



Management Board Report on Operations of ING Bank Śląski S.A. Group in 2017

(covering Management Board Report on Operations of ING Bank Śląski S.A.)

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Letter from the Chairman

Dear Stakeholders,

2017 was a year of a marked economic revival. GDP growth accelerated from 2.9% in 2016 to 4.5%, owing to a surprisingly high contribution from private consumption. On the other hand, although positive, the growth rate of private investment projects was still unsatisfactory. Despite higher inflation y/y, inflation hovered around the inflation target of the Monetary Policy Council, and thus interest rates remained at an all-time low. These factors were reflected in the monetary aggregates. The environment of low interest rates slowed deposit growth. Both household and institutional clients sought alternative saving methods. Strong private consumption led to a sustained high growth rate in PLN retail housing loans and a higher growth in other retail loans. A modest recovery in private investment projects resulted in slight corporate lending growth.

2017 was a year of regulatory change. Some have already taken effect, while others will be effective in 2018. The public discussion about CHF-denominated housing loans continued for the third year. As at the beginning of 2018, the parliamentary committee is to recommence work on a bill of amendment to the Act on the support of mortgage loan borrowers in a difficult financial situation. The Act provides for the formation by banks of a new fund to finance the restructuring of FX housing loans. In 2017, the Act on mortgage loans and supervision over mortgage loan brokers and agents took effect. It lays down the terms of and procedure for conclusion of real estate related loan agreements. In November, the Monetary Policy Council resolved to lower as of March 2018 the mandatory reserve rate for funds acquired for at least two years from 0.5% to 0%. Further, 2018 is a year when the EU directives – MiFID 2 (concerning terms of financial product distribution) and PSD 2 (concerning payment services) – will be finally implemented.

The financial sector will be affected by changes to ownership as well. The sector consolidation has continued in 2017 and will undoubtedly continue in 2018.

Despite volatile economic and regulatory conditions, the ING Bank Śląski S.A. Group consistently delivered on its business strategy, aimed at increasing the scale of operations through the acquisition of new clients and offering convenient and state-of-the-art solutions and products, designed to meet the expectations of clients in all segments. In 2017, as in the previous ten years the Group increased its lending and deposit portfolios considerably, while maintaining good quality of assets and sustaining sound capital and liquidity positions. The Bank Supervisory Board actively assisted the Management Board through close analysis of its actions, and also participated in the making of key decisions. The Supervisory Board monitored the market risk, liquidity and capital adequacy management areas with particular care. The Supervisory Board was also involved in the setting the priorities for the Group development. The Supervisory Board members were also members of the Audit Committee, Risk Committee and Remuneration and Nomination Committee.

As at the 2017 year end, the Group served 4.59 million clients, or 6% clients more than as at the end of 2016. In the retail segment, the number of clients rose by 6% to 4.53 million; in the corporate segment, by 14% to 55 thousand. As at 2017 year end, loan receivables from customers amounted to over PLN 87 billion, up by 12% from 2016. At the same time, the value of funds deposited by clients grew by 9% y/y and totalled nearly PLN 103 billion as at the year end. In consequence, the Group's balance sheet total was PLN 126 billion, up by 7% from 2016.

The Group closed the year with a solid capital and liquidity base. The total capital ratio settled at a secure level of 16.7%. As lending grew faster than deposit taking, the LTD ratio reached 83.8% as at the yearend, or went up by 2.3 p.p. from the year earlier.

2017 also proved a record year for the ING Bank Śląski S.A. Group in terms of profitability. Net profit rose by 12% y/y to PLN 1,403 million. Return on equity also improved, arriving at 12.6% (11.7% in the prior year).

I am hopeful that the strategy of the ING Bank Śląski S.A. Group and prudent actions of the Management Board supported by the Supervisory Board will enable continuation of the growth of the Group.

Yours faithfully,

Antoni F. Reczek

Chairman of the Supervisory Board

President's review

Ladies and Gentlemen,

I would like to present to you the annual report of the ING Bank Śląski S.A. Group for 2017. I do believe that our financial results and commercial performance will make you see that the Group and the Bank are heading in the right direction. We are putting great focus on customer needs, service quality, innovative products and services. With such an approach, we continue to cement our competitive position.

We focus on organic growth. Higher number of clients and their growing activity translate into higher business volumes and better financial results. The number of our clients has exceeded the 4.5 million mark. Nearly 4.2 million individual clients, more than 354,000 entrepreneurs and over 55,000 corporate clients decided to put their trust in us. As the number of clients is growing, so is their satisfaction with our services. This is affirmed by the results of the NPS in which we are repeatedly listed among the leaders in the country.

Customer experience, service quality and competitiveness as well as cost optimisation are all inherently linked to digitalisation and mobility. We calibre our products and services to the today's context of our clients – online, mobile and direct. We offered HCE payments and multicurrency payment cards to our individual clients; combined with Moje ING application, the multicurrency payment card helps our clients manage their money at any place of the world. Our multicurrency card is also available to the corporate clients. Thanks to the card, the corporate clients have access to funds in their companies' foreign currency accounts all around the clock. Corporate clients also have access to contactless cards to make card transactions even faster.

We want to support our clients in their businesses and provide them with tools and solutions that make their business life easier. We activated an online tool for existing and prospective entrepreneurs to test business ideas. The application allows them to gather concrete hints on how to channel their business. We were one of the first banks on the market to implement the service where clients can set up their own business, using the Trusted Profile without having to visit any office. All they need to do is use the Moje ING online banking system. We launched the Business Start Package, which includes a payment terminal and a leased car from the very first day clients start their business. We also support innovative enterprises who purchase technologies or implement in-house solutions. We have granted the highest number of technological loans under the cooperation agreement concluded with BGK. Entrepreneurs can use our e-Application to get a cash loan even if they are not our clients. We support the development of Polish start-ups and expand our offering for entrepreneurs. We established cooperation with InviPay, a start-up that offers microfactoring.

With fast development of digital technology, the clients' behaviours and expectations also change. In order to deliver new products and also improve our services, we implemented the Agile method. Agile is a way of working based on greater freedom and flexibility in defining the priorities and departing from stiff divisions into IT and business teams. It shortens time to market and enables faster response to changing client- and market needs. The in-house PACE Methodology is another important element to assist us in bringing new products to the market. It assumes work in small, independent and interdisciplinary scrums. PACE is based on direct bank-client cooperation to eliminate projects that do not respond to actual clients' needs. It enables elimination of erroneous assumptions at each stage of works – from a vision to a prototype – and implementation of relevant solutions only. Both Agile and PACE promote a customer-centred approach – this was also the leitmotif of the ING Group Global Hackathon in Poland. For 24 hours, 400 participants gathered in several dozens of teams worked on 55 ideas to enrich the ecosystem of ING financial system.

Digitalisation of banking services does our clients good. It enables them to move in the modern world more easily and effectively. Last year, our bank finalised the investment project with a fintech called Twisto; the project was rolled out by the Innovation Office that closely cooperates with fintechs. The project sought to launch a new online payment method onto the Polish market according to the rule "Buy now, pay later".

Sustainability is a key element of the long-term value building strategy of our bank. Environment

protection has a special place in our strategy, that is why in December 2017 we announced our Green Statement. In keeping with the Green Statement, projects aimed at protecting natural environment are our business priority. We will become more involved in funding green energy projects. At the same time, we will steadily downsize our product and lending exposure in the high-carbon business. We have continued implementing recommendations received from institutions representing disadvantaged people, including but not limited to the Polish Association of the Deaf and Integracja Foundation to remove barriers hindering access to our services. Together with our community partners, we took measures to promote financial education and entrepreneurship among children and young people. We received the Golden Banker in the Socially Sensitive Bank category for our achievements.

Numerous awards and distinctions that we received in 2017 are testament to our achievements in performance, service quality, new solutions and technologies. I do hope that our digitalisation-related initiatives will be appreciated by our clients and shareholders in the future. In 2017, the Group was named, among others, the "Banking Star" by *Dziennik Gazeta Prawna* daily and PwC for overall performance in 2016 and the "2017 Service Quality Star" in the Banks category in the tenth edition of the Polish Service Quality Programme. Our solution for corporate clients, that is the remote account opening process for companies, was presented during the fall edition of Finovate – the most important international conference showcasing cutting-edge financial technologies. We are also recognised for our interaction with clients – we were distinguished as the "Most Digital Bank" for our online communication with clients via our website, online banking, mobile application and the social media. We shared our experience in modern technologies during Impact fintech' 17, a congress on the future of finance.

Despite high competition on the market, our Group keeps growing and increasing its market shares. Customer receivables reached PLN 82.4 billion, up by PLN 9.5 billion throughout the year. This translates into an increase by 17.3% y/y, nearly twice as fast as the entire sector. 2017 was a very good year in the retail loan business. The sale of mortgage loans hit a record PLN 6.7 billion which gave us a market share of 15.3% in terms of sales. The sale of cash loans also saw dynamic growth. In 2017, it went up by 10% y/y, reaching PLN 4.3 billion. The share in the sale of retail loans via direct channels grew markedly. We sold as much as 66% of cash loans via the internet channel.

We put much focus on the savings- and investment offering for our clients. Client deposits exceeded PLN 100 billion (up by 9.1% y/y). We increased the sales of investment products, mainly participation units of mutual funds and the products offered by our brokerage office.

Factoring and leasing remain important elements of our offer. We provide those services via our subsidiaries – ING Commercial Finance Polska and ING Lease (Polska) Sp. z o.o. ING Commercial Finance Polska was able to keep its leading position on the factoring market in Poland. The sales of that company totalled PLN 27.8 billion (+14% y/y) which gives it a 15.0% market share. ING Lease (Polska) also has a strong position on the leasing market with a market share of 5.5%. In 2017, sales amounted to PLN 3.7 billion, up by as much as 23.3% y/y.

Even though lending is growing dynamically, the quality of the credit portfolio does not suffer. As at the 2017 yearend, the share of impaired receivables was 2.8% (up by 0.2 p.p. year on year). The figure is visibly lower than the average in the sector which is 5.9%. The Group maintains an adequate liquidity- and capital position. Loan to deposit ratio went up to 83.8% (up by 2.3 p.p.), remaining at a safe level. As at 2017 yearend, the total capital ratio stood at 16.7% (an improvement by 2.0 p.p. y/y) and the Tier 1 ratio was 15.8% (an improvement by 2.1 p.p. y/y) – those figures are clearly above the required minimum.

Growing scale of business translates into better financial results of the Group. We continued our efforts to improve efficiency. Cost to income ratio dropped to 44.6% (an improvement by 3.9 p.p. y/y). Despite a large one-off deal worth nearly PLN 190 million in 2016, the Group was able to improve its net result in 2017 by 12.0% to an all-time high PLN 1,403.1 million. Upon eliminating one-off events from the 2016- and 2017 results, the net profit would improve by 25.6% year on year.

2017 saw a high economic growth; however, its structure was not satisfactory. On the one hand, 2017 saw a high share of consumption and inventories, and on the other hand, it saw a low share of private investments. In 2018, we expect the high GDP growth rate to continue along with a growing

importance of investment projects. Good economic situation was conducive to trades on the Warsaw Stock Exchange. WIG index gained 23.2%, a WIG-Banking grew by 35.4%. The price of ING Bank Śląski S.A. shares exceeded the PLN 200 mark, and closed 2017 at PLN 205.6.

ING Bank Śląski S.A. Group is an organization which respects ING Values: integrity, prudence and accountability. It is our promise to the world around us. To one another, we also promise to abide by ING Behaviours (You take it on and make it happen, You help others to be successful and You are always a step ahead). We shared our experience in that area during the Open Eyes Economy Summit, an international congress on value economy. For the eighth time we were honoured with the Top Employers Poland certificate which proves that we achieve the highest standards as employer. For the eleventh time the Bank was included in the stock exchange index of socially responsible companies: RESPECT Index. Our bank is among the eight companies – and is the only company from the finance industry – that have been continuously present in the RESPECT Index since its very beginning. We were also named the Leader in Business Ethics during *the Responsible Business Awards Gala*.

Looking forward, I have no doubt that the Group is well prepared to embrace the changes in the regulatory environment and competitive challenges, both in terms of capital- and liquidity position as well as in organisational terms. We want to be a trusted partner for our clients and build long-standing relationships with them. We will provide cutting edge and innovative products and services in response to technology development and the changing needs of our clients. I am convinced that this will help us welcome more clients and increase their satisfaction levels. This approach underpins further growth of the Group in key areas of focus.

Yours respectfully,

Brunon Bartkiewicz

President of the Management Board

I. About us

1. Who we are

We want to be the preferred bank for our clients. We ensure top quality of our services and make them broadly available.

We have been present in the Polish market since 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 2017 yearend, we operated through 357 branches and 66 ING Express points. We also offer modern online and mobile banking systems.

Our head offices in Warsaw and Katowice are our organisational hubs. This is where we take the most important decisions concerning the operations of our bank. The Management Board and Supervisory Board are seated there as well. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of December 2017, as a Group we employed over 8,000 people.

We pursue our business model by:

- enabling easy saving and easy lending,
- organising the payment and transactional system, and
- providing high customer service quality.

We are 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. We are the second most recognisable banking brand in Poland. This is confirmed by the “Brand Tracking” spontaneous awareness survey, conducted by Millward Brown (CAPI technique, January 2018 data). Our offer is attractive for consumers – we are #1 in account and savings consideration (CAWI method, January 2018 data) and we absolutely stand out from other competitors in two image dimensions important for ING: “bank for the resourceful and enterprising” and “bank which responds to people's needs”. We continue the path taken for the ING brand.

We are a differentiating employer which was attested several times with the Top Employers and Top Employers Europe certificates. In their work, employees demonstrate professionalism, reliability and top expertise. In offering bank products, we adhere to the principles of ethics and we do not breach clients' interests.

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 11 rounds) in the RESPECT Index – the index of most socially responsible WSE companies.

We are a trusted partner for our stakeholders. It has been confirmed with the title of the Safest Bank in Poland granted by the Global Finance.

Who is the owner of our bank

Our bank is a public company. It means that every single person can co-own it by acquiring shares on the Warsaw Stock Exchange. As at 2017 yearend, 75% of shares were held by ING Bank N.V. from the Netherlands, while 7.99% were owned by AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK (as per Annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK as at 29 December 2017).

The other shares (17.01%) are held by remaining investors, mainly of other open-end pension funds and mutual fund companies.

For detailed information on the dominant shareholder of the Bank, see Chapter "ING Bank Śląski S.A. Management Board report on observance of principles of corporate governance" under "Profile of the controlling shareholder" page 173.

How does ING Group operate in Poland

ING Bank Śląski S.A. is part of a bigger organism – ING Bank Śląski S.A. Group. As a Group, for 29 business years, we have managed to establish our position among the top financial institutions in Poland. We are number five as far as the balance sheet total is concerned (over PLN 126 billion as at 2017 yearend) and number five as far as the commercial balance is considered (the sum of loans and deposits). We form the Group together with the subsidiaries, where we operate in the area of:

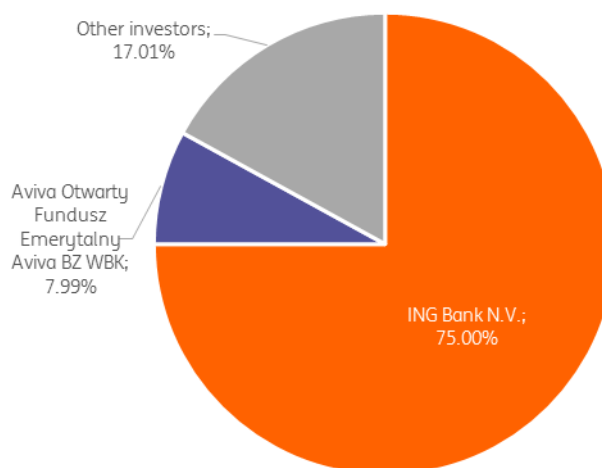
- leasing,
- factoring,
- real property deals and broking services,
- real property renting,
- financial advisory and intermediary services, and
- payroll and accounting services, for example.

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

Changes in the Group structure – Solver Sp. z o.o.

On 19 May 2017, the Extraordinary General Meeting of Solver Sp. z o.o. passed a resolution on voluntary redemption of shares by reducing the Company's share capital and changing its Articles of Association. In consequence, the shareholder (ING for Children Foundation) and the company signed the agreement to transfer 11.07% of shares for the purposes of redemption. The shares were redeemed against payment upon completion of the procedure notifying the creditors of share capital reduction, as referred to in Article 264 of the Commercial Companies and Partnerships Code. As at 2017 yearend, the Bank held 100% of voting rights in Solver Sp. z o.o. (as at 2016 yearend it was 88.93%).

Shareholding structure



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

ING Bank Śląski S.A. – based on the decision of the Polish Financial Supervision Authority – acquired Bieszczadzka SKOK (a credit union) in Sanok. The restructuring process for the acquisition of Bieszczadzka SKOK will be supported by the Bank Guarantee Fund via a subsidy and a guarantee of covering credit losses.

On 11 August 2017, the Bank started to administer the Credit Union's assets while the acquisition followed on 1 September 2017.

Changes in the Group structure – Twisto Polska Sp. z o.o.

On 11 October 2017, the Bank took up the shares in the increased capital of Twisto Polska Sp. z o.o (then Westport Investments Sp. z o.o.). This fact was registered in the National Court Register on 27 November 2017. As at 2017 yearend, the Bank held 20% of shares in that company.

Twisto Poland investment is part of the Twisto Czech Republic investment round worth EUR 5 million that is arranged by the international ING Group. The purpose of Twisto Polska is to launch an online payment system on the Polish market according to the rule "Buy now, pay later". Using advanced technologies, Twisto is able to assess the client's creditworthiness within a few milliseconds without the need to disclose sensitive data.

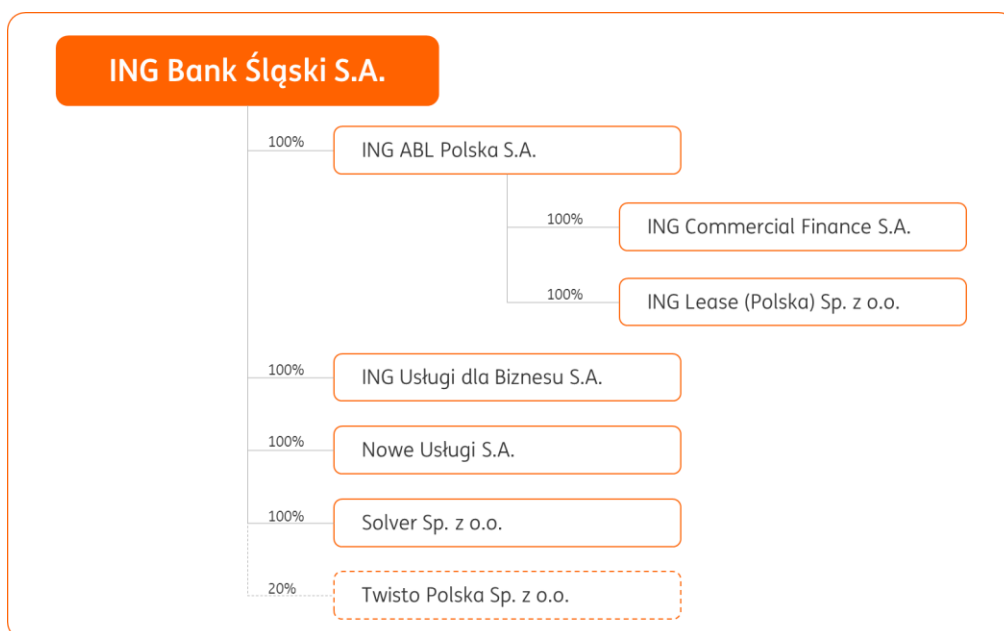
Investing in the entity that offers deferred payments is a delivery on the Bank's strategy of providing cutting-edge solutions that meet new needs of clients. The Twisto "Buy now, pay later" service in Poland will be launched in 2018.

Changes in the Group structure – ING Bank Hipoteczny S.A.

The Polish Financial Supervision Authority permitted us to establish a mortgage bank under the name of ING Bank Hipoteczny Spółka Akcyjna with its registered office in Katowice. The Bank was given notice of the permission on 16 January 2018. The share capital of ING Bank Hipoteczny S.A. will amount to PLN 120 million. It will be fully taken up by ING Bank Śląski S.A. The shares of ING Bank Hipoteczny S.A. will be covered by cash.

Incorporation of ING Bank Hipoteczny S.A. will be another step in building a strong position of the Group in mortgage lending. ING Bank Hipoteczny S.A. will allow the Group to diversify its assets funding structure through the issue of mortgage bonds.

As at 31 December 2017, the structure of the ING Bank Śląski S.A. Group was as follows:



ING ABL Polska S.A.

ING ABL Polska is a holding company. Through that company, the Bank holds shares in two subsidiaries: ING Commercial Finance and ING Lease (Polska).

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).

As per the Polish Factors Association's data, since 2014, ING Commercial Finance has been the leader of the factoring market in Poland. In 2017, ING Commercial Finance turnover totalled PLN 27.8 billion, which represented 15.0% of the market turnover. In 2017, the company served nearly 1.7 thousand clients (up by 13% y/y) and bought out 27% more invoices versus 2016.

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

ING Lease (Polska) has been present in the market since 1996. Since 2012, it has been the member of the ING Bank Śląski S.A. Group. ING Lease (Polska) offers all basic types of lease and a cash loan which can be used to finance both movables (being passenger cars and light-duty vehicles of up to 3.5 tonnes, machinery and equipment, technological lines, commercial vehicles, medical and IT equipment) and immovables. The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares.

In 2017, the new lease production of the company totalled PLN 3.7 billion (up by 23% y/y). It allowed ING Lease (Polska) to be #6 on the market with a market share of 5.5%. As at 2017 yearend, the company served 17.8 thousand clients (up by 31% y/y) and its portfolio worth exceeded PLN 7.2 billion (up by 9.8% y/y).

ING Usługi dla Biznesu S.A.

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

- Aleo.com – open business purchase platform,
- ING Accounting – accountancy and payroll services for companies keeping full accounting records and a platform for invoicing and managing payments for entrepreneurs.

Nowe Usługi S.A.

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

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

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,
- renting 6 residential premises in the building in Katowice at ul. Klimczoka 4.

Offered products

We are one of the largest all-round banks in Poland. We are strong in the primary markets of banking services (loans and deposits) and banking-related products (leasing and factoring). We run business via two segments: retail banking and corporate banking. As at 2017 yearend, we served 4.59 million clients.

We split companies into three groups: entrepreneurs (retail segment), mid and big companies (corporate segment) and strategic clients (corporate segment). The value of the company's annual turnover is the key classification criterion.

Categorisation of companies per annual turnover



Retail banking

We provide services to individual clients, entrepreneurs as well as Private & Wealth clients.

- Personal accounts
- Cash loans and loans
- Credit cards
- Finance management
- Insurance
- Savings
- Brokerage accounts
- Investment

Corporate banking

We provide services to strategic clients, mid and big companies as well as local governments.

- Cash management
- Financing (loans and guarantees)
- Trade Finance
- Corporate Finance
- Financial Markets
- Custody services
- Leasing and factoring services
- Money markets and capital markets

External initiatives we are involved in

ING Group is a signatory of e.g.:

- Declaration of Human Rights,
- Principles for Responsible Investment (PRI),
- Carbon Disclosure Project,
- Global Reporting Initiative, and
- Global Investor Statement on Climate Change.

We are also members of:

- International Integrated Reporting Council,
- United Nations Global Compact,
- United Nations Environmental Programme Finance Initiative, and
- Equator Principles Association.

In Poland, we are members of:

- Polish Bank Association,
- Foundation for the Development of Non-Cash Payments,
- Polish Factors Association,
- Polish Leasing Association,
- Polish Committee of SWIFT Users,
- National Clearing House,
- Credit Information Bureau,
- Polish Payments Standard,
- Banking Law Council,
- Bank Card Issuers Board, and
- Coalition for Polish Innovation.

Our vendors

In 2017, in line with in the Procurement Policy, the supplier qualification process continued. The supplier qualification process mitigates the risk of cooperation with suppliers engaged in undesirable criminal, financial or economic practices, including bribery- and corruption-related practices or that are financially, socially or environmentally unsound.

We classify our vendors into two groups. We use the term “qualified” to describe vendors who have already been recommended in the procurement processes and with whom we are going to enter into contracts. We use the term “potential vendors” to describe vendors to whom we are going to send requests for proposal. We implemented such an approach to facilitate the search for vendors who meet the highest qualifying criteria in selected procurement categories on the market.

In 2017, the number of qualified suppliers went up locally and globally. As at 2017 yearend, 452 suppliers in the procurement area were assigned the qualified status. In 2017, 151 suppliers were screened, out of which 136 (90%) were qualified positively. Suppliers are qualified on the basis of the adopted criteria that are compliant with the values and ethical principles adopted in the Bank’s mission and strategy.

Potential suppliers could continue to use the self-registration form on the ING Bank Śląski S.A. website. 46 vendors completed the qualification process successfully and could later participate in the procurement processes at the Bank.

Suppliers that declare the observance of the Vendors Code of Conduct at <https://www.ingbank.pl/o-banku/dostawcy> and accept the document developed by ING Group “ING Supplier Terms of Engagement” undertake to comply with the basic standards.

These are: observing the applicable laws in relations with the employees, including employee rights, as well as respecting personal dignity, privacy and rights of an individual. Vendors should also provide their employees with safe and harmless workplace in health terms and consider environment protection by striving for reducing environmental burden as part of their business; further, they ought to undertake actions leading to environment improvement. Moreover, suppliers should observe the ban on forced labour, child labour, corruption and discrimination.

Vendors of ING Bank Śląski S.A. also used the trading and auction platform for companies – Aleo. Following registration on the www.aleo.com/pl website, suppliers could participate in auctions organized under the Bank tender proceedings. In 2017, there were over 132 auctions held via the platform. Bank suppliers and clients could also use the platform to support their own procurement processes.

As part of the vendor management process, which covers starting and maintaining the relationship, we set the following goals:

- Setting a common vision and strategy for cooperation with the Bank vendors.
- Minimising the vendor risk.
- Covering the vendors with a uniform management process, including comprehensive management information about the supplier.

In 2017, 78% of strategic vendors assessed the cooperation with the Bank as very good. Moreover, on the basis of business partner cards, we analyse:

- how suppliers meet the contractual provisions in employment screening,
- whether suppliers observe the principles provided for in the ING Bank Śląski S.A. Vendors Code of Conduct,
- how they minimise the environmental footprint in their operations.

Additionally, suppliers are asked to inform us about innovations they implement or they are planning to implement in their company. The said materials are discussed at the annual vendor performance review meeting.

On 30 November 2017, we organised a conference in Katowice under the title “In search of a common thread – vendor management at ING Bank Śląski”. It was a meeting for bank representatives, suppliers and start-ups. During the event, participants spoke honestly and openly about the difficulties they encounter in cooperation, possibilities it gives and goals that may be reached together. Good communication is the basis of finding the same denominator. This is why, when selecting the partner, the Bank analyses financial but also non-financial aspects of that cooperation. The Bank expects innovative approach and support from its suppliers, as well as knowledge sharing, flexible approach to the Bank’s needs and building relationships based on partnership.

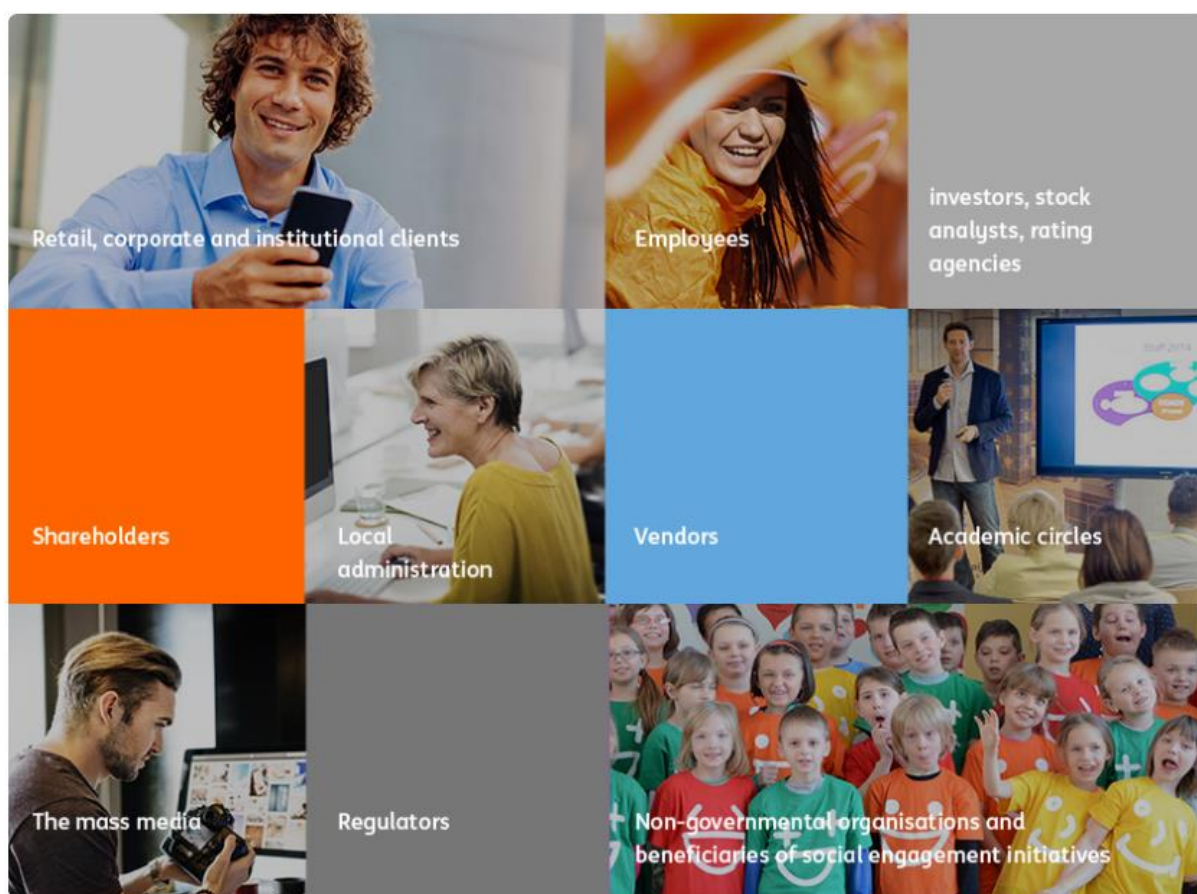
For the first time, the Bank granted the “Recommendable Supplier” awards to recognise those suppliers with whom cooperation is an example of long-lasting and successful partnership. Being the supplier relationship management leader, ING shows best practices and sets cooperation standards.

Relationships with external parties

Our operations touch many lives: customers, employees, shareholders, vendors and society at large. We are aware that expectations of our stakeholders vary. We try to balance them in our daily work. We spare no effort to ensure professional and friendly communication between our bank and its both internal and external environment. We use advanced tools to develop the best practices as regards cooperation and dialogue with stakeholders

We operate with awareness of and respect for international standards – the Universal Declaration of Human Rights and the UN Global Compact. We also apply the Good Banking Practice Principles – we ensure that all shareholders are treated equally as well as pay attention to wide information access and effective communication with capital market participants.

Map of ING Bank Śląski S.A. stakeholders



Communication with the community is vital to our core activity. It is also a natural consequence of the Bank's social activity and the important role we play in local communities. When engaging in a dialogue with stakeholders, we use both: highly parameterised tools (satisfaction surveys, audits) and ongoing contact during the meetings or phone calls.

Clients

We capture opinions and needs of our clients (client voice) on an ongoing basis. We run satisfaction and other surveys like Mystery Shopper, NPS or FCR on a quarterly or yearly basis.

Investors and analysts

We are permanently in touch with and hold quarterly meetings for them with the Management Board when financial results are published. For more information about the Bank's investor relations, see under "Investor information" in Chapter "Other information" page 186 and on page <http://en.ingbank.pl/company-profile/investor-relations>.

Media

We contact the media by responding to questions on an ongoing basis or by distributing press releases or initiating meetings, for example. To read more about the press office, please visit our website <https://media.ingbank.pl/>.

Employees

Every year, we hold an Organizational Health Index (OHI) survey or a Work Performance Culture (WPC) scan alternately. On the intranet, employees chat and blog with the CEO. Employee interests and rights are represented by employee organisations – the Works Council and trade unions.

The Works Council provides information and runs consultations on the matters of significance to the employees. The Council has 8 members and holds cyclical meetings. There is a trade union, NSZZ Solidarność, at the Bank which gathers over 450 employees

ING Volunteers

Communication with ING Volunteers is very important for us. We use all the tools available at the Bank on an ongoing basis – the intranet, communities sites, the Good Idea platform. We run an annual survey. Every year, the ING for Children Foundation holds a training course for volunteers at its Wisła-based centre. In 2017, it gathered over 100 employees. Ongoing dialogue is one of the elements that increase employee engagement in projects and local campaigns

Strategic vendors

Cooperation with strategic vendors is reviewed on an annual basis.

2. What makes us stand out

The harmonious development of our core activity, i.e. retail and corporate banking, enables us to increase our balance sheet in a consistent and profitable manner and consolidate our market position in the Polish banking sector. The primary source of our growth is the gradual increase in the number of clients for whom we are the primary bank. We develop our relations with them, and we want to be a relevant partner to them. We try not only to meet our client's expectations, but also to be a step ahead of them.

In 2017, invariably and consistently as for over 11 years now, we considerably increased our lending and deposit portfolios. At the same time, we managed to maintain the good quality assets and sustain solid capital and liquidity positions.

Higher number of clients and business volumes

High rate of client acquisition

In 2017, we kept the high growth rate for clients. Throughout the year, the Bank's client base went up by 267,000 versus 262,000 the year before. As at the end of December 2017, the number of clients was 4.59 million and it was broken down into the following segments:

- 4.53 million retail clients, including:
 - 4.18 million individual clients (up by 233,000 clients throughout the year),
 - 354,000 entrepreneurs (up by 28,000 clients throughout the year),
- 55,000 corporate clients (mid and big companies, and capital groups; up by 7,000 clients).

The constantly growing number of clients is the result of the activities pursued by us to foster long-term relationships with clients. These relationships are based on the trusted brand, transparent and flexible product offer and a continuously developed modern distribution and customer service system.

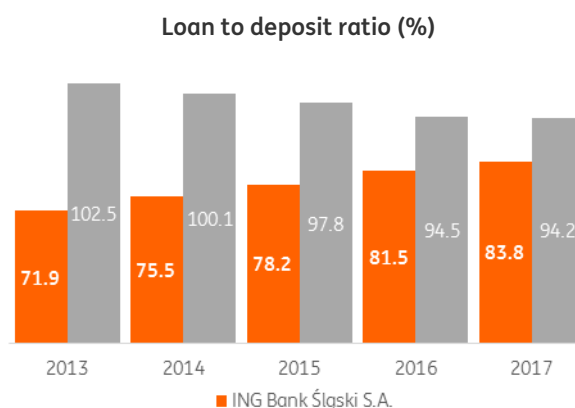
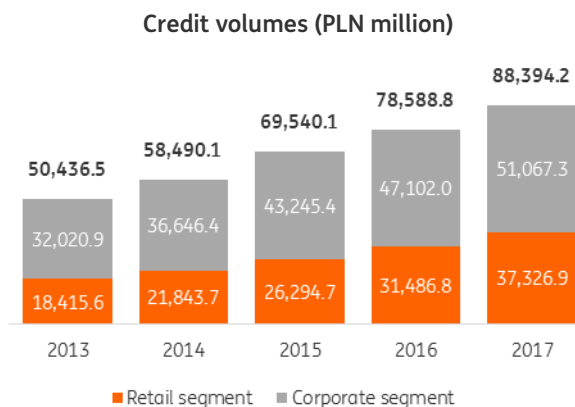
Lending growth

In 2017, the lending growth rate maintained at a high level and settled at 12.5% y/y. At the same time, the volume of loans in the Polish banking sector went up 3.8% y/y. We recorded a higher than the sector increase in both the retail and corporate segments. The volume of retail loans at our bank went up by 18.6% y/y. The volume of corporate loans went up 8.4% y/y.

Our past accomplishments prove our persistence in supporting the development of the Polish economy. Since 2008, our credit balance has been uninterrupted above the sector average. Over 2008-2017, we grew 2.3 times faster in retail loans and 1.9 faster in corporate loans than the market.

Higher LTD ratio

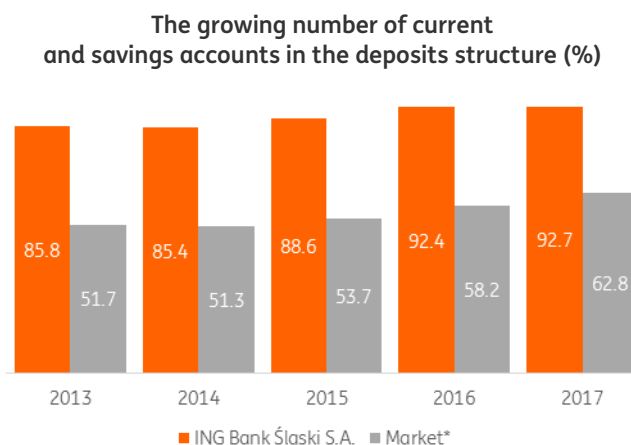
The faster growth rate of loans over deposits caused the LTD ratio go up from 81.5% as at 2016 yearend to 83.8% as at 2017 yearend (during 2017 it picked up to 87.8% in Q3). This was the fourth consecutive year in which we recorded that ratio increase, while for the sector this ratio has been falling down uninterruptedly since 2011. Despite opposite trends, for our bank, the ratio in question proves to be very safe and still below the sector average.



* based on NBP data

The growing number of current and savings accounts in the deposits structure

More and more clients perceive ING Bank Śląski S.A. as their primary bank in everyday banking. Thanks to this, the balance of deposits accumulated in current and savings accounts shows constant and stable growth. They are a key element of financing the Bank's operations. As at 2017 yearend, current and savings accounts represented 95.0% of household deposits and 88.5% of institutional clients deposits. The average for the sector is 60.6% and 66.8% respectively.



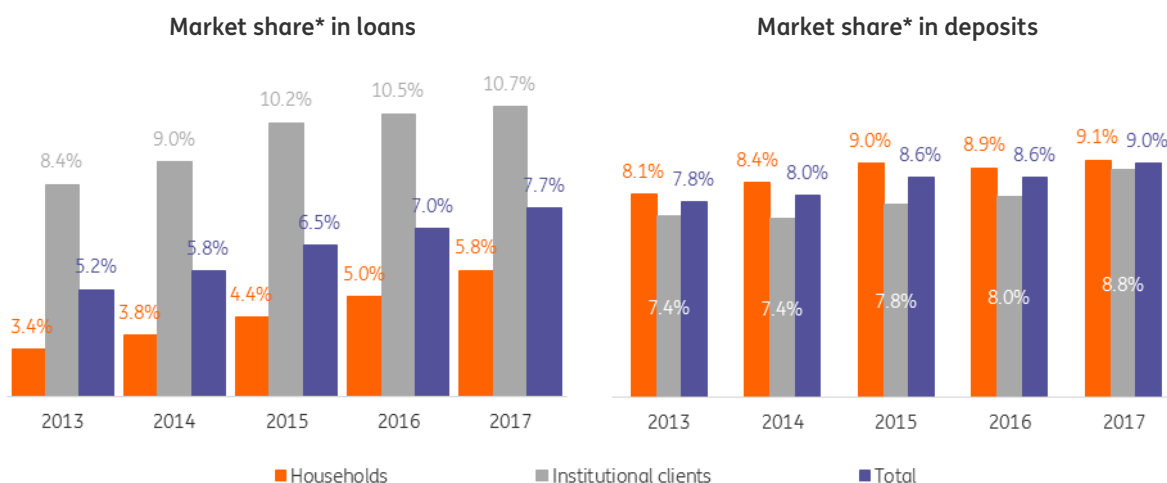
* based on NBP data

Market position consolidation

As at 2017 yearend, we ranked fifth in the market, with an approximately 6.8% share in terms of assets.

In 2017, we raised our market shares in retail and corporate loans to the record-high levels (up to 5.8% and 10.7% respectively). Excluding FX mortgage loans from the retail loan portfolio, the market share as at 2017 yearend arrived at 7.0% versus 6.4% as at 2016 yearend.

In the client deposit area, our market share in the corporate segment went up to 8.8%, while in the retail segment it hovered around 9.1%.

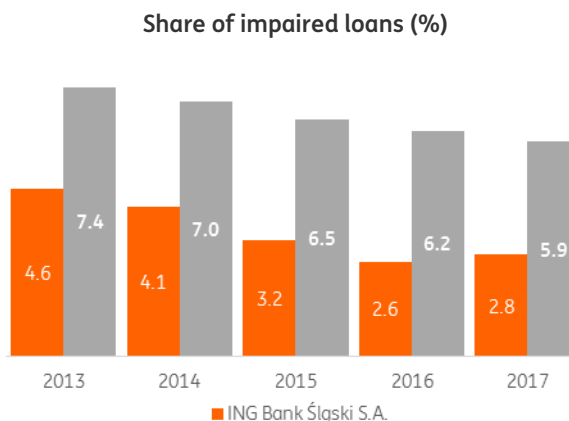


* based on NBP data

High quality of assets

The high growth rate of the receivables from customers does not impair the portfolio quality. The share of impaired loans is clearly lower than the sector average. As at 2017 yearend, the share of impaired loans was 2.8% versus 5.9% in the sector. It is also visible in segment data. As at 2017 yearend, the share of impaired loans for the corporate banking segment was 3.5% versus 5.6% in the sector, and for the retail banking segment 1.9% and 6.1% respectively.

In the retail segment, it is driven both by better quality of the mortgage portfolio (0.8% versus 2.8% in the sector), but also of other retail loans (5.1% and 10.9% respectively).

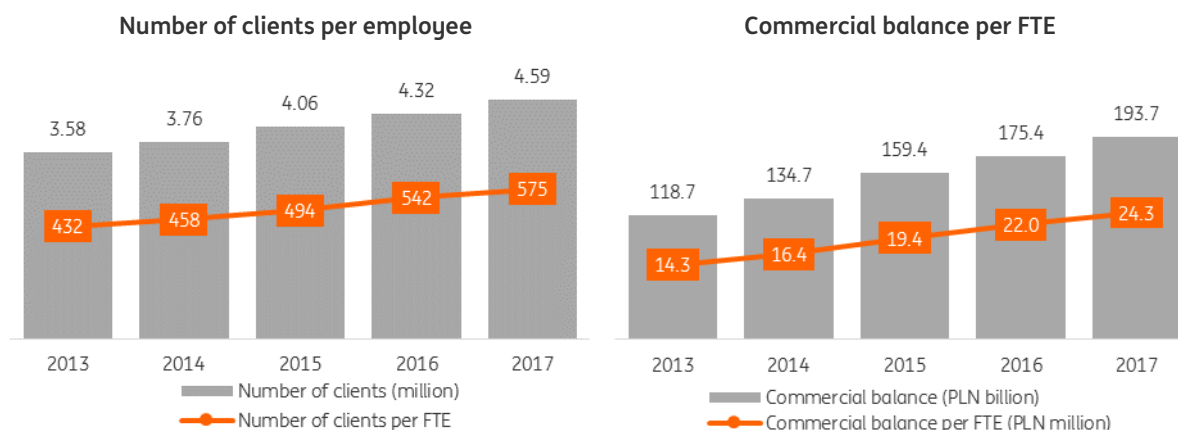


* based on NBP data

Performance improvement

Performance improvement per employee

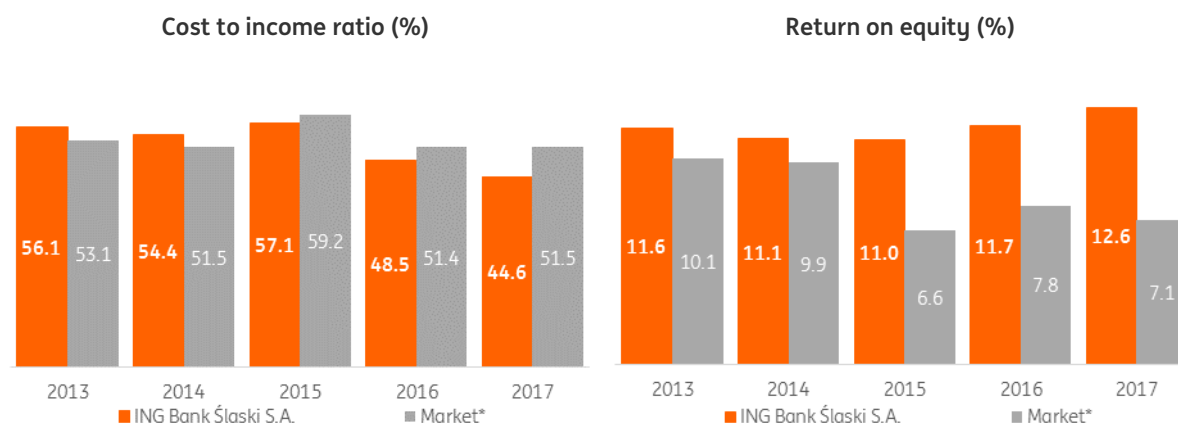
As an organisation, we strive after improving our performance on an ongoing basis. We optimise and automate our operations so as to be able to attend to more and more clients with our relatively stable over time resources. As at 2017 yearend, the number of clients per employee was 575. As at 2016 yearend, this ratio closed with 542, which means an improvement of 6.1% y/y. However, the value of commercial balances (total deposits and loans) per FTE improved by 10.3% y/y up to PLN 24.3 million.



Profitability improvement

In 2017, our return on equity (ROE) settled at 12.6%, or up by 0.9 p.p. from 2016. At the same time the opposite was observed for the average on the market – ROE in the sector went down by 0.7 p.p. to 7.1%. This decrease can be partially attributed to a big one-off deal in the sector in 2016 – the sale of Visa Europe shares (income of PLN 2.5 billion in the sector, out of which PLN 189.6 million for the Bank). Our ROE adjusted for one-offs was 12.5% in 2017 vs. 10.3% in 2016 (up by 2.2 p.p.).

We continue to work on our cost effectiveness. It enabled the Bank to improve its C/I ratio by 3.9 p.p. vis-à-vis 2016 to 44.6% in 2017. The figure is lower (better) than the average in the sector (51.5%). It has been a significant improvement over the last five years – in 2013 the sector’s C/I ratio was lower (better) than the Bank’s (53.1% and 56.1% respectively).



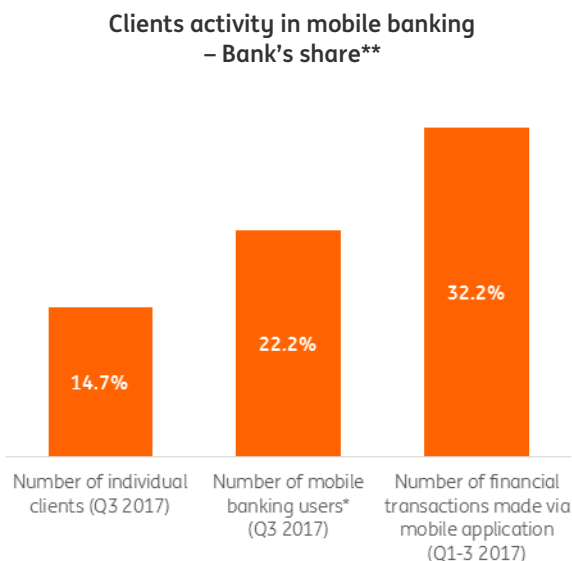
* based on PFSA data

The leading player in digital technologies and innovative solutions

Cutting-edge electronic banking offer

We offer our clients modern bespoke products and services. We offer access to intuitive online and mobile banking. In 2017, over 99% of client transfers were made in direct channels (online). In 2017, 66% of cash loans for individual clients and entrepreneurs were sold online.

Our individual clients show higher than the market average willingness to use mobile banking solutions. They clearly make more transactions via mobile application than the average. Such conclusions may be drawn from the analysis of the peer group of 11 banks that sent in their data for PRNews reports on the number of transactions made in the mobile banking application. In the market formed by those 11 banks, ING Bank Śląski S.A. holds a 14.7%-share in the number of individual clients, 22.2%-share in the number of mobile banking users* and 32.2%-share in the number of financial transactions made in the mobile application. It means that as at the end of Q3 2017, 18.3% of our individual clients were active users of the mobile application (12.1% on the average in the peer group) and made on average over 45 transactions within first 9 months in 2017 (nearly 33 on average in the peer group).



* users that log into the bank via mobile device at least once a month (lite, RWD, application); ** based on the PRNews reports for 11 banks that sent in their data on the number of transactions made in the mobile banking application.

We offer our clients modern payment solutions, e.g. BLIK. In 2017, they made nearly 2.1 million transactions online with the use of that payment system – or nearly seven times more than the year before. This growth rate is much higher than in other 8 banks that offer BLIK. Throughout 2016, out of all online BLIK transactions, our clients made just 6.7% of transactions. In Q1 2017, their share went up to 7.6% and to arrive at 12.1% in Q4.

Cutting-edge solutions in methods of work

The Bank wants to offer its clients cutting-edge and bespoke solutions so it also needs to transform internally. That is why, we implemented new methods of work both in the retail and corporate parts of our business.

The first significant change is the implementation of Agile – a way of working taken from the IT sector. We did this as the first financial institution in Poland. In the retail banking segment, Agile took effect at the beginning of 2017, while in the corporate segment since mid-2017. Agile is a way of working based on greater freedom and flexibility in defining the priorities and departing from stiff divisions into IT and business teams. It shortens time to market and enables faster reaction to the changing needs of clients and the market. We have already implemented first solutions which were developed in the Agile model of work. These are e.g.: mobile authorisation in mobile banking, multi-currency card or remote account opening for corporate clients. For more information about Agile, please refer to the Chapter "Way of working" under "Agile" on page 138.

The second significant change is the application of the in-house PACE methodology – the process that supports innovations in ING Group. It assumes work in small, independent and interdisciplinary scrums. PACE is based on direct bank-client cooperation to eliminate projects that do not respond to actual clients' needs. It enables elimination of erroneous assumptions at each stage of works – from a vision to a prototype – and implementation of relevant solutions only.

Awards and distinctions

Our daily efforts in offering attractive products to our clients, attention to high service quality, sustainability actions and practices as well as outstanding commercial and financial results have been honoured with numerous awards and distinctions. Below please find selected 2017 awards. The full list is available at: <https://www.ingbank.pl/o-banku/nagrody-i-wyroznienia>.

For overall performance:

- The main prize and the title of the Banking Star granted for the overall performance in 2016 in the ranking compiled by the Dziennik Gazeta Prawna daily and PwC.
- #2 in the 2017 Best Bank ranking organised by Gazeta Bankowa in the Large Commercial Banks category.
- The title of the Most Digital Bank awarded in the e-commerce Polska Awards competition.
- #1 in the Safest Bank in Poland category and #3 in the Safest Banks in Central and Eastern Europe category granted by the Global Finance magazine.

For the attractive offering and customer service quality:

- #1 in the brokerage accounts ranking compiled by Puls Biznesu.
- #2 in the brokerage accounts ranking compiled by Bankier.pl.
- #3 for the Brokerage Office of ING Bank Śląski S.A. in the Brokerage House Ranking compiled by the Bankier.pl editorial team on the basis of the Polish Investor Survey.
- #3 in the Most Business Friendly Banks ranking published by the Forbes monthly.
- The ING Auto Programme was recognised in the Leasing category in the Best Product for SME 2017 ranking organised by Gazeta Finansowa as part of the Turbines of the Polish Economy opinion poll.
- Digital Bank of Distinction Award granted by the Global Finance magazine for ING Business – modern online banking system for corporate clients.
- #2 in the category: Highest Volume and Highest Value of OTC Transactions Cleared in KDPW_CCP in 2016.
- 2017 Service Quality Star in the Banks category and Service Quality Star of the Decade in the tenth edition of the Polish Service Quality Programme.
- ING Bank Śląski S.A. was also among the winners of the 2016 Institution of the Year ranking in the Best Customer Service Quality in Branches category organised by mojobankowanie.pl.
- The title of the Bank Appreciated by Clients for #1 in the category: Assessment of points of contact, granted on the basis of surveys made by ARC Rynek i Opinia: Bank Retail Clients' Satisfaction Monitor.
- The excellent score for ING Commercial Finance Polska in the Factors Chain International (FCI) ranking, in the Import Factor of the Year 2016 category.

For CSR actions and practices:

- For the eleventh time, ING Bank Śląski S.A. has been included in the RESPECT Index among the companies meeting the highest standards of responsible business.
- Distinction in the Ethics Leader in Business category granted at the Responsible Business Awards Gala.
- #3 in the platinum category in the 2017 Socially Responsible Companies Ranking.
- #1 in the Golden Banker competition in the Socially Sensitive Bank category.

For communication with clients, market and employees:

- Distinction for the Plain Language Project designed to simplify communication with clients

in the Friendliest Bank category in the Banking and Insurance Global Leader competition.

- #1 in the Best Bank in the Social Media ranking in the Golden Banker competition.
- The main prize in the Best Annual Report 2016 competition held by the Accounting and Tax Institute in the Banks and Financial Institutions category.

For marketing actions:

- Two silver statuettes for the most successful advertising campaigns in the following categories: Finance and Long term marketing excellence in the Effie Awards competition.
- Kreatura 2017 Award in the category: Best action in the social media category in 2017 for the ING social campaign: Mural – involving a local community.
- #1 in the Lamparty contest, rewarding the best bank brands creations.
- #1 for the spot: Moje changes everything in the Best Advertising Spot category in the Golden Banker competition.
- Golden Sword in the advertising creation competition organised by the Advertising Creators Club in the Digital & Mobile category and a special Facebook award for the online campaign promoting Aleo.
- Bronze statuette in the IAB Mixx Awards competition in the Business-to-Business category for the Aleo campaign: The Boss of all the bosses commands celebrities.

3. Ethics, values and compliance

Corporate culture

We have clear ethical principles and provide on-going training for our employees. We make sure that our principles are complied with. As a public trust organisation, we comply with the requirements set out by the Polish Financial Supervision Authority and the Code of Banking Ethics.

Business ethics standards of our employees are based on “ING Values and Behaviours” set out in the Orange Code. Compliance with those principles is one of the fundamental employee obligations.

The Orange Code which comprises ING Values (We are honest, We are prudent, We are responsible) and ING Behaviours (You take it on and make it happen, You help others to be successful, You are always a step ahead).

The Orange Code is an important element of our corporate culture. It is also applied in many banking processes, e.g. in the employee performance evaluation. Employees together with their supervisors set the actions through which the Orange Code is being implemented. Our values and behaviours are also part of the recruitment process.

The Orange Code of ING



You take it on and
make it happen



You help others to be
successful



You are a step ahead



We are honest



We are prudent



We are responsible

We counteract corruption

At ING Bank Śląski S.A. we do not tolerate corruption. We raise awareness of our employees in that regard so that they could identify and counteract corruption better. We apply several simple rules:

- We do not take or give any gifts or invitations to events whose value exceeds the amount thresholds set.
- We report obtaining or giving of a gift in excess of the set threshold to the electronic Register of Gifts – currently the threshold is set at PLN 200. We report obtaining or giving such a gift:
 - in relations with clients and business partners,
 - in relations with public officials,
 - in each case of obtaining or giving a gift.

We also require our vendors and business partners to comply with those rules. We encourage them to adopt the ING Bank Śląski S.A. Anti-Bribery and Corruption Declaration.

The wording of the Declaration is available at https://www.ingbank.pl/_files/1102683.

In 2017, we started a new training course “Anti-Bribery and Corruption”. By showing examples, the training course teaches you how to counteract bribery and corruption and informs you how accepting and giving bribes may threaten relations with clients or business partners. The training course was mandatory for all employees. In 2017, no cases of bribery or corruption were identified.

We combat conflicts of interest

We introduced internal procedures and controls to combat conflicts of interest. They cover:

- the segregation of duties in the Bank's organisational structure and relations between different management levels as well as personal links between employees,
- the requirement to consult and inform the Bank for employees that want to start or started additional professional activity,
- private account dealings by employees having access to confidential, insider information or professional privilege.

We report instances of breach of law and Business Ethics Standards

Employees can report suspicions of crimes and violation of Business Ethics Standards anonymously. They can also report the same by name and we ensure confidentiality and discretion as well as protection against repressive actions.

Reports are received by the Compliance Department Director who relays them to the CEO and agrees

with him the necessary measures. For positively verified reports, appropriate remedial and preventive measures are taken.

In 2017, the Bank received 31 such reports. After the analysis, no material violations of law or Business Ethics Standards were declared.

Corporate governance and oversight

The Supervisory Board continuously oversees our bank operations in all fields. The Board's powers are provided for in the Banking Law Act, Bank's Charter and Commercial Companies and Partnerships Code. The Supervisory Board approves the strategy and monitors financial results. The Chairman presides over the Supervisory Board work. The Supervisory Board is composed of seven members, including three independent members. The independent members also sit on the Audit Committee, Remuneration and Nomination Committee and Risk Committee.

The Management Board composition is determined by the Supervisory Board. The Management Board represents the Bank before the authorities and other parties. It manages the Bank's property and interests and formulate its strategy. The Management Board establishes committees and projects as well as estimates and ensures the necessary resources. It supervises delivery of commercial, operational and financial goals by individual units. The Management Board also ensures efficient functioning of the Bank's organisational structure and appropriate security level. Furthermore, the Management Board also decides on assuming liabilities and asset management.

For more details on corporate governance and oversight, see Chapter "ING Bank Śląski S.A. Management Board report on observance of principles of corporate governance" page 168.

II. How we create value

Our stakeholders expect us to keep them informed not only about the results, but also about the development perspectives. The strategy, its implementation and market competition are the most important topics indicated in the report survey made among Bank stakeholders.

We understand this expectation. A careful analysis of the macroeconomic and social environment in the short- and mid-terms allows us to take apt business decisions. We always strive after the solutions that will be of maximum benefit both to the Bank clients and its shareholders. Our analyses and forecasts are also used in a broader context – to create the Bank’s business strategy. We listen attentively to the voice of a wide group of stakeholders. The topics that are the most crucial for them underpin our social responsibility strategy.

We adopt a multi-faceted approach to our role in creating the value for the community. We go beyond the usability of banking products and services. People are our most important asset. We engage our resources in developing competence and building work environment that fosters innovativeness. The results of our actions translate into unique customer experience, safety and development perspectives. In the case of our shareholders, we focus on delivering stable and predictable financial results. We also ensure that our contribution to the economic and social environment is long-lasting and positive.

1. Market now and in the future

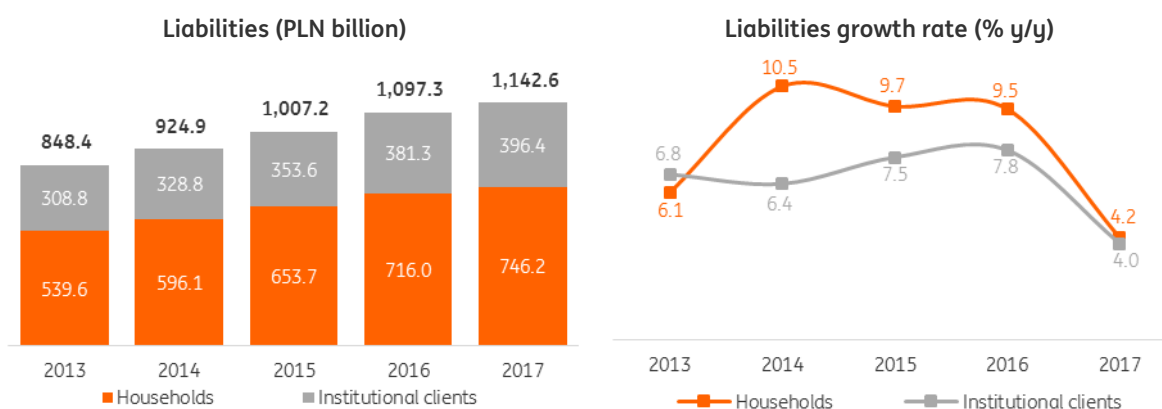
In 2016 and 2017, the financial results and standing of the banking sector, ING Bank Śląski S.A. included, were shaped by multiple external factors. They are of material significance for the future development strategy of the Bank. They translate directly into profitability of banks.

Banking sector

Liabilities

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

- Liabilities to households went up by 4.2% (PLN 30.1 billion) and arrived at PLN 746.2 billion versus 2016 yearend.
- Liabilities to institutional clients amounted to PLN 396.4 billion, up by 4.0% from 2016 yearend. The volume increase by PLN 15.1 billion can be mainly attributed to higher liabilities to enterprises (up by 2.4%, or by PLN 6.4 billion) and to non-monetary financial institutions (up by 6.8%, or by PLN 3.7 billion). Liabilities to local government institutions and the Social Insurance Fund augmented by 9.1%, that is by PLN 3.2 billion, in that period.



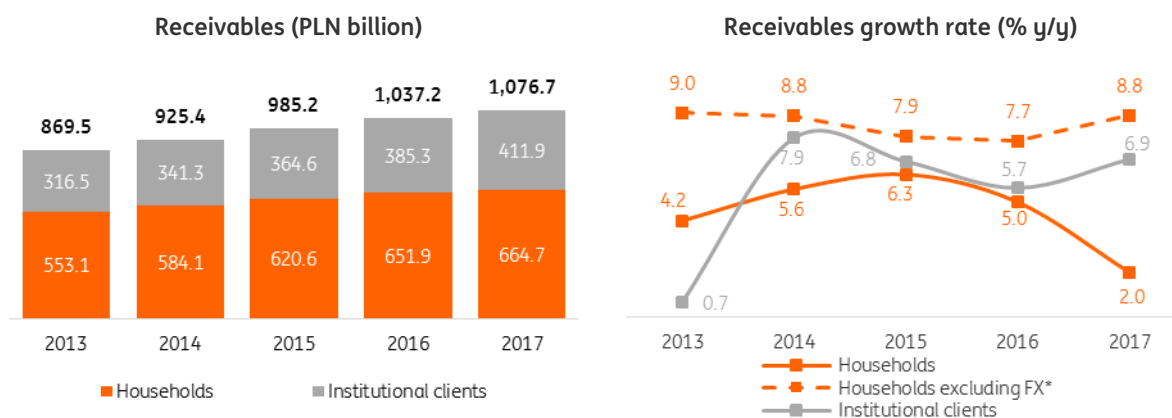
* based on NBP data

Receivables

- In December 2017, receivables from households amounted to PLN 664.7 billion, up by 2.0%

from December 2016. Housing loans, which formed the main part of the banks' credit exposure to households (representing 58.4% of receivables from that group of clients), went down by 1.5%, arriving at PLN 388.5 billion. The decline was mainly driven by PLN appreciation to CHF (13.4% y/y). Further, the growth rate was also affected by the natural amortisation of the CHF portfolio that dropped 8.0% y/y (CHF 2.6 billion). The portfolio of PLN housing loans grew by 10.6% y/y (PLN 24.6 billion). Upon excluding the exchange rate effect, the housing loans portfolio went up by approximately 3.1% in 2017. As per data of the Polish Bank Association, in 2017 banks extended housing loans totalling PLN 44.6 billion (PLN 39.5 billion in 2016, i.e. +12.9% y/y). Other retail loans, consumer credits included, rose by 7.2% (PLN 18.7 billion) from 2016 yearend, arriving at PLN 276.2 billion.

- Receivables from institutional clients went up by PLN 26.7 billion (or 6.9%) from December 2016, arriving at PLN 411.9 billion. Receivables from enterprises rose by PLN 17.5 billion (or 5.9% y/y), arriving at PLN 315.4 billion.



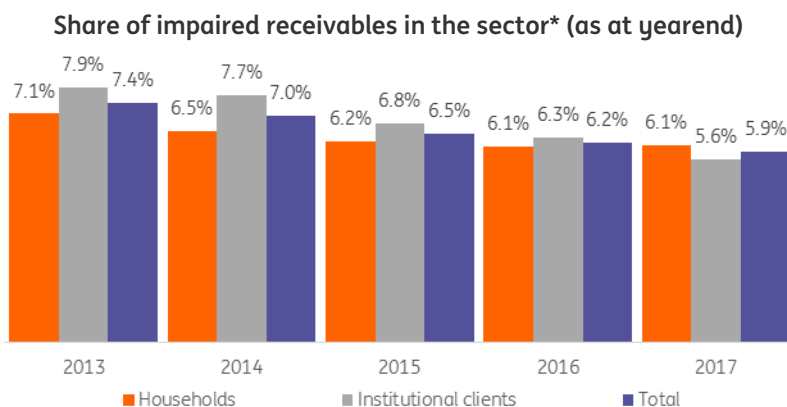
* based on NBP data, **excluding the FX mortgage portfolio

Source: National Bank of Poland and Polish Financial Supervision Authority

Our bank economists expect that high GDP growth rate, accelerated EU funds absorption and improved investment, private investment in particular, will translate into volumes of loans and deposits in the economy in 2018. Economists estimate that the deposits growth rate in the sector will arrive at 4.5% y/y in 2018 and will be spread evenly across retail and corporate loans (4.5% y/y each). The growth rate of loans in 2018 is to accelerate up to 7.2% y/y. Retail loans will accelerate to 5.3% y/y and corporate loans up to 10.0% y/y.

Assets quality

As regards assets quality in December 2017, the share of impaired receivables in total receivables was 5.9% (6.2% as at 2016 yearend). The improved portfolio quality was reported primarily for receivables from institutional clients, where the share of impaired receivables materially went down for another consecutive year, by 70 b.p. y/y, settling at 5.6%.



