Management Board Report on Operations of ING Bank Śląski S.A. Group in H1 2020

Strategic priorities for 2020	
Priority	**Execution**
Client acquisition and digitisation	– We have implemented behavioural verification and account opening with selfie. – We have implemented view to accounts with other banks (4 banks available in 2019) as part of open banking services. – We have implemented a new mobile application – ING Business. – The number of our clients has increased by 145 thousand since the end of 2019.
Compliance with regulatory requirements	– Our total capital ratio at the end of Q2 2020 was 17.47% or by 6.47 p.p. above the required level. – Our LCR ratio was 223% and the NSFR ratio – 144% at the end of Q2 2020 (regulatory minimum for both ratios is 100%)
Employee incentives	– In April 2020, we carried out our annual raise of base salaries. – We started the internal Development Initiative Exchange to share competencies and gain new experience. – We have arranged a two-day event "*Why differences matter*?" during which the participants could learn how to build effective teams and about the impact of diversity on working atmosphere and on success in efforts undertaken.
System stability and availability	– We have implemented 23 modifications to systems and processes in order to reduce and shorten the number of planned maintenance breaks, to improve the effectiveness of core services and to enhance the processes related to the monitoring and handling of problems in IT systems. – We have launched a new platform for containerisation. The platform provides for decomposition of the existing portfolio of applications to modern solutions relying on micro services. – We have switched the bank to remote work while retaining full operational potential.
Operating effectiveness and data management	– 42% of individual clients use solely mobile banking for their needs (data for Q2 2020; 37% in Q2 2019) – Individual clients have signed 2.1 million documents with trusted profiles in H1 2020 (+253% y/y). – The number of mobile clients of ING Business grew by 28.3% y/y up to 30.1 thousand at the end of June 2020. – The share of on-line loan applications filed by medium-sized and small enterprises grew up to 97% of all applications (in H1 2020; 95% a year earlier).

Net profit
(H1 2020)

PLN 583.5 million (-26% y/y)

Liczba klientów
(I półrocze 2020 roku)

4.65 million (-7% y/y)

Sales of mortgage loans
(H1 2020)

PLN 6.0 billion (+19% y/y)

Increase in the volume of corporate receivables
(Q2 2020 – annual change)

PLN 1.3 billion (+2% y/y)

COVID-19 pandemic

On the basis of information from WHO (World Health Organisation), COVID-19 is a virus disease of the coronavirus family. The first occurrence was observed in China in December 2019 and it is a pandemic affecting most of the countries in the world.

The first infection was diagnosed in Poland on 4 March 2020. In the period from 14 until 20 March 2020, a pandemic threat state was declared in Poland. On 15 March 2020, Poland's borders were closed and on 20 March 2020 the state of epidemic was declared in line with the decision of the Minister of Health. The measures to prevent the spread of COVID-19 included restrictions inter alia to travelling, business activities, use of shops, mass events were banned or schools were closed.

The restrictions have been gradually lifted step by step since April 2020. Step one of economy defrosting was set for 20 April, step two for 4 May, step three for 18 May and step four for 30 May. However, there are still various guidelines in force, inter alia related to keeping social distance or covering mouth and nose at public places when such social distance cannot be kept.

The measures were accompanied by Anti-crisis Shields launched by Poland's Government aimed at mitigating the impact of the COVID-19 pandemic on Poland's economy and at protecting jobs. Nevertheless, GDP growth in 2020, as predicted by economists of ING Bank Śląski, will be negative. At the end of June 2020, overall 34,393 persons were infected with COVID-19 and 1,463 persons died of the disease.

The situation also affected the banking sector, including our bank. In subsequent chapters of the Management Report for H1 2020, in grey frames like this one, we describe the impact of COVID-19 on Poland's economy, the banking sector, our bank, our staff and our clients.

Number of COVID-19 cases

(Poland – 30 June 2020)

34.4 thousand

Number of COVID-19 tests tested

(Poland – 30 June 2020)

1.5 million

Estimated GDP decrease

(Poland – 2020)

-4.2% y/y

Estimated increase in the unemployment rate

(Poland – 2020)

+2.9p.p. y/y

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About us

Who we are

We started our activity on the Polish banking market over 30 years ago, in 1989. We enjoy the position of one of the largest all-round banks in Poland. We render services to both retail clients and business entities.

As at the end of June 2020, we operated through 304 branches and 62 ING Express outlets. These are meeting places where our clients can ask for advice and talk. We provide our clients with modern on-line and mobile banking systems so that they can quickly and independently manage their finances.

Our organisation has two main locations – in Warsaw and in Katowice. This is where we take the most important decisions concerning the operations of our Bank. The Management Board is seated there as well. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of June 2020, as a Group we employed over 8,000 people.

We are inspiring and empowering our clients to make accurate financial decisions. We provide them with tools to make banking easy, transparent and available 24/7. Delivery of our strategy is supported by our strong brand.

Bank shares have been quoted on the Warsaw Stock Exchange since 1994. Since the very index formation (September 2013), we have been among the WIG30 companies. We are the only company from the finance sector which has been uninterruptedly present (for all its rounds) in the Respect Index (the index of most socially responsible WSE companies). Our Bank shares are included in the WIG-ESG index, which replaced the Respect Index.

How does ING Group operate in Poland

ING Bank Śląski S.A., which operates in Poland, is a parent company of the Group of ING Bank Śląski S.A. Over 30 years of our activity, as a Group we have become one of the largest financial institutions in Poland. We rank fifth in terms of total assets (over PLN 171 billion at the end of March 2020) and fourth in terms of commercial balance (sum of deposits and loans). We form the Group together with the subsidiaries, where we operate in the area of:

- leasing,
- factoring,
- financial advisory and intermediary services,
- payroll and accounting services.

The Group members are also the founders of ING for Children Foundation and ING Polish Art Foundation.

ING Bank Śląski S.A. Group composition

Changes to the composition of the Group of ING Bank Śląski S.A.

In Q2 2020, the interests in Twisto Polska Sp. z o.o. were reclassified from an associated entity to a minority capital investment.

ING Investment Holding (Polska) S.A.

ING Investment Holding (Polska) S.A. is a holding company. Through that company, the Bank holds shares in three subsidiaries: ING Commercial Finance, ING Lease (Polska) and NN IP TFI.

ING Lease (Polska) Sp. z o.o.

ING Lease (Polska) has been present in the market since 1996. Since 2012, it has been a member of the Group of ING Bank Śląski S.A. ING Lease (Polska) addresses its offer to micro, small and medium-sized enterprises as well as the largest companies operating in Poland. It supports Polish enterprises and companies by financing purchases of fixed assets in the form of leasing and lease loans. Such financing covers a broad range of assets like passenger cars and small trucks up to 3.5 t, trucks, machines and equipment, IT hardware or properties.

The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares. In H1 2020, the new lease production of the company totalled PLN 1.6 billion (a drop by 42% y/y). At the end of June 2020, the company served 32 thousand clients (up by 17% y/y) and its portfolio worth was PLN 9.9 billion (up by 2% y/y).

ING Commercial Finance S.A.

ING Commercial Finance offers factoring products. The company was incorporated in 1994 under the name of Handlowy Heller. Upon its incorporation into ING Group, since 2006 the company has been operative under the name

of ING Commercial Finance. Since 2012, it has been the member of the ING Bank Śląski S.A. Group – like ING Lease (Polska).

ING Commercial Finance is now ranked third in terms of factoring sales in Poland - according to the data of the Polish Factors Association. In H1 2020, ING Commercial Finance turnover totalled PLN 17 billion which represented 12.6% of the market turnover. In H1 2020 the company had over 5 thousand clients (growth by 32% y/y).

ING Bank Hipoteczny S.A.

On 2 January 2019 ING Bank Hipoteczny S.A. (ING BH) was granted a licence to start operations. ING Bank Śląski S.A. (ING BSK) holds 100% in the newly established entity.

The main business purpose of ING BH is issue of long-term mortgage bonds with the underlying instruments being debt claims under the mortgage-backed loans acquired from ING BSK or other banks.

The achievement of the set goal will support:

- strengthening of funding stability in the ING BSK Group,
- diversification of funding sources for the existing retail mortgage portfolio,
- adjusting maturity structure of assets and liabilities in the balance sheet,
- freeing liquidity of the ING BSK S.A. Group,
- lowering the cost of funding of the conducted lending activity in the part of the loan portfolio funded with other long-term instruments.

In its début in October 2019, ING BH held an issue of 5-year “green” mortgage bonds for PLN 400 million. The funds obtained from the issue will be used to refinance mortgage loans in PLN for natural persons, secured with mortgage belonging to 15% of the most energy-efficient buildings in Poland.

ING Usługi dla Biznesu S.A.

Since 2013, the Company has been offering its clients innovative business services beyond traditional banking. ING Usługi dla Biznesu operates in two business areas:

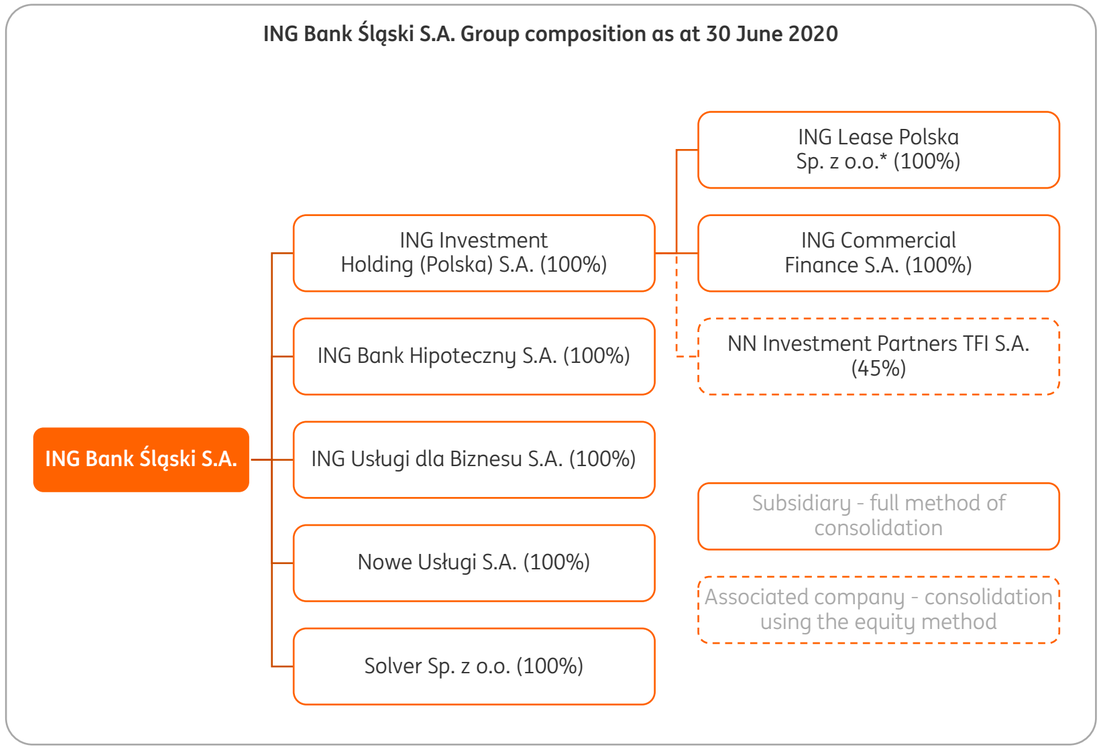
- Aleo.com – an open procurement platform for companies,
- ING Księgowość – accounting and HR+payroll services for companies with full accruals-based accounting and a platform to issue invoices and manage payments for enterprises.

Nowe Usługi S.A.

The company was incorporated in May 2014. It is involved in educational marketing activities. As far as educational activities are concerned, the company runs the website edukacjagieldowa.pl. It is a website about investing and stock exchange, both for debuting and fully-fledged investors. The knowledge database and investment-related materials are published on an ongoing basis on the website. Marketing activity centres around popularisation of ING Turbo certificates on the Polish market. The instruments are issued by ING Bank N.V. Amsterdam and quoted at the Warsaw Stock Exchange. The main activities of the company include the organisation of marketing campaigns, ING Turbo helpline service or technical support in maintaining the ingturbo.pl website.

Solver Sp. z o.o.

Solver Sp. z o.o. runs business being arranging holidays for employees and their families as well as for pensioners of ING Bank Śląski S.A. This activity is carried out in the Pan Tadeusz Training and Recreational Centre in Krynica.



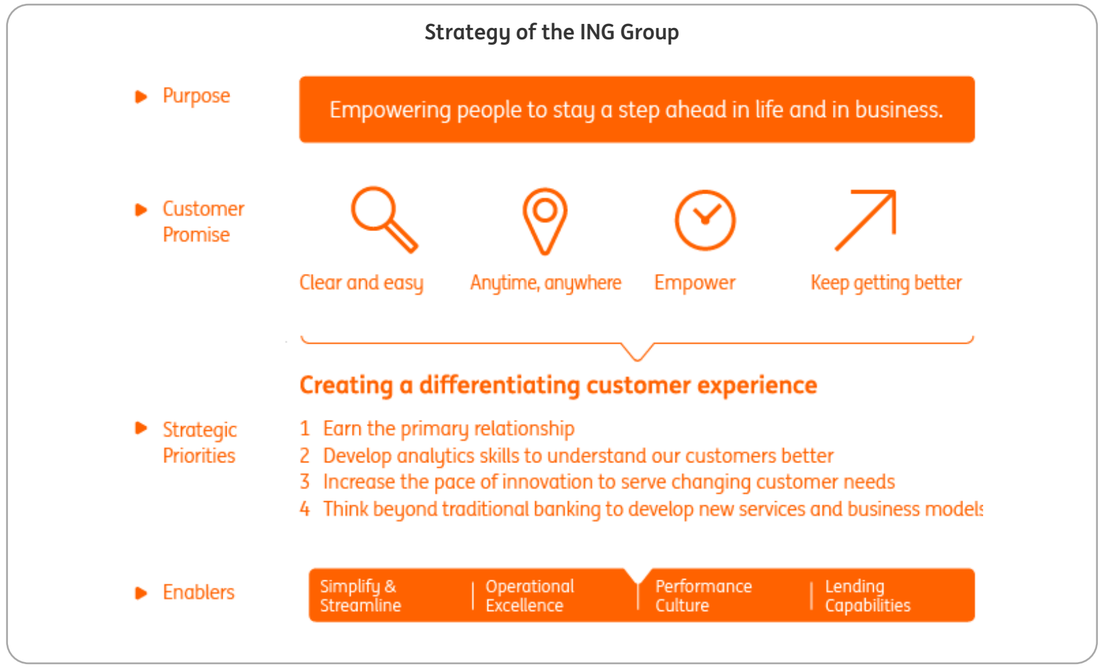
*The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares.

Business strategy of ING Bank Śląski

In 2014 we implemented the "Think forward" strategy in the ING Group. We want to be perceived as a bank for entrepreneurial people. A bank that provides its clients with life realistic solutions that they need and that they will be willing to use.

Our clients - as well as ad viewers - most probably associate us with the slogan "Liczą się ludzie" [It is people that count]. And rightly so - we wish that people - with our support - can accomplish their objectives. We often help people realise their objectives and name them.

In practice this means that - with our clients and their satisfaction in mind - we simplify our activities and the way we communicate. We expand our availability stressing the free choice of the form of contact and the time when clients can reach us. We are an organisation of committed people who derive satisfaction from keeping improving. And from the fact that we support our clients' development. We want them to make knowing choices.



Our promise

Simple and understandable banking

We talk and write to our clients clearly: without banking gobbledegook and legal intricacies. We simplify contracts and avoid asterisks. We develop intelligible on-line solutions.

Availability at any time and any place

We provide clients with access to our services from any device and at any time of day and night. We rebuild our branch offices and we adapt our cash machines to our clients' needs.

Support and inspiration

We educate clients, we advise and share knowledge. Our advisors assist clients in their decisions. We develop innovatory platforms and tools supporting finance management.

Ongoing improvement

Jointly with clients, we keep looking for new solutions and enhancements. We automate our internal systems. We involve all staff members to search for areas for improvement.

Strategic priorities

We wish to be the house bank for our clients

Clients are the basis of our business. We want that they are many and that they have relationships with us. We will be the house bank for them only when they are satisfied and find replies to their problems with us. We know that the relationship will be permanent and good as long as we see to our financial strength and stable infrastructure.

We develop our competencies to understand clients better

Developing new solutions is a core task of our organisation. That is why we keep looking for new ways of operation for us. Such that will be the best for an organisation composed of ambitious and committed people who take care of their own and others' development. Such that will increasingly involve clients in the process of product development and modifications.

We implement innovations to provide for clients' needs

We closely monitor changes and try our best to use them in multiple areas. We transform them into products and services that we develop jointly with clients. We implement state-of-the-art technologies and we remember that technologies have to be useful and secure for our clients.

We think out of the box and we offer new services that are beyond traditional banking

ING Bank Śląski means not only deposits and loans. We provide our clients with a comprehensive view of finances and we offer solutions that go beyond traditionally understood banking.

Strategic priorities and core risks in 2020

Strategic priorities for 2020	
Priority	**Execution**
Client acquisition and digitisation	– We have implemented behavioural verification and account opening with selfie. – We have implemented view to accounts with other banks (4 banks available in 2019) as part of open banking services. – We have implemented a new mobile application – ING Business. – The number of our clients has increased by 145 thousand since the end of 2019.
Compliance with regulatory requirements	– Our total capital ratio at the end of Q2 2020 was 17.47% or by 6.47 p.p. above the required level. – Our LCR ratio was 223% and the NSFR ratio – 144% at the end of Q2 2020 (regulatory minimum for both ratios is 100%)
Employee incentives	– In April 2020, we carried out our annual raise of base salaries. – We started the internal Development Initiative Exchange to share competencies and gain new experience. – We have arranged a two-day event "*Why differences matter*?" during which the participants could learn how to build effective teams and about the impact of diversity on working atmosphere and on success in efforts undertaken.
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Risks and opportunities in strategy accomplishment in 2020

Below, we present risks and opportunities in strategy accomplishment in 2020 as were identified at the end of 2019. The COVID-19 pandemic has materially changed the conditions in which we operate. That is why in the table "Risks in strategy accomplishment related to the COVID-19 pandemic" we present new risks to the accomplishment our strategy in 2020.

Risk of strategy accomplishment in 2020	
Risk	**Comment**
Macroeconomic	– Higher inflation. – No possibility for the state to balance the budget. – International instability, including trade wars.
Regulations	– Legal risk related to judgements by CJEU concerning FX mortgage loans and refund of commissions charged for consumer loan prepayment. – Uncertainties relating to the amount and structure of regulatory costs. – Regulations and practices aimed at enhancing protection of clients' interests.
Capital requirements	– Full implementation of the Banking Package, including Basel IV.
Market competition	– Ownership changes in the Polish market may be material which will increase competition and will contribute to growing marketing costs. – Growing competition in the banking sector.

Opportunities in strategy accomplishment in 2020	
Opportunities	**Comment**
Clients	– Acquisition of new clients. – An increase of the share of primary clients in the overall number of clients. – Use of the potential of electronic banking.
Sustainable Development	– Increased ecological awareness of the society. – Increased access to green energy sources. – EU climatic neutrality. – Access to new technologies.
Financial results	– Growing business volumes. – Cost effectiveness.
Capital regulations and requirements	– Decrease of regulatory costs in the banking sector. – Lower capital requirements.

Risk of strategy accomplishment related to the COVID-19 pandemic	
Risk	**Comment**
Macroeconomic / economic	– Interest rate cuts and pressure on interest margin. – Risk of economic recession. – Growth of unemployment rate. – Deteriorated economic condition of clients. – Falling property prices. – Over-liquidity of the banking sector.
Client behaviour	– The risk of non-resumed servicing of debt that is subject to credit moratorium. – Changes to client behaviour and reduced demand for financial products and services.
Regulations	– No possibility to fully adapt the prices of products and services to the increased risk level and higher costs.
Security	– Insufficient protection of employees and clients against COVID-19. – Reduced security of clients in the Internet in connection with more intensive use of the channel for banking (e.g. fraud).

Sustainable development strategy "Our Responsibility"

Today, it is up to our decisions and actions what the world will look like and what world will be available to the next generations. At ING Bank Śląski we want to have positive impact so that it is used for a just cause, for the common good. People have always been our focus and now also challenges related to the climate crisis. Therefore, in our strategy for 2020 we slightly changed the names of our priorities and decided to combine two environmental priorities in one.

Strategic objectives for 2020:	
Priority	**Objectives**
#ING for entrepreneurial people	– We support Poles in managing their finances and planning their financial future. – We support Poles in setting up and developing businesses. – We share know-how with young people.
#ING for equal opportunities	– We strive so that our products and services are readily accessible. While offering our services and solutions, we focus on the needs of all our clients. Safety is our priority. – We modify social perception of people with disabilities. We encourage them to join social and professional life. – We support equal opportunities as an employer. We care about our employees' development and their well being every day.
#ING for the climate	– We implement projects caring about the natural environment. – We share our knowledge about sustainable development, circular economy, climate changes in Poland. – We have been reducing our environmental impact.

Major events in H1 2020

A list and description of core events in H1 2020 can be found in item 2 of the consolidated semi-annual report for the period of 6 months ended on 30 June 2020 on page 10.

Awards and distinctions

Our actions focusing on offering attractive products to clients, our care for high service quality, actions and practices for sustainable development and outstanding commercial and financial results have been honoured with multiple awards and distinctions. Below we present the most important ones awarded to us in H1 2020:

- Super Ethical Company 2019 awarded by the publisher of Puls Biznesu.
- 2020 "Service Quality Star" in the "Banks" category in the thirteenth edition of the Polish Service Quality Programme.
- The first position in the ranking Banker of the Year by "Forbes" to Brunon Bartkiewicz – President of ING Bank Śląski.
- Third position in the annual review of investor relationships in WIG30 companies, organised by Gazeta Giełdy "Parkiet" and the Chamber of Brokerage Houses.
- Top Quality HR Certificate for HR standards and practices implemented for the current as well as the future and former employees, awarded by the Polish HR Management Association (PSZK).
- Institution of the Year 2020 in six categories: the best service at branches, the best mortgage services, the best bank for companies, the best internet banking, the best mobile application, the best press office. Branches of ING were also classified among the best banking outlets in Poland. Ranking on the basis of an expert review on mojebankowanie.pl.
- Four awards in Innovation 2020: a gold statue for the Prostomat application, a silver statue for Agregator and two bronze statues for ING Księgowość and EKO campaign. ING Bank Śląski was also ranked second in the overall competition as one of the most innovative companies.
- First position in the Ranking of Responsible Companies organised by the Koźmiński Business Hub. The bank was first in the overall classification and additionally in the following categories: banking, financial sector and insurance sector.
- CSR Gold Leaf Award by Polityka for ING Bank Śląski as an organisation standing out with actions for sustainable development. The bank was also awarded for its involvement for climate in the area of electromobility.
- The second place for ING Bank Śląski among banks in Poland in the Forbes World's Best Banks 2020 ranking.
- The first position in the Banking Star 2020 general ranking. The bank was also classified first in the following categories: "Customer Relationship Star", "Innovation Star" and "Effectiveness Star" and second as "Stability Star". Distinctions awarded by Dziennik Gazeta Prawna and PWC.
- The second position in the Best Bank 2020 contest and the third position in the TechnoBiznes 2020 contest in banking awarded by Gazeta Bankowa.
- Gold banker in the "Social media" category. Ranking developed by the publishers of Bankier.pl and Puls Biznesu.
- Three distinctions from WSE in the Summary of the Stock Exchange Year 2019: "WSE Award in the Main Stock Market" for ING Bank N.V., "WSE Award for Catalyst" for ING Bank Hipoteczny and "BondSpot Award" for ING Bank Śląski.

A full list is available at https://www.ing.pl/o-banku/nagrody-i-wyroznienia.

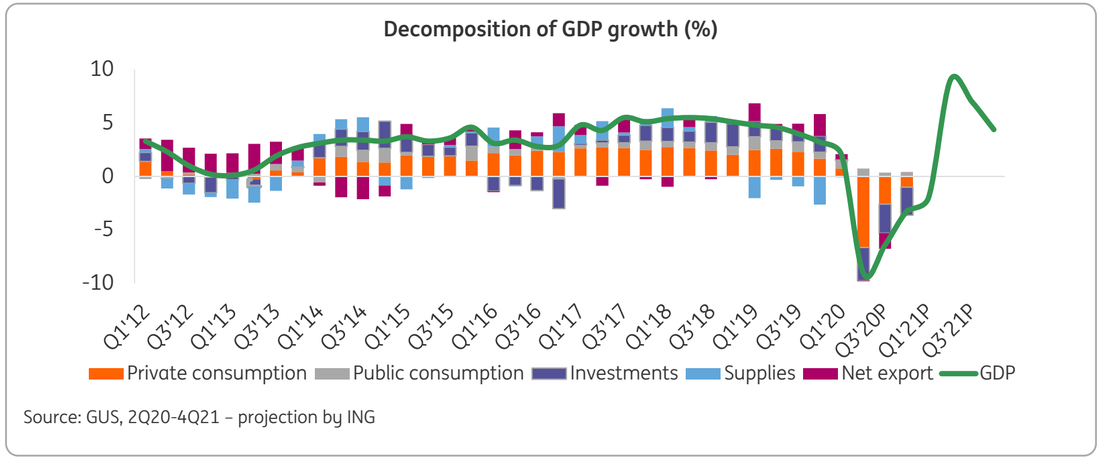
Our environment

Core trends in Poland's economy

Gross Domestic Product

As estimated by the economists of ING Bank Śląski, in H1 2020 Poland's economy entered a recession. The security measures implemented to fight the pandemic in fact stopped the functioning of a major part of services and reduced consumer spending. Poland did not decide to implement a mandatory closing of workplaces; however, a number of production sectors did suspend their operations, for instance due to a standstill by their cooperating parties abroad, low demand or no supplies of components from abroad. The above related inter alia to production of cars and furniture. Due to a major diversification of industry (in particular a lower share of motor industry than in the region) and a low share of tourism, the economic downturn was not as severe as in come other economies in the region.

In the opinion of the economists of ING Bank Śląski, in H2 this year the market conditions will improve which however will not fully compensate for the effects of the recession from the first half of the year. Most probably, the core problem of the national economy will be a major drop of investments and consumption. The willingness of enterprises to invest was low before the pandemic. Major uncertainties related to the development of the COVID-19 pandemic in Poland and with many Poland's trading partners will only intensify the problem. In turn, low consumer spending is the result of decreasing income and prudence of Poles. Our surveys we have been holding in 15 countries all over the world show that Poles are cautious about new spending despite a relatively small epidemic and gigantic support programs. The recession would be much more profound were it not for the large fiscal impulse launched by the government. Contrary to other emerging economies, the support funds to enterprises were largely non-repayable. Access to the support was subject to retaining employment which materially slows down the growth of unemployment.



Source: GUS, 2Q20-4Q21 – projection by ING

Labour market and salary levels

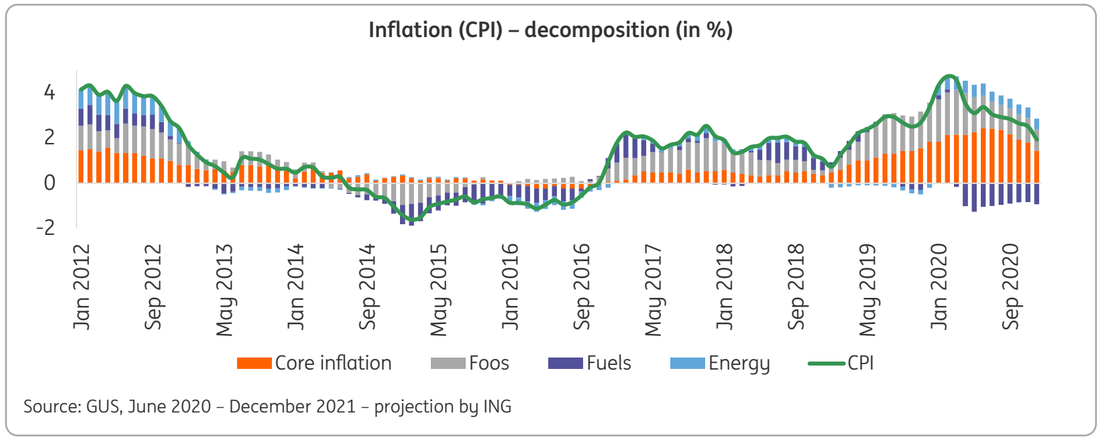
The outbreak of the pandemic resulted in a major adjustment to salary growth and a certain growth of unemployment. In February 2020, the nominal salary growth in the enterprise sector was stable at almost 9% y/y while in March it significantly slowed down to 6.3% y/y. And in April there was another drop in the salary growth rate (to 1.9% y/y) which decreased even more to -1.2% in May. That was due to salary decreases in sectors that were primarily exposed to reduced demand and implementation of solutions making employment more flexible as provided for in the anti-crisis shields. Without those solutions, the growth of unemployment rate would have been higher. In June, the registered unemployment rate grew up to 6.1% from 5.5% at the beginning of the year and 5.4% a year earlier.

The economists of ING Bank Śląski anticipate a gradual deterioration of the labour market in the months to come along with expiry of the anti-crisis protective regulations. The continued uncertainties as to a second wave of the COVID-19 pandemic make companies reduce their payroll. In the opinion of the bank's analysts, in H2 salary growth

in the enterprise sector will be negative while the registered unemployment rate will grow to about 7-8% at the end of the year.

Inflation

Inflationary processes in H1 were significantly disturbed with the shock of the COVID-19 pandemic. In Q1 2020, CPI was 4.5% y/y versus 1.2% y/y in the equivalent period last year. The inflation growth by 1 pp above the upper limit of NBP's inflation target was due to a material acceleration of base inflation (from 1.1% y/y in Q1 2019 up to 3.4% in Q1 2020) and a growth of prices of foodstuffs and fuels. The rapid drop of oil and other commodity prices in response to the recession resulted in a major weakening of inflationary pressure and a drop of CPI to 2.9% y/y in May. However, the base inflation in June soared to the highest level since 2001. The short-term inflation drop is counteracted with a mechanism of price estimation applied by GUS due to unavailability of certain prices and sanitary restrictions. Additionally, inflation drop is prevented by a pick-up of deferred demand, closure of borders and increased demand for tourist services and increases of regulated prices. As a result, CPI in June was 3.2% y/y. In the opinion of the bank's economists, the CPI inflation in H2 and in 2021 will return to a downward trend due to a major drop of aggregated demand, labour costs and a high reference base. The lower CPI inflation in H2 2020 will also result from supply factors – lower fuel prices and decreased natural gas prices by almost 10% from July 2020 and a deceasing inflation of foodstuff prices reduced coverage of drought. The disinflation path will continue in 2021. In H1 2021 inflation will drop to about 1.5% which is the lower range of price changes around the target of the National Bank of Poland (2.5% y/y). The anticipated gradual improvement of business conditions will contribute to normalised inflation in 2022.



