ING Bank Śląski S.A. Group

Management Board Operations Report for H1 2018

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ING Bank Śląski S.A. Group Management Board Operations Report for H1 2018

I. Implementation of strategic priorities for 2018

Increase in the number of clients supported by digital solutions and high client satisfaction	• We have 4.48 million retail clients and 59 thousand corporate clients, by +287 thousand and +6.2 thousand more than a year earlier, respectively • High absorption of new solutions - 71% of individual customers use mobile banking • Our clients made 5x more BLIK transactions than in H1 2017 • We are implementing new solutions and products, e.g. Moje ING keyboard, new Mobi account for young people • We have achieved the first place in terms of the quality of customer relationships, which consist of satisfaction, activity and customer loyalty in the ranking prepared by Dziennik Gazeta Prawna and PwC • We are the second most recognisable banking brand in Poland
Motivated employees, engaged in implementation of the Bank strategy	• We employ 8,075 staff members • In April, we conducted a pay rise campaign • We implemented a new Cafeteria plan for employees • We were ranked second in the Most Desired Employers in the Opinion of Professionals and Managers study by Antal in the Banking category
Leader position in artificial intelligence use and data management	• We introduced the Mój Asystent system which answers clients' questions using artificial intelligence • Retail clients effected 29.3 million transactions via mobile banking, i.e. up by 9.2 million from a year earlier • We sold 73.2% retail cash loans in Internet channel
Optimal and stable balance sheet	• Receivables from customers (excluding Eurobonds) went up by 14% y/y, including a growth of mortgage loans by 21% y/y • Liabilities to customers went up by 10% y/y, including a growth of funds in current accounts by 14% y/y • We improved the L/D ratio by 3.0 p.p. y/y to 86.8% • Cumulative interest margin is 2.93%, i.e. it improved by 0.1 p.p. y/y • The total solvency ratio is 15.2%, and Tier 1 ratio 14.4%
Operating effectiveness improvement	• Commercial balance per FTE is PLN 25.6 billion, or 11% more than a year ago • We improved the C/I ratio to 46.1% (46.3% a year ago) • We increased ROE to 12.3%, up by 0.8 p.p. from the previous year

II. About us

1. Who we are

We have been present in the Polish market since 1989. We enjoy the position of one of the largest all-round banks in Poland. We render services to both retail clients and business entities. As at the end of June 2018, we operated through 352 branches and 64 ING Express points. We also offer modern online and mobile banking systems.

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

Our operations are based in two main locations – Warsaw and Katowice. This is where the key decisions on our operations are taken. This is also the seat of the Management Board and the Supervisory Board. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of June 2018, as a Group we employed over 8,000 people.

We pursue our business model by:

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

We empower our clients to make accurate financial decisions. We provide them with tools to make banking easy, transparent and available 24/7. We also leverage on the strong brand. We are the second most recognisable banking brand in Poland. We clearly stand out from other competitors in two image dimensions of key importance for ING: “bank for the resourceful and enterprising” and “bank which responds to people’s needs”. It is our success in building the ING brand. This is confirmed by the “Brand Tracking” spontaneous awareness survey, conducted by Millward Brown (CAPI technique, data for March-May 2018).

Furthermore, we stand out from other competitors in two image dimensions of key importance for ING: “bank for the resourceful and enterprising” and “bank which responds to people’s needs”. It is our success in building the ING brand.

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

Bank shares have been quoted on the Warsaw Stock Exchange since 1994. Since the very index formation (September 2013), we have been among the WIG30 companies.

In 2017, we were listed in the RESPECT Index (of the most socially responsible companies) for the eleventh time. Our presence in the index is a huge reason to be proud and a big distinction. The more so that we are the only company from the financial sector present in the RESPECT Index from the very beginning, i.e. 2009. Consistency, transparent and responsible approach to business as well as ethical relationships with stakeholders are our way to continue being part of this prestigious group.

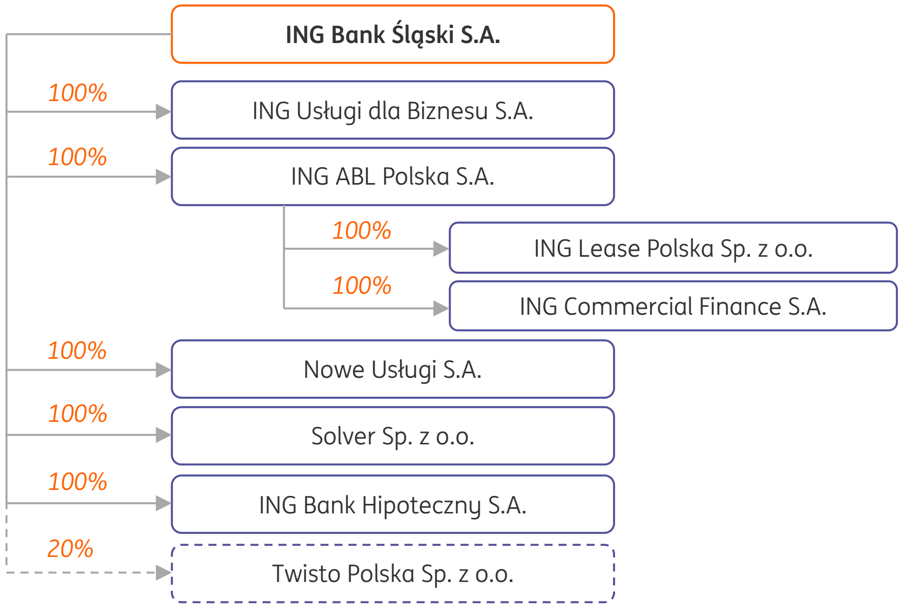
2. How does ING Group operate in Poland

ING Bank Śląski S.A. operating in Poland is part of the ING Bank Śląski S.A. Group. As a Group, for 29 business years, we have managed to establish our position among the top financial institutions in Poland. We are the fifth in terms of the balance sheet total (over PLN 127 billion as at the end of March 2018) and the fourth in terms of the commercial balance (the total of deposits and loans). We form the Group together with the subsidiaries, where we operate in the area of:

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

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

Composition of the ING Bank Śląski S.A. Group as at 30 June 2018



ING ABL Polska S.A.	ING ABL Polska is a holding company. Through that company, the Bank holds shares in two subsidiaries: ING Commercial Finance and ING Lease (Polska).
ING Commercial Finance S.A.	ING Commercial Finance offers factoring products. The company was established in 1994 under the name of Handlowy Heller. Upon its incorporation into ING Group, since 2006, the company has been operative under the name of ING Commercial Finance. Since 2012, it has been a member of the ING Bank Śląski S.A. Group – like ING Lease (Polska). As per the Polish Factors Association's data, since 2014, ING Commercial Finance has been the leader of the factoring market in Poland. In H1 2018, ING Commercial Finance turnover totalled PLN 14.8 billion, which represented 13.5% of the market turnover. In June 2018, the company served over 2.1 thousand clients (up by 34% y/y) and bought out 23% more invoices versus H1 2017.
ING Lease (Polska) Sp. z o.o.	ING Lease (Polska) has been present in the market since 1996. Since 2012, it has been a member of the ING Bank Śląski S.A. Group. ING Lease (Polska) offers all basic types of lease and a cash loan which can be used to finance both movables (passenger cars, light-duty vehicles, heavy transport means, machinery and equipment, medical and IT equipment) and immovables. The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares. In H1 2018, the new lease production of the company totalled PLN 2.2 billion (up by 16% y/y). It allowed ING Lease (Polska) to be #7 in the market, with a market share of 5.6%. At the end of June 2018, the company served 20.3 thousand clients (up by 31% y/y) and its portfolio worth exceeded PLN 7.8 billion (up by 14% y/y).
ING Bank Hipoteczny S.A.	In 2018, the Bank Group was joined by a new subsidiary – ING Bank Hipoteczny S.A. The Polish Financial Supervision Authority consented to Bank Hipoteczny establishment on 16 January 2018. ING Bank Śląski S.A. holds 100% of shares in the new bank. The main business purpose of Bank Hipoteczny will be issue of long-term mortgage bonds with the underlying instruments being debt claims under the mortgage-backed loans acquired from ING Bank Śląski S.A. or other banks.
ING Usługi dla Biznesu S.A.	For 5 years now, the Company has been offering innovative business services beyond traditional banking. ING Usługi dla Biznesu operates in the following business areas: • ING Accounting – as part of the offer for Entrepreneurs it offers an integrated business ecosystem that enables clients to manage their sales and warehouse, monitor receivables and liabilities and calculate taxes on their own or cooperate with a selected accounting office. Thanks to automatic digitalization of invoices and integration with the Moje ING system, it helps to settle payments and build an electronic repository of business documents. As part of the offer for the SME/MCE segment, ING Accounting also offers accounting and payroll services in a fully outsourced model. • Aleo.com – open business purchase platform supporting businesses and their operations. Basic features of the service platform are e-procurement tools in the freemium model and a comprehensive base

	of information about companies in Poland. The set of data consists of over 70 thousand companies registered on Aleo and a complete list of over 3 million business entities based on the National Court Register and Central Registration and Information on Business, plus a number of additional pieces of information such as contact or financial data. The Aleo platform also offers a continuously developing Vendor Finance service, performed in cooperation with the Bank. Vendor Finance ensures offtakers undisrupted deliveries and negotiations of payment dates both with the vendor and with the Bank.
Nowe Usługi S.A.	The company was incorporated in May 2014. On 31 May 2016, the company took over from ING Securities S.A. capital market-related education and marketing activities following the ING Securities S.A. division. As far as educational activities are concerned, the company runs the website edukacjagieldowa.pl. It is a website about investing and stock exchange, both for debuting and fully-fledged investors. The knowledge database and investment-related materials are published on an ongoing basis on the website. Marketing activity focuses on financial instruments – namely ING Turbo certificates. The instruments are issued by ING Bank N.V. and quoted on the Warsaw Stock Exchange. As part of its marketing activity, the company operates an ING Turbo help-line, administers an ingturbo.pl website and conducts marketing campaigns designed to popularise ING Turbo certificates on the Polish market.
Solver Sp. z o.o.	The company runs business in the scope of arranging holidays for employees and their families as well as for pensioners of ING Bank Śląski S.A. This activity is carried out in the Pan Tadeusz Training and Recreational Centre in Krynica. The company is also renting 6 residential premises in the building in Katowice at ul. Klimczoka 4.
Twisto Polska Sp. z o.o.	Twisto Polska Sp. z o.o. was incorporated in 2017. Its shareholders are ING Bank Śląski S.A. and Twisto Payments a.s. – a Czech fintech offering innovative solutions for payments in e-stores. The ING investment was made primarily to launch Twisto services on the Polish market and their innovative purchase formula "Buy now, pay later", with which clients buying at e-stores can make orders and pay for them within 21 days. The Twisto payment method is available in the payment gateway "imoje" activated by the Bank in April 2018.

3. ING Bank Śląski S.A. business strategy

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

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

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

For more information about our business strategy see the Management Board Report on Operations of ING Bank Śląski S.A. Group in 2017 on page 47.

Strategic priorities for 2018

Our strategic priorities for 2018:

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

Main risks for 2018

Risks to business strategy implementation in 2018:

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

4. *Awards and honourable mentions*

Our daily efforts in offering attractive products to our clients, attention to high service quality, sustainability actions and practices as well as outstanding commercial and financial results have been honoured with numerous awards and distinctions. Below please find the list of the most important ones received in H1 2018:

- The main prize and the title of the Banking Star granted for the overall performance in 2017 in the ranking compiled by Dziennik Gazeta Prawna and PwC. The Bank was also awarded in the following categories: "Customer Relationship, "Growth" and "Effectiveness".
- 2nd place in the Banking, Financial and Insurance Sector category and 5th place in the general classification in2018 Ranking of Responsible Companies.
- An award in the Golden Banker competition in the "Best Spot" category for the Clean Air Campaign.

The full list is available at en.ingbank.pl/company-profile/prizes.

III. Macroeconomic situation of Polish banking sector growth

1. Major trends in Polish economy

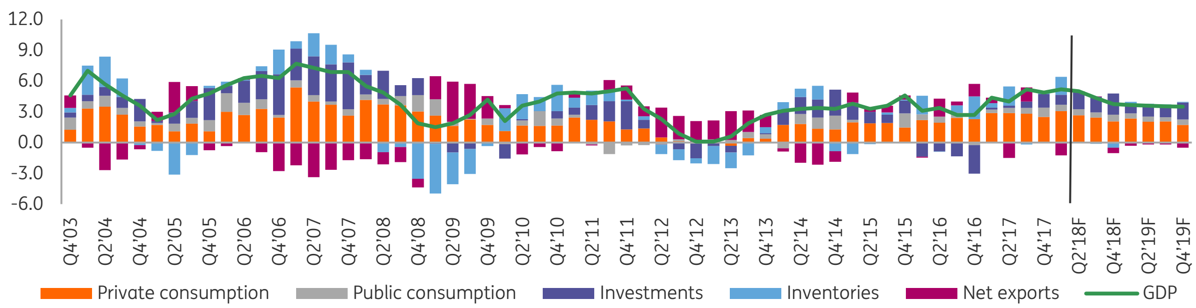
Gross Domestic Product

In H1 2018, Polish economy reached the peak in the current economic cycle. In Q1 2018, the GDP growth rate reached a very high level of 5.2% y/y. The growth was mainly driven by replenishment of investment outlays – in particular public ones, co-financed with EU funds. The consumer expenditure growth rate was also high (4.8% y/y). The economists of ING Bank Śląski S.A. estimate that the GDP growth rate remained much above 5% y/y also in Q2 2018, i.e. owing to significantly higher net exports contribution. Polish economy proves incredibly resilient to slowdown in the Eurozone.

In H2 2018, the GDP growth rate will be slightly lower yet still very solid, i.e. over 4% y/y. In the opinion of the economists of ING Bank Śląski S.A., the current consumption growth rate will not last – the upward wage trend does not offset the fading away of the 500+ programme consequences. At the same time it is quite probable that the growth rate of investment outlays will slightly decrease (due to less favourable base effects). Moreover, the share of private investments, which recorded low levels at the turn of 2017-2018, should grow now.

In the opinion of the economists of ING Bank Śląski S.A., strong domestic demand will contribute to deterioration of the Poland's net exports – the exports growth rate will be much lower than the imports growth rate. In 2017, the foreign trade surplus was at approx. 0.2% of GDP and in 2018 a small deficit of 0.3% of GDP is expected.

GDP growth decomposition (%)



Source: Central Statistical Office, Q2 2018-Q4 2019 – ING forecast

Labour market and payroll

At the beginning of 2018 the unemployment rate continued to drop and in June it reached 5.9%. Business entities continue to report problems with shortage of employees (and the number of companies with such problems is growing). They are partly alleviated by an influx of foreign employees – according to the estimates of the National Bank of Poland there is approx. 1 million of them in Poland.

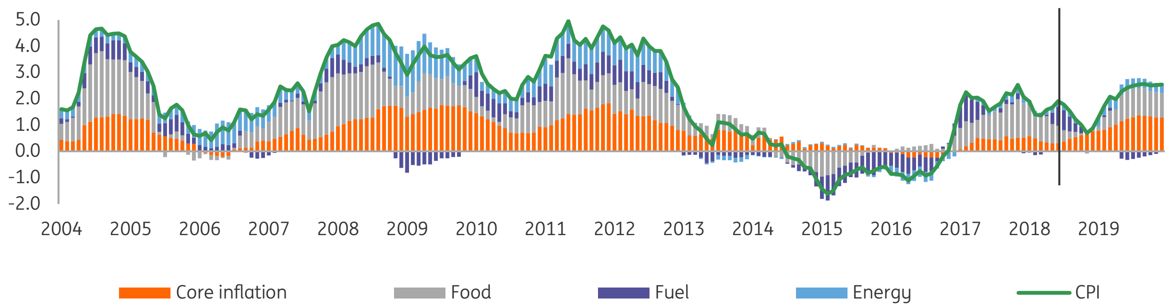
The high employment rate is coupled with a significant wage pressure – in Q1 2018 the wage growth rate was on average at 7.0% y/y. Yet, the number of companies declaring a wage rise remains stable (according to the 3Q 2018 Fast Monitoring report by the National Bank of Poland) and the factors reflecting wage pressure increase weakened. It has been a year also that the surveyed enterprises has been reporting that the wage growth is much higher than the productivity growth. ING Bank Śląski S.A. economists anticipate that H2 2018 will see a further intensification of the wage pressure in domestic economy, yet the growth will be below two-digit level.