* based on NBP data

The quality of the household loans portfolio slightly deteriorated versus 2016 yearend, i.e. it went up

by 5 b.p., closing at 6.1%. It was mainly driven by a growing share of impaired non-housing retail loans (i.e. other retail loans) in total impaired retail loans (from 71% as at 2016 yearend to 73% as at 2017 yearend). The share of “bad” housing loans improved by 12 b.p. y/y and closed at 2.8% as at 2017 yearend. In 2017, the quality of other retail loans also improved by 8 b.p. y/y; the reported share of impaired loans was the lowest since 2009 and arrived at 10.8%.

Financial results

The overall condition of the banking sector in 2017 was good. This can be attributed to the accelerating growth rate of the Polish economy, solid data from the labour market and a stable situation in the financial market. The trend of headcount streamlining continued in the banking sector, as well as of reducing the number of branches.

In 2017, the net financial result of the banking sector went down by 2.3% y/y to PLN 13.6 billion. It results however from one-off events in 2016, which disrupted the comparability of results versus 2017. The reported 2016 result before tax of PLN 18.1 billion was affected by:

- sale of VISA Europe shares of PLN 2.5 billion and
- additional contribution to the BGF of PLN 0.1 billion.

Upon excluding one-off events, the comparable 2016 result before tax closed at PLN 15.7 billion.

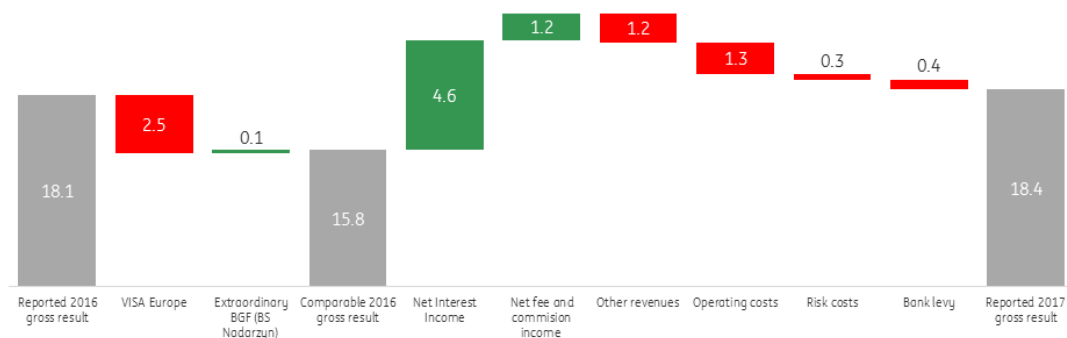
In 2017, the result before tax of the banking sector arrived at PLN 18.4 billion, or 16.6% over the comparable 2016 result before tax (and 1.4% over the reported result before tax for the year before). The result before tax augmented, because the comparable total income grew at a faster pace (7.8%) than the operating expenses (4.1%). In 2017, the result before tax of the banking sector was boosted (versus comparable data) by:

- net interest income (up by PLN 4.6 billion or 12.1% y/y) and
- net commission income (up by PLN 1.2 billion or 9.1% y/y).

On the other hand, it was negatively affected by:

- other income (down by PLN 1.2 billion or 14.2% y/y),
- operating expenses (up by PLN 1.3 billion or 4.0% y/y),
- risk costs (up by PLN 0.3 billion or 2.9% y/y), and
- bank tax (up by PLN 0.4 billion or 13.5% y/y).

Result before tax of the banking sector* in 2017 (PLN billion)



* based on PFSA data

Asset-backed funding market

Leasing

In 2017, the Polish lease market went up by 15.7%, arriving at PLN 67.8 billion. The active portfolio of lease agreements totalled PLN 119.3 billion (up by 13.5%) as at the yearend. For comparison, the value of investment loans extended by the banking sector stood at PLN 127.0 billion as at the end of December 2017. These figures confirm that in terms of value, leasing is the second biggest funding source for investment undertakings in Poland after investment loans.

Vehicles weighing up to 3.5 tons constituted the biggest segment of the leasing market (with their share in the sales up from 42.1% to 45.6%). The funds granted in that leasing category totalled PLN 30.5 billion (+25.0% y/y). Passenger cars were the main turnover driver in that segment (28.0% y/y).

The segment of machines and equipment (IT included) reported a 14.6% annual growth. The total value of the machines financed reached PLN 17.6 billion.

2017 was an important year for the real property market, where after a pronounced drop in 2016, it reported an increase of 26.5% y/y, arriving at PLN 909.4 million.

Source: Polish Leasing Association

Factoring

In 2017, the turnover of the factoring companies belonging to the Polish Factors Association multiplied by 16.7% y/y, arriving at PLN 185.0 billion. The most popular funding form chosen by companies was non-recourse factoring; its turnover in 2017 reached over PLN 100 billion and the growth rate of 19.5% was higher than the market.

The number of clients of companies in the Polish Factors Association was 9,000 following a growth of 12.6% y/y, while the number of debtors whose liabilities were taken over reached over 250,000 (vs 172,000 in 2016).

Sector-wise, the highest volumes of receivables were entrusted to factoring companies by production and distribution companies (47.8% and 37.1%, respectively).

Source: Polish Factors Association

Capital market

Warsaw Stock Exchange

2017 was a successful year for the Warsaw Stock Exchange. Its operations were fostered by a good situation on global financial markets. In the United States, capital markets reached historically highest maximums while in Europe only Moscow Exchange closed the year below its 2016 result. In Poland, the economic growth was the fastest since 2012. The amount of foreign trades was close to balance and better than budgeted. Along with rising wages and employment, it had a positive impact on the Warsaw Stock Exchange.

In 2017, the WIG broad market index went up 23.2% y/y and was only 3.5% lower than the historically highest figure in 2017. Meanwhile, in the very same period the alternative market NC Index went up by 9.2% y/y.

The volume of trades on the main floor reached PLN 261.0 billion, or up by 28.9% y/y. Less impressive growth (up by 7.9% y/y) was reported for the New Connect alternative market arriving at PLN 1.5 billion, while the Catalyst reported a turnover decline of 11.1%, down to PLN 2.8 billion.

In the context of the number of WSE-listed companies, 2017 was the first year when more companies were delisted (20) than newly listed on the main floor (15). As at 2017 yearend, 482 companies were listed on the main floor, 5 less from the year before. Their total capitalisation went up to PLN 1.4 billion (up by 23.7% y/y). A higher number of Initial Public Offerings was reported for the NewConnect market with 19 debuts in 2017. The worth of listed issues on the Catalyst market rose by 17.1% y/y, up to PLN

95.8 billion.



Source: Warsaw Stock Exchange

Mutual funds

In 2017, the mutual funds market worth measured with funds under management gathered by these institutions went up by 7.8% y/y, up to PLN 279.0 billion. Favourable market conditions fostered non-dedicated funds and as at 2017 yearend the assets accumulated therein totalled PLN 159.5 billion (+17.7% y/y). The change can be largely contributed to the net inflow of funds (PLN 16.4 billion). Funds accumulated in dedicated funds shrank to PLN 119.5 billion (PLN 3.9 billion or -3.1% y/y) mainly due to the effect of net outflows (PLN 2.4 billion).

Clients of non-dedicated funds were most eager to deposit their cash in funds with a relatively low risk profile. The most popular category were money market funds (26.1% of the non-dedicated funds assets), which went up by 27.0% y/y. Debt funds came next (24.9% of the non-dedicated funds assets), which given low interest rates constituted an attractive alternative to bank deposits; their assets augmented by 11.8% during the year. They were followed by mixed funds forming 17.7% of the non-dedicated part of the market (assets up by 18.5% y/y) and equity funds forming 17.5% of the market (assets up by 18.4% y/y).

Source: Chamber of Fund and Asset Management

Open-end pension funds

As at the end of December 2017, pension funds assets amounted to PLN 179.6 billion, up by PLN 26.1 billion (17.0%) from the year before. This was triggered by the bull market on the WSE. On the other hand, the balance of payments and withdrawals was negative for another year in a row. In 2017, only PLN 3.3 billion was transferred to open-end pension funds (vs PLN 3.2 billion in 2016), while the “safety zipper” transfers to the Social Insurance Institution, as estimated by the Chamber of Commerce of Pension Funds, amounted to PLN 6.1 billion (vis-à-vis PLN 3.5 billion the year earlier). The higher value of the funds transferred under the “safety zipper” mechanism stemmed from the lower retirement age having come into force as of 1 October 2017. In consequence, the monthly average value of transferred funds rose from PLN 0.2 billion to PLN 1.0 billion.

Despite former announcements, there was no reform of the open-end pension funds system in 2017.

Source: Chamber of Commerce of Pension Funds and Polish Financial Supervision Authority

Implementation of IFRS 9

One of the key regulatory changes in 2018 that will have a material impact on the banking sector results (ING Bank Śląski S.A. included) is the application of a new IFRS 9 Financial Instruments. It was published by the International Accounting Standards Board in July 2014 and was adopted by the European Union in November 2016. IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement. It covers the requirements in terms of:

- classification,
- measurement of financial assets and liabilities,
- impairment of financial assets, and
- hedge accounting.

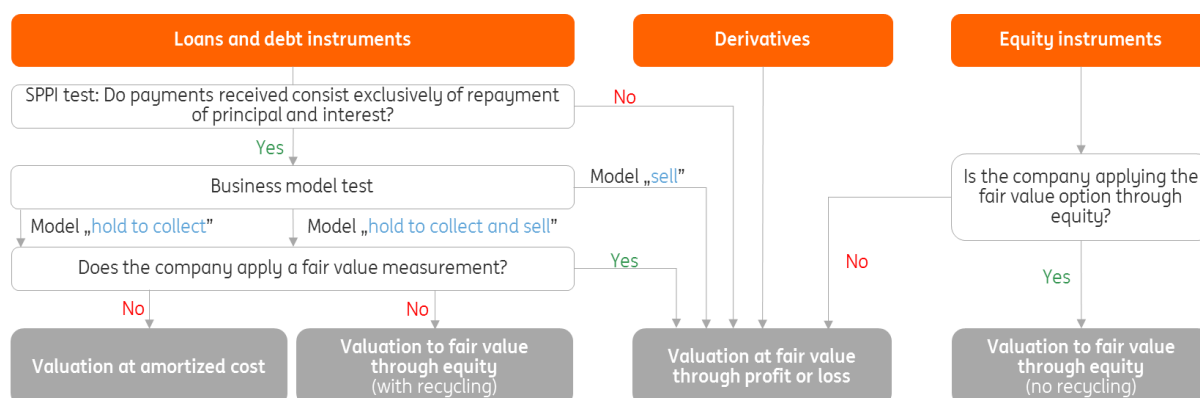
The new standard came into force on 1 January 2018. We took a decision to apply it retrospectively for classification, valuation and impairment through the adjustment of the opening balance sheet as at 1 January 2018, without adjusting the comparative periods. It applies both to assets and liabilities, still the biggest change concerns assets.

Classification of financial assets

IFRS 9 implements two criteria that determine classification and, in consequence, the way financial assets are measured:

- cash flow characteristics test for assets, i.e. the SPPI test – solely payments of principal and interest, and
- business model test, or determination of the purpose of holding a given asset:
 - hold to collect the contractual cash flows – “hold to collect”,
 - hold to both collect the contractual cash flows and sell an asset – “hold to collect and sell”, and
 - hold for other business purposes – “sell”.

The chart below shows the simplified manner of IFRS 9 financial assets classification, which is used to determine how a given asset item should be measured:



Financial assets measurement

IFRS 9 introduces three classification categories of financial assets measurement:

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

After such an analysis (i.e. SPPI and business model tests) based on the data as at 1 January 2018, we classified:

- PLN 104.0 billion-worth financial assets (mainly loans and receivables and other debt instruments classified under IAS 39 as Investments held to maturity) measured at amortized cost,

- PLN 17.6 billion-worth financial assets measured at fair value through other comprehensive income, including:
 - PLN 17.5 billion-worth assets (mainly debt instruments classified under IAS 39 as Financial assets available for sale) with the reversal option through profit or loss, and
 - PLN 0.1 billion-worth assets (equity instruments classified under IAS 39 as Financial assets available for sale) without the reversal option through profit or loss,
- PLN 2.6 billion-worth financial assets (mainly derivative instruments classified under IAS 39 as Financial assets held for trading) measured at fair value through profit or loss.

Impairment of financial assets

Application of IFRS 9 will have a material impact on the impairment loss estimation methodology for the portfolio of financial assets measured at amortized cost and at fair value through other comprehensive income. The new methodology is based on the forward-looking expected credit loss concept. It also takes account of different macroeconomic scenarios with a fixed probability of their materialisation. In order to compute the expected credit loss, we split loans and other debt instruments into three stages:

- Stage 1 covers performing assets for which no significant credit risk increase has been reported from the initial recognition date. The expected loss for those assets is computed in the horizon of 12 months;
- Stage 2 covers performing assets for which significant credit risk increase has been reported from the initial recognition date. The expected loss for those assets is computed in the lifetime perspective;
- Stage 3 covers impaired assets. The expected loss for those assets is computed in the lifetime perspective.

Apart from the 3-stage classification, there is a separate, independent category of POCI financial assets. This category embraces financial assets purchased or originated credit impaired. These items are measured at fair value and the expected loss is calculated throughout their lifetime.

IFRS 9 implementation impact

The net effect of the change from IAS 39 to IFRS 9 methodology will have a negative impact (understood as the opening balance sheet effect as at 1 January 2018) on equity. We estimate the figure to arrive at PLN 246.3 million.

Additionally, the methodology change will also have a negative impact on the Bank's and Group's capital ratios. We estimate that the total negative impact on Tier 1 ratio will be 33 b.p. We also stress that the Bank used the option of the progressive 5-year transition period (under Regulation of the European Parliament and of the Council (EU) 2017/2395), which will alleviate the impact of the new IFRS 9 impairment loss model on the Tier 1 capital. In keeping with the regulation, the IFRS 9 adjustments linked to credit risk, such as:

- impairment losses,
- deferred tax assets for impairment losses, or
- the adjustment of credit risk-based shortage versus the expected losses under the AIRB Approach,

shall be subject to transition periods. This means that their impact on capital ratios will increase incrementally, from 5% in 2018 to 100% as of the beginning of 2023, following the values in the table below.

Period:	1	2	3	4	5	6
Year:	2018	2019	2020	2021	2022	2023
IFRS 9 adjustments subject to transition periods	5%	15%	30%	50%	75%	100%
IFRS 9 adjustments not subject to transition periods	100%	100%	100%	100%	100%	100%
Total impact	~20%					100%

On the other hand, the other IFRS 9 adjustments like:

- capital investment measurement or
- other deferred tax assets

will be immediately fully mirrored in capital ratios. Therefore, we estimate that the negative impact of IFRS 9 on the Group's Tier 1 ratio as at 1 January 2018 will be 3 b.p.

More details on the IFRS 9 implementation at the Bank can be found in the 2017 Consolidated Financial Statements of ING Bank Śląski S.A. Group on page 11.

Modification of regulations concerning the banking sector

The table below presents the key amendments to the banking sector regulations.

Name	Effective date	Description
	2017	
The Regulation of the Minister for Economic Development and Finance of 21 November 2017 on abandoning the collection of income tax on some income (revenues) relating to housing mortgage loans	Temporary nature and is effective from 1 January 2017 to 31 December 2018	Thereunder, the personal income tax shall not be collected on: <ul style="list-style-type: none"> • amounts written off by the lender under the loans taken to satisfy the borrowers' housing needs, provided that the taxpayers did not make use of a write-off of another mortgage loan received for their own housing needs, and • amounts of income under repayment of the loan taken for one's own housing needs and collateralised with a mortgage, below its nominal value due to application by the lender of a negative interest rate. For the corporate income tax, tax shall not be collected on the income being equivalent to written off credit liabilities, starting from the portion of principal where abandoning of the CIT collection begins under the said regulation. The solution is to apply to the CIT taxpayers licensed to grant loans under other acts.
Recommendation C on concentration risk management	1 January 2017	The PFSA recommendation supplements and expands on the issues of concentration risk management at banks.
The Act on amendment to the act on payment services and certain other acts of 30 November 2016	8 February 2017 with an 18-month transition period for performance of the most significant duties by banks	The Act implements the provisions of Directive 2014/92/EU (PAD). The amendment extends the disclosure duties towards consumers concerning, inter alia, the fees charged under the account-related services. The new provisions also set out the principles of consumer access to the so-called primary account and the principles of moving the consumer payment accounts.

Act on Common Reporting Standard of 9 March 2017	1 May 2017 with a transition period for performance of the reporting duties by banks	The so-called CRS Act implements Directive 2014/107/EU. The provisions of the Act introduce the financial institutions' duties regarding automatic exchange of tax information on reported accounts.
The Regulation of the Minister for Economic Development and Finance on risk management system and internal control system, remuneration policy and detailed manner of internal capital quantification at banks of 6 March 2017	1 May 2017	The regulation superseded PFSA Resolution 258/2011. The provisions of the regulation define a detailed manner of functioning of the risk management system and internal control system at banks. The regulation also covers a detailed scope of the remuneration policy and its determination mode as well as a detailed manner of internal capital quantification.
he Act on amending the Act on Trading in Financial Instruments and Certain Other Acts of 10 February 2017	5 May 2017	The Act implements the provisions of Directive 2014/57/EU of 16 April 2014 on criminal sanctions for market abuse (MAD) and serves applying Regulation No. 596/2014 on market abuse (MAR).
The Act on Statutory Auditors, Auditing Firms and Public Oversight of 11 May 2017	21 June 2017, with a transition period for bringing the audit committee composition into line with the new requirements	The new provisions follow the European Union regulations (implementation of Directive 2014/56/EU and use of Regulation 537/2014). The Act concerns, among others, the audit committee responsibilities in public interest entities (which also covers banks) and the relationships with auditing firms authorised to audit financial statements.
Act on Mortgage Loans and Supervision over Mortgage Loan Brokers and Agents of 23 March 2017	22 July 2017 (concerns the majority of provisions)	The Act sets out the principles and mode of concluding the mortgage loan agreements. The new provisions regulate the rights and duties of lenders and borrowers, mortgage loan brokers and agents. They cover the information disclosed prior to concluding a mortgage loan agreement and the procedure in the course of the agreement.
Recommendation H concerning internal control system at banks	31 December 2017	The Recommendation is a collection of good practices as regards the internal control system at banks which expand on the current laws.
2018		
The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on the Flat-Rate Income Tax on Some Income Earned by Natural Persons of 27 October 2017	1 January 2018	<p>Among the main amendments having an impact on the tax issues of, among others, the financial sector one may list:</p> <ul style="list-style-type: none"> ● amending the principles of including in the banks' tax base the provisions formed for the business risk of banks and the provisions formed by the banks that apply the International Accounting Standards to making loss allowance for expected credit losses – IFRS 9; ● ring-fencing in the Corporate Income Tax Act the sources of income in the form of capital gains and separating the income earned from that source from the taxpayers' other income; ● modifying the provisions limiting the amount of the interest deducted (costs of

		<p>debt financing), known as “thin capitalisation” – financial institutions have been excluded from that modification;</p> <ul style="list-style-type: none"> ● introducing the provisions limiting the amount of tax deductible costs linked to the intangible services agreements (licence agreements, advisory, management and control services, for example) and associated with the use of intangible assets, as well as the provisions clarifying the definition of “acquisition” of an intangible assets item; ● amending the regulation that enables recognition under tax deductible costs of the losses under the paid disposal of the debt claim formerly recognised as the income due by reducing the amount of the losses to the previously recognised income.
Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products	The Regulation has been effective since 1 January 2018	The Regulation introduces a common standard for documents with the key information on the so-called packaged retail and insurance-based investment products. It covers, for example, mutual funds, structured deposits (combination of bank deposits with investment solutions) and insurance policies with an investment element.
Regulation (EU) No. 600/2014 of the European Parliament and of the Council and Directive No. 2014/65/UE of the European Parliament and of the Council on markets in financial instruments	The MiFIR has been directly applied since 3 January 2018. The Directive needs to be implemented into Polish law.	The package of provisions contained in the Regulation (MiFIR) and Directive (MiFID II) as well as in the secondary legislation issued thereunder establishes new regulations regarding provision of investment services. The European Union provisions impose the duties relating to, inter alia, investor protection and market transparency on the financial market entities.
The Act on amending certain acts to prevent the use of the financial sector for tax frauds of 24 November 2017	Most of the provisions of the Act took effect on 13 January 2018. The Act specifies transition periods for the banks to adapt to the new duties.	The Act provides for the Head of the National Revenue Administration analysing the risk of the banks being used to commit tax crimes. To that end, he or she will use the analysis prepared by the National Clearing House which will determine in its ICT system the risk ratios on the basis of the data obtained from banks and credit unions.
Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data	The Regulation takes effect as of 25 May 2018.	The General Data Protection Regulation constitutes a new, comprehensive regulation pertaining to the processing of the personal data of natural persons by entrepreneurs. The new provisions set out the principles of personal data protection, the rights of data subjects, the duties of the controller and the processor as well as the competence of regulators. The regulation creates the duty to report incidents and infringement upon personal data protection to supervisory bodies.

The Act of on amendment to the Value-Added Tax Law and certain other acts of 15 December 2017	1 July 2018	The amendment introduces the so-called split payment mechanism for the Value-Added Tax. Under the solution, the payment for the goods or services purchased is made in such a way that the payment corresponding to the net sales value is remitted by the buyer to the clearing account or it is settled differently, while the rest of the payment being the VAT amount is remitted to a dedicated bank account – i.e. VAT account. It entails the banks' duties to maintain the VAT accounts.
Insurance Distribution Act of 15 December 2017	28 February 2018	The new provisions result from the implementation of Directive 2016/97 on insurance distribution. The Act covers the duties of the insurance distributing entities. It provides for, in particular, the disclosure duties towards clients, an adequate remuneration system and training duties.
Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market	The Directive awaits implementation into Polish law.	The PSD II establishes new regulations regarding provision of payment services. The provisions of the directive introduce, among others, the duty to use the so-called strong user authentication mechanism by payment services providers. Moreover, the distribution of the responsibility between banks and users for unauthorised payment transactions will be changed.
Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing	The Directive awaits implementation into Polish law.	The anti-money laundering directive (AMLD) introduces, inter alia, wider duties relating to the banks' assessing the money laundering and terrorist financing risk, including the amendments to the procedure of using the financial security measures. It also provides for introducing the register of information on corporate persons' ultimate beneficial owners and other legal entities.
The Recommendation Z on the internal governance principles at banks		The PFSA draft recommendation is a collection of good practices as regards the internal governance principles. Internal governance includes but is not limited to the bank management system, bank organisation, operating mode, rights, duties and responsibility as well as mutual relations between the supervisory board, management board and key function holders at a bank.

Changes to capital requirements

In November 2017, the PFSA issued a stance on minimum capital ratios. As of 1 January 2018, banks in Poland should maintain minimum capital ratios in line with the following:

- Total Capital Ratio (TCR) at: 8% + add-on + combined buffer requirement,
- Tier 1 ratio (T1) at: 6% + 75%*add-on + combined buffer requirement,
- Common Equity Tier 1 ratio (CET1) at: 4.5% + 56%*add-on + combined buffer requirement.

Whereas, the combined buffer requirement is a total of:

- capital conservation buffer,

The capital conservation buffer was instituted in 2016 under the Act on macroprudential supervision over the financial system and crisis management in the financial system. In 2016-2017, it was 1.25%; in 2018, it went up to 1.875%; and as of the beginning of 2019, it will settle at 2.5%.

- countercyclical capital buffer,
Under the Act on macroprudential supervision over the financial system and crisis management in the financial system, it amounts to 0% at present.
- buffer of other systemically-important institution,
At the end of 2017, the PFSA updated the list of banks which were deemed by it systemically important institutions. Currently, it features 12 banks (10 commercial banks and 2 cooperative banks). These institutions were charged with a capital add-on both at the consolidated and stand-alone levels. The imposed buffer (O-SII) cap is 2%. The PFSA decided to impose buffers of 0% – for cooperative banks – up to 0.75% for two commercial banks. Five commercial banks were assigned a buffer of 0.25%, and the other three commercial banks (ING Bank Śląski S.A. included) 0.5%. For more details, please visit the PFSA website at: https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_OSII_2017.pdf.
- systemic risk buffer.
The systemic risk buffer has been effective since 1 January 2018. It was introduced by the Regulation of the Minister for Economic Development and Finance on systemic risk buffer of 1 September 2017. Its current value is 3%.

The PFSA also monitors the banks' exposure under FX mortgage loans. Institutions with material exposure need to meet a higher capital requirement (separately at the consolidated level and separate level). Best quality capitals (Tier 1) need to account for at least 75% of this requirement. The PFSA did not impose that requirement on ING Bank Śląski S.A.

For the ING Bank Śląski S.A. Group, the above-referred requirements mean the following minimum ratios:

- CET1 \geq 9.875% (as of 2019: 10.5%),
- T1 \geq 11.375% (as of 2019: 12.0%),
- TCR \geq 13.375% (as of 2019: 14.0%).

Ongoing restructuring of the credit unions (SKOK) and cooperative banks sector

Ensuring the security of deposits built up within the banking sector in a broad sense has been invariably one of the priorities of both the sector and sector regulators. What is important, not only in the eyes of clients but also in keeping with Polish law, the savings deposited with both commercial banks (such as ING Bank Śląski S.A.) and cooperative banks or credit unions provide the same security. They are all covered by uniform Bank Guarantee Fund guarantees.

In 2017, the PFSA together with the BGF continued the restructuring of the credit unions sector. In 2017, their number went down by six to a total of 35 credit unions as at yearend. Four of them filed for bankruptcy, which entailed the necessity to pay out approximately PLN 550 million worth of guarantees by the BGF. Two subsequent credit unions were taken over by banks, Bieszczadzka SKOK by ING Bank Śląski S.A. and Lubuska SKOK by Bank Spółdzielczy in Wschów. At the beginning of 2018, SKOK Bogdanka – in accordance with the PFSA decision of 6 February 2018 – was taken over by SKOK Kozienice. In other three credit unions, the compulsory administration was still operating.

As regards cooperative banks, their number over 2017 dropped by 5 banks to 550 as at yearend. The restructuring of these five cooperative banks was conducted within the sector – they were all taken over by other cooperative banks.

Gross Domestic Product

2017 was a year of a material economic revival. The GDP growth accelerated from 2.7% y/y in Q4 2016 to over 5% y/y in Q4 2017 (throughout 2017, the GDP rose by 4.5% y/y). It was mainly driven by the households consumption expenditures which grew fast and were boosted by a good situation of the labour market as well as by the 500+ programme benefits. The impact of the latter proved stronger and more sustained than the expectations. Investment projects rebounded markedly only in H2 2017 and notably in Q4 2017 (up by 11.4% y/y vis-à-vis 3.3% y/y in Q3 2017). This was due to the finalisation of investment projects in the power sector and outlays on road and local government infrastructure. Company investments also went up in that period, as proven by higher loans awarded to businesses.

Economists at our bank expect a growth of GDP in 2018 to remain elevated (4.4% y/y versus 4.5% y/y in 2017). To a lesser extent, it will be driven by consumption and to a larger extent by investment. It will be boosted by the accelerated absorption of EU funds and rebound in private investment (output capacity of companies is close to zero). Investment projects co-financed with the EU will reach high nominal levels (rebound of their dynamics in 2017 is rather caused by the low base effect from 2016). Payments for the beneficiaries of the EU funds paid out by BGK will total around PLN 40 billion over the year, or 33% more than in 2017. As a result, the growth rate of investment in non-current assets will exceed 8% y/y versus 5.4% y/y in 2017. Other factors of a good economic situation are: a high increase in wages and a favourable economic situation of Poland's key trade partners.

Macroeconomic projections

	2013	2014	2015	2016	2017	2018F	2019F
GDP growth (%)	1.4	3.3	3.8	2.9	4.5	4.4	3.6
General government debt as per the EU methodology (% of GDP)	55.7	50.2	51.1	54.1	52.0	50.2	48.8
Producer Price Index growth (%)	2.3	3.4	4.9	3.0	6.5	4.7	3.8
Average annual inflation (CPI) (%)	0.9	0.0	-0.9	-0.6	2.0	2.0	2.7
Unemployment rate (%)	13.4	11.4	9.7	8.3	6.6	5.5	5.4
USD/PLN exchange rate (yearend)	3.01	3.51	3.90	4.18	3.48	3.15	3.07
EUR/PLN exchange rate (yearend)	4.15	4.27	4.26	4.42	4.17	4.10	4.15
3M WIBOR (yearend)	3.0	2.5	1.7	1.7	1.7	1.7	2.0

Low interest rate landscape

A significant factor of the Bank's activity in 2017, as the year before, was sustained low level of interest rates. The NBP reference rate stood at 1.5% throughout the year and the Monetary Policy Council (MPC) underscored no need to tighten up the monetary policy. Conducive to that position was a mild course of the CPI inflation which oscillated around 2% in 2017 and only in one month, namely November, reached the NBP inflation target (2.5%). The main inflation factor were growing food and fuel prices, while the fast growth in wages (above 7% y/y in Q4 2017) only slightly affected the core inflation.

ING Bank Śląski S.A. economists take the view that in 2018 the MPC will keep the interest rates unchanged. One may expect that the rates will move upwards only in H1 2019. Stabilisation of inflation around 2% y/y, that is below the NBP target (2.5%), will favour maintaining of the present monetary policy. Bank economists are of the opinion that in 2018 the food price inflation will go down, following the trend already visible in international markets. On the other hand, the sustained high pay pressure in Poland as well as the pay pressure abroad (among others, as a result of environmental reforms in China) will cause an increase in the core inflation. However, its impact on the key inflation rate will be limited due to a rise in output and the low inflation imported from the Eurozone.

It is also worth highlighting that good market conditions in Eurozone and US economies have, so far,

only slightly translated into the global inflation growth because of a high level of unutilised workforce following the former crisis, the services market having become more international as well as the cheap USD. As a result, the European Central Bank is slowly closing the asset purchase programme (according to ING projections, it will be closed only in Q4 2018) and is putting off the interest rate increases until 2019. In turn, the Federal Reserve has been systematically raising the interest rates – as per ING Group's forecasts, their growth is assumed at 75 bp in 2018 (up to 2.25%).

Condition of public finance

The fiscal situation of Poland is systematically improving thanks to good economic situation and tightening up of the fiscal system, in particular in the VAT domain. This is how, in 2017, we managed to lower the structural deficit by 0.9 p.p. (to 2.3% of GDP). Yet, arrival at the medium-term monetary objective in the fiscal area (deficit at 1% of GDP) seems far away. The period of the upturn in the economy was not used appropriately to prepare for the future cyclical deterioration in the public finance. ING economists expect that 2018 will see further balancing of public finance, while the structural deficit will fall below 2% of GDP. This will be possible due to continued tightening up of the fiscal system. From the beginning of 2018, small- and microenterprises were required to fill in the so-called uniform control file which facilitates fiscal control. VAT split payment will take effect mid-2018 in selected sectors. Better fiscal situation of Poland translates into its lower credit risk.

The tensions between the European Commission and Poland (activation of Article 7, among others) and the fears about the institutional landscape affect our ratings to a limited degree so far. An unfavourable perception among the Western economies may adversely impact Poland's access to EU funds budgeted for 2021-2027.

International business landscape

US and European economies entered the path of a faster growth and will most probably go over the potential output. In the Eurozone, one could notice better sentiments in H2 2017 among all EU member states, outliers included. Still, a higher GDP growth rate is not accompanied by government or private debt reduction in the countries sustaining the major difficulties (Greece, Portugal and Italy). Fiscal problems will most probably steer the European Central Bank into deferring the monetary policy normalisation.

Contrary to the anxieties, political changes in H2 2017 were relatively moderate. Still, they revealed a significant fragmentation of political systems, among others:

- in Germany where the CDU/CSU-SPD coalition formed a new government,
- in the Czech Republic, the ANO movement has problems with government formation,
- still unresolved dispute with the Catalan authorities,
- outcome of the Italian parliamentary elections (March 2018) will most probably preclude formation of the government that would be strong enough to institute structural reforms.

A high uncertainty also accompanies Brexit negotiations – the final outcome of the negotiations is unknown yet, but it ranges from the scenario of abandoning the concept of EU exit to the one in which the UK exits the EU without new commercial treaties.

The risk of trade war between the US, China, NAFTA members and Germany is the second source of concern. The activities of the Donald Trump's administration to date, e.g. imposition of a duty on solar panels and household equipment from China triggered verbal action on the part of Beijing (announcement to curb the share of USD-denominated assets in the reserves of the People's Bank of China). Further conflict escalation may entail world growth outlook deterioration.

Despite a short-term adjustment on the world trading floors, stock prices still remain high vis-à-vis the results recorded by companies. Credit expansion of American companies plus the situation in the real property market in the US and Europe – where prices go considerably beyond the inflation growth rate

and in some cases beyond salary rises – cause more and more concerns.

Further, financial markets are very sensitive to a potential leap in inflation and interest in the US. Earlier expansive policy of central banks and low rates forced multiple financial institutions (pension funds and insurers, for example) to invest in assets of above-standard risk profile. Should inflation increase or should the expected rate path change considerably, then revaluation of some markets of assets may affect large financial institutions outside the banking sector and threaten the stability of the global financial system.

Challenges to the financial sector

Market megatrends are the factors that impact the future of our bank. We refer to them in the business strategy and CSR assumptions, and also in the value creation model.

We realize that technological progress entails digitalisation of banking services, and that is followed by new channels of interaction with clients and a greater significance of network security. New needs of clients call for a personalised approach. Due to these factors, we need to focus on banking services from the aspect of experience that we offer to clients. Therefore, it is customer experience that determines the technological solutions we implement at our bank. We rely on availability, speed and intuitiveness plus readability and simplicity of communication, as well as customer privacy.

Poles' poor financial awareness is still – despite the passing years – a key challenge to the market. We feel responsible for the financial education of our clients. That is why, we offer them such solutions like, among others, the Moje ING system, which are a springboard for taking independent and informed financial decisions.

We also recognise the market opportunities and needs associated with the environmental protection. We concentrate on responsible investing by ensuring adequate assessment of the environmental and social risks of large investment projects (in keeping with the international Equator Principles).

The need to react flexibly to market developments combined with growing competition sets requirements for the workplace area. To attract and maintain employees and, at the same time, take care of the competitive quality of human capital, we count not only on the friendly workplace but also on the way of working based on innovativeness

2. Value creation model

Together with the Management Board and senior leaders, we have developed a detailed value creation model. It was built on the basis of the International Integrated Reporting Council's (IIRC) methodology.

The value creation model is our reply to the questions about: what value we create for our clients, shareholders, employees and social environment and how it is measured and maximised. All this is to help us constantly improve the strategic management of our organisation. After all, we are a part of the ecosystem around us, where all its elements strongly influence one another.

When developing the value creation model, we analysed the organisation's potential, our operating expenses and the results and effects we achieve from the financial and non-financial capital perspective. Like any banking institution, we invest our resources, which translates into notable benefits, such as: capital accumulation and improvement.

Employed capital

In our value creation model, we identify the following kinds of capital:

1. human capital – our employees, their knowledge, competence and engagement. It also encompasses our clients that cooperate with us in developing our products and services.

Key characteristics:

- The Group headcount was 8,032 persons (2016: 8,025).

- Nearly 6 thousand employees participated in the OHI survey in 2017.
 - Average length of service was 12.2 years; 15.4 years for managers (2016: 11.4 and 15.4 years, respectively).
 - Number of projects developed together with our clients:
 - In the accelerator formula – 8,
 - PACE Everyday – 7,
 - PACE Upskilling – 7.
2. financial capital – we understand it as the funds entrusted to us by clients, the capital contributed by shareholders and bondholders as well as the financial results of our Bank.
- Key characteristics:
- Worth of accumulated deposits – PLN 104.5 billion (2016: PLN 95.8 billion).
 - Worth of equity – PLN 11.8 billion (2016: PLN 10.5 billion).
 - Net profit attributable to Bank shareholders – PLN 1,403.1 million (2016: PLN 1,253.0 million).
 - Return on equity (ROE) – 12.6% (2016: 11.7%).
3. intellectual capital – it encompasses our skills and knowledge which we employ to create cutting-edge products and services which respond to current and future needs of clients.
- Key characteristics:
- During 2016 and 2017, an Innovation Bootcamp was held – 119 ideas enrolled came from Poland (out of 787 sent by all ING Group entities). In TOP 100, 20 ideas from Poland were found (in TOP 22 – 3).
 - 8 teams, 26 participants and 10 experts (PACE Coach + Service Designer) took part in the second round of the Accelerator programme at the Bank.
 - We work in line with the Agile methodology – 1.1 thousand persons divided into over 110 scrums structured within 15 tribes.
 - In a year, every employee devotes 34 hours for training, on average (2016: 32 hours).
4. environment capital – it is natural environment which we impact mainly indirectly by the ventures funded by us. We try to minimise our direct environmental footprint.
- Key characteristics:
- 92% of agreements with business partners contain a natural environment clause (2016: 92%).
 - All corporate projects (as part of the Fast Track and Normal Track) were assessed for compliance with the ESR policy (2016: 100%).
 - Since 2016, 100% of energy purchased by our bank has come from renewable resources.
5. social capital – it betokens relationships with stakeholders from our circle: clients, employees, suppliers, local communities as well as social and charity organisations.
- Key characteristics:
- Number of customers – 4.6 million (2016: 4.3 million).
 - Two corporate foundations: ING for Children Foundation and ING Polish Art Foundation.
 - Number of hours devoted by employees to voluntary activity – 4.9 thousand (2016: 4.2 thousand).

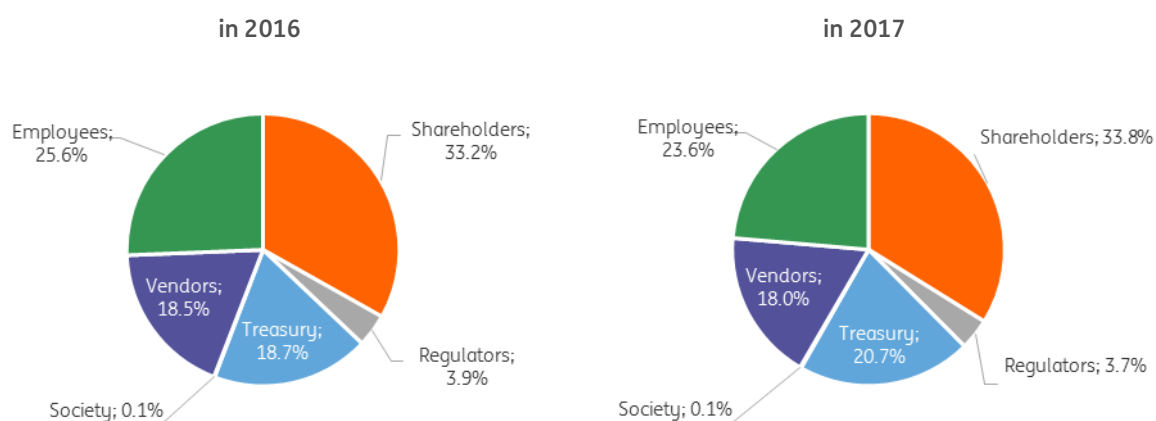
- Number of qualified suppliers – 452 (2016: 316).

Cash income distribution

We inspire development of our landscape directly and indirectly. We do it by distributing funds, the so-called cash income (understood as income less amortization/depreciation and risk costs).

Cash income						
	2017	2016	2015	2014	2013	Change 2017 / 2016
	PLN million					
Cash income	4,152.4	3,813.3	3,356.8	3,102.0	2,897.3	8.9%
Net interest income	3,452.8	2,953.4	2,467.1	2,330.2	2,042.6	16.9%
Net commission income	1,182.8	1,064.8	1,017.2	1,062.9	1,021.9	11.1%
Other income	120.3	306.3	293.8	151.7	264.0	-60.7%
Amortisation and depreciation	-182.3	-210.6	-189.2	-175.1	-164.0	-13.4%
Risk costs	-421.2	-300.6	-232.1	-267.7	-267.2	40.1%

Cash income distribution among stakeholders



Value creation model



 How our Bank works?

Easy saving, easy lending

Our role is to enable safe and efficient money saving. The deposits entrusted by one group of clients enable us to lend to other clients. Thanks to banking credit facilities, society and economy are able to develop. It is funding from ING Bank Śląski S.A. with which clients may buy apartments, start business or invest in their companies to expand.

Payments and transactions


Efficient payment system organisation is among our top responsibilities. Since clients gradually resign from cash, an efficient electronic payment system gains in significance at the same time.

At ING, we offer our clients the transaction banking service and we also process card payments, transfers and direct debits, etc.

Customer experience

We help our clients see to their financial future – we assist them in taking important decisions, facilitate their understanding of the financial situation and process their transactions fast and accurately.

Our employees use their knowledge to prepare the best solutions possible for clients.

 Customer experience
 Human, financial, intellectual and social capital

Availability, speed and intuitiveness

We provide clients with easy and fast account access via any channel and from any device. We facilitate communication with the Bank and reckon with the needs of people with disabilities.

How did we measure it in 2017?

- 357 branches and 66 ING Express points of sale (2016: 384 and 65, respectively).
- We provide sign language services at all branches (2016: 100%).
- 1,081 ATMs, including 876 processing NFC-enabled withdrawals (2016: 1,145 and 773, respectively).
- 99.9% of transfers placed by the electronic banking (2016: 99.6%).
- 99.8% of online service platform availability (2016: 99.9%).
- 46.9% of retail clients actively used electronic banking in Q4 2017 (Q4 2016: 44.8%).
- 29.5% of corporate clients use mobile banking (2016: 24.9%).
- The average speed of answer by the Contact Centre advisor was 20 seconds (2016: 24 seconds).
- 80% of problems solved in the first call resolution mode by the Contact Centre (2016: 82%).
- Contact Centre published 52 thousand responses on Facebook (2016: 24 thousand).
- We resolved 56% of complaints within 24h (2016: 64%).

Dialogue and plain communication

We listen to our clients. Their feedback helps us to implement new solutions, products and application features and to change our branches. Even banks can write not using banking lingo or official phrasing. We write our texts in plain language so that clients can understand the content on the spot.

How did we measure it in 2017?

- Over 1.4 thousand messages and documents rewritten using plain language rules since the beginning of the project in November 2015 (2016: over 800).
- NPS for Retail – 31 (2016: 33).
- NPS for Mid and Big Companies – 36 (2016: 37).
- 214 thousand followers of ING Bank Śląski S.A. on Facebook (2016: 192 thousand).
- 80 thousand users visiting the ING Community website every month (2016: 55 thousand).
- Number of projects developed together with our clients:
 - in the accelerator formula – 8,
 - PACE Everyday – 7,
 - PACE Upskilling – 7.

Independent and informed choices

We guide our clients towards making autonomous and informed financial decisions – financial education programmes and technology solutions offered by the Bank help them in it.

How did we measure it in 2017?

- 94.6 thousand clients used the Money Coach module and received hints about their finance (2016: 3 thousand).
- 82.1 thousand retail clients had a regular investment instruction (2016: 66.3 thousand).
- We had over 18.3 thousand active brokerage accounts (2016: 12.5 thousand).
- We had over 125 thousand retail users of online Currency exchange module who effected over 433 thousand transactions.

- We had 8.0 thousand corporate users of online Currency exchange module who effected 226.5 thousand transactions.
- Retail clients pinned over 54 thousand multicurrency cards to FX accounts.
- We organised 4 educational webinars for retail clients with the total number of as many as 3.6 million views.
- 20 regional and sector meetings for corporate clients (2016: 70 meetings).
- In 2017, we conducted 313 lessons as part of BAKCYL initiative (2016: 106 lessons).

Market trends and challenges that we observe in the Customer experience area

- Technology advancement.
- Digitalisation of banking services.
- New interaction channels.
- New clients' needs.
- Personalised client approach.
- Poor finance awareness on the part of the society.
- Growing non-banking sector competition (telecoms, social networks, shadow banks).

More information

More information on Customer experience may be found on page 83 in Chapter "Customer experience".



Market and entrepreneurship development support

Human, financial, intellectual and social capital

Access to funding

We develop electronic funding requesting channels. We take credit decisions competently.

How did we measure it in 2017?

- We awarded PLN 6.7 billion worth of mortgage loans reaching 15.3% of the market share (2016: PLN 5.7 billion and 13.9%, respectively).
- We awarded 249 thousand cash loans (63.2% of them via electronic channel) totalling PLN 4.3 billion (2016: 249 thousand, 41.4% and PLN 3.9 billion, respectively).
- We awarded 19.7% of cash loans in the retail segment under pre-approved offer (2016: 10.1%).
- During the pilot of Easy Lending we granted 600 loans to mid and big companies.
- 10.7% market share in corporate loans (2016: 10.5%).
- Share of online credit applications in the corporate segment was 93.1% (2016: 91.2%).
- 15.0% market share in factoring (2016: 15.4%).
- 5.5% market share as regards the amount of lease agreements made and assets provided (2016: 5.2%).
- The average duration of the Fast Track process to the decision with limits was 1.69 working days (2016: 1.98).

Facilities for companies and entrepreneurs

In our activities, we go beyond traditional banking. We create platforms to empower our clients demonstrating business acumen in their development.

How did we measure it in 2017?

- 1.7 thousand factoring clients (2016: 1.5 thousand).
- 2.0 million factoring-funded invoices (2016: 1.5 million).
- 17.8 thousand leasing clients (2016: 13.6 thousand).
- 140 depositories, 72 light depositories, 23 mini CDMs, 6 micro CDMs and 15 automatic tills (2016: 137, 41, 14, 2 and 15, respectively).
- We mounted 2.5 thousand POS terminals where 944 thousand transactions were effected.
- 65 thousand users of Aleo transactional platform (2016: 57 thousand).

Economy digitalisation

We propagate cutting-edge solutions and support digitalisation of economy.

How did we measure it in 2017?

- Approximately 80 thousand applications for 500+ benefit filed (2016: 73 thousand).
- 127 thousand users of the trusted profile which was used 223 thousand times (2016: 7 thousand and 2 thousand, respectively).
- Over 951 thousand BLIK users (2016: 595 thousand).
- Nearly 2.1 million BLIK online transactions (2016: 276 thousand).

Market trends and challenges that we observe in the Market and entrepreneurship development support area

- No regulatory stability.
- Higher products and services costs.
- Risk of lower profitability.

More information

More information on Market and entrepreneurship development support may be found on page 96 in Chapter “Market and entrepreneurship development support”.



Customer safety

Human and intellectual capital

Transaction security and IT system stability

We ensure safe and stable IT systems which enable the clients to safely use their finance.

How did we measure it in 2017?

- The percentage of employees trained in security aspects:
 - 93% in information security (2016: 98%),
 - 97% in Compliance (2016: 98%),
 - 98% in fraud prevention (2016: 94%),

- 91% in operational risk (2016: 90%).
- 99.8% of online service platform availability (2016: 99.9%).
- In 2017, we made 5 calls and sent 8 text messages communicating suspicions of unauthorised transaction on average each day (in 2015-2016: average of 5 and 8, respectively).

Personal data security

We care for digital and physical security of all entrusted data. We educate our clients and employees. How did we measure it in 2017?

- No substantiated complaints about breach of customer privacy (2016: 0).
- 100% employees trained in personal data security (2016: 95%).

Market trends and challenges that we observe in the Client safety area

- Technology advancement.
- Digitalisation of banking services.
- Network security more important.

More information

More information on Client safety may be found on page 108 in Chapter “Bank and client safety”.



Way of working

Human, intellectual and social capital

Sound Employer

We create a friendly and diversity-oriented workplace. We regularly ask employees about their job satisfaction.

How did we measure it in 2017?

- Sustainable employee engagement ratio – 85% in 2016.
- Nearly 6 thousand employees participated in the OHI survey in 2017.
- Remuneration of the bottom-level employees vis-à-vis the market – 143% (2016: 104%).
- Women account for 52% of employees being managers (2016: 52%).
- Average length of service was 12.2 years; 15.4 years for managers (2016: 11.4 and 15.4 years, respectively).

Culture of innovation

We encourage our employees to experiment when creating and developing products. We also engage clients in this process in keeping with the PACE methodology. We work according to the Agile methodology.

How did we measure it in 2017?

- During 2016 and 2017, an Innovation Bootcamp was held – 119 ideas enrolled came from Poland (out of 787 sent by all ING Group entities). In TOP 100, there were 20 ideas from Poland (in TOP 22 – 3).
- 550 employees trained in PACE methodology (2016: 225) during 52 PACE training courses.

- We organised 2 Startup Demodays where we invited 15 start-ups.
- We work in line with the Agile methodology – 1.1 thousand persons divided into over 110 scrums structured within 15 tribes.
- 8 teams, 26 participants and 10 experts (PACE Coach + Service Designer) took part in the second round of the Accelerator programme at the Bank.

Competent employees

We believe that we need to support our employees in their development to keep pace with the changing landscape.

How did we measure it in 2017?

- In a year, every employee devotes 34 hours for training, on average (2016: 32 hours).
- There are, on average, 18 development actions per employee (2016: 15).
- 99.9% of employees took part in at least one (on-site or e-learning) training course (2016: 99.95%).
- 55% of line managers and 62% of specialists were trained in Moje ING assistance, 50% of line managers and 63% of specialists were trained in transaction assistance.

Market trends and challenges that we observe in the Way of working area

- We need to respond fast to changes and growing competition.

More information

More information on Way of working may be found on page 136 in Chapter “Way of working”.



Stability and predictability

Financial, environmental and social capital

Consistent and stable growth

We are consistently pursuing our business strategy. We keep deposits safe and seek to bring yields to shareholders.

How did we measure it in 2017?

- Cost to Income ratio – 44.6% (2016: 48.5%).
- Return on equity – 12.6% (2016: 11.7%).
- Loan to Deposit ratio – 83.8% (2016: 81.5%).
- Market share in loans – 7.7% (2016: 7.0%).
- Market share in deposits – 9.0% (2016: 8.6%).
- Total Capital ratio (TCR) – 16.7% (2016: 14.7%).

Responsible investing

We invest the deposits entrusted in a responsible manner. When making credit decisions, we reckon with social and environmental aspects.

How did we measure it in 2017?

- Risk costs margin – 0.50% (2016: 0.40%).

- Share of impaired loans – 2.8% (2016: 2.6%).
- Loan loss provisioning ratio – 57.1% (2016: 60.4%).
- 92% of agreements with business partners contain a natural environment clause (2016: 92%).
- All corporate projects (as part of the Fast Track and Normal Track) were assessed for compliance with the ESR policy (2016: 100%).

Market trends and challenges that we observe in the Stability and predictability area

- Uncertain market situation.
- Low interest rates.
- Increasing number of financial sector regulations.
- Financial markets volatility.
- Environment protection-related market opportunities and needs (low carbon economy, circular economy, sector policies).

More information

More information on Stability and predictability may be found on page 57 in Chapter “Our financial results” and on page 96 in Chapter “Market and entrepreneurship development support”.

3. ING Bank Śląski S.A. business strategy

In 2014, ING Group implemented the Think Forward strategy. We want to be perceived as a bank of the future for the enterprising. The one that delivers practical solutions to its clients – the solutions they need and will be willing to use.

Our clients as well as the audience of our commercials probably associate us with the catchphrase: “It’s the people that count”. And that’s right, as we want people to be able to pursue their goals with our support. Often, we help them even become aware of and name their goals.

In practice, it means that – thinking of our clients and their satisfaction – we simplify our actions and how we communicate. We enhance our availability by putting the emphasis on the latitude of contact forms and times when the client may reach us. We are an organisation of committed people who derive satisfaction from improving themselves. And also from supporting our clients in their development. We want them to make informed choices.



Our promises

Clear and easy banking

We talk and write to our clients in a clear fashion: without any banking lingo or legal intricacies. We simplify agreements and avoid asterisks. We create accessible online solutions.

We are there for you anytime, anywhere

We give our clients access to services from any device and at any day or night time. We rebuild our branches and adapt cash machines to client needs.

We empower people

We educate clients, advise them and share knowledge with them. Our advisors assist clients in taking decisions. We develop innovative platforms and tools to streamline finance management.

We keep getting better

Together with the clients we search for new solutions and improvements. We automate our internal systems. We engage all employees in searching for room for improvement.

Strategic priorities

We want to be the primary bank for our clients

Clients are at the centre of our actions. We care about it that they are numerous and feel attached to us. We will be the primary bank for them only if they are satisfied with us and if it is with us that they find answers to their problems. We know that we can ensure them a lasting and good relationship if, at the same time, we look after our financial strength and stable infrastructure.

We develop our competence to understand clients better

Creation of new solutions is the basic task of our organisation. That is why, we are looking for a new way of working. The method that will be optimal for the organisation composed of ambitious and committed people who care about their own and others' development. The method that will get clients even more involved in the process of creating and modifying products.

We implement innovations so as to meet client needs

We watch changes carefully and strive to use them in many areas. We turn them into products and services which are developed together with clients. We implement state-of-the-art technologies, but we remember that clients must find the technology both useful and safe.

We think beyond banking to develop new services and business models

ING Bank Śląski S.A. is not only about deposits and loans. We provide clients with a comprehensive view of their finance and offer them the solutions that go beyond the traditional banking.

Execution of strategic priorities for 2017

As part of the business strategy implementation, we identified several key areas of focus for 2017. The table below presents the results of priorities' implementation:

Our 2017 priorities

Priority	Enabler	Deliverables
Secure Bank	Optimal and stable balance sheet	Increase in net receivables from customers of PLN 9.5 billion or 12.1% y/y. LTD ratio up by +2.3 p.p. y/y to 83.8%. The share of current accounts in the deposits structure grew +2.8 p.p. y/y to 31.4%. Total Capital ratio increase of +2.0 p.p. y/y to 16.7%.
Open for everyone	Higher number of clients	408.1 thousand new retail clients gross. Over 4.5 million retail clients (+260.5 thousand y/y). 55.5 thousand corporate clients (+6.9 thousand y/y).
Modern and innovative	Digital technology leader	Share of online sale of retail cash loans was 66.2% (41.4% in 2016). Share of online credit applications in the corporate segment was 93.1% (91.2% in 2016).
Fit and reliable	High operating effectiveness	Cost to income ratio went down by -3.9 p.p. y/y to 44.6%. Return on equity (ROE) improved by +0.9 p.p. y/y to 12.6%. Commercial balance per FTE went up by +10.3% y/y to PLN 24.3 million.
It's the people that count	Sound employer	For the eleventh time we were qualified to Respect Index. We received the Top Employers certificate for the eighth time. Nearly 6 thousand employees participated in the OHI survey in 2017.

Strategic priorities and main risks in 2018

Our strategic priorities for 2018

- Increase in the number of clients supported by digital solutions and high client satisfaction.
- Motivated employees, engaged in implementation of the Bank strategy.
- Leader in artificial intelligence use and data management.
- Optimal and stable balance sheet.
- Operating effectiveness improvement.

Risks to business strategy implementation in 2018

- New regulations and practices aimed at enhanced client interest protection.
- Capital adequacy changes.
- Primary account introduction.
- Regulations on restructuring FX mortgage portfolio.
- Split payment implementation.

4. *ING Bank Śląski S.A. sustainability strategy*

On 30 May 2017, the Management Board adopted the Sustainability Strategy of ING Bank Śląski S.A. for 2017-2019 that we immediately started to implement. After 6 months, we summarised the first effects. It turned out that within this short period we already managed to achieve the majority of the objectives set by 2019.

At the end of 2017, we decided to include the sustainability strategy in the business strategy. Additionally, we wanted for the strategy to be easily communicable both to employees and external stakeholders. We want our employees to be actively involved in strategy implementation.

All those elements led us to the decision on strategy simplification and setting of new objectives. We started the process in December 2017.

However, due to the fact that the strategy for 2017-2019 was already implemented to a major extent, we present its results.

5. *Implementation of ING Bank Śląski S.A. sustainability strategy*

Chief directions of the Sustainability Strategy for 2017-2019:

- We involve people in financial education, which should help them better cope in life and in business.
- We support enterprising people in fulfilling their plans.
- We remove barriers hindering access to banking services.
- We ensure secure services digitalisation.
- We support our business clients and partners in sustainable running of their business.

Direction: We involve as many people as possible in financial education, so they can better cope in life and in business.

Measures (specific objectives for 2019) – versus 2016	To be acted on by 2017 yearend
Brand attribute “ING helps take better financial decisions” at TOP 2 level	As at 2017 yearend, brand attribute at TOP 2 level in the CAPI survey and at TOP 1 at the CAWI survey.
Customer satisfaction maintenance: TOP 1 in NPS global, NPS Service Quality at Branch at 60%	In 2017, we reached a very good result of 59%. In January 2018, we will modify the survey to better adjust it to our priorities and way of working, and so that we can better listen to the voice of clients.
Maintenance of corporate and strategic clients' satisfaction, higher NPS	In 2016, we started to regularly analyse the NPS indicators for selected services and processes, adding successively client-Bank points of contact: account opening, online banking usage, contact with the telephone support Business Centre. The percentage of companies assessing co-operation with the Bank at least at the level of 8 (8, 9 and 10) in the scale from 1-10 was 75% versus 76% in 2016. However, it was higher than the market by 12%. NPS in the mid and big companies sub-segment remained flat at 36, versus 37 in 2016.
Zero tolerance for mis-selling. No such practices at the Bank; measure: maintaining a very negligible number of complaints from retail and corporate clients on mis-selling.	We maintained a negligible number of mis-selling-related complaints. In 2017, these complaints represented 0.05% of all complaints from retail and corporate clients (0.04% in 2016).
Increase in the number of educational actions' beneficiaries	Partnerships with organisations specialising in financial education of children and youths. In 2017, we started to cooperate with the Center for Citizenship Education within the Entrepreneurial Youth programme. The programme was attended by 610 participants from 130 schools. We supported the programme also in terms of its content by adding a training module on sustainability. As part of the joint programme of the financial services sector Bankers for Financial Education of Teenagers, BAKCYL, organised by the Warsaw Institute of Banking, ING volunteers held 294 lessons for on average 21 participants; it means that lessons were held for 6,111 participants. Our Bank was honoured as a partnership bank for participation in the BAKCYL programme during the first Financial Education Congress on 28 March 2017. The most active volunteers that held over 20 lessons were also recognised. In cooperation with another partner- Spring Association – we delivered two programmes: <ul style="list-style-type: none"> ● Noble Box – 1,370 trained volunteers, 103 training courses; in the programme volunteers worked with families on developing family budget planning skills. ● Academy of the Future – we were a patron of 10 schools across Poland – to support children development and help them overcome school difficulties. In the voluntary activity competition, organised together with the ING for Children Foundation – Good Idea, in 2017 ING

volunteers organised in total 68 projects, out of which 38 were financial education projects.

Our Bank partnered in international conferences that addressed topics on financial education, modern banking, the economy of value or sustainability – European Economic Congress, Open Eyes Economy, Start-up Days, Impact Fintech. In May 2017, ING Poland organised an international programming marathon that gathered 400 coders under the slogan “how does the open ecosystem of financial services look like”.

Direction: We support enterprising people in fulfilling their plans

Measures (specific objectives for 2019) – versus 2016	To be acted on by 2017 yearend
5% increase in the market share in the entrepreneurs segment	In 2017, market share (measured with the number of clients of mid and big companies holding current accounts) grew by as much as 7%.
Maintaining the acquisition rate for corporate clients	In 2017, we kept the high growth rate for client acquisition. We acquired 11.9 thousand mid and big companies, or 13% more than in 2016.
Brand attribute “ING – bank for the resourceful and enterprising” at TOP 2 level	As at 2017 yearend, brand attribute at TOP 1 level both in the CAPI and CAWI surveys.
Higher number of interactions with clients based on online assistance – direct or remote	We empower clients to use state-of-the-art solutions of online and mobile banking – also when visiting our Bank. In 2017, we offered the innovative customer service model at the branch – “assistance”. As part of this model, clients can buy product on their own and learn new features of Moje ING. Our specialists navigate clients in Moje ING, promote modern payment methods and teach clients how to use ATMs and CDMs. In 2017, nearly 40% of sales at the branch was achieved via “assistance”.
Corporate banking – 50% of remote sales and 90% of remote service	As regards the target of 50% of remote sales, 32.2% of new clients were acquired in a remote channel in 2017 (versus all new clients acquired in 2016). We granted 4.5% of loans in a remote channel in the prescoring process (Easy Lending). As regards 90% of remote service, we managed to reach remote service levels for: cash 83%, new deposit 99%, loans – funds disbursement instruction 54%, loans – loans disbursement/provision instruction 92%, vendor finance 98%, guarantees 33%, letters of credit 93%

Direction: We remove barriers to banking services access

Measures (specific objectives for 2019) – versus 2016	To be acted on by 2017 yearend
<p>Implementation of recommendations obtained from institutions representing the interests of clients with access problems: the blind (WCAG 2.0), the deaf (Polish Association of the Deaf), the physically disabled (Integration Foundation), persons aged 65+ (Polish Bank Association)</p>	<p>In 2017, we implemented a number of recommendations received from institutions representing disadvantaged people. In the branch and non-branch devices we implemented i.e.:</p> <ul style="list-style-type: none"> ● headphone outlet sockets at ATMs (audio) – 143 outside branches, ● machine keyboard with markers (convexly marked keys) – 722 in the network of branches, 359 – outside branches; 1,081 machines with the logo in total, ● Braille alphabet stickers for machine elements (e.g. a card reader, a printer of confirmations) – 124 at branches, 197 outside branches; 321 with the ING logo in total. <p>In 2017, we completed the construction of the new branches and redevelopment of 19 branches in the new visual standard and implemented elements that facilitate visiting Bank’s branches for people with different types of disabilities.</p> <p>We implemented the following facilities for persons on wheelchairs:</p> <ul style="list-style-type: none"> ● for the stairs to the branch at the walkaway level, if it is architectonically feasible, we mount ramps and threshold ramps so that disabled persons can access our branch on their own, ● communication passages with the railings along the ramps and in rest rooms for the disabled, ● if the floors in a building are uneven and if there are thresholds, as long as technically feasible, we mount ramps, ● we are levelling the surface in the bank branches vicinity. <p>Examples of facilities for people with the sight, hearing or speech dysfunction:</p> <ul style="list-style-type: none"> ● proper marking/labelling, ● anti-slip mats, ● sound/beep installations to call in a branch employee, ● colour-based solutions, clear explanation/information to improve the sense of direction and proper lightning.

Training for retail advisors in plain language in communication – target of 90%	<p>In 2017, we implemented the new customer service model that is based on the natural conversation, getting to know the client and their expectations and assistance. We also delivered the “Face to face” project. It was designed to develop solutions that will ensure:</p> <ul style="list-style-type: none"> ● even better client-advisor communication, ● offer customer experience that is in line the brand promise, ● full usage of the new service model potential when contacting the client.
---------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Direction: We ensure secure services digitalization

Measures (specific objectives for 2019) – versus 2016	To be acted on by 2017 yearend
Loss level to sales volume lower every year	In 2017, losses went down 80% versus 2016. This can be attributed to a small number of attacks on online banking users versus 2016 and development of fraud detection rules.
Level of losses by fault of the Bank lower every year and potential loss level decrease – not more than in 2016.	In 2017, keeping a high level of tests discipline, verification of correct functioning of the application, implemented modifications and procedures, we did not incur losses by fault of the Bank.
Voice of customer – number of security-related contacts – no more than in 2016	The number of voices in 2017 was 3,750. Interactions mainly concerned security of personal and business accounts, payment cards, online banking and the internet itself and electronic devices (smartphones, computers). These voices are from various sources. Still, clients most often use the message options in Moje ING, social media and NPS questionnaires.
Increase in internet services sale to 50%	In 2017, the percentage of online loan sales (pcs) for entrepreneurs reached 54% and for individual client 67%. Individual clients opened themselves (online) 20% of accounts. The mobile application is very popular among our clients. Clients very often use the products which are not part of our traditional banking offer in Moje ING, e.g. 500+ application, FX exchange or trusted profile.
The share of ING corporate clients using system configurations recommended by the Bank – not less than in 2016	We take educational- and informational measures for using platforms or software not supported by manufacturers. We also take actions to limit access to systems on non-supported devices, e.g. Windows Phone.

