

ING Bank Śląski S.A. Group

Semi-annual consolidated report
for the period of 6 months
ending on 30 June 2018

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SELECTED FINANCIAL DATA FROM FINANCIAL STATEMENTS

Selected financial data

	II quarter 2018	I half year 2018	II quarter 2017	I half year 2017
Net interest income	920.0	1 803.3	830.5	1 625.3
Net commission income	339.6	657.7	293.1	583.9
Result on basic activities	1 310.2	2 567.1	1 191.6	2 326.9
Result before tax	490.4	936.7	476.1	889.9
Net profit attributable to shareholders of ING Bank Śląski S.A.	372.7	694.9	360.4	660.6
Earnings per ordinary share (PLN)	2.86	5.34	2.77	5.08

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Loans and other receivables to customers (net)	94 724.3	90 290.5	87 544.0	83 333.2
Liabilities to customers	109 174.1	104 662.1	104 503.3	97 708.8
Total assets	130 758.6	127 310.3	126 013.9	120 197.6
Equity attributable to shareholders of ING Bank Śląski S.A.	11 889.5	12 058.9	11 794.8	11 154.1
Initial capital	130.1	130.1	130.1	130.1

Key effectiveness ratios

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
C/I - Cost/Income ratio (%)	46.1	50.0	44.8	46.3
ROA - Return on assets (%)	1.2	1.2	1.2	1.1
ROE - Return on equity (%)	12.3	12.4	12.6	11.5
NIM - net interest margin (%)	2.93	2.91	2.88	2.80
L/D - Loans-to-deposits ratio (%)	86.8	86.3	83.8	85.3
Total capital ratio (%)	15.2	16.1	16.7	15.3

Explanations:

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

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

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

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

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

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

ING BANK ŚLĄSKI S.A. CAPITAL GROUP'S INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated income statement

	Note	II Q 2018 the period from 1 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 1 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
		[IFRS 9]	[IFRS 9]	[IAS 39 non- transformed data]	[IAS 39 non- transformed data]
Interest income, including:		1 150.2	2 248.6	1 040.6	2 044.9
Interest income on assets measured at amortised cost		1 148.8	2 245.9	n/a	n/a
Other interest income		1.4	2.7	n/a	n/a
Interest expenses		230.2	445.3	210.1	419.6
Net interest income	7.1	920.0	1 803.3	830.5	1 625.3
Commission income		381.5	732.3	327.6	650.8
Commission expenses		41.9	74.6	34.5	66.9
Net commission income	7.2	339.6	657.7	293.1	583.9
Net income on financial instruments at fair value through profit or loss and FX result	7.3	24.4	42.4	27.6	64.3
Net income on the sale of securities measured at amortised cost	7.4	-0.1	0.7	n/a	n/a
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	7.4	18.3	50.5	n/a	n/a
Net income on investments	7.4	n/a	n/a	32.8	43.0
Net income on hedge accounting	7.5	2.0	4.2	8.3	10.3
Net income on other basic activities		6.0	8.3	-0.7	0.1
Net income on basic activities		1 310.2	2 567.1	1 191.6	2 326.9
General and administrative expenses	7.6	555.0	1 183.3	512.1	1 077.7
Impairment for expected losses	7.7	173.7	268.5	n/a	n/a
Impairment losses and provisions for off-balance sheet liabilities	7.7	n/a	n/a	123.0	199.5
Tax on certain financial institutions		91.1	178.6	80.4	159.8
Gross profit (loss)		490.4	936.7	476.1	889.9
Income tax		117.7	241.8	115.7	229.3
Net profit (loss) - attributable to shareholders of ING Bank Śląski S.A.		372.7	694.9	360.4	660.6
Net profit (loss) attributable to shareholders of ING Bank Śląski S.A.		372.7	694.9	360.4	660.6
Weighted average number of ordinary shares		130 100 000	130 100 000	130 100 000	130 100 000
Earnings per ordinary share (PLN)		2.86	5.34	2.77	5.08

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

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

Interim condensed consolidated statement of comprehensive income

	II Q 2018 the period from 1 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 1 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 non- transformed data]	[IAS 39 non- transformed data]
Net profit for the period	372.7	694.9	360.4	660.6
Total other comprehensive income, including:	-126.0	63.7	6.6	18.7
Items which can be reclassified to income statement	-126.0	63.7	6.6	18.7
debt instruments measured at fair value through other comprehensive income	-41.9	15.7	n/a	n/a
- gains/losses on revaluation carried through equity				
equity instruments measured at fair value through other comprehensive income - gains/losses on revaluation carried through equity	0.8	0.8	n/a	n/a
financial assets measured at fair value through other comprehensive income - reclassification to profit or loss due to sale	-9.6	-28.7	n/a	n/a
cash flow hedging - gains/losses on revaluation carried through equity	-12.8	229.1	n/a	n/a
cash flow hedging - reclassification to profit or loss	-62.3	-157.5	n/a	n/a
hedging instruments - undesignated elements	-0.2	4.3	n/a	n/a
effective part of cash flow hedging relationship	n/a	n/a	-27.7	-29.9
gains/losses on revaluation of available-for-sale financial assets carried through equity	n/a	n/a	65.5	93.8
reclassification to the financial result due to sale of available-for-sale financial assets	n/a	n/a	-23.0	-29.2
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	n/a	n/a	0.1	0.0
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	n/a	n/a	-8.3	-16.0
Items which will not be reclassified to income statement	0.0	0.0	0.0	0.0
Net comprehensive income for the reporting period	246.7	758.6	367.0	679.3
- attributable to owners of ING Bank Śląski S.A.	246.7	758.6	367.0	679.3

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

Interim condensed consolidated statement of financial position

	Note	as of 30 Jun 2018 [IFRS 9]	as of 31 Mar 2018 [IFRS 9]	as of 31 Dec 2017 [IAS 39 non-transformed data]	as of 30 Jun 2017	as of 31 Dec 2016
Assets						
Cash in hand and balances with the Central Bank		1 781.5	2 042.4	2 815.2	1 351.9	1 825.0
Loans and other receivables to other banks	7.8	951.8	2 017.4	2 234.5	1 050.2	1 113.4
Financial assets held for trading	7.9	2 034.0	1 263.6	1 314.8	3 706.3	3 943.9
Derivative hedge instruments		880.2	960.6	967.2	1 148.6	1 338.6
Investment securities	7.10	28 677.0	29 135.7	n/a	n/a	n/a
Investments	7.10	n/a	n/a	25 907.4	24 427.6	25 721.3
Loans and other receivables to customers	7.11	94 724.3	90 290.5	91 108.1	86 922.3	81 979.5
Investments in associates measured at equity method		1.3	1.3	1.3	0.0	0.0
Property, plant and equipment		526.8	538.1	549.0	564.4	578.0
Intangible assets		430.0	427.5	431.0	420.6	426.2
Assets held for sale		16.2	10.9	11.1	14.3	31.8
Deferred tax assets		0.0	1.8	0.0	0.0	0.3
Current tax receivables		335.2	274.6	257.1	228.5	237.2
Other assets		400.3	345.9	417.2	362.9	282.5
Total assets		130 758.6	127 310.3	126 013.9	120 197.6	117 477.7
Liabilities						
Liabilities to other banks	7.13	4 882.0	6 288.8	4 109.0	6 140.5	5 043.0
Financial liabilities at fair value through profit or loss	7.14	1 281.7	1 044.9	1 714.3	1 154.3	1 590.8
Derivative hedge instruments		677.7	622.6	699.2	1 015.0	1 468.1
Liabilities to customers	7.15	109 174.1	104 662.1	104 503.3	97 708.8	95 825.4
Liabilities under issue of debt securities		300.2	302.2	300.3	866.3	866.4
Subordinated liabilities		655.6	632.4	626.9	635.3	664.9
Provisions	7.16	125.1	115.6	91.9	69.5	60.3
Current income tax liabilities		68.3	244.8	232.9	121.4	121.3
Other liabilities		1 704.4	1 338.0	1 941.3	1 332.4	1 360.3
Total liabilities		118 869.1	115 251.4	114 219.1	109 043.5	107 000.5
Equity						
Share capital		130.1	130.1	130.1	130.1	130.1
Supplementary capital - issuance of shares over nominal value		956.3	956.3	956.3	956.3	956.3
Accumulated other comprehensive income		557.0	684.0	493.2	596.2	577.5
Retained earnings		10 246.1	10 288.5	10 215.2	9 471.5	8 811.0
Equity attributable to shareholders of ING Bank Śląski S.A.		11 889.5	12 058.9	11 794.8	11 154.1	10 474.9
Non-controlling interests		0.0	0.0	0.0	0.0	2.3
Total equity		11 889.5	12 058.9	11 794.8	11 154.1	10 477.2
Total equity and liabilities		130 758.6	127 310.3	126 013.9	120 197.6	117 477.7
Carrying amount		11 889.5	12 058.9	11 794.8	11 154.1	10 474.9
Number of shares		130 100 000	130 100 000	130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)		91.39	92.69	90.66	85.73	80.51

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

Interim condensed consolidated statement of changes in equity

I H 2018

The period from 1 Jan 2018 to 30 Jun 2018

	Share capital	Supplementa ry capital - issuance of shares over nominal value	Cumulative other comprehensi ve income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	493.2	10 215.2	11 794.8
The impact of changes to the accounting principles in connection with the implementation of IFRS 9*	-	-	1.1	-249.0	-247.9
Opening balance of equity adjusted for changes to the accounting principles	130.1	956.3	494.3	9 966.2	11 546.9
Net result for the current period	-	-	-	694.9	694.9
Other net comprehensive income, including:	0.0	0.0	62.7	1.0	63.7
financial assets measured at fair value through other comprehensive income	-	-	16.5	-	16.5
- gains/losses on revaluation carried through equity	-	-	-	-	-
financial assets measured at fair value through other comprehensive income	-	-	-28.7	-	-28.7
- reclassification to profit or loss due to sale	-	-	-	-	-
cash flow hedging - gains/losses on revaluation carried through equity	-	-	229.1	-	229.1
cash flow hedging - reclassification to profit or loss	-	-	-157.5	-	-157.5
hedging instruments - undesignated elements	-	-	4.3	-	4.3
disposal of non-current assets	-	-	-1.0	1.0	0.0
Other changes in equity, including:	0.0	0.0	0.0	-416.0	-416.0
valuation of share-based payments	-	-	-	0.2	0.2
profit distribution with dividend payout allocation	-	-	-	-416.2	-416.2
Closing balance of equity	130.1	956.3	557.0	10 246.1	11 889.5

*) The impact of changes to the accounting principles in connection with the implementation of IFRS 9 is described in *Supplementary notes* in item 4.2. *IFRS 9 Financial Instruments*.

Interim condensed consolidated statement of changes in equity - continued

IV Q 2017 YTD

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

	Share capital	Supplement ary capital - issuance of shares over nominal value	Cumulative other comprehensi ve income	Retained earnings	Non- controlling interests	Total equity
Opening balance of equity	130.1	956.3	577.5	8 811.0	2.3	10 477.2
Net result for the current period	-	-	-	1 403.1	0.0	1 403.1
Other net comprehensive income, including:	0.0	0.0	-84.3	0.3	0.0	-84.0
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	192.8	-	-	192.8
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-31.7	-	-	-31.7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the loans and receivables portfolio	-	-	-0.2	-	-	-0.2
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity financial assets	-	-	-32.1	-	-	-32.1
effective part of cash flow hedging relationship	-	-	-206.0	-	-	-206.0
disposal of non-current assets	-	-	-0.3	0.3	-	0.0
actuarial gains/losses	-	-	-6.8	-	-	-6.8
Transaction with shareholders, including:	0.0	0.0	0.0	0.8	-2.3	-1.5
valuation of share-based payments	-	-	-	1.0	-	1.0
settlement of the purchase of shares in subsidiary	-	-	-	-0.2	-2.1	-2.3
dividends paid	-	-	-	-	-0.2	-0.2
Closing balance of equity	130.1	956.3	493.2	10 215.2	0.0	11 794.8

I H 2017

The period from 1 Jan 2017 to 30 Jun 2017
[IAS 39 – non-transformed data]

	Share capital	Supplement ary capital - issuance of shares over nominal value	Cumulative other comprehensi ve income	Retained earnings	Non- controlling interests	Total equity
Opening balance of equity	130.1	956.3	577.5	8 811.0	2.3	10 477.2
Net result for the current period	-	-	-	660.6	0.0	660.6
Other net comprehensive income, including:	0.0	0.0	18.7	0.0	0.0	18.7
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	93.8	-	-	93.8
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-29.2	-	-	-29.2
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity financial assets	-	-	-16.0	-	-	-16.0
effective part of cash flow hedging relationship	-	-	-29.9	-	-	-29.9
Other changes in equity, including:	0.0	0.0	0.0	-0.1	-2.3	-2.4
valuation of share-based payments	-	-	-	0.1	-	0.1
settlement of the purchase of shares in subsidiary	-	-	-	-0.2	-2.1	-2.3
dividends paid	-	-	-	-	-0.2	-0.2
Closing balance of equity	130.1	956.3	596.2	9 471.5	0.0	11 154.1

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

Interim condensed consolidated cash flow statement

	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IAS 39 non-transformed data]
Net profit attributable to shareholders of ING Bank Śląski S.A.	694.9	660.6
Adjustments, including:	-3 351.1	684.0
Depreciation and amortisation	88.5	90.9
Interest accrued (from the income statement)	-1 803.3	-1 625.3
Interest paid	-436.2	-409.4
Interest received	2 159.2	2 066.5
Dividends received	-0.8	-0.9
Gains (losses) on investing activities	-1.0	-0.6
Income tax (from the income statement)	241.8	229.3
Income tax paid	-431.7	-220.2
Change in provisions	16.3	9.2
Change in loans and other receivables to other banks	396.5	-15.9
Change in financial assets held for trading	-826.8	150.3
Change in available-for-sale financial assets	n/a	3 244.6
Change in debt instruments measured at fair value through other comprehensive income	-3 677.3	n/a
Change in valuation of derivatives	-54.3	17.1
Change in hedge derivatives	141.4	-293.0
Change in loans and other receivables from customers	-3 956.8	-5 033.7
Change in other assets	15.0	-54.6
Change in liabilities to other banks	585.8	1 065.0
Change in liabilities at fair value through profit or loss	-269.1	-366.4
Change in liabilities to customers	4 670.0	1 890.8
Change in other liabilities	-208.3	-59.7
Net cash flow from operating activities	-2 656.2	1 344.6
Purchase of property plant and equipment	-42.0	-32.8
Disposal of property plant and equipment	0.1	0.6
Purchase of intangible assets	-37.0	-30.5
Disposal of assets held for sale	3.4	6.0
Purchase of equity instruments measured at fair value through other comprehensive income	-1.2	n/a
Disposal of instruments measured at amortised cost	1 055.8	n/a
Purchase of held-to-maturity financial assets	n/a	-1 911.6
Interest received from held-to-maturity financial assets	n/a	59.2
Dividends received	0.8	0.9
Net cash flow from investing activities	979.9	-1 908.2
Long-term loans received	709.0	582.3
Long-term loans repaid	-516.7	-542.1
Interest on long-term loans repaid	-11.0	-13.6
Interests from issued debt securities	-3.8	-11.6
Dividends paid	-416.2	-0.2
Net cash flow from financing activities	-238.7	14.8
Effect of exchange rate changes on cash and cash equivalents	133.8	-273.5
Net increase/decrease in cash and cash equivalents	-1 915.0	-548.8
Opening balance of cash and cash equivalents	4 598.2	2 758.7
Closing balance of cash and cash equivalents	2 683.2	2 209.9

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

Additional information

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

1.1. Key Bank data

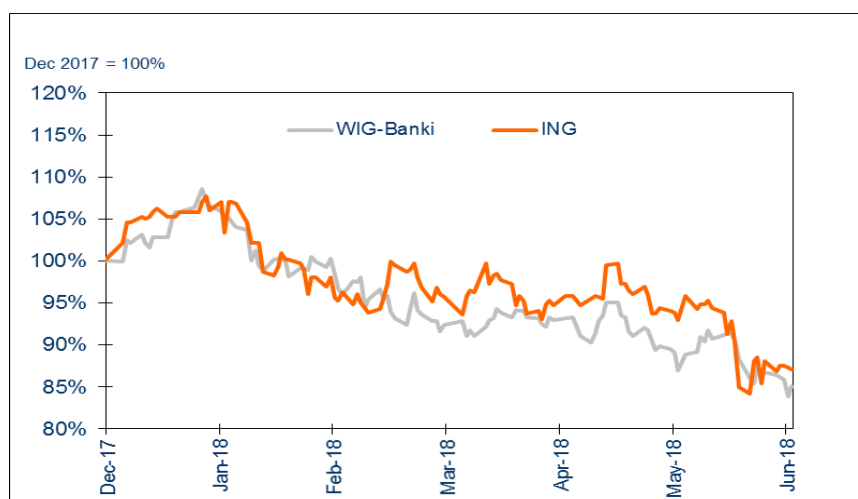
ING Bank Śląski S.A. ('Parent company', 'Parent entity', 'Bank') with the headquarters in Katowice, Sokolska Str. 34, was entered into the entrepreneurs National Court Register managed by the Commercial Department of the Regional Court in Katowice under the reference number KRS 5459. The parent entity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

1.2. Scope and duration of operations

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

1.3. Share capital

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares with a par value of PLN 1.00 each. Shares of the Bank are quoted on the Warsaw Stock Exchange (sector: banks). As of 30 Jun 2018, the share price of ING Bank Śląski S.A. was PLN 179.0, whereas as at 30 Jun 2017 it was at the level of PLN 182.35 In the 6 months of 2018, the price of ING Bank Śląski S.A. shares was as follows:



1.4. ING Bank Śląski S.A. Group

ING Bank Śląski S.A. is the parent company of the ING Bank Śląski S.A. Group ('Capital Group', 'Group'). As at 30 Jun 2018, the composition of ING Bank Śląski S.A. Group was the following:

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

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

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

***) On 16 Jan 2018, ING Bank Śląski S.A. obtained from the Polish Financial Supervision Authority the permission to establish a mortgage bank under the name of 'ING Bank Hipoteczny Spółka Akcyjna' with its registered office in Katowice. ING Bank Hipoteczny Spółka Akcyjna company (ING Bank Hipoteczny S.A.) was formed with the notarial deed on 26 Feb 2018. ING Bank Hipoteczny S.A. is in the middle of the process of obtaining the approval of the Polish Financial Supervision Authority to start its operations.

