EUR 300,000 as new equity to Twisto Polska sp. z o.o. in exchange for 4,000 shares of Twisto Polska sp. z o.o., each of a nominal value of PLN 50, representing 20% of the registered capital of Twisto Polska sp. z o.o.
Twisto Polska sp. z o.o. has registered office in Warsaw. The subject of its activity are services in the field of information and computer technologies. ING Bank Śląski S.A. shall cooperate with Twisto Polska sp. z o.o. in Poland to develop and commercially launch the Twisto Now service, i.e. the online payment method "buy now pay later".
The transaction finalizing documents were signed on 11 October 2017 and on 27 November 2017 there was a relevant entry in the National Court Register. The Bank recognized the transaction as investment in an associate and measure it using the equity method in keeping with IAS 28.

23. Non-financial assets

	2017	2016
Property, plant and equipment	542,8	571,6
Intangible assets	418,5	419,6
Total	**961.3**	**991.2**

23.1.Property, plant and equipment

	2017	2016
Real estate and leasehold improvements	339.6	338.7
Computer hardware	70.2	70.4
Other property, plant and equipment	120.0	150.3
Construction in progress	13.0	12.2
Total	**542.8**	**571.6**

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2017

	Real estate and Leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	**687.3**	**253.8**	**411.0**	**12.2**	**1 364.3**
Additions, including:	**44.8**	**36.6**	**24.1**	**82.0**	**187.5**
purchases	-	-	-	82.0	82.0
investment take-overs	23.3	36.6	21.3	-	81.2
reclassification from assets held for sale	21.5	-	2.8	-	24.3
Disposals, including:	**-21.8**	**-46.9**	**-21.9**	**-81.2**	**-171.8**
sale and liquidation	-18.2	-46.9	-12.8	-	-77.9
investment takeovers	-	-	-	-81.2	-81.2
reclassification to assets held for sale	-3.6	-	-0.1	-	-3.7
other	-	-	-9.0	-	-9.0
Revaluation:	**-5.6**	**0.0**	**0.0**	**0.0**	**-5.6**
Included in profit or loss*	-5.6	-	-	-	-5.6
Closing gross value	**704.7**	**243.5**	**413.2**	**13.0**	**1 374.4**
Opening accumulated depreciation/amortisation	**-348.6**	**-183.4**	**-260.7**	**0.0**	**-792.7**
Movements, including:	**-16.5**	**10.1**	**-32.5**	**0.0**	**-38.9**
amortisation charges	-28.9	-36.2	-42.9	-	-108.0
sale and liquidation	18.1	46.3	12.0	-	76.4
reclassification to assets held for sale	2.6	-	0.1	-	2.7
reclassification from assets held for sale	-8.3	-	-1.7	-	-10.0
Closing accumulated depreciation/amortisation	**-365.1**	**-173.3**	**-293.2**	**0.0**	**-831.6**
Closing net value	**339.6**	**70.2**	**120.0**	**13.0**	**542.8**

*) in line *General and administrative expenses*, in detailed item *Maintenance and rental of buildings*

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2016

	Real estate and Leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	**666.9**	**238.2**	**482.7**	**36.4**	**1 424.2**
Additions, including:	**83.2**	**45.4**	**31.4**	**75.0**	**235.0**
purchases	-	-	-	75.0	75.0
investment take-overs	25.5	43.0	30.7	-	99.2
reclassification from assets held for sale	52.9	-	-	-	52.9
reclassification to assets held for sale	4.5	-	0.3	-	4.8
merger with a subsidiary	0.3	2.4	0.4	-	3.1
Disposals, including:	**-50.5**	**-29.8**	**-103.1**	**-99.2**	**-282.6**
sale and liquidation	-38.5	-29.8	-100.9	-	-169.2
investment takeovers	-	-	-	-99.2	-99.2
reclassification to assets held for sale	-12.0	-	-1.5	-	-13.5
other	-	-	-0.7	-	-0.7
Revaluation:	**-12.3**	**0.0**	**0.0**	**0.0**	**-12.3**
Included in comprehensive income *	0.7	-	-	-	0.7
Included in profit or loss**	-13.0	-	-	-	-13.0
Closing gross value	**687.3**	**253.8**	**411.0**	**12.2**	**1 364.3**
Opening accumulated depreciation/amortisation	**-361.9**	**-177.4**	**-310.8**	**0.0**	**-850.1**
Movements, including:	**13.3**	**-6.0**	**50.1**	**0.0**	**57.4**
amortisation charges	-27.1	-32.9	-45.9	-	-105.9
sale and liquidation	38.1	29.2	95.3	-	162.6
reclassification to assets held for sale	3.3	-	1.2	-	4.5
reclassification from assets held for sale	-0.9	-	-0.1	-	-1.0
merger with a subsidiary	-0.1	-2.3	-0.4	-	-2.8
Closing accumulated depreciation/amortisation	**-348.6**	**-183.4**	**-260.7**	**0.0**	**-792.7**
Closing net value	**338.7**	**70.4**	**150.3**	**12.2**	**571.6**

*) in detailed item *revaluation reserve from measurement of property, plant and equipment*
**) in line *General and administrative expenses*, in detailed item *Maintenance and rental of buildings*

The item Real estate and leasehold improvements comprises, among others, land whose worth considering the fair value measurement as at 31 December 2017 was PLN 4.4 million (PLN 4.1 million as at 31 December 2016).
There are no legal constraints on property, plant and equipment.

Contractual obligations to purchase property, plant and equipment

In 2017, the Group concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment of PLN 3.5 million. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof. The agreements refer to real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets.

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In 2016, the Group concluded framework agreements concerning real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets of PLN 21.2 million.

23.2.Intangible assets

	2017	2016
Goodwill	223.3	223.3
Software	167.5	168.4
Outlays for intangible assets	26.0	26.4
Other	1.7	1.5
Total	**418.5**	**419.6**

2017

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**906.7**	**26.4**	**11.8**	**1 168.2**
Additions, including:	**0.0**	**71.5**	**73.1**	**2.0**	**146.6**
purchases	-	-	73.1	-	73.1
investment takeovers	-	71.5	-	2.0	73.5
other	-	-	-	-	0.0
Disposals, including:	**0.0**	**-0.9**	**-73.5**	**0.0**	**-74.4**
investment takeovers	-	-	-73.5	-	-73.5
other	-	-0.9	-	-	-0.9
Closing gross value	**223.3**	**977.3**	**26.0**	**13.8**	**1 240.4**
Opening accumulated depreciation/amortisation	**0.0**	**-738.3**	**0.0**	**-10.3**	**-748.6**
Movements, including:	**0.0**	**-71.5**	**0.0**	**-1.8**	**-73.3**
amortisation charges	-	-71.5	-	-1.8	-73.3
Closing accumulated depreciation/amortisation	**0.0**	**-809.8**	**0.0**	**-12.1**	**-821.9**
Closing net value	**223.3**	**167.5**	**26.0**	**1.7**	**418.5**

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2016

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	**223.3**	**787.7**	**29.2**	**10.5**	**1 050.7**
Additions, including:	**0.0**	**122.7**	**111.2**	**1.3**	**235.2**
purchases	-	-	111.2	-	111.2
investment takeovers	-	112.7	-	1.3	114.0
merger with subsidiary	-	10.0	0.7	-	10.7
other	-	-	-0.7	-	-0.7
Disposals, including:	**0.0**	**-3.7**	**-114.0**	**0.0**	**-117.7**
investment takeovers	-	-	-114.0	-	-114.0
other	-	-3.7	-	-	-3.7
Closing gross value	**223.3**	**906.7**	**26.4**	**11.8**	**1 168.2**
Opening accumulated depreciation/amortisation	**0.0**	**-633.1**	**0.0**	**-8.5**	**-641.6**
Movements, including:	**0.0**	**-105.2**	**0.0**	**-1.8**	**-107.0**
amortisation charges	-	-101.2	-	-1.8	-103.0
merger with a subsidiary	-	-4.0	-	-	-4.0
Closing accumulated depreciation/amortisation	**0.0**	**-738.3**	**0.0**	**-10.3**	**-748.6**
Closing net value	**223.3**	**168.4**	**26.4**	**1.5**	**419.6**

Acquisition of Bieszczadzka Spółdzielcza Kasa Oszczędnościowo-Kredytowa (Bieszczadzka SKOK) in Sanok

On 11 August 2017 – based on the decision of the Polish Financial Supervision Authority – ING Bank Śląski S.A. took over the management of Bieszczadzka Spółdzielcza Kasa Oszczędnościowo-Kredytowa (Bieszczadzka SKOK). On 1 September 2017, ING Bank Śląski S.A. (as the acquiring bank) acquired Bieszczadzka SKOK. Bieszczadzka SKOK stopped operating as a separate entity and was effectively merged with the Bank.
The Bank Guarantee Fund offered support to ING Bank Śląski S.A. in the process of acquisition/ restructuring of Bieszczadzka SKOK. The support will be granted in the form of subsidies for coverage of the difference between the value of the property rights acquired and acquired liabilities under guaranteed funds in the accounts of the Credit Union's depositors as well as the guarantee of covering the losses resulting from the risk of the acquired property rights or Credit Union's liabilities. The subsidies will amount to PLN 11.8 million. Following the acquisition transaction, the Group recognised the goodwill as amounting to PLN 1.4 million; it was posted under the net income on other operating activities.

Amounts of acquired assets and liabilities are presented below:

Total assets	28,4
Total liabilities	41,6
Identifiable total net assets	-13,2
Subsidies	11,8
Goodwill	-1,4

On 1 March 2018, the Bank signed two agreements with the Bank Guarantee Fund: the Subsidies Agreement for PLN 11.8 million to cover 100% of the difference between the carrying amount of all the property rights acquired and the carrying amount of liabilities under guaranteed funds and the Loss Coverage Guarantee Agreement for the property rights acquired.

Contractual obligations to purchase intangible assets

In 2017, the Bank concluded with counterparties the agreements that in the future will effect increase in the value of intangible assets of PLN 12.2 million. Since these are framework agreements, the said amount is not ultimate. As in the previous year, those agreements concern licence purchase and computer software implementation.

As at 2016 yearend, the Bank held the agreements for licence purchase and computer software implementation totalling PLN 1.7 million. These agreements were partly framework arrangements.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carried out at least once every year, irrespective of identification of any objective evidence of impairment.

At the Bank, the impairment test is made for the goodwill created as a result of the in-kind contribution of ING Bank NV branch. The smallest identifiable cash-generating units were determined and goodwill totalling PLN 223.3 million was assigned thereto. No other additional elements of intangible value and indefinite useful life were identified that could be assigned to the identified cash-generating units.

The test input data cover the economic capital, risk-weighted assets and profit before tax per segment.

The test is performed using the model that calculates and compares the current value of free cash flow of the unit to the estimated book value of the unit's funds. The free cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. To discount the cash flows, the discount rate of 8.44 % is used that represents the average weighted cost of capital. Other assumptions are: projected income tax rates (27.54%), nominal growth rate after the forecast horizon (3%) and projected 3M WIBOR (1.72%).

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cash flows generated during the continued use. The cash flow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cash flow forecasts are based on mid-term plan approved by the Bank and the strategy covering the maximum period of the next three years. The data regarding the subsequent two years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Bank's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

As at 31 December 2017, net present value of cash flows was PLN 4,224.2 million. The test showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 2,607.3 million thus, no impairment was determined. For the discount rate lower by 1p.p. the surplus of present value of cash flows over the net book value of the cash-generating unit would amount to PLN 3,602.1 million; for the rate higher by 1p.p. the surplus of the present value of cash flows over the net book value of the cash-generating unit would be PLN 1,923.1 million.

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24. Assets held for sale

	2016	2015
Opening value	**31.8**	**38.4**
Additions, including:	**0.9**	**9.0**
reclassification from property, plant and equipment	0.9	9.0
Disposals, including:	**-21.1**	**-15.6**
sale	-6.8	-11.8
reclassification to property, plant and equipment	-14.3	-3.8
Revaluation:	**-0.5**	**0.0**
Included in profit or loss*	-0.5	0.0
Closing value	**11.1**	**31.8**

*) in line _General and administrative expenses_, in detailed item _Maintenance and rental of buildings_

As at 31 December 2017, the amount of _Property, plant and equipment held for sale_ included:

- 4 real properties (buildings together with land) which were reclassified from Property, plant and equipment. The real properties are available to be immediately sold in their current condition. The Bank intends to sell the abovementioned real properties using services of a specialized company that searches for potential buyers with the use of various, available sources (advertisements, direct mailing, contact with other real property agencies, etc.). The real property should be sold within 12 months from the reclassification date.
- Assets acquired from debt collection including real properties (buildings and land) and means of transport. The Bank intends to sell the said assets by using available ways of selling, inclusive of among others: tender procedure.

25. Income tax assets / liabilities

	2017	2016
Deferred income tax assets, including:	**130.9**	**154.2**
Deferred tax assets	130.9	154.2
Income tax liabilities, including:	**220.2**	**119.6**
Liabilities of the current income tax	220.2	119.6

Movements in temporary differences during the year

2017

	Balance as at 01 Jan 2017	Changes carried through profit or loss	Changes carried through equity	**Balance as at 31 Dec 2017**
Deferred tax assets				
Interest accrued	-81.6	19.2	-	**-62.4**
Revaluation	-53.8	-	1.1	**-52.7**
Impairment losses on credit receivables	-112.8	-14.3	-	**-127.1**
Other provisions	-43.7	-6.4	-	**-50.1**
Employee benefits	-39.8	-0.8	-	**-40.6**
Correction due to effective interest rate	-12.3	-	-	**-12.3**
Other	-15.9	-	-	**-15.9**
Total	**-359.9**	**-2.3**	**1.1**	**-361.1**

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Deferred tax provision				
Settlement of the difference between tax and balance sheet depreciation	9.0	6.2	-	**15.2**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	4.4	-0.4	-	**4.0**
Revaluation	184.4	0.1	16.9	**201.4**
Finance Lease valuation	7.9	1.7	-	**9.6**
Total	**205.7**	**7.6**	**16.9**	**230.2**
Deferred tax disclosed in the balance sheet	**-154.2**	**5.3**	**18.0**	**-130.9**

2016

	Balance as at 01 Jan 2016	Changes carried through profit or loss	Changes carried through equity	**Balance as at 31 Dec 2016**
Deferred tax assets				
Interest accrued	-22.1	12.7	-	**-9.4**
Revaluation	-97.8	-	44.0	**-53.8**
Impairment losses on credit receivables	-109.1	-3.7	-	**-112.8**
Other provisions	-45.0	1.3	-	**-43.7**
Employee benefits	-33.7	-6.1	-	**-39.8**
Correction due to effective interest rate	-12.3	-	-	**-12.3**
Other	-15.9	-	-	**-15.9**
Total	**-335.9**	**4.2**	**44.0**	**-287.7**
Deferred tax provision				
Interest accrued	2.7	-74.9	-	**-72.2**
Settlement of the difference between tax and balance sheet depreciation	1.6	7.4	-	**9.0**
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	5.4	-1.0	-	**4.4**
Revaluation	444.4	0.4	-260.4	**184.4**
Other	14.9	-7.0	-	**7.9**
Total	**469.0**	**-75.1**	**-260.4**	**133.5**
Deferred tax disclosed in the balance sheet	**133.1**	**-70.9**	**-216.4**	**-154.2**

Deferred tax recognised directly in equity

	2017	**2016**
Revaluation of available-for-sale financial assets	78.6	48.4
Revaluation of property, plant and equipment	2.6	2.7
Revaluation of cash flow hedging instruments	66.6	77.3
Actuarial gains/losses	-0.4	1.1
Total	**147.4**	**129.5**

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26. Other assets

	2017	2016
Prepayments, including:	**99.3**	**82.2**
accrued income	24.6	17.5
commission-related settlements	39.7	32.6
prepaid bank operating expenses	26.0	28.6
expenses to be settled	0.3	1.7
other	8.7	1.8
Other assets, including:	**64.4**	**50.6**
settlements of material purchases	0.0	4.0
interbank settlements	16.7	9.6
settlements with customers	8.8	8.9
public and legal settlements	1.0	0.5
other	37.9	27.6
Total	**163.7**	**132.8**
Including financial assets	64.4	50.6

27. Liabilities to other banks

	2017	2016
Current accounts	923.4	933.4
Interbank deposits	102.3	1 050.6
Other liabilities	18.9	35.9
Total	**1 044.6**	**2 019.9**

Liabilities due to other banks by maturity

	2017	2016
up to 1 month	1 041.6	1 998.0
over 1 month and up to 3 months	3.0	5.2
over 3 months and up to 1 year	0.0	16.7
Total	**1 044.6**	**2 019.9**

28. Financial liabilities at fair value through profit or loss

	2017	2016
Financial liabilities held for trading, including:	0.0	21.6
repo transactions	0.0	21.6
Book short position in trading securities	735.1	453.2
Total	**735.1**	**474.8**

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Financial liabilities at fair value through profit or loss by maturity

	2017	2016
up to 1 month	0.0	21.6
over 3 months and up to 1 year	0.0	7.8
over 1 year and up to 5 years	619.9	424.6
over 5 years	115.2	20.8
Total	**735.1**	**474.8**

29. Liabilities to customers

	2017	2016
Deposits, including:	**102 938.3**	**94 187.0**
Households	67 918.6	63 548.0
Business entities	33 245.8	28 898.3
Government and self-government institutions' sector	1 773.9	1 740.7
Total (gross), including:	**102 938.3**	**94 187.0**
Corporate banking	**34 888.7**	**30 577.4**
current accounts	23 647.0	20 198.3
savings accounts	8 566.6	8 608.3
term deposits	2 675.1	1 770.8
Retail banking	**68 049.6**	**63 609.6**
current accounts	14 792.0	11 920.7
savings accounts	49 935.0	47 872.3
term deposits	3 322.6	3 816.6
Other liabilities, including:	**1 137.5**	**981.4**
liabilities under cash collateral	274.0	311.1
other liabilities	863.5	670.3
Total	**104 075.8**	**95 168.4**

Liabilities due to customers by maturity

	2017	2016
up to 1 month	100 733.0	91 932.6
over 1 month and up to 3 months	1 926.3	1 186.3
over 3 months and up to 1 year	1 232.6	1 960.5
over 1 year and up to 5 years	82.0	86.4
over 5 years	101.9	2.6
Total	**104 075.8**	**95 168.4**

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30. Liabilities under issue of debt securities

	2017	2016
Liabilities under issue of debt securities, including:	300.3	866.4
- Bonds issued by ING Bank Śląski S.A., including:	300.3	866.4
bonds series INGBS191219	300.3	300.3
bonds series INGBS061217	0.0	566.1
Total	**300.3**	**866.4**

Liabilities under issue of debt securities by maturity

	2017	2016
over 3 months to 1 year	0.0	566.1
over 1 year to 5 years	300.3	300.3
Total	**300.3**	**866.4**

The Bank holds liabilities due to the issue of bonds under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A. ("Programme"). The Programme was established to enable the Bank to obtain long-term funding to use for further growth of non-current assets and diversify funding sources. The programme was set in 2012. Two programme issues of bonds were made so far.

- *INGBS061217 series bonds*

The first issue was made on 6 December 2012. The bonds were issued as bearer bonds of 5Y maturity. Bonds bore floating interest, paid every 6 months. Interest was determined using 6M WIBOR plus margin of 0.9% AER. The bonds were denominated in PLN and were offered under a private issue. The nominal value of bonds totalled PLN 565.0 million. The bonds were redeemed on 6 December 2017. At the redemption date, the Bank paid the interest for the last 6M coupon period totalling PLN 7.7 million.

- *INGBS191219 series bonds*

The second issue was made on 19 December 2014. As in the first issue, the bonds were issued as bearer bonds of 5Y maturity. They were offered in private placement. The nominal value of bonds in the second issue totalled PLN 300.0 million. Bonds will be redeemed through payment of the amount of cash equal to the bonds' nominal value. The redemption date for bonds is 19 December 2019. Bonds bear floating interest, paid every 6 months. Interest is determined using 6M WIBOR plus margin of 0.75% AER. On 19 December 2017, a new, seventh, coupon period started; the current bond coupon is 2.56%.

31. Subordinated liabilities

On 23 February 2016, ING Bank Śląski S.A. and ING Bank N.V. with its registered office in Amsterdam entered into a subordinated loan agreement for EUR 150.0 million. The loan was granted for 10 years. The Bank has the right to prepay the loan after the lapse of 5 years, provided the relevant approval of the Polish Financial Supervision Authority (PFSA) is obtained. Interest will be paid quarterly at the 3M EURIBOR rate plus margin. The financial terms and conditions of the loan were set on an arm's length basis. ING Bank N.V. is the parent company, holding 75% of shares and votes at the Bank General Meeting. On 19 April 2016, the Polish Financial Supervision Authority approved loan amount recognition under Tier II capital by the Bank. As at 2017 yearend, the carrying amount of the subordinated loan was PLN 626,9 million (as at 2016 yearend PLN 664.9 million).

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32. Provisions

	2017	2016
Provision for issues in dispute	7.0	4.2
Provision for off-balance sheet liabilities	45.9	26.8
Provision for retirement benefits	37.0	28.0
Provision for unused holidays	7.4	12.2
Total	**97.3**	**71.2**

2017

	Provision for issues in dispute	Provision for offbalance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	TOTAL
Opening balance	4.2	26.8	28.0	12.2	**71.2**
provisions recognised	3.5	36.7	1.3	0.0	**41.5**
provisions reversed	-0.1	-17.1	-0.1	-4.8	**-22.1**
provisions utlised	-0.6	0.0	0.1	0.0	**-0.5**
actuarial gains/losses	0.0	0.0	7.7	0.0	**7.7**
exchange rate changes	0.0	-0.5	0.0	0.0	**-0.5**
Closing balance	**7.0**	**45.9**	**37.0**	**7.4**	**97.3**
Expected provision settlement period:					
up to 1 year	1.4	0.0	4.1	7.4	**12.9**
over to 1 year	5.6	45.9	32.9	0.0	**84.4**

2016

	Provision for issues in dispute	Provision for offbalance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	TOTAL
Opening balance	3.3	26.1	20.6	13.8	**63.8**
provisions recognised	2.9	22.9	8.9	0.0	**34.7**
provisions reversed	-1.5	-22.5	0.0	-2.1	**-26.1**
provisions utlised	-0.5	0.0	-2.0	0.0	**-2.5**
exchange rate changes	0.0	0.3	0.0	0.0	**0.3**
merger with a subsidiary	0.0	0.0	0.5	0.5	**1.0**
Closing balance	**4.2**	**26.8**	**28.0**	**12.2**	**71.2**
Expected provision settlement period:					
up to 1 year	2.0	0.0	3.5	12.2	17.7
over to 1 year	2.2	26.8	24.5	0.0	53.5

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Provision for issues in dispute

The value of the proceedings conducted in 2017 concerning liabilities and debt claims did not exceed 10% of the Bank's equity.
The Bank is of the opinion that none of the proceedings conducted in 2015 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Bank's financial liquidity, individually or in total.

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2017 stood at 3.3% (3.6% at the 2016 yearend). The actuarial valuation-based provision is recognised and reviewed per annum.

Provision for retirement benefits –revision of the balance-sheet liability

	2017	2016
Opening balance	28.0	20.6
Merger with a subsidiary	0.0	0.5
Costs included in the income statement, including:	2.5	9.3
regular employment costs	1.6	1.2
past service cost	0.0	7.5
costs of interest	0.9	0.6
Actuarial gains / losses	7.7	-1.9
Paid benefits	-1.2	-0.5
Closing balance	**37.0**	**28.0**

33. Other liabilities

	2017	2016
Accruals, including:	**392.6**	**364.6**
due to employee benefits	261.0	244.4
variable remuneration programme	71.2	63.4
due to commissions	119.5	103.9
other	12.1	16.3
Other liabilities, including:	**1 373.0**	**900.6**
interbank settlements	1 061.5	671.7
settlements with suppliers	175.7	150.4
public and legal settlements	65.5	59.3
other	70.3	19.2
Total	**1 765.6**	**1 265.2**

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34. Share capital

The Bank's share capital is PLN 130,100,000 and is sub-divided into:

- 92,600,000 A-series ordinary bearer's shares with face value of PLN 1.00 each, and
- 37,500,000 B-series ordinary bearer's shares with face value of PLN 1.00 each.

Each ordinary share entitles its holder to dividend and one vote during the general meeting.

