

ING Bank Śląski S.A.
Annual Financial Statements
for the year 2016

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Income statement

for the year ended 31 December

	Note	2016	2015
Going concern*			
Interest income	2	3 778.5	3 483.6
Interest expenses	2	953.5	1 140.1
Net interest income	2	2 825.0	2 343.5
Commission income	3	1 146.6	1 055.9
Commission expenses	3	131.5	104.6
Net commission income	3	1 015.1	951.3
Net income on financial instruments at fair value through profit or loss and FX result	4	55.7	81.9
Net income on investments	5	245.3	245.5
Net income on hedge accounting	6	-2.6	22.9
Net income on other basic activities	7	-2.5	-1.4
Net income on basic activities		4 136.0	3 643.7
General and administrative expenses	8	2 009.7	2 035.0
Impairment losses and provisions for off-balance sheet liabilities	9	268.5	212.8
Tax on certain financial institutions	10	280.2	0.0
Gross profit (loss)		1 577.6	1 395.9
Income tax	11	368.9	255.9
Net profit (loss)		1 208.7	1 140.0
Weighted average number of ordinary shares		130 100 000	130 100 000
Earnings per ordinary share (PLN)	12	9.29	8.76

*) As far as comparable data are concerned, there were no discontinued operations at the Bank in the year ended 31 December 2016.

The diluted earnings per share are the same as the profit per one ordinary share.

The Income Statement should be read in conjunction with the notes to the financial statements being the integral part thereof.

Statement of comprehensive income

for the year ended 31 December

	Note	2016	2015
Net profit for the period		1 208.7	1 140.0
Total other comprehensive income, including:		-895.9	-383.4
Items which can be reclassified to income statement, including:		-898.1	-379.9
Gains/losses on revaluation of available-for-sale financial assets carried through equity	36	-76.2	13.4
<i>including deferred tax</i>		17.9	-3.2
Reclassification to the financial result due to sale of available-for-sale financial assets	36	-183.7	-47.2
<i>including deferred tax</i>		43.1	11.1
Amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	36	-32.2	-28.4
<i>including deferred tax</i>		7.6	6.7
Effective part of cash flow hedging relationship	36	-606.0	-317.7
<i>including deferred tax</i>		148.0	74.5
Items which will not be reclassified to income statement, including:		2.2	-3.5
Revaluation of non-current assets	36,37	0.6	-3.7
<i>including deferred tax</i>		-0.2	0.8
Disposal of non-current assets	36,37	0.0	0.7
<i>including deferred tax</i>		0.0	-0.1
Actuarial gains/losses	36	1.6	-0.5
<i>including deferred tax</i>		-0.4	0.1
Net comprehensive income for the reporting period		312.8	756.6

The Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements being the integral part thereof.

Statement of financial position

as at 31 December

	Note	2016	2015	2014
Assets				
Cash in hand and balances with the Central Bank	13	1 825.0	3 589.7	5 330.7
Loans and other receivables to other banks	14	1 113.4	1 013.1	1 821.3
Financial assets at fair value through profit or loss	15	2 826.8	1 127.1	1 856.8
Valuation of derivatives	16	1 117.1	1 990.9	2 411.7
Investments	17	25 721.3	23 478.7	22 828.6
Derivative hedge instruments	19	1 338.6	2 454.8	2 983.8
Loans and other receivables to customers	20	78 038.0	69 633.4	57 952.1
Receivables from customers under repo transactions	21	0.0	1 354.4	106.6
Investments in controlled entities	22	239.2	269.3	269.2
Non-financial assets	23	991.2	1 036.1	1 002.5
Assets held for sale	24	31.8	38.4	68.4
Tax assets	25	154.2	0.0	0.0
Other assets	26	132.8	120.0	110.7
Total assets		113 529.4	106 105.9	96 742.4
Liabilities				
Liabilities to other banks	27	2 019.9	1 855.4	3 644.2
Financial liabilities at fair value through profit or loss	28	474.8	629.4	917.4
Valuation of derivatives	16	1 116.0	2 002.8	2 521.3
Derivative hedge instruments	19	1 468.1	1 830.9	2 032.8
Liabilities to customers	29	95 168.4	87 383.7	75 326.0
Liabilities to customers under repo transactions	30	0.0	47.5	29.7
Liabilities under issue of debt securities	31	866.4	866.3	866.5
Subordinated liabilities	32	664.9	0.0	0.0
Provisions	33	71.2	63.8	70.3
Tax liabilities	25	119.6	153.7	248.5
Other liabilities	34	1 265.2	787.2	837.9
Total liabilities		103 234.5	95 620.7	86 494.6
Equity				
Share capital	35	130.1	130.1	130.1
Supplementary capital - issuance of shares over nominal value		956.3	956.3	956.3
Revaluation reserve	36	576.8	1 474.1	1 869.0
Retained earnings	37	8 631.7	7 924.7	7 292.4
Total equity		10 294.9	10 485.2	10 247.8
Total equity and liabilities		113 529.4	106 105.9	96 742.4
Carrying amount		10 294.9	10 485.2	10 247.8
Number of shares		130 100 000	130 100 000	130 100 000
Carrying amount per share (PLN)		79.13	80.59	78.77

The Statement of Financial Position should be read in conjunction with the notes to the financial statements being the integral part thereof.

Statement of changes in equity

the period from 01 Jan 2016 to 31 Dec 2016

Notes: 35, 36, 37					
	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	1 474.1	7 924.7	10 485.2
Net result for the current period	-	-	-	1 208.7	1 208.7
Other net comprehensive income, including:	0.0	0.0	-897.4	1.5	-895.9
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	-76.2	-	-76.2
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-183.7	-	-183.7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-	-	-32.2	-	-32.2
effective part of cash flow hedging relationship	-	-	-606.0	-	-606.0
revaluation of non-current assets	-	-	0.6	-	0.6
disposal of non-current assets	-	-	-1.5	1.5	0.0
actuarial gains/losses	-	-	1.6	-	1.6
Other changes in equity, including:	0.0	0.0	0.1	-503.2	-503.1
valuation of share-based payments	-	-	-	1.1	1.1
settlement of subsidiary acquisition	-	-	0.1	55.1	55.2
profit distribution with dividend payout allocation	-	-	-	-559.4	-559.4
Closing balance of equity	130.1	956.3	576.8	8 631.7	10 294.9

the period from 01 Jan 2015 to 31 Dec 2015

Notes: 35, 36, 37					
	Share capital	Supplementary capital - issuance of shares over nominal value	Revaluation reserve	Retained earnings	Total equity
Opening balance of equity	130.1	956.3	1 869.0	7 292.4	10 247.8
Net result for the current period	-	-	-	1 140.0	1 140.0
Other net comprehensive income, including:	0.0	0.0	-394.9	11.5	-383.4
gains/losses on revaluation of available-for-sale financial assets carried through equity	-	-	13.4	-	13.4
reclassification to the financial result due to sale of available-for-sale financial assets	-	-	-47.2	-	-47.2
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-	-	-28.4	-	-28.4
effective part of cash flow hedging relationship	-	-	-317.7	-	-317.7
revaluation of non-current assets	-	-	-3.7	-	-3.7
disposal of non-current assets	-	-	-10.8	11.5	0.7
actuarial gains/losses	-	-	-0.5	-	-0.5
Other changes in equity, including:	0.0	0.0	0.0	-519.2	-519.2
valuation of share-based payments	-	-	-	1.2	1.2
dividends paid	-	-	-	-520.4	-520.4
Closing balance of equity	130.1	956.3	1 474.1	7 924.7	10 485.2

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements being the integral part thereof.

Cash flow statement

for the year ended 31 December

	Note	2016	2015
Net profit (loss)		1 208.7	1 140.0
Adjustments		-504.4	-1 410.4
Depreciation and amortisation	8, 23	208.8	185.2
Interest accrued (from the income statement)	2	-2 825.0	-2 343.5
Interest paid		-948.0	-1 148.3
Interest received		3 665.7	3 461.3
Dividends received	5	-18.5	-99.2
Gains (losses) on investing activities		2.9	-87.6
Income tax (from the income statement)	11	368.9	255.9
Income tax paid		-557.2	-350.7
Change in provisions	33	7.4	-6.5
Change in loans and other receivables to other banks	14, 44	12.5	664.1
Change in financial assets at fair value through profit or loss	15, 44	-1 700.6	729.6
Change in available-for-sale financial assets	17, 44	-163.3	286.0
Change in valuation of derivatives	16	-13.0	-97.7
Change in hedge derivatives	19	147.4	9.4
Change in loans and other receivables from customers	20,21,44	-7 084.8	-12 903.8
Change in other assets		137.3	54.8
Change in liabilities to other banks	27, 44	164.4	-1 788.5
Change in liabilities at fair value through profit or loss	28	-154.6	-288.0
Change in liabilities to customers	29,30,44	7 754.5	12 107.1
Change in other liabilities		490.8	-50.0
Net cash flow from operating activities		704.3	-270.4
Purchase of property plant and equipment	23	-75.1	-137.2
Disposal of property, plant and equipment		3.2	5.1
Purchase of intangible assets	23	-111.3	-129.1
Purchase of shares in controlled entities	22	0.0	-0.1
Disposal of assets held for sale		11.8	144.1
Purchase of held-to-maturity financial assets	17	-2 416.4	-1 138.6
Interest received from held-to-maturity financial assets		140.5	87.6
Dividends received	5	18.5	99.2
Net cash flow from investing activities		-2 428.8	-1 069.0
Long-term loans received	32	654.8	0.0
Interest on debt securities issued		-22.6	-23.9
Dividends paid	12	-559.4	-520.4
Net cash flow from financing activities		72.8	-544.3
Effect of exchange rate changes on cash and cash equivalents		135.9	-40.5
Net increase/decrease in cash and cash equivalents		-1 651.7	-1 883.7
Opening balance of cash and cash equivalents		4 410.4	6 294.1
Closing balance of cash and cash equivalents	44	2 758.7	4 410.4

The Cash Flow Statement should be read in conjunction with the notes to the financial statements being the integral part thereof.

Accounting policy and additional notes

I. Bank details

1. Key Bank data

ING Bank Śląski S.A. ("Bank", "Company") with the registered office in Katowice, at ul. Sokolska 34, was entered into the Entrepreneurs Register with the National Court Register maintained by the Commercial Division of the District Court in Katowice under the number KRS 5459. The Bank statistical number is REGON 271514909, and the tax identification number is NIP 634-013-54-75.

2. Scope and duration of operations

ING Bank Śląski S.A. offers a broad range of banking services rendered to individual and institutional clients in line with the scope of services outlined in the Bank's charter. The Bank runs operations both in the home currency and in foreign currencies. The Bank is also active in the domestic and foreign financial markets. The duration of the Bank business was determined as indefinite in the Bank's charter.

3. Share capital

The share capital of ING Bank Śląski S.A. is PLN 130,100,000 and is divided in 130,100,000 ordinary bearer shares of a par value of PLN 1.00 each. Bank's shares are quoted on the Warsaw Stock Exchange (sector: banks).

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

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 31 December 2016 held 75% share in the share capital of ING Bank Śląski S.A. and 75% shares in the total number of votes at the General Meeting. ING Bank NV belongs to the Group, herein referred to as ING Group.

As at 31 December 2016, the shareholders owning 5% and more votes at the General Meeting of ING Bank S.A. were:

No.	Entity	Number of shares and votes	% of total number of shares and votes at General Meeting
1.	ING Bank NV	97,575,000	75.00
2.	AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK	10,796,936	8.30

5. ING Bank Śląski S.A. Management Board and Supervisory Board composition

On 04 March 2016, the Chairman of the ING Bank Śląski S.A. Supervisory Board received letters of resignation tendered by:

- Ms. Małgorzata Kotakowska – resignation from the capacity of President of the Management Board of ING Bank Śląski S.A. as of 31 March 2016. The reason for resignation is the assumption of the position of Global Head of Network, Wholesale Banking, at ING Group as of 01 April 2016.
- Mr. Ignacio Juliá Vilar – resignation from the capacity of Vice-President of the Management Board of ING Bank Śląski S.A. as of 30 April 2016. The reason for resignation is the planned

assumption of the positions of Chief Innovation Officer and Head of Retail Segment at ING Group as of 01 May 2016.