Source: GUS, June 2020 – December 2021 – projection by ING

Impact of the situation in global financial markets on Poland's economy

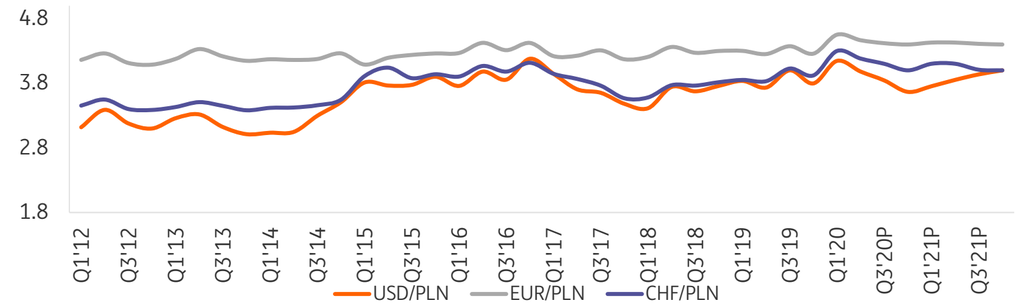
The spread of the pandemic to developed economies was encountered with a clear response of the major central banks. Interest rates were cut to record-low levels before the crisis and thus asset purchase programmes became a key element of monetary policies. It is only this year that the balance sheet of Federal Reserve grew by about 70%. As a result, the situation in stock markets was restored and it was additionally translated into a weakened US Dollar to EUR. In the opinion of ING's economists, the €/US$ exchange rate will be above 1.15. Also the European Central Bank was extending its assets but on a smaller scale. This year its assets grew by over 30%. Along with the global economy overcoming the downturn after the pandemic, capital will probably be outflowing from developed economies to more profitable emerging markets. However, the scale of outflow from the USA will be larger than from the euro zone.

In 2020 PLN has been faring almost identically as other currencies in the region, e.g. the Czech crown. Along with the outbreak of the pandemic in Europe, CEE currencies lost 7-10%. Even a large scale of asset purchases and a major increase growth of NBP's balance sheet do not harm PLN. NBP has already purchased large supplies of papers from MinFin/BGK and PFR while foreign investors had already been underweighed in Polish bonds. The weakening of PLN that we observed in the time of economic slowdown in the past – due to a large supply of debt and sale of T bonds – now is not expected to happen. Also the recent very good information on the surplus in the current account of the

balance of payments should support PLN. In the opinion of the economists of ING Bank Śląski, the €/PLN exchange rate will remain stable – almost 4.40-4.50 until the end of the year.

The easing of monetary policies in Poland and abroad resulted in a major drop of yields of Polish T bonds. This year bond yields have been recording historic minimum values. In the opinion of the economists of ING Bank Śląski, they will remain low further on in the year. It is also probable that asset swaps will shrink. Demand for domestic debt is generated primarily by Polish banks. Operations by NBP and fund distribution from anti-crisis programs generate increasing over-liquidity in the banking sector which is subsequently invested in T bonds. Additionally, the Monetary Policy Council has convinced investors that no changes to interest rates are to be expected in the coming quarters.

PLN exchange rates



Source: NBP, projection by ING

Public finances

The situation of public finances in H1 2020 reflected the slump in revenues due to the recession as well as high fixed expenditures and new expenditures to prevent a downturn in the economy. Although the scale of the spread of the COVID-19 pandemic in Poland was much lower than for instance in Italy or Spain, the supply and demand shock was due to problems in international trade and lockdown of the economy, in particular between mid-March and mid-May 2020. The crisis completely modified the original budgetary plans for the year, including the rhetoric of a planned zero-deficit state budget for 2020. The operation of automatic stabilisers during the recession resulted in a rapid drop of tax revenues and a growth of certain social expenditures. Additionally, the government decided to launch a high discretionary impulse to support the liquidity of micro, small and medium-sized enterprises and income of employees. In the opinion of the economists of ING Bank Śląski, the deficit of public finances may reach 9-10% of GDP in 2020 versus as little as 0.9% of GDP in 2019.

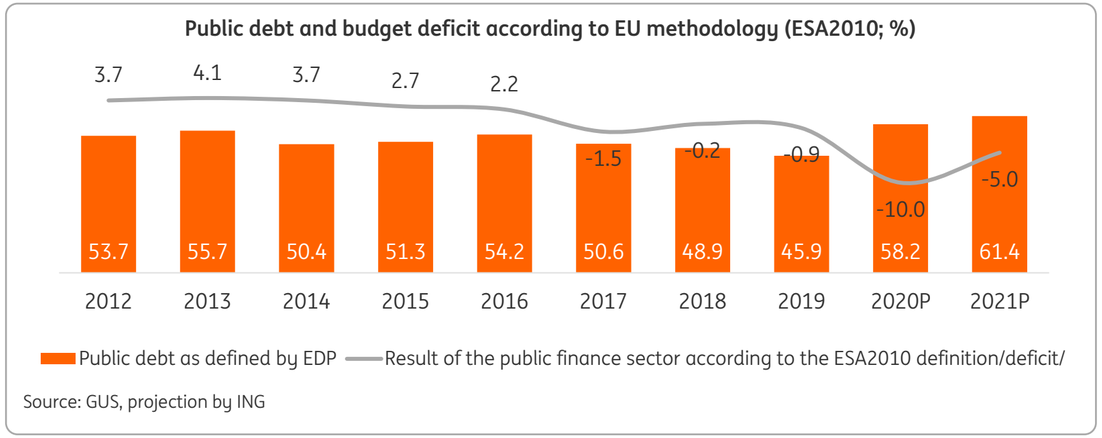
Protective activities during the COVID-19 pandemic

The anti-crisis shield became effective at the beginning of April 2020 and covered inter alia subsidies to salaries, standstill benefit, extended child-care holidays, waiver of ZUS premiums for three months for micro enterprises and one half of employees in small enterprises, micro loans and other benefits for dole proprietors and people with civil law contracts. Additionally, the government promised a major increase of public investments. To a large extend, the new public expenditures were financed with the new Covid-19 Counteraction Fund, administered by BGK and funded mainly with bond issues by BGK that are not classified as public debt in line with the domestic methodology. By mid-July, BGK issued bonds totalling PLN 62.9 billion.

A core change to the government's strategy to fight the pandemic occurred at the end of April with the financial shield of the Polish Development Fund of PLN 100 billion addressed to all classes of enterprises and funded with issues of new bonds by PFR. In that shield, companies that recorded a drop of minimum 25% in revenues in a month versus previous months of 2020 or versus the equivalent period of the preceding year, were entitled to obtain a financial subsidy. When headcount in those enterprises is maintained for 12 months, as much as 75% of the subsidy will be cancelled. Ultimately, that will be charged to the State budget in the near future, in line with the redemption schedule of the PFR bonds. Disbursements of the subsidy to SMEs were very fast since the applications were based on a simplified procedure and made via electronic systems of banks. By end-July 2020, PFR issued PLN 62 billion worth of bonds of which PLN 60.5 billion were disbursed to companies.

Due to the transfer of costs of crisis fighting outside the State budget – to development institutions: BGK and PFR – the data on State budget performance in H1 2020 was relatively good and as at the end of June the deficit was about PLN 17 billion. In H1 2020, tax revenues were by 6.7% lower than a year earlier. That was due to the fact that the fiscal

response to the crisis was concentrated on the expenditure side and not tax side. Nevertheless, an amendment to the state budget approved with a zero deficit has been announced for August.



Source: GUS, projection by ING

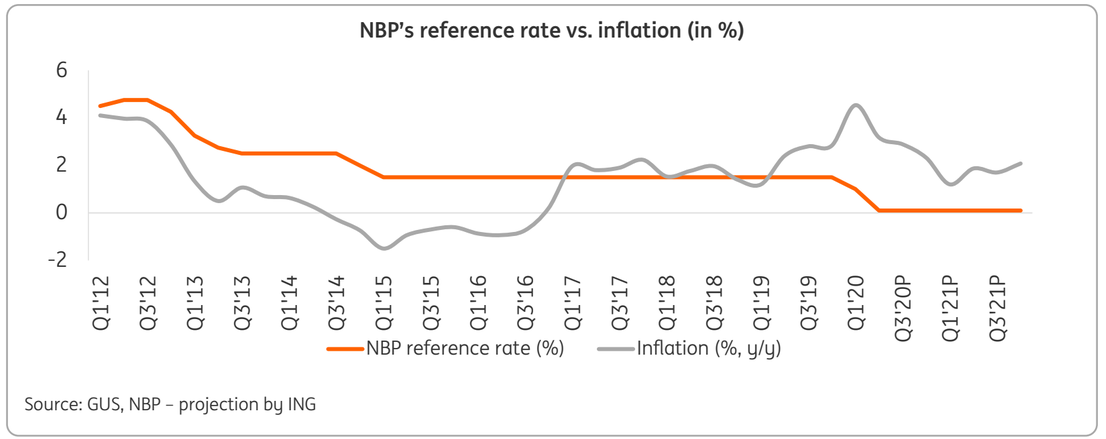
In the opinion of the economists of ING Bank Śląski, in 2020 the deficit of the public finance sector will be 9-10% of GDP since the expenditures financed by BGK from the Covid-19 Counteraction Fund and a part of PFR subsidies to be cancelled will be recognised as public finance sector transactions in compliance with the EU methodology. At the end of 2020, public debt calculated with the Eurostat methodology will exceed 55% of GDP versus 46% of GDP at the end of 2019. For 2021 a high deficit of 5% of GDP is anticipated to support the recovery of the economy after the pandemic as well as a further growth of public debt. The consolidation of public finances will commence not earlier than in 2022.

Monetary policies

After 5 years of no change to interest rates (reference rate of 1.5%), the Monetary Policy Council (RPP) immediately responded to the economic shock caused by the pandemic. RPP launched purchases in the secondary market of T bonds and bonds of BGK and PFR, guaranteed by the State Treasury. Between mid-March and the end of May RPP cut interest rates three times, jointly by 140 bps to almost zero (reference rate of 0.10%). Additionally, after the RPP's decision in March, at the end of April there was a reduction of required reserve from 3.5% down to 0.5%, earning interest at the reference rate. Since the end of May 2020 NBP's interest rates have been as follows:

- deposit rate – 0%.
- reference rate – 0.10%,
- bill discount rate – 0.12% (a new instrument launched in March 2020),
- bill re-discount rate – 0.11%,
- lombard rate – 0.50%.

In mid-March 2020, RPP took a decision to commence an asset purchase program and the scale of Polish QE is among the largest in emerging markets. By mid-July, NBP arranged 10 auctions and purchased bonds with the nominal value of PLN 101.3 billion (4.6% of GDP), with the largest amount in April. T bonds accounted for about one half of the growth of NBP's balance sheet while the other half was made of bonds of PFR and BGK which predominated at the most recent auctions.



Source: GUS, NBP – projection by ING

Banking sector

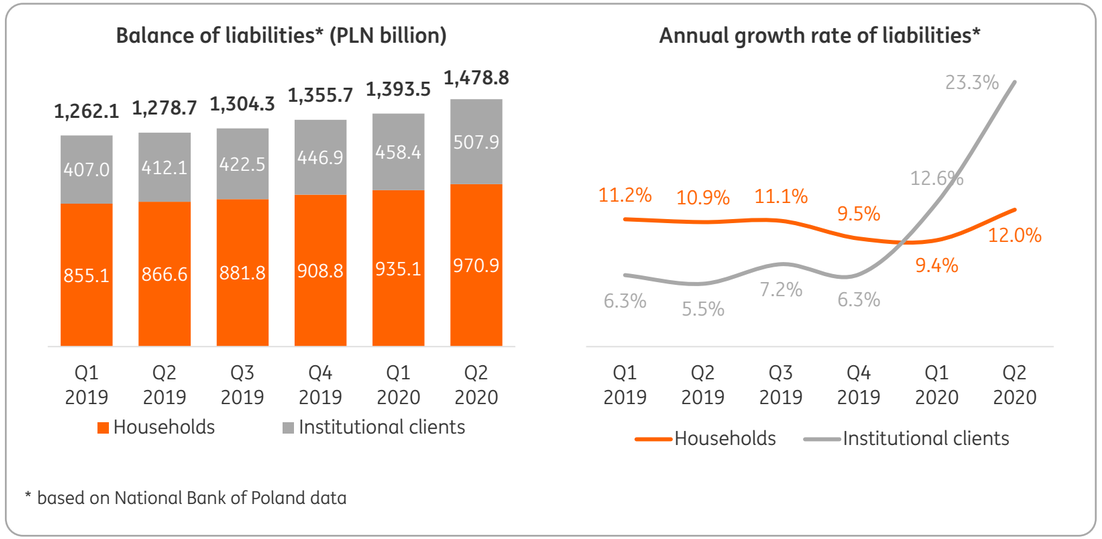
Receivables and liabilities

The COVID-19 pandemic changed the volumes of loans and deposits in the banking sector – with various effects.

With respect to deposits – deposits from the non-financial sector were supported with redemptions of TFI participation units (household deposits) and inflow of funds under the PFR Anti-Crisis Shield (deposits of households and enterprises).

As of the end of June 2020, the basic cash categories were as follows:

- Liabilities vis-a-vis households grew by PLN 104.3 billion versus the end of June 2019 up to PLN 970.9 billion – 12.0% higher than a year earlier.
- Liabilities vis-a-vis institutional clients totalled PLN 507.9 billion, up by 23.3% compared to a year earlier. The volume increase by PLN 95.8 billion was primarily attributed to higher liabilities vis-a-vis enterprises (up by 30.0% i.e. by PLN 84.4 billion) and liabilities vis-a-vis non-monetary financial institutions (up by 14.1% i.e. by PLN 7.9 billion) Liabilities vis-a-vis non-commercial institutions operating for households grew by 7.1% or by PLN 1.9 billion. On the other hand, liabilities vis-a-vis local government institutions and FUS went up by 3.5% or by PLN 1.7 billion.



* based on National Bank of Poland data

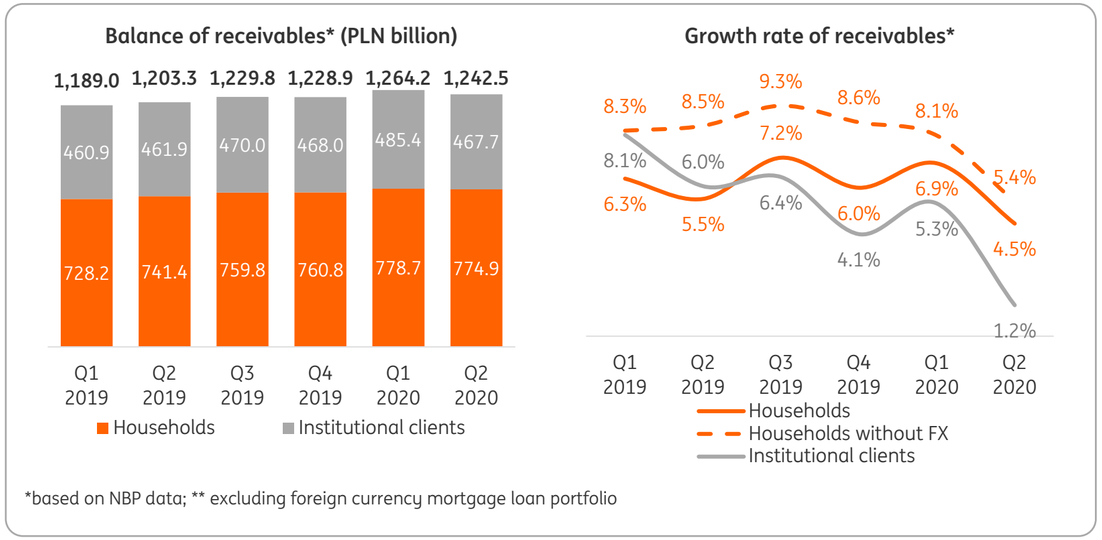
With respect to loans – the annual growth rate of loans to households kept decreasing month after month but remained positive. That was supported with a relatively high demand for PLN mortgage loans which covered up the drop in other loans to households. The PLN weakening to CHF made the volume of FX mortgage loans grow versus the end of 2019, covering the natural amortisation of the portfolio. Loans of institutional clients maintained the annual growth like in the previous years until May while in June it was much lower. The funds under the PFR Anti-Crisis Shield may be partly used to repay debt. The demand for loans by institutional clients may remain low due to uncertainties with respect to demand for their products and services or the economic condition of Poland and our major trading partners – which is already visible in date on recent sales published by NBP.

Loan moratoriums are a major element affecting the volumes in the sector in H1 2020 both with respect to loans to households and loans to institutional clients. Popularly called "loan repayment holiday", loan moratoriums that provide for suspension of principal repayments (solely or in combination with interest) postpone natural amortisation of clients' receivables.

Receivables from households reached PLN 774.9 billion in June 2020 and were up by 4.5% compared to the previous year. Housing loans, accounting for a major part of banks' loan exposures to households, grew by 8.4% up to PLN 463.2 billion (including PLN denominated housing loans that grew by 11.8% up to PLN 340.3 billion).

Receivables from institutional clients were up by PLN 5.7 billion (+1.2%) to the level of PLN 467.7 billion compared to June 2019. This is made up of the following elements:

- Receivables from enterprises grew by PLN 0.4 billion (+0.1%),
- Receivables from non-monetary financial institutions grew by +5.2% y/y (PLN 3.8 billion) versus June 2019,
- receivables from local government institutions and social insurance funds grew by 3.9% y/y (PLN 1.3 billion).
- receivables from non-commercial institutions, acting for households grew by +3.7% y/y (PLN +0.3 billion).



*based on NBP data; ** excluding foreign currency mortgage loan portfolio

Financial results and asset quality

The impact of the COVID-19 pandemic was also visible in the results of the banking sector. Interest rate cuts, changes in clients' behaviour (including reduced activity) or the anticipated deterioration of the condition of Poland's economy resulting inter alia from the lockdown were translated into pressure on revenues (primarily net interest) or higher risk costs.

In the first five months of 2020, the net profit of the financial sector (on the basis of PFSA's data) dropped by 42% y/y down to PLN 3.4 billion. The core reasons of such drop of net profit was a significant growth of risk costs (by 49% y/y) and reduced revenues (by 3% y/y). Net interest grew by 3% y/y due to higher business volumes; however, interest margin was under pressure due to interest rate cuts by RPP. Other revenues, including fee and commission revenues, dropped versus the previous year (-17% y/y). That was primarily due to negative revaluation of financial assets measured at fair value and due to provisions that banks established as a result of CJEU judgements relating to FX mortgage loans as well as settlements with clients with respect to fees and commissions in case of prepaid loans.

The growing risk costs were most probably due to the COVID-19 pandemic and the anticipated resultant deterioration of prospects for Poland's economy. The risk costs margin grew from 69 bps last year to 98 bps.

The negative revenue growth (-3% y/y) versus operating costs (including bank tax; 0% y/y) resulted in a deteriorated income to cost ratio up to 61.7% from 59.8% a year earlier.

Gross profit of the sector was PLN 5.5 billion (-32% y/y). The income tax burden to the sector decreased versus the previous year by 8% y/y due to the lower gross profit. BGF costs (both with respect to deposit guarantees and the resolution fund) and the bank tax are not tax deductible.

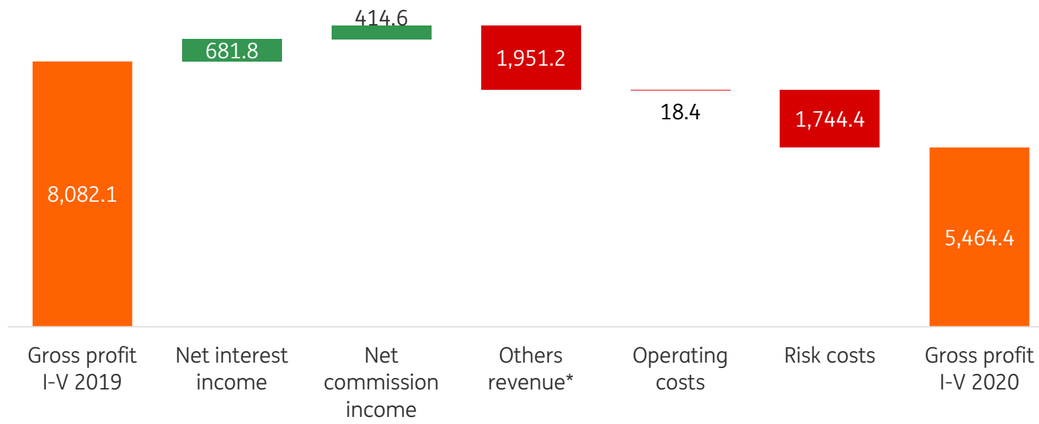
The core performance metrics of the banking sector were as follows (y/y):

- return of assets (ROA) was 0.39% versus 0.73% a year earlier,
- return on equity (ROE) dropped from 6.9% down to 3.8%.

The share of receivables in stage 3 (PFSA's data) in overall receivables was 6.4% in May 2020 (6.3% in May 2019).

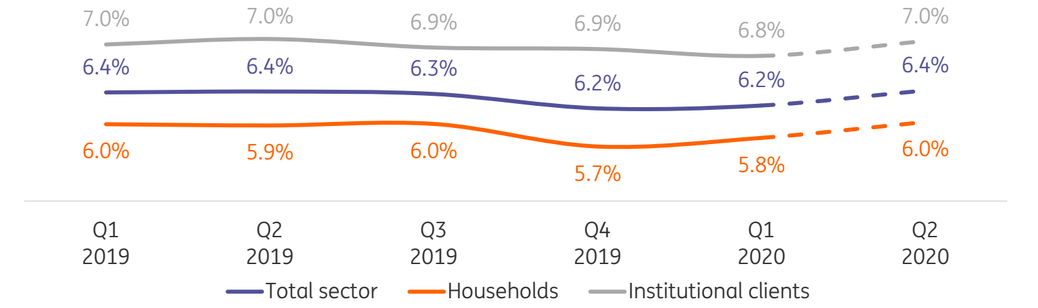
In May 2020 the share of receivables from households in stage 3 was 6.0%. In the institutional client segment, receivables in stage 3 accounted for 7.0% of the portfolio.

Change drivers for gross profit of the banking sector January – May in 2020 (PLN million)



Source: PFSA's data; *including the share of profit in related entities

Share of receivables at stage 3



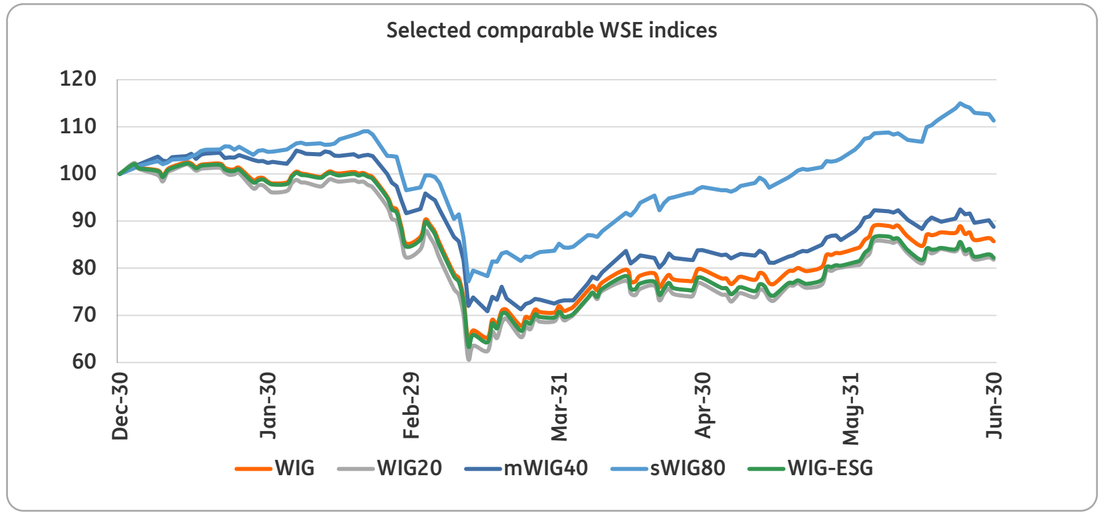
Source: PFSA's data; data for May 2020 for Q2 2020

Capital market

Warsaw Stock Exchange (WSE)

The core indices at the Warsaw Stock Exchange closed H1 2020 at lower levels than at the end of 2019. The broad market index – WIG lost 14.3% versus the end of 2019. The results were similar to the indices for highest capitalised companies – WIG20 lost 18.2% and mWIG40 -11.3%. The index of smaller companies sWIG80 closed H1 2020 with an increase – it gained 11.4% versus the end of 2019. The drops of the core WSE indices are a market response to the COVID-19 pandemic and its economic effects in Poland.

Selected comparable WSE indices



At the end of June 2020, 440 companies, including 48 foreign companies, were listed at the Main WSE market. The capitalisation of domestic companies was PLN 472.9 billion which was by 14.1% lower versus the end of December 2019. The total capitalisation of domestic and foreign companies was PLN 865.6 billion which was a drop by 21.6% versus the end of December 2019. In the last six months, there was 1 début and 10 companies were delisted.

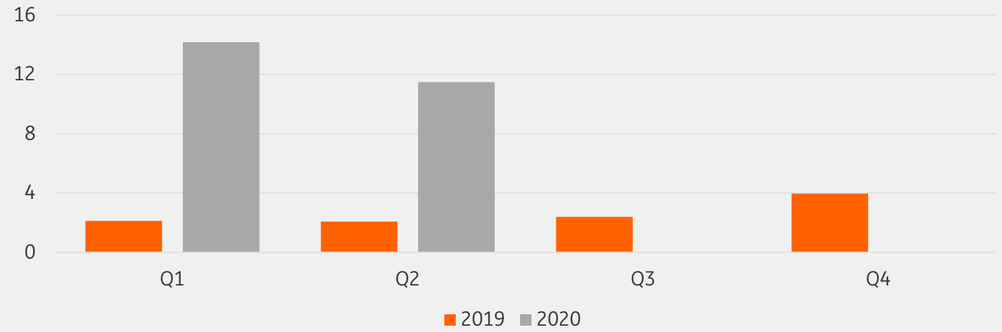
H1 2020 was characterised with a significant growth of trading volumes in the Main Market. The volume of session trading grew by 34.7% versus the equivalent period last year and amounted to PLN 131.4 billion. The value of total turnover (including block trades) grew by 34.8% up to PLN 134.3 billion. The growing trading volumes may be attributed to high price volatility and an increased interest in brokerage services which was visible in KDPW statistics concerning new stock accounts opened during the COVID-19 pandemic.

Operations of the Brokerage Office of ING Bank Śląski during the COVID-19 pandemic

The growing interest in brokerage products in the market was directly translated into the operations of our brokerage office. In H1 2020, the number of stock accounts in Poland grew by 73 thousand of which 35% were opened with ING Bank Śląski BM (second result in the market). March and April 2020 were record months in that respect – in those two months we opened 60% accounts out of those opened in H1 of the year. As at the end of June 2020 we held totally 116.6 thousand stock accounts, which was a growth by 32 thousand (38%) y/y.

The activity of individual investors is also reflected in our market trading volumes – in H1 2020 our share in market stock trading volumes was 3.91% (1.67% a year earlier) and in the record month of June it was as much as 5.51%. Brokerage commissions generated in H1 2020 grew by 198% y/y.

Number of newly opened brokerage accounts net - ING Bank Śląski BM (thousand)



Investment funds

As at the end of June 2020, the assets of investment funds (based on IZFiA data) amounted to PLN 252.6 billion, i.e. down by PLN 15.3 billion (-5.7%) compared to the end of 2019. A significant scale of redemptions in March and April 2020 resulted in net redemptions with investment funds in H1 2020 of PLN 17.3 billion (of which net redemptions in March and April were PLN 23.0 billion).

The decrease was due to a lower value of funds in non-dedicated funds (available for a broad group of investors) by PLN -20.0 billion (down to PLN 144.6 billion). At the end of H1 2020 dedicated funds managed assets of PLN 108.1 billion (PLN +4.6 billion or +4.5% versus the end of 2019).

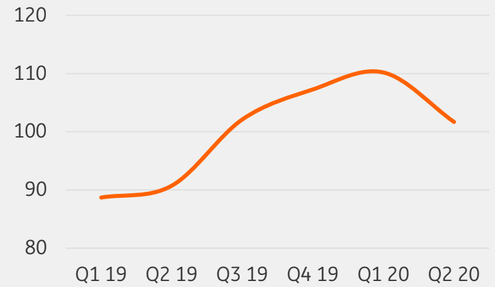
Under non-dedicated funds, in H1 2020 in nominal terms it was only mixed funds that grew (+1% versus the end of 2019) and losses were generated primarily by cash and bond funds (-16%), stock funds (-8%) and absolute return funds (-8%).

Savings of ING clients in investment funds during COVID-19

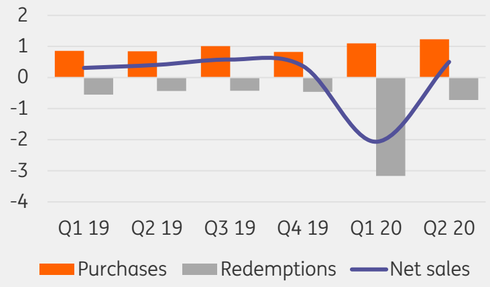
High volatility in financial markets and decreasing prices in financial markets have been translated into activity of clients saving in investment funds. That was very well visible in March 2020.

The number of clients who closed their regular investment instructions (DRI) was record high; however, in May the situation stabilised. The number of clients with active DRI as at the end of June 2020 was 101.7 thousand versus 107.3 thousand as at the end of 2019. Closing of DRI is not equivalent to redemption of participation units in funds. However, with respect to purchases and redemptions of units in open-end investment funds, the dynamics of changes was similar to that of DRI. March 2020 – similarly to the entire sector – was characterised with high redemptions and in the next three months the amount stabilised. In May and June 2020 clients returned to the market of investment funds – we noted record high net purchases in those months.

Number of active DRI in investment funds as at the end of the quarter (thousand)



Value of purchases and redemptions of TFI investment units by ING clients (PLN billion)



Pension Funds

In June 2020, the assets of OFE amounted to PLN 131.7 billion, i.e. down by PLN 23.1 billion (-14.9%) compared to the end of 2019. As at the end of June 2020, 82.2% of those assets were stocks by Polish and foreign issuers (83.1% as at the end of 2019).

As a result of the COVID-19 pandemic, Poland's government deferred the OFE reform which was to transfer the funds collected in OFE to Individual Pension Accounts (IKE). The current plan provides for a transfer savings in OFE in 2021 (originally planned for 1 June 2020). The reform provides for an automatic transfer of funds to IKE; however, when so requested by beneficiaries, the funds may be transferred to ZUS. The transfer of funds from OFE to IKE will generate a 15% transformation fee (in two tranches of 7.5% each).

The COVID-19 pandemic has also suspended the implementation of further steps of Employee Capital Plans (PPK). In the spring of 2020 the programme was to be joined by entities employing fewer than 249 people. The stage was postponed until the autumn and will be implemented jointly with another step – implementation of PPK in companies employing 20 to 49 employees.

Macroeconomic factors that may affect our operations in H2 2020

The business environment in H2 2020 will be most probably determined by the development of the COVID-19 pandemic in Poland and among its core trading partners. Despite the restrictions to counteract to the epidemic being lifted, in the European Union so far no second wave of the virus has occurred. The example of the USA shows that such risk exists and may result in a renewed application of the quarantine to certain areas and sectors. We have recently seen a second wave of COVID-19 cases, including in Spain, Romania and the Balkan countries.

After the summer holidays, the presidential campaign will start in the USA. An important element to be covered in the campaign may include trade policies and an attempt of damages from China for the breakout of the global epidemic. The potential effect may be a return to protectionist policies between the USA and China. The experience in 2019 shows that this would have a materially adverse impact on export-dependent economies like Germany. However, Poland is expected to prove to be relatively resilient as compared to Czechia or Hungary due to a more differentiated industry structure.

The uncertain prospects of core economists, in particular the USA, in the opinion the economists of ING Bank Śląski mean that the major central banks, for instance the Federal Reserve and the European Central Bank, will have to continue their accommodating monetary policies or to ease them further. In particular, the above covers the maintenance of low interest rates and a potential growth of balance sheets of those institutions as a result of asset purchases. That will probably result in unchanged bond yields – including Polish bonds – at relatively low levels.