35. Revaluation reserve

	2017	2016
Revaluation reserve from measurement of available-for-sale financial assets	335.3	206.4
- including deferred tax	*-78.6*	*-48.4*
Revaluation reserve from measurement of property, plant and equipment	11.1	11.5
- including deferred tax	*-2.6*	*-2.7*
Revaluation reserve from measurement of cash flow hedging instruments	148.6	354.6
- including deferred tax	*-66.6*	*-77.3*
Actuarial gains / losses	-2.0	4.3
- including deferred tax	*0.4*	*-1.0*
Total	**493.0**	**576.8**

2017

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant ande equipment	including deferred tax	Revaluation reserve from measurement of cash flow hedging instruments	including deferred tax	Aktuarial gains / losses	including deferred tax	**TOTAL**
Opening balance	**206,4**	***-48,4***	**11,5**	***-2,7***	**354,6**	***-77,3***	**4,3**	***-1,0***	**576,8**
gains/losses on remeasurement of available- for-sale financial assets carried through equity	192,9	*-45,2*	-	-	-	-	-	-	**192,9**
reclassified to the financial result as a result of sale of available-for-sale financial assets	-31,7	*7,5*	-	-	-	-	-	-	**-31,7**
Settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	-0,2	*0,0*	-	-	-	-	-	-	**-0,2**
Settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	-32,1	*7,5*	-	-	-	-	-	-	**-32,1**
effective part of cash flow hedging instruments revaluation	-	-	-	-	-206,0	*10,7*	-	-	**-206,0**
remeasurement of property, plant and equipment	-	-	-	-	-	-	-	-	**0,0**
disposal of fixed assets	-	-	-0,4	*0,1*	-	-	-	-	**-0,4**
actuarial gains / losses	-	-	-	-	-	-	-6,3	*1,4*	**-6,3**
Closing balance	**335,3**	***-78,6***	**11,1**	***-2,6***	**148,6**	***-66,6***	**-2,0**	***0,4***	**493,0**

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2016

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant ande equipment	including deferred tax	Revaluation reserve from measurement of cash flow hedging instruments	including deferred tax	Aktuarial gains / losses	including deferred tax	TOTAL
Opening balance	**498.5**	***-117.0***	**12.4**	***-2.9***	**960.6**	***-225.3***	**2.6**	***-0.6***	**1 474.1**
gains/losses on remeasurement of available- for-sale financial assets carried through equity	-76.2	*17.9*	-	-	-	-	-	-	**-76.2**
reclassified to the financial result as a result of sale of available-for-sale financial assets	-183.7	*43.1*	-	-	-	-	-	-	**-183.7**
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the availablefor- sale portfolio to the held-to-maturity portfolio	0.0	*0.0*	-	-	-	-	-	-	**0.0**
effective part of cash flow hedging instruments revaluation	-32.2	*7.6*	-	-	-606.0	*148.0*	-	-	**-638.2**
remeasurement of property, plant and equipment	-	-	0.6	*-0.2*	-	-	-	-	**0.6**
disposal of fixed assets	-	-	-1.5	*0.4*	-	-	-	-	**-1.5**
actuarial gains / losses	-	-	-	-	-	-	1.7	*-0.4*	**1.7**
Closing balance	**206.4**	***-48.4***	**11.5**	***-2.7***	**354.6**	***-77.3***	**4.3**	***-1.0***	**576.8**

36. Retained earnings

	2017	2016
Other supplementary capital	66.1	66.1
Reserve capital	7 243.4	6 089.8
General risk fund	1 215.2	1 160.2
Valuation of share-based payments	51.4	50.3
Retained earnings	57.0	61.4
Result in approval	0.0	-4.8
Result for the current year	1 348.5	1 208.7
Total	**9 981.6**	**8 631.7**

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2017

	other supplementary capital	reserve capital	general risk fund	Valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	**66.1**	**6 089.8**	**1 160.2**	**50.3**	**1 265.3**	**0.0**	**8 631.7**
net result for the current period	-	-	-	-	-	1 348.5	**1 348.5**
profit allocation, including:	0.0	1 153.6	55.0	0.0	-1 208.6	0.0	**0.0**
profit written off to reserve capital	-	1 153.6	-	-	-1 153.6	-	**0.0**
profit written off to general risk fund	-	-	55.0	-	-55.0	-	**0.0**
dividend	-	-	-	-	0.0	-	**0.0**
disposal of fixed assets	-	-	-	-	0.3	-	**0.3**
Valuation of share-based payments	-	-	-	1.1	-	-	**1.1**
Closing balance	**66.1**	**7 243.4**	**1 215.2**	**51.4**	**57.0**	**1 348.5**	**9 981.6**

2016

	other supplementary capital	reserve capital	general risk fund	Valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	**65.4**	**5 466.6**	**1 110.2**	**49.2**	**1 233.3**	**0.0**	**7 924.7**
net result for the current period	-	-	-	-	-	1 208.7	**1 208.7**
profit allocation, including:	0.0	623.2	50.0	0.0	-1 232.6	0.0	**-559.4**
profit written off to reserve capital	-	623.2	-	-	-623.2	-	**0.0**
profit written off to general risk fund	-	-	50.0	-	-50.0	-	**0.0**
dividend	-	-	-	-	-559.4	-	**-559.4**
Settlement of a subsidiary takeover	-	-	-	-	59.9	-4.8	**55.1**
disposal of fixed assets	0.7	-	-	-	0.8	-	**1.5**
Valuation of share-based payments	-	-	-	1.1	-	-	**1.1**
Closing balance	**66.1**	**6 089.8**	**1 160.2**	**50.3**	**61.4**	**1 203.9**	**8 631.7**

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserve capital

The reserve capital is created irrespective of the supplementary capital from profit after tax write-offs, in the amount passed by the General Meeting. The reserve capital may be allocated to cover special costs and expenses, and also to increase the share capital from the Bank's funds. The decision on activation of the reserve capital is taken by the General Meeting.

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General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits and is used for unidentified risk of banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout

Details of the Bank's dividend policy and divided payout constraints are included in the risk management part of this report, in chapter VI *Risk and Capital Management, in item 1.9. Dividend Policy.*

37. FX structure of assets and liabilities

Hereinbelow, the statement of financial position of the Bank and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31.12.2017	31.12.2016
EUR	4.1709	4.4240
USD	3.4813	4.1793
CHF	3.5672	4.1173

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2017

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Assets									
Cash in hand and balances with the Central Bank	2 431.8	296.2	*71.0*	49.7	*14.3*	5.7	*1.6*	31.7	**2 815.1**
Loans and receivables to other banks	754.3	525.2	*125.9*	883.5	*253.8*	0.3	*0.1*	71.2	**2 234.5**
Financial assets at fair value through profit or loss	530.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**530.1**
Valuation of derivatives	528.5	115.5	*27.7*	136.8	*39.3*	1.1	*0.3*	2.8	**784.7**
Investments	24 997.5	909.9	*218.2*	0.0	*0.0*	0.0	*0.0*	0.0	**25 907.4**
Derivative hedge instruments	810.5	156.7	*37.6*	0.0	*0.0*	0.0	*0.0*	0.0	**967.2**
Loans and receivables to customers	73 041.1	11 806.4	*2 830.7*	948.8	*272.5*	1 051.1	*294.7*	491.5	**87 338.9**
Receivables from customers due to repo transactions	19.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**19.8**
Investments in controlled entities	240.5	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**240.5**
Non-financial assets	961.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**961.3**
Assets held for sale	11.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**11.1**
Tax assets	130.9	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.9**
Other assets	150.6	13.1	*3.1*	0.0	*0.0*	0.0	*0.0*	0.0	**163.7**
Total assets	**104 608.0**	**13 823.0**	***3 314.2***	**2 018.8**	***579.9***	**1 058.2**	***296.7***	**597.2**	**122 105.2**

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2017

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Liabilities									
Liabilities due to other banks	367.5	659.9	*158.2*	7.2	*2.1*	3.3	*0.9*	6.7	**1 044.6**
Financial liabilities at fair value through profit or loss	735.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**735.1**
Valuation of derivatives	520.5	312.0	*74.8*	138.3	*39.7*	0.0	*0.0*	8.4	**979.2**
Derivative hedge instruments	322.3	376.9	*90.4*	0.0	*0.0*	0.0	*0.0*	0.0	**699.2**
Liabilities due to customers	89 080.6	10 904.0	*2 614.3*	3 364.1	*966.3*	23.1	*6.5*	704.0	**104 075.8**
Liabilities due to customers under repo transactions	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
Liabilities under issue of debt securities	300.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**300.3**
Subordinated liabilities	0.0	626.9	*150.3*	0.0	*0.0*	0.0	*0.0*	0.0	**626.9**
Provisions	91.4	5.0	*1.2*	0.9	*0.3*	0.0	*0.0*	0.0	**97.3**
Tax liabilities	220.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**220.2**
Other liabilities	1 737.6	26.9	*6.4*	1.1	*0.3*	0.0	*0.0*	0.0	**1 765.6**
Total liabilities	**93 375.5**	**12 911.6**	***3 095.6***	**3 511.6**	***1 008.7***	**26.4**	***7.4***	**719.1**	**110 544.2**
Equity									
Share capital	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Supplementary capital – issuance of shares over nominal value	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Revaluation reserve	438.2	54.8	*13.1*	0.0	*0.0*	0.0	*0.0*	0.0	**493.0**
Retained earnings	9 981.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**9 981.6**
Total equity	**11 506.2**	**54.8**	***13.1***	**0.0**	***0.0***	**0.0**	***0.0***	**0.0**	**11 561.0**
Total equity and liabilities	**104 881.7**	**12 966.4**	***3 108.7***	**3 511.6**	***1 008.7***	**26.4**	***7.4***	**719.1**	**122 105.2**

Contingent liabilities granted	24 717.4	3 030.6	*726.6*	1 082.0	*310.8*	0.0	*0.0*	14.2	**28 844.2**
Contingent liabilities received	69 483.8	11 652.9	*2 793.9*	576.6	*165.6*	35.3	*9.9*	73.7	**81 822.3**

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2016

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Assets									
Cash in hand and balances with the Central Bank	1 464.4	282.1	*63.8*	44.9	*10.7*	6.6	*1.6*	27.0	**1 825.0**
Loans and receivables to other banks	274.5	784.3	*177.3*	35.5	*8.5*	1.3	*0.3*	17.8	**1 113.4**
Financial assets at fair value through profit or loss	2 826.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**2 826.8**
Valuation of derivatives	602.9	180.4	*40.8*	275.9	*66.0*	55.4	*13.5*	2.5	**1 117.1**
Investments	24 625.9	1 052.0	*237.8*	43.4	*10.4*	0.0	*0.0*	0.0	**25 721.3**
Derivative hedge instruments	1 105.8	232.8	*52.6*	0.0	*0.0*	0.0	*0.0*	0.0	**1 338.6**
Loans and receivables to customers	62 726.4	12 792.8	*2 891.7*	904.2	*216.4*	1 319.9	*320.6*	294.7	**78 038.0**
Receivables from customers due to repo transactions	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
Investments in controlled entities	239.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**239.2**
Non-financial assets	991.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**991.2**
Assets held for sale	31.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**31.8**
Tax assets	154.2	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**154.2**
Other assets	119.1	13.5	*3.1*	0.2	*0.0*	0.0	*0.0*	0.0	**132.8**
Total assets	**95 162.2**	**15 337.9**	***3 467.1***	**1 304.1**	***312.0***	**1 383.2**	***336.0***	**342.0**	**113 529.4**

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2016

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	*in currency*	*after translation into PLN*	*in currency*	*after translation into PLN*	*in currency*		
Liabilities									
Liabilities due to other banks	1 254.7	743.1	*168.0*	16.8	*4.0*	0.3	*0.1*	5.0	**2 019.9**
Financial liabilities at fair value through profit or loss	474.8	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**474.8**
Valuation of derivatives	743.7	127.6	*28.8*	239.7	*57.4*	0.1	*0.0*	4.9	**1 116.0**
Derivative hedge instruments	628.1	840.0	*189.9*	0.0	*0.0*	0.0	*0.0*	0.0	**1 468.1**
Liabilities due to customers	82 541.2	9 699.9	*2 192.6*	2 430.3	*581.5*	14.6	*3.5*	482.4	**95 168.4**
Liabilities due to customers under repo transactions	0.0	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**0.0**
Liabilities under issue of debt securities	866.4	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**866.4**
Provisions	0.0	664.9	*150.3*	0.0	*0.0*	0.0	*0.0*	0.0	**664.9**
Tax liabilities	63.9	5.6	*1.3*	1.7	*0.4*	0.0	*0.0*	0.0	**71.2**
Other liabilities	119.6	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**119.6**
Total liabilities	1 242.7	21.3	*4.8*	1.2	*0.3*	0.0	*0.0*	0.0	**1 265.2**
Equity	**87 935.1**	**12 102.4**	***2 735.7***	**2 689.7**	***643.6***	**15.0**	***3.6***	**492.3**	**103 234.5**
Share capital									
Supplementary capital – issuance of shares over nominal value	130.1	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**130.1**
Revaluation reserve	956.3	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**956.3**
Revaluation of share-based payments	511.6	59.7	*13.5*	5.5	*1.3*	0.0	*0.0*	0.0	**576.8**
Retained earning	8 631.7	0.0	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	**8 631.7**
Total equity	**10 229.7**	**59.7**	***13.5***	**5.5**	***1.3***	**0.0**	***0.0***	**0.0**	**10 294.9**
Total equity and liabilities	**98 164.8**	**12 162.1**	***2 749.2***	**2 695.2**	***644.9***	**15.0**	***3.6***	**492.3**	**113 529.4**

Contingent liabilities granted	23 342.9	2 258.7	*510.6*	1 383.0	*330.9*	0.0	*0.0*	9.9	**26 994.5**
Contingent liabilities received	63 348.8	13 564.5	*3 066.1*	613.4	*146.8*	40.7	*9.9*	112.7	**77 680.1**

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38. Contingent liabilities

38.1. Contingent liabilities granted

	2017	2016
Undrawn credit facilities	21 598.6	21 135.2
Guarantees	4 439.9	3 195.5
Undrawn overdrafts in current account	1 336.1	1 273.7
Credit card limits	1 079.4	998.3
Letters of credit	390.2	391.8
Total	**28 844.2**	**26 994.5**

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts in current accounts.
The Bank issues guarantees and letters of credits to secure fulfilment of obligations of the Bank's customers to third parties. The value of guarantees and letters of credit disclosed above reflects the maximum loss that can be incurred and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.
The Bank charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Financial guarantee contracts by maturity

	2017	2016
up to 1 month	191.7	86.7
over 1 month and up to 3 months	396.4	335.7
over 3 months and up to 1 year	1 806.9	1 183.8
over 1 year and up to 5 years	1 568.6	1 222.9
over 5 years	476.3	366.4
Total	**4 439.9**	**3 195.5**

Information on issue underwriting for other issuers

As at the 2017 yearend, the Group underwrote to purchase bonds issued by five issuers. The total amount of the obligation (understood as the unused limit of the total nominal underwriting facility) was PLN 820.0 million. As at the 2016 yearend, the Bank underwrote to purchase bonds issued by six issuers, totalling PLN 960.1 million.

38.2. Contingent liabilities received

	2017	2016
Guarantees received	81 627.9	77 479.5
Financing	194.4	200.6
Total	**81 822.3**	**77 680.1**

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39. Fair value

Fair value, which is best reflected by a market price, if available is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

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

Based on the employed methods of determining the fair value, financial assets/liabilities are classified to the following categories:

- Level 1: financial assets/liabilities measured directly on the basis of prices quoted in the active market.
- Level 2: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations.
- Level 3: financial assets/liabilities measured using the measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement levels.

2017

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**18 021.2**	**1 812.4**	**5.3**	**19 838.9**
Financial assets held for trading, including:	469.6	60.5	0.0	530.1
- treasury bonds	422.6	0.0	0.0	422.6
- European Investment Bank bonds	47.0	0.0	0.0	47.0
- repo transactions	0.0	60.5	0.0	60.5
Valuation of derivatives	0.0	784.7	0.0	784.7
Financial assets available-for sale, including:	17 551.6	0.0	5.3	17 556.9
- treasury bonds	16 347.3	0.0	0.0	16 347.3
- French government bonds	415.0	0.0	0.0	415.0
- European Investment Bank bonds	789.3	0.0	0.0	789.3
- equity instruments	0.0	0.0	5.3	5.3
Derivative hedge instruments	0.0	967.2	0.0	967.2
Financial liabilities, including:	**735.1**	**1 678.4**	**0.0**	**2 413.5**
Financial liabilities held for trading, including:	735.1	0.0	0.0	735.1
Valuation of derivatives	0.0	979.2	0.0	979.2
Derivative hedge instruments	0.0	699.2	0.0	699.2

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2016

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	**23 313.6**	**2 477.3**	**48.8**	**25 839.7**
Financial assets held for trading, including:	2 805.2	21.6	0.0	2 826.8
- treasury bonds	2 795.7	0.0	0.0	2 795.7
- European Investment Bank bonds	9.5	0.0	0.0	9.5
- repo transactions	0.0	21.6	0.0	21.6
Valuation of derivatives	0.0	1 117.1	0.0	1 117.1
Financial assets available-for sale, including:	20 508.4	0.0	48.8	20 557.2
- treasury bonds	19 681.3	0.0	0.0	19 681.3
- French government bonds	533.0	0.0	0.0	533.0
- European Investment Bank bonds	294.1	0.0	0.0	294.1
- equity instruments	0.0	0.0	48.8	48.8
Derivative hedge instruments	0.0	1 338.6	0.0	1 338.6
Financial liabilities, including:	**453.2**	**2 605.7**	**0.0**	**3 058.9**
Financial liabilities held for trading, including:	0.0	21.6	0.0	21.6
- repo transactions	0.0	21.6	0.0	21.6
Book short position in trading securities	453.2	0.0	0.0	453.2
Valuation of derivatives	0.0	1 116.0	0.0	1 116.0
Derivative hedge instruments	0.0	1 468.1	0.0	1 468.1

Movements between valuation levels

In 2017, there were no movements between valuation levels.

Valuation of financial instruments classified to level 2

The Bank classifies derivatives, cash bills of the National Bank of Poland and repo transactions to level 2 of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option – the Garman-Kohlhagen model adjusted by the call spread,
- the touch option – the Murex Skew Model,
- the (American) barrier option – the Murex Skew Model,
- the (European) barrier option – the Garman-Kohlhagen model, and
- Cap/Floor (back-to-back transactions) – the Black model.

The following are the input data for the models:

- the foreign exchange rate – obtained by the parties from the National Bank of Poland's website,
- implied volatilities – obtained from Bloomberg BGN or Bloomberg Synthetic for currency pairs with lower liquidity, and
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash flows at the transaction level. The fair value determined in that manner is the PV of those cash flows. All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers.Market data quality is controlled during the daily contribution process for revaluation rates.

Derivative instruments are valued according to the OIS curve concept on the assumption that the transaction valuation is hedged with a deposit at the EONIA rate. PLN transactions settled in central clearing houses (London Clearing House, Central Securities Depository of Poland) are exception, where NPV settlement is in the original currency which is reflected in the applied valuation curves (initial zero curve based on WIBOR and IRS quotations).

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Measurement adjustment

The Bank adopted prudent valuation for financial assets and liabilities measured at fair value and based the said measurement on the guidelines provided for in the Technical Standards of the European Banking Authority (i.e.: EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.
As at 2017 yearend, the prudent valuation adjustment totalled PLN 73.2 million (PLN 43.7 million for 2016), out of which PLN 64.2 million (PLN 32.1 million for 2016) reduced the revaluation reserve of cash flow hedging instruments, whereas PLN 5.7 million (PLN 5.7 million for 2015) encumbered the financial result (including: PLN +1.1 million was recognised under the item Net income on hedge accounting while PLN +1.5 million under the item Net income on financial instruments measured through profit and loss and FX result for 2015 PLN -6.2 million and +0.5 million respectively).

Valuation of financial instruments classified to the level 3

Shares and interests of several companies for which it is difficult or impossible to determine the fair value due to absence of active market for those instruments are classified into the 3rd valuation level.

As at 31 December 2016, the Bank also classified the preferred stock of Visa Inc. received in the settlement of the sale transaction of the Visa Europe Limited shares in 2016 into the 3rd valuation level. As at 31 December 2016, the fair value of VISA Inc. shares was PLN 43.4 million. The shares of Visa Inc. were sold in 2017. For transaction details, refer to explanatory note no. 5 hereof. Net income on investments.

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Movements in financial assets/liabilities classified to the level 3 of measurement

	2017	2016
Opening balance	**48.8**	**183.2**
Increases, including:	**11.9**	**237.6**
net income on sale of VISA Inc.	11.9	0.0
net income on sale of VISA Europe shares	0.0	189.6
Visa Inc. share purchase	0.0	36.1
FX differences	0.0	6.5
valuation recognized in the revaluation reserve	0.0	5.4
Disposals, including:	**-55.4**	**-372.0**
Sale of VISA Europe shares	-46.2	-194.1
valuation recognized in the revaluation reserve	-5.5	-177.9
FX differences	-3.7	0.0
Closing balance	**5.3**	**48.8**

The fair value measurement changes carried through the income statement are recognised in the item of the income statement *Net income on financial instruments at fair value through profit or loss and FX result.*

Potential changes to the estimates of the measured financial instruments classified to level 3 of the measurement do not have a significant impact on the financial statements of the Bank.

39.2. Non-financial assets at fair value in statement of financial position

2017

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	339.6	**339.6**
Property, plant and equipment held for sale	-	-	11.1	**11.1**

2016

	Level 1	Level 2	Level 3	TOTAL
Own real property	-	-	338.7	**338.7**
Property, plant and equipment held for sale	-	-	31.8	**31.8**

Changes in non-financial assets classified to level 3 of the measurement is presented in this statement, note no. 23. Non-financial assets.

Fair value measurement

Own real properties

In 2017, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice (Sokolska) – as at 31 December 2017, the building's value was PLN 103.6 million; the change in the value of this real property for the year 2017 decreased the financial result by PLN 4.4 million (PLN 3.6 million including the deferred tax),
- ING Bank Śląski S.A. Head Office in Katowice (Chorzowska 50) – as at 31 December 2017, the building's value was PLN 123.4 million; the change in the value of this real property for the

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year 2017 decreased the financial result by PLN 1.7 million (PLN 1.5 million including the deferred tax), and

- 13 other real properties located across Poland; change in the value of the real properties for the year 2017 decreased the revaluation reserve by PLN 0.5 million (PLN 0.4 million including the deferred tax) and reduced the financial result for 2017 by PLN 0.6 million (PLN 0.5 million including the deferred tax).

In 2016, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice (Sokolska) – as at 31 December 2016, the building's value was PLN 106.5 million; the change in the value of this real property for the year 2016 decreased the financial result by PLN 2.2 million (PLN 1.7 million including the deferred tax),
- ING Bank Śląski S.A. Head Office in Katowice (Chorzowska 50) – as at 31 December 2016, the building's value was PLN 126.6 million; the change in the value of this real property for the year 2016 decreased the financial result by PLN 8.1 million (PLN 6.5 million including the deferred tax), and
- 14 other real properties located across Poland; change in the value of the real properties for the year 2016 increased the revaluation reserve by PLN 1.7 million (PLN 0.6 million including the deferred tax) and reduced the financial result for 2016 by PLN 2.8 million (PLN 2.3 million including the deferred tax).

The results of real properties appraisals were presented in the income statement in the item Operating costs (in note no. 8 in detailed item *Maintenance and rental of buildings*).

As at 31 December 2017, PLN 11.1 million, which amount (including deferred tax) refers to the real properties assessed at fair value, was recognised in the revaluation reserve. As at 31 December 2016, the same item amounted to PLN 11.5 million.
The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 325.9 million as at 31 December 2017 against PLN 324.5 million as at 31 December 2016.

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

2017

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	2 815.1	-	2 815.1	-	**2 815.1**
Financial assets held to maturity	8 350.5	8 339.6	-	-	**8 339.6**
Loans and receivables to other banks	2 234.5	-	2 234.5	-	**2 234.5**
Loans and receivables to customers	87 338.9	-	3 550.6	83 463.7	**87 014.3**
Receivables from customers due to repo transactions	19.8	-	19.8	-	**19.8**
Investment in controlled entities	240.5	-	-	240.5	**240.5**
Other assets	64.4	-	-	64.4	**64.4**
Liabilities					
Liabilities due to other banks	1 044.6	-	1 044.6	-	**1 044.6**
Liabilities due to customers	104 075.8	-	-	104 079.4	**104 079.4**
Liabilities under issue of debt securities	300.3	-	301.1	-	**301.1**
Subordinated liabilities	626.9	-	-	626.9	**626.9**

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2016

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	1 825.0	-	1 825.0	-	**1 825.0**
Financial assets held to maturity	5 164.1	5 058.0	-	-	**5 058.0**
Loans and receivables to other banks	1 113.4	-	1 113.2	-	**1 113.2**
Loans and receivables to customers*	78 038.0	-	3 904.2	74 535.8	**78 440.0**
Investments in controlled entities	239.2	-	-	239.2	**239.2**
Other assets	50.6	-	-	50.6	**50.6**
Liabilities					
Liabilities due to other banks	2 019.9	-	2 019.9	-	**2 019.9**
Liabilities due to customers*	95 168.4	-	-	95 176.0	**95 176.0**
Liabilities under issue of debt securities*	866.4	-	871.1	-	**871.1**
Subordinated liabilities	664.9	-	-	664.9	**664.9**

*) In 2017 the ING Bank Ślaski SA Group changed the method of compute fair value of assets and deposits measured at amortized cost and financial liabilities measured at amortized cost considering the effective interest rate, therefore comparable data for 2016 have been transformed.

