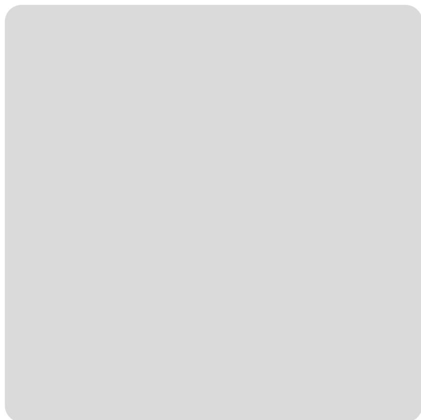
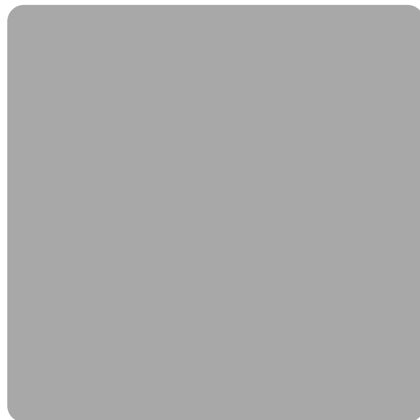



ING Bank Śląski S.A. Group

Quarterly consolidated report for the 1 quarter 2018

ING

Contents

Interim consolidated financial statements of the ING Bank Śląski S.A. Group

Selected financial data from financial statements 1
Interim condensed consolidated income statement 2
Interim condensed consolidated statement of comprehensive income 2
Interim condensed consolidated statement of financial position 3
Interim condensed consolidated statement of changes in equity 4
Interim condensed consolidated cash flow statement 6
Additional information 7

1. Information on the Bank and the ING Bank Śląski S.A. Group 7
2. Significant events in 1 quarter 2018 9
3. Significant events after the balance sheet date 10
4. Compliance with International Financial Reporting Standards 11
5. Material accounting principles 19
6. Comparability of financial data 32
7. Supplementary notes to interim condensed consolidated financial statements 35
7.1. Net interest income 35
7.2. Net commission income 35
7.3. Net income on financial instruments at fair value through profit or loss and FX result 36
7.4. Net income on the sale of securities measured at amortised cost or measured at fair value through other comprehensive and dividend income / Net income on investments 36
7.5. Net income on hedge accounting 36
7.6. General and administrative expenses 36
7.7. Impairment for expected losses / Impairment losses and provisions for off-balance sheet liabilities 37
7.8. Loans and other receivables to other banks 37
7.9. Financial assets held for trading 38
7.10. Investment securities 38
7.11. Loans and other receivables to customers 38
7.12. Liabilities to other banks 41
7.13. Financial liabilities at fair value through profit or loss 41
7.14. Liabilities to customers 42
7.15. Provisions 42
7.16. Fair value 43
7.17. Total capital ratio 45
8. Factors potentially affecting the financial results in the following quarters 46
9. Off-balance sheet items 46
10. Issues, redemption or repayments of debt securities and equities 46
11. Dividends paid 47
12. Settlements due to disputable cases 47
13. Seasonality or cyclicity of activity 48
14. Transactions with related entities 49
15. Segmentation of revenue and financial results of the Group 50
16. Other informations 52

Interim condensed standalone financial statement of the Bank

Interim condensed standalone income statement 56
Interim condensed standalone statement of comprehensive income 56
Interim condensed standalone statement of financial position 57
Interim condensed standalone statement of changes in equity 58
Interim condensed standalone cash flow statement 60
Additional information to the interim condensed standalone financial statements 61

1. Introduction 61
2. Significant accounting principles 68
3. Comparability of financial data 82
4. Significant events in 1 quarter 2018 86
5. Seasonality or cyclicity of activity 86
6. Issues, redemption or repayments of debt securities and equities 86
7. Dividends paid 86
8. Acquisitions 86
9. Off-balance sheet items 86
10. Total capital ratio 86
11. Significant events after the balance sheet date 87
12. Transactions with related entities 87

SELECTED FINANCIAL DATA FROM FINANCIAL STATEMENTS

• *Selected financial data*

	I quarter 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I quarter 2017** the period from 01 Jan 2017 to 31 Mar 2017
Net interest income	880,9	815,5
Net commission income	318,1	290,8
Result on basic activities	1 256,9	1 135,3
Result before tax	446,3	413,8
Net profit attributable to shareholders of ING Bank Śląski S.A.	322,2	300,2
Earnings per ordinary share (PLN)	2,48	2,31

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
Loans and other receivables to customers (net) excluding Eurobonds	90 290,5	87 544,0	80 713,8	78 069,5
Liabilities to customers	104 662,1	104 503,3	96 620,7	95 825,4
Total assets	127 310,3	126 013,9	118 850,5	117 477,7
Equity attributable to shareholders of ING Bank Śląski S.A.	12 058,9	11 794,8	10 787,3	10 474,9
Initial capital	130,1	130,1	130,1	130,1

• *Key effectiveness ratios*

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
C/I - Cost/Income ratio (%)	50,0	43,1	49,8	48,5
ROA - Return on assets (%)	1,2	1,2	1,1	1,1
ROE - Return on equity (%)	12,4	12,6	12,0	11,7
NIM - net interest margin (%)	2,94	2,94	2,75	2,67
L/D - Loans-to-deposits ratio (%)	86,3	83,8	83,5	81,5
Total capital ratio (%)	16,1	16,7	14,3	14,7

Explanations:

C/I - Cost to Income ratio – total costs to income from operating activity per type.

ROA - Return on assets – net profit attributable to shareholders of ING Bank Śląski S.A. for 4 subsequent quarters to average assets for 5 subsequent quarters.

ROE - Return on equity - net profit attributable to shareholders of ING Bank Śląski S.A. for 4 subsequent quarters to average equity for 5 subsequent quarters.

NIM – total net interest income for 4 consecutive quarters to average interest assets for 5 consecutive quarters.

L/D - Loans-to-deposits ratio – loans and receivables to customers (net) excluding Eurobonds to liabilities due to customers.

Total capital ratio – equity to risk weighted assets and off-balance sheet liabilities.

Interim condensed consolidated income statement

	Note	**I Q 2018** the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
		[IFRS 9]	[IAS 39 non-transformed data]
Interest income, including:		1 096,4	1 025,3
Interest income on assets measured at amortised cost		1 011,4	nd
Other interest income		85,0	nd
Interest expenses		215,5	209,8
Net interest income	7.1	**880,9**	**815,5**
Commission income		350,8	323,2
Commission expenses		32,7	32,4
Net commission income	7.2	**318,1**	**290,8**
Net income on financial instruments at fair value through profit or loss and FX result	7.3	34,0	17,6
Net income on the sale of securities measured at amortised cost	7.4	5,4	nd
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	7.4	32,2	nd
Net income on investments	7.4	nd	10,2
Net income on hedge accounting	7.5	-16,0	0,4
Net income on other basic activities		2,3	0,8
Net income on basic activities		**1 256,9**	**1 135,3**
General and administrative expenses	7.6	628,3	565,6
Impairment for expected losses	7.7	94,8	nd
Impairment losses and provisions for off-balance sheet liabilities	7.7	nd	76,5
Tax on certain financial institutions		87,5	79,4
Gross profit (loss)		**446,3**	**413,8**
Income tax		124,1	113,6
Net profit (loss) - attributable to shareholders of ING Bank Śląski S.A.		**322,2**	**300,2**
Net profit (loss) attributable to shareholders of ING Bank Śląski S.A.		322,2	300,2
Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)		2,48	2,31

No material operations were discontinued during the 1 quarter 2018 and 1 quarter 2017.
The diluted earnings per share are the same as the profit per one ordinary share.

Interim condensed consolidated statement of comprehensive income

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]	[IAS 39 non-transformed data]
Net profit for the period	**322,2**	**300,2**
Total other comprehensive income, including:	**189,7**	**12,1**
Items which can be reclassified to income statement	189,6	12,1
Items which will not be reclassified to income statement	0,1	0,0
Net comprehensive income for the reporting period	**511,9**	**312,3**
- attributable to owners of ING Bank Śląski S.A.	511,9	312,3

Interim Condensed Consolidated Income statement and Interim Condensed Consolidated Statement of Comprehensive Income shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof

Interim condensed consolidated statement of financial position

	Note	as of **31 Mar 2018**	as of **31 Dec 2018**	as of **31 Mar 2017**	as of **31 Dec 2016**
		[IFRS 9]	[IAS 39 – non-transformed data]		
Assets					
Cash in hand and balances with the Central Bank		2 042,4	2 815,2	1 250,0	1 825,0
Loans and other receivables to other banks	7.8	2 017,4	2 234,5	1 125,7	1 113,4
Financial assets held for trading	7.9	1 263,6	1 314,8	2 715,8	3 943,9
Derivative hedge instruments		960,6	967,2	1 259,1	1 338,6
Investment securities	7.10	29 135,7	25 907,4	26 569,7	25 721,3
Loans and other receivables to customers	7.11	90 290,5	91 108,1	84 399,5	81 979,5
Investments in associates measured at equity method		1,3	1,3	0,0	0,0
Property, plant and equipment		538,1	549,0	580,2	578,0
Intangible assets		427,5	431,0	415,1	426,2
Assets held for sale		10,9	11,1	19,7	31,8
Deferred tax assets		274,6	257,1	181,7	237,2
Current tax receivables		1,8	0,0	0,2	0,3
Other assets		345,9	417,2	333,8	282,5
Total assets		**127 310,3**	**126 013,9**	**118 850,5**	**117 477,7**
Liabilities					
Liabilities to other banks	7.12	6 288,8	4 109,0	5 606,6	5 043,0
Financial liabilities at fair value through profit or loss	7.13	1 044,9	1 714,3	1 736,6	1 590,8
Derivative hedge instruments		622,6	699,2	1 206,4	1 468,1
Liabilities to customers	7.14	104 662,1	104 503,3	96 620,7	95 825,4
Liabilities under issue of debt securities		302,2	300,3	872,0	866,4
Subordinated liabilities		632,4	626,9	634,2	664,9
Provisions	7.15	123,7	100,0	72,9	73,8
Current income tax liabilities		244,8	232,9	24,1	121,3
Other liabilities		1 329,9	1 933,2	1 287,6	1 346,8
Total liabilities		**115 251,4**	**114 219,1**	**108 061,1**	**107 000,5**
Equity					
Share capital		130,1	130,1	130,1	130,1
Supplementary capital - issuance of shares over nominal value		956,3	956,3	956,3	956,3
Accumulated other comprehensive income		684,0	493,2	589,6	577,5
Retained earnings		10 288,5	10 215,2	9 111,3	8 811,0
Equity attributable to shareholders of ING Bank Śląski S.A.		**12 058,9**	**11 794,8**	**10 787,3**	**10 474,9**
Non-controlling interests		0,0	0,0	2,1	2,3
Total equity		**12 058,9**	**11 794,8**	**10 789,4**	**10 477,2**
Total equity and liabilities		**127 310,3**	**126 013,9**	**118 850,5**	**117 477,7**
Carrying amount		12 058,9	11 794,8	10 787,3	10 474,9
Number of shares		130 100 000	130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)		92,69	90,66	82,92	80,51

Interim Condensed Consolidated Statement of Financial Position shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof.

Interim condensed consolidated statement of changes in equity

1 Q 2018
the period from 01 Jan 2018 to 31 Mar 2018

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	**130,1**	**956,3**	**493,2**	**10 215,2**	**11 794,8**
The impact of changes to the accounting principles in connection with the implementation of IFRS 9*	-	-	1,1	-249,0	**-247,9**
Opening balance of equity adjusted for changes to the accounting principles	**130,1**	**956,3**	**494,3**	**9 966,2**	**11 546,9**
Net result for the current period	-	-	-	322,2	**322,2**
Other net comprehensive income, including:	**0,0**	**0,0**	**189,7**	**0,0**	**189,7**
gains/losses on revaluation of financial assets measured at fair value through other comprehensive income	-	-	57,5	-	57,5
reclassification to the financial result due to sale of assets measured at fair value through other comprehensive income	-	-	-19,1	-	-19,1
cash flow hedge	-	-	151,2	-	151,2
revaluation of non-current assets			0,1		0,1
Other changes in equity, including:	**0,0**	**0,0**	**0,0**	**0,1**	**0,1**
valuation of share-based payments	-	-	-	0,1	0,1
Closing balance of equity	**130,1**	**956,3**	**684,0**	**10 288,5**	**12 058,9**

*) The impact of changes to the accounting principles in connection with the implementation of IFRS 9 is described in *Supplementary notes* in item 4.6. *IFRS 9 Financial Instruments.*

4 Q 2017 YTD
the period from 01 Jan 2017 to 31 Dec 2017
[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Non-controlling interests	**Total equity**
Opening balance of equity	**130,1**	**956,3**	**577,5**	**8 811,0**	**2,3**	**10 477,2**
Net result for the current period	-	-	-	1 403,1	0,0	**1 403,1**
Other net comprehensive income, including:	**0,0**	**0,0**	**-84,3**	**0,3**	**0,0**	**-84,0**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	192,8	-	-	192,8
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-31,7	-	-	-31,7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the loans and receivables portfolio	-	-	-0,2	-	-	-0,2
effective part of cash flow hedging relationship	-	-	-32,1	-	-	-32,1
effective part of cash flow hedging relationship	-	-	-206,0	-	-	-206,0
disposal of non-current assets	-	-	-0,3	0,3	-	0,0
actuarial gains/losses	-	-	-6,8	-	-	-6,8
Transaction with shareholders, including:	**0,0**	**0,0**	**0,0**	**0,8**	**-2,3**	**-1,5**
valuation of share-based payments	-	-	-	1,0	-	1,0
settlement of the purchase of shares in subsidiary	-	-	-	-0,2	-2,1	-2,3
dividends paid	-	-	-	-	-0,2	-0,2
Closing balance of equity	**130,1**	**956,3**	**493,2**	**10 215,2**	**0,0**	**11 794,8**

Interim condensed consolidated statement of changes in equity - continued

1 Q 2017
the period from 01 Jan 2017 to 31 Mar 2017
[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Non-controlling interests	**Total equity**
Opening balance of equity	**130,1**	**956,3**	**577,5**	**8 811,0**	**2,3**	**10 477,2**
Net result for the current period	-	-	-	300,2	0,0	**300,2**
Other net comprehensive income, including:	**0,0**	**0,0**	**12,1**	**0,0**	**0,0**	**12,1**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	28,3	-	-	28,3
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-6,2	-	-	-6,2
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	-	-	-7,7	-	-	-7,7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the loans and other receivables portfolio	-	-	-0,1	-	-	-0,1
effective part of cash flow hedging relationship	-	-	-2,2	-	-	-2,2
Other changes in equity, including:	**0,0**	**0,0**	**0,0**	**0,1**	**-0,2**	**-0,1**
valuation of share-based payments	-	-	-	0,1	-	0,1
dividends paid	-	-	-	-	-0,2	-0,2
Closing balance of equity	**130,1**	**956,3**	**589,6**	**9 111,3**	**2,1**	**10 789,4**

Interim Condensed Consolidated Statement of Financial Position shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof.

Interim condensed consolidated cash flow statement

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018 [IFRS 9]	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017 [IAS 39 non-transformed data]
Net profit attributable to shareholders of ING Bank Śląski S.A.	**322,2**	**300,2**
Adjustments, including:	**-1 236,0**	**235,5**
Depreciation and amortisation	43,7	46,1
Interest accrued (from the income statement)	-880,9	-815,5
Interest paid	-210,1	-205,0
Interest received	956,2	939,0
Dividends received	0,0	-0,1
Gains (losses) on investing activities	0,6	-0,3
Income tax (from the income statement)	124,1	113,6
Income tax paid	-78,7	-155,2
Change in provisions	6,8	-0,9
Change in loans and other receivables to other banks	94,9	-18,5
Change in financial assets held for trading	-86,2	1 321,7
Change in investment securities	-2 957,0	295,2
Change in valuation of derivatives	-23,2	-111,9
Change in hedge derivatives	81,2	-184,4
Change in loans and other receivables from customers	452,6	-2 427,4
Change in other assets	63,5	-39,7
Change in liabilities to other banks	2 124,8	604,8
Change in liabilities at fair value through profit or loss	-507,7	164,2
Change in liabilities to customers	157,0	799,5
Change in other liabilities	-597,6	-89,7
Net cash flow from operating activities	**-913,8**	**535,7**
Purchase of property plant and equipment	-15,5	-18,7
Disposal of property plant and equipment	0,0	0,5
Purchase of intangible assets	-14,3	-6,9
Purchase of held-to-maturity financial assets	0,0	-1 049,1
Interest received from held-to-maturity financial assets	0,0	1,4
Dividends received	0,0	0,1
Net cash flow from investing activities	**-29,8**	**-1 072,7**
Long-term loans received	378,7	346,0
Long-term loans repaid	-321,3	-383,7
Interest on long-term loans repaid	-5,7	-6,9
Dividends paid	0,0	-0,2
Net cash flow from financing activities	**51,7**	**-44,8**
Effect of exchange rate changes on cash and cash equivalents	-63,5	-248,9
Net increase/decrease in cash and cash equivalents	**-891,9**	**-581,8**
Opening balance of cash and cash equivalents	**4 598,2**	**2 758,7**
Closing balance of cash and cash equivalents	**3 706,3**	**2 176,9**

Interim Condensed Consolidated Cash Flow Statement shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof.

Additional information

1. Information on the Bank and the ING Bank Śląski S.A. Group

1.1. Key Bank data

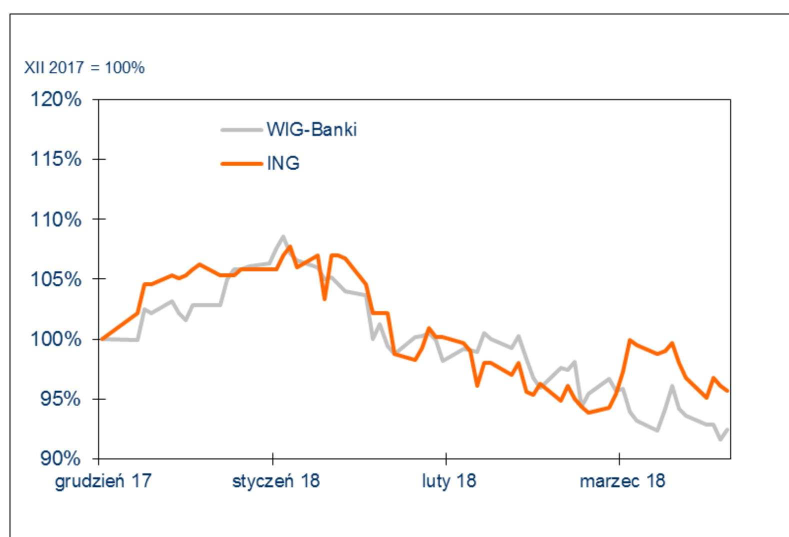
ING Bank Śląski S.A. ("Parent company", "Parent entity", "Bank") with the headquarters in Katowice, Sokolska Str. 34, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459. The parent entity statistic number is REGON 271514909, and the taxation identification number is NIP 634-013-54-75.