Low private investments will most probably remain a problem of Poland's economy in H2 2020. The willingness of enterprises to invest was low before the pandemic. COVID-19 is an additional risk factor preventing an accurate assessment of economic prospects. Demand for loans on the part of companies may weaken. Companies may use

funds acquired as public aid to fund their outlays, e.g. coming from new EU funds. Most probably that will not apply to construction-related sectors. Approval of the EU budget programme, including the Reconstruction Fund, will most probably generate a strong growth of infrastructure investments throughout the EU. That means that construction entities may be more willing to expand their production potential.

In the opinion of the economists of ING Bank Śląski, the Monetary Policy Council will retain almost zero interest rates until the end of 2021. This view is supported with NBP's pessimistic projections providing for a deep recession in 2020 and a moderate economic pick-up and low inflation in 2021. RPP will continue to purchase assets. The economists of ING anticipate that by the end of the year NBP will purchase additional bonds for almost PLN 50 billion with the programme continued until mid-2021. That is based on a projection of a public finance deficit of about 5% of GDP in 2021, a consensus within RPP with reference to the sense of the programme and certain inertia in pursuing similar programs by other central banks. Due to the continued high uncertainties in global economy and the risk of a second wave of the pandemic, further easing of monetary policies at the turn of the years may not be ruled out.

Macroeconomic projections

	2017	2018	2019	2020P	2021P
PKB growth rate (%)	4.9	5.4	4.2	-4.2	4.5
General government sector debt according to EU methodology (% GDP)	50.6	48.9	45.9	58.2	61.4
Average annual inflation (CPI) (%)	2.0	1.7	2.3	3.1	1.7
Unemployment rate (%; end of the year)	6.6	5.8	5.2	7.7	6.6
USD/PLN exchange rate (year-end)	3.48	3.76	3.80	3.67	4.00
EUR/PLN exchange rate (year-end)	4.17	4.30	4.26	4.40	4.40
WIBOR 3M (year-end)	1.7	1.7	1.7	0.3	0.3

Operations of the ING Bank Śląski S.A. Group in H1 2020

Our business model

We are a universal bank and along with other companies in the group we provide services to both individual clients and corporate clients.

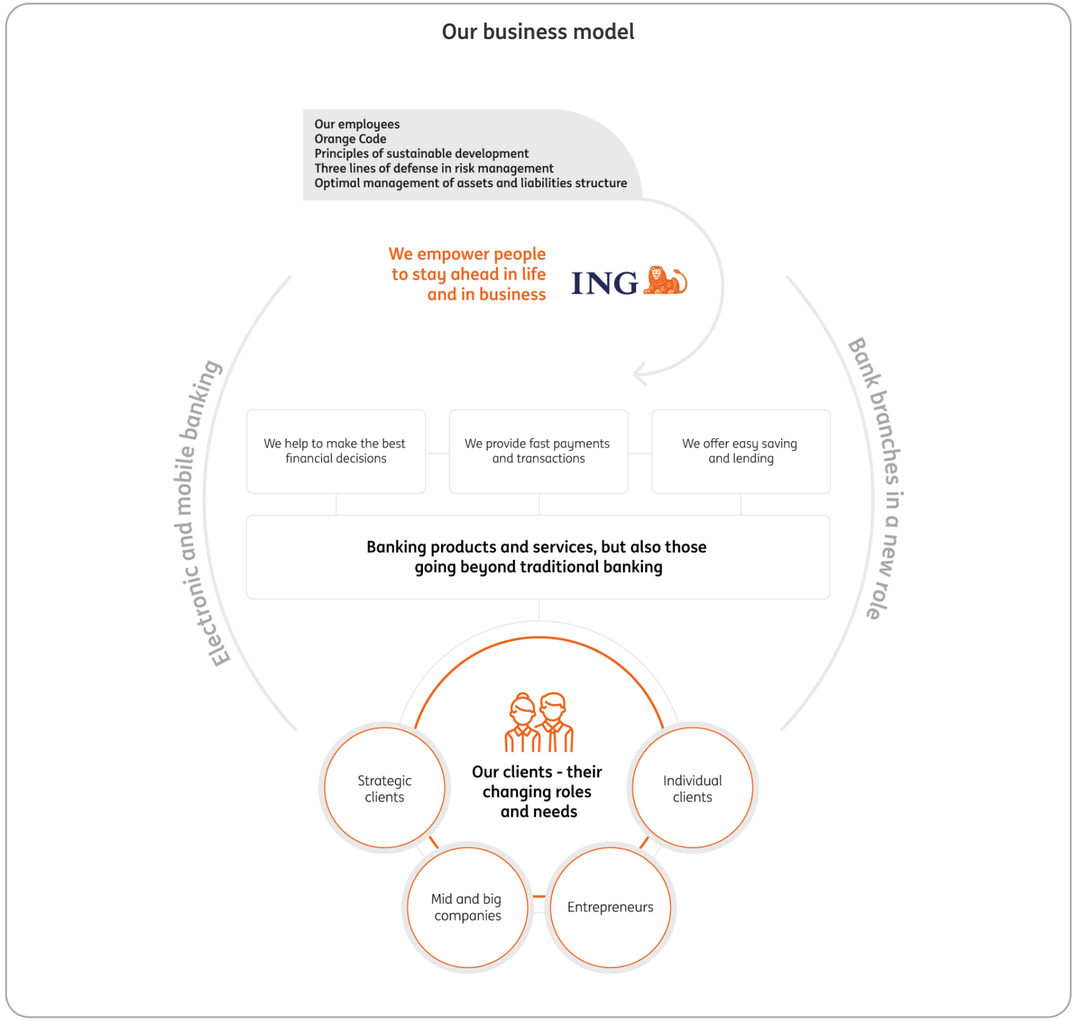
Effective functioning of our business model relies on a group of over 8 thousand staff members. What we value is motivation, diversified experience, seniority and abundant knowledge. We base our work on our code of ethics - Orange Code or a set of ING Conduct and Values.

We are aware that we impact multiple economic processes and individual choices and it is up to our decisions what the world will look like and what reality will be there for the next generations. That is why in our business and non-business decisions we follow the principles of sustainable development.

As a public trust institution, we are aware of the importance of stability and an effective risk management system for the banking sector and the entire economy. In our bank, the system is constructed in compliance with best market standards on the basis of three lines of defence with the first line managing business, the second line managing risk and finances and the third line comprises internal audit. We also care for optimum management of the asset and liability structure of our balance sheet in line with our risk appetite limits.

Our mission is to **support and inspire people to be one step ahead in life and business.** In everybody's life, roles in the society change: from a child, to student, parent, business person, bank employee, our vendor or employee of another company until retirees. This is a certain trip during which clients will make various important private and business choices. We, as a Bank, help them in taking the best financial decisions for them. That is why we share knowledge and provide tools to our clients as well as solutions that are simple, useful and suited to their needs. We make them better understand their own financial situation.

Our role is to provide opportunities for secure and effective savings. Deposits placed by certain clients fund loans granted to other clients which support the development of the society and economy alike. The financing granted supports purchases of housing, opening business activity or development of companies.

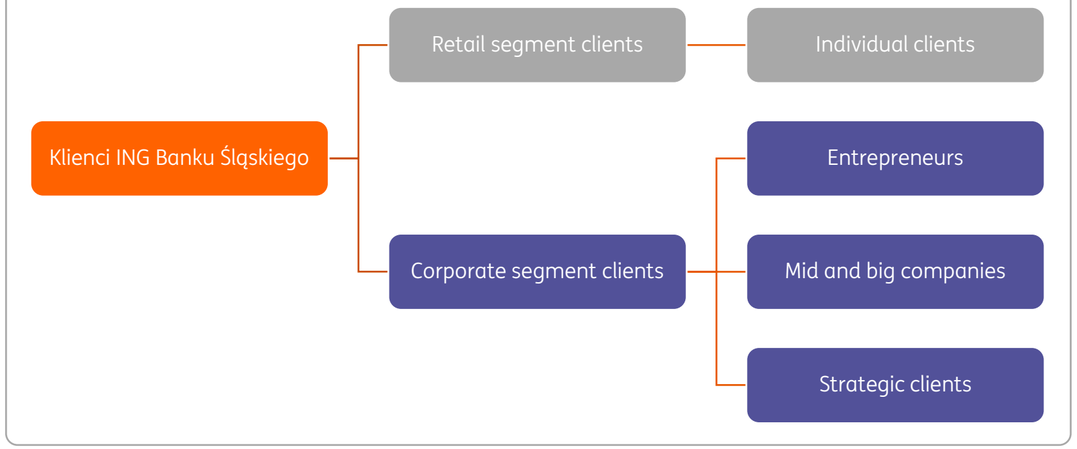


We take care that our payment and transactional systems are effective. And now - in view of the growing popularity of non-cash transactions - an efficient electronic payment system becomes increasingly important. We provide our clients with transactional banking, we process transfers, card, telephone or BLIK payments and we keep developing a network of devices for non-cash payments.

We offer our clients banking products and services (such as loans or savings accounts and transfers) as well as those that are unrelated to traditionally understood banking. Our competencies support us in building a positive client experience. We also use big data and artificial intelligence and cooperate with fintechs to reach beyond. Those are not solely insurance products, accounting services or investment products. We offer our clients a broad range of tools for financial management.

We split our clients into two core segments – retail clients and corporate clients as detailed below.

Our client segmentation



Split of companies into categories by annual revenues

Entrepreneurs up to EUR 1.2 million

MID and BIG companies up to EUR 125 million

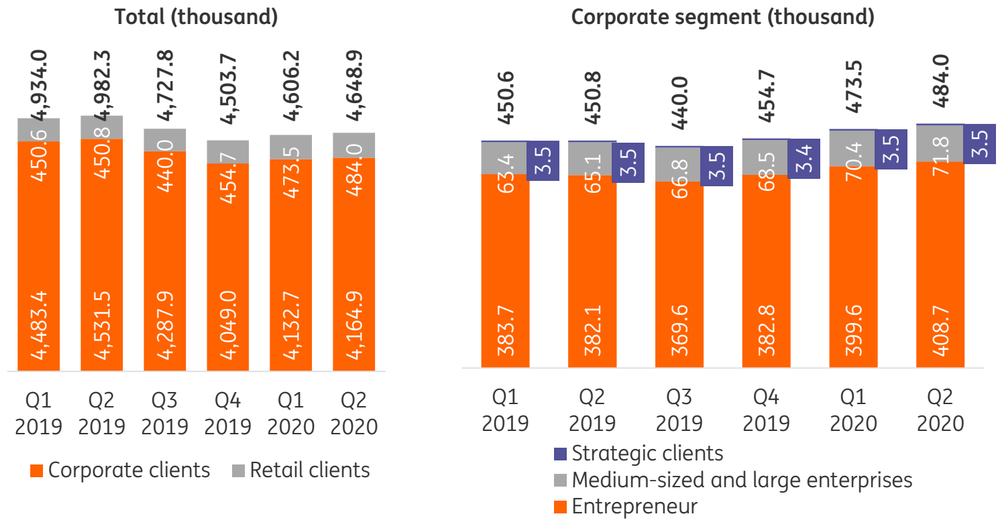
Strategic clients above EUR 125 million

Electronic and mobile banking are the core interaction channel with both retail and corporate clients. We want our clients to be able to access tools that will support their modern payments and remote handling of simple matters.

We also note the changing role of branch offices. That is why in 2019 we modified our distribution. Therefore, we do not refer to branches any more but to venues where we help in daily banking, in business development and in caring about financial future.

Corporate clients who expect high quality service may be serviced at a branch or their own offices as they may require. The task of our employees is to support them in taking financial decisions, inter alia by analysing their financial needs and objectives, financial condition or risk levels of investments.

Number of clients of the ING Bank Śląski Group



Retail banking

Number of clients

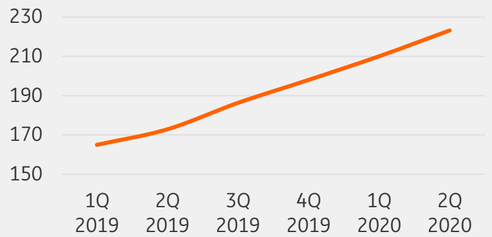
At the end of June 2020, the services of ING Bank Śląski in the retail segment were used by 4.2 million individual clients.

In H1 2020, our bank acquired 179 thousand new clients which resulted in a growth of the number of serviced clients by 115.9 thousand clients versus the end of 2019.

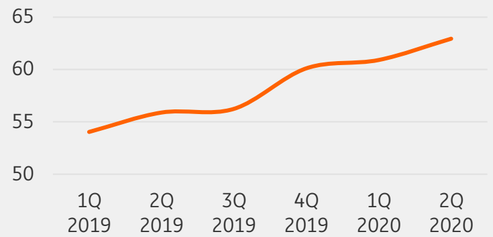
Activity of retail clients during the COVID-19 pandemic

The COVID-19 pandemic forced clients to modify their behaviour, including the way they use banking services. Clients of our bank even more frequently use the Internet for banking and less frequently visit our branches. The number of branch visits since mid-March 2020 was significantly lower than in equivalent weeks of 2019. Overall, in H1 2020 we recorded almost one third less visits to branches than in H1 2019. The lower number of visits to branches translated into less cash transactions at branches. The pandemic did not change the clients' habits as to the devices they use for banking – an increasing number of clients use solely mobile devices or alternating between mobile devices and computers.

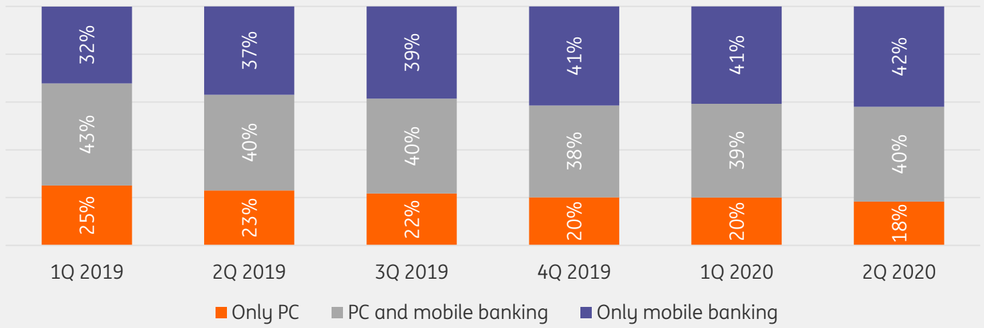
Number of logins to Moje ING (million)



Number of transfers in Moje ING (million)

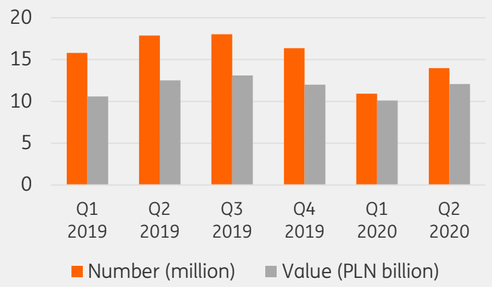


Use of online banking (number of users)

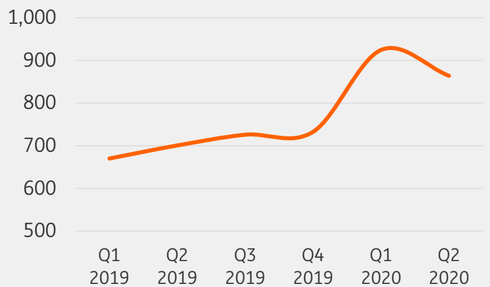


In the first weeks of March 2020 (beginning of the COVID-19 pandemic in Poland) we observed a significant growth of the number of transactions - both in payment terminals (increased shopping, hoarding of foodstuffs) and in non-cash transactions (ATMs, recyclers). The weeks afterwards - due to multiple government restrictions - showed a reduced number of cash withdrawals and transactions in stationary stores. Clients less frequently withdrew cash but the average amount of single withdrawal was higher. Afraid of being infected, clients shopped less frequently but for higher amounts. Additionally, clients more frequently did on-line shopping which resulted in an increased number of e-commerce transactions. Since May there has been a successive growth of value of transactions in payment terminals - current and deferred consumption. Nevertheless, the number of e-commerce transactions remained high. In 2020 as many as 1 million users (individual clients and corporates) made at least one BLIK transaction. Overall, in H1 2020 our clients performed 24.1 million BLIK transactions (+94% y/y).

Number and value of cash withdrawals – devices, branches, BLIK, cashback

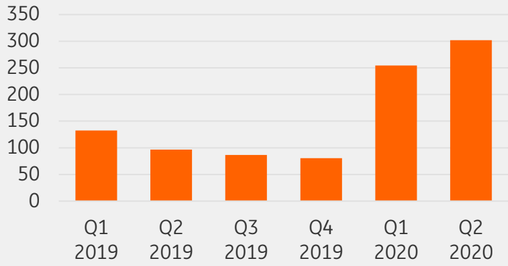


Average amount of cash withdrawals – devices, branches, BLIK, cashback (PLN)

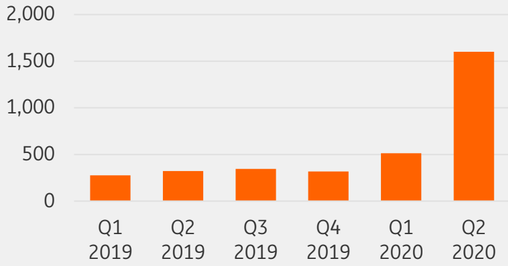


It was not only consumption of our clients that was transferred to the Internet - also communication with bodies of public administration moved towards remote channels. The use of trusted profiles was at record levels at our bank. In H1 2020 our clients signed totally 2,042 thousand documents with trusted profiles which was almost three times as many as in H1 2019.

Number of new trusted profiles by quarters (thousand)



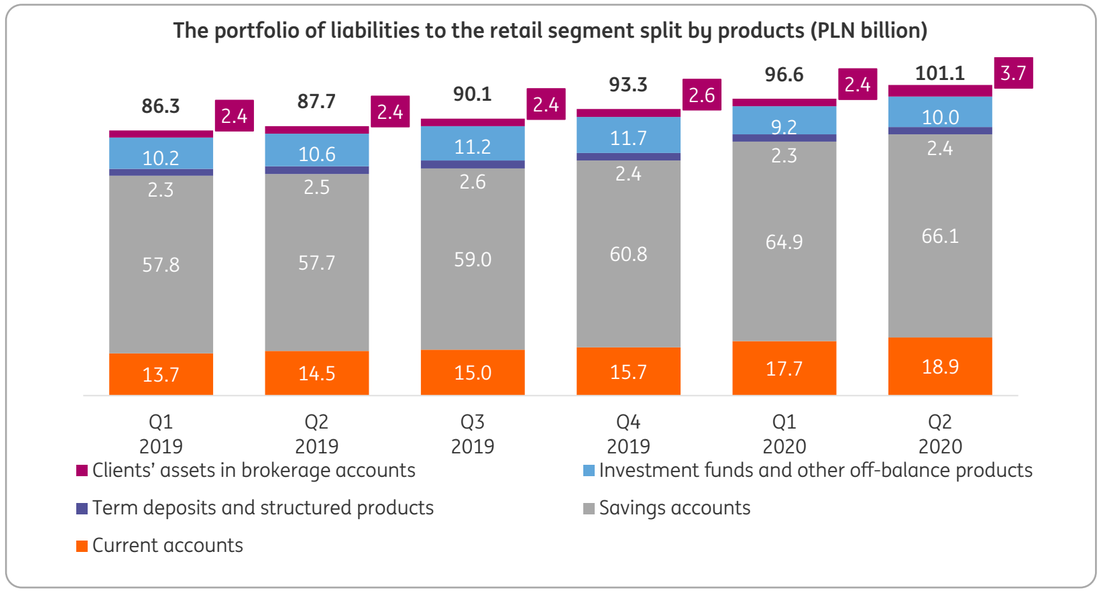
Number of documents signed with trusted profiles by quarters (thousand)

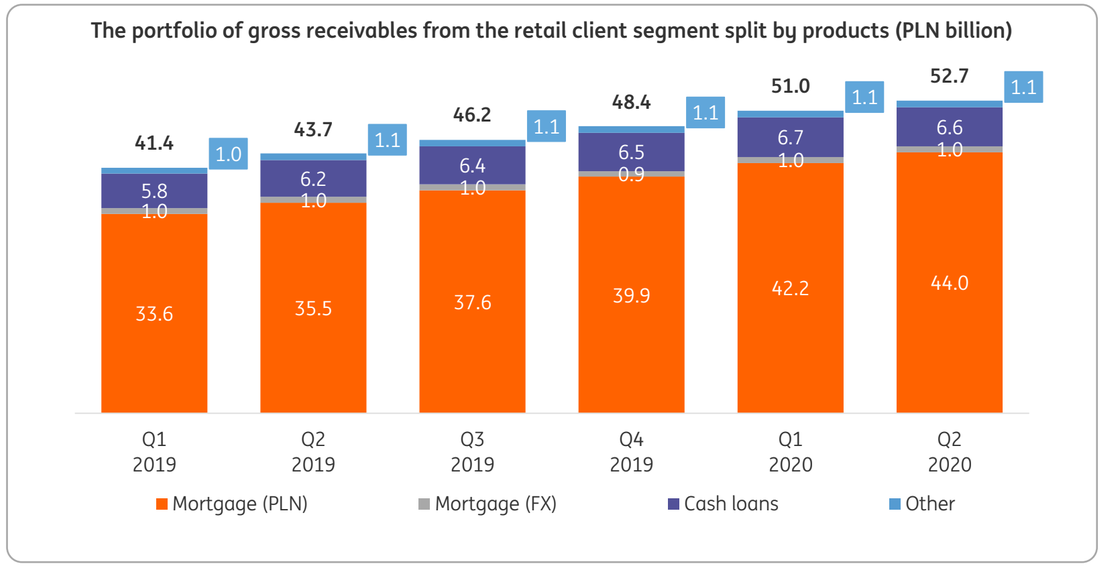


Deposit activity

As at 30 June 2020, the total amount of funds deposited by our retail clients was PLN 87.4 billion – there was a growth by over PLN 8.4 billion (+10.7%) in H1 2020 and by over PLN 12.7 billion (+17.1%) y/y. The amount of savings in off-balance sheet products of our clients (assets in brokerage accounts and in investment funds) as at the end of June 2020 was PLN 13.7 billion and was by PLN 0.6 billion (-4.5%) less than at the end of 2019 and higher by PLN 0.6 billion y/y (+4.7%).

The higher growth rate of the deposit base than the growing volumes in the sector was translated into a growth of share in the market of individuals deposits in H1 2020. At the end of June, the share was 9.90% while at the end of December 2019 it was 9.40%.

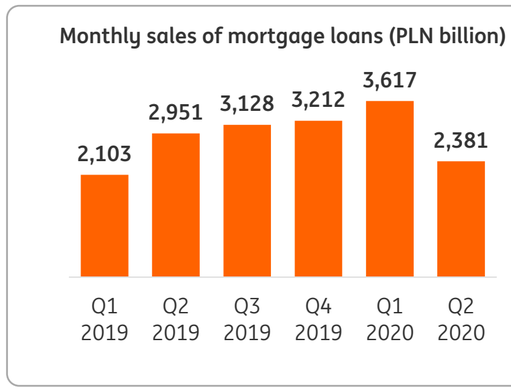


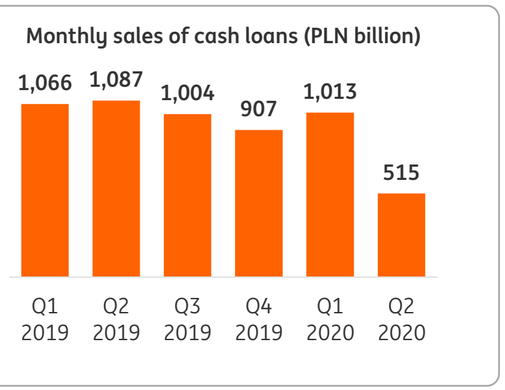


In H1 2020, there was an expansion of settlement services to retail clients at the bank. As at the end of June 2020 ING Bank Śląski held 3.2 million savings and settlement accounts of retail clients (3.9% since the beginning of the year), largely (84%) those are Direct accounts.

Lending activity

As at the end of June 2020, the Bank's retail gross loan receivables amounted to about PLN 52.7 billion. In H1 2020, the Bank's loan exposure to that Group of clients grew by PLN 4.3 billion or by +8.8%. The Bank increased its market share in loans to individuals to 7.79% (versus 7.35% in December 2019). Net of FX mortgage loans, our market share in loans to individuals would be 9.37% (June 2020) and 8.83% (end of 2019) respectively.





Sale of retail loans during the COVID-19 pandemic

The COVID-19 pandemic affected demand of retail clients for credit products and our risk appetite (more on the subject in chapter: "Main changes with respect to risk and capital management"). In connection with the changes implemented at the beginning of April, the number of new applications for mortgage loans dropped. sales in the first four months of 2020 was higher than in 2019 but in May and in June it dropped below last year's levels.

The interests of clients on cash loans were also lower. Our bank continues our strategy in the product area – new sales were primarily addressed to the existing client base. Sales of new loans were better in January and February than in 2019 while in March there was a noticeable drop versus last year.

In H1 2020, the bank sold PLN 5,998.3 million worth of mortgage loans which was a growth versus H1 2019 by PLN 944.6 million or by 18.7%. In accordance with the data of the Polish bank Association, in H1 2020 ING Bank Śląski S.A. occupied the first position in the market with a 20.5% share in the sale of housing loans to individuals.

In the areas of cash loans, in H1 2020 we granted loans totalling PLN 1,528.4 million or by 29.0% (PLN 625.1 million) less than in H1 2019.

Deferral of loan repayments – credit moratoria

On 19 May 2020, work was completed on the "Standpoints of banks on unification of rules of offering support tools for clients of the banking sector". The standpoint developed by banks (in the Polish Bank Association) is a non-statutory moratorium, compliant with the guidelines of the European Banking Authority (EBA), concerning statutory and non-statutory moratoriums on loan repayment that banks apply in connection with the crisis generated by COVID-19. The standpoint was notified to EBA by PFSA. Originally the moratorium was in force by 30 June 2020 and it was extended until the end of September 2020.

In connection with the pandemic, we offered our clients a possibility to suspend repayment of instalments of consumer, company and mortgage loans for 3 or 6 months. The suspension may cover repayment of principal or principal with interest. Our offer is compliant with the non-statutory moratorium or the rules developed by banks – members of the Polish Bank Association. At the end of June 2020, we granted approximately 74 thousand credit moratoria. The moratorium covered loans totalling PLN 9.3 billion which accounts for 7.6% of the total portfolio. The above sum covers PLN 2.7 billion worth of retail loans (5.2% of the portfolio) - of which PLN 1.9 billion mortgage loans (4.3% of the portfolio) and PLN 0.8 billion of other retail loans (10.4% of the portfolio) - and corporate loans of PLN 6.6bn (9.5% of the portfolio).

Under the Shield 4.0 regulations, in June we offered a possibility to suspend the performance of loan agreements by individual clients for maximum 3 months (so-called government credit vacations). The suspension covers both principal and interest. Applications are available in Moje ING. They covered credit exposures for PLN 8.3 million at the end of June 2020.

Corporate banking

Number of clients

At the end of June 2020, the services of ING Bank Śląski in the corporate segment were used by 484.0 thousand corporate clients, of which:

- 3.5 thousand strategic clients,
- 71.8 thousand medium-sized and large enterprises, and

- PLN 408.7 thousand entrepreneurs.

In H1 2020, our bank acquired 42.1 thousand new corporate clients which resulted in a growth of the number of serviced clients by 29.3 thousand clients versus the end of 2019.

PFR Financial Shield and credit guarantees under PLG FGP

PFR Financial Shield

Corporate segment clients (both via Moje ING and ING Business) can file applications for funds under PFR Financial Shield. The subventions are available to companies that suffered reduced revenues due to COVID-19. At the end of June 2020, our clients received disbursements totalling PLN 8.7 billion which accounts for 15.7% of total disbursements under the programme. The share of funds disbursed to our clients accounted for 14.1% of corporate segment deposits at the end of June 2020.

Loan guarantees to companies under PLG FGP

We were the first bank to provide our clients with a Portfolio Guarantee Line from the Liquidity Guarantee Fund, in cooperation with BGK. We were assigned a limit of PLN 13 billion to be used for guarantees of working capital loans. At the end of June 2020, we drew PLN 606.3 million (4.7%) of the assigned limit which accounted for about 23% of all guarantees granted under the programme.

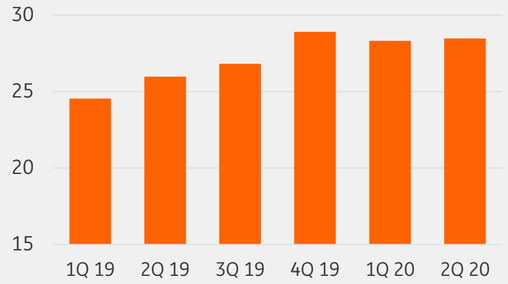
Activity of corporate segment clients during the COVID-19 pandemic

Our corporate segment clients – similarly to the retail clients – have been moving towards remote banking (online and mobile). In H1 2020, we attracted 7.1 thousand entrepreneurs (+169.7% y/y) and 2.6 thousand medium-sized and large companies (+36.7% y/y) via remote processes.

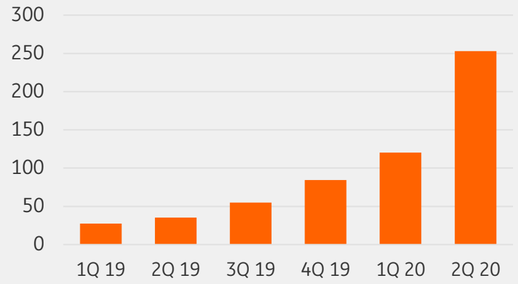
We have also been observing much less intensive activities of corporate clients in branches than a year earlier. In H1 of the year, cash transactions at branches declined by 31.7% y/y while transactions in cash devices dropped by 21.1% y/y. Clients' activity has moved to online banking – we have processed jointly 56.8 million transfers of corporate clients in H1 2020 (+12.4% y/y).

The move of the activity of retail clients towards the Internet has also generated a similar move by corporate clients – they follow their own clients. The number of companies that implemented the imoje payment gate by the end of June 2020 was 1.9 thousand (1.2 thousand more than a year earlier). In H1 2020, under imoje we processed transactions for PLN 373.3 million (6x more y/y).