The Bank discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.
For calculation purposes, the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

To compute fair value of other assets and deposits measured at amortized cost and financial liabilities measured at amortized cost considering the effective interest rate the transfer price is applied. The transfer price is calculated as:

- PLN: BID rates being WIBID overnight, OFFER rates being WIBOR overnight.
- EUR: BID rates being EURIBOR overnight, OFFER rates being EURIBOR overnight.
- USD and CHF: BID rates being LIBOR overnight, OFFER rates being LIBOR overnight.

BID rates are used to compute fair value of financial liabilities measured at amortized cost; in the case of financial assets measured at amortized cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.
Credit loss estimations reflect the loan loss provisioning model in place at the Bank.
In certain aspects, the model adopted by the Bank is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model does not take into account restructuring-based changes either.

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

For mortgage portfolio, the prepayment model is applied. Data on the maturity of PLN and CHF mortgage portfolios are used to determine the estimated prepayments according to the model maturity structure. On the basis thereof, the average interest rate weighted with unmatured principal is calculated separately for PLN and CHF portfolios. A model schedule of principal and interest payments is aggregated on the basis of the model maturity structure and future interest flows measured at average interest rate separately for PLN and CHF.

In the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of loans granted in the last two-month period.

For that purpose, the following assumptions are adopted:

- use of the loans granted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

To estimate the fair value of CHF mortgage loans portfolio, an average margin used when extending EUR mortgage loans adjusted with swap instruments quotations for CHF/EUR currencies was applied on account of active market dissaperance.

As a result, the fair value is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio, the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio calculated separately for PLN and CHF).

For FX loans, fair value is measured without impact of potential future regulatory changes. In the case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value.

Liabilities due to other banks and to customers

The deposit portfolio is divided according to the product type, client segment and the currency. For deposits paid on demand, it is assumed that the fair value equals their book value.

Another phase involves the calculation of future cash flows as the total of principal- and interest cash flows. After that, by applying the discounting factor for each cash flow one receives the fair value of individual deposits. The sum of fair values of individual deposits represents the fair value of the portfolio of deposits reviewed.

For deposits, the discounting factor represents the total of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of deposits accepted in the last two months.

For that purpose, the following assumptions are adopted:

- use of the deposits accepted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each deposit.

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Liabilities under issue of securities, Subordinated liabilities

Fair value is calculated with the use of the discounting factor for each cash flow. Accordingly, the discounting factor is the total of:

- the market rate based on the yield curve from the balance sheet date, and
- the estimated margin applied should the securities be bought.

For that purpose, it is assumed that the spot at the yield curve on the basis of which the relevant market rate is set reflects the bond repricing date.

Investments in controlled entities

The Bank holds shares of and interest in subsidiaries. It is difficult or impossible to determine their fair value due to the absence of active market for those instruments.

Cash in hand and balances with the Central Bank, Other assets

As the financial assets recognised in the above item are of short-term nature, it was assumed that the carrying amount is approximately the same as the fair value.

Financial assets held to maturity

In the case of financial assets classified into the portfolio held to maturity used an approach that for the purpose of determining the fair value measurement parameters were adopted, which would be applied if these assets were included in the portfolio of financial assets available for sale.

Below the comparison of the carrying amount with the fair value of the lending portfolio and deposits by segment is presented:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Net lending portfolio, including:	**83 627.3**	**83 316.2**	**74 039.4**	**74 447.2**
Corporate banking segment, including:	47 438.7	47 171.8	43 427.7	43 361.8
- loans and advances	44 906.5	44 758.7	40 914.9	40 898.6
- corporate and municipal debt securities	2 532.2	2 413.1	2 512.8	2 463.2
Retail banking segment, including:	36 188.6	36 144.4	30 611.7	31 085.4
- mortgages	27 775.9	27 673.0	23 692.1	23 822.3
- other loans and advances	8 412.7	8 471.4	6 919.6	7 263.1
Deposits, including:	**102 938.3**	**102 941.9**	**94 187.0**	**94 194.6**
deposits of customers from corporate banking segment	34 888.7	34 888.5	30 577.4	30 577.6
deposits of customers from retail banking segment	68 049.6	68 053.4	63 609.6	63 617.0

40. Offsetting financial instruments

The below disclosure concerns offsetting of financial assets and liabilities subject to enforceable master agreements. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Bank.

Margins additionally hedge derivative exposures; the Bank deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

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IRS/FRA derivatives settled to market

In 2017, the Group joined the new service provided by the Regulation of the CCP CSD in respect of the approach to the settlement of IRS and FRA instruments. Before the change, the net exposure under the CCP CSD transactions was collateralised with the variation margin as per the collateralised to market approach. In line with the terms and conditions of the new service, the transaction exposure is settled daily based on changed market value of specific transactions (i.e. under the settled to market approach). Therefore, no variation margin is placed. The fair value of individual transactions includes the daily exposure settlement flows. Since 2016 the Group has been using a similar service for settlement of derivatives sent to the London Clearing House (LCH).

Financial assets

2017

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	1 751.9	1 751.9	-868.8	-667.0	216.1
valuation of derivatives	784.7	784.7	-468.2	0.0	316.5
derivative hedge instruments	967.2	967.2	-400.6	0.0	566.6
derivatives collateral	0.0	0.0	0.0	-667.0	-667.0
Reverse sale and repurchase agreements, including:	80.3	80.3	0.0	-80.3	0.0
transactions classified to category of financial assets held for trading	60.5	60.5	0.0	-60.5	0.0
transactions classified to category of loans and other receivables	19.8	19.8	0.0	-19.8	0.0
Total					**216.1**

2016

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	2 665.4	2 455.7	-1 288.8	-705.7	461.2
valuation of derivatives	1 245.5	1 117.1	-657.3	0.0	459.8
derivative hedge instruments	1 419.9	1 338.6	-631.5	0.0	707.1
derivatives collateral	0.0	0.0	0.0	-705.7	-705.7
Reverse sale and repurchase agreements, including:	21.6	21.6	0.0	-20.4	1.2
transactions classified to category of financial assets held for trading	21.6	21.6	0.0	-20.4	1.2
Total					**462.4**

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Financial liabilities

2017

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		**Net amount**
			Financial instruments	Cash collateral pledged	
Derivatives, including:	1 678.4	1 678.4	-868.8	-469.2	340.4
valuation of derivatives	979.2	979.2	-468.2	0.0	511.0
derivative hedge instruments	699.2	699.2	-400.6	0.0	298.6
derivatives collateral	0.0	0.0	0.0	-469.2	-469.2
Total					**340.4**

2016

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		**Net amount**
			Financial instruments	Cash collateral pledged	
Derivatives, including:	2 793.7	2 584.1	-1 288.8	-1 066.8	228.5
valuation of derivatives	1 221.2	1 116.0	-657.3	0.0	458.7
derivative hedge instruments	1 572.5	1 468.1	-631.5	0.0	836.6
derivatives collateral	0.0	0.0	0.0	-1 066.8	-1 066.8
Sale and repurchase agreements, including:	21.6	21.6	0.0	-21.2	0.4
transactions classified to category of financial liabilities held for trading	21.6	21.6	0.0	-21.2	0.4
Total					**228.9**

41. Custody activities

As at 31 December 2017, the Bank maintained 790 (791 as at 31 December 2016) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the financial statements of the Bank.

As at 2017 yearend, the Bank acted as the custodian bank for 156 mutual funds and subfunds, 2 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (167 funds in total). To compare, as at 2016 yearend, the Bank acted as the custodian bank for 133 mutual funds and subfunds, 2 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (144 funds in total).

42. Operating leases

42.1.Bank as a lessee

The Bank cooperates with a lease company in respect of car leasing and fleet management. The Bank also incurs costs under the lease of dwelling units, recognised as operating leases. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the option of their prolongation, object purchase or price change.

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Gross lease payments by maturity are disclosed in the table below:

	2017	2016
up to 1 year	132.6	116.6
over 1 year and up to 5 years	301.1	268.6
over 5 years	87.8	92.2

42.2. Bank as a lessor

The Bank earns income from renting own real estate. Those agreements are treated as operating lease agreements. They do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the option of prolongation or price change; however they do not warrant the purchase option.
Gross lease payments by maturity are disclosed in the table below:

	2017	2016
up to 1 year	1.8	0.8
over 1 year and up to 5 years	1.1	4.1
over 5 years	2.3	2.6

43. Aditional information on cash flow statement

43.1. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts and overnight deposits in other banks.

	2017	2016
Cash in hand (presented in note 13)	1 188.7	1 056.6
Balances with the Central Bank (presented in note 13)	1 626.4	768.4
Current accounts in other banks (presented in note 14)	785.4	933.7
Current receivables in other banks (presented in note 14)	997.7	0.0
Total	**4 598.2**	**2 758.7**

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

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

Investment activity covers purchase and sale of shares and holdings in controlled entities, intangible assets and property, plant and equipment as well as financial assets held to maturity. Investment activity proceeds also comprise dividends received under shares and holdings in other entities.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including, for example, longterm loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of longterm liabilities (e.g. repayment of received loans incuding interest, interest on debt securities issued) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

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

The reasons for differences between changes recognised in statement of financial position and in cash flow statement are as follows:

1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position Interest received/ paid.
2) Change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded from the position Change in loans and other receivables to other banks; it was disclosed in the position Net increase/decrease in cash and cash equivalents.
3) Change in available-for-sale financial assets does not account for the part of financial assets valuation that was carried through equity (revaluation reserve from measurement of availablefor-sale financial assets).

2017

	changes					
	in statement of financial position	in cash flow statement	**difference including:**	1)	2)	3)
Change in loans and other receivables to other banks	-1 121.1	-269.2	**851.9**	2.4	849.5	
Change in financial assets at fair value through profit or loss	2 296.7	2 296.8	**0.1**	0.1		
Change in available-for-sale financial assets	3 000.3	3 070.4	**70.1**	-58.8		128.9
Change in loans and other receivables to customers	-9 320.7	-9 260.2	**60.5**	60.5		
Change in liabilities due to other banks	-975.3	-975.3	**0.0**	0.0		
Change in liabilities due to customers	8 907.4	8 914.0	**6.6**	6.6		

2016

	changes					
	in statement of financial position	in cash flow statement	**difference including:**	1)	2)	3)
Change in loans and other receivables to other banks	-100.3	12.5	**112.8**	-0.2	113.0	
Change in financial assets at fair value through profit or loss	-1 699.7	-1 700.6	**-0.9**	-0.9		
Change in available-for-sale financial assets	120.8	-163.3	**-284.1**	8.0		-292.1
Change in loans and other receivables to customers	-7 050.2	-7 084.8	**-34.6**	-34.6		
Change in liabilities due to other banks	164.5	164.4	**-0.1**	-0.1		
Change in liabilities due to customers	7 737.2	7 754.5	**17.3**	17.3		

44. Related entities

ING Bank Śląski S.A. subsidiaries:

- ING ABL Polska S.A. (holds 100% of shares of ING Commercial Finance S.A. and ING Lease (Polska) Sp. z o.o.),
- ING Usługi dla Biznesu S.A.,
- Solver Sp. z o.o.,
- Nowe Usługi S.A.,
- Twisto Polska Sp. z o.o.

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 30 June 2017 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives. Moreover, ING Lease Sp. z o.o. received long-term funding for leasing contracts in EUR ("matched funding").

There were also other transactions between the related entities and ING Bank Śląski. They originated from agreements concluded as to co-operation, sublease of premises, lease of equipment, data processing as well as employees' insurance contributions.

Costs are presented as per their net value (VAT excluded).

As at 31 December 2017, ING Bank Śląski S.A. had no financial exposure to the Supervisory Board Members (in the composition as at the end of 2017) or any entities connected with them in equity or organisational terms.

Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	Subsidiaries	ING Bank NV	Other ING Group entities	Subsidiaries
	as of 31 Dec 2017			as of 31 Dec 2016		
Receivables						
Nostro accounts	907.0	1.0	-	16.5	14.3	-
Loans	-	0.1	7 139.5	-	0.5	6 114.6
Positive valuation of derivatives	181.2	76.7	1.5	206.9	127.5	2.9
Other receivables	11.4	2.0	1.2	7.4	2.3	0.6
Liabilities						
Deposits received	11.9	20.4	87.9	135.6	34.5	73.8
Subordinated loan	626.9	-	-	665.0	-	-
Loro accounts	11.7	55.8	-	9.3	57.8	-
Negative valuation of derivatives	185.8	71.8	-	261.9	119.7	-
Other liabilities	62.8	1.4	1.1	61.9	1.0	-
Off-balance-sheet operations						
Off-balance sheet liabilities granted	417.0	232.0	2 065.3	330.8	94.2	2 189.3
Off-balance sheet liabilities received	421.1	246.9	-	351.9	97.7	-
FX transactions	10 110.3	40.7	-	11 828.7	125.5	-
Forward transactions	535.1	-	-	2 747.9	-	-
IRS	3 151.1	2 410.3	66.5	3 824.6	2 816.0	74.9
Options	3 591.8	43.4	-	7 401.7	293.0	49.8

	2017 YTD the period from 01Jan 2017 to 31 Dec 2017			2016 YTD the period from 01Jan 2016 to 31 Dec 2016		
Income and expenses						
Income, including:	57.3	6.8	149.9	-164.6	-40.3	128.7
interest and commission income/expenses	-10.8	4.3	151.2	-13.4	13.3	126.7
income on financial instruments	55.9	1.0	-1.3	-151.6	-53.6	1.4
net income on investment assets*	11.9	0.0	0.0	0.0	0.0	0.0
net income on other basic activities	0.3	1.5	0.0	0.4	0.0	0.6
General and administrative expenses	60.5	3.6	4.4	59.7	4.5	8.3
Outlays for non-current assets						
Outlays for property, plant and equipment	-	-	-	-	0.9	-
Outlays for intangible assets	-	-	1.3	3.8	0.2	2.0

*) The amount of PLN 11.9 million under the *net income on investment financial assets* item shows the result on sale of the VISA Inc. shares held by the Bank to ING Bank N.V. in 2017. For transaction details, refer to explanatory note no. 5 *Net income on investments.*

45. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the ING Bank Śląski S.A. are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2017 amounted to PLN 155.4 million excluding loans from the In-House Social Benefits Fund. As at 31 December 2016, their value amounted to PLN 153.6 million.

Granting of a loan, cash loan, bank guarantee and surety for the Bank's senior management group is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.

The financial statements for 2017 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 32.6 million. As at 31 December 2016, their value amounted to PLN 36.5 million.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2017 amounts to PLN 5.0 million versus PLN 6.2 million as at 31 December 2016. The balance of the In-House Social Benefits Fund as at 31 December 2017 was PLN 6.9 million versus PLN 4.7 million as at 31 December 2016.

Remuneration of ING Bank Śląski S.A. Management Board Members (PLN million)

As at the end of 2017, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr Brunon Bartkiewicz - Bank Management Board President,
- Mr Bożena Graczyk - Bank Management Board Vice-President,
- Mr Michał Bolesławski - Bank Management Board Vice-President,
- Ms Joanna Erdman - Bank Management Board Vice-President,
- Mr Marcin Giżycki - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Patrick Roesink- Bank Management Board Vice-President.

Emoluments of ING Bank Śląski S.A. Management Board Members (PLN million)

	2017	2016
Short-term employee benefits, including:	13.5	11.3
- remuneration	9.6	9.1
- benefits	3.9	2.2
Total	**13.5**	**11.3**

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

Emoluments of ING Bank Śląski S.A. Management Board Members under the Variable Remuneration Programme (PLN million)

	2017		2016	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.6	2.1	2.7	1.8
Phantom stock	2.6	2.1	2.7	1.8
Total	**5.2**	**4.2**	**5.4**	**3.6**

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part.

Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

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

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2017 bonus; some part of it will be paid out in 2018, and some part will be deferred for the upcoming years (2020-2025). The maximum obtainable amount of the bonus for 2017, for which a reserve was established, arrives at PLN 9.4 million, including cash pay-out in 2018 of PLN 2.6 million, and for the deferred part of the bonus PLN 6.8 million. The Bank Supervisory Board will take the final decision on the bonus amount.

As at 31 December 2016, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.0 million. The bonus for 2016 approved in 2017 by the Bank Supervisory Board was PLN 7.5 million.

In the years ended 31 December 2017 and 31 December 2016, there were no post-employment benefits paid out to the Bank Management Board Members.

The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

As at the end of 2017, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chair,
- Ms Małgorzata Kołakowska - Deputy Chair,
- Mr Aleksander Galos - Secretary,
- Mr Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Ms Norman Tambach – Member,
- Mr Aleksander Kutela – Member,
- Mr Christopher Steane – Member.

Emoluments of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

	2017	2016
Short-term employee benefits, including:	0.7	0.6
- remuneration	0.7	0.6
Total	**0.7**	**0.6**

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2017, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2017 into the public domain.

46. Headcount

The headcount in the ING Bank Śląski S.A. was as follows:

	2017	2016
Individuals	7 661	7 669
FTEs	7 612.4	7 618.7

47. Significant events after the balance sheet date

Obtainment of PFSA permission to establish a mortgage bank

On 16 January 2018, the Bank was given notice of the permission issued by the Polish Financial Supervision Authority and allowing the Bank to establish a mortgage bank under the name of "ING Bank Hipoteczny Spółka Akcyjna" with its registered office in Katowice. ING Bank Hipoteczny Spółka Akcyjna (ING Bank Hipoteczny S.A.) was established by a notarial act on 26 February 2018.

The share capital of ING Bank Hipoteczny S.A. will amount to PLN120,000,000 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.

Management Board's intention regarding the dividend payout from the 2017 profit

In connection with current report from 31 January 2018, in which the Management Board intension to dividend payout at the level of ca. 30% of ING Bank Śląski S.A. net result was included, the Bank Management Board intends to recommend to the General Meeting the dividend totalling PLN 416.3 million or 30.9% of the separate profit of ING Bank Śląski S.A. The proposed dividend per share is PLN 3.20.

As at the report date, the Bank satisfies the criteria and the requirements of the Polish Financial Supervision Authority enabling the dividend payout from the 2017 profit. The dividend proposal takes account of the current financial standing of the Bank and its development plans.

Sale of non-performing receivables portfolio

On 22 February 2018 the Bank concluded an agreement on the sale of corporate receivables from the impaired portfolio. As a result of the transaction, the portfolio of irregular receivables decreased by PLN 85.6 million. The positive impact of the transaction on the Bank's result before tax amounted to PLN 1.1 million.

Signing agreements with the Bank Guarantee Fund in conjunction with the acquisition of Bieszczadzka SKOK

On 1 March 2018, the Bank signed two agreements with the Bank Guarantee Fund following the acquisition by ING Bank Śląski S.A. on 1 September 2017 of Bieszczadzka Credit Union (Bieszczadzka SKOK):

1) The Subsidies Agreement for PLN 11.8 million to cover 100% of the difference between the carrying amount of all the property rights acquired and the carrying amount of liabilities under guaranteed funds,
2) The Loss Coverage Guarantee Agreement for the property rights acquired.

The transaction of acquisition of Bieszczadzka SKOK was described in these financial statements in explanatory note 23.3. *Intangible assets.*

VI. Risk and capital management

1. Risk and capital management system

1.1. Risk management system

The risk management system is an integrated collection of rules, tools and mechanisms (including but not limited to policies and procedures) for risk processes. The role of the risk management system is to continuously identify, measure or estimate as well as monitor the Bank's risk and secure against potential losses through adequate controls, system of limits and adequate level of provisions as well as of capitals and liquidity buffers.

Under the risk management system, the Bank:

- applies formal risk tolerance determination rules and risk management rules,
- applies formal procedures intended to identify, measure or estimate and monitor risk, also accounting for projected future risk,
- applies formal risk limits and rules of conduct in the event of limit overrun,
- applies the approved management reporting system that allows risk level monitoring,
- has the organisational framework matching the amount of profile of risk borne by the Bank.

1.2. Risk management rules

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

Irrespective of the need to ensure legal and regulatory compliance, the Bank does not treat credit, market and operational risk management as a compliance issue mainly, but sees it as a fundamental and integral part of the end-to-end Bank management process.

1.3. Internal capital adequacy assessment process

At ING Bank Śląski S.A., the internal capital adequacy assessment process (ICAAP) is regulated by the _ING Bank Śląski S.A. Capital Management Policy._ The document governs the process of material risks identification, the key elements regarding risk quantification as well as the capital adequacy management principles. Based on the above-referred document, the following risks are identified at the Bank:

- permanently material risk – the risk which due to the nature of the Bank's operations is material now and will be such in the future. Under the nature of the Bank's operations we construe the business being provision of deposit and credit services and the related operations: financial performance, liquidity management, interest rate and FX risk management, as well as risk management with regard to mismatch or unreliability of internal processes, people and technical systems or external events;
- material risk – the risk which may trigger potential losses, with the frequency of occurrence of the values that qualify them as material in line with the table:

Frequency	At least once a year	immaterial	material	material	material
	At least every 5 years	immaterial	immaterial	material	material
	Less often than every 5 years	immaterial	immaterial	immaterial	material
	Potential loss (PLN)	up to 0.2% of own funds	from 0.2% to 1% of own funds	from 1% to 5% of own funds	above 5% of own funds

- difficult-to-measure risk – the risk wherefor in the Bank's opinion neither quantitative nor qualitative measures that would correctly quantify the risk size can be developed.

Every month, standalone and consolidated reports are compiled by the Bank; they read the realised capital requirements for all material risks and planned metrics values. Reports are delivered to the Assets and Liabilities Committee (ALCO) and the Bank Management Board. The Supervisory Board is advised every quarter of capital adequacy of the Bank, internal capital adequacy included.

The ICAAP is reviewed once a year. The review report is delivered to the Management Board and Supervisory Board of ING Bank Śląski S.A. Further, the internal audit function performs an independent audit of the process on an annual basis.

1.4. Risk categories

In 2017, the workshops on risk materiality assessment were carried out in the first quarter. They did not result in changes to the identified risks, their materiality or measurement difficulty. Client behaviour risk was moved from the funding and liquidity risk to the market risk.

Risk		Permanently material	Material	Immaterial	Difficult-to-measure
Credit risk					
Default risk and counterparty risk*		✓			
Residual risk**		✓			✓
Concentration risk		✓			
Transfer risk				✓	
Risk of other non-credit obligation assets			✓		
"Default" definition risk				✓	
Market risk					
Financial Markets operations risk	FX risk	✓			
	Trading book high-level and specific interest rate risk	✓			
	Banking book interest rate risk: total mismatch	✓			
	Banking book interest rate risk: underlying risk			✓	
	Banking book interest rate risk: option risk			✓	
Risk of investments in commercial real property and real property owned for own purposes				✓	
Equities risk	Banking book equities risk			✓	
	Trading book high-level and specific equities risk			✓	
Client behaviour risk			✓		
Business risk					
Financial result risk		✓			
Macroeconomic risk			✓		
FX mortgage portfolio risk			✓		
Excessive financial leverage risk				✓	
Funding and liquidity risk					
Funding and liquidity risk		✓			
Operational risk					
Operational risk***		✓			
Model risk					
Model risk			✓		✓

* The risk definition covers the delivery settlement risk; ** Capital requirement quantified in the approach for the default risk and counterparty risk; *** It includes, inter alia, the compliance risk and legal risk as well as the IT risk managed within that risk.

1.5. Risk appetite

The risk appetite sets the maximum risk the Bank is willing to accept while supporting its stability and further growth. As part of capital and risk management at the Bank, the risk appetite parameters are set within the so-called Risk Appetite Statement (RAS) in the following areas:

- RAS for capital adequacy,
- RAS for liquidity and funding plus market risk,
- RAS for credit risk, and
- RAS for operational risk.

The RAS for capital adequacy agrees with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 which provides for the duty to keep the capital ratios at least at the following levels:

- 4.5% – Common Equity Tier 1 ratio (CET1),
- 6.0% – Tier 1 ratio (T1), and
- 8.0% – Total Capital ratio (TCR).

The Bank is required to maintain the Tier 1 ratio and the Total Capital ratio of at least 10.75% and 13.75%, respectively. The requirement arises from the guidelines of the Polish Financial Supervision Authority (PFSA) and incorporates:

- provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 in conjunction with the existing approach of the PFSA to maintaining increased levels of ratios (9% for T1 and 12% for TCR), and
- the capital buffers determined in keeping with the Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015 (in 2017, the capital conservation buffer was 1.25% and the buffer of other systemically-important institution (O-SII) was 0.5% as imposed by the PFSA decision of 4 October 2016 and revised with the PFSA decision of 19 December 2017).