1.2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered for 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 on the domestic and foreign financial markets. The scope of services offered by the Bank was expanded with leasing and factoring operations, following the acquisition in 2012 of new companies. Additionally through subsidiaries the Group operates real estate, leasing of real estate and advisory and acts as a financial intermediary as well as provides other financial services. The duration of the parent entity and entities forming the Group is indefinite.

1.3. Initial capital, share capital

The initial capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares with a par value of PLN 1.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange (sector: banks). As of 31 March 2018, the share price of ING Bank Śląski S.A. was PLN 196.8, whereas during the same period last year it was at the level of PLN 172.1. In the 3 months of 2018, the price of ING Bank Śląski S.A. shares was as follows:



1.4. ING Bank Śląski S.A. Group

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group ("Capital Group", "Group"). As at 31 March 2017, the composition of ING Bank Śląski S.A. Group was the following:

Name	Type of activity	Registered office	% of the Group share in equity	% of the Group share in the General Meeting votes	Recognition in the Group Financial Statements
ING ABL Polska S.A.	financial holding	Katowice	100	100	full consolidation
ING Commercial Finance S.A.*	factoring services	Warszawa	100	100	full consolidation
ING Lease (Polska) Sp. Z o.o.**	leasing services	Warszawa	100	100	full consolidation
ING Usługi dla Biznesu S.A.	accountancy services. payroll services	Katowice	100	100	full consolidation
Nowe Usługi S.A.	research and development of new market opportunities	Katowice	100	100	full consolidation
Solver Sp. Z o.o.	holiday and training courses organisation	Katowice	100	100	full consolidation
ING Bank Hipoteczny S.A.***	banking services	Katowice	100	100	full consolidation
Twisto Polska Sp. Z o.o	information technology and computer services	Warszawa	20	20	consolidation by equity method

*) ING Bank Śląski S.A. has an indirect share in the company via ING ABL S.A.

**) ING Bank Śląski S.A. has an indirect share in the company via ING ABL S.A. The ING Lease (Polska) Sp. z o.o Group incorporates 9 special-purpose vehicles wherein ING Lease Polska Sp. z o.o holds 100% of shares.

***) On 16 January 2018, ING Bank Śląski S.A. obtained from the Polish Financial Supervision Authority the permission 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 company (ING Bank Hipoteczny S.A.) was formed with the notarial deed on 26 February 2018. ING Bank Hipoteczny S.A. is in the middle of the process of obtaining the approval of the Polish Financial Supervision Authority to start its operations.

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 March 2018 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 NV belongs to the Capital Group, herein referred to as ING Group.

As per the current information, the shareholders having 5 per cent and more votes at the General Meeting of ING Bank Śląski Spółka Akcyjna were the following entities:

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	10.100.000	7,76

1.6. Number of ING Bank Śląski shares held by Bank Management Board and Supervisory Board members

As at 31 March 2018, neither Management Board nor Supervisory Board members held shares of ING Bank Śląski S.A. So was the situation also at the date of rendering the financial statements for the previous reporting period into the public domain.

1.7. Approval of financial statements

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 1 January 2017 to 31 December 2017 were approved by the General Meeting on 5 April 2018.

These interim condensed consolidated financial statements have been approved by the Bank Management Board on 8 May 2018.

2. Significant events in 1 quarter 2018

2.1. Ratings update by Moody's

On 23 March 2018 the rating agency Moody's Investors Service ("Moody's") updated the Bank ratings.

The following ratings were upgraded:

1) Long-Term Deposits rating: to "A2" (perspective "Stable") from "A3" (perspective "Positive"),
2) Short-Term Deposits rating: to "P-1" from "P-2",
3) Adjusted Baseline Credit Assessment (Adjusted BCA): to "baa1" from "baa2",
4) Baseline Credit Assessment (BCA): to "baa2" from "baa3",
5) Long-Term Counterparty Risk Assessment (CR Assessment): to "A1(cr)" from "A2(cr)".

At the same time, Moody's affirmed the Short-Term Counterparty Risk Assessment (CR Assessment) at "P-1(cr)".

Moody's rating for ING Bank Śląski S.A. has not been commissioned and is assigned pursuant to publicly available data.

Detailed information on ratings given to Bank by rating agencies are described in item 16.1. Ratings.

2.2. 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.

2.3. 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.

2.4. 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. amount to PLN120,000,000 and was fully taken up by ING Bank Śląski S.A. The shares of ING Bank Hipoteczny S.A. was covered by cash.

3. Significant events after the balance sheet date

3.1. Amount of annual contribution to the banks' resolution fund

On 26 April 2018, the Bank was advised of the amount of annual contribution for the banks' resolution fund for 2018. It is PLN 58.2 million, including the adjustment of the contribution made in 2017. The entire contribution was recognised in costs for the first quarter of 2018 and is presented in the income statement, item: *Operating expenses*.

3.2. General Meeting of ING Bank Śląski S.A.

On 5 April 2018, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2017 annual financial statements (separate and consolidated financial statements),
- on approval the Management Board Report on Operations of ING Bank Śląski S.A. Group covering the Report on Operations of ING Bank Śląski S.A. in 2017, including the Report on Observance of Corporate Governance Principles ,
- on acknowledgement of 2017 reports of the Bank Supervisory Board and assessment of the Bank's remuneration policy,
- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2018,
- assessment of satisfaction by the members of the Supervisory Board of the requirements referred to in Article 22aa of the Banking Law Act (suitability assessment),
- on distribution of 2017 profit and past-year retained earnings ,
- on Dividend Payout Procedure ,
- on 2017 dividend payout,
- on amendments to the ING Bank Śląski S.A. Charter,
- on changes to the Supervisory Board composition (description under item *3.2. Changes to the ING Bank Śląski S.A Supervisory Board composition)*.

3.3. Change on the Supervisory Board of ING Bank Śląski S.A.

On 9 March 2017, Mr Christopher J. Steane tendered his resignation as the Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 5 April 2017, due to the planned retirement. At the same time, on 21 April 2017 the Ordinary General Meeting of ING Bank Śląski S.A. appointed Mr Michał Szczurek as Member of the Supervisory Board of ING Bank Śląski S.A.

4. Compliance with International Financial Reporting Standards

These interim condensed consolidated financial statements of the ING Bank Śląski S.A. Group for the 1 quarter 2018 were prepared under the IAS 34 *Interim Financial Reporting* (International Accounting Standards) in a version approved by the European Commission effective as at the reporting date, that is 31 March 2018 as well as in accordance with the Ordinance of Finance Minister of 19 February 2009 on current and interim information submitted by issuers of securities (Journal of Laws of 2009, no. 33, item 259) with subsequent amendments.

Presented financial statements have been prepared in a condensed version. The interim condensed financial statements do not provide all data or disclosures required in the annual financial statements and should be interpreted together with the Bank's financial statements for the year ended 31 December 2017 approved by the General Meeting on 5 April 2018.

Interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated cash flow statement for the period from 1 January 2018 to 31 March 2018, together with comparable data were prepared according to the same principles of accounting for each period except for the changes resulting from the implementation of IFRS 9 replacing IAS 39 "Financial Instruments: Recognition and Measurement". The changes refer to classification and measurement of financial assets and liabilities and impairment of financial assets. The Group 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.

4.1. Going-concern

These interim condensed consolidated 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 of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Capital Group is endangered.

4.2. Discontinued operations

No material operations were discontinued during the 1 quarter 2018 and 1 quarter 2017.

4.3. Financial statements scope and currency

These interim condensed consolidated financial statements of the Group for the 1 quarter 2018 comprise the Bank and its subsidiaries and associates. These interim condensed consolidated financial statements have been developed in Polish zloties ("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.

4.4. Comparative data

The comparative data cover the period from 1 January 2017 to 31 March 2017 for the interim condensed consolidated income statement; the interim condensed consolidated statement of comprehensive income and the interim condensed consolidated cash flow statement, additionally for the interim condensed consolidated statement of changes in equity as at 31 December 2017; in the case of the interim condensed consolidated statement of financial position data as of 31 December 2017, 31 March 2017 and 31 December 2016. In connection with the implementation from 1 January 2018 of IFRS 9 replacing IAS 39, the Group 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.

4.5. Changes to accounting standards

In these interim condensed consolidated financial statements, the same accounting standards have been applied as in the case of annual consolidated financial statements for the year 2017 (Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Capital Group for the Period Started 1 January 2017 and Ended 31 December 2017) and the standards and interpretations adopted by the European Union and applicable to the annual periods starting 1 January 2018 or afterwards; i.e.:

Change	Impact on the Group statements
IFRS 9 "Financial instruments"	The new Standard impacted the financial statements of the Group upon its initial application. For impact details, see item 4.6.
Explanations to IFRS 15 "Revenue from Contracts with Customers"	Application of the said standard explanations does not have a material impact on the financial statements of the Group.
IFRS 4 "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	The change does not have an impact on the financial statements of the Bank.
IFRS 15 "Revenue from Contracts with Customers" considering the change to the application date	Implementation of IFRS 15 did not have a material impact on the financial statements of the Group. The detailed accounting principles were presented in section 5. Material accounting principles.
Annual changes to the International Financial Reporting Standards in 2014-2016 (published in December 2016). Concerns MSSF 1, MSSF 12 i MSR 28.	Implementation of individual changes does not have impact on the financial statements of the Group.
IFRS 2 "Share-Based Payment"	Standard change implementation has no material impact on the financial statements of the Group.
IAS 40 "Transfers of Investment property"	Standard change implementation has no impact on the financial statements of the Group. The Bank did not identify the properties to be classified otherwise under the revised guidelines.
IFRS 9 "Prepayment features with Negative Compensation"	Standard amendment implementation had no impact on the classification of financial assets of the Group.
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	Interpretation implementation had no impact on the financial statements of the Group.

The standards and interpretations which were already issued but are still ineffective since not approved by the European Union or approved by the European Union but not previously applied by the Group were presented in the 2017 Group Annual Consolidated Financial Statements. The following changes to the accounting standards were published in Q1 2018:

Change (application date provided for in the parentheses)	Impact on the Group statements
References to IFRS conceptual assumptions (the accounting year starting on 1 January 2020)	The Group is currently analysing the impact of changes on the financial statements of the Group.
IAS 19 "Plan amendment, curtailment or settlement" (the accounting year starting on 01 January 2019 or later)	At this analysis stage, the Group does not expect a material impact of the amendment implementation on the financial statements of the Group.
IFRS 17 Insurance contracts (the accounting year starting on 1 January 2021 or later)	The Group is of the opinion that the implementation of IFRS 17 guidelines will have no impact on the financial statements of the Group.

In view of the ongoing process of IFRS introduction in the EU and the business run by the Company, as at the approval date hereof, there were no differences between the already effective IFRSs and the IFRSs approved by the EU in terms of the accounting principles applied by the Company.

4.6. IFRS 9 Financial instruments

The IFRS 9 "*Financial Instruments*" was published by the IASB in July 2014 and was adopted by the European Union in November 2016. The IFRS 9 replaces the IAS 39 "*Financial Instruments: Recognition and Measurement*" and includes classification and measurement requirements for 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.

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.;
- new estimation models for expected losses provisioning undergo parameter validation and backtesting

4.6.1. 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 Group. 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 Group, because the Group 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 Group, 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 Group's capital but only disclosures for loans and receivables. Credit exposures classified for measurement at fair value are presented in the statement of financial position in the item "Loans and other receivables to customers" and their value is shown in the explanatory notes.

- The minority strategic capital investments of the Group are measured at acquisition price as per IAS 39. The Group 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 in section 4.6.4).
- 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 in section 4.6.4).

4.6.2. Hedge accounting

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

4.6.3. 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 Group 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 Group developed new models to measure the expected credit losses as per IFRS 9.

Approach based on 3 stages

The Group 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 Group assesses whether the credit risk on a given financial instrument has increased significantly since initial recognition. The Group 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
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 Group 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 Group 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 Group expects that credit risk impairment loss will go up by PLN 286,3 million (without the tax effect and except for adjustment about gross carrying amount described below), including around PLN 16.9 million which concerns off-balance sheet items (Adjustment No. 1 in the table with impact below in section 4.6.4).

Gross carrying amount

As a result of IFRS 9 application, the Bank changed its approach to determination of the gross carrying amount for financial assets measured at amortised cost that were classified to Stage 3. The Bank continues to calculate the gross amortised cost for those assets by means of the effective interest rate and by the time those assets have been fully provisioned against expected losses. Due to the changed approach, as at 1 January 2018 the worth of loans classified to Stage 3 rose by PLN 148,3 million in gross terms; at the same time the worth of expected loss provisioning went up by the same figure. The change had no impact on the net value of loans classified to Stage 3 and, consequently, it had no impact on the equity as at the IFRS 9 transition date.

4.6.4. 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 a material impact of elements described above on the consolidated capital of the Group plus separated elements:

- adjustment 1 - IFRS 9 impairment losses
- adjustment 2 - Measurement of equity interests
- adjustment 3 - Elimination of the impact of historical reclassification of financial instruments

	31 December 2017 IAS 39	Adjustment 1	Adjustment 2	Adjustment 3	Reclassification in assets structure	Impact total	IFRS 9 1 January 2018
Assets							
Investment securities	25 907,4	-	62,2	-74,9	8,0	-4,7	25 902,7
Loans and other receivables to customers	91 108,1	-269,4	-	-1,7	-	-271,1	90 837,0
Tax assets	257,1	50,0	-11,8	14,6	-	52,8	309,9
Other assets	417,2	-	-	-	-8,0	-8,0	409,2
Total Assets	**126 013,9**	**-219,4**	**50,4**	**-62,0**	**0,0**	**-231,0**	**125 782,9**
Liabilities							
Provisions	100,0	16,9	-	-	-	16,9	116,9
Total liabilities	**114 219,1**	**16,9**	**0,0**	**0,0**	**0,0**	**16,9**	**114 236,0**
Equity							
Share capital	130,1	-	-	-	-	-	130,1
Supplementary capital – sale of shares over nominal value	956,3	-	-	-	-	-	956,3
Cumulative other comprehensive income	493,2	-	50,4	-40,3	-9,0	1,1	494,3
Retained earnings	10 215,2	-236,3	-	-21,7	9,0	-249,0	9 966,2
Total equity	**11 794,8**	**-236,3**	**50,4**	**-62,0**	**0,0**	**-247,9**	**11 546,9**
Total equity and liabilities	**126 013,9**	**-219,4**	**50,4**	**-62,0**	**0,0**	**-231,0**	**125 782,9**

4.6.5. Impact on the capital requirements

Application of IFRS 9 principles impact the regulatory capital of the Group 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 Group resolved to use the transitional solutions discussed hereinabove. In the transitional period, the Group 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 33 bp without a transition period applied. Considering the transition periods, the impact as at 1 January 2018 is 3 bp.

5. Material accounting principles

The detailed accounting principles were presented in the Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Group for the Period Started 1 January 2017 and Ended 31 December 2017, published on 7 March 2018 and available on the website of ING Bank Śląski S.A. (www.ingbank.pl).

Below presented are the amendments made in Q1 2018 to the description of the accounting principles applied by the Group. Changes to the principles concern IFRS 9 and IFRS 15.

Further to the Bank's decision not to restate the comparable data due to the effective entry of IFRS 9, the significant IFRS 9-related accounting principles were so presented as to show the principles applicable both before and after 1 January 2018.

Classification and measurement of financial assets

Principles applicable before 1 January 2018 (IAS 39)

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

Financial assets and liabilities carried 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 to generate short-term profits. 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 measurement or various recognition of gains and losses attributable to them);
- the group of financial assets or 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.

Investment held to maturity

Those are the financial assets other than derivatives with fixed or determinable payments 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 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.

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.

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.

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank categorises the financial assets as follows:

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

Financial assets measured at amortised cost

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets measured at fair value through other comprehensive income

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments measured at fair value through other comprehensive income

Equity instruments are measured at fair value through other comprehensive income when at initial recognition in the Bank's books an irrevocable decision was taken to measure a specific investment instrument at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

All financial assets which do not satisfy the criteria of categorisation as financial assets measured at amortised cost, debt financial assets measured at fair value through other comprehensive income or equity instruments measured at fair value through other comprehensive income are categorised as financial assets measured at fair value through profit or loss.

Additionally, at initial recognition, the Bank may irrevocably designate a financial asset item for measurement at fair value through profit or loss, even if the said financial asset item does not satisfy the criteria of categorisation for measurement at amortised cost or measurement at fair value through other comprehensive income. The designation is possible only when the Bank confirms that it serves elimination of or a material limitation on the accounting mismatch which would occur were such designation not made.

Business model assessment

The Bank assesses business model objectives per organisational unit of the Bank which manages and is the so-called business owner of the given portfolio of financial assets.

The Bank distinguishes the following business models of holding financial assets, i.e. to:

- collect contractual cash flows,
- collect contractual cash flows and sell other financial assets
- (e.g., to maximise the operating profit).

Business models are set at the level which best reflects the Bank's approach to managing financial assets to deliver business objectives and generate cash flows.

In the course of assessment, the Bank verifies all business areas of the unit of the business owner of the isolated portfolio of financial assets which may impact the decision to hold or not hold the assets in the Bank's portfolio, including but not limited to:

- product offer structure assumptions,
- organisational structure of the unit,
- assumptions for assessment of assets portfolio results (e.g., the approach to planning, assumptions for management information, key assessment ratios),
- approach to remunerating the key management vis-à-vis the portfolio results and portfolio cash flows,

- the risk of the assets portfolio and approach to risk management,
- analysis of sale transactions for the assets portfolio (frequency, volume and decision drivers), and
- analysis of future sale projections.

The Bank allows for sale transaction of the financial assets held to collect contractual cash flows which is triggered by the following:

- credit risk increase,
- approaching maturity,
- occasional sale,
- sale of insignificant value,
- response to regulatory/supervisory requirements,
- under liquidity crisis conditions (under stress), or
- credit limit change for a given client.

The Bank recognises that:

- sale at approaching maturity means sale of financial assets:
  - with original maturity of over 1 year – within 6 months before maturity,
  - with original maturity of under 1 year – within 3 months before maturity.
- occasional sale means sale which is below 10% of the sale transaction vis-à-vis the average number of items in the given business model
- sale of insignificant value is the sale which is below the ratio set based on the quotient of 10% and average portfolio maturity vis-à-vis:
  - the quotient of the carrying amount of the item sold vis-à-vis the carrying amount of the entire portfolio within a given business model, or
  - the quotient of the result realised vis-à-vis the net interest margin of the entire portfolio held within a given business model.