Inflation

The inflation did not rebound in H1 2018 – CPI inflation was below the NBP target of 2.5% y/y, and in February and March it was temporarily below the bottom of the NBP range (1.5% y/y). The so-called core inflation (CPI excluding food and energy) was a negative surprise. The growth rate for this group went down to 0.6% y/y despite a strong wage growth.

In the opinion of the Bank's economists, CPI in Poland in H2 2018 will trend down and in Q4 2018 will arrive at approx. 1.2% y/y. The increase in industrial goods' prices is limited by the import of low inflation from the Eurozone. Also the growth rate of service prices is disappointing however it is partly due to temporary factors. It is due to the lower growth rate of food prices related to statistical effects and a global fall of prices of core soft commodities (other than crops). Also the announcement of the agricultural draught should only moderately translate into prices.

Inflation (CPI) – decomposition (%)



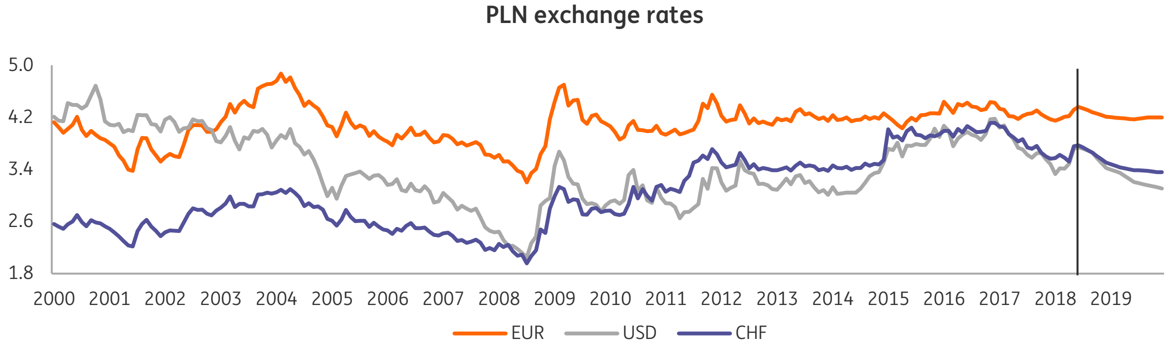
Source: Central Statistical Office, Q2 2018-Q4 2019 – ING forecast

Impact of global financial markets on Polish economy

In H1 2018, the assets of emerging economies were under pressure caused by the economic slowdown outside the US and concerns about global growth of protectionism. It severely impacted PLN that depreciated i.e. against USD. Despite a strong macroeconomic situation in Poland, PLN turned about to be the second after HUF weakest currency in the CEE. The situation for domestic T-bonds was completely different – the Polish debt was one of the most resilient among the assets of the emerging markets. In the opinion of the economists of ING Bank Śląski S.A. it was caused by low T-bonds supply in the primary market (the result of good standing of the Poland's public finance) and a material growth of domestic entities' exposure in bonds.

In the opinion of the economists of ING Bank Śląski S.A. in H2 2018, PLN will be moderately undervalued and the EUR/PLN exchange rate will be over 4.20. PLN will most probably remain sensitive to the geopolitical situation (e.g. concerns about the global growth of protectionism). Due to the relatively high liquidity, PLN is used for synthetic securing of a position on other markets in the region, that is why in the periods of intensified pressure it is more volatile. The argument for a weaker PLN is also the risk of more expansive fiscal policy due to the coming local government and parliamentary elections in Poland. In 2019, the economists of ING Bank Śląski S.A. expect that the EUR/PLN exchange rate will stabilize around 4.20.

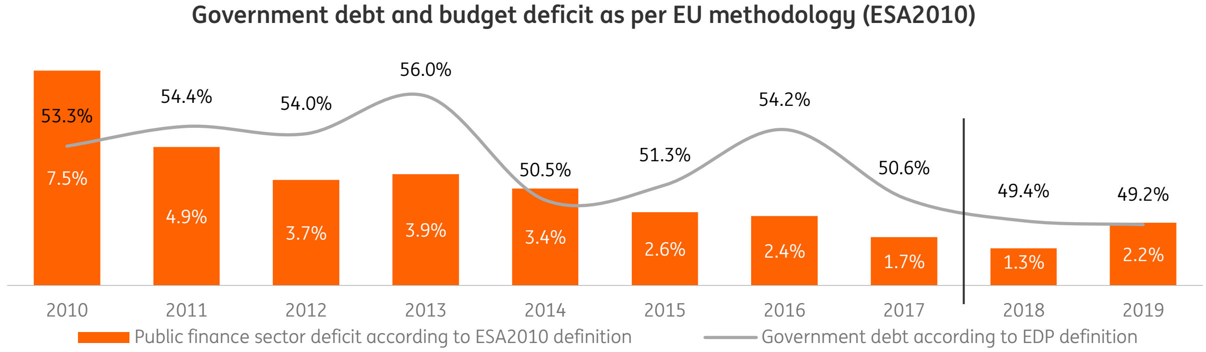
The perspective of policy tightening, especially by the main central banks means the risk of higher yield of domestic T-bonds (especially those with long tenors). In the opinion of the economists of ING Bank Śląski S.A. in the coming months the profitability of i.a. German and American bonds will grow leading to weakening of instruments in the emerging markets. The spreads between the Polish T-bonds and the German instruments should remain stable. It reflects a favourable fiscal policy of the state and continuing low supply of T-bonds on the primary market.



Source: National Bank of Poland, ING forecast

Public finance

In H1 2018, public finance standing was favourable. Even though from January to May the income on VAT increased by only 3% versus the same period last year but it was mainly due to the absence of acceleration of its reimbursement at the end of 2017 and not to its lower collection. The income growth on PIT and CIT was already much higher in this period, i.e. 16% year on year. In turn, the budget expenditure hardly increased. As a result, as at the end of May 2018, the state budget had a surplus of PLN 9.6 billion.



Source: Central Statistical Office, ING forecast

The economists of ING Bank Śląski S.A. believe that the budget surplus will continue until November but the growth of public spending in December will ultimately lead to the 2018 budget deficit of approx. PLN 20 billion. The overall public finance sector deficit according to the EU ESA2010 methodology will be 1.3% of GDP.

With decreasing borrowing needs of the state, the government debt is mainly shaped by changes in PLN value translating into changes in the value of debt denominated in foreign currencies. PLN appreciation in 2017 and high economic growth translated into lower government debt versus GDP (a drop from 54.1% to 50.7%). Both those factors will lower the government debt also in 2018, even though to a lesser extent. In the opinion of the economists of ING Bank Śląski S.A., the government debt (according to EU ESA2010 definition) as at the end of the year will drop below 50% of GDP. It will be the factor supporting pricing of Polish bonds in the coming quarters. Yet, we expect that the GDP slowdown and increase in public spending before the parliamentary elections will lead to the deficit increase to 2.2% of GDP in 2019.

2. *Monetary policy*

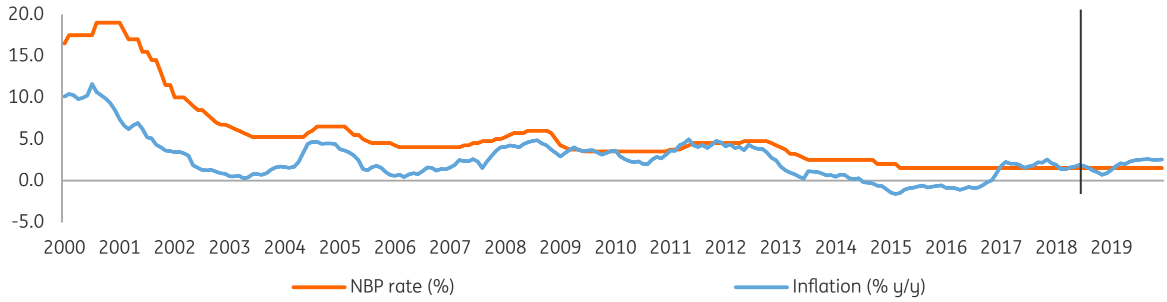
In H1 2018, the Monetary Policy Council kept the interest rates unchanged, i.e.:

- reference rate at 1.50%,

- rediscount rate at 1.75%,
- lombard rate at 2.50%,
- deposit rate at 0.50%.

Members of the MPC explicitly communicate that there is no need to tighten the monetary policy by 2020. The ING Bank Śląski S.A. economists are of the opinion that the declarations of the President of the National Bank of Poland Adam Glapiński are not at risk. Maintenance of the dovish attitude is favoured by low inflationary pressure in Poland and accommodative policy of the European Central Bank (that declared that it would keep the interest rates at low levels by H2 2019). It is also supported by the risk of cyclical economic slowdown both in Poland and in the Eurozone countries after 2019. ING Bank Śląski S.A. economists take the view that the interest rates in Poland will remain unchanged by the end of 2020.

NBP rate vs. inflation (%)



Source: Central Statistical Office, National Bank of Poland, *ING forecast*

3. *Banking sector*[1]

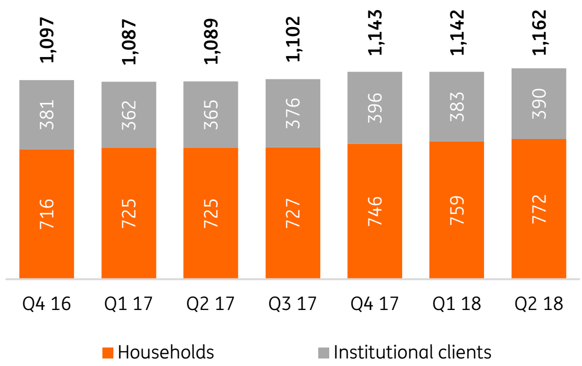
Receivables and liabilities

As at the end of June 2018, the main monetary categories were as follows:

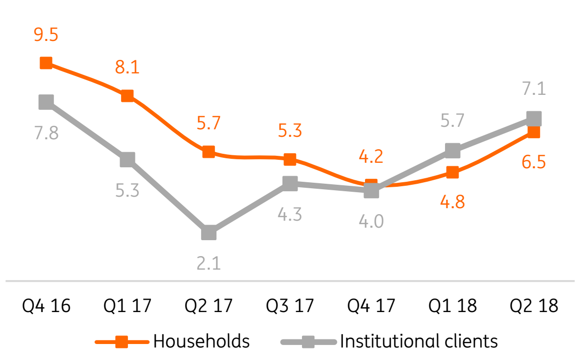
- Liabilities to households went up by PLN 47.3 billion versus the end of June 2017 and reached PLN 771.9 billion, up by 6.5% from the year before.
- Liabilities to institutional clients amounted to PLN 390.5 billion, up by 7.1% from the previous year. The volume increase by PLN 25.9 billion can be mainly attributed to higher liabilities to enterprises (up by 6.5%, or by PLN 16.1 billion) and to non-monetary financial institutions (up by 12.2%, or by PLN 6.6 billion). Liabilities to non-commercial institutions for households augmented by 11.2%, that is by PLN 2.6 billion, in that period. As at the end of June 2018, liabilities to local government institutions and the Social Insurance Fund were higher by PLN 0.7 billion (+1.8%) than the year before.

[1]The amounts discussed are for receivables and liabilities of banks from/to other domestic sectors. Source: NBP, file NALEZ_ZOBOW_BANKI.xlsx – June 2018

Liabilities (PLN billion)

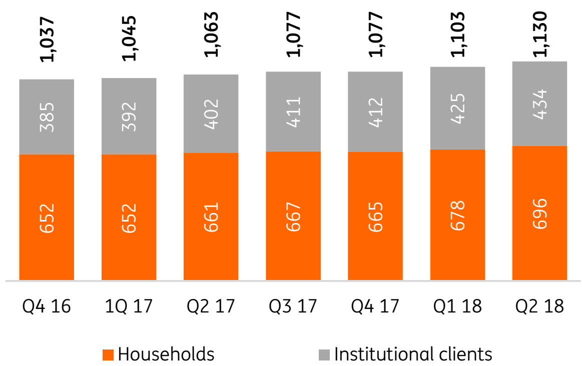


Liabilities increase (%; y/y)

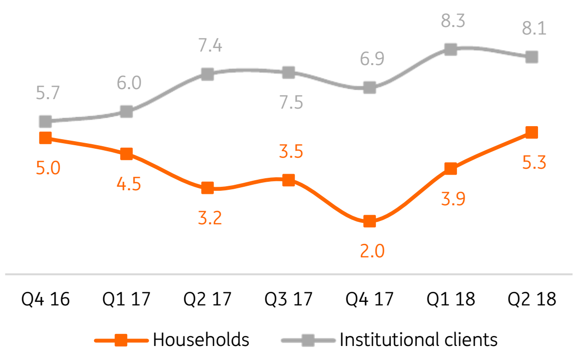


- In June 2018, receivables from households amounted to PLN 695.7 billion, up by 5.3% from the year before. Housing loans, which formed the main part of the banks' credit exposure towards households, grew by 3.2% to PLN 404.2 billion (including PLN-denominated housing loans which rose by 10.9%, arriving at PLN 271.9 billion). According to the preliminary data of the Polish Bank Association, during the first six months of 2018, banks granted mortgage loans totalling approx. PLN 25.9 billion (PLN 22.2 billion in the same period last year); 98.5% of those were PLN loans. Other retail loans grew relatively fast. They reached PLN 291.5 billion in June 2018, up by PLN 22.2 billion (or +8.2%) from the end of June 2017.
- Receivables from institutional clients went up by PLN 32.7 billion (or +8.1%) as compared with June 2017, arriving at PLN 434.1 billion. They were composed of the following:
  - corporate receivables rose by PLN 24.2 billion (or +7.8%),
  - receivables from non-monetary financial institutions rose by +12.5% y/y (PLN 6.9 billion) from June 2017,
  - receivables from local government institutions and social insurance funds went up by 3.2% y/y (PLN 0.9 billion),
  - receivables from non-commercial institutions for households went up by +4.9% y/y (PLN +0.3 billion).

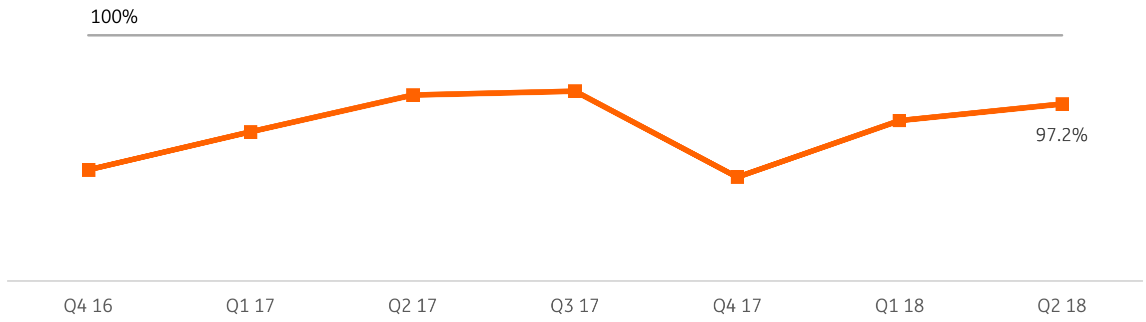
Receivables (PLN billion)



Increase in receivables (%; y/y)



L/D ratio for the banking sector



Financial results and quality of assets

In the first five months of 2018, the net result of the banking sector went up by 24% y/y, arriving at PLN 6.4 billion. Net profit was primarily fuelled by a visibly higher income (up by 7% y/y). Net interest income rose by 9% y/y thanks to improved interest margin and higher commercial volumes. Other income also grew at a noticeable pace (up by 9% y/y) and managed to offset a drop in income on fees and commissions (down by 2% y/y).

On the other hand, income growth was also accompanied by higher general and administrative expenses (up by 5% y/y), primarily propelled by high costs of salaries and wages (up by 6% y/y) and other general and administrative expenses (including banking tax; up by 4% y/y), while the amortisation/depreciation costs remained relatively stable (+1% y/y).

Income over costs enabled the C/I ratio to improve and settle at 58.9% (60% a year ago).

Sectoral risk costs grew at a relatively slow pace (1% y/y); which coupled with the growing portfolio of receivables led to the risk cost reduction to 64 bp (from 66 bp a year ago).