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 30 Jun 2018 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders. ING Bank NV belongs to the Capital Group, herein referred to as ING Group.

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

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97 575 000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	10 561 068	8.12

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

As at 30 Jun 2018, neither Management Board nor Supervisory Board members held shares of ING Bank Śląski S.A. So was the situation also at the date of rendering the financial statements for the previous reporting period into the public domain.

1.7. Approval of financial statements

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

These interim condensed consolidated financial statements have been approved by the Bank Management Board on 31 Jul 2018.

2. Significant events in I half year 2018

2.1. Change of interest for ING Bank Śląski S.A.'s bonds

On 19 Jun 2018, due to the opening of a new coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS191219 of the total nominal value of PLN 300,000,000.00 issued by the Bank on 19 Dec 2014, under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A. The bonds interest for the subsequent coupon period is 2.53% per annum. The next coupon date shall fall on 19 Dec 2018. The remaining rights under the said bonds did not change.

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

On 26 Apr 2018, the Bank was advised of the amount of annual contribution for the banks' resolution fund for 2018. It is PLN 58.2 million, including the adjustment of the contribution made in 2017. The entire contribution was recognised in costs for the I Q 2018 and is presented in the income statement, item: *Operating expenses*. The contribution was made on 19 Jul 2018.

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

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

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

- on amendments to the ING Bank Śląski S.A. Charter,
- on changes to the Supervisory Board composition (description under item 3.2. *Changes to the ING Bank Śląski S.A. Supervisory Board composition*).

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

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

2.5. Ratings update by Moody's

On 23 Mar 2018 the rating agency Moody's Investors Service ('Moody's') updated the Bank ratings. The following ratings were upgraded:

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

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

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

Detailed information on ratings given to Bank by rating agencies are described in item 17.1. Ratings.

2.6. Signing agreements with the Bank Guarantee Fund in conjunction with the acquisition of Bieszczadzka SKOK

On 1 Mar 2018, the Bank signed two agreements with the Bank Guarantee Fund following the acquisition by ING Bank Śląski S.A. on 1 Sep 2017 of Bieszczadzka Credit Union (Bieszczadzka SKOK):

- 1) The Subsidies Agreement for PLN 11.8 million to cover 100% of the difference between the carrying amount of all the property rights acquired and the carrying amount of liabilities under guaranteed funds,
- 2) The Loss Coverage Guarantee Agreement for the property rights acquired.

2.7. Sale of non-performing receivables portfolio

On 22 Feb 2018, the Bank concluded an agreement on the sale of corporate receivables from portfolio of credit impaired financial assets (stage 3). As a result of the transaction, the portfolio of irregular receivables decreased by PLN 85.6 million. The positive impact of the transaction on the Bank's result before tax amounted to PLN 1.1 million.

2.8. Obtainment of PFSA permission to establish a mortgage bank .

On 16 Jan 2018, the Bank was given notice of the permission issued by the Polish Financial Supervision Authority and allowing the Bank to establish a mortgage bank under the name of 'ING Bank Hipoteczny Spółka Akcyjna' with its registered office in Katowice. ING Bank Hipoteczny Spółka Akcyjna (ING Bank Hipoteczny S.A.) was established by a notarial act on 26 Feb 2018.

The share capital of ING Bank Hipoteczny S.A. amount to PLN 120 000 000.00 and was fully taken up by ING Bank Śląski S.A. The shares of ING Bank Hipoteczny S.A. was covered by cash.

3. Significant events after the balance sheet date

Did not occur.

4. Compliance with International Financial Reporting Standards

These interim condensed consolidated financial statements of the ING Bank Śląski S.A. Group for the I H 2018 were prepared under the IAS 34 Interim Financial Reporting (International Accounting Standards) in a version approved by the European Commission effective as at the reporting date, that is 30 Jun 2018 as well as in accordance with the Ordinance of Finance Minister of 29 Mar 2018 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws of 2018, no. 33, item 757).

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

Change	Impact on the Group statements
IFRS 9 'Financial instruments'	The new Standard impacted the financial statements of the Group upon its initial application. For impact details, see item 4.6.
Explanations to IFRS 15 'Revenue from Contracts with Customers'	Application of the said standard explanations does not have a material impact on the financial statements of the Group.
IFRS 4 'Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	The change does not have an impact on the financial statements of the Bank.
IFRS 15 'Revenue from Contracts with Customers' considering the change to the application date	Implementation of IFRS 15 did not have a material impact on the financial statements of the Group. The detailed accounting principles were presented in section 5. Material accounting principles.
Annual changes to the International Financial Reporting Standards in 2014-2016 (published in Dec 2016). Concerns MSSF 1, MSSF 12 i MSR 28.	Implementation of individual changes does not have impact on the financial statements of the Group.
IFRS 2 'Share-Based Payment'	Standard change implementation has no material impact on the financial statements of the Group.

IAS 40 'Transfers of Investment property'	Standard change implementation has no impact on the financial statements of the Group. The Bank did not identify the properties to be classified otherwise under the revised guidelines.
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Interpretation implementation had no impact on the financial statements of the Group.

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

Interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated cash flow statement for the period from 1 Jan 2018 to 3) Jun 2018, together with comparable data were prepared according to the same principles of accounting for each period except for the changes resulting from the implementation of IFRS 9 replacing IAS 39 'Financial Instruments: Recognition and Measurement'. The changes refer to classification and measurement of financial assets and liabilities and impairment of financial assets. The Group took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 Jan 2018, without adjusting comparative periods.

4.1. Changes to accounting standards

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

Change (application date provided for in the parentheses)	Impact on the Group statements
References to IFRS conceptual assumptions (the accounting year starting on 1 Jan 2020)	The Group is currently analysing the impact of changes on the financial statements of the Group.
IAS 19 'Plan amendment, curtailment or settlement' (the accounting year starting on 1 Jan 2019 or later)	At this analysis stage, the Group does not expect a material impact of the amendment implementation on the financial statements of the Group.

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

Supplementary information on conclusions from the analysis of IFRS 16 Leases impact on the financial statements of the Group.

The new guidance shall be effective as of 1 Jan 2019. The key changes refer to the agreements where the Bank is the lessee. The segregation into financial and operating leasing has been cancelled, thus resulting in the unification of the leasing agreements recording principles. According to the Bank's analyses, the use of the new standard will impact the recognition, presentation, pricing and disclosures of the leased assets wherefor the Bank is the lessee in the Bank's financial statements. In connection with the new rules of the leases recognition, the liabilities under leases will also be disclosed. The Bank is of the opinion that the new standard implementation will have no material impact on the financial results of the Bank. As at the

implementation moment, the standard allows for a number of exemptions and simplifications that the Bank intends to use at the date of initial application.

4.2. Impact of IFRS 9 Financial instruments implementation for Group's financial statements

The IFRS 9 'Financial Instruments' was published by the IASB in Jul 2014 and was adopted by the European Union in Nov 2016. The IFRS 9 replaces the IAS 39 'Financial Instruments: Recognition and Measurement' and includes classification and measurement requirements for financial assets and liabilities, impairment of financial assets and hedge accounting. The new requirements take effect on 1 Jan 2018. The Bank took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 Jan 2018, without adjusting comparative periods.

Discussion continues in the banking sector in Poland as to the interpretation of IFRS 9 requirements in some areas. Regulatory recommendations are awaited as to classification. New interpretations and recommendations can impact the financial statements of the Group.

4.2.1. Classification and measurement

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

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

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

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

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

Business models

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

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

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

Cash flows analysis

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

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

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

Financial liabilities

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

Impact of changes in classification and measurement

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

- For the financial assets of the Group, the credit exposures which have a financial leverage element in their interest structure were identified. In line with IFRS 9 requirements, the cash flows under those assets are not solely payments of principal and interest on the principal amount outstanding, and thus they are obligatorily measured at fair value through profit or loss. As at 1 Jan 2018, the carrying amount of those credit exposures was

PLN 278 million. Since the difference in the fair value of those assets versus their measurement at amortized cost (as per IAS 39) is immaterial, the issue does not impact the level of Group's capital but only disclosures for loans and receivables. Credit exposures classified for measurement at fair value are presented in the statement of financial position in the item 'Loans and other receivables to customers' and their value is shown in the explanatory notes.

- The minority strategic capital investments of the Group are measured at acquisition price as per IAS 39. The Group took an irrevocable decision to classify the said capital investments for measurement through other comprehensive income as per IFRS 9. The relevant IFRS 9 guidelines limit the possibility of application of the measurement of those assets as at acquisition price. Recognition of estimated fair value of those financial assets as at the date of initial application of IFRS 9 led to increasing the revaluation reserve at PLN 62.2 million (without tax effect). Adjustment no. 2 in table with the summary of the impact below in section 4.2.4).
- Before application of IFRS 9 principles, some portfolios of assets were reclassified between the financial categories as per IAS 39 guidelines. Reclassified assets included the items covered with the fair value hedge accounting wherefor hedge links were invalidated in consequence of reclassification. By applying IFRS 9 principles retrospectively, unamortised recording adjustments made under IAS 39 were removed from the balance sheet. As at 1 Jan 2018, the adjustment had a negative impact on the equity of PLN 77.6 million (without tax effect, Adjustment no. 3 in table with the summary of the impact below in section 4.2.4).

4.2.2. Hedge accounting

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

4.2.3. Impairment

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

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

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

Approach based on 3 stages

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

- **Stage 1:** measurement of the impairment loss being the amount of 12-month expected credit losses versus the financial assets for which no significant credit risk increase was reported (probability of default – PD) from the initial recognition date. Impairment loss in Stage 1 is calculated based on the 12-month expected credit loss, reflecting the expected loss for assets, for which a specific probability of default may materialise within maximum 12 months.
- **Stage 2:** measurement of the impairment loss being the amount of the lifetime expected credit losses versus the financial assets for which a significant credit risk increase was reported from the initial recognition date. Impairment loss in Stage 2 is calculated based on the lifetime expected credit loss, reflecting the expected loss for assets for which it is probable that they will default in the remaining maturity period.
- **Stage 3:** measurement of the impairment loss being the amount of the lifetime expected credit losses versus the impaired assets, i.e. in default (PD+100%). Impairment loss in Stage 3 is calculated based on the lifetime expected credit loss.

Stages are defined for each single financial assets item.

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

Determining significant increase in credit risk

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

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

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

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

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

Macroeconomic scenarios

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

Measurement

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

1. removing prudential conservatism imposed on parameters (such as e.g. the minimum acceptable PD) and
2. including expected changes in parameters in the future (PD, LGD, EAD) in the point-in-time approach depending on the changes of macroeconomic indicators, i.e. unemployment rate, GDP growth and
3. analysis of credit risk in the 12-month horizon or in the lifetime.

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

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

Impact of changes in the impairment principles

Following the application of new IFRS 9 requirements, the Group expects that credit risk impairment loss will go up by PLN 286,3 million (without the tax effect and except for adjustment about gross carrying amount described below), including around PLN 16.9 million which concerns off-balance sheet items (Adjustment No. 1 in the table with impact below in section 4.2.4).

Gross carrying amount

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

4.2.4. Summary of the IFRS 9 implementation impact on the statement of financial position as at 1 Jan 2018 versus IAS 39 data as at 31 Dec 2017

The table below shows the a material impact of elements described above on the consolidated capital of the Group plus separated elements:

- adjustment 1 - IFRS 9 impairment losses
- adjustment 2 - Measurement of equity interests
- adjustment 3 - Elimination of the impact of historical reclassification of financial instruments
- the amount presented in the column 'reclassification in assets structure' concerns the changes in presentation of equity instruments

	31 Dec 2017 IAS 39	Adjustmen t 1	Adjustmen t 2	Adjustmen t 3	Reclassification in assets structure	Impact total	IFRS 9 1 Jan 2018
Assets							
Cash in hand and balances with the Central Bank	2 815.2					-	2 815.2
Loans and other receivables to other banks	2 234.5					-	2 234.5
Financial assets at fair value through profit or loss	530.1					-	530.1
Valuation of derivatives	784.7					-	784.7
Derivative hedge instruments	967.2					-	967.2
Investments	25 907.4	-	62.2	-74.9	8.0	-4.7	25 902.7
Loans and other receivables to customers	91 108.1	-269.4	-	-1.7	-	-271.1	90 837.0
Receivables from customers under repo transactions	19.8					-	19.8
Investments in associates	1.3					-	1.3
Non-financial assets	980.0					-	980.0
Assets held for sale	11.1					-	11.1
Tax assets	257.1	50.0	-11.8	14.6	-	52.8	309.9
Other assets	417.2	-	-	-	-8.0	-8.0	409.2
Total Assets	126 013.9	-219.4	50.4	-62.0	0.0	-231.0	125 782.9
Liabilities							
Liabilities to other banks	4 109.0					-	4 109.0
Financial liabilities at fair value through profit or loss	735.1					-	735.1
Valuation of derivatives	979.2					-	979.2
Derivative hedge instruments	699.2					-	699.2
Liabilities to customers	104 503.3					-	104 503.3
Liabilities under issue of debt securities	300.3					-	300.3
Subordinated liabilities	626.9					-	626.9
Provisions	91.9	16.9	-	-	-	16.9	108.8
Tax liabilities	232.9					-	232.9
Other liabilities	1 941.3					-	1 941.3
Total liabilities	114 219.1	16.9	0.0	0.0	0.0	16.9	114 236.0
Equity							
Share capital	130.1	-	-	-	-	-	130.1
Supplementary capital – sale of shares over nominal value	956.3	-	-	-	-	-	956.3
Cumulative other comprehensive income	493.2	-	50.4	-40.3	-9.0	1.1	494.3
Retained earnings	10 215.2	-236.3	-	-21.7	9.0	-249.0	9 966.2
Total equity	11 794.8	-236.3	50.4	-62.0	0.0	-247.9	11 546.9
Total equity and liabilities	126 013.9	-219.4	50.4	-62.0	0.0	-231.0	125 782.9

Financial assets and liabilities classification and measurement

Item in statement of financial position	measurement according to IAS 39	Current value as at 31 Dec 2017 [IAS 39]	Current value as at 1 Jan 2018 [IFRS 9]	measurement according to IFRS 9	Item in statement of financial position
Assets			Assets		
Cash in hand and balances with the Central Bank	amortised cost	2 815.2	2 815.2	amortised cost	Cash in hand and balances with the Central Bank
Loans and other receivables to other banks	amortised cost	2 234.5	2 234.5	amortised cost	Loans and other receivables to other banks
Financial assets at fair value through profit or loss	FVtPL	530.1	530.1	FVtPL (mandatory)	Financial assets held for trading
Valuation of derivatives	FVtPL	784.7	784.7	FVtPL (mandatory)	Financial assets held for trading
Derivative hedge instruments	FVtPL	967.2	967.2	FVtPL (mandatory)	Derivative hedge instruments
Investments, of which:					
available-for-sale	FVtOCI	17 556.9	17 627.1	FVtOCI	Investment securities
held-to-maturity	amortised cost	8 350.5	8 275.6	amortised cost	Investment securities
Loans and other receivables to customers, of which:					
loans and other receivables	amortised cost	84 992.0	84 443.9	amortised cost	Loans and other receivables to customers
loans and other receivables failed SPPI test	amortised cost	0.0	278.7	FVtPL (mandatory)	Loans and other receivables to customers
corporate and municipal securities	amortised cost	2 532.2	2 532.2	amortised cost	Loans and other receivables to customers
treasury bonds in EUR	amortised cost	3 564.1	3 562.4	amortised cost	Investment securities
Receivables from customers under repo transactions	amortised cost	19.8	19.8	amortised cost	Loans and other receivables to customers
Other assets	amortised cost	312.0	304.0	amortised cost	Other assets
Total		124 659.2	124 375.4		
Other assets not covered by IFRS 9		1 354.7	1 407.5		
Total assets		126 013.9	125 782.9		
Liabilities			Liabilities		
Liabilities to other banks	amortised cost	4 109.0	4 109.0	amortised cost	Liabilities to other banks
Financial liabilities at fair value through profit or loss	FVtPL	735.1	735.1	FVtPL (mandatory)	Financial liabilities at fair value through profit or loss
Valuation of derivatives	FVtPL	979.2	979.2	FVtPL (mandatory)	Financial liabilities at fair value through profit or loss
Derivative hedge instruments	FVtPL	699.2	699.2	FVtPL (mandatory)	Derivative hedge instruments
Liabilities to customers	amortised cost	104 503.3	104 503.3	amortised cost	Liabilities to customers
Liabilities under issue of debt securities	amortised cost	300.3	300.3	amortised cost	Liabilities under issue of debt securities
Subordinated liabilities	amortised cost	626.9	626.9	amortised cost	Subordinated liabilities
Total		111 953.0	111 953.0		
Other liabilities not covered by IFRS 9*		2 266.1	2 283.0		
Total liabilities		114 219.1	114 236.0		

*) in this item the provision for off-balance sheet liabilities, which was changed due to IFRS 9 implementation is included

4.2.5. Impact on the capital requirements

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

On 12 Dec 2017, Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the

introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State was published. The regulation is to apply a progressive transition period which would mitigate the impact of a new model of IFRS 9 provisions by reversing a part of a negative impact of IFRS 9 on the Tier 1 capital.

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

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

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

The estimated as at 1 Jan 2018 total impact of application of new IFRS 9 principles on Tier 1 ratio (in bp) is approximately 33 bp without a transition period applied. Considering the transition periods, the impact as at 1 Jan 2018 is 3 bp.

4.3. Going-concern

These interim condensed consolidated financial statements were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date. As of the date of approving these statements, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Capital Group is endangered.

4.4. Discontinued operations

No material operations were discontinued during the I H 2018 and I H 2017.

4.5. Financial statements scope and currency

These interim condensed consolidated financial statements of the Group for the I Q 2018 comprise the Bank and its subsidiaries and associates. These interim condensed consolidated financial statements have been developed in Polish zloties ('PLN'). Unless provided for otherwise, all values were given rounded up to PLN million. Therefore, some totals and individual notes can be inconsistent in mathematical terms.

4.6. Comparative data

The comparative data cover the period from 1 Jan 2017 to 30 Jun 2017 for the interim condensed consolidated income statement; the interim condensed consolidated statement of comprehensive income and the interim condensed consolidated cash flow statement, additionally for the period from 1 Jan 2017 to 31 Dec 2017 for the interim condensed consolidated statement of changes in equity; and in the case of the interim condensed consolidated statement of financial position data as of 31 Mar 2018, 31 Dec 2017, 30 Jun 2017 and 31 Dec 2016. In connection with the implementation from 1 Jan 2018 of IFRS 9 replacing IAS 39, the Group took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 Jan 2018, without adjusting comparative periods.