Cash flows characteristics assessment

The Bank takes the following definitions to assess the characteristics of realised cash flows:

- principal – defined as fair value of the financial asset at initial recognition in the Bank's books,
- interest – defined as payment covering the consideration for:
  - change of time value of money,
  - credit risk of payment of the principal outstanding for the specific period of time,
  - other basic risks and costs of loan approval (e.g. the liquidity risk and overheads) and
- profit margin.

The assessment serves confirmation whether the realised cash flows are solely payments of principal and interest due on the principal outstanding. The Bank verifies the contractual provisions which have impact both at realisation of cash flows and the amounts of cash flows under specific financial assets.

The following terms and conditions are verified in particular:

- contingencies impacting the amount of cash flows or their realisation dates,
- leverages,
- terms of funding prepayment or extension,
- conditions limiting the right to pursue legal claims about the cash flows realised,

- conditions modifying the consideration for change of time value of money.

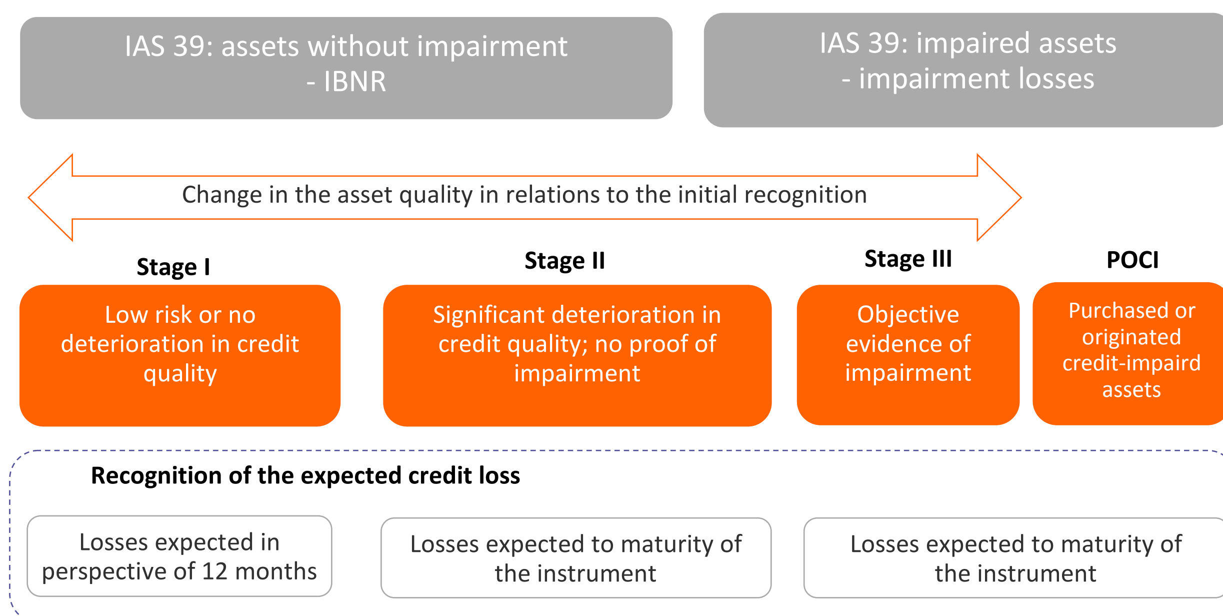
The conditions modifying the change of time value of money are assessed based on the qualitative and qualitative analysis.

When the qualitative analysis does not make it possible to confirm the conclusions about the characteristics of realised cash flows, the Bank runs a quantitative assessment. The quantitative assessment consists in comparing:

- undiscounted cash flows from the agreement analysed with
- undiscounted cash flows under the benchmark asset item which does not have the conditions modifying the consideration for change of time value of money,

When the cash flows analyses differ considerably from one another, the asset item assessed is obligatorily classified for measurement at fair value through profit or loss, since the realised cash flows are not solely payments of principal and interest due on the principal outstanding.

Impairment of debt financial assets



Principles applicable before 1 January 2018 (IAS 39)

Impairment losses are formed for the assets for which the Bank recognises objective evidence of impairment.

For the assets with no objective evidence of impairment identified, the Bank forms an IBNR provision for the losses that occurred as at the impairment date, but have not been documented yet (incurred but not reported losses).

Principles applicable as of 1 January 2018 (IFRS 9)

Approach based on 3 stages

In order to describe credit quality evolution in the loan provisioning process, the Bank uses the approach based on 3 stages featuring different measurement methods for expected credit losses:

- Stage 1 covers performing exposures without the identified material increase in credit risk from the initial recognition date. The provision is calculated based on a 12-month expected loss (or for the remaining maturity below 12 months),
- Stage 2 covers performing assets for which material credit risk increase has been reported from the initial recognition date. Provision is calculated based on the lifetime expected credit loss; i.e., from the reporting date to the remaining maturity.
- Stage 3 covers exposures with identified impairment; i.e., exposures in default. The provision is calculated based on the lifetime expected credit loss of the asset item for PD = 100%.

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

1. Impaired exposures are identified and classified to Stage 3,
2. Exposures are allocated to Stage 2 based on material credit risk increase triggers,
3. The remaining exposures are classified to Stage 1.

Principles applicable as of 1 January 2018 (IFRS 9)

Stage 2 classification triggers – material credit risk increase (applicable as of 1 January 2018)

Material credit risk increase – which triggers Stage 2 classification – is proven by occurrence of at least one of the following conditions, with the former prevailing:

- Material increase in PD parameter in the exposure lifetime set at the reporting date vis-à-vis the lifetime PD from the date of initial recognition for the period from the reporting date to the remaining maturity,
- Client/exposure presence on the Watch List,
- The fact that the client was granted forbearance,
- Default of over 30 days,
- Client has a CHF mortgage loan at ING Bank Śląski S.A. or another bank.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for assets measured at amortized cost

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

Impairment is evidenced by:

- identification of an objective impairment evidence (for corporate and retail credit exposures) or
- the analysis (test) result showing impairment (in the case of corporate credit exposure).

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.

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.

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

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. For each credit exposure impairment condition identified for strategic and network corporate clients, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows. Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the need to carry out the impairment analysis (test).

If after the assessment we find that for a given financial assets item there is no evidence of impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment.

If there is any evidence of impairment of an assets item measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an assets item and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

Practically, for the ISFA portfolio assets, impairment is calculated per assets item using the discounted future cash flows of a given assets item; for INSFA portfolio 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 indicates that there will be no expected future cash flows from the above-referred financial assets, the impairment loss of assets equals their carrying amount.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for financial assets measured at fair value through other comprehensive income

The Bank assesses as at each balance sheet date whether there is any objective evidence of impairment of debt financial assets classified for measurement at fair value through other comprehensive income. Confirmation of occurrence of objective evidence of impairment triggers assets classification for impairment/stage 3.

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

Impairment measurement

Principles applicable before 1 January 2018 (IAS 39)

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 formation 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). LIP – a loss identification period 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 28those exposures for which the effective interest rate is set and contractual interest accrued and unpaid 28for 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).

Principles applicable as of 1 January 2018 (IFRS 9)

Impairment losses are estimated using the measurement of expected credit losses. The approach is used for debt financial assets and credit exposures, leasing receivables, committed financial liabilities and financial guarantees, except for equity investments.

As at each reporting date, the Bank estimates the loss allowance for a financial assets item at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial assets item has not increased significantly since initial recognition, the Bank measures the loss allowance for that assets item at an amount equal to 12-month expected credit losses.

The Bank measures expected credit losses in a way that reflects:

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) the time value of money; and
c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To estimate the expected credit losses using the collective method, the Bank uses the regulatory models of (PD, LGD and EAD) risk parameters estimation, which were built for the Advanced Internal Ratings Based Approach purposes (AIRB Approach) and adapted to IFRS 9 requirements. For IFRS 9

purposes, risk parameters models retain the structure of the regulatory models, while the manner of estimation of individual values of (PD, LGD, EAD) parameters is adjusted to IFRS 9 requirements, and it notably covers reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Model parameters were calibrated using the point-in-time approach and projected for the term of 30 years. In the EAD parameter, the repayment schedules matching credit agreements were factored in.

The Bank measures the lifetime expected credit losses for remaining maturity (o–n. LEL) for the exposure without recognised impairment as a discounted total of partial losses in the exposure lifetime, referring to the events of default in each 12-month time window until the remaining maturity of the exposure as per the following formula:

$$LEL = \sum_{t=0}^{Y} \frac{PD_t^{PiT} \times EAD_t^{PiT} \times LGD_t^{PiT}}{(1+EIR)^{t+1/2}}$$

where:

- PD_t^{PiT} – marginal PD that is the expected per cent of default in the next 12-month window after time *t*;
- EAD_t^{PiT}– expected exposure for the default to occur in the next 12-month window after time *t*;
- LGD_t^{PiT} - expected per cent of loss vis-à-vis EAD of the default to occur in the next 12-month window after time *t*;
- *EIR* –Effective Interest Rate
- *T* – remaining maturity
- *t* – another year in the period between the reporting date and the date of expected maturity of the given exposure.

For Stage 1 exposures, the Bank applies a 12-month expected loss, calculated as per the following formula, but for T = 12 months.

For Stage 3 exposures with identified impairment (in default), wherefor collective provision is calculated, the Bank measures the lifetime expected credit losses for the remaining maturity as per the following formula:

$$LEL_{stage\ 3} = EAD_{in_default}^{PiT} \times LGD_{in_default}^{PiT}$$

where PD = 100%, and values $LGD_{in_default}^{PiT}$ and $EAD_{in_default}^{PiT}$ should reflect the characteristics of the exposure in default.

The time value of money is reflected in the expected loss by two discounting factors:

- Discounted between the moment the receivable became default and the moment of its recovery. It is included in the regulatory parameters of the LGD models.
- Discounted between the reporting date and the moment the exposure became default, which is additionally factored in in the calculation of lifetime expected losses. The Bank assumes that for each yearly interval, the event of default occurs in mid-period from 0 to 12 months on the average.

The Bank calculates expected credit losses as the probability-weighted average from a few scenarios (three most frequently: base, stress and best-case ones) of various probability. The expected loss is calculated for each scenario separately and the probability-weighted average results from the weights (probabilities) assigned to each scenario (total of weights = 100%). This approach satisfies the standard requirement that the provision (impairment loss) should be unbiased and probability-weighted amount that is determined based on a range of possible outcomes.

The expected loss is projected (measured) at each point in time in the future, conditional on economic conditions expected in a given point in time. The Bank used historical data to determine the relations between the observed expected loss parameters (PD, LGD) and the macroeconomic factors as the functions, based whereon – for the set macroeconomic factors projections – the projected values of expected loss parameters in a given year in the future (forward-looking PiT) are calculated.

To estimate the expected loss, the Bank determines the exposure at default only for committed credit liabilities by using the credit conversion factors (per cent of utilisation of the free part of the credit limit in the period from the reporting date to the default date) from the regulatory EAD models (estimated using the through-the-cycle approach). EAD goes down over time as per repayment schedule of a given exposure.

For the exposures with the certain final repayment date, remaining maturity was limited to 30 years. When a significant portion of the portfolio shows maturity of over 30 years, the remaining maturity matches the projected term of such exposures.

For the exposures without certain final repayment date (e.g., some revolving loans and credit cards), the expected remaining maturity is a statistical behavioural parameter.

The LGD parameter – which is a function of applied credit risk mitigation techniques and which is expressed as a per cent of EAD – is estimated per product and exposure, based on the parameters from regulatory LGD models, correctly calibrated for IFRS 9 purposes (estimated using through-the-cycle approach).

The LGD parameter for calculating the impairment loss under collective method for impaired exposures with recognised default (PD = 100%) depends on the time for which the exposure is in default. Moreover, to some business segments, the Bank applies the so-called *Full Provisioning Policy,* whereunder the LGD parameter of 100% is used for the exposures defaulted for at least 2 years.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impairment for the assets measured at amortised cost (the principles applicable before and after 1 January 2018)

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.

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 Bank 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.

Purchased or originated credit-impaired financial assets

Principles applicable before 1 January 2018 (IAS 39)

No such category of assets.

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank recognises purchased or originated credit-impaired financial assets as a separate category at initial recognition.

Such assets can be recognised as a result of:

- a transaction of purchase of an impaired assets item,
- a significant modification (described under item 7.5) after derecognition of the original exposure or
- new credit facility awarded to the client for whom another exposure was categorised as the Stage 3 one.

Those assets are excluded from the model based on the 3-stage approach described under item 17.3 and are classified as impaired assets until derecognised by the Bank.

The above means that each change to the cumulative lifetime expected credit losses of those assets (positive and negative) is recognised in the income statement as impairment gain or loss.

Revenue recognition considering the 5-step approach (IFRS 15 resultant changes)

Change to the principles of recognition of commission revenue and costs.

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 following the five-step approach:

1) identification of an agreement with the client;
2) identification of individual obligations in the agreement,
3) determination of the transaction price,
4) allocation of the price to contractual obligations,
5) revenue recognition upon satisfaction of individual obligations.

Following the analysis, the Bank recognises fee and commission revenue:

- on a one-off basis when the service was delivered (also for the up-front fees) i.e., upon transfer of control over goods or services;
- over time when the services are provided at a specified period of time;
- at point in time when the Bank performs key activities;
- when there is an actual reward from the perspective of the client.

When (or as) a performance obligation is satisfied, the Bank recognises as revenue the amount of the transaction price that is allocated to that performance obligation.

6. Comparability of financial data

When compared with the interim consolidated financial statements for previous periods, in the Interim Condensed Consolidated Financial Statements for the period from 1 January 2018 to 31 March 2018, the Group amended the manner of presentation of individual items of the consolidated income statement and consolidated statement of financial position. The amendments were made first and foremost in consequence of the implementation of IFRS 9 which superseded IAS 39 as of 1 January 2018. The Group 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.

Further, the Group made a few presentation changes which were not directly caused by the implementation of IFRS 9, but which – in the Group's opinion – enhanced the transparency and informative value of the consolidated income statement and consolidated statement of financial position. The changes required a restatement of the comparable data; they did not, however, impact on the level of the financial result or balance sheet total presented.

Changes to IFRS 9 implementation-resultant

- *Changes to the income statement:*
  - split of interest income into interest income on assets measured at amortised cost and other interest income,
  - isolation of the item "net income on sale of securities measured at amortised cost",
  - isolation of the "net income on sale of securities measured at fair value through other comprehensive income and dividend income" in place of "net income on investments" shown for previous periods,
  - isolation of the item "expected loss allowances" in place of "impairment losses for financial assets and provisions for off-balance sheet liabilities" shown for previous periods.
- *Changes to the statement of financial position:*
  - isolation of the item "investment securities" which shows the value of securities measured at fair value through other comprehensive income and other then corporate and municipal securities measured at amortised cost. This item replaced the "investments" item presented for previous periods, which showed available-for-sale financial assets and financial assets held to maturity.

Other changes

- *Changes to the income statement:*

  a) changed manner of presenting costs under marketing fees (cashback); in previous periods these costs were recognised in *Commission income/Commission costs*; at present the Group presents them in *General and administrative expenses,*

  b) changed manner of presenting result on write-offs concerning unsettled valuation of derivative transactions between *Impairment losses for financial assets and provisions for off-balance-sheet liabilities* and *Net income on financial instruments measured at fair value through profit or loss and FX result*.

The table below highlights the individual items of the consolidated income statement as they were presented in the interim consolidated financial statements for Q1 2017 and in the current statements.

	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017			
	in Consolidated Financial Statements for I Q 2017 (approved data)	change a)	change b)	in Consolidated Financial Statements for I Q 2018 (comparable data)
Commission income	324,1	-0,9		323,2
Commission expenses	34,5	-2,1		32,4
Net commission income	**289,6**	**1,2**	**0,0**	**290,8**
Net income on financial instruments at fair value through profit or loss and FX result	18,0		-0,4	17,6
Net income on basic activities	**1 134,5**	**1,2**	**-0,4**	**1 135,3**
General and administrative expenses	564,4	1,2		565,6
Impairment losses and provisions for off-balance sheet liabilities	76,9		-0,4	76,5
Gross profit (loss)	**413,8**	**0,0**	**0,0**	**413,8**
Net profit (loss)	**300,2**	**0,0**	**0,0**	**300,2**

- *Changes to the statement of financial position:*
  a) renaming of the item "financial assets measured at fair value through profit or loss" as "financial assets held for trading",
  b) inclusion of "measurement of derivatives", respectively: positive to "financial assets held for trading" and negative to "financial liabilities measured at fair value through profit or loss",
  c) renaming of the item "investments" as "investment securities"
  d) inclusion of "receivables from customers due to repo transactions" in the item "loans and other receivables extended to client" and analogically "liabilities to customers due to repo transactions" to item "liabilities to customers"
  e) split of "property assets" into two separate items "property, plant and equipment" and "intangible assets"
  f) split of "income tax assets" into "deferred tax assets" and "current tax receivables" and analogically of "income tax liabilities" into "deferred tax provisions" and "current tax liabilities",
  g) renaming of the item "authorised capital" as "share capital" and "revaluation reserve" as "cumulative other comprehensive income".

The table below highlights the individual items of the consolidated statement of financial position as they were presented in the interim consolidated financial statements for 2017 and Q1 2017 and in the current statements.