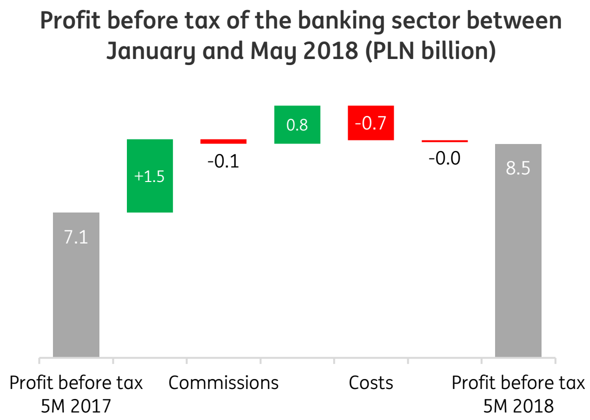
The profit before tax of the sector closed with PLN 8.5 billion (+21% y/y). It was also driven by a solid result on the share in gains of associated entities (PLN+506 million vis-à-vis PLN-43 million a year ago). A strong profit before tax growth led to a higher income tax (+11% y/y).

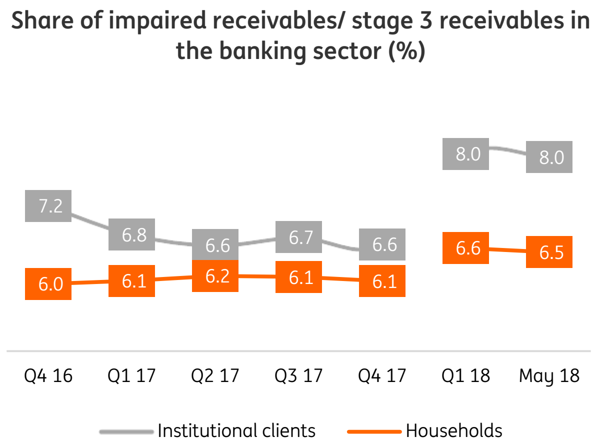
The core effectiveness measures of the banking sector looked as follows (y/y):

- return on assets (ROA) was 0.9% as compared with 0.7% the year before, and
- return on equity (ROE) improved from 6.6% to 7.7%.

The share of stage 3 receivables (PFSA data) in total receivables in May 2018 was 7.1% (6.3% in May 2017). The data on the portfolio quality are not fully comparable to historical data due to the implementation of IFRS 9 at the beginning of 2018 (lack of one standard approach on the part of banks to penalty interest).

In May 2018, the share of stage 3 receivables from households was 6.5%. In the institutional clients segment, stage 3 receivables accounted for 8.0% of the portfolio.





Source: PFSA data for the banking sector with foreign branches

4. *Asset-backed funding market*

Leasing

H1 2018 was another period of growth of the leasing sector, triggered by a good economic situation and improving financial standing of companies. The amount of contracts made by leasing companies rose from H1 2017 by 19.7% and reached PLN 38.9 billion (data of the Polish Leasing Association).

Vehicles with the approved gross vehicle weight up to 3.5 tons were the biggest segment of the market (with the share of 45.6%). In H1 2018, the assets of that category funded by leasing companies equalled PLN 17.8 billion (+21.2% y/y). The machinery and equipment (including IT) funding being the second market segment in terms of the market share (26.5%) also experienced a turnover growth. It closed with turnover of PLN 10.3 billion (or +21.2% y/y). The segment of heavy-duty vehicles funding underwent a similar scenario and reported a marked 17.0% rise y/y (to PLN 9.7 billion) (market share of 25.0%).

Factoring

In H1 2018, the turnover of the factoring companies belonging to the Polish Factors Association grew by +14.7% y/y, arriving at PLN 94.0 billion (versus PLN 84.4 billion in H1 2017). Export recourse factoring and local non-recourse factoring services saw the highest growth as regards client's interest (+29% y/y and +15% y/y, respectively).

The reasons behind the turnover growth were the greater number of clients that went up to 15.4 thousand. Factoring was the most popular (as for the turnover) in the manufacturing and distribution sectors of the Polish economy.

5. *Capital market*

Warsaw Stock Exchange

The first half of 2018 was unfavourable for investors on the Warsaw Stock Exchange. The stock exchange downturn was mainly driven by international developments – trade wars.

The main indexes as at the end of H1 2018 were lower than as at 2017 yearend. The broad market index WIG lowered by -12.2% versus 29 December 2017. The result of the indexes grouping the companies with the biggest capitalisation was even worse – WIG20 and WIG30 diminished by -13.2% and -12.8%, respectively. Also the indexes of smaller companies sWIG80 and mWIG40 were below zero as at the end of H1 2018. They lost -13.1% and -13.0% respectively.

As at the end of June 2018, there were 473 companies listed on the WSE main floor, including 49 foreign ones. Domestic companies were worth PLN 566.9 billion, down by -15.5% from December 2017. Domestic and foreign companies were worth PLN 1,229.5 billion in total, down by -10.9% versus December 2017. The first half of the year saw 5 IPOs and delisting of 14 companies.

H1 2018 saw much fewer main floor trades. Trading volumes went down by -18.6% from the same period last year and amounted to over PLN 101.7 billion. Total trading (block trades included) went down by -25.5%, arriving at PLN 104.9 billion. Total trading on the alternative stock market NewConnect went down and reached PLN 0.6 billion, down by -25.1% from H1 2017.

Mutual funds

As at the end of June 2018, the mutual funds assets totalled PLN 284.0 billion, up by PLN 1.2 billion (or +0.4%) from the 2017 yearend. The growth was primarily due to the increment in funds deposited in the funds available for the mass market that is untargeted ones (PLN +6.5 billion reaching PLN 166.1 billion). As at the end of H1 2018, targeted funds, that is the funds offered to a target group of investors, often created for private purposes of affluent individuals or companies managed PLN 114.1 billion assets (PLN -5.3 billion, or -4.5% versus 2017 yearend).

The situation of the untargeted funds market was unfavourable. It was driven by uncertainty on foreign financial markets. Consequently, in H1 2018, only cash funds grew in nominal terms. Their accumulated funds went up by PLN 10.6 billion to PLN 53.3 billion.

Open-end pension funds

Poor situation in financial markets adversely impacted the funds gathered in pension funds. In June 2018, open-end pension funds' assets amounted to PLN 158.1 billion, down by PLN 21.5 billion (-11.9%) from the 2017 yearend. As at the end of June 2018, 85.0% of those assets were domestic and foreign issuers' stock.

6. Macroeconomic factors to affect ING Bank Śląski S.A. operations in H2 2018

Protectionist trade policy of the US is a certain threat to global economy. Direct effects of increased customs duties will probably be relatively small. According to the estimates of CesIfo institute introduction by the US of higher customs duties on import of cars will decrease the GDP growth in EU by 0.06 p.p. The consequences will be most painful for Germany (0.16 p.p.), Hungary (0.18 p.p.), Slovakia (0.12 p.p.) and Czech Republic (0.1 p.p.). The role of the Polish automotive industry in the CEE region is relatively small - its share in total industry turnover is approximately 11% while in other countries it is between 24% and 35%. Yet, there is a risk that the business sentiment will deteriorate leading to investment slowdown. In Poland it may be reflected by particularly low outlays for output capital - it is a key category i.a. due to the exports perspectives and it is difficult to support it with political decisions or disbursement of EU funds.

Eurozone economic data were a negative surprise at the beginning in 2018. It is accompanied by increased pessimism in the economic situation research in the enterprise sector and a small improvement in the labour market in Italy or France. The economists of ING Bank Śląski S.A. take the view that the economic slowdown will not prove persistent or deep – after a relatively weak Q1 2018 there was a rebound of global industry it is possible that this trend will continue over the next quarters. The Eurozone economic growth in 2018 will probably be above 2%. It should allow tapering of the quantitative easing programme by the European Central Bank with the end of this year. Nevertheless, the interest rates will most probably not be raised before H2 2019.

The concerns about the global trade perspectives and growth of interest rates in the US cause the pressure on the assets of emerging economies – their currencies have significantly depreciated from the beginning of the year. In our opinion, lower concerns about protectionism or political risk in some markets (e.g. the elections in Mexico that the investors had been worried about already took place, and soon they will be held in Brazil) which will allow strengthening of EM currencies (this is the current trend for PLN), even though the countries with large government debt will be susceptible to the impact of Fed rises.

Weakness of private investments is also an important factor. Poland increased the distance to the region in terms of the share of investment in GDP. Nevertheless, the EU budget cycle is not correlated with the economic cycle. The volume of the contracted EU projects already reached PLN 290 billion and the actual disbursements of funds strongly accelerated at the end of Q2 2018 which indicates that public investment will remain strong in H2 2018 and in 2019.

Also business outlays should gradually grow. We forecast that in 2018 the investments outside the public sector will grow by approx. 6-7% y/y. Over the same period the companies controlled by the State Treasury are planning a 17% investment growth (but 90% of this growth are PKP expenditures). Nevertheless, those forecasts are quite uncertain – the Central Statistical Office shows a solid slowdown of new project values' estimates.

Polish economy in 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F
GDP growth (%)	3.7	5.0	1.6	1.4	3.3	3.8	2.9	4.6	4.8	3.7
Sector debt general government debt as per the EU methodology (% of GDP)	53.1	54.1	53.7	55.7	50.2	51.1	54.1	50.6	49.4	48.9
M3 money supply (% y/y)	8.8	12.5	4.5	6.2	8.2	9.1	9.6	4.6	5.9	5.7
Producer Price Index growth (%)	11.0	7.2	1.4	2.3	3.4	4.9	3.0	6.5	4.9	3.8
Average annual inflation (CPI) (%)	2.6	4.3	3.7	0.9	0.0	-0.9	-0.6	2.0	1.4	2.2
Unemployment rate (%)	12.4	12.5	13.4	13.4	11.4	9.7	8.2	6.6	5.8	5.7
PLN/USD exchange rate (yearend)	2.96	3.42	3.10	3.01	3.51	3.90	4.18	3.48	3.42	3.16
PLN/EUR exchange rate (yearend)	3.98	4.46	4.07	4.15	4.27	4.26	4.42	4.17	4.21	4.26
3M WIBOR (yearend)	3.9	4.6	4.9	3.0	2.5	1.7	1.7	1.7	1.73	1.73

IV. ING Bank Śląski S.A. Group operations in H1 2018

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

- Retail banking segment, which encompasses private individuals (mass clients sub-segment and affluent clients sub-segment) and entrepreneurs (small businesses).
- Corporate banking segment, which comprises institutional clients and FM products' operations.

1. *Retail banking*

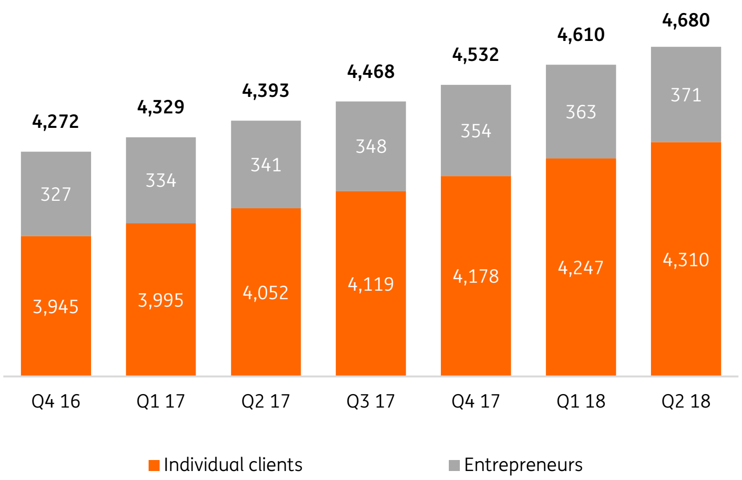
Number of clients

As at the end of June 2018, 4.7 million retail clients used the services of ING Bank Śląski S.A. The number includes:

- 4.3 million individual clients and
- 371 thousand entrepreneurs.

In H1 2018, the Bank welcomed 223 thousand retail clients, whereby the number of clients tended to by the Bank went up by 148 thousand from the 2017 yearend.

Number of retail clients (thousand)

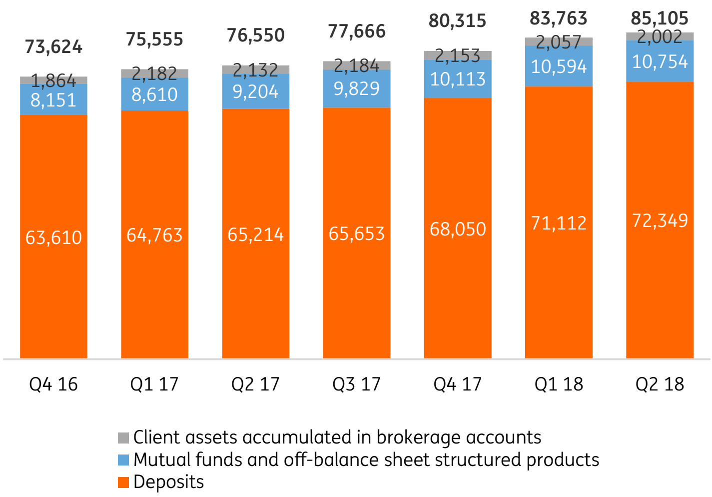


Deposits

As at 30 June 2018, funds entrusted to ING Bank Śląski S.A. by retail clients totalled PLN 85.1 billion, up by more than PLN 4.5 billion (+6.0%) over H1 2018 and by more than PLN 8.6 billion (+11,2%) y/y.

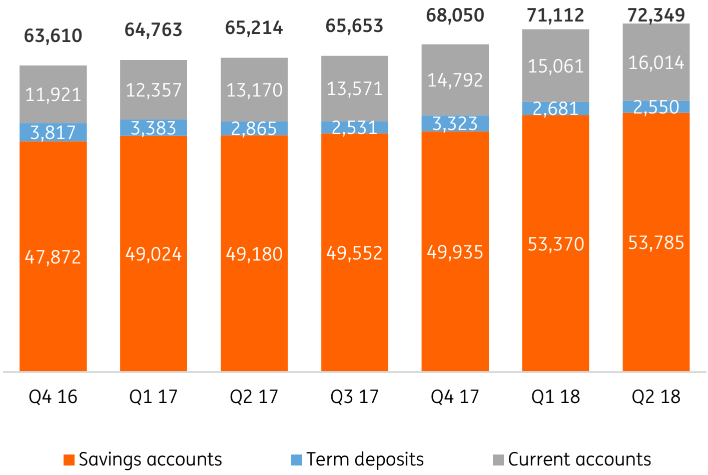
The fact that the deposit base grew faster than the volumes in the sector translated into a higher share in the household deposits market in H1 2018. As at the end of June, it was 9.1% versus 8.9% at the end of December 2017.

Funds entrusted by retail clients (PLN million)



	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	4,789	**6.0%**	**8,555**	**11.2%**
	-151	-7.0%	-130	-6.1%
	641	6.3%	1,551	16.8%
	4,299	6.3%	7,134	10.9%

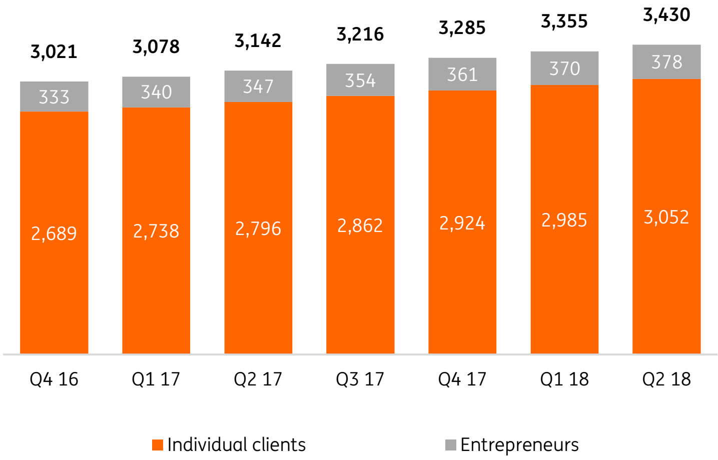
Retail client deposits – product structure (PLN million)



	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	4,299	**6.3%**	**7,134**	**10.9%**
	1,222	8.3%	2,844	21.6%
	-772	-23.2%	-315	-11.0%
	3,850	7.7%	4,605	9.4%

Throughout H1 2018, the array of settlement services rendered by the Bank to its retail clients grew significantly. As at the end of June 2018, ING Bank Śląski S.A. maintained 3.4 million personal accounts for retail clients. Most of them (83%) were Direct accounts.