Direction: We support our business clients and partners in sustainable running of their business

Measures (specific objectives for 2019) – versus 2016	To be acted on by 2017 yearend
Limiting the volume of the coal power sector lending portfolio	In 2017, we managed to limit the volume of the coal power sector lending portfolio.
All investments subject to the assessment of the social and environmental impact risk comply with the ESR Policy	Delivery of 100%
Investment projects in ultra-high risk countries comply with the <i>Manual – Procedure for sanction risk assessment and contractual provisions in credit products</i>	<p>In keeping with the <i>Manual – Procedure for sanction risk assessment and contractual provisions in credit products</i>, the Bank did not invest / did not carry out investment projects in ultra-high risk countries. In keeping with the <i>Financial Economic Crime Policy</i>, the Bank neither enters into relationships with clients from ultra-high risk countries nor makes transactions linked with these countries. The foregoing applies both to standard payments and trade finance transactions as well as credit products – the above Manual is applicable in that regard.</p> <p>Based on the risk analysis, the Bank deems the following countries as ultra-high risk countries: Cuba, Iran, North Korea, Sudan and Syria.</p>
100% of suppliers obtain the required status in the supplier qualification process at ING Group	<p>In 2017, in line with in the Procurement Policy, the supplier qualification process continued. The supplier qualification process mitigates the risk of cooperation with suppliers engaged in undesirable criminal, financial or economic practices, including bribery- and corruption-related practices or that are financially, socially or environmentally unsound. The number of qualified suppliers went up locally and globally. As at 2017 yearend, 452 suppliers in the procurement area were assigned the qualified status. In 2017, 151 suppliers were screened, out of which 136 (90%) were qualified positively.</p> <p>Suppliers are qualified on the basis of the adopted criteria that are compliant with the values and ethical principles adopted in the Bank's mission and strategy.</p>

III. Our financial results

1. Consolidated results of ING Bank Śląski S.A. Group

Key financial data

Abridged financial results of ING Bank Śląski S.A. Group for 2013 to 2017

	2017	2016	2015	2014	2013	Change 2017 / 2016
	PLN million					
Income*	4,756	4,325	3,778	3,545	3,329	10.0%
Cost	2,123	2,099	2,156	1,930	1,868	1.1%
Risk cost	421	301	232	268	267	40.1%
Profit before tax	1,882	1,645	1,390	1,347	1,193	14.4%
Net profit**	1,403	1,253	1,127	1,041	961	12.0%
Balance sheet total	126,014	117,478	108,893	99,861	86,751	7.3%
Liabilities to customers	104,503	95,825	87,819	75,659	67,548	9.1%
Net loans and other receivables to customers***	87,524	78,070	68,682	57,131	48,553	12.1%
Equity**	11,795	10,475	10,678	10,454	8,626	12.6%
Earnings per share in PLN	10.78	9.63	8.66	8.00	7.39	12.0%
Dividend per share in PLN	-	0.00	4.40	4.00	4.40	-

*Including net profit of affiliated entities recognised on an equity basis; ** attributable to shareholders of the parent entity; *** Eurobonds excluded

Abridged financial results of ING Bank Śląski S.A. Group for 2013 to 2017

	2017	2016	2015	2014	2013	Change 2017 / 2016
	EUR million					
Income*	1,120	988	903	846	790	13.4%
Cost	500	480	515	461	444	4.2%
Risk cost	99	69	55	64	63	44.4%
Profit before tax	443	376	332	322	283	18.0%
Net profit**	331	286	269	248	228	15.4%
Balance sheet total	30,213	26,555	25,553	23,429	20,918	13.8%
Liabilities to customers	25,055	21,660	20,607	17,751	16,288	15.7%
Net loans and other receivables to customers***	20,984	17,647	16,117	13,404	11,707	18.9%
Equity**	2,828	2,368	2,506	2,453	2,080	19.4%
Earnings per share in PLN	2.54	2.20	2.07	1.91	1.75	15.4%
Dividend per share in PLN	-	0.00	1.05	0.95	1.04	-

*Including net profit of affiliated entities recognised on an equity basis; ** attributable to shareholders of the parent entity; *** Eurobonds excluded

The following exchange rates are used by the Bank to convert the above data into EUR:

- for the statement of financial position items – the exchange rate of the National Bank of Poland as at 31 December,
- for the income statement items – the exchange rate is calculated as the average of the National Bank of Poland's rates effective as at the last day of each month throughout the year.

EUR/PLN exchange rate					
	2017	2016	2015	2014	2013
For statement of financial position items	4.1709	4.4240	4.2615	4.2623	4.1472
For income statement items	4.2447	4.3757	4.1848	4.1893	4.2111

Core effectiveness ratios

Core effectiveness ratios (%)						
	2017	2016	2015	2014	2013	Change 2017 / 2016
C/I ratio	44.6%	48.5%	57.1%	54.4%	56.1%	-3.9 p.p.
C/I ratio – adjusted	44.7%	50.5%	54.2%	54.4%	56.1%	-5.7 p.p.
ROA	1.16%	1.10%	1.07%	1.10%	1.17%	+0.06 p.p.
ROE	12.6%	11.7%	11.0%	11.1%	11.6%	+0.9 p.p.
ROE – adjusted	12.9%	12.8%	12.2%	11.9%	12.0%	+0.1 p.p.
Interest margin ratio	2.94%	2.67%	2.45%	2.67%	2.68%	+0.26 p.p.
LTD ratio	87.2%	85.6%	82.6%	80.7%	77.3%	+1.6 p.p.
LCR	145%	155%	178%	168%	n/a	-10 p.p.
NFSR	122%	124%	124%	114%	n/a	-2 p.p.
LR according to transitional definition	7.68	7.10	6.71	6.61	n/a	+0.58
Total capital ratio	16.7%	14.7%	13.7%	14.2%	17.3%	+2.0 p.p.
Tier I capital ratio	15.8%	13.7%	13.7%	14.2%	16.7%	+2.1 p.p.

Cost to Income ratio (C/I) – adjusted – operating expenses/ total income together with net profit of affiliated entities recognised on an equity basis, excluding the following income: 1) dividends of PLN 82.1 million from ING PTE in Q2 2015, 2) income on sale of ING PTE of PLN 18.4 million in Q3 2015; 3) income of PLN 189.6 million under the VISA Europe transaction in Q2 2016 and 4) income of PLN 11.9 million under the Visa Inc. transaction in Q2 2017 and excluding the following costs: 1) extraordinary contribution to BGF stemming from the bankruptcy of SK Bank (Bank Rzemiosła i Rolnictwa) in Wołomin of PLN 157.4 million in Q4 2015, 2) provision for Mortgage Support Fund contribution of PLN 6.4 million in Q4 2015, 3) extraordinary contribution to BGF under the bankruptcy of the Cooperative Bank in Nadarzyn of PLN 12.2 million in Q4 2016.

Return on Equity (ROE) – adjusted – return on equity excluding the revaluation reserve for the cash-flow hedging instruments – net profit/ average equity for 5 subsequent quarters (excluding the revaluation reserve for the cash-flow hedging instruments).

Income statement

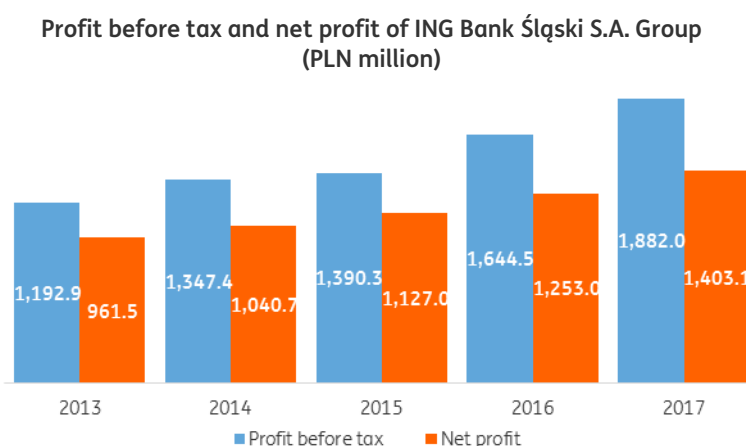
Basic consolidated income statement figures of the ING Bank Śląski S.A. Group for 2017 and changes vis-à-vis 2016 are presented in the table below:

Basic consolidated income statement figures in analytical terms							
	2017	2016	2015	2014	2013	Change 2017 / 2016	
	PLN million					PLN million	%
Net interest income	3,452.8	2,953.4	2,467.1	2,330.2	2,042.6	499.4	16.9%
Net commission income	1,182.8	1,064.8	1,017.2	1,062.9	1,021.9	118.0	11.1%
One-off income*	11.9	189.6	100.5	0.0	0.0	-177.7	-93.7%
Other income	108.4	116.7	193.3	151.7	264.0	-8.3	-7.1%
Total revenue	4,755.9	4,324.5	3,778.1	3,544.8	3,328.5	431.4	10.0%
General and administrative expenses	2,122.6	2,099.2	2,155.7	1,929.7	1,868.4	23.4	1.1%
<i>including one-off costs*</i>	0.0	12.2	163.8	0.0	0.0	-12.2	-100.0%
Impairment losses and provisions	421.2	300.6	232.1	267.7	267.2	120.6	40.1%
Bank levy	330.1	280.2	0.0	0.0	0.0	49.9	17.8%
Profit before tax	1,882.0	1,644.5	1,390.3	1,347.4	1,192.9	237.5	14.4%
Income tax	478.9	391.4	263.2	306.6	231.4	87.5	22.4%
Net profit attributable to non-controlling shareholders	0.0	0.1	0.1	0.1	0.0	-0.1	-100.0%
Net profit	1,403.1	1,253.0	1,127.0	1,040.7	961.5	150.1	12.0%
Adjusted net profit*	1,393.5	1,109.3	1,162.7	1,040.7	961.5	284.2	25.6%

* Income: dividend of PLN 82.1 million from ING PTE in Q2 2015, income of PLN 18.4 million from the disposal of ING PTE shares in Q3 2015 and positive impact of PLN 189.6 million under the Visa Europe transaction in Q2 2016 and positive impact of PLN 11.9 million under the Visa Inc. transaction in Q2 2017; Costs: PLN 157.4 million of extraordinary contribution to BGF stemming from the SK Bank bankruptcy in Q4 2015, PLN 6.4 million of contribution to the Mortgage Support Fund in Q4 2015 and PLN 12.2 million of extraordinary contribution to BGF under the bankruptcy of the Cooperative Bank in Nadarzyn

Profit before tax and net profit

In 2017, the ING Bank Śląski S.A. Group posted the net profit attributable to the shareholders of the parent entity of PLN 1,403.1 million. This is the all-time high result of the Bank. It shows that the net income improved by 12.0% from 2016. The parent entity, i.e. the Bank, is its primary contributor. It accounts for 95.0% of the result before consolidation adjustments.



The result before tax was PLN 1,882.0 million and it went up by 14.4% from 2016. Upon eliminating the following one-off factors:

- profit from sale of capital investments:
 - Visa Europe in Q2 2016 of PLN 189.6 million,

- Visa Inc. in Q2 2017 of PLN 11.9 million,
- extraordinary contribution to BGF stemming from the bankruptcy of the Cooperative Bank in Nadarzyn of PLN 12.2 million in Q4 2016,

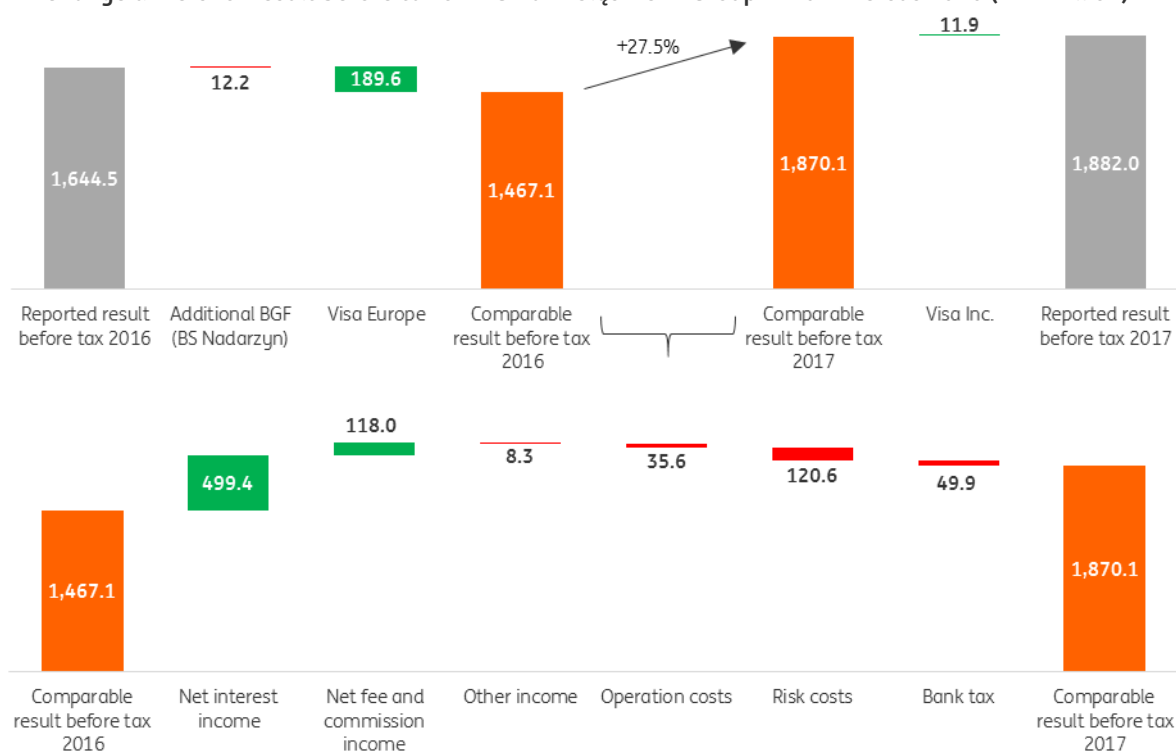
its recurring level in 2017 would be PLN 1,870.1 million. Improvement of PLN 403.0 million (or 27.5%) from 2016 was most fuelled by:

- higher net interest income (up by PLN 499.4 million, or 16.9%) and
- better net commission income (up by PLN 118.0 million, or 11.1%).

Whereas, the negative factors impacting the result before tax when compared with 2016 were:

- higher impairment losses and provisions (up by PLN 120.6 million, or 40.1%)
- higher bank levy (up. by 49.9 million, or 17.8%) and
- higher operating expenses (up by PLN 35.6 million, or 1.7%).

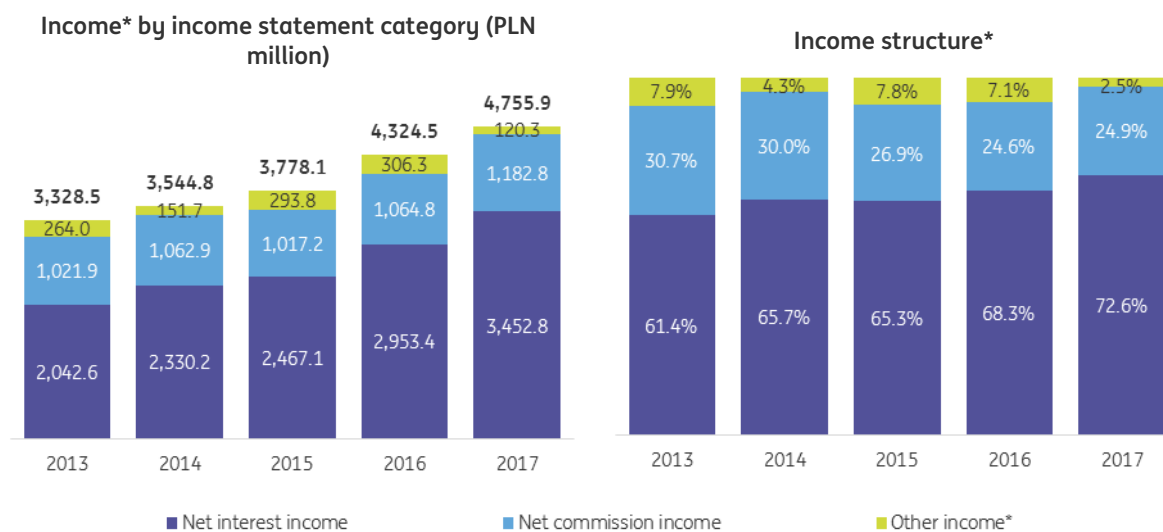
Change drivers for result before tax of ING Bank Śląski S.A. Group in 2017 versus 2016 (PLN million)



In 2017, total income of the ING Bank Śląski S.A. Group attributable to shareholders of the parent entity (including, apart from net profit, other items of income and expenses recognised in equity) stood at PLN 1 319.1 million versus PLN 355.0 million in 2016.

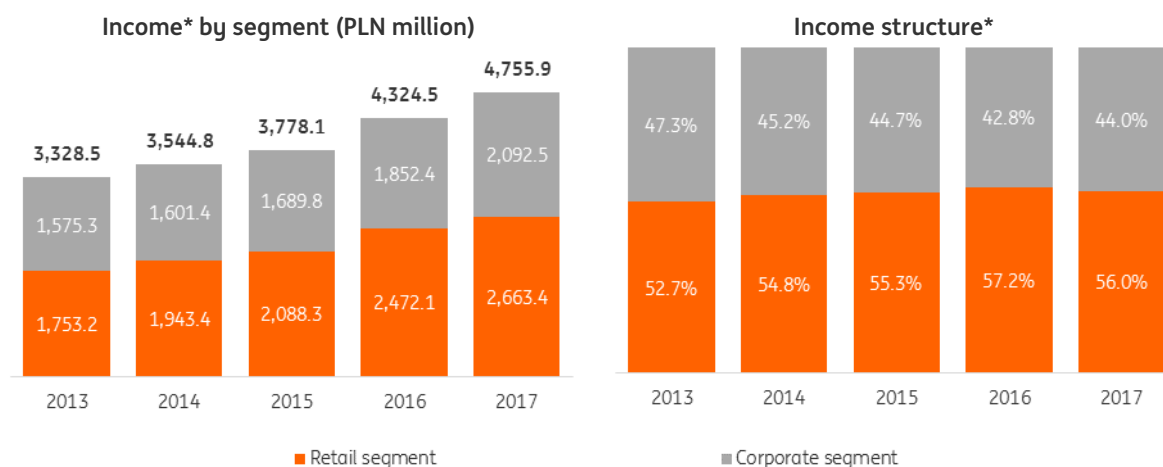
Revenue

In 2017, total revenue of the ING Bank Śląski S.A. Group closed with PLN 4,755.9 million. This betokens improvement of PLN 431.4 million (or 10%) from 2016, fuelled by a higher net interest income first and foremost. Its share in total revenue went up by 4.3 p.p. y/y to 72.6%.



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

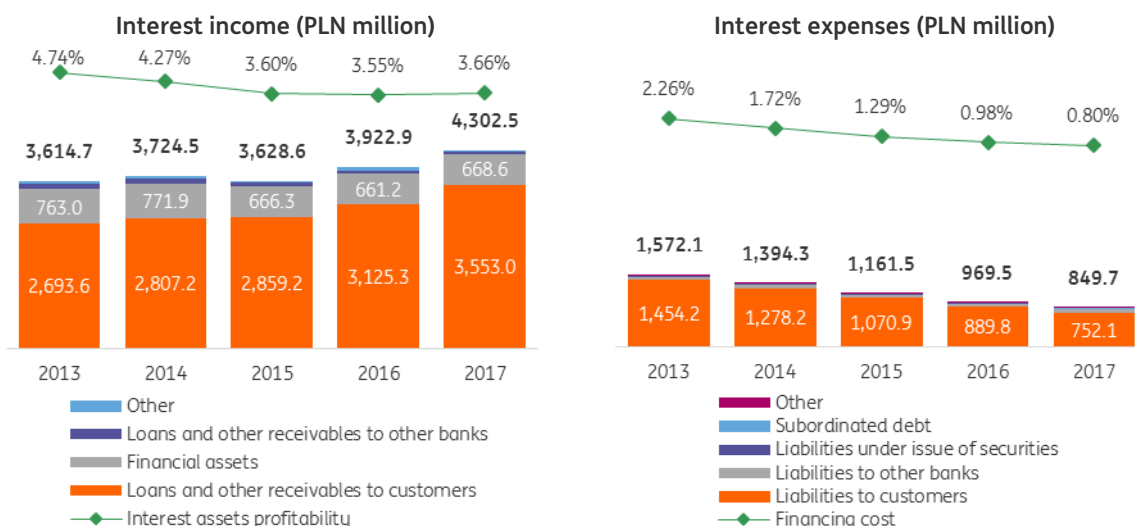
In 2017, the corporate segment was the main income growth contributor. Its income rose by PLN 240.1 million or 13.0% arriving at PLN 2,092.5 million. As a result, its share in the structure rose by 1.2 p.p. to 44.0%. The income of the retail segment rose by PLN 191.3 million or 7.7% arriving at PLN 1,663.4 million. The lower growth was caused by a one-off factor from 2016 – income on settlement of the Visa Europe transaction increased the result of the retail segment by PLN 189.1 million.



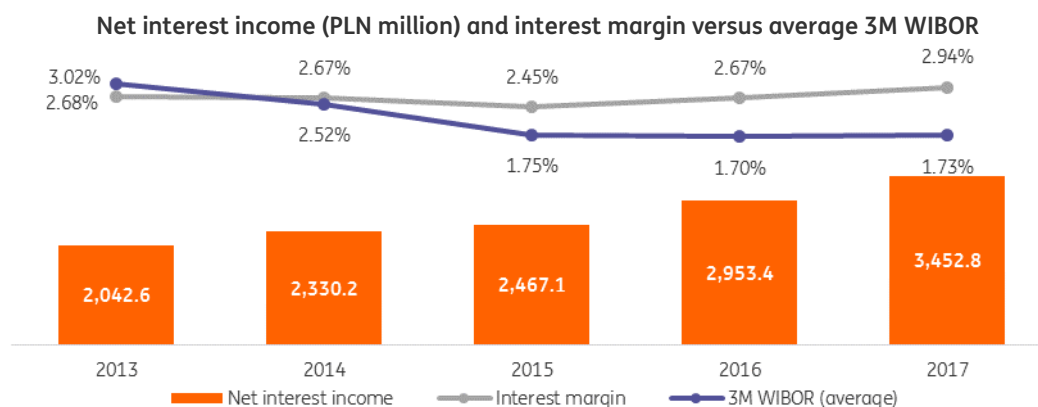
* including the share in net profits of affiliated entities recognised on an equity basis

Net interest income

In 2017, the interest income built up by 9.7% from 2016, mainly in consequence of higher interest on loans and other receivables. On the other hand, interest expenses fell by 12.4% y/y, first and foremost, due to lower costs of customer liabilities.

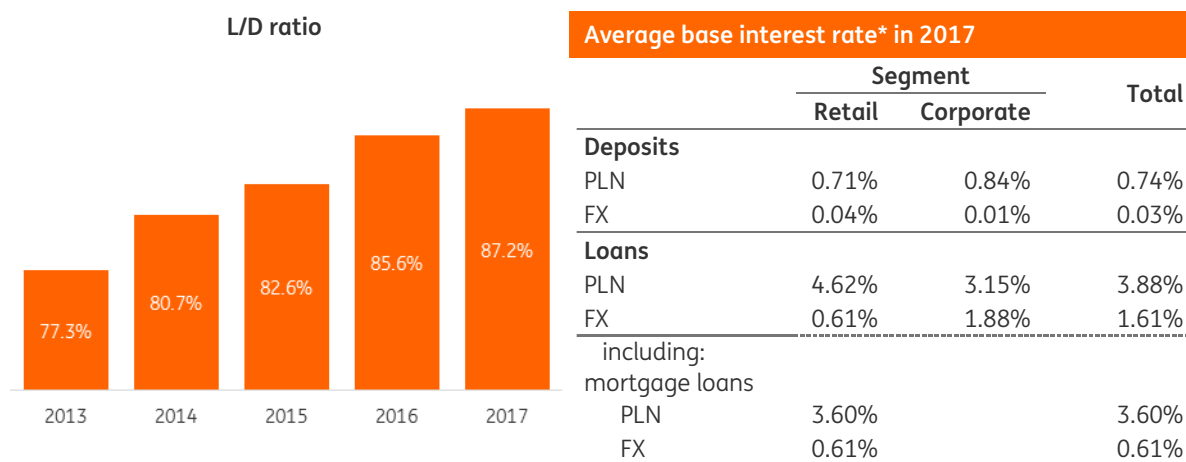


In 2017, higher interest income accompanied by lower interest expenses made the net interest income improve by PLN 499.4 million (or 16.9%) to PLN 3,452.8 million.



As in 2016, 2017 saw the NBP reference rate keep the level of 1.5%. Despite record low interest rates, net interest income went up. This was the upshot of both higher business volumes – net lending portfolio up by PLN 9.5 billion (or 12.1% y/y) and the total liabilities to customers by PLN 8.7 billion (or 9.1% y/y) plus the improved interest margin.

Marking to market of the deposit offer in H2 2016, a growing share of high-margin assets (PLN loans first and foremost) and a higher L/D ratio translated into a higher 2017 interest margin (up by 26bp y/y to 2.94%).



*based on management data

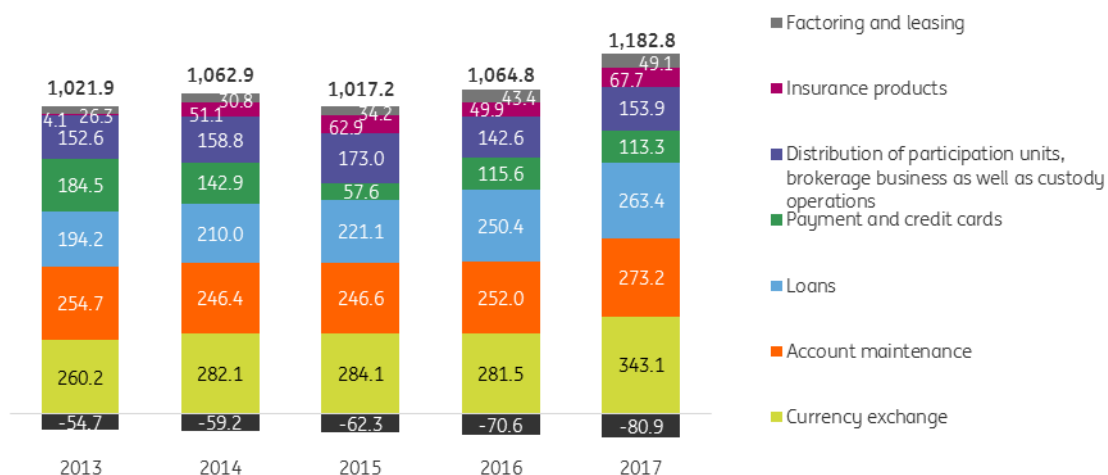
Net commission income

In 2017, the net commission income of the ING Bank Śląski S.A. Group augmented by PLN 118.0 million or 11.1% from 2016, and settled at PLN 1,182.8 million.

The highest commission income growth was noticed in:

- the FX transaction spreads: up by PLN 61.6 million or 21.9% y/y to PLN 343.1 million. This was the effect of higher transactional volumes of both retail and corporate clients, shored up by the launch of a new service facilitating foreign currency exchange – the exchange office platform.
- account maintenance: a rise by PLN 21.2 million or 8.4% y/y to PLN 273.2 million due to a higher number of clients and higher volumes of their transactions.
- insurance products: up by PLN 17.8 million or 35.7% y/y to PLN 67.7 million. This followed a low 2016 base. In 2016, the PFSA Recommendation U took effect. It brought changes to the structure of products offered to clients due to a temporary negative impact on the Bank's income.

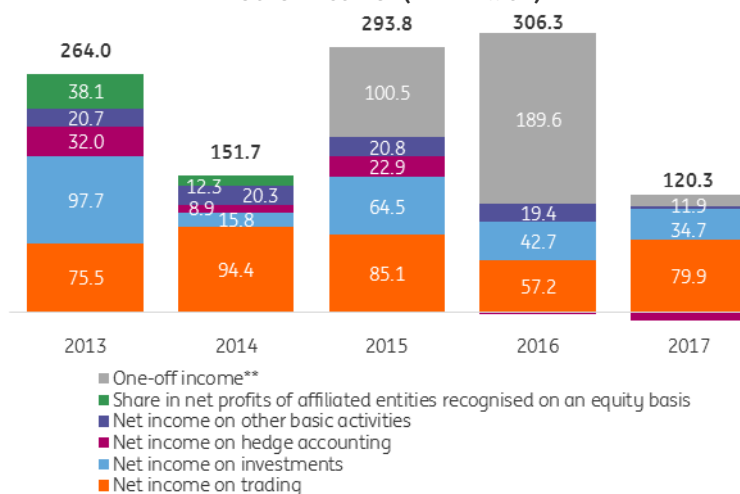
Net commission income (PLN million)



Other income

In 2017, other income of the Group was PLN 120.3 million and it was lower by PLN 186.0 million compared with the previous year. Notably in 2016, but also 2017, one-off trades had a significant impact on its level. In 2016, one-off income stood at PLN 189.6 million and it resulted from the Visa Europe transaction settlement (Q2 2016). In 2017, the Bank sold shares of Visa Inc. In consequence of that transaction settlement, the one-off income was PLN 11.9 million (Q2 2017).

Other income* (PLN million)



** including the share in net profits of affiliated entities recognised on an equity basis
** dividends of PLN 82.1 million from ING PTE in Q2 2015, income on sale of ING PTE of PLN 18.4 million in Q3 2015; income of PLN 189.6 million under the VISA Europe transaction in Q2 2016 and income of PLN 11.9 million under the Visa Inc. transaction in Q2 2017;

General and administrative expenses

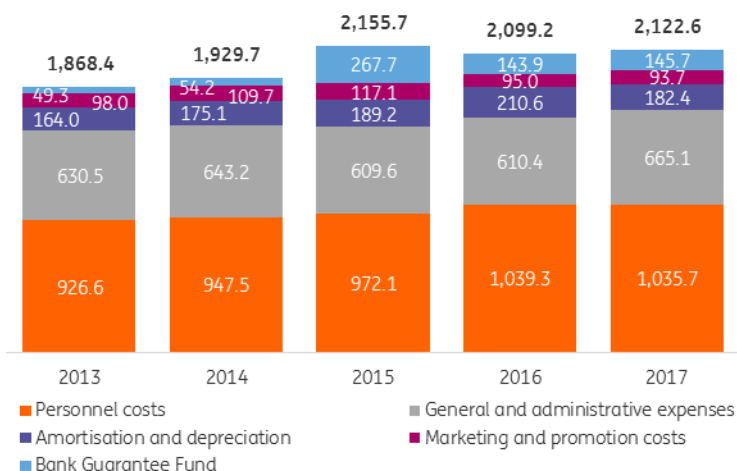
In 2017, the general and administrative expenses of the ING Bank Śląski S.A. Group went up by 1.1% y/y to PLN 2,122.6 million. The 2016 costs were raised by a one-off event – additional costs of the Bank Guarantee Fund contribution in the amount PLN 12.2 million due to the bankruptcy of the Cooperative Bank in Nadarzyn.

Upon excluding the one-off events from general and administrative expenses, the recurring costs went up by 1.7% y/y following the higher operating and administrative costs.

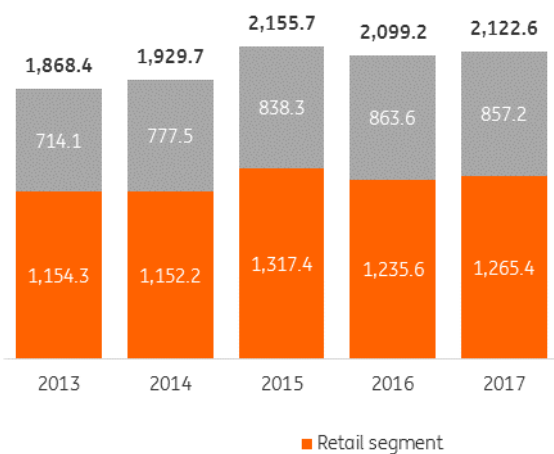
The operating costs of the retail segment rose by PLN 29.8 million y/y (+2.4%) to PLN 1,265.4 million. The operating costs of the corporate segment dropped by PLN 6.4 million y/y (-0.7%) to PLN 857.3 million.

As a result, the share of the retail segment in costs rose by 0.8 p.p. to 59.6% from 2016.

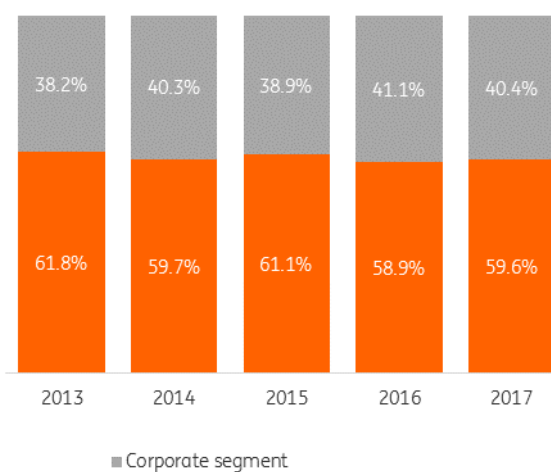
General and administrative expenses (PLN million)



General and administrative expenses by segment (PLN million)



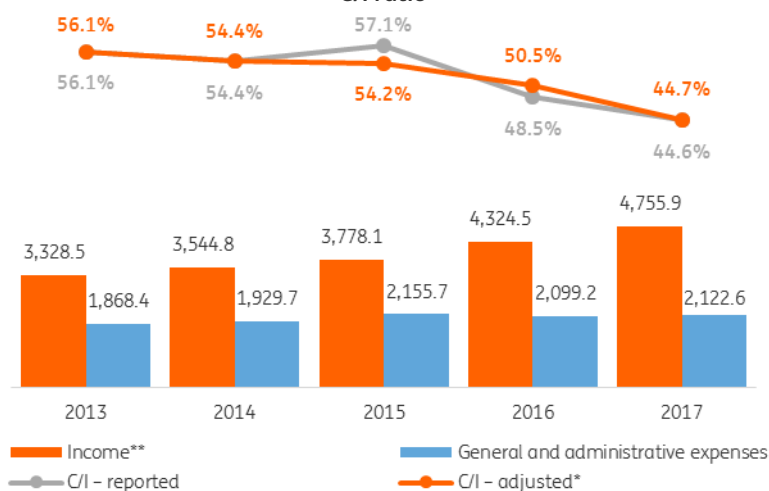
Structure of general and administrative expenses



Because of a faster growth rate of income and general and administrative expenses, the efficiency ratio – C/I ratio – improved.

In 2017, it was 44.6% or 3.9 p.p. lower than in 2016. Upon excluding the one-off events from income and costs of the Group, the adjusted C/I ratio was 44.7% or improved by 5.7 p.p. y/y.

Income versus general and administrative expenses (PLN million) and C/I ratio**



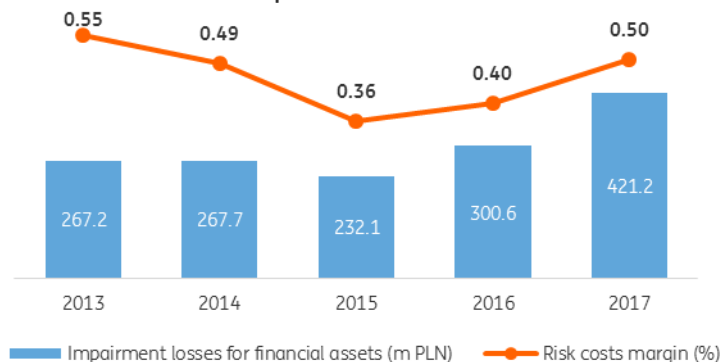
* adjusted for one-off trades: Income – dividend of PLN 82.1 million from ING PTE in Q2 2015, income of PLN 18.4 million from the disposal of ING PTE shares in Q3 2015 and positive impact of PLN 189.6 million under the Visa Europe transaction in Q2 2016 and positive impact of PLN 11.9 million under the Visa Inc. transaction in Q2 2017; Costs – PLN 157.4 million of extraordinary contribution to BGF stemming from the SK Bank bankruptcy in Q4 2015, PLN 6.4 million of contribution to the Mortgage Support Fund in Q4 2015 and PLN 12.2 million of extraordinary contribution to BGF under the bankruptcy of the Cooperative Bank in Nadarzyn;
**including the share in net profits of affiliated entities recognised on an equity basis

Impairment losses and provisions

2017 saw a growth in the risk costs margin ratio (net loan loss provisions to the gross lending portfolio) from 0.40% in 2016 to 0.50%; this was caused by a higher ratio in the corporate segment – up from 0.36% in 2016 to 0.53% in 2017.

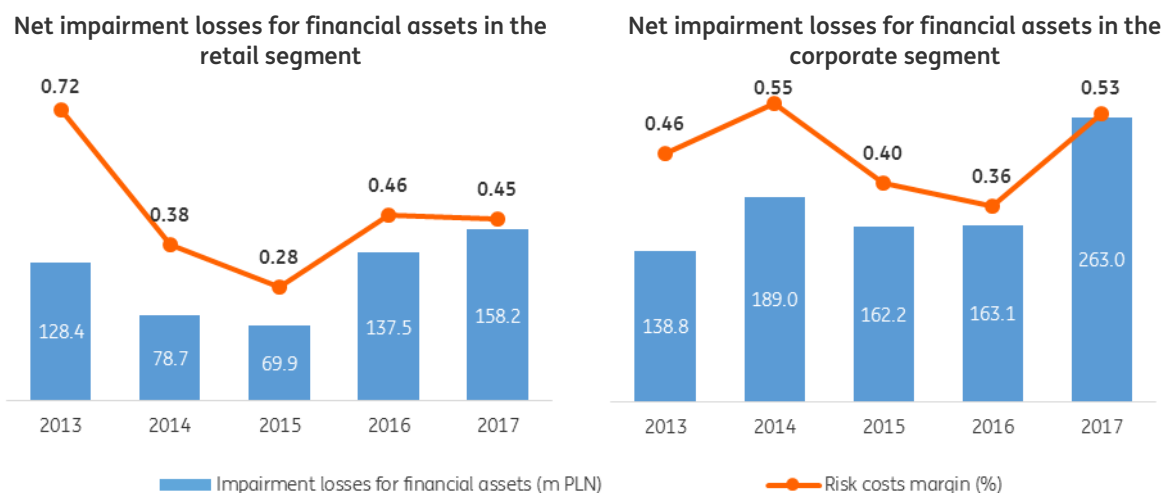
In the retail segment – the risk costs margin dropped marginally from 0.46% in 2016 to 0.45% in 2017.

Consolidated net impairment losses for financial assets



In 2017, a higher risks costs margin in the corporate segment was driven by a lower scale of releases of impairment losses y/y and several new exposures classified to the impaired portfolio (exposures to entities not related to each other, from various sectors of the economy). 2017 saw three transactions made by our bank concerning the sale of corporate receivables classified as impaired or fully derecognised loans. All transactions positively impacted impairment losses totalling PLN 36.1 million (PLN 28.1 million in 2016).

In the retail segment, in 2016, the Bank established an additional IBNR provision of PLN 31.8 million for the FX mortgage loan portfolio. Upon adjusting the balance of impairment losses with the same amount, in 2017, the risk costs margin went up by 12 b.p. y/y, among others due to the rising share of unsecured loans in the portfolio of retail loans. In 2017, we made sale transactions of retail receivables classified as impaired loans. The transaction positively impacted impairment losses totalling PLN 11.0 million (PLN 23.0 million in 2016).



The quality of the lending portfolio was described in Chapter “Bank and client safety” under “Credit risk” page 115.

Tax on certain financial institutions

In 2017, the ING Bank Śląski S.A. Group paid the tax on certain financial institutions (the so-called bank levy) of PLN 330.1 million. It was PLN 49.9 million (or 17.8%) higher than in 2016 due to the fact that:

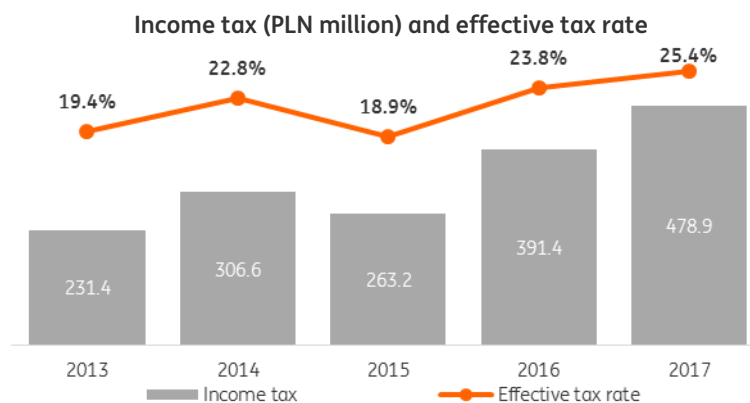
- in keeping with the Act, the tax has been accrued monthly since February 2016. In other words, in 2017, the Bank paid the tax for 12 months, while in 2016 it was for 11 months,
- a higher tax base. This follows a consistent growth in commercial volumes.

Income tax

In 2017, the ING Bank Śląski S.A. Group posted the income tax of PLN 478.9 million. It was 22.4% higher than in 2016. In 2017, the effective tax rate was 25.4% versus 23.8% the year before.

The higher 2017 tax rate resulted from the change to the Bank Guarantee Fund contributions. In 2016, the mandatory fee was tax deductible, while the prudential

fee was not. In 2017 – in keeping with Article 16.1.71 of the Corporate Income Tax Act – neither the banks’ guarantee fund contribution nor the payment to the banks’ compulsory resolution fund were tax deductible.



These 2016 and 2017 increases in the effective tax rate were influenced by the bank levy, which under Article 16.1.70 of the Corporate Income Tax Act is not a tax deductible cost.

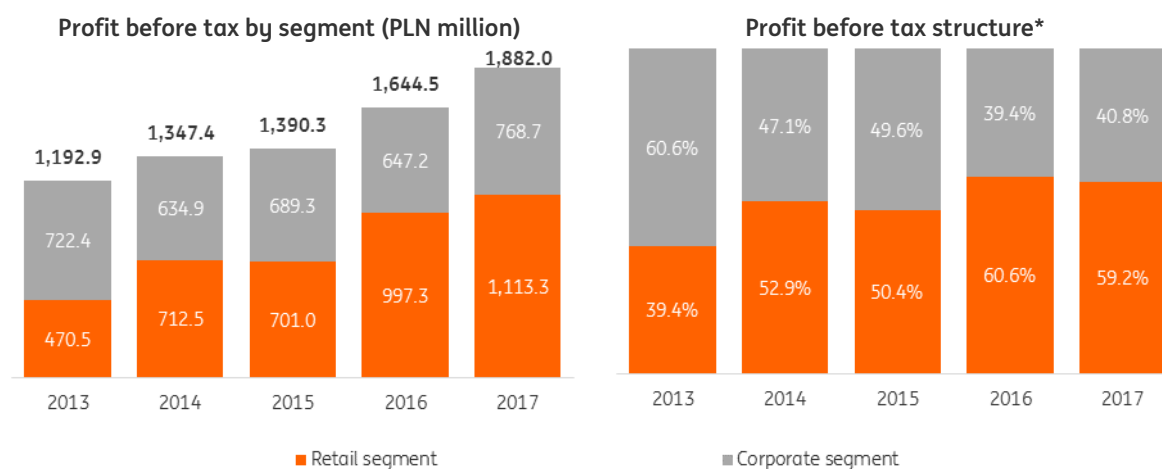
Report by business segment

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

- retail banking segment, which encompasses private individuals (mass clients and affluent clients sub-segments) and entrepreneurs (small business), and
- corporate banking segment, which comprises service of institutional clients and FM products’

operations.

In 2017, the Group result before tax broken down into segments was as follows:



In 2017, results of the retail banking segment and of the corporate banking segment accounted for 59.2% and 40.8% of the Group's result before tax respectively (in 2016: 60.6% and 39.4%, respectively).

Result before tax in the retail banking segment

	2017	2016	2015	2014	2013	Change 2017 / 2016	
	PLN million					PLN million	%
Net interest income	2,143.8	1,862.6	1,516.9	1,367.9	1,080.7	281.2	15.1%
Net commission income	413.9	380.7	363.0	436.4	437.2	33.2	8.7%
Other income	105.7	228.8	208.4	139.1	235.3	-123.1	-53.8%
Total revenue	2,663.4	2,472.1	2,088.3	1,943.4	1,753.2	191.3	7.7%
General and administrative expenses	1,265.4	1,235.6	1,317.4	1,152.2	1,154.3	29.8	2.4%
Impairment losses and provisions	158.2	137.5	69.9	78.7	128.4	20.7	15.1%
Bank levy	126.5	101.7	0.0	0.0	0.0	24.8	24.4%
Profit before tax	1,113.3	997.3	701.0	712.5	470.5	116.0	11.6%

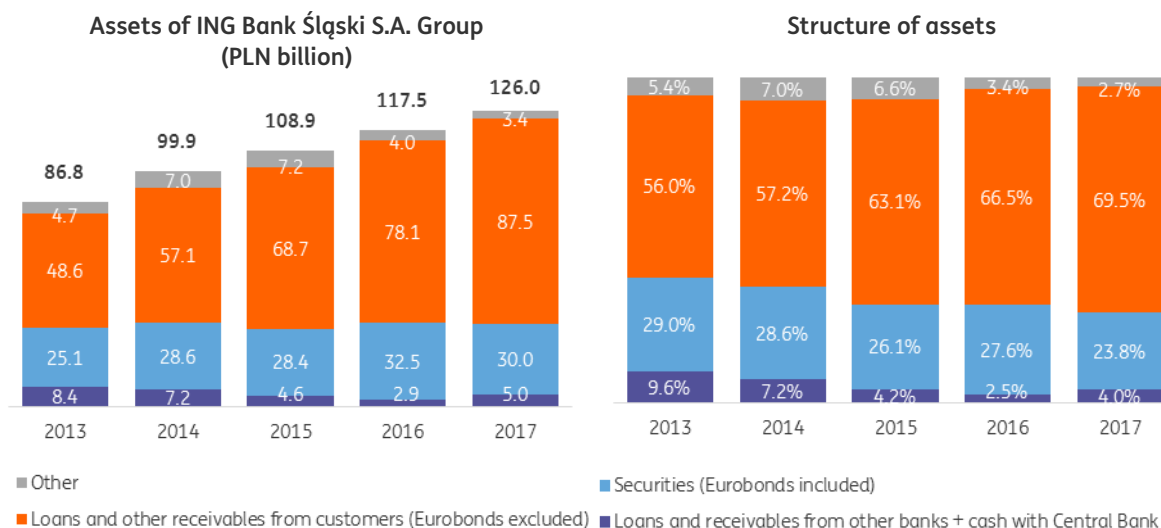
Result before tax in the corporate banking segment

	2017	2016	2015	2014	2013	Change 2017 / 2016	
	PLN million					PLN million	%
Net interest income	1,309.0	1,090.8	950.2	962.3	961.9	218.2	20.0%
Net commission income	768.9	684.1	654.2	626.5	584.7	84.8	12.4%
Other income	14.6	77.5	85.4	12.6	28.7	-62.9	-81.2%
Total revenue	2,092.5	1,852.4	1,689.8	1,601.4	1,575.3	240.1	13.0%
General and administrative expenses	857.2	863.6	838.3	777.5	714.1	-6.4	-0.7%
Impairment losses and provisions	263.0	163.1	162.2	189.0	138.8	99.9	61.3%
Bank levy	203.6	178.5	0.0	0.0	0.0	25.1	14.1%
Profit before tax	768.7	647.2	689.3	634.9	722.4	121.5	18.8%

Statement of financial position

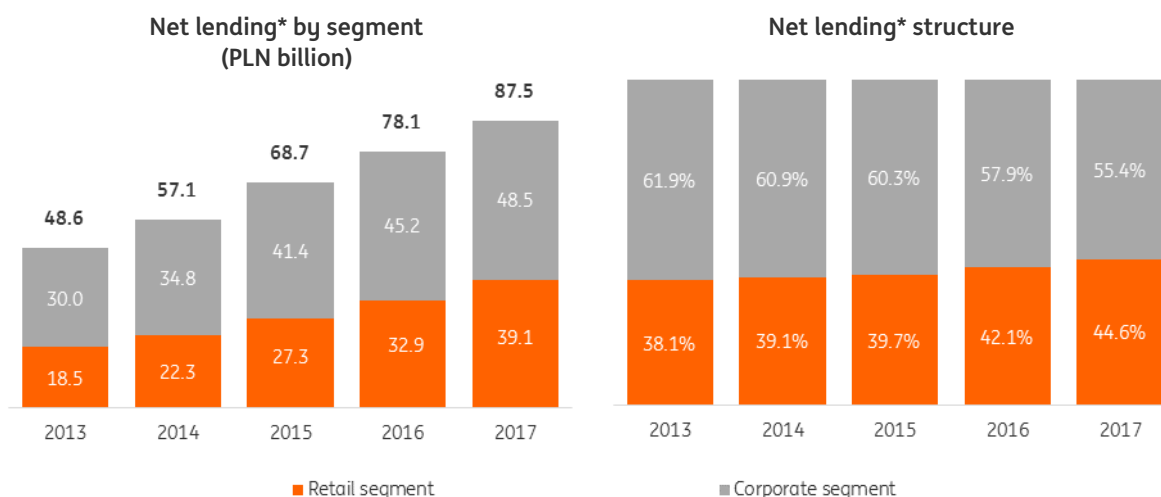
Assets

As at 2017 yearend, the total assets of the ING Bank Śląski S.A. Group were PLN 126.0 billion (up by 7.3% from 2016 yearend). The portfolio of loans and other receivables from customers (Eurobonds excluded) was the primary growth trigger. It went up by PLN 9.5 billion y/y (or 12.1%) and closed with PLN 87.5 billion. These items prevail in the assets structure. As at 31 December 2017, they represented 69.5% of all Group assets.



The securities portfolio (Eurobonds included) also represented a major item in the statement of financial position of the Group – PLN 30.0 billion (or 23.8% of assets). Debt securities composed of investment assets of PLN 25.9 billion (including available-for-sale assets of PLN 17.6 billion and financial assets held to maturity of PLN 8.4 billion) dominated the portfolio.

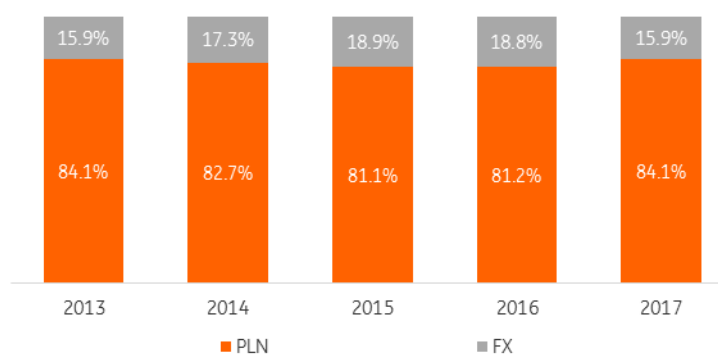
Both retail and corporate net loans and other receivables from clients increased the balance as at 2017 yearend when compared with 2016. The growth attributed to retail and corporate segments was PLN 6.2 billion y/y and PLN 3.3 billion y/y, respectively. As a result, the share of the retail segment rose by 2.5 p.p. y/y to 44.6%.



* loans and other receivables from customers excluding Eurobonds

In the FX structure of the portfolio of net receivables from customers (excluding Eurobonds) in split into currencies, the share of PLN-denominated exposures went up by 2.9 p.p. (to 84.1%). Their growth follows the rise in PLN-denominated receivables by PLN 10.2 billion from 2016 (or +16.1%) and the decline in FX-denominated exposures by PLN 0.8 billion y/y (or -5.3%).

FX structure of the portfolio of net receivables from customers*



* loans and other receivables from customers excluding Eurobonds

The portfolio of net receivables from customers and its structure are presented in the table below:

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

	2017	2016	2015	2014	2013
Credit receivables from households, including:	39,059.9	32,865.4	27,276.6	22,318.5	18,520.4
Loans and cash loans	37,740.5	31,931.4	26,620.2	21,844.7	18,348.0
Leasing receivables	1,113.5	854.9	600.4	423.3	140.0
Factoring receivables	205.9	79.1	56.0	50.5	32.4
Credit receivables from institutional clients*, including:	48,463.9	45,204.1	41,404.9	34,812.9	30,032.1
Loans and cash loans	35,953.9	33,475.8	30,552.9	25,267.8	21,860.8
- Business entities	32,265.0	29,452.9	26,048.7	20,830.5	17,775.9
- Financial entities (other than banks)	1,953.8	1,878.1	1,935.5	1,777.5	1,457.1
- Entities of the sector of central and local government agencies	1,735.1	2,144.8	2,568.7	2,659.8	2,627.8
Debt securities**	2,532.2	2,512.8	3,055.5	2,766.1	2,174.9
Leasing receivables	5,445.9	4,855.2	4,282.3	3,912.3	3,450.8
Factoring receivables	4,384.4	4,271.7	3,333.7	2,766.0	2,421.4
Other receivables	147.5	88.6	180.5	100.7	124.2
Total net credit receivables	87,523.8	78,069.5	68,681.5	57,131.4	48,552.5
- Net Eurobonds	3,564.1	3,910.0	3,838.1	3,923.4	3,685.4
Total net loans and other receivables to customers	91,087.9	81,979.5	72,519.6	61,054.8	52,237.9

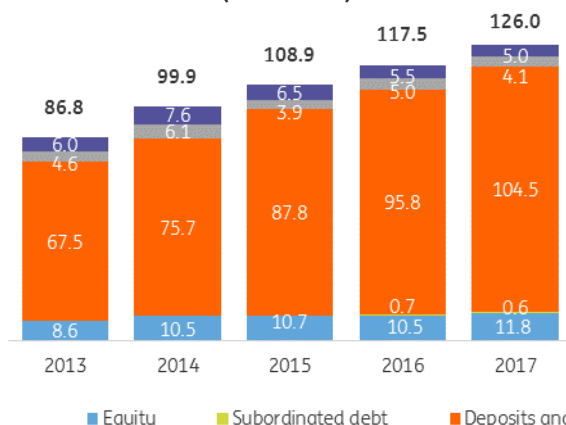
*receivables from customers under repo transactions excluded; **Eurobonds excluded

Liabilities and equity

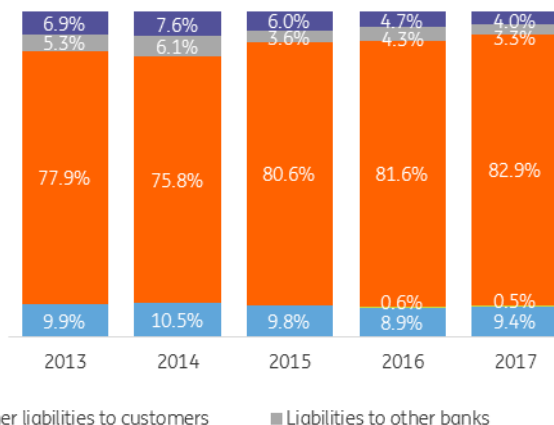
The clients' funds constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. As at 2017 yearend, the liabilities to customers were PLN 104.5 billion, or represented 82.9% of all liabilities.

Equity was another most important funding source. As at the end of December 2017, it stood at PLN 11.8 billion and represented 9.4% of total liabilities.

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



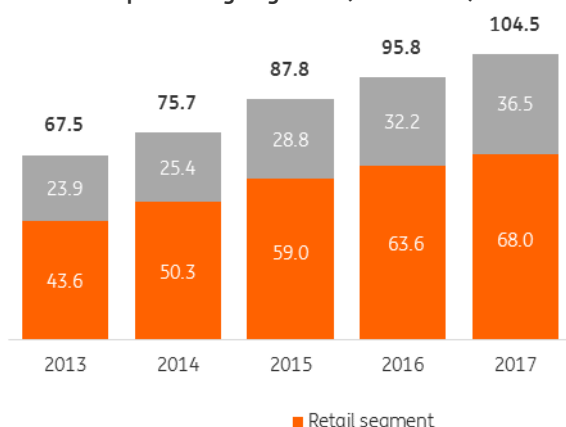
Structure of liabilities and equity



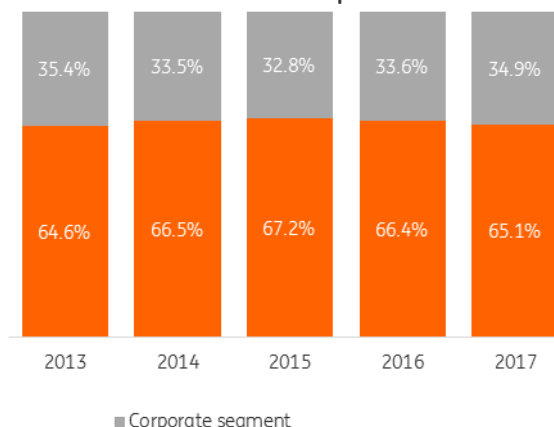
On 6 December 2017, the Bank bought PLN 565.0 million-worth maturing bonds which were issued on 6 December 2012. As at 2017 yearend, the Bank still held the liabilities under the issued securities of PLN 300.3 million; they are to expire on 19 December 2019.

As at 2017 yearend, deposits and other liabilities to customers amounted to PLN 104.5 billion or were 9.1% (PLN 8.7 billion) higher y/y. The nominal growth effectuated in 50% by the retail segment and in 50% by the corporate segment. Although the share of the retail segment declined by 1.3 p.p. y/y; it invariably dominates in the structure of liabilities to customers with a share of 65.1% as at 2017 yearend.

Deposits* by segment (PLN billion)

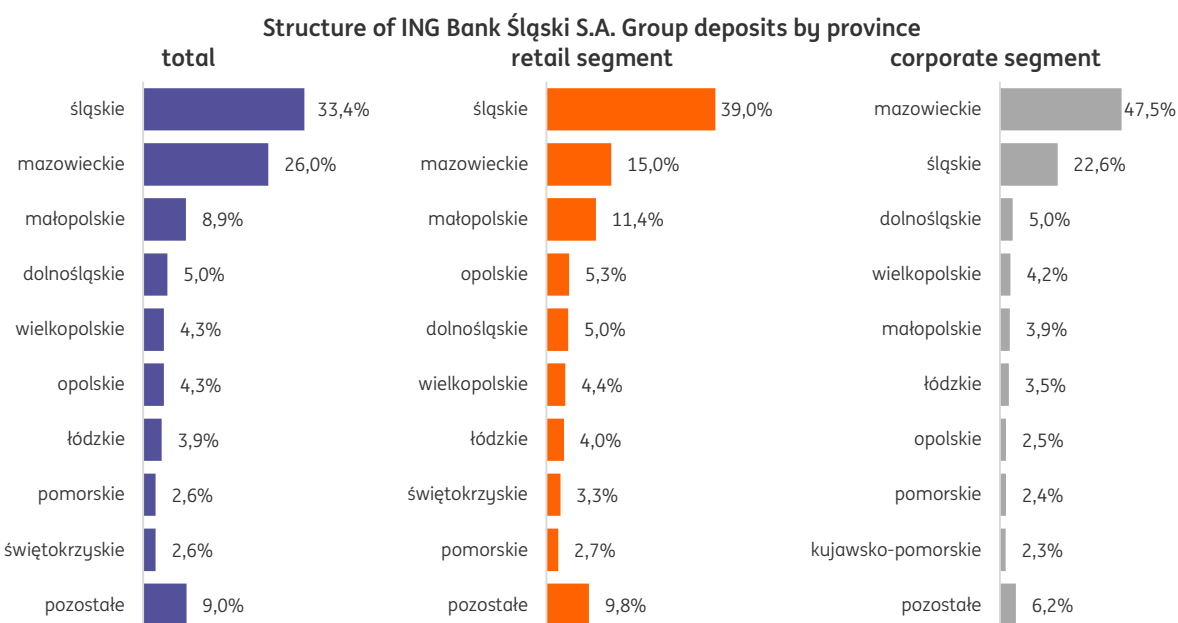


Structure of deposits



* deposits and other liabilities to customers

The graphs below show the structure of deposits and other liabilities to customers of the ING Bank Śląski S.A. Group by province:



* deposits and other liabilities to customers

The portfolio of liabilities to customers and its structure are presented in the table below:

Liabilities to customers of ING Bank Śląski S.A. Group (PLN million)					
	2017	2016	2015	2014	2013
Liabilities to households, including:	68,000.6	63,615.6	58,976.4	50,278.8	43,628.9
Deposits	67,918.7	63,548.0	58,896.2	50,217.1	43,563.8
Other liabilities	81.9	67.6	80.2	61.7	65.1
Liabilities to institutional clients*, including:	36,502.7	32,209.8	28,842.1	25,380.1	23,919.0
Deposits	34,931.9	30,565.4	27,567.5	24,188.6	22,980.2
- Business entities	29,196.5	25,395.4	23,594.2	20,177.3	17,746.3
- Financial entities (other than banks)	3,961.5	3,429.2	2,353.8	2,142.8	3,143.1
- Entities of the sector of central and local government agencies	1,773.9	1,740.8	1,619.5	1,868.5	2,090.8
Other liabilities	1,570.8	1,644.4	1,274.6	1,191.5	938.8
Total liabilities to customers	104,503.3	95,825.4	87,818.5	75,658.9	67,547.9

* liabilities to customers under repo transactions excluded.

Off-Balance Sheet items

As at 2017 yearend, the ING Bank Śląski S.A. Group had:

- contingent liabilities granted totalling PLN 30.0 billion. This shows a rise of 7.2% or PLN 2.0 billion from 2016 yearend. Unutilised credit limits which represent 74.3% of all granted off-balance sheet liabilities form the dominant item. Committed credit facilities comprise: approved loans, credit card limits and bank overdrafts,
- received contingent liabilities in the amount of PLN 82.9 billion (up by 4.7% from a year earlier),
- off-balance sheet financial instruments (derivative transactions) totalling PLN 501.0 billion (up by 14.0% from the end of 2016).

Off-balance sheet items of ING Bank Śląski S.A. Group (PLN million)					
	2017	2016	2015	2014	2013
Contingent liabilities granted	29,953.3	27,954.5	24,423.2	23,802.6	19,046.8
Unutilised credit lines	22,250.4	21,302.2	17,760.7	18,940.1	14,751.9
Guarantees	4,897.7	3,989.1	4,038.4	3,393.2	2,663.5
Unutilised overdrafts	1,336.1	1,273.7	1,310.3	302.8	485.6
Credit card limits	1,078.9	997.7	921.7	844.6	764.1
Letters of Credit	390.2	391.8	392.1	321.9	381.7
Contingent liabilities received	82,850.1	79,093.3	53,515.3	43,228.2	36,631.9
Off-balance sheet financial instruments	500,985.8	439,511.9	358,574.2	297,683.6	215,504.3
Off-balance sheet items total	613,789.2	546,559.7	436,512.7	364,714.4	271,183.0

Details of off-balance sheet liabilities were presented under note 38 to the 2017 Consolidated Financial Statements of ING Bank Śląski S.A. Group on page 105.

2. Separate results of ING Bank Śląski S.A.

Key financial data

Abridged financial results of ING Bank Śląski S.A. for 2013 to 2017							
	2017	2016	2015	2014	2013	Change 2017 / 2016	
		PLN million					
Income*	4,570	4,136	3,644	3,394	3,132	10.5%	
Cost	2,035	2,010	2,035	1,814	1,755	1.3%	
Risk cost	400	269	213	243	237	48.8%	
Profit before tax	1,804	1,578	1,396	1,336	1,140	14.4%	
Net profit	1,349	1,209	1,140	1,068	920	11.6%	
Balance sheet total	122,105	113,529	106,106	96,742	83,671	7.6%	
Liabilities to customers	104,076	95,168	87,384	75,326	67,468	9.4%	
Net loans and other receivables to customers***	83,775	74,128	65,795	54,029	45,434	13.0%	
Equity	11,561	10,295	10,485	10,248	8,328	12.3%	
Earnings per share in PLN	10.37	9.29	8.76	8.21	7.07	11.6%	
Dividend per share in PLN	-	0.00	4.40	4.00	4.40	-	

*Including net profit of affiliated entities recognised on an equity basis; ** Eurobonds excluded

Abridged financial results of ING Bank Śląski S.A. for 2013 to 2017

	2017	2016	2015	2014	2013	Change 2017 / 2016
	EUR million					
Income*	1,077	945	871	810	744	13.9%
Cost	480	459	486	433	417	4.4%
Risk cost	94	61	51	58	56	53.4%
Profit before tax	425	361	334	319	271	17.9%
Net profit**	318	276	272	255	218	15.0%
Balance sheet total	29,276	25,662	24,899	22,697	20,175	14.1%
Liabilities to customers	24,953	21,512	20,505	17,673	16,268	16.0%
Net loans and other receivables to customers***	20,086	16,756	15,439	12,676	10,955	19.9%
Equity**	2,772	2,327	2,460	2,404	2,008	19.1%
Earnings per share in PLN	2.44	2.12	2.09	1.96	1.68	15.0%
Dividend per share in PLN	-	0.00	1.05	0.95	1.04	-

*Including net profit of affiliated entities recognised on an equity basis; ** Eurobonds excluded

The following exchange rates are used by the Bank to convert the above data into EUR:

- for the statement of financial position items – the exchange rate of the National Bank of Poland as at 31 December,
- for the income statement items – the exchange rate is calculated as the average of the National Bank of Poland's rates effective as at the last day of each month throughout the year.

EUR/PLN exchange rate

	2017	2016	2015	2014	2013
For statement of financial position items	4.1709	4.4240	4.2615	4.2623	4.1472
For income statement items	4.2447	4.3757	4.1848	4.1893	4.2111

Core effectiveness ratios

Core effectiveness ratios (%)

	2017	2016	2015	2014	2013	Change 2017 / 2016
C/I ratio	44.5%	48.6%	55.8%	53.5%	56.0%	-4.0 p.p.
ROA	1.15%	1.09%	1.11%	1.16%	1.17%	+0.06 p.p.
ROE	12.3%	11.5%	11.4%	11.7%	11.5%	+0.9 p.p.
Interest margin ratio	2.92%	2.64%	2.40%	2.63%	2.64%	+0.28 p.p.
LTD ratio	80.5%	77.9%	75.3%	71.7%	67.3%	+2.6 p.p.
LCR	151%	160%	183%	176%	n/a	-9 p.p.
NSFR	119%	122%	121%	111%	n/a	-3 p.p.
LR according to transitional definition	8.47	7.65	6.85	6.82	n/a	+0.82
Total capital ratio	18.4%	16.6%	15.1%	15.5%	17.1%	+1.8 p.p.
Tier I capital ratio	17.3%	15.4%	15.1%	15.5%	16.8%	+1.9 p.p.

