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Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of ING Bank Śląski SA

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of ING Bank Śląski SA Group (the "Group"), whose parent entity is ING Bank Śląski SA (the „Parent Entity”), which comprise:

— the consolidated statement of financial position as at 31 December 2019,

and, for the period from 1 January to 31 December 2019:

- the consolidated statement of profit or loss;
- the consolidated statement of comprehensive income;
- the statement of changes in consolidated equity;
- the consolidated statement of cash flows;

and

— accounting policy and additional explanatory notes

(the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (“IFRS EU”) and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 6 March 2020.



Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest

entities and repealing Commission Decision 2005/909/EC (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement

in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these

matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Expected credit losses on loans and other receivables from customers

The carrying amount of loans and other receivables from customers (excluding those measured at fair value through profit or loss) amounted to PLN 118,127.8 million as at 31 December 2019. The charge for expected credit losses relating to the aforementioned loan portfolio amounted to minus PLN 577.7 million for 2019 (Notes 20 and 9 of the consolidated financial statements).

<i>Key audit matter</i>	<i>Our response</i>
<p>The procedures to estimate credit losses in respect to loans and other receivables from customers at amortized cost and at fair value through other comprehensive income comprise two major phases – identification of the impairment triggers or significant increase of credit risk and measurement of expected credit losses.</p> <p>The impairment triggers and triggers indicating significant increase of credit risk are identified mainly on the basis of payment delinquencies, economic and financial</p>	<p>Our audit procedures conducted with the support of our internal financial risk and IT system risk specialists included among others:</p> <ul style="list-style-type: none"> • assessment of the Group’s methodology used for estimating expected credit losses in terms of their compliance with the requirements of applicable financial reporting standards and market practice; • assessment of the design and implementation of relevant internal

standing of the debtor and current probability of default level as compared to the date of initial recognition of the exposure, while allowances for expected credit losses are estimated on an individual basis and collectively for homogenous loan portfolios collectively using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.

Allowances for credit losses are an estimate of expected credit losses on loans and other receivables from customers as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the consolidated financial statements. Furthermore, estimating allowances for credit losses involves certain uncertainty and requires from the Group's Management to use substantial judgement. The main risk area comprises the failure to identify existing impairment triggers and significant increase of credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date and for loans that are assessed on an individual basis there is a risk of applying inappropriate assumptions regarding recovery scenarios, valuation of collateral or assumed timing of expected cash flows. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.

controls, including general IT system controls, applied in the process of identification of impairment or significant increase in credit risk triggers and estimation of expected credit losses.

- analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage (i.e. share of overdue loans, coverage ratio) in order to identify groups of loans with underestimated expected credit losses.
 - analysis of appropriateness of Group's identification of impairment and significant increase in credit risk triggers for the entire population of loans (overdue status, significant increase in PD, forbearance)
 - independent recalculation of expected credit losses for a sample of individually assessed impaired loans;
 - critical assessment of assumptions and input data used for key credit risk parameters, PD, LGD and EAD including analysis of results of tests performed by the Group regarding appropriateness of models used for estimating of expected losses;
 - recalculation of selected risk parameters and expected credit losses for a selected sample of exposures assessed collectively;
 - an independent assessment of adequacy of provisions for expected credit losses through comparison with loss incurred historically on a given portfolio;
 - for loans and other receivables from customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of significant increase in credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent recalculation of impairment allowances.
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Conduct risk, legal claims and customer complaints

As at the balance sheet date, provision for partial refund of costs related to consumer and mortgage loans granted, which were prepaid before the balance sheet date, amounted to PLN 17.1 million. Interest income for 2019 was reduced by PLN 21.0 million due to the expected refund of these costs in the future periods (the corresponding entry decreased the gross loans and other receivables from customers).

Due to the risk related to the current and potential legal claims with borrowers who have obtained mortgage loans indexed to CHF in the past, as at 31 December 2019 the Group recognized expected credit losses of PLN 35.0 million and the provisions of PLN 9.6 million.

Provisions for other legal claims and conduct risk amounted to PLN 18.1 million. These matters were presented in Note 32 to the consolidated financial statements

Key audit matter	Our response
<p>The entities of the Group operating on regulated markets are exposed to the risk of changes in law rulings and events (other than those arising from credit risk) that may result in lower than contractual cash flows from financial contracts with customers or in an obligation or liability arising from past events, the settlement of which will require outflow of resources embodying economic benefits ("risk amount"). We consider identification of such events by the Group, providing a reliable estimate of the risk amount and disclosures in this respect to be the key audit matter.</p>	<p>Our audit procedures included among others:</p> <ul style="list-style-type: none"> • assessment of the accounting policy and methodology for calculating the Group's estimates in relation to the recognition in the financial statements of the financial effects of CJEU judgments and other conduct risks, litigation and customer complaints; • assessment of the design and effectiveness of internal controls in the scope of identification, monitoring and estimation of conduct risk and risk arising from complaints and disputes with clients; • analysis of correspondence, reports and post-audit recommendations received by the Group from regulatory authorities; • assessment of the Group's internal analyzes and reports in the area of compliance risk and conduct risk; • analysis of operational risk event database in terms of completeness of identified conduct risks; • analysis of complaints submitted by customers and their impact (including potential) on the Group; • analysis of confirmations of court cases received from external legal counsel representing the Group in proceedings and the estimation of financial effects resulting from these cases made by external legal counsel; • analysis of the legal opinion, prepared by an external legal counsel, containing the assessment of the CJEU judgment for the Group, in the context of other
<p>As at 31 December 2019, in particular it refers to the impact of two decisions of the Court of Justice of the European Union ("CJEU") of 11 September 2019 (Case C-383/18) and of 3 October 2019 (Case C-260/18). Although none of these decisions referred directly to the entities of the Group, they have resulted in consequences we refer to below.</p>	
<p>CJEU decision of 11 September 2019</p>	
<p>The decision changed the interpretation of the provisions of the Consumer Credit Act of 12 May 2011 as regards the obligation to refund a part of costs related to consumer loans granted in the case of a loan repayment before the contractual maturity date. The Group made an estimate of the most expected amount of the expenses to be incurred in connection with the above and which relate to:</p>	
<ul style="list-style-type: none"> – expected refund claims due to the consumer loans which were prepaid in the past; and 	