Number of retail client current accounts (thousand)

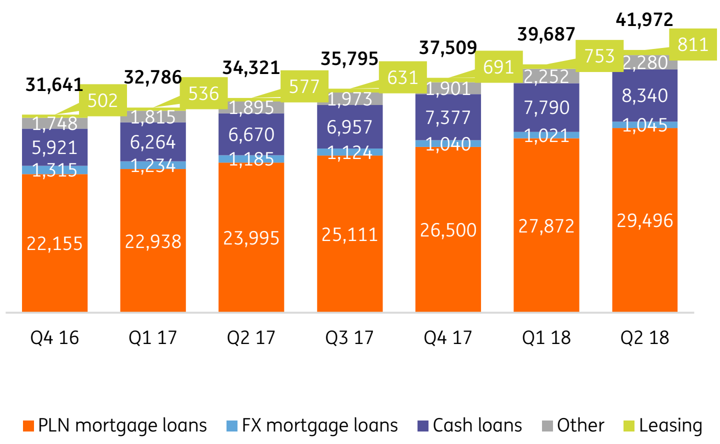


	Change H1 2018		Change y/y	
	th	%	th	%
	145	**4.4%**	**287**	**9.1%**
	17	4.6%	31	9.0%
	128	4.4%	256	9.2%

Lending

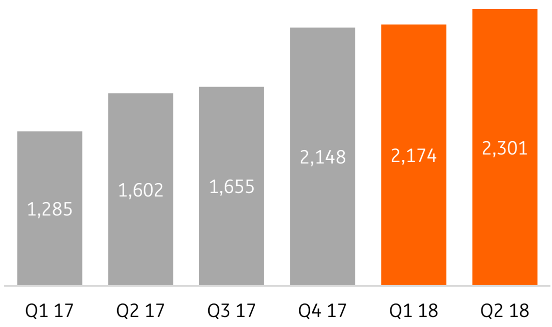
As at the end of June 2018, credit receivables from retail clients totalled PLN 42.0 billion. In H1 2018, the Bank's credit exposure towards retail clients went up by approximately PLN 4.5 billion, i.e. nearly +11.9%. The Bank increased its share in the household credit receivables market to 6.0% (versus 5.7% in December 2017).

Value of the retail lending portfolio (gross, PLN million)

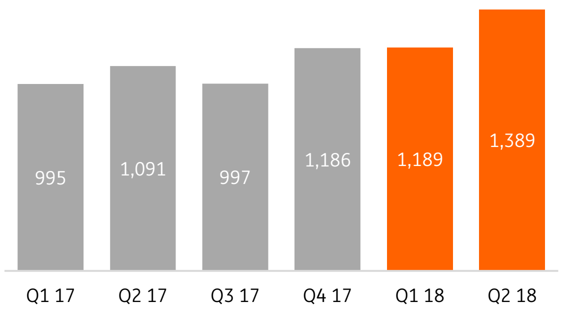


	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	4,463	**11.9%**	**7,651**	**22.3%**
	121	17.4%	234	40.6%
	379	19.9%	385	20.3%
	963	13.0%	1,670	25.0%
	5	0.4%	-140	-11.8%
	2,997	11.3%	5,501	22.9%

Sale of mortgage loans (PLN million)



Sale of cash loans (PLN million)



In H1 2018, the Bank sold PLN 4,475 million worth mortgage loans, which stands for a rise of PLN 1,588 million (or 55%) from H1 2017. According to the data published by the Polish Bank Association, in H1 2018, ING Bank Śląski S.A. was third in the market with a 17.3% share in the sales of housing loans for private individuals.

The growing cash loan balance results from the intensified Bank operations as regards the offer and sale. In H1 2018, 137 thousand cash loans totalling PLN 2.6 billion were granted (up by 24%; PLN 493 million from H1 2017).

2. *Corporate banking*

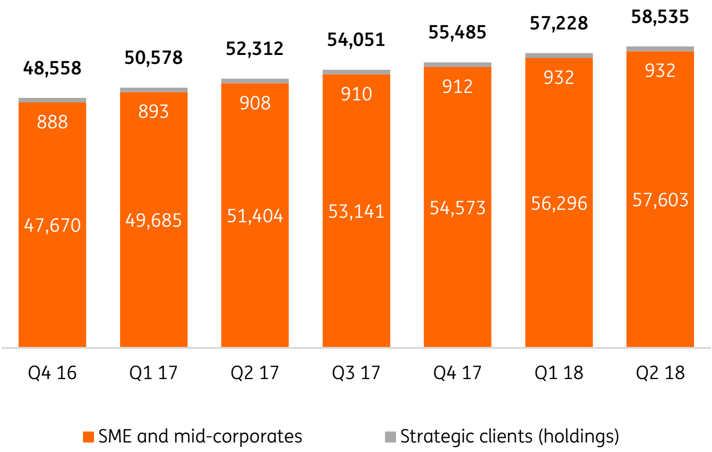
Number of clients

As at the end of June 2018; 58.5 thousand corporate clients used the ING Bank Śląski S.A. services; the number included:

- 932 strategic clients (holdings) and
- 57.6 thousand SMEs and mid-corporates.

During H1 2018, the Bank welcomed 5.7 thousand corporate clients, whereby the number of companies tended to by the Bank went up by 3.1 thousand from 2017 yearend.

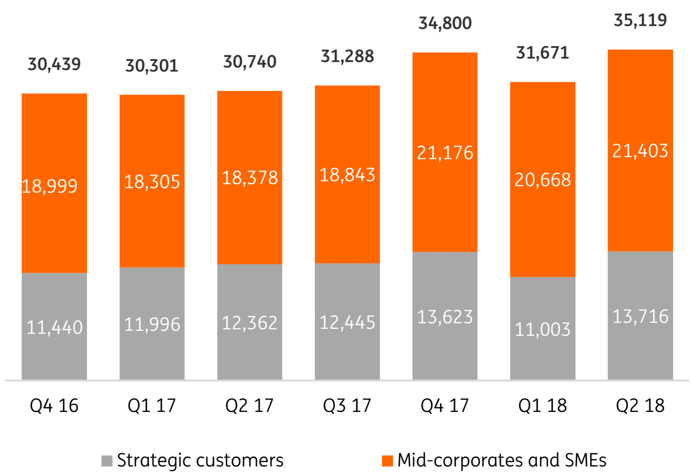
Number of corporate clients



Deposit and settlement activity

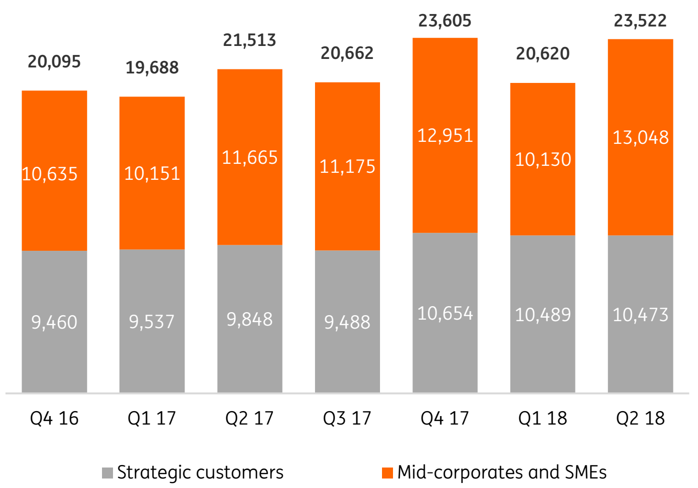
As at the end of June 2018, the funds deposited by corporate clients at the Bank totalled PLN 35.1 billion; thus the Bank had an 8.5%-share in the institutional client deposits market (up by 8.3% from 2017 yearend).

Volume of corporate client deposits (PLN million)



	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	320	**0.9%**	**4,380**	**14.2%**
	227	1.1%	3,026	16.5%
	93	0.7%	1,354	11.0%

Volume of corporate client current accounts (PLN million)

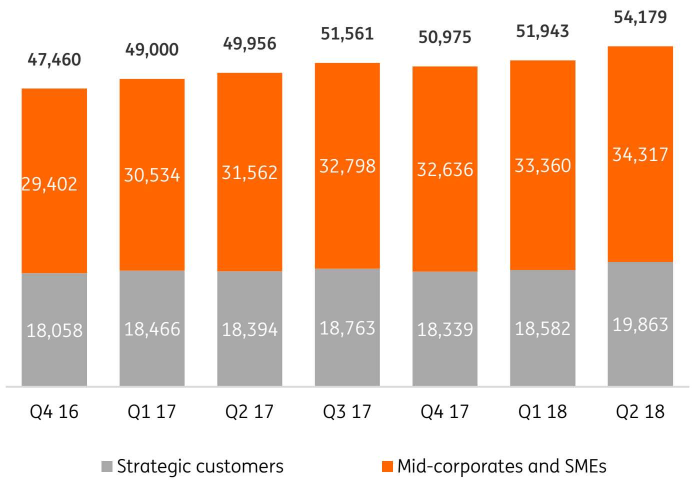


	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	-84	**-0.4%**	**2,008**	**9.3%**
	97	0.7%	1,383	11.9%
	-181	-1.7%	626	6.4%

Lending

As at the end of H1 2018, corporate client funding granted by the ING Bank Śląski S.A. Group totalled nearly PLN 54.2 billion. Throughout H1 2018, the said amount went up by more than PLN 3.2 billion (+6.3%). The Bank is estimated to have held 10.7% of the institutional credit market share in June 2018 (10.3% at the end of H1 2017).

Loans and other receivables from corporate clients (gross, PLN million)



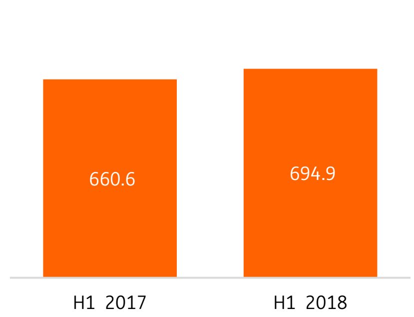
	Change H1 2018		Change y/y	
	PLN million	%	PLN million	%
	3,204	**6.3%**	**4,223**	**8.5%**
	1,681	5.1%	2,755	8.7%
	1,524	8.3%	1,469	8.0%

V. Financial standing of ING Bank Śląski S.A. Group

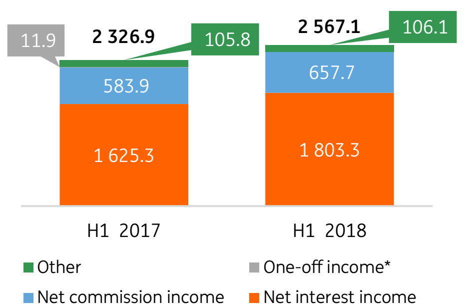
1. *Profit before tax and net profit*

When compared with last year, in H1 2018, the ING Bank Śląski S.A. Group recorded a substantially higher net financial result (up by 5.2% y/y; to PLN 694.9 million). The result can be attributed, first and foremost, to a high pace of income growth (10.3% y/y). Profit before tax closed with PLN 936.7 million (+5.3% y/y).

Net profit of ING Bank Śląski S.A. Group (PLN million)



Operating income by category (PLN million)

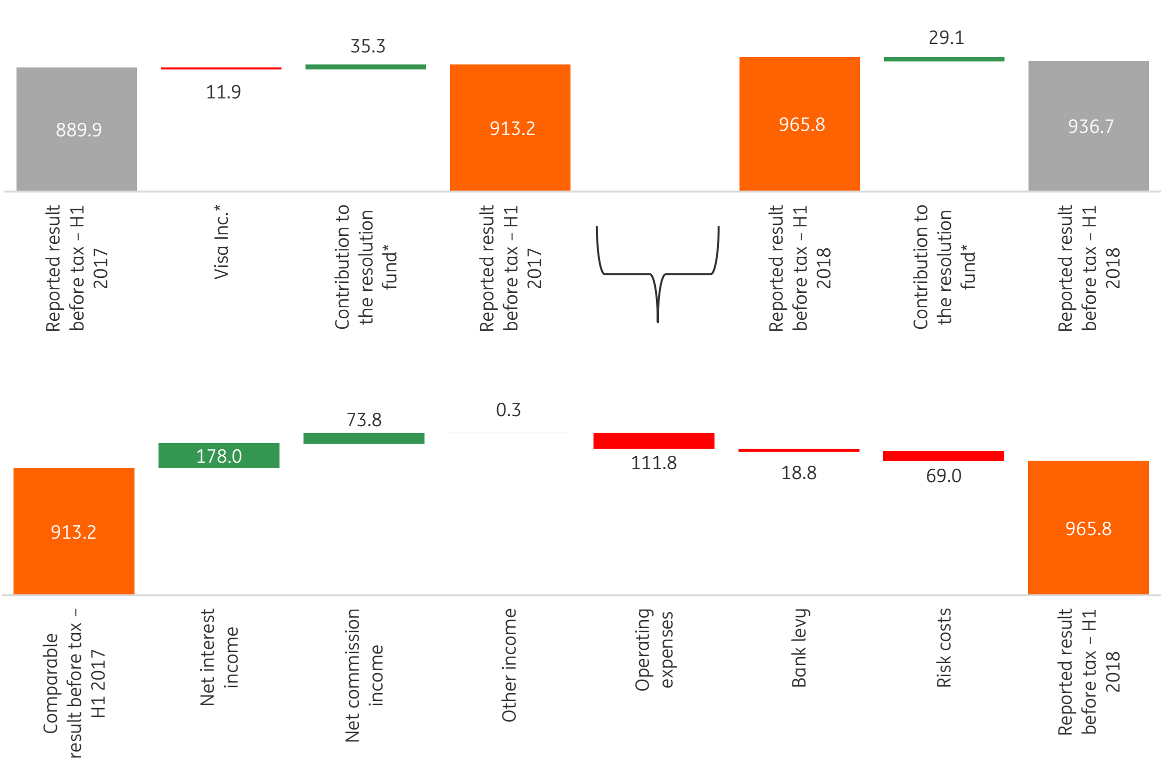


Change y/y	
PLN million	%
240.2	10.3%
0.3	0.3%
-11.9	-
73.8	12.6%
178.0	11.0%

* PLN 11.9 million worth of income stemming from the Visa Inc. transaction in Q2 2017

The factors which impacted the result before tax most, when compared with the same period last year, are given on the below chart:

Result before tax of ING Bank Śląski S.A. Group in H1 2018 (PLN million)



* PLN 11.9 million worth of income stemming from the Visa Inc. transaction in Q2 17; PLN 70.5 million (Q1 2017) and PLN 58.2 million (Q1 2018) of an annual contribution to the resolution fund – the contribution was included in full in the results of the first quarter of a given year, whereas on the graph it is presented assuming its spreading over quarters.

Basic consolidated income statement figures in analytical terms				
	H1 2018	**H1 2017**	**Change H1 2018/ H1 2017**	
	PLN million	**PLN million**	**PLN million**	**%**
Net interest income	1,803.3	1,625.3	178.0	11.0%
Net commission income	657.7	583.9	73.8	12.6%
Other income	106.1	117.7	-11.6	-9.9%
*including one-off income**	0.0	11.9	-11.9	-100.0%
Total income	**2,567.1**	**2,326.9**	**240.2**	**10.3%**
General and administrative expenses	**1,183.3**	**1,077.7**	**105.6**	**9.8%**
*including one-off costs**	29.1	35.3	-6.2	-17.6%
Risk costs	268.5	199.5	69.0	34.6%
Bank levy*	178.6	159.8	18.8	11.8%
Financial result before tax	**936.7**	**889.9**	**46.8**	**5.3%**
Income tax	241.8	229.3	12.5	5.5%
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	-
Net financial result	**694.9**	**660.6**	**34.3**	**5.2%**
Adjusted net result*	**724.0**	**686.3**	**37.7**	**5.5%**

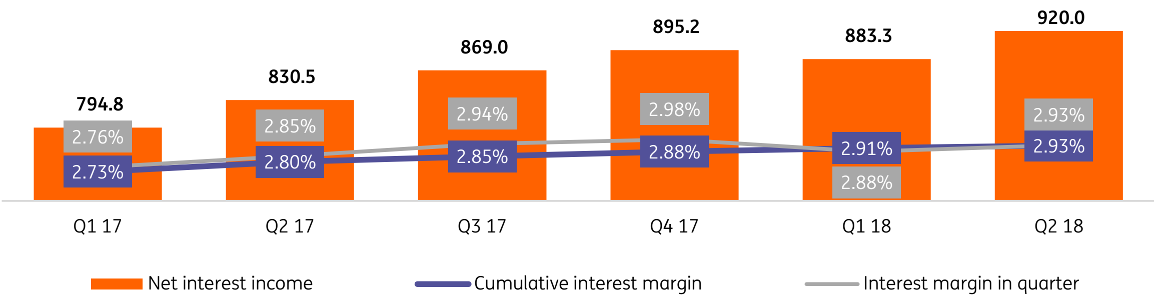
* PLN 11.9 million worth of income stemming from the Visa Inc. transaction in Q2 17; PLN 70.5 million (Q1 2017) and PLN 58.2 million (Q1 2018) of an annual contribution to the resolution fund – the contribution was included in full in the results of the first quarter of a given year, whereas in the table it is presented assuming its spreading over quarters

Comprehensive income of the ING Bank Śląski S.A. Group attributable to shareholders of the parent entity (including, apart from net profit, other items of income and expenses recognised in equity) was PLN 758.6 million in H1 2018 versus PLN 679.3 million in H1 2017.