Transfers by corporate segment clients (million)



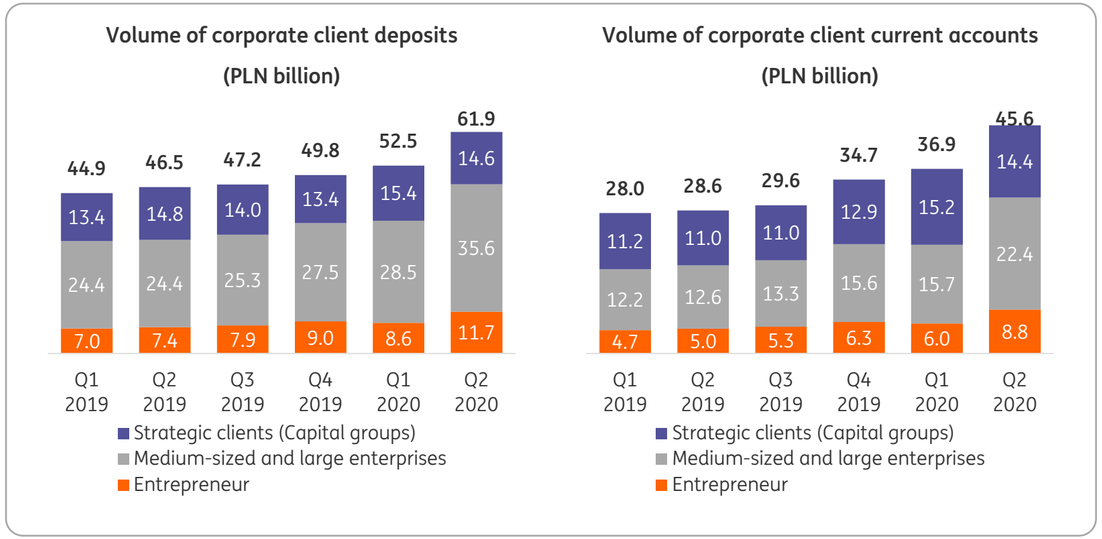
Transaction volume in imoje (PLN million)

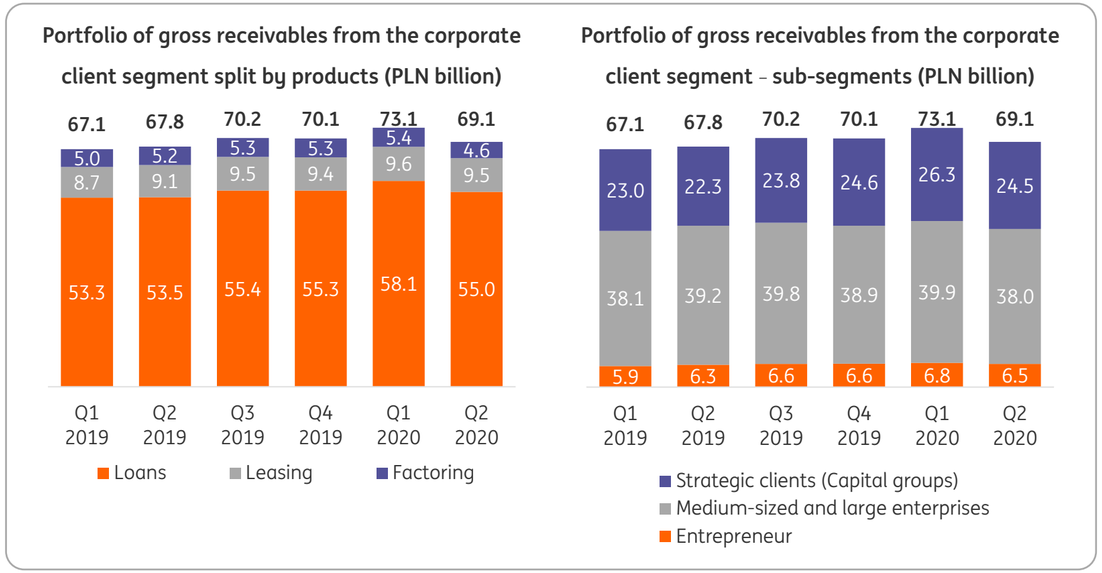


Deposit and settlement operations

At the end of June 2020, the amount of funds deposited by corporate clients with our bank was PLN 61.9 billion and thus the bank held a share of 9.90% in the deposit market of institutional clients (9.40% at the end of 2019). The high balances in current accounts of our corporate clients may be due to the COVID-19 pandemic and the government

activities (reduced demand, suspension of business activities / investments and disbursement of funds from the PFR Anti-Crisis Shield or waiver of ZUS premiums).





Lending activity

At the end of H1 2020, the amount of financing provided by or Group to corporate clients amounted to PLN 69.1 billion gross. Over 6 months of 2020 the amount dropped by PLN 1.0 billion (-1.4%). We estimate that in June 2020 our bank held an 10.40% share in the loan market of corporate clients (versus 10.54% at the end of June 2019).

Sustainable development and corporate social responsibility

H1 2020 was also non-typical with respect to the implementation of our sustainable strategy. The bank has to pursue certain objectives in a different manner. Additionally, there were events that we had not planned and which proved very important – such as a charity collection for medical institutions. Nevertheless, the activity of ING Bank Śląski keeps being pursued in a sustainable manner and in line with social responsibility.

#ING for entrepreneurial people

As a result of the pandemic, a number of companies that our clients of our corporate segment were forced to shift to servicing their clients on-line. Therefore, ING Bank Śląski has been encouraging to open Internet stores, to communicate in the Internet; we provide additional tools to manage banking in a remote way in the comfort of your home.

ING supports businesses in their transition to e-commerce

In April we started supporting enterprises in their transformation of sales models and operating their business on-line. The Bank launched a promotional offer supporting the start of Internet stores and operation of such stores without any fees for 3 months. The companies that sell on-line could use imoje payments with a 0% commission for 3 months.

"Działam dalej" [I keep operating]. I will start selling in the Internet with ING

In May we started a campaign for businesses "Działam dalej" in which we encouraged enterprises to sell in the Internet. The campaign was accompanied by a promotion to set up and operate an e-store or e-wholesaler at PLN 0 for a start for 3 months. In June, the "Działam dalej" campaign was extended with a special offer for payment terminals – 14 months without any fees. That is one more form of supporting enterprises in the time of pandemic.

Remote services to companies at ING

Clients of our corporate segment that are commercial companies may fully manage their companies in a remote manner, in the comfort of their homes. The Internet banking system ING Business provides for complete services irrespective of the location of clients and the devices they use.

ING develops remote communication with companies

ING Bank Śląski offers ING Business users to use video conversations. Using Skype for companies, audio and video conversations can be held and materials can be presented. The application may be used on phones and computers. Conversations held in the Skype infrastructure are encrypted end-to-end which guarantees confidentiality and security of conversations or chats and transfer of data.

Electronic qualified signature for companies in ING

ING Business (for corporate segment clients operating as commercial companies) provides complete handling of company accounts, including signing of all banking documents and applications without visiting branches or meetings with advisors. ING Bank Śląski made it possible to sign documents with an electronic qualified signature.

#ING for equal opportunities

For the bank. supporting equal opportunities means also support to those most in need in difficult times. That is why ING Bank Śląski provided funds to hospitals, encouraged the use of Internet and mobile banking and launched a new section for hearing-impaired people.

Support to health service

In March 2020, at the beginning of the pandemic the Management Board decided to offer a donation of PLN 4 million for health service. The supported hospitals and medical institutions and joined the Coalition of Companies that support the fight against COVID-19 in Poland – thus, we were able to support the Warsaw Genomics team that carries out coronavirus testing. Jointly with the ING Foundation for Children we also started a money collection for cash health service. With contributions from clients, employees and the ING Group which supports the fight against the pandemic in many countries, over PLN 2 million was raised. ING Bank Śląski, ING Tech Poland and the ING Foundation for Children transferred the funds to selected medical institutions. At the beginning of June we launched a new initiative – the money collection carried out by ING Bank Śląski and the ING Foundation for Children supported the selection and support to hospitals in the neighbourhood.

#zdalnidopomocy z ING [able to help with ING]

ING Bank Śląski organised the action: #zdalnidopomocy. The Bank encouraged to help others in handling their affairs in the Internet without leaving home. Additionally, ING Bank Śląski invited other Internet providers to join the action #zdalnidopomocy. Within the action #zdalnidopomocy we have developed 2 simple guidelines to banking in Moje ING and the mobile phone Moje ING application. Those are handbook for beginners which step by step demonstrate how to use Internet banking and how to install the application and use its core functions.

ING launches facilities for hearing-impaired people

ING Bank Śląski launched more solutions to facilitate hearing-impaired people in their daily banking. A special section on the Bank's web site, 5 videos with a sign language interpreter were published. The videos were produced in the Polish sign language and they inform inter alia about core banking processes: how to open an account, how to use the mobile application, what BLIK is and how to send transfers. The project is the effect of the idea that won CX Day last year.

#ING for the climate

In H1 2020 ING Bank Śląski continued its activities for environmental protection. The Bank has been developing its cooperation with Vooom, provides loans for eco-investments and supports circular economy.

ING invests in the urban mobility platform Vooom

ING Bank Śląski invested PLN 1 million in the company developing the Vooom application and thus acquired a minority stake of 8%. We have been tightening cooperation on the development of Poland's first MaaS (Mobility-as-Service). An investment agreement and a marketing agreement between ING Bank Śląski and Vooom were concluded on 15 January 2020.

Every third loan for housing communities at ING is for eco-investments

Housing communities wish to be eco and ING Bank Śląski supports them in that respect. The Bank encourages eco-investments and offers ECO loans to housing communities without commission. The loans may be up to PLN 2 million (up to PLN 1.2 million without their own contribution) and the monthly instalment may be up to 90% of the amount of monthly contributions to the Renovation Fund.

Report “Eight myths about circular economy”

The report “Eight myths about circular economy” was developed inter alia on the basis of data from a survey held in ING’s Financial Barometer. That is periodic survey by the ING Group carried out by IPSOS on the behaviour and attitudes of consumers towards financial issues in Poland and globally. The edition used for the report was held in August 2019 in 15 countries: Poland, Austria, Belgium, Czechia, France, Spain, the Netherlands, Luxembourg, Germany, Romania, United Kingdom, Italy, Australia and USA. The survey covered 15,146 respondents, including 1,005 from Poland.

The myths covered by the experts in the report are as follows:

- Circular economy is a fashion that will be gone soon.
- Circular economy is uneconomic.
- Circular economy consists primarily in recycling
- Circular economy primarily requires changes to consumers’ habits.
- People do not change their habits, for instance with respect to repairs of devices.
- Poland stay behind other countries in implementing circular economy.
- The European Union is isolated in developing circular economy.

The report is available here. www.ing.pl/_fileserver/item/dagex8r.

More on initiatives supporting sustainable development and CSR can be found at: www.ing.pl/o-banku/odpowiedzialnosc-spoleczna.

Our consolidated financial results

Key financial data

Abridged information on the financial performance of the Capital Group of ING Bank Śląski S.A.

PLN million	H1 2019	H2 2019	H1 2020	Change H1 2020 to H1 2019
Revenues*	2,837.5	2,958.9	3,074.8	8.4%
Cost	1,302.2	1,195.2	1,416.5	8.8%
Risk cost	260.9	344.6	604.1	131.5%
Gross profit	1,063.8	1,194.0	817.1	-23.2%
Net profit**	793.6	865.1	583.5	-26.5%
Balance sheet total	150,909.1	158,610.7	180,639.3	19.7%
Liabilities to the clients	122,992.0	130,473.5	150,979.3	22.8%
Loans granted and other receivables, net	110,509.9	118,288.1	120,831.5	9.3%
Equity**	14,219.8	15,223.3	18,235.5	28.2%

*including the net profit of associated entities accounted for using the equity method; ** attributable to shareholders of the parent company;

Key effectiveness ratios

Key performance ratios of the Capital Group of ING Bank Śląski S.A.

	H1 2019	H2 2019	H1 2020	Change H1 2020 to H1 2019
C/I ratio	45.9%	43.1%	46.1%	+0.2p.p.
C/I, adjusted	43.6%	43.1%	44.0%	+0.4p.p.
ROA	1.15%	1.10%	0.89%	-0.3p.p.
ROE	12.5%	11.6%	9.0%	-3.5p.p.
ROE, adjusted	13.2%	12.8%	10.7%	-2.5p.p.
Interest margin ratio (cumulated)	2.94%	2.95%	2.83%	-0.11p.p.
LTD ratio	89.9%	90.7%	80.0%	-9.8p.p.
LCR	122%	130%	223%	+101p.p.
NSFR	128%	130%	144%	+16.0p.p.
LR according to transitional definition	7.23%	7.23%	6.59%	-0.64p.p.
Total capital ratio	15.03%	16.87%	17.47%	+2.44p.p.
Tier 1 capital ratio	13.78%	14.41%	14.94%	+1.16p.p.

Cost to Income ratio (C/I) – adjusted – operating expenses/ total income together with net profit of affiliated entities consolidated with the equity method; net of adjustments to BGF costs by spreading over 4 quarters the premium to the enforced restructuring fund.

Return on equity (ROE) – adjusted - the sum of net profit for 4 consecutive quarters / average value of capita for 5 consecutive quarters net of revaluation reserve of instruments hedging cash flows.

Profit and Loss Account

Basic consolidated Profit and Loss Account figures of the Group of ING Bank Śląski S.A. for 2020 and changes for H1 2020 are presented in the table below.

Basic figures in Consolidated Profit and Loss Account in analytical terms

PLN million	H1 2019	H2 2019	H1 2020	Change H1 2020 to H1 2019 PLN million	%
Net interest income	2,073.4	2,251.7	2,251.3	177.9	8.6%
Net commission income	671.5	669.0	703.1	31.6	4.7%
Other revenues*	92.6	38.2	120.4	27.8	30.0%
Total income	**2,837.5**	**2,958.9**	**3,074.8**	**237.3**	**8.4%**
Operating expenses	**1,302.2**	**1,195.2**	**1,416.5**	**114.3**	**8.8%**
Impairment losses and provisions	260.9	344.6	604.1	343.2	131.5%
Bank levy	210.6	225.1	237.1	26.5	12.6%
Gross profit	**1,063.8**	**1,194.0**	**817.1**	**-246.7**	**-23.2%**
Income tax	270.2	328.9	233.6	-36.6	-13.5%
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	0.0	-
Net profit	**793.6**	**865.1**	**583.5**	**-210.1**	**-26.5%**

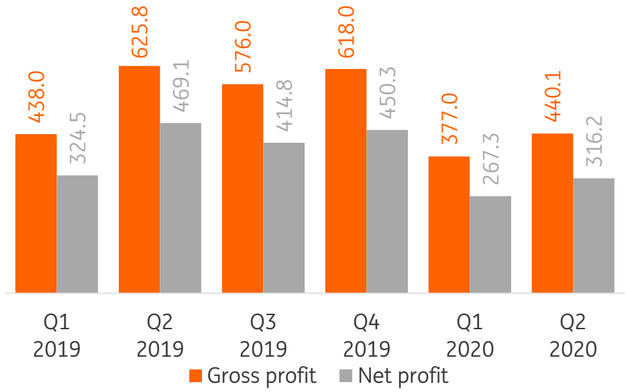
*The result on financial instruments measured through profit and loss account and net FX gains/losses, the result on sales of securities measured at amortised cost, the result on sales of securities measured at fair value through other comprehensive income and dividend revenues, the result on investments, the result on hedge accounting, the result on other core activities and net profit of associated entities consolidated with the equity method.

Profit before tax and net profit

In H1 2020, the Group of ING Bank Śląski S.A. posted the net profit attributable to the shareholders of the parent entity of PLN 583.5 million. That implies that the net profit dropped by 26.5% versus H1 2019. The profit before tax was PLN 817.1 million and it dropped by 23.2% compared to H1 2019. In 2020, there were no one-off factors.

Profit before tax and net profit of the Group of ING Bank Śląski S.A.

(PLN million)

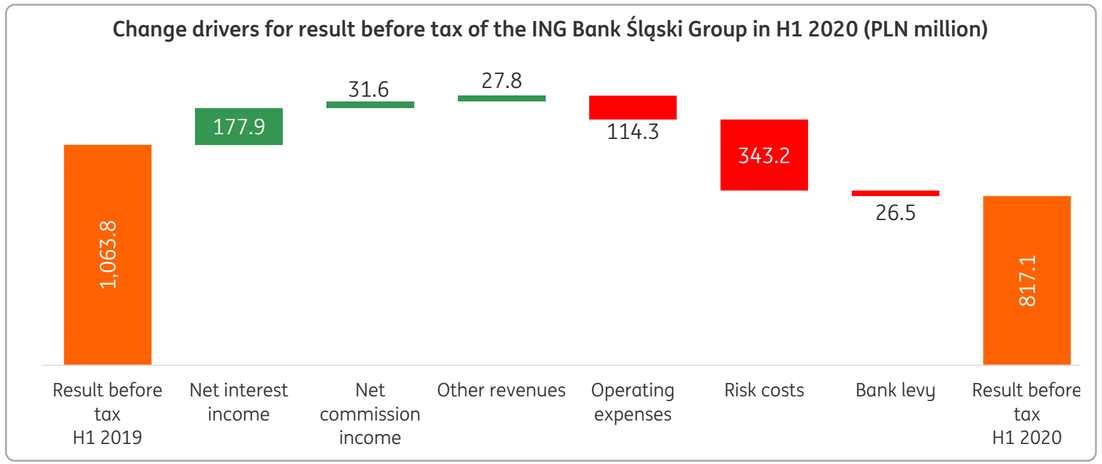


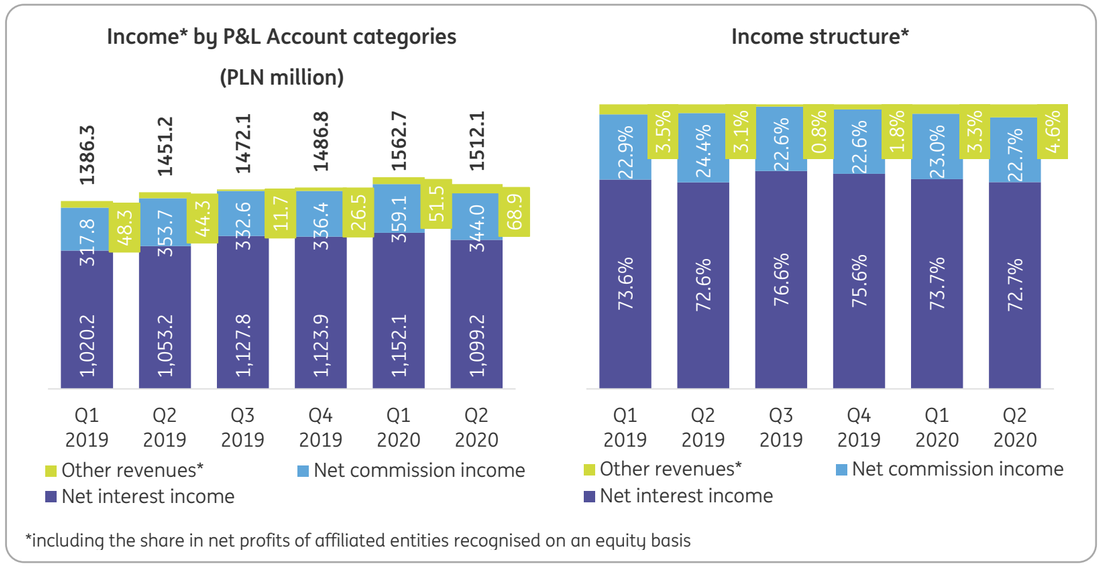
The drop of the profit before tax for H1 2020 by PLN 246.7 million or 23.2% versus H1 2019 was mainly due to:

- growing risk costs by PLN 343.2 million, i.e. by 131.5%,
- growth of operating costs by PLN 114.3 million or by 8.8%, including due to BGF costs by PLN 38.4 million or by 23.0%, and
- growth of the bank levy paid by PLN 26.5 million, i.e. by 12.6%.

On the other hand, the factors that had positive impact on the result before tax in the first six months of 2020 versus 2019 included:

- higher net interest income up by PLN 117.9 million, i.e. by 8.6%,
- higher net fee and commission income by PLN 31.6 million, or 4.7%, and
- growth of other income by PLN 27.8 million, i.e. by 30,0%.



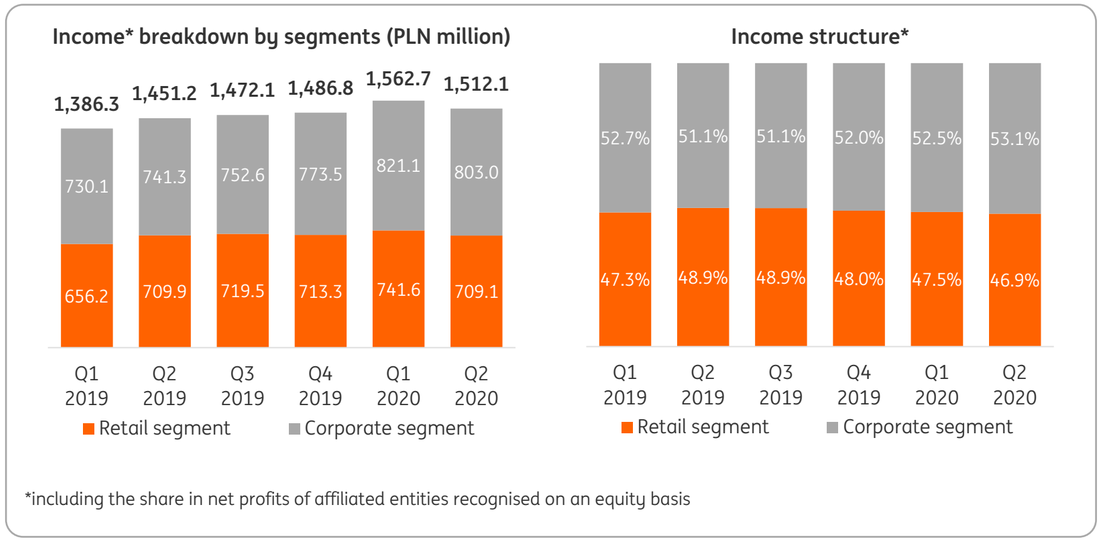


*including the share in net profits of affiliated entities recognised on an equity basis

Revenues

In H1 2020, total revenues of the Group of ING Bank Śląski S.A. amounted to PLN 3,074.8 million. That means that the improvement compared to H1 2019 was PLN 237.3 million or 8.4% and was mainly driven by higher net interest income. Its share in overall income was stable (73.2% versus 73.1% a year earlier).

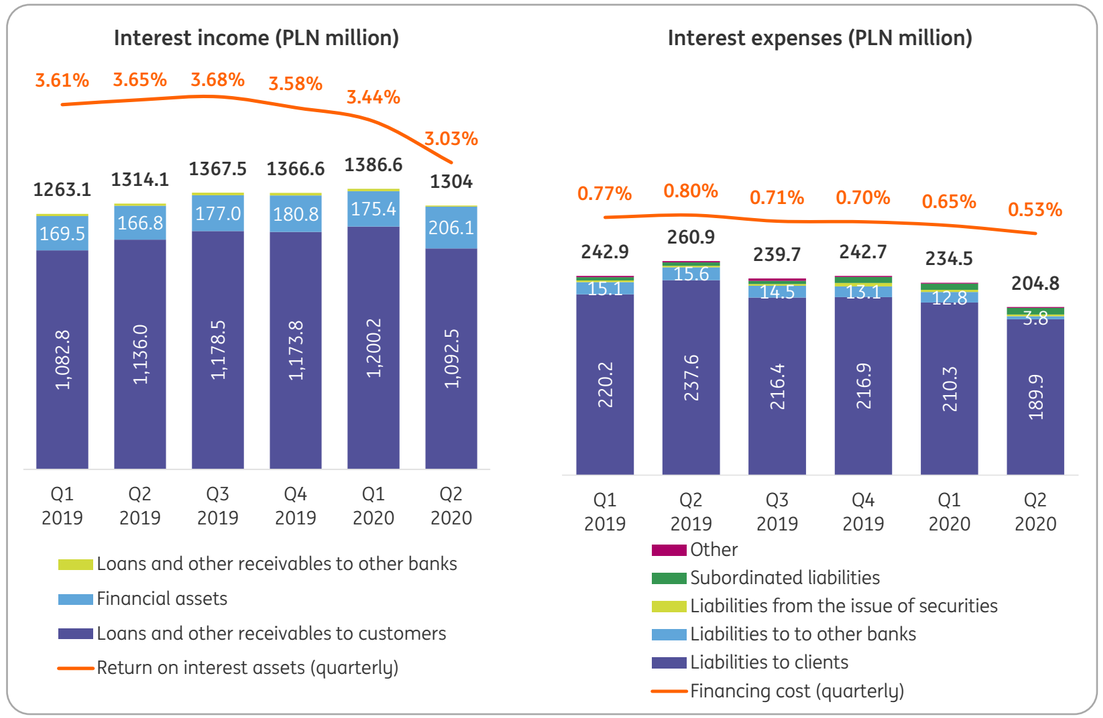
In H1 2020, the corporate segment was the main income growth contributor. Its income was up by PLN 152.7 million, or 10.4%, to up to the level of PLN 1,624.1 million. Consequently its share in the structure was up by 0.9 p.p. to the level of 52.8%. Income of the retail segment was up by PLN 84.6 million, or by 6.2%, to reach PLN 1,450.7 million.



*including the share in net profits of affiliated entities recognised on an equity basis

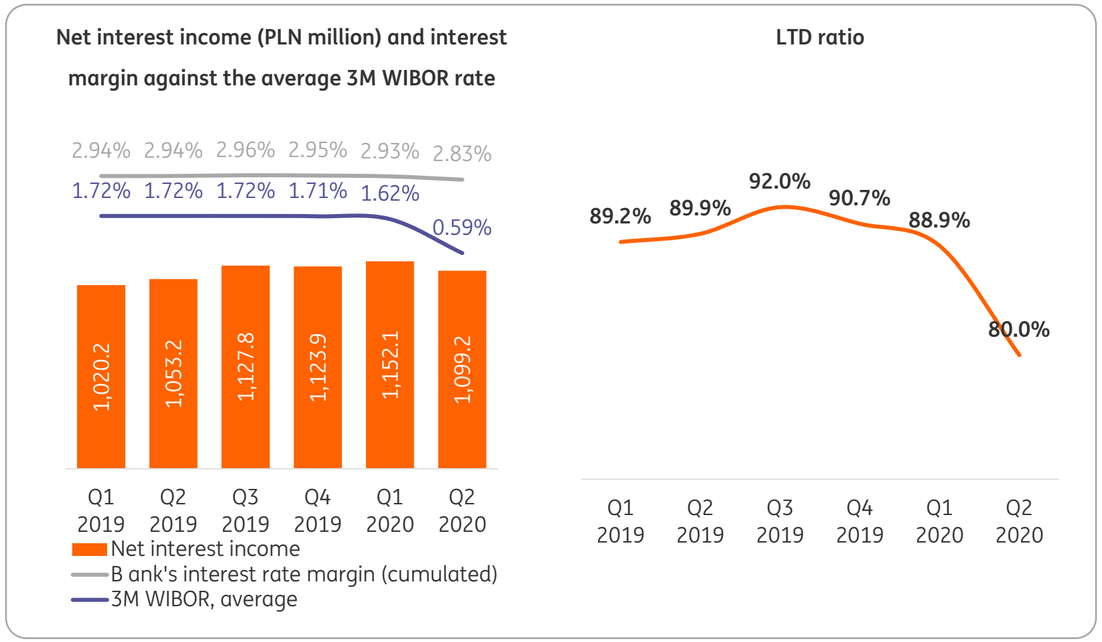
Net interest income

In H1 2020, interest income was up by 4.4% compared to H1 2019, mainly due to higher interest on loans and other receivables from clients. On the other hand, interest expenses dropped by 12.8% y/y, mainly due to lower costs of liabilities to clients. Consequently, the net interest income was up by 8.6% y/y, i.e. by PLN 177.9 million to the level of PLN 2,251.3 million. Due to interest rate cuts (the reference rate dropped from 1.5% to 0.1%), the bank's interest margin is under pressure (drop of WIBOR, reduction of maximum lending interest rates from 10,0% to 7.2%, change in the rate and interest rate applicable to required reserve). We informed in our three current reports (17/2020, 25/2020 and 29/2020) of the impact on interest rate cuts on the results of our Group. We estimate the combined impact of three interest rate cuts will have an adverse effect on our net interest in 2020 of PLN 255-305 million.



As a result of the interest rate cuts and a high growth of clients' deposits (and a drop of the loan to deposit ratio), our bank's interest rate margin shrank. The cumulated interest margin dropped from 2.94% after H1 2019 to 2.83% at the end of H1 2020.

With respect to funding costs, we adjusted interest rates inter alia in savings accounts. Our core offer in retail savings accounts was 0.50% by 6 July 2020, until the end of August it will be 0.25% and since the beginning of September - 0.05%. The offer to corporate clients of interest to savings accounts was changed twice - on 1 April 2020 from 0.80% to 0.50% and on 1 June to 0.10%.

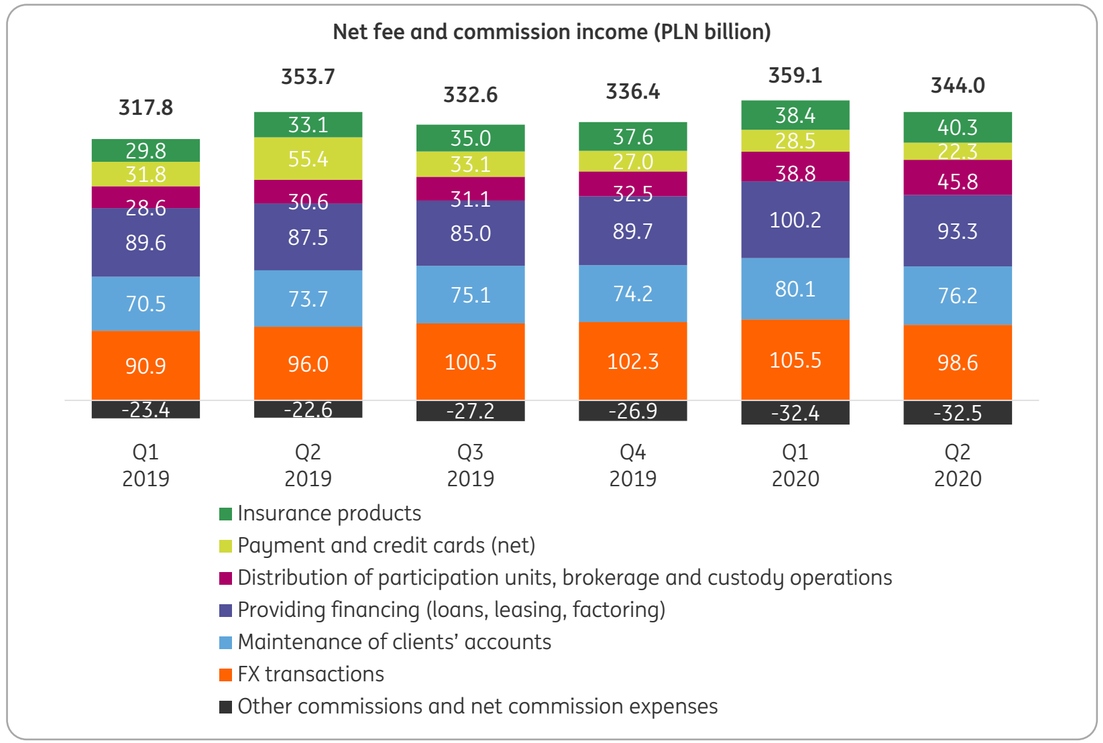


Net fee and commission income

In H1 2020, net fee and commission income of the Group of ING Bank Śląski S.A. was up by PLN 31.6 million or by 4.7% compared to H1 2019 to PLN 703.1 million.