Also, on 04 March 2016, Mr. Brunon Bartkiewicz tendered his resignation to the Chairman of the Supervisory Board of ING Bank Śląski S.A. as Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 04 March 2016. At the same time, on 04 March 2016 the Supervisory Board appointed Mr. Brunon Bartkiewicz to the position of President of the Bank Management Board, provided the required approval of the Polish Financial Supervision Authority is obtained. On 19 April 2016, the Polish Financial Supervision Authority consented to Mr. Brunon Bartkiewicz assuming that position.

On 27 June 2016, the Supervisory Board appointed Mr. Marcin Giżycki Vice-President of the Bank Management Board in charge of the Retail Banking Division and the Brokerage Office Division as of 01 August 2016.

As at the end of 2016, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr Brunon Bartkiewicz - Bank Management Board President,
- Mr Mirosław Boda - Bank Management Board Vice-President,
- Mr Michał Bolesławski - Bank Management Board Vice-President,
- Ms Joanna Erdman - Bank Management Board Vice-President,
- Mr Marcin Giżycki - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Patrick Roesink - Bank Management Board Vice-President.

On 24 March 2016, Mr. Diederik van Wassenaeer tendered his resignation to the Chairman of the Supervisory Board of ING Bank Śląski S.A. as Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 31 March 2016. Mr. Diederik van Wassenaeer resigned because he was entrusted with other duties at ING Group.

On 31 March 2016, the Ordinary General Meeting of ING Bank Śląski S.A. appointed as the Members of the Supervisory Board of ING Bank Śląski S.A.:

- Ms Małgorzata Kołakowska as of 01 April 2016,
- Mr. Christopher Steane as of 31 March 2016.

As at the end of 2016, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chair,
- Mr Roland Boekhout - Deputy Chair,
- Mr Aleksander Galos - Secretary,
- Mr Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Ms Małgorzata Kołakowska - Member,
- Mr Aleksander Kutela - Member,
- Mr Christopher Steane - Member.

6. Entity authorised to audit the financial statements

KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp.k. with registered office in Warsaw is the entity authorised to audit the financial statements.

7. Approval of financial statements

These annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2016 to 31 December 2016 have been approved by the Bank Management Board on 02 March 2017.

The annual consolidated financial statements of the ING Bank Śląski S.A. Group for the period from 01 January 2016 to 31 December 2016 shall be published and approved on the same day as the standalone financial statements.

The annual financial statements of the ING Bank Śląski S.A. for the period from 01 January 2015 to 31 December 2015 were approved by the General Meeting on 31 March 2015.

II. Statement of compliance with International Financial Reporting Standards

These annual financial statements for the period from 01 January 2016 to 31 December 2016 were prepared in compliance with the International Financial Reporting Standards ("IFRS") approved by the European Union. The financial statements take into account the requirements of the standards and interpretations approved by the EU except for the standards and interpretations mentioned in item 1 below, which either await approval by the EU or have been already approved by the EU but shall take effect after the balance sheet date.

1. Changes to accounting standards

In these annual financial statements the Bank took account of the following binding standards and interpretations approved by the European Union for annual periods starting on or after 01 January 2016:

Change (EU effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (the accounting year starting on 1 January 2016 or later)	Amendment implementation has no impact on the financial statements of the Bank.
IAS 27 "Equity Method in Separate Financial Statements" (the accounting year starting on 1 January 2016 or later)	The amendment affects the separate financial statements. The Bank continues the current approach in this regard that may be still applied. Thus, it does not impact the Bank financial statements.
IAS 1 "Disclosure Initiative" (the accounting year starting on 1 January 2016 or later)	Amendment implementation had no material impact on the financial statements of the Bank.
Amendments arising from IFRS reviews made during the 2012-2014 cycle Changes arising from IFRS reviews made during the 2012-2014 cycle (published in September 2014). They affect: IFRS 5, IFRS 7, IAS 19 and IAS 34. (the accounting year starting on 1 January 2016 or later)	Amendment implementation has no material impact on the financial statements of the Bank.
IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (the accounting year starting on 1 January 2016 or later)	Standard amendment implementation has no impact on the financial statements of the Bank; i.e., the Bank does not apply revenue-based amortization or depreciation.
IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (the accounting year starting on 1 January 2016 or later)	Amendment implementation has no impact on the financial statements of the Bank.
IAS 16 and IAS 41 "Agriculture: Bearer Plants" (the accounting year starting on 1 January 2016 or later)	Not applicable.

The published standards and interpretations which were already issued and approved by the European Union as at 31 December 2016 but were not previously applied by the Bank:

Change (EU effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 9 <i>Financial Instruments</i> (the accounting year starting on 01 January 2018 or later)	The Bank is working on implementation of the requirements of the new standard as part of the dedicated project. The new standard is expected to have a material impact on the financial statements upon its initial application due to the need of its retrospective application. Given the project works performed, the Bank did not decide to apply the standard earlier. More detailed information was presented in item 1.1.
IFRS 15 <i>Revenue from Contracts with Customers</i> taking account of the application date change (the accounting year starting on 01 January 2018 or later)	The analyses show that the standard's application will not have material impact on the financial statements of the Bank.

The published standards and interpretations which were already issued but were not approved by the European Union as at 31 December 2016 and were not previously applied by the Bank:

Change (expected IASB effective date provided for in the parentheses)	Influence on the Bank statements
IFRS 10 and IAS 28 <i>"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"</i> (the accounting year starting on 01 January 2016 or later) EU approval was postponed for an indefinite period.	The analyses show that revised standard application will have no impact on the financial statements of the Bank.
IFRS 14 <i>"Regulatory Deferral Accounts"</i> (the accounting year starting on 01 January 2016 or later) EU resolved to wait for the final standard release.	Not applicable (the new standard applies only to entities that are IFRS first-time adopters).
IFRS 16 <i>"Leases"</i> (the accounting year starting on 01 January 2019 or later)	The Bank is currently analysing the impact of the new standard on its financial statements.
IAS 12 <i>"Recognition of Deferred Tax Assets for Unrealised Losses"</i> (the accounting year starting on 01 January 2017 or later)	Implementation of the change will have no material impact on the financial statements of the Bank.
IAS 7 <i>"Disclosure Initiative"</i> (the accounting year starting on 01 January 2017 or later)	Application of the change to the standard will only impact on the scope and structure of the analytical information disclosed in the Bank cash flow statement.
IFRS 15 (changed) <i>"Revenue from Contracts with Customers"</i> (the accounting year starting on 01 January 2018 or later)	The Bank is currently analysing the impact of changes on the financial statements of the Bank. The first analyses suggest that the implementation of the change will have no material impact on the financial statements of the Bank.
IFRS 2 <i>"Share-Based Payment"</i> (the accounting year starting on 01 January 2018 or later)	The Bank is currently analysing the impact of standard amendment on the financial statements of the Bank.
IFRS 4 <i>"Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"</i> (the accounting year starting on 01 January 2018 or later)	The amendment will not impact the financial statements of the Bank.

Changes arising from IFRS reviews executed during the 2014-2016 cycle (published in December 2016) Apply to IFRS 1, IFRS 12 and IAS 28 (the accounting year starting on 01 January 2018/ 01 January 2017)	The changes will not have a material impact on the financial statements of the Bank.
IFRIC 22 <i>Transactions in foreign currency and advance payments</i> (the accounting year starting on 01 January 2018)	The change will not have a material impact on the financial statements of the Bank.
IAS 40 <i>Reclassification of investment property</i> (the accounting year starting on 01 January 2018)	The change will not have a material impact on the financial statements of the Bank.

1.1. IFRS 9 Financial Instruments

IFRS 9 “*Financial Instruments*” was issued by the IASB in July 2014 and endorsed by the EU in November 2016. IFRS 9 will replace IAS 39 “*Financial Instruments: Recognition and Measurement*” and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The new requirements become effective as of 1 January 2018. The Bank has decided to apply the classification, measurement and impairment requirements retrospectively by adjusting the opening balance sheet as at 1 January 2018, with no restatement of comparative periods.

IFRS 9 Program governance and status

The structure of the IFRS 9 Project has been set-up based on two work streams relating to:

1. Classification & Measurement and Hedge Accounting coordinated by Finance Division, and
2. Impairment coordinated by Risk Division.

These work streams consist of experts from Finance and Risk. Experts from other units like Bank Treasury, Operations, IT and the Business are involved with work on particular tasks relating to their area of operations. The IFRS 9 Steering Committee is decision making body consisting of senior managers from Finance, Credit & Market Risk, Bank Treasury and IT & Operation. The Bank Management Board and the Audit Committee are periodically updated about the IFRS 9 implementation status.

In 2016, the Bank's IFRS 9 Project continued to focus on the implementation and clarification of certain areas of judgement in IFRS 9 and based on interpretations and discussions within the Bank decisions have been made. The IFRS 9 Project is being implemented across functions. In 2017, parallel runs will be performed to ensure IFRS 9 readiness on 1 January 2018.

Classification and Measurement

IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics.

Two criteria are used to determine how financial assets should be classified and measured:

1. The Business Model assessment is performed to determine how a portfolio of financial instruments as a whole is managed in order to classify it as Hold to Collect, Hold to Collect & Sell or Other Business Model and
2. Contractual cash flow characteristics of financial instruments held in each Business Model are analysed to check if they consist of Solely Payments of Principal and Interest (SPPI) test in order to determine if the measurement will be at Amortised Cost, Fair Value through Other Comprehensive Income ('FVOCI') or Fair Value through Profit and Loss ('FVPL').

In 2016, the Bank finalised a Business Model approach based on the structure of the organisation. The Bank also finalised an approach for performing the SPPI test and is in the process of performing a detailed analysis of cash flow characteristics of financial assets to detect whether they meet SPPI criteria. The SPPI test is performed on groups of assets that have a set of similar characteristics resulting in a homogenous population.

The focus in 2017 will be finalising SPPI testing and formalising the governance to embed the changes brought by IFRS 9 into everyday business and financial reporting cycles to ensure ongoing compliance. The Bank will also finalise accounting policy choices around the use of FVOCI presentation for equity investments and designations at FVPL. Furthermore, there will be increased emphasis on the impact of IFRS 9 on prudential ratios, especially capital ratios.

Impact

While the classification and measurement of the majority of the Bank's financial assets will remain consistent with IAS 39, there is limited number of financial assets sub-portfolios where changes will occur. The classification and measurement of financial liabilities remains essentially the same as under IAS 39.

Impairment

The recognition and measurement of impairment is intended to be more forward looking-looking, based on an expected credit loss ('ECL') model, than under IAS 39 which is an incurred loss model. The ECL estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions and forecasts of future economic conditions. The ECL should reflect multiple macro-economic scenarios and include the time value of money.

Three stage approach

The Bank will apply the IFRS 9 three stage approach to measure expected credit losses:

- Stage 1: 12 month ECL – performing Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition, a provision for ECL associated with the probability of default events occurring within the next 12 months ('12 month ECL').
- Stage 2: Lifetime ECL – under-performing In the event of a significant increase in credit risk since initial recognition, a provision is required for ECL resulting from all possible default events over the expected life of the financial instrument ('Lifetime ECL').
- Stage 3: Lifetime ECL – non-performing. Financial instruments will move into Stage 3 once credit impaired and require a Lifetime ECL provision.