	As of **31 Dec 2017**	As of **31 Mar 2017**	As of **31 Dec 2016**		As of **31 Dec 2017**	As of **31 Mar 2017**	As of **31 Dec 2016**
	in Consolidated Financial Statements for 2017	in Consolidated Financial Statements for I Q 2017	in Consolidated Financial Statements for 2016	changes a) - g)	in Consolidated Financial Statements for I Q 2018		
		(approved data)				(comparable data)	
Assets							
Financial assets at fair value through profit or loss	530,1	1 505,2	2 826,8	Financial assets held for trading	1 314,8	2 715,8	3 943,9
Valuation of derivatives	784,7	1 210,6	1 117,1				
Investments	25 907,4	26 569,7	25 721,3	investment securities	25 907,4	26 569,7	25 721,3
Loans and other receivables to customers	91 088,3	84 379,6	81 979,5	Loans and other receivables to customers	91 108,1	84 399,5	81 979,5
Receivables from customers under repo transactions	19,8	19,9	0,0				
Non-financial assets	980,0	995,6	1 004,5	Property, plant and equipment	549,0	580,2	578,0
				Intangible assets	431,0	415,1	426,2
Tax assets	257,1	181,9	237,5	Deferred tax assets	257,1	181,7	237,2
					0,0	0,2	0,3
Total assets	**126 013,9**	**118 850,5**	**117 477,7**		**126 013,9**	**118 850,5**	**117 477,7**
Liabilities							
Financial liabilities at fair value through profit or loss	735,1	639,0	474,8	Financial liabilities at fair value through profit or loss	1 714,3	1 736,6	1 590,8
Valuation of derivatives	979,2	1 097,6	1 116,0				
Liabilities to customers	104 503,3	96 620,7	95 825,4	Liabilities to customers	104 503,3	96 620,7	95 825,4
Liabilities to customers under repo transactions	0,0	0,0	0,0				
Tax liabilities	232,9	24,1	121,3	Current Tax liabilities	232,9	24,1	121,3
Total liabiliies	**114 219,1**	**108 061,1**	**107 000,5**		**114 219,1**	**108 061,1**	**107 000,5**
Equity							
Authorised capital	130,1	130,1	130,1	Share capital	130,1	130,1	130,1
Revaluation reserve	493,2	589,6	577,5	Cumulative other comprehensive income	493,2	589,6	577,5
Total equity	**11 794,8**	**10 789,4**	**10 477,2**		**11 794,8**	**10 789,4**	**10 477,2**
Total euity and liabilities	**126 013,9**	**118 850,5**	**117 477,7**		**126 013,9**	**118 850,5**	**117 477,7**

7. Supplementary notes to interim condensed consolidated financial statemets

7.1. Net interest income

	1 Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	1 Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]	[IAS 39 - non-transformed data]
Interest income, including:	**1 096,4**	**1 025,3**
Interest income on assets measured at amortised cost, including:	**1 011,4**	**nd**
Interest on loans and receivables to other banks measured at amortised cost	9,5	12,5
Interest on loans and receivables to customers measured at amortised cost	885,0	826,3
Interest on securities measured at amortised cost	116,9	nd
Interest on financial assets held to maturity	nd	44,3
Other interest income, including:	**85,0**	**nd**
Interest on loans and receivables to other banks measured at fair value through profit or lost	1,3	nd
Interest on financial assets held for trading	1,1	7,2
Interest on securities measured through other comprehensive income	99,2	nd
Interest on available-for-sale financial assets	nd	122,8
Net interest income on derivatives	-16,6	12,2
Interest expense, including:	**215,5**	**209,8**
Interest on deposits from other banks	10,2	16,9
Interest on deposits from customers	200,1	183,8
Interest on financial liabilities held for trading	0,4	0,3
Interest on issue of debt securities	1,9	5,7
Interest on subordinated liabilities	2,9	3,1
Net interest income	**880,9**	**815,5**

7.2. Net commission income

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
Commission income, including:	**350,8**	**323,2**
transaction margin on currency exchange transactions	84,4	80,6
account maintenance fees	70,2	66,2
lending commissions	77,4	67,1
payment and credit cards fees	25,3	31,7
participation units distribution fees	25,8	23,5
insurance product offering commissions	20,9	14,1
factoring and lease agreements commissions	12,8	10,9
foreign commercial business	8,1	6,7
fiduciary and custodian fees	7,3	7,6
brokerage activity fees	5,5	7,4
other	13,1	7,4
Total commission expenses	**32,7**	**32,4**
Net commission income	**318,1**	**290,8**

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

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
FX result and net income on interest rate derivatives, including:	**7,5**	**11,8**
FX result	19,1	-41,8
currency derivatives	-11,6	53,6
Net income on interest rate derivatives	**18,9**	**2,9**
Net income on debt instruments held for trading	**7,6**	**2,9**
Net income on financial instruments at fair value through profit or loss and FX result	**34,0**	**17,6**

7.4. Net income on the sale of securities measured at amortised cost or measured at fair value through other comprehensive and dividend income / Net income on investments

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
Net income on the sale of securities measured at amortised cost	**5,4**	nd
Net income on the sale of securities measured at fair value through other comprehensive income	**32,2**	**0,0**
Net income on investments, including:	nd	**10,2**
The sale of debt securities	nd	10,1
Dividend income	nd	0,1
Net income on investments seciurities	**37,6**	**10,2**

The sale of debt securities from the category of financial assets measured at amortised cost was realised near maturity; this complies with the business model in which they were held and with the Accounting Policy adopted by the Bank.

7.5. Net income on hedge accounting

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
Fair value hedge accounting for securities:	**-15,9**	**0,0**
valuation of the hedged transaction	35,1	-27,5
valuation of the hedging transaction	-51,0	27,5
Cash flow hedge accounting:	**-0,1**	**0,4**
ineffectiveness under cash flow hedges	-0,1	0,4
Net income on hedge accounting	**-16,0**	**0,4**

7.6. General and administrative expenses

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
Personnel expenses	275,4	251,0
Other general and administrative expenses, including:	352,9	314,6
cost of marketing and promotion	29,5	23,4
depreciation and amortisation	43,7	46,1
Bank Guarantee Fund payments	84,3	89,1
others	195,4	156,0
Total	**628,3**	**565,6**

7.6.1. Headcount

The headcount in the ING Bank Śląski S.A. Group was as follows:

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
FTEs	8 033,0	7 979,3	7 912,6	7 969,6
Individuals	8 082	8 032	7 966	8 025

The headcount in the ING Bank Śląski S.A. was as follows :

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
FTEs	7 655,4	7 612,4	7 563,0	7 618,7
Individuals	7 701	7 661	7 611	7 669

7.7. Impairment for expected losses / Impairment losses and provisions for off-balance sheet liabilities

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]	[IAS 39 - non-transformed data]
Establishment of impairment	419,2	219,7
Release of impairment	-324,4	-143,2
Net impairment	**94,8**	**76,5**
including:		
corporate banking	57,8	33,7
retail banking	37,0	42,8

7.8. Loans and other receivables to other banks

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
	[IFRS 9]	[IAS 39 - non-transformed data]		
Current accounts	1 066,5	331,9	355,8	604,7
Interbank deposits	185,0	997,7	59,3	0,0
Loans and advances	353,4	451,6	184,0	180,0
Placed call deposits	412,5	453,5	526,7	329,0
Total (gross)	**2 017,4**	**2 234,7**	**1 125,9**	**1 113,7**
Impairment losses, including:	0,0	-0,2	-0,2	-0,3
concerning loans and advances	0,0	-0,2	-0,2	-0,3
Total (net)	**2 017,4**	**2 234,5**	**1 125,7**	**1 113,4**

7.9. Financial assets held for trading

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Valuation of derivatives	647,7	784,7	1 210,6	1 117,1
Debt securities, including:	596,0	469,6	1 470,6	2 805,2
Treasury bonds	590,5	422,7	1 443,4	2 795,7
European Investment Bank bonds	5,5	46,9	27,2	9,5
Transactions with the buy-back commitment	19,9	60,5	34,6	21,6
Total	**1 263,6**	**1 314,8**	**2 715,8**	**3 943,9**

7.10. Investment securities

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
	[IFRS 9]	[IAS 39 - non-transformed data]		
Measured at fair value through other comprehensive income, including:	**17 011,2**	nd	nd	nd
treasury bonds	16 517,1	nd	nd	nd
Austrian government bonds	418,7	nd	nd	nd
equity instruments	75,4	nd	nd	nd
Measured at amortised cost, including:	**12 124,5**	nd	nd	nd
treasury bonds	5 943,6	nd	nd	nd
treasury bonds in EUR	3 361,7	nd	nd	nd
BGK bonds	1 499,2	nd	nd	nd
European Investment Bank bonds	1 320,0	nd	nd	nd
Available-for-sale, including:	nd	**17 556,9**	**20 325,0**	**20 557,2**
treasury bonds	nd	16 347,3	19 150,4	19 681,4
Austrian government bonds	nd	415,0	0,0	0,0
French government bonds	nd	0,0	503,3	532,9
European Investment Bank bonds	nd	789,3	619,3	294,1
equity instruments	nd	5,3	52,0	48,8
Held to maturity, including:	nd	**8 350,5**	**6 244,7**	**5 164,1**
treasury bonds	nd	6 796,3	4 630,7	3 558,7
BGK bonds	nd	1 554,2	1 614,0	1 605,4
Razem	**29 135,7**	**25 907,4**	**26 569,7**	**25 721,3**

7.11. Loans and other receivables to customers

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Measured at amortised cost	90 028,2	91 108,1	84 399,5	81 979,5
Measured at fair value through profit or loss	262,3	-	-	-
Total (net)	**90 290,5**	**91 108,1**	**84 399,5**	**81 979,5**

Loans and other receivables measured at amortised cost

	31 Mar 2018 [IFRS 9]			31 Dec 2017 [IAS 39 - non-transformed data]			31 Mar 2017 [IAS 39 - non-transformed data]			31 Dec 2016 [IAS 39 - non-transformed data]		
	gross	impairment for expected losses	net	gross	impairment	net	gross	impairment	net	gross	impairment	net
Loans and other receivables measured at amortised cost, including:	**92 114,4**	**-2 086,2**	**90 028,2**	**92 775,6**	**-1 667,5**	**91 108,1**	**85 915,6**	**-1 516,1**	**84 399,5**	**83 447,2**	**-1 467,7**	**81 979,5**
Portfolio of loans, including:	**91 367,2**	**-2 086,2**	**89 281,0**	**88 483,8**	**-1 666,8**	**86 817,0**	**81 785,8**	**-1 515,4**	**80 270,4**	**79 100,6**	**-1 467,0**	**77 633,6**
Households	42 477,4	-1 004,4	41 473,0	39 755,4	-695,6	39 059,8	34 675,2	-623,3	34 051,9	33 450,0	-584,6	32 865,4
Business entities	46 239,5	-1 080,3	45 159,2	45 879,9	-970,0	44 909,9	43 730,0	-890,9	42 839,1	42 233,4	-881,2	41 352,2
The government and self-government institutions' sector	2 650,3	-1,5	2 648,8	2 848,5	-1,2	2 847,3	3 380,6	-1,2	3 379,4	3 417,2	-1,2	3 416,0
Total, including:	**91 367,2**	**-2 086,2**	**89 281,0**	**88 483,8**	**-1 666,8**	**86 817,0**	**81 785,8**	**-1 515,4**	**80 270,4**	**79 100,6**	**-1 467,0**	**77 633,6**
Corporate banking segment	**51 942,5**	**-1 157,5**	**50 785,0**	**50 974,8**	**-1 039,0**	**49 935,8**	**48 999,6**	**-952,4**	**48 047,2**	**47 460,0**	**-939,9**	**46 520,1**
loans in the current account	10 622,5	-390,4	10 232,1	9 230,7	-310,6	8 920,1	9 431,0	-289,9	9 141,1	7 544,2	-265,3	7 278,9
term loans and advances	28 311,8	-702,5	27 609,3	28 673,8	-650,6	28 023,2	27 293,1	-583,2	26 709,9	27 754,0	-585,2	27 168,8
leasing receivables	6 116,6	-42,3	6 074,3	5 902,3	-30,9	5 871,4	5 278,0	-39,3	5 238,7	5 258,2	-49,0	5 209,2
factoring receivables	4 583,8	-21,2	4 562,6	4 619,8	-30,8	4 589,0	4 536,9	-23,5	4 513,4	4 373,7	-23,3	4 350,4
corporate and municipal securities	2 307,8	-1,1	2 306,7	2 548,2	-16,1	2 532,1	2 460,6	-16,5	2 444,1	2 529,9	-17,1	2 512,8
Retail banking segment	**39 424,7**	**-928,7**	**38 496,0**	**37 509,0**	**-627,8**	**36 881,2**	**32 786,2**	**-563,0**	**32 223,2**	**31 640,6**	**-527,1**	**31 113,5**
mortgages	28 892,1	-231,0	28 661,1	27 539,8	-170,4	27 369,4	24 171,6	-189,1	23 982,5	23 469,3	-185,3	23 284,0
loans in the current account	1 394,2	-98,8	1 295,4	1 315,0	-75,2	1 239,8	1 281,1	-77,3	1 203,8	1 217,9	-74,0	1 143,9
leasing receivables	753,0	-2,3	750,7	690,7	-2,0	688,7	536,4	-1,0	535,4	502,4	-1,0	501,4
other loans and advances	8 385,4	-596,6	7 788,8	7 963,5	-380,2	7 583,3	6 797,1	-295,6	6 501,5	6 451,0	-266,8	6 184,2
Otrher receivables, including:	**747,2**	**0,0**	**747,2**	**4 291,8**	**-0,7**	**4 291,1**	**4 129,8**	**-0,7**	**4 129,1**	**4 346,6**	**-0,7**	**4 345,9**
Eurobonds (T-bonds))*	0,0	0,0	0,0	3 564,8	-0,7	3 564,1	3 686,4	-0,7	3 685,7	3 910,7	-0,7	3 910,0
complex call deposits	603,0	0,0	603,0	540,1	0,0	540,1	324,6	0,0	324,6	329,0	0,0	329,0
receivables under repo transactions	0,0	0,0	0,0	19,8	0,0	19,8	19,9	0,0	19,9	0,0	0,0	0,0
other receivables	144,2	0,0	144,2	167,1	0,0	167,1	98,9	0,0	98,9	106,9	0,0	106,9

*) The eurobonds that until 31 December 2017 were classified as "Loans and other receivables", as of 1 January 2018, are presented in item "Investment securities".

Quality of loan portfolio

	31 Mar 2018 [IFRS 9]				31 Dec 2017 [IAS 39 - non-transformed data]			31 Mar 2017 [IAS 39 - non-transformed data]			31 Dec 2016 [IAS 39 - non-transformed data]		
	gross	**impairment for expected losses**	**net**		**gross**	**impairment**	**net**	**gross**	**impairment**	**net**	**gross**	**impairment**	**net**
Corporate banking segment	**51 942,5**	**-1 157,5**	**50 785,0**		**50 974,8**	**-1 039,0**	**49 935,8**	**48 999,6**	**-952,4**	**48 047,2**	**47 460,0**	**-939,9**	**46 520,1**
assets in stage 1	45 083,8	-53,2	45 037,8	unimpaired	49 178,0	-78,3	49 099,7	47 428,1	-67,9	47 360,2	45 921,9	-70,2	45 851,7
assets in stage 2	4 904,2	-58,4	4 839,7										
assets in stage 3	1 954,5	-1 045,9	907,5	impaired	1 796,8	-960,7	836,1	1 571,5	-884,5	687,0	1 538,1	-869,7	668,4
Retail banking segment	**39 424,7**	**-928,7**	**38 496,0**		**37 509,0**	**-627,8**	**36 881,2**	**32 786,2**	**-563,0**	**32 223,2**	**31 640,6**	**-527,1**	**31 113,5**
assets in stage 1	33 565,2	-57,4	33 507,8	unimpaired	36 809,0	-163,8	36 645,2	32 192,9	-139,2	32 053,7	31 101,9	-141,9	30 960,0
assets in stage 2	5 072,9	-285,0	4 787,9										
assets in stage 3	786,6	-586,3	200,3	impaired	700,0	-464,0	236,0	593,3	-423,8	169,5	538,7	-385,2	153,5
Total	**91 367,2**	**-2 086,2**	**89 281,0**		**88 483,8**	**-1 666,8**	**86 817,0**	**81 785,8**	**-1 515,4**	**80 270,4**	**79 100,6**	**-1 467,0**	**77 633,6**

Additionally, the Group identifies POCI financial assets whose initial value and carrying amount are 0 as at 31 March 2018. This group covers exposures under impaired receivables purchased in connection with the takeover of Bieszczadzka SKOK in 2017 and exposures that arisen due to restructuring resulting in re-recognition of the assets item in the statement of financial position. As at 31 March 2018, the nominal value of those exposures was PLN 26.3 million.

Changes in impairment for expected losses

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018				I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]				[IAS 39 - non-transformed data]
	Stage 1	Stage 2	Stage 1	Total	Step 1
Opening balance of impairment	**242,1**	**0,0**	**1 424,7**	**1 666,8**	**1 467,0**
The impact of changes to the accounting principles in connection with the implementation of IFRS 9	-119,0	350,3	148,6	**379,9***	-
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	**123,1**	**350,3**	**1 573,3**	**2 046,7**	**1 467,0**
Changes in the period, including:	**-12,5**	**-6,8**	**58,8**	**39,5**	**48,4**
impairments for granted loans during the period	15,9	0,0	0,0	**15,9**	nd
transfer to stage 1	37,8	-36,7	-1,1	**0,0**	nd
transfer to stage 2	-8,2	16,6	-8,4	**0,0**	nd
transfer to stage 3	-0,2	-20,8	21,0	**0,0**	nd
changed provisioning under expected losses	-57,9	34,0	112,2	**88,3**	nd
derecognition from the balance sheet (write-downs, sale)	0,0	0,0	-74,4	**-74,4**	nd
calculation and write-off of effective interest	0,0	0,0	9,9	**9,9**	nd
establishment and release in the period	nd	nd	nd	**0,0**	78,4
write-offs and decreases under sale of debt claims	nd	nd	nd	**0,0**	-20,3
other	0,1	0,1	-0,4	**-0,2**	-9,7
Closing balance of impairment	**110,6**	**343,5**	**1 632,1**	**2 086,2**	**1 515,4**

*) including changed provisioning under: 1. changes to calculation of the gross carrying amount (PLN 148.3 million), 2. reclassification of credit exposures to the category of measurement at fair value and 3. recognition of POCI assets that do not have impact on the net value of credit exposures as at 1 January 2018.

7.12. Liabilities to other banks

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
Current accounts	329,9	257,7	587,8	292,4
Interbank deposits	1 309,9	102,3	646,6	1 050,6
Loans received *	3 160,2	3 064,9	2 846,3	3 023,3
Repo transactions	832,8	0,0	542,1	0,0
Recived call deposits	627,3	665,7	789,9	640,9
Other liabilities	28,7	18,4	193,9	35,8
Razem	**6 288,8**	**4 109,0**	**5 606,6**	**5 043,0**

*) The financing of the long-term leasing contracts in EUR (“the matched funding”) received by the subsidiary ING Lease Polska Sp. z o.o. from ING Bank NV.