Income statement

Basic separate income statement figures of ING Bank Śląski S.A. for 2017 and changes vis-à-vis 2016 are presented in the table below:

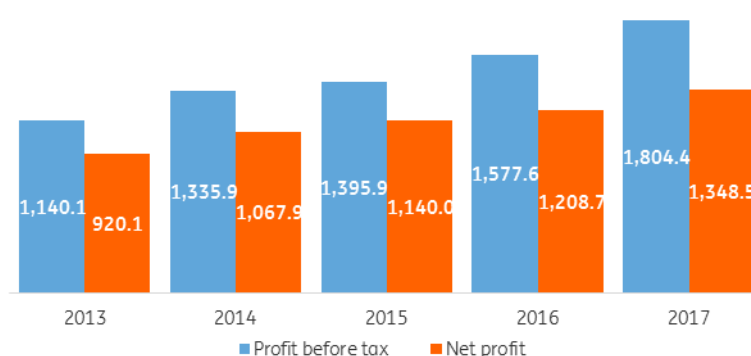
Basic income statement figures in analytical terms							
	2017	2016	2015	2014	2013	Change 2017 / 2016	
	PLN million					PLN million	%
Net interest income	3,318.3	2,825.0	2,343.5	2,211.2	1 924.8	493.3	17.5%
Net commission income	1,132.7	1,015.1	951.3	1,002.9	964.3	117.6	11.6%
One-off income*	11.9	189.6	100.5	0.0	0.0	-177.7	-93.7%
Other income	106.6	106.3	248.4	179.4	242.8	0.3	0.3%
Total revenue	4,569.5	4,136.0	3,643.7	3,393.5	3,131.9	433.5	10.5%
General and administrative expenses	2,035.4	2,009.7	2,035.0	1,814.2	1 755.2	25.7	1.3%
<i>including one-off costs*</i>	0.0	12.2	163.8	0.0	0.0	-12.2	-100.0%
Impairment losses and provisions	399.6	268.5	212.8	243.4	236.6	131.1	48.8%
Bank levy	330.1	280.2	0.0	0.0	0.0	49.9	17.8%
Profit before tax	1,804.4	1,577.6	1,395.9	1,335.9	1,140.1	226.8	14.4%
Income tax	455.9	368.9	255.9	268.0	220.0	87.0	23.6%
Net profit	1,348.5	1,208.7	1,140.0	1 067.9	920.1	139.8	11.6%
Adjusted net profit*	1,338.9	1,065.0	1,175.7	1 067.9	920.1	273.9	25.7%

* Income: dividend of PLN 82.1 million from ING PTE in Q2 2015, income of PLN 18.4 million from the disposal of ING PTE shares in Q3 2015 and positive impact of PLN 189.6 million under the Visa Europe transaction in Q2 2016 and positive impact of PLN 11.9 million under the Visa Inc. transaction in Q2 2017; Costs: Costs - PLN 157.4 million of extraordinary contribution to BGF stemming from the SK Bank bankruptcy in Q4 2015, PLN 6.4 million of contribution to the Mortgage Support Fund in Q4 2015 and PLN 12.2 million of extraordinary contribution to BGF under the bankruptcy of the Cooperative Bank in Nadarzyn.

Profit before tax and net profit

In 2017, ING Bank Śląski S.A. posted net profit of PLN 1,348.5 million. This is the all-time high result of the Bank. It shows that the net income improved by 11.6% from 2016. The result before tax was PLN 1,804.4 million and it went up by 14.4% from 2016.

Profit before tax and net profit of ING Bank Śląski S.A. (PLN million)



Upon eliminating the following one-off factors:

- profit from sale of capital investments:
 - Visa Europe in Q2 2016 of PLN 189.6 million,
 - Visa Inc. in Q2 2017 of PLN 11.9 million,
- extraordinary contribution to BGF stemming from the bankruptcy of the Cooperative Bank in Nadarzyn of PLN 12.2 million in Q4 2016,

its recurring level in 2017 would be PLN 1,792.5 million. The PLN 392.3 million (or 28.0%) improvement

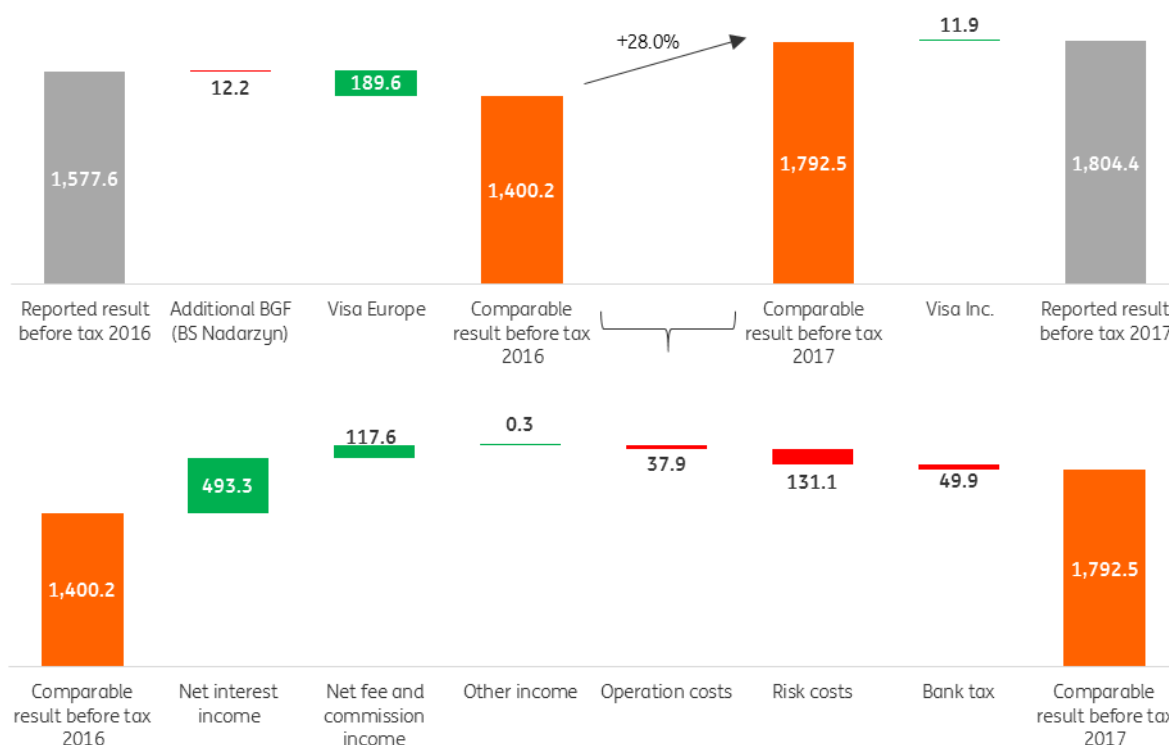
from 2016 was most fuelled by:

- higher net interest income (up by PLN 493.3 million, or 17.5%) and
- better net commission income (up by PLN 117.6 million, or 11.6%).

Whereas, the negative factors impacting the result before tax when compared with 2016 were:

- higher impairment losses and provisions (up by PLN 131.1 million, or 48.8%),
- higher bank levy (up by 49.9 million, or 17.8%) and
- higher operating expenses (up by PLN 37.9 million, or 1.9%).

Change drivers for result before tax of ING Bank Śląski S.A. in 2017 versus 2016
(PLN million)



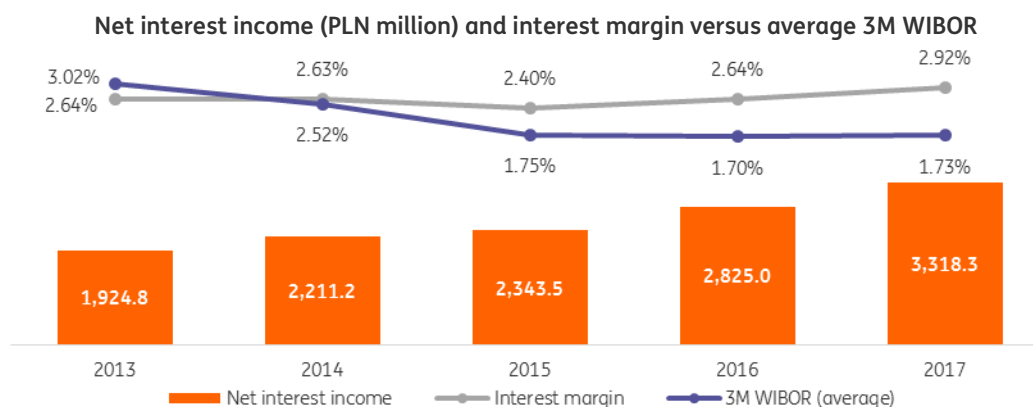
In 2017, the total income of ING Bank Śląski S.A. (including, apart from net profit, other items of income and expenses recognized in equity) was PLN 1,265.0 million versus PLN 312.8 million in 2016.

Revenue

In 2017, total revenue of ING Bank Śląski S.A. closed with PLN 4,569.5 million. This betokens improvement of PLN 433.5 million (or 10.5%) from 2016, fuelled by a higher net interest income first and foremost. Its share in total revenue went up by 4.3 p.p. y/y to 72.6%.

Net interest income

In 2017, the net interest income of ING Bank Śląski S.A. augmented by PLN 493.3 million, or 17.5%, from 2016, and settled at PLN 3,318.3 million.



As in 2016, 2017 saw the NBP reference rate keep the level of 1.5%. Despite record low interest rates, net interest income went up. This was the upshot of both higher business volumes (lending portfolio up by PLN 9.6 billion (or 13.0%) and the total liabilities to customers – by PLN 8.9 billion (or 9.4%)) and the improved interest margin.

Marking to market of the deposit offer in H2 2016 and a growing share of high-margin assets (PLN loans first and foremost), translated into a higher 2017 Bank's interest margin by 28bp y/y to 2.92%.

Average base interest rate* in 2017

	Segment		Total
	Retail	Corporate	
Deposits			
PLN	0.71%	0.84%	0.74%
FX	0.04%	0.01%	0.03%
Loans			
PLN	4.62%	3.15%	3.88%
FX	0.61%	1.88%	1.61%
including: mortgage loans			
PLN	3.60%		3.60%
FX	0.61%		0.61%

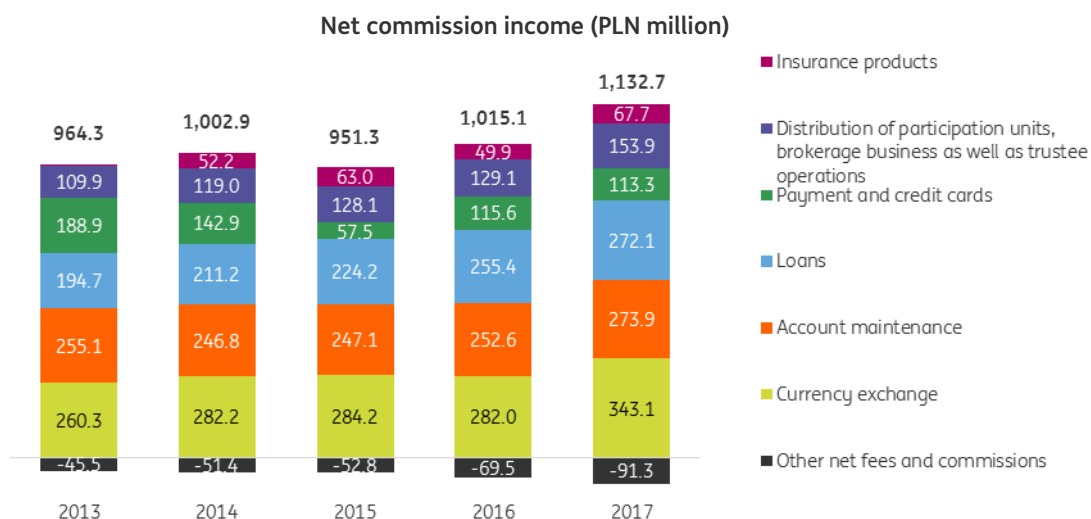
*based on management data

Net commission income

In 2017, the net commission income of the Bank augmented by PLN 117.6 million or 11.6% from 2016 and settled at PLN 1,132.7 million.

The highest commission income growth was noticed in:

- the FX transaction spreads: up by PLN 61.1 million or 21.7% y/y to PLN 343.1 million,
- distribution of participation units, brokerage business and custody business: up by PLN 24.8 million or 19.2% y/y to PLN 153.9 million,
- accounts: up by PLN 21.3 million or 8.4% y/y to PLN 273.9 million,
- insurance products: up by PLN 17.8 million or 35.7% y/y to PLN 67.7 million.



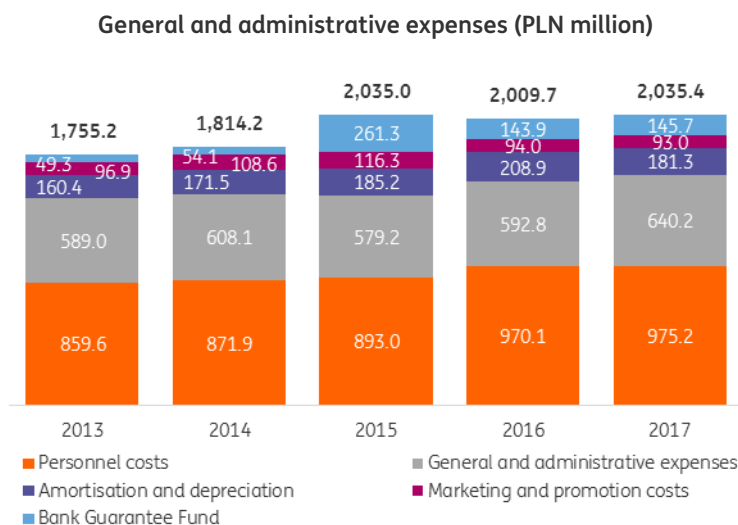
Other income

In 2017, other income of the Bank was PLN 118.5 million and it was lower by PLN 177.4 million compared with the previous year. Notably in 2016, but also 2017, one-off trades had a significant impact on its level. In 2016, one-off income stood at PLN 189.6 million and it resulted from the Visa Europe transaction settlement (Q2 2016). In 2017, the Bank sold shares of Visa Inc. In consequence of that transaction settlement, the one-off income was PLN 11.9 million (Q2 2017).

General and administrative expenses

In 2017, the general and administrative expenses of ING Bank Śląski S.A. went up by 1.3% y/y to PLN 2,035.4 million. The 2016 costs were raised by a one-off event – additional costs of the Bank Guarantee Fund contribution in the amount PLN 12.2 million due to the bankruptcy of the Cooperative Bank in Nadarzyn.

Upon excluding the one-off events from general and administrative expenses, the recurring costs went up by 1.9% y/y following higher general and administrative expenses.



Impairment losses and provisions

In 2017, the value of impairment losses for financial assets and provisions for off-balance sheet liabilities settled at PLN 399.6 million vis-a-vis PLN 268.5 million a year earlier.

In 2017, higher impairment losses in the corporate segment were driven by a lower scale of releases of impairment losses y/y and several new exposures classified to the impaired portfolio (exposures to entities not related to each other, from various sectors of the economy). 2017 saw three transactions made by our Bank concerning the sale of corporate receivables classified as impaired or fully derecognised loans. All transactions positively impacted impairment losses totalling PLN 36.1 million (PLN 28.1 million in 2016).

In the retail segment, in 2016, the Bank established an additional IBNR provision of PLN 31.8 million for

the FX mortgage loan portfolio. Adjusted with the same amount, the balance of impairment losses went up by 49.7% y/y, among others due to the rising share of unsecured loans in the portfolio of retail loans. In 2017, we made sale transactions of retail receivables classified as impaired loans. The transaction positively impacted impairment losses totalling PLN 11.0 million (PLN 23.0 million in 2016).

Tax on certain financial institutions

In 2017, ING Bank Śląski S.A. paid the tax on certain financial institutions (the so-called bank levy) of PLN 330.1 million. It was PLN 49.9 million (or 17.8%) higher than in 2016 thanks to the following factors:

- in keeping with the Act, the tax has been accrued monthly since February 2016. In other words, in 2017, the Bank paid the tax for 12 months, while in 2016 it was for 11 months,
- a higher tax base. This follows a consistent growth in commercial volumes.

Income tax

In 2017, ING Bank Śląski S.A. posted the income tax of PLN 455.9 million. It was 23.6% higher than in 2016. In 2017, the effective tax rate was 25.3% versus 23.4% the year before.

A higher tax rate in 2017 stemmed from the changed contributions to the Bank Guarantee Fund. In 2016, the mandatory fee was tax deductible, while the prudential fee was not. In 2017 – in keeping with Article 16.1.71 of the Corporate Income Tax Act – neither the banks' guarantee fund contribution nor the payment to the banks' compulsory resolution fund were tax deductible.

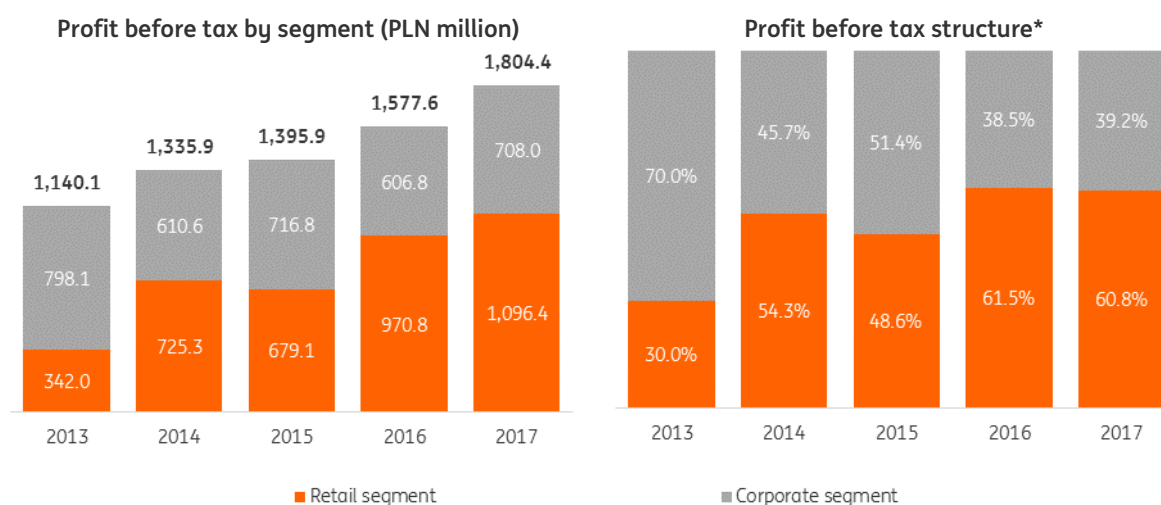
These 2016 and 2017 increases in the effective tax rate were influenced by the bank levy, which under Article 16.1.70 of the Corporate Income Tax Act is not a tax deductible cost.

Report by business segment

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

- retail banking segment, which encompasses private individuals (mass clients and affluent clients sub-segments) and entrepreneurs (small business), and
- corporate banking segment, which comprises service of institutional clients and FM products' operations.

In 2017, the Bank result before tax broken down into segments was as follows:



In 2017, the result of the retail banking segment and of the corporate banking segment accounted for 60.8% and 39.2% of the Bank's result before tax respectively (in 2016: 61.5% and 38.5%, respectively).

Result before tax in the retail banking segment

	2017	2016	2015	2014	2013	Change 2017 / 2016	
						PLN million	%
Net interest income	2,131.4	1,849.5	1,490.0	1,358.0	1 028.4	281.9	15.2%
Net commission income	406.4	368.4	347.5	422.0	424.5	38.0	10.3%
Other income	109.6	222.6	207.4	160.8	135.4	-113.0	-50.8%
Total revenue	2,647.4	2,440.5	2,044.9	1,940.8	1 588.3	206.9	8.5%
General and administrative expenses	1,266.2	1,230.6	1,296.0	1,136.8	1,117.9	35.6	2.9%
Impairment losses and provisions	158.2	137.5	69.8	78.7	128.4	20.7	15.1%
Bank levy	126.5	101.7	0.0	0.0	0.0	24.8	24.4%
Profit before tax	1,096.4	970.8	679.1	725.3	342.0	125.6	12.9%

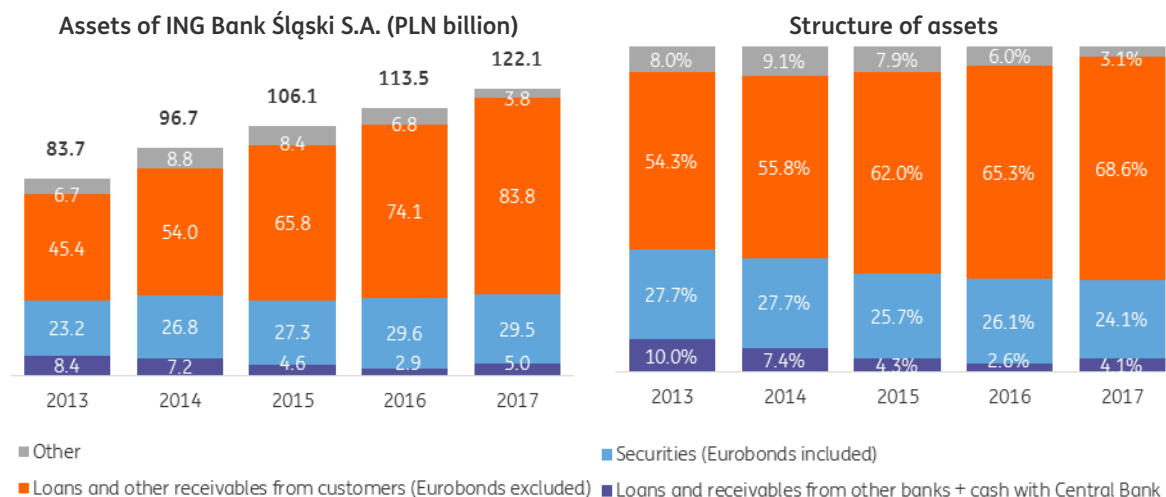
Result before tax in the corporate banking segment

	2017	2016	2015	2014	2013	Change 2017 / 2016	
						PLN million	%
Net interest income	1,186.9	975.5	853.5	853.2	896.4	211.4	21.7%
Net commission income	726.3	646.7	603.8	580.9	539.8	79.6	12.3%
Other income	8.9	73.3	141.5	18.6	107.4	-64.4	-87.9%
Total revenue	1,922.1	1,695.5	1,598.8	1,452.7	1,543.6	226.6	13.4%
General and administrative expenses	769.2	779.1	739.0	677.4	637.3	-9.9	-1.3%
Impairment losses and provisions	241.4	131.0	143.0	164.7	108.2	110.4	84.3%
Bank levy	203.6	178.5	0.0	0.0	0.0	25.1	14.1%
Profit before tax	708.0	606.8	716.8	610.6	798.1	101.2	16.7%

Statement of financial position

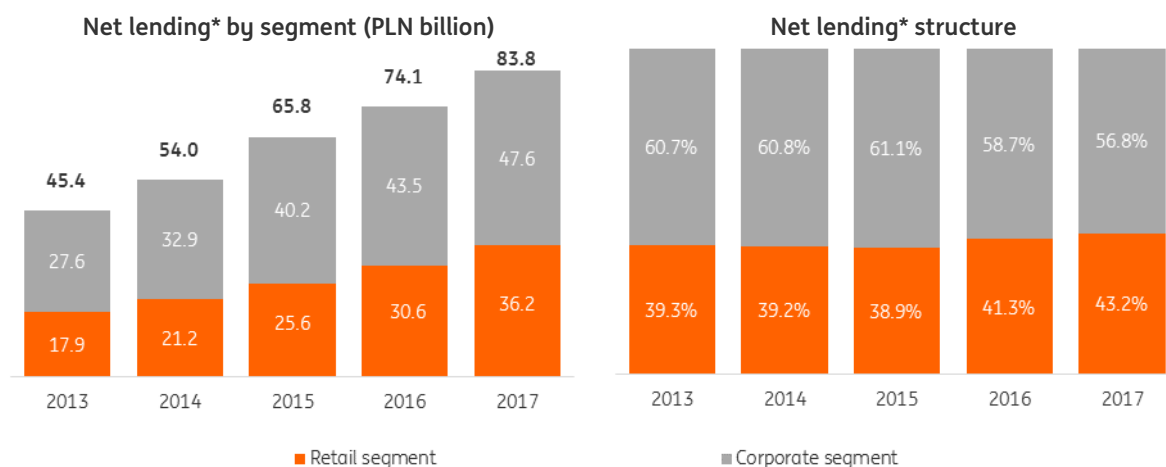
Assets

As at 2017 yearend, the total assets of ING Bank Śląski S.A. were PLN 122.1 billion (up by 7.6% from 2016 yearend). The portfolio of loans and other receivables from customers was the primary growth trigger. It went up by PLN 9.6 billion y/y (or 13.0%) and closed with PLN 83.8 billion. These items prevail in the assets structure. As at 31 December 2017, they represented 68.6% of all Bank assets.



The securities portfolio (Eurobonds included) also represented a major item in the statement of financial position of the Bank – PLN 29.5 billion (or 24.1% of assets). Debt securities composed of investment assets of PLN 25.9 billion (including available-for-sale assets of PLN 17.6 billion and financial assets held to maturity of PLN 8.4 billion) dominated the portfolio.

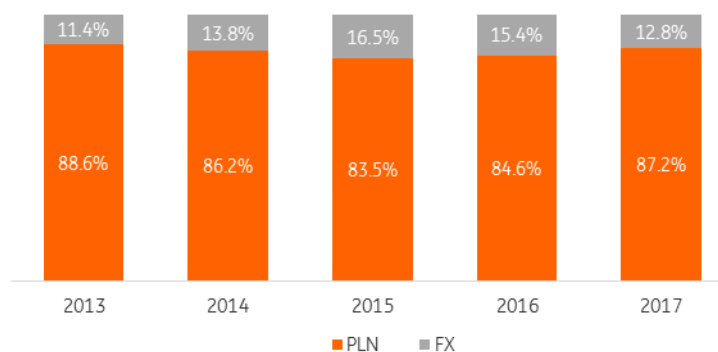
Both retail and corporate net loans and other receivables from clients increased the balance as at 2017 yearend when compared with 2016. The growth attributed to retail and corporate segments was PLN 5.6 billion y/y and PLN 4.1 billion y/y, respectively. As a result, the share of retail exposures rose by 1.9 p.p. y/y to 43.2%.



* loans and other receivables from customers excluding Eurobonds

In the FX structure of the portfolio of net receivables from customers (excluding Eurobonds) in split into currencies, the share of PLN-denominated exposures went up by 2.6 p.p. (to 87.2%). Their growth follows the rise in PLN-denominated receivables by PLN 10.3 billion from 2016 (or +16.4%) and the decline in FX-denominated exposures by PLN 0.7 billion y/y (or -5.9%).

FX structure of the portfolio of net receivables from customers*



* loans and other receivables from customers excluding Eurobonds

The portfolio of net receivables from customers and its structure are presented in the table below:

Net loans and other receivables to customers of ING Bank Śląski S.A. (PLN million)					
	2017	2016	2015	2014	2013
Credit receivables from households	37,737.6	31,985.1	26,652.9	21,884.6	18,379.8
Credit receivables from institutional clients*, including:	46,037.2	42,142.9	39,142.4	32,144.1	27,054.0
Loans and cash loans	43,357.5	39,541.5	36,012.3	29,322.7	24,790.9
- Business entities	32,522.3	29,445.6	25,810.0	20,582.2	17,253.9
- Financial entities (other than banks)	9,014.7	7,866.6	7,589.9	6,048.0	4,894.9
- Entities of the sector of central and local government agencies	1,820.5	2,229.3	2,612.4	2,692.5	2,642.1
Debt securities**	2,532.2	2,512.8	3,055.6	2,766.1	2,175.7
Other receivables	147.5	88.6	74.5	55.3	87.4
Total net credit receivables	83,774.8	74,128.0	65,795.3	54,028.7	45,433.8
- Net Eurobonds	3,564.1	3,910.0	3,838.1	3,923.4	3,685.8
Total net loans and other receivables to customers	87,338.9	78,038.0	69,633.4	57,952.1	49,119.6

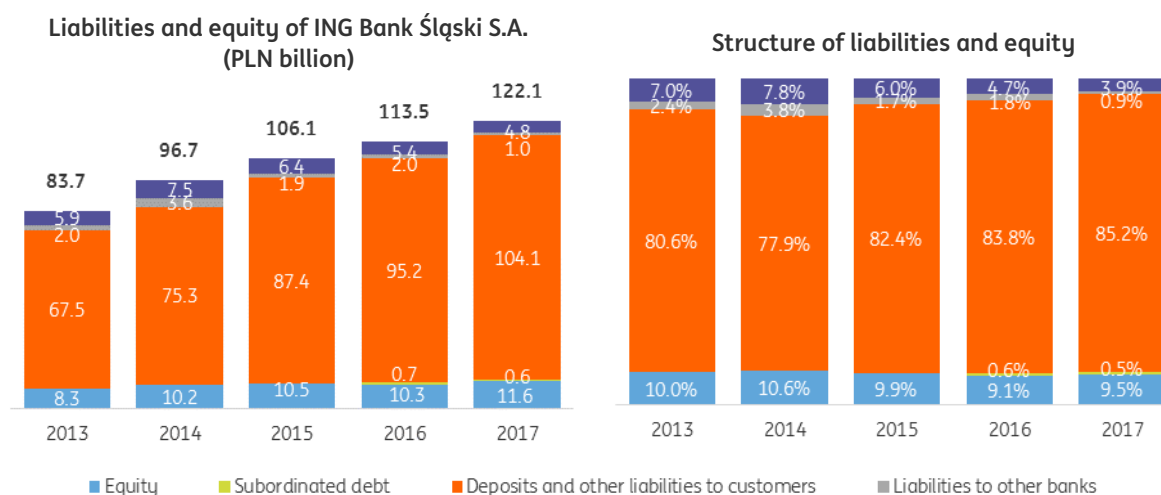
* receivables from customers under repo transactions excluded

** Eurobonds excluded

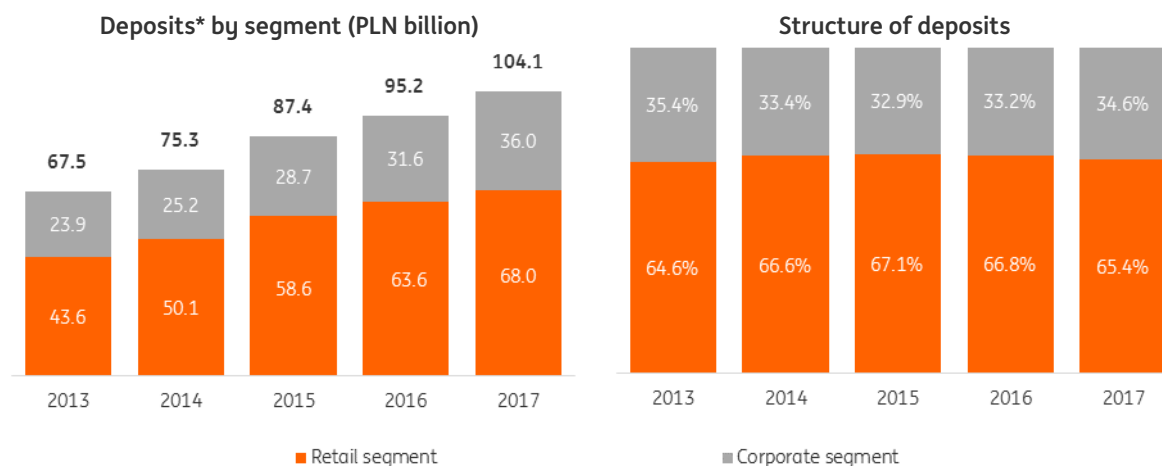
Liabilities and equity

The customers' funds constituted the dominant source of funding for the operations of ING Bank Śląski S.A. As at 2017 yearend, the liabilities to customers were PLN 104.1 billion, or represented 85.2% of all liabilities.

Equity was another most important funding source. As at the end of December 2017, it stood at PLN 11.6 billion and represented 9.5% of total liabilities.

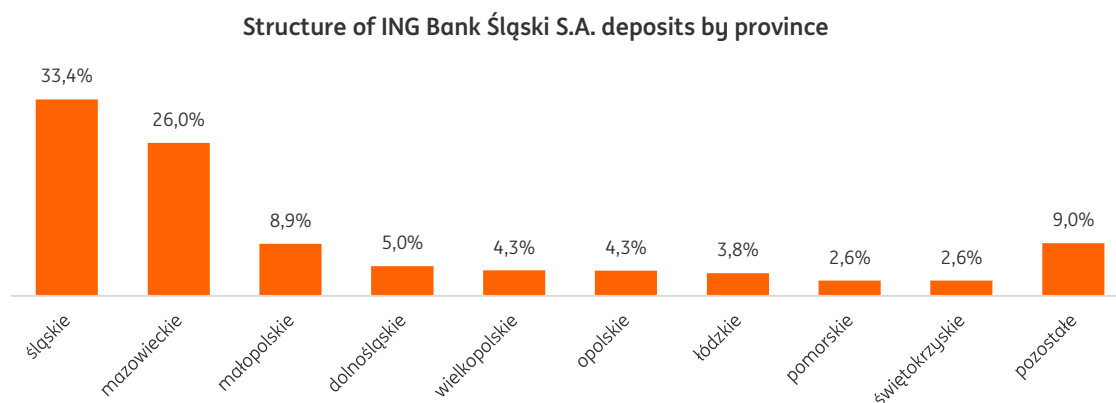


In 2017, deposits and other liabilities to customers built up by PLN 8.9 billion y/y or 9.4% to PLN 104.1 billion. The nominal growth effectuated in 50% by the retail segment and in 50% by the corporate segment. Although the share of the retail segment declined by 1.5 p.p. y/y; it invariably dominates in the structure of liabilities to customers with a weight of 65.4% as at 2017 yearend.



* deposits and other liabilities to customers

The graph below shows the structure of deposits and other liabilities to customers of ING Bank Śląski S.A. by province:



* deposits and other liabilities to customers

The portfolio of liabilities to customers and its structure are presented in the table below:

Liabilities to customers of ING Bank Śląski S.A. (PLN million)					
	2017	2016	2015	2014	2013
Liabilities to households, including:	67,973.4	63,605.6	58,812.4	50,135.2	43,451.2
Deposits	67,918.6	63,548.0	58,751.6	50,077.2	43,387.2
Other liabilities	54.8	57.6	60.8	58.0	64.0
Liabilities to institutional clients*, including:	36,102.4	31,562.8	28,571.3	25,190.8	24,016.9
Deposits	35,019.7	30,639.0	27,845.2	24,575.1	23,444.8
- Business entities	29,220.8	25,431.7	23,615.3	20,238.5	17,863.1
- Financial entities (other than banks)	4,025.0	3,466.6	2,610.4	2,468.1	3,490.9
- Entities of the sector of central and local government agencies	1,773.9	1,740.7	1,619.5	1,868.5	2,090.8
Other liabilities	1,082.7	923.8	726.1	615.7	572.1
Total liabilities to customers	104,075.8	95,168.4	87,383.7	75,326.0	67,468.1

* liabilities to customers under repo transactions excluded.

Off-Balance Sheet items

As at 2017 yearend, the ING Bank Śląski S.A had:

- contingent liabilities granted totalling PLN 28.8 billion. This shows a rise of 6.9% or PLN 1.8 billion from 2016 yearend. Unutilised credit limits which represent 74.9% of all granted off-balance sheet liabilities form the dominant item. Committed credit facilities comprise: approved loans, credit card limits and bank overdrafts,
- received contingent liabilities in the amount of PLN 81.8 billion (up by 5.3% from a year earlier),
- off-balance sheet financial instruments (derivative transactions) totalling PLN 501.0 billion (up by 14.0% from the end of 2016).

Off-balance sheet items of ING Bank Śląski S.A. (PLN million)

	2017	2016	2015	2014	2013
Contingent liabilities granted	28,844.2	26,994.5	23,453.5	23,394.6	18,739.8
Unutilised credit lines	21,598.6	21,135.2	17,367.6	18,120.4	14,092.7
Guarantees	4,439.9	3,195.5	3,461.0	2,892.4	2,341.1
Unutilised overdrafts	1,336.1	1,273.7	1,310.3	1,214.7	1,159.5
Credit card limits	1,079.4	998.3	922.5	845.2	764.8
Letters of Credit	390.2	391.8	392.1	321.9	381.7
Contingent liabilities received	81,822.3	77,680.1	51,424.8	41,454.6	35,201.1
Off-balance sheet financial instruments	500,985.8	439,561.7	35,862.2	297,537.4	215,566.4
Off-balance sheet items total	611,652.3	544,236.3	433,500.5	362,386.6	269,507.2

Details of off-balance sheet liabilities were presented under note 38 to the 2017 Financial Statements of ING Bank Śląski S.A. on page 102.

IV. Customer experience

Development of new technologies, changes in means of communication and rising needs of clients make us search for new ways to contact our clients. Our clients may have different needs, but what they have in common is the expectation of the personalised approach tailored to their actual needs.

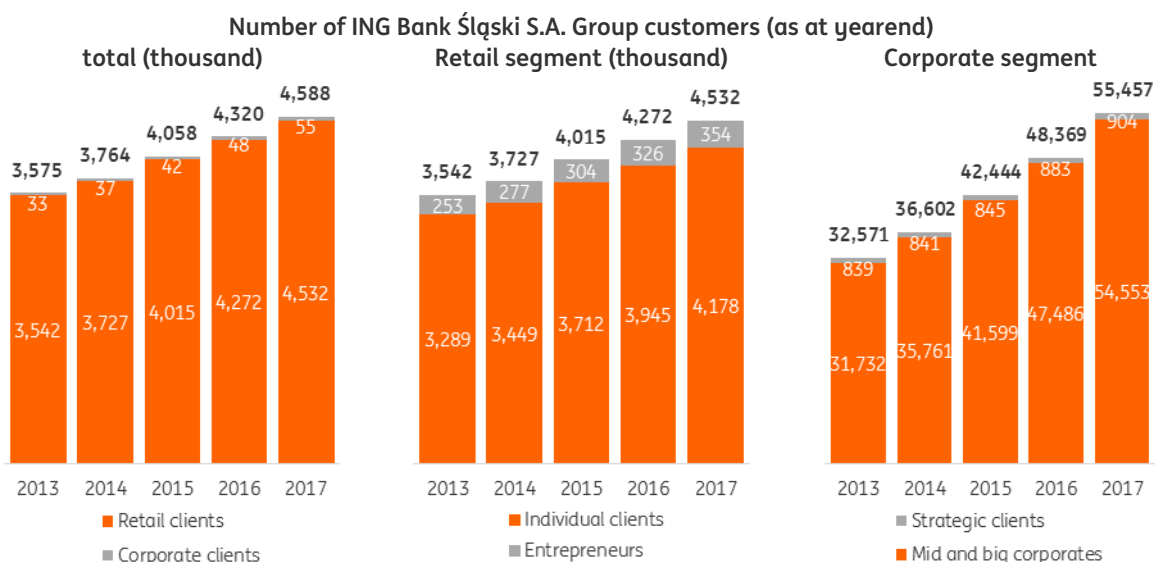
At ING Bank Śląski S.A. we want over 4.5 million our clients to always have easy, quick and intuitive access to their funds.

We make banking easily and quickly accessible via all devices. We facilitate client communication with us and streamline access for disadvantaged people. Our clients know what they are buying – we use plain language to talk about our products. We guide our clients towards making autonomous and informed financial decisions and we listen to them closely. Their feedback helps us to implement new application solutions and features and to change our branches.

1. Dialogue

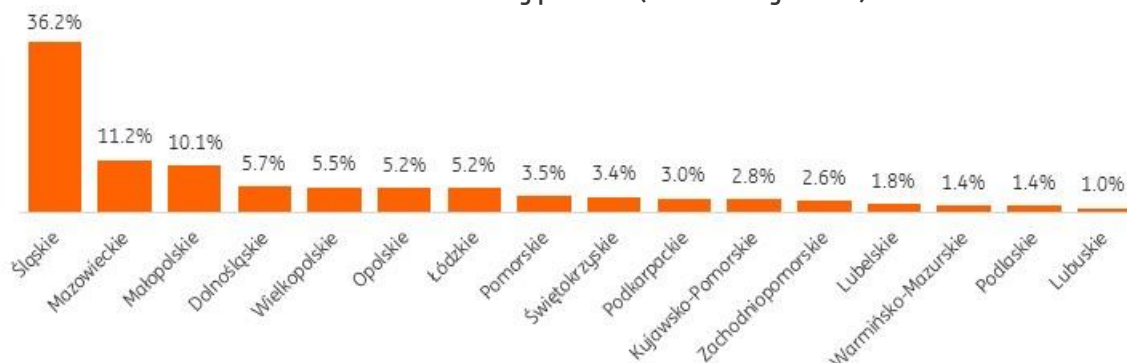
We perceive our role in building customer experience more widely. Our goal is not only to provide banking products. We wish to educate our clients by motivating them to make informed decisions when it comes to managing their funds. Even the clients themselves more frequently expect us to do more for them than just safe-keep or transfer their money. Their expectations concerning information acquisition and experience exchange are growing. Internet users often use the opinion and experience of others when making their decisions. That is why, we propose solutions that will help them make informed decisions and be always a step ahead in life and in business.

Our intention is to empower people to take action. We know that our Bank would not exist without clients. As at 2017 yearend, nearly 4.18 million individual clients, 354 thousand entrepreneurs and over 55 thousand corporate and strategic clients put their trust in us – they deposited over PLN 115 billion with our Bank.

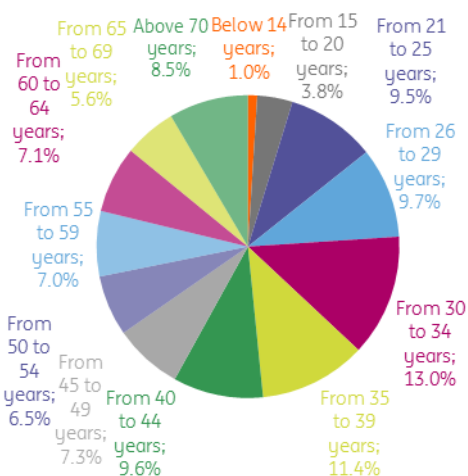


The structure of our retail clients

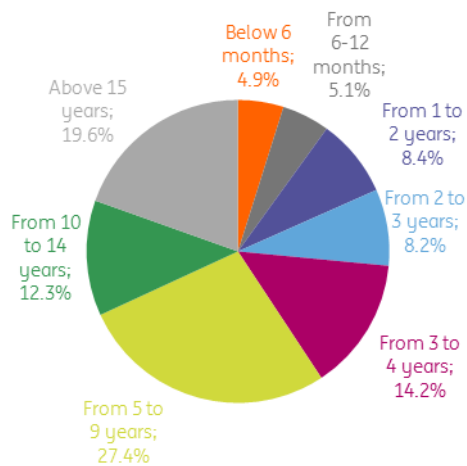
Structure of retail clients by province (as at 2017 yearend)



Structure of individual clients by province (as at 2017 yearend)

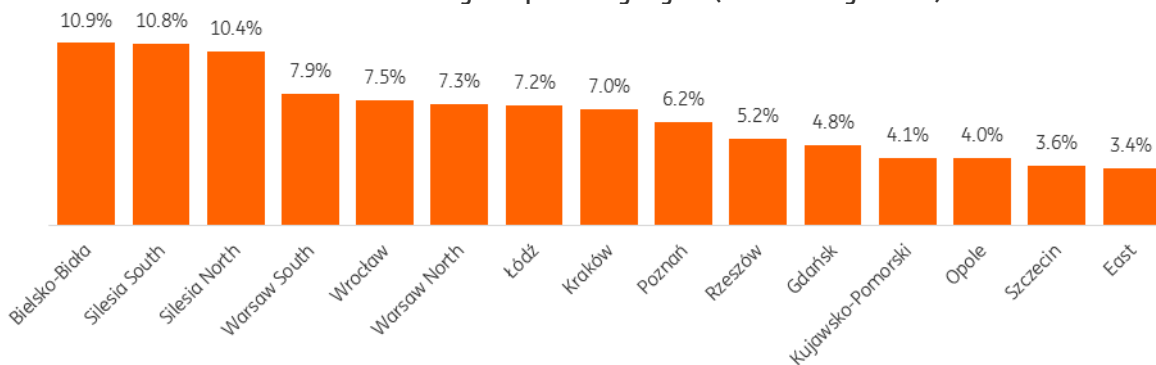


Structure of entrepreneurs by duration of business (as at 2017 yearend)

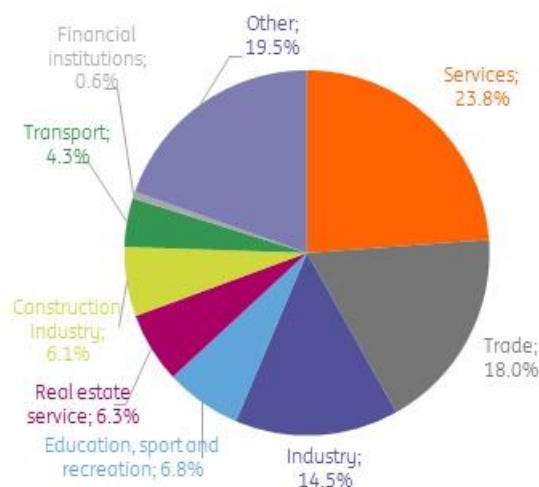


The structure of our corporate clients

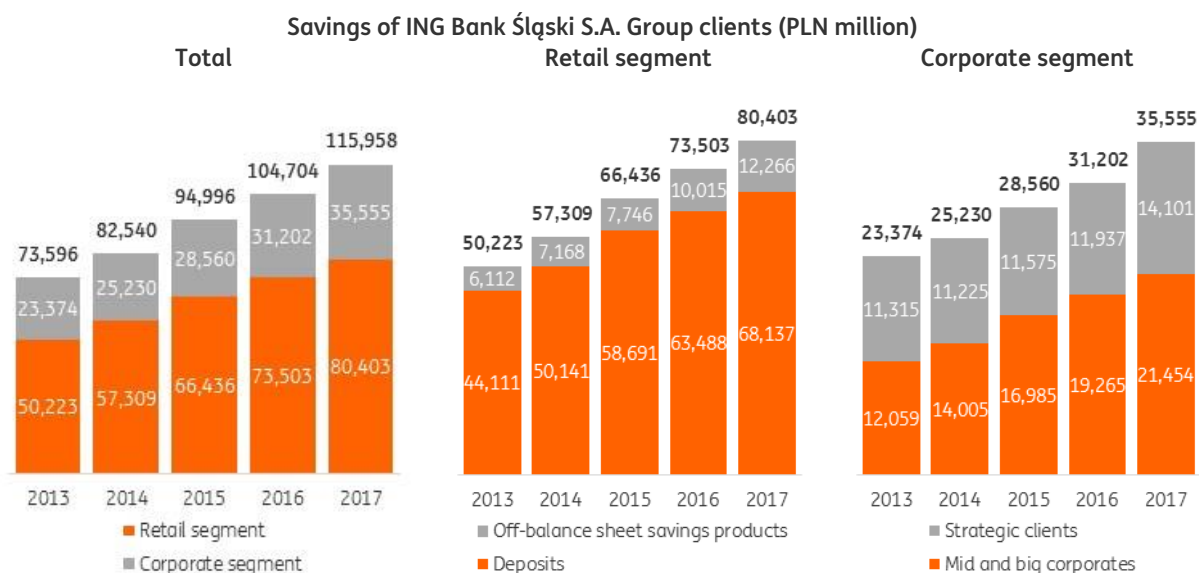
Structure of mid and big companies by region (as at 2017 yearend)



Structure of corporate clients by sector (as at 2017 yearend)

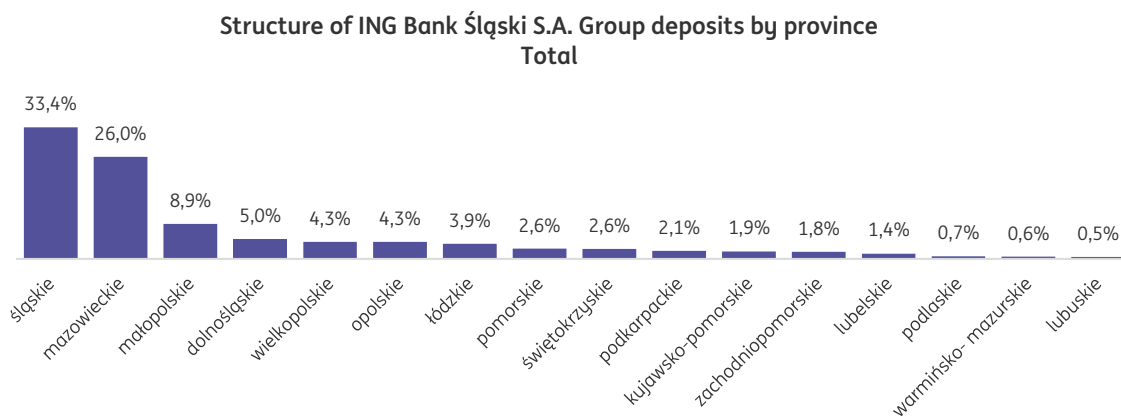


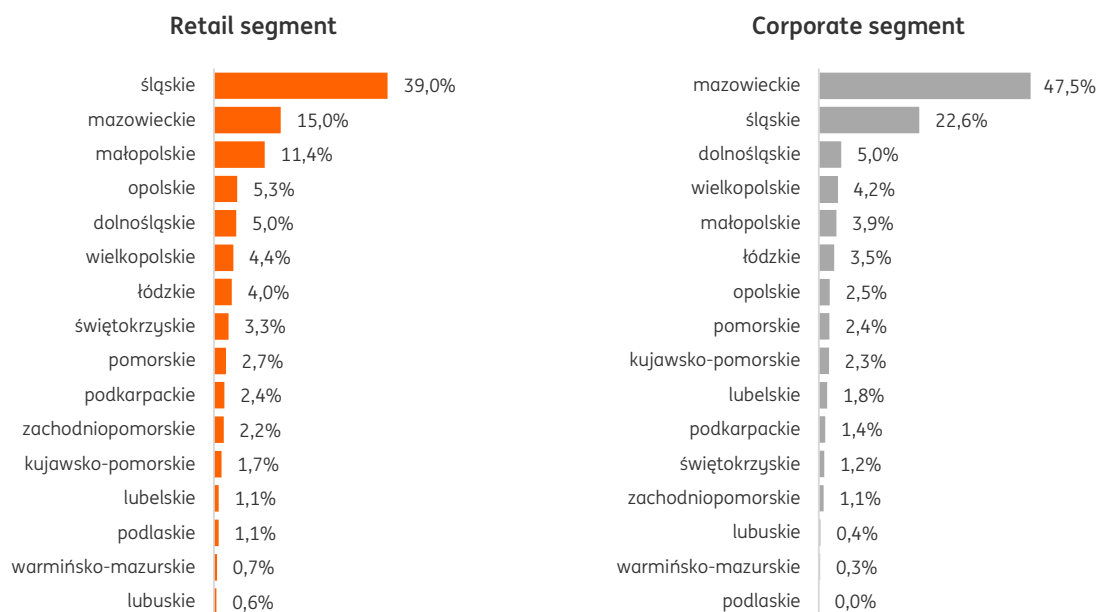
The savings of ING Bank Śląski S.A. clients



* management data

The structure of deposit balances by province





*deposits and other liabilities to customers






Access channels to our services

Customer trust is a huge responsibility but also an obligation to render top-notch services. We are perfectly aware of that at ING Bank Śląski S.A. Therefore, for years now we have been improving our services and regularly checking whether clients are satisfied with them. Regardless of the form, channel and frequency of bank-client interactions, we want to establish strong and long-lasting relationships with our clients.

We adjust the means of communication to clients' expectations. For example, our business relationships with strategic corporate clients are mainly based on consultations. Many meetings are held in the form of workshops for clients during which we assume the role of Trusted Advisor. We carefully listen to the clients and offer a one-stop shop solutions.

Strategic clients appreciate the industry know-how of Bank Relationship Managers. The solutions we offer to our clients are beneficial for their business processes, sales and procurement ones as well. A single dedicated team responsible for the client is our strength in contacts with clients. The manager coordinates the entire cooperation with a given client. Additionally – already at the sales stage – we introduce the client to the persons responsible for product rollout and on-going service.

Access channels to our services

-  Intermediaries (ING Express, Bank representatives)
-  Contact Centre (phone, forum, Facebook)
-  ATMs, CDMs, recyclers
-  Online and mobile banking
-  Branches, advisors

CHATing

We are looking for new communication channels all the time to be even closer to our clients. We want to provide clients with easy access to our advisors in the manner they find most convenient. Therefore, in July 2017, we resolved to launch a new contact channel – CHAT. We want to be for the client “here and now”.

CHATing with clients is a new challenge for us. Hence, we started with the communicator on our website in the contact tab. This gave us time for analysis and changes. We saw how clients react and we learned their opinions and behaviour. At the next stage, we were more active on the contact site.

By doing this, we helped clients and ourselves to grasp the new process.

CHAT service is open from Monday to Friday, 8:00 am to 8:00 pm and on Saturday, 08:00 am to 4:00 pm.

We will steadily develop this new functionality. We started CHAT-oriented works in Moje ING to be able to provide clients with more thorough information there.

How do we measure client satisfaction?

- **Over the phone** – this is how we surveyed opinions about our helpline, for example. As at 2017 yearend, we managed to achieve first call resolution for 81% of individual clients, and 94% were either satisfied or very satisfied with the consultant's service. The telephone is also one of the major means of gathering corporate clients' feedback.
- **At branches** – we employ a Mystery Shopper survey on a regular basis. These surveys confirm the top-notch quality of individual client and entrepreneur service standards.
- **Personally** – we meet with our corporate clients face-to-face on a regular basis. Relationship Managers gather clients' suggestions as regards our products and services on a regular basis.
- **On the social media** – we invite clients to follow our ING Community service – a place where no question is left unanswered. At the same time, we carefully read each user's comments. We do so, among others, on Facebook, where our profile is followed by nearly 214 thousand people, and on Twitter (over 16,5 thousand followers).
- **By e-mail** – in 2017, we compiled over 63,000 completed questionnaires in the NPS survey. We reviewed 8 points of client with Bank contact. We sent several thousand emails to clients each week as part of the NPS survey. We asked them whether they would recommend our bank to their family and friends. Through this we learnt that in 2017 clients gave the cash loan disbursement procedure 9.3 points out of 10. At the same time, they awarded 7.5 points to the complaint handling process, while 8.9 to the service quality at a branch and 8.7 for mobile banking. In the corporate banking segment in the last two quarters, the clients assessed the bank account opening process at 8.2. The NPS indicator reached 46.

We listen to our clients

At ING Bank Śląski S.A. we believe that clients are best aware of their financial needs. The remarks and comments we receive from them inspire us. The employees of relevant units read and analyse each report, idea or information. Communication with clients is an invaluable source of feedback and it triggers on-going streamlining which proves to be the best response to clients' needs. Clients' suggestions helped us to develop our online and mobile applications – Moje ING for individual clients and entrepreneurs and ING Business for corporate clients, to name a few.

How we work with clients' feedback:

- Collecting customers' voice through different channels: social media, Contact Centre, complaints, NPS survey, marketing research.
- Examination of the customer's voice.
- "Customer Voice" meeting (we talk to people who create processes and products at the Bank about what our customers are saying).
- Recommendation of changes.
- Implementation of changes.

- Monitoring of changes.

In 2017, we gathered over 580 thousand retail client voices. More than 50% of them reached us via Moje ING messages. Clients wrote to us most frequently about accounts, online and mobile banking, cards and transactions. 60% of all voices were from Primary clients. We recorded an increased number of client voices during the failure of Moje ING as well as after publishing the information on the planned switch-off of the ING BankOnLine login option on the Bank website.

In H2 2017, clients more and more often praised the quality and user friendliness of our mobile application.

Client voice inspires us all to expand or change the existing solutions and to build completely new ones. In 2017, client opinions helped us to direct over 400 change proposals to diverse business areas. Thanks to the involvement of multiple units, 140 of them were implemented.

2. Availability, speed and intuitiveness

In this digital era, ING Bank Śląski S.A. is now available on each device. We use the newest technologies and constantly improve our applications to make them more user-friendly for our clients. We never forget about people with disabilities. We believe that modern banking is for everyone.

- As at 2017 yearend, we had 357 bank branches.
- As at 2017 yearend, we had 726 own devices and 355 co-sourced ones (1,081 in total).
- We are continuously expanding the preferred network (the ING Bank Śląski S.A and Planet Cash machines via which our clients can transact for free). We had over 3,000 of them as at 2017 yearend.

Each day, we prove that you can talk and write about finance clearly. We use a plain language. We want our clients to make informed and autonomous financial decisions. Our financial education programmes help them with that.

- We have simplified 76 agreements so far.
- In January 2017, as the very first bank in Poland, we received a plain language certificate issued by the Plain Polish Laboratory.

Moje ING

Moje ING personal banking

Moje ING does not stand for an online and mobile banking system only. It is a kind of a remote assistant that, at any time, provides a given person with the best and tailored-made solution. It also plays an educational function – it provides advice on how to manage finances in an informed manner. The Coach Module helps clients to analyse their financial standing and indicates solutions for expenditure control, savings or money multiplication. These functions have been tailored to the clients' needs.

Voice of the customer

Our clients have a fundamental impact on our offer and solutions we use. Moje ING was developed based on the analysis of thousands of opinions and expectations. They were filed by our clients. We strive after implementing the latest technologies, but client's needs are most important to us.

Intuitive and convenient

We combined design with usability. We wanted the client to receive a visually attractive system

without thinking how to perform a given transaction. Each solution was tested and verified with the users on multiple occasions.

Available on each device

In Moje ING the same actions can be performed with equal ease on any device, be it a smartphone, tablet or computer. We also developed Moje ING mobile application for smartphones. It has all features of the full system version. We also added features that are available without logging in.

New features

In 2017, we continued Moje ING online banking development. Following the recommendations of the institutions we collaborate with, we launched facilities for people with disabilities. New improvements consist in providing electronic banking in the high-contrast mode and making it available on text readers. Further, tab keys can be used to scroll the application screen. First, the most frequently used features like the home page, product details, transfer module or history of transactions were adjusted.

Additionally for clients:

- We enabled the function My documents – the disk space where bank documents of our clients: text, pdf and graphic files are saved automatically. With this service, clients obtain permanent access to their documents and can manage them easily in the Moje ING system.
- We launched the option of account opening for minors. A parent may open an account for their child in the online banking application.
- In the Offer tab, we activated the option of purchase of products for our Premium segment clients.
- We provided selected groups of our clients with Moje ING online banking – entrepreneurs who had access to the old version of the ING BankOnLine system so far.
- The persons who want to personalise their card image, since 2017 can design their NFC-enabled Visa My ING Card. On the card, they may put an image from the bank's gallery (where over 100 images are available) or their own photo.

Moje ING mobile application

Throughout 2017, Moje ING application has 860,000 active users. In the Moje ING mobile application, we enabled the following features:

- site personalisation before application login by adding quick links to selected features,
- fingerprint-based login for the clients using the Android system,
- receipt saving and storage as graphic files,
- mobile phone payments – Mastercard on the phone. Clients can pay with it everywhere where NFC payments are accepted.

Moje ING for everyone

We want to make Moje ING accessible for everyone, even the blind or visually-impaired. That is why, we closely cooperate with the Widzialni foundation that specialises in advisory services, surveys and audits of WCAG 2.0 standard-related areas, to name a few. It is inter alia thanks to this collaboration, that we managed to introduce so many improvements in 2017.

ING Business

In October 2016, we started to provide online banking application users with a new release – ING

Business – step by step. From February 2017 onwards, each new corporate client was using a new system version only. Since July 2017 ING Business can be accessed by nearly 53,000 companies – over 104,000 users in total. At the 2017 yearend, nearly 96% of corporate clients were new system users.

Clients can also use the mobile application – over 30% of companies installed our application. This translates into activity too. With the mobile application, users made 40% transfers more in Q4 2017 than in the same period of 2016.

The vast majority of our clients with current accounts at ING Bank Śląski S.A. use the ING Business online banking system to interact with the Bank.

ING Business features

Not only retail clients use our online solutions more and more frequently. Companies also file more and more credit applications online. As at 2017 yearend, the share of e-forms in the total of all application forms filed by companies stood at 93.1%. We are also shortening the waiting time for credit decisions. The other improvements introduced in the Fast Track lending path – both in terms of lending parameters and processing – made the share of this path materially gain in significance (up from 51.7% in 2016 to 69.8% in 2017).

ING Monitoring is the application used to monitor the client's satisfaction of liabilities under credit agreements concluded with the Bank and watch the Client's financial standing. It has been constantly improved since its launch in 2014. In 2017, multiple pre-planned modifications and improvements were introduced which to large extent were proposed by users. Their examples include an automatic annual review for the clients with exposures of up to PLN 6 million or centralisation of the collateral review process for the clients covered with simplified monitoring.

Other client-centred improvements are as follows:

CCY offer

In 2017, we provided clients with a new CCY offer. In May 2017, we added to the offer the FX platform via which clients may exchange currencies (PLN, EUR, GBP and USD) at rates set trade by trade. The platform can be used by grown-up individual clients and sole entrepreneurs. The service is free of charge. No extra applications are needed to use it.

In June, we provided the NFC-enabled VISA card holders with a new FX feature. It enables clients to use their FX accounts with just one card. The selected EUR, GBP or USD account can be pinned to the card at any time. In that way, clients can make transactions directly in those currencies without having to pay the currency conversion fee. The feature is available for each Visa payWave card user.

ingbank.pl website

In 2017, we launched the option to personalise content on the online banking exit pages. In that way, clients who log out see the offers and information which suit their needs most. Furthermore, we revamped the entrepreneurs section. The new section lists products tailored to business clients' needs and responds better to their expectations.

The bank's website also provides for an expanded section for OAPs where pension products can be bought.

My discounts loyalty programme

The new loyalty programme enables clients to enjoy discounts in online and brick and mortar shops, and also at service centres using the discount codes.

Throughout 2017, the My discounts loyalty programme offered around 40 different discounts on the average. Clients downloaded approximately 50,000 discount codes.

Brokerage account ING

Transparency of and mobile access to the brokerage service are key in our offer. They are appreciated by both fledging investors and those more experienced ones. ING clients may activate a new brokerage account in just a few minutes. In 2017, these advantages made ING Brokerage Office record the highest growth in brokerage accounts in the Polish sector and its account was the preferred one in the market. We set up 9.1 thousand new accounts net, whereby in 2017 we had record results of nearly 70.2 thousand active accounts (up by 18% y/y) and a 5.2% market share.

Asset management service

In 2017, we had great assets under management results. Our two portfolios were top-rated (5A) by the AnalityOnline.pl portal. The share-linked insurance plan (UKF Plan Akcji) and the unit-linked pension portfolio (UKF Portfel Emerytalny Plus) were recognised for management quality first and foremost.

We ushered in a new market feature, that is including the commission brackets in the Table of Fees and Commissions instead of negotiating them case by case. Further, we focused on offer transparency. We were the first in Poland to resign from the individually negotiated commissions, providing clients up-front with the amounts of order commissions they should factor in for individual brackets instead.

We respond to client needs

Our outlets

We consider the quality of our services, their accessibility and customer experience as a measure of our care about customer satisfaction. We want to be easy to find and contact. We want to provide our clients with clear and accurate information.

Modern and comfortable interior of our branches helps us to build long-lasting relationships. The decor of and atmosphere at the branches facilitate direct contact with advisors under the professional financial consultancy service. Modular interior design allows quick introduction of improvements. Depending on the clients' needs, we also try to adjust our opening hours. Clients can use the latest solutions – there are free Wi-Fi and internet stands available at branches, and in some of them (approx. 260), clients can also make video calls. This enables clients to chat online with mortgage loan or business finance experts.

There is a self-service zone at every branch. It gives clients easier access to banking services. Clients can use devices that offer both ATM and CDM features – 24/7.

As at 2017 yearend, our bank had 357 branches (including 88 non-cash branches – where cash transactions are done only in multifunctional devices or in ATMs). There are 24/7 self-banking zones in Bank branches where the clients may deposit or withdraw funds on their own.

We adapt branches to needs of disadvantaged people.

We are striving to make our branches accessible to everyone, including those with disabilities or those who visit us with prams. We design the interior as per their needs and we eliminate barriers. Some examples of facilities for disadvantaged people include:

- ramps, threshold ramps, lifts, elevators and other devices providing them with unassisted access to the branch,
- rails in communication passages,
- wide entrances through which a wheelchair can pass,
- sanitary facilities,
- non-slip floor tiles,

- bells to call the branch personnel,
- coloured markings, clear descriptions and notices that help them to have better orientation,
- devices with embossed keyboards that inform clients with eyesight problems about the possibility to make NFC transactions.

As at 2017 yearend, approximately 280 of our branches were fully adapted to the needs of people with different disabilities.

The implemented so far facilities for the disadvantaged people concern both branch and non-branch machines:

- headphone outlet sockets at ATMs (audio) – 143 outside branches,
- machine keyboard with markers (convexly marked keys) – 722 in the network of branches, 359 – outside branches; 1,081 machines with ING logo in total,
- Braille alphabet stickers for machine elements (e.g., a card reader, a printer of confirmations) – 124 at branches, 197 outside branches; 321 with ING logo in total,
- NFC transactions – 722 at branches, 145 outside branches; 867 with ING logo in total,
- “ATM for partially-sighted”, “NFC feature” filter in the machine search engine on the Bank’s website – for all machines with ING logo (1,081).

3. Plain communication

We want our clients to make the best financial decisions. However, we are aware that to do so, they need information to be provided in a plain and friendly manner. Therefore, we have decided to write about banking-related matters in a simple and concise way only. We also popularise the plain language concept as it helps us to save time and to look after our relationships. Writing using plain language means that we remove all the unnecessary words, complex grammatical structures or phrases that make us look more like a public office. That is why, in 2017, we continued the Plain Language project which serves communication simplification.

Written and said in “Plain Language”

Content of Moje ING is simple and friendly. In January 2017, Moje ING received a plain language certificate issued by the Plain Polish Laboratory. ING Bank Śląski S.A. is the very first Bank in Poland to have been awarded with such a distinction.

We are working on the tools to remind employees that their text should be reader-friendly. In 2017, we standardised our communication. Important texts to be received by our clients are checked by bank language experts. We want our texts not only to be clear but to build good relationships too.