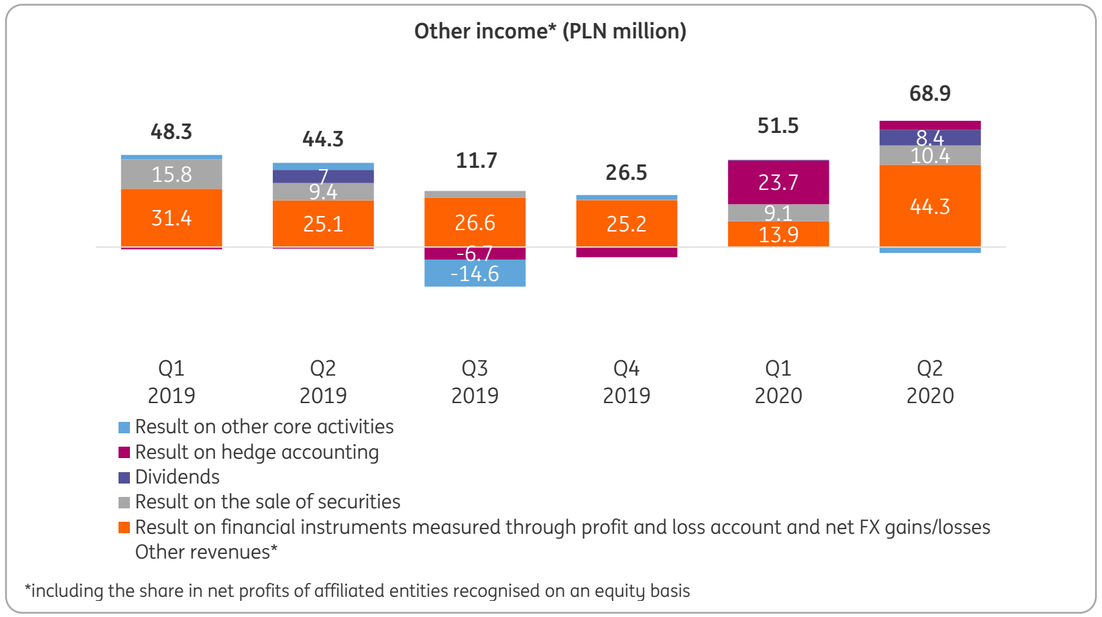
The most significant increase in fee and commission income was recorded for the following items:

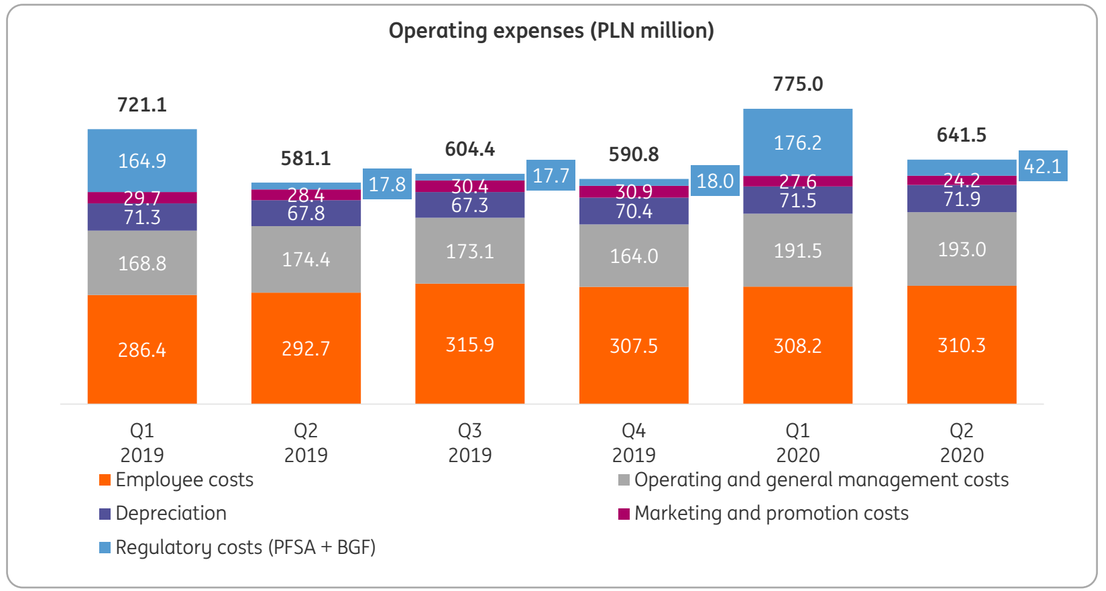
- distribution of participation units, brokerage and custody operations – an improvement by PLN 25.4 million (42.9%),
- FX margin – up by PLN 17.2 million (9.2%), and
- insurance products – up by PLN 15.8 million (25.1%).



Other revenues

In H1 2020, the Group's other income (including the share in the net result of associated entities accounted for under the equity method) amounted to PLN 120.4 million and was up by PLN 27.8 million versus the previous year. The growth was due to a higher profit on hedge accounting (PLN 28.6 million in H1 2020 versus PLN -2.1 million in H1 2019). The largest part of that position was the difference in valuation of the hedged positions versus the hedging positions in hedge accounting of fair value and the consequence of short-term interest rate cuts (a positive effect of valuation of the variable leg of the hedging instruments).



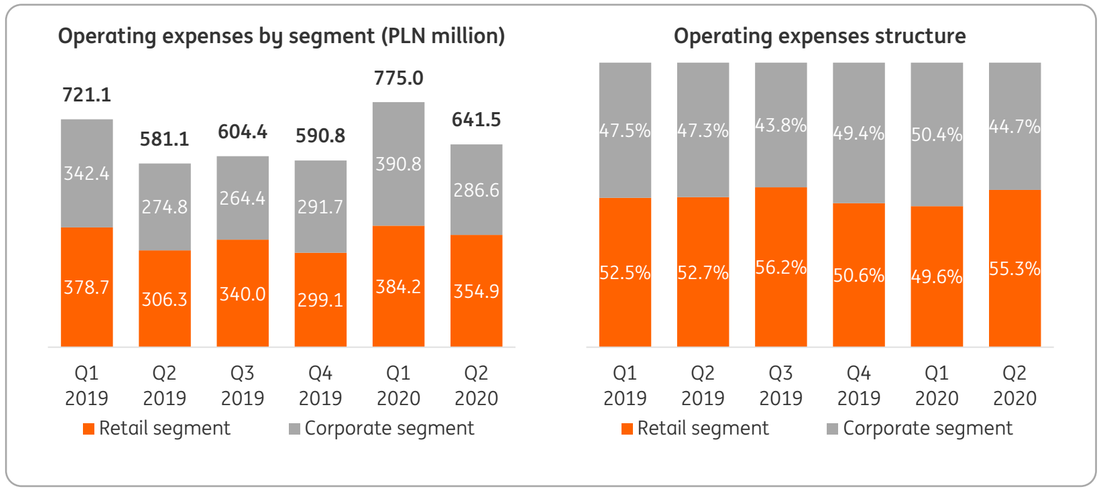


Operating expenses

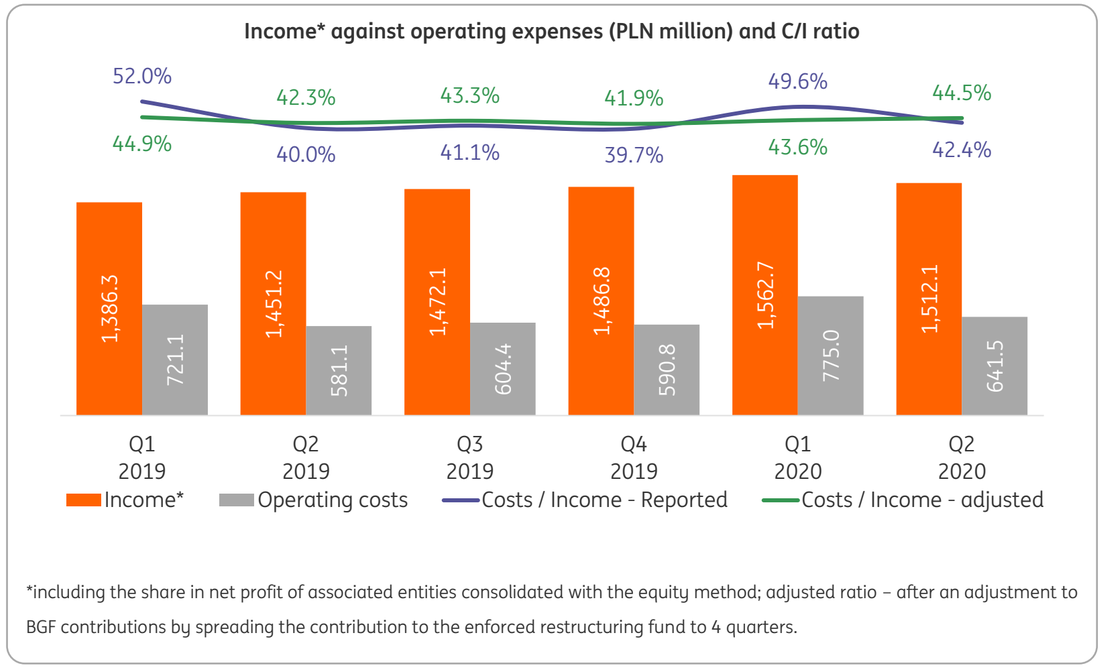
In H1 2020, the operating costs of the Group of ING Bank Śląski S.A. grew by 8.8% y/y up to PLN 1,416.5 million. The highest growth in 2020 occurred to costs of BGF contributions (PLN +38.4 million y/y or by 23.0% y/y). The amount of contributions to the enforced restructuring fund was PLN 125.4 million (PLN 131.2 million in 2019). The contribution to the deposit guarantee fund in H1 2020 was PLN 79.6 million (versus PLN 35.4 million in H1 2019). Staff costs grew in H1 2020 by PLN 39.4 million y/y which was the effect of the annual pay rises in April. The other operating costs (excluding depreciation) grew by PLN 32.2 million y/y, inter alia due to IT costs - a growth by PLN 25.1 million to PLN 138.9 million.

The headcount level in the ING Bank Śląski Group was relatively stable (8,131.4 FTEs at the end of June 2020 compared to 8,071.6 FTEs at the end of 2019).

Operating expenses of the retail segment were up by PLN 54.1 million y/y (+7.9%) to PLN 739.1 million, while operating expenses of the corporate segment were up by PLN 60.2 million y/y (+9.7%) to PLN 677.4 million. Consequently, the share of the retail segment in expenses dropped by 0.4 p.p. to 52.2% compared to H1 2019.



Due to the faster growth of operating costs than operating income, the cost-to-income ratio deteriorated in H1 2020 compared to the previous year. It was 46.1%, which means a growth by 0.2 p.p. r/r. The adjusted cost to income ratio for H1 2020 (assuming a quarterly recognition of the contribution to the enforced restructuring fund) was 44.0% which was an improvement by 0.4 pp y/y.

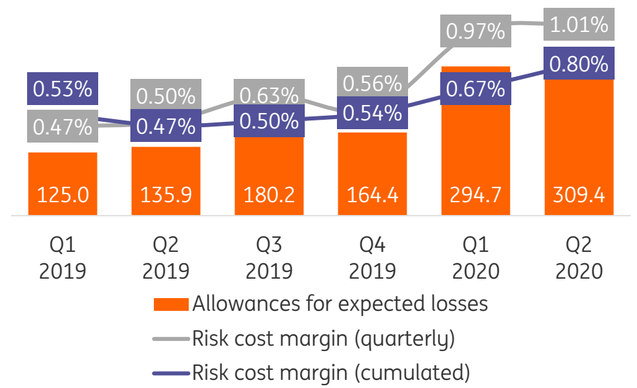


*including the share in net profit of associated entities consolidated with the equity method; adjusted ratio – after an adjustment to BGF contributions by spreading the contribution to the enforced restructuring fund to 4 quarters.

Allowances for expected losses

In H1 2020, there was a major growth of the cost risk margin (ratio of allowances for expected losses in the gross loan portfolio) to 0.80% from 0.47% in the previous year. The growth occurred in both segments: in the retail segment the risk cost margin grew from 0.36% in H1 2019 to 0.64% in H1 2020 while in the corporate segment - from 0.55% in H1 2019 to 0.92% in H1 2020.

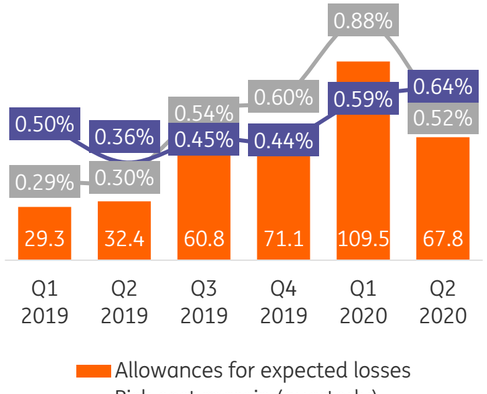
Consolidated impairment allowances for losses on financial assets (PLN million)



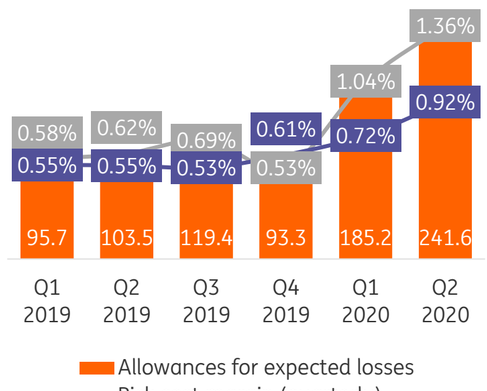
The growth of risk costs (and margin) was largely due to changes of macroeconomic parameters which is due to the COVID-19 pandemic and the impact thereof on Poland's economy. The cumulated effect in H1 2020 was PLN 296.4 million of which PLN 25.4 million in the retail segment and PLN 270.9 million in the corporate segment.

In Q1 2020, our bank sold a portfolio of stage 3 corporate receivables. The transaction had a positive impact on the risk costs of PLN 3.5 million. In Q1 2019 also stage 3 corporate receivables were sold and the impact on the risks costs was PLN 9.8 million. The Bank regularly sells Phase 3 debt portfolios under its credit risk management policy.

Allowances for expected losses on net financial assets in the retail segment (PLN million)



Allowances for expected losses on net financial assets in the corporate segment (PLN million)

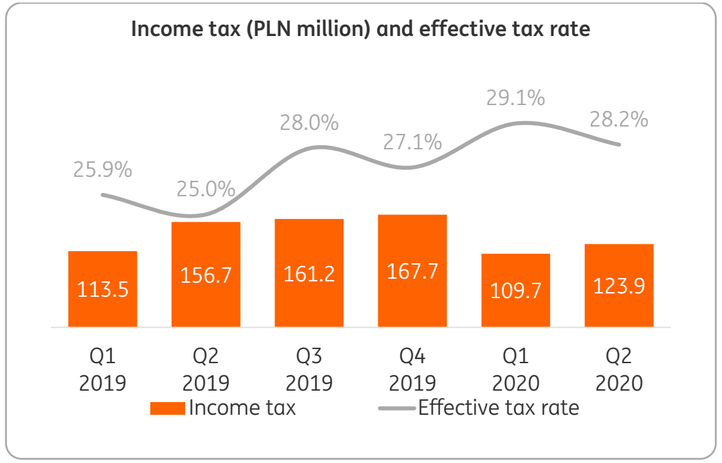


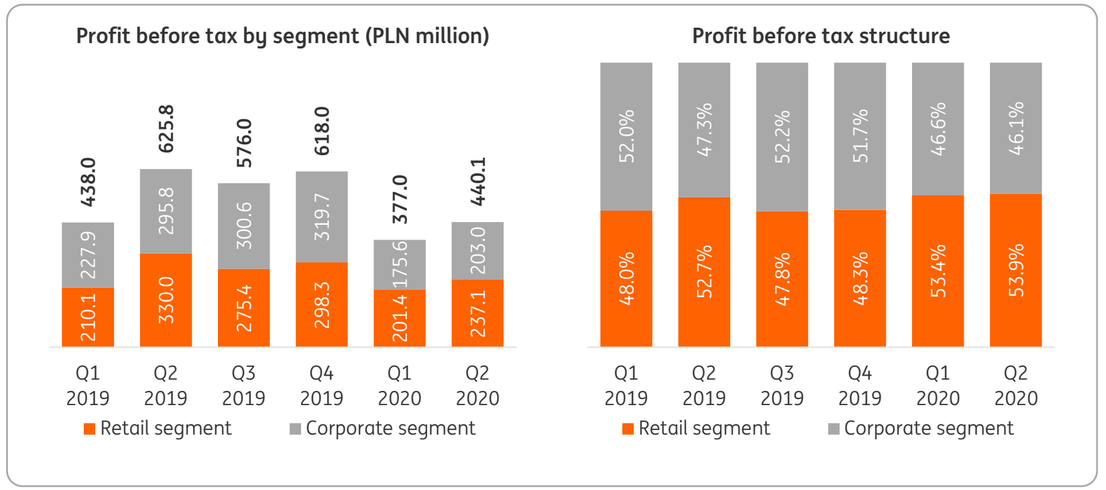
Tax on certain financial institutions

In H1 2020, the Group of ING Bank Śląski S.A. paid tax on certain financial institutions (the so-called bank levy) in the amount of PLN 237.1 million. There was a growth by PLN 26.5 million, i.e. by 12.6%, compared to H1 2019 due to a higher tax base. That is a consequence of higher business volumes.

Income tax

In H1 2020, the Group of ING Bank Śląski S.A. recorded income tax in the amount of PLN 233.6 million. It was down by 13.5% compared to the previous year. The effective tax rate in H1 2020 was 28.6%, compared to 25.4% in the previous year.





Report by business segment

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

- retail banking segment within which natural persons are serviced,
- the corporate banking segment, which comprises service of entrepreneurs, institutional clients (commercial companies) and operations in financial market products.

In H1 2020, results of the retail banking segment and of the corporate banking segment accounted for 53.7% and 46.3% of the Group's result before tax respectively (last year: 50.8% and 49.2% respectively).

Result before tax in retail banking segment

PLN million	H1 2019	H2 2019	H1 2020	Change in H1 2020 to H1 2019 PLN million	%
Net interest income	1,106.8	1,203.1	1,193.8	87.0	7.9%
Net commission income	216.1	201.8	209.8	-6.3	-2.9%
Other revenues*	43.1	27.9	47.2	4.1	9.5%
Total income	**1,366.0**	**1,432.8**	**1,450.8**	**84.8**	**6.2%**
Operating expenses	**685.0**	**639.0**	**739.1**	**54.1**	**7.9%**
Risk cost	61.7	131.9	177.3	115.6	187.4%
Bank levy	79.2	88.1	95.9	16.7	21.1%
Gross profit	**540.1**	**573.8**	**438.5**	**-101.8**	**-18.8%**

*including net profit of associated entities consolidated with the equity method

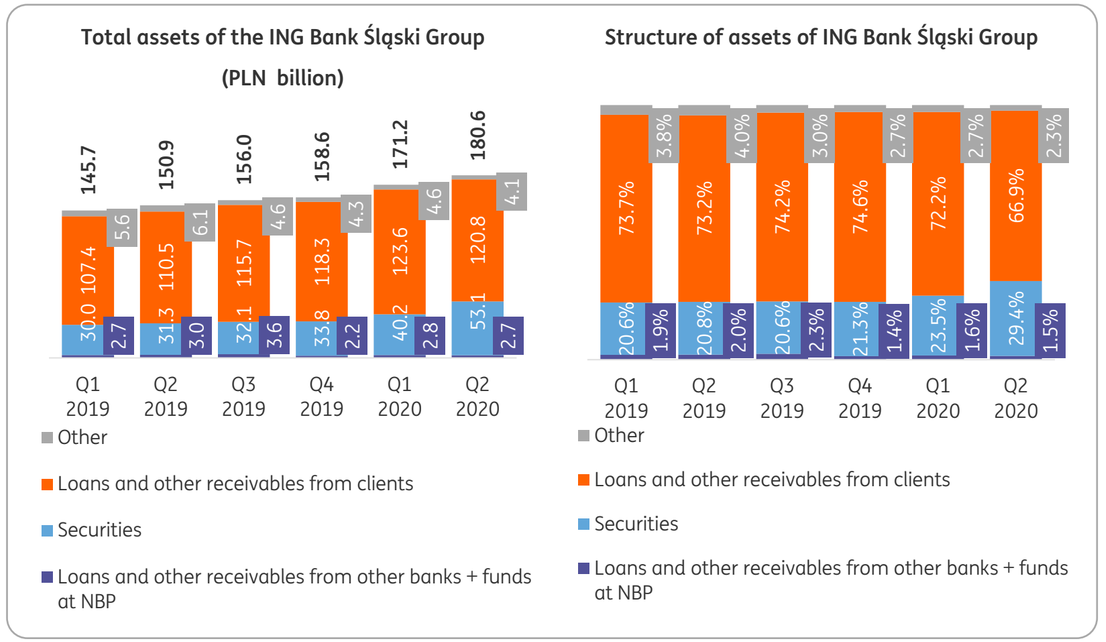
Result before tax in corporate banking segment					
	H1 2019	H2 2019	H1 2020	Change in H1 2020 to H1 2019	
PLN million				PLN million	%
Net interest income	966.6	1,048.6	1,057.5	90.9	9.4%
Net commission income	455.4	467.2	493.3	37.9	8.3%
Other revenues*	49.5	10.3	73.2	23.7	47.9%
Total income	**1,471.5**	**1,526.1**	**1,624.0**	**152.5**	**10.4%**
Operating expenses	**617.2**	**556.2**	**677.3**	**60.2**	**9.7%**
Risk cost	199.2	212.7	426.8	227.6	114.3%
Bank levy	131.4	137.0	141.2	9.8	7.5%
Gross profit	**523.7**	**620.2**	**378.7**	**-145.0**	**-27.7%**

*including net profit of associated entities consolidated with the equity method

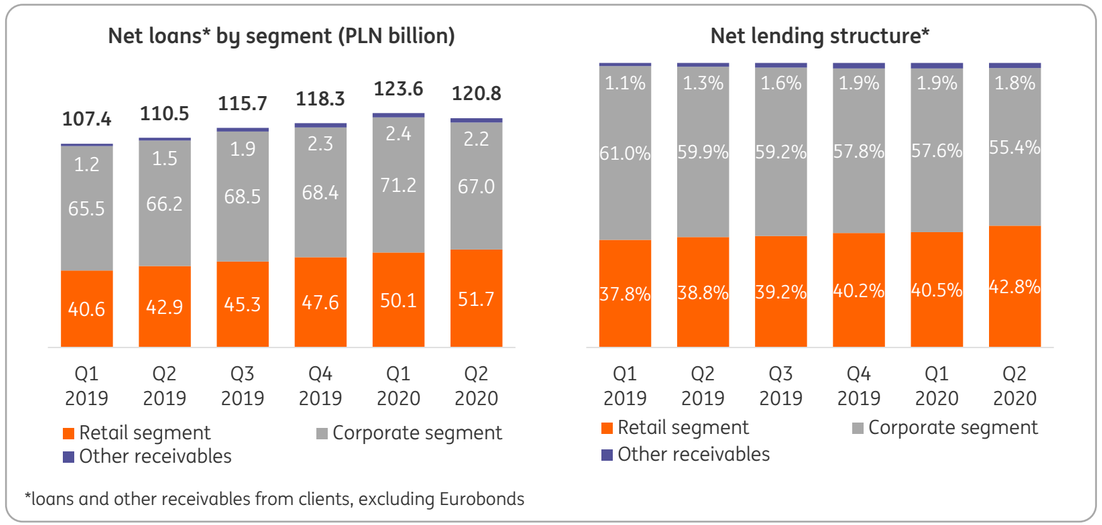
Statement of financial position

Assets

Total assets of the Group of ING Bank Śląski S.A. amounted to PLN 180.6 billion at the end of June 2020. It implies they were up by 13.9% against 2019. The main growth factor was the securities portfolio which was up PLN 19.3 billion y/y or by 56.9% to PLN 53.1 billion. Is it also the second most important item in the asset structure. On 30 June 2020, they accounted for 29.4% of the Group's total assets.



The major position in the balance sheet of the Group was occupied by the loan portfolio and other net receivables from clients – PLN 120.8 billion (66.9% of assets). The receivables of the retail segment grew versus the end of 2019 by PLN 4.1 billion (+8.6%) while the receivables of the corporate segment dropped by PLN 1.4 billion (-2.1%). As a result, the share of the retail segment in overall receivables grew up to 42.8% versus 40.2% at the end of 2019.



*loans and other receivables from clients, excluding Eurobonds

Net receivables from clients

PLN million	June 2019	December 2019	June 2020	Change June 2020 versus June 2019 PLN million	%
measured at amortized cost	193.5	160.3	233.4	39.9	20.6%
measured at fair value through P&L account	110,316.4	118,127.8	120,598.1	10,281.7	9.3%
Total	**110,509.9**	**118,288.1**	**120,831.5**	**10,321.6**	**9.3%**

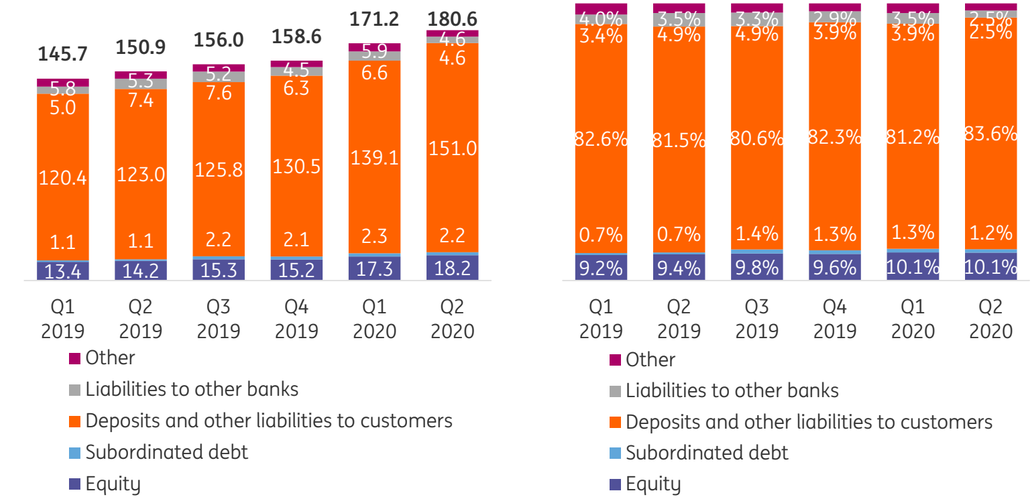
Net receivables from clients measured at amortised cost

PLN million	June 2019	December 2019	June 2020	Change June 2020 versus June 2019 PLN million	%
Loan portfolio, of which:	**108,857.2**	**115,831.0**	**118,415.2**	**9,558.0**	**8.8%**
households	52,210.1	57,284.9	61,037.6	8,827.5	16.9%
business entities	53,402.3	55,527.2	54,431.2	1,028.9	1.9%
central and local government institutional sector	3,244.8	3,018.9	2,946.4	-298.4	-9.2%
Total, of which:	**108,857.2**	**115,831.0**	**118,415.2**	**9,558.0**	**8.8%**
Corporate banking	65,965.0	68,230.7	66,743.9	778.9	1.2%
Overdraft facilities	11,974.5	10,999.5	9,530.3	-2,444.2	-20.4%
terms loans and borrowings	37,436.3	40,099.2	41,079.7	3,643.4	9.7%
lease receivables	9,077.9	9,334.7	9,364.0	286.1	3.2%
factoring receivables	5,138.8	5,293.3	4,542.4	-596.4	-11.6%
debt securities	2,337.5	2,504.0	2,227.5	-110.0	-4.7%
Retail banking	42,892.2	47,600.3	51,671.3	8,779.1	20.5%
mortgage loans and borrowings,	36,264.5	40,597.4	44,708.7	8,444.2	23.3%
overdraft facilities	560.1	596.5	559.1	-1.0	-0.2%
other loans and borrowings	6,067.6	6,406.4	6,403.5	335.9	5.5%
Other receivables, of which:	**1,459.2**	**2,296.8**	**2,182.9**	**723.7**	**49.6%**
opened call deposits	1,081.1	1,598.6	1,368.2	287.1	26.6%
other receivables	378.1	698.2	814.7	436.6	115.5%
Total	**110,316.4**	**118,127.8**	**120,598.1**	**10,281.7**	**9.3%**

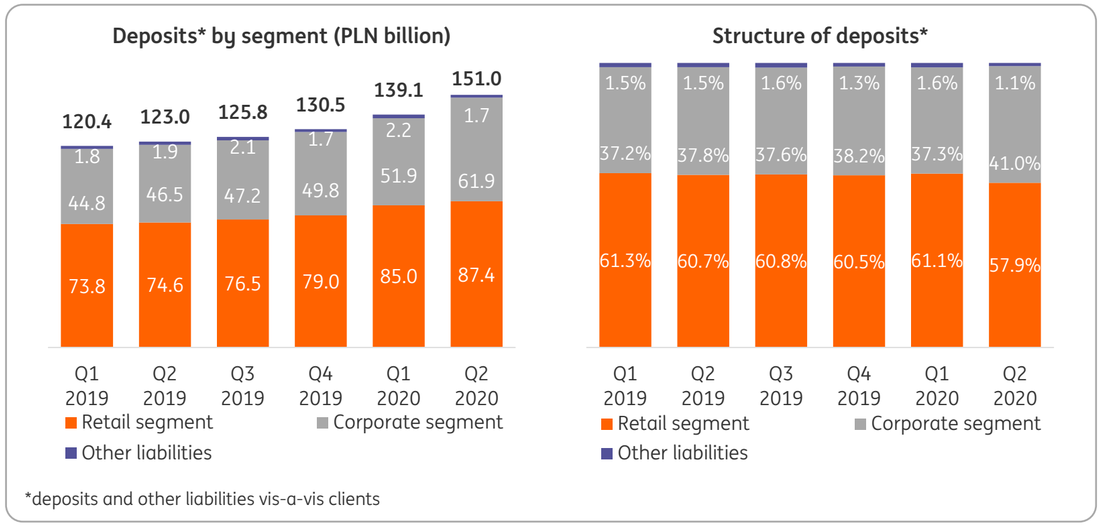
Liabilities

The dominant source of financing of the ING Bank Śląski Group's operations was clients' funds. At the end of June 2020, liabilities to clients amounted to PLN 151.0 billion, or 83.6% of total liabilities.

The next most important source of financing was equity, which at the end of June 2020 amounted to PLN 18.2 billion and accounted for 10.1% of total liabilities.



The growth of deposits and other liabilities by PLN 15.7% or by PLN 20.5 billion versus the end of 2019 was largely generated by the corporate segment (PLN +12.1 billion) which resulted in a growth of the share of the segment in the deposit structure up to 41.0% from 38.2% at the end of 2019.