7.13. Financial liabilities at fair value through profit or loss

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
Valuation of derivatives	819,0	979,2	1 097,6	1 116,0
Book short position in trading securities	225,9	735,1	604,4	453,2
Repo transactions	0,0	0,0	34,6	21,6
Total	**1 044,9**	**1 714,3**	**1 736,6**	**1 590,8**

7.14. Liabilities to customers

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Liabilities to customers, including:	**104 662,1**	**104 503,3**	**96 620,7**	**95 825,4**
Deposits, including:	**102 782,3**	**102 849,1**	**95 064,1**	**94 048,4**
Households	71 264,8	67 918,6	64 744,0	63 548,0
Business entities	29 779,0	33 156,6	27 747,6	28 759,6
The government and self-government institutions' sector	1 738,5	1 773,9	2 572,5	1 740,8
Total (gross), including:	**102 782,3**	**102 849,1**	**95 064,1**	**94 048,4**
Corporate banking segment	**31 670,6**	**34 799,5**	**30 301,3**	**30 438,9**
current deposits	20 619,8	23 605,0	19 688,2	20 094,9
savings deposits	8 826,7	8 553,8	7 813,7	8 608,3
term deposits	2 224,1	2 640,7	2 799,4	1 735,7
Retail banking segment	**71 111,7**	**68 049,6**	**64 762,8**	**63 609,5**
current deposits	15 061,2	14 792,0	12 356,5	11 920,7
savings deposits	53 369,8	49 935,0	49 023,8	47 872,3
term deposits	2 680,7	3 322,6	3 382,5	3 816,5
Other liabilities, including:	**1 879,8**	**1 654,2**	**1 556,6**	**1 777,0**
liabilities for cash security	317,8	274,0	326,0	311,2
Recived call deposits	8,1	1,4	1,1	64,8
repo liabilities	11,6	0,0	0,0	0,0
other liabilities	1 542,3	1 378,8	1 229,5	1 401,0

7.15. Provisions

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
	[IFRS 9]	[IAS 39 non-transformed data]		
Provision for off-balance sheet liabilities	53,7	45,9	25,2	26,8
Provision for issues in dispute *	22,3	7,0	4,6	4,2
Provision for retirement benefits	39,6	39,0	29,6	29,3
Provision for unused holidays	8,1	8,1	13,5	13,5
Total	**123,7**	**100,0**	**72,9**	**73,8**

*) For further information on provisions for litigations, see item 12. *Litigations-related settlements* hereof.

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7.16. Fair value

Please find below the breakdown of carrying amounts of financial assets and liabilities into individual categories of valuation levels. In 2018, there were no movements between particular valuation levels.

As of 31 Mar 2018

	Level 1	Level 2	Level 3	TOTAL
Financial assets , w tym:	**17 531,8**	**1 628,2**	**337,7**	**19 497,7**
Financial assets held for trading, including:	596,0	667,6	0,0	1 263,6
valuation of derivatives	-	647,7	-	647,7
treasury bonds	590,5	-	-	590,5
European Investment Bank bonds	5,5	-	-	5,5
repo transaction	-	19,9	-	19,9
Securities measured at fair value through other comprehensive income, including:	16 935,8	0,0	75,4	17 011,2
treasury bonds	16 517,1	-	-	16 517,1
Austrian government bonds	418,7	-	-	418,7
equity instruments	-	-	75,4	75,4
Derivative hedge instruments	-	960,6	-	960,6
Loans and other receivables measured at fair value through profit and loss	-	-	262,3	262,3
Financial liabilities, including:	**225,9**	**1 441,6**	**0,0**	**1 667,5**
Financial liabilities measured at fair value through profit or loss, including:	225,9	819,0	0,0	1 044,9
valuation of derivatives	-	819,0	-	819,0
book short position in trading securities	225,9	-	-	225,9
Derivative hedge instruments	-	622,6	-	622,6

As of 31 Dec 2017

	Level 1	Level 2	Level 3	TOTAL
Financial assets , w tym:	**18 021,2**	**1 812,4**	**5,3**	**19 838,9**
Financial assets held for trading, including:	469,6	845,2	0,0	1 314,8
valuation of derivatives	-	784,7	-	784,7
treasury bonds	422,6	-	-	422,6
European Investment Bank bonds	47,0	-	-	47,0
repo transactions	-	60,5	-	60,5
Financial assets available-for sale, including:	17 551,6	0,0	5,3	17 556,9
treasury bonds	16 347,3	-	-	16 347,3
Austrian government bonds	415,0	-	-	415,0
European Investment Bank bonds	789,3	-	-	789,3
equity instruments	-	-	5,3	5,3
Derivative hedge instruments	-	967,2	-	967,2
Financial liabilities, including:	**735,1**	**1 678,4**	**0,0**	**2 413,5**
Financial liabilities measured at fair value through profit or loss, including:	735,1	979,2	0,0	1 714,3
valuation of derivatives	735,1	-	-	735,1
book short position in trading securities	-	979,2	-	979,2
Derivative hedge instruments	-	699,2	-	699,2

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

As of 31 Mar 2018

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	2 042,4	-	2 042,4	-	**2 042,4**
Loans and receivables to other banks	2 017,4	-	2 017,4	-	**2 017,4**
Investments securities	12 124,5		12 195,3	-	**12 195,3**
Loans and receivables to customers	90 028,2	-	-	89 791,9	**89 791,9**
Investments in associates	1,3			1,3	**1,3**
Other assets	231,1	-	-	231,1	**231,1**
Liabilities					
Liabilities due to other banks	6 288,8	-	6 288,8	-	**6 288,8**
Liabilities due to customers	104 662,1	-	-	104 659,6	**104 659,6**
Liabilities under issue of debt securities	302,2	-	302,9	-	**302,9**
Subordinated liabilities	632,4	-	-	632,4	**632,4**

As of 31 Dec 2017

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Poziom 3	
Assets					
Cash in hand and balances with the Central Bank	2 815,2	-	2 815,2	-	**2 815,2**
Loans and receivables to other banks	2 234,5	-	2 234,5	-	**2 234,5**
Investment securities	8 350,5	8 339,6	-	-	**8 339,6**
Loans and receivables to customers	91 108,1	-	3 570,4	87 209,8	**90 780,2**
Investments in associates	1,3	-	-	1,3	**1,3**
Other assets	312,0	-	-	312,0	**312,0**
Liabilities					
Liabilities due to other banks	4 109,0	-	4 109,0	-	**4 109,0**
Liabilities due to customers	104 503,3	-	-	104 506,9	**104 506,9**
Liabilities under issue of debt securities	300,3	-	301,1	-	**301,1**
Subordinated liabilities	626,9	-	-	626,9	**626,9**

7.17. Total capital ratio

	As f 31 Mar 2018	As of 31 Dec 2017	As of 31 Mar 2017	As of 31 Dec 2016
Own funds				
A. Own equity in the statement of financial position, including:	**12 058,9**	**11 794,8**	**10 789,4**	**10 477,2**
A.I. Own equity included in the own funds calculation	10 681,6	10 843,4	9 127,4	9 069,9
A.II. Own equity excluded from own funds calculation	1 377,3	951,4	1 662,0	1 407,3
B. Other elements of own funds (decreases and increases), including:	**301,2**	**67,8**	**100,0**	**123,7**
subordinated debt	631,3	625,6	632,9	663,6
goodwill and other intangible assets	-418,3	-422,8	-411,7	-423,6
AIRB shortfall/surplus of credit risk adjustments to expected losses	-136,0	-134,9	-120,8	-115,7
adjustment in the transitional period due to adaptation to IFRS 9 requirements	224,5	-	-	-
value adjustments due to the requirements for prudent valuation	-0,3	-0,1	-0,4	-0,6
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	**10 982,8**	**10 911,2**	**9 227,4**	**9 193,6**
Core Tier I capital	10 351,5	10 299,1	8 606,5	8 553,1
Tier II capital	631,3	612,1	620,9	640,5
Risk weighted assets	**68 443,3**	**65 287,3**	**64 567,4**	**62 420,6**
Total capital requirements	**5 475,5**	**5 222,9**	**5 165,4**	**4 993,6**
Total capital ratio (TCR)	**16,05%**	**16,71%**	**14,29%**	**14,73%**
Minimum required level	13,375%	13,75%	13,75%	13,75%
Surplus TCR ratio (p.p)	+2,68	+2,96	+0,54	+0,98
Tier I ratio (T1)	**15,12%**	**15,78%**	**13,33%**	**13,70%**
Minimum required level	11,375%	10,75%	10,75%	10,75%
Surplus T1 ratio (p.p)	+3,75	+5,03	+2,58	+2,95

*) When calculating the capital ratios, the Group was using the transitional provisions concerning alleviation of the IFRS 9 implementation impact on own funds. More information about the transition period was presented in these condensed financial statements in item 4.6.5 *IFRS 9 Financial Instruments – Impact on capital requirements.* If the IFRS 9 implementation impact had been recognised in full, the total capital ratio would have arrived at 15.7% and the Tier I capital ratio at 14.8%.

Since January 2018, the Bank's calculation of own funds has included 100% of unrealised profits and 100% of unrealised losses from the financial assets presented in the cumulative comprehensive. In 2017, the Bank recognised 80% of unrealised profits and 100% of unrealised valuation losses, respectively, in the calculation of own funds.

Under Regulation (EU) No. 241/2014 *with regard to regulatory technical standards for own funds requirements for institutions* and the Polish Financial Supervision Authority's decision of 23 December 2017 and 7 December 2016, the Group recognised the Bank's net profit of PLN 665.4 million for the period from 01 January 2017 to 30 September 2017 in their own funds as at 31 March 2018 and 31 December 2017.

8. Factors potentially affecting the financial results in the following quarters

- In the view of the economists at ING Bank Śląski S.A., the pace of growth of Polish economy in 2018 will remain relatively high and the annual growth will exceed 4% y/y. The improvement in contracting projects co-financed with the EU funds indicates further public investment revival. Investment outlays of large companies are moderate, i.a. due to a difficult situation in the mining industry. Nevertheless, we expect that in the subsequent quarters also the investment outlays will accelerate, i.a. due to a very high utilisation of output capacity of industrial companies and the launch of the projects co-financed with the EU funds.
- In the opinion of the analysts of ING Bank Śląski S.A., also the consumer spending growth rate will remain high in 2018, but it will gradually slowdown in subsequent quarters. Wage growth remains substantial but in the opinion of the analysts of ING Bank Śląski S.A. it will not set off the fading effect of the 500+ Programme introduction. High economic growth triggered by internal demand will probably translate into lower net exports. In particular, the investment growth will probably effect significant import growth.
- The situation in the domestic labour market remains tense. Businesses are reporting growing employee shortage not compensated by the inflow of labour force from abroad. In the view of the economists at ING Bank Śląski S.A., it will translate into an increase in wages in the following quarters – at the end of the year, the wage growth may temporarily reach a two-digit figure. Still, it will remain below the levels observed in other countries in the region – in other CEE countries the minimum wage and wages in the public sector were raised much more than in Poland.
- Price growth rate in Poland remains moderate. So far, the wage growth had only a minor impact on inflation. In view of the analysts of ING Bank Śląski S.A., the inflation will gradually grow in the coming months but it will not exceed the target of the National Bank of Poland of 2.5% y/y in 2018. The ING Bank Śląski S.A. economists are of the opinion that it will make the Monetary Policy Council keep the interest rates unchanged. Most probably, MPC will decide to tighten the parameters of its policy no sooner than in H2 2019. At the same time, even in the case of the economic situation deterioration, interest rate cuts this year and next year are unlikely.
- Improved tax collection and continued favourable economic situation in Poland suggest a further drop in public finance debt versus GDP. The analysts of ING Bank Śląski S.A. estimate that it will drop next year below 50%. The growth of fixed budget encumbrances may pose a threat to public finance stability. Yet, the current expenditure proposals of the government are limited. Favourable economic situation and improved public finance indicate that Poland is among the candidates for the rating upgrade. In the view of the economists at ING Bank Śląski S.A., it is possible no earlier than in 2019.

9. Off-balance sheet items

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Off-balance sheet liabilities granted	29 553,3	29 953,3	27 380,2	27 954,5
Off-balance sfeet liabilities received	83 788,8	82 850,1	83 069,7	79 093,3
Off-balance sheet financial instruments	521 166,8	500 985,8	535 194,2	439 511,9
Total off-balance sheet items	**634 508,9**	**613 789,2**	**645 644,1**	**546 559,7**

10. Issues, redemption or repayments of debt securities and equities

None.

11. Dividends paid

On 5 April 2018, the General Meeting passed a resolution regarding dividend payout for 2017, pursuant to which the Bank paid out the dividend for 2017 totalling PLN 416.32 mln (PLN 3.20 gross per share). On 25 April 2018 the shareholders of record became entitled to the dividend payout which took place on 10 May 2018.

On 21 April 2017, the General Meeting approved earmarking the entire 2016 net profit of the Group's dominant entity for the equity injection.

12. Settlements due to disputable cases

ING Bank Śląski maintains detailed records of court cases and other liabilities being legal claims. The Bank establishes reserves for the cases, which in the opinion of the legal staff and/or management staff are encumbered with a high risk of losing the case or it is impossible to recover the lost assets. Possible future settlements are made against the reserves established.

Changes to the litigation reserves (in PLN million)

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
Status at the period beginning	**7,0**	**4,2**
Establishment of provisions	1,2	0,5
Utilisation of provision	0,0	-0,1
Reclassifications	14,1	0,0
Status as at the period	**22,3**	**4,6**

Proceedings pending before the President of the Office of Competition and Consumer Protection

- *The proceedings regarding the application of the practice infringing collective consumer interests*

Before the President of the Office of Competition and Consumer Protection there are the proceedings pending which were initiated *ex officio* by the Office President on 30 December 2015 regarding the application of the practices infringing collective consumer interests by the Bank. The practices consist in: informing the consumers being parties to the payment service agreement or having access to the online banking system about the amendments proposed to the terms and conditions of the payment service agreement during its term solely via electronic messages sent through the internet banking system which is not a durable medium under the Act on Payment Services; failure to include – in the messages sent to consumers regarding unilateral change of contractual terms, made during its term, wherewith certain documents are enclosed (regulations, general terms and conditions, the table of fees and commissions) regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking – material information enabling consumers to establish that the changes made are admissible, i.e. failure to provide the contractual legal basis for the said changes and their triggers (factual circumstances), whereby consumers cannot verify that the changes to the contractual terms made by the Bank during the obligation-based relationship are admissible; informing the consumers of unilateral modification of modification clauses enabling amendment to regulations and general terms and conditions regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking under the circumstances where there were no legal grounds for modifying the contractual terms in that manner during the obligation-based relationship with consumers.

In the letters of 26 January 2016 and 5 February 2016, the Bank presented its stance on the allegations of the President of the Office of Competition and Consumer Protection and requested a

decision under Article 28.1 of the Act on Competition and Consumer Protection, while undertaking to initiate certain actions. In the response, the President of the Office of Competition and Consumer Protection upheld their allegations against the Bank and did not accept the Bank's obligations. Following the requirements formulated by the President of the Office of Competition and Consumer Protection in the course of the proceedings, the Bank's obligations were modified. For the time being, the Bank has presented another proposal of obligations and is awaiting the stance of the Office President. With the letter of 30 January 2018, the President of the Office of Competition and Consumer Protection extended the term of the proceedings until 30 June 2018.

- *Proceedings regarding the allegation of practices limiting competition on the market of acquiring services for the payments made with payment cards in Poland*

Following the antimonopoly proceedings conducted against ING Bank Śląski S.A. and other banks upon the request of the Polish Trade and Distribution Organization – Employers' Confederation, on 29 December 2006, the President of the Office of Competition and Consumer Protection issued a decision stating that the Bank applied the practices limiting competition. The Office of Competition and Consumer Protection deemed as competition limiting the practice whereby various Polish banks, the Bank included, participated in the arrangement limiting competition on the market of acquiring services for clearance of consumer liabilities towards merchants under the payment of goods and services acquired by consumers using payment cards in Poland by setting together the interchange fees charged on the transactions made using the Visa and MasterCard system cards in Poland. In consequence of recognition of the practices limiting competition, the Office of Competition and Consumer Protection imposed fines on banks, the Bank included – of PLN 14,088,270.

The decision was appealed against *inter alia* by the Bank with the Court of Competition and Consumer Protection. With its judgement of 12 November 2008, the Court of Competition and Consumer Protection changed the decision of the Office of Competition and Consumer Protection in that it did not recognise the practice limiting competition. On 22 April 2010, the judgement was repealed with the judgement of the Court of Appeal which referred the case for re-review.

With its judgment of 21 November 2013, the Court did not change the decision of the Office of Competition and Consumer Protection on the allegation of limiting competition, but reduced the Bank's fine to PLN 403,209. Nonetheless, the judgement of the Court of Competition and Consumer Protection was changed with the judgment of the Court of Appeal of 6 October 2015 which ruled to change the judgment of the Court of Competition and Consumer Protection in that all appeals were dismissed in their entirety.

Following the ruling, the President's decision became final and binding and in October 2015 the Bank paid the fine of PLN 14,088,270 as ruled.

The Bank and other banks participating in the proceedings alike lodged a complaint for annulment of the judgment of the Court of Appeal. On 25 October 2017, the Supreme Court repealed the judgment of the Court of Appeal and referred the case thereto for re-review. In line with the position of the Office of Competition and Consumer Protection, the fine paid was refunded to the Bank.

The Court of Appeal set the date of another hearing for 24 October 2018. As final decisions have not been taken yet, the amount of the reimbursed fine was not recognised in the income statement. As at 31 March 2018, the Bank holds the provision of PLN 14.1 million.

13. Seasonality or cyclicity of activity

Activity of ING Bank Śląski Group is not subject to seasonality or cyclicity within the meaning of §21 of IAS 34.

14. Transactions with related entities

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 March 2018 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").
The abovementioned transactions are carried out on an arm's length basis.

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).

Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	ING Bank NV	Other ING Group entities
	as of 31 Mar 2018		as of 31 Mar 2017	
Receivables				
Current accounts	38,2	38,0	42,8	2,8
Deposits placed	35,0	0,0	59,3	-
Loans	37,3	51,7	26,6	44,4
Positive valuation of derivatives	127,1	52,5	263,3	219,0
Other receivables	4,9	3,0	4,3	1,7
Liabilities				
Deposits received	226,1	22,1	13,9	18,6
Loans received	2 843,9	0,0	2 768,3	-
Subordinated loan	632,4	0,0	634,2	-
Loro accounts	55,1	43,8	2,5	14,3
Negative valuation of derivatives	150,2	47,1	244,8	159,1
Other liabilities	64,9	1,8	74,1	2,5
Off-balance-sheet operations				
Off-balance sheet liabilities granted	492,5	284,1	428,7	300,2
Off-balance sheet liabilities received	1 605,9	247,5	1 377,0	90,3
FX transactions	8 084,0	42,0	26 104,8	154,2
Forward transactions	457,5	0,0	2 454,0	-
IRS	3 135,8	2 379,3	3 651,1	3 028,6
Options	2 890,6	42,4	6 299,8	475,3
	1Q 2018 YTD the period from 01Jan 2018 to 31 Mar 2018		**1Q 2017 YTD** the period from 01Jan 2017 to 31 Mar 2017	
Income and expenses				
Income, including:	2,1	0,5	65,8	8,6
interest and commission income/expenses	3,7	1,1	-5,0	6,1
income on financial instruments	-1,7	-1,5	70,7	2,5
net income on other basic activities	0,1	0,9	0,1	-
General and administrative expenses	22,5	2,4	18,2	3,4
Outlays for non-current assets				
Outlays for property. plant and equipment	-	0,1	-	-
Outlays for intangible assets	-	-	-	-

15. Segmentation of revenue and financial results of the Group

15.1 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.