2. *Net interest income*

In H1 2018, net interest income of ING Bank Śląski S.A. was PLN 1,803.3 million (up by 11.0% year on year). This is the result of significantly higher business volumes (the lending portfolio augmented by PLN 12.1 billion, or by 14% at that time) and a higher interest margin. The cumulative net interest margin of the Bank rose by 13 basis points from 2.80% in H1 2017 to 2.93% in H1 2018.

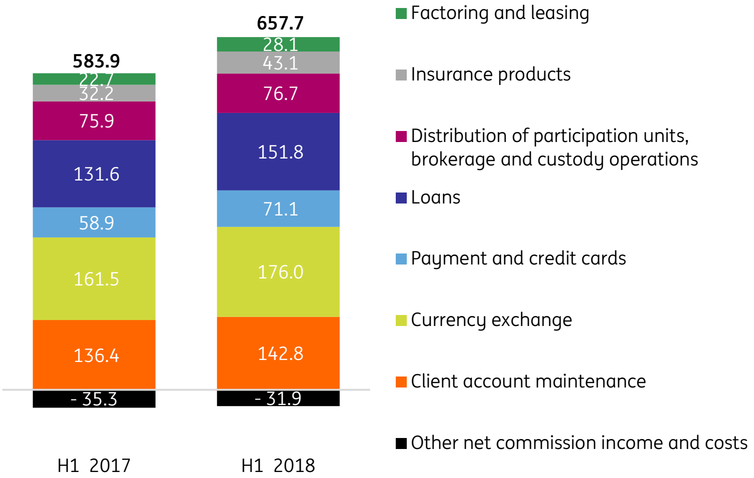
Net interest income of ING Bank Śląski S.A. Group (PLN million)



3. Non-interest income

Net income on fees and commissions represented the major part of non-interest income of the ING Bank Śląski S.A. Group. In H1 2018, it totalled PLN 657.7 million and thanks to a considerably higher volume of transactions, new products and services and a high number of clients served, it was higher by PLN 73.8 million (or 12.6%) than in H1 2017.

Net commission income of ING Bank Śląski S.A. Group (PLN million)



Change y/y	
PLN million	%
73.8	**12.6%**
5.4	23.8%
10.9	33.9%
0.8	1.1%
20.2	15.3%
12.2	20.7%
14.5	9.0%
6.4	4.7%
3.4	-9.6%

The highest commission income growth was noticed in:

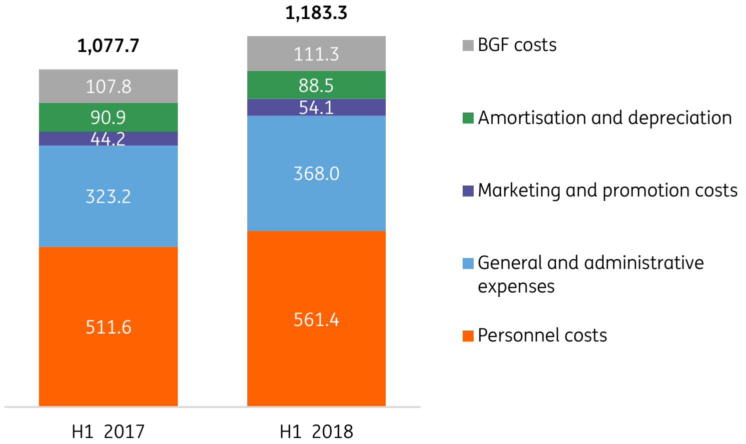
- lending (PLN +20.2 million, or +15.3% y/y),
- FX trading (PLN +14.5 million, or +9.0% y/y), and
- payment and credit cards (PLN +12.2 million, or +20.7% y/y).

In H1 2018, other income of the Bank Group was PLN -11.6 million lower than in the previous year and it closed at PLN 106.1 million. The said result was primarily driven by the H1 2017 sale transaction of Visa Inc. shares (impact of +11.9 million). After cleaned from the 2017 impact of that transaction, the other income of the Bank Group would remain similar.

4. General and administrative expenses

When compared with H1 2017, in H1 2018, the general and administrative expenses rose by +9.8% y/y, mainly due to the administrative costs and salary costs (up by 12.2% and 9.7% y/y respectively). In H1 2018, the Bank Group recognised in administrative costs the provisions for development projects in the pipeline. Just as the entire sector does, the Bank also recognises a high pressure on employee salary costs. Regulatory costs being contributions to BGF went up by 3.2% y/y to PLN 111.3 million. This amount includes the contribution for the resolution fund of PLN 58.2 million (vis-à-vis PLN 70.5 million in H1 2017; the annual contributions encumbered Q1 results) and the contribution for the deposit guarantee fund of PLN 53.1 million (vis-à-vis PLN 37.3 million in H1 2017; paid every quarter).

Group costs by category (PLN million)

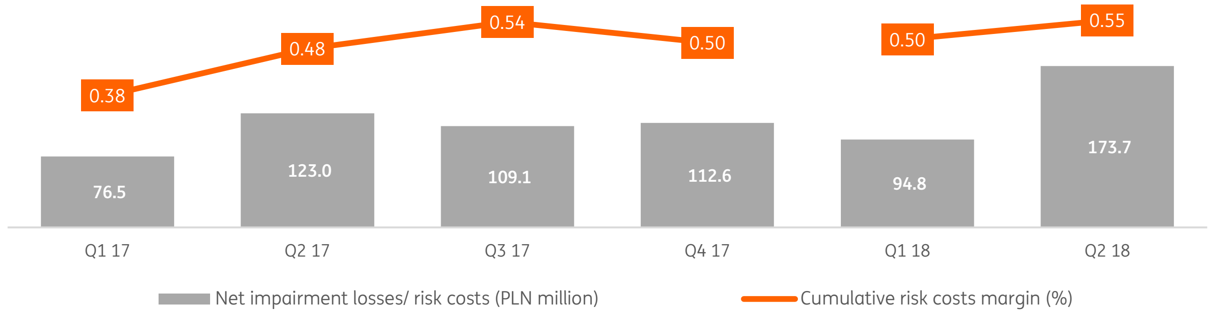


Change y/y	
PLN million	%
105.6	**9.8%**
3.5	3.2%
-2.4	-2.6%
9.9	22.5%
44.8	13.9%
49.8	9.7%

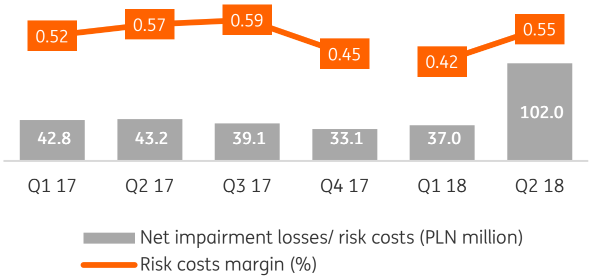
5. Provisions under expected losses

In H1 2018, provisions under expected losses totalled PLN 268.5 million versus PLN 199.5 million of net impairment losses for financial assets in H1 2017. In H1 2018, the ratio of cumulative risk costs to the average gross lending portfolio increased by 0.55% versus 0.48% in H1 2017. Due to a change in methodology (IFRS 9 implementation) since the beginning of 2018 risk costs cannot be fully compared with the data from the previous periods.

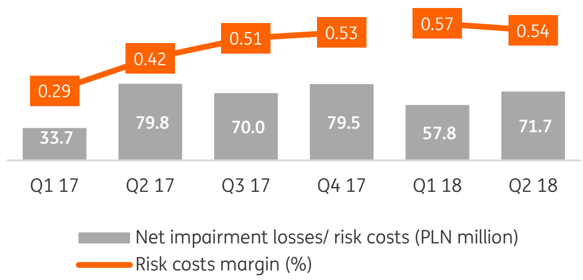
Provisions under expected losses (net impairment losses for financial assets until the end of 2017) – Group



Net impairment losses for financial assets – retail banking



Net impairment losses for financial assets – corporate banking



In Q1 2018, the portfolio of corporate receivables from credit-impaired financial assets portfolio (stage 3) was sold. The positive impact of the transaction on risk costs was PLN 1.4 million in Q1 2018.

6. *Tax on certain financial institutions*

In H1 2018, the Group withheld the tax on certain financial institutions (the so-called bank levy) of PLN 178.6 million (PLN 159.8 million in H1 2017).

7. *Income tax*

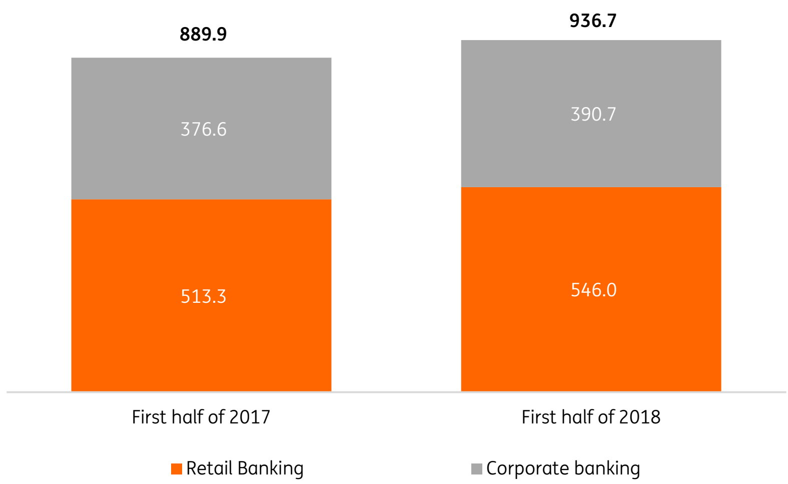
In H1 2018, the Group recorded the income tax of PLN 241.8 million, being higher than in the previous year (up by 5.5% or PLN 12.5 million). In H1 2018, the effective tax rate was 25.8% (the level similar to that reported a year ago). The tax rate was higher in 2018 – vis-à-vis the rate of 19% – following *inter alia* the

- tax on certain financial institutions which is not tax deductible and
- contributions to the BGF which are not tax deductible either.

8. *Share of individual business segments in the financial result*

In H1 2018, the Group recorded a rise in the result before tax both in the retail and corporate segments.

Result before tax by business segment (PLN million)



	Change y/y	
	PLN million	%
	46.8	**5.3%**
	14.1	3.7%
	32.7	6.4%

The result of the retail banking segment and of the corporate banking segment accounted for 58.3% and 41.7% of the Group's result before tax respectively (in 2017: 57.7% and 42.3%).

Result before tax drivers for retail banking segment				
	H1 2018	H1 2017	Change H1 2018 / H1 2017	
	PLN million	PLN million	PLN million	%
Net interest income	1,147.8	1,024.9	122.9	12.0%
Net commission income	235.9	215.7	20.2	9.4%
One-off income*	0.0	11.9	-11.9	-100.0%
Other income	78.8	60.0	18.8	31.3%
Total income	**1,462.5**	**1,312.4**	**150.1**	**11.4%**
General and administrative expenses	**703.8**	**652.8**	**51.0**	**7.8%**
Impairment losses and provisions	139.0	86.0	53.0	61.6%
Bank levy	73.7	60.3	13.4	22.2%
Financial result before tax	**546.0**	**513.3**	**32.7**	**6.4%**

Result before tax drivers for the corporate banking segment				
	H1 2018	H1 2017	Change H1 2018 / H1 2017	
	PLN million	PLN million	PLN million	%
Net interest income	655.5	600.4	55.1	9.2%
Net commission income	421.8	368.2	53.6	14.6%
One-off income	0.0	0.0	0.0	-
Other income	27.3	45.8	-18.5	-40.4%
Total income	**1,104.6**	**1,014.5**	**90.1**	**8.9%**
General and administrative expenses	**479.5**	**424.9**	**54.6**	**12.9%**
Impairment losses and provisions	129.5	113.5	16.0	14.1%
Bank levy	104.9	99.5	5.4	5.4%
Financial result before tax	**390.7**	**376.6**	**14.1**	**3.7%**

9. Consolidated statement of financial position

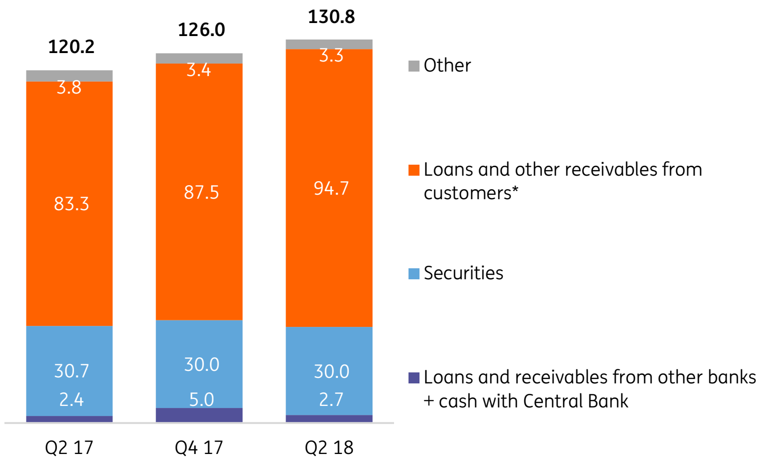
As at 30 June 2018, the balance sheet total of the ING Bank Śląski S.A. Group was PLN 130.8 billion, up by PLN 4.7 billion, or 3.8%, from the end of 2017.

The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of June 2018, the balance sheet total of ING Bank Śląski S.A. was PLN 127.1 billion (97.2% of the Group's balance sheet total) versus PLN 122.3 billion in December last year (up by 3.9%).

Assets

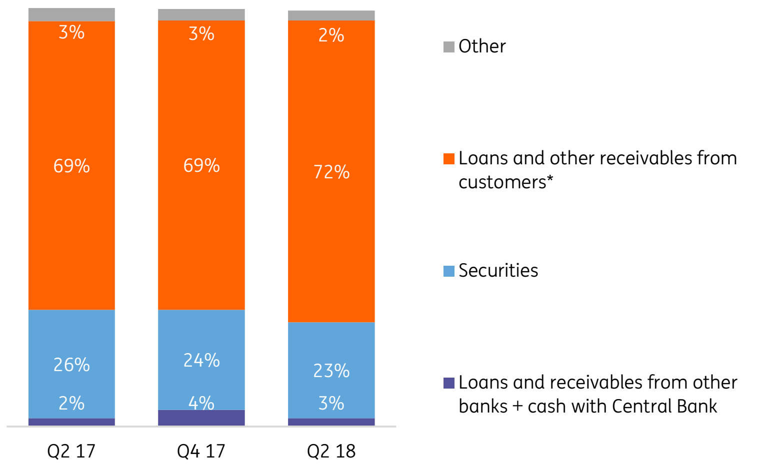
Loans and other receivables from customers represent the biggest item of the ING Bank Śląski S.A. Group's assets. As at 30 June 2018, they accounted for 72% of all the Group's assets.