*deposits and other liabilities vis-a-vis clients

Liabilities portfolio vis-a-vis clients

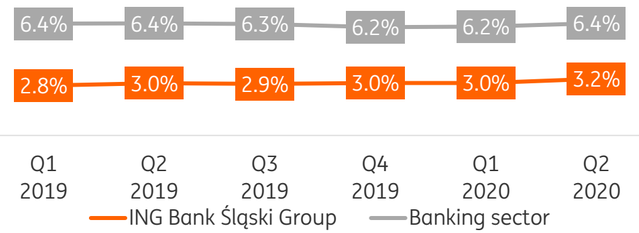
PLN million	June 2019	December 2019	June 2020	Change June 2020 versus June 2019	
				PLN million	%
Deposits, of which:	**121,131.2**	**128,800.1**	**149,301.0**	**28,169.8**	**23.3%**
households	81,911.5	87,643.7	99,065.9	17,154.4	20.9%
business entities	35,857.6	36,191.2	48,100.3	12,242.7	34.1%
central and local government institutional sector	3,362.1	4,965.2	2,134.8	-1,227.3	-36.5%
Total, of which:	**121,131.2**	**128,800.1**	**149,301.0**	**28,169.8**	**23.3%**
corporate banking	**46,486.1**	**49,848.1**	**61,911.3**	**15,425.2**	**33.2%**
current deposits	28,566.7	34,707.2	45,550.1	16,983.4	59.5%
saving deposits	12,478.6	13,513.1	15,497.5	3,018.9	24.2%
term deposits	5,440.8	1,627.8	863.7	-4,577.1	-84.1%
Retail banking	**74,645.1**	**78,952.0**	**87,389.7**	**12,744.6**	**17.1%**
current deposits	14,488.7	15,706.7	18,942.0	4,453.3	30.7%
saving deposits	57,652.4	60,812.0	66,078.4	8,426.0	14.6%
term deposits	2,504.0	2,433.3	2,369.3	-134.7	-5.4%
Other liabilities, including:	**1,860.8**	**1,673.4**	**1,678.3**	**-182.5**	**-9.8%**
liabilities under monetary hedges	399.9	400.1	460.2	60.3	15.1%
other liabilities	1,460.9	1,273.3	1,218.1	-242.8	-16.6%
Total	**122,992.0**	**130,473.5**	**150,979.3**	**27,987.3**	**22.8%**

Credit portfolio quality

Share of receivables at stage 3

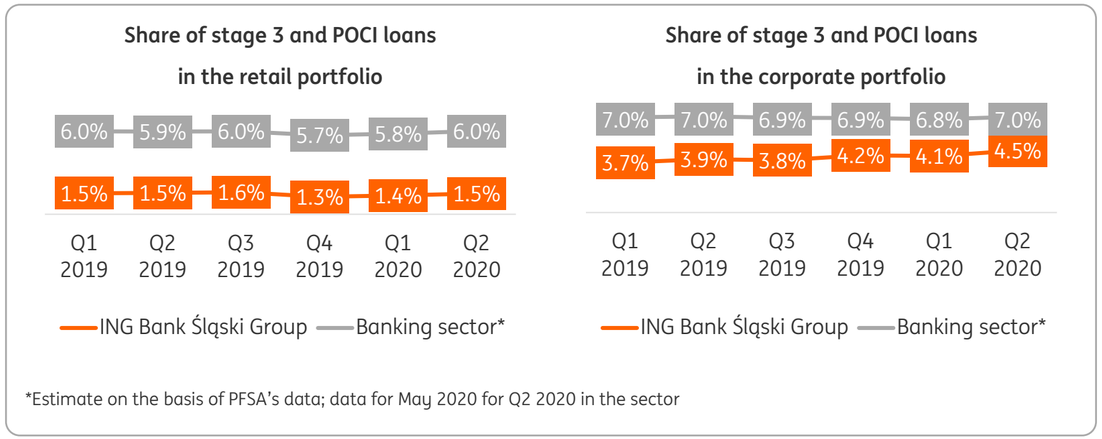
In H1 2020, the quality of our loan portfolio slightly deteriorated versus to the end of 2019. The share of Stage 3 and POCI loans in the ING Bank Śląski Group rose from 3.0% at the end of 2019 to 3.2% at the end of June 2020. The value of loans in stage 3 and POCI in our Group was PLN 3,914.7 million versus PLN 3,530.3 million at the end of 2019 (growth by 10.9%). The quality of our bank's loan portfolios keeps being higher than the banking sector average when a comparison is made of the ratio of the share of stage 3 loans. The share of Stage 3 receivables in the sector at the end of May 2020 was 6.4%.

Share of Stage 3 loans at the ING Bank Śląski Group against sector average*

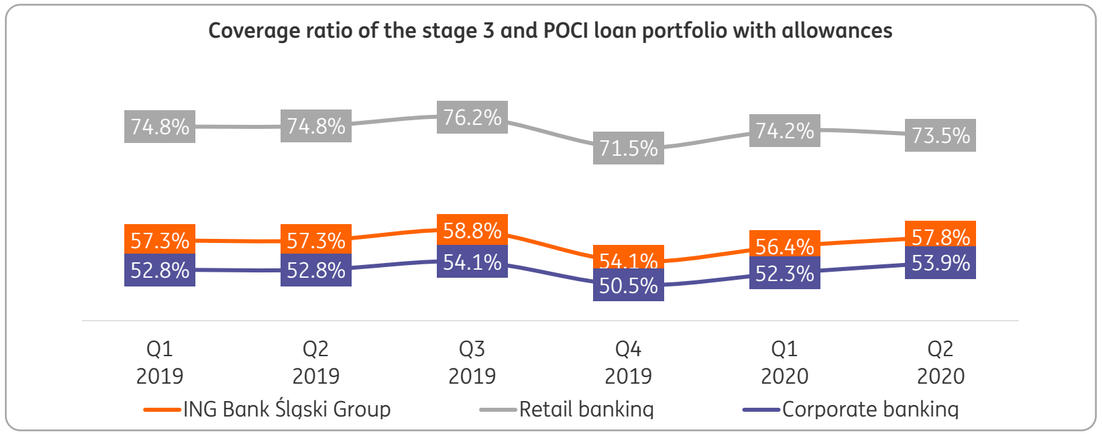


*Estimate on the basis of PFSA's data; data for May 2020 for Q2 2020 in the sector

Importantly, both our retail and corporate loans are of a higher credit quality than the respective averages for the entire banking sector. As at end of June 2020, the share of Stage 3 loans in the retail segment in the ING Bank Śląski Group accounted for 1.5% against 6.0% for the household sector (May 2020). Equivalent ratios for the corporate segment are 4.5% for the ING Bank Śląski Group and 7.0% for the institutional clients sector, respectively (May 2020).



*Estimate on the basis of PFSA's data; data for May 2020 for Q2 2020 in the sector

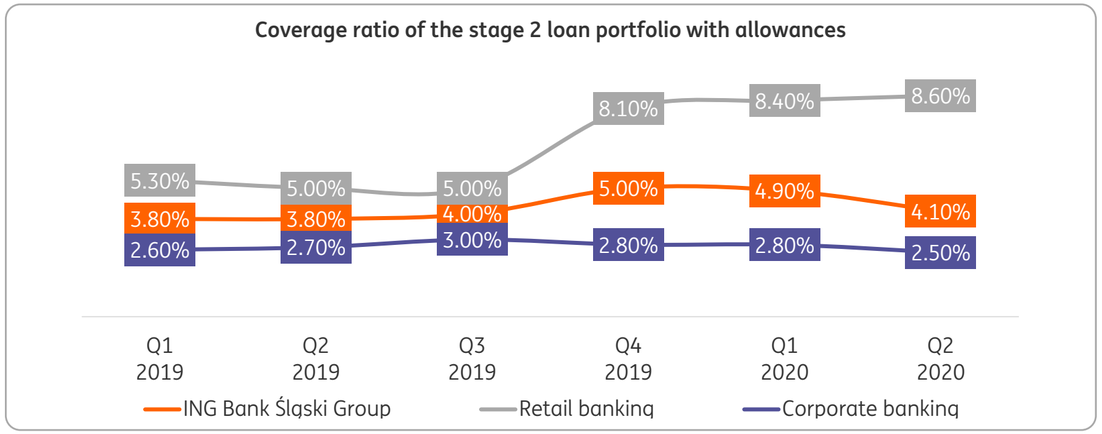


In Q1 2020, the quality of our loan portfolio, apart from the increase in business volumes and prudent lending policy, was also affected by the sale transaction of receivables classified as Stage 3 loans. The total amount of receivables sold (principal, interest, other costs as of the contract date) was PLN 8.9 million, of which PLN 8.3 million concerned receivables representing credit commitment. In Q1 2019, a similar transaction was also held – the total amount of the sold receivables was PLN 135.1 million with the loan exposure amount of PLN 117.4 million.

Coverage of stage 3 portfolio with allowances

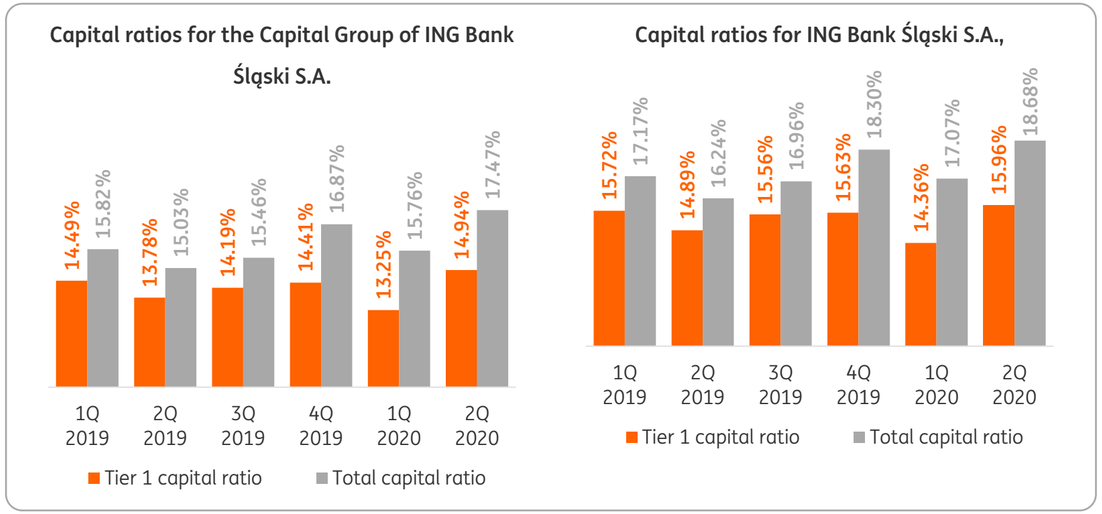
As at the end of June 2020, the ING Bank Śląski Group held provisions for the stage 3 and POCI loan portfolio of PLN 2,264.2 million. The coverage of the stage 3 and POCI loan portfolio with allowances was 57.8%.

As at the end of June 2020, the ING Bank Śląski Group held provisions for the stage 2 loan portfolio of PLN 574.3 million. The coverage of the stage 2 loan portfolio with allowances was 4.1%.



Capital adequacy

On 30 June 2020, the TCR ratio (Total Capital Ratio) for the ING Bank Śląski Capital Group was 17.47% versus 16.87% at the end of 2019 and the Tier 1 ratio was 14.94% versus 14.41% as at the end of December 2019.



In its calculations of capital ratios, the Group was applying interim regulations mitigating the implementation effects of IFRS 9 on equity. If the impact of implementation of the new standards IFRS 9 is recognised at the end of June 2020:

- at the consolidated level, the total capital ratio would have been at 17.27% and the Tier I capital ratio at 14.73%,
- at the standalone level, the total capital ratio would have been at 18.46% and the Tier I capital ratio at 15.74%,

Declared and paid dividend

In compliance with a resolution of its Annual General Meeting of 2 April 2020, ING Bank Śląski S.A. did not pay out dividend from its 2019 profit. By a decision of its shareholders and in compliance with an updated proposal of the Management Board, the amount of PLN 494.4 million (accounting for 29.9% of net profit), originally to be distributed as dividend, remained undistributed. The remaining part of net profit for 2019 was allocated to supplementary capital (PLN 1,150.2 million) and to cover accumulated loss (PLN 14.1 million). The Management Board modified its proposal as to 2019 profit distribution in connection with a letter received from the Polish Financial Supervision Authority (PFSA) (of which we informed in our current report 16/2020 of 27 March 2020) in which PFSA expressed its expectation that banks would retain the generated profit in its entirety in connection with the state of pandemic declared in Poland and further potential adverse economic consequences of the state.

In compliance with a resolution of its Annual General Meeting of 29 March 2019, ING Bank Śląski S.A. distributed dividend for 2018 totalling PLN 455.35 million which accounted for 29.8% of consolidated profit of the Bank Group. The dividend amount per share was PLN 3.50 gross. The ex-dividend date was set for 18 April 2019, and the dividend pay-out date was set for 6 May 2019. The dividend applied to all outstanding shares of the Bank - 130,100,000.

More information on dividend policy of our bank and the history of dividend distribution can be found at: www.ing.pl/relacje-inwestorskie.

Resources and infrastructure of ING Bank Śląski S.A. Group

E-banking

We offer our clients modern bespoke products and services. We provide access to intuitive platforms of Internet and mobile banking that we keep developing jointly with our clients. In 2016 we launched a new Internet banking system - Moje ING for individual clients and enterprises; in 2017 - a new version of a platform for the corporate customer segment (businesses that are commercial companies, other than enterprises): ING Business. In Q2 2020 we launched a completely new mobile application - ING Business as an upgrade to the existing solution.

Liczba klientów bankowości elektronicznej	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Moje ING, ING BusinessOnLine (in million)	4.2	4.3	4.2	4.1	4.0	4.1
ING BankMobile, Moje ING Mobile* (in million)	3.8	4.1	4.3	4.5	3.2	3.4
ING BusinessMobile (in thousands)	22.1	23.5	25.1	26.6	28.2	30.1

*the number of downloaded applications

Moje ING – individual clients and enterprises

We offer our clients modern innovative products and services. We attach much attention to Internet and mobile banking. It is due to such banking that financial management keeps being simplified. Moje ING is a friendly internet banking system with broad functionalities providing comprehensive and comfortable access to finances for individual clients. At the end of June 2020, almost 1.8 million clients held the Moje ING mobile application and over 3.7 million clients had access to our Internet banking.

In H1 2020 we simplified the menu in Moje ING. We introduced two separate sections: My data and Settings. In the My data section, enterprises will also find a tab - Company data. We have introduced user profiles in which clients may inter alia change their personal data, settings, check received messages. We have added another section - My promotions in which our clients will find all the promotions they have subscribed to. We have changed the appearance of certain buttons - so that they are suitable for visually impaired.

On 30 April we launched a new version of our web site - www.ing.pl. The new look assures faster and more comfortable access to information. We have made many modifications to facilitate the use of the site, in particular on smartphones. Improvements for visually impaired people is a major change. Successively we have been aligning the content of the site to its new look.

With Moje ING, clients who hold credit products can change the account for loan repayment in an automatic annexing process to agreements and may withdraw from loan agreements. Since April in Moje ING clients have been able to apply for a loan with insurance up to PLN 100 thousand (earlier the maximum amount of a loan with insurance that could be applied for in Moje ING was PLN 60 thousand). In Moje ING, enterprises can sign loan agreements and have the loan disbursed.

With respect to personal accounts, in H1 2020 we expanded the methods of identity verification when opening an account over the Internet by video verification (the new method is available from Moje ING). The method is based on biometric analysis where user's facial features are compared to their photo in the ID document. This is an addition to other methods available to clients. By the end of Q2 2020 we attracted over 2 thousand clients who started their adventure with our bank applying that method.

We were among the first banks in Poland to launch the service of Request for BLIK transfer. The service is an addition to BLIK telephone transfers that are popular among clients. With the service, clients can easily settle accounts between them. They can also share accounts with friends or send a transfer request to multiple people, e.g. when money is collected for a birthday present.

In Moje ING, our clients may open accounts for children aged 13 to 18 when Mastercard prepaid cards are ordered. Additionally, in Moje ING we offer a prepaid card for children under 13 years of age. Additionally, transactions under prepaid cards (including virtual cards) have been included in the Expense Analysis and Budget. As a result, individual clients can easier analyse and control their expenses in Moje ING. Clients can adjust the range of products analysed by default to their needs in the new Settings made available from the level of Expense Analysis and Budget.

Additionally, we have launched settlement of transactions made in the Exchange Bureau, available 24/7 in Moje ING. As a result, irrespective of the time when an order to exchange currency is placed, clients will receive immediately available funds to the account. The service supports clients who make FX transactions.

Additionally, on the web site we provided clients with an easy to use and intuitive calculator for card payments to check how the payment will be converted into the account currency at exchange rates applied by the bank and payment organisations and subject to the applicable fees and commissions.

Our clients can use Visa cards immediately when they have ordered cards. The card is immediately visible in Moje ING and thus payments by phone may be activated right away. Further, we launched mobile withdrawals with VISA cards added to mobile portfolios (in Moje ING Mobile, Apple Pay, Google Pay and GarminPay). Additionally, we offer redirection of direct payments (Pay-By Link) to mobile applications so that payments can be made with transaction confirmation in Moje ING.

Another new service is "NFC payment simulator" which supports clients in locating the NFC antenna in the phone. In May 2020 we launched the possibility for mobile withdrawals with Visa cards with the use of external payment portfolio and with Moje ING mobile.

In the area of daily financial management in Moje ING we kept developing the service of Add an account from another bank. At the beginning of the year, we made it possible to add accounts from 3 more banks: BNP Paribas, Alior Bank and Santander Bank Polska. Overall, accounts can be added from 7 banks; those also include PKO BP, Pekao SA, mBank, Millennium. The service operates on the basis of the PSD2 Directive.

Additionally, in the transfer services in Moje ING we provide clients with additional information when FX transfers are made as required by the EU regulation - therefore, transfer execution is more user-friendly and clients are more aware of the related costs.

Actions related to Moje ING in connection with COVID-19

In connection with the COVID-19 epidemic and changing preferences and behaviour on the part of clients, ING Bank Śląski adjusted its operations so that the world of banking could be more secure at this exceptional time. Among our clients we promoted remote use of banking services, educating them on the possibilities to handle daily matters via the Internet banking system and the Moje ING mobile application.

In cooperation with Bank Gospodarstwa Krajowego we launched a credit line with de minimis guarantees for enterprises. The de minimis guarantee is a form of public aid under the government program Support to enterprises, relying on sureties and guarantees of Bank Gospodarstwa Krajowego. The guarantee serves as collateral to the Credit Line. Applications are available in Moje ING.

During the pandemic we support enterprises by extending the period of free use of payment terminals if the 12-month free period ended in March, April or May. Additionally, the Direct account for companies is free of charge from May until the end of July. Over the period we do not charge fees for account maintenance, domestic PLN Internet transfers, including split payments (except Express ELIXIR, BlueCash and SORBNET), EUR Internet transfers within SEPA (except fees for urgent transfers).

On 20 march 2020 we increased the limit for contactless card payments from PLN 50 up to PLN 100 without PIN confirmation. The change applies to our Visa and Mastercard cards with the contactless function.

Additionally, we offer our clients a possibility to digitise Visa contactless cards as soon as they are ordered (in Moje ING mobile in Android and in Apple Pay in iOS). As a result, clients may use their cards right away without waiting for plastic.

During the epidemic, on our web site our clients are provided with most recent information and details of support programs (inter alia the anti-crisis shield for enterprises, suspension of loan repayment, etc.). Additionally, on the site ing.pl/bankuj-z-domu we demonstrate how banking can be secure from whole with Moje ING, over the phone or computer. We have provided our employees with a dedicated portal where they can find most recent information on recommended modes of work and information on how to prevent infections.

ING Business – business operating as commercial companies

The Internet banking platform dedicated to corporate clients (business operating as commercial companies other than enterprises serviced via Moje ING) has been positively received by clients. NPS for ING Business has been regularly over 40 points with a high satisfaction level on platform operation (8.3/10).

The ecosystem of ING Business is made up of a browser version, version for tables, native applications for smartphones and smartwatches and H2H channel – ING WebService.

The mobile ING Business application is used by over 42% companies that are our clients. This is becoming an increasingly popular access point by clients to banking information. Users increasingly frequently use mobile devices to manage their finances.

In May 2020 we offered our clients a new version of the ING Business mobile application. The new application was launched as an upgrade to the previous solution. With such distribution of the application, by the end of June over 90% active users were using the new version of the mobile banking application.

The new mobile application comprises not only a completely redesigned, intuitive interface, a modern look and speed of operation but also new functions like possibility to log in to the browser version to ING Business by using the mobile application. The application was developed with the revolutionary technology - Flutter by Google with which the implementation time and costs of new functions are lower than in case of traditional native mobile applications.

Along with new regular upgrades, we plan to provide new breakthrough functions of the application: possibility of remote identity verification and execution of secure transfers to recipients outside the counterparty list as well as further enhancements to the operation of the application.

In H1 2020 ING Business was expanded with the possibility to verify beneficiary data against the White List of VAT payers. ING Bank Śląski was involved in the PFR Anti-crisis Shield project in which - in ING Business - clients may apply for a financial subsidy from PFR along with accompanying applications.

Educational campaign for companies in on-line banking during COVID-19

The COVID-19 pandemic demonstrated that as a result of consistent and long lasting development of ING Business and remote processes, we have been able to adapt to new circumstances within a short time. We have convinced to on-line banking even those companies that until then had been quite cautious about remote banking or did not feel the need.

In order to demonstrate secure banking on-line to our clients and fully present the potential of the system, on 17 March 2020 we launched an educational campaign in ING Business under the slogan: “ING Business. More opportunities.”.

How we operated

- We have developed a series of new manuals. From those manuals, companies could learn for instance how to change user rights on their own and how to send messages and forms to the bank. We showed users how fast banking matters can be handled without leaving home.
- In the cycle, we presented educational content in appropriate contexts with links to manuals on the most interesting functions.
- The manuals were subject to assessment. The users presented their opinions if the articles were helpful and we collected and analyses the feedback to improve quality of the materials.
- We activated a new Online Help Centre (available at ingbusiness.pl/pomoc).

Effects of operations

- We have recorded a growth of reactions to all communication activities in ING Business by 33% - as many as 53% of user clicks were originated from the campaign: “ING Business. More opportunities.”
- Since we started the action, we have recorded a record growth in the Internet Online Help Centre and very good feedback on the advisory content (benchmarking period: 17 March – 30 May 2020 to 2 January - 16 March 2020):
  - Growth of new users by 165% (up to 7.6 thousand),
  - Growth of the number of active users (28 days) by 165% (up to 3.5 thousand),

- Growth of the number of visits by 91% (up to 14.6 thousand),
- Growth of the number of sessions by 136% (up to 11 thousand),
- 74% readers who reviewed the manuals would recommend the published content.

Our venues

As at the end of Q2 2020 ING Bank Śląski S.A. operated 304 retail outlets (including 147 outlets with modern cash services - cash solely in ATMs, ADMs and dual devices). All our venues are provided with self-service zones where clients can make cash withdrawals and deposits on their own.

The bank continues to modernise its retail outlets by replacing equipment and interior decoration and by implementing new functional solutions. As at the end of Q2 2020 our bank operated 283 venues in the new standard. Further optimisation activities are continued by relocating and consolidating branches to the most attractive business locations in cities and regions.

As at the end of Q2 2020 our bank also operated 62 sales outlets in the largest shopping centres all over Poland. The ING Express network is a response to our clients' expectations who look for a bank available at any place and at any time.

Corporate clients of the large- and medium-sized segment are serviced by the bank in 36 corporate branches and 15 corporate banking centres. Almost all of them operated in the same locations as retail branches. Our largest corporate clients were serviced by the Strategic Clients Department in Warsaw and a regional office in Katowice.

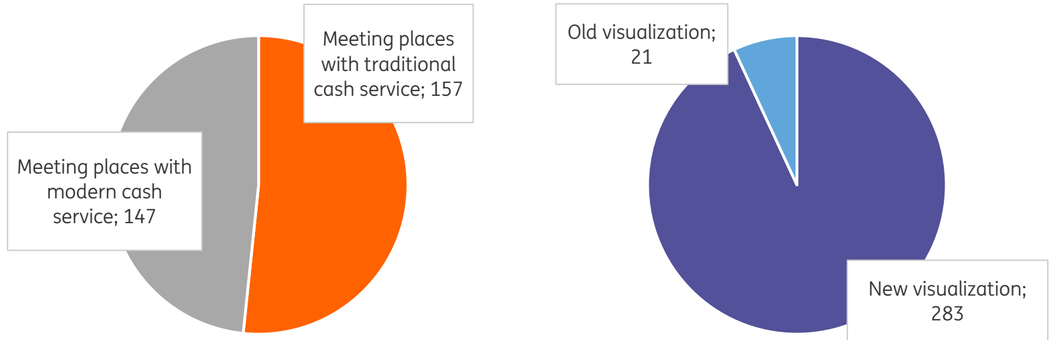
As at the end of June 2020, our clients had access to a network of 1,018 cash handling devices, including 177 standard ATMs and 841 dual devices and recyclers (1,047, 183 and 864 respectively at the end of June 2019).

Number of payment cards (thousand)

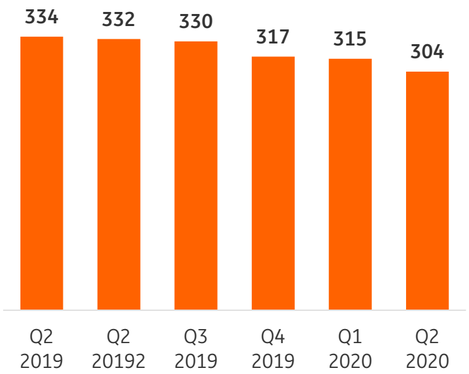
	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
debit cards	2,887	2,959	3,008	3,050	3,125	3,155
credit cards	253	259	266	271	264	272
other cards*	151	155	157	156	158	159
Total payment cards, in which:	**3,291**	**3,373**	**3,430**	**3,477**	**3,547**	**3,586**
paywave**	3,135	3,208	3,257	3,298	3,358	3,389
virtual cards	156	165	173	179	189	197

* including charge and prepaid cards; **cards: Contactless VISA, Contactless Visa Business, Contactless MasterCard Debit, Visa Zbliżak, Zbliżak, VISA 2016, VISA NFC, Mastercard in EUR, MasterCard Debit in phone, Mastercard in phone Business.

304 venues in 189 cities (including 157 - “1 in the city”)



Number and geographical structure of branches



Actions related to COVID-19 at our venues

We started 2020 in compliance with the pre-approved cooperation model with clients, based on specialisation. Additionally, in all *face to face* channels we maintained the assumption of consistent activities within business areas combined with specialisations.

After the organisational changes, related to a migration of the Entrepreneurs Segment from the Retail Clients Business Line to the Business Client Division, we focused on the operation of 3 specialisations:

- Centre of Expertise - Pomagam w Codziennym Bankowaniu [I help in daily banking],
- Centre of Expertise - Pomagam mieszkać lepiej [I support better living],
- Centre of Expertise – Pomagam dbać o finansową przyszłość [I help out with taking care of the financial future].

We have taken all measures that our internal changes would not affect our clients. Specialists for Enterprises continue to be available at selected venues and the Contact Centre.

Client services during the COVID-19 pandemic

Since the beginning, we have been consistently implementing the required security measures. The objective was to protect clients and employees while assuring that our services remain available.

At the beginning, specific interest of our clients focused on cash withdrawals at the counters and from ATMs.

Availability to clients

We adjusted the working hours of our branches to the circumstances. At the beginning we shortened the availability of our venues outside shopping centres to 4 hours (11:00 am – 03:00 pm). Afterwards, we extended the availability by one hour (11:00 am – 04:00 pm) and then another hour (10:00 am – 04:00 pm) to get prepared for full 7-hour availability for clients in July 2020 (10:00 am – 05:00 pm).

When decisions were taken on restrictions applicable to shopping centres, we closed our venues in shopping centres. Also the ING Express outlets were closed. The outlets at shopping centres were re-opened on 4 May. The ING Express outlets were re-opened on 7 May.

Since 1 April we have adapted our working hours to comply with availability for senior citizens - between 11:00 am and 12:00 noon.

Between 12 March and 20 May the number of operating branches was reduced. The largest number of closed venues was on 19 March. There were 46 of them on that day which accounted for 15% of all. Since that time we have kept opening more and more branches. The average availability of our outlets in the period under report was 92%.

Our specialists in the Contact Centre remained available 24h/7. Since March the number of calls with enquiries by clients has increased significantly.

Security of client services

We reduced the number of clients allowed to the venue at the same time. The reduction was in force parallel to the regulation on reduction of the number of people in enclosed spaces.

We provided our specialists with disposable and reusable face masks, visors, disposable gloves and disinfecting liquids.

We equipped our visors with plexiglass shields - both service positions and meeting rooms.

We published communications to clients on the current situation and applicable rules. Those were voice messages and written communication at our venues.

HR management

Headcount

As at 30 June 2020 the ING Bank Śląski S.A. Group employed 8,181 people (of which ING Bank Śląski S.A. employed 7,737 people). Versus December last year the headcount of our bank increased by 47 people. The headcount growth was due to the *Know Your Customer* project, mainly in the COO Division (verification of client files).

Number of employees	30 June 2020	31 December 2019	Change
Head Office in Warsaw	753	746	7
Head Office in Katowice	3,217	3,117	100
Branches	3,767	3,827	-60
Total Bank	**7,737**	**7,690**	**47**
ING Lease (Polska) Sp. z o.o.	234	232	2
ING Commercial Finance Polska S.A.	115	112	3
ING Bank Hipoteczny S.A.	41	39	2
Solver Sp. z o.o.	2	2	-
ING Usługi dla Biznesu Sp. z o.o.	49	57	-8
Nowe Usługi S.A.	3	3	-
Subsidiary companies	**444**	**445**	**-1**
ING Bank Śląski Group	**8,181**	**8,135**	**46**

Remuneration Policy

At the Annual General Meeting held on 2 April 2020 a report was presented in the functioning of the remuneration policy at ING Bank Śląski S.A. in 2019 in compliance with the guidelines of the Principles of Corporate Governance for Supervised Institutions. The General Meeting found the remuneration policy pursued by the bank as supporting the development and security of the Bank operations.

Fixed remuneration

In H1 2020 ING Bank Śląski S.A. continued its existing remuneration policy whose task is to effectively support strategic objectives. The assumptions underlying the policy include market levels as well as transparency and consistency of remuneration offered to employees.

Additionally, an in-depth analysis was carried out of market practices; as a result, on 1 April 2020 there was a significant increase of maximum range values in the first grade of employment due to growing medians in the market. Also on 1 April 2020 there was an increase of base salaries at the bank. The raises were split into automatic and discretionary parts.

Variable remuneration

The bank closed bonus handling for employees for 2019. The bonus was fully disbursed in accordance with the planned budget. The bonus amount for each employee was subject to assessments in three areas:

- work performance,
- orange code,
- challenges.

The bank also closed handling the bonus for employees covered with the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. In compliance with the Policy, variable remuneration is deferred and in minimum 50% percent is disbursed in phantom shares entitling to cash payments with the value subject to the value of shares of ING Bank Śląski S.A.

In H1 the non-deferred annual bonus for 2019 was disbursed as well as a part of the deferred bonus for 2017 and 2016 for the Identified Staff. Account was also made of a part of variable remuneration awarded in phantom shares for 2015-2018. As a result, the entire bonus for 2016 due to such persons was accounted for.

Modifications to remuneration regulations

At its meeting of 2 April 2020, the Annual General Meeting - in compliance with the new requirements of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies - approved the Remuneration Policy of Members of the Supervisory Board and of the Management Board of ING Bank Śląski S.A. Inter alia the new regulation clarifies as follows:

- remuneration principles of Members of the Supervisory Board and of the Management Board,
- it implements a link of the remuneration of Members of the Management Board and of the Supervisory Board to average salaries of the other employees of the Bank.

The Policy replaced the Remuneration Policy of members of the Supervisory Board of ING Bank Śląski S.A.

Recruitment and development of the image of the institution as a desirable employer (employer branding)

In H1 2020 ING Bank Śląski S.A. was involved in activities to develop an image of a desirable employer (employer branding) dedicated to students, graduates and professionals.

In the area of actions addressing specialists (people with professional experience), various types of activities and methods of reach were applied. Those included inter alia: attendance in thematic conferences (webinars, workshops, conferences, expert communications), organisation of technological meet-ups and attendance of job fairs.

In the period, actions were continued to promote the employer's brand and support recruitment activities in social media (mainly LinkedIn, bank's career site). Candidates were reached with posts that were directly or indirectly related to work at the bank, by publishing job offers, actions of managers, recruiters and employees with the aim to construct and expand business contacts. The presence of our employer brand in the web, in particular in channels dedicated to young talents (students, graduates) was supported with activities by participants in the Ambassador Program 2019/2020 from 13 universities all over Poland. Improving the attractiveness of the ING employer brand we resort to modern communication tools suited to recipients' preferences and ways they consume content (e.g. video content, infographics).

Additionally, actions were continued that were dedicated to people entering the labour market (students and graduates) which inter alia included the following:

- **Ambassador Program** – 13 students representing the bank at universities, coached by bank employees who support the Ambassadors in learning about ING and developing their career paths. As a result of its cooperation with the Ambassadors, the bank was involved in such projects as: Economic Bridges (in cooperation with the Forum of Economic Universities), Graduate Programme Day, a series of meetings with student organisations "Meet Me At Mine".
- **Internship with the Lion** – another edition of the internship program and continued activities to implement the idea of year-round recruitment. In the recruitment process to the program again the Assessment Centre was used (on-line) and standard recruitment forms to support also remote recruitment. We keep using standardised layouts of recruitment announcements that focus on specified skills acquired by trainees during the program. We monitor and verify the source of contact with candidates (how the candidate learned about the internship program).
- **ChallengING internship program** – an annual program continued now in the areas of IT and Customer Intelligence. In two paths of the program 7 participants were hired.