5. Material accounting principles

The detailed accounting principles were presented in the Annual Consolidated Financial Statements of the ING Bank Śląski S.A. Group for the Period Started 1 Jan 2017 and Ended 31 Dec 2017, published on 9 Mar 2018 and available on the website of ING Bank Śląski S.A. (www.ingbank.pl).

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

The application of the IFRS 9 principles had an impact on the use of the professional management judgement and the estimations applied in the following areas:

- classification of financial assets,
- loss allowance for expected credit losses, in particular for:
 - the application of the future-orientated approach taking into account the use of a few macroeconomic scenarios,
 - classification to stages from the perspective of the credit standing assessment and criteria of identification of a material credit risk increase,
 - objective evidence of default resulting in credit losses.

Detailed information on the applied approach has been presented below in individual paragraphs describing the accounting principles applied by the Bank.

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

Classification and measurement of financial assets

Principles applicable before 1 January 2018 (IAS 39)

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

Financial assets and liabilities carried at fair value through profit or loss

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

- are classified as held for trading. A financial assets item or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or is a part of a portfolio of identified financial instruments that are managed together to generate short-term profits. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments),
- upon initial recognition they are classified by the Bank as carried at fair value through profit or loss. Such classification can be made only if:
 - the classified financial assets item or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden;
 - usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (the so-called booking mismatch due to various methods of assets and liabilities measurement or various recognition of gains and losses attributable to them);

- the group of financial assets or liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

Investment held to maturity

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

The above mentioned sanction is not applied:

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

Loans and receivables

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

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

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

Financial assets available for sale

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

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank categorises the financial assets as follows:

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

Financial assets measured at amortised cost

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

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

Debt financial assets measured at fair value through other comprehensive income

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

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

Equity instruments measured at fair value through other comprehensive income

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

Financial assets measured at fair value through profit or loss

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

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

Business model assessment

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

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

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

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

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

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

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

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

The Bank recognises that:

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

Cash flows characteristics assessment

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

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

The assessment serves confirmation whether the realised cash flows are solely payments of principal and interest due on the principal outstanding. The Bank verifies the contractual provisions which

have impact both at realisation of cash flows and the amounts of cash flows under specific financial assets.

The following terms and conditions are verified in particular:

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

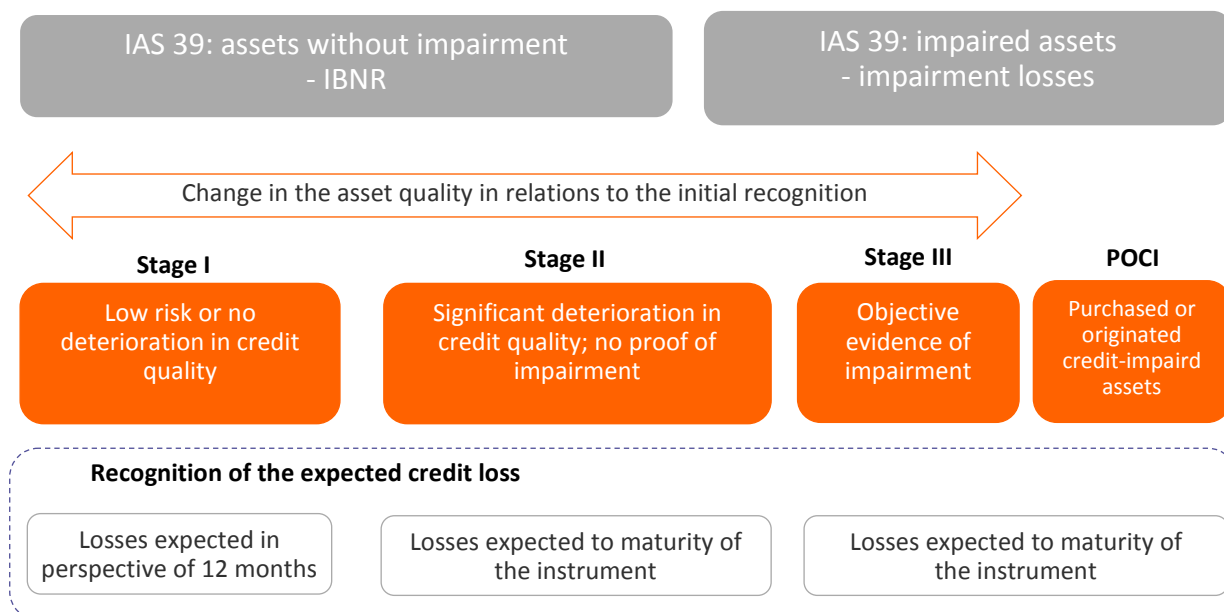
The conditions modifying the change of time value of money are assessed based on the qualitative and qualitative analysis.

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

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

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

Impairment of debt financial assets



Principles applicable before 1 January 2018 (IAS 39)

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

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

Principles applicable as of 1 January 2018 (IFRS 9)

Approach based on 3 stages

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

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

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

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

Principles applicable as of 1 January 2018 (IFRS 9)

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

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

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

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

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

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

Impairment is evidenced by:

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

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

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

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

For corporate credit exposures, the impairment analysis (test) result determines whether or not impairment is identified. The test is run upon identifying an impairment trigger. Impairment triggers for corporate credit exposures include:

- danger of bankruptcy or another financial reorganisation has been reported, both of which may lead to a failure to repay the financial asset or to delayed repayment,

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +45 DPD,
- The Bank assesses that the client will face difficulties in repaying the debt, that is the client is undergoing material financial problems which may lead to a failure to repay the financial asset or to delayed repayment,
- significant breach of contractual conditions by the client which may adversely impact on future cash flows from a given financial assets item,
- disappearance of an active market for a given financial assets item held by the Bank due to the financial problems of the issuer/client, which may have a negative influence on future cash flows from a given financial assets item,
- credit debt was restructured for non-commercial reasons, that is due to client's material financial problems. This is the case where for the aforementioned reasons the client has requested forbearance from the Bank or the Bank has already applied forbearance towards the Client which would not have been applied had the client not sustained financial problems (forbearance included). These can be in particular such situations as: lending tenor extension, reduction of credit instalments, suspension of principal repayment or interest payment,
- client's rating has deteriorated considerably,
- major conflict among shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no suitable succession, random incident leading to destruction of debtor's key assets.

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

The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients. For each credit exposure impairment condition identified for strategic and network corporate clients, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows. Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the need to carry out the impairment analysis (test).

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

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

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

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

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)**Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for financial assets measured at fair value through other comprehensive income**

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

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

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- breach of contractual terms and conditions, specifically with regard to default or delay in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,
- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset, or
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Bank books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Impairment measurement**Principles applicable before 1 January 2018 (IAS 39)**

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

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

For the purposes of calculation of the provision for the balance sheet and off-balance sheet exposures shown as EAD, the probability of default (PD) method (modified PD parameter) is applied, among others. The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and related loss identification periods as well as the historical loss adjustments made using the currently available data (in line with the Point-in-Time philosophy). Interest and penalty payments are recognised using the cash-basis accounting method and they do not form the basis for formation of impairment losses.

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

$$\text{Impairment loss} = \text{PD}_{\text{LIP}} \times (\text{EAD} + \text{EI}) \times \text{LGD}$$

Where:

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

The PD parameter is 100% for impaired exposures (INSFA).

The LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired. Moreover, for separated portfolios that comprise exposures defaulted for at least 2 or 3 years (depending on the segment) the LGD parameter is also 100%.

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

This approach allows specifically for identification of:

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

Principles applicable as of 1 January 2018 (IFRS 9)

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

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

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

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

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

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

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

where:

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

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

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

$$LEL_{\text{etap 3}} = EAD_{\text{in default}}^{PiT} \times LGD_{\text{in default}}^{PiT}$$

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

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

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

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

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

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

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

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

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

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

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

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

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the income statement for the period.

If in a consecutive period, the amount of loss due to the impairment decreases as a result of an event that took place after the impairment (e.g. improved credit capacity assessment of the debtor), the previous impairment loss is reversed through the income statement by a proper adjustment. With regard to strategic clients and corporate clients of the sales network the Bank determined the events

whereunder it is possible to reverse credit exposure impairment (all of the below mentioned conditions have to be met jointly):

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

Purchased or originated credit-impaired financial assets

Principles applicable before 1 January 2018 (IAS 39)

No such category of assets.

Principles applicable as of 1 January 2018 (IFRS 9)

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

Such assets can be recognised as a result of:

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

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

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

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

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

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement following the five-step approach:

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

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

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

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

6. Comparability of financial data

When compared with the interim consolidated financial statements for previous periods, in the Interim Condensed Consolidated Financial Statements for the period from 1 January 2018 to 30 Jun 2018, the Group amended the manner of presentation of individual items of the consolidated income statement and consolidated statement of financial position. The amendments were made first and foremost in consequence of the implementation of IFRS 9 which superseded IAS 39 as of 1 January 2018. The Group took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 January 2018, without adjusting comparative periods.

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

Changes to IFRS 9 implementation-resultant

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

- isolation of the item 'purchase/disposal of equity instruments measured at fair value through other comprehensive income' in investment activities,
- reclassification of changes in treasury bonds in euro measured at amortised cost from operating activities (the item 'change in loans and other receivables from customers') to investment activities (the item 'purchase/disposal of instruments measured at amortised cost').

Other changes

 ➤ Changes to the income statement:

- a) changed manner of presenting costs under marketing fees (cashback); in previous periods these costs were recognised in *Commission income/Commission costs*; at present the Group presents them in *General and administrative expenses*,
- b) changed manner of presenting result on write-offs concerning unsettled valuation of derivative transactions between *Impairment losses for financial assets and provisions for off-balance-sheet liabilities* and *Net income on financial instruments measured at fair value through profit or loss and FX result*.
- c) changed manner of presenting interest on securities and derivatives held for trading; in the previous periods they were presented in *Interest income/expenses*, currently in the *Net income on financial instruments at fair value through profit or loss and FX result*,
- d) changed manner of presenting the amortisation of fair value adjustment for exposures, which were excluded from fair value hedge strategy; in the previous periods it was presented in *Net income on hedge accounting*, currently in *Interest income/expenses*.

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

1 HY 2017 the period from 1 Jan 2017 to 30 Jun 2017						
	in Consolidated Financial Statements for I H 2017 (approved data)	change a)	change b)	change c)	change d)	in Consolidated Financial Statements for I H 2018 (comparable data)
Interest income	2 085.3			-37.1	-3.3	2 044.9
Interest expenses	420.5			-0.9		419.6
Net interest income	1 664.8	0.0	0.0	-36.2	-3.3	1 625.3
Commission income	650.8					650.8
Commission expenses	69.9	-3.0				66.9
Net commission income	580.9	3.0	0.0	0.0	0.0	583.9
Net income on financial instruments at fair value through profit or loss and FX result	29.1		-1.0	36.2		64.3
Net income on hedge accounting	7.0				3.3	10.3
Net income on basic activities	2 324.9	3.0	-1.0	0.0	0.0	2 326.9
General and administrative expenses	1 074.7	3.0				1 077.7
Impairment losses and provisions for off-balance sheet liabilities	200.5		-1.0			199.5
Gross profit (loss)	889.9	0.00	0.00	0.00	0.00	889.9
Net profit (loss)	660.6	0.00	0.00	0.00	0.00	660.6

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

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

	As of 31 Dec 2017	As of 31 Jun 2017	As of 31 Dec 2016		As of 31 Dec 2017	As of 30 Jun 2017	As of 31 Dec 2016
	in Consolidate d Financial Statements for 2017	in Consolidate d Financial Statements for I H 2017	in Consolidate d Financial Statements for 2016	changes a) - h)	in Consolidated Financial Statements for I H 2018		
	(approved data)				(comparable data)		
Assets							
Financial assets at fair value through profit or loss	530.1	2 676.6	2 826.8	Financial assets held for trading	1 314.8	3 706.3	3 943.9
Valuation of derivatives	784.7	1 029.7	1 117.1	investment securities	25 907.4	24 427.6	25 721.3
Investments	25 907.4	24 427.6	25 721.3	Loans and other receivables to customers	91 108.1	86 922.3	81 979.5
Loans and other receivables to customers	91 088.3	86 902.3	81 979.5	Receivables from customers under repo transactions	19.8	20.0	0.0
Receivables from customers under repo transactions	19.8	20.0	0.0	Investment property	0.0	0.3	0.3
Non-financial assets	980.0	985.3	1 004.5	Property, plant and equipment	549.0	564.4	578.0
				Intangible assets	431.0	420.6	426.2
Tax assets	257.1	228.5	237.5	Current tax assets	0.0	0.0	0.3
				Deferred tax assets	257.1	228.5	237.2
Total assets	126 013.9	120 197.6	117 477.7		126 013.9	120 197.6	117 477.7
Liabilities							
Financial liabilities at fair value through profit or loss	735.1	108.6	474.8	Financial liabilities at fair value through profit or loss	1 714.3	1 154.3	1 590.8
Valuation of derivatives	979.2	1 045.7	1 116.0	Liabilities to customers	104 503.3	97 708.8	95 825.4
Liabilities to customers	104 503.3	97 708.8	95 825.4	Provisions	100.0	83.0	73.8
Liabilities to customers under repo transactions	0.0	0.0	0.0	Tax liabilities	232.9	121.4	121.3
Provisions	100.0	83.0	73.8	Other liabilities	1 933.2	1 318.9	1 346.8
Tax liabilities	232.9	121.4	121.3				
Other liabilities	1 933.2	1 318.9	1 346.8	Total liabilities	114 219.1	109 043.5	107 000.5
Total liabilities	114 219.1	109 043.5	107 000.5		114 219.1	109 043.5	107 000.5
Equity							
Initial capital	130.1	130.1	130.1	Share capital	130.1	130.1	130.1
Revaluation reserve	493.2	596.2	577.5	Cumulative other comprehensive income	493.2	596.2	577.5
Total equity	11 794.8	11 154.1	10 477.2		11 794.8	11 154.1	10 477.2
Total equity and liabilities	126 013.9	120 197.6	117 477.7		126 013.9	120 197.6	117 477.7

7. Supplementary notes to interim condensed consolidated financial statements

7.1. Net interest income

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 - non- transformed data]	[IAS 39 - non- transformed data]
Interest income, including:	1 150.2	2 248.6	1 040.6	2 044.9
Interest income on assets measured at amortised cost, including:	1 148.8	2 245.9	n/a	n/a
Interest on loans and receivables to other banks measured at amortised cost	7.9	17.4	13.7	26.2
Interest on loans and receivables to customers measured at amortised cost	966.7	1 885.2	866.5	1 692.8
Interest on securities measured at amortised cost	74.7	144.6	n/a	n/a
Interest on securities measured at fair value through other comprehensive income	99.5	198.7	n/a	n/a
Interest on financial assets available-for-sale	n/a	n/a	108.3	229.5
Interest on financial assets held-to-maturity	n/a	n/a	52.1	96.4
Other interest income, including:	1.4	2.7	n/a	n/a
Interest on loans and receivables to other banks measured at fair value through profit or loss	1.4	2.7	n/a	n/a
Interest expense, including:	230.2	445.3	210.1	419.6
Interest on deposits from other banks	14.5	24.7	16.3	33.2
Interest on deposits from customers	210.6	410.7	185.0	368.8
Interest on issue of debt securities	1.9	3.8	5.7	11.4
Interest on subordinated liabilities	3.2	6.1	3.1	6.2
Net interest income	920.0	1 803.3	830.5	1 625.3

7.2. Net commission income

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
Commission income, including:	381.5	732.3	327.6	650.8
transaction margin on currency exchange transactions	91.6	176.0	80.9	161.5
account maintenance fees	72.6	142.8	70.2	136.4
lending commissions	74.4	151.8	64.5	131.6
payment and credit cards fees	45.8	71.1	27.2	58.9
participation units distribution fees	26.0	51.8	24.6	48.1
insurance product offering commissions	22.2	43.1	18.1	32.2
factoring and lease agreements commissions	15.3	28.1	11.8	22.7
foreign commercial business	8.6	16.7	7.2	13.9
fiduciary and custodian fees	7.1	14.4	6.9	14.5
brokerage activity fees	5.0	10.5	5.9	13.3
other	12.9	26.0	10.3	17.7
Total commission expenses	41.9	74.6	34.5	66.9
Net commission income	339.6	657.7	293.1	583.9

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

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
FX result and net income on interest rate derivatives, including:	7.7	16.0	17.5	41.3
FX result	84.9	104.0	38.8	-3.0
currency derivatives	-77.2	-88.0	-21.3	44.3
Net income on interest rate derivatives	14.1	15.5	-1.8	1.4
Net income on debt instruments held for trading	2.5	10.8	11.9	21.6
Result on measurement of loans to customers which are measured at fair value through profit or loss	0.1	0.1	n/a	n/a
Net income on financial instruments at fair value through profit or loss and FX result	24.4	42.4	27.6	64.3

7.4. Net income on the sale of securities and dividend income / Net income on investments

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
Net income on the sale of securities	11.9	44.9	n/a	n/a
measured at amortised cost	-0.1	0.7	n/a	n/a
measured at fair value through other comprehensive income	12.0	44.2	n/a	n/a
Net income on investments, including:	n/a	n/a	26.6	36.7
the sale of debt instruments	n/a	n/a	14.7	24.8
the sale of equity instruments	n/a	n/a	11.9	11.9
Dividend income	6.3	6.3	6.2	6.3
Total	18.2	51.2	32.8	43.0

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

7.5. Net income on hedge accounting

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
Fair value hedge accounting for securities:	2.8	5.1	8.0	9.6
valuation of the hedged transaction	-14.9	38.4	-19.0	-44.9
valuation of the hedging transaction	17.7	-33.3	27.0	54.5
Cash flow hedge accounting:	-0.8	-0.9	0.3	0.7
ineffectiveness under cash flow hedges	-0.8	-0.9	0.3	0.7
Net income on hedge accounting	2.0	4.2	8.3	10.3

7.6. General and administrative expenses

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
Personnel expenses	286.0	561.4	260.6	511.6
Other general and administrative expenses, including:	269.0	621.9	251.5	566.1
cost of marketing and promotion	24.6	54.1	20.8	44.2
depreciation and amortisation	44.8	88.5	44.8	90.9
Bank Guarantee Fund payments	27.0	111.3	18.7	107.8
others	172.6	368.0	167.2	323.2
Total	555.0	1 183.3	512.1	1 077.7

7.6.1. Headcount

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

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
FTEs	8 026.3	8 033.0	7 979.3	7 932.8
Individuals	8 075	8 082	8 032	7 980