The Bank considers a financial asset credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Bank established a framework for whether an asset has a significant increase in credit risk. Each assets will be assessed at reporting date on the triggers for significant deterioration. The Bank intends to assess significant increase in credit risk using a delta in the lifetime default probability, forbearance status, watch list status, the business owner of the assets, arrears and the more than 30 days past due backstop.

Measurement

The calculation of ECL will be based on expected loss models (PD, LGD, EAD) currently used for regulatory capital, economic capital and collective provisions in the current IAS 39 framework. The IFRS 9 ECL model leverage on existing IRB models, removing embedded prudential conservatism

(such as PD floors) and including forward looking point in time information based on macro-economic indicators, such as unemployment rates and GDP growth. The expected loss parameters will be determined by using historical statistical relationships and macroeconomic predictions.

To measure ECL, the Bank applies a PD x EAD x LGD approach. For stage 2 assets a lifetime view on the underlying parameters is taken. The Lifetime Expected Loss (LEL) is the discounted sum of the portions of lifetime losses related to default events within each time window of 12 months. For stage 3 the PD equals 100% and the LGD and EAD represent a lifetime view of the characteristics of facilities that are in default.

In 2016, enhanced data was collected and progress has been made in the implementation of IFRS 9 concepts in credit risk system. The models for Bank's portfolios are in the process of adjustments to the IFRS 9 requirements.

Impact

Based on the IFRS 9 ECL model a more volatile impairment charge is expected on the back of macroeconomic predictions. Financial assets with high risk long maturity profiles are expected to be subject to the biggest impact.

All financial assets in scope of the ECL model will be assessed for at least 12-month ECL. IFRS 9 requires to calculate lifetime ECL for those assets with a significant increase in credit risk since initial recognition but are not credit impaired at the reporting date (i.e. Stage 2). This category did not exist under IAS 39. These factors combined will result in an increase in the total level of impairment allowances.

The new IFRS 9 requirements are not currently reflected in the tax law. The direction of the necessary changes in the tax law are not yet known and due to this may result in the potential tax risk. The final shape of this tax requirements may have influence on the amount of deferred tax assets on impairment to be recognized in the financial statements.

Hedge Accounting

The IFRS 9 hedge accounting requirements aim to simplify general hedge accounting requirements. Furthermore, IFRS 9 aims to aligns hedge accounting more closely with risk management. IASB continues, as a separate project, works on hedge accounting requirement for dynamic risk management of open portfolios. Therefore, comprehensive requirements to hedge accounting are not finalized yet.

Based on this, the Bank has made a decision to continue applying IAS 39 for hedge accounting. The Bank will implement the revised hedge accounting disclosures as required by IFRS 7 "Financial Instruments: Disclosures" as per 1 January 2018.

2. Going-concern

These annual financial statements were prepared on a going-concern basis as regards the foreseeable future, namely as regards the period of minimum 12 months from the balance sheet date. As at the approval date hereof, the Bank Management Board have not identified any events that could pose threat to ING Bank Śląski S.A. continuing their operations.

3. Discontinued operations

No material operations were discontinued during 2016 and 2015.

4. Financial statements scope and currency

The Bank is the dominant entity of the ING Bank Śląski S.A. Group and besides these financial statements they also produce the consolidated financial statements compliant with IFRS.

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

5. Reporting period and comparable data

These annual financial statements of the ING Bank Śląski S.A. cover the period from 01 January 2016 to 31 December 2016 and include the comparative data:

- the consolidated statement of financial position as at 31 December 2015 and 31 December 2014,
- items from the statement of financial position as at 31 December 2015,
- items in the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period from 01 January 2015 to 31 December 2015.

III. Significant accounting principles

IFRS provide for the selected accounting policies that may be applied. The key areas where IFRS allow the entity to select the policy and which refer to the Bank Accounting Policy are:

- selection of accounting policy for valuation of investment properties at fair value through profit or loss,
- selection of accounting policy for valuation of buildings and land at revalued amount, being its fair value at the balance sheet date. Increase in fair value is recognised in the revaluation reserve (other comprehensive income). Decrease in fair value is carried through the income statement.

The Bank Accounting Policy complies with IFRS. Bank decisions as to the admissible policy selection are presented below.

1. Basis for preparation of financial statements

The concept of fair value has been applied in the statements for own real property and investment property as well as financial assets and liabilities measured at fair value, including derivative instruments, and financial assets classified as available-for-sale, excluding those for which the fair value cannot be determined in a reliable manner. Other items of financial assets (including loans and receivables) are presented at amortized cost less impairment or at purchase price less impairment. Non-current assets held for sale are recognised at the lower of their carrying amount and the fair value less sales costs.

2. Professional judgement

In the process of accounting principles application to the matters discussed hereinbelow, besides the booking estimates professional judgment of the management staff was of key significance.

2.1. Deferred tax assets

The Bank recognises deferred tax assets, provided that it is probable that tax profit will be earned in future periods allowing their utilisation. The assumption would prove unjustified should tax results

deteriorate in the future. For details of deferred tax assets, see the note 25.

2.2. Classification of leases

Leases are classified by the Bank as operating or financial leases based on the extent where to the risk and benefits due to holding of leased asset are attributable to lessor and lessee. The substance of each transaction is used to make the said assessment. For details of leases, see the note 43.

2.3. Classification of financial assets as financial assets held to maturity

The Bank classifies debt securities as assets held to maturity when they can be held until maturity. For details of the debt securities classified as financial assets held to maturity, see the note 17.

2.4. Classification of real properties as investment properties

The Bank classifies real properties as investment properties on the assumption that the part used to provide services and perform administrative tasks is immaterial. For details, see the note 23.1.

3. Accounting estimates

The development of financial statements in accordance with IFRS requires from the Bank the use of estimates and assumptions that affect the amounts reported in the financial statements and notes thereto.

Estimations and assumptions applied to the presentation of amounts of assets, liabilities, income and costs are made on the basis of historical data available and other factors considered to be relevant in given circumstances. The assumptions applied for the future and available data sources are the base for making estimations regarding the carrying amount of assets and liabilities, which cannot be determined explicitly on the basis of other sources. The estimates reflect the reasons for/ sources of uncertainties as at the balance sheet date. The actual results may differ from estimates.

The estimations and assumptions are reviewed on an on-going basis. Adjustments to estimates are recognized in the period when the estimation was changed provided that the adjustment applies to this period alone or in the period when the estimation was changed and in the following periods, should the adjustment impact both the current and future periods.

Below are the most significant booking estimates made by the Bank.

3.1. Impairment

The Bank assesses whether there is objective evidence of impairment of financial assets (individual items or groups) and non-current assets as at balance sheet date.

3.1.1. Impairment of financial assets

Objective evidence of impairment of financial assets stems from occurrence of one or more events which have a direct impact on valuation of future asset-related cash flows.

The estimates can take into account observable data indicating occurrence of unfavourable payment situation on the part of borrowers from a certain group or unfavourable economic situation of a given country or its part, which translates into the problems sustained by this group of assets.

For significant assets classified to the ISFA portfolio (Individually Significant Financial Assets), impairment is calculated as a difference between the present value of a credit exposure and expected discounted future cash flows for a given exposure.

For assets from IBNR (Incurred But Not Reported) and INSFA (Individually Non-Significant Financial Assets) portfolios, current exposure is computed with the use of PD, EAD and LIP parameters.

Detailed informations as to credit risk estimation models used by the Bank are presented further in this report, see Chapter: *Risk Management at ING Bank Śląski S.A.*, item I discussing credit risk management.

To determine impairment (or reverse it), the present value of expected future cash flows has to be calculated. The methodology and assumptions used to estimate both the amount and the time of future cash flows are regularly reviewed and adjusted as needed.

Some examples of impairment triggers for financial assets, methodology of impairment computation and the recording rules applied thereto were described in item *Impairment* (item 6.11 of this chapter).

The table below shows the estimated impact of the change to the present value of expected future cash flows in the ISFA portfolio on the change to loan loss provisions and provisions for off-balance sheet liabilities.

2016

	Scenario (FCF change)	
	-10%	+10%
Estimated LLP change [PLN million]	(39.24)	36.40
Estimated LLP change [%]	(7.11%)	6.59%

3.1.2. Impairment of other non-current assets

For non-current assets, valuation is based on estimating the recoverable amount of non-current assets being the higher of their value in use and net realisable value at the review date. The value in use of an item of non-current assets (or a cash-generating unit when the recoverable amount of an assets item forming joint assets cannot be determined) is estimated, among others, through adoption of estimation assumptions for amounts, times of future cash flows which the Bank may generate from a given assets item (or a cash-generating unit) and other factors. To determine the value in use, the estimated future cash flows are discounted to their present value at pre-tax discount rate, which reflects the current market expectations as regards value of money and the specific risk of a given assets item.

When estimating the fair value less costs of sale, the Bank makes use of relevant market data available or valuations made by independent appraisers which are based on estimates by and large.

The relevant recording rules were delineated in item 8.4. *Impairment of other non-financial assets*.

The table below shows discount rate sensitivity of the impairment test for the cash-generating units.

(PLN million)	31.12.2016	Discount rate change	
		- 1 p.p.	+ 1 p.p.
Surplus of cash flows net value over the net book value.	2.005.5	2.878.0	1.424.7

3.2. Credit risk of derivative instruments

The approach employed by the Bank to estimate credit risk for derivatives with future settlement date (active deals unsettled as at the balance sheet date) is consistent with its approach to assessing credit risk for credit receivables.

For details of fair value measurement of derivative instruments considering credit risk, see item 6.8. *Derivative instruments and hedge accounting*.

3.3. Measurement of financial instruments that do not have a quoted market price

The fair value of financial instruments not quoted in active markets is measured using valuation models. For non-option derivatives, the models based on discounted cash flows apply. Options are measured using appropriate option valuation models.

Valuation models used by the Bank are verified prior to their usage. Where possible, in models the Bank uses observable data from active markets. However, in certain circumstances, to choose the right valuation parameter, the Bank makes an estimation by comparing a given instrument to another one present in another market but having similar or identical features. Application of the prudence principle requiring to choose the lower value of assets and the higher value of liabilities as being more probable – especially in the conditions of lower liquidity or/and volatility of the financial markets – is fundamental in the valuation made under this approach. Change of assumptions concerning these factors may impact on valuation of some financial instruments.

3.4. Retirement and pension benefit provision

The Bank establishes the provisions for retirement and pension benefit in accordance with IAS 19. The provision for retirement and pension benefit pay awarded as part of the benefits under the Labour Code regulations is calculated using the actuarial method by an independent actuary as the present value of the future long-term Bank's obligations towards their employees considering the headcount and payroll status as at the update date.

The provisions are calculated based on a range of assumptions, relating to both discount rates and projected salary raises as well as to staff rotation, death risk and others. The assumptions are verified at the end of the accounting year.

The table below shows model sensitivity to the values adopted for individual assumptions.

	Retirement and pension benefit provision		
	Lower bracket	Base variant	Upper bracket
Discount Rate (+1% / base variant / - 1%)	26.6	29.3	32.4
Salary raise (-0.25% / base variant/ +0.25)	28.5	29.3	30.0

3.5. Valuation of incentive schemes

3.5.1. Valuation of variable remuneration programme benefits

As at the balance sheet date, the Bank presents in the books the estimated present value of benefits to be rendered under the variable remuneration programme. Benefits will be granted to employees covered with the programme, based on their performance appraisal for a given year. The programme was launched in 2012.

Benefits granted as phantom stock are valued with the use of the median of closing prices of Bank's shares on the Warsaw Stock Exchange during a certain period.

The fair value of the deferred benefit element is adjusted with the reduction factor which accounts for probability of occurrence of an event requiring adjustment of the value of the granted benefit which the employee is not fully eligible to as at the balance sheet date. The catalogue of events has been defined in the programme assumptions.