- **International Talent Programme (ITP) -** pursued in 8 business paths (Risk, IT, Retail and Corporate Banking, Finances, HR, Analytics, Operation & Change) - the program offers its participants involvement in projects that are important for the bank, multiple development activities and training abroad. The recruitment is carried out for the Head Office in Warsaw and Katowice all year round.
- **Meetings with the Lion** – a series of workshops by experts from the bank to demonstrate practical aspects of banking in a manner friendly to students.
- **Promotion of ING in academic circles** – organisation of the ING Career Zone at universities combined with Meetings with the Lion, cooperation with scientific circles, student organisations and student self-governments of selected universities and involvement in the projects that they organise. In those activities we reach representatives of the target group applying various forms of contact and tools (inter alia student press, posters in buildings, on-line actions and others). The actions dedicated to students and graduates within Campus Recruiting are a part of the Cooperation Strategy with Universities pursued by the bank.

Awards and distinctions for ING as an employer

Exceptional working conditions of work with ING, ongoing improvement practices related to recruitment and development of its organisational culture have been appreciated by external research and ranking institutions. For the eleventh consecutive time we were awarded the title of TOP Employers Polska 2020 and TOP Employers Europe 2020. In the Top Employers classification, we were ranked among the TOP 10 employers in Poland.

ING Bank Śląski was awarded a Top Quality HR certificate for HR standards and practices implemented for the current as well as future and former employees. The certificate is awarded by the Polish HR Management Association (PSZK). The certification is made on the basis of a survey and covers overall HR policies in the organisation.

ING Bank Śląski is among those employers who confirm high recruitment standards and who wish to promote good practices in the area. The bank jointed the Coalition for Friendly Recruitment which includes over 350 companies that care about good relations with candidates and that in their recruitment processes follow the principles of the Code of Good Recruitment Practices.

Employee development and training

A strategic priority of the bank is to develop employees competencies and focus on ongoing improvement. In H1 2020 the bank pursued development actions compliant with its strategic objectives in the area of inclusive leadership, innovations and new modes of work.

Those actions were implemented in the following key areas:

- Reinforcement of organisational culture (in particular with a multi-aspect program for newly appointed managers, actions to reinforce the set of values and behaviour within the Orange Code).
- Reinforcement of employee competencies and conduct (in particular by holding training in the area of products and sales quality as well as an offer of development activities covering inter alia knowledge sharing, work with another persons as part of coaching, mentoring, shadowing, consultation, development internships).
- Specialist and expert know-how (in particular with highly specialised training, domestic and foreign sectoral training, addressed primarily at thematic specialists as well as certifications).
- Reinforcement of competencies for self-training, in particular by inspiring with market trends, development of various communities within the organisation.
- Dedicated development programs to designated organisational units or identified recipient groups as responses to strategic challenges inter alia in such areas as knowledge sharing, sales management or data science.

Such development actions were provided internally as well as with offered external training, workshops and conferences. Further, the bank supports individual expansion of qualifications by employees in the form of certifications, post-graduate studies or standards of the Polish Bank Association. In its communication, the bank uses an internal community devoted to learning and development and a new internal platform used to exchange information on new development initiatives in which interested employees may participate. Digital development actions are promoted as well as use of external training platforms available on-line and digital information resources (e-book library, ICAN).

Employees of the Bank shared their knowledge and experience both inside the organisation (e.g. at internal training, webinars, activities in communities) and outside, acting as speakers at external events.

Development actions are addressed to all employees in the retail and corporate sales networks as well as employees of organisational units in the Head Office (new hires, specialists and managers).

Działania związane z COVID-19 dla naszych pracowników

Remote work

The state of epidemic required precise identification of rules relating to remote work. For our employees we developed practical guidelines and principles to support the handling of work in the new situation. At its peak, 89% of our headquarters employees worked remotely (76% of all employees).

Financial support

In view of the specific situation related to the COVID-19 epidemic, an agreement was concluded with the trade unions to provide in the period from 1 April until 30 June 2020 financial support to employees who were affected by adverse effects of the epidemic. The support was to provide for current living needs - subsidies to rent and electricity, gas, water and waste disposal bills for those employees whose income per person in the family was materially reduced due to no salaries or reduced salaries of other members of the household.

Process digitalisation

Employee documentation

In order to provide for the needs, we have launched a completely electronic employee workflow including hiring documents, raises for employees with the use of electronic qualified signatures.

Development activities

The experience learned from the pandemic has accelerated the ongoing digitisation process of development activities. Training - until then stationary - has been transferred to virtual classes or suspended until a remote formula has been developed. A number of on-line training courses have been held for employees and managerial staff concerning the handling of the new reality: organisation of remote work, *work-life balance*, management of energy and emotions and a special workshop for people who (or whose close ones) have been directly affected by the virus. For the first time a conference for mentors has been organised in the remote mode.

Barometer (Quick Pulse) - review of moods and commitment of ING employees during the pandemic

We have launched the reviews to support employees in their daily work responding to their actual needs and challenges that result from the coronavius pandemic on their private life, work as well as the company and its clients. After the pilot phase of the survey in selected units (CEO Division and ING Bank Hipoteczny), since 18 June the survey has been extended to the entire organisation. The questionnaire provided to employees every Thursday is anonymous.

Orange Infoline

Out of concern for psychic welfare of ING employees we initiated the Orange Infoline with the objective – in the times of COVID-19 and in the future - to care about one another, to prevent depression, professional burnout and to cope with difficult situations at work and outside. The services can be used by all ING employees, irrespective of the employment form. Employees may arrange consulting with experienced specialists for themselves and other members of their households.

Support to parents at work

To support employees - parents of children attending kindergartens and schools, remote animation activities were arranged for children and support in their homework for school pupils.

Changed formula of services at the Cafeteria

In order to continue the provision of services in the Cafeteria, during the pandemic we offered all employees free remote fitness classes.

Core changes to risk and capital management

In the Management Report on operations in H1 2020, we present core changes to risk and capital management that occurred since the end of 2019. The risk and capital management system, risk assessment and quantification were presented in detail in the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2019 in chapter “Risk and capital management” (from page 134).

Equity management

In H1 2020 we continued our activities aimed at pursuing our capital management strategy. In the assessment process of internal capital adequacy, in H1 2020 we summed up a Workshop in assessment or risk materiality. The Workshop confirmed the materiality of the risks of 2019 and a decision was made to resign from identifying general and specific risks of securities in the trading book due to non-existence of such product.

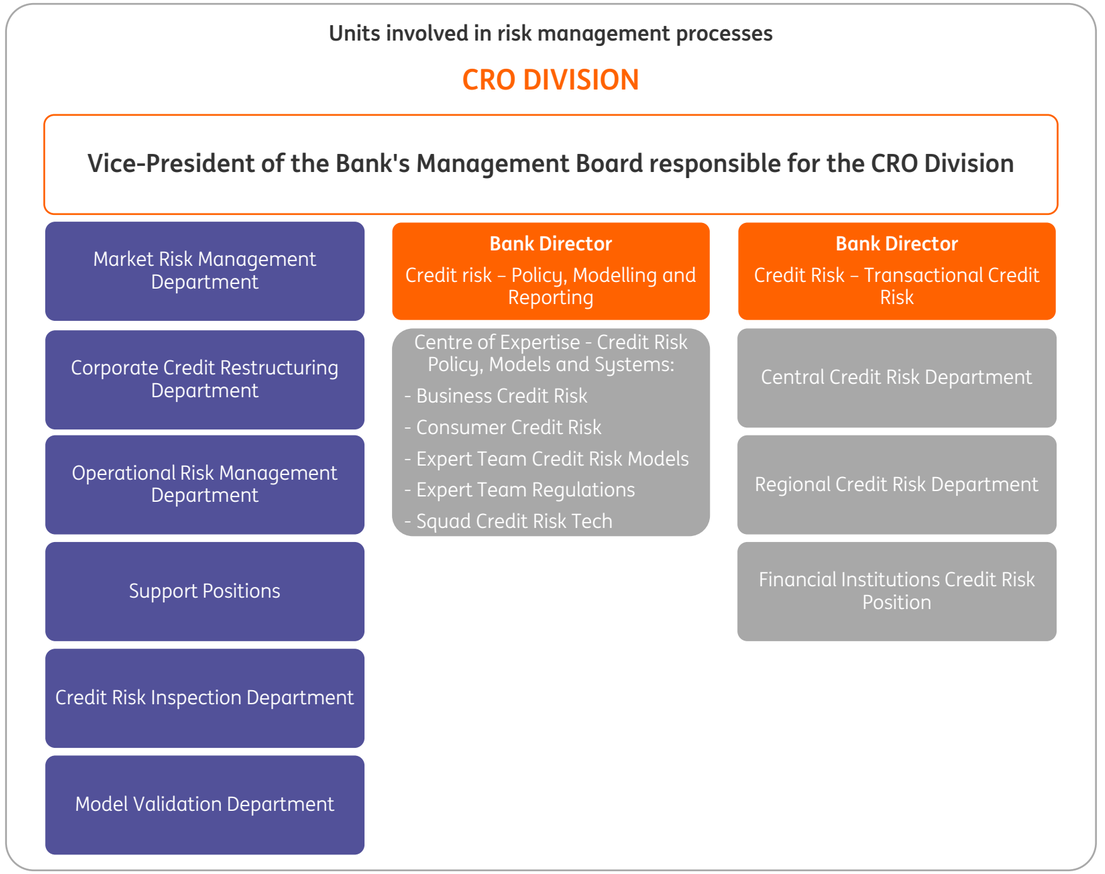
In connection with the regulation of the Minister of Finance on the establishment of the systemic risk buffer of 18 March 2020, in 2020 we are required to maintain the following minimum levels of capital ratios:

- CET1 >= 7.5%
- T1 >= 9.0%
- TCR >= 11.0%

We have adapted our dividend policies to the guidelines of the Polish Financial Supervision Authority by removing the additional buffer of 1.5 pp from the capital criteria. Additionally, we added flexibility to the policy specifying that the Bank Management Board takes a decision on the volume of dividend payment subject to PFSA’s position. The most recent version of our Bank dividend policy can be found at: en.ing.pl/company-profile/investor-relations.

Credit risk

Risk management organisational structure



The sole organisational change in the CRO Division that took place in H1 2020 was to incorporate the Model Validation Department. That was an organisational change so that all units reporting to CRO were grouped within the CRO Division. In accordance with Recommendation W, the principle was preserved that the Director of the Model Validation Department reports directly to CRO.

Core modifications to the Bank's credit policy in the retail and corporate client segments

On 15 February 2020, ING Bank Śląski was the first bank in Poland to implement a new definition of default, compliant with the Guidelines of the European Banking Authority EBA/GL/2016/07 of 18 January 2017, effective on 1 January 2021. The timetable and core principles of the implementation were adapted to the implementation in the ING Group and regularly consulted with the European Central Bank and the Polish Financial Supervision Authority and were due to the need to apply the new definition of default in the re-development of the credit risk models covered with the IRB (Advanced Internal Ratings Based Approach) method.

Now, the new definition of default is applied in all credit and management processes in the ING Group, in line with supervisory expectations. The new requirements apply in particular to the method of counting the number of days past due, materiality thresholds initiating the calculation of days past due and premises underlying default and criteria to exit default. Comprehensive implementation of the new definition in the Group covered adaptation of systems and applications, reporting principles and regulations, development of a local “Default Engine” to calculate days past due in compliance with the EBA Guidelines.

Credit risk in the COVID-19 pandemic

Retail segment

Interim modifications have been introduced to mitigate our bank's credit risk due to the COVID-19 pandemic, including:

- measures were implemented to support regular clients of the Bank in the COVID-19 pandemic, including a possibility of loan repayment for 3 or 6 months (principal or principal-interest instalments).
- the maximum LTV level for mortgage loans was reduced (z 80% to 70%),
- with respect to consumer loans, the maximum limit for unsecured exposures was reduced,
- restrictions were introduced – and withdrawn afterwards – concerning lending to new clients,
- the acceptable sources of income of clients were reduced.

Corporate segment

Enterprises

In connection with the COVID-19 pandemic, temporary modifications were made to the credit policy applicable to enterprises, including:

- possibilities were implemented to suspend repayment of loan instalments and automatic renewals, in compliance with the joint position of banks and PBA,
- a possibility was implemented to grant credit lines with a guarantee of Bank Gospodarstwa Krajowego,
- automatically *pre-approved* offers were suspended for 3 months,
- restrictions were introduced – and withdrawn afterwards – concerning lending to new clients subject to new conditions providing for the current economic situation,
- calculation rules of income from business activity were changed.

Small, medium-sized and large enterprises

We kept adjusting our approach to client financing, at the beginning of the pandemic focusing on supporting our existing borrowers:

- repayment terms of loan instalments and automatic renewals were extended, in compliance with the joint position of banks and PBA,
- additional reviews of the loan portfolio were introduced and carried out to identify and support clients most affected by the pandemic,
- the principles of remote renewal of revolving loans were made more flexible adding the possibility to renew loans with a guarantee from Bank Gospodarstwa Krajowego,
- financing was offered to clients affected by the pandemic in cooperation with Bank Gospodarstwa Krajowego under the Liquidity Guarantee Fund,
- deadlines were postponed to submit financial data for 2019 and Q1 2020 and to account for contractual conditions related to financial data,
- for 3 months the following automatic offers were suspended: *Pre-approved* and *On-demand*,
- restrictions were introduced – and withdrawn afterwards – concerning new lending to clients subject to new conditions providing for the current economic situation.

Retail segment

- In the credit process, a possibility was introduced to accept documents with a qualified electronic signature.
- With reference to consumer loans:
  - rules were changed to the application of a simplified offer, including: higher amounts available to clients with a good risk profile and limitation of the entire debt within the offer,
  - the following tests were continued: simplified consolidation of loans from other banks, applying preferences to ultra-low risk clients, an enhanced e-cash process for new clients of the bank (temporarily suspended due to COVID-19).

Corporate segment

Small enterprises

- Continued optimisation of the Easy Lending path by excluding the involvement of the CKRKFT Risk Unit (Credit Risk Corporate Centre Fast Track) from the lending process and transfer of the competence to Front Office Decision Makers.
- Modifications were made to Easy Lending algorithms in order to consolidate the calculation methods of limits in the Easy Lending process with the limits calculated in the Fast Track process.
- In the credit process, a possibility was introduced to accept documents with a qualified electronic signature.

Medium-sized and large companies

- Modifications were made to policies due to process simplification and digitisation of flow of credit applications for Letters of Credit and guarantees and with respect to one-off transactions secured with advance cash (Letters of Credit).
- Internal regulations were adjusted that relate to Local Government Units to statutory changes.
- Modifications were made to policies related to appraising properties by clarifying guidelines to appraisers and to the drafting process of appraisal reports.
- Processing rules were introduced for common loan applications – *One Financing* for ING Bank Śląski, ING Lease Polska and ING Commercial Finance.
- Internal regulations were adapted to the requirements of the European Central Bank as specified in the document: "ECB guidelines for leveraged transactions".
- In the credit process, a possibility was introduced to accept documents with a qualified electronic signature.

Core activities in the modelling area

- The PD model was completed as part of re-development of SME capital models.
- The *pre-approved* model was completed for retail segment clients.
- The first automatic monitoring was held for the PD capital model for retail segment clients.
- In the risk management process of models used in LLP (*loan loss provision*):

- in a periodic monitoring of the early stage recoveries (ESR) rates, the rates were updated for retail clients, mortgage clients, enterprises and medium-sized and large companies;
- Self-assessment was held of the models used to calculate the capital requirement with the advanced internal rating-based method, compliant with the Regulator's requirements.

Stress tests

In compliance with the “Stress Test Policy”, the Group regularly holds stress tests to assess the impact of potential events or changes to macroeconomic conditions on capital requirements, economic capital, bank's liquidity, risk profile and profitability. Reports from stress test results are approved by ALCO and submitted to the Bank's Management Board and Supervisory Board.

As at 31 December 2019, the Bank held stress tests on a consolidated basis relying on scenarios developed by the Chief Economist. The stress tests covered:

- scenario tests: a scenario of moderate recession, a scenario of long-term recession and a scenario of a rapid recession;
- reversed stress tests,
- sensitivity tests (growth of interest rates by 400 bps and 200 bps; drop of property prices by 30%; PLN exchange rate weakening by 30% and 50%; reduced GDP growth to -5%; growth of unemployment to 20%; drop of salaries by 10%).
- concentration tests,
- tests of financial leverage ratio.

Additionally, stress tests covered two additional scenarios to assess the impact of the COVID-19 pandemic.

Market risk

In the area of market risk, the bank manages risk in line with the developed principles, methodologies and approved policies.

Liquidity and funding risk

In H1 2020 we continued our actions to mitigate liquidity and funding risk - in compliance with the principles of the liquidity, funding risk management policy, Bank strategy and regulatory requirements. In particular, the bank monitored the liquidity situation during the economic lockdown due to the COVID-19 pandemic. With respect to regulatory requirements - all the monitored metrics remained within the required limits. Internal regulations and documents are subject to systematic reviews and we kept enhancing our reporting and modelling processes.

Model risk

In H1 2020 we continued activities related to model risk management. The models used at the bank were subject to quarterly reviews and risk assessment as well as materiality reviews and validation.

In that period, aggregated model risk in the model group classified as moderately material exceeded the tolerance level approved by the bank in 3 models with an increased model risk. The Bank identified 4 such models. Economic capital due to model risk was below the limit for the risk approved by the bank.

The Management Policy of Model Risk at ING Bank Śląski S.A. was also subject to a review and update.

Operational risk

In H1 2020 security the Bank clients and employees related to the COVID-19 pandemic was the top subject. Coordination of crisis-related actions, assuring security of remote work and preparations for employees returning to offices have always been the most important focus.

In order to enhance our internal control system, we supplemented the assessment criteria of the effectiveness and adequacy of the internal control system with measurable quantitative criteria, we took measures to assure ongoing validity of the list of material processes and immediate updates of the data in the Control Function Matrix. We continued work to assure full compliance with EBA requirements concerning outsourcing, including the development and approval of a new Outsourcing Policy. We have also developed guidelines relating to PFSA's communication concerning computing clouds. We continue optimising risk measuring methodologies in relation to the risk of IT security, business continuity and physical security.

Business continuity

Undisturbed access to our services by clients has always been our top priority.

At ING Bank Śląski S.A. we accomplish the objective in two stages. Firstly, we design the services we offer so that they can be very resilient to all kinds of failures thus assuring operational resilience. Secondly, we maintain and keep improving our business continuity management system.

In the business continuity management system we identify processes for which access is crucial for clients and the bank. For those processes we develop contingency plans so that we can function in case of failures or other hazards.

Apart from contingency plans, we develop and test disaster recovery plans (IT area) to restore access to key applications within the required plans. The systems are stored in two parallel computer centres and also in a cloud (*Private Cloud*).

We always strive to prevent all disturbances and should problems occur – we immediately notify clients of such problems and offer alternative solutions.

Should incidents occur that materially affect client services or internal processes, a crisis management team is established to coordinate the activities of all involved units of the bank.

Business continuity in the COVID-10 pandemic

The COVID-19 pandemic that we have never faced earlier is an example of such event. We had to introduce a number of restrictions related to the declared state of pandemic and there were the indispensable changes to our clients' behaviour, needs and economic situations. Our response consisted in defining a new strategy of functioning, implementation and adaptation of changes beyond our existing contingency plans and development of a crisis structure adequate for the scale of the challenge.

A Crisis Team was established to assure effective coordination and transfer of decisions to organisational units; the Team is composed of representatives of all areas of the bank. The Team covers all units of the Bank Group.

In view of the lasting and unpredictable nature of the pandemic, the actions of our bank focus on flexible reactions and fast adjustment to the current and projected situation. To this end we have developed an Operating Plan during the pandemic which sets forth the Bank actions in the following areas: organisation of the crisis structure, method/form of work, applied sanitary measures, internal and external communication, and monitoring and reporting.

Legal risk related to CHF mortgage loan portfolio

The bank keeps monitoring the incoming legal claims concerning clients' objections to clauses in FX (CHF) indexed mortgage loan agreements. As a result of such claims, the Bank held the following provisions as at 30 June 2020:

- portfolio provision for on-balance sheet loan exposures – PLN 42.4 million,
- portfolio provision for repaid exposures – PLN 12.6 million.

The provisions overall of PLN 55.0 million accounted for 5.3% of the portfolio amount.

Compliance risk

In H1 2020 we continued efforts to ensure compliance with regulatory requirements. Similarly to the previous year, we have been enhancing control mechanisms in business processes, in particular related to *Know Your Customer* and personal data protection. Regularly we have been developing and consolidating awareness of employees at the bank with respect to professional ethics and regulations in the compliance area, including personal data.

Business risk

Introduction

Business risk encompasses the following material risks:

- macroeconomic risk,
- risk of FX mortgage portfolio.

Macroeconomic risk

Macroeconomic risk is the risk due to macroeconomic factors and their impact on the levels of minimum capital requirements. The Bank manages the risk by regular holding of internal stress tests to support ongoing monitoring of sensitivity or minimum capital requirements to macroeconomic factors. In H1 2020 the Bank held complete capital tests as at Q4 2019.

On the basis of results of internal stress tests for a mild recession scenario, the Bank Group estimates an additional capital requirement to safeguard against the materialisation effect of the scenario. The results of the stress tests demonstrated that the materialisation of a mild recession scenario would not result in a drop of capital adequacy

below the required level; however, in view of the COVID-19 pandemic, a decision was taken to maintain an increased economic level of capital requirement for macroeconomic risk calculated in the basis of tests as at Q2 2019.

Risk of FX mortgage portfolio

Risk of the FX mortgage portfolio is the risk resulting from financial losses due to the need to convert FX mortgage-backed loans to PLN loans.

In risk management, the Group relies on the recent legislative proposals with respect to currency conversion of mortgage FX loans. As at 30 June 2020, additional economic capital was kept for the risk in pillar II.

Information for investors

Shares and shareholders of ING Bank Śląski S.A.

Shareholding structure

ING Bank Śląski S.A. is a subsidiary company of ING Bank N.V., which as at 30 June 2020, held a 75% shareholding in the share capital of ING Bank Śląski S.A. and 75% of the total number of votes at the General Meeting - the figures that have not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutions investors, especially Polish pension funds and national and foreign investment funds, and also individual investors. As at the end of June 2020, Aviva Otwarty Fundusz Emerytalny Aviva Santander was the largest investor which - according to semi-annual information on the structure of assets of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 30 June 2020 held 8.44% in the share capital and overall number of votes at general meetings. As of the date hereof, according to the information available to the Bank no other shareholder has exceeded the 5% threshold in the company's capital.

In 2020 the value of share capital of ING Bank Śląski S.A. and the share of its core shareholder in capital were not changed.

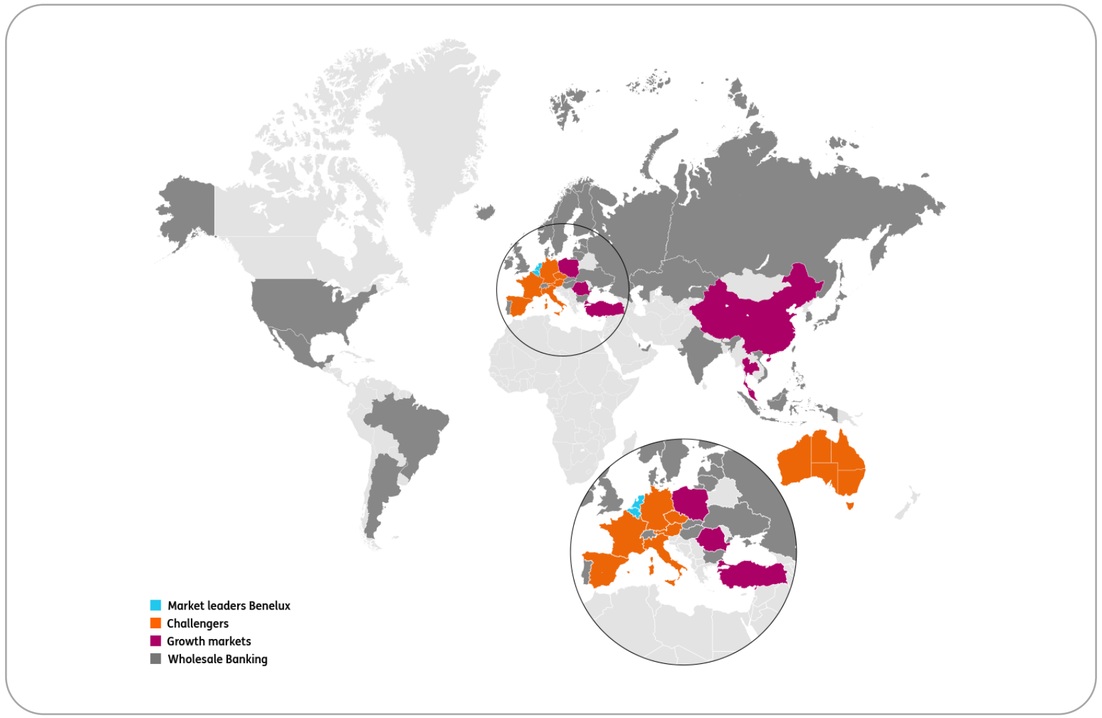
Shareholding structure of ING Bank Śląski S.A.

	30 June 2020		31 March 2020	
Shareholder's name	**Number of shares/Number of votes at GM**	**Share in share capital and overall number of votes at General Meetings**	**Number of shares/Number of votes at GM**	**Share in share capital and overall number of votes at General Meetings**
ING Bank N.V. (a subsidiary of ING Groep N.V.)	97,575,000	75.00%	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny Aviva Santander*	10,981,068	8.44%	10,923,351	8.40%
Others	21,543,932	16.56%	21,601,649	16.60%
Total	**130,100,000**	**100.00%**	**130,100,000**	**100.00%**

*on the basis of annual information on the asset structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 31 December 2019 and semi-annual information on asset structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 30 June 2020.

Characteristics of the dominating shareholder

ING Bank N.V. is a member of the ING Group – a group of financial institutions with a global reach, offering retail and corporate banking services for over 38 million clients. ING Group entities employ over 54 thousand staff and operate in over 40 countries in Europe, North and South America, in the Middle East as well as in Asia and Australia. The ING Group operates in four areas: Market Leaders, composed of operations in the Netherlands, Belgium and Luxembourg; Challengers, composed of operations in Germany, Austria, Spain, Italy, France, Australia and Czechia; Growth Markets, composed of operations in Poland, Romania, Turkey and in Asia; and a global network of corporate banking for strategic clients (Wholesale Banking).



ING Groep N.V., the Netherlands, is the dominating entity of the ING Group. It was set up in 1991 as a result of a merger of the Dutch insurance company - Nationale-Nederlanden and the Dutch bank - NMB Postbank Groep. For years, the ING Group kept developing both organically as well as with mergers and acquisitions. As a result of the 2008-2009 crisis, the Group was provided with government support (repaid in 2009-2014) subject to restructuring. Inter alia, the restructuring provided for a split of banking activity from insurance and investment activity which was to be sold. The restructuring of the ING Group was finalised in April 2016.

ING Groep N.V. is a public company, listed in Amsterdam, Brussels and New York. ING Groep N.V. has a fragmented shareholding structure. As at the end of 2019 only two shareholders held a share in the company's capital in excess of 3%. Those were: BlackRock Inc. (5.03%) and Artisan Investments GP LLC (3.01%). In 2019 the ING Group generated net profit of EUR 4,781 million versus EUR 4,703 million in 2018. Total assets amounted to EUR 892 billion. Assets of the ING Bank Śląski S.A. Group accounted for 4.2% of total assets of the ING Group at the end of 2019. Our net profit accounted for 8.1% of the net profit of the ING Group.

More information on the dominating shareholder is available at: https://www.ing.com/Home.htm.

Shares and share capital

In accordance with its Articles of Association, the share capital of ING Bank Śląski S.A. is split into 130,100,000 shares with the nominal value of PLN 1 each share. All the shares issued by the Bank are ordinary bearer shares. No special control rights are attached to the Bank shares. The Articles of Association of the Bank not provide for any restrictions as to transfer of title to the shares issued by the Bank, exercising voting rights and contains no provisions according to which equity rights related to securities are separate from holdings of securities.

Additionally, the Articles of Association authorises the Management Board to increase the share capital but maximum PLN 26 million (or issues of maximum 26 million shares) by 21 April 2023 (authorised capital) and to waive pre-emption rights at share issues of the authorised capital. The relevant amendments to the Articles of Association were entered to the National Court Register (KRS) on 6 May 2020. The decisions taken by the Management Board on the share issue price and waiver of pre-emption rights require approval by the Supervisory Board.

As at the publication hereof, ING Bank Śląski S.A. is not aware of any agreements that may in the future generate changes to the proportions of shareholdings by the existing shareholders.

Share price

In 2020, the price of our Bank shares at the close of WSE sessions fluctuated from PLN 126.2 (as quoted on 11 May) to PLN 207.00 per share (as at 3 and 7 January). On 30 June 2020, the price of our Bank shares was PLN 147.4, down by 29.8% from the last quotation day in 2019 (to compare: WIG-Banks sub-index went down by 38.6% at that time). As at the end of June 2020, the Bank's market cap was PLN 18.5 billion while its book value amounted to PLN 18.2 billion.

Information on the value of shares of ING Bank Śląski S.A.

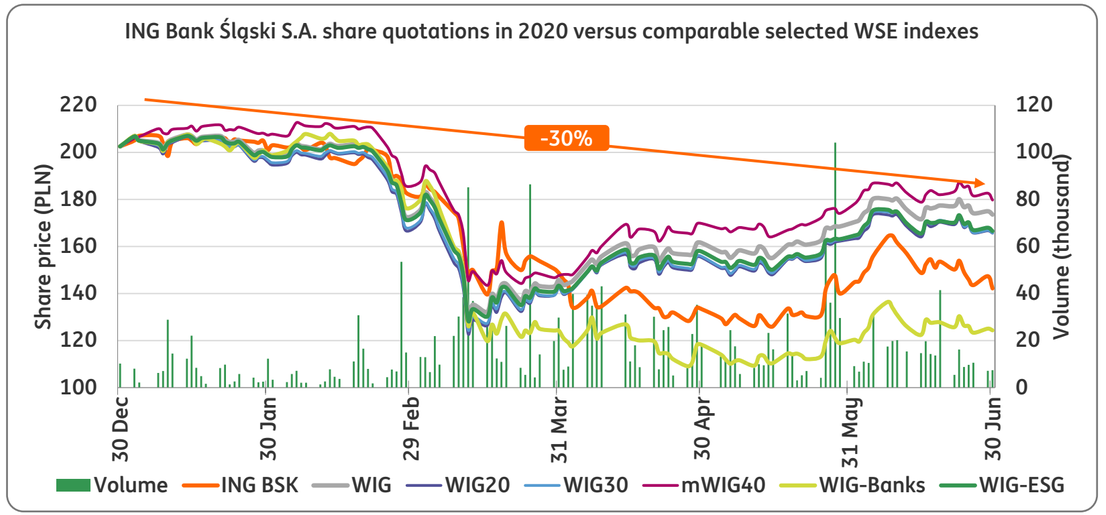
	30 June 2020	31 December 2019
Share price as at the end of the period (PLN)	147.4	202.5
Top share price (PLN)	207.0	204.5
Bottom share price (PLN)	126.2	180.0
Number of shares	130,100,000	130,100,000
Capitalisation at the end of the period (PLN million)	18,500.2	26,345.3
Average trading volume	17,107	7,901
Earnings per share (PLN) annualised	8.97	12.75
Share book value (PLN)	140.17	117.01
Dividend paid per share in the year (PLN)	-	3.50
P/E ratio (x)*	16.4	15.9
P/B ratio (x)*	1.1	1.7

* ratio computed on the basis of the share price as at the end of the period

ING Bank Śląski S.A. shares data

LEI	259400YLRTOBISHBVX41
ISIN	PLBSK0000017
FISIN	INGBSK/BRSH SER-B PLN1.0
Ticker at WSE	ING
Bloomberg / Reuters	ING PW / INGP.WA
Applicable indices	WIG, WIG30, WIG30TR, mWIG40, mWIG40TR, WIG-Poland, WIG-Banks, WIG-ESG

Our Bank has been listed in the WIG30 and mWIG40 indices since they were established.