Assets of ING Bank Śląski S.A. Group (PLN billion)

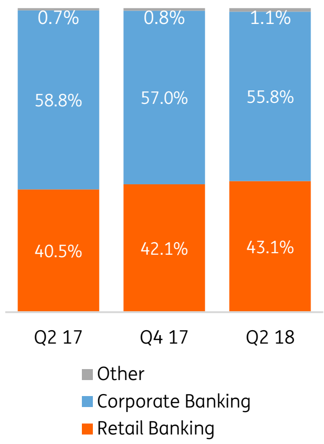


	Change H1 2018		Change y/y	
	PLN billion	%	PLN billion	%
	4.7	**3.8%**	**10.6**	**8.8%**
	-0.2	-5.0%	-0.5	-13.8%
	7.2	8.2%	11.4	13.7%
	0.0	0.1%	-0.7	-2.1%
	-2.3	-45.9%	0.3	13.8%

Assets of ING Bank Śląski S.A. Group (%)



Net receivables by client group (%)



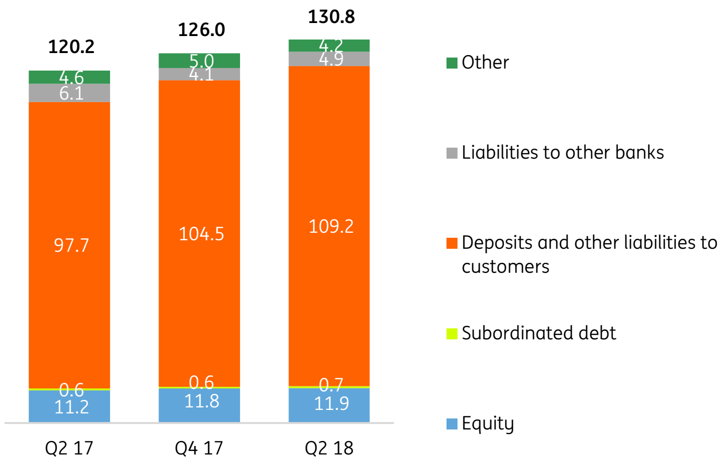
* Eurobonds excluded

Securities (Eurobonds included) represented a major item of PLN 30.0 billion (or 23% of assets) in the statement of financial position of the Bank Group.

Liabilities

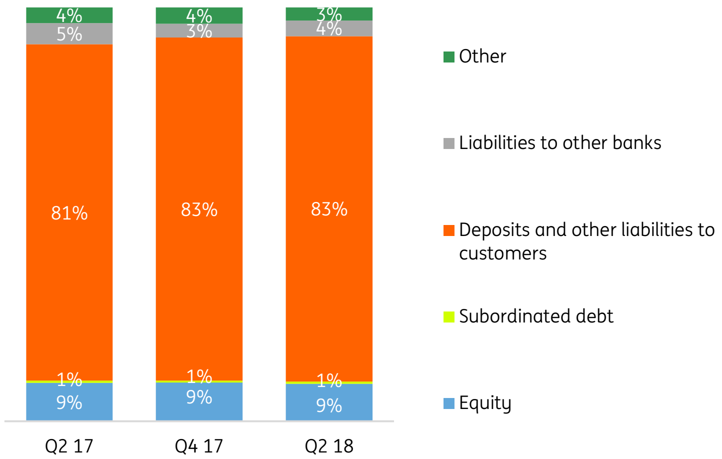
The funds deposited with the Bank by clients constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. In June 2018, the liabilities to customers amounted to PLN 109.2 billion, or represented 83% of all liabilities.

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

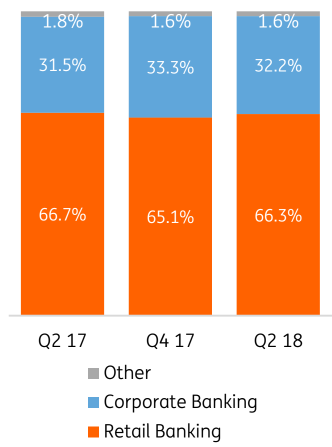


	Change H1 2018		Change y/y	
	PLN billion	%	PLN billion	%
	4.7	**3.8%**	**10.6**	**8.8%**
	-0.8	-16.5%	-0.4	-8.8%
	0.8	18.8%	-1.3	-20.5%
	4.7	4.5%	11.5	11.7%
	0.0	4.6%	0.0	3.2%
	0.1	0.8%	0.7	6.6%

Liabilities of ING Bank Śląski S.A. Group (%)



Deposits by client group (%)

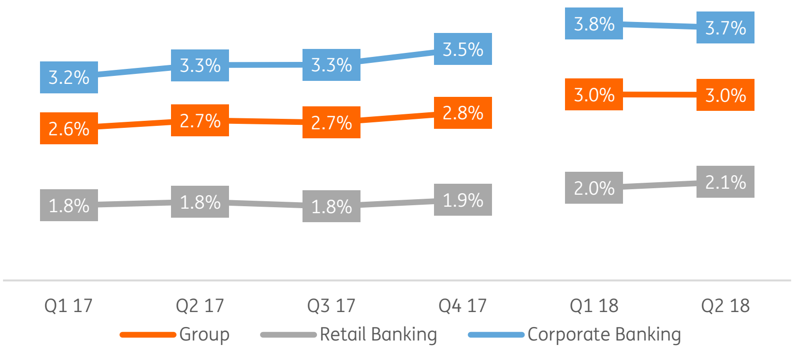


Equity was another most important funding source. As at the end of June 2018, it stood at PLN 11.9 billion and represented 9% of total liabilities.

10. Lending portfolio quality

In 2018, the quality of our lending portfolio deteriorated slightly from the 2017 yearend. The share of loans in stage 3 in the ING Bank Śląski S.A. Group stood at 3.0% vis-à-vis 2.8% of the share of impaired loans as at 2017 yearend. 2017 and 2018 data comparability is distorted due to IFRS 9 implementation.

Share of impaired loans/ loans in stage 3 at ING Bank Śląski S.A. Group

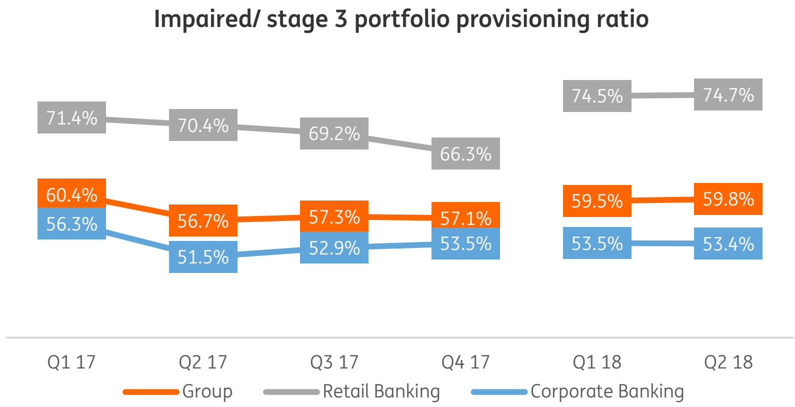


The pool of stage 1 covered 86.4% of receivables; while stage 2 – 10.6% of receivables.

In 2018, the quality of our lending portfolio was impacted, apart from the higher business volumes and the prudent lending policy, by sale transaction of corporate receivables from credit-impaired financial assets portfolio (stage 3). The total amount of the corporate receivables sold was PLN 85.6 million (principal amounts, interest and other costs as per the day the agreement was signed on).

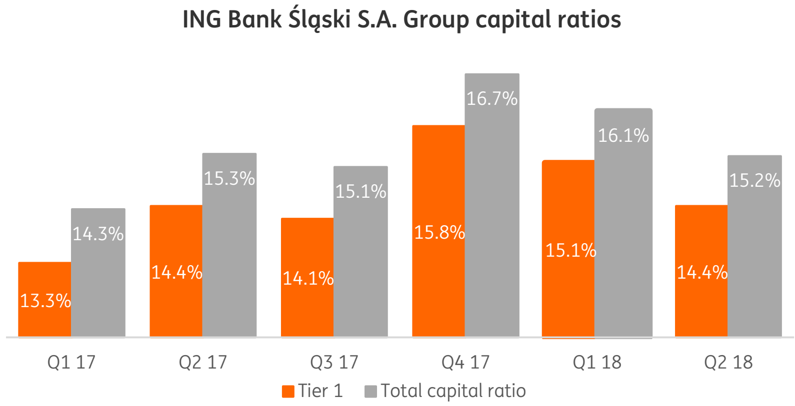
Stage 3 loans provisioning ratio

As at the end of June 2018, the ING Bank Śląski S.A. Group had PLN 1,718.3 million worth of provisions for the lending portfolio in stage 3. The stage 3 portfolio provisioning ratio was 59.8%.



11. Capital adequacy

As at 30 June 2018, the TCR for the ING Bank Śląski S.A. Group was 15.2% versus 16.7% as at 2017 yearend. In 2018, the Tier 1 ratio for the Group went down from 15.8% as at the end of December 2017 to 14.4% as at the end of H1 2018. The ratios as at the end of H1 2018 include 2017 dividend payout (the Bank did not pay out 2016 dividend in 2017).



TCR and Tier 1 would be 14.9% and 14.0% respectively, had the Bank not applied transitional provisions for IFRS 9 impact on equity.

12. Dividends declared and paid out

ING Bank Śląski S.A., following the resolution of the Ordinary General Meeting of 5 April 2018, paid out the dividend for 2017 totalling PLN 416.3 million or 29.7% of the consolidated profit of the ING Bank Śląski S.A. Group. The dividend per share is PLN 3.20 gross. The record date was set at 25 April 2018 and the dividend payout date at 10 May 2018. The dividend covered all shares issued by the Bank, i.e. 130,100,000.

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

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

1. *Electronic banking*

We offer our clients modern bespoke products and services. We offer access to intuitive online and mobile banking platforms that we develop together with our clients. In 2016, we introduced a new Moje ING online banking system for retail clients and the year later ING Business for corporate segment clients.

Our clients, both from the retail and corporate segment are characterised by the willingness to use mobile application which is higher than the market average.

Retail Banking

We offer our clients innovative bespoke products and services. At the same time, the modern online banking system Moje ING is prepared to serve individual clients and entrepreneurs. It offers access to both basic functionalities (transfers, transaction history) and to innovative communication tools (Chat) or the products facilitating finance management (Money Coach).

As at the end of H1 2018, over 3.6 million individual clients had access to online banking and over 59% were its frequent users. As part of the online banking system also Moje ING mobile banking is available and it is actively used already by 1 million clients.

In H1 2018, we were the first on the market of the Polish mobile banking to offer an innovative solution being Moje ING Keyboard. The keyboard that is an integral part of the app enables the clients to effect a BLIK Phone transfer directly from Messenger or WhatsApp without the need of launching the Bank's mobile application.

Other important features released in H1 2018 include but are not limited to HCE mobile payments for VISA cards and development of BLIK payment system i.a. in the form of streamlined Phone transfer.

The Moje ING system for entrepreneurs was offered to other groups of clients: housing communities and civil law partnerships.

Corporate Banking

Already 100% clients use the new version of the system for corporate clients segment – ING Business. The new version comes with the enhanced usability, personalisation, intuitiveness and user-friendliness.

The ING Business ecosystem is composed of the browser version, tablet version, native apps for smartphones and smartwatches and H2H channel – ING WebService.

Already over 30% of companies use the ING Business mobile application. This mode of access to banking data is gaining popularity among clients. The users more often use mobile devices to effect transfers and seek information. In Q2 2018, there were 38% transfers more than in the same period of 2017.

We keep on developing and improving the online banking platform. In the months to come we are planning more changes enhancing functionality, usability and operation of the app.

2. *Network of bank outlets*

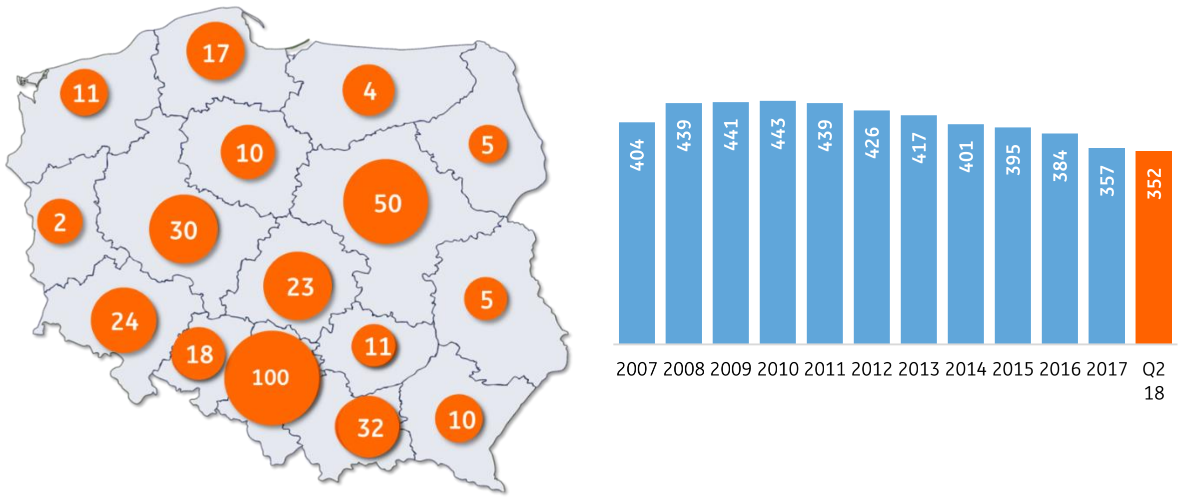
As at the end of H1 2018, ING Bank Śląski S.A. had a network of 352 retail branches (including 86 branches with a modern cash service – meaning cash in ATMs, CDMs and dual machines only). All our branches have self-banking zones where clients can make both cash withdrawals and deposits on their own. The Bank continues the process of face-lifting retail branches, during which furnishings and fittings are modernized and new functional solutions are introduced.

As at the end of June 2018, the Bank had 262 branches in the new standard. Optimisation works also continue: branches are relocated and consolidated in the locations most appealing to clients in business terms in towns/cities and regions.

As at the end of H1 2018, the Bank also had 64 sales points deployed in the largest shopping malls in Poland. The network of ING Express points was formed in response to expectations of clients who want their bank to be available anytime and anywhere.

Corporate clients from the SME/MC segments were served at the Bank by 36 corporate branches and 15 corporate banking centres. Almost all of them were operating in the same locations as retail branches. The largest corporate clients were served by the Strategic Clients Department located in Warsaw and by its regional office in Katowice.

Network of ING Bank Śląski S.A. outlets (as at 30 June 2018)



3. Human resources management

Headcount

As at 30 June 2018, the ING Bank Śląski S.A. Group had 8,075 employees (ING Bank Śląski S.A. itself had 7,676 employees). There were 43 persons (or 0.5%) more over December last year. This headcount increase is a result of implementation of the Know Your Customer Project in the Operations Division (verification of client information files). In Q2 2018, ING Bank Hipoteczny S.A. was founded, whereto Bank employees were transferred under Article 23^1 of the Labour Code. Therefore, the change had no impact on the Bank Group's headcount.

Headcount in the ING Bank Śląski S.A. Group				
	30 June 2018		31 December 2017	
	staff members	%	staff members	%
Retail Banking	3,660	47.7%	3,685	48.1%
Corporate Banking and Financial Markets	1,191	15.5%	1,181	15.4%
Operations/ IT/ Services	2,019	26.3%	1,989	26.0%
Risk/ Organisation/ Finance/ HR	806	10.5%	806	10.5%
Bank Total	**7,676**	**100.0%**	**7,661**	**100.0%**
ING ABL Polska S.A.	-	0.0%	-	0.0%
ING Lease (Polska) Sp. z o.o.	217	54.4%	208	56.1%
ING Commercial Finance Polska S.A.	108	27.1%	105	28.3%
ING Bank Hipoteczny S.A.	17	4.3%	-	0.0%
Solver Sp. z o.o.	2	0.5%	3	0.8%
ING Usługi dla Biznesu Sp. z o.o.	52	13.0%	52	14.0%
Nowe Usługi S.A.	3	0.8%	3	0.8%
Subsidiaries	**399**	**100.0%**	**371**	**100.0%**
ING Bank Śląski S.A. Group	**8,075**		**8,032**	

Remuneration policy

In H1 2018, ING Bank Śląski S.A. upheld its remuneration policy, the aim whereof is to effectively support the strategic goals. The assumptions of the policy are to offer marked-to-market, transparent and coherent remuneration to employees.

On 1 April 2018, the Bank performed the pay rise exercise. The rise was implemented in two stages:

- automatic for the persons with the lowest remuneration in a given salary grade and
- discretionary – depending on the employee's year-end evaluation.

Once again, the Bank settled the bonuses for employees covered by the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. In compliance with the Policy, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to cash dependent on the value of ING Bank Śląski S.A. shares.

In H1 2018, the non-deferred 2017 bonus and the deferred bonus for 2016, 2015 and 2014 were paid out to the persons holding managerial positions. Thus, the entire 2014 bonus for the persons holding managerial positions was settled.

As of January 2018, a new benefit in the form of the Cafeteria plan was implemented at the Bank. The Plan operates via the application provided by a third-party supplier which ensures ongoing access of Bank employees to all products and services offered in the Plan (e.g. one-off benefits in the form of cinema and theatre tickets, selected sports events, holiday stays, trips and subscription-based benefits in the form of the option to buy a sports card or additional medical care or insurance packages) and informs them about additional benefits offered by the Bank to employees, i.e. medical care, group insurance, or Employee Pension Programme.