Agreements and General Terms and Conditions

In 2017, we continued the process of simplifying our agreements and general terms and conditions. It is our top priority now. Simplification of legal texts requires much effort on our part and a broad collaboration of language experts, lawyers and business specialists. As at 2017 yearend, 76 templates of agreements were made more plain. Now, we are putting all those documents into practice and simply others.

Plain language at help-line and branches

Besides written communication, we also focus on spoken one. In 2017, we continued the project at our Contact Centre. Since its very beginning in 2016, we have trained nearly 280 employees in plain

communication. Particular attention was placed on the help-line specialists to make them adapt their speaking manner to the interlocutor.

In 2017, we introduced a new customer service model in which we concentrated on the way how specialists converse with clients. We put stiff and often artificial phrases aside. That specialists are natural and able to adapt to the manner of client communication is important.

4. Our clients – self-reliant and informed in their choices

We consider our role in building customer experience to be something more than just handling their cash. We wish to educate our clients by motivating them to make informed decisions when it comes to managing their funds. Even the clients themselves more frequently expect us to do more for them than just safe-keep or transfer their money. Their expectations concerning information acquisition and experience exchange are growing. Internet users often use the opinion and experience of others when making their decisions. That is why, we propose solutions that will help them make informed decisions.

Financial education

In 2017, we commenced education activities in the form of webinars, run as live Facebook transmissions. We educated on day-to-day saving and putting money aside for pension; further, we used the Money Coach feature to run the Financial Training webinar. We continued education activities in the social media, and also our thematic initiatives: My Better Plan and ING Investing Academy.

We want our clients to know the benefits Moje ING offers when it comes to a good financial plan. We want to educate them how to manage their money in an informed way, as it is something worth knowing.

That is why, Moje ING also offers support in financial planning. In November 2016, we launched a Money Coach module that helps our clients to analyse their financial standing. Based on the analysis results, it shows solutions for expenditure control, savings or money multiplication. It adjusts them to the client's individual needs. In 2017, the Money Coach module was used by 52 thousand clients.

Money Coach:

- Helps to analyse the individual financial standing of the client,
- Brings clients attention to the necessity to build a financial cushion – protection in case of unexpected expenditure,
- Makes a diagnosis and formulates recommendations that are to improve the client's financial standing,
- Shows clients who have not started saving yet how to do it,
- Shows how to multiple savings effectively.
- Shows clients with additional cash surpluses how much and where to invest them.

Just like the entire Moje ING system, Money Coach is available on all types of devices, including the mobile application.

ING Community

People trust those who are very much like themselves. Therefore, we wanted to provide our clients with a place, where they can freely exchange their opinions, and where we can monitor the discussion and take part in it whenever necessary to motivate and inspire one another. ING Community is a reliable opinion sharing platform that at the same time is also a source of knowledge of clients' expectations and the potential directions in which our products and services could be developed.

By combining the functionality of the old forum and the Zafinansowani.pl blog, what we created is not only a discussion and opinion sharing forum, but also (as target) a knowledge base with which clients will be able to manage their funds wiser and better.

ING Community contains game elements. By advancing to next levels, clients receive badges and likes. This is how they build their prestige and acclaim among other users. We are counting on the birth of the so-called superusers – most active users that will be the driver of the entire Community.

Our employees have “ING” tags in the game – so as to maintain transparency. We encourage them to actively participate in the Community’s life and to carefully follow the discussions.

In December 2017, more than 6,700 users of ING Community were registered. They all published nearly 11 thousand posts.

Our availability in the social media

In 2017:

- ING Community (www.spolecznosc.ingbank.pl) was visited by approx. 80,000 users a month,
- the Bank’s Facebook profile (www.facebook.com/INGBankSlaski) had over 214,000 fans as at the yearend,
- the Bank’s YouTube video channel(www.youtube.com/ingbsk) had over 88.6 million views and over 58.7 thousand subscribers as at the yearend,
- Twitter account (www.twitter.com/INGBankSlaski) was followed by 16.500 viewers at the yearend.
- the Bank’s Instagram account (www.instagram.com/ingbankslaski) was followed by over 4,000 users as at the yearend
- the Bank’s LinkedIn account (www.linkedin.com/company/698107), had over 7.100 followers as at the yearend.

V. Market and entrepreneurship development support

We work for businesses and enterprising persons. We support our business clients and partners in sustainable running of their business. We ensure access to funding and take credit decisions competently. We educate clients in finance, whereby they can better cope in their private life and business. We want our clients to make autonomous and informed financial decisions.

We support new companies with products “for start”.

We monitor expenses and payments automatically and facilitate book-keeping processes. We run platforms which connect suppliers with clients. We propagate cutting edge solutions and support digitalisation of the Polish economy.

1. Facilitation for companies and entrepreneurs

Whatever its size, each business which is our client can count on assistance going beyond traditional banking. We make close relationships with clients. We not only strive after satisfying their day-to-day needs, but we want to inspire them and help them grow as well. We support businesses by various initiatives including educational meetings and provision of state-of-the-art solutions that go beyond traditional banking.

Both in the corporate clients and retail clients (including entrepreneurs) areas we introduced the Agile organisational structure so as to become even faster and more efficient in offering new solutions to clients which will enhance competitiveness of their business.

We apply PACE methodology in the process of product development for companies whereunder we verify with clients the new products at key stages of their development. We do it to provide the solutions that will meet the clients' needs as far as possible.

We also established a new unit, Innovation Lab, to seek new solutions going beyond traditional banking, via cooperation with start-ups, among others.

Test your idea

So far only big companies have had tools enabling verification whether the new product or service will be well received by the market. This is how they avoided bad investment projects or failure to meet clients' needs. On the other hand, entrepreneurs have not had such an opportunity, usually using their intuition or opinions of friends and family. Now, everyone who has an idea for business may take a free test on www.ingbank.pl/testujpomysl – the largest free research platform for entrepreneurs. Test your idea is a survey on a selected sample of 120 respondents that was carefully picked out in terms of gender, age, and even region.

Apart from numerous favourable opinions also the figures prove the platform's success. Since September 2017, over 530 projects with over 67 thousand interviews were implemented. Poles provided over 250 thousand opinions about ideas of over 400 Polish entrepreneurs. The market worth of such surveys would exceed PLN 1 million.

New version of ING Business system

Listening carefully to our clients' feedback and needs, we designed new ING Business. When working on the system we requested feedback from clients on an ongoing basis. The new version comes with, most importantly, enhanced usability, personalisation, intuitiveness and user-friendliness.

The system is designed in such a way so that it can be used on each device. Together with apps for smartphones and smartwatches, new ING Business creates a functional ecosystem for the user.

- We designed different user profiles reflecting their roles and rights in the company.

- The users can configure on their own the home page and menu with fast access to functions which are the most important for them.
- The data is presented clearly and in the relevant context. Ergonomic and intuitive tools enable the users to filter information and quickly reach the vital one.

Already 98% of corporate clients use exclusively the new system version. We continue to introduce changes in the areas of functionality, efficiency and usability. NPS for users of the new system version is 27.

Our solution was awarded and recognised by ING Group. The system was successfully implemented in ING Romania. In Q4 2017, the pilot programme was launched with selected clients of ING Bank in Romania.

In September 2017, we received for ING Business an award of the Global Finance magazine in the Digital Bank of Distinction category for banks in Central and Eastern Europe. It attested to our achievements in providing our clients with top quality innovative and technological solutions.

ING Business Mobile

Already 30% of companies use the ING Business mobile application. This mode of access to banking data is gaining popularity among clients. Users more often use mobile devices for making transfers (in Q4 2017 there were 40% transfers more than in the same period of 2016) and seeking information.

We keep on developing and improving the online banking channel. In 2018, we are planning to offer the option to sign applications and documents via mobile application and check the credit liabilities. We will also introduce a login method based on the mobile application.

Currency exchange module

In August 2017, we implemented a modern user-friendly application which replaced the former FX Trader platform.

Upon logging into ING Business and entering the Currency exchange module, the client sees the offered bid and ask rates of several currency pairs in nice layout. 3 clicks suffice to convert the currency. It is possible to set an individual margin. The transaction is booked in real time and the currency purchased is straight away at the client's disposal.

In 2017, 8.0 thousand clients used the Currency exchange module and effected over 226.5 thousand spot currency exchange transactions. The application has been positively received and the implemented usability changes encourage more frequent FX transactions with ING.

Signing electronic agreements

In August 2017, we launched at ING Business a new, even more transparent and intuitive documentation signing module. Our corporate clients can electronically sign the agreements for all bank products.

Access to funding online

It has been 7 years that the Bank corporate clients may apply for funding online. The companies that do not have an account with us may use a special ING Direct Business Credit application available on the Bank website. In the application the company representative may select the funding adequate to the funding needs, check the company's credit capacity free of charge and file a binding credit application. Our clients who already use ING Business may file such an application in the system.

We launched the so-called fast track for lower-value exposures and in 2016 we started introducing the prescoring process whereunder the client has the ready-made offer of credit limit in online banking. Since its launch we already granted in this mode 1 thousand loans, out of which 600 in 2017.

We are currently working on full automation of lending processes. All those activities are mainly aimed

at reducing the period between submitting the application and disbursing the loan funds.

Online account opening for mid and big companies

The company wishing to open an account with ING Bank needs only 5 minutes to fill in the form with the data, the majority of which is uploaded by the Bank from official online databases. The client may immediately log into ING Business where they electronically sign the agreement and already get the account number. Soon – even within an hour – the client may use all the account features: effect transactions, order new products, etc. The solution also proved useful for our sales forces – when providing remote service for clients (e.g. via ING Business Centre) they can also use this fastest process. Already 46% of relationships with new clients are initiated with the use of this new tool. NPS for remote account opening is 68.

Cash management

In 2017, the Bank offered clients 32 new light depositories. There are already 72 light depositories that the clients can use to make closed cash deposits from the comfort of their business office. Light electronic depository is a simplified version of depositories mounted at Bank branches. The dimensions and weight of the device were reduced while the functions of the basic version were kept. The device is installed at the client's business office and the client may make cash deposits both in banknotes and closed deposits in coins in secure envelopes. The deposits can be made in PLN and in convertible currencies available at the Bank.

The offer of cash devices installed at the client's premises also covers mini and macro CDMs. The clients who will not decide on their own device may use electronic depositories available at Bank branches and in external locations.

All our devices operate online – the deposits are booked in the indicated business account as soon as they are placed in the device.

POS terminals

We supplemented the offer with our own POS terminal. Thanks to this our clients may integrate in one bank the account maintenance service, payment service and POS terminal service. We offer one of the most modern Verifone terminals enabling card or mobile payments, including paypass and BLIK payments. The funds from the transaction are available in the account in the morning of the next business day. The modern terminals management system ING POS provides for instant viewing of transactions history and comfortable access to clear fee information. In 2017, we installed 2.5 thousand POS terminals and processed 938 thousand transactions.

Multi-currency card for mid and big companies

It is a new product in our payment cards offer and still a new solution on B2B market making it easier for clients to make and settle FX transactions. We were the first bank to offer clients a card using as many as 6 currencies. The main card account is in EUR but the card may be pinned to as many as five additional accounts: in USD, GBP, CZK, SEK and HUF. Owing to our multicurrency card the client makes the transaction already in the currency of a given country and does not incur additional transaction costs related to currency conversion. If in an additional account there are no funds available then the payment is effected from the main account in EUR.

Accountancy services

ING Accounting stands for modern accountancy and payroll services. The application provides clients with access to all financial details of their businesses and payroll matters anytime and anywhere. ING Accounting is a portal which not only ensures collaboration with the accounting office, but also provides a number of business functionalities like issue of invoices, electronic leave request forms and business trip forms. It also has a staff-related avatar, wherewith clients may carry out the recruitment process without an HR specialist involved.

ING Accounting supports liquidity management of the enterprise in that it is integrated with ING Business in the settlements area. With one click, clients may make the requisite payments and control the financial liquidity of their business. This can be done with the “Calendar of payments” feature which is built based on daily transactions, bank statements and client documents. Further, ING Accounting provides clients with a set of dynamic online management reports. With this feature, they can monitor various areas of their business. For the clients just starting their business activity, the application is an element of education as regards financial analysis and management information.

ING Accounting was the first accounting office offering legally valid electronic accounting documents together with an electronic documents flow. It was one of the first portals to support clients as regards comprehensive SAF-T reports and currently split payment enhancement is planned.

Aleo platform

In 2017 we extended the database of companies on Aleo with all the entities registered in the Central Registration and Information on Business (CEIDG); now you can view in Aleo over 3 million company profiles and download their excerpts.

As at 2017 yearend, the number of businesses registered on the platform surpassed 65 thousand (up by 14% from 2016).

Aleo also once again used the communication with a brand hero - the Boss of all the bosses. The internet campaign untypical for B2B market where the Boss of all the bosses gave orders to celebrities notorious for their rebellious nature increased the traffic and the number of platform registrations; it was also awarded in industry contests:

- 5 swords, including 1 gold, in the competition by the Advertising Creators Club,
- Mixx Awards prize.

In 2018 we will focus on providing for companies new profile pages and on activating the users seeking information about the companies on Aleo.

Supplier financing

Supplier financing is one of the key Aleo platform functions. This solution helps to improve the current liquidity of businesses – both suppliers and off-takers in trade transactions. The suppliers may receive money for their invoices before payment dates, while off-takers can postpone payment dates of liabilities by the period they agree with our bank. Since 2017, the off-takers may also obtain in the ING Business online banking system those invoices that were not discounted on Aleo and conveniently make a transfer with the payment.

Online insurance for businesses

We were the first bank to introduce the option of online insurance purchase for business, therefore we were able to offer attractive prices to clients. Insurance policy can be purchased in 5 minutes and the process itself is very simple. Many data in the insurance form populate automatically, from official databases, so there is much less data to be filled in by the client.

2. Market growth through access to funding and support to economy digitalisation

We take efficient credit decisions which enable retail and corporate clients to accomplish their private and business goals. This boosts market and economy growth. As at 2017 yearend, gross receivables – including first and foremost loans to ING Group clients – totalled over PLN 89 billion. It went up by PLN 9.6 billion, or 12.1% during the year. The amount covers PLN 6.4 billion worth loans which we granted to the entities from the sector of central and local government agencies.

We know that progressive digitalisation is among the market and economy growth boosters. That is

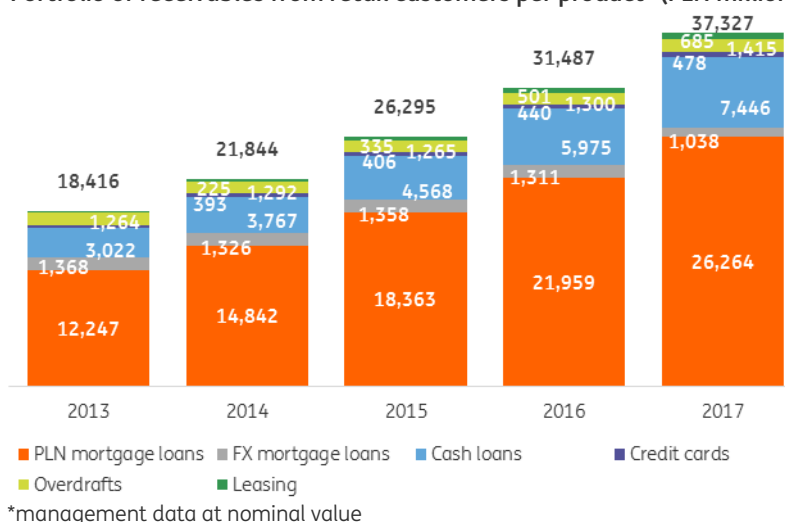
why, we offer our clients more and more products and services which can be accessed via remote channels. They may not only apply for a loan online, but also file a request for the Family 500+ programme benefit, set up a bank account at home or handle their official affairs via the ePUAP platform.

Retail banking segment

As at 2017 yearend, total gross receivables from households went up to PLN 38.4 billion, or by 18.2% y/y. In other words, as at 2017 yearend, our market share in the retail segment rose to 5.8% from 5.0% a year earlier.

We provide our retail clients with various credit facilities. Main of them are discussed below.

Portfolio of receivables from retail customers per product* (PLN million)



Mortgage loan

With the mortgage loan, we help our clients fund the purchase of an apartment, construction of a house or performance of refurbishment works. In our offer, we also have a special mortgage loan for entrepreneurs and a mortgage cash loan which clients can use to pay for anything they like.

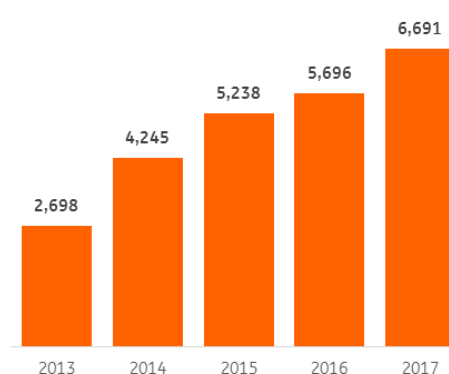
In 2017, we granted PLN 6.7 billion worth mortgage loans and mortgage cash loans in total (up by 17.5% y/y). In that way, we were able to become third on the market in terms of new production, with the market share of 15.3% (versus 13.9% in 2016). As a result, the total amount of mortgage loans granted rose as at 2017 yearend to PLN 27.8 billion or by 17.2% y/y.

Cash loan

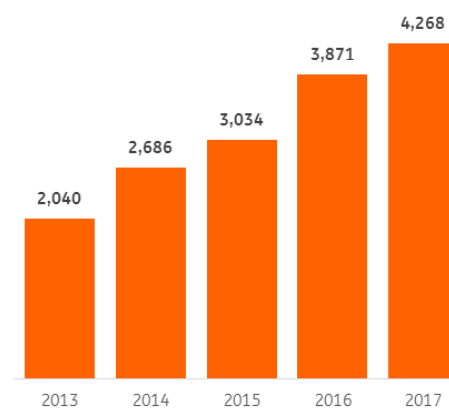
We grant cash loans for any purpose. Our clients do not need to present us with any sureties or property securities. We accept various income sources like a contract of employment, a contract of mandate, a contract to perform a specific task as well as pension and retirement allowances. Clients may apply for cash loans at a branch or online.

In 2017, we granted PLN 4.2 billion worth mortgage cash loans (up by 10.2% y/y). 66.2% of those loans were sold via internet channel (41.4% in 2016). As at 2017 yearend, the portfolio of cash loans (management data) totalled PLN 7.4 billion (up by 24.6% y/y).

Sale of mortgage loans (PLN million)



Sale of cash loans (PLN million)



Overdraft

Our clients are also offered a bank overdraft. We grant it without collateral and to the amount of up to sixfold net income of the client.

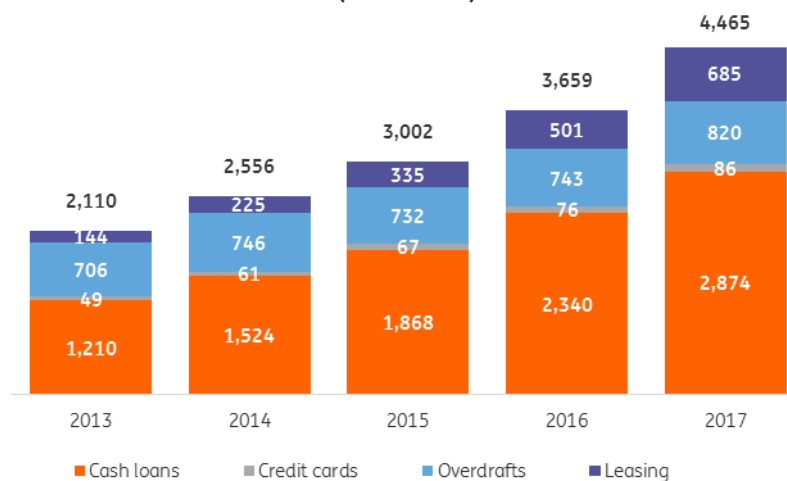
As at 2017 yearend, the overdraft-based debt of our clients (management data) closed with PLN 1.4 billion (up by 8.9% y/y).

Funding for entrepreneurs

Within the retail segment, we also have an offer for entrepreneurs. We know that they do not have time to ponder over it long. They need to act fast and they should have funding on hand. This is why, the clients running business more and more frequently opt for easy funding of needs – via internet. As far as loans to entrepreneurs are concerned, nearly 53.6% of cash loans were sold via this channel. Clients activate a cash loan, a credit line or a credit card online within a few minutes.

As at 2017 yearend, the debt of entrepreneurs with the Bank (management data) totalled PLN 4.5 billion (up by 22.0% y/y).

Portfolio of receivables from entrepreneurs per product*
(PLN million)



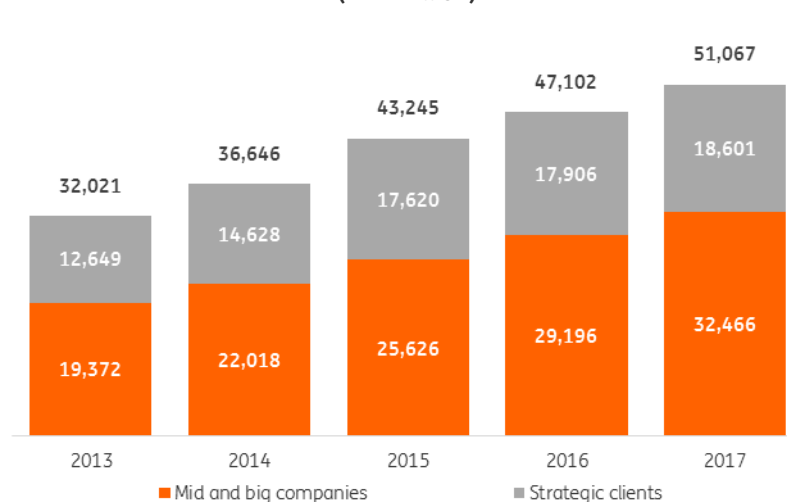
*management data at nominal value

Corporate banking segment

As at 2017 yearend, total gross receivables from institutional clients went up by 7.3 % y/y to PLN 49.4 billion. That amount covered PLN 36.9 billion worth loans, PLN 5.5 billion worth leasing receivables and PLN 4.4 billion worth factoring receivables. The dynamic growth in lending translated into a higher market share (up to 10.7% from 10.5% a year ago).

We also support our corporate clients by providing them with multiple funding opportunities. They are presented below.

Portfolio of receivables from corporate customers per client group*
(PLN million)



*management data at nominal value

Loans

Since we analyse the needs of our clients at all times, we can prepare an attractive lending offer. Owing to this analysis, we could develop various products which satisfy clients' needs, for example. For entrepreneurs, these are also the products for financing their business, investment projects or trade.

Under one agreement, we can define adequate sub-limits for individual products or product groups in PLN and other convertible currencies. The multi-product agreement can cover a few entities as well. When the borrower represents more than one entity, the agreement functions as a multilateral multi-product agreement.

In our offer, we also have: a working capital credit facility, a capex credit facility, a corporate cash loan, a technological loan, a loan with the BGK premium and a capex credit facility for agricultural- and agricultural land-related investment projects.

Asset funding

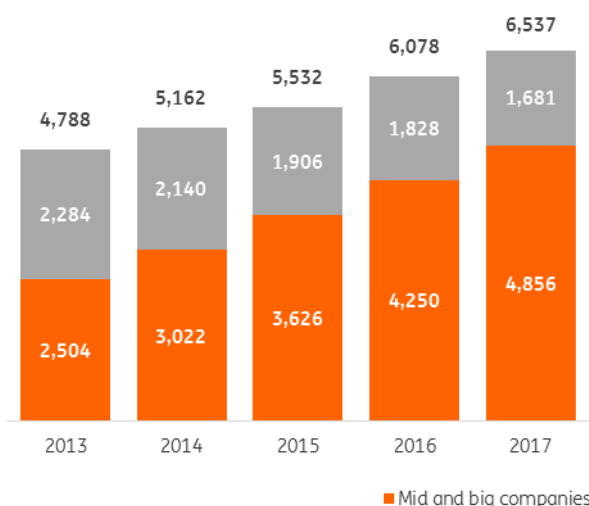
We offer attractive asset funding, leasing and factoring options. Our offer is based on the release of funds invested in:

- real properties,
- non-current assets,
- amounts due from off-takers.

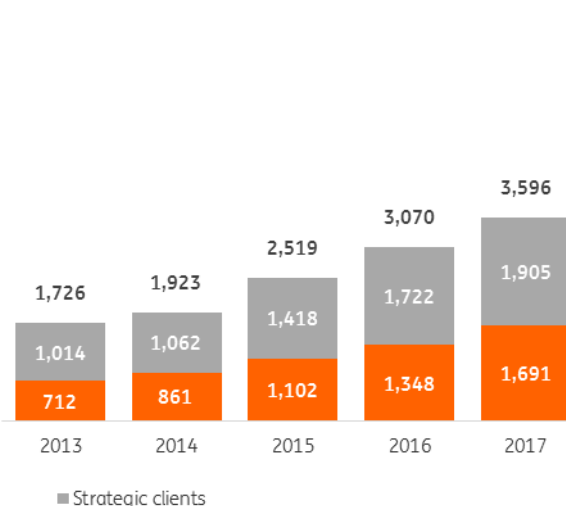
As for leasing, ING Bank Śląski S.A. cooperates with its subsidiary, ING Lease (Polska) Sp. z o.o., which offers all basic types of lease (operating, financial, sale-and-leaseback) and a cash loan to finance the following:

- movables (passenger cars and light commercial vehicles of up to 3.5 tonnes, heavy goods vehicles, machines and equipment, production lines, commercial vehicles, medical and IT equipment),
- real properties (office buildings, shopping facilities, logistics centres).

Portfolio of leasing receivables from corporate customers* (PLN million)



Portfolio of factoring receivables from corporate customers* (PLN million)



*management data at nominal value

In 2017, we supplemented the ING Auto offer of funding passenger cars and light-duty vehicles up to 3.5 tonnes with a version for heavy transport – ING Truck. Those programmes are simple and convenient products in the vehicles leasing area – they facilitate vehicles funding without the need to present finance documents. In 2017, both programmes were awarded as products supporting SMEs development:

- ING TRUCK was honoured in the Financial Orders poll by the Home&Market magazine,



- and ING AUTO was recognised once more since its implementation in 2013. It received the title of the Best Product for SME 2017 in the opinion poll by the Turbines of the Polish Economy and the title of the Best Product for Business 2017 in the opinion poll by Gazeta Finansowa.

As for factoring, we cooperate with our subsidiary, ING Commercial Finance, which has been the market leader since 2014. Through factoring services we purchase, finance and settle receivables under delivery of goods or services with a deferred payment date.

Trade finance

Trade finance instruments are modern solutions ensuring safe performance of transactions with domestic and foreign counterparties and financing of contracts made. Depending on the transaction, relationship with the counterparty, and the collateral type, we provide our clients with an offer tailored to their needs and expectations. Our Bank is among the leading bank guarantee issuers. As at 2017 yearend, the bank guarantee-related exposure amount went up by over 24% versus 2016.

We constantly improve our trade finance products – we are the first to have introduced the e-guarantee on the Polish market. We also keep on augmenting our offer of letters of credit that are still recognised by our clients, as well as the documentary collection and receivables purchase offers.

With an e-guarantee available in the ING Business online banking system directly upon its issue, our clients may receive and provide to their business partner the security for the contract very quickly.

In December 2017, we launched our application for verifying qualified signatures on e-guarantees. Our clients and beneficiaries no longer need to install additional applications on their computers but directly on ING Bank Śląski S.A. website they can quickly and safely verify the document issued by the Bank and confirm the signatures placed thereon. In January 2018, we also introduced the English version of this application which will greatly facilitate international cooperation for our clients.

In October 2018 it will become compulsory to hold tenders under the Public Procurement Law electronically therefore e-guarantee will become the most convenient guarantee form. In 2017, we issued 127 e-guarantees and their number is systematically growing. E-guarantees were officially approved by the General Directorate for National Roads and Highways.

Supplier financing

The supply chain financing and payment product that is developing the fastest is Supplier Financing available on the Aleo platform.

Owing to multiple changes and improvements, in 2017 we finalised 140 thousand invoices for the total amount of PLN 2.7 billion – over two times more than in solid 2016. Such good results prove our clients' acclaim. We are particularly glad to observe a significant growth in the number of sellers using Supplier Financing – last year we registered approx. 900 new suppliers.

In 2017, in response to clients' needs, we introduced the FinDo Transfer service. It allows sending the invoices not discounted on Aleo to the ING Business online banking system wherefrom they can be sent as transfers.

Sureties and guarantees by Bank Gospodarstwa Krajowego (BGK)

We provide our clients with access to attractive loan collaterals offered in cooperation with BGK. These are working capital and capex credit facility guarantees offered as part of the so-called portfolio guarantee lines. At the conference held on 22 March 2017 at the registered office of the Polish Bank Association, we were awarded for actively supporting the sale of guarantees from the monies available under the Innovative Economy Operational Programme Guarantee Fund.

Loans for technological innovations

From the beginning of the "Technology innovation credit" the total of 1,346 requests for project funding have been filed with BGK. 197 requests were filed via the Bank, i.a. approx. 15% of all requests

filed, which makes the Bank the market leader. BGK granted to our clients 72 subsidies for the total amount of PLN 273 million. The share in the number of granted subsidies exceeded 16% and the volume was close to 17% of all subsidies granted by BGK. Our result in enrolment in 2017 was spectacular – the Bank had an over 20% share in the number of requests filed. These data confirm that the policy focusing on the support for clients implementing new technologies leading to production of new products in Poland, bears fruit. Supported by those subsidies, our clients become competitive in the world.

The focus on technologically advanced projects also means supporting compliance with the principle of sustainable development set out in Article 8 of Regulation of the Council (EU) No. 1303/2013. This means that the technological loans finance the projects with positive environmental footprint. Moreover, the preferred project proposals included projects aimed at the development of products with lifecycle extended through cost-effective service or multiple application; non-waste technologies; products minimising energy or raw materials' consumption; and products that can be reprocessed. The Bank is an unquestionable leader in such projects' funding.

Structural financing and bond issue

We prepared the structural financing offer for clients who wish to develop and strengthen their market position through capital transactions like management buyout or mergers and acquisitions.

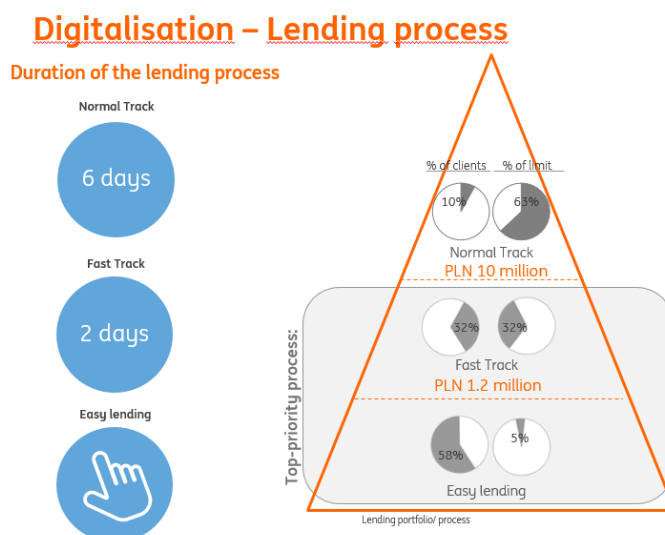
We help our incorporated clients and local government units in obtaining financing through bond issue.

Automatic service for corporate clients

In 2017, we continued to automate and optimise lending processes. These actions have translated into tangible benefits, such as a systematic increase in the share of online credit applications. They are submitted by new clients via the ING Direct Business Credit application and by the existing ING Business clients. In 2017 the share stood at 93.1%.

The other improvements introduced in Fast Track lending – both in terms of lending parameters and processing – made the share of this path significantly grow (up from 51.7% to 69.8% in 2017).

As part of the Easy Lending project aimed at the biggest possible reduction of time from filing of an application to disbursement of the funds from the loan and the new mode of credit capacity assessment, in 2017 we continued the second prescoring pilot programme. An automated mechanism verifying an array of behavioural criteria, tracking the client's history with the Credit Information Bureau and computing the credit capacity was deployed and in Q4 the sales feature in ING Business was launched. By the end of 2017, we handled in such a way nearly 1 thousand loans (including 600 loans in 2017) by granting new loans worth over PLN 86 million and refinanced or renewed loans for over PLN 27 million.



Clients can also display all credit facility agreements and documents relating to established collateral in the documents archive. It is available at ING Business.

We are working on introduction of the Optical Character Recognition (OCR) technology that would automatically read data from documents and process them in Bank's systems. It will reduce the time of handling those documents as well as other inquiries and applications filed with the Bank by the clients.

To minimise the documentary requirements imposed on the clients, we keep on working on remote client data acquisition from the universally available external sources. This is how we communicate with the National Court Register and Credit Information Bureau.

We have been cooperating with clients representing different economic sectors. So as to understand the needs of such a differentiated group of clients, we have introduced industry specialisation. Specialised teams support businesses in financing their investment projects and undertakings. As for selected industries and specialist products, we can use the knowledge and experience of industry teams of ING Group entities located outside Poland.

3. Responsible financing

Responsible sales

The Golden Rules, which we abide by in our everyday interactions with clients, reflect our determination to be honest, open and transparent in our actions.

- ING strives to meet customers' needs throughout their lifecycle
We offer products and services tailored to clients' needs and financial objectives and adapted to the acceptable risk level, knowledge, experience and financial standing.
- ING offers benefits adequate to the price of the offered products and services
Our pricing policy is transparent and easy to understand for clients and it properly reflects the costs of individual products.
- ING explains the risks, financial benefits and costs of our products and services.
We make sure that our clients are informed in a clear and understandable manner about the risks entailed by the products and services offered.
- ING regularly assesses products, services and sales practices
All products and services are assessed on an annual basis. Each year we also conduct a customer satisfaction survey; one of its elements concerns the quality of advisors' and relationship managers' work.
- ING works only with professional and licensed suppliers
We hire only those who have relevant experience and skills. All relationship managers are provided with relevant training courses organised on a regular basis.

Environmental and social risk management

In keeping with the ING Bank Śląski S.A. Sustainability Strategy for 2017-2019 approved by the Bank Management Board, we support our business clients and partners in sustainable running of their business. We recognise our role in ecological projects like the ones pursued in the electric power industry. The companies operating in that sector have to face the challenge of balancing an incremental demand for energy with the need to reduce negative environmental footprint. We want to help clients in energy transformation and switching to low-carbon business. At the same time, we plan to become more involved in funding green energy projects.

The areas to obtain our support according to the Green Statement of ING Bank Śląski S.A. include but

are not limited to:

- Renewable resources projects run by electric power holdings,
- Projects supporting development of modern electric power transmission and distribution infrastructure,
- ESCO projects to offer comprehensive energy solutions which contribute to energy saving,
- Electromobility-oriented projects,
- Other projects to prevent pollution and increase recycling opportunities.

We apply the Environmental and Social Risk (ESR) guidelines to identify cases of unethical activity. Based on these guidelines, we assess our clients and check whether the transactions we enter into with them meet our ethical standards. It allows us to mitigate the risk of cooperation with clients operating in industries classified as excluded or sensitive. In the former case, we resign from the cooperation, while in the latter – cooperation is possible following positive client's assessment and upon fulfilling the principles set forth in the ESR.

We also refuse to finance those clients who could expose us to the reputational risk. It could follow from, for example, associating the Bank with the client's operations or the objective wherefor the client would want to use our services.

In particular, we do not participate in transactions where the entities producing controversial types of weapon or selling weapon to non-government armed forces or embargoed countries are involved.

Sustainable investment

We support environment- and society-friendly investment projects. In recent years, we financed a dozen or so large infrastructure investment projects concerning renewable energy sources, biogas, heat and power plants, waterworks and waste recycling, to name a few. We also participated in financing investment projects being wind farms. We have been actively seeking projects in the area of photovoltaic energy and renewable energy from waste utilisation.

4. Development of the Poles' entrepreneurial behaviours and knowledge

We have been supporting our clients in building long-term savings – through marketing communication and education. We underline the role of savings and offer simple guidelines on how to accumulate them. In the ING Community blog, for several years now, we have been publishing numerous articles, tidbits and hints on saving and investing.

Webinars and videos with Marcin Iwuć

In 2017, we continued our activities aimed at building financial resourcefulness of Poles. This time, the Bank invited Onet.pl which is the largest internet portal in Poland and a blogger and personal finance specialist, Marcin Iwuć to cooperate on the project. The materials prepared for readers include hints and inspirations that can be used by anyone who wants to change his or her financial situation and accumulate savings.

Marcin Iwuć prepared the materials (articles and videos) for the entire cycle with the technical support of Onet. The cycle covers daily finance, savings and investing.

European Startup Days

The European Startup Days held during the European Economic Congress were a perfect occasion for sharing knowledge by successful entrepreneurs. Owing to the live online coverage the Bank gave the chance to get to know their viewpoint also to those who were unable to attend the event. Experts were invited to the studio to answer questions asked live and share their success cases. In total the coverage was viewed 770 thousand times by 345 thousand users. Further, 13 interviews with ING Studio LIVE

experts were recorded.

ING Investing Academy

For years now, ING Bank Śląski S.A. has been supporting Poles in savings multiplication. Education and building awareness in that scope is vital thus the idea of another educational campaign, i.e. ING Investing Academy, emerged. It is aimed at providing basic knowledge of investment to Poles and presenting other mode of capital multiplication than traditional saving.

The Bank invited Tomasz Jaroszek to cooperation on the educational campaign. He is a financial journalist, entrepreneur and stock market investor, known to a large extent from his blog on investment – Doradca.tv. The articles and videos prepared by Tomasz Jaroszek were cyclically published on ING Community. The internet users will find here, among other things, the hints how to check if you are ready to start investing on the stock exchange, how to invest effectively and how to mitigate investment risk. Tomasz Jaroszek also discloses based on his personal experience how to make the first steps on the stock exchange and analyse the stock market situation.

Educational meetings for corporate clients

In 2017, we conducted many meetings with corporate clients (both existing ones and prospects). They were held in the form of the Bank's own conferences or they were conducted in cooperation with the media or regional entrepreneurs organisations.

The meetings with the corporate clients concerned the following topics:

- succession in family run businesses,
- obtaining and utilising EU funds,
- optimising enterprise funds,
- selected industries (e.g. agriculture, telecommunications, retail trade),
- selected economic and political issues (e.g. Employee Equity Plans, Split Payments).

Sponsoring economic and social events:

- European Economic Congress and Europe Start-Up Days in Katowice,
- National Energy Summit OSE Gdańsk 2018,
- Investment Forum & Private Equity Awards Gala,
- 50th anniversary of the Silesian University.

VI. Bank and client safety

1. Risk and capital management system

Risk management system

The risk management system is an integrated collection of rules, tools and mechanisms (including but not limited to policies and procedures) for risk processes. The role of the risk management system is to continuously identify, measure or estimate as well as monitor the Bank's risk and secure against potential losses through adequate controls, system of limits and adequate level of provisions as well as of capitals and liquidity buffers.

Under the risk management system, the Bank:

- applies formal risk tolerance determination rules and risk management rules,
- applies formal procedures intended to identify, measure or estimate and monitor risk, also accounting for projected future risk,
- applies formal risk limits and rules of conduct in the event of limit overrun,
- applies the approved management reporting system that allows risk level monitoring,
- has the organisational framework matching the amount of profile of risk borne by the Bank.

Risk management rules

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

Irrespective of the need to ensure legal and regulatory compliance, the Bank does not treat credit, market and operational risk management as a compliance issue mainly, but sees it as a fundamental and integral part of the end-to-end Bank management process.

Internal capital adequacy assessment process

At ING Bank Śląski S.A. Group, the internal capital adequacy assessment process (ICAAP) is regulated by the *ING Bank Śląski S.A. Capital Management Policy*. The document governs the process of material risks identification, the key elements regarding risk quantification as well as the capital adequacy management principles. Based on the above-referred document, the following risks are identified at the Group:

- permanently material risk – the risk which due to the nature of the Group's operations is material now and will be such in the future. Under the nature of the Group's operations we construe the business being provision of deposit and credit services and the related operations: financial performance, liquidity management, interest rate and FX risk management, as well as risk management with regard to mismatch or unreliability of internal processes, people and technical systems or external events;
- material risk – the risk which may trigger potential losses, with the frequency of occurrence of the values that qualify them as material in line with the table:

Frequency	At least once a year	immaterial	material	material	material
	At least every 5 years	immaterial	immaterial	material	material
	Less often than every 5 years	immaterial	immaterial	immaterial	material
	Potential loss (PLN)	up to 0.2% of own funds	from 0.2% to 1% of own funds	from 1% to 5% of own funds	above 5% of own funds

- difficult-to-measure risk – the risk wherefor in the Group's opinion neither quantitative nor qualitative measures that would correctly quantify the risk size can be developed.

Every month, standalone and consolidated reports are compiled by the Group; they read the realised capital requirements for all material risks and planned metrics values. Reports are delivered to the Assets and Liabilities Committee (ALCO) and the Bank Management Board. The Supervisory Board is advised every quarter of capital adequacy of the Bank and Group, internal capital adequacy included.

The ICAAP is reviewed once a year. The review report is delivered to the Management Board and Supervisory Board of ING Bank Śląski S.A. Further, the internal audit function performs an independent audit of the process on an annual basis.

The ICAAP was implemented at significant Bank subsidiaries (as at 2017 yearend at ING Commercial Finance S.A. and ING Lease (Polska) Sp. z o.o.), In those companies, it is conducted independently from the Bank. The Capital Management Department and the units responsible for individual risks at the Bank oversee the risk management process at subsidiaries. ICAAP review reports for the said subsidiaries are enclosed with the Report on ICAAP Process Review at ING Bank Śląski S.A. and are relayed to the Bank Management Board and Supervisory Board.

Risk categories

In 2017, the workshops on risk materiality assessment were carried out in the first quarter. They did not result in changes to the identified risks, their materiality or measurement difficulty. Client behaviour risk was moved from the funding and liquidity risk to the market risk.

Risk	Permanently material	Material	Immaterial	Difficult-to-measure
Credit risk				
Default risk and counterparty risk*	✓			
Residual risk**	✓			✓
Concentration risk	✓			
Residual value risk	✓			
Transfer risk			✓	
Risk of other non-credit obligation assets		✓		
“Default” definition risk			✓	
Market risk				
Financial Markets operations risk	FX risk	✓		
	Trading book high-level and specific interest rate risk	✓		
	Banking book interest rate risk: total mismatch	✓		
	Banking book interest rate risk: underlying risk			✓
	Banking book interest rate risk: option risk			✓
Risk of investments in commercial real property and real property owned for own purposes			✓	
Equities risk	Banking book equities risk		✓	
	Trading book high-level and specific equities risk		✓	
Client behaviour risk		✓		
Business risk				
Financial result risk	✓			
Macroeconomic risk		✓		
FX mortgage portfolio risk		✓		
Excessive financial leverage risk			✓	
Funding and liquidity risk				
Funding and liquidity risk	✓			
Operational risk				
Operational risk***	✓			
Model risk				
Model risk		✓		✓

* The risk definition covers the delivery settlement risk; ** Capital requirement quantified in the approach for the default risk and counterparty risk; *** It includes, inter alia, the compliance risk and legal risk as well as the IT risk managed within that risk.

Risk appetite

The risk appetite sets the maximum risk the Group is willing to accept while supporting its stability and further growth. As part of capital and risk management at the Group, the risk appetite parameters are set within the so-called Risk Appetite Statement (RAS) in the following areas:

- RAS for capital adequacy,
- RAS for liquidity and funding plus market risk,
- RAS for credit risk, and
- RAS for operational risk.

The RAS for capital adequacy agrees with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 which provides for the duty to keep the capital ratios at least at the following levels:

- 4.5% – Common Equity Tier 1 ratio (CET1),
- 6.0% – Tier 1 ratio (T1), and
- 8.0% – Total Capital ratio (TCR).

The Group is required to maintain the Tier 1 ratio and the Total Capital ratio of at least 10.75% and 13.75%, respectively. The requirement arises from the guidelines of the Polish Financial Supervision Authority (PFSA) and incorporates:

- provisions of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 in conjunction with the existing approach of the PFSA to maintaining increased levels of ratios (9% for T1 and 12% for TCR), and
- the capital buffers determined in keeping with the Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015 (in 2017, the capital conservation buffer was 1.25% and the buffer of other systemically-important institution (O-SII) was 0.5% as imposed by the PFSA decision of 4 October 2016 and revised with the PFSA decision of 19 December 2017).

As part of the RAS for the capital adequacy, capital limits on risk categories are set too.

The primary metrics listed in the RAS for the funding and liquidity risk are discussed in the 2017 Consolidated Financial Statements of ING Bank Śląski S.A. Group on page 167. Further, the RAS metrics for market risk were discussed in the 2017 Consolidated Financial Statements of ING Bank Śląski S.A. Group on page 161.

The RAS for credit risk and operational risk is set every year.

More information on the risk appetite in the credit risk area can be found in Chapter “Bank and client safety”, sub-chapter “Credit risk”, item “Risk management strategy and risk appetite parameters” on page 115.

More information on the risk appetite in the operational risk area can be found in Chapter “Bank and client safety”, sub-chapter “Non-financial risk”, item “Operational risk – Operational risk management process” on page 128.

Economic capital, own funds and capital requirement

Economic capital

ING Bank Śląski S.A. Group quantifies capital for each identified permanently material and material risk:

- default risk and counterparty risk as well as residual risk,
- other non-credit obligation assets risk,
- concentration risk,
- residual value risk,
- FX risk,
- trading book high-level and specific interest rate risk,
- banking book interest rate risk: total mismatch,
- client behaviour risk,

- financial result risk,
- macroeconomic risk,
- FX mortgage portfolio risk,
- funding and liquidity risk,
- model risk,
- operational risk.

Definitions of the above risks were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 125.

Every month, standalone and consolidated reports are compiled; they read the realised economic capital values for all material risks and planned metrics values. Reports are delivered to the Assets and Liabilities Committee (ALCO), the Non-Financial Risk Committee (NFRC) and the Management Board. The Supervisory Board is advised of capital adequacy, internal capital adequacy included, on an ongoing basis.

In 2017, own funds were above the internal capital.

Own funds

The own funds of the Group encompass:

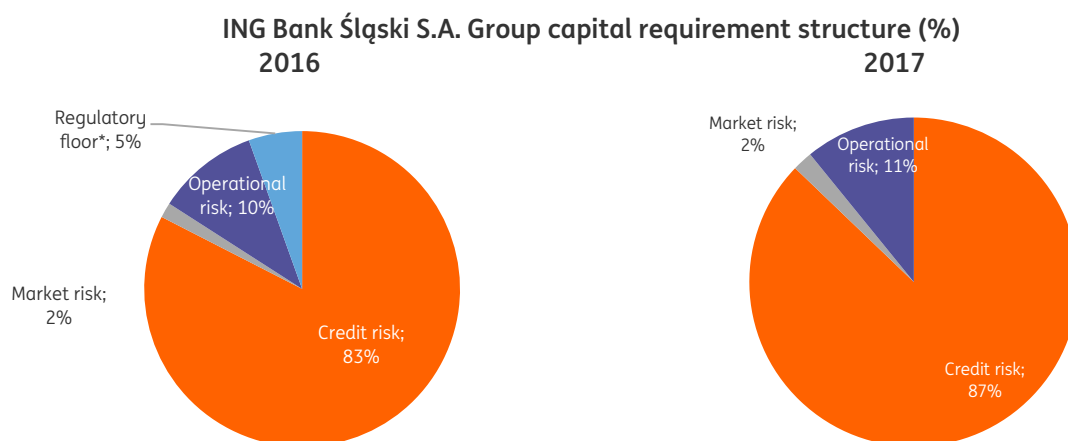
1. Tier 1 capital which as at 2017 yearend was PLN 10,299.1 million in the Group and PLN 10,130.0 million at the Bank,
2. Tier 2 capital which as at 2017 yearend was PLN 612.1 million in the Group and PLN 613.3 million at the Bank.

As at 31 December 2017, the Group did not identify additional Tier 1 capital (AT1).

Capital requirement

For the purpose of 2017 reporting, the Group calculated the credit risk capital requirement using Advanced Internal Ratings Based approach as well as the Standardised Approach. The Group received the approval from the Polish Financial Supervision Authority and De Nederlandsche Bank to apply AIRB approach for exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z o.o. For operational risk, the Group uses the Basic Indicator Approach. For market risk, the Group uses the Standardised Approach. The Group also sets the capital requirements for concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases, the requirements are set in compliance with the Capital Requirements Regulation.

The total capital requirement is dominated by the credit risk capital requirement. As at 2017 yearend, its share accounted for as much as 87%.



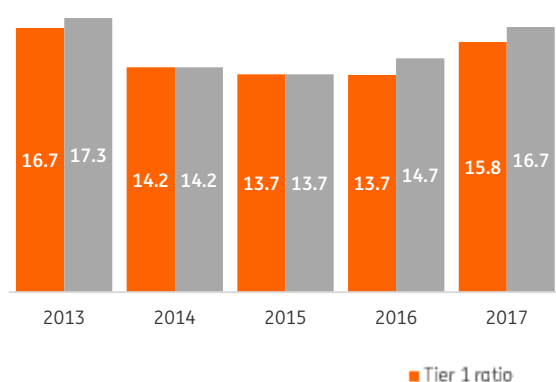
* Supplement to the overall level of capital requirements

Capital adequacy

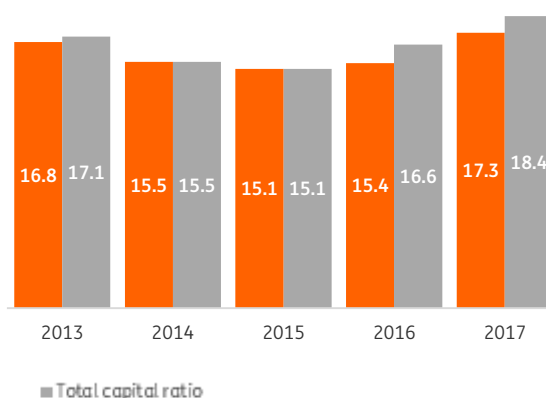
As at 31 December 2017, the TCR for the ING Bank Śląski S.A. Group was 16.7% versus 14.7% as at 2016 yearend. The Tier 1 ratio for the Group went up from 13.7% as at the end of December 2016 to 15.8% as at 2017 yearend. Despite business volume growth, both ratios improved y/y mainly due to:

- recognition in own funds of the entire 2016 net profit less the amount which the Bank already included in own funds in 2016 (PLN 900.2 million) and a portion of Bank's profit for the first 9 months of 2017 (PLN 665.4 million),
- discontinuation of recognition of the regulatory floor in the capital requirement,
- lowering of the effective risk weight for the portfolio of retail mortgage loans (following the changes to risk weights which took effect on 2 December 2017; the risk weight for FX mortgage loans went up from 100% to 150%, while the effective risk weight for PLN mortgage loans was reduced – the weight of 35% can be attributed to the 80% of the effective collateral worth (earlier 50% only).

ING Bank Śląski S.A. Group capital ratios (%)



ING Bank Śląski S.A. capital ratios (%)



Stress tests

According to the *ING Bank Śląski S.A. Stress-Testing Policy*, the Capital Management Department is responsible for the coordination of the stress testing process for economic capital and capital requirement. As part of its tasks, the Department gathers the results of tests made by other testing departments and compiles a report which is presented to the Assets and Liabilities Committee, Bank Management Board and Bank Supervisory Board.

As at 30 June 2017, the Bank conducted consolidated stress tests based on the scenarios prepared by the Chief Economist and using the in-house tools, the new tool for the credit risk included. Stress tests covered:

- scenario tests: a mild recession scenario and a long-term recession scenario;
- sensitivity tests (interest rate increase by 400 bps and 200 bps; real property price decline by 30%; PLN depreciation by 30% and 50%; GDP growth rate fall to -5%; unemployment rise to 20% and wage decline by 10%);
- concentration tests;
- financial leverage ratio tests.

The stress tests performed enable the Group to learn the behaviour of capital requirements, economic capital and own funds should the set macroeconomic parameters materialise.

Dividend policy

On 15 September 2016, the Supervisory Board approved the dividend policy proposed by the Management Board which was revised on 3 March 2017. The main assumptions of the dividend policy are the following:

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

When determining the recommended dividend amount to be paid out, the Management Board will review in particular:

- the current financial standing of the Bank and the Bank Group, including limitations in the case of sustaining financial loss or low profitability (low ROA/ROE),
- assumptions of the Bank's and Bank Group's management strategy, including risk management strategy,
- PFSA's stance on the banks' dividend policy,
- the limitations under Article 56 of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015.

PFSA guidance on 2017 dividends

On 24 November 2017, the Polish Financial Supervision Authority adopted a stance on the banks dividend policy in 2018 (dividend for 2017). The PFSA recommends, in particular, that the dividend of up to 50% from the profit earned in 2017 be paid out solely by banks meeting all the below criteria:

- the banks which do not pursue the recovery programme;
- their SREP final score is not worse than 2.5;
- their financial leverage is above 5%;
- banks whose Tier 1 capital ratio is not lower than the required minimum plus 1.5 p.p.: 6% + 75%*add-on + combined buffer requirement + 1.5%;
- banks whose Total Capital ratio is not lower than the required minimum plus 1.5 p.p.: 8% + add-

on + combined buffer requirement + 1.5%;

Furthermore, the Polish Financial Supervision Authority indicated the option of payout of up to:

- 75% of the profit earned in 2017 by the banks meeting all the above criteria and the capital conservation buffer requirement at the target level (i.e. 2.5% of the total risk exposure),
- 100% of the profit earned in 2017 by the banks meeting all the above criteria (including the capital conservation buffer at the target level) and accounting for the bank's sensitivity to the stress scenario (ST) in their capital criteria.

Full stance of the PFSA on the dividend in 2018 (for 2017) is available on the PFSA's website https://www.knf.gov.pl/o_nas/komunikaty?articleId=60210&p_id=18.

In line with the guidelines, the PFSA requirements applicable to ING Bank Śląski S.A. as regards the 2017 dividend payout of up to 50% of net profit are the following:

- Tier 1 ratio > 12.875%
- Total Capital ratio > 14.875%

Dividends declared and paid out

The Bank Management Board intends to recommend to the General Meeting the dividend totalling PLN 416.3 million or 29.7% of the consolidated profit of the ING Bank Śląski S.A. Group or 30.9% of the separate profit of ING Bank Śląski S.A. The proposed dividend per share is PLN 3.20. The proposed record date is 25 April 2018 and the proposed dividend payout date is 10 May 2018.

ING Bank Śląski S.A. did not pay dividend on the 2016 profit. On 9 March 2017, the Management Board received a letter from the Polish Financial Supervision Authority concerning an individual instruction to increase own funds through retaining all of the profit earned from 1 January 2016 to 31 December 2016. The Management Board recommended that the General Meeting increase the funds and on 21 April 2017 the General Meeting passed a resolution on earmarking the entire 2016 net profit for the Bank's equity injection.

Recovery and resolution plans

On 4 October 2017, the ING Bank Śląski S.A. Group received a positive administrative decision from the PFSA for the developed Recovery Plan as one of the first banks in Poland. The Bank Guarantee Fund was involved in the process of decision issue by the PFSA as the advising party. The Recovery Plan is compliant with the provisions of the Polish law transposing the requirements of the BRR Directive, i.e. with the Bank Guarantee Fund Act of 10 June 2016 and the implementing provisions thereof.

While the Bank is working on the Recovery Plan, the BGF is required – as part of their tasks described in the Act – to prepare, update and assess the feasibility of Resolution Plans for domestic entities. Based on the information obtained from the PFSA and the Bank, in 2017 the BGF ran the first preparation and update stage of the Resolution Plan. For ING Bank Śląski S.A., the BGF drafted the restructuring strategy based on the bail-in mechanism to cover the losses sustained and to recapitalize the Bank, and also to reinstate the market trust to the Bank as regards its ability to satisfy its obligations. The BGF set the MREL for the Bank too. The Bank will be required to satisfy it as of 1 January 2023. The MREL can change in the future, notably due to the pending EU and local legislation works.

2. Credit risk

Introduction

We understand credit risk as:

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

The Bank's policy on the risk of credit exposure portfolio factors in the fact that the business generating credit risk can entail other risks as well. These are liquidity risk, market risk, operational risk, environmental risk, social risk, legal risk and reputational risk which may intensify one another.

Lending-related losses are a consequence of the above risks and the Bank's mitigation actions in that regard. The Bank impacts the loss level using accepted risk limits, risk exposure amounts plus risk hedging instruments and in case the risk materializes, by direct actions reducing the losses.

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

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

We manage credit risk end to end based on:

- strategic planning,
- a consistent system of limits, policies and procedures as well as
- the risk management tools, including risk identification, measurement and control.

This integrated system combines all the lending-related processes at our Bank.

Detailed credit risk management objectives are:

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

Risk management strategy and risk appetite parameters

We treat credit risk management as a fundamental and integral part of the end-to-end Bank management process. Setting the Risk Appetite Statement strategy and parameters as well as monitoring of their delivery are key elements of the risk management process.

Credit risk management strategy

The credit risk management strategy supports delivery of business goals while maintaining safe solvency and liquidity of the Bank and adequate provisions. We define the strategy to warrant optimum development of the lending portfolio while keeping adequate quality and profitability of

credit operations and capital allocation. The primary objective of the credit risk management strategy is to optimise the ratio of risk to ROE, considering the information about the current and prospective macroeconomic landscapes, the Bank's portfolio and RAS limits utilisation.

The credit risk management strategy sets out short-, mid- and long-term goals as well as their accomplishment manner. It factors in the outlook, including the need to keep the Bank's offer competitive and attractive while expanding it.

Risk appetite (RAS) determination

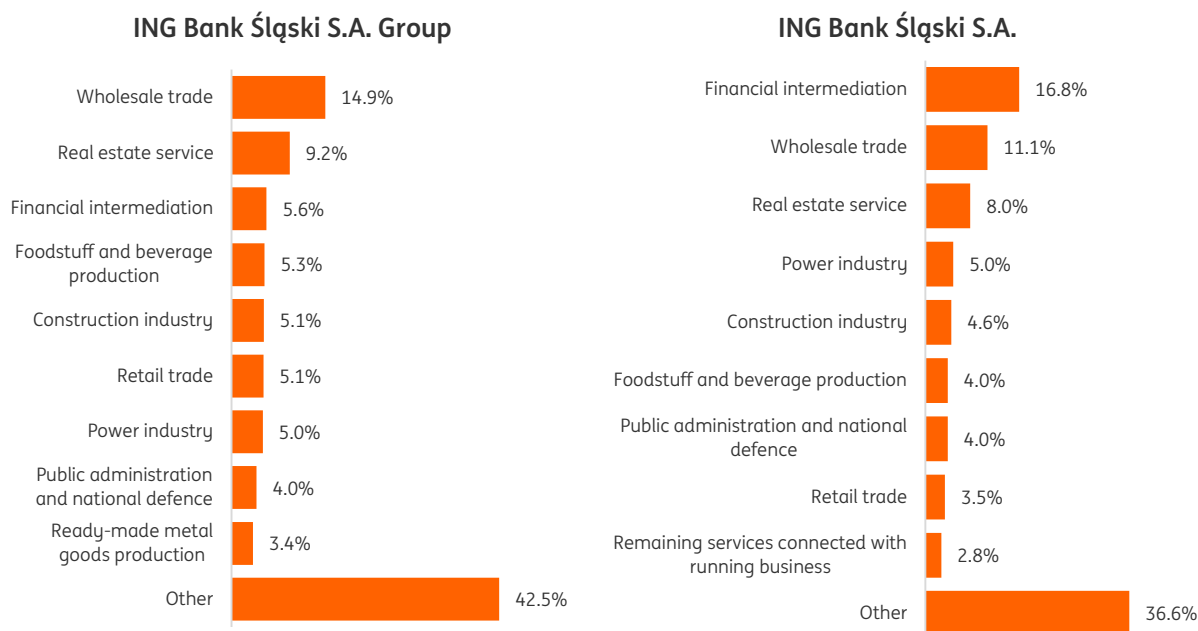
The RAS stands for the risk appetite of the Bank. We define it by setting high-level and specific limits. Setting and monitoring of the risk appetite (RAS parameters) is an integral part of the planning process and concentration risk management at the Bank.

RAS limits on credit risk:

- portfolio limits,
- limits on portfolio and new production risk parameters, and
- concentration limits, including limits on mortgage-backed credit exposures under PFSA Recommendation S.

Besides RAS limits, we set at the Bank credit risk limits for individual areas, business lines and products as well as transactional limits which are accepted by the competent credit approver. Further, we set internal concentration limits on the sectors and collateral accepted and monitor on an ongoing basis the concentration in the geographical areas of our business. We monitor and report the current utilisation of RAS limits during the year, on a monthly basis.

Non-bank corporate banking portfolio structure – BS and off-BS exposures (PLN million)



Credit risk management process

Credit risk management is a constant process. It encompasses all lending activities of the Bank. All units and employees performing tasks in the lending process cooperate closely with one another to:

- make the risk management process more efficient and
- keep risk at the level set in the strategy, risk appetite and financial plans of the Bank as well as



in the approved RAS.

At our Bank, the credit risk management process is carried out within three lines of defence which are independent in organisational and functional terms from one another.

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

At the Bank, we apply the organisational solutions which account for separation of the bank products sales forces from the risk acceptance ones across the organisational structure, the Bank Management Board included. We keep separation of the function of credit exposure risk (concentration risk included) control and monitoring from the bank products sales forces and the risk acceptance ones at all layers of the organisational structure of the Bank below the Management Board; for retail credit exposures – at the Bank Management Board level too.

For fast-track, automated lending paths, we base separation of bank products sales forces from the credit exposure risk acceptance ones on the independence of the process of development and validation of risk acceptance process assisting tools from the sales and operational functions. The credit approval authorities pertaining to individual credit transactions are isolated from the credit approval authorities involved in the formulation of the lending policy and credit risk management rules.

Credit risk management framework

Within the Risk Division, the Bank isolated two credit risk areas reporting to the Bank Executive Directors:

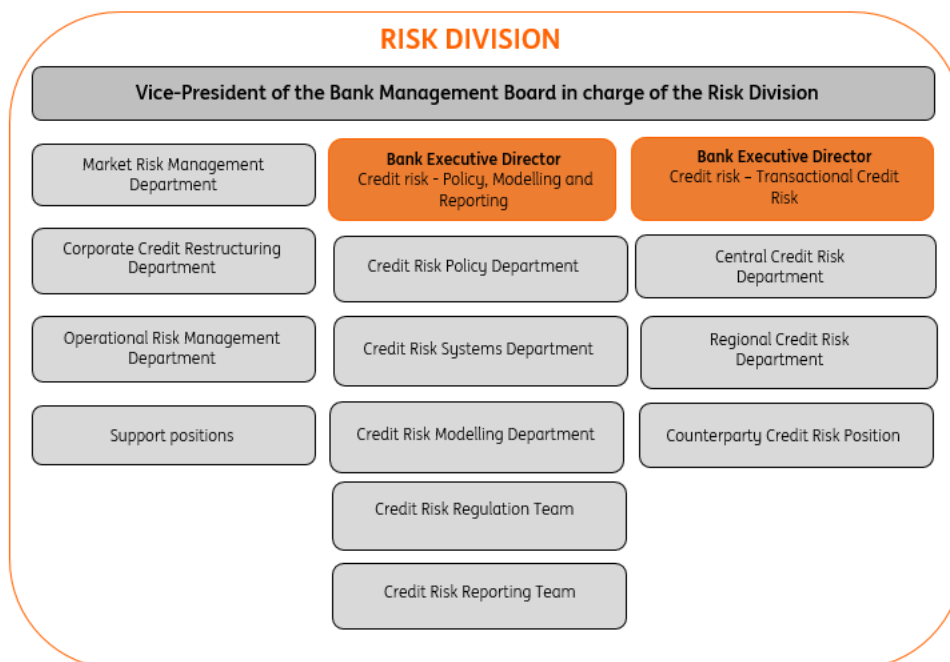
- Credit Risk – Transactional Credit Risk, composed of:
 - Central Credit Risk Department,
 - Regional Credit Risk Department, and
 - Counterparty Credit Risk position.
- Credit Risk – Risk Policy, Modelling and Reporting, composed of:
 - Credit Risk Policy Department,
 - Credit Risk Systems Department,
 - Credit Risk Modelling Department,
 - Credit Risk Regulation Team, and
 - Credit Risk Reporting Team.

Each of the abovementioned areas exercises control and supervision over the respective area of the Bank's operations and risk management process.

For retail and corporate lending portfolios, the functions of credit risk policy, modelling and reporting are combined within relevant departments. In that way, consistent credit risk management actions

are taken for both portfolios.

List of units engaged in the risk management process



More information on the organizational structure of Risk Division were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 138.

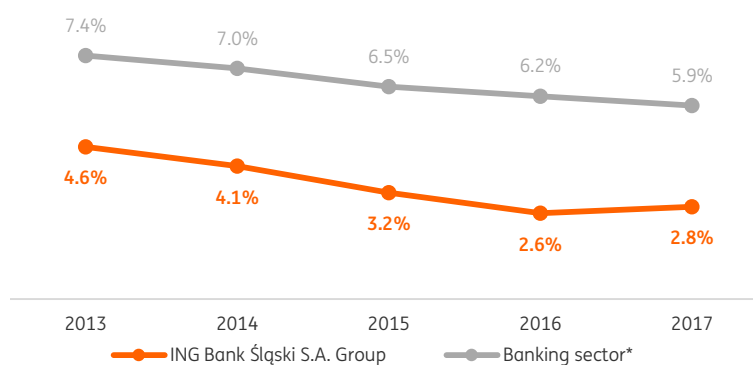
Information on lending principles, credit risk management, risk management system were discussed in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 141.