As part of the RAS for the capital adequacy, capital limits on risk categories are set too.

1.6. Economic capital, own funds and capital requirement

Economic capital

ING Bank Śląski S.A. quantifies capital for each identified permanently material and material risk:

- default risk and counterparty risk as well as residual risk – the risk of losses due to counterparty or debtor failure to fulfil their obligations towards the Bank (including delivery and settlement risk) and the risk of the credit exposure value decrease due to deterioration of the counterparty debt repayment capacity. The economic capital is determined using the modified AIRB Approach (INCAP) considering the capital for the credit risk of the central counterparty and the credit valuation adjustment risk, and also the requirement due to settlement and delivery risk which are computed according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013. Since June 2014, the LGD parameter for recession (residual risk) has been factored in in the capital computations;
- other non-credit obligation assets risk – the risk of loss of the value of non-credit obligation assets by the Bank (DTA, capital exposures and other items). The capital is set in line with the rules adopted in Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013;
- concentration risk – the risk related to the excessive exposure against a single entity, related entities or groups of entities of similar characteristics that increases credit risk (e.g. sector concentration). Capital requirement is quantified on the following terms and conditions:
  - for individual entities or entities related in capital or organisational terms – in line with the rules of capital requirement quantification following the requirements of Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013;
  - for the companies from one sector or industry or for those running the same business or trading in similar goods – as exposure surplus over the concentration limit set for that group of exposures, less impairment losses;
- FX risk – the risk of loss due to exchange rate fluctuations. The capital requirement is computed using the VaR method;
- trading book high-level and specific interest rate risk – the risk of loss on positions in trading books due to interest rate movements. The capital requirement is computed using the VaR

method;

- banking book interest rate risk: total mismatch – the risk of loss on positions in banking books due to interest rate movements. The capital requirement is computed using the VaR method;
- client behaviour risk – the risk of potential loss caused by uncertainty of client behaviour for the products with embedded options. The capital requirement for that risk is quantified as a combination of two elements: Monte Carlo simulation for the measurement of the held replicating portfolio;
- financial result risk – the risk associated with taking adverse or erroneous business decisions, the lack of or faulty execution of taken assumptions/actions and changes in the external environment plus an inappropriate response to these changes which results in the financial result being below the requirements arising from the need to conduct ongoing operations and grow, mainly in order to supply the capital base. The capital requirement is estimated based on potential losses vis-à-vis the planned financial result;
- macroeconomic risk – the risk due to macroeconomic changes and their impact on the minimum capital requirements. The capital requirement quantification methodology is based on in-house stress tests for the mild recession scenario and desired capital adequacy ratios;
- FX mortgage portfolio risk – the risk of financial losses connected with FX mortgage loans conversion into PLN mortgage loans. The Bank values the risk using the estimated implementation costs of the solutions proposed and the legislation stage of the regulation;
- funding and liquidity risk – the risk of inability to repay, at a reasonable price, cash liabilities under on- and off-balance sheet items. The Bank maintains liquidity so that its cash liabilities could be repaid at all times from the available funds and inflows from maturing transactions, available funding sources at market prices and/or from sale of disposable assets. The economic capital is the value of excess of internal supervisory levels for liquidity limits;
- model risk – the risk of loss that the Bank may incur as a result of decisions which may have substantially been based on data obtained using models in the Bank internal processes, due to errors in the development, implementation or application of such models. The capital requirement is quantified for material and medium material models of increased or high model risk and is based on expert judgment;
- operational risk – the risk of direct or indirect tangible loss from inadequate or failed internal processes, people and systems, or from external events. Reputation and business risk factors and the consequent impact are also watched within the operational risk domain. To calculate the economic capital, the Bank applies the Advanced Measurement Approach. The model applied is a hybrid model allowing the Bank to measure risk on the basis of internal and external data on operational risk events, scenario analysis as well as business environment and internal control factors.

Every month, standalone and consolidated reports are compiled; they read the realised economic capital values for all material risks and planned metrics values. Reports are delivered to the Assets and Liabilities Committee (ALCO), the Non-Financial Risk Committee (NFRC) and the Management Board. The Supervisory Board is advised of capital adequacy, internal capital adequacy included, on an ongoing basis.

In 2017, own funds were above the internal capital.

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Own funds

The own funds of the Bank encompass Tier 1 and Tier 2 capital. As at 31 December 2017, the Bank did not identify additional Tier 1 capital (AT1).

	2017	2016
Own funds		
A. Tier 1 capital (T1)	**10 130.0**	**8 425.8**
A.I. Common equity Tier 1 capital (CET1)	**10 130.0**	**8 425.8**
capital instruments eligible as CET1 Capital	130.1	130.1
share premium	956.3	956.3
retained earnings	773.8	420.2
- previous years retained earnings	108.4	111.7
- profit or loss eligible	665.4	308.5
accumulated other comprehensive income	274.9	108.6
other reserves	7 309.5	6 155.9
funds for general banking risk	1 215.2	1 160.2
intangible assets	-418.5	-419.6
IRB shortfall of credit risk adjustments to expected losses	-111.2	-85.3
value adjustment due to the requirements for prudent valuation	-0.1	-0.6
A.II. Additional Tier 1 capital (AT1)	**0.0**	**0.0**
B. Tier 2 capital (T2)	**613.3**	**642.3**
subordinated liabilities	625.6	663.6
IRB shortfall of credit risk adjustments to expected losses	-12.3	-21.3
Own funds taken into account in total capital ratio calculation	**10 743.3**	**9 068.1**

Capital requirement

For the purpose of 2017 reporting, the Bank calculated the credit risk capital requirement using Advanced Internal Ratings Based approach as well as the Standardised Approach. The Bank received the approval from the Polish Financial Supervision Authority and De Nederlandsche Bank to apply AIRB approach for exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z o.o. For operational risk, the Bank uses the Basic Indicator Approach. For market risk, the Bank uses the Standardised Approach. The Bank also sets the capital requirements for concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases, the requirements are set in compliance with the Capital Requirements Regulation.

Capital adequacy

As at 31 December 2017, the TCR for the ING Bank Śląski S.A. was 18.4% versus 16.6% as at 2016 yearend. The Tier 1 ratio for the Bank went up from 15.4% as at the end of December 2016 to 17.3% as at 2017 yearend. Despite business volume growth, both ratios improved y/y mainly due to:

- recognition in own funds of the entire 2016 net profit less the amount which the Bank already included in own funds in 2016 (PLN 900.2 million) and a portion of Bank's profit for the first 9 months of 2017 (PLN 665.4 million),
- discontinuation of recognition of the regulatory floor in the capital requirement,
- lowering of the effective risk weight for the portfolio of retail mortgage loans (following the changes to risk weights which took effect on 2 December 2017; the risk weight for FX mortgage loans went up from 100% to 150%, while the effective risk weight for PLN mortgage loans was reduced – the weight of 35% can be attributed to the 80% of the effective collateral worth (earlier 50% only.

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Total capital ratio

	2017	2016
Own funds taken into account in total capital ratio calculation	**10 743.3**	**9 068.1**
Capital requirements		
capital requirements for credit risk, counterparty credit risk, dilution risks and free deliveries risk	4 018.9	3 631.0
capital requirements for position, foreign exchange and commodities risks	103.0	77.2
capital requirements for operational risk	540.8	496.3
capital requirements for credit valuation adjustment risk	10.8	15.5
supplement to the overall level of capital requirements	0.0	149.1
Total capital requirements	**4 673.5**	**4 369.1**
Total capital ratio	**18.39%**	**16.60%**
Tier 1 ratio	**17.34%**	**15.43%**

1.7. Leverage ratio

The calculation of regulatory leverage ratio in the ING Bank Śląski S.A. as at 31 December 2017, was based on provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter referred to as the “Regulation 2015/62”).

Leverage ratio is calculated as Tier 1 capital measure divided by the total exposure measure and expressed as a percentage. Total exposure measure is the sum of the exposure value calculated in accordance with the Regulation 2015/62 of all assets and off-balance sheet items not deducted when calculating the Tier 1 capital measure.

Calculation of the leverage ratio for the ING Bank Śląski S.A.

	2017	2016
Tier 1 capital	10 130.0	8 425.8
Total leverage ratio exposures	119 616,4	110 073.4
Leverage ratio (%)	**8.47**	**7.65**

On the basis of CRD IV Directive and implementing standards, the Bank prepared and implemented “The procedure of preparing the report: Leverage Ratio”. This document describes the recipients and detailed rules of leverage ratio calculation in LIREP application for NBP reporting.

The Bank implemented management process, including: “Excessive financial leverage risk management policy” and “Leverage ratio planning procedure”. The documents provision responsibilities of departments and ALCO Committee. In the Policy, the limit of leverage ratio level was also set and the actions to maintain the ratio on required level are defined. The Bank also included the leverage ratio in stress tests.

In 2017 the leverage ratio was at the level above internal and regulatory minimum. The massive influence on the leverage ratio resulted from credit volumes dynamics and inclusion of 2016 and for 3 quarters of 2017 net result to Tier 1 capital.

1.8. Stress tests

According to the *ING Bank Śląski S.A. Stress-Testing Policy*, the Capital Management Department is responsible for the coordination of the stress testing process for economic capital and capital requirement. As part of its tasks, the Department gathers the results of tests made by other testing departments and compiles a report which is presented to the Assets and Liabilities Committee, Bank Management Board and Bank Supervisory Board.

As at 30 June 2017, the Bank conducted consolidated stress tests based on the scenarios prepared by the Chief Economist and using the in-house tools, the new tool for the credit risk included. Stress tests covered:

- scenario tests: a mild recession scenario and a long-term recession scenario;
- sensitivity tests (interest rate increase by 400 bps and 200 bps; real property price decline by 30%; PLN depreciation by 30% and 50%; GDP growth rate fall to -5%; unemployment rise to 20% and wage decline by 10%);
- concentration tests;
- financial leverage ratio tests.

The stress tests performed enable the Bank to learn the behaviour of capital requirements, economic capital and own funds should the set macroeconomic parameters materialise.

1.9. Dividend policy

On 15 September 2016, the Supervisory Board approved the dividend policy proposed by the Management Board which was revised on 3 March 2017. The main assumptions of the dividend policy are the following:

- 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 amount to be paid out, the Management Board will review in particular:

- the current financial standing of the Bank, including limitations in the case of sustaining financial loss or low profitability (low ROA/ROE),
- assumptions of the Bank's management strategy, including risk management strategy,
- PFSA's stance on the banks' dividend policy,
- the limitations under Article 56 of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015.

PFSA guidance on 2017 dividends

On 24 November 2017, the Polish Financial Supervision Authority adopted a stance on the banks dividend policy in 2018 (dividend for 2017). The PFSA recommends, in particular, that the dividend of up to 50% from the profit earned in 2017 be paid out solely by banks meeting all the below criteria:

- the banks which do not pursue the recovery programme;
- their SREP final score is not worse than 2.5;
- their financial leverage is above 5%;
- banks whose Tier 1 capital ratio is not lower that the required minimum plus 1.5 p.p.: 6% + 75%*add-on + combined buffer requirement + 1.5%;
- banks whose Total Capital ratio is not lower that the required minimum plus 1.5 p.p.: 8% + add-on + combined buffer requirement + 1.5%.

urthermore, the Polish Financial Supervision Authority indicated the option of payout of up to:

- 75% of the profit earned in 2017 by the banks meeting all the above criteria and the capital conservation buffer requirement at the target level (i.e. 2.5% of the total risk exposure),
- 100% of the profit earned in 2017 by the banks meeting all the above criteria (including the

capital conservation buffer at the target level) and accounting for the bank's sensitivity to the stress scenario (ST) in their capital criteria.

In line with the guidelines, the PFSA requirements applicable to ING Bank Śląski S.A. as regards the 2017 dividend payout of up to 50% of net profit are the following:

- Tier 1 ratio > 12.875%
- Total Capital ratio > 14.875%

Dividends declared and paid out

The Bank Management Board intends to recommend to the General Meeting the dividend totalling PLN 416.3 million or 30.9% of the separate profit of ING Bank Śląski S.A. The proposed dividend per share is PLN 3.20.

ING Bank Śląski S.A. did no pay dividend on the 2016 profit. On 9 March 2017, the Management Board received a letter from the Polish Financial Supervision Authority concerning an individual instructions to increase own funds through retaining all of the profit earned from 1 January 2016 to 31 December 2016. The Management Board recommended that the General Meeting increase the funds and on 21 April 2017 the General Meeting passed a resolution on earmarking the entire 2016 net profit for the Bank's equity injection.

1.10. Recovery and resolution plans

On 4 October 2017, the ING Bank Śląski S.A. received a positive administrative decision from the PFSA for the developed Recovery Plan as one of the first banks in Poland. The Bank Guarantee Fund was involved in the process of decision issue by the PFSA as the advising party. The Recovery Plan is compliant with the provisions of the Polish law transposing the requirements of the BRR Directive, i.e. with the Bank Guarantee Fund Act of 10 June 2016 and the implementing provisions thereof.

While the Bank is working on the Recovery Plan, the BGF is required – as part of their tasks described in the Act – to prepare, update and assess the feasibility of Resolution Plans for domestic entities. Based on the information obtained from the PFSA and the Bank, in 2017 the BGF ran the first preparation and update stage of the Resolution Plan. For ING Bank Śląski S.A., the BGF drafted the restructuring strategy based on the bail-in mechanism to cover the losses sustained and to recapitalize the Bank, and also to reinstitute the market trust to the Bank as regards its ability to satisfy its obligations. The BGF set the MREL for the Bank too. The Bank will be required to satisfy it as of 1 January 2023. The MREL can change in the future, notably due to the pending EU and local legislation works.

2. Credit risk

2.1. Introduction

We understand 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
- the risk of lowering the economic value of credit exposure or a group of credit exposures due to deterioration of the debtor's capacity to service their debt as agreed.

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Maximum exposure to credit risk

	2017	2016
Loans and other receivables to other banks	2 234.5	1 113.4
Financial assets measured at fair value through profit or loss	530.1	2 826.8
Valuation of derivatives	784.7	1 117.1
Investments (excluding equity instruments)	25 902.1	25 672.5
Derivative hedge instruments	967.2	1 338.6
Loans and other receivables to customers	87 338.9	78 038.0
Receivables from customers due to repo transactions	19.8	0.0
Receivables presented in other assets	64.4	50.6
Off-balance sheet liabilities granted. including:	28 844.2	26 994.5
- unused credit facilities	21 598.6	21 135.2
- guarantees	4 439.9	3 195.5
- unused overdraft facilities	1 336.1	1 273.7
- credit card limits	1 079.4	998.3
- letters of credit	390.2	391.8
Total	**146 685.9**	**137 151.5**

The Bank's policy on the risk of credit exposure portfolio factors in the fact that the business generating credit risk can entail other risks as well. These are liquidity risk. market risk. operational risk. environmental risk. social risk. legal risk and reputational risk which may intensify one another.

Lending-related losses are a consequence of the above risks and the Bank's mitigation actions in that regard. The Bank impacts the loss level using accepted risk limits. risk exposure amounts plus risk hedging instruments and in case the risk materializes. by direct actions reducing the losses.

Our primary goal 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.

We manage credit risk end to end based on:

- strategic planning.
- a consistent system of limits. policies and procedures as well as
- the risk management tools. including risk identification. measurement and control.

This integrated system combines all the lending-related processes at our Bank.

Detailed credit risk management objectives are:

- 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.

2.2. Risk management strategy and risk appetite parameters

We treat credit risk management as a fundamental and integral part of the end-to-end Bank management process. Setting the Risk Appetite Statement strategy and parameters as well as monitoring of their delivery are key elements of the risk management process.

Credit risk management strategy

The credit risk management strategy supports delivery of business goals while maintaining safe solvency and liquidity of the Bank and adequate provisions. We define the strategy to warrant optimum development of the lending portfolio while keeping adequate quality and profitability of credit operations and capital allocation. The primary objective of the credit risk management strategy is to optimise the ratio of risk to ROE. considering the information about the current and prospective macroeconomic landscapes. the Bank's portfolio and RAS limits utilisation.

The credit risk management strategy sets out short-. mid- and long-term goals as well as their accomplishment manner. It factors in the outlook. including the need to keep the Bank's offer competitive and attractive while expanding it.

Risk appetite (RAS) determination

The RAS stands for the risk appetite of the Bank. We define it by setting high-level and specific limits. Setting and monitoring of the risk appetite (RAS parameters) is an integral part of the planning process and concentration risk management at the Bank.

RAS limits on credit risk:

- portfolio limits.
- limits on portfolio and new production risk parameters. and
- concentration limits. including limits on mortgage-backed credit exposures under PFSA Recommendation S.

Besides RAS limits. we set at the Bank credit risk limits for individual areas. business lines and products as well as transactional limits which are accepted by the competent credit approver. Further. we set internal concentration limits on the sectors and collateral accepted and monitor on an ongoing basis the concentration in the geographical areas of our business. We monitor and report the current utilisation of RAS limits during the year. on a monthly basis.

Concentration of exposures to corporate clients in national economy sectors

industry	exposure (on-balance and off-balance)			
	2017		2016	
	exposure in PLN million	share in total exposure (%)	exposure in PLN million	share in total exposure (%)
financial intermediation	12 865.8	17.8%	11 830.3	17.8%
wholesale trade	8 502.2	11.8%	7 683.4	11.6%
real estate service	6 137.0	8.5%	6 122.9	9.2%
public administration and national defence	3 790.7	5.3%	3 458.2	5.2%
power industry	3 552.1	4.9%	3 142.4	4.7%
construction industry	3 055.1	4.2%	2 984.9	4.5%
foodstuff and beverage production	3 037.2	4.2%	3 510.2	5.3%
retail trade	2 674.8	3.7%	2 546.6	3.9%
ready-made metal goods productions	2 159.0	3.0%	1 729.3	2.6%
remaining business activities	2 118.2	2.9%	1 791.0	2.7%
agriculture, forestry, fishery	1 706.6	2.4%	1 545.4	2.3%
rubber industry	1 661.4	2.3%	1 722.9	2.6%
wood and paper industry	1 507.8	2.1%	1 141.6	1.7%
equipment rent	1 497.0	2.1%	1 349.5	2.0%
remaining non-metal raw materials industries	1 332.4	1.9%	1 219.9	1.8%
computer industry and associated service	1 202.0	1.7%	1 072.9	1.6%
post and telecommunications	1 168.1	1.6%	1 042.1	1.6%
chemicals and chemical good production	1 117.4	1.5%	912.3	1.4%
support activities for transportation	1 115.8	1.5%	1 061.5	1.7%
other	11 967.2	16.6%	10 501.1	15.8%
Total	**72 167.8**	**100.0%**	**66 368.4**	**100.0%**

Bank's greatest exposures

The table below presents the breakdown of 20 largest Bank exposures towards entities/ related entities (inclusive of groups of entities wherefore the bank is a parent entity). The amount of exposures takes account of the value of the balance sheet assets (extended loans. deposits made and debt securities). extended off-balance sheet exposures and the value of balance sheet equivalent of derivatives. Exposures were reduced by the amounts of exclusions admissible under the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and Polish Financial Supervision Authority Resolution No 208/2011 of 22 August 2011.

Client	exposure in PLN million	
	2017	2016
Group 1 (banking)	1 649.5	617.5
Group 2	1 246.7	1 255.5
Group 3 (banking)	1 212.5	640.0
Group 4	1 074.4	779.2
Group 5	1 058.9	1 061.6
Group 6	863.5	938.0
Group 7	757.1	706.8
Group 8	725.0	854.0
Group 9	665.0	847.0
Group 10	615.0	598.0
Group 11	529.0	550.6
Group 12	509.3	273.4
Group 13	504.2	288.5
Group 14	467.8	442.8
Group 15	459.5	459.1
Group 16	458.8	463.2
Group 17 (banking)	407.9	472.9
Group 18	391.9	453.2
Group 19	379.8	579.9
Group 20	348.5	256.8

2.3. Credit risk management process

Credit risk management is a constant process. It encompasses all lending activities of the Bank. All units and employees performing tasks in the lending process cooperate closely with one another to:

- make the risk management process more efficient and
- keep risk at the level set in the strategy. risk appetite and financial plans of the Bank as well as in the approved RAS.

At our Bank. the credit risk management process is carried out within three lines of defence which are independent in organisational and functional terms from one another.

- 1st line of defence: business and operational units of the Bank. They pursue day-to-day business under the approved lending policy and risk limits.
- 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 best banking standards.

At the Bank. we apply the organisational solutions which account for separation of the bank products sales forces from the risk acceptance ones across the organisational structure. the Bank Management Board included. We keep separation of the function of credit exposure risk (concentration risk included) control and monitoring from the bank products sales forces and the risk acceptance ones at all layers of the organisational structure of the Bank below the Management Board; for retail credit exposures – at the Bank Management Board level too.

For fast-track. automated lending paths. we base separation of bank products sales forces from the credit exposure risk acceptance ones on the independence of the process of development and validation of risk acceptance process assisting tools from the sales and operational functions. The credit approval authorities pertaining to individual credit transactions are isolated from the credit approval authorities involved in the formulation of the lending policy and credit risk management rules.

2.4. Credit risk management framework

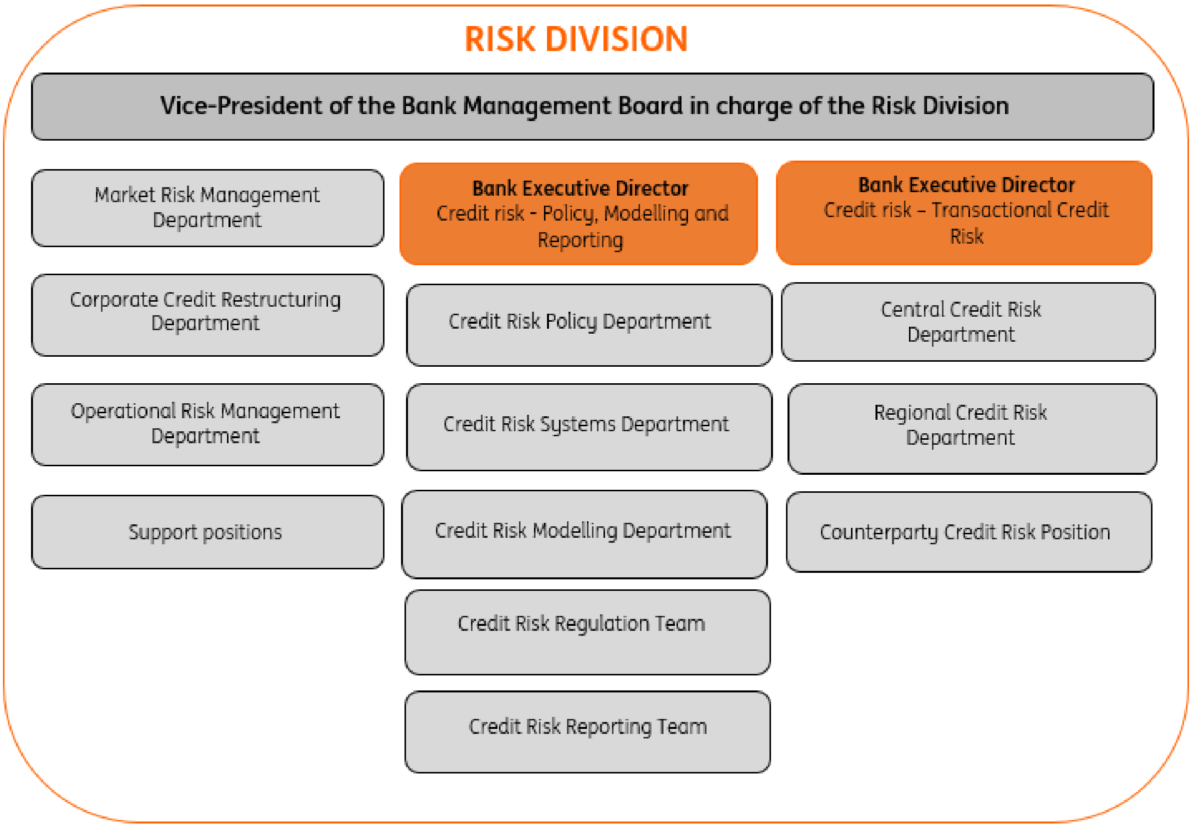
Within the Risk Division. the Bank isolated two credit risk areas reporting to the Bank Executive Directors:

- Credit Risk – Transactional Credit Risk. composed of:
  - Central Credit Risk Department.
  - Regional Credit Risk Department. and
  - Counterparty Credit Risk position.
- Credit Risk – Risk Policy. Modelling and Reporting. composed of:
  - Credit Risk Policy Department.
  - Credit Risk Systems Department.
  - Credit Risk Modelling Department.
  - Credit Risk Regulation Team. and
  - Credit Risk Reporting Team.