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

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
FTEs	7 629.8	7 655.4	7 612.4	7 580.2
Individuals	7 676	7 701	7 661	7 624

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

	II Q 2018 the period from 01 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 01 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 - non- transformed data]	[IAS 39 - non- transformed data]
corporate banking	71.7	129.5	79.8	113.5
retail banking	102.0	139.0	43.2	86.0
Total	173.7	268.5	123.0	199.5

7.8. Loans and other receivables to other banks

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 - non-transformed data]	
Current accounts	284.4	1 066.5	331.9	312.6
Interbank deposits	257.0	185.0	997.7	96.6
Loans and advances	50.1	353.4	451.6	192.3
Placed call deposits	360.3	412.5	453.5	448.9
Total (gross)	951.8	2 017.4	2 234.7	1 050.4
Impairment losses, including:				
concerning loans and advances	0.0	0.0	-0.2	-0.2
Total (net)	951.8	2 017.4	2 234.5	1 050.2

7.9. Financial assets held for trading

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Valuation of derivatives	677.1	647.7	784.7	1 029.7
Debt securities, including:	1 356.9	596.0	469.6	2 676.6
Treasury bonds	1 335.3	590.5	422.7	2 662.8
European Investment Bank bonds	21.6	5.5	46.9	13.8
Transactions with the buy-back commitment	0.0	19.9	60.5	0.0
Total	2 034.0	1 263.6	1 314.8	3 706.3

7.10. Investment securities

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 - non-transformed data]	
Measured at fair value through other comprehensive income, including:	16 532.7	17 011.2	n/a	n/a
treasury bonds	15 212.8	15 713.3	n/a	n/a
European Investment Bank bonds	805.3	803.8	n/a	n/a
Austrian government bonds	437.2	418.7	n/a	n/a
equity instruments	77.4	75.4	n/a	n/a
Measured at amortised cost, including:	12 144.3	12 124.5	n/a	n/a
treasury bonds	5 934.7	5 943.6	n/a	n/a
treasury bonds in EUR	3 092.8	3 361.7	n/a	n/a
BGK bonds	1 519.7	1 499.2	n/a	n/a
European Investment Bank bonds	1 597.1	1 320.0	n/a	n/a
Available-for-sale, including:	n/a	n/a	17 556.9	17 337.4
treasury bonds	n/a	n/a	16 347.3	16 284.6
Austrian government bonds	n/a	n/a	415.0	414.9
French government bonds	n/a	n/a	0.0	0.0
European Investment Bank bonds	n/a	n/a	789.3	632.5
equity instruments	n/a	n/a	5.3	5.4
Held to maturity, including:	n/a	n/a	8 350.5	7 090.2
treasury bonds	n/a	n/a	6 796.3	5 467.1
BGK bonds	n/a	n/a	1 554.2	1 623.1
Total	28 677.0	29 135.7	25 907.4	24 427.6

7.11. Loans and other receivables to customers

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Measured at amortised cost	94 475.3	90 028.2	91 108.1	86 922.3
Measured at fair value through profit or loss	249.0	262.3	-	-
Total (net)	94 724.3	90 290.5	91 108.1	86 922.3

Loans and other receivables measured at amortised cost

	as of 30 Jun 2018			as of 31 Mar 2018			as of 31 Dec 2017			as of 30 Jun 2017		
	[IFRS 9]			[IFRS 9]			[IAS 39 - non-transformed data]					
	gross	impairment for expected losses	net	gross	impairment for expected losses	net	gross	impairment for expected losses	net	gross	impairment for expected losses	net
Loans and other receivables measured at amortised cost, including:	96 711.3	-2 236.0	94 475.3	92 114.4	-2 086.2	90 028.2	92 775.6	-1 667.5	91 108.1	88 458.2	-1 535.9	86 922.3
Portfolio of loans, including:	95 902.3	-2 236.0	93 666.3	91 367.2	-2 086.2	89 281.0	88 483.8	-1 666.8	86 817.0	84 277.2	-1 535.2	82 742.0
Households	44 811.2	-1 103.8	43 707.4	42 477.4	-1 004.4	41 473.0	39 755.4	-695.6	39 059.8	36 236.1	-659.4	35 576.7
Business entities	48 533.7	-1 131.6	47 402.1	46 239.5	-1 080.3	45 159.2	45 879.9	-970.0	44 909.9	44 806.6	-874.5	43 932.1
The government and self-government institutions' sector	2 557.4	-0.6	2 556.8	2 650.3	-1.5	2 648.8	2 848.5	-1.2	2 847.3	3 234.5	-1.3	3 233.2
Total, including:	95 902.3	-2 236.0	93 666.3	91 367.2	-2 086.2	89 281.0	88 483.8	-1 666.8	86 817.0	84 277.2	-1 535.2	82 742.0
Corporate banking segment	54 179.2	-1 211.6	52 967.6	51 942.5	-1 157.5	50 785.0	50 974.8	-1 039.0	49 935.8	49 955.9	-933.6	49 022.3
loans in the current account	10 393.2	-406.2	9 987.0	10 622.5	-390.4	10 232.1	9 230.7	-310.6	8 920.1	9 538.6	-287.5	9 251.1
term loans and advances	30 441.6	-740.2	29 701.4	28 311.8	-702.5	27 609.3	28 673.8	-650.6	28 023.2	27 919.2	-582.2	27 337.0
leasing receivables	6 481.1	-42.6	6 438.5	6 116.6	-42.3	6 074.3	5 902.3	-30.9	5 871.4	5 549.6	-26.7	5 522.9
factoring receivables	4 773.9	-22.3	4 751.6	4 583.8	-21.2	4 562.6	4 619.8	-30.8	4 589.0	4 643.2	-21.0	4 622.2
corporate and municipal securities	2 089.4	-0.3	2 089.1	2 307.8	-1.1	2 306.7	2 548.2	-16.1	2 532.1	2 305.3	-16.2	2 289.1
Retail banking segment	41 723.1	-1 024.4	40 698.7	39 424.7	-928.7	38 496.0	37 509.0	-627.8	36 881.2	34 321.3	-601.6	33 719.7
mortgages	30 540.9	-245.5	30 295.4	28 892.1	-231.0	28 661.1	27 539.8	-170.4	27 369.4	25 179.6	-181.2	24 998.4
loans in the current account	1 403.4	-104.0	1 299.4	1 394.2	-98.8	1 295.4	1 315.0	-75.2	1 239.8	1 328.1	-83.3	1 244.8
leasing receivables	811.2	-3.4	807.8	753.0	-2.3	750.7	690.7	-2.0	688.7	576.9	-1.2	575.7
other loans and advances	8 967.6	-671.5	8 296.1	8 385.4	-596.6	7 788.8	7 963.5	-380.2	7 583.3	7 236.7	-335.9	6 900.8
Other receivables, including:	809.0	0.0	809.0	747.2	0.0	747.2	4 291.8	-0.7	4 291.1	4 181.0	-0.7	4 180.3
Eurobonds (T-bonds)*	0.0	0.0	0.0	0.0	0.0	0.0	3 564.8	-0.7	3 564.1	3 589.8	-0.7	3 589.1
complex call deposits	651.7	0.0	651.7	603.0	0.0	603.0	540.1	0.0	540.1	483.4	0.0	483.4
receivables under repo transactions	0.0	0.0	0.0	0.0	0.0	0.0	19.8	0.0	19.8	20.0	0.0	20.0
other receivables	157.3	0.0	157.3	144.2	0.0	144.2	167.1	0.0	167.1	87.8	0.0	87.8

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

Quality of loan portfolio

	as of 30 Jun 2018			as of 31 Mar 2018			as of 31 Dec 2017			as of 30 Jun 2017				
	[IFRS 9]			[IFRS 9]			[IAS 39 - non-transformed data]			[IAS 39 - non-transformed data]				
	gross	impairment for expected losses	net	gross	impairment for expected losses	net	gross	impairment	net	gross	impairment	net		
Corporate banking segment	54 179.2	-1 211.6	52 967.6	51 942.5	-1 157.5	50 785.0								
assets in stage 1	47 295.4	-66.4	47 229.0	45 083.8	-53.2	45 037.8	unimpaired portfolio	49 178.0	-78.3	49 099.7	48 283.9	-71.8	48 212.1	
assets in stage 2	4 870.4	-69.2	4 801.2	4 904.2	-58.4	4 839.7		impaired portfolio	1 796.8	-960.7	836.1	1 672.0	-861.8	810.2
assets in stage 3	2 013.4	-1 076.0	937.4	1 954.5	-1 045.9	907.5								
Retail banking segment	41 723.1	-1 024.4	40 698.7	39 424.7	-928.7	38 496.0								
assets in stage 1	35 539.4	-67.7	35 471.6	33 565.2	-57.4	33 507.8	unimpaired portfolio	36 809.0	-163.8	36 645.2	33 687.5	-155.6	33 531.9	
assets in stage 2	5 324.2	-314.4	5 009.8	5 072.9	-285.0	4 787.9		impaired portfolio	700.0	-464.0	236.0	633.8	-446.0	187.8
assets in stage 3	859.5	-642.3	217.3	786.6	-586.3	200.3								
Total	95 902.3	-2 236.0	93 666.3	91 367.2	-2 086.2	89 281.0		88 483.8	-1 666.8	86 817.0	84 277.2	-1 535.2	82 742.0	

Additionally, the Group identifies POCI financial assets whose fair value as at 1 Jan 2018 and carrying amount as at 30 Jun 2018 are 0. This group covers exposures under impaired receivables purchased in connection with the takeover of Bieszczadzka SKOK in 2017 and exposures that arisen due to restructuring resulting in re-recognition of the assets item in the statement of financial position.

Changes in impairment for expected losses

	I H 2018				I H 2017
	the period from 1 Jan 2018 to 30 Jun 2018				the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]				[IAS 39 - non-transformed data]
	Stage 1	Stage 2	Stage 3	Total	
Opening balance of impairment	242.1	0.0	1 424.7	1 666.8	1 467.0
The impact of changes to the accounting principles in connection with the implementation of IFRS 9	-119.2	349.9	149.2	379.9*	-
Impairment loss at the beginning of the period adjusted for changes to the accounting principles	122.9	349.9	1 573.9	2 046.7	1 467.0
Changes in the period, including:	11.1	33.7	144.5	189.3	68.9
impairments for granted loans during the period	42.2	0.0	0.0	42.2	n/a
transfer to stage 1	55.7	-52.5	-3.2	0.0	n/a
transfer to stage 2	-11.5	31.4	-19.9	0.0	n/a
transfer to stage 3	-0.9	-34.6	35.5	0.0	n/a
changed provisioning under expected losses	-76.2	89.2	218.2	231.2	n/a
derecognition from the balance sheet (write-downs, sale)	0.0	0.0	-95.1	-95.1	n/a
calculation and write-off of effective interest	0.0	0.0	8.2	8.2	n/a
establishment and release in the period	n/a	n/a	n/a	0.0	193.3
write-offs and decreases under sale of debt claims	n/a	n/a	n/a	0.0	-111.8
other	1.8	0.2	0.8	2.8	-12.6
Closing balance of impairment	134.0	383.6	1 718.4	2 236.0	1 535.9

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

7.12. Debt securities

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Debt securities held for trading	1 356.9	596.0	469.5	2 676.6
Debt securities measured at fair value through other comprehensive income	16 455.3	16 935.8	n/a	n/a
Debt securities measured at amortised cost in the investment securities portfolio	12 144.3	12 124.5	n/a	n/a
Debt securities measured at amortised cost in the loans and other receivables to customers portfolio	2 089.0	2 306.6	6 096.3	5 878.3
Debt securities available-for-sale	n/a	n/a	17 551.6	17 332.0
Debt securities held-to-maturity	n/a	n/a	8 350.5	7 090.2
Total	32 045.5	31 962.9	32 467.9	32 977.1

7.13. Liabilities to other banks

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Current accounts	226.5	329.9	257.7	410.1
Interbank deposits	724.0	1 309.9	102.3	784.1
Loans received *	3 273.0	3 160.2	3 064.9	3 061.1
Repo transactions	0.0	832.8	0.0	1 119.6
Received call deposits	624.7	627.3	665.7	722.2
Other liabilities	33.8	28.7	18.4	43.4
Total	4 882.0	6 288.8	4 109.0	6 140.5

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

7.14. Financial liabilities at fair value through profit or loss

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Valuation of derivatives	817.3	819.0	979.2	1 045.7
Book short position in trading securities	464.4	225.9	735.1	108.6
Total	1 281.7	1 044.9	1 714.3	1 154.3

7.15. Liabilities to customers

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Liabilities to customers, including:	109 174.1	104 662.1	104 503.3	97 708.8
Deposits, including:	107 467.7	102 782.3	102 849.1	95 954.1
Households	72 253.5	71 264.8	67 918.6	65 081.1
Business entities	33 446.9	29 779.0	33 156.6	29 117.4
The government and self-government institutions' sector	1 767.3	1 738.5	1 773.9	1 755.6
Total (gross), including:	107 467.7	102 782.3	102 849.1	95 954.1
Corporate banking segment	35 119.2	31 670.6	34 799.5	30 739.7
current deposits	23 521.5	20 619.8	23 605.0	21 513.2
savings deposits	9 157.1	8 826.7	8 553.8	7 599.1
term deposits	2 440.6	2 224.1	2 640.7	1 627.4
Retail banking segment	72 348.5	71 111.7	68 049.6	65 214.4
current deposits	16 013.5	15 061.2	14 792.0	13 169.9
savings deposits	53 784.8	53 369.8	49 935.0	49 179.5
term deposits	2 550.2	2 680.7	3 322.6	2 865.0
Other liabilities, including:	1 706.4	1 879.8	1 654.2	1 754.7
liabilities for cash security	299.0	317.8	274.0	311.2
received call deposits	67.4	8.1	1.4	27.1
repo liabilities	0.3	11.6	0.0	0.0
other liabilities	1 339.7	1 542.3	1 378.8	1 416.4

7.16. Provisions

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 non-transformed data]	
Provision for off-balance sheet liabilities	60.0	53.7	45.9	34.8
Provision for issues in dispute*	25.3	22.3	7.0	4.8
Provision for retirement benefits	39.8	39.6	39.0	29.9
Total	125.1	115.6	91.9	69.5

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

7.17. Fair value

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

As of 30 Jun 2018

	Level 1	Level 2	Level 3	TOTAL
Financial assets , w tym:	17 812.2	1 557.3	326.4	19 695.9
Financial assets held for trading, including:	1 356.9	677.1	0.0	2 034.0
valuation of derivatives	-	677.1	-	677.1
treasury bonds	1 335.3	-	-	1 335.3
European Investment Bank bonds	21.6	-	-	21.6
Securities measured at fair value through other comprehensive income, including:	16 455.3	0.0	77.4	16 532.7
treasury bonds	16 018.1	-	-	16 018.1
Austrian government bonds	437.2	-	-	437.2
equity instruments	-	-	77.4	77.4
Derivative hedge instruments	-	880.2	-	880.2
Loans and other liabilities measured at fair value through profit or loss	-	-	249.0	249.0
Financial liabilities, including:	464.4	1 495.0	0.0	1 959.4
Financial liabilities measured at fair value through profit or loss, including:	464.4	817.3	0.0	1 281.7
valuation of derivatives	-	817.3	-	817.3
book short position in trading securities	464.4	-	-	464.4
Derivative hedge instruments	-	677.7	-	677.7

In I H 2018, the measurement techniques for Stages 1 and 2 did not change. The financial assets classified to measurement stage 3 as at 1 Jan 2018 and 30 Jun 2018 include unquoted equity instruments and loans which did not meet the SPPI criterion as per IFRS 9. As at 31 Dec 2017, these loans were measured at amortised cost. Detailed information on the changes the Group implemented in connection with the introduction of IFRS 9 were presented in Chapter 4.2. *Impact of application of IFRS 9 Financial Instruments on the financial statements.*

Unquoted equity instruments in other companies are measured at fair value using the discounted dividends method. Future dividends were estimated based on mid-term profitability forecasts of those companies Management Boards. The discount rate is based on the cost of equity estimated using the Capital Asset Pricing Model (CAPM).

Methodology of the fair value measurement of the lending portfolio is based on the discounted cash flow method. In this method, the expected cash flows and individual payment dates discount factors are estimated for each measured contract; the value of the discounted cash flows as at the

measurement date is also determined. Pricing models are fed with business parameters for individual contracts and parameters observable by the market such as interest rate curves, liquidity cost and capital cost.

During I H 2018, the revaluation of the equity instruments classified to measurement stage 3 recognised in the comprehensive income totalled PLN 0.8 million. The measurement impact for the loans classified to measurement stage 3 totalled PLN 0.1 million and was recognised in the income statement in the item: 'Net income on financial instruments measured at fair value through profit or loss and FX result'. The change of the parameters used in the measurement did not have a material impact on the measurement as at 30 Jun 2018.