15.1.1. 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.

15.1.2. 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 and products related to leasing and factoring services offered by ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

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.

15.1.3. 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 the first quarter of 2018, the Bank is revising the allocation key for the ALCO's income for relevant year. The data for previous periods are being made comparable.

1Q 2018 YTD
the period from 01 Jan 2018 to 31 Mar 2018

	Retail banking segment	Corporate banking segment	**TOTAL**
Income total	**707,8**	**549,1**	**1 256,9**
net interest income	553,3	327,6	880,9
net commission income	108,7	209,4	318,1
other income/expenses	45,8	12,1	57,9
Expenses total	**372,6**	**255,7**	**628,3**
Segment result	**335,3**	**293,4**	**628,6**
Impairment for expected losses	37,0	57,8	94,8
Tax on certain financial institutions	35,7	51,8	87,5
Segment profit before tax	**262,5**	**183,8**	**446,3**
Income tax	-	-	124,1
Result after tax	-	-	**322,2**
- attributable to shareholders of ING Bank Śląski S.A.	-	-	**322,2**
Allocated equity	**5 216,6**	**6 842,3**	**12 058,9**
ROE - Return on equity (%)*	**17,5**	**8,6**	**12,4**

***) ROE** - Return on equity - net profit attributable to shareholders of ING Bank Śląski S.A. for 4 subsequent quarters to average equity for 5 subsequent quarters.

1Q 2018
the period from 01 Jul 2018 to 31 Mar 2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	**635,5**	**499,8**	**1 135,3**
net interest income	508,2	307,3	815,5
net commission income	104,7	186,1	290,8
other income/expenses	22,6	6,4	29,0
Expenses total	**345,6**	**220,0**	**565,6**
Segment result	**289,9**	**279,8**	**569,7**
Impairment losses	42,8	33,7	76,5
Tax on certain financial institutions	31,9	47,5	79,4
Segment profit before tax	**215,2**	**198,6**	**413,8**
Income tax	-	-	113,6
Result after tax	-	-	**300,2**
- attributable to shareholders of ING Bank Śląski S.A.	-	-	**300,2**
Allocated equity	**4 583,7**	**6 203,6**	**10 787,3**
ROE - Return on equity (%)*	**16,9**	**8,5**	**12,0**

***) ROE** - Return on equity - net profit attributable to shareholders of ING Bank Śląski S.A. for 4 subsequent quarters to average equity for 5 subsequent quarters.

15.1.4. Geographical segments

The business activities of the Capital Group are performed on the territory of the Republic of Poland.

16. Other informations

16.1. Ratings

Fitch Ratings Ltd.

The Fitch Ratings Ltd. Agency assigns full rating to ING Bank Śląski S.A. under the agreement between the Bank and the Agency. In the announcement of 20 April 2016. the Agency upgraded the Long-Term Issuer Default Rating (Long-Term IDR) for ING Bank Śląski S.A. from A- to A. The rating outlook is stable. The upgrade is the result of the same rating action taken towards ING Bank N.V. which is the Bank's dominant shareholder. Additionally, the Agency upheld the support rating at 1. On 20 October 2017 the Agency upheld the ratings for ING Bank Śląski S.A.

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

W On 21 March 2017, the Agency assigned national ratings to the Bank. The National Long-Term Rating was set at AAA (pol) with stable outlook. while the National Short-Term Rating – at F1+ (pol). The domestic rating was upheld in the announcement of 20 October 2017.

As at 31 March 2018, the Bank had the rating of financial credibility, issued by the Agency:

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

Long-term IDR and Short-term IDR determine the entity's ability to meet financial commitments on a timely basis. Long-term IDR at A level reflects high ability of the Bank to timely settle long-term financial obligations. Short-term IDR at the F1 level means the highest rating for the ability to meet short-term commitments (up to 13 months) on a timely basis. In case of both ratings the Fitch agency considered the high probability of obtaining potential support from the dominant shareholder. ING Bank NV (ING Bank Śląski was assigned the highest support rating – 1). Viability rating of bbb+ means that according to the Agency, the intrinsic creditworthiness of the Bank; i.e., without any support (understood as the capacity to pay one's liabilities on time) is high. The Agency is of the opinion that the Bank has strong capital and liquidity position.

The ratings on the National Rating Scale reflect a relative credit viability assessment for the entity vis-à-vis the lowest default risk in a given country. The ratings are compared neither internationally nor over time.

Moody's Investors Service Ltd.

The Moody's Investors Service Ltd. Agency assigns rating to ING Bank Śląski S.A. on the basis of the universally available public information. On 23 March 2018, the Agency upgraded all the ratings for ING Bank Śląski S.A. except for the short-term counterparty risk assessment. LT deposit rating was upgraded from A3 to A2.

As at 31 March 2018, the Bank's financial viability rating issued by the Agency was as follows :

Rating	Level
LT Rating	A3
ST Rating	P-2
Baseline Credit Assessment (BCA)	baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa2
LT rating outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A2/P-1

ING

16.2. Number of Branches and ATMs, CDMs

The number of outlets of the Bank in particular periods was as follows :

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Number of outlets	355	357	381	384
Number of ING Express sales points at shopping malls	64	66	66	65

As at 31 March 2018, Clients could use 1,096 machines for cash self-service, including 202 standard ATMs and 894 dual machines. As at 31 March 2017, there were 1,111 machines for cash self-service, including 184 standard ATMs and 927 dual machines.

16.3. Electronic distribution channels

Development of electronic distribution channels is one of the Bank's priorities. A regular update of this offer results in an increase of the number of Clients interested in e-banking. The figures for electronic banking clients[1] are as follows:

	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
ING BankOnLine. Moje ING and ING BusinessOnLine (in million)	3,7	3,6	3,4	3,4
HaloŚląski (in million)	2,2	2,2	2,2	2,3
ING BankMobile. Moje ING Mobile* (in million)	2,9	2,8	2,2	2,0
ING BusinessMobile (in thousands)	16,4	16,4	13,2	12,1

*) The number of downloaded applications

The monthly number of transactions in March 2018 was at the level of 37.6 million and in the analogical period last year it was 33.3 million .

16.4. Banking cards

ING Bank Śląski S.A. is one of the largest issuers of banking cards in Poland. The data concerning the number of payment cards issued to ING Bank Śląski S.A. clients are as follows :

in thousands	as of 31 Mar 2018	as of 31 Dec 2017	as of 31 Mar 2017	as of 31 Dec 2016
Debit cards	3 096	3 080	2 917	2 832
Credit cards	226	224	219	218
Other cards	135	129	115	110
Total payment cards. in which:	**3 458**	**3433**	**3 251**	**3 160**
Paywave[2]	2 768	2 743	2 560	2 485
Virtual cards	109	97	60	50

[1] The number of clients is not the same as the number of users as one client may represent several users in a given system.

[2] Cards: Contactless VISA, Contactless Visa Business, Contactless MasterCard Debit, Visa Zbliżak, Zbliżak VISA 2016, VISA NFC.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2018-05-08	**Brunon Bartkiewicz** *President*	*Signed on the Polish original*
2018-05-08	**Michał Bolesławski** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Joanna Erdman** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Marcin Giżycki** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Bożena Graczyk** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Justyna Kesler** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Patrick Roesink** *Vice-President*	*Signed on the Polish original*

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2018-05-08	**Jolanta Alvarado Rodriguez**	Director of Accounting Department Chief Accountant	*Signed on the Polish original*

Interim condensed standalone income statement

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]	[IAS 39 non-transformed data]
Interest income, including:	1 058,8	989,8
Interest income on assets measured at amortised cost	973,7	nd
Other interest income	85,1	nd
Interest expenses	213,3	205,8
Net interest income	**845,5**	**784,0**
Commission income	337,0	311,8
Commission expenses	33,5	32,9
Net commission income	**303,5**	**278,9**
Net income on financial instruments at fair value through profit or loss and FX result	34,0	17,2
Net income on the sale of securities measured at amortised cost	5,4	nd
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	32,1	nd
Net income on investments	nd	11,7
Net income on hedge accounting	-16,0	0,4
Net income on other basic activities	-0,2	-0,8
Net income on basic activities	**1 204,3**	**1 091,4**
General and administrative expenses	603,1	545,7
Impairment for expected losses	92,5	nd
Impairment losses and provisions for off-balance sheet liabilities	nd	78,2
Tax on certain financial institutions	87,5	79,4
Share in gains or losses of controlled entities recognised on an equity basis	19,3	20,2
Gross profit (loss)	**440,5**	**408,3**
Income tax	118,3	108,1
Net profit (loss)	**322,2**	**300,2**
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (PLN)	2,48	2, 31

The diluted earnings per share are the same as the profit per one ordinary share.
No material operations were discontinued during 1 quarter 2018 and 1 quarter 2017.

Interim condensed standalone comprehensive income statement

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018	**I Q 2017** the period from 01 Jan 2017 to 31 Mar 2017
	[IFRS 9]	[IAS 39 non-transformed data]
Net profit for the period	**322,2**	**300,2**
Total other comprehensive income. including:	**189,7**	**12,2**
Items which can be reclassified to income statement	189,6	12,2
Items which will not be reclassified to income statement	0,1	0,0
Net comprehensive income for the reporting period	**511,9**	**312,4**

Interim Condensed Standalone Income Statement and Interim Condensed Standalone Statement of Comprehensive income shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof.

Interim condensed standalone statement of financial position

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
	[IFRS 9]	[IAS 39 non-transformed data]		
Assets				
Cash in hand and balances with the Central Bank	2 042,4	2 815,1	1 250,0	1 825,0
Loans and other receivables to other banks	2 017,4	2 234,5	1 125,7	1 113,4
Financial assets held for trading	1 263,6	1 314,8	2 715,8	3 943,9
Investment seciurities	29 135,7	25 907,4	26 569,7	25 721,3
Derivative hedge instruments	960,6	967,2	1 259,1	1 338,6
Loans and other receivables to customers	86 506,3	87 358,7	80 580,0	78 038,0
Investments in controlled entities	605,5	474,3	439,4	419,2
Property, plant and equipment	532,0	542,8	574,1	571,6
Intangible assets	413,9	418,5	407,7	419,6
Assets held for sale	10,9	11,1	19,7	31,8
Deferred tax assets	135,2	130,9	94,5	154,2
Other assets	184,1	163,7	167,6	132,8
Total assets	**123 807,6**	**122 339,0**	**115 203,3**	**113 709,4**
Liabilities				
Liabilities to other banks	3 128,8	1 044,6	2 594,3	2 019,9
Financial liabilities at fair value through profit or loss	1 044,8	1 714,3	1 736,6	1 590,8
Derivative hedge instruments	622,6	699,2	1 206,4	1 468,1
Liabilities to customers	104 398,3	104 075,8	96 042,3	95 168,4
Liabilities under issue of debt securities	302,2	300,3	872,0	866,4
Subordinated liabilities	632,4	626,9	634,2	664,9
Provisions	121,0	97,3	70,4	71,2
Current income tax liabilities	244,3	220,2	20,8	119,6
Other liabilities	1 254,3	1 765,6	1 238,9	1 265,2
Total liabilities	**111 748,7**	**110 544,2**	**104 415,9**	**103 234,5**
Equity				
Share capital	130,1	130,1	130,1	130,1
Supplementary capital - issuance of shares over nominal value	956,3	956,3	956,3	956,3
Accumulated other comprehensive income	684,0	493,1	589,6	577,4
Retained earnings	10 288,5	10 215,3	9 111,4	8 811,1
Total equity	**12 058,9**	**11 794,8**	**10 787,4**	**10 474,9**
Total equity and liabilities	**123 807,6**	**122 339,0**	**115 203,3**	**113 709,4**
Carrying amount	12 058,9	11 794,8	10 787,4	10 474,9
Number of shares	130 100 000	130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)	92,69	90,66	82,92	80,51

Interim Condensed Standalone Statement of Financial Position shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof .

ING

Interim condensed standalone statement of changes in equity

1 Q 2018
the period from 01 Jan 2018 to 31 Mar 2018

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Total equity
Opening balance of equity	**130,1**	**956,3**	**493,2**	**10 215,2**	**11 794,8**
effect of changes in accounting policy from the implementation of IFRS 9	-	-	1,1	-249,0	-247,9
Opening balance of equity adjusted for changes to the accounting principles	**130,1**	**956,3**	**494,3**	**9 966,2**	**11 546,9**
Net result for the current period	-	-	-	322,2	**322,2**
Other net comprehensive income. including:	**0,0**	**0,0**	**189,7**	**0,0**	**189,7**
gains/losses on revaluation of financial assets carried through equity	-	-	57,5	-	57,5
reclassification to the financial result due to sale of assets	-	-	-19,1	-	-19,1
effective part of cash flow hedging relationship	-	-	151,2	-	151,2
revaluation of non-current assets	-	-	0,1	-	0,1
Other changes in equity. including:	**0,0**	**0,0**	**0,0**	**0,1**	**0,1**
valuation of share-based payments	-	-	-	0,1	0,1
Closing balance of equity	**130,1**	**956,3**	**684,0**	**10 288,5**	**12 058,9**

*) The effect of changes in accounting policy from the implementation of IFRS 9 is described in section 1.8.1. *IFRS 9 Financial Instruments*.

4 Q 2017 YTD
the period from 01Jan 2017 to 31 Dec 2017
[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Total equity
Opening balance of equity	**130,1**	**956,3**	**576,8**	**8 631,7**	**10 294,9**
effect of changes in accounting policy from the implementation the equity method for valuation controlled entities	-	-	0,6	179,4	**180,0**
Opening balance of equity adjusted for changes to the accounting principles	**130,1**	**956,3**	**577,4**	**8 811,1**	**10 474,9**
Net result for the current period	-	-	-	1 403,1	**1 403,1**
Other net comprehensive income. including:	**0,0**	**0,0**	**-84,2**	**0,2**	**-84,0**
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
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the loans and receivables portfolio	-	-	-0,2	-	-0,2
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	-	-	-32,1	-	-32,1
effective part of cash flow hedging relationship	-	-	-206,0	-	-206,0
disposal of non-current assets	-	-	-0,3	0,2	-0,1
actuarial gains/losses	-	-	-6,8	-	-6,8
Other changes in equity. including:	**0,0**	**0,0**	**0,0**	**0,8**	**0,3**
valuation of share-based payments	-	-	-	1,0	1,0
settlement of the purchase of shares in subsidiary	-	-	-	-0,2	-0,2
Closing balance of equity	**130,1**	**956,3**	**493,2**	**10 215,2**	**11 794,8**

Interim condensed standalone statement of changes in equity - continued

1 Q 2017
the period from 01 Jan 2017 to 31 Mar 2017
[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	**Total equity**
Opening balance of equity	**130,1**	**956,3**	**576,8**	**8 631,7**	**10 294,9**
effect of changes in accounting policy from the implementation the equity method for valuation controlled entities	-	-	0,6	179,4	**180,0**
Opening balance of equity adjusted for changes to the accounting principles	**130,1**	**956,3**	**577,4**	**8 811,1**	**10 474,9**
Net result for the current period	-	-	-	300,2	**300,2**
Other net comprehensive income. including:	**0,0**	**0,0**	**12,2**	**0,0**	**12,2**
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	28,4	-	28,4
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-6,2	-	-6,2
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	-	-	-7,7	-	-7,7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the loans and receivables portfolio	-	-	-0,1	-	-0,1
effective part of cash flow hedging relationship	-	-	-2,2	-	-2,2
Other changes in equity. including:	**0,0**	**0,0**	**0,0**	**0,1**	**0,1**
valuation of share-based payments	-	-	-	0,1	0,1
Closing balance of equity	**130,1**	**956,3**	**589,6**	**9 111,4**	**10 787,4**

Interim condensed standalone statement of changes in equity shall be analysed together with the supplementary notes to interim condensed consolidated financial statements being the integral part of interim condensed consolidated financial statements.

Interim condensed standalone cash flow statement

	I Q 2018 the period from 01 Jan 2018 to 31 Mar 2018 [IFRS 9]	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017 [IAS 39 non-transformed data]
Net profit	**322,2**	**300,2**
Adjustments, including:	**-1 062,4**	**191,2**
Share in gains or losses of controlled entities recognised on an equity basis	-19,3	-20,2
Depreciation and amortisation	43,5	45,7
Interest accrued (from the income statement)	-845,5	-784,0
Interest paid	-207,8	-201,2
Interest received	916,8	903,9
Dividends received	0,0	-1,7
Gains (losses) on investing activities	0,6	-0,3
Income tax (from the income statement)	118,3	108,1
Income tax paid	-46,7	-147,2
Change in provisions	6,8	-0,8
Change in loans and other receivables to other banks	94,8	-18,5
Change in financial assets held for trading	-86,2	1 321,7
Change in investment securities	-2 957,0	295,3
Change in valuation of derivatives	-23,3	-111,9
Change in hedge derivatives	81,2	-184,4
Change in loans and other receivables to customers	498,3	-2 549,8
Change in other assets	-28,2	-23,3
Change in liabilities to other banks	2 083,9	574,3
Change in liabilities at fair value through profit or loss	-507,7	164,2
Change in liabilities to customers	320,7	878,1
Change in other liabilities	-505,6	-56,8
Net cash flow from operating activities	**-740,2**	**491,4**
Purchase of property plant and equipment	-15,5	-18,5
Disposal of property plant and equipment	0,0	0,5
Purchase of intangible assets	-13,1	-6,1
Purchase of shares in controlled entities	-120,0	0,0
Purchase of held-to-maturity financial assets	0,0	-1 049,1
Interest received from held-to-maturity financial assets	0,0	1,4
Dividends received	0,0	1,7
Net cash flow from investing activities	**-148,6**	**-1 070,1**
Payment of interest on long-term loans	-3,1	-3,1
Net cash flow from financing activities	**-3,1**	**-3,1**
Effect of exchange rate changes on cash and cash equivalents	-63,5	-248,9
Net increase/decrease in cash and cash equivalents	**-891,9**	**-581,8**
Opening balance of cash and cash equivalents	**4 598,2**	**2 758,7**
Closing balance of cash and cash equivalents	**3 706,3**	**2 176,9**

Interim Condensed Standalone Cash Flow Statement shall be read in conjunction with the notes to interim condensed consolidated financial statements being the integral part thereof.

Additional information to the interim condensed standalone financial statements

1. Introduction

1.1. Going-concern

These interim condensed standalone financial statements of the ING Bank Śląski S.A. 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 of the date of approving this statement, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Bank is endangered.

1.2. Discontinued operations

No material operations were discontinued during 1 quarter 2018 and 1 quarter 2017.