The present value of the said benefits is determined at market discount rate.

3.5.2. Valuation of options granted under ING Group incentive system benefits

The fair value of the options granted under the ING Group incentive scheme was measured with the Monte Carlo simulation. The model takes the risk-free interest (from 2.02% to 4.62%) as well as the expected exercise date for the options granted (from 5 to 9 years), the option exercise price, the present option price (EUR 2.9 – EUR 26.05), the expected volatility of ING Group's share certificates (25% – 84%) and the expected dividend yield (from 0.94% to 8.99%).

The ING's incentive scheme determines the volatility used to price stock options, which is defined by the volatility of market data and not the historical volatility.

3.6. Residual value of leased assets

The expected residual value is usually the agreed future price of non-current asset purchase by the client after the end of the leasing term. The value is calculated as at the leasing commencement, based on the non-current asset initial value. The residual values are usually established based on certain contractual amount and recognized in net leasing investment position. Recovery of non-current asset residual value in leasing operations depends on the fulfilment of terms and conditions of leasing contract and completion thereof.

3.7. Amortisation period and method for intangible assets

The amortisation period and method for intangible assets are verified at the end of each accounting year. Changes to the useful life or expected pattern of consumption of the future economic benefits embodied in the intangible asset are recognised by changing the amortisation period and method, accordingly. The said changes are approached as changes to estimates.

As a result of verification of rates and useful life of intangible assets, the useful life for the intangible assets created under strategic projects was determined as 5 years.

Strategic applications are made under strategic projects that are key to the Bank's operations. Change to the amortisation period was recognised prospectively from the application date, that is: 01 January 2016.

Further, the Bank increased the capitalisation limit for purchase (from PLN 50,000 to PLN 440,000) or in-house production (from PLN 1 million to PLN 10 million) of computer software.

Following the changed estimates, the costs of software that are below the predefined capitalisation limit are recognised as a one-off item.

Impact of a one-off recognition of computer software costs on the 2016 gross result closes with PLN 25.7 million.

4. Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are measured at purchase price less impairment.

4.1. Legal consolidation of subsidiaries

When settling the transactions of consolidating the Bank with their subsidiary (subject to joint control), the Bank applies the approach consistent with the terms and conditions of the approach whereunder shares are consolidated under the Accounting Act of 29 September 1994, following implementation of IAS 8 guidelines.

Under this approach, individual items of relevant assets and liabilities of the consolidated subsidiary are included in the separate financial statements of the Bank in the amounts recognized in the consolidated financial statements of the dominant entity as at the consolidation date. The consolidation does not affect the comparable data; thus the data do not require any change.

4.2. Assumption of control over an entity subject to joint control under IFRS 3

The Bank applies the method discussed in item 4.1. hereinabove also to recognise the fact of control assumption over the entity subject to joint control under IFRS 3 in the consolidated financial statements.

The Bank adopted the approach whereunder comparable data are not adjusted when control is assumed over an entity subject to joint control under IFRS 3.

4.3. Assumption of control over an entity other than the ING Group member

The takeover approach is applied when settling the purchase of entities from non-associated parties. At the takeover date, the Bank recognizes, separately from goodwill, purchased identifiable assets and taken over identifiable liabilities, taking into account recognition criteria and all non-controlling interests in the taken over entity.

5. Foreign currency

5.1. Functional currency and presentation currency

The items given in presentations of the Bank are priced in the currency of the basic economic environment in which a given entity operates ("the functional currency"). These financial statements are presented in Polish Zloty, which is the functional currency and the presentation currency of the Bank.

5.2. Transactions in foreign currency

Transactions expressed in foreign currencies are translated at FX rate prevailing at the transaction date. The financial assets and liabilities, being result of the said transactions and denominated in foreign currencies are translated at the FX rate prevailing on a given day. The foreign exchange differences resulting from the settlements of the said transactions and the balance sheet valuation of the financial assets and liabilities denominated in foreign currency are recognized in the income statement under the specific item *FX result*, which is an element of *Net income on instruments at fair value through profit or loss and FX result*.

Foreign exchange differences under changes to the fair value of financial instruments classified as available-for-sale financial assets are recognized in the revaluation reserve for the financial assets assigned to this financial category.

6. Financial assets and liabilities

6.1. Classification

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

6.1.1. Financial assets and liabilities at fair value through profit or loss

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

- are classified as held for trading. A financial assets item or financial liability is classified as held for trading if it is: acquired or incurred principally for the purpose of selling or repurchasing it in the near term or is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern

of short-term profit-taking. Derivatives are also classified as held for trading (other than those that are designated and effective hedging instruments),

- upon initial recognition they are classified by the Bank as carried at fair value through profit or loss. Such classification can be made only if:
 - the classified financial assets item or financial liability is a hybrid instrument containing one or many embedded derivatives, which qualify for separate recognition and embedded derivatives cannot change significantly the cash flows resulting from the host contract or separation of embedded derivative is forbidden;
 - usage of such classification of financial asset or liability eliminates or decreases significantly the inconsistency of measurement or recognition (the so called booking mismatch due to various methods of assets and liabilities valuation or various recognition of gains and losses attributable to them);
 - the group of financial assets and liabilities or both categories is managed properly, and its results are measured using fair value, in accordance with documented risk management principles or the Bank's investment strategy.

6.1.2. Investment held to maturity

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

The above mentioned sanction is not applied:

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

6.1.3. Loans and receivables

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

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

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

6.1.4. Financial assets available for sale

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

6.1.5. Other financial liabilities

Financial liabilities being a contractual obligation to deliver cash or other financial asset to another entity not carried at fair value through profit or loss, being a deposit or loan received.

6.1.6. Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

6.2. Recognition

The Bank incorporates financial assets or liabilities into the balance sheet when, and only when it becomes a party to the instrument-related contract. Purchase and sale transactions of financial assets carried at fair value through profit or loss, held to maturity and available for sale are recognized, in accordance with accounting policies applied to all transactions of a certain type, at the settlement date, the date on which the asset is delivered to an entity or by an entity. Loans and receivables are recognized on distribution of the cash to borrower.

6.3. Derecognition

The Bank derecognizes a financial asset when, and only when: the contractual rights to the cash flows from the financial asset expire or the Bank transfers the contractual right to receipt of the cash flow from the financial asset.

On transferring the financial asset, the Bank assesses their risks and rewards of ownership of the financial asset. Accordingly, where the Bank:

- transfers substantially all the risks and rewards of ownership of the financial asset, it derecognizes the financial asset,
- retains substantially all the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset,
- neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it the Bank determines whether it has retained control of the financial asset. In this case if the Bank has retained control, it continues to recognize the financial asset, and if the Bank has not retained control, it derecognizes the financial asset to the extent of its continuing involvement in the financial asset.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when the obligation specified in the contract is satisfied or cancelled or expires.

The Bank is of the opinion that change in the settlement of IR derivatives via the central counterparty, London Clearing House:

- from the collateralised to market approach
- to settled to market one

does not comply with the IAS 39 terms and conditions of derecognition.

The Bank derecognizes loans and receivables or their part, if the rights pertaining to the loan

agreement expire, the Bank waives such rights, sells the loan or when as a result of modification of the terms and conditions of the loan or cash loan agreement the current value of future cash flows of the primary exposure and the post-modification exposure differs by more than 10%.

The Bank most frequently writes down receivables as impairment loss when irrevocability of financial assets is declared, and also when repayment claim costs exceed the amount of the receivable.

The amounts of receivables written down as loss and recovered thereafter reduce the impairment loss in the income statement.

6.4. Measurement

When a financial asset or financial liability is recognized initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, except for the following financial assets:

- loans and receivables which are measured at amortized cost using the effective interest method,
- held-to-maturity investments which are measured at amortised cost using the effective interest method,
- investments in equity instruments that do not have a quoted market price in an active market and their fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which are measured at cost.

After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for:

- financial liabilities carried at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument which fair value cannot be reliably measured and which is measured at cost,
- financial liabilities resulting from the transfer of a financial asset which does not qualify for being excluded from the balance sheet or recognized on a continuing involvement basis.

The other financial liabilities are measured at amortised cost or the amount of due payment.

Granted financial guarantees are measured at the higher of:

- the amount being the most appropriate estimation of the expenditures needed to fulfil the current obligation arising from the financial guarantee, considering the probability of materialisation thereof;
- the amount recognized at the initial entry, adjusted with the settled amount of received guarantee commission.

6.5. Reclassification

A particular financial asset classified as available for sale may be reclassified should it satisfy the definition of loans and receivables and should the Bank intend and be able to maintain this financial asset in the foreseeable future or until its maturity. The fair value of the financial asset at the reclassification date is deemed as its new cost or new amortised cost, respectively.

In the event of a maturing financial asset, the profits or losses recognized as equity until the date of reclassification are amortised and carried through profit or loss for the remaining term until maturity. All differences between the new amortised cost and the amortisation amount are amortised for the remaining term until the instrument's maturity, similarly to the amortisation of premium or discount. Amortisation is made using the effective interest rate method.

6.6. Gains and losses resulting from subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognized, as follows:

- a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized in the income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in equity.

The interest calculated using the effective interest rate method is recognized in the income statement.

As of impairment of items of financial assets or a group of financial assets, the Bank carries the amount of contractual interest not paid at the impairment date through profit or loss. Since then, the Bank accrues interest on the items of financial assets or a group of financial assets less impairment. Interest is accrued at the interest rate used to calculate impairment for the financial assets affected. Later, the value is adjusted for the contractual interest paid in a given period.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the entity's right to receive payment is established.

Foreign exchange gains and losses arising from a change in the fair value of a non-monetary financial assets item available for sale denominated in foreign currency are recognized directly in equity. Foreign exchange gains and losses arising from monetary financial assets (e.g. debt securities) denominated in foreign currency are recognized directly in the income statement.

At the moment of derecognition of financial assets from the balance sheet, cumulated gains and losses recognized previously in equity, are transferred to the income statement. If any objective evidence exists that an available-for-sale financial assets item is impaired, the Bank recognises impairment as described in item 6.11.2 concerning determination of impairment of available-for-sale financial assets.

The fair value of financial assets and liabilities quoted in an active market (including securities) is determined using the bid price for long position and offer price for short position. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, discounted cash flow analysis and option pricing models and other techniques used by market members. The fair value of financial assets and liabilities is determined with the use of the prudent valuation approach and is based on the guidelines given in the technical standards of the European Banking Authority (EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

Market activity is assessed on the basis of frequency and the volume of effected transactions as well as access to information about quoted prices which by and large should be delivered on a continuous basis.

The main market and the most beneficial one at the same time is the market the Bank can access and on which in normal conditions it would enter into sale/purchase transactions for the item of assets or transfer of a liability.

Based on the employed fair value methods, financial assets/liabilities are classified as:

- Level I: financial assets/liabilities measured directly on the basis of prices quoted in the active market,
- Level II: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations,
- Level III: financial assets/liabilities measured using the measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

The Bank verifies on a monthly basis whether any changes occurred to the quality of the input data used in individual measurement techniques and determines the reasons and their impact on the fair value calculation for the component of financial assets/liabilities. Each identified case is reviewed individually. Following detailed analyses, the Bank takes a decision whether its identification entails any changes to the approach for fair value measurement or not.

In justified circumstances, the Bank decides to modify the fair value methodologies and their effective date construed as the circumstances change date. Then, they assess the impact of changes on the classification to the individual categories of the fair value measurement hierarchy. Any amendments to the measurement methodology and its rationale are subject to detailed disclosures in a separate note to the financial statements.

6.7. Valuation cost basis of debt and capital securities

Estimation of fair value of and result on sale of securities requires application of a certain cost basis for investment. The cost basis for investment applied in that respect is based on the interpretation resulting in application by an analogy to the guidelines given in IAS 2 *Inventories*, however only as far as possible considering the unique nature of the financial instruments of this type.