As of 31 Dec 2017

	Level 1	Level 2	Level 3	TOTAL
Financial assets , w tym:	18 021.2	1 812.4	5.3	19 838.9
Financial assets held for trading, including:	469.6	845.2	0.0	1 314.8
valuation of derivatives	-	784.7	-	784.7
treasury bonds	422.6	-	-	422.6
European Investment Bank bonds	47.0	-	-	47.0
repo transactions	-	60.5	-	60.5
Financial assets available-for sale, including:	17 551.6	0.0	5.3	17 556.9
treasury bonds	16 347.3	-	-	16 347.3
Austrian government bonds	415.0	-	-	415.0
European Investment Bank bonds	789.3	-	-	789.3
equity instruments	-	-	5.3	5.3
Derivative hedge instruments	-	967.2	-	967.2
Financial liabilities, including:	735.1	1 678.4	0.0	2 413.5
Financial liabilities measured at fair value through profit or loss, including:	735.1	979.2	0.0	1 714.3
valuation of derivatives	-	979.2	-	735.1
book short position in trading securities	735.1	-	-	979.2
Derivative hedge instruments	-	699.2	-	699.2

7.17.1. Financial assets and liabilities not carried at fair value in statement of financial position
As of 30 Jun 2018

	Carrying amount	Fair value			TOTAL
		Poziom 1	Poziom 2	Poziom 3	
Assets					
Cash in hand and balances with the Central Bank	1 781.5	-	1 781.5	-	1 781.5
Loans and receivables to other banks	951.8	-	951.8	-	951.8
Investments securities	12 144.3	-	12 209.1	-	12 209.1
Loans and receivables to customers	94 475.3	-	-	95 101.8	95 101.8
Investments in associates	1.3	-	-	1.3	1.3
Other assets	283.0	-	-	283.0	283.0
Liabilities					
Liabilities due to other banks	4 882.0	-	4 882.0	-	4 882.0
Liabilities due to customers	109 174.1	-	-	109 172.2	109 172.2
Liabilities under issue of debt securities	300.2	-	300.8	-	300.8
Subordinated liabilities	655.6	-	-	655.6	655.6

As of 31 Dec 2017

	Carrying amount	Fair value			TOTAL
		Poziom 1	Poziom 2	Poziom 3	
Assets					
Cash in hand and balances with the Central Bank	2 815.2	-	2 815.2	-	2 815.2
Loans and receivables to other banks	2 234.5	-	2 234.5	-	2 234.5
Investment securities	8 350.5	8 339.6	-	-	8 339.6
Loans and receivables to customers	91 108.1	-	3 570.4	87 209.8	90 780.2
Investments in associates	1.3	-	-	1.3	1.3
Other assets	312.0	-	-	312.0	312.0
Liabilities					
Liabilities due to other banks	4 109.0	-	4 109.0	-	4 109.0
Liabilities due to customers	104 503.3	-	-	104 506.9	104 506.9
Liabilities under issue of debt securities	300.3	-	301.1	-	301.1
Subordinated liabilities	626.9	-	-	626.9	626.9

7.18. Total capital ratio

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Own funds				
A. Own equity in the statement of financial position, including:	11 889.5	12 058.9	11 794.8	11 154.1
A.I. Own equity included in the own funds calculation	10 970.1	10 681.6	10 843.4	10 115.1
A.II. Own equity excluded from own funds calculation	919.4	1 377.3	951.4	1 039.0
B. Other elements of own funds (decreases and increases), including:	245.3	301.2	67.8	69.0
subordinated debt	654.2	631.3	625.6	633.9
goodwill and other intangible assets	-421.1	-418.3	-422.8	-416.4
AIRB shortfall/surplus of credit risk adjustments to expected losses	-210.5	-136.0	-134.9	-147.5
adjustment in the transitional period due to adaptation to IFRS 9 requirements	224.5	224.5	n/a	n/a
value adjustments due to the requirements for prudent valuation	-1.8	-0.3	-0.1	-1.0
Own funds taken into account in total capital ratio calculation (A.I. + B), including:	11 215.4	10 982.8	10 911.2	10 184.1
Core Tier I capital	10 561.2	10 351.5	10 299.1	9 564.9
Tier II capital	654.2	631.3	612.1	619.2
Risk weighted assets				
for credit risk	64 200.0	59 232.5	56 910.0	57 012.5
for operational risk	7 836.3	7 836.3	7 088.8	7 088.8
other	1 573.7	1 375.0	1 287.5	2 533.7
Total capital requirements	5 888.8	5 475.5	5 222.9	5 330.8
Total capital ratio (TCR)				
Minimum required level	15.24%	16.05%	16.71%	15.28%
Surplus TCR ratio (p.p)	+1.91	+2.73	+2.96	+1.53
Tier I ratio (T1)				
Minimum required level	14.35%	15.12%	15.78%	14.35%
Surplus T1 ratio (p.p)	+3.02	+3.80	+5.03	+3.60

*) When calculating the capital ratios, the Group was using the transitional provisions concerning alleviation of the IFRS 9 implementation impact on own funds. More information about the transition period was presented in these condensed financial statements in item 4.2.5. *IFRS 9 Financial Instruments – Impact on capital requirements*. If the IFRS 9 implementation impact had been recognised in full, the total capital ratio would have arrived at 14,9% and the Tier I capital ratio at 14.0%.

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

Under Regulation (EU) No. 241/2014 with regard to regulatory technical standards for own funds requirements for institutions and the Polish Financial Supervision Authority's decision of 23 Dec 2017 and 7 Dec 2016, the Group recognised the Bank's net profit of PLN 665.4 million for the period from 1 Jan 2017 to 30 Sep 2017 in their own funds as at 31 Mar 2018 and 31 Dec 2017.

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

- In the view of the economists at ING Bank Śląski S.A., the pace of growth of Polish economy in 2018 will remain relatively high and the annual growth will exceed 4,6% y/y. The improvement in contracting projects co-financed with the EU funds indicates further public investment revival. Investment outlays of large companies are moderate, i.a. due to a difficult situation in the mining industry. Nevertheless, we expect that in the subsequent quarters also the investment outlays will accelerate, i.a. due to a very high utilisation of output capacity of industrial companies and the launch of the projects co-financed with the EU funds.
- In the opinion of ING Bank Śląski S.A. analysts, the growth rate of the consumer expenditures in H2 2018 will stand at approximately 4.1% y/y. This means a decline against the 2017 yearend (5% y/y) and I H 2018 (4.7%). Salaries went up at 7% y/y, but even such a growth rate cannot compensate for the fading effect of the 500+ programme. Strong internal demand leads to the net exports deterioration, however, the National Bank of Poland's data on the trade balance suggest that this effect is mild.
- The situation in the domestic labour market remains tense. The number of business entities reporting shortages of employees is record high; the situation is only partly mitigated by the immigration from abroad. In the view of the economists of ING Bank Śląski S.A., salaries will continue to increase in the months to come despite stabilisation . in Q2 2018.
- Price growth rate in Poland remains low. The remuneration increase has little impact on inflation, in particular on the prices of the base products. In the opinion of ING Bank Śląski S.A. analysts, the inflation rate will steadily decline in H2 2018. In Q4 2018, it will settle below the National Bank of Poland's inflation floor target (1.5% y/y). No signals of the inflationary pressure will allow the Monetary Policy Council to keep the dovish monetary policy – the economists of ING are of the opinion that the declarations of the President of the National Bank of Poland, Adam Glapiński, (no changes in the interest rates until 2020) are not at risk.
- Improved tax collection and continued favourable economic situation in Poland imply a further drop in public finance debt versus GDP. Estimations of ING Bank Śląski S.A. analysts show that the public finance sector deficit will drop to 1.3% of GDP in 2018. Government debt as per EU methodology (ESA2010) will stand below the threshold of 50% of GDP. However, there is a risk that the public finances standing will worsen in 2019 due to the deterioration in the economic situation in Europe and increased public expenditures caused by a series of elections in Poland (local elections in Autumn 2018 and parliamentary elections one year later). The economists at ING Bank Śląski S.A. expect that the public deficit will grow but remain below 2% of GDP. Thanks to the improved fiscal situation, Poland is among the candidates for the rating upgrade. However, in the view of the economists at ING Bank Śląski S.A., it is possible no earlier than in 2019.

9. Off-balance sheet items

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Off-balance sheet liabilities granted	33 836.5	29 553.3	29 953.3	28 744.4
Off-balance sheet liabilities received	90 633.3	83 788.8	82 850.1	83 999.9
Off-balance sheet financial instruments	547 979.7	521 166.8	500 985.8	493 848.2
Total off-balance sheet items	672 449.5	634 508.9	613 789.2	606 592.5

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

None.

11. Dividends paid

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

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

12. Settlements due to disputable cases

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

Changes to the litigation reserves (in PLN million)

	II Q 2018 the period from 1 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 1 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
Status at the period beginning	22.3	7.0	4.6	4.2
Establishment of provisions	3.0	4.4	0.6	1.1
Utilisation of provision	0.0	0.0	-0.4	-0.5
Reclassifications	0.0	14.0	0.0	0.0
Status as at the period	25.3	25.4	4.8	4.8

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

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

Before the President of the Office of Competition and Consumer Protection there are the proceedings pending which were initiated *ex officio* by the Office President on 30 Dec 2015 regarding the application of the practices infringing collective consumer interests by the Bank. The practices consist in: informing the consumers being parties to the payment service agreement or having access to the online banking system about the amendments proposed to the terms and conditions of the payment service agreement during its term solely via electronic messages sent through the internet banking system which is not a durable medium under the Act on Payment Services; failure to include – in the messages sent to consumers regarding unilateral change of contractual terms, made during its term, wherewith certain documents are enclosed (regulations, general terms and conditions, the

table of fees and commissions) regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking – material information enabling consumers to establish that the changes made are admissible, i.e. failure to provide the contractual legal basis for the said changes and their triggers (factual circumstances), whereby consumers cannot verify that the changes to the contractual terms made by the Bank during the obligation-based relationship are admissible; informing the consumers of unilateral modification of modification clauses enabling amendment to regulations and general terms and conditions regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking under the circumstances where there were no legal grounds for modifying the contractual terms in that manner during the obligation-based relationship with consumers.

In the letters of 26 Jan 2016 and 5 Feb 2016, the Bank presented its stance on the allegations of the President of the Office of Competition and Consumer Protection and requested a decision under Article 28.1 of the Act on Competition and Consumer Protection, while undertaking to initiate certain actions. In the response, the President of the Office of Competition and Consumer Protection upheld their allegations against the Bank and did not accept the Bank's obligations. Following the requirements formulated by the President of the Office of Competition and Consumer Protection in the course of the proceedings, the Bank's obligations were modified. For the time being, the Bank has presented another proposal of obligations and is awaiting the stance of the Office President. With the letter of 29 Jun 2018, the President of the Office of Competition and Consumer Protection extended the term of the proceedings until 30 Nov 2018.

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

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

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

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

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

The Bank and other banks participating in the proceedings alike lodged a complaint for annulment of the judgment of the Court of Appeal. On 25 Oct 2017, the Supreme Court repealed the judgment of

the Court of Appeal and referred the case thereto for re-review. In line with the position of the Office of Competition and Consumer Protection, the fine paid was refunded to the Bank.

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

13. Seasonality or cyclicity of activity

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

14. Transactions with related entities

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 Mar 2018 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives.

Moreover, ING Lease Sp. z o.o. received long-term funding for leasing contracts in EUR ('matched funding').

The abovementioned transactions are carried out on an arm's length basis.

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

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

Transactions between related entities (PLN million)

	ING Bank NV	other ING Group entities	associated entities	ING Bank NV	other ING Group entities
	as of 30 Jun 2018			as of 30 Jun 2017	
Receivables					
Current accounts	27.9	11.7	-	26.5	2.6
Deposits placed	62.0	-	-	81.5	15.0
Loans	37.1	47.4	-	30.2	54.0
Positive valuation of derivatives	71.3	44.4	-	218.8	91.1
Other receivables	5.3	2.2	-	1.4	0.4
Liabilities					
Deposits received	183.5	46.6	5.9	88.1	25.2
Loans received	2 971.1	-	-	2 753.0	-
Subordinated loan	655.6	-	-	635.3	-
Loro accounts	4.6	34.5	-	5.4	35.6
Negative valuation of derivatives	83.4	41.9	-	232.9	85.2
Other liabilities	40.6	3.2	-	47.2	1.3
Off-balance-sheet operations					
Off-balance sheet liabilities granted	502.6	349.9	-	409.1	235.2
Off-balance sheet liabilities received	1 377.7	273.3	-	1 406.8	182.1
FX transactions	7 411.7	14.8	-	17 282.1	107.7
Forward transactions	420.9	-	-	2 099.7	-
IRS	2 999.6	2 575.6	-	3 271.0	2 537.5
Options	2 885.0	42.2	-	5 660.3	273.6
	I HY 2018 YTD the period from 1 Jan 2018 to 30 Jun 2018			I HY 2017 YTD the period from 1 Jan 2017 to 30 Jun 2017	
Income and expenses					
Income, including:	-5.5	2.5	-	51.4	6.6
interest and commission income/expenses	7.3	2.0	-	-7.4	3.2
income on financial instruments	-13.0	-2.5	-	46.7	3.4
income on investments	-	-	-	11.9	-
net income on other basic activities	0.2	3.0	-	0.2	-
General and administrative expenses	39.5	5.3	-	31.7	4.2
Outlays for non-current assets					
Outlays for property, plant and equipment	-	-	-	-	-
Outlays for intangible assets	1.6	0.1	-	-	-

Remunerations of Members of Management Board and Supervisory Board of ING Bank Śląski S.A.

- **Emoluments due to Members of ING Bank Śląski S.A. Management Board (PLN million)**

Period	Remuneration	Other benefits*	Total
I H 2017	4.8	2.5	7.3
I H 2018	4.9	1.1	6.0

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

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2018 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 2018 bonus to be paid out in the years 2019-2026. Accordingly, a reserve was formed

for the payment of the 2018 bonus for the Bank Management Board Members, which as at 30 Jun 2018 was PLN 3.0 million. The Bank Supervisory Board will take the final decision on the bonus amount.

• **Emoluments paid out to Members of ING Bank Śląski S.A. Management Board (PLN million)**

Period	Remuneration	Awards*	Other benefits**	Total
I H 2017	4.8	6.3	2.6	13.6
I H 2018	4.9	6.0	1.1	12.0

*) Awards for I H 2017 cover the following items:

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

Awards for I H 2018 cover the following items:

- Bonus under the Variable Remuneration Programme: for 2017 non-deferred cash, for 2016 1st tranche of deferred cash, for 2015 2nd tranche of deferred cash and for 2014 3rd tranche of deferred cash;
- Phantom Stocks under the Variable Remuneration Programme: for 2016 retained stock, for 2015 1st tranche of deferred stock, for 2014 2nd tranche of deferred stock and for 2013 3rd tranche of deferred stock.

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

The remuneration due and paid out by ING Bank Śląski S.A. in I H 2018 to its Supervisory Board Members totalled PLN 0.4 million.

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

Period	Remuneration and awards	Other benefits	Total
I H 2017	0.3	0.0	0.3
I H 2018	0.4	0.0	0.4

As at 30 Jun 2018, neither Bank Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A.

15. Segmentation of revenue and financial results of the Group

15.1 Segments of operation

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

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

- retail banking segment,
- corporate banking segment.

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

ING Bank Śląski S.A. has separated in organisational terms the operations performed by the Bank Treasury. The Bank Treasury manages short-term and long-term liquidity risk in line with the effective regulations and risk appetite internally set at the Bank, manages interest rate risk and invests surpluses obtained from business lines while maintaining the liquidity buffer in the form of

liquid assets. The Bank Treasury's net income on operations is allocated to the business lines considering its support function for the Bank's business lines.

15.1.1. Retail banking segment

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

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

15.1.2. Corporate banking segment

Corporate banking area encompasses as follows:

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

Services to institutional clients encompasses strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts, term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations conducted by the parent and products related to leasing and factoring services offered by ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

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

15.1.3. Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Bank, included in notes describing applied accounting standards. In particular, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS). Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price - coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtainment of long-term liquidity, matching of the Bank's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations. Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Bank presents segment's interest income reduced by the cost of the interest. In the I H 2018, the Bank is revising the allocation key for the ALCO's income for relevant year. The data for previous periods are being made comparable.

I H 2018 YTD

the period from 1 Jan 2018 to 30 Jun 2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	1 462.5	1 104.6	2 567.1
net interest income	1 147.8	655.5	1 803.3
net commission income	235.9	421.8	657.7
other income/expenses	78.8	27.3	106.1
Expenses total	703.8	479.5	1 183.3
Segment result	758.7	625.1	1 383.8
Impairment for expected losses	139.0	129.5	268.5
Tax on certain financial institutions	73.7	104.9	178.6
Segment profit before tax	546.0	390.7	936.7
Income tax	-	-	241.8
Result after tax	-	-	694.9
- attributable to shareholders of ING Bank Śląski S.A.	-	-	694.9
Allocated equity	5 247.0	6 642.0	11 889.0
ROE - Return on equity (%)*	17.1	8.8	12.3

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

II Q 2018

the period from 01 Apr 2018 to 30 Jun 2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	754.7	555.5	1 310.2
net interest income	594.5	325.5	920.0
net commission income	127.2	212.4	339.6
other income/expenses	33.0	17.6	50.6
Expenses total	331.2	223.8	555.0
Segment result	423.5	331.7	755.2
Impairment losses	102.0	71.7	173.7
Tax on certain financial institutions	38.0	53.1	91.1
Segment profit before tax	283.5	206.9	490.4
Income tax	-	-	117.7
Result after tax	-	-	372.7
- attributable to shareholders of ING Bank Śląski S.A.	-	-	372.7

I H 2017 YTD

the period from 1 Jan 2017 to 30 Jun 2017

	Retail banking segment	Corporate banking segment	TOTAL
Income total	1 312.5	1 014.4	2 326.9
net interest income	1 024.9	600.4	1 625.3
net commission income	215.7	368.2	583.9
other income/expenses	71.9	45.8	117.7
Expenses total	652.8	424.9	1 077.7
Segment result	659.7	589.5	1 249.2
Impairment for expected losses	86.0	113.5	199.5
Tax on certain financial institutions	60.3	99.5	159.8
Segment profit before tax	513.4	376.5	889.9
Income tax	-	-	229.3
Result after tax	-	-	660.6
- attributable to shareholders of ING Bank Śląski S.A.	-	-	660.6
Allocated equity	4 798.0	6 356.1	11 154.1
ROE - Return on equity (%)*	15.5	8.5	11.5

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

II Q 2018

the period from 01 Apr 2018 to 30 Jun 2018

	Retail banking segment	Corporate banking segment	TOTAL
Income total	677.0	514.6	1 191.6
net interest income	516.7	313.8	830.5
net commission income	111.0	182.1	293.1
other income/expenses	49.3	18.7	68.0
Expenses total	307.2	204.9	512.1
Segment result	369.8	309.7	679.5
Impairment for expected losses	43.2	79.8	123.0
Tax on certain financial institutions	28.4	52.0	80.4
Segment profit before tax	298.2	177.9	476.1
Income tax	-	-	115.7
Result after tax	-	-	360.4
- attributable to shareholders of ING Bank Śląski S.A.	-	-	360.4

As of 30 Jun 2018

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	57 621.5	71 650.6	129 272.1
Investments in associated entities	0.0	1.3	1.3
Other assets (not allocated to segments)	-	-	1 485.2
Total assets	57 621.5	71 651.9	130 758.6
Segment liabilities	75 976.1	40 995.2	116 971.3
Other liabilities (not allocated to segment)	-	-	1 897.8
Equity	-	-	11 889.5
Total equity and liabilities	75 976.1	40 995.2	130 758.6

As of 31 Mar 2018

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	55 454.1	70 479.4	125 933.5
Investments in associated entities	-	1.3	1.3
Other assets (not allocated to segments)	-	-	1 375.5
Total assets	55 454.1	70 480.7	127 310.3
Segment liabilities	75 542.5	38 010.5	113 553.0
Other liabilities (not allocated to segment)	-	-	1 698.4
Equity	-	-	12 058.9
Total equity and liabilities	75 542.5	38 010.5	127 310.3

As of 31 Dec 2017

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	54 434.4	70 136.1	124 570.5
Investments in associated entities	-	1.3	1.3
Other assets (not allocated to segments)	-	-	1 442.1
Total assets	54 434.4	70 137.4	126 013.9
Segment liabilities	71 398.0	40 555.0	111 953.0
Other liabilities (not allocated to segment)	-	-	2 266.1
Equity	-	-	11 794.8
Total equity and liabilities	71 398.0	40 555.0	126 013.9

As of 30 Jun 2017

	Retail banking segment	Corporate banking segment	TOTAL
Assets of the segment	50 425.2	68 405.5	118 830.7
Other assets (not allocated to segments)	-	-	1 366.9
Total assets	50 425.2	68 405.5	120 197.6
Segment liabilities	69 478.4	38 041.8	107 520.2
Other liabilities (not allocated to segment)	-	-	1 523.3
Equity	-	-	11 154.1
Total equity and liabilities	69 478.4	38 041.8	120 197.6

15.1.4. Geographical segments

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

16. Risk and capital management

I H 2018 saw modifications to the risk and capital management. The most important of them were described in Chapter 7 Main modifications to risk and capital management of the Management Board Operations Report.