Lending portfolio quality

Share of impaired receivables

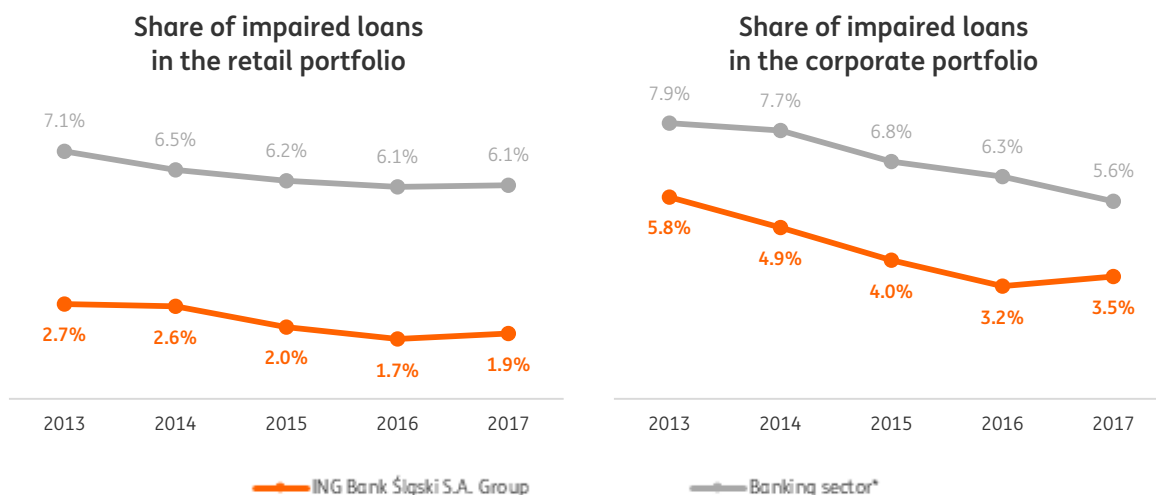
In 2017, the quality of our lending portfolio deteriorated slightly from the 2016 yearend. The share of impaired loans at the ING Bank Śląski S.A. Group went up from 2.6% in December 2016 to 2.8% as at 2017 yearend. Impaired loans at the Group were worth PLN 2,496.9 million versus PLN 2,076.8 million as at 2016 yearend (up by 20.2%). The quality of lending portfolios of our Bank is significantly better than the average in the entire banking sector. At the yearend, the share of impaired receivables was 5.9% in the sector.

Share of impaired loans for ING Bank Śląski S.A. Group versus sector average*



* NBP data-based estimates

Important is the fact that both our loans in the retail segment and in the corporate segment are of a higher credit quality than the relevant averages for the entire banking sector. As at 2017 yearend, the share of impaired loans in the retail segment at the ING Bank Śląski S.A. Group stood at 1.9% vis-à-vis 6.1% for the sector. Analogical corporate segment ratios are 3.5% for the ING Bank Śląski S.A. Group and 5.6% for the entire sector.



* NBP data-based estimates

In 2017, the quality of our lending portfolio was impacted, apart from the higher business volumes and the prudent lending policy, by four sale transactions of receivables classified as impaired loans or receivables derecognised from the balance sheet. Three corporate transactions impacted the ratios the most. The corporate receivables sold (principal, interest, other costs as at the agreement date) totalled PLN 136.5 million, out of which PLN 102.1 million represented the receivables forming the credit exposure. The fourth transaction concerned the retail segment. The retail receivables sold totalled PLN 101.3 million, out of which PLN 69.4 million represented the receivables forming the credit exposure.

Quality of portfolio of receivables extended to the ING Bank Śląski S.A. Group clients*				
	2017	2016	Change 2017 / 2016	
	PLN million	PLN million	PLN million	%
Total exposure	89,043.6	79,447.9	9,595.7	12.1%
Non-impaired portfolio	86,546.7	77,371.1	9,175.6	11.9%
Impaired portfolio	2,496.9	2,076.8	420.1	20.2%
Impairment loss and provisions	1,712.8	1,493.8	219.0	14.7%
Non-impaired portfolio loss	242.2	212.1	30.1	14.2%
Impaired portfolio loss	1,424.7	1,254.9	169.8	13.5%
Provisions for off-balance sheet liabilities	45.9	26.8	19.1	71.3%
Share of impaired portfolio	2.8%	2.6%		0.2 p.p.
Impaired portfolio provisioning ratio	57.1%	60.4%		-3.3 p.p.
Exposure – corporate banking	51,534.6	47,807.3	3,727.3	7.8%
Non-impaired portfolio	49,737.7	46,269.2	3,468.5	7.5%
Impaired portfolio	1,796.9	1,538.1	258.8	16.8%
Impairment loss and provisions	1,079.7	962.3	117.4	12.2%
Non-impaired portfolio loss	78.4	70.2	8.2	11.7%
Impaired portfolio loss	960.7	869.6	91.1	10.5%
Provisions for off-balance sheet liabilities	40.6	22.5	18.1	80.4%
Share of impaired portfolio	3.5%	3.2%		0.3 p.p.
Impaired portfolio provisioning ratio	53.5%	56.5%		-3.0 p.p.
Exposure – retail banking	37,509.0	31,640.6	5,868.4	18.5%
Non-impaired portfolio	36,809.0	31,101.9	5,707.1	18.3%
Impaired portfolio	700.0	538.7	161.3	29.9%
Impairment loss	633.1	531.5	101.6	19.1%
Non-impaired portfolio loss	163.8	141.9	21.9	15.4%
Impaired portfolio loss	464.0	383.3	80.7	21.1%
Provisions for off-balance sheet liabilities	5.3	4.3	1.0	23.3%
Share of impaired portfolio	1.9%	1.7%		0.2 p.p.
Impaired portfolio provisioning ratio	66.3%	71.5%		-5.2 p.p.

*excluding Eurobonds and other receivables

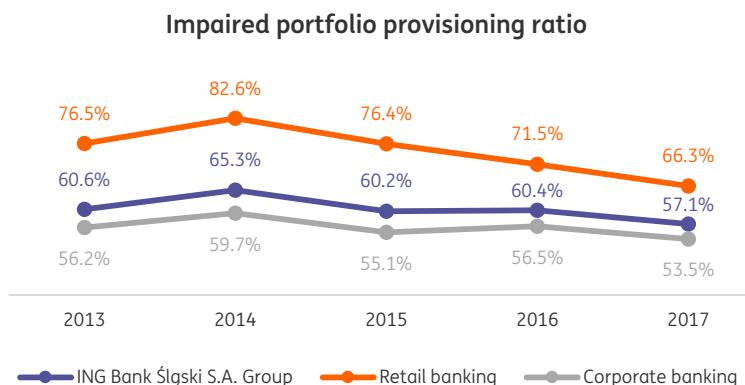
Quality of portfolio of receivables extended to the ING Bank Śląski S.A. clients*

	2017	2016	Change 2017 / 2016	
	PLN million	PLN million	PLN million	%
Total exposure	85,161.1	75,367.9	9,793.2	13.0%
Non-impaired portfolio	83,059.1	73,677.9	9,381.2	12.7%
Impaired portfolio	2,102.0	1,690.0	412.0	24.4%
Impairment loss and provisions	1,579.7	1,355.3	224.4	16.6%
Non-impaired portfolio loss	234.3	206.2	28.1	13.6%
Impaired portfolio loss	1,299.5	1,122.3	177.2	15.8%
Provisions for off-balance sheet liabilities	45.9	26.8	19.1	71.3%
Share of impaired portfolio	2.5%	2.2%		0.3 p.p.
Impaired portfolio provisioning ratio	61.8%	66.4%		-4.6 p.p.
Exposure – corporate banking	48,346.7	44,230.0	4,116.7	9.3%
Non-impaired portfolio	46,916.4	43,071.0	3,845.4	8.9%
Impaired portfolio	1,430.3	1,159.0	271.3	23.4%
Impairment loss and provisions	948.6	824.8	123.8	15.0%
Non-impaired portfolio loss	71.1	64.7	6.4	9.9%
Impaired portfolio loss	836.9	737.6	99.3	13.5%
Provisions for off-balance sheet liabilities	40.6	22.5	18.1	80.4%
Share of impaired portfolio	3.0%	2.6%		0.4 p.p.
Impaired portfolio provisioning ratio	58.5%	63.6%		-5.1 p.p.
Exposure – retail banking	36,814.4	31,137.9	5,676.5	18.2%
Non-impaired portfolio	36,142.7	30,606.9	5,535.8	18.1%
Impaired portfolio	671.7	531.0	140.7	26.5%
Impairment loss	631.1	530.5	100.6	19.0%
Non-impaired portfolio loss	163.2	141.5	21.7	15.3%
Impaired portfolio loss	462.6	384.7	77.9	20.2%
Provisions for off-balance sheet liabilities	5.3	4.3	1.0	23.3%
Share of impaired portfolio	1.8%	1.7%		0.1 p.p.
Impaired portfolio provisioning ratio	68.9%	72.4%		-3.5 p.p.

*excluding Eurobonds and other receivables

Impaired loan portfolio coverage

As at the end of December 2017, the ING Bank Śląski S.A. Group had PLN 1,424.7 million worth of provisions for the impaired lending portfolio. The impaired portfolio provisioning ratio was 57.1%.



Risk costs

2017 saw a y/y growth in the risk costs margin ratio (net loan loss provisions to the gross lending portfolio) due to a higher ratio in the corporate segment.

For more information about the risk costs, see Chapter “Our financial results” on page 64 and page 76.

The main modifications of the Bank's lending policy in 2017 were as follows:

In 2017, the lending policy of the Bank was modified so as to ensure proper and stable functioning and continuous improvement of the credit risk management system in the changing legal, economic and business landscape. Ensuring policy compliance with the approved credit risk appetite was the primary objective. The modifications took account of Poland's overall economic situation and the financial standing of individual groups of borrowers, among other factors.

They served to:

- further make the lending process more effective while ensuring adequate credit risk identification, measurement and control mechanisms,
- make the lending offer of the Bank more attractive for clients on the assumption that the Bank's credit risk is maintained at an acceptable level,
- adapt the internal regulations of the Bank to the changes in the legal landscape,
- further develop credit risk reporting and monitoring systems to support fast and effective risk identification and measurement,
- further enhance active sectorial policy management through:
 - quarterly reviews of the individual sector situations and
 - diversification of lending policy principles on the basis of client qualification to pre-defined industry risk groups (preferred, neutral, under watch, and non-preferred industries).

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

- we introduced credit commitment letters for EU subsidy award in the entrepreneurs segment,
- we adjusted the lending policy of the Bank to the new Mortgage Loan Act,
- we updated algorithms and criteria for classification of clients to automated lending process paths, i.a. in the following fields:
 - process of granting exposures, renewals and annual reviews,

- automated client verification in external databases,
- we broadened the catalogue of standard covenants and collateral agreements of credit documents,
- we finished the pilot programme of monitoring of corporate clients (mid and big companies) using the Early Warning Signals statistical model,
- we tailored internal regulations of the Bank to new IFRS 9-based accounting standards which took effect on 1 January 2018.

Key modelling and reporting actions:

- current PD/LGD/EAD models applied for the purpose of provision computation were adjusted to requirements of the new IFRS 9,
- we redeveloped and implemented in the decision-taking process new Basel models for mortgage loans,
- we approved a new application model in the credit approval process for the entrepreneurs segment,
- we adjusted tools and methodologies and we ran the PFSA Recommendation C-compliant stress tests for concentration risk.

3. Market risk

Introduction

The main goals of market risk management at ING Bank Śląski S.A. are to ensure that the Bank's exposure to market risk is understood and properly managed, and, if applicable, that the exposure is within approved limits.

The Bank defines market risk as the potential loss due to unfavourable changes in market prices (e.g. yield curves, FX rates, equity prices, etc.), market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and customer behaviour (e.g. loan prepayments).

Risk management process

The market risk management process within the Bank covers the identification, measurement, monitoring and reporting of risk. The Market Risk Management Department provides FM and Bank Treasury Management, selected Management Board and ALCO Committee members with regular risk updates. Additionally ALCO, Bank Management Board and Supervisory Board receive periodic updates with the most important market risk metrics. The MRM Department is staffed with trained specialists and the independence of this department is ensured by its separation from the Bank units which generate market risk.

The market risk management process at the Bank also covers the Product Control function which assures correctness of Financial Markets and Bank Treasury products valuation by monitoring the correctness of valuation models and controlling the quality of market data used for valuation and calculation of a financial result. Decisions about issues related to the valuation process e.g. sources of market data used for valuation, pricing model provisions calculation, etc. are taken by the Parameterisation Committee which is composed of representatives from the MRM Department, Financial Markets Division, Bank Treasury and Finance Division.

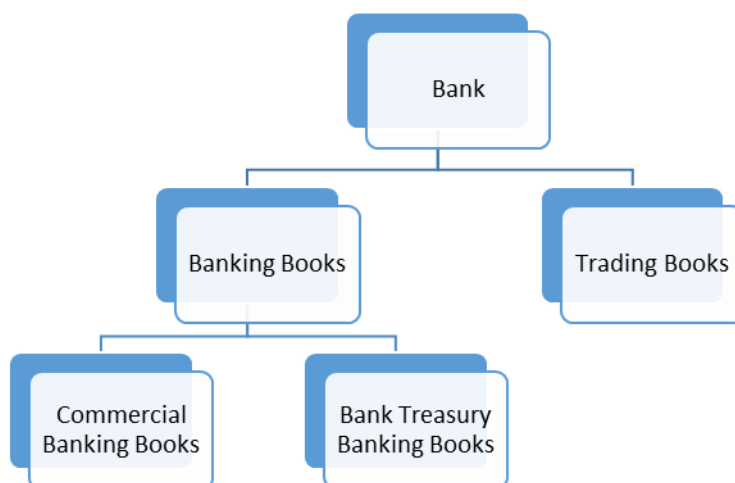
Bank's book structure and risk measurement methods

The Bank maintains an intention-based book structure which drives many processes, including market risk management. The book structure reflects what kind of market risk is expected and acceptable in

different parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Books are categorized based on intention as

- “trading” (positions taken in expectation of short-term financial gains from market movements) and
- “banking” (all other positions).

A high-level structure of the Bank's books is as follows:



Banking Books are further split into Commercial Banking Books and Bank Treasury Banking Books. Commercial Banking Books are Retail and Wholesale Banking books containing commercial loans and deposits. The risk of these positions is transferred to:

- Bank Treasury Banking Books (for interest rate risk, basis risk and liquidity risk) and
- trading books of the Financial Markets Division (for FX risk) via internal contracts.

The process ensures that these books do not contain material economic market risk. However, as described later in more detail, the short-term financial results of these books are sensitive to changes in market rates. The commercial activities of the subsidiaries belong to the commercial banking books.

Bank Treasury Banking Books serve to manage:

- the liquidity risk of the Bank as a whole, and
- the interest rate risk of the banking book.

Open positions are allowed within approved market risk limits.

Commercial Books are books in the Financial Markets area: FX and interest rate trading. These books include items held:

- for resale, or
- with the intent of benefiting from actual or expected short-term price movements, or
- items to lock in arbitrage profits.

The market risks of open positions in trading books are limited.

More information on the methods of the interest rate risk measurement were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 161.

Measuring the interest rate risk in the banking book

In measuring the interest rate risk of the banking book, the Bank applies the measures required by the regulations of the European Banking Authority (EBA/GL/2015/08).

More information on the measuring the interest rate risk in the banking book were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 163.

Market risk measurement in trading book

The Bank calculates VaR in line with the best market practice taking into account the following assumptions:

- one day position holding period, 99% confidence level,
- 260-day observation period.

More information on the market risk measurement in trading book were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 165.

Sensitivity of the result and capital to the interest rate risk

The tables below present an overview of the Bank's consolidated sensitivity to the interest rate risk:

- banking book – the changes observed in the measurement for both the NII and EVE measure result mainly from the two factors:
 - changes (increase) in product volumes, and
 - changes in model parameters used to determine the economic value of product portfolios without maturity,
- market value of debt instruments classified as available for sale (AFS) in the Treasury Department's portfolio:
 - slight changes in the sensitivity of the AFS portfolio were observed compared to the previous year. The BPV measure of the portfolio (BPV short position) went up from PLN 1.1 million to PLN 1.3 million.

The sensitivity of consolidated results to the interest rate movements resulting from the banking book:

(PLN million)	Change in the economic result for yield curve move		Change in the reported financial result for yield curve move	
	-2%	2%	-2% ramped	2% ramped
2017	-607.1	230.7	-29.6	60.3
2016	-592.3	-177.2	52.5	-6.0

Note: The full methodology that meets the requirements of the European Banking Authority was implemented in 2017, in line with KNF recommendations. This change significantly affects the measures, hence it is not sensible to compare them to the values reported in 2016. Therefore, to ensure comparability, the measurement results presented in the table above of sensitivity to interest rate risk show the measurements for 2016 made using the new methodology. In addition in the table below, results for the NIIaR measurement are presented for the full range of analysed scenarios.

The sensitivity of the equity to the interest rate movements resulting from the debt securities available for sale:

(PLN million)	Approximate change in regulatory capital base for yield curve move			
	-2%	-1%	+1%	+2%
2017	159.5	80.1	-94.5	-190.0
2016	141.0	72.0	-77.4	-160.2

Summary

In the reporting period, the market risk profile and the method of managing this risk did not change significantly. In terms of risk measurement, the main changes concerned IRRBB and resulted from the EBA guidelines.

4. Funding and liquidity risk

Introduction

ING Bank Śląski recognizes the process of stable liquidity and funding risk management as one of the most important processes at the Bank.

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

Risk management process

In order to optimize the liquidity and funding risk management process, the Bank has drafted the ING Bank Śląski S.A. Liquidity and Funding Risk Management Policy which aims to describe the rules assuring adequate funding sources and mitigation of risk and funding costs. The policy describes a general approach to liquidity and funding risk management process at the Bank. The primary objective of the funding and liquidity risk management process is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions.

The policy results from the business risk management strategy (including strategy of liquidity and funding risk management) approved by the Supervisory Board. It reflects the risk appetite set in that strategy and approved by the Supervisory Board in particular.

Additionally, the Bank compiles the ILAAP report. It presents key measures and figures on the Bank's liquidity profile in a comprehensive and coherent way. It takes account of the strategy, the funding plan and Bank's risk tolerance. The results of the report are approved by the Management and Supervisory Boards.

General approach to funding and liquidity risk management consists of the cycle of five repetitive actions: 1) risk identification, 2) risk assessment, 3) risk control, 4) risk monitoring and 5) reporting.

The Bank operates an active policy of liquidity management for major currencies. For these currencies, liquidity risk is measured and mitigated per currency and operational liquidity is managed separately for each currency; currencies are captured in the risk transfer system.

Intraday liquidity is actively managed by the Treasury Department. In that process, the position and short-term liquidity risk are managed (one-day and intraday). It has been designed to meet payment and settlement obligations in a timely manner in normal times as well as in extraordinary/stress situations.

The Bank has implemented the risk transfer system in which market risks, including liquidity risk, are transferred to the Treasury Department. Using proper tooling, it manages risks in a centralised manner

through the system of limits adopted at the Bank.

Types of risk

The Bank splits the liquidity risk into two groups:

- liquidity risk arising from external factors and
- risk of internal factors associated with a given bank.

The Bank aims at having a conservative approach towards liquidity risk management which will allow it to safely survive the events specific to ING Bank Śląski S.A. and related to the whole banking sector.

In terms of the time horizon, the Bank splits the liquidity risk into:

- operational – focused on current financing of the Bank's position and intraday day liquidity management,
- strategic – focused on ensuring that structural (all maturity dates) liquidity positions of the Bank are at acceptable levels.

Taking account of the time and client behaviour (two aspects having impact on the Bank's liquidity), the Bank distinguishes three types of funding and liquidity risk:

- structural,
- related to customer behaviour,
- related to stress conditions.

More information on the structure and organization of the risk management process were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 169.

Risk management framework

Liquidity and funding risk management framework includes all relevant methods of daily, short-term, medium-term and long-term liquidity and funding risk management. It includes the following key elements:

- limits system and liquidity risk measurement,
- monitoring the funding sources and concentration risk,
- liquidity reserves management,
- intraday liquidity management,
- collateral positions management, and
- stress tests and contingency plans.

More information on the risk management framework were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 170.

Summary

In the reported period the liquidity and funding risk profile and the way of managing this risk did not change in a significant way. In terms of risk measurement, the changes resulted from regulators' guidelines including PFSA and EBA.

5. Non-financial risk

Introduction

The non-financial risk covers the operational and compliance risk management functions based on the common framework which lays down clear rules and standards of risk identification, assessment, monitoring, mitigation and reporting. Non-financial risk management processes are supervised by the Non-Financial Risk Committee established by the Bank Management Board. The Bank Management Board accepts the joint Non-Financial Risk Appetite Statement which is approved by the Supervisory Board upon recommendation of the Risk Committee. Compliance with the declared risk appetite is monitored using the periodic Non-Financial Risk Dashboard.

The common non-financial risk management framework enables us to identify the main threats and gaps as well as related risks which may trigger undesirable events. We are supported by such processes as risk and control self-assessment, scenario analyses, monitoring of key risk indicators or key control testing. Results of internal and external event analyses are continuously used to improve the adequacy and effectiveness of the internal control system of the Bank.

Operational risk

Introduction

We understand the operational risk as the risk of direct or indirect loss from inadequate or failed internal processes, people and systems, or from external events. We recognise the legal risk as an element of the operational risk.

The definition of operational risk is broad and covers the following areas:

- control risk,
- unauthorised activity risk,
- processing risk,
- HR and workplace security risk,
- staff and physical security risk,
- IT risk,
- business continuity risk,
- internal and external fraud risk.

Definitions of the above risks were presented in 2017 Consolidated Financial Statement of ING Bank Śląski S.A. Group on page 179.

Operational risk management process

Our operational risk management goal is a continuous improvement of the Bank's and clients' security as well as reduction in the Bank's operating costs and improvement of the operating effectiveness.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing the operational risk. It implemented a coherent set of internal prescriptive documents. The said documents define the scope, principles and duties of organisational units and employees aimed at limiting the impact and probability of financial and reputational losses in that area. The operational risk management strategy of our Bank takes account of legal and regulatory requirements and uses ING Group good practices.

Furthermore, in liaison with the Supervisory Board, the Bank Management Board adopted the Risk Appetite Statement, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full

compliance with the law and regulations. Limit utilisation is monitored and presented periodically to the Management Board, Risk Committee and Supervisory Board.

The operational risk management system applies to all spheres of our and group operations, cooperation with clients, vendors and partners. It forms a consistent, permanent practice. It covers the following elements:

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

Our Bank manages operational risk using the following general principles:

- we maintain a complete, consistent and transparent structure of operational risk management and clearly stated scope of duties and responsibilities,
- we identify the nature of internal and external environments – including limitations and vulnerabilities – we draw conclusions from internal and external events to determine the root cause of an event and identify potential irregularities in the control environment or determine unidentified risk exposures,
- we identify root causes, types and levels of risk we are ready to accept; we set standards of control activities and mitigating measures,
- we operate effective and consistent risk identification and control for all products, activities, processes and systems functioning at the Bank,
- we monitor and report the amount of required capital, risk profile and risk exposure,
- we continuously focus on raising employee and manager awareness; we ensure that employees are properly qualified to perform non-financial risk management activities and equipped with proper tools.

Effectiveness of risk management processes and high quality of used data are the priority.

Key operational risk drivers are:

- employee knowledge and competence,
- working conditions,
- proper segregation of duties and supervision of their fulfilment,
- integrity of business processes and IT and technical systems,
- quality of internal and external documentation,
- information (technology) security level,
- external events associated with changes in the business environment,
- natural disasters, failures and catastrophes, and
- outsourcing.

Cybersecurity

We are continuously improving security systems and solutions used to protect our clients and the Bank itself. In the world facing growing numbers of cyberattacks which are more and more intensified, we

create an efficient control environment which is designed to predict, protect against, detect, respond to and limit the consequences of cybercrime, distributed denial of service attacks or advanced persistent threats. We raise client awareness of fraud and abuse risk by conducting extensive communication and education campaigns.

We keep and update existing tools as well as implement new tools to detect any and all instances of fraud and abuse, information leakage prevention included.

We strive after improving our cybercrime prevention ability using the programmes initiated by ING Group. We actively collaborate with other financial institutions, government agencies, law enforcement bodies and internet service providers.

In that way, we managed to prevent major cybercrime incidents in 2017.

Major changes in 2017

In 2017, we continued our efforts to ensure compliance with the new regulatory requirements and enhance the risk management system by introducing new information risk assessment methods. We defined a new internal control framework as well as functioning and monitoring of the controls and control function matrix. We continue to structure and standardise the key controls for individual areas and processes of the Bank.

We started works on using advanced data analysis in operational risk management.

Compliance risk

Introduction

The mission of the Bank is to ensure compliance by building the corporate culture which is underpinned by knowledge of and compliance with laws, internal regulations, market standards and ING Values and Behaviours delineated in the Orange Code.

Compliance risk management process

The Bank Supervisory Board has oversight of compliance risk management at the Bank, and the Bank Management Board is responsible for the effective compliance risk management at the Bank, including responsibility for: implementing organisational solutions, regulations and procedures enabling effective compliance risk management and for ensuring adequate resources and funds as may be required to perform tasks in this area.

The Compliance Department is the organisational unit dedicated to compliance risk management. Tasks of the Compliance Department cover: identification, assessment, mitigation, monitoring and reporting of compliance risk for the following key threats: customer activity, employee activity, provision of financial services and functioning of the organisation.

Major initiatives in 2017

In 2017, the Bank was intensively working on the implementation of regulatory requirements: the Common Reporting Standard, MIFID II and MIFIR as well as STIR and Split Payment government programmes. To implement the requirements, we introduced internal regulations, adapted business processes and took training initiatives.

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

6. Model risk

Introduction

Model risk is managed in line with the *Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A.* The Policy provides inter alia for the following:

- model lifecycle,
- principles of model materiality assessment,
- principles of model register functioning,
- capital computation principles for the model risk, and
- validation principles.

Model risk management process

The Capital Management Department keeps the model register, which is a repository of information about the risk models and valuation models effective in the Group. The model register and logs read model materiality, model monitoring and validation results and their risk levels, among others.

The Group regularly assesses the risks of individual models and estimates corresponding economic capital as per internal regulations. The capital calculation manner in the case of identification of material or medium material models of high or increased risk is set out in the methodology of economic capital requirement calculation for the model risk.

Model performance quality is verified via model monitoring and validation in the course of which the degree of model risk exposure is assessed as well. Models are validated in line with the *Model Validation Policy at ING Bank Śląski S.A.* and validation manuals.

Management reporting of the status of model management and validation actions to Committees, Management Board and Supervisory Board includes but is not limited to: model risk assessment and validation results, assessment of aggregated model risk in the context of adopted risk tolerance level, and also the actual model risk capital.

In 2017, the economic capital for the model risk stood at the zero level due to absence of identified high or increased risk models.

7. Business risk

Introduction

The following material risks were identified under the business risk:

- financial result risk,
- macroeconomic risk,
- FX mortgage portfolio risk.

Financial result risk

Financial result risk, deemed permanently material, is defined at the Group as the risk associated with taking adverse or erroneous business decisions, the lack of or faulty execution of taken assumptions/actions and changes in the external environment plus an inappropriate response to these changes which results in the financial result being below the requirements arising from the need to conduct ongoing operations and grow, mainly in order to supply the capital base.

In principle, financial result risk is recognised in the area of planned mergers and acquisitions on the market. For organic growth of the Group, the risk is recognised as limited.

The main financial result risk triggers are: failure to earn the income planned or budget cost overrun. The said triggers are influenced by accomplishment of the planned client number, volume and market share, offer for clients and cost control. Additionally, innovativeness and attractiveness of the Group as well as its perception by clients and the market are crucial.

In 2017, the Group increased the number of clients served to 4.53 million. The client base augmented thanks to the systematically implemented innovations for clients (e.g. introduction of mobile authorisation, BLIK deposits at CDM or a multicurrency card) and marketing campaigns. The Group attaches great significance to development and promotion of the online channel, which translates into a high share of cash loans sold in that channel to individual clients and entrepreneurs (74% and 65%, respectively). Moreover, 99.86% of all transfers are electronic transfers.

The Group continues actions to consolidate its market position by promoting cash and mortgage loans and incentivising clients to accumulate their savings. This is done using attractive financial solutions under simple and fair product offer.

By carrying out the above actions, in Q4 2017, the Bank increased its market share (versus Q4 2016) in household loans by 0.79 p.p. (to 5.78%) and deposits by 0.23 p.p. (to 9.10%). For the corporate segment, it was +0.20 p.p. (to 10.68%) and +0.79 p.p. (to 8,81%), respectively.

The above factors enabled us to deliver the financial plan.

Macroeconomic risk

Macroeconomic risk – the risk due to macroeconomic factors changes and their impact on the minimum capital requirements. The Bank manages that risk by conducting regular internal stress tests, whereby the sensitivity of minimum capital requirements to macroeconomic factors can be monitored on an ongoing basis. In 2017, the Bank ran full capital tests twice: for the data as at Q4 2016 and Q2 2017.

Based on internal stress test results for the mild recession scenario, the Group estimates the additional capital requirement to secure against the impact of the said scenario materialisation. Stress-test results show that should the mild recession risk materialise it will not effect a decline in the capital adequacy below the required level. Therefore, the Group quantified the additional economic capital for that risk at zero.

FX mortgage portfolio risk

FX mortgage portfolio risk is the risk of financial losses connected with FX mortgage loans conversion into PLN mortgage loans.

To manage risk, the Group uses current legislation proposals for conversion of FX mortgage loans.

One should highlight at that point that the Group did not receive a capital add-on for that risk (imposed by the Polish Financial Supervision Authority on the banks having significant FX mortgage portfolios). Still, bearing in mind the risk of legislative uncertainty in that area, the Group resolved to secure itself by computing the economic capital add-on.

As at 2017 yearend, the value of the FX mortgage portfolio of the Group was PLN 1.0 billion.

8. Transaction security and IT system stability

Introduction

Keeping the funds and data of our clients and partners safe is the key aspect we focus on in our daily routine. We observe threats on an ongoing basis and analyse their impact on the ICT infrastructure (applications, systems and networks) and our business processes, processes of our partners plus their potential consequences for clients. We use these data to design and roll out adequate organisational and technical solutions in the prevention, detection and response areas. Our ICT systems are protected with a multi-layer mechanisms and cybersecurity systems.

IT security management process

For each ICT technology at our Bank we design and implement model security requirements; they are regularly verified for effectiveness and correctness in tests, security reviews, and also internal and external audits. Such audits and tests are run by reputable expert companies.

We continuously improve our processes and procedures relating to threat prevention, detection and response as well as actions that eliminate their potential impact (e.g., unavailability of banking services). The said actions include but are not limited to the implementation of additional mechanisms to authenticate and monitor the activity of ICT system users and an additional protection layer against malicious software (like ransomware, for example). We have an elaborate and multi-channel cybercrime awareness programme for Bank employees.

We apply solutions of leading providers of tools and services in the cybersecurity area and unique solutions developed by our specialists. At the same time, we cooperate with ING Group entities and other companies and organizations in Poland (banks, sector associations, police). This enables us to watch trends, identify new vulnerabilities and prevent IT security threats.

Our partners are required to ensure adequate security as well.

In online banking, we use the following safety and security solutions:

- Transaction authorisation with the one-off code – this method enables authorisation of the instruction in the online banking system with an authorisation code. The user receives a code via text message or Halo Śląski system. The code is generated for one specific instruction and its validity is limited. Apart from the code, the user also receives transaction details which additionally allow them to verify the transaction.
- Encrypted online connection – access to banking systems is possible only upon entering the user id and password. Communication between clients' computers and the Bank's server is encrypted with the TLS protocol. Ingbank.pl and online banking system are protected with high trust digital certificates that secure the connection with the encrypted HTTPS protocol. This ensures that sent data are fully secure in the encrypted format, secures them against tampering and authenticates the communicating computers.
- 3D Secure (online card payment standard) – when our clients make online card payments in a 3D Secure-enabled store, the payment is additionally confirmed with a one-off text message code. To use the 3D Secure payments at our Bank, it is not necessary to launch or activate anything – all you need is a card for online payments.
- Masked password – you do not need to enter the entire password to log into the online banking system – the system asks only for random characters.
- Automatic logout of inactive users – after 15 minutes of inactivity, users are automatically logged out by the system.

For mobile banking, we use the following safety and security solutions:

- Transaction authorisation in the mobile application – this method is available for the clients who use the Moje ING online banking system, make transfers on their PC and have the Moje ING mobile application installed; this method and text message code are used alternately.
- Fingerprint login – this option is available for phones with the fingerprint sensor. This login method can be activated upon login to the application.
- Hard daylight limit – the amount threshold by which transfers can be made in the mobile application on a given day. The current limit is PLN 20 thousand.

- Automatic logout of inactive users – after 60 seconds of inactivity, users are automatically logged out by the system.

9. Personal data security

Stability of IT systems also means protection of personal data of clients, business partners and employees. Yet, on top of IT security, we also ensure physical security of data and information stored at the Bank. Our regulations precisely define the presence of outsiders in our offices – they need to be accompanied by Bank employees all the time. Unverified devices cannot be connected to our ICT network. We regularly test our physical security measures, while inspection findings inspire us to change.

We did not record any justified complaints concerning the breach of clients' privacy last year.

The role of employees is also crucial here. We regularly refresh their knowledge of the principles of effective protection of financial and business data. Our awareness training courses and programmes are adjusted to the technical capacity of recipients; targeted and dedicated programmes are the most effective tools for long-term protection against fraudulent attempts to obtain data. In 2017, 100% of our employees were trained in personal data security.

Our in-house security solutions ensure effective protection of the Bank's IT infrastructure. Since secure banking depends also on our clients, we share information about potential threats with them and recommend them the security solutions they should use when banking on their devices. Each client receives a code of conduct for online banking:

- we prompt how to create a secure password,
- we inform them on an ongoing basis about online banking threats,
- we remind them about secure banking principles,
- we explain how to secure against data theft on the internet,
- we teach how to protect devices used by our clients, and
- we make clients aware of threats when they visit a branch.

We attend to retail clients, but we also do not forget about the security of business clients. In 2016, we developed first workshops on the e-banking security for strategic clients – they were held in January 2017. They were attended by 80 guests from 42 companies. Our experts presented electronic banking security systems at the Bank and shared their experience and knowledge on how to detect potential threats. We reminded clients that for the purposes of social engineering attacks, cybercriminals gather multiple information, seemingly totally unconnected with the flow of funds. Banking specialists stressed that even though threats such as phishing or vishing are commonly known, they unfold and continue to evolve. Hackers force companies to monitor security policies and update security software all the time.

Last year, the Bank intensified works on the implementation of the European Union Regulation concerning personal data protection. We update document templates, amend internal regulations, adapt business processes and prepare training courses for employees. We also launch new processes like exercise of the right to data transfer or assessment of personal data processing consequences. Further, at the Polish Bank Association level, we cooperate with other banks, to draft a common code of conduct.

VII. Way of working

In view of the demanding environment of our bank, we need to measure up to many challenges. These are, inter alia, generation changes, the growing dynamics of the labour market and, consequently, new expectations. At our Bank, we focus on implementing new, flexible ways of working as well as on developing and enhancing the human capital.

We are transforming our bank into a more and more friendly workplace. We can do it through, inter alia, such initiatives as the Diversity Manifesto, green office or social campaigns. We create space to inspire creative solutions. We believe that it is in such working conditions that employees can develop the best. We offer comprehensive assistance in upgrading skills and marked-to-market salaries.

Our employees develop bank products in interdisciplinary teams and engage clients in that process. They pursue their ambitions and impact on both their own and the Bank's development.

1. Who our employees are

Every day, the ING Bank Śląski S.A. brand is created by over 8,000 employees. We hire not only financial advisers. Our modern organisational structure accepts many professions. Our employees have various interests and passions. Still, common actions apply: engagement in work performance, striving after development and innovativeness. As much as 69% of the Bank staff are women. Most of them are between 30 and 50 years of age. 53% of managers are women.

As at 31 December 2017, the ING Bank Śląski S.A. Group hired 8,032 employees. There were 7 persons (or 0.1%) more than in December 2016. As at the end of December 2017, ING Bank Śląski S.A. hired 7,661 employees, that is 8 persons (or 0.1%) fewer than in December 2016.

As at 31 December 2017, the headcount in the ING Bank Śląski S.A. Group was 7,979 FTEs. There were 10 FTEs (or 0.1%) more than in December a year earlier. As at the end of December 2017, the number of FTEs at ING Bank Śląski S.A. totalled 7,612, down by 6 FTEs (or 0.1%) from December 2016.

Number of employees			
	2017	2016	Change y/y
Retail Banking	3,685	3,821	-3.6%
Corporate Banking and Financial Markets	1,181	1,184	-0.3%
Operations/ IT/ Services	1,989	1,879	5.9%
Risk/ Organisation/ Finance/ HR	806	785	2.7%
Bank Total	7,661	7,669	-0.1%
ING Lease (Polska) Sp. z o.o.	208	187	11.2%
ING Commercial Finance Polska S.A.	105	99	6.1%
Solver Sp. z o.o.	3	19	-84.2%
ING Usługi dla Biznesu Sp. z o.o.	52	47	10.6%
Nowe Usługi S.A.	3	3	0.0%
Subsidiaries	371	356	4.2%
ING Bank Śląski S.A. Group	8,032	8,025	0.1%

Total workforce by gender and type of employment contract			
	2017	2016	Change y/y
Female	5,531	5,587	-1.0%
Open-ended agreement	5,283	5,380	-1.8%
Temporary	248	207	19.8%
Male	2,501	2,438	2.6%
Open-ended agreement	2,328	2,302	1.1%
Temporary	173	136	27.2%
Total	8,032	8,025	0.1%
Open-ended agreement	7,611	7,682	-0.9%
Temporary	421	343	22.7%

Total workforce by gender and age group			
	2017	2016	Change y/y
Female	5,531	5,587	-1.0%
Below 30 years of age	693	695	-0.3%
From 30 to 50 years of age	4,075	4,114	-0.9%
Above 50 years of age	763	778	-1.9%
Male	2,501	2,438	2.6%
Below 30 years of age	416	412	1.0%
From 30 to 50 years of age	1,790	1,764	1.5%
Above 50 years of age	295	262	12.6%
Total	8,032	8,025	0.1%
Below 30 years of age	1,109	1,107	0.2%
From 30 to 50 years of age	5,865	5,878	-0.2%
Above 50 years of age	1,058	1,040	1.7%

Total workforce by gender and employment category			
	2017	2016	Change y/y
Female	5,531	5,587	-1.0%
Manager	417	520	-19.8%
Employee	5,114	5,067	0.9%
Male	2,501	2,438	2.6%
Manager	378	479	-21.1%
Employee	2,123	1,959	8.4%
Total	8,032	8,025	0.1%
Manager	795	999	-20.4%
Employee	7,237	7,026	3.0%

Total workforce by gender and employment type (full-/ part-time)			
	2017	2016	Change y/y
Female	5,531	5,587	-1.0%
Full-time employment	5,406	5,463	-1.0%
Part-time employment	125	124	0.8%
Male	2,501	2,438	2.6%
Full-time employment	2,456	2,400	2.3%
Part-time employment	45	38	18.4%
Total	8,032	8,025	0.1%
Full-time employment	7,862	7,863	0.0%
Part-time employment	170	162	4.9%

Percentage of total employees covered by collective bargaining agreements

The percentage of total employees covered by collective bargaining agreements was:

- 2017: 5.6%
- 2016: 6.2%

Employment terms and conditions

Our employees are offered marked-to-market and stable employment conditions. The remuneration of the bottom-level employees – vis-à-vis the minimum wage – is shown below.

Remuneration of the bottom-level employees (split into male and female staff) vis-à-vis the minimum wage			
	2017	2016	Change y/y
Female	200%	162%	38 p.p.
Male	200%	170%	30 p.p.

During the recruitment process as well as when taking promotion-related decisions, the candidates' salaries are consulted with individual business partners. The practice is intended to counteract the unjustified remuneration differences. At the same time, the Bank's management structure was simplified and the expert career path was implemented; the latter is aimed at expanding the employee development options. Owing to this, the remuneration level went up. The aforementioned changes affected the structure of female and male salaries.

Remuneration of the bottom-level employees vis-à-vis the market*			
	2017	2016	Change y/y
Bank/Market	143%	101%	42 p.p.

*base remuneration against the banking sector

Sound base salaries are complemented with an attractive fringe benefits package like:

- extra days off due to child birth or wedding (more days off than provided for by the law),
- 5 extra days off a year for the parents of children with the certificate of disability,
- option to work from home at least once a month,
- option to use 8 hours every year for voluntary service activity,
- medical care, employee pension programme and group insurance schemes, and

- pension and retirement allowance for senior employees higher than required by the law.

Competence model

Each position at our Bank has a unique competence profile, so each employee knows the competences they are expected to exhibit in their work. Profiles are formed by four corporate competences (common for all employees) and three specialist or managerial ones – relating to one’s job. Employees may check the model of any position on the banking intranet. Until recently, the model functioned as the leading one, but in 2017 it was modified through implementation of the Step Up model described in more detail in the sub-chapter “Employee Development”.

Year-end evaluation is the basic tool supporting the employee competence development. In 2017, we combined that practice with the employee bonus task evaluation. Thanks to motivating feedback, setting of adequate goals, reliable task performance evaluation and building of engagement, we pursue more and more ambitious objectives, both the personal and the business ones.

2. Innovation culture and competent employees

Agile

The development of technology and its presence in any sphere of our lives contribute to the today’s world changing at a remarkable pace. Small, innovative businesses and technological giants redefine the way of contacting clients and mark out the directions for the entire market. The same pertains to the banking industry – until recently considered very traditional and conservative; today, it is seen as very modern and technology-based. Our clients compare us not only with other banks, but, first and foremost, with mobile applications they use every now and then to, for instance, listen to music, move around or use the social networking portals, etc. That is why their expectations as to the quality and manner of service are completely different. We want to transform ourselves to respond to clients’ needs faster, engage them as frequently as possible in the solution development process and verify every step of the way whether or not our solutions hold good in reality.

After several years of experiences with implementing the Scrum methodology in the IT area and a few major undertakings (such as development of new online and mobile banking systems for retail and corporate clients), we decided on another step. We launched the Agile way of working on a broad scale. The persons that formerly used to work in separate units were joined into interdisciplinary teams. Now, colleagues from business, IT, operations and other units sit together side by side in one team. All this is to enable the team to carry out its tasks end-to-end. Such a solution is conducive to innovative product creation as well as helps to respond to client needs faster. Our aim is to set up self-organising teams that will achieve the best results possible. We modified the area responsible for building products for retail and corporate clients (in January and June 2017, respectively) and in many other areas where that way of working adds value.

ING Accelerator

ING Accelerator is one of the key projects that supports implementation of the PACE methodology. We use the programme to develop innovative ideas, create products and services that are popular with clients.

In practice, the Accelerator is about small, self-organising teams established for a definite period of time. They are composed of employees from various Bank divisions, delegated to work solely on a given project. In that period, they concentrate only on the project they were assigned to. Afterwards, they return to their teams and duties. The modus operandi resembles a classical start-up. The difference is that a group of external experts and PACE coaches support our teams on a permanent basis. Each of the teams works on a different solution, but the goal is similar – to create a product that will suit client needs and solve their problems. To verify their assumptions and identify at the testing stage what is working and what calls for improvement – the teams talk to clients at each work phase.

Innovation Bootcamp

We also use global ING projects at the Bank. Innovation Bootcamp may serve as an example here. It is an annual global programme to create new ideas.

- Employees can submit ideas that respond to challenges faced by ING, and make them happen later on.
- The project lasts from 6 to 7 months.
- At the end of a given stage, the best ideas are chosen and they make it to the next stage.
- In the finals, the best competitors fight for acquiring the financing for their project and for the option of its implementation within one of ING Accelerators.

Employee Development

We help to discover and channel our employees' potential. We care about upgrading employees' competence and we empower them to make informed choices of a career path.

Year-End Evaluation

Year-end evaluation is the basic tool supporting employee development. It is a special type of a meeting of the employee and the superior. During such a meetings, we create development plans for the coming year, set new priorities and assess employee task performance. We also talk about aspirations and stretch ambitions. Two-way feedback holds the key here – the employee and superior need to be at the receiving end.

Internal regulations also reflected the new approach to performance appraisal within the entire ING Group. The approach intuitively connects the job performance evaluation with an intensified role of the so-called soft or non-financial categories. It also impacts our strong corporate culture.

Percentage of employees who took part in the year-end evaluations:

- 2016 – 98%,
- 2017 – 97%.

Step Up – new year-end evaluation model

The new performance assessment model implemented in 2017 – Step Up – combines the values, supports engagement and ensures partnership. We want our employees to discover their potential, meet their ambitions and have a feeling of full support. This approach promotes dialogue and employee motivation. The approach increases the intuitiveness of the year-end evaluation system, combines it with the values and individual performance of the employee.

We want each employee to get everything they need to perform their job tasks. We ensure various packages of development and training activities – both internally and using the third-party training courses, workshops and conferences. Moreover, projects based on knowledge sharing and teaming up with another person are also implemented, including: coaching, mentoring and one-on-one consultations.

We also support self-enhancement of professional qualifications by employees, through certification, post-graduate studies or the Polish Bank Association standards. We promote activities, inspire one another towards development and recommend specific tools. In communication, we use the internal community devoted to learning and development. We promote digital development activities, while encouraging employees to use external training platforms available online.

Managerial training courses

In 2017, we launched a global development programme for managers, Think Forward Leadership

Experience. Its aim is to deliver knowledge and managerial skills to all leaders of the organisation so that they support with their actions our strategic goals.

The programme concentrates on the following:

- development of leaders' self-awareness,
- reinforcement of expected attitudes,
- team-building skills involving identification of the best features of employees and drawing on them,
- strengthening of the cooperation-oriented attitudes and highlighting of the importance of talent development to act effectively.

Persons holding managerial functions may also use the First Class of Management. The programme supports employees in new roles. It is also designed for persons with the managerial potential. We also run group and individual development actions for managers at all management levels.

E-learning and multimedia tools

We want our employees to have easy access to diverse and customised training materials. Self-study is often the first step towards taking relevant career-related decisions. That is why we activated a wide array of e-learning training courses. They provide employees with immediate access to effective laws and regulations, e.g. in the compliance area or best practice recommended in everyday work. We employ modern technologies, especially in the knowledge sharing area, such as: chats, webinars and fora. Thanks to diversity of tools, almost each employee took part in at least one development action. Multimedia sources of information are another form of self-improvement, with the so-called knowledge pills, e.g. presentations, videos and features. In 2015–2017, we offered materials on, inter alia, giving feedback, holding talks with employees, working on goals and performance appraisals, presentations and sales psychology.

Training courses in figures in 2017:

- 34 training hours per employee,
- On average, 18 development actions per employee, and
- 99.9% of employees took part in at least one (on-site or e-learning) training course during the year.

Inspiring meetings

Interacting with inspiring people is a valuable source of motivation, especially to develop soft skills. By organising lectures with specialists – people passionate about their profession – we wish to inspire our employees. In 2017, we focused on the themes of change management and coping with one's emotions, building continuous dialogue and providing feedback as well as motivation and sources of energy to act. Our guests were: Miłosz Brzeziński and Olga Kozierowska, Vincent V. Severski, Urszula Dudziak.

Assignments and placements for employees

An internal assignment is a well-tryed professional development solution. It enables the employee to gain professional experience in another organisational units of the Bank located in Poland or abroad. A development assignment usually lasts from one to three months. Such a solution makes it possible to get to know the work in a given job, but even more importantly, to gain new skills and professional experience.

Participation in internal assignments looked as follows:

- 2016 – 211,

- 2017 – 170.

We also offer international assignments which give the employees a chance to develop their knowledge and competence in the international environment. Usually, such assignments last up to 6 months.

Number of employees in foreign offices (length of assignment)			
	2017	2016	Change y/y
up to 1 year	23	26	-12%
over 1 year	19	19	0%

The highest number of employees travel to the main office of ING Netherlands. Other frequent destinations are Germany, Great Britain, Belgium, Spain, Luxembourg and Italy.

3. Sound employer

The future of our Bank depends on its employees. It is their engagement, creative ideas and innovative concepts that make the Bank successful in business.

We know how employees evaluate us

Committed employees form the basis for our development, so we regularly check what impacts their work most and what they need to make it even more satisfying. Our staff members may participate in cyclical and anonymous WPC (Winning Performance Culture Scan) and OHI (Organizational Health Index) surveys. The OHI survey verifies how we can adapt to the changing environment and perform well. On the other hand, the WPC concentrates on examining the employees' engagement in a given period. The OHI gives a much broader picture of the organisation and its health, as it explores many areas.

The WPC and OHI surveys are carried out alternately, once a year. After each survey, we analyse the results together and talk about how to perfect our organisation – how to consolidate our strengths and develop the areas which need improvement. On that basis, we develop action plans and report on their performance. Following the results' analysis, we implemented multiple interesting initiatives, like development assignments, recognition workshops and a series of local initiatives.

Be orange, get kudos

Kudos is our way to show recognition. We use it every day, as it is a convenient and good method of thanking others for the behaviours which agree with our Orange Code. The word "kudos" comes from Greek and means recognition, prestige and respect expressed for accomplishments. At ING, kudos is used to mean two things. First, "kudos" stands for praise. Second, "kudos" is the application used to express recognition. Since the launch of the application (June 2016), we have given in total 88,264 kudos in Poland. More than 80% of our employees make use of this form of expressing recognition.

CEO blog

One of the channels of open communication with staff members is BBblog. The blog is run by the CEO, Brunon Bartkiewicz. He shares there his reflections and observations as well as publishes information on both important events at the Bank and those concerning the daily life. The blog has been available for over a year and a half now and it is followed by over 7,000 people, that is above 3/4 of the employees. All posts are freely commented by them.

BBblog in figures:

- Number of members – 7,503 members (over 13x increase y/y),
- Number of likes – 1,708 (53% increase y/y),

- Number of posts – 61,
- Number of comments – 155.

The greatest number of likes – 159 – was given to the post about the planned launch of the Cafeteria Plan. It is a platform where employees may by themselves select the form of using their own funds from the In-House Social Benefits Fund.

Diversity and equal chances

“At ING we promote diversity – not only because it is proper to do so. We promote diversity because we cannot deliver on our strategy without it.” – so starts the ING Diversity Manifesto which we adopted in 2016. We believe that taking various perspectives drives innovativeness, boosts growth and helps one in taking proper decisions and achieving better results.

With this Manifesto, we want to show that we are open and responsible and that our intention is to stimulate creation of culture that is based on mutual respect. We want to be a workplace where all can feel themselves. The experiences stemming from, inter alia, the gender, age, origin or religion differences enable us to face up to challenges.

In 2016, we approved the diversity strategy for the years 2017-2019 which covers the care of diversity in terms of gender, experience, education, employment of women in managerial positions. We intend to adopt an action plan aimed at promoting the effective management of various generations at the organisation. At present, we are in the middle of implementing the actions and new programmes to deliver on the strategy.

Headcount structure and ratio of basic salary of women to men

	Female	Male	Salary ratio Female/Male
2017			
Senior management staff	10	22	98.3%
Management staff	227	197	94.9%
Junior management staff	180	159	97.0%
Specialists	4 969	2 091	97.0%
Other employees	145	32	100.4%
2016			
Senior management staff	9	22	96.5%
Management staff	240	232	93.6%
Junior management staff	271	225	97.1%
Specialists	4 948	1 930	95.8%
Other employees	119	29	97.5%

*The change in the ratio of female to male salaries at the senior management level in 2017 versus 2016 followed, among others, a change in the management board member position. Until 31 May 2017, the function of vice-president in charge of the finance area was held by Mirosław Boda. As of 1 June 2017, that role was assumed by Bożena Graczyk. In 2017, the management structure was flattened which also translated into changes in the salary ratios of the management staff.

The differences in female and male salaries are a very important aspect for the Bank. The Management Board set it as one of their diversity management policy priorities for the period between 2017 and 2019. Pursuant to the policy effective at the Bank, the remuneration level is conditional upon one's position.

Parents at work

We attach particular importance to special protection of permanent employment of the employees returning from the parental leave. We also support those who become parents in their new role. At the beginning, we provide them with information about the rights and privileges they are entitled to, and then we pay out a one-off newborn allowance. Male employees of our Bank use a paid two-week

paternity leave. They can do so until their child becomes 2 years of age. In 2017, 80% of young fathers took this opportunity (vs 77% in 2016).

Parental leave returns

In 2017, as in 2016, all employees returned to work after their parental leave (save for the persons for whom the temporary contract of employment had come to an end or who had tendered resignation letters themselves).

Retention ratio for employees returning from the parental leave (percentage of persons eligible for parental leave who returned after the parental leave and continued to work for at least 12 months afterwards)*

	Female	Male	Total
2017	98%	100%	99%
2016	99%	100%	98%

*save for the persons for whom the temporary contract of employment came to an end or who tendered resignation letters themselves.

Employee Pension Programme

The Employee Pension Programme is a solution whereby the Bank enables employees to jointly and voluntarily accumulate extra funds for future pension. The programme is designed for all employees who have been hired for the period of at least 3 months. You just need to file a participation declaration. The Bank finances the basic premium of those employees who decided to enrol for the Programme; the premium is invested in selected mutual funds. With the programme, one can also systematically invest additional own funds. The account balance can be viewed via the online application. Upon acceding to the Employee Pension Programme, ING Bank Śląski S.A. each month pays in to an individual employee register the premiums which build up extra capital for the future pension.

We aim to keep the employee participation in the Employee Pension Programme at over 60%. The target performance was as follows:

- in 2016: 67% of employees participated in the Employee Pension Programme,
- in 2017: 70% of employees participated in the Employee Pension Programme.

Programmes for students and graduates

We encourage students to cooperate with us in internship initiatives and programmes. This solution helps them to get to know their future employer. We offer many development paths in multiple internship programmes:

Traineeship with the Lion

Traineeship with the Lion is a programme addressed to students following multiple majors and specialisations and planning to work in banking in the future. It gives an opportunity to work under the guidance of ING Masters. During the traineeship, participants garner experience in the area they have selected, either at the Head Office in Warsaw and Katowice or in the branch network all over Poland. The development plan is built on the basis of gamification – the Trainees move on to next levels by completing more and more complex and demanding tasks. In 2017, 131 students participated in the summer and autumn traineeship rounds across Poland.

ChallengING

ChallengING is an annual development programme of intensive learning and work full of challenges, combined with performance of unassisted tasks as part of one of two paths: Data Science or software design

and development. Along the software design and development path, participants perform tasks linked to the business analysis of internal client needs, solution design, programming and testing. Within the

Data Science path, they play rotationally two roles – of a Big Data analyst and a data engineer. In 2017, we hired 7 participants who worked according to the Agile methodology.

International Talent Programme.

International Talent Programme covers 6 business paths: Risk, IT, Retail and Corporate Banking, Finance and HR. It gives its participants the possibility of joining important projects, taking multiple development actions and participating in international assignments.

We build the Bank's image as a desirable and socially responsible employer

Employer Branding

In 2017, we continued employer branding activities geared towards professionals and students. Initiatives addressed to the persons with experience covered: joining job fairs, developing a new employer profile on employment websites, communicating with the candidates through the social media, mainly LinkedIn.

We continued actions dedicated to people entering the labour market (students and graduates). We were present at universities where we organised career zones, series of workshops/ training courses for students and where we cooperated with science clubs, students' organisations and students councils at selected universities.

We once again organised the ING Ambassadors Programme which is a form of cooperation between ING Bank Śląski S.A. and university circles in the entire territory of Poland.

ING student ambassadors cooperate with us in building the Bank's image as an attractive employer at selected universities. Last year, 14 selected students represented us at universities. The ambassadors act under the mentor care of our employees who offer support in getting to know ING and shaping career paths.

Our activities in the employer branding area were noticed and appreciated in the market:

- for the eighth time, we were awarded the Top Employers title,
- ING Bank Śląski S.A. ranked first in the "Most Desired Employers in the Opinion of Professionals and Managers" study by Antal in the Banking category,
- we ranked fourth in the Employer of the Year 2016, organised by AIESEC,
- we were the only bank to be put in the top ten of the "Employers for Engineers" ranking of the Warsaw University of Technology.

We move with the times

A modern bank requires modern space. We want the workplace to facilitate cooperation and shore up creativity and efficiency. We follow the "customised office" principle where space is divided into the zones used for work, concentration, meetings, conceptual tasks and rest. Such space organisation is conducive to thought exchange and to informal chats and formal conversations.

Our offices

Agile space

Agile, first referring to software development, was later adapted as a universal message and today is grasped more as a work methodology. The characteristic of the Agile space is that it is customised to the needs of scrums.

Teams have at their disposal design tables, meeting rooms and chillout zones. They are arranged in a new way, so that people can team up easily without changing the room layouts. The space is equipped with dry-erase walls and magnetic boards.

For teams working in different locations (Warsaw-Katowice), this can be supplemented with

videoconferences that enable ongoing contact.

What is distinctive of the Agile space is the so-called Obeya Room, where teams can visually present at one place the progress in their works. It facilitates efficient information management and immediate decision-taking.

In 2017, 9 floors were adapted in the building at ul. Sokolska 34 in Katowice and 2 floors in the Tower building at ul. Puławska 2 in Warsaw.

Innovation Office

Co-creating new products and services with clients is one of common trends in banking nowadays. It calls for a change in thinking, acting and working. Innovation Lab is a space whose special design is to facilitate reciprocal inspiration, encourage discussion and, more importantly, creation of breakthrough innovations.

The LAB is designed as open space with ring-fenced diverse work areas for smaller teams. We arranged the space so as to, depending on the intensity of works, enable free options of area division and separation from other users. Teams may use design tables, open meeting zones and closed rooms designed for working out loud. The primary function is supplemented with the training area, equipped with the multimedia equipment, and a dedicated kitchen zone.

Walls are adapted for hanging colourful post-its, schedules and kanbans thereon, being the main tools at that type of work.

The LAB space was awarded in the “Interior of the Year” category, in the competition organised by the Association of Polish Architects.

“Hybrid working” model

The “hybrid working” model favours both mobility and direct contact. Employees spend a part of their day in different places which are sometimes far away from the company site. The model is assisted by modern ICT technology. As a result, standard desks occupy less space in the new office layout. In the so-released space, we can arrange extra meeting rooms, for example.

One space for all

We resign from separate offices for managers at the Head Office buildings and regional branches. Open space work facilitates contact with managers and speeds up knowledge transfer and decision-taking processes. It helps to overcome hierarchy barriers, the situation which fosters trust and improvement across the company in the long run.

Activity Based Working

The Activity Based Working (ABW) concept is based on observation of employee activities. Office space is divided into zones dedicated to various tasks, for example, contacts with other employees (open space), work requiring concentration (separated individual workplaces – quiet spots), meeting places (small meeting rooms) and chillout zones (rest and relax).

Café Po prostu

The Po prostu Café is another step in the hybrid working model. A place of work, internal and external meetings. A place for Bank clients. It is also a place where one can meet friends, as the café is open at weekends too. At the same time, it is a new place on the map of cafés in Katowice, established in cooperation with Synergia. We wanted to use the potential of the atrium space at ul. Sokolska 34 and expand the ground floor functions (auditorium, training-and-conference centre, Innovation Lab, restaurant) so that the event purposes are also served.

Caring about the environment

As an institution which exerts a significant impact on the economic life in Poland, we are required to participate in the life quality improvement-oriented initiatives in an active and responsible manner. That is why, we proactively support and promote natural environment protection solutions.

We see our special role in taking initiatives towards designing and offering new products, supporting green ventures, raising environmental awareness and managing environmental and social risk. In December 2017, the Management Board of ING Bank Śląski S.A. adopted the *Green Statement of ING Bank Śląski S.A.*

The areas to obtain our support include but are not limited to:

- renewable resources projects run by energy holdings,
- projects supporting development of modern industry and power distribution infrastructure,
- ESCO projects to offer comprehensive energy solutions which contribute to energy saving,
- electromobility-oriented projects, and
- other projects to prevent pollution and increase recycling opportunities.

Less smog

In 2017, we again focused on:

- carbon footprint reduction (goal: 50% by 2020),
- energy and water consumption reduction (goal: 20% by 2020),

Since 2016, 100% of energy purchased by our Bank has come from renewable resources. In 2017, we bought energy origin certificates for the second time and, in consequence, we cut back our carbon footprint by over 70% from 2014. The purchase of green energy will be renewed in the upcoming years.

We save electricity

The newly adopted technical standards reduced the electricity consumption due to lighting systems installed by around 40%.

- Since 2015, modernised power lines have been operating at 56 branches and on 6 floors at our Katowice Head Office buildings plus completely new energy-saving installations have been working in 12 relocated facilities.
- At our branches and at the Head Office, we activated external advertisement lighting using the LED technology; the casing based on that technology has become our effective lighting standard.
- The LED lighting modernisation involves division into sections which are steered individually, with the lighting up or dimming option; moreover, the casing equipped with individual motion detectors is applied.
- With renovation, relocation or lifting, the water facilities and kitchens are equipped in line with the new, water efficiency-based, standard.
- As part of the OFF Culture campaign, we promoted among all our employees the use of dishwashers in kitchens and reasonable water management.
- In 2017, new energy-saving electric installations were fitted in consecutive relocated and redeveloped facilities.

Our electric energy consumption:

- 2016 – 33,769,174 kWh,
- 2017 – 31,530,936 kWh.

We limit air pollution emissions

We replaced the old air conditioning elements containing R22 refrigerant (with CFC) with modern air conditioning systems at 64 outlets.

We manage waste wisely

- We mandatorily sort waste at our branches. On top of this, we collect and safely destroy data carriers (either the paper or magnetic ones).
- At each branch, we gather office waste like toners, furniture or electronic waste and have them recycled by an authorised company.
- We extended the waste segregation with the collection of dead batteries. Adequate containers can be found in rooms with printers and annexes at the Head Office buildings in Katowice and Warsaw. They are also gradually delivered to our regional office buildings.
- All Bank employees in Warsaw and Katowice Head Offices use the follow-me printing system. The solution enables printing a document only upon tapping the employee's identification badge against the printer.
- In 2017, we had 99% of waste recycled.

Total weight of waste (kg)			
	2017	2016	Change y/y
Waste paper*	554,052	362,982	52.6%
Screens	14,094	14,072	0.2%
Electronic equipment and bulk waste	16,976	17,361	-2.2%
Toners**	3,800	2,550	49.0%
Total waste	588,922	396,965	48.4%
Waste to be recycled	585,390	393,184	48.9%
Waste not to be recycled	3,532	3,781	-6.6%

*higher weight of waste paper is due to the change in operators of the safe document shredding service and another weight conversion factor; **higher weight of toners results from a large number of modernisation actions, relocation and liquidation of outlets in 2017

In 2017, we reported 1,810 kg of hazardous waste, contained in the total waste amount. The waste included mainly electronic waste (screen elements, cooling equipment and air conditioning parts, etc.).

We limit water consumption

We analysed the use of water for the Head Office buildings and regions. This helped us to set new modernisation standards for the Head Office and branch buildings. Another stage of the OFF Culture started; the action promotes water consumption reduction. In 2017, we cut back water consumption by over 13% versus 2014.

Our water consumption:

- 2016 – 63,483 m³,
- 2017 – 55,541 m³.
- water source: municipal water supply.

Green Office

At our offices, we used the solutions which reduce the negative environmental footprint. Since 2014, we have undergone certification regarding application of green and user friendly solutions at our branches. The Head Office buildings in Katowice and Warsaw were awarded several times the Green Office Certificate for the use of the technology limiting energy, water, consumables consumption and supporting waste segregation. In November 2017, the buildings were audited again and the positive assessment of green solutions implemented was upheld.

We promote sustainable transport

We continue the action of promoting bicycle transport. Since it began (in 2013), we have purchased 68 bikes for Head Office employees and for 11 regional offices. In addition, to promote bike travelling among our clients as well, we installed 540 bike stands in front of 160 branches.

Another step was creation of a special bicycle zone for employees in the garages of our Katowice Head Office buildings. Cyclists may store their sports outfit, shoes or helmet there in dedicated lockers. Moreover, we arranged repair stations in the bicycle zone, where employees can mend their bikes themselves.

In 2017, first four electric cars were bought and made available to our employees. Following that, we installed electric car charging stations.

For many years now, we have supported the Sustainable Transport Week by promoting carpooling, or sharing of car journeys, among employees. We provided a database where all employees may offer or find a ride. Our interest in joint rides is steadily on the rise. Next 7 proposals of popular commuting routes were added to the previous 29 ones in the service and now we already have 36 joint routes used by our Bank employees. As part of the Car Free Day, we encouraged employees to actively participate in the action and to use public transport or to commute to work by bike or go on foot.

OFF Culture

At the beginning of 2016, together with other ING Group companies, we joined the Environmental Programme. In May 2016, we adopted the ING Environmental Approach. The document requires us to take measures to minimise Bank direct and indirect negative environmental footprint. Environmental Programme-related actions are supported by the OFF Culture. With this project, we encourage employees to be active in sustainable electricity and water consumption, for example.

In 2017, the OFF Culture was recognised by the jury of the Power of Content Marketing Gala – Columns of 2017. We won gold in the category “Content Marketing – Finance and Insurance”. We were appreciated for coherent actions, creative catchphrases and the educational value of the project. We also received an honourable mention in the category “Content Marketing Strategy for Employees”. Here, we gained recognition for creative actions aimed at corporate retrenching and friendly communication.