Ratings

Our stable financial position is also confirmed by external credit ratings assigned to our bank. Our bank cooperates with two rating agencies: Fitch Ratings and Moody's Investors Service.

Fitch Ratings Ltd.

Fitch Ratings assigns a full rating under the agreement between the Bank and the Agency. As at the date of the semi-annual report for H1 2020, the ratings are as follows:

Fitch Ratings Ltd.	
Long-Term IDR	A+
Outlook for sustaining the rating	Negative
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)

In its communication published on 5 March 2020, the Agency placed its IDR rating on the list of "criteria watch" with a potential upgrade. The change to the rating status was related to the updated rating criteria for banks published on 28 February 2020.

In its press release published on 6 April 2020, Fitch Ratings Ltd. (Agency) took two independent decisions concerning our bank ratings. Firstly, in accordance with the earlier information on changes to rating criteria for banks (published on 28 February 2020, details below), the Agency upgraded the Bank long-term rating to "A+" from "A" and the Bank short-term rating to "F1+" from "F1", removing the status of "criteria watch" for both ratings.

On 28 February 2020 Fitch published its updated rating criteria for banks which provide for a possibility to provide for buffers for the parent bank developed on the basis of subordinated debt in the assessment of support for the subsidiary bank. In the opinion of Fitch, such situation occurs for the Bank since it is a major subsidiary of ING Bank N.V. (Bank dominating shareholders) and the ING Group has a strategy of mandatory restructuring providing for a Single Point of Entry (SPE). In consequence, Fitch basis its IDR ratings for the Bank on the IDR rating for ING Bank N.V. instead of the Viability Rating which was the case earlier. Now the IDR rating for ING Bank N.V. is one notch higher than its Viability Rating.

Secondly, Fitch decided to place for IDR ratings for the Bank on a list of ratings with negative prospects. This is a direct consequence of placing the ratings for ING Bank N.V. on the list. The change to the prospects of the IDR rating for ING Bank N.V. took place on 1 April 2020 and resulted from the economic crisis due to the coronavirus epidemic to ING Bank N.V. in the opinion of Fitch.

Additionally, in its communication of 14 April 2020 the Agency maintained its Viability rating at "bbb+". In its communication, Fitch stated that the economic crisis due to the coronavirus epidemic is a medium-term hazard to the Bank rating. However, the Bank enters the crisis in a good condition due to high quality of its assets, a solid capital position and a limited exposure to: 1) unsecured retail loans, and 2) sectors sensitive to business cycles. Fitch anticipates that the Bank's asset quality and profitability will be under pressure. The results of the Bank will be affected by 1) lower demand for loans, 2) progressive impact on interest rate cuts, and 3) higher impairment allowances for receivables from clients.

Moody's Investors Service Ltd.

The Moody's Investors Service Agency assigns their rating to the Bank on the basis of public information. As at the date of the semi-annual report for H1 2020, the ratings are as follows:

Moody's Investors Service Ltd.	
LT Rating	A2
ST Rating	P-1
Baseline Credit Assessment (BCA)	baa2
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa1
Outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A1 (cr) / P-1 (cr)
Counterparty Risk Rating (CR Rating)	A1 / P-1

In its press releases published on 21 October 2019, the Agency sustained the ratings assigned to the Bank. The Agency emphasised that the rating of the Bank reflects:

- Bank's credit portfolio of good quality, though not seasoned, with very limited exposure to FX mortgage loans,
- adequate, though decreasing, total capital ratio of the Bank,
- moderate profitability, and
- good funding and liquidity profiles of the Bank based on deposits and high liquidity buffers.

Rating breakdown

The table below compares the long-term ratings for Poland, ING Bank Śląski S.A. and ING Bank N.V. as at date of the semi-annual report for H1 2020.

Rating breakdown	Poland	ING Bank Śląski S.A.	ING Bank N.V.
Fitch Ratings	A-	A	AA-
Moody's Investor Services	A2	A2	Aa3
Standard & Poor's	A (local currency) A- (foreign currency)	-	A+

ING Bank Hipoteczny S.A. ratings

Moody's Investors Service Ltd.

The Moody's Investors Service Agency assigns a full rating under the agreement between ING Bank and the Agency. As at the 2019 annual report's signing date, ING Bank Hipoteczny S.A. ratings are as follows:

Moody's Investors Service Ltd.	
LT Counterparty Risk	A2
ST Counterparty Risk	P-1
LT Issuer Ratings	Baa1
ST Issuer Ratings	P-2
Outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A2 (cr) / P-1 (cr)

In its press release, the Agency emphasised that the rating of ING Bank Hipoteczny reflects:

- 100% ownership of ING Bank Śląski and its stable growth prospects,
- Strategic adaptation and operational integration within ING Bank Śląski Group structures,
- The commitment of ING Bank Śląski to support the capital and liquidity position of ING Bank Hipoteczny in order to meet regulatory requirements.

Changes to the statutory bodies of ING Bank Śląski S.A.

Supervisory Board

In connection with resignations filed by members of the Supervisory Board - Mr. Ad Kas and Mr. Norman Tambach, on 2 April 2020 the General Meeting appointed Ms. Susan Poot and Mr. Remco Nieland as members of the Supervisory Board effective on 1 May 2020. Thus, since 30 June 2020 the composition of the Supervisory Board has been as follows:

Composition of the Supervisory Board as at 30 June 2020	Function in the Supervisory Board	Audit Committee	Remuneration and Appointment Committee	Risk Committee
Mr. Antoni F. Reczek	Chairman, Independent Member	●		●
Ms. Małgorzata Kołakowska	Deputy Chairperson	●	●	
Mr. Aleksander Galos	Secretary, Independent Member	●	●	●
Mr. Aleksander Kutela	Independent Member	●	●	●
Mr Remco Nieland	Member	●		
Ms. Susan Poot	Member			●
Mr. Michał Szczurek	Member			●

● - Chairman ● - Member

Bank Management Board

Due to the expiry of the four-year term of office of the Management Board, at a meeting of 2 April 2020 the Supervisory Board appointed President of the Management Board Mr Brunon Bartkiewicz and the other Members of the Bank Management Board for the next term of office which started on the appointment date and covers the next full four financial years. As a result, the composition of the Bank Management Board and responsibilities of Members of the Management Board as at 30 June 2020 were as follows:

Composition of the Management and responsibilities as at 30 June 2020	
Mr. Brunon Bartkiewicz	**President of the Bank Management Board,** supervising the CEO Division and temporarily supervising the Credit Risk Inspection Department
Mr. Michał Bolesławski	**Vice-President of the Bank Management Board**, supervising the Business Clients Line
Ms. Joanna Erdman	**Vice-President of the Bank Management Board**, supervising the Wholesale Banking Division
Mr. Marcin Giżycki	**Vice-President of the Bank Management Board**, supervising the Retail Clients Business Line
Ms. Bożena Graczyk	**Vice-President of the Bank Management Board,** supervising the CFO Division and temporarily supervising the CRO Division
Mr. Sławomir Soszyński	**Vice-President of the Bank Management Board**, supervising the CIO Division
Mr. Lorenzo Tassan-Bassut	**Vice-President of the Bank Management Board**, supervising the COO Division

Additionally, at its meeting of 15 May 2020, the Supervisory Board appointed Mr. Michał Mrożek as Vice-President of the Bank Management Board effective on 1 July 2020. Additionally, in connection with the above nomination, the Supervisory Board approved a new split of responsibilities of Members of the Management Board, approved by the Management Board; as a result, Mr. Michał Mrożek was assigned supervision over the Wholesale Banking Division while Vice-President Mr. Joanna Erdman was entrusted with the duties of supervision over the CRO Division until a decision is issued by PFSA accepting her supervision over material risks inherent in the Bank business. Thus, since 1 July 2020 the composition of the Management Board and split of responsibilities among Members of the Management Board has been as follows:

Composition and responsibilities of the Management Board since 1 July 2020	
Mr. Brunon Bartkiewicz	President of the Bank Management Board, supervising the CEO Division
Mr. Michał Bolesławski	**Vice-President of the Bank Management Board**, supervising the Business Clients Line
Ms. Joanna Erdman	**acting Vice-President of the Bank Management Board,** supervising the CRO Division
Mr. Marcin Giżycki	**Vice-President of the Bank Management Board**, supervising the Retail Clients Business Line
Ms. Bożena Graczyk	**Vice-President of the Bank Management Board**, supervising the CFO Division
Mr. Michał Mrożek	**Vice-President of the Bank Management Board**, supervising the Wholesale Banking Division
Mr. Sławomir Soszyński	**Vice-President of the Bank Management Board**, supervising the CIO Division
Mr. Lorenzo Tassan-Bassut	**Vice-President of the Bank Management Board**, supervising the COO Division

Remuneration of members of the Management Board and Supervisory Board of ING Bank Śląski S.A.

Remuneration due to members of the Management Board of ING Bank Śląski S.A. (PLN million)			
Period	Remuneration	Other benefits*	Total
H1 2020	5.3	1.3	6.6
H1 2019	4.9	1.1	6.0

*Other benefits inter alia include insurance, deposits to an investment fund, medical care and other benefits approved by the Bank Supervisory Board.

Remuneration paid to members of the Management Board of ING Bank Śląski S.A. (PLN million)				
Period	Remuneration	Bonus*	Other benefits**	Total
H1 2020	5.3	5.0	1.3	11.6
H1 2019	4.9	4.1	1.0	10.0

*Rewards for H1 2020 cover the following components:
- Bonus under the Variable Remuneration Program: for 2019 non-deferred cash, for 2017 - tranche I deferred cash and for 2016 - tranche III deferred cash.
- Phantom Shares under the Variable Remuneration Program: for 2018 overdue, for 2016 - tranche II deferred and for 2015 - tranche III deferred.

Rewards for H1 2019 cover the following components:

- Bonus under the Variable Remuneration Program: for 2018 non-deferred cash, for 2016 - tranche II deferred cash and for 2015 - tranche III deferred cash.
- Phantom Shares under the Variable Remuneration Program: for 2017 overdue, for 2016 - tranche I deferred, for 2015 - tranche II deferred and for 2014 - tranche III deferred.

*Other benefits inter alia include insurance, deposits to an investment fund, medical care and other benefits approved by the Bank Supervisory Board.

In H1 2020 the total amount of remuneration due and disbursed by ING Bank Śląski S.A. to member of the Supervisory Board was PLN 0.4 M.

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

Period	Remuneration and bonus	Other benefits	Total
H1 2020	0.4	0.0	0.4
H1 2019	0.4	0.0	0.4

As at 30 June 2019 members of the Bank Management Board and Supervisory Board did not hold shares of ING Bank Śląski S.A.

Supplementary information

Position of the Management Board on the feasibility of the previously published forecasts

The Bank has not published its projected financial results for 2020.

Related party transactions

Neither ING Bank Śląski S.A., nor its subsidiary entities have entered into transactions with related parties other than at arm's length.

Contingent commitments granted

ING Bank Śląski S.A. and its subsidiary entities provide sureties to loans and guarantees as part of its statutory activity. The amount of off-balance financial commitments granted at the end of H1 2020 was PLN 39.3 billion (PLN 36.5 billion at the end of 2019 and PLN 34.8 billion at the end H1 2019).

Off-balance liabilities of the ING Bank Śląski Group

PLN million	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Unutilised credit lines	25,719.0	26,138.9	26,991.2	27,699.0	27,003.2	30,473.7
Guarantees	5,591.1	5,673.3	5,795.8	5,837.2	5,906.1	5,519.9
Unutilised overdraft facilities	1,345.3	1,354.2	1,362.8	1,425.6	1,425.6	1,596.0
Credit card limits	1,293.6	1,318.8	1,365.1	1,389.9	1,491.3	1,468.9
Letters of Credit	341.0	277.3	245.1	196.0	298.7	272.4
Total	**34,290.0**	**34,762.5**	**35,760.0**	**36,547.7**	**36,124.9**	**39,330.8**

Proceedings before the President of the Office of Competition and Consumer Protection (OCCP)

Proceedings concerning provisions providing for the possibility of changing the standard contract, contract or table of fees and commissions for important reasons (the so-called modification clauses)

On 1 April 2019 The President of OCCP instituted proceedings regarding the recognition of a standard contract as prohibited in the scope of provisions that may be considered as prohibited contractual provisions and may violate Art. 23a of the Act on competition and consumer protection. The proceedings concern provisions providing for the possibility of changing the standard contract, contract or table of fees and commissions for important reasons, the so-called modification clauses.

The scope of the proceedings refers to the provisions in various general terms of contracts, regulations and contracts concluded with consumers: for cash loans, account debt limit, granting and repayment of loans in a brokerage account, using a credit card - in the version effective from 7 March 2016; for savings and billing accounts and savings accounts - in the version in force from 9 November 2015; for keeping payment accounts - in the version in force from 6 August 2019; for pre-paid cards - in the version effective from 1 January 2016.

According to the President of OCCP, the analysed modified clauses may constitute prohibited contractual provisions due to:

- the possibility of unilaterally changing the general terms and conditions of the agreement as to its essential provisions, as regards contracts enabling the generation of indebtedness on the part of consumers, concluded for a specific period of time,

- general, unspecified nature of the conditions for a unilateral change of the contract, which does not give consumers the possibility to verify them correctly, and in some cases there are no time limits as to the scope of changes,
- no provisions regarding the possibility of continuing a contract concluded for a specific period of time relating to the crediting of consumer needs on the current basis in the event of non-acceptance of unilateral proposals for changes directed by the bank.

By letter of 25 March 2020, UOKiK extended the proceedings.

Proceedings regarding the application of practices violating collective consumer interests

Before the President of the OCCP there are the proceedings pending which were initiated ex officio by the Office President on 9 July 2014 regarding the application of the practices infringing collective consumer interests by the Bank. The practices consist in: making cards replacement during the payment card contract from cards which are not equipped with the contactless function to the contactless cards without changing the content of the contract, derive the legal consequences from Announcement to General terms and conditions of providing by ING Bank Śląski S.A. services as part of maintaining personal accounts and savings accounts for individuals, not provided consumers with information about the opportunities and principles for using payment cards to contactless transactions, spending limits for payment transactions executed by these cards, on paper or on another durable medium, in time before conclusion of the contract All proposals of the bank's liabilities towards OCCP in the framework of the above-mentioned proceedings have been implemented. On 18 December 2018, OCCP decided to extend the proceedings.

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 14.1 million.

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 Oct 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 14.1 million 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. Currently proceedings are pending before the Appellate Court, which on 24 October 2019 postponed the hearing without setting the date of the next hearing, and at the same time imposing certain obligations on the plenipotentiaries with regard to submitting statements or documents.

As final decisions have not been taken yet, the amount of the reimbursed fine was not recognised in the income statement. As at 30 June 2020, the Group holds the provision of PLN 14.1 million.

Legal risk related to the portfolio of loans indexed to CHF

The court cases, including those relating to the CHF-indexed mortgage portfolio, are subject to regular assessment pursuant to the Bank's internal procedures.

As at 30 June 2020, the Bank had PLN 936.4 million gross worth of retail mortgage loans indexed in CHF (in total loans indexed to various currencies amounted to PLN 954.7 million). The Bank does not have any loans denominated in foreign currencies. At the end of 2019, these amounts were, respectively: PLN 915.9 million and PLN 986.7 million.

As at 30 June 2020, the Bank had 278 pending court cases relating to agreements on PLN-loans indexed to the Swiss franc, comparing to 156 pending court cases as at 31 December 2019. The total balance sheet value of the exposures covered by the said proceedings was PLN 77.6 million (PLN 50.2 million as at 31 December 2019).

The Bank has not received any class action lawsuit; also, no clause used by the Bank in its agreements has been entered to the Register of Prohibited Clauses.

The Bank is observing the diverse jurisprudence of court cases initiated by clients with foreign currency mortgages.

In relation to a lawsuit against a Polish bank brought before the Regional Court in Warsaw, in April 2018 the said court asked the Court of Justice of the European Union (hereinafter CJEU) for a preliminary ruling on the unfair terms in consumer contracts and effects of the abusiveness, if any, of the terms of an agreement on a mortgage loan indexed to the Swiss franc.

On 3 October 2019, the CJEU gave a judgement that did not refer to an assessment of clauses of loan contracts indexed to CHF in terms of their unfairness, but rather focused on the possible consequences if a given term is found unfair by a national court. The judgement gives some guidance to the national courts. The CJEU again confirmed that contracts should not be assessed automatically. It is also for the national court to assess whether or not, upon determining that a given term is unfair, the contract may continue to be binding in the absence of such a term. Only after the court finds that the contract may not continue in force without a condition that had been found unfair, the client either consents to keeping the terms that were found unfair or explicitely rejects them. The assessment of potential consequences for the consumer if a given loan contract is found invalid is also up to the national court. CJEU also expressed its concerns regarding the possibility of transforming the loan into a PLN loan bearing interest based on LIBOR. According to CJEU the option of transforming FX loans into PLN loans and keeping the LIBOR rate might be a too far reaching intrusion into the main subject matter of the contract.

In July 2019 the Polish Bank Association (hereinafter PBA) requested the President of the Supreme Court that the Supreme Court analyse the concept of turning the agreement on a loan indexed to CHF into a PLN-loan based on LIBOR, which is expressed in the opinion of the CJEU Advocate General and which is flawed from both the legal- and economic perspective. In August 2019 The Supreme Court issued a publication in which the above solution was, however, accepted.

In light of the above, the Bank is of the opinion that the verdicts of national courts in such cases may still vary.

At the same time, the information recently provided by proxies representing banks in franc disputes shows that a few months after the judgment of the CJEU, in many courts the practice of not examining the premises of abusiveness of indexation clauses is starting to take shape. More and more judges are of the opinion that it has already been decided that if the indexation clause refers to the bank's exchange rate table it is abusive. Therefore, the judges refrain from assessing a given specific contractual provision, and their considerations focus only on analyzing whether the contract can continue to be performed without that provision. Recent rulings show that most often courts do not see this possibility and annul the loan agreement. The above practice is manifested in the increase in the number of court cases lost by banks in the first quarter. If this approach continues and other courts take them (at the moment such a conclusion seems premature) there is a possibility that in the future the Bank will lose other cases. However, due to the overall number of cases and the number of courts, this will be a process spread over time. One should also take into account the current state of the epidemic in the country, which will certainly result in extending the time limit for courts to consider cases, as well as temporarily reducing the impact of new lawsuits.

As at 30 June 2020, the total amounts of impairment allowances and provisions arising from legal risk for the portfolio of mortgage loans indexed to CHF amounted to PLN 42.4 million (PLN 35.0 million as at 31 December 2019), respectively, for loans still disclosed in the statement of financial position (the amount presented as a reduction of receivables from the said loans) and PLN 12.6 million (PLN 9.6 million as at 31 December 2019) for loans already removed from the statement of financial position (amount presented in liabilities under "Provisions").

Provision for commission refunds on prepaid consumer loans

On 11 September 2019, the European Court of Justice (CJEU) announced its judgment in the case of the question referred by the Lublin-Wschód District Court for a preliminary ruling regarding the interpretation of Art. 16 clause 1 of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on consumer credit agreements.

The Act on consumer credit in force in Poland (UKK) contains in art. A similar provision, which up to 2016 had no interpretation doubts, and banks, as a rule, charging a commission for granting a loan, did not return to the client in the event of early repayment (except for withdrawal from the contract). Discussion on the interpretation of art. 49 UKK started UOKiK by issuing a joint position with the Financial Ombudsman in 2016, according to which in the event of early repayment of a consumer loan all possible costs of such a loan should be reduced, irrespective of their nature and regardless of when these costs were actually borne by the borrower this reduction is to be proportional, i.e. refer to the period from the date of actual repayment of the loan to the date of final repayment specified in the contract. The judgment of the CJEU resolves this issue in such a way that in the event of early repayment of consumer credit, the Bank should:

- reduce the total cost of the loan along with all its components (e.g. fees, commission, insurance),
- make a proportional reimbursement of these costs, i.e. the reimbursement should cover the period from the date of actual repayment of the loan to the date of final repayment specified in the contract.

After the publication of the above judgment, the President of UOKiK presented his position in which he fully shared the findings of the CJEU judgment.

In connection with the judgment of the CJEU and the statement of the Office of Competition and Consumer Protection, the Group currently automatically returns proportionally the commission in the event of early repayment of consumer credit (for repayments made after 11 September 2019). For early repayments made before 11 September 2019, the Group makes returns if the customer submits a complaint and its verification shows that the return is justified.

On 9 October 2019, the Bank was notified of the initiation of the investigation by the Office of Competition and Consumer Protection and a call for information regarding banking products on offer from 16 May 2016, to which the provisions of the Consumer Credit Act apply, including art. 49 of this Act. The explanatory proceedings concern the bank's settlement of commission returns in cases of early repayment of consumer loans. The bank provided the requested information to UOKIK by letter of 29 October 2019. On 24 December 2019, the Bank received another letter from UOKIK in the same proceedings with a request for additional information. The Bank replied by letter of 03 January 2020.

The amount of the provision for returns made on the complaint path in 2019 amounted to PLN 17.1 million. Additionally, the gross value of consumer loan receivables measured at amortized cost decreased by PLN 21.0 million as a result of including expected future payments in the calculation of the effective interest rate.

In the first half of 2020, the Bank did not create additional provisions for commission returns made on the complaint path.

The Group monitors the impact of CJEU judgments on the behaviour of borrowers, the practice and case-law of Polish courts in these cases, and assesses the probability of cash outflows on an ongoing basis in relation to CHF-indexed mortgage loans and the reimbursement of consumer loans.

Changes in the banking sector regulations

Anti-crisis shields

As a result of the crisis caused by the COVID-19 epidemic crisis, specific regulations were approved. The package of Anti-crisis shields covers the following:

- Act of 31 March 2020 amending the Act on specific measures related to the prevention, counteraction to and fight against COVID-19, other infectious diseases and the resultant crisis situations, and certain other Acts,
- Act of 16 April 2020 on specific support instruments in connection with the spread of the SARS-CoV-2 virus,
- Act of 14 May 2020 amending certain Acts on protective measures in connection with the spread of the SARS-CoV-2 virus,
- Act of 19 June 2020 on subsidies to interest on bank loans granted to enterprises affected by the COVID-19 crisis and a simplified procedure of composition approval in connection with COVID-19.

From the viewpoint of banking activity, the changes resulting from the Anti-crisis shields relate in particular to lending activity and cover inter alia:

- Solutions concerning modifications to terms and dates of loan repayments during the epidemic (including statutory regulations of loan vacations),
- Sureties and guarantees for loan repayment granted by Bank Gospodarstwa Krajowego (BGK),
- Reduction of maximum non-interest costs of consumer loans.
- Subsidies by BGK to interest on bank loans granted to enterprises who are in a difficult financial condition as a result of negative economic consequences of the SARS-CoV-2 virus.

The anti-crisis regulations additionally provide for:

- Support for enterprises affected by the crisis,
- Changes to items that may not be subject to enforced collection,
- Simplified restructuring proceedings initiated by announcements published by debtors,
- Postponement until 1 January 2021 of the effective date of regulations extending the use of regulations on abusive clauses to natural persons pursuing business activities,
- Extension of potential for remote approval of resolutions by company authorities,
- In the period of the strictest restrictions, hearings in court or administrative proceedings were not held (now most of the restrictions in that respect have been lifted).

Changes in the banking sector regulations		
Name	**Effective date**	**Description**
		2020
Act of 4 July 2019 amending the Act on **support for borrowers in financial difficulties who have taken out housing loans** and certain other Acts	1 January 2020	The Act introduced a change in the mechanism of providing financial support to persons who, as a result of objective circumstances, found themselves in financial dire straits and at the same time are obliged to repay instalments of a housing loan. **Tax consequences** No longer treated as tax deductible expenses: – contributions to the Borrower Support Fund who contracted housing loans and are now in a difficult financial situation, and – support costs incurred by borrowers in the period between the lender decides to reject the application until the date when the Fund Council approves a resolution confirming compliance with conditions to be provided with support or a loan to repay debt.
Act of 12 April 2019 **amending the Act on Goods and Services Tax and certain other acts**	1 January 2020	The payment of receivables to an account other than the one specified in the white list, made after 31 December 2019 (and in the case of CIT taxpayers in the tax year beginning after 31 December 2019) will result in no option to post into tax-deductible expenses. This will apply to payments for transactions exceeding PLN 15 thousand made between entrepreneurs when the supply of goods and services will be carried out by an entrepreneur registered for VAT purposes as an active VAT payer. At the same time, the purchaser of goods or services, being a VAT taxpayer, will be jointly and severally liable with the supplier of goods/services, being an active VAT taxpayer, for his tax arrears - if the payment for the supply of goods/services, confirmed by an invoice, will be made by transfer to an account other than that specified on the white list at the date of the transfer order, and separate regulations will require payment to be made via a payment account. This liability will be borne by the purchaser for that part of the VAT tax, which will fall on a proportional basis on that supply of goods/ service delivery. Negative consequences can be avoided only when the buyer notifies the head of the tax office competent for the invoice issuer that a transfer has been made to a non-listed bank account within 3 days of placing transfer instructions. The template of notification was provided in the Regulation of the Minister of Finance of 23 December 2019 on the template of notification of payment of amounts due to an account other than specified as at the date of the transfer in the list of entities referred to in Art. 96b.1 of the Act of 11 March 2004 on VAT (Journal of Laws, item 2530). This is ZAW-NR form.
Act of 4 July 2019 amending the Act **on value added tax and certain other laws**	1 January 2020	Payment of personal income tax, corporate income tax, tax on goods and services and non-taxable payables to the budget should be made to the account of the Tax Office using an individual tax account identifying the taxpayer or payer, the so-called individual tax account or micro tax account. The microaccount number can be verified at any time during the year using the generator available at podatki.gov.pl or with any tax office. Use of such microaccount generates no fees. It is sufficient to check the number on the generator and then make a transfer. Additionally, payment for delay interest on tax liability under PIT, CIT and VAT and costs of reminders may be paid to the microaccount. Taxes other than PIT, CIT and VAT shall be paid as previously - the tax accounts of tax offices.

Act of 19 July 2019 amending certain acts to reduce payment congestion	01 January 2020	In commercial transactions where the debtor is a public entity (public administration), the payment period must not be longer than 30 days from the date of delivery of the invoice, 60 days are left for public healthcare entities to make payment. It will be mandatory to apply a maximum 60-day payment period also in transactions where the creditor is a micro, small or medium-sized business and the debtor is a large company (the so-called asymmetric transaction). A relief for bad debts vis-a-vis uCIT was introduced, consisting in the fact that the creditor will be entitled to adjust the tax base by the value of the debt (unpaid) previously included in the revenue due. If, after the tax year for which the creditor adjusts the tax base, the debt is settled or disposed of, the creditor will be obliged to increase the tax base accordingly - in the tax return filed for the tax year in which the debt is settled/ disposed of. On the other hand, debtors who fail to pay their obligations for the purchase of goods/services on time will generally be required to increase the tax base (or reduce the tax loss accordingly) by the tax-deductible amount of the outstanding liability. The increase of the tax base (reduction of tax loss) will be made in the tax return submitted for the tax year in which 90 days have passed from the date of expiry of the payment deadline specified in the invoice (account) or in the agreement - if by the date of filing the tax return the liability is not settled. The period of 90 days shall be counted from the first day following the end of the period for payment of the undertaking specified in the invoice (bill) or contract. The largest corporate income tax payers (capital groups, taxpayers whose income exceeds EUR 50 million per year) will report to the Minister of Economy each year on their payment practices (applicable payment dates). These reports will be publicly available.
Act of 20 December 2019 **amending the Act on personal income tax and the Act on corporate income tax**	20 February 2020	The approved regulations provide for personal and corporate income tax exemption for support granted from the Low-Emission Transport Fund. The solution is consistent with the existing exemptions that were introduced with reference to actions carried out by the National Fund for Environmental Protection and Water Management to improve air quality in our country. In the opinion of the legislator, the exemption is to contribute to increased usage inter alia of low-emissions vehicles and support popularisation and acceleration of market transformation towards further reduction of emissions of harmful substances and improved air quality in Poland.
Act of 30 August 2019 amending the Act - **Bankruptcy Law** and certain other acts	24 March 2020	The main objective of the adopted law is to introduce changes to the existing regulations on consumer bankruptcy. They are intended to facilitate debt relief for natural persons not running their own businesses.
Regulation of the Minister of Finance of 27 March 2020 **extending the deadline to submit return on generated income (incurred loss) and for payment of the tax due by corporate income tax payers.**	27 March 2020	In connection with the situation resulting from the spread of the SARS-CoV-2 virus and the resultant difficulties, it was reasonable to implement solutions supporting compliance with the statutory duty to file annual income tax returns. The deadline to file CIT-8 returns and to pay the CIT tax due until 31 May 2020. The regulation was justified with various types of difficulties resulting from the spread of the SARS-CoV-2 virus.
Recommendation S on good practices for the management of mortgage-backed credit exposures	The PFSA expects the banks to implement the recommendation by 30 June 2020	Recommendation S is a set of good practice rules for mortgage- backed credit exposures. The purpose of the amended Recommendation S is, *inter alia*, to extend its current wording by rules concerning the management of credit exposures secured by mortgage-backed fixed interest rate or periodically fixed interest rate so as to take into account the risk related to these loans. Among the range of loans secured by residential mortgages for retail clients, banks should also have such loans. They should also allow clients to change the interest rate formula under an already concluded mortgage secured loan contract from a variable interest rate to a fixed interest rate or periodically fixed interest rate. The provisions of the Recommendation relating to loans with an option of release from the obligation vis-a-vis the bank related to a credit exposure secured by a mortgage on a residential real estate in the event of the borrower's transfer to the bank of ownership title to the real estate being credited (the so-called "keys for debt" loans), lay down specific rules for assessing creditworthiness and collateral.

Statements of the Management Board of ING Bank Śląski S.A.

Correctness and reliability of the presented financial statements

To the best knowledge of the Bank Management Board, the semi-annual abbreviated consolidated financial statements and the comparable data were prepared in line with the applicable accounting standards and in a manner reliably and clearly presenting the economic and financial condition of the Bank Group and its financial result. The semi-annual Management report from operations of the Bank Group contains a true picture of development and achievements and of the condition of the Bank Group in H1 2020, including a description of core hazards and risks.

This Management Board's Report on Operations of the ING Bank Śląski S.A. Group in H1 2020 has 77 consecutively numbered pages

Signatures of the Management Board members of ING Bank Śląski S.A.:

The original Polish document is signed with a qualified electronic signature	*The original Polish document is signed with a qualified electronic signature*
Brunon Bartkiewicz	Michał Bolesławski
President of the Bank's Management Board	Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature	*The original Polish document is signed with a qualified electronic signature*
Joanna Erdman	Marcin Giżycki
Vice-President of the Bank Management Board	Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature	*The original Polish document is signed with a qualified electronic signature*
Bożena Graczyk	Michał Mrożek
Vice-President of the Bank Management Board	Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature	*The original Polish document is signed with a qualified electronic signature*
Lorenzo Tassan-Bassut	Sławomir Soszyński
Vice-President of the Bank Management Board	Vice-President of the Bank Management Board

5 August 2020