17. Other informations

17.1. Ratings

Fitch Ratings Ltd.

The Fitch Ratings Ltd. Agency assigns full rating to ING Bank Śląski S.A. under the agreement between the Bank and the Agency. On 21 Mar 2017, the Agency assigned national ratings to the Bank:

- the National Long-Term Rating was set at AAA (pol) with stable outlook,
- the National Short-Term Rating – at F1+ (pol).

On 20 Oct 2017 the Agency upheld the ratings for ING Bank Śląski S.A. The Agency emphasised in its announcement that the ratings upheld for ING Bank Śląski S.A. reflected the Bank's solid financial standing and strong capital position, high asset quality and stable funding source relying on client deposits.

As at 30 Jun 2018, the Bank had the rating of financial credibility, issued by the Agency:

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

Moody's Investors Service Ltd.

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

In the announcement of 18 Jun 2018, the Agency assigned the following Counterparty Risk Ratings to the Bank:

- long-term rating at A1,
- short-term rating at P-1.

Counterparty Risk Ratings (CRR) reflect the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also the expected financial losses in the event such liabilities are not honoured.

As at 30 Jun 2018, the Bank's financial viability rating issued by the Agency was as follows:

Rating	Poziom
LT Rating	A2
ST Rating	P-1
Baseline Credit Assessment (BCA)	baa2
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa1
LT rating outlook	Stabilna
Counterparty Risk Rating (CR Rating) long-term/ short-term	A1 / P-1
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A1 (cr) / P-1 (cr)

17.2. Number of Branches and ATMs, CDMs

Liczba placówek Banku w poszczególnych okresach kształtowała się następująco:

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Number of outlets	352	355	357	374
Number of ING Express sales points at shopping malls	64	64	66	66

As at 31 Jun 2018, Clients could use 1,086 machines for cash self-service, including 199 standard ATMs and 887 dual machines. As at 30 Jun 2017, there were 1,106 machines for cash self-service, including 191 standard ATMs and 915 dual machines.

17.3. Electronic distribution channels

Development of electronic distribution channels is one of the Bank's priorities. A regular update of this offer results in an increase of the number of Clients interested in e-banking. The figures for electronic banking clients are as follows (the number of clients is not the same as the number of users as one client may represent several users in a given system):

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
ING BankMobile. Moje ING Mobile* (in million)	3.1	2.9	2.8	2.4
HaloŚląski (in million)	2.2	2.2	2.2	2.2
ING BusinessMobile (in thousands)	14.5	16.4	16.4	14.3
ING BankOnLine, Moje ING and ING BusinessOnLine (in million)**	0.0	3.7	3.6	3.5

*) The number of downloaded applications

***) in II Q 2018 ING BankOnLine and Moje ING applications were closed.

The monthly number of transactions in Jun 2018 was at the level of 37.7 million and in the analogical period last year it was 32.7 million .

17.4. Banking cards

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

in thousands	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017	as of 31 Mar 2017
Debit cards	3 200	3 096	3 080	2 952	2 917
Credit cards	247	226	224	221	219
Other cards*	140	135	129	119	115
Total payment cards. in which:	3 587	3 457	3 433	3 292	3 251
Paywave**	2 881	2 768	2 743	2 597	2 560
Virtual cards	124	109	97	70	60

* including charge and prepaid cards

** Cards: Contactless VISA, Contactless Visa Business, Contactless MasterCard Debit, Visa Zbliżak, Zbliżak VISA 2016, VISA NFC.

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

2018-07-31	Brunon Bartkiewicz President	<i>Signed on the Polish original</i>
2018-07-31	Michał Bolesławski Vice-President	<i>Signed on the Polish original</i>
2018-07-31	Joanna Erdman Vice-President	<i>Signed on the Polish original</i>
2018-07-31	Marcin Giżycki Vice-President	<i>Signed on the Polish original</i>
2018-07-31	Bożena Graczyk Vice-President	<i>Signed on the Polish original</i>
2018-07-31	Justyna Kesler Vice-President	<i>Signed on the Polish original</i>
2018-07-31	Patrick Roesink Vice-President	<i>Signed on the Polish original</i>

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2018-07-31	Jolanta Alvarado Rodriguez	Director of Accounting Department Chief Accountant	<i>Signed on the Polish original</i>
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ING BANK ŚLĄSKI S.A. INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS

Interim condensed standalone income statement

	II Q 2018 the period from 1 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 1 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 non- transformed data]	[IAS 39 non- transformed data]
Interest income, including:	1 111.5	2 172.3	1 003.7	1 972.5
Interest income on assets measured at amortised cost	1 110.1	2 169.6	n/a	n/a
Other interest income	1.4	2.7	n/a	n/a
Interest expenses	228.5	441.4	207.2	412.7
Net interest income	883.0	1 730.9	796.5	1 559.8
Commission income	364.4	701.4	314.5	626.3
Commission expenses	40.6	74.1	33.6	66.5
Net commission income	323.8	627.3	280.9	559.8
Net income on financial instruments at fair value through profit or loss and FX result	23.8	41.8	27.5	63.8
Net income on the sale of securities measured at amortised cost	-0.1	0.7	n/a	n/a
Net income on the sale of securities measured at fair value through other comprehensive income and dividend income	18.4	50.5	n/a	n/a
Net income on investments	n/a	n/a	39.1	50.8
Net income on hedge accounting	2.0	4.2	8.3	10.3
Net income on other basic activities	4.1	3.9	-3.2	-4.0
Net income on basic activities	1 255.0	2 459.3	1 149.1	2 240.5
General and administrative expenses	531.3	1 134.4	490.6	1 036.3
Impairment for expected losses	165.7	258.2	n/a	n/a
Impairment losses and provisions for off-balance sheet liabilities	n/a	n/a	118.2	196.4
Tax on certain financial institutions	91.1	178.6	80.4	159.8
Share in gains or losses of controlled entities recognised on an equity basis	17.2	36.5	9.6	29.8
Gross profit (loss)	484.1	924.6	469.5	877.8
Income tax	111.4	229.7	109.1	217.2
Net profit (loss)	372.7	694.9	360.4	660.6
Weighted average number of ordinary shares	130 100 000	130 100 000	130 100 000	130 100 000
Earnings per ordinary share (PLN)	2.86	5.34	2.77	5.08

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

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

Interim condensed standalone statement of comprehensive income

	II Q 2018 the period from 1 Apr 2018 to 30 Jun 2018	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018	II Q 2017 the period from 1 Apr 2017 to 30 Jun 2017	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017
	[IFRS 9]	[IFRS 9]	[IAS 39 non- transformed data]	[IAS 39 non- transformed data]
Net profit for the period	372.7	694.9	360.4	660.6
Total other comprehensive income, including:	-126.0	63.7	6.6	18.7
Items which can be reclassified to income statement	-126.0	63.7	6.6	18.7
debt instruments measured at fair value through other comprehensive income	-41.9	15.7	n/a	n/a
– gains/losses on revaluation carried through equity				
equity instruments measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	0.8	0.8	n/a	n/a
financial assets measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-9.6	-28.7	n/a	n/a
cash flow hedging – gains/losses on revaluation carried through equity	-12.8	229.1	n/a	n/a
cash flow hedging – reclassification to profit or loss	-62.3	-157.5	n/a	n/a
hedging instruments – undesignated elements	-0.2	4.3	n/a	n/a
effective part of cash flow hedging relationship	n/a	n/a	-27.7	-29.2
gains/losses on revaluation of available-for-sale financial assets carried through equity	n/a	n/a	65.5	93.8
reclassification to the financial result due to sale of available-for-sale financial assets	n/a	n/a	-23.0	-29.2
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	n/a	n/a	0.1	0.0
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	n/a	n/a	-8.3	-16.0
Items which will not be reclassified to income statement	0.0	0.0	0.0	0.0
Net comprehensive income for the reporting period	246.7	758.6	367.0	679.3

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

Interim condensed standalone statement of financial position

	as of 30 Jun 2018 [IFRS 9]	as of 31 Mar 2018 [IFRS 9]	as of 31 Dec 2017 [IAS 39 non-transformed data]	as of 30 Jun 2017	as of 31 Dec 2016
Assets					
Cash in hand and balances with the Central Bank	1 781.5	2 042.4	2 815.1	1 351.9	1 825.0
Loans and other receivables to other banks	951.8	2 017.4	2 234.5	1 050.2	1 113.4
Financial assets held for trading	2 034.0	1 263.6	1 314.8	3 706.3	3 943.9
Derivative hedge instruments	880.2	960.6	967.2	1 148.6	1 338.6
Investment securities	28 677.0	29 135.7	n/a	n/a	n/a
Investments	n/a	n/a	25 907.4	24 427.6	25 721.3
Loans and other receivables to customers	90 845.2	86 506.3	87 358.7	82 948.1	78 038.0
Investments in controlled entities	612.0	605.5	474.3	448.7	419.2
Property, plant and equipment	520.8	532.0	542.8	558.2	571.6
Intangible assets	413.0	413.9	418.5	412.1	419.6
Assets held for sale	16.2	10.9	11.1	14.3	31.8
Deferred tax assets	177.9	135.2	130.9	133.2	154.2
Other assets	198.4	184.1	163.7	175.2	132.8
Total assets	127 108.0	123 807.6	122 339.0	116 374.4	113 709.4
Liabilities					
Liabilities to other banks	1 609.3	3 128.8	1 044.6	3 079.5	2 019.9
Financial liabilities at fair value through profit or loss	1 281.7	1 044.8	1 714.3	1 154.3	1 590.8
Derivative hedge instruments	677.7	622.6	699.2	1 015.0	1 468.1
Liabilities to customers	108 877.4	104 398.3	104 075.8	97 012.0	95 168.4
Liabilities under issue of debt securities	300.2	302.2	300.3	866.3	866.4
Subordinated liabilities	655.6	632.4	626.9	635.3	664.9
Provisions	123.1	113.6	89.9	68.3	59.0
Current income tax liabilities	55.7	244.3	220.2	116.3	119.6
Other liabilities	1 637.8	1 261.7	1 773.0	1 273.3	1 277.4
Total liabilities	115 218.5	111 748.7	110 544.2	105 220.3	103 234.5
Equity					
Share capital	130.1	130.1	130.1	130.1	130.1
Supplementary capital - issuance of shares over nominal value	956.3	956.3	956.3	956.3	956.3
Accumulated other comprehensive income	557.0	684.0	493.2	596.2	577.4
Retained earnings	10 246.1	10 288.5	10 215.2	9 471.5	8 811.1
Total equity	11 889.5	12 058.9	11 794.8	11 154.1	10 474.9
Total equity and liabilities	127 108.0	123 807.6	122 339.0	116 374.4	113 709.4
Carrying amount	11 889.5	12 058.9	11 794.8	11 154.1	10 474.9
Number of shares	130 100 000	130 100 000	130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)	91.39	92.69	90.66	85.73	80.51

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

Interim condensed standalone statement of changes in equity

I H 2018

the period from 1 Jan 2018 to 30 Jun 2018

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	493.2	10 215.2	11 794.8
effect of changes in accounting policy from the implementation of IFRS 9	-	-	1.1	-249.0	-247.9
Opening balance of equity adjusted for changes to the accounting principles	130.1	956.3	494.3	9 966.2	11 546.9
Net result for the current period	-	-	-	694.9	694.9
Other net comprehensive income. including:	0.0	0.0	62.7	1.0	63.7
financial assets measured at fair value through other comprehensive income – gains/losses on revaluation carried through equity	-	-	16.5	-	16.5
financial assets measured at fair value through other comprehensive income – reclassification to profit or loss due to sale	-	-	-28.7	-	-28.7
cash flow hedging – gains/losses on revaluation carried through equity	-	-	229.1	-	229.1
cash flow hedging – reclassification to profit or loss	-	-	-157.5	-	-157.5
hedging instruments – undesignated elements	-	-	4.3	-	4.3
disposal of non-current assets	-	-	-1.0	1.0	0.0
Other changes in equity. including:	0.0	0.0	0.0	-416.0	-416.0
valuation of share-based payments	-	-	-	0.2	0.2
dividend paid	-	-	-	-416.2	-416.2
Closing balance of equity	130.1	956.3	557.0	10 246.1	11 889.5

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

IV Q 2017 YTD

the period from 1 Jan 2017 to 31 Dec 2017

[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	576.8	8 631.7	10 294.9
effect of changes in accounting policy from the implementation the equity method for valuation controlled entities	-	-	0.6	179.4	180.0
Opening balance of equity adjusted for changes to the accounting principles	130.1	956.3	577.4	8 811.1	10 474.9
Net result for the current period	-	-	-	1 403.1	1 403.1
Other net comprehensive income. including:	0.0	0.0	-84.2	0.2	-84.0
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	192.9	-	192.9
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-31.7	-	-31.7
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of loans and receivables	-	-	-0.2	-	-0.2
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	-	-	-32.1	-	-32.1
effective part of cash flow hedging relationship	-	-	-206.0	-	-206.0
disposal of non-current assets	-	-	-0.3	0.2	-0.1
actuarial gains/losses	-	-	-6.8	-	-6.8
Other changes in equity. including:	0.0	0.0	0.0	0.8	0.8
valuation of share-based payments	-	-	-	1.0	1.0
settlement of the purchase of shares in subsidiary	-	-	-	-0.2	-0.2
Closing balance of equity	130.1	956.3	493.2	10 215.2	11 794.8

Interim condensed standalone statement of changes in equity - continued

I H 2017

the period from 1 Jan 2017 to 30 Jun 2017

[IAS 39 – non-transformed data]

	Share capital	Supplementary capital - issuance of shares over nominal value	Cumulative other comprehensive income	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	576.8	8 631.7	10 294.9
effect of changes in accounting policy from the implementation the equity method for valuation controlled entities	-	-	0.6	179.3	179.9
Opening balance of equity adjusted for changes to the accounting principles	130.1	956.3	577.4	8 811.0	10 474.8
Net result for the current period	-	-	-	660.6	660.6
Other net comprehensive income. including:	0.0	0.0	18.8	0.0	18.8
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	93.9	-	93.9
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-29.2	-	-29.2
settlement of the valuation of securities reclassified from the portfolio available for sale to the portfolio of financial assets held to maturity	-	-	-16.0	-	-16.0
effective part of cash flow hedging relationship	-	-	-29.9	-	-29.9
Other changes in equity. including:	0.0	0.0	0.0	-0.1	-0.1
valuation of share-based payments	-	-	-	0.1	0.1
settlement of the purchase of shares in subsidiary	-	-	-	-0.2	-0.2
Closing balance of equity	130.1	956.3	596.2	9 471.5	11 154.1

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

Interim condensed standalone cash flow statement

	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018 [IFRS 9]	I H 2017 the period from 1 Jan 2017 to 30 Jun 2017 [IAS 39 non- transformed data]
Net profit	694.9	660.6
Adjustments, including:	-3 050.7	712.4
Share in gains or losses of controlled entities recognised on an equity basis	-36.5	-29.8
Depreciation and amortisation	87.9	90.4
Interest accrued (from the income statement)	-1 730.9	-1 559.8
Interest paid	-432.1	-402.3
Interest received	2 081.5	1 995.6
Dividends received	-0.8	-2.5
Gains (losses) on investing activities	-1.0	-0.6
Income tax (from the income statement)	229.7	217.2
Income tax paid	-389.4	-199.5
Change in provisions	16.3	9.3
Change in loans and other receivables to other banks	396.4	-15.9
Change in financial assets held for trading	-826.8	150.3
Change in available-for-sale financial assets	n/a	3 244.7
Change in debt instruments measured at fair value through other comprehensive income	-3 677.3	n/a
Change in valuation of derivatives	-54.3	17.1
Change in hedge derivatives	141.4	-293.0
Change in loans and other receivables to customers	-3 816.6	-5 002.5
Change in other assets	-28.0	-16.9
Change in liabilities to other banks	564.7	1 059.6
Change in liabilities at fair value through profit or loss	-269.1	-366.4
Change in liabilities to customers	4 800.8	1 851.0
Change in other liabilities	-106.6	-33.6
Net cash flow from operating activities	-2 355.8	1 373.0
Purchase of property plant and equipment	-41.6	-32.2
Disposal of property plant and equipment	0.1	0.6
Purchase of intangible assets	-30.4	-28.6
Disposal of assets held for sale	3.4	6.0
Purchase of shares in controlled entities	-120.0	0.0
Purchase of equity instruments measured at fair value through other comprehensive income	-1.2	n/a
Disposal of instruments measured at amortised cost	1 055.8	n/a
Purchase of held-to-maturity financial assets	n/a	-1 911.6
Interest received from held-to-maturity financial assets	n/a	59.2
Dividends received	0.8	2.5
Net cash flow from investing activities	866.9	-1 904.1
Payment of interest on long-term loans	-6.1	-6.1
Interest on issued debt securities	-3.8	-11.6
Dividends paid	-416.2	0.0
Net cash flow from financing activities	-426.1	-17.7
Effect of exchange rate changes on cash and cash equivalents	133.8	-273.5
Net increase/decrease in cash and cash equivalents	-1 915.0	-548.8
Opening balance of cash and cash equivalents	4 598.2	2 758.7
Closing balance of cash and cash equivalents	2 683.2	2 209.9

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

Additional information to the interim condensed standalone financial statements

1. Introduction

1.1. Going-concern

These interim condensed standalone financial statements of the ING Bank Śląski S.A. were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date. As of the date of approving this statement, the Bank Management Board has not identified any events that could indicate that the continuation of the operations by the Bank is endangered.