Also, as of January 2018 amendments were introduced to the ING Bank Śląski S.A. Group Remuneration Policy in line with the EBA Guidelines as regards the sale and distribution of retail banking products and services.

Following the entry into force of the new EBA Guidelines regarding suitability assessment of the members of the governing body and persons holding top positions, in June 2018, the Policy for the

Assessment of the Suitability of the members of the Supervisory Board, Management Board and key function holders at ING Bank Śląski S.A. was amended. The main modifications to the Policy cover:

- separation of the assessment of the Supervisory Board and Management Board members from the assessment of key function holders,
- introduction of new criteria for members of the Management Board and the Supervisory Board as regards the assessment, i.e. independence of judgement, including the conflict of interest and devoting sufficient time by Management Board and Supervisory Board members,
- for key function holders the criterion of the conflict of interest was deleted,
- the need to make an ongoing assessment of adequacy for members of the Supervisory Board and of the Management Board – each time in the case of changes to the composition and once a year (regardless of the changes) and for key function holders – each time in the case of changes and on an ongoing basis in individual cases,
- more precise specification of the Bank's obligations as regards the collective assessment of the Supervisory Board and of the Management Board and informing the Polish Financial Supervision Authority.

The amendments were approved at the Supervisory Board Meeting held on 27 June 2018.

During the Ordinary General Meeting held on 5 April 2018, the report on assessment of the Remuneration Policy at ING Bank Śląski S.A. in 2017 was presented in line with the guidelines of the Principles of Corporate Governance for Supervised Institutions. The General Meeting established that the remuneration policy applied by the Bank is conducive to the development and safety of the Bank's business.

Recruitment and employer branding

In H1 2018, ING Bank Śląski S.A. took employer branding activities geared towards students, graduates and professionals.

As regards the actions addressed to persons with professional experience, job fairs (mainly for the IT area) and meet-ups were held, i.e. thematic events addressed to IT sector employees organised in our Head Office in Katowice. This year we have also continued our actions on LinkedIn. We created the Career Page where we present specific features of work at ING and comments of our employees. We also reach the candidates by managers' actions in the portal. They were trained by the recruiters in setting their own profile on LinkedIn, developing communication on current job offers and actions that they can take to be more active users of the portal and build their network of business contacts.

The Bank continued actions dedicated to people entering the labour market (students and graduates), among others:

- Ambassadors Programme – 13 students representing the Bank at universities under the mentorship of the Bank employees who support Ambassadors in learning about ING and shaping their career paths. Owing to the cooperation with Ambassadors, the Bank was involved in the following projects: BOSS Festival in Częstochowa and Katowice, Economic Bridges in Poznań and Project Engineering in Warsaw.
- Traineeship with the Lion – the next traineeship programme edition and the first steps to introduce the all-year-round recruitment. In the programme recruitment process, the Bank used again the Assessment Centre in the form of escape rooms but also introduced a new task, "Green Locomotive", as an alternative to escape rooms.
- The ChallengeING traineeship programme – it was continued in the IT and customer intelligence area. Under two programme paths, 6 participants were employed. They all work in line with the Agile methodology applied at the Bank.
- ING International Talent Programme covers 6 business paths (Risk, IT, Retail and Corporate Banking, Finance and HR) and gives its participants the possibility to join projects, take development actions and participate in international assignments which are considered to be

crucial for the Bank.

- Meetings with the Lion – a series of workshops conducted by Bank experts who present to students practical aspects of banking in a friendly manner.
- Promotion of ING at universities – ING career zones, cooperation with student research clubs, student organisations and student councils at selected universities as well as participation in their projects.
- Participation in spring job fairs.
- Promotion of ING Bank Śląski S.A. among the students abroad – the Bank took part in the LSE SU Polish Economic Forum in London where it presented our International Talent Programme to Polish young people that currently study abroad but consider returning to Poland after their studies.

Vast offer and quality of internships within the HR area conducted at ING Bank Śląski S.A. were appreciated by external research and ranking institutions. The Bank was among top employers according to the Employer of the Year Ranking held by AIESEC Polska and ranked second in the Most Desired Employers in the Opinion of Professionals and Managers study by Antal in the Banking category.

Employee development and training courses

In H1 2018, the Bank pursued development actions in correspondence with the strategic goals in the domains of leadership, innovativeness as well as acquisition and retention of exceptional employees.

There were 4 areas of focus:

- Fostering the corporate culture (including but not limited to the multifaceted programme for fledgling managers or actions to consolidate the values and behaviours forming the Orange Code).
- Upgrading employees' competences and behaviours (through, above all, training courses on products and sales quality as well as with the use of a wide offer of development actions covering inter alia meetings with inspirers, knowledge sharing and work with coaches or mentors, shadowing as a new tool, as well as consultations and development assignment programmes).
- The specialist and expert knowledge (through, above all, highly specialised training courses, domestic and international sector conferences geared towards field specialists as well as certifications).
- Dedicated development programmes for indicated organisational units or identified audience as a response to strategic challenges, such as knowledge sharing or sale management.

Apart from in-house development actions, we used third-party training courses, workshops and conferences. The Bank also supports self-enhancement of professional qualifications by employees, through certification, post-graduate studies or the Polish Bank Association standards. In communication, it uses the internal community devoted to learning and development. We promote digital development activities, the use of external training platforms available online and digital information resources (e-book library, ICAN).

Bank employees shared their knowledge and experience both within the organisation (e.g. during internal training courses, webinars, posts in Intranet communities) and externally acting as speakers during external events.

Development actions are addressed to employees of the Retail and Corporate Sales Networks and of the Head Office units (including new employees, specialists and managers).

VII. Main modifications to risk and capital management

As part of the Management Board Report on Operations in H1 2018 we are presenting the main changes to risk and capital management that took place from the 2017 yearend. The risk and capital management system, the description of risks and their quantification were described in detail in the Annual Consolidated Financial Statements of ING Bank Śląski S.A. Group for 2017 in the chapter "Risk and capital management" (from page 129).

1. *Capital management*

In H1 2018, we continued our actions aimed at implementation of the capital management strategy. As regards the internal capital adequacy assessment process, we resigned from the difficult-to-measure risk category since for each category of material risk we have the economic capital estimation methodology. In Q1 2018, we held another workshops on risk materiality assessment. Following those workshops we introduced a new subcategory of material risk: convexity risk (as part of the market risk). Convexity risk is defined as a risk of loss due to unexpected non-linear shift of the interest rate curve. We assess an economic capital add-on for convexity risk.

Under RAS regarding the capital adequacy we are obliged to maintain in 2018 the following minimum thresholds for capital ratios:

- CET1 >= 9.875%
- T1 >= 11.375%
- TCR >= 13.375%

We amended the dividend policy in line with the guidelines of the Polish Financial Supervision Authority by changing the minimum capital ratios determining the dividend payout, i.e. T1 at 12.875% and TCR at 14.875%.

2. *Credit risk*

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

Retail segment:

- we updated the parameters used in credit capacity calculation (buffers for interest rate risk and the level of revolving exposures for businesses),
- we updated the development criteria for the pre-approved database for entrepreneurs,
- we changed the principles of monitoring the financial standing of entrepreneurs to increase the pool of accounts to be monitored,
- we tightened the credit risk assessment principles in the mortgage segment, i.e. assumption of expenditure at least at the subsistence level, withdrawal of unstable income, differentiation between buffers for long and short tenors, including retirement age in the tenor,
- we eased the business partner risk management principles – resignation from the requirement to verify writs of execution in banking bases in the approval and interim review process and extension of the base of partners offering products from the individual client and entrepreneurs segment.

Corporate segment:

- we implemented the corporate clients monitoring process with the use of assessment from the Early Warning Signals (EWS) statistical models,
- we updated algorithms for the fast-track lending process to enhance their effectiveness,
- we expanded the list of collaterals available in the fast-track lending process,
- we simplified the principles of the annual review for clients with a good rating using the commercial property funding transactions,

- we increased availability of trade finance products as part of multi-facility agreements,
- we accepted collateral in the form of assignment from lease agreements for strategic clients as a risk mitigation technique,
- we updated the Environmental and Social Risk Manual,
- we introduced the policy principles for leveraged transactions,
- we modified the lending process for local government units,
- we extended the scope of clients covered by fast-track monitoring and a central review of collaterals,
- we tested solutions aimed at optimising the lending policy and developing the sales channels.

Key modelling and reporting actions

- We updated the AIRB Approach roll-out plan in the Bank's Group for retail mortgage-backed exposures, other retail exposures and the portfolio of the subsidiary, ING Commercial Finance Polska S.A.; the plan is adjusted to the plan of models' redevelopment at ING Group and to the schedule of the new "default" definition implementation project.
- We updated the credit risk models' redevelopment plan for 2018-2019.
- We calculated the impact of new "default" definition implementation on the Bank's historical lending portfolio.
- We redeveloped and implemented in the decision-taking process new behavioural models in the entrepreneurs segment and corporate clients segment under automated track.
- We implemented CARE decision engine supporting the retail client risk assessment process in direct channels.
- We ran the PFSA and EBA-compliant stress tests for credit risk.
- We validated PD/LGD/EAD models applied for the purpose of provision computation in compliance with IFRS 9.
- We automated the process of preparing monitoring for decision-taking models for the retail portfolio.

Furthermore, we continue to concentrate on long-term projects aimed at separating, optimising and ensuring effectiveness of different lending and rating processes depending on the risks involved.

3. *Market risk*

In the area of market risk, the Bank manages the risk in line with the developed principles, methodologies and approved policies. In H1 2018, there were no material changes, yet the values for shocks were changed in individual interest rate scenarios for measurement of the net interest income sensitivity (while the scenarios' characteristics remained unchanged). For example, the parallel scenario for PLN changed from 90 bps to 120 bps and in non-parallel scenarios there were also changes of the shocks' levels.

4. *Funding and liquidity risk*

In H1 2018, we continue actions aimed at mitigation of funding and liquidity risk in line with the funding and liquidity risk management policy, Bank strategy and regulatory requirements. As for regulatory changes – as of January 2018, the regulatory limit for the liquidity coverage ratio was raised from 80% to the target level of 100%.

5. *Model risk*

In H1 2018, we continued our model risk management actions. The models used at the Bank were subject to quarterly reviews, risk assessment and materiality review. Models were validated as scheduled.

The number of models used at the Bank vs 2017 yearend went up by 17. In H1 2018, the model risk on the aggregated level was lower than the tolerance level accepted by the Bank for that type of risk. Following implementation of new models for IFRS 9-compliant provision calculation, in January 2018 additional economic capital for model risk was allocated in the amount of PLN 28.9 million.

The Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A. was also reviewed and validated. The functionality of the Model Register was expanded to adapt it to the requirements of participants of the model risk management process.

6. Operational risk

In H1 2018, we continued our efforts to ensure compliance with the regulatory requirements and enhance the risk management system by clarifying the assessment criteria for the internal control system and for material processes' selection. We continue to structure and standardise the key controls for individual areas and processes of the Bank. We are continuously improving security systems and solutions used to protect our clients and the Bank itself. We also develop tools for using advanced data analytics in operational risk management.

7. Compliance risk

In H1 2018, we continued our efforts to ensure compliance with the regulatory requirements such as MiFID II, GDPR, STIR and split payment regulations. We are also streamlining the controls in business processes, including but not limited to the Know Your Customer process.

8. Personal data security

In mid-2018, we introduced the planned changes in the processes, internal regulations and IT systems related to GDPR implementation. We sent to clients the legal information concerning the purposes and modes of personal data processing.

VIII. Investor information

1. *Shareholding structure*

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 30 June 2018 had a 75% share in the share capital of ING Bank Śląski S.A. and a 75% share in the overall number of votes at the General Meeting – the number has not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as domestic and foreign mutual funds, and by private investors. As at the end of H1 2018, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK was the largest among them. As per semi-annually reported assets structure of that Fund, as at 29 June 2018, it had a 8.12% share in the share capital and overall number of votes at the General Meeting. As at the date hereof, the Bank does not have any information about any other shareholder going over the threshold of 5% of the company's equity.

In H1 2018, neither the worth of ING Bank Śląski S.A.'s share capital nor the majority shareholder's share in the equity were changed.

Shareholding structure of ING Bank Śląski S.A.					
Shareholder name	**Number of shares and votes at GM**	**Share in share capital and in the overall number of votes at GM**	**Shareholder name**	**Number of shares and votes at GM**	**Share in share capital and in the overall number of votes at GM**
29 June 2018			31 December 2017		
ING Bank N.V.	97 575 000	75,00%	ING Bank N.V.	97 575 000	75,00%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK*	10 561 068	8,12%	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	10 396 594	7,99%
Other	21 963 932	16,88%	Other	22 128 406	17,01%
Total	**130 100 000**	**100,00%**	**Total**	**130 100 000**	**100,00%**

*As per semi-annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 29 June 2018.
**As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 29 December 2017.

As at the report's publication date, ING Bank Śląski S.A. did not have any information about agreements which might change the ratio of shares held by existing shareholders in the future.

Main shareholder

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 37 million clients. ING Group companies have over 54 thousand employees and pursue business in over 40 countries in Europe, North and South Americas, in the Near East as well as in Asia and Australia. ING Group pursues business in four areas: Market Leaders – businesses in the Netherlands, Belgium and Luxembourg; Challengers – businesses in Germany, Austria, Spain, Italy, France, Australia and Czech Republic; Growth Markets – businesses in Poland, Romania, Turkey and Asia as a well as through a global corporate banking network dedicated to strategic clients – Wholesale Banking.

A Dutch financial institution, ING Groep N.V., is the ING Group's parent company. It was incorporated in 1991 through the merger of a Dutch insurance company, Nationale-Nederlanden, with a Dutch bank, NMB Postbank Groep. In subsequent years, ING Group developed leveraging on both the organic growth and mergers and acquisitions. During the financial crisis, in 2008 and 2009 the Group received state aid (later repaid in 2009-2014) conditioned by a restructuring programme. Restructuring assumed *inter alia* a separation of banking from insurance and investments that should be divested. ING Group restructuring was finalised in April 2016.

ING Groep N.V. is a public company, listed on the stock exchanges in Amsterdam, Brussels and New York. Its shareholding is dispersed. As at 2017 yearend, there were only two shareholders with capital holdings of over 3%. These were: BlackRock Inc. (7.8%) and Artisan Investments GP LLC (3.01%).

Share capital

In line with the Charter, the ING Bank Śląski S.A.'s share capital is divided into 130,100,000 shares with the face value of PLN 1 each. Bank shares are ordinary bearer shares. No additional special controlling rights are attached thereto. The Bank Charter does not impose any restrictions on transferring ownership of shares issued by the Bank, exercising voting rights or any stipulations whereunder share-based equity rights are separated from share ownership.

Furthermore, under the Charter the Management Board is authorised to increase the share capital by the amount of up to PLN 26 million (i.e. the issue of 26 million shares at maximum) until 21 April 2020 (authorised capital) and to exclude the pre-emptive right for the issue of shares under authorised capital. The authorisation was introduced to the Charter with the resolution of the General Meeting of 21 April 2017 and was entered into the National Court Register on 22 May 2017. The Management Board decisions concerning issue price fixing and pre-emptive right exclusion need to be approved by the Supervisory Board.

2. ING Bank Śląski S.A. share price

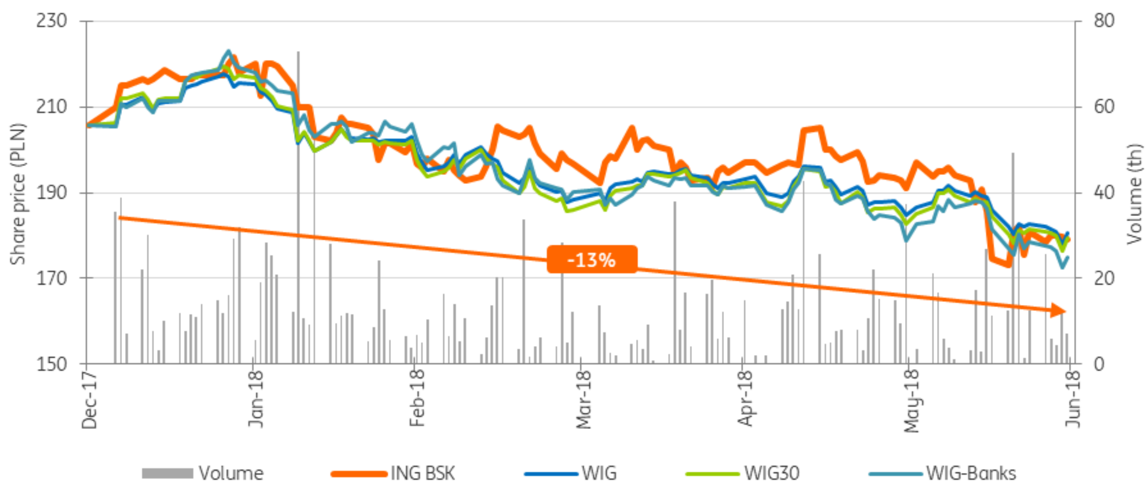
In H1 2018, the price of ING Bank Śląski S.A. shares at the close of the WSE session hovered between PLN 173.00 (as quoted on 18 June) and PLN 221.50 (as during the session on 25 January). On 29 June 2018, the price of ING Bank Śląski S.A. share was 12.9% down from the last quotation day in 2017 (to compare: WIG-banking index went down by 14.9% at that time).