1.3. Compliance with International Financial Reporting Standards

These interim condensed standalone financial statements of the ING Bank Śląski S.A. for the 1 quarter 2018 were prepared under the IAS 34 *Interim Financial Reporting* (International Accounting Standards) in a version approved by the European Commission effective as at the reporting date. that is 31 March 2018 as well as in accordance with the Ordinance of Finance Minister of 19 February 2009 on current and interim information submitted by issuers of securities (Journal of Laws of 2009, no. 33. item 259) with subsequent amendments.

Presented financial statements have been prepared in a condensed version. The interim condensed financial statements do not provide all data or disclosures required in the annual financial statements and should be interpreted together with the interim condensed consolidated financial statements for the 1 quarter 2018 and the Bank's financial statements for the year ended 31 December 2017 approved by the General Meeting on 5 April 2018.

Interim condensed standalone income statement. interim condensed standalone statement of comprehensive income. interim condensed standalone statement of changes in equity. and interim condensed standalone cash flow statement for the period from 1 January 2017 to 31 March 2017. and interim condensed standalone statement of financial position as at 31 March 2017 together with comparable data were prepared according to the same principles of accounting for each period, except for the changes resulting from the implementation of IFRS 9 replacing IAS 39 "Financial Instruments: Recognition and Measurement". The changes refer to classification and measurement of financial assets and liabilities and impairment of financial assets. 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.

1.4. Comparative data

The comparative data cover the period from 1 January 2017 to 31 March 2017 for the interim condensed standalone income statement, the interim condensed standalone statement of comprehensive income and the interim condensed standalone cash flow statement, additionally for the interim condensed standalone statement of changes in equity as at 31 December 2017; in the case of the interim condensed standalone statement of financial position data as of 31 December 2017, 31 March 2017 and 31 December 2016. In connection with the implementation from 1 January 2018 of IFRS 9 replacing IAS 39, 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.

1.5. Financial statements scope and currency

From the Bank's point of view all significant disclosures are presented in interim condensed consolidated financial statements.

These interim condensed financial statements have been developed in Polish zloties ("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.

1.6. Approval of financial statements

These interim condensed standalone financial statements have been approved by the Bank Management Board on 8 May 2018.

1.7. Changes to accounting standards

In these interim condensed separate financial statements, the same accounting principles have been applied as in the case of annual full financial statements for the year 2017 (Annual Financial Statements of ING Bank Śląski S.A. Group for the Period Started 1 January 2017 and Ended 31 December 2017) and the standards and interpretations adopted by the European Union and applicable to the annual periods starting 1 January 2018 or afterwards (standards and interpretations were described in the interim condensed consolidated financial statements in Chapter Supplementary information in item 4.5 *Changes to accounting standards*).

1.8. Changes to accounting policy

Since 1 January 2018 the Bank has made the following changes to accounting principles:

- changes resulting from the implementation of IFRS 9 "Financial instruments" – a detailed description of the most significant changes and determination of the impact on the financial statements were presented in item 1.8.1 of *IFRS 9 Financial Instruments* and in Chapter 2 *Significant accounting principles* in item 2.1,
- changes resulting from the implementation of IFRS 15 "Revenue from Contracts with Customers" – a detailed description of the most significant changes was presented in Chapter 2 *Significant accounting principles* in item 2.2; these changes do not have a material impact on the financial statements,
- the change concerning recognition in the separate financial statements of investments in subsidiaries and affiliated companies using the equity method – a detailed description of currently applicable principles was presented in Chapter 2 *Significant accounting principles* in item 2.3. The change required conversion of data for previous periods; impact on the financial statements was presented in Chapter 3 *Comparability of financial data.*

1.8.1. 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.

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.
- new estimation models for expected losses provisioning undergo parameter validation and backtesting.

1.8.1.1. 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.

In the first quarter, the formation works for Bank Hipoteczny [mortgage bank] (a Bank's subsidiary) were underway and as at the time of this financial statements publication, they have not been completed yet. Finalization of those works will impact the structure of business models at the Bank since it will entail separation of the mortgage portfolio held for sale to the newly established Bank Hipoteczny, i.e. measured at fair value through other comprehensive income.

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. Credit exposures classified for measurement at fair value are presented in the statement of financial position in the item "Loans and other receivables to customers" and their value is shown in the explanatory notes.
- 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 in section 1.8.1.4).
- 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 in section 1.8.1.4).

1.8.1.2. 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".

1.8.1.3. 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 assesses 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
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 277,2 million (without the tax effect and except for adjustment about gross carrying amount described below), including around PLN 16,9 million which concerns off-balance sheet items (Adjustment No. 1 in the table with impact summary below in section 1.8.1.4).

Gross carrying amount

As a result of IFRS 9 application, the Bank changed its approach to determination of the gross carrying amount for financial assets measured at amortised cost that were classified to Stage 3. The Bank continues to calculate the gross amortised cost for those assets by means of the effective interest rate and by the time those assets have been fully provisioned against expected losses. Due to the changed approach, as at 1 January 2018 the worth of loans classified to Stage 3 rose by PLN 148.3 million in gross terms; at the same time the worth of expected loss provisioning went up by the same figure. The change had no impact on the net value of loans classified to Stage 3 and, consequently, it had no impact on the equity as at the IFRS 9 transition date.

1.8.1.4. 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 a material impact of elements described above on the standalone statement of financial position of the Bank plus separated elements:

- adjustment 1 - IFRS 9 impairment losses
- adjustment 2 - Measurement of equity interests
- adjustment 3 - Elimination of the impact of historical reclassification of financial instruments

	31 December 2017 IAS 39	Adjustment 1	Adjustment 2	Adjustment 3	Reclassification in assets structure	**Impact total**	**IFRS 9 1 January 2018**
Assets							
Investment securities	25 907,4	0,0	62,2	-74,9	8,0	-4,7	25 902,7
Loans and other receivables to customers	87 358,7	-260,3	0,0	-1,7	0,0	-262,0	87 096,7
Investments in controlled entities	474,3	-8,1	0,0	0,0	0,0	-8,1	466,2
Deferred 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	**122 339,0**	**-219,4**	**50,4**	**-62,0**	**0,0**	**-231,0**	**122 108,0**
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
Cumulative other comprehensive income	493,0	0,0	50,4	-40,3	-9,0	1,1	494,1
Retained earnings	9 981,6	-236,3	0,0	-21,7	9,0	-249,0	9 732,6
Total equity	**11 561,0**	**-236,3**	**50,4**	**-62,0**	**0,0**	**-247,9**	**11 313,1**
Total equity and liabilities	**122 339,0**	**-219,4**	**50,4**	**-62,0**	**0,0**	**-231,0**	**122 108,0**

1.8.1.5. 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 total impact at 1 January 2018 of application of new IFRS 9 principles on Tier 1 ratio (in bp) is approximately 36 bp without a transition period applied and considering the transition periods the impact is 4 bp.

2. Significant accounting principles

The detailed accounting principles were presented in the Annual Standalone Financial Statements of the ING Bank Śląski S.A. for the Period Started 1 January 2017 and Ended 31 December 2017, published on 7 March 2018 and available on the website of ING Bank Śląski S.A. (www.ingbank.pl).
Below presented are the amendments made in Q1 2018 to the description of the accounting principles applied by the Bank. Changes to the principles concern IFRS 9 and IFRS 15 as well as the measurement of subsidiaries and affiliated companies using the equity method.

2.1. IFRS 9 resultant changes

Further to the Bank's decision not to restate the comparable data due to the effective entry of IFRS 9, the significant IFRS 9-related accounting principles were so presented as to show the principles applicable both before and after 1 January 2018.

Classification and measurement of financial assets

Principles applicable before 1 January 2018 (IAS 39)

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

Financial assets and liabilities carried 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 to generate short-term profits. 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 measurement or various recognition of gains and losses attributable to them);
- the group of financial assets or 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.

Investment held to maturity

Those are the financial assets other than derivatives with fixed or determinable payments 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 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.

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.

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.

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank categorises the financial assets as follows:

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

Financial assets measured at amortised cost

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

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

Debt financial assets measured at fair value through other comprehensive income

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments measured at fair value through other comprehensive income

Equity instruments are measured at fair value through other comprehensive income when at initial recognition in the Bank's books an irrevocable decision was taken to measure a specific investment instrument at fair value through other comprehensive income.

Financial assets measured at fair value through profit or loss

All financial assets which do not satisfy the criteria of categorisation as financial assets measured at amortised cost, debt financial assets measured at fair value through other comprehensive income or equity instruments measured at fair value through other comprehensive income are categorised as financial assets measured at fair value through profit or loss.

Additionally, at initial recognition, the Bank may irrevocably designate a financial asset item for measurement at fair value through profit or loss, even if the said financial asset item does not satisfy the criteria of categorisation for measurement at amortised cost or measurement at fair value through other comprehensive income. The designation is possible only when the Bank confirms that

it serves elimination of or a material limitation on the accounting mismatch which would occur were such designation not made.

Business model assessment

The Bank assesses business model objectives per organisational unit of the Bank which manages and is the so-called business owner of the given portfolio of financial assets.

The Bank distinguishes the following business models of holding financial assets, i.e. to:

- collect contractual cash flows,
- collect contractual cash flows and sell other financial assets
- (e.g., to maximise the operating profit).

Business models are set at the level which best reflects the Bank's approach to managing financial assets to deliver business objectives and generate cash flows.

In the course of assessment, the Bank verifies all business areas of the unit of the business owner of the isolated portfolio of financial assets which may impact the decision to hold or not hold the assets in the Bank's portfolio, including but not limited to:

- product offer structure assumptions,
- organisational structure of the unit,
- assumptions for assessment of assets portfolio results (e.g., the approach to planning, assumptions for management information, key assessment ratios),
- approach to remunerating the key management vis-à-vis the portfolio results and portfolio cash flows,
- the risk of the assets portfolio and approach to risk management,
- analysis of sale transactions for the assets portfolio (frequency, volume and decision drivers), and
- analysis of future sale projections.

The Bank allows for sale transaction of the financial assets held to collect contractual cash flows which is triggered by the following:

- credit risk increase,
- approaching maturity,
- occasional sale,
- sale of insignificant value,
- response to regulatory/supervisory requirements,
- under liquidity crisis conditions (under stress), or
- credit limit change for a given client.

The Bank recognises that:

- sale at approaching maturity means sale of financial assets:
  - with original maturity of over 1 year – within 6 months before maturity,
  - with original maturity of under 1 year – within 3 months before maturity.
- occasional sale means sale which is below 10% of the sale transaction vis-à-vis the average number of items in the given business model
- sale of insignificant value is the sale which is below the ratio set based on the quotient of 10% and average portfolio maturity vis-à-vis:
  - the quotient of the carrying amount of the item sold vis-à-vis the carrying amount of the

entire portfolio within a given business model, or
   - the quotient of the result realised vis-à-vis the net interest margin of the entire portfolio held within a given business model.

Cash flows characteristics assessment

The Bank takes the following definitions to assess the characteristics of realised cash flows:

- principal – defined as fair value of the financial asset at initial recognition in the Bank's books,
- interest – defined as payment covering the consideration for:
  - change of time value of money,
  - credit risk of payment of the principal outstanding for the specific period of time,
  - other basic risks and costs of loan approval (e.g. the liquidity risk and overheads) and
- profit margin.

The assessment serves confirmation whether the realised cash flows are solely payments of principal and interest due on the principal outstanding. The Bank verifies the contractual provisions which have impact both at realisation of cash flows and the amounts of cash flows under specific financial assets.

The following terms and conditions are verified in particular:

- contingencies impacting the amount of cash flows or their realisation dates,
- leverages,
- terms of funding prepayment or extension,
- conditions limiting the right to pursue legal claims about the cash flows realised,
- conditions modifying the consideration for change of time value of money.

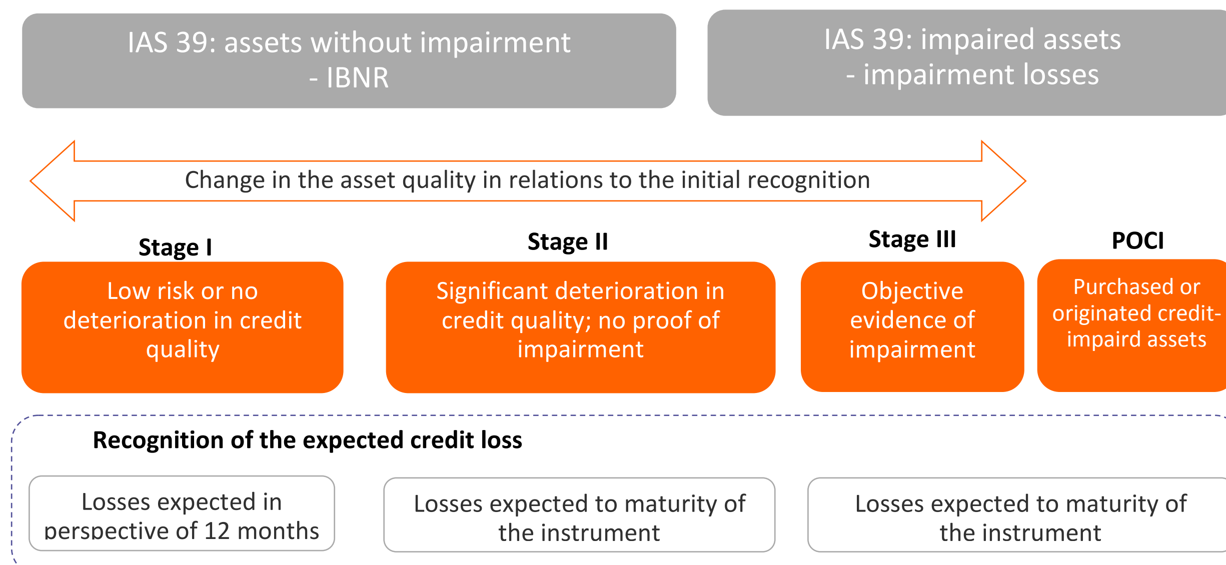
The conditions modifying the change of time value of money are assessed based on the qualitative and qualitative analysis.

When the qualitative analysis does not make it possible to confirm the conclusions about the characteristics of realised cash flows, the Bank runs a quantitative assessment. The quantitative assessment consists in comparing:

- undiscounted cash flows from the agreement analysed with
- undiscounted cash flows under the benchmark asset item which does not have the conditions modifying the consideration for change of time value of money,

When the cash flows analyses differ considerably from one another, the asset item assessed is obligatorily classified for measurement at fair value through profit or loss, since the realised cash flows are not solely payments of principal and interest due on the principal outstanding.

Impairment of debt financial assets



Principles applicable before 1 January 2018 (IAS 39)

Impairment losses are formed for the assets for which the Bank recognises objective evidence of impairment.

For the assets with no objective evidence of impairment identified, the Bank forms an IBNR provision for the losses that occurred as at the impairment date, but have not been documented yet (incurred but not reported losses).

Principles applicable as of 1 January 2018 (IFRS 9)

Approach based on 3 stages

In order to describe credit quality evolution in the loan provisioning process, the Bank uses the approach based on 3 stages featuring different measurement methods for expected credit losses:

- Stage 1 covers performing exposures without the identified material increase in credit risk from the initial recognition date. The provision is calculated based on a 12-month expected loss (or for the remaining maturity below 12 months),
- Stage 2 covers performing assets for which material credit risk increase has been reported from the initial recognition date. Provision is calculated based on the lifetime expected credit loss; i.e., from the reporting date to the remaining maturity.
- Stage 3 covers exposures with identified impairment; i.e., exposures in default. The provision is calculated based on the lifetime expected credit loss of the asset item for PD = 100%.

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

1. Impaired exposures are identified and classified to Stage 3,
2. Exposures are allocated to Stage 2 based on material credit risk increase triggers,
3. The remaining exposures are classified to Stage 1.

Principles applicable as of 1 January 2018 (IFRS 9)

Stage 2 classification triggers – material credit risk increase (applicable as of 1 January 2018)

Material credit risk increase – which triggers Stage 2 classification – is proven by occurrence of at least one of the following conditions, with the former prevailing:

- Material increase in PD parameter in the exposure lifetime set at the reporting date vis-à-vis the lifetime PD from the date of initial recognition for the period from the reporting date to the remaining maturity,
- Client/exposure presence on the Watch List,
- The fact that the client was granted forbearance,
- Default of over 30 days,
- Client has a CHF mortgage loan at ING Bank Śląski S.A. or another bank.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for assets measured at amortized cost

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

Impairment is evidenced by:

- identification of an objective impairment evidence (for corporate and retail credit exposures) or
- the analysis (test) result showing impairment (in the case of corporate credit exposure).

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.

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.

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

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. For each credit exposure impairment condition identified for strategic and network corporate clients, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows. Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the need to carry out the impairment analysis (test).

If after the assessment we find that for a given financial assets item there is no evidence of impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment.

If there is any evidence of impairment of an assets item measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an assets item and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

Practically, for the ISFA portfolio assets, impairment is calculated per assets item using the discounted future cash flows of a given assets item; for INSFA portfolio 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 indicates that there will be no expected future cash flows from the above-referred financial assets, the impairment loss of assets equals their carrying amount.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for financial assets measured at fair value through other comprehensive income

The Bank assesses as at each balance sheet date whether there is any objective evidence of impairment of debt financial assets classified for measurement at fair value through other comprehensive income. Confirmation of occurrence of objective evidence of impairment triggers assets classification for impairment/stage 3.

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

Impairment measurement

Principles applicable before 1 January 2018 (IAS 39)

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 formation 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). LIP – a loss identification period 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 76those exposures for which the effective interest rate is set and contractual interest accrued and unpaid 76for 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).

Principles applicable as of 1 January 2018 (IFRS 9)

Impairment losses are estimated using the measurement of expected credit losses. The approach is used for debt financial assets and credit exposures, leasing receivables, committed financial liabilities and financial guarantees, except for equity investments.

As at each reporting date, the Bank estimates the loss allowance for a financial assets item at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial assets item has not increased significantly since initial recognition, the Bank measures the loss allowance for that assets item at an amount equal to 12-month expected credit losses.

The Bank measures expected credit losses in a way that reflects:

d) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
e) the time value of money; and
f) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To estimate the expected credit losses using the collective method, the Bank uses the regulatory models of (PD, LGD and EAD) risk parameters estimation, which were built for the Advanced Internal Ratings Based Approach purposes (AIRB Approach) and adapted to IFRS 9 requirements. For IFRS 9 purposes, risk parameters models retain the structure of the regulatory models, while the manner of estimation of individual values of (PD, LGD, EAD) parameters is adjusted to IFRS 9 requirements, and it notably covers reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Model parameters were calibrated using the point-in-time approach and projected for the term of 30 years. In the EAD parameter, the repayment schedules matching credit agreements were factored in.