1.2. Discontinued operations

No material operations were discontinued during I H 2018 and I H 2017.

1.3. Compliance with International Financial Reporting Standards

These interim condensed standalone financial statements of the ING Bank Śląski S.A.

for the I H 2018 were prepared under the IAS 34 Interim Financial Reporting (International Accounting Standards) in a version approved by the European Commission effective as at the reporting date, that is 30 Jun 2018 as well as in accordance with the Ordinance of Finance Minister of 19 Feb 2009 on current and interim information submitted by issuers of securities (Journal of Laws of 2009, no. 33, item 259) with subsequent amendments.

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

Interim condensed standalone income statement, interim condensed standalone statement of comprehensive income, interim condensed standalone statement of changes in equity, and interim condensed standalone cash flow statement for the period from 1 Jan 2017 to 30 Jun 2017, and interim condensed standalone statement of financial position as at 30 Jun 2017 together with comparable data were prepared according to the same principles of accounting for each period, except for the changes resulting from the implementation of IFRS 9 replacing IAS 39 'Financial Instruments: Recognition and Measurement'. The changes refer to classification and measurement of financial assets and liabilities and impairment of financial assets. The Bank took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 Jan 2018, without adjusting comparative periods.

1.4. Comparative data

The comparative data cover the period from 1 Jan 2017 to 30 Jun 2017 for the interim condensed standalone income statement, the interim condensed standalone statement of comprehensive income and the interim condensed standalone cash flow statement, additionally for the interim condensed standalone statement of changes in equity as at 31 Dec 2017; in the case of the interim condensed standalone statement of financial position data as of 31 Mar 2018, 31 Dec 2017, 30 Jun 2017 and 31 Dec 2016. In connection with the implementation from 1 Jan 2018 of IFRS 9 replacing IAS 39, the Bank took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 Jan 2018, without adjusting comparative periods.

1.5. Financial statements scope and currency

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

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

1.6. Approval of financial statements

These interim condensed standalone financial statements have been approved by the Bank Management Board on 31 Jul 2018.

1.7. Changes to accounting standards

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

1.8. Changes to accounting policy

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

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

1.8.1. IFRS 9 Financial Instruments

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

The reported impact of IFRS 9 application as at 1 Jan 2018 may change, in particular due to the fact that:

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

1.8.1.1. Classification and measurement

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

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

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

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

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

Business models

Business model structure reflects the current organisational framework of the Bank. It was analysed thoroughly and assessed using business decision triggers as to financial assets management. Following the assessment, the Bank assigned all debt instruments and credit receivables to one of the business models:

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

In the I H 2018, the formation works for Bank Hipoteczny [mortgage bank] (a Bank's subsidiary) were underway and as at the time of this financial statements publication, they have not been completed yet. Finalization of those works will impact the structure of business models at the Bank since it will entail separation of the mortgage portfolio held for sale to the newly established Bank Hipoteczny, i.e. measured at fair value through other comprehensive income.

Cash flows analysis

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

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

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

Financial liabilities

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

Impact of changes in classification and measurement

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

- For the financial assets of the Bank, the credit exposures which have a financial leverage element in their interest structure were identified. In line with IFRS 9 requirements, the cash flows under those assets are not solely payments of principal and interest on the principal amount outstanding, and thus they are obligatorily measured at fair value through profit or loss. As at 1 Jan 2018, the carrying amount of those credit exposures was PLN 278 million. Since the difference in the fair value of those assets versus their measurement at amortized cost (as per IAS 39) is immaterial, the issue does not impact the level of Bank's capital but only disclosures for loans and receivables. Credit exposures classified for measurement at fair value are presented in the statement of financial position in the item 'Loans and other receivables to customers' and their value is shown in the explanatory notes.
- The minority strategic capital investments of the Bank are measured at acquisition price as per IAS 39. The Bank took an irrevocable decision to classify the said capital investments for measurement through other comprehensive income as per IFRS 9. The relevant IFRS 9 guidelines limit the possibility of application of the measurement of those assets as at acquisition price. Recognition of estimated fair value of those financial assets as at the date of initial application of IFRS 9 led to increasing the revaluation reserve at PLN 62.2 million (without tax effect). Adjustment no. 2 in table with the summary of the impact below in section 1.8.1.4).
- Before application of IFRS 9 principles, some portfolios of assets were reclassified between the financial categories as per IAS 39 guidelines. Reclassified assets included the items covered with the fair value hedge accounting wherefor hedge links were invalidated in consequence of reclassification. By applying IFRS 9 principles retrospectively, unamortised recording adjustments made under IAS 39 were removed from the balance sheet. As at 1 Jan 2018, the adjustment had a negative impact on the equity of PLN 77.6 million (without tax effect, Adjustment no. 3 in table with the summary of the impact below in section 1.8.1.4).

1.8.1.2. Hedge accounting

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

1.8.1.3. Impairment

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

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

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

regulatory capital, the Bank developed new models to measure the expected credit losses as per IFRS 9.

Approach based on 3 stages

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

- **Stage 1:** measurement of the impairment loss being the amount of 12-month expected credit losses versus the financial assets for which no significant credit risk increase was reported (probability of default – PD) from the initial recognition date. Impairment loss in Stage 1 is calculated based on the 12-month expected credit loss, reflecting the expected loss for assets, for which a specific probability of default may materialise within maximum 12 months.
- **Stage 2:** measurement of the impairment loss being the amount of the lifetime expected credit losses versus the financial assets for which a significant credit risk increase was reported from the initial recognition date. Impairment loss in Stage 2 is calculated based on the lifetime expected credit loss, reflecting the expected loss for assets for which it is probable that they will default in the remaining maturity period.
- **Stage 3:** measurement of the impairment loss being the amount of the lifetime expected credit losses versus the impaired assets, i.e. in default (PD+100%). Impairment loss in Stage 3 is calculated based on the lifetime expected credit loss.

Stages are defined for each single financial assets item.

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

Determining significant increase in credit risk

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

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

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

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

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

Macroeconomic scenarios

Under IFRS 9 requirements, the expected loss should be determined as a probability-weighted amount, which was realised by calculation of the expected credit loss as the weighted average from results for a number of macroeconomic scenarios (usually: optimistic, the best estimation and

stress). The expected loss is calculated for each scenario separately and the average probability weighted EL value results from the weights assigned to each scenario.

Measurement

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

1. removing prudential conservatism imposed on parameters (such as e.g. the minimum acceptable PD) and
2. including expected changes in parameters in the future (PD, LGD, EAD) in the point-in-time approach depending on the changes of macroeconomic indicators, i.e. unemployment rate, GDP growth and
3. analysis of credit risk in the 12-month horizon or in the lifetime.

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

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

Impact of changes in the impairment principles

Following the application of new IFRS 9 requirements, the Bank expects that credit risk impairment loss will go up by PLN 277,2 million (without the tax effect and except for adjustment about gross carrying amount described below), including around PLN 16,9 million which concerns off-balance sheet items (Adjustment No. 1 in the table with impact summary below in section 1.8.1.4).

Gross carrying amount

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

1.8.1.4. Summary of the IFRS 9 implementation impact on the statement of financial position as at 1 Jan 2018 versus IAS 39 data as at 31 Dec 2017

The table below shows the a material impact of elements described above on the standalone statement of financial position of the Bank plus separated elements:

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

- the amount presented in the column ‘reclassification in assets structure’ concerns the changes in presentation of equity instruments

	31 Dec 2017 IAS 39	Adjustment 1	Adjustment 2	Adjustment 3	Reclassifica- tion in assets structure	Impact total	1 Jan 2018 IFRS 9
Assets							
Cash in hand and balances with the Central Bank	2 815.1					-	2 815.1
Loans and other receivables to other banks	2 234.5					-	2 234.5
Financial assets at fair value through profit or loss	530.1					-	530.1
Valuation of derivatives	784.7					-	784.7
Derivative hedge instruments	967.2					-	967.2
Investments	25 907.4		62.2	-74.9	8.0	-4.7	25 902.7
Loans and other receivables to customers	87 338.9	-260.3		-1.7		-262.0	87 076.9
Receivables from customers under repo transactions	19.8					-	19.8
Investments in controlled entities	474.3	-8.1				-8.1	466.2
Non-financial assets	961.3					-	961.3
Assets held for sale	11.1					-	11.1
Deferred tax assets	130.9	49.0	-11.8	14.6		51.8	182.7
Other assets	163.7				-8.0	-8.0	155.7
Total Assets	122 339.0	-219.4	50.4	-62.0	0.0	-231.0	122 108.0
Liabilities							
Liabilities to other banks	1 044.6					-	1 044.6
Financial liabilities at fair value through profit or loss	735.1					-	735.1
Valuation of derivatives	979.2					-	979.2
Derivative hedge instruments	699.2					-	699.2
Liabilities to customers	104 075.8					-	104 075.8
Liabilities under issue of debt securities	300.3					-	300.3
Subordinated liabilities	626.9					-	626.9
Provisions	89.9	16.9				16.9	106.8
Tax liabilities	220.2					-	220.2
Other liabilities	1 773.0					-	1 773.0
Total liabilities	110 544.2	16.9	0.0	0.0	0.0	16.9	110 561.1
Equity							
Share capital	130.1					-	130.1
Supplementary capital – sale of shares over nominal value	956.3					-	956.3
Cumulative other comprehensive income	493.2		50.4	-40.3	-9.0	1.1	494.3
Retained earnings	10 215.2	-236.3		-21.7	9.0	-249.0	9 966.2
Total equity	11 794.8	-236.3	50.4	-62.0	0.0	-247.9	11 546.9
Total equity and liabilities	122 339.0	-219.4	50.4	-62.0	0.0	-231.0	122 108.0

Financial assets and liabilities classification and measurement

Item in statement of financial position	measurement according to IAS 39	Current value as at 31 Dec 2017 [IAS 39]	Current value as at 1 Jan 2018 [IFRS 9]	measurement according to IFRS 9	Item in statement of financial position
Assets					
Cash in hand and balances with the Central Bank	amortised cost	2 815.1	2 815.1	amortised cost	Cash in hand and balances with the Central Bank
Loans and other receivables to other banks	amortised cost	2 234.5	2 234.5	amortised cost	Loans and other receivables to other banks
Financial assets at fair value through profit or loss	FVtPL	530.1	530.1	FVtPL (mandatory)	Financial assets held for trading
Valuation of derivatives	FVtPL	784.7	784.7	FVtPL (mandatory)	Financial assets held for trading
Derivative hedge instruments	FVtPL	967.2	967.2	FVtPL (mandatory)	Derivative hedge instruments
Investments, of which:					
available-for-sale	FVtOCI	17 556.9	17 627.1	FVtOCI	Investment securities
held-to-maturity	amortised cost	8 350.5	8 275.6	amortised cost	Investment securities
Loans and other receivables to customers, of which:					
loans and other receivables	amortised cost	81 242.6	80 703.6	amortised cost	Loans and other receivables to customers
loans and other receivables failed SPPI test	amortised cost	0.0	278.7	FVtPL (mandatory)	Loans and other receivables to customers
corporate and municipal securities	amortised cost	2 532.2	2 532.2	amortised cost	Loans and other receivables to customers
treasury bonds in EUR	amortised cost	3 564.1	3 562.4	amortised cost	Investment securities
Receivables from customers under repo transactions	amortised cost	19.8	19.8	amortised cost	Loans and other receivables to customers
Investments in controlled entities		474.3	466.2		Investments in controlled entities
Other assets	amortised cost	64.4	56.4	amortised cost	Other assets
Total		121 136.4	120 853.6		
Other assets not covered by IFRS 9		1 202.6	1 254.4		
Total assets		122 339.0	122 108.0		
Liabilities					
Liabilities to other banks	amortised cost	1 044.6	1 044.6	amortised cost	Liabilities to other banks
Financial liabilities at fair value through profit or loss	FVtPL	735.1	735.1	FVtPL (mandatory)	Financial liabilities at fair value through profit or loss
Valuation of derivatives	FVtPL	979.2	979.2	FVtPL (mandatory)	Financial liabilities at fair value through profit or loss
Derivative hedge instruments	FVtPL	699.2	699.2	FVtPL (mandatory)	Derivative hedge instruments
Liabilities to customers	amortised cost	104 075.8	104 075.8	amortised cost	Liabilities to customers
Liabilities under issue of debt securities	amortised cost	300.3	300.3	amortised cost	Liabilities under issue of debt securities
Subordinated liabilities	amortised cost	626.9	626.9	amortised cost	Subordinated liabilities
Total		108 461.1	108 461.1		
Other liabilities not covered by IFRS 9*		2 083.1	2 100.0		
Total liabilities		110 544.2	110 561.1		

*) in this item the provision for off-balance sheet liabilities, which was changed due to IFRS 9 implementation is included

1.8.1.5. Impact on the capital requirements

Application of IFRS 9 principles will impact the regulatory capital of the Bank due to recognition of recording adjustments caused by changed accounting principles at the date of initial application. The Basel Committee pointed out that the approach to impairment losses both in the Standard Approach

and Advanced Internal Ratings Based Approach remains unchanged. Nonetheless, for domestic jurisdictions, the application to impairment losses of the option of amortisation of impact of the implementation of new IFRS 9 principles is admitted.

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

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

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

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

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

2. Significant accounting principles

The detailed accounting principles were presented in the Annual Standalone Financial Statements of the ING Bank Śląski S.A. for the Period Started 1 Jan 2017 and Ended 31 Dec 2017, published on 9 Mar 2018 and available on the website of ING Bank Śląski S.A. (www.ingbank.pl).

Below presented are the amendments made in I H 2018 to the description of the accounting principles applied by the Bank. Changes to the principles concern IFRS 9 and IFRS 15 as well as the measurement of subsidiaries and affiliated companies using the equity method.

2.1. IFRS 9 resultant changes

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

Classification and measurement of financial assets

Principles applicable before 1 January 2018 (IAS 39)

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

Financial assets and liabilities carried at fair value through profit or loss

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

- are classified as held for trading. A financial assets item or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or is a part of a portfolio of identified financial instruments that are managed together to generate short-term profits. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments),
- upon initial recognition they are classified by the Bank as carried at fair value through profit or loss. Such classification can be made only if:
 - the classified financial assets item or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden;
 - usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (the so-called booking mismatch due to various methods of assets and liabilities measurement or various recognition of gains and losses attributable to them);
- the group of financial assets or liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

Investment held to maturity

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

The above mentioned sanction is not applied:

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

Loans and receivables

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

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

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

Financial assets available for sale

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

Principles applicable as of 1 January 2018 (IFRS 9)

The Bank categorises the financial assets as follows:

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

Financial assets measured at amortised cost

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

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

Debt financial assets measured at fair value through other comprehensive income

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

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

Equity instruments measured at fair value through other comprehensive income

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

Financial assets measured at fair value through profit or loss

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

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

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

Business model assessment

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

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

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

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

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

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

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

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

The Bank recognises that:

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

entire portfolio within a given business model, or

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

Cash flows characteristics assessment

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

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

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

The following terms and conditions are verified in particular:

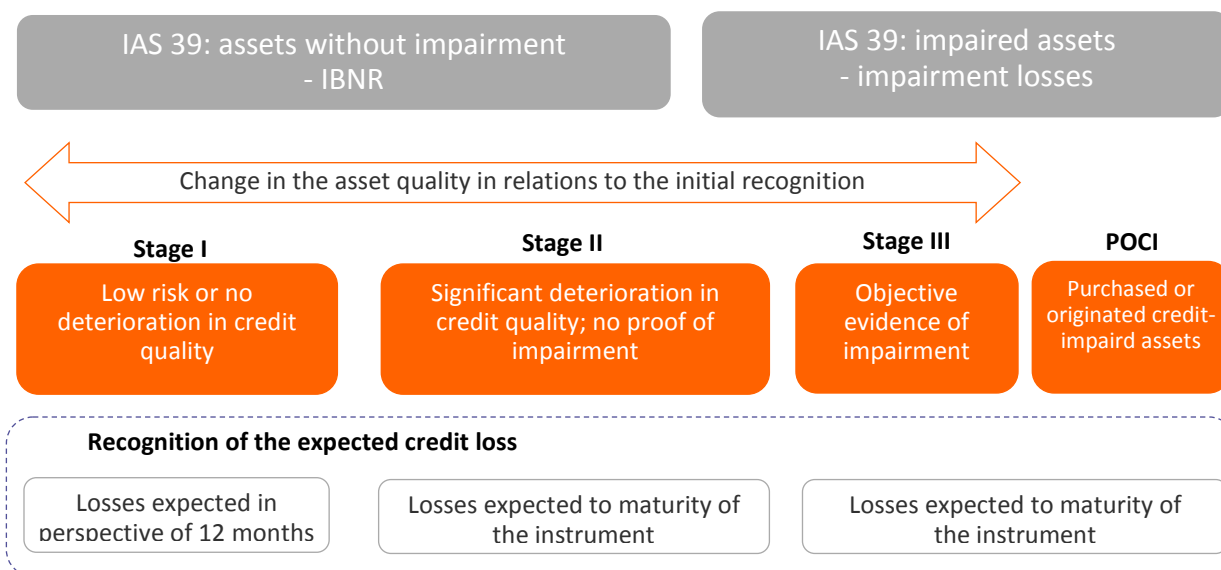
- contingencies impacting the amount of cash flows or their realisation dates,
- leverages,
- terms of funding prepayment or extension,
- conditions limiting the right to pursue legal claims about the cash flows realised,
- conditions modifying the consideration for change of time value of money.