- refunds to be made in the future as a result of prepayments of consumer loans.

The Group also made a similar estimate of the expected expenses with respect to mortgage loans granted under the Act of 23 March 2017 on mortgage credit and supervision of mortgage brokers and agents.

CJEU decision of 3 October 2019

As a result of the decision, the number of court claims against the Group filed by the borrowers who were granted mortgage loans denominated or indexed to CHF ("CHF loans") in the past years increased. The Group assessed that this growth may continue for some time in the future, which in the absence of a single court ruling in this respect may result in lower expected cash flows from CHF loans than those resulting from the contractual agreements. In order to determine an estimate expected loss from the CHF loan portfolio, the Group assessed, among other things, the probability of various scenarios with respect to future possible court judgments with respect to claims concerning CHF loans granted by the Group, estimated the most probable number of new court claims and the time horizon in which they may occur.

Estimates of the risk resulting from both CJEU decisions bear significant uncertainty as regards, inter alia, the number of refund claims and the prepayment rate for consumer and mortgage loans in the future, the number of future claims relating to the mortgages denominated or indexed to CHF and possible courts' decisions for the existing and expected disputes.

common court verdicts in Poland in similar cases issued after the CJEU judgment, taking into account the characteristics of practices and contract templates used by the Group for CHF loans and an assessment of the likelihood of scenarios defined by the Group in terms of possible decisions;

- assessment of the rationality of assumptions regarding the number of expected claims from customers on the basis of trends in this respect observed in the Group, as well as the scale of complaints reported in other disputes in previous years;
- historical analysis of the accuracy of estimates made in past periods from the perspective of losses that occurred in subsequent periods;
- analysis of the correctness of significant input data used to prepare risk estimates resulting from both judgments of the CJEU by agreeing them to the relevant IT systems of the Group;
- analysis of the sensitivity of estimates to changes in key assumptions and taking into account the above, assessment whether the adopted level of significant assumptions indicates the bias of the Management Board;
- our independent determination of the range of reasonable assumptions, including alternative assumptions, making our own estimation on this basis and comparing it with the estimation of the Group;
- assessment of the completeness and correctness of disclosures required by IFRS that are related to the presented estimates.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to

enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management



Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (the "Accounting Act"), the Management Board and members of the

Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of

accounting estimates and related disclosures made by the Management Board of the Parent Entity;

- conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial

statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information

The other information comprise:

- the selected financial data;
- the Management Board report on activities of ING Bank Śląski Group together with Management Board report on activities of the Bank for the year ended 31 December 2019 (the "Report on activities"), including letter from the Chairman, —the statement of the Management Board regarding the preparation of the separate financial statements, consolidated financial statements and report on activities, the Management Board's information regarding the appointment of the audit firm and the corporate governance statement, which is a separate part of the Report on activities;

- the separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act;
- Report of the Supervisory Board on the results of assessment of the Annual Financial Statements of ING Bank Śląski S.A. for 2019
- the Supervisory Board's assessment of the consolidated financial statements and the Report on activities;
- Supervisory Board's Assessment of ING Bank Śląski S.A. Group Operations in 2018; and
- representation of the Supervisory Board concerning the Audit Committee

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are

required to ensure that the Report on activities, including the corporate governance statement and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material

misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the



statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (the “decree”).

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

Statement on Other information

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements,

whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

we have not identified material misstatements in the Management’s Board report on activities and the Other information.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Entity is responsible for the Group’s compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor’s report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular whether the Group appropriately determined the capital ratios presented in note 6.4 “Capital adequacy” in section Risk management and capital.

The audit objective was not to express an opinion on the Group’s compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2019, of the Group with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2019, that could have a material



impact on the consolidated financial statements.

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Group and entities under the control of the Parent Entity in the audited period are listed in "Other information" of the Management's Board report on activities.

Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 18 January 2013 and reappointed in the following years, including the resolution dated 2 July 2019, to audit the annual consolidated financial statements for the year ended 31 December 2019. Our period of total uninterrupted engagement is 7 years, covering the periods ended 31 December 2013 to 31 December 2019. Due to the fact that we

exceeded the maximum uninterrupted audit term of 5 years, as set out in article 134 point 1 of the act on auditors, we performed the audit of financial statements for the year ended 31 December 2019 after the Management Board received a permission from Polish Financial Supervision Authority to extend the term of performing the audit of financial statements of the Group for second additional year to KPMG Audy t Spółka z ograniczoną odpowiedzialnością sp.k.

On behalf of audit firm

KPMG Audy t Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Signed on the Polish original

Signed on the Polish original

Tadeusz de Ville

Magdalena Grzesik

Limited Partner, Proxy

Key Certified Auditor
Registration No. 12032

Warsaw, 6 March 2020