The Bank applies the “weighted average purchase price” as the effective cost basis for investment to estimate fair value of and result on sale of securities with the capital rights.

The Bank applies the “first-in first-out” (FIFO) method as the cost basis of investment for debt securities.

6.8. Derivative instruments and hedge accounting

Derivative instruments are measured at fair value without transactional costs, which are to be incurred at the moment of its sale. The base of initial fair value measurement of derivative instruments is value at cost, i.e. fair value of received or paid amount.

The carrying amount of IR derivatives settled via the central counterparty, London Clearing House, reflects transaction settlement under the settled to market approach.

The credit risk component is included in the fair value measurement for derivative instruments through additional valuation adjustments. Valuation adjustments are estimated per counterparty considering the expected presettlement exposures and the same risk incurred by the Bank. This approach provides for the possibility of occurrence of risk of bilateral value adjustments. The adjustment is made using the expected positive exposure estimated through numerous simulations (the results from the scenarios leading to a negative outcome are eliminated) and the present market value (or its estimation through referencing to comparable data) of credit default swaps (CDS). Own risk of the Bank and the risk of materialisation of a scenario of concurrent client and Bank insolvency are calculated by analogy.

In addition for matured or terminated and unsettled transactions as at the balance sheet date, the Bank establishes impairment losses using the methodology applied to assessing the risk of impaired loans.

The two types of fair value adjustments as mentioned above were differently reflected in the financial statements. Fair value adjustments due to risk for non-matured transactions were

presented under the item *Net income on instruments at fair value through profit or loss and FX result*, whereas the impairment losses for matured transactions under the item *Impairment losses for financial assets and provisions for off-balance-sheet liabilities*.

If a transaction whose fair value was adjusted in the previous reporting period under the item *Net income on instruments at fair value through profit or loss and FX result* becomes mature or subject to restructuring, then the amount of the previous fair value adjustment is moved to the item *Impairment losses* and the added part of the impairment loss for such already matured transaction is presented in the income statement in the item *Impairment losses for financial assets and provisions for off-balance-sheet liabilities*.

Therefore the financial result is impacted only by the amount of surplus of the current impairment loss (or write-down) for a mature transaction above the amount of the fair value adjustment made before the transaction has matured.

The Bank separates and recognizes in the statement of financial position derivative instruments that are a component of hybrid instruments. A hybrid (combined) instrument includes a non-derivative host contract and derivative instrument, which causes some or all of the cash flows arising from the host contract to be modified considering a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

The Bank separates embedded derivatives from the host contract and accounts for them as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the host contract is not carried at fair value through profit or loss. An embedded derivative is measured at fair value, and its changes are recognized in the income statement.

The Bank uses derivative instruments to hedge against FX and interest rate risk, inherent in their operations. Those derivatives which were not designated as hedge instruments under the hedge accounting principles are classified as trading instruments and carried at fair value.

6.8.1. Hedge accounting

Hedge accounting presents the offset effects of fair value changes of both hedging instruments and hedged items which impact the income statement.

The Bank defines certain derivatives for hedging fair value or cash flows. The Bank uses hedge accounting, if the following conditions are met:

- formalised documentation of the hedging relationship was prepared when the hedging was established. The documentation sets out the purpose of risk management and the hedging strategy adopted by the Bank. In the documentation, the Bank designates the hedging instrument to hedge a given position or transaction, and specifies the type of risk to be hedged against. The Bank specifies the manner for assessing the effectiveness of the hedging instrument in compensating for changes in cash flows due to the hedged transaction in terms of mitigation of risk the Bank hedges against,
- the hedging instrument and hedged instrument are similar, especially in terms of nominal value, maturity date and volatility to interest rate and foreign exchange changes,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge may be assessed credibly, so the fair value of the hedged item or the cash flows of the said item as well as fair value of a hedge instrument may be valued credibly,

- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Fair value hedge: a hedge of the exposure against changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from re-measuring the hedging instrument at fair value (i.e. for a derivative hedging instrument) is recognized in the income statement; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in the income statement. In view of the above, any ineffectiveness of the strategy (i.e. lack of full compensation for changes to the fair value of the hedged item and changes to the fair value of the hedged instrument) is immediately disclosed in the income statement.

If a hedged item is a component of financial assets available for sale, the profit or loss resulting from the hedged risk is recognized in the income statement, and the profit or loss resulting from non-hedged risk is recognized in equity.

The Bank applies the fair value hedge accounting to hedge against changes in fair value of fixed-rate debt instruments classified to the portfolio of available-for-sale assets and fixed-rate debt instruments classified to the portfolio of loans and receivables before the risk resulting from interest rate changes.

Cash flow hedge

Cash flow hedge: exposure hedge against volatility in cash flows that:

- is attributable to a particular risk associated with a recognized assets item or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction,
- could affect the income statement.

A cash flow hedge is accounted for as follows: the changes of the fair value of the hedge instrument, which are an effective part of hedging relationship, are recognised directly in equity through the statement of comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

The associated gains or losses that were recognised directly in equity (effective hedge), at the moment of recognition of a financial asset and liability being a result of planned future transaction, are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

The Bank applies cash flow hedge accounting to hedge the amount of future cash flows of certain portfolios of assets/liabilities of the Bank or the portfolio of highly probable planned transactions against the interest rate risk and the highly probable planned transaction against the FX risk.

Further, the Bank applies the hedging strategy to hedge against the FX risk and base risk being the consequence of funding the CHF- or EUR-indexed mortgage portfolio with PLN liabilities using FX interest rate swaps; i.e. Currency Interest Rate Swap (CIRS).

With one economic link between the concluded CIRS transactions and the extended CHF or EUR loans as well as PLN deposits used to fund them, the sets two hedge links for cash flow hedge accounting purposes. The foregoing is made by separating the real CIRS transaction part hedging the portfolio of CHF or EUR-indexed loans against FX risk and interest rate risk and the real CIRS transaction part hedging PLN liabilities against interest rate risk.

6.8.2. Derivative instruments not qualifying as hedging instruments

Changes in fair value of derivatives that do not fulfil the criteria of hedge accounting are disclosed in the income statement for the current period. Changes in fair value of IR-derivatives arising from ongoing accrual of interest coupon are disclosed under *Interest result on derivatives*, whereas the remaining part of changes in the fair value of IR-derivatives are presented under *Net income on financial instruments at fair value through profit or loss and FX result*.

Changes in the fair value of FX-derivatives are decomposed into three elements, which are presented as follows:

- changes in fair value arising from ongoing accrual of swap/forward points are presented under *Interest result on derivatives*,
- changes in fair value due to changes of foreign exchange rates are presented under *Net income on financial instruments at fair value through profit or loss and FX result*,
- the remaining part of change in fair value (i.e. due to the change of interest rates) is presented under *Net income on financial instruments at fair value through profit or loss and FX result*.

6.9. Offsetting financial instruments

The Bank offsets financial assets and financial liabilities and reports them in the net amount in the statement of financial position when and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In order to mitigate credit risk, the Bank concludes special master agreements with counterparties, with which the Bank concludes transactions. These special master agreements provide for offsetting financial assets and liabilities in case of a breach of the master agreement.

6.10. Repo/reverse repo transactions

The Bank presents sold financial assets with the repurchase clauses (repo, sell-buy-back transactions) in their statement of financial position, simultaneously recognizing a financial liability under a repurchase clause. This is done in order to reflect the risks and benefits arising on this assets item that are retained by the Bank after the transfer.

For the securities purchased with a repurchase clause (reverse repo, buy-sell-back), the financial assets held are presented as receivables arising from repurchase clause, hedged with securities.

Transactions are measured in line with their intention. Accordingly, the transactions made for the category of financial instruments held for trading are carried at fair value through profit or loss. Other transactions are recognised at amortized cost using the effective interest method.

6.11. Impairment

6.11.1. Assets valued at amortized cost

At each balance sheet date, the Bank assesses whether there is any evidence that a financial assets item or a group of financial assets is impaired. A financial asset item or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset item (a 'loss event') and that loss event (or events) has (have) an impact on the expected future cash flows of the financial asset item or a group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

The evidence of impairment is:

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

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

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

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

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

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

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

The entire lending portfolio of retail, strategic and corporate network clients is tested for exposure impairment. The debtor's credit exposure is tested for impairment automatically on a daily basis for retail clients and at the monitoring dates in place for the regular and irregular portfolios for strategic and corporate network clients.

Identification of the objective impairment evidence requires downgrading the client to the worst risk rating without the necessity to carry out the impairment analysis (test).

If after the assessment we find that for a given financial assets item there are no reasons for impairment, the item is included in the group of financial assets with similar credit risk characteristics, which indicate that the debtor is capable to repay the entire debt under to the contractual terms and conditions. Impairment loss for such groups is subject to collective assessment. If there is any evidence of impairment of loans and receivables, or investments held-to-maturity measured at amortised cost, then the amount of the impairment is the difference between the carrying amount of an asset and the present value of estimated future cash flows, discounted with the initial effective interest rate of a given financial instrument item.

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

If the existing evidence of impairment of an assets item or financial assets group measured at the amortised cost indicate that there will be no expected future cash flows from

the abovementioned financial assets, the impairment loss of assets equals their carrying amount.

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

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

For the purposes of calculation of the provision for the balance sheet and off-balance sheet exposures shown as EAD, the probability of default (PD) method (modified PD parameter) is applied, among others.

The mode of PD parameter calculation makes it possible to take account of the specific features of individual products and related loss identification periods as well as the historical loss adjustments made using the currently available data (in line with the Point-in-Time philosophy). Interest and penalty payments are recognised using the cash-basis accounting method and they do not form the basis for creation of impairment losses.

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

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

Where:

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

The PD parameter is 100% for impaired exposures (INSFA). The LGD parameter for calculating the impairment loss under collective method for impaired exposures (with default) depends on the time for which the exposure is impaired.

Moreover, for separated portfolios that comprise exposures defaulted for at least 2 or 3 years (depending on the segment) the LGD parameter is also 100%.

The Bank also verifies the conversion rate (the so-called CCF or K-factor) of utilisation of the free part of the credit limit in the period from the reporting date to the default date to assure compliance

with IAS 37 concerning provisions for contingent off-balance sheet liabilities.

This approach allows specifically for identification of:

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

The impairment is presented as a reduction of the carrying amount of the assets item through use of an impairment loss and the amount of the loss (the impairment loss formed) is recognised in the income statement for the period. For the medium-sized and mid-corp clients, after 2 years of client being in default and when it is not possible to reclassify the client to the non-impaired portfolio, exposure is fully (100%) covered with impairment loss or written off. For the segment of retail clients in the same situation, the exposure is in 100% covered with the impairment loss after the lapse of:

- 3 years for mortgage loans,
- 2 years for other credit exposures.

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

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

6.11.2. Financial assets available for sale

The Bank assesses as at each balance sheet date whether there is any objective evidence of impairment of financial assets classified as available for sale.

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

- significant financial problems of the issuer (e.g. material negative equity, losses incurred in the current year exceeding the equity, termination of credit facility agreement of material value at other bank),
- breach of contractual terms and conditions, specifically with regard to default or delay in repayment of liabilities due (e.g. interest or nominal value), interpreted as materialisation of the issuer's credit risk,

- awarding the issuer with repayment facilities by their creditors, which would not be awarded in different circumstances,
- high probability of bankruptcy or other financial restructuring of the issuer,
- identification of financial assets impairment in the previous period,
- disappearance of the active market for financial assets that may be due to financial difficulties of the issuer,
- published analyses and forecasts of rating agencies or other units which confirm a given (high) risk profile of the financial asset, or
- other tangible data pointing to determinable decrease in estimated future cash flows resulting from financial assets group which appeared upon their initial recognition in the Bank books. The data referred to hereinabove may concern unfavourable changes in the payment situation on the part of issuers from a certain group or unfavourable economic situation of a given country or its part, which translates into the repayment problems sustained by this group of assets.