Each of the abovementioned areas exercises control and supervision over the respective area of the Bank's operations and risk management process.

For retail and corporate lending portfolios. the functions of credit risk policy. modelling and reporting are combined within relevant departments. In that way. consistent credit risk management actions are taken for both portfolios.

List of units engaged in the risk management process



Main tasks of Risk Division units reporting to Bank Executive Directors

All units and employees performing tasks within the Risk Division cooperate closely with one another to make the risk management process more effective and keep risk at the level set in the strategy. risk appetite and financial plans of the Bank.

Central Credit Risk Department:

- consults sales units of the Bank on credit risk.
- cooperates with sales units of the Bank to develop optimum transaction structures as well as ensure optimum content and quality of lending packages.
- analyses risk. advises upon transactions and takes credit decisions.
- verifies and accepts client risk ratings. also in the appeal procedure.
- monitors credit risk exposures through verification of:
  - satisfaction of initial terms of lending.
  - instances of approved limit overrunning.
  - financial standing of clients.
  - repayment discipline.
  - satisfaction of contractual terms and collateral.
- is engaged in the Watch List portfolio handling process. identifies clients with worse risk profile. including irregular clients. and approaches them adequately.
- exercises functional control for the credit risk processes.
- ensures risk-related advisory services in the credit approval process.

- recommends and advises on changes to the lending process. product area and lending policy.
- accepts the credit risk and rating for the transactions with corporate and strategic clients.
- manages credit risk associated with client funding by: ensuring risk-related advisory services in the credit decision-taking process. enforcing implementation of credit decisions. recommending requisite changes to the lending process management.
- ensures relevant data for the lending policy rules. processes and procedures to approve the acceptable client risk level.
- raises awareness of credit risk and counterparty risk among Bank employees.
- recommends and advises on changes to the lending process management and definition of products and lending policy.

Regional Credit Risk Department:

- consults sales units of the Bank on credit risk.
- cooperates with sales units of the Bank to develop optimum transaction structures as well as ensure optimum content and quality of lending packages.
- analyses credit risk. advises upon transactions and takes credit decisions.
- verifies and accepts client risk ratings. also in the appeal procedure.
- handles the logistics of the decision-making process at regional levels. engaging credit approvers from Risk in the said process.
- participates in monitoring of credit exposures. i.e.:
  - monitoring of client financial standing. repayment discipline and satisfaction of other credit conditions in the collateral monitoring.
  - and also in the identification of worse risk profile clients and approaching them in a competent manner.
- manages the quality of credit risk processes for the dedicated portfolio. inter alia:
  - has the role of the centre of excellence as regards credit analysis and risk assessment.
  - sees to quality of credit applications and runs adequate training courses.
  - monitors the quality of the credit decision-making process.
- is engaged in the Watch List portfolio handling process. identifies clients with worse risk profile. including irregular clients. and approaches them adequately.
- exercises functional control for the credit risk processes.
- recommends and advises on changes to the lending process management. definition of products and lending policy.

Counterparty Credit Risk position:

- oversees observance of counterparty limits and transactions by authorised Bank units and external units supervising the Bank.
- oversees FM transaction hedge management process.
- advises on and defines risks associated with the Bank's FM operations and transactions where the Bank serves financial institutions and banks.
- collaborates with dedicated Bank units as regards definition of the processes used to process transactions made by counterparties via the Bank.
- analyses risks. advises on transactions in the credit approval process and on documents for

the transactions made by financial institutions and banks.

- verifies and accepts counterparty risk ratings.

Credit Risk Policy Department:

- formulates the credit risk management policy and oversees its implementation in order to ensure controlled. in terms of risks. development of the Bank's lending activity.
- develops and implements the policies and procedures on credit risk management. including credit risk assessment standards and principles for all Bank clients.
- develops guidelines for lending directions and sectorial guidelines based on the conclusions from the portfolio analyses and the analyses of the economic environment (both macroeconomic and sector ones).
- promotes awareness of credit risk and its control options and methods among the Bank employees.

Credit Risk Systems Department:

- builds and develops the tools and systems supporting credit risk management.
- implements credit risk models. including models for establishing provisions for impairment losses and models for estimation of capital requirements for credit risk.
- raises awareness of credit risk. and particularly of its control and measurement methods. among the Bank employees.

Credit Risk Modelling Department:

- formulates the methodologies for building and monitoring regulatory credit risk models (including for stress testing purposes) which agree with the regulatory requirements and in-house standards of the Bank and ING Group.
- formulates the methodologies for building and monitoring decision-taking models for credit risk used to support risk assessment and boost the sale of bank products.
- regularly monitors regulatory and decision-taking models for credit risk.
- seeks new modelling methods and techniques to improve model performance and the capacity to make advanced analyses using large databases. among other sources.
- cooperates with the Model Validation Department. internal and external auditors and relevant organisational units of ING Group on regulatory and decision-taking models for credit risk and on maintenance of permanent compliance of their development and monitoring methodology and the model management rules with the regulatory regulations and ING standards.

Credit Risk Regulation Team:

- oversees and controls the credit risk management policy implementation at the Bank in order to ensure development of the Bank's lending in terms of risks.
- identifies the areas of the Bank's business operations. which impact the credit risk profile.
- identifies gaps within business processes. which may adversely impact the Bank's credit risk profile.
- initiates actions aimed at maintaining the assumed parameters concerning the quality of the lending portfolio.
- supervises effective implementation of the credit risk management policy.
- assesses and adjusts the solutions used in credit risk management. lending products and business practice to requirements resulting from:

  - the credit risk management policy.
  - laws.
  - regulatory regulations. recommendations and instructions of regulators.
  - the good practices and standards of the Bank and ING Group.
- co-operates with internal and external auditors. bank regulators. Polish Bank Association and relevant organisational units of ING Group as regards:
  - the credit risk management policy and
  - maintenance of permanent compliance of the Bank's regulations with the regulatory regulations and ING standards.
- prepares annual self-assessment of the Bank concerning compliance with the supervisory regulations for the AIRB Approach.
- mans the Credit Policy Committee secretary's office.

Credit Risk Reporting Team:

- develops credit risk reporting principles.
- performs tasks regarding credit risk measurement and reporting including calculation of impairment losses using a collective method and of capital requirements for credit risk.
- develops and maintains the tools and systems supporting credit risk management.
- performs Stress Tests complying with the regulatory requirements and Bank and ING Group internal standards as well as compiles reports on model management process (e.g. automatic monitoring).
- plans and forecasts the level of impairment losses using a collective method and as per the capital requirements for credit risk.
- makes relevant report-based assessments of the credit risk monitoring process.
- cooperates with the auditor. bank regulators. Polish Bank Association and relevant ING Group organisational units as regards credit risk reporting.
- cooperates with the Credit Information Bureau and other providers of external databases used for credit risk management.

2.5. Lending principles

The primary rule which we abide by at the Bank in lending is to comply with the lending-related laws and external regulations like e.g.:

- Banking Law Act.
- Macroprudential Supervision Act.
- FX Law. or
- anti-money laundering regulations. etc.

The Bank neither enters into credit transactions nor engages in the activities whose ethical aspect is dubious and which could tarnish our reputation.

In lending. we follow the following rules:

- we acquire and keep in the lending portfolio the credit exposures which ensure safety of deposits and capital of the Bank.
- we act in the client's interest. factoring in both their needs and possibilities; we avoid situations where the funding provided would entail a debt spiral for the client.
- we acquire clients in line with the regulations and requirements concerning delivery of

indispensable information and documents and procedural compliance.

- we are efficient and professional in rendering credit services while respecting the interest of clients and expectations of Bank shareholders about the increase of the ING Bank Śląski S.A. goodwill.
- we do not enter into transactions or loans without learning and understanding the economic background of the transaction.
- we accept credit risk when we can effectively control it and – in the event of default – conduct the debt recovery procedures.
- we do not provide loans when we are exposed to reputational risk.
- we take decisions concerning new types or lines of credit exposures (e.g. new markets. market segments. client groups. products) upon the former analysis and assessment of new opportunities and related risks.
- in business relationships. we apply the rule of "equal rights". i.e. we require the same documents and information from the clients identical in terms of credit risk outlook and we pay special attention to their equal treatment.
- we communicate with clients as to disclosure requirements in the lending process.

In cooperation with business partners. we abide by the following rules:

- we verify business partners with whom we cooperate in the lending process.
- we have document workflow procedures covering clients. business partners and the Bank.
- we have quality assurance procedures for business partners.
- we do not extend powers of attorney or grant rights to take credit decisions on behalf of and for the Bank in the credit approval (distribution) process.
- we define the acceptable risk level for individual sales channels.
- we monitor the quality of the lending portfolio built up by individual business partners.

2.6. Credit risk management

We manage credit risk per portfolio of credit exposures and per individual transaction.

Credit exposure portfolio risk management

The Bank portfolio credit risk management process serves to ensure portfolio building in line with the adopted strategy. while keeping the solvency ratio of the Bank at an acceptable level and within the predefined and approved risk parameters.

We manage the credit risk of the credit exposure portfolio through:

- defining the credit risk management strategy.
- agreeing on the RAS with business.
- developing. implementing and monitoring the delivery of the lending policy.
- analysing the macroeconomic situation and the situation in individual sectors as well as formulating guidelines on the lending directions.
- developing and implementing lending products.
- setting competence levels for acceptance of waivers from the lending policy and product waivers.
- developing and implementing the tools to support risk assessment and measurement.
- analysing and assessing the performance of the lending process and the scope of functional

control.

- managing the credit exposure portfolio.
- running training courses for employees in the lending process.
- designing and maintaining the incentive system for employees to ensure internal credit standards observance.

Managing the credit risk profile. we:

- set. monitor and report internal concentration limits for sectors. collateral types. regions and mortgage-backed credit exposures.
- monitor and analyse the quality of accepted collateral.
- monitor and report compliance with Banking Law Act-based prudential norms.
- set. monitor and report internal concentration limits considering individual sub-portfolios.
- define modifications of the lending policy and product offer considering the cyclical nature of economy and changes in the real property market.
- acquire market data on the quality of lending portfolios and compare them with own lending portfolios.

Capital adequacy and credit risk provisioning

The Bank secures against the impairment of credit exposures by provisioning to cover the impairment under expected credit losses. The Bank also secures against loss fluctuations vis-à-vis the expected loss (that is the unexpected loss) by ensuring adequate regulatory capital and economic capital.

The Bank computes risk weighted assets and capital requirement for:

- retail exposures – using the Standardised Approach.
- corporate credit exposures – using the AIRB Approach. save for the exposures to the governments. central banks. local government units and public sector entities wherefor we use the Standardised Approach.

The Bank computes credit risk provisions for all credit exposures in line with the International Financial Reporting Standards.

Stress tests

Stress tests are conducted to:

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

At the Bank. we perform sensitivity tests and stress scenario tests for the economic and regulatory capitals. and for provisions. Analysis and reporting of results for both tests covers the impact of movements in macroeconomic factors on the following credit risk parameters:

- probability of default (PD).
- loss given default (LGD).
- exposure at default (EAD).
- loan to value (LTV).
- debt to income (DTI) – the percentage of expenditures being payment of credit liabilities and

financial liabilities (other than credit ones) to the client's net income.

We use stress test results among others in the following processes:

- setting the RAS limits and internal limits mitigating credit risk.
- defining the principles of viability and creditworthiness calculation. to set the maximum DTI and LTV in particular.

Credit risk management for individual credit exposures

Credit risk management for individual credit exposures covers:

- defining the credit risk management process for the transactions bearing credit risk.
- managing documentation requirements applicable to the credit client of the Bank.
- defining the credit analysis standard.
- defining the maximum DTI. LTV and the minimum downpayment for certain products and transactions.
- formulating the rules of taking credit decisions and managing credit powers.
- managing the rules for:
  - defining the risk metrics using the risk models applied at the Bank.
  - verifying repayment discipline.
  - monitoring financial standing of clients.
  - monitoring satisfaction of contractual terms by clients.
  - monitoring other defined warning flags.
  - accepting and monitoring collaterals accepted by the Bank.
  - using and monitoring the limits available at the Bank.
- forming impairment losses for impaired exposures and provisions for off-balance sheet liabilities.
- managing credit risk of clients in the non-performing portfolio.

In the process of award and management of individual credit exposures. we perform the following activities:

- client and transaction risk assessment.
- credit decision taking.
- monitoring.
- restructuring and debt recovery.

Client and transaction risk assessment

The most important elements of credit risk assessment for clients and transactions include:

- customer creditworthiness assessment.

  We assess customer creditworthiness by:
  - verifying satisfaction of minimum criteria.
  - setting the client rating or scoring in the rating or scoring process. respectively.

  Client risk measurement in the rating or scoring process is based on the estimated probability of default (PD). Setting the client rating or scoring at a certain minimum level for a given client. lending process or product type preconditions client provision with funding.

  We assess creditworthiness of corporate clients in the rating process based on:

- the rating assigned to the entities applying for credit exposure or providing collateral (surety or guarantee providers) and other entities if so required by the specific nature of collateral or transaction (e.g. debtors under the receivables assigned to the Bank).
- the “four-eye” principle. i.e:
  - commercial functions are separated from the rating approval functions performed by the Risk Division units or
  - the rules for automatic rating models which are approved by the Credit Policy Committee.

We assess creditworthiness of retail clients based on:

- credit risk scoring.
- analysis of past repayment of liabilities with the Bank and with other financial institutions.
- the borrowers’ features of a significant impact on the assumed credit liability repayment (qualitative analysis). e.g.:
  - personal data of the client: age. marital status. number of dependants. housing and property status. education. length of service. form of employment and profession practised. etc.
  - client history with the Bank: term of cooperation and account history.

At the Bank. we apply scoring models (application models. behavioural models and Credit Information Bureau scoring) which present the statistical level of client risk. The applied client creditworthiness assessment models undergo a cyclical monitoring and validation to ensure good quality of those tools.

- credit capacity assessment (quantitative assessment).

We assess credit capacity by identifying the repayment source as well as its amount and stability throughout the tenor. It is the Bank’s assessment of repayment options of the credit exposure of a certain amount. at certain dates and on certain terms and conditions by the client. In the client credit capacity assessment. we use the client creditworthiness score set in the rating or scoring process.

In the client credit capacity assessment process:

- we verify the source of repayment.
- we assess its amount and stability.
- we assess the prospective credit capacity based on forecasts and the assumption that the results will remain on the same level as in the current period.
- we also factor in the FX risk and the IR risk borne by the debtor.

The credit capacity analysis for corporate clients and entrepreneurs may cover the following areas:

- client ownership structure.
- type of business.
- business and investment strategy.
- position on the market.
- sale market and vendors.
- financial analysis. financial forecast included.
- identification and assessment of repayment sources.
- financial standing vis-à-vis industry peers.
- global. macroeconomic. regional and industry factors impacting or possible to impact materially the financial standing of the company in the future.

Analysis of individual client credit capacity covers:

- setting the amount and stability of acquired funds (quantitative analysis).
- setting the amount of client liabilities (credit and non-credit ones).
- setting the amount of household expenses.

In the credit capacity assessment. we use the financial metrics based on mathematic formulas.

- collateral assessment.

  At the Bank. we use collateral to mitigate the credit risk and the losses sustained in the event of client default on loan repayment. Before accepting the collateral. we assess the collateral object as well as its value and effectiveness. We accept all legally permitted forms of collateral. Collateral is selected considering various factors:

  - client's capacity to offer certain collateral.
  - exposure type and term.
  - client risk.
  - transaction risk.
  - collateral liquidity (quick sale options). and
  - collateral worth.

  Besides classic (tangible and personal) collateral forms. we apply additional instruments to mitigate the risk of receivables loss being contractual conditions and covenants.

  To compute the capital requirement. the Bank uses the approved LGD models in which each collateral has a relevant recovery rate assigned. The Bank follows the policy to grant loans in the amount and on the terms and conditions which enable regular repayment without the need to recover debt from collateral.

- transaction risk assessment.

  In transaction assessment. we factor in:

  - client creditworthiness and credit capacity assessment.
  - compliance with the lending policy.
  - credit facility purpose and transaction structure.
  - adequacy of the product requested.
  - LTV and LGD parameters. downpayment (if required).
  - covenants.
  - other risks like:
    - business – macroeconomic. market. industry and seasonality ones.
    - structural – structure of transactions. value of LTV and LGD parameters. downpayment (if required). strength of covenants. Bank's position vis-à-vis other lenders.
    - management staff – length of service. credit approver substitutability and succession risk.
    - financial – including FX and IR risks.
    - concentration – whether the requested exposure increase entails utilisation of the internal limit set by the Bank.
    - reputational – whether cooperation with the client may negatively impact the reputation of the Bank.
  - pricing conditions. etc.

Credit decision taking

The scope of credit powers as to acceptance of risk for individual credit exposures is determined by the Credit Policy Committee. Absence of data indispensable for risk assessment excludes its acceptance or decision taking action.

The decisions concerning lower-value exposures with shorter tenors and lower risk are taken at lower credit approval levels. As the credit risk increases – that is as a single or total credit exposure increases. the tenor is extended. non-standard elements in the application or waivers from the effective internal regulations appear – the decisions are taken by higher credit approval authorities.

Risk is assessed and accepted using the expert judgment which is based on the results of the risk measurement made with the assisting tools as defined in the lending policy and procedures. Automated decisions taken by the IT system or semi-automated decisions made in fast-track credit approval process are an exception here.

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 tracks. transaction risk is analysed on the basis of clearly defined criteria. including behavioural ones. and on the basis of credit limit computed automatically using the algorithm approved by the Credit Policy Committee.

The credit decisions for the regular portfolio are taken:

- collectively – by the Bank Credit Committee – for largest credit exposures.
- on a four-eye basis – by business units and transactional credit risk units.
- on a two-eye basis – by the Risk Manager for small credit exposures.

The decision-making mode does not exempt any of the decision-making process actors from personal responsibility for the decisions made.

Credit approvers in the four-eye approval procedure are provided with personal credit powers one by one. depending on their know-how and experience. The credit mandate correlates with the level of credit risk. When the credit risk is higher. decisions are taken by more experienced persons. The rules of assigning and cancelling credit powers are different for individual client segments.

When determining the relevant credit mandate for corporate clients. we take account of the total exposure of the Bank to the group of related entities the client is the member of; for natural persons and natural persons running business. the approval authorities are correlated with the total exposure of the Bank to the said client. All transactions are accepted in line with the explicitly defined decision-taking rules and credit powers.

Credit decisions for the non-performing portfolio are taken on a four-eye basis or by the Restructuring Committee.

Monitoring

All credit exposures involving credit risk. concentration risk included. and FM trades are monitored. Monitoring serves to identify early the warning flags and take measures to prevent occurrence of problem loans as well as to identify the criteria or objective evidence of impairment and take measures to limit losses for the Bank. Monitoring of granted credit exposure covers:

- repayment discipline.
- satisfaction of other contractual terms by the client.
- the financial and/or property-related situation of the client.
- way of cash utilisation in line with the funding purpose (if defined).
- investment project execution status (for capex loans).
- verification of warning flags for the client or transaction.

- occurrence of objective impairment evidence or impairment triggers.
- periodical assessment of collateral quality and amount.

Restructuring and debt recover

We support our clients at each and every funding stage. We offer bespoke products to them. In the event of their slight default on payment of liabilities. we recommend flexible repayment schedules to them. Should clients encounter more difficulties in repayment. we may suggest debt restructuring. Together with the client we determine the best form of support or settlement.

The main objective of actions taken for the non-performing portfolio is to minimise the risk of loss for the Bank or the actual loss amount.

We apply the following strategies for the non-performing portfolio:

- debt restructuring – based on the cooperation with the client which can. in particular. consist in changing the covenants to bring the terms of debt repayment into line with the client's financial capacity e.g.:
  - tenor extension.
  - sale of assets.
  - sale of some business activity of the borrower. or
  - write-off of some financial liabilities.

  We take a restructuring decision upon a detailed analysis and acceptance by a relevant decision-taking body of the Bank. The borrower is again subject to the standard credit risk monitoring process once the restructuring process has been completed successfully.
- debt recovery – i.e. claiming by the Bank the receivables from the established legal collateral or other property of the client or from the property of other obligors. The Bank may claim their receivables by instituting the enforcement proceedings or participating in the bankruptcy proceedings; further. for retail clients – via out-of-court debt collection. i.e. by enabling the clients to make payments at their discretion as part of the debt recovery procedure.

Forbearance

Forbearance occurs when the Bank recognises that the client will not be able to satisfy their liabilities due to financial problems (declared or expected in the short run) and resolves to provide them with forbearance.

We identify forbearance when all the following conditions are met:

- we identified difficulties in repayment of liabilities by the client or expect such difficulties in the short term.
- we resolved to apply forbearance towards such a client so as to enable them to repay the contractual liabilities or to preclude such problems.
- there are no commercial grounds for forbearance and we award it on the terms and conditions differing from the market ones.
- the client accepted forbearance. i.e. the terms and conditions of the agreement binding so far have been changed or a refinancing agreement has been signed or an "embedded forbearance clause" has been introduced or the Bank has abandoned actions in the event of the client materially breaching the essential financial covenant.

A forborne client may be kept in the regular portfolio when there are no grounds for their downgrading to the non-performing portfolio.