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

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

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

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

Impairment of debt financial assets**Principles applicable before 1 January 2018 (IAS 39)**

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

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

Principles applicable as of 1 January 2018 (IFRS 9)**Approach based on 3 stages**

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

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

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

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

Principles applicable as of 1 January 2018 (IFRS 9)**Stage 2 classification triggers – material credit risk increase (applicable as of 1 January 2018)**

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

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

Principles applicable before 1 January 2018 (IAS 39) and as of 1 January 2018 (IFRS 9)**Impaired assets (before 1 January 2018)/ Stage 3 (after 1 January 2018) classification triggers for assets measured at amortized cost**

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

Impairment is evidenced by:

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

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

- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +90 DPD, provided that the amount of arrears is higher than the materiality threshold defined for a given client segment or product,
- another forbearance has occurred or there is a delay of +30 DPD for a forborne corporate credit exposure, this does not apply, however, to the exposures which were classified as serviced (working) since forbearance status assignment,
- a petition for bankruptcy with liquidation or conciliation bankruptcy has been filed or rehabilitation proceedings have been started by the Bank, a client or by another bank. For retail credit exposures, it applies only where it is the Bank that files the petition for the client bankruptcy,
- bankruptcy with liquidation is declared, conciliation bankruptcy or rehabilitation proceedings towards the client are approved – if they assume lack of full repayment towards the Bank,
- the credit exposure becomes due and payable as a consequence of the Bank's having terminated the loan agreement,
- the Bank cancels or writes off a significant amount of the client receivables, which leads to reduction in cash flows from a given financial assets item,

- the Bank initiates the debt enforcement proceedings,
- the client questions the balance sheet credit exposure in court,
- the client's whereabouts are unknown so the client is not represented in contacts with the Bank and the client assets are not disclosed,
- serious financial problems of the client, including but not limited to:
 - for corporate credit exposure, the Bank has assessed with high probability (above 50%) that the client situation will preclude full repayment of the debt within the impairment analysis (test),
 - for retail credit exposure:
 - poor financial standing reflected in the worst risk rating of the client (applies to clients from the Entrepreneurs segment),
 - restructuring of the non-performing retail credit exposure
 - impairment on other accounts – within the product segment the client has other credit exposures where impairment evidence has been identified
- for retail credit exposures – justified suspicion of fraudulent obtainment of a loan.

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

For corporate credit exposures, the impairment analysis (test) result determines whether or not impairment is identified. The test is run upon identifying an impairment trigger. Impairment triggers for corporate credit exposures include:

- danger of bankruptcy or another financial reorganisation has been reported, both of which may lead to a failure to repay the financial asset or to delayed repayment,
- the client has discontinued to repay the principal, pay interest or commissions, with the delay of +45 DPD,
- The Bank assesses that the client will face difficulties in repaying the debt, that is the client is undergoing material financial problems which may lead to a failure to repay the financial asset or to delayed repayment,
- significant breach of contractual conditions by the client which may adversely impact on future cash flows from a given financial assets item,
- disappearance of an active market for a given financial assets item held by the Bank due to the financial problems of the issuer/client, which may have a negative influence on future cash flows from a given financial assets item,
- credit debt was restructured for non-commercial reasons, that is due to client's material financial problems. This is the case where for the aforementioned reasons the client has requested forbearance from the Bank or the Bank has already applied forbearance towards the Client which would not have been applied had the client not sustained financial problems (forbearance included). These can be in particular such situations as: lending tenor extension, reduction of credit instalments, suspension of principal repayment or interest payment,
- client's rating has deteriorated considerably,
- major conflict among shareholders, loss of the sole/main counterparty, loss/death of a key person in the entity when there is no suitable succession, random incident leading to destruction of debtor's key assets.

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

The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients. For each credit exposure impairment condition identified for strategic and network corporate clients, the debtor has to be reclassified to the irregular portfolio and analysed (tested) for impairment based on the expected future cash flows. Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the need to carry out the impairment analysis (test).

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

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

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

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

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

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

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

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

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

difficulties of the issuer,

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

Impairment measurement

Principles applicable before 1 January 2018 (IAS 39)

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

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

For the purposes of calculation of the provision for the balance sheet and off-balance sheet exposures shown as EAD, the probability of default (PD) method (modified PD parameter) is applied, among others. The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and related loss identification periods as well as the historical loss adjustments made using the currently available data (in line with the Point-in-Time philosophy). Interest and penalty payments are recognised using the cash-basis accounting method and they do not form the basis for formation of impairment losses.

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

$$\text{Impairment loss} = \text{PD}_{\text{LIP}} \times (\text{EAD} + \text{EI}) \times \text{LGD}$$

Where:

- PD_{LIP} – probability of default over the LIP consistent with the approach accounting for the given portfolio current risk profile (Point-in-Time philosophy). LIP – a loss identification period expressed in months, which depending on business segment is:
 - 8 months for small enterprises and consumer credits,
 - 9 months for strategic clients, mid-sized and mid corporates, and
 - 12 months for retail mortgage loans,
- EAD (exposure at default) – current balance sheet exposure plus the projected balance sheet equivalent of unutilised credit lines and off-balance sheet liabilities including the conversion rate (the so called CCF or K-factor) in line with relevant EAD models.
- EI (effective interest) – contractual interest accrued and unpaid including outstanding commissions and effective interest rate adjustment for 87those exposures for which the effective interest rate is set and contractual interest accrued and unpaid 87for those exposures for which the effective interest rate is not set,
- LGD – the expected loss ratio, which is the complement to unity of the ratio of the recoverable amount and the basis for impairment losses including all direct costs incurred as of the impairment date until the end of the debt recovery process. Historical loss parameters

are adjusted with the data coming from current observations in order to account for current market factors which were not present during the period covered with historical observations and exclusions of effects of past developments which are no longer present today.

The PD parameter is 100% for impaired exposures (INSFA).

The LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired. Moreover, for separated portfolios that comprise exposures defaulted for at least 2 or 3 years (depending on the segment) the LGD parameter is also 100%.

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

This approach allows specifically for identification of:

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

Principles applicable as of 1 January 2018 (IFRS 9)

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

To estimate the expected loss, the Bank determines the exposure at default only for committed credit liabilities by using the credit conversion factors (per cent of utilisation of the free part of the credit limit in the period from the reporting date to the default date) from the regulatory EAD models

(estimated using the through-the-cycle approach). EAD goes down over time as per repayment schedule of a given exposure.

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

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

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

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

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

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

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the income statement for the period.

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

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

Purchased or originated credit-impaired financial assets

Principles applicable before 1 January 2018 (IAS 39)

No such category of assets.

Principles applicable as of 1 January 2018 (IFRS 9)

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

Such assets can be recognised as a result of:

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

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

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

2.2. Revenue recognition considering the 5-step approach (IFRS 15 resultant changes)Change to the principles of recognition of commission revenue and costs.

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement following the five-step approach:

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

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

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

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

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

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

The share of the Bank in the financial result of subsidiaries and associates since the date of acquisition is recognised in the income statement, whereas its share in changes in other capital since the date of acquisition – in other comprehensive income. The carrying amount of the investment is adjusted by the total changes of different items of equity after the date of their acquisition.

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

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

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

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

3. Comparability of financial data

When compared with the interim standalone financial statements for previous periods, in the Interim Condensed Standalone Financial Statements for the period from 1 January 2018 to 30 Jun 2018, the Bank amended the manner of presentation of individual items of the consolidated income statement and consolidated statement of financial position. The amendments were made first and foremost in consequence of the implementation of IFRS 9 which superseded IAS 39 as of 1 January 2018. The Bank took a decision to apply retrospectively the principles of classification, measurement and impairment through the adjustment of the opening balance sheet as at 1 January 2018, without adjusting comparative periods.

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

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

Changes to IFRS 9 implementation-resultant

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

item presented for previous periods, which showed available-for-sale financial assets and financial assets held to maturity.

Other changes

➤ Changes to the income statement:

- *Changed accounting principles*
- a) change under implementation of the equity method for measurement of investments in subsidiaries and affiliated companies – in separate financial statements for previous periods the Bank presented investments in subsidiaries and affiliated companies at the purchase price,
- *Other changes*
- b) changed manner of presenting costs under marketing fees (cashback); in previous periods these costs were recognised in *Commission income/Commission costs*; at present the Group presents them in *General and administrative expenses*,
- c) changed manner of presenting result on write-offs concerning unsettled valuation of derivative transactions between *Impairment losses for financial assets and provisions for off-balance-sheet liabilities* and *Net income on financial instruments measured at fair value through profit or loss and FX result*.
- d) changed manner of presenting interest on securities and derivatives held for trading; in the previous periods they were presented in *Interest income/expenses*, currently in the *Net income on financial instruments at fair value through profit or loss and FX result*,
- e) changed manner of presenting the amortisation of fair value adjustment for exposures, which were excluded from fair value hedge strategy; in the previous periods it was presented in *Net income on hedge accounting*, currently in *Interest income/expenses*.

The table below highlights the individual items of the separate statement of financial position as they were presented in the interim consolidated financial statements for I H 2017 and I H 2018 and in the current statements.

I H 2017 the period from 1 Jan 2017 to 30 Jun 2017							
	in Financial Statements for I H 2017 (approved data)	change a)	change b)	change c)	change d)	change e)	in Financial Statements for I H 2018 (comparable data)
Interest income	2 012.9				-3.3	-37.1	1 972.5
Interest expenses	413.6					-0.9	412.7
Net interest income	1 599.3	0.0	0.0	0.0	-3.3	-36.2	1 559.8
Commission income	626.3						626.3
Commission expenses	69.5		-3.0				66.5
Net commission income	556.8	0.0	3.0	0.0	0.0	0.0	559.8
Net income on financial instruments at fair value through profit or loss and FX result	28.6			-1.0		36.2	63.8
Net income on hedge accounting	7.0				3.3		10.3
Net income on basic activities	2 238.5	0.0	3.0	-1.0	0.0	0.0	2 240.5
General and administrative expenses	1 033.3		3.0				1 036.3
Impairment losses and provisions for off-balance sheet liabilities	197.4			-1.0			196.4
Share in gains or losses of controlled entities recognised on an equity basis	0.0	29.8					29.8
Gross profit (loss)	848.0	29.8	0.00	0.00	0.00	0.00	877.8
Net profit (loss)	630.8	29.8	0.00	0.00	0.00	0.00	660.6

➤ Changes to the statement of financial position:

- *Changed accounting principles*
 - a) change under implementation of the equity method for measurement of investments in subsidiaries and affiliated companies – in separate financial statements for previous periods the Bank presented investments in subsidiaries and affiliated companies at the purchase price,
- *Other changes*
 - b) renaming of the item 'financial assets measured at fair value through profit or loss' as 'financial assets held for trading',
 - c) inclusion of 'measurement of derivatives', respectively: positive to 'financial assets held for trading' and negative to 'financial liabilities measured at fair value through profit or loss',
 - d) renaming of the item 'investments' as 'investment securities'
 - e) inclusion of 'receivables from customers due to repo transactions' in the item 'loans and other receivables extended to client' and analogically 'liabilities to customers due to repo transactions' to item 'liabilities to customers'
 - f) split of 'property assets' into two separate items 'property, plant and equipment' and 'intangible assets'

-
- g) split of 'income tax assets' into 'deferred tax assets' and 'current tax receivables' and analogically of 'income tax liabilities' into 'deferred tax provisions' and 'current tax liabilities',
 - h) renaming of the item 'authorised capital' as 'share capital' and 'revaluation reserve' as 'cumulative other comprehensive income'.
 - i) reclassification of the provisions for unused holiday from the item 'provisions' to the item 'other liabilities'

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

ING Bank Śląski S.A. Group

Semi-annual consolidated report for the period of 6 months ending on 30 Jun 2018

Interim condensed standalone financial statements

(PLN million)

	As of 31 Dec 2017	As of 30 Jun 2017	As of 31 Dec 2016	As of 31 Dec 2017	As of 30 Jun 2017	As of 31 Dec 2016		As of 31 Dec 2017	As of 30 Jun 2017	As of 31 Dec 2016
	in Financial Statements for 2017	in Financial Statements for 1H 2017	in Financial Statements for 1Q 2017		change a), i)			in Financial Statements for 1Q 2017		
	(approved data)							(comparable data)		
Assets										
Financial assets at fair value through profit or loss	530.1	2 676.6	2 826.8							
Valuation of derivatives	784.7	1 029.7	1 117.1				Financial assets held for trading	1 314.8	3 706.3	3 943.9
Investments	25 907.4	24 427.6	25 721.3				investment securities	25 907.4	24 427.6	25 721.3
Loans and other receivables to customers	87 338.9	82 928.1	78 038.0				Loans and other receivables to customers	87 358.7	82 948.1	78 038.0
Receivables from customers under repo transactions	19.8	20.0	0.0							
Investments in controlled entities	240.5	239.2	239.2	233.8	209.5	180.0		474.3	448.7	419.2
Non-financial assets	961.3	970.3	991.2				Property, plant and equipment	542.8	558.2	571.6
Tax assets	130.9	133.2	154.2				Intangible assets	418.5	412.1	419.6
							Deferred tax assets	130.9	133.2	154.2
Total assets	122 105.2	116 164.9	113 529.4	233.8	209.5	180.0		122 339.0	116 374.4	113 709.4
Liabilities										
Financial liabilities at fair value through profit or loss							Liabilities			
Valuation of derivatives	735.1	108.6	474.8				Financial liabilities at fair value through profit or loss	1 714.3	1 154.3	1 590.8
Liabilities to customers	979.2	1 045.7	1 116.0				Liabilities to customers	104 075.8	97 012.0	95 168.4
Liabilities to customers	104 075.8	97 012.0	95 168.4							
Liabilities to customers under repo transactions	0.0	0.0	0.0							
Provisions	97.3	80.5	71.2	-7.4	-12.2	-12.2	Current Tax liabilities	89.9	68.3	59.0
Tax liabilities	220.2	116.3	119.6					220.2	116.3	119.6
Other liabilities	1 765.6	1 261.1	1 265.2	7.4	12.2	12.2		1 773.0	1 273.3	1 277.4
Total liabilities	110 544.2	105 220.3	103 234.5	0.0	0.0	0.0		110 544.2	105 220.3	103 234.5
Equity										
Initial capital	130.1	130.1	130.1				Share capital	130.1	130.1	130.1
Revaluation reserve	493.0	595.5	576.8	0.2	0.7	0.6	Cumulative other comprehensive income	493.2	596.2	577.4
Retained earnings	9 981.6	9 262.7	8 631.7	233.6	208.8	179.4	Retained earnings	10 215.2	9 471.5	8 811.1
Total equity	11 561.0	10 944.6	10 294.9	233.8	209.5	180.0		11 794.8	11 154.1	10 474.9
Total equity and liabilities	122 105.2	116 164.9	113 529.4	233.8	209.5	180.0		122 339.0	116 374.4	113 709.4



4. Significant events in I half year 2018

Significant events that occurred in I H 2018 are described in the interim condensed consolidated financial statement in chapter *Additional information* in item 2. *Significant events in I half year 2018*.

5. Seasonality or cyclicity of activity

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

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

None.

7. Dividends paid

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

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

8. Acquisitions

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

9. Off-balance sheet items

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Off-balance sheet liabilities granted	32 245.0	28 793.5	28 844.2	27 490.3
Off-balance sheet liabilities received	89 678.7	82 844.7	81 822.3	82 864.1
Off-balance sheet financial instruments	547 979.7	521 166.8	500 985.8	493 895.7
Total off-balance sheet items	669 903.4	632 805.0	611 652.3	604 250.1

10. Total capital ratio

	as of 30 Jun 2018	as of 31 Mar 2018	as of 31 Dec 2017	as of 30 Jun 2017
Own funds	11 221.5	11 003.9	10 743.3	10 016.0
Total capital requirement	5 395.0	4 988.6	4 673.5	4 658.1
Total capital ratio	16.6%	17.7%	18.4%	17.2%
Tier I ratio	15.7%	16.6%	17.3%	16.1%

*) When calculating the capital ratios, the Bank was using the transitional provisions concerning alleviation of the IFRS 9 implementation impact on own funds. More information about the transition period was presented in these condensed financial statements in item 1.8.1. *IFRS 9 Financial Instruments – Impact on capital requirements*. If the IFRS 9 implementation impact had been recognised in full, the total capital ratio would have arrived at 16.3% and the Tier I capital ratio at 15.4%.

As of 2018, the Bank modified its accounting principles due to the implementation of the equity method to measure investments in subsidiaries and associated units in the separate financial statements of the Bank (for details, see Chapter 2.3. and Chapter 3)..

11. Significant events after the balance sheet date

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

12. Transactions with related entities

Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	Subsidiaries	Associated entities	ING Bank NV	Other ING Group entities	Subsidiaries
	as of 30 Jun 2018				as of 30 Jun 2017		
Receivables							
Current accounts	27.9	11.7	-	-	26.5	2.6	-
Deposits placed	62.0	-	-	-	81.5	15.0	-
Loans	-	0.1	7 742.5	-	-	2.1	6 577.5
Positive valuation of derivatives	71.3	44.4	1.7	-	218.8	91.1	1.7
Other receivables	5.3	2.2	11.6	-	1.4	0.4	6.6
Liabilities							
Deposits received	183.5	46.6	196.5	5.9	88.1	25.2	89.1
Subordinated loan	655.6	-	-	-	635.3	-	-
Loro accounts	4.6	34.5	-	-	5.4	35.6	-
Negative valuation of derivatives	83.4	41.9	-	-	232.9	85.2	-
Other liabilities	40.6	3.2	2.0	-	47.2	1.3	1.5
Off-balance-sheet operations							
Off-balance sheet liabilities granted	443.8	255.7	1 863.1	-	357.5	178.8	1 726.3
Off-balance sheet liabilities received	423.1	273.3	-	-	355.5	182.1	-
FX transactions	7 411.7	14.8	-	-	17 282.1	107.7	-
Forward transactions	420.9	-	-	-	2 099.7	-	-
IRS	2 999.6	2 575.6	67.3	-	3 271.0	2 537.5	69.5
Options	2 885.0	42.2	-	-	5 660.3	273.6	47.6
	I H 2018 the period from 1 Jan 2018 to 30 Jun 2018				I H 2017 the period from 1 Jan 2017 to 30 Jun 2017		
Income and expenses							
Income, including:	-1.4	1.7	86.8		58.4	5.6	70.1
interest and commission income/expenses	11.5	1.2	86.7		-0.3	2.2	71.1
income on financial instruments	-13.0	-2.5	0.1		46.8	3.4	-1.0
wynik na inwestycyjnych aktywach finansowych	-	-	-		11.9	-	-
net income on other basic activities	-	3.0	-		-	-	-
General and administrative expenses	37.9	4.2	3.8		29.5	3.1	3.0
Outlays for non-current assets	-	-	-		-	-	0.4

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

2018-07-31	Brunon Bartkiewicz President	Signed on the Polish original
2018-07-31	Michał Bolesławski Vice-President	Signed on the Polish original
2018-07-31	Joanna Erdman Vice-President	Signed on the Polish original
2018-07-31	Marcin Giżycki Vice-President	Signed on the Polish original
2018-07-31	Bożena Graczyk Vice-President	Signed on the Polish original
2018-07-31	Justyna Kesler Vice-President	Signed on the Polish original
2018-07-31	Patrick Roesink Vice-President	Signed on the Polish original

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2018-07-31	Jolanta Alvarado Rodriguez	Director of Accounting Department Chief Accountant	Signed on the Polish original
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