Additional conditions indicating the possibility of impairment which, due their nature, concern equities:

- significant or long-lasting decrease in fair value of equities below their price/cost of purchase,
- decrease in fair value of equities is disproportionately high as compared to equities issued by other entities from the same sector,
- significant unexpected deterioration of the issuer's profits, flows or net assets as of the purchase date,
- reduction or cessation of dividend payout, and
- significant reduction of the issuer's credit rating which took place after their purchase/initial recognition in the Bank books.

Significant or long-lasting decrease in fair value is evaluated on the basis of the following quantitative criteria pointing to the possibility of impairment occurrence:

- the current market price stays 25% below the purchase price for longer than 6 months,
- the current market price stays 40% below the purchase price, or
- the current market price stays 10%-25% below the purchase price for longer than 12 months.

The quantitative criteria are used objectively (i.e. their occurrence constitutes the basis for impairment identification), however in case of confirming indisputable evidence it is also possible that:

- impairment is not identified, or
- impairment is identified, although quantitative criteria do not confirm it, yet other available, identified and confirmed conditions prove that such impairment has occurred.

In case of objective evidence for impairment of available-for-sale financial assets item, the aggregated losses so far recognized directly as equity are derecognized therefrom and recognized in the income statement, even if financial assets item has not been excluded from the balance sheet.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Impairment losses recognised in the income statement for an investment in an equity instrument classified as available for sale is not reversed through income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

6.11.3. Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

6.12. Forbearance and non-performing exposures

The Bank set the principles of identification of and reporting on forbearance and non-performing exposures under the Commission Implementing Regulation (EU) 2015/1278 of 09 July 2015 amending Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.

Pursuant to the definition adopted, forbearance refers to the following:

- the client's default on paying their financial liabilities has been confirmed or is expected in the short term;
- because of the above, the Bank has decided to extend forbearance to the client so as to enable them to pay the contractual liabilities or to prevent future default on payment;
- forbearance has been extended neither on commercial grounds nor on market conditions; it would not have been extended provided that the client had not suffered financial difficulties; the amended agreement contains the terms and conditions that are more favourable than the market ones, i.e. those that could be offered by the Bank at the same time to other debtors with a similar risk profile;
- the client accepted forbearance, i.e. the terms and conditions of the agreement binding so far have been changed or a refinancing agreement has been signed or an "embedded forbearance clause" has taken effect or the Bank has abandoned actions in the event of the client materially breaching the essential financial clause.

Forbearance is recognised in the above-said situations regardless of the client's compensation thereunder and the collateral accepted by the Bank.

For the retail segment – all exposures in restructuring are deemed forbearance exposures.

As non-performing exposures the Bank recognises those exposures that meet at least one of the below criteria:

- significant exposure is overdue over 90 days,
- the Bank is of the opinion that there is little probability that the client will meet all their credit liabilities without the Bank having to take actions such as satisfaction from collateral (regardless of the overdue amount and the number of days past due),
- credit exposure impairment has been reported.

Exposures are also classified as non-performing exposures when arrears of +30 DPD occur for the forbearance exposure or when another forbearance is granted for such exposure, while that refers exclusively to the cases when the client with the forbearance status was after obtaining that status in the non-performing portfolio and subsequently was upgraded to the performing portfolio.

The forbearance can:

- not significantly change the material conditions or expected future cash flows of an existing financial asset, or
- change significantly the material conditions or expected future cash flows versus the conditions or expected future cash flows of the existing financial asset.

Then, accordingly:

- the expected future cash flows for the changed financial asset subject to forbearance will be recognised in the valuation of the existing financial asset on the basis of the expected exercise period and the amounts discounted with the initial effective interest rate for the existing financial asset, or
- the existing financial asset is derecognised and the new financial asset is carried through the balance sheet at fair value as at the initial recognition date, while the difference between the existing and the new assets is carried through profit and loss. Such recognition is independent of the change or lack of change of the transaction legal form and is based on its economic content.

7. Investment property

Investment property is property (land or a building, or part of a building, or both) held by the Bank (acting as the owner or the lessee under a finance lease) to earn rentals or for capital appreciation or both. At the same time, such a real property is:

- occupied by the Bank only to a small extent, and
- it is not for sale as part of the regular operations of the Bank.

Therefore, an investment property generates cash flows largely independent of the other assets held by the Bank. An investment property is measured initially at its cost (purchase price and any directly attributable expenditure). After the initial recognition, investment property value is not depreciated. It is measured with the use of the fair value model. A gain or loss arising from a change in the value of investment property is recognised in the income statement for the period in which it arises and is shown in *Net income on other basic activities*, in the item: *Fair value measurement of investment properties*. The fair value of investment property reflects market conditions at the balance sheet date.

8. Non-financial assets

8.1. Property, plant and equipment

8.1.1. Own property, plant and equipment

Property, plant and equipment are non-current assets and costs to construct such assets. Non-current assets include property, plant and equipment with an expected period of use above one year, maintained to be used to serve the Bank's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Property, plant and equipment, with the exception of land and buildings, are recorded at historical costs less depreciation and impairment. The historical costs are made up of the purchase price/ manufacturing cost and the costs directly related to the purchase of assets.

Each component part of property, plant and equipment whose purchasing price or manufacturing cost is material in comparison with the purchase price or manufacturing cost of the entire item, is depreciated separately. The Bank allocates the initial value of the property, plant and equipment to its significant parts.

Land and buildings are carried in accordance with the revaluation model, after initial recognition at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The revaluation effect is reflected in the revaluation reserve/ revaluation allowance in case of the value increase, or carried through the income statement in case of the carrying amount decrease. However, the increase in value is recognised as income insofar as it reverses the decrease of value due to revaluation of the same asset that was previously recognised as costs of a given period. Similarly, the decrease of the asset's value resulting from revaluation shall be set off against the relevant surplus resulting from the previous revaluation of the same asset. The entire revaluation surplus is carried through retained earnings at the time of withdrawing from use or selling the asset item.

8.1.2. Subsequent costs

The Bank recognizes under the balance sheet item property, plant and equipment the costs of replacement of certain elements thereof at the time they are incurred on proviso that the Bank is likely to earn any asset-related prospective economic benefits and the purchase price or the cost may be measured reliably. Other costs are recognised in the income statement at the time they are incurred.

8.2. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, and
- they arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or from other rights and obligations.

8.2.1. Goodwill

Goodwill arising on acquisition of an entity is recognized at the acquisition price being the surplus of the aggregate of:

- provided payment,
- sums of all non-controlling shares in the acquired entity, and
- in the case of entities combination made gradually at fair value as at the day of acquiring share in the capital of the acquired entity, previously belonging to the acquiring entity,

over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

The goodwill shown in the financial statements of the Bank was recognized pursuant to the requirements binding on the day of first application of IFRS i.e. at acquisition price being a surplus of the cost of combining the business entities over the interest of the acquirer's in the fair value of all identifiable assets, liabilities and contingent liabilities. After the initial recognition, the goodwill is recognized at acquisition price less any accumulated impairment losses.

8.2.2. Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software.

Costs of computer software development or maintenance of are shown when incurred.

8.2.3. Other intangible assets

Other intangible assets purchased by the Bank, are recognized at purchase price or production cost less depreciation and total amount of impairment losses.

8.2.4. Subsequent costs

Subsequent costs incurred after initial recognition of acquired intangible assets item are capitalised when it is probable that such expenditures will ensure an inflow of economic benefits to the Bank. In other cases, costs are carried through profit or loss in the reporting period in which they were incurred.

8.3. Depreciation and amortization charges

The depreciation/amortization charge of property, plant and equipment and intangible assets is applied using the straight line method, using defined depreciation/amortization rates throughout the period of their useful lives.

The depreciable/amortizable amount is the cost of an assets item, or other amount substituted for cost, less its residual value. The useful life, amortization/depreciation rates and residual values of property, plant and equipment and intangible assets are reviewed annually. Conclusions of the review may lead to a change of depreciation/amortization periods recognized prospectively from the date of application (the effect of this change is carried through profit or loss in accordance with IAS 8).

In case of buildings valued at fair value, the accumulated depreciation balance at the revaluation date is removed from the carrying value gross, and the net carrying amount adjusted to the revalued value.

Depreciation and amortization charges are recognized in the income statement. At each balance sheet date goodwill and other intangible assets with indefinite useful life are regularly tested for impairment. The amortization periods are as follows:

- | | |
|---------------------------------|---|
| ➤ land and buildings | 50 years |
| ➤ leaseholds improvements | rent and lease term of maximum 10 years |
| ➤ vehicles and others | 3 - 7 years |
| ➤ equipment | 5 years |
| ➤ costs of software development | 3 years |
| ➤ software licenses | 3 years |

8.4. Impairment of other non- financial assets

For each balance sheet date, the Bank assesses the existence of objective evidence indicating impairment of a non-current assets item. If such evidence exists, the Bank performs an estimation of the recoverable value. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount.

As regards company goodwill, it is tested for impairment as at the balance sheet date regardless of whether or not there are conditions of impairment in place.

8.4.1. Recognition of impairment loss

If there are conditions of impairment of common property, i.e. the assets which do not generate cash independently from other assets or groups of assets, and the recoverable amount of the individual asset included among common property cannot be determined, the Bank determines the recoverable amount at the level of the cash-generating unit, to which the given asset belongs. An impairment loss is recognized if the book value of the asset or cash-generating unit exceeds its recoverable amount.

The goodwill impairment is determined by estimating the recoverable amount of the cash-generating unit the given goodwill applies to. Should the recoverable amount of the cash-generating unit be lower than the carrying amount, impairment loss is made. The impairment loss is recognized in the income statement.

Impairment losses for cash-generating units reduce the goodwill of the cash-generating units (group of units) in the first place and then reduce proportionally the book value of other assets in the unit (group of units).

8.4.2. Reversing impairment loss

Goodwill impairment loss is not subject to reversal. An impairment loss of an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount.

An impairment loss can be reversed only up to the amount, at which the book value of impaired asset does not exceed its book value, which decreased by depreciation charge, would be established, if no impairment loss had been recognized.

9. Leasing contracts and factoring services

9.1. The Bank as lessor

The Bank is a party to lease contracts, on the basis of which it grants and is paid for the use or the benefits on the non-current assets and intangible assets. Leasing agreements are classified by the Bank based on the extent whereto the risk and benefits due to holding of leased asset are attributable to lessor and lessee.

A leasing agreement is considered as financial leasing provided the following terms and conditions are met individually or jointly:

- the agreement transfers the asset ownership to the lessee before the end of leasing term,
- the agreement includes the right of lessee to purchase the asset at the price which, as expected, is that lower than the fair value agreed as at the date when purchase right execution becomes feasible that at the leasing commencement date it is certain that the lessee shall take advantage of this right,

- the leasing term corresponds in majority to the term of asset economic lifetime, even if the legal title is not transferred,
- the present value of minimum leasing fees as at the leasing commencement date in principle equals the leased asset fair value,
- the leased assets are specialised enough that only the lessee may take advantage thereof, without making major modifications thereto,
- the lessee may prolong the agreement (or conclude a new one) for additional term for the fee which is materially lower compared to the market,
- the lessee may terminate the agreement and any losses of the lessor arising therefrom shall be covered by the lessee, or
- profits or losses from/of fluctuation of asset residual value are attributable to the lessee.

The leasing agreements whereunder the lessor basically retains all the risk as well as benefits arising from holding of leased asset are classified as operational leasing agreements.