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Lending portfolio division into performing and non-performing exposure with forborne exposures indication

2017	performing exposure	including forbearance				non-performing exposure	including forbearance				
			Modification of terms and conditions	Refinancing	Under probation*			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Gross lending portfolio. including:	**83 050.7**	**350.8**	**348.8**	**2.0**	**350.8**	**2 110.4**	**582.8**	**582.3**	**0.4**	**579.1**	**579.1**
Corporate banking including:	**46 916.0**	181.3	179.3	2.0	181.3	**1 430.7**	452.2	451.7	0.4	452.2	452.2
- loans and advances	**44 383.1**	181.3	179.3	2.0	181.3	**1 415.3**	452.2	451.7	0.4	452.2	452.2
- corporate and municipal debt securities	**2 532.9**	-	-	-	-	**15.4**	-	-	-	-	-
Retail banking. including:	**36 134.7**	169.5	169.5	0.0	169.5	**679.7**	130.6	130.6	0.0	126.9	126.9
- mortgages	**27 741.4**	92.3	92.3	-	92.3	**218.0**	59.8	59.8	-	56.9	56.9
- other loans and advances	**8 393.3**	77.2	77.2	-	77.2	**461.7**	70.8	70.8	-	70.0	70.0
Impairment losses. including:	**-233.2**	**-8.8**	**-8.8**	**0.0**	**-8.8**	**-1 300.6**	**-270.9**	**-270.9**	**0.0**	**-270.6**	**-270.6**
Corporate banking including:	**-70.7**	-4.8	-4.8	0.0	-4.8	**-837.3**	-205.5	-205.5	0.0	-205.5	-205.5
- loans and advances	**-70.0**	-4.8	-4.8	-	-4.8	**-821.9**	-205.5	-205.5	-	-205.5	-205.5
- corporate and municipal debt securities	**-0.7**	-	-	-	-	**-15.4**	-	-	-	-	-
Retail banking . including:	**-162.5**	-4.0	-4.0	0.0	-4.0	**-463.3**	-65.4	-65.4	0.0	-65.1	-65.1
- mortgages	**-53.6**	-1.5	-1.5	-	-1.5	**-129.9**	-27.8	-27.8	-	-27.6	-27.6
- other loans and advances	**-108.9**	-2.5	-2.5	-	-2.5	**-333.4**	-37.6	-37.6	-	-37.5	-37.5
Netlending portfolio. including:	**82 817.5**	**342.0**	**340.0**	**2.0**	**342.0**	**809.8**	**311.9**	**311.4**	**0.4**	**308.5**	**308.5**
Corporate banking including:	**46 845.3**	176.5	174.5	2.0	176.5	**593.4**	246.7	246.2	0.4	246.7	246.7
- loans and advances	**44 313.1**	176.5	174.5	2.0	176.5	**593.4**	246.7	246.2	0.4	246.7	246.7
- corporate and municipal debt securities	**2 532.2**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking. including::	**35 972.2**	165.5	165.5	0.0	165.5	**216.4**	65.2	65.2	0.0	61.8	61.8
- mortgages	**27 687.8**	90.8	90.8	0.0	90.8	**88.1**	32.0	32.0	0.0	29.3	29.3
- other loans and advances	**8 284.4**	74.7	74.7	0.0	74.7	**128.3**	33.2	33.2	0.0	32.5	32.5

*) The Bank classifies to "Under probation" class the exposures for which forbearance measures were granted in the past. and which are currently in a curing period

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2016	performing exposure	including forbearance				non-performing exposure	including forbearance				
			Modification of terms and conditions	Refinancing	Under probation*			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Gross lending portfolio. including:	73 669.9	321.4	321.4	0.0	321.4	1 698.0	599.9	599.1	0.8	597.6	597.6
Corporate banking including:	**43 069.9**	197.5	197.5	0.0	197.5	**1 160.1**	483.9	483.1	0.8	483.2	483.2
- loans and advances	**40 555.4**	197.5	197.5	-	197.5	**1 144.7**	483.9	483.1	0.8	483.2	483.2
- corporate and municipal debt securities	**2 514.5**	-	-	-	-	15.4	-	-	-	-	-
Retail banking. including:	**30 600.0**	123.9	123.9	0.0	123.9	**537.9**	116.0	116.0	0.0	114.4	114.4
- mortgages	**23 693.6**	75.9	75.9	-	75.9	**193.5**	53.8	53.8	-	52.7	52.7
- other loans and advances	**6 906.4**	48.0	48.0	-	48.0	**344.4**	62.2	62.2	-	61.7	61.7
Impairment losses. including:	-205.6	-8.8	-8.8	0.0	-8.8	-1 122.9	-294.3	-293.5	-0.8	-294.1	-294.1
Corporate banking including:	**-64.6**	-6.2	-6.2	0.0	-6.2	**-737.7**	-226.1	-225.3	-0.8	-226.0	-226.0
- loans and advances	**-62.9**	-6.2	-6.2	-	-6.2	**-722.3**	-226.1	-225.3	-0.8	-226.0	-226.0
- corporate and municipal debt securities	**-1.7**	-	-	-	-	-15.4	-	-	-	-	-
Retail banking . including:	**-141.0**	-2.6	-2.6	0.0	-2.6	**-385.2**	-68.2	-68.2	0.0	-68.1	-68.1
- mortgages	**-64.6**	-1.2	-1.2	-	-1.2	**-130.4**	-32.1	-32.1	-	-32.0	-32.0
- other loans and advances	**-76.4**	-1.4	-1.4	-	-1.4	**-254.8**	-36.1	-36.1	-	-36.1	-36.1
Netlending portfolio. including:	73 464.3	312.6	312.6	0.0	312.6	575.1	305.6	305.6	0.0	303.5	303.5
Corporate banking including:	**43 005.3**	191.3	191.3	0.0	191.3	**422.4**	257.8	257.8	0.0	257.2	257.2
- loans and advances	**40 492.5**	191.3	191.3	0.0	191.3	**422.4**	257.8	257.8	0.0	257.2	257.2
- corporate and municipal debt securities	**2 512.8**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Retail banking. including::	**30 459.0**	121.3	121.3	0.0	121.3	**152.7**	47.8	47.8	0.0	46.3	46.3
- mortgages	**23 629.0**	74.7	74.7	0.0	74.7	**63.1**	21.7	21.7	0.0	20.7	20.7
- other loans and advances	**6 830.0**	46.6	46.6	0.0	46.6	**89.6**	26.1	26.1	0.0	25.6	25.6

Exposure with forborne exposures indication according risk rating – corporate banking

risk rating	gross exposure in PLN million				gross exposure in PLN million			
	2017				2016			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking								
12	0.8	-	-	-	1.1	-	-	-
13	0.6	-	-	-	29.5	22.6	-	-
14	31.0	14.0	-	-	0.1	-	-	-
15	56.5	15.3	-	-	51.3	6.5	-	-
16	16.6	-	-	-	26.4	1.2	-	-
17	14.2	0.1	-	-	9.0	-	-	-
18	21.1	1.0	-	-	46.9	18.6	-	-
19	40.5	5.6	-	-	33.3	6.0	0.7	-
20	-	-	333.9	29.5	-	-	423.4	39.7
21	-	-	-	-	-	-	0.4	-
22	-	-	118.3	-	-	-	59.4	-
Total	**181.3**	**36.0**	**452.2**	**29.5**	**197.6**	**54.9**	**483.9**	**39.7**

Exposure with forborne exposures indication according risk rating – retail banking

risk rating	gross exposure in PLN million 2017				gross exposure in PLN million 2016			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Retail banking								
02	3.3	-	-	-	2.1	-	-	-
04	-	-	-	-	8.8	-	-	-
05	8.4	-	-	-	4.5	-	-	-
06	14.3	-	0.2	-	13.8	-	-	-
08	5.8	-	-	-	-	-	-	-
09	1.0	-	-	-	14.6	-	-	-
10	13.7	-	0.1	-	2.7	-	0.1	-
11	5.9	-	-	-	16.1	-	0.4	-
12	21.6	-	-	-	3.0	-	-	-
13	14.5	-	-	-	12.5	-	0.2	-
14	25.9	-	1.3	-	13.8	-	0.1	-
15	20.0	-	0.5	-	9.9	-	0.1	-
16	2.3	-	-	-	6.3	-	-	-
17	17.3	-	0.2	-	3.8	-	-	-
18	5.0	-	-	-	3.9	-	-	-
19	10.5	-	1.3	-	8.0	-	0.7	-
20	-	-	127.0	-	-	-	109.2	-
22	-	-	-	-	-	-	5.2	-
Total	**169.5**	**0.0**	**130.6**	**0.0**	**123.8**	**0.0**	**116.0**	**0.0**

Exposure with forborne exposures indication according days past due

number of days past due	gross exposure in PLN million				gross exposure in PLN million			
	2017				2016			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking	**181.3**	**36.0**	**452.2**	**29.5**	**197.6**	**54.9**	**483.9**	**39.7**
0	175.3	36.0	124.8	29.5	177.8	54.9	354.7	39.7
1-30	1.3	-	7.1	-	2.8	-	0.1	-
31-60	2.0	-	5.2	-	9.4	-	0.7	-
61-90	2.7	-	9.8	-	7.6	-	27.4	-
91-180	-	-	49.5	-	-	-	11.4	-
181-365	-	-	26.1	-	-	-	34.8	-
>365	-	-	229.7	-	-	-	54.8	-
Retail banking	**169.5**	**0.0**	**130.6**	**0.0**	**123.8**	**0.0**	**116.0**	**0.0**
0	149.6	-	61.6	-	109.9	-	61.3	-
1-30	16.5	-	22.6	-	11.8	-	21.1	-
31-60	2.4	-	11.7	-	1.6	-	10.4	-
61-90	1.0	-	6.2	-	0.5	-	3.0	-
91-120	-	-	2.5	-	-	-	2.6	-
121-150	-	-	1.4	-	-	-	1.5	-
151-180	-	-	1.4	-	-	-	1.1	-
>180	-	-	23.2	-	-	-	15.0	-
Total	**350.8**	**36.0**	**582.8**	**29.5**	**321.4**	**54.9**	**599.9**	**39.7**

Interest on loans and other receivables to customers in the 2017 income statement includes interest income on "forborne exposures" of PLN 30.4 million (as on 2016 PLN 29.1 million). where PLN 14.9 million derives from the performing exposures portfolio and PLN 15.5 million from non-performing exposures (as on 2016 PLN 12.9 million and PLN 16.2 million respectively).

2.7. Risk management system

The risk management system is an integrated collection of rules. tools and mechanisms. including but not limited to policies and procedures for risk processes. The role of the risk management system is to continuously identify. measure or estimate as well as monitor the Bank's risk and secure against potential losses through adequate controls. system of limits and adequate level of provisions as well as of capitals and liquidity buffers.

The Bank's credit risk management system is composed of:

- general principles of credit risk management and limitation.
- RAS strategies and limits.
- credit risk management policies. manuals and procedures.
- credit risk systems. tools and models.
- management reporting system enabling credit risk monitoring.
- the organisational framework matching the amount and profile of credit risk borne by the Bank.

The risk management system activities may consist in:

- risk avoidance – liquidation or limitation of business which generates too high risk or the risk which cannot be effectively controlled.
- risk mitigation – taking actions to reduce the probability of adverse developments or limit their impact.
- risk transfer – transfer of the entire or some risk to another entity; e.g. under insurance or securitisation of the lending portfolio.
- risk acceptance – resignation from the above actions for economic or practical reasons. within the risk appetite of the Bank.

Under the risk management system at the Bank. we apply formal:

- risk tolerance determination rules and risk management rules.
- procedures intended to identify. measure or estimate and monitor risk. also accounting for anticipated future risk. and
- risk limits and rules of conduct in the event of limit overrun.

Additionally:

- we apply the approved management reporting system that allows risk level monitoring.
- we have the organisational framework matching the scale and profile of risk borne by the Bank.
- we have adequately defined credit risk assessment and measurement process. independent from the credit approval function; it encompasses:
  - efficient rating system.
  - efficient process of acquiring adequate information. including forecasts. used to value expected credit losses.
  - assessment policy which ensures that expected credit losses are valued case by case or collectively.
  - efficient process of model validation which ensures that models return accurate. consistent and objective forecasts and estimates on an ongoing basis.
  - plain formal communication and coordination of all activities of all employees involved in the risk assessment process and valuation of expected credit losses.

The credit risk management system used by the Bank – 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 we strive 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.

The Bank 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.

Systems and models assisting viability and creditworthiness assessment for:

- corporate clients – are built and monitored in line with the requirements for use of the advanced method to compute capital requirements for credit risk and ING Group standards.
- retail clients – are scoring models (application models. behavioural models and Credit Information Bureau scoring) which present the statistical level of client risk as required by regulatory regulations.

To assess the credit risk of credit exposures. we use the following models:

- PD – probability of default measure.
- LGD – loss given default measure.
- EAD – exposure at default measure.

The models are built as required by the regulatory regulations and are used inter alia to quantify provisions and economic capital for credit risk for internal and external reporting requirements. perform reporting duties as required by the regulator and define the credit pricing and client profitability. We assess that the models applied by us are effective based on the validation and monitoring processes.

2.8. Structure of credit exposure portfolio

Credit exposure portfolio*	exposure in PLN million			
	2017		2016	
	on-balance	off-balance	on-balance	off-balance
Gross credit exposure to corporate clients. including:	**48 346.7**	**23 821.1**	**44 230.0**	**22 138.4**
exposures with no impairment triggers	46 640.7	23 720.4	42 776.7	22 005.4
exposures with impairment triggers but with no actual impairment declared**	275.7	68.6	294.3	73.1
impaired exposures. including:	1 430.3	32.1	1 159.0	59.9
- exposures measured individually	1 099.4	29.2	884.7	47.6
- exposures measured as per portfolio	330.9	2.9	274.3	12.3
Gross credit exposure to retail clients. including:	**36 814.4**	**3 936.6**	**31 137.9**	**3 455.8**
exposures with no impairment triggers	36 142.7	3 933.8	30 606.9	3 454.5
impaired exposures	671.7	2.8	531.0	1.3
Total credit exposure	**85 161.1**	**27 757.7**	**75 367.9**	**25 594.2**

*) The on-balance exposures taken for analysis include the outstanding principal. the interest accrued and adjustments under the effective interest rate method.

**) Among exposures wherefor impairment triggers occurred but no impairment was recognized there were exposures amounted to PLN 102.4 million (166.9 million as at 31 December 2016) where the value of collateral (mortgages on real estate. surety. pledge or assignment debts) was included in the expected future discounted cash flows, while the exposure with default on principal or interest accounted for PLN 8.3 million compared with PLN 29.2 million as at 31 December 2016.

Credit exposure by risk rating

2017

risk rating	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures. including:- measured individually		impaired exposures. including: - measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
2	-	-	-	-	-	-	-	-	**0.0**	**0.0**	6 585.9	453.5	-	-	**6 585.9**	**453.5**
4	-	-	-	-	-	-	-	-	**0.0**	**0.0**	12.0	383.0	-	-	**12.0**	**383.0**
5	849.0	35.1	-	-	-	-	-	-	**849.0**	**35.1**	5 603.4	342.2	-	-	**5 603.4**	**342.2**
6	985.5	101.4	-	-	-	-	-	-	**985.5**	**101.4**	8 914.4	797.0	-	-	**8 914.4**	**797.0**
7	1 030.7	913.3	-	-	-	-	-	-	**1 030.7**	**913.3**	-	-	-	-	**0.0**	**0.0**
8	5 173.5	4 306.5	-	0.2	-	-	-	-	**5 173.5**	**4 306.7**	1 935.1	270.0	-	-	**1 935.1**	**270.0**
9	8 095.7	3 511.2	-	-	-	-	-	-	**8 095.7**	**3 511.2**	423.0	439.0	-	-	**423.0**	**439.0**
10	6 037.7	3 417.7	0.2	0.5	-	-	-	-	**6 037.9**	**3 418.2**	2 209.2	211.5	-	-	**2 209.2**	**211.5**
11	2 296.4	1 529.4	0.2	-	-	-	-	-	**2 296.6**	**1 529.4**	1 478.5	333.3	-	-	**1 478.5**	**333.3**
12	7 298.8	3 844.8	2.4	-	-	-	-	-	**7 301.2**	**3 844.8**	2 796.0	349.5	-	-	**2 796.0**	**349.5**
13	6 404.1	2 741.3	0.9	0.9	-	-	-	-	**6 405.0**	**2 742.2**	1 275.2	112.0	-	-	**1 275.2**	**112.0**
14	3 869.0	1 532.9	33.7	16.6	-	-	-	-	**3 902.7**	**1 549.5**	2 285.2	160.0	-	-	**2 285.2**	**160.0**
15	3 836.1	1 186.2	57.7	15.6	-	-	-	-	**3 893.8**	**1 201.8**	1 268.4	57.4	-	-	**1 268.4**	**57.4**
16	580.5	424.9	16.6	-	-	-	-	-	**597.1**	**424.9**	210.2	11.4	-	-	**210.2**	**11.4**
17	153.2	103.4	54.3	7.1	-	-	-	-	**207.5**	**110.5**	621.7	11.1	-	-	**621.7**	**11.1**
18	30.4	71.6	44.4	1.3	-	-	-	-	**74.8**	**72.9**	170.8	1.3	-	-	**170.8**	**1.3**
19	0.1	0.7	65.3	26.4	-	-	-	-	**65.4**	**27.1**	353.7	1.6	-	-	**353.7**	**1.6**
20	-	-	-	-	646.0	28.5	150.7	2.5	**796.7**	**31.0**	-	-	566.4	2.7	**566.4**	**2.7**
21	-	-	-	-	-	-	4.4	-	**4.4**	**0.0**	-	-	-	0.1	**0.0**	**0.1**
22	-	-	-	-	453.4	0.7	175.8	0.4	**629.2**	**1.1**	-	-	105.3	-	**105.3**	**0.0**
Total	**46 640.7**	**23 720.4**	**275.7**	**68.6**	**1 099.4**	**29.2**	**330.9**	**2.9**	**48 346.7**	**23 821.1**	**36 142.7**	**3 933.8**	**671.7**	**2.8**	**36 814.4**	**3 936.6**

2016

risk rating	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
1	-	-	-	-					**0.0**	**0.0**	516.2	5.9			**516.2**	**5.9**
2	-	-	-	-	-	-	-	-	**0.0**	**0.0**	1 172.1	10.9	-	-	**1 172.1**	**10.9**
4	-	35.1	-	-	-	-	-	-	**0.0**	**35.1**	4 739.1	501.3	-	-	**4 739.1**	**501.3**
5	272.7	0.1	-	-	-	-	-	-	**272.7**	**0.1**	2 499.5	136.3	-	-	**2 499.5**	**136.3**
6	805.9	271.9	-	-	-	-	-	-	**805.9**	**271.9**	8 234.5	933.8	-	-	**8 234.5**	**933.8**
7	1 538.1	944.6	-	-	-	-	-	-	**1 538.1**	**944.6**	85.8	183.8	-	-	**85.8**	**183.8**
8	5 117.4	4 209.4	-	-	-	-	-	-	**5 117.4**	**4 209.4**	30.9	117.1	-	-	**30.9**	**117.1**
9	6 888.3	3 297.9	-	-	-	-	-	-	**6 888.3**	**3 297.9**	5 298.6	737.7	-	-	**5 298.6**	**737.7**
10	5 155.5	3 326.7	-	-	-	-	-	-	**5 155.5**	**3 326.7**	592.8	262.9	-	-	**592.8**	**262.9**
11	4 351.5	1 297.1	-	-	-	-	-	-	**4 351.5**	**1 297.1**	2 246.3	277.1	-	-	**2 246.3**	**277.1**
12	6 196.5	3 170.7	1.1	-	-	-	-	-	**6 197.6**	**3 170.7**	738.5	85.7	-	-	**738.5**	**85.7**
13	5 054.9	2 840.5	29.5	22.5	-	-	-	-	**5 084.4**	**2 863.0**	982.3	67.2	-	-	**982.3**	**67.2**
14	3 359.5	1 440.1	0.1	-	-	-	-	-	**3 359.6**	**1 440.1**	1 511.9	93.8	-	-	**1 511.9**	**93.8**
15	3 045.0	863.6	51.3	6.5	-	-	-	-	**3 096.3**	**870.1**	912.8	23.1	-	-	**912.8**	**23.1**
16	789.6	226.6	26.4	1.3	-	-	-	-	**816.0**	**227.9**	342.3	12.2	-	-	**342.3**	**12.2**
17	170.9	48.1	9.0	-	-	-	-	-	**179.9**	**48.1**	203.9	2.5	-	-	**203.9**	**2.5**
18	11.8	30.4	68.6	28.2	-	-	-	-	**80.4**	**58.6**	115.0	2.3	-	-	**115.0**	**2.3**
19	19.1	2.6	108.3	14.6	-	-	-	-	**127.4**	**17.2**	384.4	0.9	-	-	**384.4**	**0.9**
20	-	-	-	-	489.9	44.9	93.4	10.5	**583.3**	**55.4**	-	-	411.7	1.2	**411.7**	**1.2**
21	-	-	-	-	-	-	5.1	-	**5.1**	**0.0**	-	-	-	-	**0.0**	**0.0**
22	-	-	-	-	394.8	2.7	175.8	1.8	**570.6**	**4.5**	-	-	119.3	0.1	**119.3**	**0.1**
Total	**42 776.7**	**22 005.4**	**294.3**	**73.1**	**884.7**	**47.6**	**274.3**	**12.3**	**44 230.0**	**22 138.4**	**30 606.9**	**3 454.5**	**531.0**	**1.3**	**31 137.9**	**3 455.8**

Credit exposures by days past due

2017

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	46 099.9	23 710.9	267.4	68.6	237.9	29.2	57.0	2.8	**46 662.2**	**23 811.5**	35 221.4	3 907.9	98.7	2.1	**35 320.1**	**3 910.0**
1-30	523.1	0.5	3.2	-	65.1	-	6.6	0.1	**598.0**	**0.6**	773.9	24.6	42.4	0.1	**816.3**	**24.7**
31-60	13.9	0.1	2.3	-	12.9	-	21.7	-	**50.8**	**0.1**	104.6	1.0	28.2	0.1	**132.8**	**1.1**
61-90	3.3	-	2.8	-	25.9	-	21.6	-	**53.6**	**0.0**	39.7	0.2	23.2	-	**62.9**	**0.2**
91-180	0.4	5.0	-	-	161.3	-	29.5	-	**191.2**	**5.0**	1.9	0.1	74.6	0.5	**76.5**	**0.6**
181-365	-	-	-	-	47.1	-	59.1	-	**106.2**	**0.0**	0.4	-	106.7	-	**107.1**	**0.0**
>365	0.1	3.9	-	-	549.2	-	135.4	-	**684.7**	**3.9**	0.8	-	297.9	-	**298.7**	**0.0**
Total	**46 640.7**	**23 720.4**	**275.7**	**68.6**	**1 099.4**	**29.2**	**330.9**	**2.9**	**48 346.7**	**23 821.1**	**36 142.7**	**3 933.8**	**671.7**	**2.8**	**36 814.4**	**3 936.6**

2016

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	42 394.9	22 000.0	265.1	73.1	404.0	47.6	50.0	12.2	**43 114.0**	**22 132.9**	29 913.2	3 421.0	88.8	1.1	**30 002.0**	**3 422.1**
1-30	375.9	1.3	2.8	-	-	-	3.7	0.1	**382.4**	**1.4**	557.5	32.2	33.7	0.1	**591.2**	**32.3**
31-60	4.6	-	18.0	-	-	-	14.4	-	**37.0**	**0.0**	100.8	0.8	21.1	-	**121.9**	**0.8**
61-90	1.0	-	7.6	-	27.2	-	6.7	-	**42.5**	**0.0**	30.9	0.4	15.7	-	**46.6**	**0.4**
91-180	0.2	0.2	0.8	-	20.5	-	19.9	-	**41.4**	**0.2**	2.1	0.1	54.5	0.1	**56.6**	**0.2**
181-365	-	-	-	-	72.1	-	30.2	-	**102.3**	**0.0**	0.8	-	73.0	-	**73.8**	**0.0**
>365	0.1	3.9	-	-	360.9	-	149.4	-	**510.4**	**3.9**	1.6	-	244.2	-	**245.8**	**0.0**
Total	**42 776.7**	**22 005.4**	**294.3**	**73.1**	**884.7**	**47.6**	**274.3**	**12.3**	**44 230.0**	**22 138.4**	**30 606.9**	**3 454.5**	**531.0**	**1.3**	**31 137.9**	**3 455.8**

3. Market risk

3.1. Introduction

The main goals of market risk management at ING Bank Śląski S.A. are to ensure that the Bank's exposure to market risk is understood and properly managed. and. if applicable. that the exposure is within approved limits.

The Bank defines market risk as the potential loss due to unfavourable changes in market prices (e.g. yield curves. FX rates. equity prices. etc.). market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and customer behaviour (e.g. loan prepayments).

3.2. Risk management process

The market risk management process within the Bank covers the identification. measurement. monitoring and reporting of risk. The Market Risk Management Department provides FM and Bank Treasury Management. selected Management Board and ALCO Committee members with regular risk updates. Additionally ALCO. Bank Management Board and Supervisory Board receive periodic updates with the most important market risk metrics. The MRM Department is staffed with trained specialists and the independence of this department is ensured by its separation from the Bank units which generate market risk.

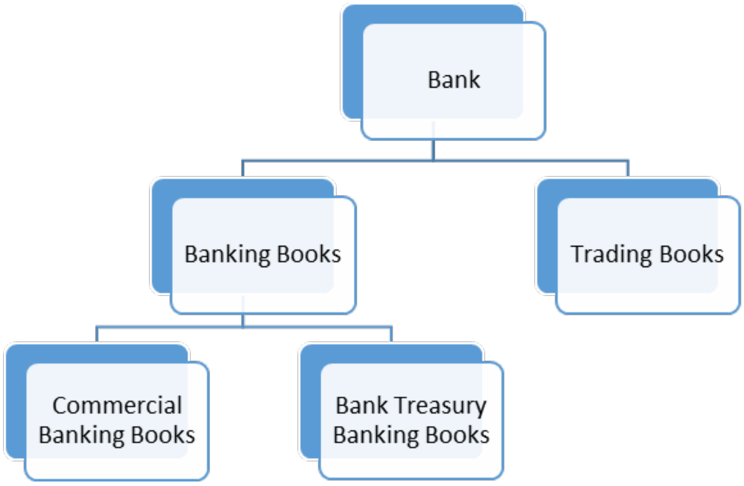
The market risk management process at the Bank also covers the Product Control function which assures correctness of Financial Markets and Bank Treasury products valuation by monitoring the correctness of valuation models and controlling the quality of market data used for valuation and calculation of a financial result. Decisions about issues related to the valuation process e.g. sources of market data used for valuation. pricing model provisions calculation. etc. are taken by the Parameterisation Committee which is composed of representatives from the MRM Department. Financial Markets Division. Bank Treasury and Finance Division.

3.3. Bank's book structure and risk measurement methods

The Bank maintains an intention-based book structure which drives many processes. including market risk management. The book structure reflects what kind of market risk is expected and acceptable in different parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Books are categorized based on intention as:

- trading - positions taken in expectation of short-term financial gains from market movements and
- banking - all other positions.

A high-level structure of the Bank's books is as follows:



Banking Books are further split into Commercial Banking Books and Bank Treasury Banking Books. Commercial Banking Books are Retail and Wholesale Banking books containing commercial loans and deposits. The risk of these positions is transferred to:

- Bank Treasury Banking Books (for interest rate risk. basis risk and liquidity risk) and
- trading books of the Financial Markets Division (for FX risk) via internal contracts.

The process ensures that these books do not contain material economic market risk. However. as described later in more detail. the short-term financial results of these books are sensitive to changes in market rates. The commercial activities of the subsidiaries belong to the commercial banking books.

Bank Treasury Banking Books serve to manage:

- the liquidity risk of the Bank as a whole. and
- the interest rate risk of the banking book.