In 2017, we initiated subsequent stages of the OFF Culture. Rational water use has been the central theme there. The second edition of the OFF Culture started on 22 March, the World Water Day. We made the employees aware and reminded them that each and everyone of us has an impact on the condition of our planet. Blue stickers that encouraged employees to take action in the form of a riddle were the dominant hallmark of that edition of the campaign. The stickers also featured phone numbers to report any leaking faucets or toilets. We also invited our employees’ kids to take part in the second stage of the OFF Culture devoted to water. On the occasion of the Children’s Day, we called the eco contest Waterproof Doctor on Track. It was aimed at ecological education and an attempt to alter the children’s awareness of water consumption. We reinforced the OFF Culture with short articles in our Baška banking magazine: Sometimes it’s good to be OFF, New edition of the cultural and educational instructor, OFF Culture for summer, We sort with the OFF Culture and We are water-responsible.

Environmental protection and responsible investing

Environmental protection for us and our company also means opportunities and related market needs. Thanks to the proper assessment of social and environmental risks of large investment projects, we focus on responsible investing consistent with the international Equator Principles.

Donations

In 2017, ING Bank Śląski S.A. granted financial and in-kind charity donations pursuant to the *ING Bank Śląski S.A. Donation Policy*; the Policy sets out the purposes to be supported by the Bank donations, in selected community investment areas:

- operations centered around children and youth, including holidays for children and youth,

- science, higher education, school system, education and schooling (including in particular financial education), and
- health protection and disease prevention.

In keeping with the Policy, the Bank made 32 donations, to name a few: for the Center for Citizenship Education to support the development of the Entrepreneurial Youth programme, for the Warsaw Institute of Banking to develop the BAKCYL programme and for the Spring Association to support the development of financial competence of families from the Noble Box Project and to educate children in the Academy of the Future Project. In the higher education area – for, inter alia: the Silesian University of Technology to develop the “My idea for business” initiative, and in the healthcare area – for: the Professor Zbigniew Religa Foundation of Cardiac Surgery Development and the Polish Gastroenterology Foundation.

In line with the approach adopted in 2016, the Bank continued to support local charity organisations in the pre-holiday season by reallocating for that purpose the funds used to buy souvenirs for corporate and strategic clients. The funds were donated to 13 local organizations, such as hospices for children, rehabilitation centres, including: Fundacja Wrocławskie Hospicjum dla Dzieci (Children Hospice in Wrocław Foundation), Stowarzyszenia Osób Niepełnosprawnych Promyk in Zielona Góra (Association for the Disabled *Sunbeam*, Zielona Góra), Dom Aniołów Stróżów in Katowice (House of Guardian Angels, Katowice).

In 2017, the Bank also transferred in-kind donations, such as phased-out IT equipment (in a good technical condition) and office furniture. In-kind donations were made pursuant to the *Procedure for the sale/ donation/ reprocessing of assets at ING Bank Śląski S.A.* In-kind donations were given mainly to kindergartens, schools, hospitals and charities.

Sponsorship

In 2017, ING Bank Śląski S.A. was involved in sponsorship activities targeted at the selected sectors of the economy, entrepreneurs, as well as SME owners and management. They were designed to empower people to stay a step ahead in life and in business. The most important sponsored events were:

- European Economic Congress in Katowice.
- European Startup Days in Katowice.
- Open Eyes Economy in Cracow.
- Impact Fintech in Katowice.
- 50th anniversary of the Silesian University in Katowice.
- National Energy Summit in Gdańsk.
- European Executive Forum in Warsaw.
- Europe Retail Congress in Warsaw.
- Investment Forum & Private Equity Awards Gala in Warsaw.

ING Bank Śląski S.A. once again cooperated with the organisers of Run Warsaw and was the General Partner to this event in 2017.

Furthermore, regional branches of ING Bank Śląski S.A. supported local initiatives designed to build and tighten the relationships with existing and prospective clients as well as local communities.

Additionally, last year ING Bank Śląski S.A. together with ING Services organised a global hackathon – 24H CodING Hackathon. During that event, the best programmers from 11 countries had a chance to meet in Katowice, in the Old Zinc Rolling Mill. The event gathered employees of ING Group from all over the world as well as representatives of IT service providers, start-ups and students. The teams worked

on the design of the open ecosystem of financial services. The event gathered 372 participants.

4. Social engagement of staff members

In 2017, our aim in the area of social engagement of employees was development of initiatives for financial education and entrepreneurship. We pursued it by way of various initiatives, together with our social partners and volunteers – our Bank employees.

Cooperation with partners

Center for Citizenship Education

The Center for Citizenship Education (CCE) is an independent educational institution that has been acting in favour of education for over 20 years. It works with school headmasters, teaching staff, local governments and central educational authorities towards more efficient learning at school. The Centre runs actions at schools within such blocks as: school and staff development, educational projects related to various subjects and publication of materials/books. The CCE also cooperates with the Polish and European Union institutional partners, non-governmental organisations and business entities.

Entrepreneurial Youth

In 2017, together with ING for Children Foundation we partnered in the Entrepreneurial Youth programme.

The programme is practical and innovative education which enables participants to use economic issues in concrete activities. As part of the project, students solve economy and entrepreneurship tasks on a dedicated online platform, after which they carry out their own project with the assistance of teachers and mentors. The programme helps them to understand, among others, how to manage their own funds, it teaches them how to save and shows selected banking services, etc.

Young people also learn to make own investments, dispose and manage limited finances and analyse risk. This translates into development of such skills as creativity, innovativeness, risk taking, planning and efficient delivery of projects.

The programme has been successfully run by the Center for Citizenship Education for 9 years; since mid-November 2017, ING has been engaged in it. ING for Children Foundation is, as part of cooperation, inter alia, the author of the idea of the new programme concept and new educational forms as well as provides subject-related support. The Bank, in turn, furnishes knowledge, experience and financing. Marcin Giżycki, Vice-President of the Management Board of ING Bank Śląski S.A., has become the patron of the programme.

In 2017, 130 teams from 66 schools, that is 610 students in total, enrolled for the programme.

Spring Association – Noble Box Project

In 2017, thanks to our involvement in the programme, we supported volunteers and charges of the Noble Box Project in building their entrepreneurial spirit and developing the skills to have an impact on their own finance. The charges of the Noble Box Project were assisted by volunteers in building financial awareness. Apart from financial support, we helped to reach even a greater number of people with the information on the Noble Box Project. Therefore, we organised a joint action called “Happy Christmas. Because together”. It consisted in sending the Christmas cards prepared by the Bank and written at branches by our clients to the addresses they indicated. Clients visiting our branches could send for free through our agency greeting cards to their family and friends. Our Christmas action propagated not only sending wishes but also sharing noble ideas – we zoomed in on the Noble Box Project, talked about our multifaceted support, we also encouraged our clients to join in the initiative. On our ING Community portal, we posted an interview with the Reverend Jacek Stryczek promoting the Bank’s cooperation with the Noble Box Project and also a talk with Marcin Iwuć about the support for the Noble Box Project. Our clients decided to send through our agency 10,000 cards to the addresses in Poland and abroad.

Spring Association – Academy of the Future

In 2017, as the Social Investor, we continued our support for the Academy of the Future. The Academy, with mentors' assistance, helps children to overcome school failures and be successful in life. The programme enables children who did not feel important so far to feel exceptional. The Academy of the Future has been created and is organised by the Spring Association. Over 2 thousand children participate in the Academy's programme. We support 10 schools.

- Katowice – Primary School No. 12, ul. Paderewskiego 46, Katowice,
- Warsaw – Primary School No. 152, ul. Powstańców Wielkopolskich, Warsaw,
- Wodzisław – Primary School No. 1, ul. Wałowa 5, Wodzisław Śląski,
- Cracow – Primary School No. 26, ul. Krasickiego 34, Kraków Podgórze,
- Bydgoszcz – Primary School No. 37, ul. Gdańska 122, Bydgoszcz,
- Łódź – Primary School No. 35, ul. Tybury 4, Łódź Żubardź,
- Poznań – Primary School No. 11, Osiedle Wichrowe Wzgórze 119, Poznań,
- Wrocław – Primary School No. 47, ul. Januszowicka 35, Wrocław Park Południowy,
- Rzeszów – Primary School No. 3, ul. Hoffmanowej 11, Rzeszów,
- Lublin – Primary School No. 51, ul. Bursztynowa 22, Lublin.

Warsaw Institute of Banking

Since 2015, the Bank has been part of the BAKCYL project – a joint project of the banking sector organised by the Warsaw Institute of Banking to support finance education of teenagers from junior high schools.

In the project, Bank employees volunteer to teach finance at schools (junior high schools) within the cycle of 4 themes: Your money, Put your mind into borrowing, Wise investment, Lifelong finances. In grades from 6 to 8 (the cycle of 3 themes): Your money, From saving to investing and Rules of safe borrowing.

Among the most active Bank volunteers who conducted over 20 lessons were: Agnieszka Kamińska-Lis, Andrzej Żbikowski and Jarosław Głogowski.

BAKCYL project roundup

	2017	2016
Number of volunteers	62	43
Number of lessons	313	60
Provinces	All Poland – three provinces with the biggest number of lessons conducted are: Mazovia (542 lessons), Silesia (253 lessons) and Pomerania (198) Silesia, Łódź, Mazovia, Pomerania	

ING Voluntary Services Programme

As part of our ING Voluntary Services Programme, we encourage employees to show activeness in the fields of financial education, entrepreneurship and local community. The formula of the voluntary services programme is open and anybody can get involved the way they like. Our Bank ensures for every employee the option of devoting 8 hours of work per year to voluntary activities. The Bank volunteers closely cooperate with ING for Children Foundation.

Number of our volunteers:

- 2017 – 1,400,

- 2016 – 1,440.

Good Idea

Since 2006, employees have been taking part in the Good Idea voluntary competition. They can win there the subsidies for a voluntary project from ING for Children Foundation. In 2017, we encouraged our employees to take up initiatives in financial education for children and youth. The projects submitted were of long-term nature and covered education, renovation or providing equipment for hospitals, schools, kindergartens and community youth centres.

In 2017, more than 100 people, new volunteers and experienced ING Voluntary Services Programme leaders, took part in the training courses of ING for Children Foundation held in Wisła, Warsaw and Katowice. The purpose of the training courses was to provide volunteers with substantive and organisational support. The training courses covered, inter alia, cooperation with a social partner, social project management, diverse forms of both entrepreneurship and financial education.

Voluntary activities roundup

Year	Good Idea – the number of initiatives	Ad hoc initiatives – the number of initiatives	Total number of employees – volunteers over the year	Number of volunteered hours
2016	68	10	1,440	4,214
2017	68	11	1,400	4,929

Following the long-standing tradition of social initiatives, employees engaged in charity collections for children. An Orange Schoolbag collection of school supplies was organised in September, while in December the employees prepared Christmas gifts in the Santa's Helpers initiative.

Blood donation initiatives

Traditional blood donation drives were held in spring and autumn of 2017. 56 Bank employees attended 4 such drives, donating 26 litres of blood in total.

ING for Children Foundation

ING for Children Foundation pursues the social mission of ING by supporting development, education and self-reliance of children and youth. ING for Children Foundation is one of the oldest corporate foundations in Poland. The foundation strives after providing equal chances to young people whose adult life initiation is difficult for various reasons.

In 2017, the Foundation launched its website (www.ingdzieciom.pl) with the ING volunteer zone where volunteers may find many practical facts and inspirations.

In 2017, as part of supporting the development and education of young people, the Foundation together with the Bank started cooperation with the Center for Citizenship Education within the Entrepreneurial Youth programme.

At its centre in Wisła, the Foundation has been welcoming children from all over Poland to the Smile Camps for 13 years now. In 2017, 22 Smile Camps took place – educational and rehabilitation camps, winter and summer camps for 1,076 people. In 2017, via the Foundation's website, the centres and institutions interested could send in their entries for the Smile Camps competition. The website showed the details of the ongoing enrolment, general terms and conditions of the competition and list of required documents.

For a few years now, the Foundation has been running uninterruptedly the ING Internet Clubs programme. 30 internet clubs with free internet access operate all over Poland. Social objectives pursued by the internet clubs include, first and foremost, development of young information society, didactic assistance in performance of school and extracurricular tasks, propagating of internet usage as an alternative way to spend free time. In 2017, the Foundation conducted a survey

of the clubs' and children's potential and needs. Based on the survey results, the Foundation will prepare a proposal of the clubs' offer for the following years.

In 2017, ING for Children Foundation sent out 997 therapeutic books "Alien" to schools, libraries, child's organisations and to the persons interested. Thanks to the Foundation, 2,000 new textbooks entitled "I have Asperger's" reached students, teachers, parents and volunteers all over Poland.

Team of ING runners

A team of Bank employees participates each year in the "Run Warsaw" event – a 10 km run in Warsaw. In 2017, a record number of over 1,000 Bank employees participated in the event – 803 runners and 266 walkers. For comparison, in 2016, 440 ING employees took part in the event.

It is already a tradition that the runners and walkers participating in the event are engaged in ING for Children Foundation's activities. Thanks to ING employees' participation in "Run Warsaw", in 2017, the Foundation received PLN 93,600 from the Bank. The money, by way of the "Orange Power" competition, are transferred to the social organisations recommended by ING employees; the organisations drafted sports-and-educational projects for children.

Roundup of the activity of the ING runners team

Year	Number of runners	Funds for ING for Children Foundation	Sports projects
2016	440	PLN 44,300	<p><i>Active, healthy and sporty</i> of the Foundation Ray of Joy from Radomsko (Fundacja „Promień Radości”) which will earmark PLN 12,000 in 2017 for the series of sports activities for children.</p> <p><i>A healthy mind in a healthy body</i> of the Open Doors (Otwarte Drzwi) Association from Warsaw will receive PLN 12,000 for cooking workshops, trips and touristic and recreational activities.</p> <p><i>Active spring and summer</i> of the Children's Friends Association (Towarzystwo Przyjaciół Dzieci) Regional Branch in Cieszyn will earmark PLN 9,770 for swimming lessons and competition.</p> <p><i>Just dance!</i> Of the St. Philip Neri from Ruda Śląska Association, which will use PLN 10,530 for dance workshops for children and their parents.</p>
2017	803 runners 266 walkers	PLN 93,600	In 2017, the Foundation called a competition, Orange Power 2017, for the children and youth activating projects. The projects recommended by employees are submitted by social organisations. The projects are assessed by the competition committee and then – in the second stage – by ING employees. The winning projects will be implemented in 2018.

ING Polish Art Foundation

The ING Polish Art Foundation promotes Polish contemporary art. It builds its art collection and delivers artistic projects.

Collection

In 2017, the collection was expanded with 9 new works: Gizela Mickiewicz object "Ways back", 2 pictures by Karolina Jabłońska ("Fighting girls" and "Eyes"), Katarzyna Przezwańska installation "Early Polishness", 3 photographs by Joanna Piotrowska (no title), Joanna Piotrowska multimedia installation (no title (Clock)) and video by Agnieszka Polska "The New Sun".

The Foundation began works on compiling the collection documents, including interviews with the artists whose works are part of the collection. Movie footage featuring interviews with: Elżbieta Jabłońska, Janek Simon, Zofia Kulik, Bownik, Jakub Woynarowski, Radek Szlaga, Karolina Jabłońska, Maciej Sieńczyk, Łukasz Surowiec and Andrzej Tobis, was made.

Cooperation with partners

In 2017, the ING Polish Art Foundation in cooperation with the Gallery of Contemporary Art in Opole prepared the exhibition entitled "The Present?". Several dozen of works from the Foundation's collection were exhibited; they in many ways touched upon the differently perceived present moment. As part of the exhibition, a series of educational workshops for children and youth and guided curator tours were organised.

Education

The ING Polish Art Foundation published a contemporary art book for children entitled "Snowman in the Fridge". The book was composed of humorous stories about the adventures of two kids learning the works of eminent contemporary artists (and sometimes their own). A reader will find there the answers to such questions as: Can a picture or sculpture be made of garbage? What is a snowman doing in the fridge? Can an adhesive tape be a work of art? A brilliant and witty text by Łukasz Gorczyca, an art expert, is supplemented with excellent illustrations of Krzysztof Gawronkiewicz, a valued comic book writer. The publication was available for sale as of December 2017.

To promote the book, the Foundation organised a cycle of meetings and workshops in, inter alia, the National Museum in Warsaw, Zachęta – the National Art Gallery and in the Raster Gallery where Oskar Dawicki read out the fragments of the book.

In 2017, the Foundation continued a number of educational activities addressed to our Bank employees.

These were weekly collection tours as well as meetings with artists whose works are displayed in the Bank's offices plus common visits to exhibitions and activities for children.

Award of ING Polish Art Foundation

As part of the seventh edition of the Warsaw Gallery Weekend, the biggest cyclical review of modern art in Poland organised by private galleries, the Foundation granted two awards. An international jury, appointed especially for that event, selected an artist participating in the Warsaw Gallery Weekend, whose work was purchased for the Foundation's collection. The winner was Katarzyna Przezwańska and her installation "Early Polishness". An honourable mention being a cash award was granted to Diana Lelonek for the "Center for Living Things" project.

By doing so, the ING Polish Art Foundation decided not only to support the artists but also express its recognition for the galleries which co-work directly with artists and build their position in the world of art.

Professional Artist

In 2017, the first edition of the educational programme Professional Artist was held. Professional Artist is a project addressed to the students of the final year of studies in artistic faculties, who after graduation want to function as artists in the art market. As part of our project, we conducted a cycle of daylong classes in cooperation with seven art universities in Poland. During the courses, young makers learnt how to organise their everyday work, present themselves to curators and gallery owners, how and where to arrange their first exhibitions, where to get insurance and how to take care of their rights. The lectures were run by experts: artists, curators, critics and gallery owners. In 2018, the Foundation continues the project.

VIII. Non-financial statement

The Management Board of ING Bank Śląski S.A hereby presents the 2017 Non-financial statement as per Articles 49b and 55 of the Accounting Act (Journal of Laws 1994.121.591 as amended).

The Bank and Bank subsidiaries are managed in a consistent manner also as regards non-financial aspects and policies. Therefore, the Non-financial statement has been developed using the consolidated data, whereby potential distorted or misleading information is avoided.

1. Business model

How do we act in Poland?

We want to be the preferred bank for our clients. We ensure top quality of our services and make them broadly available.

We have been present in the Polish market since 1989. We enjoy the position of one of the largest all-round banks in Poland. We are the fifth in terms of the balance sheet total (over PLN 126 billion as at 2017 yearend) and the fourth in terms of the commercial balance (the total of deposits and loans). We render services to both retail clients and business entities. As at 2017 yearend, we operated through 357 branches and 66 ING Express points. We also offer modern online and mobile banking systems.

Our head offices in Warsaw and Katowice are our organisational hubs. This is where we take the most important decisions concerning the operations of our Bank. The Management Board and Supervisory Board are seated there as well. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of December 2017, as a Group we employed over 8,000 people.

We pursue our business model by:

- enabling easy saving and easy lending,
- organising the payment and transactional system, and
- providing high customer service quality.

ING Bank Śląski S.A. is a part of a larger organism – ING Bank Śląski S.A. Group with the subsidiaries operating in:

- leasing,
- factoring,
- real property deals and broking services,
- real property renting,
- financial advisory and intermediary services, and
- payroll and accounting services, for example.

More information is available in Chapter “About us”, in item “Who are we” on page 7.

Value creation model

Together with the Management Board and senior leaders, we have developed a detailed value creation model. It is our reply to the questions about: what value we create for our clients, shareholders, employees and social environment and how it is measured and maximised. All this is to help us constantly improve the strategic management of our organisation. Key values we provide to our stakeholders are:

- customer experience,
- entrepreneurship and market development support,

- customer privacy,
- way of working, and
- stability and predictability.

Each of those values encompasses detailed goals.

More information about our Value creation model is available in Chapter “How we create value”, in item “Value creation model” on page 38.

Business strategy

In 2014, ING Group implemented the Think Forward strategy. We want to be perceived as a bank of the future for the enterprising. The one that delivers practical solutions to its clients – the solutions they need and will be willing to use.

Our clients as well as the audience of our commercials probably associate us with the catchphrase: “It’s the people that count”. And that’s right, as we want people to be able to pursue their goals with our support. Often, we help them even become aware of and name their goals.

In practice, it means that – thinking of our clients and their satisfaction – we simplify our actions and how we communicate. We enhance our availability by putting the emphasis on the latitude of contact forms and time when the client may reach us. We are an organisation of committed people who derive satisfaction from improving themselves. And also from supporting our clients in their development. We want them to make informed choices.



More information about our business strategy is available in Chapter “How we create value”, in item “ING Bank Śląski S.A. business strategy” on page 47.

2. Key non-financial performance indicators

Key non-financial performance indicators of ING Bank Śląski S.A. Group			
	2017	2016	Change 2017 to 2016
Number of clients per FTE	575	542	+6.1%
Commercial balance per FTE (PLN million)	24.3	22.0	+10.3%
The average duration of the Fast Track process to the decision with limits (working days*)	1.69	1.98	-14.6%
Share of online credit requests in the corporate segment (%)	93.1%	91.2%	+1.9 p.p.
Share of cash loans sold online in the retail segment (%)	66.2%	41.4%	+24.8 p.p.
Online service platform availability (%)	99.8%	99.9%	+0.1 p.p.
Share of transfers placed by electronic banking (%)	99.9%	99.6%	+0.3 p.p.
Average speed of answer by the Contact Centre advisor (seconds)	20	24	-16.7%
Contact Centre first call resolution share (%)	80%	82%	-2 p.p.
Share of complaints handled within 24 hours (%)	56%	64%	-8 p.p.
Average power consumption per employee (kWh)	3,939	4,119	-4.4%
Average water consumption per employee (m ³)	6.9	7.7	-10.4%

* one working day is 9 hours of work time

More non-financial indicators, including the efficiency ones, can be found in Chapter "About us" in item "What makes us stand out" on page 15 and in Chapter "How we create value" in item "Value creation model" on page 38.

3. Non-financial area policies and due diligence policy in place

Social area-related policies

In the social area we are active ourselves and through two corporate foundations: ING for Children Foundation and ING Polish Art Foundation.

We put special emphasis on nationwide and sectorial initiatives run to boost financial education and entrepreneurship. We defined these directions in the *ING Bank Śląski S.A. Sustainability Strategy*. To ensure successful strategy implementation, we collaborate with social partners. Additionally, we support conferences devoted to economy, sustainable growth and entrepreneurship in organisational and content-related terms. Their examples are: European Economic Congress or Open Eyes Economy Summit.

Since 2007, our employees can use the formal and legal solutions facilitating voluntary activity as given in the *Labour Bylaw*. We warrant our employees 8 hours of work which they can use for voluntary activity. Volunteers carry out undertakings for schools, kindergartens, NGOs and hospitals. They teach basics of finance and entrepreneurship. Together with kids, they refurbish, read, play sports or partake in blood donation initiatives and charity runs. Before Christmas, they prepare Christmas parcels for children at hospitals, community youth centres and children's homes.

Environmental and social risk management at the Bank has been detailed in the *Environmental and social risk manual*. The document provides for detailed policies seeking to protect the environment and minimise the social and environmental risks. Further, it lists the types of business which the Bank does not invest in due to the particularly high risk of breach of human rights and the risk of environmental footprint and adverse influence on sustainable growth principles.

We receive many sponsorship offers and proposals as well as donation requests. The Bank has the ING

Bank Śląski S.A. Charitable Donations Policy. This Policy sets out the principles of awarding and transferring charity donations. We also apply the *ING Bank Śląski S.A. Sponsorship Policy*, further supplemented with detailed provisions of the *ING Bank Śląski S.A. Sponsorship Principles*.

Policy deliverables

Number of hours earmarked for voluntary activity by employees:

- 2016 – 4,214,
- 2017 – 4,929,

More information about our social activities and their effects is available in Chapter “Way of working” on page 135.

Employee-related policies

The Group has 8,000 employees. To ensure that we are legally-compliant in business, we apply numerous documents which govern employee aspects.

The *ING Bank Śląski S.A. Labour Bylaw* which defines the organisational framework and workflow as well as the related rights and obligations of the employer and employee is the key document. Its provisions apply to all employees, regardless of their position, type and work time regime, or the term of the contract of employment. At the Bank, we have more favourable solutions concerning occasional leaves than provided for in the Regulation of the Minister for Labour and Social Policy of 15 May 1996 on the manner of explaining one’s absence from work and granting employees the leaves of absence. Further, parents with disabled children are eligible for extra 5 days off during the calendar year.

Its provisions are supplemented, among others, by the *ING Diversity Manifesto* which was adopted by all ING Group entities worldwide and the *Diversity Policy* which defines the areas and lays down the manner of diversity management at our Bank. In ING we believe that everybody has large potential they can make full use of. We expect however that our employees will treat one another with kindness and respect.

The Orange Code is another important element of employee-related aspects. It is a set of Values or promises which we make to the world and Behaviours or commitments which we as co-employees make to one another.

At the Bank we have the *Procedure of upgrading professional qualifications* which governs the scope of rights and obligations of employees and the employer in the context of upgrade of professional qualifications, understood as studies at various levels, post-graduate and MBA ones included. In the regulation, we set the terms on which employees may obtain tangible privileges due to studying like extra days off or refunds.

The procedure concerning advancement in the command of a foreign language lays down the framework of and the main terms on which funding of the English language course can be obtained; employees and their superiors can choose and are responsible for course realisation.

Based on the Orange Code, we introduced the *Business Ethics Standards* which apply to employee conduct due to performance of their professional duties; they may also concern their private activities which may negatively affect Bank’s reputation and give rise to a conflict of interest.

Further, employee-related aspects are an element of the *ING Bank Śląski S.A. Sustainability Strategy* where as employees we undertake to support our business clients and partners in sustainable running of their business.

Policy deliverables

Employee-related policies deliverables			
	2017	2016	Change 2017 / 2016
Headcount (employees)	8,032	8,025	+0,1%
Average length of service (years)	12.2	11.4	+7.1%
Remuneration of the bottom-level employees vis-à-vis the market* (%)	143%	101%	+42 p.p.
Ratio of basic salary of women to men (%)	97,0%	96,1%	+0.9 p.p.
Parental leave returns** (%)	100%	100%	-
Employee turnover ratio (%)	8.2%	8.5%	-0.3 p.p.

*base remuneration vis-à-vis the banking sector; **save for the persons for whom the temporary contract of employment came to an end or who tendered resignation letters themselves

More information about our employee-related aspects is available in Chapter “Way of working” page 135.

Natural environment-related policies

We are aware of the perils arising from the irresponsible usage of natural resources and we are trying to counteract them. Hence environmental protection and sustainable growth are an important factor whereon a long-term strategy of building the company’s values is based.

Such an approach to environmental aspects is mirrored in the *Green Statement of ING Bank Śląski S.A.* adopted in 2017 and the *ING Bank Śląski S.A. Sustainability Strategy for 2017-2019* approved by the Bank Management Board.

Joining ING Group in implementation of the requirements, we also adopted the *ING Group Environmental Approach* – the document in which we commit ourselves to reduce our environmental footprint notably in the context of fighting climate changes. We fulfil the above commitments twofold:

- internally, we are trying to limit the environmental burden which results from the Bank operations,
- when providing and offering external services, we want to anticipate their potential ecological consequences and strive for proper ecological risk management.

In order to minimise the environmental footprint of our offices, branches, computer centres and business trips, we strive after reducing carbon dioxide emissions by lowering energy consumption. Our car fleet was expanded with hybrid and electric cars. We provided employees with bikes and promote carpooling. We eliminate the number of generated paper documents step by step. We lower water consumption by using green technologies and equipment at break rooms. We run green campaigns among employees which raise their green sensitivity and cement positive habits as well as propagate eco technology and organisational solutions.

In keeping with the *ING Bank Śląski S.A. Sustainability Strategy for 2017-2019* approved by the Bank Management Board, we support our business clients and partners in sustainable running of their business. We recognise our role in ecological projects like the ones pursued in the electric power industry; we help clients in energy transformation and switching to low-carbon business. We manage the environmental and social risk of our transactions and of transactions made by our clients. We apply the *General principles of environmental and social risk* to that end. Our actions comply with business ethics, and we strive for transparent relations with vendors. Our vendors undertake to abide by the Vendors Code of Conduct which promotes human rights, fair market practices, environmental protection and counteracting corruption.

In keeping with our strategy, we support our business clients and partners in sustainable running of

their business. We outlined the role of the Bank and the impact on sustainable growth in the *Green Statement of ING Bank Śląski S.A.* We see our special role in taking initiatives towards designing and offering new products, supporting green ventures, raising environmental awareness and managing environmental and social risk.

Policy deliverables

Resources consumption			
	2017	2016	Change 2017 / 2016
Energy consumption (kWh)	31,530,936	33,769,174	-6.6%
Paper consumption (kg)*	554,052	362,982	+52.6%
Water consumption (m ³)	55,541	63,483	-12.5%

*higher weight of waste paper is due to the change in operators of the safe document shredding service and another weight conversion factor

More information about our natural environment aspects is available in Chapter “Market and entrepreneurship development support” on page 95 and in Chapter “Way of working” on page 135.

Respect for human rights-related policies

Group activities affect diverse groups of stakeholders like clients, employees and vendors. Representatives of each of these groups may and should expect fair treatment from us. In our business, we commit to respect and promote human rights in respect of all people we collaborate with.

The human rights-related aspects can be found in a few documents. For employees – the provisions of the *ING Bank Śląski S.A. Labour Bylaw* are fundamental in this regard. It reads that as the employer we undertake to respect the dignity and other personal rights of employees, abide by the principles of equal treatment while establishing and terminating the employment relationship, in relation to terms of employment, promotion opportunities or access to training. Further, we commit ourselves to counteracting mobbing.

The Labour Bylaw is completed by the provisions of the Orange Code, among other documents. In this paper, we clearly describe the values we believe in and the behaviours one can expect from us. The Orange Code promotes integrity, common sense and accountability, for example. It is applied in many banking processes, e.g. in the employee performance evaluation (*General Terms and Conditions of the Annual Performance Appraisal Interviews at ING Bank Śląski S.A.*, *General Terms and Conditions of Bonus Award to Employees of ING Bank Śląski S.A.*). Further, it is an important element of the recruitment process and corporate culture.

Diversity Policy is another document which supports us in complying with and promoting human rights. The policy is designed to build the awareness of the organisation in which the principles of equal treatment are applied, meaning no discrimination whatsoever, both directly and indirectly, because of: gender, age, disability, lifestyle, form, scope and basis of employment, other cooperation types as well as other triggers of discriminatory behaviours.

All Group vendors represent that they observe the standards set out in the *ING Bank Śląski S.A. Vendors Code of Conduct*. The observance thereof is a prerequisite for starting and continuing cooperation with the Bank. The key standards include: observing the applicable laws in relations with the employees, including the employees’ rights, as well as respecting their personal dignity, privacy and individual rights. Vendors should also provide their employees with safe and harmless workplace in health terms and consider environment protection by striving for reducing environmental burden as part of their business and they ought to undertake actions leading to environment improvement. Moreover, vendors should observe prohibition of forced labour, child labour, corruption and discrimination.

The *ING Bank Śląski S.A. Sustainability Strategy* is another document supporting us in promoting human rights. In this strategy pursuit, we engage in financial education by such initiatives as e.g. development of tools and products that help take good financial decisions. We also remove barriers hindering access

to our services.

Policy deliverables

The Orange Code is an element of the annual performance appraisal process at ING Bank Śląski S.A.

- In 2017, 100% employees underwent the annual performance appraisal (long-term absences excluded).

We apply the *ING Bank Śląski S.A. Vendors Code of Conduct* to all suppliers, regardless of their place of business.

- 100% vendors of of ING Bank Śląski S.A. declare to comply with the standards of the Code.

More information about respect for human rights is available in Chapter “About us” under “Ethics, values and compliance” on page 21 and in Chapter “Way of working” on page 135.

Anti-corruption policies

As a public trust organisation, the Bank sees anti-corruption practices as the top priority in its relationships with clients, business partners and among employees. Any and all forms of bribery or corruption are absolutely forbidden. All Group employees are required not to accept any actions suggesting an attempt to commit a crime or of corruption. The *Regulations – ING Bank Śląski S.A. Employee Business Ethics Standards* which lays down the principles of conduct for each employee in the context of anti-corruption and combatting conflict of interest, information protection and whistleblowing procedure is the formal document regulating those aspects.

The anti-corruption aspects are detailed in the *Anti-Bribery and Corruption Policy* which all our employees are required to comply with. The Policy provides for the restrictions on taking and giving material and non-material benefits in contact with clients, business partners and public servants as regards:

- gifts or invitations to events,
- cash or its equivalents,
- trip or accommodation funding,
- hiring a given person by the Bank or offering him or her a traineeship or internship,
- sponsoring or charity donations by the Bank,
- business meals,
- relationships with business partners.

In line with the accepted Policy, the Group follows the rules of integrity and ethics and applies “the zero tolerance rule to unfair behaviour”.

Should an employee take or give gifts or benefits due to the participation in events – such an action always needs to be rationalized in business terms and the worth of such benefits must be proportional to the specific nature of the business relationship. There must be always a legally compliant purpose of taking or giving benefits. No such action can entail a conflict of interest or even imply that such a conflict occurred. The Bank disapproves giving benefits being political donations on its behalf. Staff decisions concerning employee hiring and secondment have to be substantiated with professional and objective criteria and they cannot serve illegal exertion of influence. The policy provides for the amount thresholds on the benefits being gifts and participation in events which can be given or taken by our employees.

Furthermore, the Group maintains a register of benefits. Taken or given gifts, participation in events or business meals – in contacts with clients, business partners and public servants – need to be reported depending on their value.

The above rules are an element of the *ING Bank Śląski S.A. Anticorruption Declaration* which is always enclosed with the agreements made with vendors. As per the Declaration, the Group disapproves of actions which satisfy the criteria of or imply bribery and expects its business partners to comply with the anti-corruption standards. Further, the Group does not cooperate with business partners who do not accept our standards.

All employees are required to report corruption- or conflict of interest-related irregularities. Infringements of the above regulations and laws can be reported in person or anonymously via the whistleblowing procedure set out in the *Whistleblowing Policy for Infringements of Law, Internal Regulations and Ethical Standards*.

Policy deliverables

The *Anti-Bribery and Corruption Policy and Regulations – ING Bank Śląski S.A. Employee Business Ethics Standards* are among the employee-related documents whose knowledge each employee affirms upon being hired by the Group.

Furthermore, anti-corruption and conflict of interest training courses are conducted. In 2017, the training course on:

- anti-bribery and corruption was completed by 94% of Group employees,
- compliance and business ethics was completed by 96% of Group employees.

That the Group's principles of ethics and the *Anti-Bribery and Corruption Policy* are implemented is confirmed by the fact that no criminal proceedings were instituted in that regard towards the Group or its employees.

4. Description of non-financial risks

Operational risk

More information about the operational risk can be found in Chapter "Bank and client safety", item "Non-financial risk" on page 128.

Operational risk can exert a negative impact on the following:

- social aspects,
- employee-related aspects,
- natural environment,
- respect for human rights,
- counteracting corruption.

Compliance risk

More information about the operational risk can be found in Chapter "Bank and client safety", item "Non-financial risk" on page 130.

Compliance risk can exert a negative impact on the following:

- social aspects,
- employee-related aspects,
- natural environment,
- counteracting corruption.

Reputation risk

Reputation risk is the risk associated with the negative perception of the Bank by clients, business partners, investors, shareholders, supervisors, regulators and the public.

We manage the reputational risk as part of operational risk and compliance risk. This means that the we provide for reputational damage when managing both the operational risk and compliance risk.

Limiting reputational damage is among the objectives of operational risk management. In the operational risk management process, we take into account the reputational risk factors and consequences considering:

- the scale and nature of sanctions imposed on the Bank by competent authorities in the assessed year,
- media publications and initiatives of consumer associations that contribute to the deterioration of public perception and loss of Bank's reputation,
- the number of and changes in customer complaints and grievances,
- publicly known adverse events that occurred in other banks and financial environment affecting the banking sector,
- relations with entities/sectors that are not well seen by the public or people/countries from warning lists, and
- where available, other market indicators such as rating reviews or changes in share prices.

We accounted for the reputational risk in the following internal documents discussing operational risk and compliance risk management:

- ING Bank Śląski S.A. Operational Risk Management Policy, approved by the ING Bank Śląski S.A. Management Board and Supervisory Board,
- ING Bank Śląski S.A. Compliance Policy, approved by the ING Bank Śląski S.A. Management Board and Supervisory Board.

Reputational risk can exert a negative impact on the following:

- social aspects,
- employee-related aspects,
- counteracting corruption.

IT systems security risk

More information about the IT systems security risk can be found in Chapter "Bank and client safety", item "Transaction security and IT system stability" on page 132.

IT systems security risk can exert a material adverse impact on the following:

- employee-related aspects,
- social aspects.

Personal data security risk

More information about the personal data security risk can be found in Chapter "Bank and client safety", item "Personal data security" on page 134.

The risk of personal data security can exert a material adverse impact on the following:

- social aspects,
- employee-related aspects.

The risk of changing client expectations or preferences

We define the risk of changing client expectations or preferences as the expenditures made and the resources employed to usher in a new product or a service to which clients will not respond (zero demand). It is also a risk that we will not change or modify the products, services or manner of service as expected by clients, whereby the sales target will not be met.

We are aware that client expectations and preferences change and that those changes are more and more dynamic. Clients expect that their experience in using banking products and services will resemble what they encounter in other spheres of life e.g. when using the social media. To anticipate client expectations:

- we tailor the communication form and the service model to their expectations,
- we measure client satisfaction, and
- we listen to and analyse the voice of our clients.

More information about the ways in which we communicate with clients is available in Chapter “Customer experience” under “Dialogue” on page 83.

Further, in 2017, we resolved to launch at selected Bank units (mainly those in charge of products and services development) a new way of working, borrowed from the IT sector – Agile. Ability to respond faster to changing client- and market needs is among that change primary goals. Further, we incentivise our employees to use the PACE methodology when designing new solutions for clients. It assumes ongoing consulting and testing through client interaction.

More information about novel ways of working at the Bank can be found in Chapter “Way of working”, item “Innovation culture and competent employees”, on page 138.

Our continuous works on the content and quality of our customer proposition need to be bolstered up by our strong brand. As it is central to us, we are the second most recognisable banking brand in Poland. This is confirmed by the “Brand Tracking” spontaneous awareness survey, conducted by Millward Brown (CAPI technique, data for January 2018).

The risk of changing expectations or preferences of clients can exert a material adverse impact on the following:

- social aspects,
- employee-related aspects.

IX. Supervisory Board's assessment of operations of ING Bank Śląski S.A. Group in 2017

2017 was a year of material economic revival. GDP growth accelerated from 2.7% y/y in Q4 2016 to 5% y/y in Q4 2017 (2017 full year growth of 4.5%). The growth was mainly driven by rising household consumption which was boosted by favourable conditions on the labour market and 500+ programme benefits. The impact of the latter proved stronger and more sustained than expected. Investment expenditures came back at significant levels only in H2 2017 and notably in Q4 2017 (up by 11.4% y/y vis-à-vis 3.3% y/y in Q3 2017). This was due to the finalisation of investment projects in the power sector and outlays on road and local government infrastructure. Corporate investment levels also rose in Q4, as evidenced by higher lending to business.

Results in the banking sector were also shaped by regulatory factors. The monetary policy of the National Bank of Poland went unchanged. Interest rates were cut back to a record low levels for the last time in March 2015 (reference rate and lombard rate to 1.5% and 2.5% respectively). Since 2017 banks have been paying contributions to the Bank Guarantee Fund under new rules laid down in the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Resolution. With this Act, the EU Deposit Guarantee Schemes Directive and the Bank Recovery and Resolution Directive have been transposed into the Polish legal system. On 22 July 2017, the Act on mortgage loans and supervision of mortgage brokers and agents became effective. The law introduces terms and procedures for the conclusion of real estate loan-financed purchases. Since December 2017 the regulation of the Minister for Economic Development and Finance which changed the risk weights for retail mortgage loans has been effective. As a consequence, the capital adequacy of individual banks was diversely affected.

In 2017, the ING Bank Śląski S.A. Group achieved net profit of PLN 1,403.1 million compared to PLN 1,253.0 million in 2016 (up by 12.0%). The increase was driven by rising levels of revenue. In 2017, the Group's income totalled PLN 4,755.9 million compared to PLN 4,324.5 million a year earlier (up by 10.0%). This was primarily triggered by higher net interest income (up by 16.9% y/y) following higher commercial volumes and an improved interest margin. Net commission income rose by 11.1%, mainly due to higher income on FX transaction spreads.

However, dynamic income growth was partially offset by:

- an increase in operating expenses. The costs of the Bank Group went up by 1.1% y/y to PLN 2,122.6 million due to higher general and administrative expenses driven by higher IT costs.
- a higher level of loan loss provisions. Net provisioning levels rose by PLN 120.6 million (by 40.1%) to PLN 421.2 million primarily as a consequence of relatively higher corporate impairment losses. Provisioning levels were also driven up as a result of overall portfolio growth. As was the case in the prior year provisioning levels were influenced by sales of receivables and this resulted in provisions being reduced by PLN 47.1 million compared to a reduction of PLN 51.1 million in 2016. Loan loss provisions amounted to 0.50% of the gross loan receivables balance (2016: 0.40%). The quality of the lending portfolio remains high. Impaired loans represented 2.8% of year-end gross loan receivables. Provision is made for 57.1% of impaired balances.
- higher bank levy costs. In 2017, the Group paid the tax on certain financial institutions (the so-called bank levy) which was PLN 49.9 million higher than in 2016. This was in some measure due to the fact that the levy (based on certain asset values) was paid for a full year whereas in 2016 it was due for only eleven months. The balance of the increase derived from higher asset levels that were the normal consequence of higher business levels.

The Supervisory Board oversees the Company's operations, maintaining a watching brief over the Bank's adherence to relevant regulations in the area of accounting, finance and public company reporting requirements. The duties of the Supervisory Board also include supervision of the individual risk management processes at ING Bank Śląski S.A. with the support of the Risk Committee and the

Audit Committee. Based on the recommendations of the aforesaid Committees, the Supervisory Board accepts and approves the business risk management strategy of the Bank, the key principles of the policy and the related risk appetite. Further, the Supervisory Board monitors the utilisation of internal limits vis-à-vis the current strategy of the Bank.

The Risk Committee has been operative at the Bank since 2016. It supports the Supervisory Board in monitoring the risk management process, including operational risk, credit risk and market risk. The Risk Committee supervises the risk management process and the assessment of internal capital, capital adequacy, and of the risk of capital-related models and other models. The Committee voices its opinion about the overall readiness of the Bank to assume on a current and long term perspective.

Monitoring of the financial reporting process is among the tasks of the Audit Committee. In this context, the Audit Committee periodically analyses the Bank financial statements and the results of their audit. Further, the Chairman of the Audit Committee – who is the Chairman of the Supervisory Board and an independent member of the Board at the same time – holds periodic meetings with the Chief Financial Officer in which the Chairman is updated on the interim financial results of the Bank prior to their publication. The Audit Committee also analyses the performance of the Bank's statutory auditor while also monitoring the auditor's independence and effectiveness. Furthermore, the Audit Committee monitors the effectiveness of internal control and internal audit, and also assesses the effectiveness of measures used to mitigate compliance risk and the quality of compliance risk management.

A Remuneration and Nomination Committee also operates within the Supervisory Board. It monitors *inter alia* the situation of the labour market in the context of salaries, the employee turnover process, and also staff satisfaction survey results. The Committee regularly monitors the remuneration system of the Bank, including the payroll and bonus policy. In 2017, the Committee also assessed the suitability of Management Board and Supervisory Board members, based on a suitability assessment carried out by a third party.

In the opinion of the Supervisory Board, the risk management system at ING Bank Śląski S.A. Group covers all material risks. In identifying, measuring, managing and reporting risk, the Bank applies methodologies appropriate from each identified risk category. In 2017, ING Bank Śląski S.A. satisfied all the requirements of sound business operations and the maintenance of appropriate capital adequacy, and in particular:

- pursued prudent lending policies. The lending processes and procedures applied by the Bank were compliant with the regulatory requirements and best practices on the market. In 2017, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors characterised by increased risk. The Bank's lending portfolio was diversified with a significant share of high-quality lending to business entities. Within the Group, impaired credit receivables represented 2.8% of total gross exposures, which is significantly lower than the average for the entire banking sector (6%),
- has systems and procedures in market risk management area (for interest rate or currency risk, among others) that meet the top market standards. Throughout 2017, individual market risk categories were managed actively so that their levels were within the agreed limits effective at the Bank. The balance sheet structure is balanced from a currency perspective; a distinctive feature is the low share of FX receivables in the total mortgage receivables,
- maintained good liquidity. As at 2017 yearend, the LTD ratio was 83.8%. The sound liquidity position of the Group is attributable to one of the largest (and still growing) stable household deposits base on the Polish banking market,
- had a high level of equity. In December 2017, the total capital ratio of the ING Bank Śląski S.A. Group was 16.7%, while the Tier 1 ratio stood at 15.8%.

Internal audit and compliance risk management procedures operating at the Bank effectively secure its operations against unexpected developments in lending, market risk, liquidity and capital adequacy.

The expected high economic growth in 2018, driven by higher investment intentions and stable, low

interest rates may generate increased demand for credit, particularly in the corporate sector. This in turn may put capital adequacy ratios under pressure with the result that loan supply may be adversely affected. Consequently, the Supervisory Board is of the view that the Bank should continue to focus on the enhancing security while developing further the competitiveness of products and quality of customer experience, such as:

- adequate capital management in order to ensure safe lending growth and fulfilment of all present and future regulatory requirements,
- further development of the product offer and electronic distribution channels. In stiff competition, it is possible to increase revenues by expanding the customer base and increasing loyalty of the current customers. Such an approach boosts customer balances and transactions volumes,
- increasing lending capabilities, while being prudent when assessing customer risk. This will assist in the maintaining of the high quality of the portfolio and boost net interest income.
- maintenance of adequate, stable deposits. This will ensure the liquidity necessary to expand lending activities,
- further increasing cost of effectiveness while maintaining high quality processes, through the optimal use of existing resources and the benefits of increased scale of operations.

In the opinion of the Supervisory Board, the strategy pursued by the Bank over the last few years to increase the scale of its operations has proven to be successful. This is reflected in the Group's financial and commercial results. The success of the strategy to date justifies the Bank's intention to continue with it 2018 while ensuring adequate levels of capital.

X. ING Bank Śląski S.A. Management Board report on observance of principles of corporate governance

Pursuant to Article 91.5.4 of the Minister for Finance Ordinance on current and interim information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent of 19 February 2009 (consolidated text Journal of Laws of 2014, item 133), the ING Bank Śląski S.A. Management Board present the Report on Observance of Principles of Corporate Governance in 2017.

1. Principles and scope of corporate governance

Code of Best Practice for WSE Listed Companies 2016

A set of principles of corporate governance the Bank complied with in 2017 is included in the Code of Best Practice for WSE Listed Companies 2016 passed with Resolution No. 26/413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015. The document is available on the Bank's website: <https://en.ingbank.pl/company-profile/corporate-governance>.

The Bank applies the recommendations and principles laid down in the Code of Best Practice for WSE Listed Companies with the following reservations:

- Rule VI.Z.2.: To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the award of options or other instruments linked to the company's shares under the incentive scheme and their exercise should be no less than two years.

The Bank's comment on the application of the above rule:

The Bank adopted and applies the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A. ("Policy"). It governs the period between the award and possible exercise of financial instruments under variable remuneration in line with the variable remuneration regulations for financial institutions in Poland (Minister for Economic Development and Finance Ordinance of 6 March 2017, CRD III, CRD IV, CEBS/EBA Guidelines). Under the Policy, minimum 40% of the variable remuneration of the management staff shall be deferred for 4 years (in the case of the President of the Bank Management Board – at least 50%; the deferral period is 6 years; the bonus is divided into 5 equal parts) and paid during the deferral period in subsequent 4 years in equal parts, provided that there were no premises for lowering or not paying a portion of the remuneration. A material portion of the variable remuneration (at least 50%) granted in the form of the phantom stock with Bank shares as the underlying instrument is subject to a one-year retention period, appropriately for each tranche. The above provisions are aimed at tying the remuneration of the management with the long-term strategic goals of the Bank. The Bank plans to apply the above-referred rule as far as provided for by the aforementioned regulations.

- Furthermore, the Bank does not apply Recommendation IV.R.2. of the Code of Best Practice for WSE Listed Companies 2016 in full and limits itself to broadcasting the General Meeting online. As in the previous years, the said decision was substantiated with the impossibility to fully eliminate the risks of legal as well as organisational and technical nature associated with providing shareholders not participating personally at the General Meeting with real-time bilateral communication using electronic communication means, which may negatively impact the course of the General Meeting.

Principles of Corporate Governance for Supervised Institutions

The Bank applies the Principles of Corporate Governance for Supervised Financial Institutions (CG Principles) introduced by the Polish Financial Supervision Authority by way of Resolution No. 218/2014 of 22 July 2014 (PFSO Official Journal No. 17). The CG Principles were adopted in the scope

as laid down in the Management Board Report of 30 December 2014, published on the Bank's website: <https://en.ingbank.pl/company-profile/corporate-governance>.

Following the amendments to the Bank Charter made by virtue of Resolution No. 26 of the Ordinary General Meeting of the Bank of 31 March 2015, the Bank applies any and all rules set out in the CG Principles, with the proviso that, due to the impossibility of total elimination of risks of legal as well as organisational and technical nature that can adversely impact the course of the General Meeting, the Bank applies the rule set out under Article 8.4 of the CG Principles to the extent limited to the broadcasting of Bank General Meeting debates online.

Concurrently, with its Resolution No. 25 of 31 March 2015 the Ordinary General Meeting accepted the Bank Management Board Report of 30 December 2014 and declared readiness to apply the CG Principles in the part regarding shareholders and relations of the Bank as a supervised institution with its shareholders, on the terms and conditions set out in that Resolution. The Resolution is available on the Bank's website: https://en.ingbank.pl/_files/1100308.

Management Board Report on Observance of Principles of Corporate Governance

Taking into account the above-given explanations, the Bank Management Board hereby submit the following report on observance of principles of corporate governance:

The Management Board of ING Bank Śląski S.A. hereby declare that in 2017 the Bank observed the principles of corporate governance as set out in the Code of Best Practice for WSE Listed Companies and the Principles of Corporate Governance for Supervised Institutions, in the scope as adopted by the Bank.

The Bank did not identify any case of non-observance of the principles of corporate governance adopted by the Bank in the period reported.

Code of Banking Ethics

Regardless of the principles of corporate governance, the Bank applies the Code of Banking Ethics as adopted at the 25th General Meeting of the Polish Bank Association held on 18 April 2013. The Code of Banking Ethics is available on the Polish Bank Association's website (<http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>).

Business Ethics Standards of ING Bank Śląski S.A.

The Bank introduced the Regulations – Employee Business Ethics Standards of ING Bank Śląski S.A. as well. These Regulations are intended to mitigate the compliance risk by indicating to the employees the rules abiding whereby is a precondition of ensuring the integrity of Bank's operations, including ensuring compliance with legal and regulatory requirements, as well as ethical standards binding in the financial services sector. The rules stipulated herein shall apply to any and all employee activities related to performance of their professional duties. Some of the said rules may apply to the private activities of employees which may negatively affect Bank's reputation or give rise to a conflict of interest.

Orange Code

Orange Code is the starting point to define the elements of ethics of ING Bank Śląski employees. It determines the manner in which the strategic objective of the Bank – empowering people to stay a step ahead in life and in business – is delivered. The Orange Code defines our banking identity. This is a set of norms which all bank employees value and try to comply with and in the context of which they are evaluated by others. The Orange Code is composed of two parts:

- ING Values being the promise made to our external stakeholders:
 - We are honest,
 - We are prudent,

- We are responsible.
- ING Behaviours which define the way of life of employees. These are the commitments the employees make towards one another and standards enabling assessment of their actions:
 - You take it on and make it happen,
 - You help others to be successful,
 - You are always a step ahead.

ING Bank Śląski S.A. disclosure policy

Being a public trust organisation, the Bank pursues disclosure policy which consists in keeping an open and transparent line of communication with its shareholders, investors, the media and all stakeholders. As part of the disclosure policy, the Bank as a public company and regulated institution meets requirements regarding information confidentiality and security imposed thereon by applicable laws. Pursuing the disclosure policy, the Bank abides by corporate governance rules, in particular by ensuring proper access to information about the Bank to shareholders, investors, media and all stakeholders. The full text of the Disclosure Policy is available on the website: https://en.ingbank.pl/_files/asset_upload/item/1100073.

2. Risk control and management system in the financial reporting process

Financial statements are developed by the Finance Division; the process is among the key elements of compliance. The basic elements enabling performance of the process comprise: the Accounting Policy adopted by the Bank Management Board and the accounting framework within the Bank, which defines the main principles of recording business events at the Bank. Recording of events leads to formation of the Bank books, which, in turn, are the basis for the development of financial statements. The Bank identified the following risks in the financial statements development process:

- risk of incorrect input data,
- risk of inappropriate presentation of data in financial statements,
- risk of use of incorrect estimates, and
- risk of lack of integration of IT systems and operating and reporting applications.

To mitigate the aforementioned risk, the Bank structured the process of financial statements development in two layers: application- and content-related ones.

The application part of the process comprises the flow of data from the Bank core operating systems via various interfaces to the reporting database, which hosts reporting applications. The application layer is controlled in line with the IT systems security policy adopted by the Bank. The following elements are controlled: user management, development environment management and integrity of data transmission systems, including correct operation of interfaces in terms of completeness of data transfer from operating systems to the reporting environment.

To ensure its adequate management, the Bank described the process of financial statements development in line with the principles binding at the Bank. The description covers the workflow, its actors and the “if... then...” situations. It also indicates the key financial statements development process controls, which include but are not limited to:

- quality control of input data for the financial statements, supported by the data control applications; a variety of principles concerning data correctness, error correction track and close monitoring of data quality were defined in the applications,
- control of data mapping from source systems to the financial statements ensuring correct data presentation,
- analytic review based on the experts' knowledge, the main objective of which is to confront

business know-how with financial data and identify potential indications of incorrect data presentation or incorrect input data, if any.

The estimates adopted by the Bank and compliant with IAS/ IFRS were detailed in the Accounting Policy. To avoid the risk of incorrect estimates, the Bank adopted the following solutions, among others:

- to estimate loan impairment – the Bank implemented specific models and applications as well as internal regulations for credit risk assessment,
- to measure debt financial instruments quoted in active markets or in the case of which the valuation is based on those quotations – the Bank implemented the required functionality of core systems; furthermore, the control exercised by the market risk management units was instituted,
- to measure financial instruments not quoted in active markets – the Bank implemented valuation models, which had been subject to a validation before application,
- to estimate the pension and disability provisions – the Bank commissioned an independent actuary to make an estimate,
- to estimate the provisions for employees and executive staff bonuses – the Bank uses the calculations in line with the General Terms and Conditions of Bonus Award adopted at the Bank, considering the forecasts regarding Bank's results,
- to appraise investment properties and own properties – the Bank adopted the following rule: the appraisal is obtained from independent experts on an annual basis – for investment properties of significant value, and every three to five years for other properties.

The accounting principles have been detailed in the Annual Consolidated Financial Statements in the section called Accounting policies and additional explanatory notes and Material principles of accounting.

The Bank's organisational structure makes it possible to retain the segregation of duties between the Front Office, Back Office, Risk and Finance. In addition, institution of an adequate internal control system enforces the implementation of control of transactions and financial data in the back office and support units. The area is subject to an independent and objective assessment performed by the Internal Audit Department in terms of adequacy of the internal control system and risk management, as well as in terms of corporate governance.

3. Shares and shareholding structure of ING Bank Śląski S.A.

Shareholding structure

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 31 December 2017 had a 75% stake in the share capital of ING Bank Śląski S.A. and a 75% stake in the overall number of votes at the General Meeting – the number has not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as domestic and foreign mutual funds, and by private investors. As at 2017 yearend, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK was the largest among them. As per annually reported assets structure of that Fund, as at 29 December 2017, it had a 7.99% stake in the share capital and overall number of votes at the General Meeting. As at the date hereof, the Bank does not have any information about any other shareholder going over the threshold of 5% of the company's equity.

Throughout 2017, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's stake in the share capital remained unchanged.

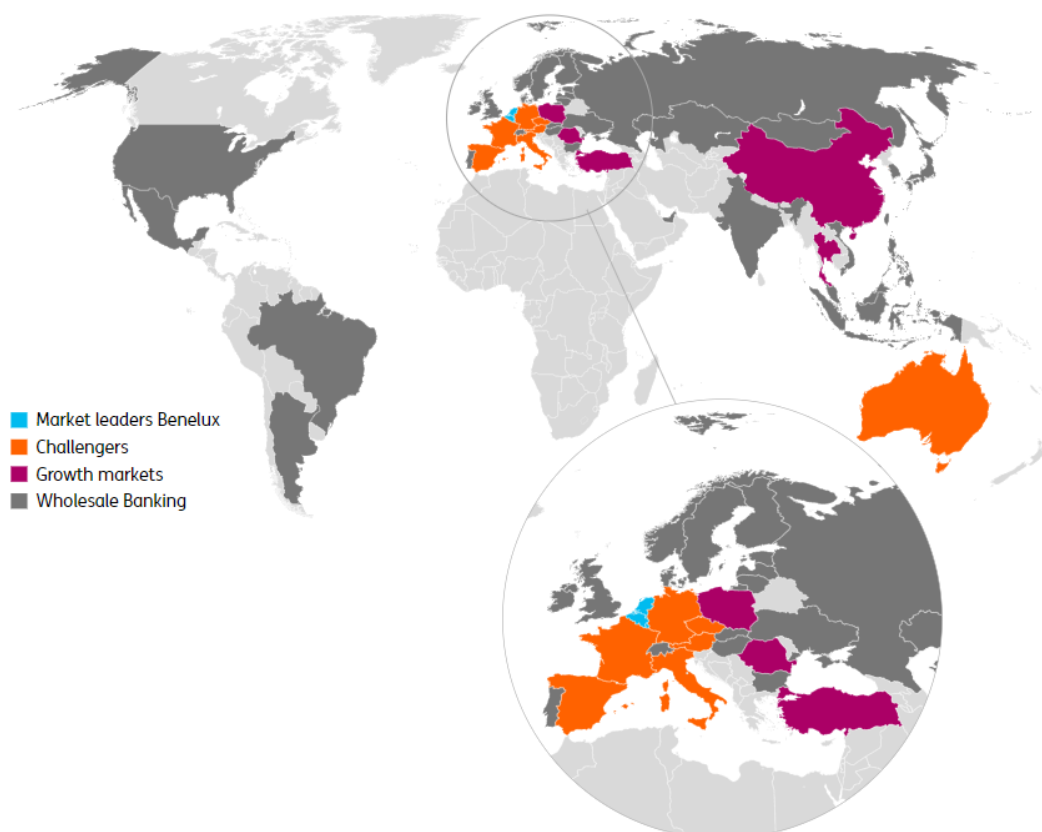
Shareholding structure of ING Bank Śląski S.A.

Shareholder	Number of shares and votes at GM	Stake in share capital and in the overall number of votes at GM	Shareholder	Number of shares and votes at GM	Stake in share capital and in the overall number of votes at GM
	31 December 2017			31 December 2016	
ING Bank N.V.	97,575,000	75.00%	ING Bank N.V.	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK*	10,396,594	7.99%	Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK**	10,796,936	8.30%
Other	22,128,406	17.01%	Other	21,728,064	16.70%
Total	130,100,000	100.00%	Total	130,100,000	100.00%

*As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 29 December 2017; **As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 30 December 2016;

Profile of the controlling shareholder

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 37 million clients. ING Group companies have over 51 thousand employees and pursue business in over 40 countries in Europe, North and South Americas, in the Near East as well as in Asia and Australia. ING Group pursues business in four areas: Market Leaders – businesses in the Netherlands, Belgium and Luxembourg; Challengers – businesses in Germany, Austria, Spain, Italy, France, Australia and Czech Republic; Growth Markets – businesses in Poland, Romania, Turkey and Asia as well as through a global corporate banking network dedicated to strategic clients – Wholesale Banking.



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

ING Groep N.V. is a public company, listed on the stock exchanges in Amsterdam, Brussels and New York. Its shareholding is dispersed. As at 2017 yearend, there were only two shareholders with capital holdings of over 3%. These were: BlackRock Inc. (5.07%) and Artisan Investments GP LLC (3.01%). In 2016, ING Group posted net profit of EUR 4,905 million vis-a-vis EUR 4,651 million in 2016. Assets totalled EUR 846 billion. As at 2017 yearend, the total assets of ING Bank Śląski S.A. accounted for 3.6% of the ING Group's assets. Our net profit represented 6.7% of the net profit of ING Group.

More information about the controlling shareholder is available on the website: <https://www.ing.com/Home.htm>.

Shares and share capital

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

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

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

4. Charter and rules of amending the Charter

The current Charter of ING Bank Śląski S.A. is available on the website: https://en.ingbank.pl/_files/1100492.

Rules of amending the Charter

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the entrepreneurs register of the National Court Register (KRS). Any amendment to the Charter within the scope stipulated in Article 34.2 of the Banking Law Act requires approval of the Polish Financial Supervision Authority.

An amendment to the Bank Charter as for change of the business objects of the Bank does not require buyout of shares from those shareholders who do not approve such an amendment, provided that the resolution of the General Meeting concerning such an amendment was adopted by a two-third majority of votes in the presence of individuals representing at least a half of share capital.

Charter amendments in 2017

As far as the Bank business is concerned, due to legislative amendments, the earlier certification services within the meaning of the electronic signature laws were replaced with the services of trust and issue of electronic identification within the meaning of the trust services laws.

As far as the share capital regulations are concerned, the so-called authorised capital institution was introduced as provided for by the Commercial Companies and Partnerships Code. Pursuant thereto, the Bank Management Board was authorised to increase the share capital by the amount of up to PLN 26 million until 21 April 2020 on the proviso that the said increase cannot be financed from the Bank's own funds. Neither can preferred stock be issued nor personal entitlements be vested in a specific shareholder therefor. Further, upon the Supervisory Board's approval, the Management Board was authorised to deprive shareholders of pre-emptive rights under the issue of authorised capital shares. Issue pricing will have to be approved by the Supervisory Board too.

The Charter was expanded with the provisions concerning the Supervisory Board Risk Committee that supports the Supervisory Board in monitoring and supervising the risk management process, and also the internal capital assessment, capital management and planning processes, plus the model risk and the capital adequacy area.

Further, the rule earlier adopted by the Bank, whereunder the independence criteria should be met by at least two Audit Committee members and the majority of the members of the Remuneration and Nomination Committee, the Committee Chairman included, was mirrored in the Charter.

In keeping with the applicable banking law, the Charter was also amended in the context of the description of the internal control system of the Bank which covers the control function, the compliance unit and the independent internal audit unit.

The category of Bank's own funds was regulated anew. They encompass: paid up and registered share capital, supplementary capital, reserve capital, general bank risk fund, revaluation fund and retained earnings.

Furthermore, an array of other amendments was made, whereby the provisions of the Charter were specified in more detail or tailored to the applicable banking law.

5. General Meeting

Principles of convening the General Meeting

The General Meeting is convened by way of announcement on the Bank's website and in a way provided for the announcement of current information by public companies The General Meeting functions according to the principles defined in the regulations of the Commercial Companies and Partnerships Code and the Bank Charter as a General or Extraordinary Meeting.

General Meetings are convened at the time enabling all eligible and interested shareholders to attend them.

Shareholder rights

Bank shareholders representing at least one twentieth of the share capital are entitled to:

- request convening the Ordinary General Meeting,
- request putting particular items on the agenda of the nearest General Meeting,
- submit draft resolutions concerning items put on the agenda prior to the General Meeting.

Each shareholder is entitled to submit during the General Meeting draft resolutions concerning items put on the agenda.

Operations of the General Meeting

When an Extraordinary General Meeting is convened, the Management Board presents the rationale for convening such a meeting and for putting specific matters on the agenda or asks for presentation of the rationale, if the General Meeting was convened upon the request of another eligible entity.

Draft resolutions are presented to the General Meeting by the Management Board upon advice of the Bank Supervisory Board.

The General Meeting shall be valid regardless of the number of shares represented. Each share

represents one vote. In principle, the resolutions of the General Meeting are passed with the absolute majority of votes, except for the cases as provided for in the Commercial Companies and Partnerships Code and the Charter. Apart from the Commercial Companies and Partnerships Code, the issues regarding the convening and functioning of the General Meeting are specified in the Bank Charter, the Bylaw of the General Meeting and the Notice of the General Meeting.

General Meetings are held at the Company's registered office in Katowice. The debate of the General Meeting is transmitted via the internet. The debate of the General Meeting may be also attended by interested media representatives acting as observers.

The principles concerning shareholders participation in the General Meeting, the mode of conduct during the General Meeting as well as the manner of shareholders' communication with the Bank are provided for in the Bylaw of the General Meeting which is available on the website: https://en.ingbank.pl/_files/1000031.

In keeping with the Code of Best Practice for WSE Listed Companies 2016 adopted by the Bank, the amendments to the Bylaw become effective as of the subsequent General Meeting.

The powers of the General Meeting are set out in particular by the regulations of the Commercial Companies and Partnerships Code, the Banking Law Act and the stipulations of the Bank Charter.

6. Supervisory Board

Supervisory Board composition

The Supervisory Board consists of 5 to 11 Members appointed by the General Meeting for a 5-year term of office. The General Meeting determines the number of the Supervisory Board Members for a given term of office. The Members of the Supervisory Board may be dismissed at any time with the resolution of the General Meeting.

Independent Members are included in the Bank Supervisory Board composition pursuant to the Principles of Corporate Governance. In line with the Charter, at least two Members of the Supervisory Board should have no ties with the Bank, its shareholders or employees, if such relations could have a significant impact on the ability of such Member to take impartial decisions (Independent Members). The minimum number of Independent Members of the Supervisory Board as well as detailed criteria of independence result from the Code of Best Practice for WSE Listed Companies adopted by the Bank and are specified in detail in the Bylaw of the Supervisory Board.