The leasing agreement shall be concluded for the term ranging from five to ten years, including transfer of the legal title to the beneficiary (lessee) after leasing agreement expiry. The ownership of leased asset is the collateral for the liabilities arising from leasing agreements.

There are no conditional leasing fees within the Bank. There are no unguaranteed residual values attributable to the lessor within the Bank.

In case of lease contracts, which result in transferring substantially all the risks and rewards following the ownership of that asset under lease the object of such lease agreement is derecognized from the balance sheet. A receivable amount is recognized, in an amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such a way as to reach a fixed rate of return from the outstanding receivables.

Interest on financial lease is presented in *Interest income*, in the item: *Interest on loans and other receivables to customers*, further split into *Interest on leases*.

Lease payments for contracts which do not fulfil the requirements of a finance lease are recognized as income in the income statement, using the straight-line method, throughout the period of lease.

9.2. The Bank as a lessee

The Bank is also a party to lease contracts, under which it takes another party's non-current assets or intangible assets for an agreed period for paid use or other benefits.

In case of lease contracts, under which essentially all risks and rewards resulting from ownership of the leased assets are transferred, subject of such lease agreement is recognized as a non-current asset, and a liability is recognized in the amount equal to the present value of minimum lease payments as of the date of commencement of the lease. Lease payments are divided into financial costs and reduction of the balance of the liability in such way as to reach the fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets which are the basis of the finance lease contract are depreciated/amortized in the manner defined for the Bank's non-current assets. However, if it is uncertain whether the ownership of an asset has been transferred, then non-current assets used pursuant to finance lease contracts are depreciated over the shorter of two: the expected useful life or the period of lease.

Lease payments for contracts which do not qualify as financial lease are recognized as costs in the income statement using the straight-line method throughout the period of lease and are shown in the *General and administrative expenses*, in the item: *Overheads*, further split into *Material and leasing costs*.

9.3. Factoring services

The Bank provides factoring services in local and international trade. Handling and financing receivables as well as risk management are their essence. Further, as part of factoring, the Bank offers additional services being financial limits for debtors, debt recovery and takeover of trading risk. Local factoring without taking over risk (without recourse) prevails in the factoring operations of the Bank.

Factoring amounts due are classified at the purchase date (initial recognition date) as cash loans and amounts due are thus measured at amortised cost at effective interest rate considering commission income.

Factoring receivables are purchased by the Bank under agreements negotiated with clients case by case. The said receivables are recognized in the balance sheet as an increase in financial assets or decrease in cash, or increase in financial liabilities. Receivables can be held until maturity and maturity dates can be postponed.

Factoring receivables with recourse and without recourse are presented differently in the financial statements. Factoring receivables with recourse are presented in the balance sheet as net amounts due; i.e., only financed receivables less the amount of the security deposit. The factoring receivables without recourse are presented separately; i.e., all financial and non-financial receivables are presented as amounts due, while receivables excluded from funding and the security deposit are shown as liabilities.

The base income on factoring operations comprises commissions and interest on the advance payments made for the receivables purchased. Commission income is carried through profit or loss at the time of execution of activity under the factoring agreement concluded.

Income on provision of factoring services comprises factoring commissions, limit fees, preparation fees, insurance fees, handling fees and other fees as given in the price list.

Interest income includes regular and discount interest. Interest is accrued monthly on the actual factoring exposure. Discount interest is charged up-front on the amount of factoring receivables acquired, considering their maturity.

Interest income is shown in the income statement, in item *Net interest income*, while commission income is shown in item *Net commission income*.

10. Other balance sheet items

10.1. Other trade receivables and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivable is determined by discounting the expected future cash flows to the current value, with applying the discount rate that reflects the current market assessments of time value of money. If the method consisting in discounting has been applied, the increase of receivables due to time lapse is recognized as financial revenues.

Trade and other receivables include settlements with off-takers in particular.

Budgetary receivables are recognized as part of other financial assets, except for corporate income tax receivables, which are a separate item on the balance sheet.

10.2. Liabilities

Other financial liabilities comprise in particular: payables for the benefit of tax office due to goods and service tax, settlements with suppliers and payables due to received prepayments, which will be settled by means of delivering goods, services or tangible assets. Other financial liabilities are recognized in the amounts due.

10.3. Non-current assets held for sale and discontinued operation

The Bank classifies a non-current assets item (or disposal group) as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable, i.e. the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are priced at the lower of two: their carrying amount or fair value less cost to sell. Assets classified in this category are not depreciated/amortized.

Where the criteria for classification as non-current assets for sale are no longer met, the Bank will no longer classify that asset as an asset for sale (or a group of assets for sale) but reclassify it as appropriate. In such a case, the Bank measures the asset that is no longer classified as the asset for sale (or that is no longer part of a group for sale) at the lower of the following amounts:

- its carrying amount from the period before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the decision not to sell.

Discontinued operations are components of the Bank that either have been disposed of or are classified as held for sale and represent a separate major line of business or geographical area of operations, are a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or are a subsidiary acquired exclusively with a view to resale. The classification to this category takes place at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously. Operations held for sale, which are to be no longer used, can be also classified as a discontinued operation.

10.4. Cash and cash equivalents

Cash and cash equivalents for the purposes of a cash flow statement include: cash in hand and cash held at the Central Bank, cash equivalents e.g. balances on current accounts and overnight deposits held by other banks.

11. Equity

Equity comprises the share capital, share premium, revaluation allowance and retained earnings. All balances of capital and funds are recognized at nominal value.

11.1. Share capital

Share capital is presented at nominal value, in accordance with the charter and entry into the commercial register of the dominant entity.

11.1.1. Own shares

If the Bank acquires its own shares, then the paid amount together with the costs directly attributed to such purchase is recognized as a change in the equity. Acquired own shares are treated as own shares and disclosed as reduction of the equity.

11.1.2. Dividends

Dividends for the financial year which have been approved by the General Meeting, but not paid as at the balance sheet day are disclosed as dividend liabilities shown in the item *Other Liabilities*.

11.2. Share premium

Share premium is formed from agio obtained from the issue of shares less the attributable direct costs incurred with that issue.

11.3. Revaluation allowance

Revaluation allowance is formed as a result of:

- revaluation of financial instruments classified as available for sale,
- valuation of derivatives for the element being the effective cash flow hedge, and
- revaluation of non-current assets carried at fair value.

The deferred tax assets and liabilities resulting from above mentioned revaluation are included in the revaluation reserve. The revaluation reserve is not subject to profit distribution.

11.4. Retained earnings

Retained earnings are formed from profit charges and are allocated for the purposes specified in the company's charter) or other regulations. Retained earnings comprise:

- other supplementary capital,
- other reserve capital,
- general banking risk fund,
- undistributed result from previous years, and
- net result of current year.

Other supplementary capital, other reserve capital and general banking risk fund are formed from profit charges and are allocated for the purposes specified in the company's charter or other regulations.

General banking risk fund is formed in accordance with the Banking Act of 29 August 1997 with subsequent amendments, from profit after tax.

The net financial result represents the gross result under the performance statement for the current year, adjusted with the corporate income tax.

12. Prepayments and deferred income

12.1. Prepayments

Prepayments comprise particular expenses which will be carried through profit or loss as being accrued over the future reporting periods. Deferred costs include primarily provisions for material costs due to services provided for the Bank by counterparties, as well as insurance costs paid in advance to be settled in the future periods. Prepayments are presented in the balance sheet under *Other assets* item.

12.2. Deferred income

Deferred income comprises mainly fees amortized on a straight-line basis and other types of income collected in advance which will be carried through profit or loss in future reporting periods. Deferred income is presented under *Other liabilities* balance sheet item.

13. Employee benefits

13.1. Benefits under the Act on employee pension schemes

Expenses incurred under the defined contributions scheme are recognised as costs in the income statement.

13.2. Short-term employee benefits

Short-term employee benefits of the Bank (other than termination benefits) comprise salaries, bonuses, paid annual leave and social security contributions.

The Bank recognizes the anticipated, undiscounted value of short-term employee benefits as an expense of an accounting period when an employee has rendered service (regardless of payment date) in correspondence with other on-balance liabilities.

The amount of short-term employee benefits on the unused holidays to which Bank employees are entitled is calculated as the sum of unused holidays to which particular Bank employees are entitled.

13.3. Long-term employee benefits

13.3.1. Benefits under the Labour Code regulations

Provisions for retirement severance pay granted under benefits due to regulations of the Labour Code are estimated on the basis of the actuarial valuation. The provisions being the result of an actuarial valuation are recognised and adjusted on an annual basis.

Provisions for long-term employee benefits are recognised in the balance sheet item *Provisions* in correspondence with costs of labour in the income statement. The assumptions of the method used to compute and present actuarial gains and losses are given in the item concerning estimates on pension and disability provisions.

13.3.2. ING Group long-term incentive system benefits

By 2012, the Bank was a participant of a long-term incentive system introduced by ING Group. The system provides for the following rewards:

- share options cleared in shares or cash,

- share-based payments.

The rewards granted in the programme have a 10Y maturity and may be exercised after 3 years from their issue, provided that the option holder is an employee of the Bank (or another ING Group entity) or has retired. The value of the reward is set as the difference between the share price quoted by Euronext Amsterdam at the exercise date in the so-called "open" period and the initial price, guaranteed at award date (i.e. the option exercise price).

The fair value of options granted is recognised as personnel costs (and on the other side of the balance sheet under capital) and is allocated throughout the vesting period.

13.3.3. Variable remuneration programme benefits

Variable remuneration programme benefits are granted in two options:

- in the former, the benefit has two parts:
 - one paid in cash (no more than 50%), and
 - one granted as phantom stock (at least 50%, after rounding up to full instrument), making the holder eligible to obtain cash whose final amount will be conditional on the price of ING Bank Śląski's shares,
- in the latter, the entire benefit is granted as phantom stock.

The programme component paid in cash is recognised following the approach of projected unit rights and is settled over time throughout the vesting period (i.e., both during the appraisal period understood as the year of work for which employees obtain benefits and during the deferral period – adequate benefit components). The value of benefit is recognised as liability towards employees in correspondence with the income statement.

As regards the benefits granted in the form of phantom stock a one-year retention period applies; it refers to both the part granted after the assessment year (non-deferred part) and to the deferred part of the benefit under the same principles as for the cash part (annual, two-year or three-year periods). The employee who was granted the benefit shall not exercise the phantom stock-related rights during the holding period.

The fair value of phantom stock determined using the principles adopted (i.e. based on the estimates made upon applying the reduction factor) is allocated throughout the vesting period. The value of benefit is recognised as liability towards employees in correspondence with the income statement.

14. Provisions

Provisions, including provisions for off-balance sheet liabilities, are reported when the Bank has a legal or constructive obligation (common law) as a result of past events, as well as when it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, the amount of provision is measured by discounted, expected cash flows using pre-tax rate that reflects current market assessments of the time value of money and those risks specific to the liability.

This is also applicable for the recognition of provisions for risk-bearing off-balance sheet liabilities including guarantees, letters of credit and irrevocable unused credit lines.

Provisions for the irrevocable unused credit lines for corporate exposures are formed and recognised together with impairment losses for credit receivables.

The Bank establishes provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Bank is in possession of the specific, formal restructuring plan determining at least the operations or a part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be undertaken and the term

of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for establishing the provision. The established provisions comprise only the direct and necessary expenditures to be undertaken due to the restructuring procedure, which are not related to the current business operations nor cover the future operating costs.

The Bank maintains the detailed record of court cases and other amounts due of legal claims nature. Potential future settlements will be recognised under established provisions.

The Bank recognises the provisions for all estimated losses. In certain justified cases, despite the fact that the Bank is entitled to reimburse the funds due to the provisions established, because of the uncertainty whether the expected economic benefits be earned or not, the Bank may decide not to recognise the assets there under in the financial statements.