Open positions are allowed within approved market risk limits:

- NIIaR (Net Interest Income at Risk) - the limit applies to the entire banking book.
- EVE (Economic Value of Equity) – the limit applies to the entire banking book.
- Slope.
- CS01 – it is the change of a market value of a given security resulting from credit spread increase up by one basis point.
- CS RRaR (Credit Spread Revaluation Reserve at Risk) – the measure shows the potential impact of credit spread changes on the Revaluation Reserve level.
- IR RRaR (Interest Rate Revaluation Reserve at Risk) – the measure shows the potential impact of interest rate changes on Revaluation Reserve level.
- BPV (Basis Point Value).

Trading Books are books in the Financial Markets area: FX and interest rate trading. These books include items held:

- for resale. or
- with the intent of benefiting from actual or expected short-term price movements. or

- items to lock in arbitrage profits.

The market risks of open positions in trading books are limited by the following risk measures:

- Value at Risk – VaR presents the potential loss. that should not be exceeded. assuming certain confidence level (probability). The Bank calculates VaR figures for interest rate risk and currency risk portfolios using historical simulation approach.
- Slope – Slope risk determines the risk of an adverse effect on the result due to non-parallel shifts of the yield curve – the assumption is to change the slope curve by one basis point every year. The slope risk is calculated per currency and total for the trading portfolio (taking into account netting between currencies).
- Basis Point Value (BPV) – BPV is defined as a net present value (NPV) change resulting from a parallel yield curve movement. This is a measure of portfolio sensitivity to changes in interest rates.

3.4. Measuring the interest rate risk in the banking book

In measuring the interest rate risk of the banking book. the Bank applies the measures required by the regulations of the European Banking Authority (EBA/GL/2015/08). The main measures are:

- Net Interest Income at Risk – measuring the sensitivity of the reported results of an item booked on an accrual basis based on a set of interest rate scenarios that assume different movements of the yield curve. We analyse the scenarios that assume gradual:
  - parallel movement of the curve.
  - steeping of the curve.
  - flattening of the curve.
- Net present value of discounted future cash flows exposed to risk (Economic Value of Equity – EVE) – measurement of the sensitivity of the economic value of interest rate positions to sudden changes in interest rates. In the EVE measurement. the Bank applies the scenarios described in the EBA regulation as a shock regulatory scenario. The idea of EVE calculation is based on subtracting from the appropriate NPV values for regulatory scenarios. the NPV values from the baseline scenario.

As additional measures in the area of the banking book. the Bank measures:

- optionality risk – potential losses on these positions resulting from early withdrawal of deposits and/or prepayment of loans.
- residual risk – potential loss on these positions resulting from the application of non-standard pricing mechanisms which are not transferred to the Treasury Department that manages the interest rate risk.

The above risks have immaterial status (potential losses have a very small share in the historical and forecasted results).

Income-at-risk method (NIIaR)

The measurement of income at risk is used for all positions in banking books. Two approaches to measurements are used:

- the "base" approach is used for positions consisting of term transactions and small volumes of position on demand. This approach assumes that:
  - prices for variable interest rate positions are updated at the date of their revaluation as per the assigned interest rate index.
  - fixed interest rate positions are renewed as per the structure as at the analysis date.
  - the result on the Treasury Department positions is calculated assuming that the position structure will not change during the analysis;

- the "advanced" approach is applied to significant position volumes on demand. Currently. it is a deposit base on demand in PLN and EUR and their internal investments in the Treasury Department's Treasury book. The measurement determines changes in the Bank's results resulting from:
  - current (internal) investment of these funds and renewable investment. because the investment projects launched expire and/or new volumes appear; future investments (re-investments) are projected provided that the current investment rules continue.
  - assessing the relationship between changes in market rates and rates that the Bank has to pay customers to maintain volumes.

Both approaches cover a one-year horizon and show possible changes of the result in the event of market developments resulting from the analysed scenarios.

Net present value method of discounted future cash flows at risk (EVE)

Measurement of the net present value of discounted future cash flows at risk (EVE) is a measurement of the sensitivity of the economic value of the interest rate position to sudden changes in interest rates. The measurement is made for:

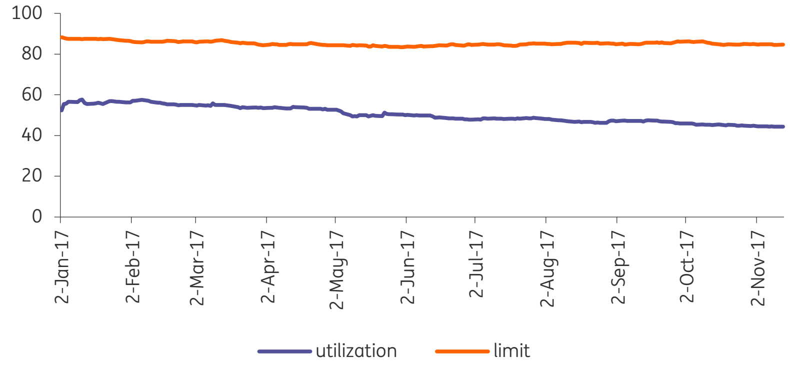
- curve changes by +/- 2% (using the bottom floor level to 0%).
- risk-free curve is used for discounting.
- capital is excluded from the liability item.
- flows resulting from interest rates are discounted (interest accrued on loan margins is omitted).

This measurement is used for all items in banking books and is subject to regulatory limits of 20% of equity.

Value at Risk method (VaR)

The Treasury Department kept their exposures in the banking book at moderately high levels compared to the approved limits. The limits were reviewed in November 2017 and since then the VaR for the Bank Treasury has not been limited. It is due to the fact that VaR estimates the economic risk while the Bank Treasury positions are mainly valued at amortized cost. In this situation it is more proper to limit the economic risk by the BPV measure as it limits the economic mismatch of interest rate positions. The fluctuations of the revaluation reserve are limited by CS01. IR RRaR and CS RRaR.

VaR limit for the Treasury Department and its utilisation (PLN million)



The below table shows the VaR metrics for the Treasury Department:

PLN thousand as at:	Limit	Value	Average	Min	Max
29 December 2017	-	40 473.2	49 338.6	40 473.2	57 694.2
31 December 2016	88 480.0	52 712.9	55 158.5	42 910.6	62 321.8

3.5. Market risk measurement in trading book

The Bank calculates VaR in line with the best market practice taking into account the following assumptions:

- one day position holding period. 99% confidence level.
- 260-day observation period.

The adequacy of the VaR model is checked daily in a back-testing process („VaR backtesting"). The financial result. both "daily" and "hypothetical" (change in the end-of-day market value of the positions in a trading portfolio over 1 day. so excluding all intra-day activities that occurred during that day) are compared to the VaR figure. Any model outliers are investigated and explained.

To tighten risk control. the Bank in the area of the FX risk book also implemented measurement of FX risk and monitoring of the approved intra-day limits.

The Bank is aware that VaR metrics does not give a full picture of market risk in individual portfolios as it does not account for potential losses in extreme market changes. Therefore "Stressed VaR" calculation has been introduced. Stressed VaR is a metrics that replicates calculation of historical simulation provided that in measurement we use the current portfolio and historical market data – they are taken from the cumulative yearly period and characterized by a significant deviation of the market parameters relevant for a given portfolio.

A bank-wide stress test is performed on a half-yearly basis covering market risk. liquidity risk and credit risk under regulatory scenario and other scenarios developed by the Bank's economists and approved by ALCO. Moreover. on a quarterly basis a derivatives portfolio stress-test is performed to present the impact of shock scenarios on valuation of those instruments.

Value at Risk method (VaR)

The Financial Markets Division has actively taken open interest rate positions while minimalizing the FX trading risk. The average VaR limit utilization in 2017 settled at:

- 38% for the interest rate. and
- 5% for the FX position.

In November 2016. trading for the FX options portfolio was terminated through conclusion of trades opposite to the open ones. Since then. options have been traded on a back-to-back basis only (zero market risk).

In 2017 there were no VaR limit breaches reported for trading. During the yearly limits review process. due to limited trading activity on the FX desk. the VaR limit was decreased from EUR 850 thousands to EUR 550 thousands.

The below tables present the VaR metrics* (PLN thousand) for 2017 and 2016:

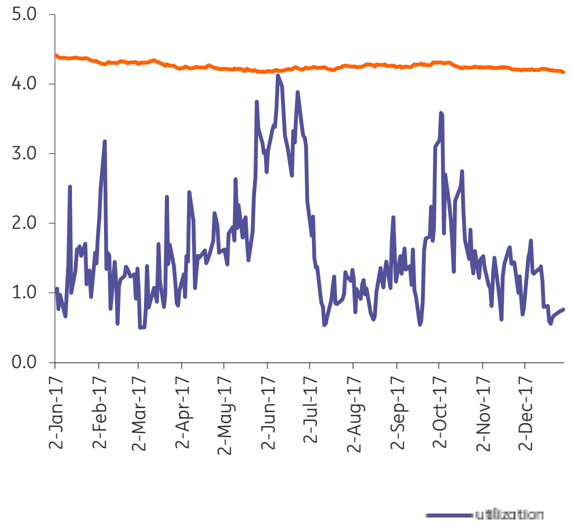
Area	Limit	as at 31 December 2017	Average	Min	Max
Interest rate	4 170.9	764.8	1 603.4	501.7	4 125.3
FX	2 294.0	440.9	162.5	45.4	440.9

Area	Limit	as at 31 December 2016	Average	Min	Max
Interest rate	4 424.0	1 216.4	1 948.9	492.9	4 544.6
FX	3 760.4	189.3	273.5	20.1	743.4
FX Options	0	0	712.4	0	1 201.0

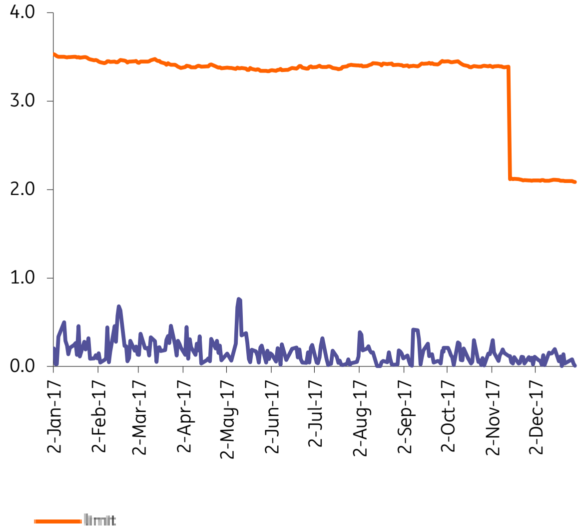
*) At ING Bank Śląski S.A. all VaR limits and their utilisation are expressed in EUR. Limit levels and their utilisation in tables and graphs for the purpose of this document were converted into PLN using the daily NBP fixing rate. in column “Limit” numbers are presented using end of year fixing.

The below charts show the VaR limit for Financial Markets:

VaR limit for the interest rate risk and its utilisation (PLN million)



VaR limit for the FX risk and its utilisation (PLN million)



3.6. Sensitivity of the result and capital to the interest rate risk

The tables below present an overview of the Bank's consolidated sensitivity to the interest rate risk:

- banking book – the changes observed in the measurement for both the NII and EVE measure result mainly from the two factors:
  - changes (increase) in product volumes. and
  - changes in model parameters used to determine the economic value of product portfolios without maturity.
- market value of debt instruments classified as available for sale (AFS) in the Treasury Department's portfolio:
  - slight changes in the sensitivity of the AFS portfolio were observed compared to the previous year. The BPV measure of the portfolio (BPV short position) went up from PLN 1.1 million to PLN 1.3 million.

The sensitivity of consolidated results to the interest rate movements resulting from the banking book:

(PLN million)	Change in the economic result for yield curve move		Change in the reported financial result for yield curve move	
	-2%	2%	-2% ramped	2% ramped
2017	-607.1	230.7	-29.6	60.3
2016	-592.3	-177.2	52.5	-6.0

Note: The full methodology that meets the requirements of the European Banking Authority was implemented in 2017. in line with KNF recommendations. This change significantly affects the measures. hence it is not sensible to compare them to the values reported in 2016. Therefore. to ensure comparability. the measurement results presented in the table above of sensitivity to interest rate risk show the measurements for 2016 made using the new methodology. In addition in the table below. results for the NIIaR measurement are presented for the full range of analysed scenarios.

The sensitivity of the equity to the interest rate movements resulting from the debt securities available for sale:

(PLN million)	Approximate change in regulatory capital base for yield curve move			
	-2%	-1%	+1%	+2%
2017	159.5	80.1	-94.5	-190.0
2016	141.0	72.0	-77.4	-160.2

3.7. Summary

In the reporting period. the market risk profile and the method of managing this risk did not change significantly. In terms of risk measurement. the main changes concerned IRRBB and resulted from the EBA guidelines.

4. Funding and liquidity risk

4.1. Introduction

ING Bank Śląski recognizes the process of stable liquidity and funding risk management as one of the most important processes at the Bank.

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

4.2. Risk management process

In order to optimize the liquidity and funding risk management process. the Bank has developed the ING Bank Śląski S.A. Liquidity and Funding Risk Management Policy which aims to describe the rules assuring adequate funding sources and minimization of risk and funding costs. The policy describes a general approach to liquidity and funding risk management process at the Bank. The primary objective of the funding and liquidity risk management process is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions.

The policy results from the business risk management strategy (including strategy of liquidity and funding risk management) approved by the Supervisory Board. In particular it reflects the risk appetite set in that strategy and approved by the Supervisory Board.

Additionally. the Bank compiles the ILAAP report. It presents key measures and figures on the Bank's liquidity profile in a comprehensive and coherent way. It takes account of the strategy. the funding plan and Bank's risk tolerance. The results of the report are approved by the Management and Supervisory Boards.

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

- Risk identification and assessment. Risk is identified annually through the risk identification workshops. Each identified risk is assessed in order to determine the importance of such risk for the Bank. Risk are controlled through actions that reduce probability of risk materialisation or actions that reduce the effects of risk materialisation. One of the elements of risk control is to define the acceptable risk level.
- Control. The important element of risk management is continuous verification whether an implemented risk control is being executed. Regular control allows to show whether actions in scope of risk control are effective. The key element of liquidity and funding risk management is adequate reporting which supplies management with information needed to manage risk.
- Monitoring and reporting. Pursuant to the requirements of PFSA Resolution 386/2008 and Recommendation S. the Bank prepares an in-depth analysis of the long-term liquidity focusing on mortgage loans in particular. This liquidity analysis shows the risk level connected with financing of long-term mortgage loans.

The Bank operates an active policy of liquidity management for major currencies. For these currencies. liquidity risk is measured and limited per currency and operational liquidity is managed separately for each currency to capture them in the risk transfer system.

Intraday liquidity is actively managed by the Treasury Department. In that process. the position and short-term liquidity risk are manged (one-day and intraday). It has been designed to meet payment and settlement obligations in a timely manner in normal times as well as in extraordinary/stress situations.

The Bank has the risk transfer system in which market risks. including liquidity risk. are transferred to the Treasury Department. Using proper tooling. it manages risks in a centralised manner through the system of limits adopted at the Bank.

4.3. Types of risk

The Bank splits the liquidity risk into two groups:

- liquidity risk arising from external factors and
- risk of internal factors associated with a given bank.

The Bank aims at having a conservative approach towards liquidity risk management which will enable it to safely survive the events specific to ING Bank Śląski S.A. and related to the whole banking sector.

In terms of the time horizon. the Bank splits the liquidity risk into:

- operational – focused on current financing of the Bank's position and intraday day liquidity management.
- strategic – focused on ensuring that structural (all maturity dates) liquidity positions of the Bank are at acceptable levels.

Taking account of the time and client behaviour (two aspects having impact on the Bank's liquidity). the Bank distinguishes three types of funding and liquidity risk:

- structural – understood as a potentially negative impact on the Bank's income due to a mismatch between expected maturities of the assets and liabilities of the Bank as well as the risk that refinancing will not be possible in the future.
- related to customer behaviour – understood as a potentially negative impact on the Bank's

income due to liquidity options embedded into products offered by the Bank. and

- related to stress conditions – understood as the risk of the Bank's inability to meet its financial obligations when they are due and payable resulting from the inadequate level of available funds or the fact that they cannot be generated at any price which results in an immediate insolvency of the Bank.

4.4. Structure and organization of the risk management process

The structure of risk and control at the Bank is based on the Three Lines of Defence Model. The model is designed to ensure a stable and effective framework for risk management by defining and implementing three risk management "levels" with distinct roles. responsibilities and oversight responsibilities.

- First line of defence – business management at the Bank. The heads of particular business units bear the primary responsibility for the actions. operations. compliance with norms and effective risk control affecting the particular business unit. The business management participate in the process of liquidity and funding risk management at all levels of organization.
- Second line of defence – risk and finance management functions. The risk management functions and finance management functions. if applicable. are performed through:
  - development of policies. standards and guidance for their particular risk areas.
  - coordination. supervision and control of the actions taken by the first line of defence within the scope of assigned tasks and the management. control and reporting risks generated by the first line of defence.
  - escalating/vetoing of the business unit's activities that could possibly generate risks unacceptable for the Bank.
- Third line of defence – Internal Audit Department. The Internal Audit Department is responsible for ensuring independent assessment and opinion on:
  - the design and effectiveness of internal controls of the risks resulting from the Bank's activity.
  - the design and effectiveness of risk management performed by the first and second line of defence.

The particular role in the funding and liquidity risk management process is fulfilled by the Bank Management Board and Assets and Liabilities Committee (ALCO).

The Bank Management Board is responsible for:

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

Assets and Liabilities Committee (ALCO) is responsible for:

- implementing the Bank's liquidity and funding risk strategy.
- managing the liquidity buffer under the relevant policies and limits approved by the Bank Management Board. operational actions in this area are delegated to the Treasury Department.

- supervising and monitoring the level of liquidity risk as well as the structure of the financing in the Bank's balance sheet.
- monthly review of the short-term. medium-term. and long-term liquidity profile (strategic liquidity positions) presented in regulatory and internal reports.
- implementing the limits within the accepted risk appetite (approved by the Bank Management Board). approval of the assumptions for the reports and models.
- reviewing any proposed changes to this Policy and forwarding positively-advised changes to the Bank Management Board.

4.5. Risk management framework

Liquidity and funding risk management framework includes all relevant methods of daily. short-term. medium-term and long-term liquidity and funding risk management. It includes the following key elements:

- limits system and liquidity risk measurement.
- monitoring the funding sources and concentration risk.
- liquidity reserves management.
- intraday liquidity management.
- collateral positions management. and
- stress tests and contingency plans.

Limits system and liquidity risk measurement

Formal limits are defined by the banking sector regulator and/or the Bank as various liquidity metrics. The acceptable funding and liquidity risk level is determined by the twofold system: the general acceptable risk level which is approved by the Bank Supervisory Board. and the limit system which is approved by the Bank Management Board. The Supervisory Board is updated on compliance with the said metrics at least on a quarterly basis.

The limits are based on the Bank's strategic goals. identified types of liquidity risk. stress tests results and principles set by the regulatory bodies. The limits are taken into consideration in the planning processes (i.e. delivery on the adopted plans cannot lead to an overrun of limits). In the majority of cases. the limits have a warning level set above (or under) regulatory limits. The acceptable level of liquidity risk is determined and updated at least once a year.

The system of limits is more detailed than the level of risk approved by the Supervisory Board.

The acceptable level of risk is guaranteed by risk monitoring in different liquidity and funding reports related to normal/regular Bank's activity and also to extreme/stress situations. The Bank monitors. among others. funding concentration risk. an internal liquidity buffer and external funding stability.

M1-M4

Under Resolution No. 386/2008 of the Polish Financial Supervision Authority. the Bank is required to calculate 4 liquidity risk metrics:

- M1 – Short-term liquidity gap (minimum value: 0.00).
- M2 – Short-term liquidity factor (minimum value: 1.00).
- M3 – Ratio of coverage of non-liquid assets with own funds (minimum value: 1.00). and
- M4 – Coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds (minimum value: 1.00).

The Bank is required to monitor those metrics on a daily basis and to observe the limits set out in the PFSA resolution. In 2017. the Bank kept all liquidity norms over the minimum values.

As at 31 December 2017. the regulatory liquidity measures for ING Bank Śląski S.A. were as follows:

	Liquidity metrics	Minimum value	2017	2016
M1	Short-term liquidity gap (PLN million)	0	11 381.3	15 329.8
M2	Short-term liquidity factor	1	1.40	1.56
M3	Ratio of coverage of non-liquid assets with own funds	1	13.73	11.46
M4	Coverage ratio of non-liquid assets and limited liquidity assets with own funds and stable external funds	1	1.19	1.27

Stability of the deposit base

One of the key elements of the regulatory liquidity norms calculation is to analyse the deposit base stability by calculating the stable part of the external funds. The analysis is performed based on the internal model. The model takes account of the following aspects:

- funding received from the major depositors.
- distribution of changes.
- estimation of volatility and time scaling.
- long- and short-term trends.
- impact of the exchange rate volatility on the stability of the deposit base.

The model is subject to the annual review which includes a detailed analysis of model performance. the analysis of the assumptions and historical verification (backtesting).

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

In keeping with the obligations and principles set out in the Regulation of the European Parliament and of the Council (EU) No. 575/2013. the Bank calculates regulatory liquidity measures:

- short-term liquidity metrics (LCR – Liquidity Covered Ratio) is to ensure that the Bank has the appropriate the level of high-quality liquid assets that will cover the liquidity needs within 30 calendar days of stress. In line with the regulation. the requirement is being implemented in stages. In 2017. the limit went up by 10 p.p. y/y to 80%. The target level of 100% was implemented on 1 January 2018.
- long-term liquidity metrics (NSFR – Net Stable Funding Ratio) it is to ensure a minimum level of funding available in the mid- and long term.

The Bank is required to present the values of the liquidity metrics to the regulator on a monthly and quarterly basis.

As at 31 December 2017 and as at 31 December 2016. the regulatory liquidity measures for ING Bank Śląski S.A. were as follows:

	Liquidity metrics	Minimum value	2017	2016
LCR	Liquidity coverage ratio	80%	151%	160%
NSFR	Net stable funding ratio	n/a*	119%	122%

*) In keeping with the Regulation of the European Parliament and of the Council (EU) No. 575/2013. the target regulatory limit for NSFR has not been set yet. but the target level is expected to be at least 100%.

In line with the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management issued by EBA. the Bank is required to present the elements of the LCR ratio in a form of table below (liquidity coverage ratio). It includes information on:

- high-quality liquid assets – the weighted value after haircuts.
- outflows – the weighted and unweighted outflows.

- inflows – the weighted and unweighted inflows.

The "weighted" values for inflows and outflows are calculated as the value after the inflow and outflow rates are applied. Presented figures refer to each of the four calendar quarters in 2017. They represent average values of month-end observations over the twelve months preceding the end of each quarter. As the LCR DA ratio is reported starting from September 2016. the average for first two quarters comprises less than twelve months (details in the fourth row of the table).

Figures presented in the table include all items irrespective of the currency in which they are denominated and are disclosed in PLN. The liquidity coverage ratio comprises all essential elements of the Bank's liquidity profile.

Apart from the presented figures for the liquidity coverage ratio calculated for all currencies. the Bank is also monitoring the ratios calculated for all significant currencies i.e. PLN and EUR.

In case of the ratio in EUR. the Bank identifies a currency mismatch in the liquidity coverage ratio which puts its value below the ratio calculated for all currencies.

This mismatch results from the long-term assets related to loans in EUR and how they are funded. In LCR inflows from these loans are limited to the nearest principal and interest instalment. The retail deposits characterised by the low outflow ratio constitute only a part of deposits financing these positions. Remaining positions financing loans in EUR in terms of LCR are characterised by the higher outflow level. Outflows in EUR calculated this way are not completely covered by liquid assets in this currency causing lower level of the LCR ratio in EUR in relation to the LCR ratio calculated for all currencies.