Throughout 2017, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- On 15 March 2017, Mr Roland Boekhout tendered his resignation from the capacity as the Supervisory Board Member.
- On 21 April 2017, the Ordinary General Meeting appointed Mr Norman Tambach as Member of the Supervisory Board.

Members as at 31 December 2017	Function on the Bank Supervisory Board	Audit Committee	Remuneration and Nomination Committee	Risk Committee
Mr Antoni F. Reczek	Chairman, Independent Member	●		●
Ms Małgorzata Kołakowska	Deputy Chairperson	●	●	
Mr Aleksander Galos	Secretary, Independent Member	●	●	
Mr Ad Kas	Member			●
Mr Aleksander Kutela	Independent Member	●	●	
Mr Christopher Steane	Member			●
Mr Norman Tambach	Member	●		●

● - Chairman ● - Member

The qualifications of the Supervisory Board Members of ING Bank Śląski S.A. are presented on the Bank's website: <https://en.ingbank.pl/company-profile>.

In 2017, in keeping with the Bank's Policy for the Assessment of the Suitability of the Members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A., the Suitability Assessment of the Supervisory Board Members was conducted. The said assessment was performed by an independent third party, Ernst & Young Doradztwo Podatkowe Spółka z o.o. It confirmed that the Supervisory Board Members have the relevant knowledge, skills and experience to perform the functions of the Supervisory Board Members, warrant due performance of such duties and meet other requirements set out in Article 22aa of the Banking Law Act, and thus fulfil the suitability criteria set out in the *Policy*. At the same time, the Remuneration and Nomination Committee stated that the competences of the individual members of the Supervisory Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank. Given the above, the Remuneration and Nomination Committee recommended that the subsequent General Meeting pass the resolution stating that the ING Bank Śląski S.A. Supervisory Board Members satisfy the requirements of Article 22aa of the Banking Law Act.

Rights and duties of the Supervisory Board

The primary mission of the Supervisory Board is to perform the supervisory function – the Supervisory Board conduct ongoing oversight of the Bank operations in all areas. Special powers and duties of the Supervisory Board include assessment of the report on the Bank operations and financial statements for the previous financial year, motions of the Bank Management Board regarding profit distribution or loss coverage as well as submitting the annual written report on the results of the said assessment to the General Meeting.

Apart from the aforementioned powers and duties, the Supervisory Board passes resolutions on the matters specified in the Bank Charter.

The resolutions of the Supervisory Board are passed with the absolute majority of votes, whereas in case of a tie, the Chairman of the Supervisory Board has the casting vote.

The resolutions of the Supervisory Board may be passed, if more than a half of the Supervisory Board Members are present at the meeting, including their Chairman or Deputy Chairman, to which all Supervisory Board Members have been invited.

The meetings of the Supervisory Board take place at least 5 times a year.

In the cases stipulated in the Charter and the Bylaw of the Supervisory Board, the resolutions of the Supervisory Board may be passed without holding a meeting, using the written mode or by means of remote communication.

Detailed principles of the operations of the Supervisory Board are determined in the Bank Charter and the Supervisory Board Bylaw approved by the Supervisory Board.

The Supervisory Board appoints members of the Audit Committee, Remuneration and Nomination Committee and Risk Committee out of their members to support the Supervisory Board in performing their duties.

Audit Committee

The Audit Committee supports the Supervisory Board in the monitoring of and supervision over the financial reporting, the internal and external audits and management system at the Bank and its subsidiaries. In particular, this covers the adequacy and effectiveness of the internal control system and the system of risk management and the relations between the Bank and the entity auditing the Bank's financial statements.

The operations of the Audit Committee are described in more detail in the Bylaw of the Audit Committee of the Supervisory Board of ING Bank Śląski S.A. passed by the Supervisory Board.

In line with the Bylaw, the Audit Committee consists of at least 3 Members of the Supervisory Board, including at least two Independent Members. At least one Independent Member should have qualifications and experience in accounting or financial audit. Currently, there are two Independent Members of the Supervisory Board in the Audit Committee, which fulfils the requirements of the Principles of Corporate Governance for Supervised Institutions.

The Audit Committee meets at least once per quarter. While performing their tasks, the Audit Committee may avail themselves of experts' assistance.

The composition of the Audit Committee changed in 2017. On 6 October, the Supervisory Board recalled Mr Ad Kas from the Committee and appointed Mr Aleksander Kutela and Mr Norman Tombach as the Committee members.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee support the Supervisory Board in the area of monitoring and supervision over the Bank's HR and payroll area, including in particular succession plans, the process of employee turnover, measuring the Bank employees' satisfaction and policy of remuneration and bonus award system, inclusive of the variable remuneration policy.

The operations of the Remuneration and Nomination Committee are described in detail in the Bylaw of the Supervisory Board Remuneration and Nomination Committee of ING Bank Śląski S.A. passed by the Supervisory Board.

The Remuneration and Nomination Committee consists of at least 3 Members of the Supervisory Board. The majority of the Remuneration and Nomination Committee members, including the Chairperson, should meet the independence criteria of the Independent Members of the Supervisory Board. Currently two Independent Members of the Supervisory Board are also the Committee Members.

The Remuneration and Nomination Committee meets at least once per quarter. While performing their tasks, the Committee may avail themselves of experts' assistance. A Risk Committee representative has a standing invitation to attend the meetings of the Remuneration and Nomination Committee.

Risk Committee

The Risk Committee supports the Supervisory Board in monitoring and supervising the risk management process, including operational risk, credit risk and market risk, as well as in the internal capital assessment, capital management and planning processes, as well as the model risk management and the capital adequacy area.

The operations of the Risk Committee are described in detail in the Bylaw of the Supervisory Board Risk Committee of ING Bank Śląski S.A. passed by the Supervisory Board.

According to the Bylaw, the Risk Committee consists of at least 3 Members of the Supervisory Board.

The Risk Committee meets at least once per quarter. While performing their tasks, the Committee may avail themselves of experts' assistance. The Audit Committee Chairman and the Remuneration and

Nomination Committee representative have a standing invitation to attend the meetings of the Risk Committee.

The following changes took place in 2017 on the Risk Committee:

- On 15 March 2017, the Supervisory Board accepted Mr Roland Boekhout's resignation from his function as a Member of the Supervisory Board and Member of the Risk Committee;
- On 21 April 2017, the Supervisory Board appointed Mr Norman Tambach as Member of the Committee.

7. Management Board

Management Board composition

The Bank Management Board is composed of 3 to 8 members appointed by the Supervisory Board. The number of the Management Board Members in a given term of office is determined by the Supervisory Board.

The Management Board Members are appointed for a 5-year term of office. In the event of changes to the Management Board composition during the term of office, the mandate of the Management Board Member appointed during the term of office expires upon the termination of the Management Board's term of office.

At least a half of the Bank Management Board Members have to be Polish citizens. Two Bank Management Board Members, including the Bank Management Board President and Vice-President in charge of management of the risk material to Bank business, are appointed with the approval of the Polish Financial Supervision Authority. Other Bank Management Board Members are appointed by the Bank Supervisory Board upon consultation with the Bank Management Board President. The Bank Management Board Members may be recalled at any time by the Supervisory Board. The Vice-President of the Bank Management Board may be recalled by the Supervisory Board upon consultation with the Bank Management Board President.

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

In consequence of the above resignation, on 21 April 2017 the Supervisory Board appointed Ms Bożena Graczyk to the position of Vice-President of the Management Board, effective as of 1 June 2017.

The qualifications of the individual Bank Management Board Members are presented on ING Bank Śląski S.A. website: <https://en.ingbank.pl/company-profile>.

In 2017, in keeping with the Bank's Policy for the Assessment of the Suitability of the Members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A., the Suitability Assessment of the Management Board Members was conducted. In the said Assessment, the Supervisory Board confirmed that the Bank Management Board Members have the relevant knowledge, skills and experience to perform the functions of the Management Board Members, warrant due performance of such duties and meet other requirements set out in Article 22aa of the Banking Law Act, and thus fulfil the suitability criteria set out in the *Policy*. The competences of the individual members of the Management Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank.

Powers of the Bank Management Board

The Bank Management Board manages the Bank and represents it with external matters. Any matters not restricted to the powers of other Bank's bodies pursuant to the laws or the *Bank Charter* rest with the Bank Management Board. The Bank Management Board acts collectively with reservation of those matters which in line with the Bank's internal regulations have been entrusted to individual Bank Management Board Members.

The Bank Management Board formulates the strategy of the Bank's operations as part of a three-year rolling action plan, to be approved by the Supervisory Board.

The Bank Management Board passes resolutions, provided that the meeting is attended by more than a half of the Members and all Bank Management Board Members were invited. Bank Management Board Resolutions are passed with the absolute majority of votes. In the case of a tie, the Bank Management Board President has the casting vote.

The Bank Management Board Members supervise individual divisions and organisational units in accordance with the segregation of duties defined by the Supervisory Board, at the request of the Bank Management Board President, and bear responsibility for implementation of their missions and core tasks.

Organisation of the Bank Management Board's work, the scope of matters requiring a resolution of the Bank Management Board and the mode of their operations are defined in the *Bylaw of the Bank Management Board* passed by the Bank Management Board and approved by the Supervisory Board. Powers of individual Bank Management Board Members are defined in the Bank Organisational Bylaw and the regulations concerning functioning of their areas as enacted by the Bank Management Board. The Management Board is authorised to increase the share capital by the amount of up to PLN 26 million (i.e. the issue of 26 million shares at maximum) until 21 April 2020 (authorised capital) and to exclude the pre-emptive right for the issue of shares under authorised capital. The Management Board decisions concerning issue price fixing and pre-emptive right exclusion shall be approved by the Supervisory Board.

Scope of Responsibilities of Bank Management Board Members

As at 31 December 2017		As at the report publication date	
<ul style="list-style-type: none"> Mr Brunon Bartkiewicz 	<p>President of the Bank Management Board in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, HR units and Macroeconomic Research Bureau)</p>	<ul style="list-style-type: none"> Mr Brunon Bartkiewicz 	<p>President of the Bank Management Board in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, HR units and Macroeconomic Research Bureau)</p>
<ul style="list-style-type: none"> Mr Michał Bolesławski 	<p>Vice-President of the Bank Management Board in charge of the Corporate Clients Business Line and the following subsidiaries: ING Usługi dla Biznesu S.A., ING ABL Polska S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)</p>	<ul style="list-style-type: none"> Mr Michał Bolesławski 	<p>Vice-President of the Bank Management Board in charge of the Corporate Clients Business Line and the following subsidiaries: ING Usługi dla Biznesu S.A., ING ABL Polska S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)</p>
<ul style="list-style-type: none"> Ms Joanna Erdman 	<p>Vice-President of the Bank Management Board in charge of the Strategic Clients Business Line and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.</p>	<ul style="list-style-type: none"> Ms Joanna Erdman 	<p>Vice-President of the Bank Management Board in charge of the Strategic Clients Business Line and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.</p>
<ul style="list-style-type: none"> Mr Marcin Giżycki 	<p>Vice-President of the Bank Management Board in charge of the Retail Clients Business Line</p>	<ul style="list-style-type: none"> Mr Marcin Giżycki 	<p>Vice-President of the Bank Management Board in charge of the Retail Clients Business Line</p>
<ul style="list-style-type: none"> Ms Bożena Graczyk 	<p>Vice-President of the Bank Management Board in charge of the Finance Division and Treasury Department</p>	<ul style="list-style-type: none"> Ms Bożena Graczyk 	<p>Vice-President of the Bank Management Board in charge of the Finance Division and Treasury Department</p>
<ul style="list-style-type: none"> Ms Justyna Kesler 	<p>Vice-President of the Bank Management Board in charge of: Operations Division, Services Division and IT Division as well as the Transformation and Change Management Department, IT Security Department and the position of the Bank Management Board Representative for the Environmental Management System plus the subsidiary – Solver Sp. z o.o.</p>	<ul style="list-style-type: none"> Ms Justyna Kesler 	<p>Vice-President of the Bank Management Board in charge of: The Operations Division, Services Division and IT Division as well as the Transformation and Change Management Department, IT Security Department, Process Control Centre and the position of the Bank Management Board Representative for the Environmental Management System plus the subsidiary – Solver Sp. z o.o.</p>
<ul style="list-style-type: none"> Mr Patrick Roesink 	<p>Vice-President of the Bank Management Board in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department</p>	<ul style="list-style-type: none"> Mr Patrick Roesink 	<p>Vice-President of the Bank Management Board in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department</p>

8. Remuneration of the members of the Management Board and the Supervisory Board

The rules of the Management Board Members remuneration

In line with the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A. which follows the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A., the remuneration of a Bank Management Board Member is composed of:

- fixed remuneration composed of base remuneration as well as fringe benefits, and
- variable remuneration, i.e. annual bonus.

Base remuneration is determined by benchmarking it to the market, in accordance with the salary grade under the Hay job valuation methodology.

The Bank provides the Bank Management Board Members with the following fringe benefits:

- life insurance and accident insurance with the guaranteed insured sum totalling the gross annual base remuneration, another type of protection-and-investment insurance or a mutual fund as part of the same premium,
- payments towards the mutual fund in the amount equivalent to 15% of the monthly base remuneration of a Bank Management Board Member, and
- medical care (Golden Family Card Package).

Furthermore, the Supervisory Board may decide on granting other benefits, e.g. covering the education costs of children in a private school, rent and fittings of an apartment or a house or payment of a rent allowance, covering membership fees in clubs and associations in Poland and abroad, provided it is in the interest of the Bank.

A Management Board Member may be awarded a bonus of up to 100% of the annual base remuneration for performance of the bonus tasks set by the Supervisory Board. Bonus tasks support creating long-term goodwill of the Bank and take account of care about the risk cost of the Bank, the capital cost and liquidity risk. Objectives have the following nature:

- financial, including the Bank's gross profit, financial risk cost and tasks within the Management Board Member's responsibility, and
- non-financial.

Non-financial objectives constitute at least 50% of all objectives except for the Management Board Member exercising control functions where the objectives are based in at least 75% on the function-based targets and they comprise quality tasks. Moreover, the financial tasks cannot be linked to the results generated in the areas controlled by this particular Management Board Member.

The Bank tests capital to ensure that the total bonus pool for all employees does not limit the ING Bank Śląski S.A.'s ability to maintain an adequate capital base and activates the bonus fund upon satisfying a predetermined condition.

40% of the bonus is deferred and if the threshold defined by the Bylaw is exceeded – 60%. The results of assessment of the objectives performance are verified in the deferral period, i.e. for four subsequent years, so as to evaluate the impact of employee's actions on the Bank's long-term results. For the President of the Management Board at least 50% of the variable remuneration is deferred. The deferral period is six years and the bonus is divided into 5 equal portions.

The bonus is divided into two portions (rounding up to the integer of a financial instrument):

- at least 50% as phantom stocks making its beneficiaries eligible for cash in the amount conditional on the Bank's stock price, and
- the remainder as cash.

No bonus shall be due should the employment contract be terminated under Article 52 of the Polish Labour Code. The Supervisory Board may also decide to reduce the annual bonus or not to pay it out in a given bonus award period on the basis of verification of assessment of bonus tasks execution, taking ex post risk into account.

Remuneration of Management Board Members

In 2017, the total emoluments due and paid by the Bank to the Management Board Members reached PLN 19,875.8 thousand, while in 2016 it was 17,632.0 thousand.

Emoluments due and paid to Members of ING Bank Śląski S.A. Management Board in 2017 (PLN thousand)

Name and surname	From – to	Remuneration	Awards*	Other benefits**	Total
Brunon Bartkiewicz	01.01.2017 - 31.12.2017	2,514.0	366.3	436.0	3,316.3
Mirostlaw Boda	01.01.2017 - 31.05.2017	515.0	1,357.2	330.9	2 203.1
Michał Bolesławski	01.01.2017 - 31.12.2017	1,290.0	1 476.6	216.9	2 983.5
Joanna Erdman	01.01.2017 - 31.12.2017	1,284.9	1,069.8	216.1	2,570.8
Justyna Kesler	01.01.2017 - 31.12.2017	1,200.0	1 362.1	226.2	2 788.3
Patrick Roesink	01.01.2017 - 31.12.2017	1,038.4	387.6	904.3	2 330.3
Marcin Giżycki	01.01.2017 - 31.12.2017	993.3	297.7***	174.1	1,465.1***
Bożena Graczyk	01.06.2017 - 31.12.2017	776.1	-	1,442.2	2,218.3
Total		9,611.7	6,317.4	3,946.7	19,875.8

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

** Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care, health insurance, tax advisory services, social insurance contributions in the home country and other benefits awarded by the Supervisory Board, and financial instruments exercised under the Long-term Incentive Schemes.

***Including the amount of PLN 190.4 thousand being the bonus paid by ING Securities S.A. under the Variable Remuneration Programme: for 2016 non-deferred cash, for 2015 non-deferred cash and 1st tranche and phantom stock under the Variable Remuneration Programme for 2015 – retained.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2017 under the Variable Remuneration Programme have not been awarded yet. In keeping with the Bank's remuneration system, the Bank Management Board Members may be entitled to the 2017 bonus to be paid out in the years 2018-2025. Accordingly, a reserve was formed for the payment of the 2017 bonus for the Bank Management Board Members, which as at 31 December 2017 was PLN 9.4 million. The Bank Supervisory Board will take the final decision on the bonus amount.

Emoluments due and paid to Members of ING Bank Śląski S.A. Management Board in 2016 (PLN thousand)

Name and surname	From – to	Remuneration	Awards*	Other benefits**	Total
Małgorzata Kołakowska	01.01.2016 - 31.03.2016	572.4	1,483.3	80.2	2,135.9
Brunon Bartkiewicz	19.04.2016 - 31.12.2016	1,765.8	-	140.9	1,906.6
Miroslaw Boda	01.01.2016 - 31.12.2016	1,236.0	968.2	219.3	2,423.6
Michał Bolesławski	01.01.2016 - 31.12.2016	1,285.5	1,020.1	217.6	2,523.2
Joanna Erdman	01.01.2016 - 31.12.2016	1,197.0	695.1	202.6	2,094.7
Ignacio Juliá Vilar	01.01.2016 - 30.04.2016	381.5	985.8	352.1	1,719.4
Justyna Kesler	01.01.2016 - 31.12.2016	1,197.0	953.5	225.1	2,375.6
Patrick Roesink	01.01.2016 - 31.12.2016	954.3	111.0	722.3	1,787.6
Marcin Giżycki	01.08.2016 - 31.12.2016	510.0***	87.7***	67.7	665.4***
Total		9,099.5	6,304.7	2,227.8	17,632.0

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

**Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care, health insurance, tax advisory services, social insurance contributions in the home country and other benefits awarded by the Supervisory Board.

***Including the amount of PLN 125.0 thousand of remuneration and the amount of PLN 87.7 thousand of the bonus as due for 2016 in connection with the position of the President of the Management Board of ING Securities S.A.

As at the 2016 yearend, the reserve for the 2016 bonus payment for the Management Board Members was PLN 9.0 million.

Employment contracts provide for benefits for all Bank Management Board Members being sixfold of their monthly base remuneration calculated for the last six months prior to the employment contract termination, if their term of office expires and they are not appointed for the next term of office or they are dismissed.

The above does not apply should the employment relationship be terminated under Article 52 of the Polish Labour Code or if the employment contract is terminated following Management Board Member resignation or if a Management Board Member or the entire Management Board of the Bank has been suspended by the Polish Financial Supervision Authority under the Polish Banking Law.

Furthermore, Bank Management Board Members conclude non-competition agreements with the Bank to govern the rights and obligations of the parties to the agreement as regards competitive activities during and after the expiry of the employment contract, during 12 months from the employment contract termination date with the option of payout of the non-competition compensation being twelvefold of the gross base remuneration received by the Management Board Member during the term of the agreement.

Should the Management Board Member be recalled for the reasons substantiating termination of the employment relationship without termination notice (pursuant to Article 52 of the Labour Code) or should the Management Board Member or the entire Bank Management Board have been suspended by the Polish Financial Supervision Authority pursuant to the provisions of the Banking Law Act, the non-competition compensation equals 25% of the 12-month gross base salary for the last year preceding the termination of the employment contract.

In the event of employment relationship termination due to the resignation of the Management Board Member, the amount of the non-competition compensation is 50% of the 12-month gross base salary for the last year preceding the termination of the employment contract, with the proviso that the Supervisory Body authorises the Chairperson to increase the said compensation over that amount.

The Bank Management Board Members and other individuals employed by ING Bank Śląski S.A. receive neither compensation nor awards for holding functions in the governing bodies of subsidiaries or

affiliates of the ING Bank Śląski S.A. Group.

Remuneration of Supervisory Board Members

In 2017, total remuneration (defined as for the Management Board Members) due and paid out by the Bank to the Supervisory Board Members reached PLN 702.0 thousand, while in 2016 it was 645.4 thousand.

Emoluments due and paid to Members of ING Bank Śląski S.A. Supervisory Board in 2017 (PLN thousand)				
Name and surname	From – to	Remuneration and awards*	Other benefits	Total
Aleksander Galos	01.01.2017 - 31.12.2017	200.4	0.00	200.4
Aleksander Kutela	01.01.2017 - 31.12.2017	177.6	0.00	177.6
Antoni Reczek	01.01.2017 - 31.12.2017	323.9	0.00	323.9
Małgorzata Kołakowska	01.01.2017 - 31.12.2017	0.00	0.00	0.00
Roland Boekhout	01.01.2017 - 15.03.2017	0.00	0.00	0.00
Christopher Steane	01.01.2017 - 31.12.2017	0.00	0.00	0.00
Ad Kas	01.01.2017 - 31.12.2017	0.00	0.00	0.00
Norman Tambach	21.04.2017 - 31.12.2017	0.00	0.00	0.00
Total		702.0	0.0	645.4

* Remuneration and awards include the return of the Social Insurance Institution contributions due to exceeding the annual basis of contribution rates for retirement and disability pension insurance in keeping with the Social Insurance Institution decision.

Emoluments due and paid to Members of ING Bank Śląski S.A. Supervisory Board in 2016 (PLN thousand)				
Name and surname	From – to	Remuneration and awards*	Other benefits	Total
Brunon Bartkiewicz	01.01.2016 - 04.03.2016	0.0	0.0	0.0
Małgorzata Kołakowska	01.04.2016 - 31.12.2016	0.0	0.0	0.0
Roland Boekhout	01.01.2016 - 31.12.2016	0.0	0.0	0.0
Christopher Steane	31.03.2016 - 31.12.2016	0.0	0.0	0.0
Ad Kas	01.01.2016 - 31.12.2016	0.0	0.0	0.0
Diederik van Wassenaeer	01.01.2016 - 31.03.2016	0.0	0.0	0.0
Aleksander Galos	01.01.2016 - 31.12.2016	172.6	0.0	172.6
Aleksander Kutela	01.01.2016 - 31.12.2016	171.2	0.0	171.2
Antoni Reczek	01.01.2016 - 31.12.2016	301.6	0.0	301.6
Total		645.4	0.0	645.4

* Remuneration and awards include the return of the Social Insurance Institution contributions due to exceeding the annual basis of contribution rates for retirement and disability pension insurance in keeping with the Social Insurance Institution decision.

As at 2017 yearend, no Member of the Bank Management Board or Supervisory Board held any shares of ING Bank Śląski S.A. or of any related company.

9. Diversity Policy

Our Diversity Policy:

- defines the diversity management areas of focus at the Bank
- lays down the way of diversity management at our bank,
- integrates all actions, including the processes, procedures and other documents that are

associated with diversity management at our bank,

- ensures equal treatment and friendly work environment for all employees and candidates for employees,
- supports the organisation in building the awareness of the principles of equal treatment at work, meaning no discrimination in any manner whatsoever, both directly and indirectly, because of: gender, age, disability, health condition, race, nationality, ethnic origin, religion, denomination, irreligion, political convictions, trade union memberships, sexual orientation, gender identity, family status, lifestyle, form, scope and basis of employment, other cooperation types as well as other triggers of discriminatory behaviours,
- pertains to all employees and candidates, regardless of the positions they hold, and especially to the Bank authorities and key managers,
- is monitored regularly, every 6 months.

For more information about the Diversity Policy see Chapter “Way of working” under “Diversity and equal chances” page 142.

XI. Other information

1. Investor information

Share price

In 2017, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 157.80 (as quoted on 2 January) to PLN 212.60 per share (as at 28 December). On 29 December 2017, the price of ING Bank Śląski S.A. shares equalled PLN 205.60, up by 27.4% from the last quotation day in 2016 (to compare: WIG-Banking sub-index went up by 35.4% at that time).

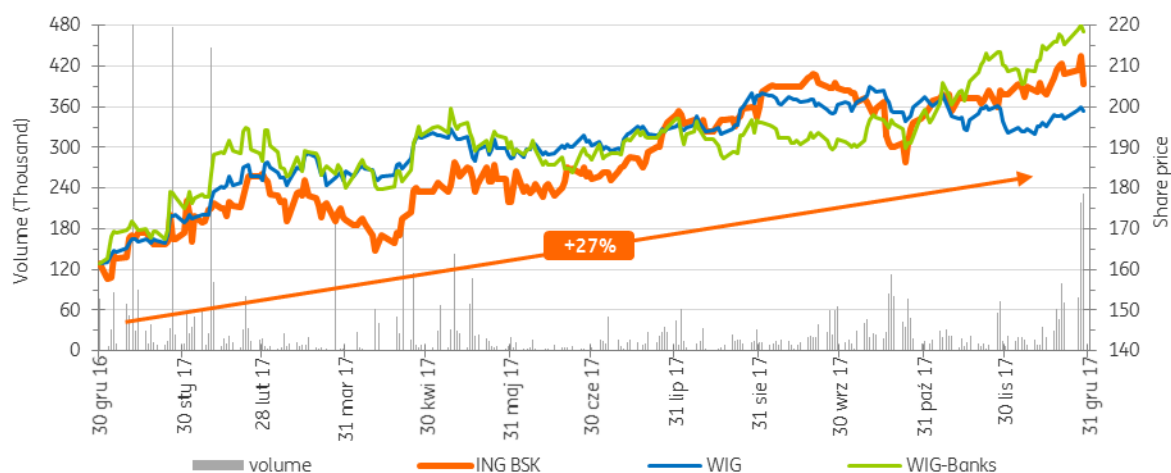
As at 2017 yearend, the Bank's market value arrived at PLN 26.7 billion, while its book value amounted to PLN 11.8 billion.

ING Bank Śląski S.A. shares data	2017	2016
Share price as at the yearend (PLN)	205.60	161.40
Top share price (PLN)	212.60	162.00
Bottom share price (PLN)	157.80	101.55
Number of shares	130,100,000	130,100,000
Yearend capitalization (PLN billion)	26.7	21.0
Average trading volume	33,810	24,545
Earnings per share (PLN)	10.78	9.63
Share book value (PLN)	90.66	80.51
Dividend paid per share in the year (PLN)	0	4.30
P/E ratio (x)*	19.0	16.8
P/B ratio (x)*	2.3	2.0

* ratio computed based on the share price at the yearend

The Bank has been listed in the WIG30 and mWIG40 indexes and RESPECT Index since their beginnings.

ING Bank Śląski S.A. share quotations in 2017 versus comparable selected WSE indexes



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 2017 annual report's signing date (6 March 2017), the ratings are as follows:

Fitch Ratings Ltd.

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

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

In the press release published on 20 October 2017, the Agency sustained the ratings assigned to the Bank. The Agency emphasised in its announcement that the ratings upheld for the Bank reflected a solid business model, conservative approach to credit risk, strong capital position, high quality of assets and profitability as well as stable funding profile of the Bank underpinned by a customer deposit base.

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 2017 annual report's signing date (6 March 2017), the ratings are as follows:

Moody's Investors Service Ltd.

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

The last time the rating was changed was on 21 May 2015 when the LT Rating was upgraded from Baa1 to A3 and the rating outlook was revised from Review for possible upgrade to Stable.

In the press release published on 23 January and 14 July 2017, the Agency sustained the ratings assigned to the Bank. In its press release on 6 November 2017, the Agency also kept the ratings unchanged, but upgraded the rating perspective from stable to positive. The Agency emphasised in its announcement that the Bank's rating reflected the Bank's strong financial performance, with better than the sector average asset quality, limited exposure to FX mortgage loans, stable and sound capital position as well as a good liquidity position.

Rating breakdown:

The table below compares the long-term ratings for Poland, ING Bank Śląski S.A. and ING Bank N.V. as at 2017 end:

	Poland	ING Bank Śląski S.A.	ING Bank N.V.
Fitch Ratings	A-	A	A+
Moody's Investor Services	A2	A3	Aa3
Standard & Poor's	A- (local currency) BBB+ (foreign currency)	-	A+

Investor relations

ING Bank Śląski S.A. strives after the highest standards of capital market communications. The Bank pays particular attention to reliable and transparent information and to equal treatment of all stakeholders as well as observes all the laws regarding disclosure duties of listed companies. Important financial and business information in the form of financial reports, current reports, investor presentations and editable files with key Bank data are presented to the broad capital market. The Investor Relations Bureau is responsible for investor, share analyst and rating agency's

communications (e-mail: investor@ingbank.pl, phone no.: +48 (22) 820 44 16).

In 2017, the representatives of the Management Board and the Investor Relations Bureau held over 71 individual and group meetings with investors and participated in key investor conferences.

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

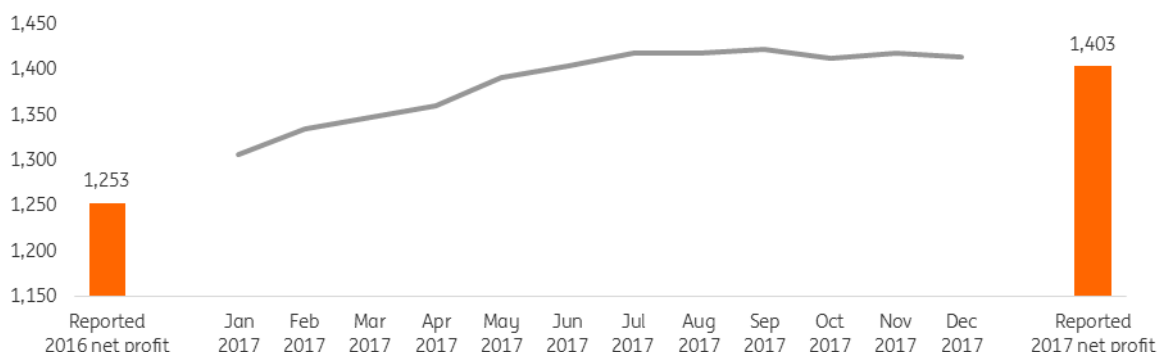
The Bank pays a lot of attention to the quality of communication with stakeholders through its website: <http://en.ingbank.pl/company-profile/investor-relations>. The website offers up-to-date information such as shares quotations on the WSE, company shareholding structure, General Meetings, dividend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

ING Bank Śląski S.A. is one of the companies that are watched and analysed by the market. As at 2017 yearend, analysts representing 15 domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

On the Investor Relations website, the Bank regularly updates the list of analysts' recommendations together with the average target price as well as the market consensus based on the averaged expectations; see a separate tab Analysts: <http://en.ingbank.pl/company-profile/investor-relations>. As at 31 December 2017, the structure of share recommendations for ING Bank Śląski S.A. was as follows:

Recommendation	Buy / Accumulate	Hold / Neutral	Reduce / Sell
Number of recommendations	4	5	6

Analysts' expectations of the Bank's Group result in 2017 were as follows (PLN million):



2. Position of the Management Board on the potential realisation of the previously published forecasts

The Bank did not publish the forecast of the 2017 financial results.

3. Seasonal or cyclical nature of business in the reporting period

The operations of the Bank and the Bank Group are conditioned by the seasonal and cyclical nature of the Polish economy. The Bank's economic expectations are described in Chapter "How we create value" on page 24.

4. Agreements concluded

The Bank Management Board represent that as at 31 December 2017, ING Bank Śląski S.A. did not have any:

- significant cash loan agreements, sureties or guarantees not concerning operating activity,
- significant underwriting agreements,
- significant agreements on guarantees extended to subsidiaries,
- liabilities towards the central bank,
- significant agreements with the central bank or regulators, or
- agreements referred to in Article 141t.1 of the Banking Law Act.

Transactions with related entities

In 2017, the Bank and its subsidiaries did not conclude transactions with the related entities that would be separately or jointly significant transactions, concluded on the terms and conditions other than the market ones.

Details on transactions with related entities have been presented in note 44 to the 2017 Consolidated Financial Statements of ING Bank Śląski S.A. Group on page 118 and in note 44 to the 2017 Financial Statements of ING Bank Śląski S.A. on page 115.

5. Types of credit risk collateral

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

As at 2017 yearend, the Basel II collateral established on borrowers' accounts or assets totalled PLN 84,407.5 million (out of which 78% were mortgages) for the ING Bank Śląski S.A. Group and PLN 78,602.4 million (out of which 83.1% are mortgages) for ING Bank Śląski S.A.

Following the amended Banking Law Act of 27 November 2015, the Bank no longer issues banking writs of execution.

6. Instigated court proceedings

The value of liabilities or debt claims under the proceedings in 2017 did not exceed 10% of the Bank's equity. The Bank is of the opinion that neither the individual proceedings that were pending in 2017 before any court of justice, competent arbitration body, or before any public administration authority, nor any proceedings in total pose any threat to the financial liquidity of the Bank.

7. Business development perspectives

The factors that will have impact on the Bank and Bank Group results

The Bank and the Bank Group focus their operations on Poland. That is why economic events, condition of the economy as well as local and European regulations for the financial sector will be the key elements that impact our results.

Condition of the economy and economic events

Economists at our bank expect a growth of GDP in 2018 to remain elevated (4.4% y/y versus 4.5% y/y)

in 2017). To a lesser extent it will be driven by consumption and to a larger extent by investment. It will be boosted by the accelerated absorption of EU funds and rebound in private investment (output capacity of enterprises is close to zero). Investment projects co-financed with the EU will reach high nominal levels (rebound of their dynamics in 2017 is rather caused by the low base effect from 2016). Payments for the beneficiaries of the EU funds paid out by BGK will total around PLN 40 billion, or 33% more than in 2017. As a result, the growth rate of investment in non-current assets will exceed 8% y/y versus 5.4% y/y in 2017. Other factors of a good economic situation are: high increase in the wages and a favourable economic situation of Poland's key trade partners.

For more details about the expectations of our economists see Chapter "How we create value" on page 24.

Regulations of the financial sector

Local and European regulations have a huge impact on the operations of the Bank and our subsidiaries. Since 2017, banks have had to pay BGF contributions based on the new regulations. In 2017, a number of new regulations were implemented such as the Act on mortgage loans and supervision over mortgage loan brokers and agents. It lays down the terms of and procedure for conclusion of real property purchase credit agreements. In December 2017, risk weights for mortgage loans changed.

Two significant EU directives were implemented in 2018: MiFID II (concerning terms of financial products distribution) and PSD 2 (concerning payment services). The split payment implementation will also have its impact.

For more details about the expected regulatory changes see Chapter "How we create value" on page 24.

Directions of actions and business priorities

ING Bank Śląski S.A. is a universal bank which addresses its products and services to individual clients, entrepreneurs but also to mid and big companies.

Maintaining a strong market position is our goal in the retail segment. A wide and transparent product offer with good value proposition plus enhancement of marketing and operational communication with clients play a crucial role here; so does the extensive and innovative omnichannel distribution network.

As regards the corporate segment, the Bank and its subsidiaries support the operations of clients by offering traditional banking products and services, but also lease-, factoring- as well as accounting- and payroll-related services. We provide our clients with wide access to money and capital markets.

For more details about the directions of actions and business priorities see Chapter "How we create value" on page 24 and Chapter "Market and entrepreneurship development support" on page 95.

8. Entity authorised to audit financial statements

The independent chartered auditor of financial statements is selected by the Bank Supervisory Board on the basis of the recommendation provided by the Audit Committee. The choice is made taking into consideration the requirement to consolidate the financial statements and the related unified approach of ING Group as regards the change of the auditor. Such an approach is compliant with the applicable EU regulations.

On 18 January 2013, the ING Bank Śląski S.A. Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski S.A. and of the ING Bank Śląski S.A. Group for the period of 2013-2015.

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

2017. The agreement by and between the Bank and KPMG was concluded on 13 June 2017 and annexed on 20 September 2017.

Auditor's net fee		
	Accounting year ended	Accounting year ended
	31 December 2017*	31 December 2016
Audit of the annual consolidated financial statements	[1] PLN 1,071.0 thousand + reimbursement of documented direct expenses (maximum PLN 73 thousand) [2] PLN 38.5 thousand	[1] PLN 1,034.0 thousand + reimbursement of documented direct expenses (maximum PLN 70 thousand) [2] PLN 38.5 thousand
Other attestation services	For review of the financial statements PLN 262.0 thousand Other PLN 200 thousand	For review of the financial statements PLN 169.0 thousand Other PLN 110 thousand

* Line Audit of the annual consolidated financial statements: item [1] Audit of the annual financial statements of ING Bank Śląski S.A., ING Lease Polska Sp. z o.o., ING ABL Polska S.A., ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o. subsidiaries; item [2] Auditors' fees for the audit of the financial statements of subsidiaries: Nowe Usługi S.A., ING Usługi dla Biznesu S.A. (KPMG did not audit the financial statements of those companies).

XII. About the report

It is with great pleasure that we present to you the Consolidated Management Board Report on Operations of ING Bank Śląski S.A. Group in 2017 in the form of an integrated report. We drafted the document in keeping with the top global standards:

- international non-financial data reporting guidelines – Global Reporting Initiative GRI G4 – compliance with Core indicators, and
- the integrated reporting guidelines of the International Integrated Reporting Council (IIRC).

The report also meets the formal requirements set out in the Minister of Finance Ordinance of 19 February 2009 on Current and Periodic Information Published by Issuers of Securities and the Conditions for Regarding Information Required by the Law of a Non-Member State as Equivalent.

The report discusses the operations of the ING Bank Śląski S.A. Group from 1 January 2017 to 31 December 2017, unless another period has been given. Both the financial and non-financial data are disclosed for the ING Bank Śląski S.A. Group (plus selected financial data for ING Bank Śląski S.A.). The size, structure, ownership or supply chain of our bank did not change materially in the reporting period. The report does not include any restatements.

In the report, we included material particulars of the strategy, management and results of as well as the outlook for our bank. The information was disclosed considering the economic, social and environmental landscapes. We also presented our understanding of the corporate responsibility and our social footprint – today and in the future. We believe that our integrated report explains how the non-financial aspects of our business shape our capacity to create and keep value in the short-, mid- and long-term.

How was the report compiled

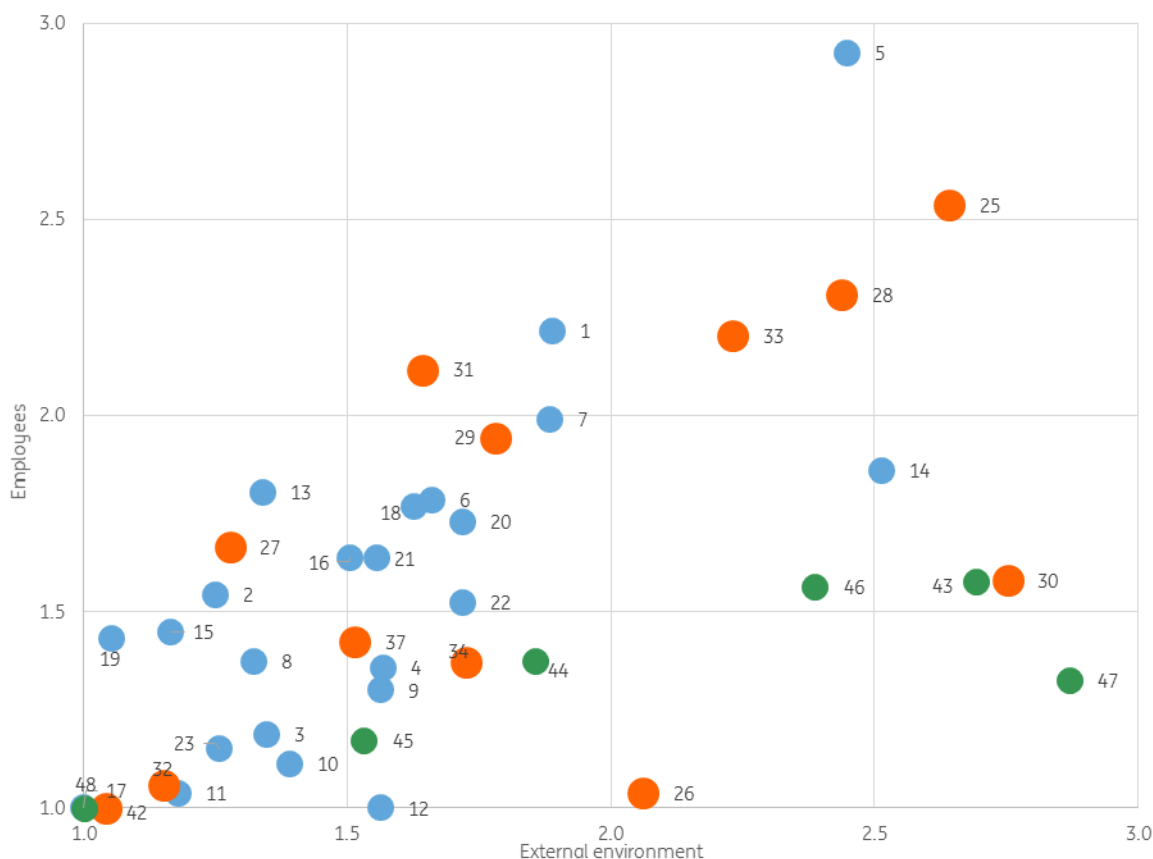
In keeping with GRI G4 guidelines, we conducted a three-stage process:

- **Identification**
During that stage, we identified the key issues concerning the bank's responsibility and business. We analysed other sources, too. They included but were not limited to press publications in the reporting period, the topics covered by internal communications, the current business blueprint and the sustainability strategy. We also reviewed the topics of significance for non-financial reporting by our sector.
- **Prioritization**
We have conducted surveys among external stakeholders, including: clients, analysts, regulators, investors, the media, NGOs, suppliers, students and our employees. With the survey deliverables, we were able to define the most important topics to be included in the report.
- **Validation**
We verified and clarified the said topics during the validation workshops with the senior management staff. They translated directly into the aspects reported herein.

Key reporting aspects

The matrix below presents the issues that should be tackled in the report according to the Bank employees and our external stakeholders. The materiality grades are as follows: 1- issues of little importance, 2- issues of some importance, 3- very important issues.

Materiality matrix



Economic		Social		Environmental	
1	Digitalisation, electronic banking	25	Key stakeholders and relationships with them (including local communities, and local government units)	43	Actions intended to protect natural environment as part of a green office
2	Tailoring banking services to the needs of various groups of clients	26	Enhancing sales process management effectiveness	44	Approach to energy usage reduction
3	Investment activity	27	Ethical attitudes, preventing abuse and corruption	45	Approach to water usage reduction
4	Client-oriented educational activities	28	Value and potential of employees	46	Environmental footprint of investment projects funded
5	ING Bank Śląski S.A. versus competitors in Poland	29	Knowledge management, ensuring qualified employees for the existing and future needs of the company	47	A new green statement adopted by the Management Board in December 2017
6	Innovativeness, cooperation with start-ups, PACE, Fintech	30	New models of work at the Bank, such as Agile	48	Other

7	Market environment. Development opportunities and plans	31	Employee training and development (including incentive schemes)
8	Corporate governance and manner of bank management	32	Diversity management, guidelines and policies (information on employees with disabilities, elderly people at the individual levels of the management structure, equal pay for men and women)
9	Responsible sale, responsible marketing – internal policies and procedures, etc.	33	Principles of promotion and bonus award in the company – employee rewarding system
10	Responsible offering – products improving the quality of social life and development of environmentally efficient economy for corporate and institutional clients	34	Employer branding, approach to recruitment
11	Enhancing sales process management effectiveness	35	Relationships with trade unions
12	ING Bank Śląski S.A. priorities concerning dividend policy	36	Occupational Health and Safety
13	Manner of client relationship building, client satisfaction	37	Ensuring respect for human rights
14	Strategy and strategy delivery	38	Relationships and dialogue with employees
15	Problematic situations in client relationships – complaints and grievances	39	Information on the Bank's social engagement (e.g. for local communities, promoting art and culture, etc.) and its effects
16	Integrity and ethics in all business actions, regulatory compliance	40	Financial education initiatives
17	Improvements in procurement practices, including vendor evaluation in non-financial terms, in terms of environment protection and employee practices	41	Employee voluntary activity
18	ING Bank Śląski S.A. footprint Indirect economic impact	42	Other

19	Empowering businesses – SME-oriented services and products		
20	Ensuring client data security		
21	Ensuring financial soundness of the company		
22	Product offer management and development, for example: new innovative services for retail clients		
23	Risk management, including management of reputational-, social- and environmental risks (including but not limited to environmental screening of investment projects funded by the Bank)		
24	Other (please specify)		

In the report, we described in detail the key topics. We make both disclosures on management approach and the corresponding indicators. Further, we resolved to present the other reporting aspects reflecting best their nature and weight for the organisation.

Figures used in the report were retrieved from internal reporting systems. Before being published they were all internally verified.

You may read more about our relationships and dialogue with stakeholders in the chapters titled “About us” and “How we create value” on pages 7 and 24, respectively.

Who was involved in the report compilation

Report compilation works were coordinated by a team composed of representatives of CSR, investor relations and financial reporting areas. This report was produced thanks to many people.

These are first and foremost:

- employees of all layers who participated in the preparatory works, filled in the questionnaires, attended the workshops and developed report data,
- customers, analysts, regulators, investors, the media, NGOs, vendors, and students who responded to our survey.

The contribution of all the people and institutions allowed us to prepare the next Integrated Report of ING Bank Śląski S.A. for 2017.

In case of questions, please inquire about the report with:

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XIII. Glossary

500+ – A governmental Family 500+ programme which warrants regular assistance for parents raising children. The monthly amount of PLN 500 is awarded to the second and every subsequent child in a family.

Add-on – Imposed on the capital requirements in keeping with Regulation No. 575/2013 (CRR).

AFS – Available for Sale, one of the financial instruments classification categories under the International Accounting Standard 39 – Financial Instruments: Recognition and Measurement.

Agile – It is a new way of working at selected Bank units, adopted from the IT sector. It enables fast response to changing client and market needs.

AIRB – Advanced Internal Rating-Based – It is a method used to measure credit risk.

ALCO – Asset-Liabilities Committee.

AMA – Advanced Measurement Approach – It is a method used to estimate economic capital requirement.

Bank – Bank when capitalised means ING Bank Śląski S.A.

Bank Group – Bank Group when capitalised means the ING Bank Śląski S.A. Group.

Bank tax, Bank levy – A popular name of the tax on certain financial institutions. The monthly tax of 0.0366% (0.44% per year) is collected from the value of assets as at the month-end – upon previous deductions. For banks, the value of assets is reduced by the amount of sovereigns held and own funds of a bank and PLN 4 billion, for example. The banks that have launched rehabilitation proceedings and state-owned banks (BGK) are exempted from the tax.

Basel III – Regulations on capital requirements and risk management at credit institutions. The Basel III solutions were introduced in the European Union with Regulation No. 575/2013 (CRR) and Directive No. 2013/36/EU (CRD IV).

BGF – Bank Guarantee Fund – A deposit guarantee and resolution scheme. BGF guarantee covers deposits being the equivalent of up to EUR 100,000.

BGK – Bank Gospodarstwa Krajowego – A Polish development-oriented bank. The main task of BGK is to support economic development of Poland and improve the quality of life for Poles.

Big companies – Companies with the annual turnover ranging from EUR 10 million to EUR 125 million, corporate segment clients.

Brexit – A popular name of the process whereby Great Britain is to exit the European Union.

BRRD – Bank Recovery and Resolution Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

CAPI Method – Computer Assisted Personal Interview – an interviewing technique in which the interviewer records the answers of the respondent on mobile devices.

Capital conservation buffer – An element of macroeconomic supervision of the banking sector. The buffer is imposed on all banks; it has to comprise the top-quality capital (Tier I) and account for 2.5% of the capital requirement at the maximum. In 2016-2017, it was 1.25%; in 2018, it went up to 1.875%; and as of the beginning of 2019, it will settle at 2.5%.

Carbon Disclosure Project (CDP) – CDP is an independent non-profit organisation from London. It encourages companies to reduce the emission of greenhouse gases and foster sustainable usage of water resources.

Carbon footprint – The total set of greenhouse gas emissions caused directly or indirectly by an individual, organisation, event or product.

CAWI Method – Computer Assisted Personal Interview – an interviewing technique in which the respondent or interviewer uses electronic questionnaires.

Compliance – Ensuring observance of laws, norms and standards, and recommendations.

Corporate Finance – A specific finance area dealing with financial, investment and operational

decisions taken by companies as well as tools and analyses supporting and helping them in the decision-making process.

Corporate segment – Simply: clients of mid and big companies segments and strategic clients.

Cost to Income ratio (C/I) – The ratio calculated as the relation of the general and administrative expenses (banking tax excluded) to income with the net result of associated entities recognised on an equity basis.

Costs of impairment losses under credit facilities and cash loans – The balance of provisions made and released under impairment of assets, credit facilities and cash loans granted to clients, first and foremost.

CPI – Consumer Price Index that measures changes in the price level of consumer goods and services. The most popular global inflation/deflation index.

Credit Information Bureau – An institution that processes information on the repayment discipline of liabilities of natural and legal persons.

Credit rating – Evaluation of the ability of a legal entity drawing a loan to repay the debt in full, that is to repay interest and principal on the contractual terms and conditions. The entity can be both a company and a state, for example.

CSR – Corporate Social Responsibility.

CVA – Credit Value Adjustment is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of a counterparty's default.

DGSD – Deposit Guarantee Schemes Directive of the European Parliament and of the Council.

DTI – Debt to Income – It is a percentage of the retail client income that goes towards repayment of liabilities.

EAD – Exposure At Default – It is a measure showing bank exposures at client's default.

EaR – Earnings at Risk – It is a measure showing the maximum potential change in earnings versus the earnings budgeted in the financial plan.

Easy lending – The Bank's approach to financing the mid and big companies. It covers the option of electronic conclusion of credit agreements and tracking the status of applications filed by clients in the ING Business system.

EBA – European Banking Authority.

EBC – European Central Bank.

Entrepreneurs – Companies, mainly sole proprietorships, with the annual turnover of up to EUR 1.2 million, retail segment clients.

ePUAP – Electronic Public Administration Services Platform where users may communicate with and arrange their matters at various authorities online (Tax Office or Social Security Office, for example).

Equator Principles Association – The rules adopted by international financial institutions which set the social and environmental responsibility standards for financial risk management of development projects.

ESR – Environmental and Social Risk.

EWS – Early Warnings Signal – It is a predictive model used to assess the probability of the client's financial standing deterioration.

Factoring – Purchase by the factor of not past-due receivables of companies (clients) due thereto from business partners (offtakers) under delivery of goods and services.

Fast Track – A simplified lending track in the mid and big companies segment.

FCR – First Call Resolution – It is a contact centre performance evaluation. It checks what volume of problems reported by clients to the contact centre is solved at the first contact.

FED – Federal Reserve – The central bank of the United States of America.

Funding cost – interest cost/ average interest liabilities for 5 subsequent quarters.

GDP – Gross Domestic Product – Aggregated market value of goods and services produced by national and foreign factors in a given country and in a given period.

Global Investor Statement on Climate Change – A global arrangement of investors which lays down the manner in which investors can contribute to increasing the number of low-emission and climate-resistant investment projects. The arrangement also provides for practical proposals how to multiply this contribution with adequate government measures.

Global Reporting Initiative (GRI) – An international organisation which publishes non-financial reporting guidelines.

Guarantee – A bank guarantee is a written commitment of the bank to pay the amount given there to the beneficiary on the terms and conditions stated therein. The agreement is, however, of securing nature only. It is not a tool to settle commercial agreements.

IAS – International Accounting Standards; gradually superseded by the IFRS, i.e. International Financial Reporting Standards.

IBNR – Incurred But Not Reported losses.

ICAAP – Internal Capital Adequacy Assessment Process.

IFRS – International Financial Reporting Standards and their interpretations approved by the International Accounting Standards Board.

IIRC – International Integrated Reporting Council.

ILAAP – Internal Liquidity Adequacy Assessment Process.

Interest assets – Assets earning interest income for the bank; loans granted to clients form their major portion.

Interest assets profitability – Income under interest/ average interest assets for 5 subsequent quarters.

Interest liabilities – Liabilities generating interest cost for the bank; client deposits form their major portion.

Interest margin ratio – net interest income/ average interest assets for 5 consecutive quarters.

IRRBB – Interest Rate Risk in the Banking Book.

IRS – Interest Rate Swap – It is an agreement between two counterparties in which one stream of future interest payments is exchanged for another (at defined time intervals during the life of the contract) based on a specified principal amount, calculated as at the different interest rate.

KRS – National Court Register

LCR – Liquidity Coverage Ratio. Computed as a ratio of very liquid assets to short-term liabilities. It is introduced in stages. The minimum value is: 60% in 2014 and 2015, 70% in 2016, 80% in 2017 and ultimately 100% starting from 2018.

Leasing – The agreement, whereunder the owner of an assets item (lessor) provides the user (lessee) with the right to use the assets item for a defined period in exchange for payment or a series of payments.

LGD – Loss Given Default – The share of an asset (exposure) that is lost if a borrower defaults.

Loans/ Deposits ratio (L/D) – Total net loans and other receivables to customers without Eurobonds/ liabilities to customers.

LTV – Loan To Value – A ratio used to assess credit risk. It is computed as a ratio of the loan amount to the (usually mortgage) collateral amount.

Mid companies – Companies with the annual turnover of or below EUR 10 million, corporate segment clients.

MiFID II – Markets in Financial Instruments Directive II.

MiFIR – Markets in Financial Instruments Regulation.

Mortgage Support Fund – A fund to be used by natural persons in a difficult financial situation and

required to repay a housing loan.

MPC – Monetary Policy Council – A body of the National Bank of Poland. Its tasks include but are not limited to determining the NBP interest rates.

MREL – Minimum Requirement for own funds and Eligible Liabilities The institution transposed into Polish law under the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution of 10 June 2016.

Mystery Shopper – One of the methods used to score the client service satisfaction where service quality is assessed during client sales and service points visits.

NBP – National Bank of Poland – a central bank which acts as the issue bank, the bank of banks and the central state-owned bank.

NFRC – Non-Financial Risk Committee.

NFRD – Non-Financial Risk Dashboard.

Non-performing loans – “Bad” loans in simple terms; that is loans wherefor clients default on payment or it is highly probable that they will default in the future.

NPL coverage ratio – Non-Performing Loans coverage ratio. The ratio of impairment losses and other client receivables to clients to the value of impaired loans and other receivables to clients.

NPL Ratio – Non-Performing Loans Ratio – simply: the share of “bad” loans in the gross lending portfolio.

NPS – Net Promoter Score – a client loyalty survey. Client database is split into three categories: promoters, neutral clients and detractors. NPS ratio is the difference between the share of promoters and detractors in the entire client database.

NPV – Net Present Value – net present value of discounted future cash flows.

NPV at Risk – Net Present Value at Risk – measure of net present value of discounted future cash flows at risk.

NSFR – Net Stable Funding Ratio. It is computed as the ratio of available stable funding to required stable funding. In keeping with Regulation of the European Parliament and of the Council (EU) No. 575/2013, the target net stable funding ratio (NSFR) was not defined.

OHI – Organizational Health Index.

O-SII buffer – Buffer of other systemically-important institution – an element of macroeconomic supervision of the banking sector. The buffer is imposed on banks of systemic importance on both the standalone and consolidated bases. The buffer takes values from 0% to 2% of the capital requirement.

Own funds – The funds forming Tier I capital (encompassing inter alia share capital, supplementary capital, reserve capital and retained earnings of previous years) and Tier II capital (encompassing inter alia subordinated liabilities, when approved by the competent regulator).

PACE – An organised process boosting innovations across ING Group. It fosters a fast market launch of new products and services, developed by small and independent scrums.

PD – Probability of Default.

PFSa – Polish Financial Supervision Authority – supervises the banking sector as well as the capital, insurance and pension markets, payment institutions and payment services offices, electronic money institutions and the sector of credit unions.

Private & Wealth – The offer targeting the segment of retail clients whose assets are over PLN 500,000 (Private) or PLN 2 million (Wealth).

RAS – Risk Appetite Statement – The document that sets the maximum risk the Group is willing to accept for a given type of risk.

Respect Index – Index of the most socially responsible companies on the Warsaw Stock Exchange.

Retail segment – Simply: natural persons and natural persons running business.

Return on Assets (ROA) – net profit/ average assets for 5 subsequent quarters.

Return on Equity (ROE) – net profit/ average equity for 5 consecutive quarters.

Risk costs margin ratio – Net loan loss provisions to the average value of the gross lending portfolio in a given period.

STIR – ICT System of the National Clearing House – a set of algorithms that analyse financial data delivered obligatorily by banks and credit unions on entrepreneurs designed to identify potential VAT frauds.

Strategic clients – Groups with the annual turnover of over EUR 125 million, corporate segment clients.

Supervisory Review and Evaluation Process (SREP) – One of the supervisory tools of the Polish Financial Supervision Authority. The SREP seeks to identify the volume and nature of risk exposure at banks, evaluate the quality of the risk management process and assess the capital covering the risk associated with bank business and bank governance.

SWIFT – Society For Worldwide Interbank Financial Telecommunication. SWIFT participates in international transactions between financial institutions.

Tier I – Top-quality capital, computed in line with Basel III regulations.

Tier I capital ratio – The ratio of the Tier I capital to off-balance sheet assets and liabilities including risk weights; the ratio calculated in line with Basel III regulations.

Total Capital Ratio (TCR) – It is computed as the relation of own funds to off-balance sheet assets and liabilities including risk weights; the ratio calculated in line with Basel III regulations.

United Nations Environment Programme Finance Initiative – A global partnership between the United Nations and over 200 representatives of the world financial sector. The partnership seeks to promote sustainable funding.

United Nations Global Compact – The largest global initiative gathering business striving after sustainable growth.

VaR – Value at Risk – the ratio which defines the anticipated maximum potential loss at certain probability.

WCAG 2.0 – International guidelines on making Web content more accessible. These guidelines read how to make content accessible to everyone, regardless of one's ability, age, equipment or software.

WIBOR – Warsaw Interbank Offered Rate – It is a reference interest rate of loans on the Polish interbank market.

WIG 30 – WIG 30 index has been published by the Warsaw Stock Exchange since 23 September 2013. It is a capitalization-weighted stock market index of the thirty largest companies on the Warsaw Stock Exchange.

WPC – Winning Performance Culture – It is a survey to measure employee engagement.

XIV. GRI Content Index

Profile indicators

Profile indicators	Descriptions	Chapter
Strategy and analysis		
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	President's Review
G4-2	Description of key impacts, risks, and opportunities.	II.1 VI
Organizational profile		
G4-3	Name of the organization.	I.1
G4-4	Primary brands, products, and/or services.	I.1
G4-5	Location of organization's headquarters.	I.1
G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	I.1
G4-7	Nature of ownership and legal form.	I.1
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	I.1
G4-9	Scale of the reporting organization.	I.1
G4-10	Total workforce by employment type, employment contract, and region.	VII.1
G4-11	Percentage of employees covered by collective bargaining agreements.	VII.1
G4-12	Description of organization's supply chain.	I.1
G4-13	Significant changes during the reporting period regarding size, structure, ownership or supply chain.	I.1
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	VI
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	I.1
G4-16	List of memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization holds a position on the governance body, participates in projects or committees, provides substantantive funding beyond routine membership dues, views membership as strategic.	I.1
Identified material aspects and boundaries		
G4-17	List of all entities included in the organization's consolidated financial statements and information if any of those entities is not covered by the report.	I.1
G4-18	Process for defining report content.	XII
G4-19	List of all material Aspect identified in the process for defining report content.	XII

G4-20	Aspect Boundary within of the report.	XII
G4-21	Aspect Boundary outside the organization.	XII
G4-22	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	XII
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	XII
Stakeholders engagement		
G4-24	List of stakeholder groups engaged by the organization.	I.1
G4-25	Basis for identification and selection of stakeholders with whom to engage.	I.1
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	I.1 XII
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	I.1 XII
Report profile		
G4-28	Reporting period (e.g., fiscal/calendar year) for information provided.	XII
G4-29	Date of most recent previous report (if any).	XII
G4-30	Reporting cycle (annual, biennial, etc.).	XII
G4-31	Contact point for questions.	XII
G4-32	"In accordance option", GRI Content Index chosen by the organization.	XIV
Governance		
G4-34	Governance structure of the organization, including committees of the highest governance body, committees responsible for decision-making on economic, environmental and social impacts.	X
Ethics and integrity		
G4-56	Description of the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	I.3
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity, such as helplines or advice lines.	I.3
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	I.3

Detailed indicators

Indicators by aspect	Descriptions	Omissions	Chapter
Economic			
Economic performance			
G4-DMA			II.3
G4-EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.		I.2 III
Market presence			
G4-DMA			II.3
G4-EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.		VII.1
Indirect economic impacts			
G4-DMA			II.4
G4-EC7	Development and impact of Infrastructure Investments and Services Supported.		V.2 VII.4
Environmental			
Energy			
G4-DMA			VII.3
G4-EN3	Energy consumption within the organization.		VII.3
G4-EN6	Reduction of energy consumption.	The indicator reported in part due to a limited availability of data on the energy saved due to specific modernisation activities. The Bank will be able to report the indicator in full after developing and implementing the methodology for calculation of the saved energy.	VII.3
Water			
G4-DMA			VII.3
G4-EN8	Total water withdrawal by source.		VII.3
Effluents and waste			
G4-DMA			VII.3

G4-EN23	Total weight of waste by type and disposal method.		VII.3
Products and services			
G4-DMA			V.3
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.		V.3
Supplier environmental assessment			
G4-DMA			I.1
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.		I.1
Social			
Labour practices and decent work			
<u>Employment</u>			
G4-DMA			VII
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.		VII.1
G4-LA3	Return to work and retention rates after parental leave, by gender.		VII.3
<u>Occupational health and safety</u>			
G4-DMA			VII
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.		
In 2017, there has been no case of occupational disease or fatal accident at work identified at the Bank.			
<u>Training and Education</u>			
G4-DMA			VII
G4-LA9	Average hours of training per year per employee by employee category and by gender.	The indicator reported in part due to a unavailability of data on the number of training hours by gender and employment category. The Bank will be able to report the indicator in full after implementing changes in the training time recording system.	VII.2

G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	VII.2
G4-LA11	Percentage of employees receiving regular performance and career development reviews.	VII.2
<u>Diversity and equal opportunity</u>		
G4-DMA		VII
G4-LA12	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	VII.1
<u>Equal remuneration for women and men</u>		
G4-DMA		VII
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	VII.3
<u>Supplier assessment for labour practices</u>		
G4-DMA		I.1
G4-LA14	Percentage of new suppliers that were screened under labour practices criteria.	I.1
Human rights		
<u>Supplier human rights assessment</u>		
G4-DMA		I.1
G4-HR10	Percentage of new suppliers that were screened using human rights criteria.	I.1
Society		
<u>Local communities</u>		
G4-DMA		II.5
G4-FS14	Initiatives taken to improve access to financial services for disadvantaged persons.	IV.2
<u>Anti-corruption</u>		
G4-DMA		I.3
G4-SO4	Communication and training of anti-corruption policies and procedures.	I.3
G4-SO5	Confirmed incidents of corruption and actions taken.	I.3
<u>Compliance</u>		
G4-DMA		I.3
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	-
In 2017, there no fines for legal or regulatory non-compliance imposed on ING		

Bank Śląski S.A.

Product responsibility

Product and service labelling

G4-DMA		II.3
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	-
	In 2017, there were no events of non-compliance with regulations or voluntary codes on labelling and information about products and services.	
G4-PR5	Results of surveys measuring customer satisfaction.	IV.1

Marketing communications

G4-DMA		II.3
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	-
	In 2017, there were no events of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	

Customer privacy

G4-DMA		VI.9
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	VI.9

Compliance

G4-DMA		I.3
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	-
	In 2017, there no fines for non-compliance with the law or regulations concerning the delivery and use	

of products and
services imposed
on ING Bank
Śląski S.A.

XV. Management Board statements

1. Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the annual financial data for 2017 and the comparable data presented in the annual financial statements of ING Bank Śląski S.A. and the annual consolidated financial statements of the ING Bank Śląski S.A. Group were prepared in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the financial standing of the Bank and the Bank Group and the financial result generated by the Bank and the Bank Group. The Management Board Report being part of this document is a true presentation of the development, achievements and situation (including a description of key risks and threats) of the Bank and the Bank Group in 2017.

2. Selection of entity authorised to audit financial statements

The entity authorised to audit the financial statements, auditing the annual financial statements of ING Bank Śląski S.A. and the annual consolidated financial statements of the ING Bank Śląski S.A. Group was selected according to the effective laws. This entity and statutory auditors reviewing those financial statements met the conditions of expressing impartial and independent opinions on the audited annual financial statements and annual consolidated financial statements, in line with the effective laws and professional standards.

This Management Board Report on Operations of the ING Bank Śląski S.A. Group in 2017 comprising the Management Board Report on Operations of ING Bank Śląski S.A. has 209 pages numbered consecutively.

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

Brunon Bartkiewicz

President of the Bank Management Board

Bożena Graczyk

Vice-President of the Bank Management Board

Michał Bolesławski

Vice-President of the Bank Management Board

Joanna Erdman

Vice-President of the Bank Management Board

Marcin Giżycki

Vice-President of the Bank Management Board

Justyna Kesler

Vice-President of the Bank Management Board

Patrick Roesink

Vice-President of the Bank Management Board

6 March 2018