The Bank measures the lifetime expected credit losses for remaining maturity (o-n. LEL) for the exposure without recognised impairment as a discounted total of partial losses in the exposure lifetime, referring to the events of default in each 12-month time window until the remaining maturity of the exposure as per the following formula:

$$LEL = \sum_{t=0}^{Y} \frac{PD_t^{PiT} \times EAD_t^{PiT} \times LGD_t^{PiT}}{(1+EIR)^{t+1/2}}$$

where:

- PD_t^{PiT} – marginal PD that is the expected per cent of default in the next 12-month window after time *t*;
- EAD_t^{PiT}– expected exposure for the default to occur in the next 12-month window after time *t*;
- LGD_t^{PiT} - expected per cent of loss vis-à-vis EAD of the default to occur in the next 12-month window after time *t*;
- *EIR* –Effective Interest Rate
- *T* – remaining maturity
- *t* – another year in the period between the reporting date and the date of expected maturity of the given exposure.

For Stage 1 exposures, the Bank applies a 12-month expected loss, calculated as per the following formula, but for T = 12 months.

For Stage 3 exposures with identified impairment (in default), wherefor collective provision is calculated, the Bank measures the lifetime expected credit losses for the remaining maturity as per the following formula:

$$LEL_{stage\,3} = EAD_{in_default}^{PiT} \times LGD_{in_default}^{PiT}$$

where PD = 100%, and values $LGD_{in_default}^{PiT}$ and $EAD_{in_default}^{PiT}$ should reflect the characteristics of the exposure in default.

The time value of money is reflected in the expected loss by two discounting factors:

- Discounted between the moment the receivable became default and the moment of its recovery. It is included in the regulatory parameters of the LGD models.
- Discounted between the reporting date and the moment the exposure became default, which is additionally factored in in the calculation of lifetime expected losses. The Bank assumes that for each yearly interval, the event of default occurs in mid-period from 0 to 12 months on the average.

The Bank calculates expected credit losses as the probability-weighted average from a few scenarios (three most frequently: base, stress and best-case ones) of various probability. The expected loss is calculated for each scenario separately and the probability-weighted average results from the weights (probabilities) assigned to each scenario (total of weights = 100%). This approach satisfies the standard requirement that the provision (impairment loss) should be unbiased and probability-weighted amount that is determined based on a range of possible outcomes.

The expected loss is projected (measured) at each point in time in the future, conditional on economic conditions expected in a given point in time. The Bank used historical data to determine the relations between the observed expected loss parameters (PD, LGD) and the macroeconomic factors as the functions, based whereon – for the set macroeconomic factors projections – the projected values of expected loss parameters in a given year in the future (forward-looking PiT) are calculated.

To estimate the expected loss, the Bank determines the exposure at default only for committed credit liabilities by using the credit conversion factors (per cent of utilisation of the free part of the credit limit in the period from the reporting date to the default date) from the regulatory EAD models (estimated using the through-the-cycle approach). EAD goes down over time as per repayment schedule of a given exposure.

For the exposures with the certain final repayment date, remaining maturity was limited to 30 years. When a significant portion of the portfolio shows maturity of over 30 years, the remaining maturity matches the projected term of such exposures.

For the exposures without certain final repayment date (e.g., some revolving loans and credit cards), the expected remaining maturity is a statistical behavioural parameter.

The LGD parameter – which is a function of applied credit risk mitigation techniques and which is expressed as a per cent of EAD – is estimated per product and exposure, based on the parameters from regulatory LGD models, correctly calibrated for IFRS 9 purposes (estimated using through-the-cycle approach).

The LGD parameter for calculating the impairment loss under collective method for impaired exposures with recognised default (PD = 100%) depends on the time for which the exposure is in default. Moreover, to some business segments, the Bank applies the so-called *Full Provisioning Policy,* whereunder the LGD parameter of 100% is used for the exposures defaulted for at least 2 years.

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)

Impairment for the assets measured at amortised cost (the principles applicable before and after 1 January 2018)

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.

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 Bank 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.

Purchased or originated credit-impaired financial assets

Principles applicable before 1 January 2018 (IAS 39)

No such category of assets.

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank recognises purchased or originated credit-impaired financial assets as a separate category at initial recognition.

Such assets can be recognised as a result of:

- a transaction of purchase of an impaired assets item,
- a significant modification (described under item 7.5) after derecognition of the original exposure or
- new credit facility awarded to the client for whom another exposure was categorised as the Stage 3 one.

Those assets are excluded from the model based on the 3-stage approach described under item 17.3 and are classified as impaired assets until derecognised by the Bank.

The above means that each change to the cumulative lifetime expected credit losses of those assets (positive and negative) is recognised in the income statement as impairment gain or loss.

2.2. Revenue recognition considering the 5-step approach (IFRS 15 resultant changes)

Change to the principles of recognition of commission revenue and costs.

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 following the five-step approach:

6) identification of an agreement with the client;
7) identification of individual obligations in the agreement,
8) determination of the transaction price,
9) allocation of the price to contractual obligations,
10) revenue recognition upon satisfaction of individual obligations.

Following the analysis, the Bank recognises fee and commission revenue:

- on a one-off basis when the service was delivered (also for the up-front fees) i.e., upon transfer of control over goods or services;
- over time when the services are provided at a specified period of time;
- at point in time when the Bank performs key activities;
- when there is an actual reward from the perspective of the client.

When (or as) a performance obligation is satisfied, the Bank recognises as revenue the amount of the transaction price that is allocated to that performance obligation.

2.3. Measurement of investments in subsidiaries and associates in the separate financial statements using equity method (change to accounting principles as of 2018)

In the separate financial statements of the Bank, investments in subsidiaries and associates of the Bank are recognised at purchase price and then settled using the equity method. The Bank's investment includes goodwill (net of any accumulated impairment losses) identified upon acquisition.

The share of the Bank in the financial result of subsidiaries and associates since the date of acquisition is recognised in the income statement, whereas its share in changes in other capital since the date of acquisition – in other comprehensive income. 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 becomes greater than the share of the Bank in that subsidiary or associate, the Bank discontinues the recognition of any further losses or creates provisions only to such amount it has assumed obligations or has settled payments on behalf of the respective company.

Unrealised profits on the transactions made by the bank with those units are eliminated pro rata to the Bank's share in those units. Unrealised losses are also eliminated, unless the transaction proves impairment occurrence for the assets item transferred.

At the end of each reporting period, the Bank always assesses whether there are impairment triggers in place for the investments made in subsidiaries and associates.

When a trigger is found, the Bank assesses the recoverable amount; i.e., the value in use of the investment or fair value less the costs of sale of the assets item, depending on which of the two is higher. If, the recoverable amount of an asset is less than its carrying amount, the Bank recognises the impairment loss in the income statement.

3. Comparability of financial data

When compared with the interim standalone financial statements for previous periods, in the Interim Condensed Standalone Financial Statements for the period from 1 January 2018 to 31 March 2018, the Bank amended the manner of presentation of individual items of the consolidated income statement and consolidated statement of financial position. The amendments were made first and foremost in consequence of the implementation of IFRS 9 which superseded IAS 39 as of 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.

Since 1 January 2018 the Bank has changed the accounting principles as regards recognition in the separate financial statements of investments in subsidiaries and affiliated companies using the equity method. The change required conversion of data for previous periods.

Further, the Bank made a few presentation changes which were not directly caused by the implementation of IFRS 9, but which – in the Bank's opinion – enhanced the transparency and informative value of the consolidated income statement and consolidated statement of financial position. The changes required a restatement of the comparable data; they did not, however, impact on the level of the financial result or balance sheet total presented.

Changes to IFRS 9 implementation-resultant

- *Changes to the income statement:*
  - split of interest income into interest income on assets measured at amortised cost and other interest income,
  - isolation of the item "net income on sale of securities measured at amortised cost",
  - isolation of the "net income on sale of securities measured at fair value through other comprehensive income and dividend income" in place of "net income on investments" shown for previous periods,
  - isolation of the item "expected loss allowances" in place of "impairment losses for financial assets and provisions for off-balance sheet liabilities" shown for previous periods.
- *Changes to the statement of financial position:*
  - isolation of the item "investment securities" which shows the value of securities measured at fair value through other comprehensive income and other then corporate and municipal securities measured at amortised cost. This item replaced the "investments" item presented for previous periods, which showed available-for-sale financial assets and financial assets held to maturity.

Other changes

- *Changes to the income statement:*

  - *Changed accounting principles*

a) change under implementation of the equity method for measurement of investments in subsidiaries and affiliated companies – in separate financial statements for previous periods the Bank presented investments in subsidiaries and affiliated companies at the purchase price,

  - *Other changes*

b) changed manner of presenting costs under marketing fees (cashback); in previous periods these costs were recognised in *Commission income/Commission costs*; at present the Group presents them in *General and administrative expenses*,

c) changed manner of presenting result on write-offs concerning unsettled valuation of derivative transactions between *Impairment losses for financial assets and provisions for off-balance-sheet liabilities* and *Net income on financial instruments measured at fair value through profit or loss and FX result*.

The table below highlights the individual items of the separate statement of financial position as they were presented in the interim consolidated financial statements for 2017 and Q1 2017 and in the current statements.

	I Q 2017 the period from 01 Jan 2017 to 31 Mar 2017				
	in Financial Statements for I Q 2017 (approved data)	change a)	change b)	change c)	in Financial Statements for I Q 2018 (comparable data)
Commission income	312,7		-0,9		311,8
Commission expenses	35,0		-2,1		32,9
Net commission income	**277,7**	**0,0**	**1,2**	**0,0**	**278,9**
Net income on financial instruments at fair value through profit or loss and FX result	17,6			-0,4	17,6
Net income on basic activities	**1 090,6**	**0,0**	**1,2**	**-0,4**	**1 091,8**
General and administrative expenses	544,5		1,2		545,7
Impairment losses and provisions for off-balance sheet liabilities	78,6			-0,4	78,6
Udział w zyskach i stratach jednostek kontrolowanych wycenianych metodą praw własności	0,0	20,2			20,2
Gross profit (loss)	**388,1**	**20,2**	**0,0**	**0,0**	**408,3**
Net profit (loss)	**280,0**	**20,2**	**0,0**	**0,0**	**300,2**

- *Changes to the statement of financial position:*

  - *Changed accounting principles*

a) change under implementation of the equity method for measurement of investments in subsidiaries and affiliated companies – in separate financial statements for previous periods the Bank presented investments in subsidiaries and affiliated companies at the purchase price,

  - *Other changes*

b) renaming of the item “financial assets measured at fair value through profit or loss” as “financial assets held for trading”,

c) inclusion of “measurement of derivatives”, respectively: positive to “financial assets held for trading” and negative to “financial liabilities measured at fair value through profit or loss”,
d) renaming of the item “investments” as “investment securities”
e) inclusion of “receivables from customers due to repo transactions” in the item “loans and other receivables extended to client” and analogically “liabilities to customers due to repo transactions” to item “liabilities to customers”
f) split of “property assets” into two separate items “property, plant and equipment” and “intangible assets”
g) split of “income tax assets” into “deferred tax assets” and “current tax receivables” and analogically of “income tax liabilities” into “deferred tax provisions” and “current tax liabilities”,
h) renaming of the item “authorised capital” as “share capital” and “revaluation reserve” as“cumulative other comprehensive income”.

The table below highlights the individual items of the separate statement of financial position as they were presented in the interim consolidated financial statements for 2017 and Q1 2017 and in the current statements.

	As of 31 Dec 2017	As of 31 Mar 2017	As of 31 Dec 2016	As of 31 Dec 2017	As of 31 Mar 2017	As of 31 Dec 2016		As of 31 Dec 2017	As of 31 Mar 2017	As of 31 Dec 2016
	in Financial Statements for 2017	in Financial Statements for I Q 2017	in Financial Statements for 2016		change a)		changes b) - h)	in Financial Statements for I Q 2018		
		(approved data)							(comparable data)	
Assets										
Financial assets at fair value through profit or loss	530,1	1 505,2	2 826,8				Financial assets held for trading	1 314,8	2 715,8	3 943,9
Valuation of derivatives	784,7	1 210,6	1 117,1							
Investments	25 907,4	26 569,7	25 721,3				investment securities	25 907,4	26 569,7	25 721,3
Loans and other receivables to customers	87 338,9	80 560,1	78 038,0				Loans and other receivables to customers	87 358,7	80 580,0	78 038,0
Receivables from customers under repo transactions	19,8	19,9	0,0							
Investments in controlled entities	240,5	239,2	239,2	233,8	200,2	180,0		474,3	439,4	419,2
Non-financial assets	961,3	981,8	991,2				Property, plant and equipment	542,8	574,1	571,6
							Intangible assets	418,5	407,7	419,6
Tax assets	130,9	94,5	154,2				Deferred tax assets	130,9	94,5	154,2
Total assets	**122 105,2**	**115 003,1**	**113 529,4**	**233,8**	**200,2**	**180,0**		**122 339,0**	**115 203,3**	**113 709,4**
Liabilities										
Financial liabilities at fair value through profit or loss							**Liabilities**			
Valuation of derivatives	735,1	639,0	474,8				Financial liabilities at fair value through profit or loss	1 714,3	1 736,6	1 590,8
Liabilities to customers	979,2	1 097,6	1 116,0							
Liabilities to customers	104 075,8	96 042,3	95 168,4				Liabilities to customers	104 075,8	96 042,3	95 168,4
Liabilities to customers under repo transactions	0,0	0,0	0,0							
Tax liabilities	220,2	20,8	119,6				Current Tax liabilities	220,2	20,8	119,6
Total liabiliies	**110 544,2**	**104 415,9**	**103 234,5**	**0,0**	**0,0**	**0,0**		**110 544,2**	**104 415,9**	**103 234,5**
Equity										
Authorised capital	130,1	130,1	130,1				Share capital	130,1	130,1	130,1
Revaluation reserve	493,0	589,0	576,8	0,2	0,6	0,6	Cumulative other comprehensive income	493,2	589,6	577,4
Retained earnings	9 981,6	8 911,8	8 631,7	233,6	199,6	179,4		10 215,2	9 111,4	8 811,1
Total equity	**11 561,0**	**10 587,2**	**10 294,9**	**233,8**	**200,2**	**180,0**		**11 794,8**	**10 787,4**	**10 474,9**
Total euity and liabilities	**122 105,2**	**115 003,1**	**113 529,4**	**233,8**	**200,2**	**180,0**		**122 339,0**	**115 203,3**	**113 709,4**

4. Significant events in 1 quarter 2018

Significant events that occurred in 1 quarter 2018 are described in the interim condensed consolidated financial statement in chapter *Additional information* in item 2. *Significant events in 1 quarter 2018*.

5. Seasonality or cyclicity of activity

Activity of ING Bank Śląski S.A. is not subject to seasonality or cyclicity within the meaning of §21 of IAS 34.

6. Issues, redemption or repayments of debt securities and equities

None.

7. Dividends paid

On 5 April 2018, the General Meeting passed a resolution regarding dividend payout for 2017. pursuant to which the Bank paid out the dividend for 2017 totalling PLN 416.3 mln. (PLN 3.2 gross per share). On 25 April 2018 the shareholders of record became entitled to the dividend payout which took place on 10 May 2018.

On 21 April 2017, the General Meeting approved earmarking the entire 2016 net profit of the Bank for the equity injection.

8. Acquisitions

In 1 quarter 2018, the ING Bank Śląski did not make any acquisitions, as in 1 quarter 2017.

9. Off-balance sheet items

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
Off-balance sheet liabilities granted	28 793,5	28 844,2	26 271,0	26 994,5
Off-balance sheet liabilities received	82 844,7	81 822,3	81 865,1	77 680,1
Off-balance sheet financial instruments	521 166,8	500 985,8	535 382,5	439 561,7
Total off-balance sheet items	**632 805,0**	**611 652,3**	**643 518,6**	**544 236,3**

10. Total capital ratio

	as of **31 Mar 2018**	as of **31 Dec 2017**	as of **31 Mar 2017**	as of **31 Dec 2016**
Own funds	11 003,9	10 743,3	9 118,2	9 068,1
Total capital requirement	4 940,3	4 673,5	4 522,7	4 369,1
Total capital ratio	**17,8%**	**18,4%**	**16,1%**	**16,6%**
Tier I ratio	**16,8%**	**17,3%**	**15,0%**	**15,4%**

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11. Significant events after the balance sheet date

Significant events after the balance sheet date are described in the interim condensed consolidated financial statement in chapter *Additional information* in item 3. *Significant events after the balance sheet date.*

12. Transactions with related entities

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 Mar 2018			as of 31 Mar 2017		
Receivables						
Current accounts	38,2	38,0	-	42,8	2,8	-
Deposits placed	35,0	-	-	59,3	-	-
Loans	-	0,1	7 323,3	-	5,4	6 057,5
Positive valuation of derivatives	127,1	52,5	1,3	263,3	219,0	3,1
Other receivables	4,9	3,0	2,0	4,3	1,7	0,1
Liabilities						
Deposits received	226,1	22,1	204,6	13,9	18,6	272,5
Subordinated loan	632,4	-	-	634,2	-	-
Loro accounts	55,1	43,8	-	2,5	14,3	-
Negative valuation of derivatives	150,2	47,1	-	244,8	159,1	-
Other liabilities	64,9	1,8	1,0	74,1	2,5	2,1
Off-balance-sheet operations						
Off-balance sheet liabilities granted	436,1	233,3	2 282,3	338,8	89,1	1 477,0
Off-balance sheet liabilities received	661,9	247,5	-	346,9	90,3	300,0
FX transactions	8 084,0	42,0	-	26 104,8	154,2	-
Forward transactions	457,5	-	-	2 454,0	-	48,8
IRS	3 135,8	2 379,3	66,0	3 651,1	3 028,6	74,2
Options	2 890,6	42,4	-	6 299,8	475,3	48,1

	1Q 2018 YTD the period from 01 Jan 2018 to 31 Mar 2018			**1Q 2017 YTD** the period from 01 Jan 2017 to 31 Mar 2017		
Income and expenses						
Income. including:	4,3	0,1	42,1	69,5	8,6	30,3
interest and commission income/expenses	6,0	0,7	42,3	-1,2	6,1	29,6
income on financial instruments	-1,7	-1,5	-0,2	70,7	2,5	2,2
net income on other basic activities	0,0	0,9	0,0	-	-	-1,5
General and administrative expenses	22,1	1,8	0,9	18,0	2,4	-0,7
Outlays for non-current assets	-	-	-	-	-	-

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS OF ING BANK ŚLĄSKI S.A.

2018-05-08	**Brunon Bartkiewicz** *President*	*Signed on the Polish original*
2018-05-08	**Michał Bolesławski** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Joanna Erdman** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Marcin Giżycki** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Bożena Graczyk** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Justyna Kesler** *Vice-President*	*Signed on the Polish original*
2018-05-08	**Patrick Roesink** *Vice-President*	*Signed on the Polish original*

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2018-05-08	**Jolanta Alvarado Rodriguez**	Director of Accounting Department Chief Accountant	*Signed on the Polish original*

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