As at the end of June 2018, the Bank's market value was PLN 23.3 billion, while its book value amounted to PLN 11.9 billion (it implies P/BV ratio at 2.0).

ING Bank Śląski S.A. shares data	H1 2018	2017
Share price as at the end of the period (PLN)	179.00	205.60
Top share price (PLN)	221.50	212.60
Bottom share price (PLN)	173.00	157.80
Number of shares	130,100,000	130,100,000
End-of-period capitalization (PLN billion)	23.3	26.7
Average trading volume	13,929	33,810
Earnings per share (PLN)	10.68	10.79
Share book value (PLN)	91.39	90.66
Dividend paid per share in the year (PLN)	3.20	0
P/E ratio (x)*	16.2	19.1
P/B ratio (x)*	2.0	2.3

* ratio computed based on the share price at the end of the period.

ING Bank Śląski S.A. share quotations in H1 2018 vs. comparable selected WSE indices



3. *Ratings*

Fitch Ratings Ltd.

Fitch Ratings Ltd. (Fitch) assigns full rating to ING Bank Śląski S.A. under the agreement between the Bank and the Agency.

On 21 March 2017, the Agency assigned national ratings to the Bank:

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

In the press release published on 20 October 2017, the Agency sustained the ratings assigned to the Bank. The Agency emphasised in its announcement that the ratings upheld for the Bank reflected a solid business model, conservative approach to credit risk, strong capital position, high quality of assets and profitability as well as a stable funding profile of the Bank underpinned by a customer deposit base.

The full rating assigned to the Bank by Fitch as at the date of the Financial Statements publication was as follows:

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

Moody's Investors Service Ltd.

The Moody's Investors Service Ltd. Agency (Moody's) assigns a rating to ING Bank Śląski S.A. on the basis of common public information.

The last change of the rating took place on 23 March 2018 when the Agency changed the following ratings:

- Long-Term Deposits Rating was revised from A3 to A2 and the rating outlook was changed from “positive” to “stable”,
- Short-Term Deposits Rating from “P-2” to “P-1”,
- adjusted Baseline Credit Assessment (Adjusted BCA) from “baa2” to “baa1”,
- Baseline Credit Assessment (BCA) from “baa3” to “baa2”,
- Long-Term Counterparty Risk Assessment (CR Assessment) from “A2(cr)” to “A1(cr)”.

At the same time, the Agency affirmed the Short-Term Counterparty Risk Assessment at “P-1(cr)”.

In the announcement of 18 June 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 the Financial Statements’ publication date, the Bank’s financial viability ratings assigned by the Agency were as follows:

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

4. *Changes to the Statutory Authorities of ING Bank Śląski S.A.*

Supervisory Board

On 9 March 2018, Mr Christopher Steane tendered his resignation from the capacity as the Supervisory Board Member effective as of 5 April 2018. The reason for the resignation was the planned retirement.

On 5 April 2018, the General Meeting appointed Mr Michał Szczurek as Member of the Supervisory Board.

Members as at 30 June 2018	Function on the Bank Supervisory Board	Audit Committee	Remuneration and Nomination Committee	Risk Committee
Mr Antoni F. Reczek	Chairman, Independent Member	●		◎
Ms Małgorzata Kołakowska	Deputy Chairperson	◎	◎	
Mr Aleksander Galos	Secretary, Independent Member	◎	◎	●
Mr Ad Kas	Member			◎
Mr Aleksander Kutela	Independent Member	◎	●	◎
Mr Michał Szczurek	Member			◎
Mr Norman Tambach	Member	◎		

● - Chairman ◎ - Member

Bank Management Board

Between 1 January 2018 and 30 June 2018 there were no changes to the Management Board composition. As a result, as at 30 June 2018 the Bank Management Board composition and the division of competence among the Management Board Members were as follows:

Scope of responsibilities of Bank Management Board Members (as at 30 June 2018)	
Mr Brunon Bartkiewicz	**President of the Bank Management Board** in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Macroeconomic Research Bureau, Internal Audit Department, Legal Department, Compliance Department, HR units)
Mr Michał Bolesławski	**Vice-President of the Bank Management Board** in charge of the Corporate Clients Business Line
Ms Joanna Erdman	**Vice-President of the Bank Management Board** in charge of the Strategic Clients Business Line and the Financial Markets Division
Mr Marcin Giżycki	**Vice-President of the Bank Management Board** in charge of the Retail Clients Business Line
Ms Bożena Graczyk	**Vice-President of the Bank Management Board** in charge of the Finance Division and Treasury Department
Ms Justyna Kesler	**Vice-President of the Bank Management Board** in charge of: Operations Division, Services Division and IT Division, IT Security Department, Transformation and Change Management Department, ING Hub Services Department, Process Monitoring and Control Centre, Data Management Centre and Management Board Representative for the Environmental Management System
Mr Patrick Roesink	**Vice-President of the Bank Management Board** in charge of the Risk Division, the Credit Risk Inspection Department and the Model Validation Department

5. 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**
H1 2017	4.8	2.5	7.3
H1 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 June 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**
H1 2017	4.8	6.3	2.6	13.6
H1 2018	4.9	6.0	1.1	12.0

*Awards for H1 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 H1 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 H1 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**
H1 2017	0.3	0.0	0.3
H1 2018	0.4	0.0	0.4

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

6. Selection of chartered auditor

On 27 June 2018, the Bank Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the auditing firm authorised to audit the financial statements of ING Bank Śląski S.A. and the ING Bank Śląski S.A. Group in 2018.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. was entered on the list of entities authorised to audit financial statements, which is kept by the National Board of Statutory Auditors (KRBR).

IX. Additional information

1. *Position of the Management Board on the potential realisation of the previously published forecasts*

The Bank did not publish the forecast of the 2018 financial results.

2. *Business continuity*

Uninterrupted provision of services to our clients is our top priority. At ING Bank Śląski S.A. we pursue this objective in two ways. We design our services in a way to make them as resistant as possible to different breakdowns and failures, it is a so-called operating resistance. Further, we have a business continuity management system.

As part of this system we identify the processes whose availability is the most important for clients and for the Bank. We develop contingency plans for those processes whereby we are operative despite breakdowns or extraordinary events. Apart from the contingency plans, we have in place and test the disaster recovery plans (IT area) enabling fast recovery to business-as-usual. We maintain IT systems in computer centres that function parallel to each other. We use cloud-based solutions (Private Cloud).

The mode of identification of and response to disruptions is established and regularly tested. For events having huge impact on customer service or internal processes, crisis management framework is established to coordinate actions of all the units involved.

We try to prevent disruptions, but should they take place, we inform clients forthwith about any inconvenience and suggest alternative solutions.

The business continuity management system covers all areas of service provision – both by us and by external providers. We also require that they have their own contingency plans.

3. *Significant proceedings*

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

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

In the letters of 26 January 2016 and 5 February 2016, the Bank presented its stance on the allegations of the President of the Office of Competition and Consumer Protection and requested an obligating 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 June 2018, the President of the Office of Competition and Consumer Protection extended the term of the proceedings until 30 November 2018.

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

Following the antimonopoly proceedings conducted against ING Bank Śląski S.A. and other banks upon the request of the Polish Trade and Distribution Organization – Employers' Confederation, on 29 December 2006, the President of the Office of Competition and Consumer Protection issued a decision stating that the Bank applied the practices limiting competition. The Office of Competition and Consumer Protection deemed as competition limiting the practice whereby various Polish banks, the Bank included, participated in the arrangement limiting competition on the market of acquiring services for clearance of consumer liabilities towards merchants under the payment of goods and services acquired by consumers using payment cards in Poland by setting together the interchange fees charged on the transactions made using the Visa and MasterCard system cards in Poland. In consequence of recognition of the practices limiting competition, the Office of Competition and Consumer Protection imposed fines on banks, the Bank included – of PLN 14.1 million.

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

With its judgment of 21 November 2013, the Court did not change the decision of the Office of Competition and Consumer Protection on the allegation of limiting competition, but reduced the Bank's fine to PLN 403.2 thousand. Nonetheless, the judgement of the Court of Competition and Consumer Protection was changed with the judgment of the Court of Appeal of 6 October 2015 which ruled to change the judgment of the Court of Competition and Consumer Protection in that all appeals were dismissed in their entirety. Following the ruling, the President's decision became final and binding and in October 2015 the Bank paid the fine of PLN 14.1 million as ruled.

The Bank and other banks participating in the proceedings alike lodged a complaint for annulment of the judgment of the Court of Appeal. On 25 October 2017, the Supreme Court repealed the judgment of the Court of Appeal and referred the case thereto for re-review. In line with the position of the Office of Competition and Consumer Protection, the fine paid was refunded to the Bank. The Court of Appeal set the date of another hearing for 24 October 2018. As final decisions have not been taken yet, the amount of the reimbursed fine was not recognised in the income statement. As at 30 June 2018, the Bank holds the provision of PLN 14.1 million.

4. Transactions with related entities

ING Bank Śląski S.A. or its subsidiaries did not conclude any transactions with related entities on terms other than the arm's-length basis.

5. Contingent liabilities granted

ING Bank Śląski S.A. and the Bank subsidiaries grant loan and cash loan suretyships and guarantees as part of their Charter-based business operations. As at the end of H1 2018, the value of contingent liabilities granted totalled PLN 33.8 billion (vs PLN 30.0 billion as at 2017 yearend and PLN 28.7 billion as at the end of H1 2017).

Contingent liabilities granted by ING Bank Śląski S.A. Group (PLN million)			
	30 June 2018	31 December 2017	30 June 2017
Unutilised credit lines	25,670.5	22,250.4	21,901.2
Guarantees	5,409.8	4,897.7	4,197.7
Unutilised overdrafts	1,320.6	1,336.1	1,274.8
Credit card limits	1,169.3	1,078.9	1,038.5
Letters of credit	266.3	390.2	332.2
Total	**33,836.5**	**29,953.3**	**28,744.4**

6. *Selected amendments to recommendations of the Polish Financial Supervision Authority and other regulations concerning banks*

Name	Effective date	Description
The Act **amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on the Flat-Rate Income Tax on Some Income Earned by Natural Persons** of 27 October 2017	1 January 2018	Among the main amendments having an impact on the tax issues of, among others, the financial sector one may list: • amending the principles of including in the banks' tax base the provisions formed for the business risk of banks and the provisions formed by the banks that apply the International Accounting Standards to making loss allowance for expected credit losses – IFRS 9; • ring-fencing in the Corporate Income Tax Act the sources of income in the form of capital gains and separating the income earned from that source from the taxpayers' other income; • introducing the provisions limiting the amount of tax deductible costs linked to the intangible services agreements (licence agreements, advisory, management and control services, for example) and associated with the use of intangible assets, as well as the provisions clarifying the definition of "acquisition" of an intangible assets item; • amending the regulation that enables recognition under tax deductible costs of the losses under the paid disposal of the debt claim formerly recognised as the income due by reducing the amount of the losses to the previously recognised income.
Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on **key information documents for packaged retail and insurance-based investment products**	The Regulation has been effective since 1 January 2018	The Regulation introduces a common standard for documents with the key information on the so-called packaged retail and insurance-based investment products. It covers, for example, mutual funds, structured deposits (combination of bank deposits with investment solutions) and insurance policies with an investment element.
Regulation (EU) No. 600/2014 of the European Parliament and of the Council and	The MiFIR has been directly applied since 3 January 2018. The	The package of provisions contained in the Regulation (MiFIR) and Directive (MiFID II) as well as in the secondary legislation issued

Directive No. 2014/65/EU of the European Parliament and of the Council on **markets in financial instruments**	Directive was introduced to the Polish legal system with the Act amending the Act on Trading in Financial Instruments of 1 March 2018 that entered into force on 21 April 2018 (with an additional transition period for operation adjustment)	thereunder establishes new regulations regarding provision of investment services. The European Union provisions impose the duties relating to, inter alia, investor protection and market transparency on the financial market entities.
The Act on amending certain acts **to prevent the use of the financial sector for tax frauds** of 24 November 2017	Most of the provisions of the Act took effect on 13 January 2018. The Act specifies transition periods for the banks to adapt to the new duties.	The Act provides for the Head of the National Revenue Administration analysing the risk of the banks being used to commit tax crimes. To that end, he or she will use the analysis prepared by the National Clearing House which will determine in its ICT system the risk ratios on the basis of the data obtained from banks and credit unions.
Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the **protection of natural persons with regard to the processing of personal data and on the free movement of such data**	The Regulation has been effective since 25 May 2018.	The General Data Protection Regulation constitutes a new, comprehensive regulation pertaining to the processing of the personal data of natural persons by entrepreneurs. The new provisions set out the principles of personal data protection, the rights of data subjects, the duties of the controller and the processor as well as the competence of regulators. The regulation creates the duty to report incidents and personal data breach to supervisory bodies.
The Act on **amendment to the Act on payment services and certain other acts** of 10 May 2018	The Act entered into force on 20 June 2018 and it provides for a 6-month transition period for adapting to new duties.	The Act implements to the Polish legal system EU Directive 2015/2366 (PSD II) with new regulations concerning the provision of payment services. The provisions introduce, among others, the duty to use the so-called strong user authentication mechanism by payment service providers. Moreover, the distribution of the responsibility between banks and users for unauthorised payment transactions will be changed.
The Act on **amendment to the Value-Added Tax Act and certain other acts** of 15 December 2017	1 July 2018	The amendment introduces the so-called split payment mechanism for the Value-Added Tax. Under the solution, the payment for the goods or services purchased is made in such a way that the payment corresponding to the net sales value is remitted by the buyer to the clearing account or it is settled differently, while the rest of the payment being the VAT amount is remitted to a dedicated bank account – i.e. VAT account. It entails the banks' duties to maintain VAT accounts.
The Act on **Counteracting Money Laundering and Terrorism Financing** of 1 March 2018	13 July 2018	The Act implements EU Directive 2015/849 to the Polish legal system. It introduces, inter alia, wider duties relating to the banks' assessing the money laundering and terrorist financing risk, including the amendments to the procedure of using the financial security measures. It also provides for introducing the register of information on corporate persons' ultimate beneficial owners and other legal entities.

Insurance distribution Act of 15 December 2017	1 October 2018	The new provisions result from the implementation of Directive 2016/97 on insurance distribution. The Act covers the duties of the insurance distributing entities. It provides for, in particular, the disclosure duties towards clients, an adequate remuneration system and training duties.

X. ING Bank Śląski S.A. Management Board statements

Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the interim condensed consolidated financial statements and the comparable data were prepared in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank Group and its financial result. The semi-annual Management Board Operations Report for the Bank Group being part of this document is a true presentation of the development, achievements and situation (including a description of key threats and risk types) of the Bank Group in H1 2018.

Selection of entity authorised to audit financial statements

The entity authorised to audit the financial statements that audited the interim condensed financial statements of the Bank Group was selected according to the effective laws and Bank's regulations. The entity and the chartered auditors fulfilled the conditions required to make an impartial and independent report on their review, as required by the applicable Polish laws.

Signatures of Management Board Members of ING Bank Śląski S.A.:

Brunon Bartkiewicz
President of the Bank Management Board
(signed on the Polish original)

Michał Bolesławski
Vice-President of the Bank Management Board
(signed on the Polish original)

Joanna Erdman
Vice-President of the Bank Management Board
(signed on the Polish original)

Marcin Giżycki
Vice-President of the Bank Management Board
(signed on the Polish original)

Bożena Graczyk
Vice-President of the Bank Management Board
(signed on the Polish original)

Justyna Kesler
Vice-President of the Bank Management Board
(signed on the Polish original)

Patrick Roesink
Vice-President of the Bank Management Board
(signed on the Polish original)

31 July 2018