Liquidity Coverage Ratio

Scope of consolidation: solo Currency and units: TOTAL mln		TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
Quarter ending on (DD Month YYY)		31 Mar 2017	30 Jun 2017	30 Sep 2017	31 Dec 2017	31 Mar 2017	30 Jun 2017	30 Sep 2017	31 Dec 2017
Number of data points used in the calculation of averages		7	10	12	12	7	10	12	12
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					**29 326**	**28 853**	**28 418**	**27 963**
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	79 741	80 274	81 173	82 772	6 316	6 332	6 383	6 495
3	*Stable deposits*	50 126	50 761	51 541	52 753	2 506	2 538	2 577	2 638
4	*Less stable deposits*	29 615	29 513	29 632	30 019	3 810	3 794	3 806	3 857
5	Unsecured wholesale funding	14 234	14 255	14 500	14 950	8 319	8 324	8 522	8 678
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	14 234	14 255	14 500	14 950	8 319	8 324	8 522	8 678
8	*Unsecured debt*					0	0	0	0
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	17 795	17 940	17 557	16 968	2 544	2 524	2 461	2 421
11	*Outflows related to derivative exposures and other collateral requirements*	1 145	1 111	1 063	1 038	1 145	1 111	1 063	1 038
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	16 650	16 829	16 494	15 930	1 399	1 413	1 398	1 383
14	Other contractual funding obligations	5 190	5 357	5 408	5 701	5 103	5 286	5 338	5 630
15	Other contingent funding obligations	10 079	10 043	10 637	11 428	0	0	0	0
16	**TOTAL CASH OUTFLOWS**					**22 282**	**22 466**	**22 704**	**23 224**
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	30	42	40	61	4	3	2	1
18	Inflows from fully performing exposures	1 857	1 942	2 041	2 198	973	1 053	1 143	1 280
19	Other cash inflows	2 256	2 235	2 270	2 484	2 256	2 235	2 270	2 484
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)								
EU-19b	(Excess inflows from a related specialised credit institution)								
20	**TOTAL CASH INFLOWS**	4 143	4 219	4 351	4 743	3 233	3 291	3 415	3 765
EU-20a	***Fully exempt inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows Subject to 90% Cap***	0	0	0	0	0	0	0	0
EU-20c	***Inflows Subject to 75% Cap***	4 143	4 219	4 352	4 743	3 233	3 290	3 415	3 765
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					29 326	28 853	28 418	27 963
22	**TOTAL NET CASH OUTFLOWS**					**19 048**	**19 175**	**19 288**	**19 459**
23	**LIQUIDITY COVERAGE RATIO (%)**					**154**	**151**	**148**	**144**

Additional liquidity monitoring metrics (ALMM)

In keeping with Commission Implementing Regulation (EU) No. 2016/313. the Bank reports a set of additional monitoring metrics for liquidity reporting purposes. The following is reported:

- concentration of funding by counterparty.
- concentration of funding by product type.
- prices for various lengths of funding.
- roll-over of funding. and
- concentration of counterbalancing capacity.

In March 2018. an additional ALMM report will be implemented presenting the maturity mismatch.

Internal liquidity reports

The next essential element of the Bank's liquidity risk management process are internally-defined reports which provide a detailed and diversified insight into the Bank's approach to risk measurement and management. The Bank models its liquidity profile of both assets and liabilities to reflect the expected customer behaviour. The approach is done based on the mixed approach. It means that the analysis of customer behaviour is based on the historical data and expert approach.

One of the internal liquidity reports is the structural liquidity report. It represents the gap between Bank's assets and liabilities in time bands on the properly functioning markets. The report is used to monitor and manage mid- and long-term liquidity positions. It supports the balance sheet planning and funding processes. It also presents all future material funding needs.

This report represents a scenario for the current balance sheet in normal market conditions. It does not cover any additional forecasts for balance sheet development. However. it accounts for typical client behaviour observed in previous periods. For instance – cash flows for mortgage loans account for prepayments. and cash flows for savings accounts and current accounts are allocated upon accounting for liquidity characteristics.

Structural liquidity report:

	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years
2017 (PLN million)						
Liquidity gap	24 233.1	7 147.91	13 658.3	-3 261.8	-30 754.5	- 11 023
Cumulative liquidity gap	24 233.1	31 381.0	45 039.2	41 777.4	11 023.0	0.0
2016 (PLN million)						
Liquidity gap	25 443.9	5 749.8	20 852.1	-1 539.1	-42 049.0	- 8 458
Cumulative liquidity gap	25 443.9	31 193.7	52 045.8	50 506.7	8 457.7	0.0

The Bank uses the liquidity risk monitoring and limiting based on the measurement of the accumulative gap.

Monitoring the funding sources and concentration risk

The Bank determines. at least once a year. the overall business strategy and resulting medium-term (3-year) financial plan together with the overall risk strategy implemented by the Bank in 2017. An inherent element of the strategy is the funding plan which ensures effective diversification of funding sources and terms.

ALCO actively manages the funding base. It also monitors the funding sources to:

- verify compliance with the strategy and funding plan.
- identify potential funding-related risks.

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

The main resource of funding in Bank are client deposits (retail and corporate). The Bank monitors the funding structure and the concentration risk through the analysis of its deposit base broken down by:

- funding type.
- client segment.
- product type.
- currencies.
- geographic region. and
- concentration of large deposits.

In cyclical analyses. risk generated by the linked customers (within the capital groups) is also monitored.

The current Bank's funding structure is well diversified. The funding structure with a split between direct and reciprocal funding as at the end of 2017 and 2016 is presented below: Direct funding is delivered first and foremost by retail and corporate clients. Reciprocal funding stems from the funds acquired from other banks first of all.

Direct funding

	2017		2016	
Main client segments	**direct funding**	**share %**	**direct funding**	**share %**
Banks	156.7	0.1%	1 093.2	1.0%
Corporate clients	35 168.9	30.4%	30 812.6	28.8%
Retail clients	67 941.8	58.8%	63 487.3	59.4%
Own issued bonds	925.6	0.8%	1 528.6	1.4%
Equity	11 351.7	9.8%	9 917.5	9.3%

Reciprocal funding

	2017		2016	
Main client segments	**reciprocal funding**	**share %**	**reciprocal funding**	**share %**
Banks	12 741.9	97.8%	19 535.6	98.5%
Corporate clients	293.1	2.2%	306.1	1.5%
Retail clients	0.0	0.0%	0.0	0.0%

Liquidity reserves management

An important element of the Bank's liquidity management is to maintain an adequate liquidity buffer. The liquidity buffer presents the available liquidity required to cover the gap between the cumulative outflows and inflows in a relatively short time. The buffer comprises "unencumbered" and easily available assets for liquidity purposes. Unencumbered assets are construed as free from any legal. regulatory. contractual limitations for the Bank to sell them. The liquidity buffer is crucial in the stress period when the Bank has to obtain liquidity in a short time and when standard funding sources are unavailable or insufficient.

The liquidity buffer is kept as collateral against the materialisation of various stress scenarios. while ensuring satisfaction of the additional liquidity requirement which may arise in a given time under stress conditions as well as in normal times.

The table below presents the structure of a buffer of liquid assets as at 31 December 2017:

Liquidity buffer structure	share %
bonds issued by the government or the central bank (PLN)	76%
bonds issued by the government or the central bank (EUR)	13%
BGK bonds	10%

The Bank takes into account realistic reductions due to securities impairment. whose level is cyclically reviewed and accepted by ALCO. Those reductions are assessed on the basis of market liquidity. volatility of market prices and central bank requirements.

The Bank also observes concentration of assets while ensuring their safe diversification in terms of the issuer. maturity and currency.

Intraday liquidity management

The Bank actively manages the short-term liquidity positions and risks (daily and intraday) in order to fulfil payment and settlement obligations in a timely manner in normal times as well as in extraordinary/ stress situations.

The intraday liquidity management process is critical from the perspective of correct functioning of the Bank as a whole and concerns the operations run under normal and extraordinary (stress) conditions. It is part of operational current liquidity management. The Bank uses intraday metrics in intraday liquidity management. The intraday liquidity metrics are monitored on an ongoing basis and presented to the adequate liquidity risk management units as well as on the Assets and Liabilities Committee.

One of the elements of intraday liquidity management is to maintain an ability to meet Bank's obligations also in stress conditions. Therefore. it is necessary to maintain a proper liquidity buffer on the basis of information about the scope of potential deterioration of the Bank's access to intraday liquidity in case of market stress. In order to secure the proper liquidity buffer. the Bank ran the intraday liquidity stress test as part of the stress test programme.

Collateral management

Collateral management applies to items under CSA and GMRA agreements as well as to liquid assets used for operations with the central bank. Collaterals are managed at the level respective to the services provided. Bank's portfolio. funding profile and liquidity requirements.

Most of the counterparties. with which the Bank enters into derivative transactions. have signed collateral agreements (CSA – Credit Support Annex) which constitute an annex to an ISDA agreement. They govern the issues connected to the derivative transactions portfolio. They give a right to demand placing a security deposit for the party which has a positive valuation of the portfolio for a given day (in-the-money) and the right to demand release of this collateral in case the valuation changes. In line with the strategy of setting the collateral for each counterparty under the CSA agreement. the transaction portfolio is valued daily for the need of collateral.

Derivative instruments such as FRA and IRS are settled by the clearing houses (CCP – Central Clearing Party). It enables the Bank to effectively manage collaterals and mitigate the risk of counterparty's settlement. ING Bank Śląski S.A. has signed agreements with CCP CSD and London Clearing House (LCH).

Stress tests and contingency plans

In line with the requirements set by the regulators. the Bank introduced a stress testing program. It ensures that the stress tests are planned. designed. conducted and analysed to identify sources of potentially limited liquidity. It also determines how to prevent such situations that the current exposure remained within the established limits. The Bank pays special attention to the stress testing process and on a semi-annual basis prepares scenario analysis and sensitivity analysis for liquidity risk.

The results of stress tests are taken into account in:

- formulation of the strategy.
- taking corrective actions or actions to limit the Bank's risk exposure.
- development of contingency plans should stress occur.
- daily risk management practice.
- defining the risk appetite and internal limits. and
- adapting and improving the internal regulations of the Bank.

The testing program consists of a scenario analysis. sensitivity analysis. and reverse tests. The scenario analysis combines elements of shock. for which there is a likelihood of materialising at the same time.

Three options are analysed in the tests:

- idiosyncratic – specific to the Bank. market conditions generally remain at a good level. the banking sector as a whole is not subject to extreme conditions.
- system-wide – external market crisis. the Bank is affected by extreme conditions as a result of the deterioration of market conditions.
- mixed – a combination of the two options mentioned above.

Within each option we studied a number of risk factors and built a set of scenarios. As a rule. test scenarios are built assuming conservative assumptions.

The aim of the sensitivity analysis is to understand the Bank's sensitivity to individual risk factors.

An additional element are the reversed tests designed to analyse potential threats to the Bank. The tests are run across the Bank and cover various risks in order to obtain a complete and comprehensive picture of the risks existing at the Bank. Specific scenarios for liquidity risks during the day and the intraday liquidity norms and metrics are an important element in the liquidity testing process.

The results of the 2017 tests confirm a stable and safe position of the Bank. The Bank has liquidity reserves at an adequate level.

Development of the liquidity contingency plan. which is mutually linked to stress testing. is one of the essential processes of liquidity risk management. The Funding Contingency Plan developed by the Bank is designed to provide for guidelines on identification of a liquidity-related crisis and should such a crisis be identified to describe a set of actions to be taken to mitigate that crisis. The Funding Contingency Plan applies to the entire operations of the Bank. The Liquidity Crisis Team is a significant contributing factor if the Funding Contingency Plan needs to be implemented (started).

4.6. Maturity analysis of financial obligations and derivatives by contractual payment dates

The below table presents the financial liabilities by other contractual maturities – counting from the reporting date. The amounts include future interest payments. In the case of contingent liabilities extended. the earliest possible date for payment of the aforesaid liabilities by the Bank was taken into consideration when making the maturity analysis.

2017 (PLN million)	up to 1 month	1- 3 months	3 - 12 months	1-5 years	over 5 years
Liabilities to other banks	1 041.6	3.0	0.0	0.0	0.0
Financial liabilities measured at fair value through profit or loss	0.0	0.0	0.0	619.8	115.3
Liabilities to customers	100 734.0	1 928.5	1 237.1	82.7	101.9
Liabilities under issue of securities	0.0	0.0	0.0	300.3	0.0
Subordinated liabilities	0.0	3.1	9.1	48.8	665.3
Contingent liabilities granted	28 844.2	0.0	0.0	0.0	0.0

2016 (PLN million)	**up to 1 month**	**1- 3 months**	**3 - 12 months**	**1-5 years**	**over 5 years**
Liabilities to other banks	1 998.0	5.2	16.7	0.0	0.0
Financial liabilities measured at fair value through profit or loss	21.6	0.0	7.8	424.6	20.8
Liabilities to customers	91 933.5	1 188.2	1 966.7	86.7	2.7
Liabilities under issue of securities	0.0	0.0	588.0	315.4	0.0
Subordinated liabilities	0.0	3.3	9.7	52.2	719.1
Contingent liabilities granted	26 994.5	0.0	0.0	0.0	0.0

The below tables present maturity analysis of derivatives with negative valuation as at the reporting date. The analysis is based on other contractual maturities.

Derivatives settled in net amounts

Financial derivatives settled net by the Bank cover the IRS and FRA transactions as well as options and FX Forward NDF. For IRS transactions. the below data reflect the undiscounted interest future cash flows; for other transactions. their valuation as at 31 December 2017 and 31 December 2016 respectively was taken as the cash flow amount.

2017 (PLN million)	**up to 1 month**	**1- 3 months**	**3 - 12 months**	**1-5 years**	**over 5 years**
IRS transactions. including:	69.2	29.5	99.4	-136.2	-307.7
hedging transactions in hedge accounting	28.1	15.5	75.6	-36.8	-157.6
other derivatives	-17.0	-30.3	-57.5	-24.1	-0.2

2016 (PLN million)	**up to 1 month**	**1- 3 months**	**3 - 12 months**	**1-5 years**	**over 5 years**
IRS transactions. including:	-74.3	-52.1	37.2	272.8	-217.7
hedging transactions in hedge accounting	-31.6	-25.9	41.6	85.8	-129.3
other derivatives	-11.6	-12.6	-26.9	-64.4	-0.1

Derivatives settled in gross amounts

Derivatives settled gross by the Bank cover the FX Swap. FX Forward and CIRS transactions. The below data reflect the undiscounted contractual cash outflows and inflows on notes and for CIRS transactions – on interest as at 31 December 2017 and 31 December 2016 respectively.

2017 (PLN million)	**up to 1 month**	**1- 3 months**	**3 - 12 months**	**1-5 years**	**over 5 years**
outflows	-3 743.1	-1 776.8	-3 719.5	-736.3	-199.1
inflows	3 663.2	1 719.2	3 604.7	732.7	191.9

2016 (PLN million)	**up to 1 month**	**1- 3 months**	**3 - 12 months**	**1-5 years**	**over 5 years**
outflows	-6 282.3	-2 287.6	-5 818.2	-1 689.0	-628.4
inflows	6 205.9	2 239.6	5 717.9	1 714.6	582.8

4.7. Risk management process centralisation

The liquidity risk management process is fully centralised at the Treasury and risk management functions level. The liquidity risk (along with the generated liquidity position) of individual business lines is transferred to the Treasury Department where it is managed.

The Bank recognises costs and benefits from various types of the liquidity risk in the internal transfer pricing system. in measuring the profitability and in the new product approval process in all significant areas of business (both balance sheet and off-balance sheet). The Treasury Department manages the positions transferred to its books by the risk transfer system; it also manages liquidity risk associated with the liquidity premium reset.

To ensure correct. independent and centralised performance of the tasks required in the liquidity risk management process (such as risk measurement and reporting; development. review and update of documents). the Bank established the Market Risk Management Department that reports to the Vice-President of the Management Board.

4.8. Reporting and liquidity risk measurement systems

Liquidity risk reporting and measurement is an automated process. The Bank possesses tools allowing to generate the set of liquidity reports in an automatic way on a daily or monthly basis. Information on risk measures ensures ongoing monitoring of the liquidity profile and a control over the basic metrics.

Reports presenting the liquidity risk are presented to units involved in this risk management process.

4.9. Summary

In the reported period the liquidity and funding risk profile and the way of managing this risk did not change in a significant way. In terms of risk measurement. the changes resulted from regulators' guidelines including PFSA and EBA.

5. Non-financial risk

5.1. Introduction

The non-financial risk covers the operational and compliance risk management functions based on the common framework which lays down clear rules and standards of risk identification. assessment. monitoring. mitigation and reporting. Non-financial risk management processes are supervised by the Non-Financial Risk Committee established by the Bank Management Board. The Bank Management Board accepts the joint Non-Financial Risk Appetite Statement which is approved by the Supervisory Board upon recommendation of the Risk Committee. Compliance with the declared risk appetite is monitored using the periodic Non-Financial Risk Dashboard.

The common non-financial risk management framework enables us to identify the main threats and gaps as well as related risks which may trigger undesirable events. We are supported by such processes as risk and control self-assessment. scenario analyses. monitoring of key risk indicators or key control testing. Results of internal and external event analyses are continuously used to improve the adequacy and effectiveness of the internal control system of the Bank.

5.2. Operational risk

Introduction

We understand the operational risk as the risk of direct or indirect loss from inadequate or failed internal processes. people and systems. or from external events. We recognise the legal risk as an element of the operational risk.

The definition of operational risk is broad and covers the following areas:

- Control risk – is the risk of loss caused by a failure to apply the controls established within management procedures or project management methods at our Bank.
- Unauthorised activity risk – is the risk of loss caused by unauthorised activities of employees or overstepping of authority.
- Processing risk – is the risk of loss resulting from human error or omission during data processing caused by occurrence of unexpected or unpredicted problems. It also includes the risk of loss caused by wrong processing or a mismanaged processing operation. Those errors

are usually unintentional and occur when documenting or finalising current business transactions.

- HR and workplace security risk – is the risk of loss caused by a failure to apply employment practices and rules. labour law. EHS regulations. agreements signed with employees or payments of claims for damages resulting from accidents at work and discrimination events.
- Staff and physical security risk – is the risk that pertains to criminal. civilisation or environment threats which may affect security or have an adverse impact on personnel. customers. and Bank resources.
- IT risk – is the risk of loss due to the loss of confidentiality. integrity or availability of information resulting from incorrect securing of information or information asset.
- Business continuity risk – is the risk of event posing a threat to continuity of the business activity or inability to restore operations after failure. It may be caused by such events as catastrophes. natural disasters. failures and lack of personnel.
- Internal and external fraud risk – is the risk of loss caused by an intentional abuse of procedures. systems. funds. products or services in order to obtain personal benefits in an unlawful or fraudulent manner or benefits for other persons.

Operational risk management process

Our operational risk management goal is a continuous improvement of the Bank's and clients' security as well as reduction in the Bank's operating costs and improvement of the operating effectiveness.

Having obtained the Supervisory Board's approval. the Bank Management Board outlined the strategy for managing the operational risk. It implemented a coherent set of internal prescriptive documents. The said documents define the scope. principles and duties of organisational units and employees aimed at limiting the impact and probability of financial and reputational losses in that area. The operational risk management strategy of our Bank takes account of legal and regulatory requirements and uses ING Group good practices.

Furthermore. in liaison with the Supervisory Board. the Bank Management Board adopted the Risk Appetite Statement. 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 regulations. Limit utilisation is monitored and presented periodically to the Management Board. Risk Committee and Supervisory Board.

The operational risk management system applies to all spheres of our and group operations. cooperation with clients. vendors and partners. It forms a consistent. permanent practice. It covers the following elements::

- risk identification and assessment.
- risk mitigation and issue tracking.
- control. and
- quality assurance and monitoring.

Our Bank manages operational risk using the following general principles:

- we maintain a complete. consistent and transparent structure of operational risk management and clearly stated scope of duties and responsibilities.
- we identify the nature of internal and external environments – including limitations and vulnerabilities – we draw conclusions from internal and external events to determine the root cause of an event and identify potential irregularities in the control environment or determine unidentified risk exposures.
- we identify root causes. types and levels of risk we are ready to accept; we set standards of control activities and mitigating measures.

- we operate effective and consistent risk identification and control for all products. activities. processes and systems functioning at the Bank.
- we monitor and report the amount of required capital. risk profile and risk exposure.
- we continuously focus on raising employee and manager awareness; we ensure that employees are properly qualified to perform non-financial risk management activities and equipped with proper tools.

Effectiveness of risk management processes and high quality of used data are the priority.

Key operational risk drivers are:

- employee knowledge and competence.
- working conditions.
- proper segregation of duties and supervision of their fulfilment.
- integrity of business processes and IT and technical systems.
- quality of internal and external documentation.
- information (technology) security level.
- external events associated with changes in the business environment.
- natural disasters. failures and catastrophes. and
- outsourcing.

5.3. Compliance risk

Introduction

The mission of the Bank is to ensure compliance by building the corporate culture which is underpinned by knowledge of and compliance with laws. internal regulations. market standards and ING Values and Behaviours delineated in the Orange Code.

Compliance risk management process

The Bank Supervisory Board has oversight of compliance risk management at the Bank. and the Bank Management Board is responsible for the effective compliance risk management at the Bank. including responsibility for: implementing organisational solutions. regulations and procedures enabling effective compliance risk management and for ensuring adequate resources and funds as may be required to perform tasks in this area.

The Compliance Department is the organisational unit dedicated to compliance risk management. Tasks of the Compliance Department cover: identification. assessment. mitigation. monitoring and reporting of compliance risk for the following key threats: customer activity. employee activity. provision of financial services and functioning of the organisation.

6. Model risk

6.1. Introduction

Model risk is managed in line with the *Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A.* The Policy provides inter alia for the following:

- model lifecycle.
- principles of model materiality assessment.
- principles of model register functioning.
- capital computation principles for the model risk. and

- validation principles.

6.2. Model risk management process

The Capital Management Department keeps the model register. which is a repository of information about the risk models and valuation models effective in the Bank. The model register and logs read model materiality. model monitoring and validation results and their risk levels. among others.

The Bank regularly assesses the risks of individual models and estimates corresponding economic capital as per internal regulations. The capital calculation manner in the case of identification of material or medium material models of high or increased risk is set out in the methodology of economic capital requirement calculation for the model risk.

Model performance quality is verified via model monitoring and validation in the course of which the degree of model risk exposure is assessed as well. Models are validated in line with the *Model Validation Policy at ING Bank Śląski S.A*. and validation manuals.

Management reporting of the status of model management and validation actions to Committees. Management Board and Supervisory Board includes but is not limited to: model risk assessment and validation results. assessment of aggregated model risk in the context of adopted risk tolerance level. and also the actual model risk capital.

In 2017. the economic capital for the model risk stood at the zero level due to absence of identified high or increased risk models.

7. Business risk

7.1. Introduction

The following material risks were identified under the business risk:

- financial result risk.
- macroeconomic risk.
- FX mortgage portfolio risk.

7.2. Financial result risk

Financial result risk. deemed permanently material. is defined at the Bank as the risk associated with taking adverse or erroneous business decisions, the lack of or faulty execution of taken assumptions/actions and changes in the external environment plus an inappropriate response to these changes which results in the financial result being below the requirements arising from the need to conduct ongoing operations and grow, mainly in order to supply the capital base.

In principle. financial result risk is recognised in the area of planned mergers and acquisitions on the market. For organic growth of the Bank the risk is recognised as limited.

The main financial result risk triggers are: failure to earn the income planned or budget cost overrun. The said triggers are influenced by accomplishment of the planned client number, volume and market share, offer for clients and cost control. Additionally. innovativeness and attractiveness of the Bank as well as its perception by clients and the market are crucial.

7.3. Macroeconomic risk

Macroeconomic risk – the risk due to macroeconomic factors changes and their impact on the minimum capital requirements. The Bank manages that risk by conducting regular internal stress tests, whereby the sensitivity of minimum capital requirements to macroeconomic factors can be monitored on an ongoing basis. In 2017, the Bank ran full capital tests twice: for the data as at Q4 2016 and Q2 2017.

Based on internal stress test results for the mild recession scenario. the Bank estimates the additional capital requirement to secure against the impact of the said scenario materialisation. Stress-test results show that should the mild recession risk materialise it will not affect a decline in the capital adequacy below the required level. Therefore. the Bank quantified the additional economic capital for that risk at zero.

7.4. FX mortgage portfolio risk

FX mortgage portfolio risk is the risk of financial losses connected with FX mortgage loans conversion into PLN mortgage loans.

To manage risk. the Bank uses current legislation proposals for conversion of FX mortgage loans.

One should highlight at that point that the Bank did not receive a capital add-on for that risk (imposed by the Polish Financial Supervision Authority on the banks having significant FX mortgage portfolios). Still. bearing in mind the risk of legislative uncertainty in that area the Bank resolved to secure itself by computing the economic capital add-on.

As at 2017 yearend. the value of the FX mortgage portfolio of the Bank was PLN 1.0 billion.

Annual financial statements for the period from 01 January 2017 to 31 December 2017 (PLN million)

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2018-03-06	**Brunon Bartkiewicz** *President*	*Signed on the Polish original*
2018-03-06	**Michał Bolesławski** *Vice-President*	*Signed on the Polish original*
2018-03-06	**Joanna Erdman** *Vice-President*	*Signed on the Polish original*
2018-03-06	**Marcin Giżycki** *Vice-President*	*Signed on the Polish original*
2018-03-06	**Bożena Graczyk** *Vice-President*	*Signed on the Polish original*
2018-03-06	**Justyna Kesler** *Vice-President*	*Signed on the Polish original*
2018-03-06	**Patrick Roesink** *Vice-President*	*Signed on the Polish original*

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2018-03-06	**Jolanta Alvarado Rodriguez**	Director of Accounting Department Chief Accountant	*Signed on the Polish original*