15. Income statement

15.1. Net interest income

Interest income on financial assets classified as available for sale, loans and advances and financial assets held to maturity are recognized in the income statement at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial assets item or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an estimate of cash flows is made considering all contractual terms of the financial instrument but future credit losses are not considered. The calculation includes all fees and commissions paid or received (external) between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income comprises interest and commission (received or due) recognized in the calculation of the effective interest rate due to: loans with repayment schedule, intrabanking deposits and securities held to maturity available for sale, held for trading and the ones which meet the definition of loans and cash loans, and are classified to cash loans and receivables.

In case impairment is recognized for a financial assets item or group of similar financial assets, interest income is accrued based on the current amount of receivable (this is the value reduced by revaluation charge) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

Interest income on debt securities classified to trading portfolio or carried at fair value through profit or loss are recognized under Interest income.

Interest revenue/ costs on interest rate derivatives and Interest revenue/ costs on current accrual of the swap/forward points on FX-derivatives classified as held for trading are recognized under *Interest result on derivatives*.

Interest revenue/ costs on derivatives designated as hedging instruments in the hedge accounting are recognized under *Net interest income*.

15.2. Commission income and costs

Commission income arises from providing financial services by the Bank and comprises fees for extending loans, the Bank's pledge to extend loans, cards issue, cash management services, brokerage services, insurance products-related services and asset management services.

Commission income comprises also margins on FX derivatives transactions.

Fees and commissions (both income and expenses) directly attributed to the rise of financial assets with repayment schedule are recognised in the income statement as effective interest rate component and are part of the interest income.

The Bank recognizes the following effective interest rate-adjusting commissions:

- commissions for application review and credit commitment letter issue;
- commissions for limit/overdraft granted;
- commissions for loan or limit/overdraft extension;
- commissions for receivables/bills of exchange purchased, for bill of exchange discount;
- commission for restructured loan processing;
- commission for amending the credit agreement as to the amount, currency or schedule of repayments; and
- costs of credit and cash loan agency commissions.

Other commissions that are interwoven with occurrence of assets without defined schedules are cleared on a straight line basis throughout the contract.

The Bank recognizes the following commissions as the ones cleared on a straight line basis:

- the commissions described as the commissions adjusting the effective interest rate for the loans for whose commissions no cash flows can be estimated (first of all, current account overdrafts, working capital loans and revolving loans);
- commissions for issuing, confirming or prolonging the time and increasing the amount of the guarantee or letter of credit;
- commissions for multi-facility agreements; and
- commissions for the loan or limit/ overdraft granted to start another lending year.

If during the life of the contract the terms and conditions of credit exposure are changed, the whole outstanding part of commission is recognised in the income statement on the day when the terms and conditions are updated, provided that the outstanding amount of commission is insignificant.

Fees on pledge to extend a loan, which is likely to be taken, are deferred and as at the date of financial assets rise are settled as the component of effective interest rate or using straight-line method based on above mentioned criterion.

Other fees and commissions relating to the financial services offered by the Bank – like cash management services, brokerage services and asset management services – are recognised in the income statement at the time of service provision.

Commission income that was accrued and is due but was not paid on time are derecognised from the Bank's financial result upon the lapse of 90 days.

15.2.1. Commission income and costs of bancassurance services

Fees and commissions for insurance products are recognised in the income statement as per their economic content and are classified as:

- commissions being part and parcel of a fee under a financial instrument wherewith the insurance product is linked,
- fee for agency service, and
- fee for additional services after the insurance product sale.

Prior to implementation of the insurance product, in order to recognise it properly in the income

statement, the Bank analyses features of the insurance product and also the link between the insurance product and banking product. In this analysis, the Bank takes account of the prevalence of the economic content over the legal form. The factors analysed by the Bank include:

- manner in which an insurance product is offered, option of purchasing a banking product without the insurance product as well as option of purchasing only the insurance product at the Bank,
- pricing conditions of the two products sold together and separately,
- profitability of the insurance and banking products sold together and separately,
- sales target of combined products versus sales target of the same banking products sold without insurance,
- option of concluding an insurance agreement outside the Bank,
- number of resignations and the value of refunded insurance premiums,
- settlement cycle with a client, and
- scope of activities performed by the Bank for the insurer and their duration.

Insurance products offered with loans are treated by the Bank as linked to lending products, mainly because of lack of the possibility to purchase at the Bank an insurance product without a loan or a cash loan.

For the absolute majority of insurance products linked with lending products functioning at the Bank, the income on insurance products is earned based on monthly settlements with both the insurer and the client. Since the client may resign at any time from the insurance coverage for the following month, the Bank treats such insurances as renewed each month and settled for each month separately. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Bank recognises the income on such insurances in the commission income on insurance products.

The Bank analogically presents the costs directly related to these insurance products.

Such an approach ensures compliance with the matching principle. At the same time, the Bank monitors the level of costs under insurance products linked to the lending products in terms of legitimacy of division into interest income and commission income. At present such a division would not materially impact the Bank's income statement. The Bank applies an analogical approach to real property insurance with mortgage loans. Taking account of the materiality principle, the Bank presents full income on this insurance in the net commission income.

Most insurance products linked with the Bank's deposit products (current accounts and savings accounts) use the monthly-settlement structure. Therefore, the income on insurance products settled monthly is recognised in the income statement also on a monthly basis. The Bank recognises the income on such insurances in the commission income on insurance products.

Commissions under insurance products not linked to banking products are recognised in the income statement:

- on a straight-line basis during the insurance policy term – if the Bank, apart from other sales operations, also provides additional services during the insurance term, and
- on a one-off basis – if the Bank does not provide any additional services during the insurance policy term.

Should there be a risk of refund of the fee under the insurance product, the Bank decreases its income by the amounts of estimated provisions. The provisions for refunds are established based on the historical data on actual refunds made in the past and based on projections as to the amount of refunds in the future.

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

Net income on financial instruments at fair value through profit or loss and FX result includes gains and losses arising from disposal and change of fair value of assets and liabilities held for trading and designated at initial recognition at fair value through profit or loss.

Result on financial instruments at fair value through profit or loss and FX result also includes adjustments of fair value due to risk for unexecuted FX-options transactions.

Result from accrued interest and settlement of discount or premium on debt securities held for trading or at fair value through profit or loss is recognized as interest income.

15.4. Net income on investments

The net income on investments comprises profits or losses resulting from sale of financial assets classified as available for sale and earnings from dividends. Dividend income is recognized in the income statement when the shareholders' right to receive payment is established.

15.5. Net income on hedge accounting

This item includes the measurement of hedged and hedging transactions under fair value hedging accounting and the result on measurement of hedging instruments in the ineffective part of hedge relationship of cash flows hedge accounting.

15.6. Net income on other basic activities

Net income on other basic activities comprises expenses and income not attributed directly to Bank's banking activity. These include in particular: the result due to holding an investment property, sale of assets (non-current assets and intangible assets), income on sale of other services, income due to recovered bad debts, received and paid damages, penalties and fines.

16. Taxes

16.1. Income tax

Income tax is recognized as current and deferred tax. Current income tax is recognized in the income statement. Deferred income tax is recognized in the income statement or equity depending on type of temporary differences.

Current tax is a liability calculated based on taxable income at the binding tax rate at the balance sheet date including adjustments of prior year tax liability.

16.2. Deferred income tax

The Bank forms a provision for deferred tax for all taxable temporary differences and deferred tax assets with regard to all deductible temporary differences to extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognized in liabilities as *Deferred tax provision*. A negative net difference is recognized under *Deferred tax assets*.

The deferred tax reserve is made using the balance sheet method for all positive temporary differences as of the balance sheet date arising between tax value of assets and liabilities and their carrying value disclosed in the financial report, except for situations where deferred tax provision arises from:

- initial recognition of goodwill;
- goodwill, which amortization has no taxable expense; or
- initial recognition of an assets item or liability with a transaction which does not constitute a merger of economic entities and which on its origination has no impact on the net financial profit or taxable income or loss.

Deferred tax assets are recognized for all negative timing differences as at the balance sheet date between the tax value of assets and liabilities and their carrying amount disclosed in the financial statements and unused tax losses. Deferred tax assets are recognized in such amount in which taxable income is likely to be achieved allowing to set off negative timing differences, except for the situations when the component of deferred tax assets arises from the initial recognition of an assets item or liability with a transaction which does not constitute a merger of economic entities and on its origination have no impact on the net financial profit or taxable income or loss.

The carrying amount of a deferred tax assets item shall be verified for each balance sheet date and reduced if it is no longer likely to achieve taxable income sufficient for a partial or full realization of the deferred tax component.

Deferred tax assets and deferred tax provisions are estimated with the use of the tax rates which are expected to be in force when the assets item is realized or provision eliminated, assuming the tax rates (and tax provisions) legally or factually in force as of the balance sheet date.

Income tax for the items directly presented in equity is presented in equity.

Deferred tax assets and provisions are recognized by the Bank in the statement of financial position after offsetting at the level of each consolidated entity. The Bank offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

16.3. Tax on certain financial institutions

The tax on certain financial institutions (instituted by virtue of the Act of 15 January 2016, Journal of Laws 2016 item 68) is not income tax and is shown in the income statement *Tax on certain financial institutions*.

16.4. Other taxes

Income, costs and assets are recognised less the value added tax, tax on civil law acts, and other taxes on sales, except where the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized in the statement of financial position as an item of receivables or liabilities.

IV. Comparability of financial data

Amendments to the Statement of Financial Position

In the annual financial statements for the period from 1 January 2016 to 31 December 2016 when compared with the annual financial statements for the period from 1 January 2015 to 31 December 2015, the Bank moved valuation of employee incentive programmes to the item *Retained earnings* in the statement of financial position. The Bank is of the opinion that by dint of the said amendment the statement of financial position became more transparent. The amendment did not impact the balance sheet totals of the reporting periods.

The below table show individual items of the statement of financial position as per amounts disclosed in the annual financial statements for the 2015 and in the current statements.

EQUITY	Financial statements for 2015 as of 31 Dec 2015 (approved data)	change	Financial statements for 2016 as of 31 Dec 2015 (comparable data)
Revaluation of share-based payments	49.2	-49.2	-
Retained earnings	7 875.5	49.2	7 924.7

V. Notes to the financial statements

1. Segment reporting

Segments of operation

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

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

- retail banking segment,
- corporate banking segment.

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

ING Bank Śląski S.A. has separated in organisational terms the operations performed by the Bank Treasury. The Bank Treasury manages short-term and long-term liquidity risk in line with the effective regulations and risk appetite internally set at the Bank, manages interest rate risk and invests surpluses obtained from business lines while maintaining the liquidity buffer in the form of liquid assets. The Bank Treasury's net income on operations is allocated to the business lines considering its support function for the Bank's business lines.

Retail banking segment

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

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

Corporate banking segment

Corporate banking area encompasses as follows:

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

Services to institutional clients encompasses strategic clients, large corporate entities and mid-sized companies. For corporate activity, the Bank provides reporting broken down by leading products covering i.e. loan products (working loans, investment loans), deposit products (current accounts,

term deposits and negotiated deposits, savings accounts), financial markets products, trust services, capital market operations conducted by the parent.

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

Measurement

The measurement of the segment's assets and liabilities, segment's revenue and costs is based on the accounting standards applied by the Bank, included in notes describing applied accounting standards. In particular, both internal and external interest income and costs for individual segments are determined with the use of the transfer price system within the Risk Transfer System (RTS). Transfer prices are defined based on the yield curve for a given currency that is common for assets and liabilities. The transfer price that is determined for the products being assets and liabilities with the same position on the yield curve is identical. The original transfer price – coming from the product measurement regarding the yield curve can be modified and the factors adjusting the transfer price can be the following: a premium for obtainment of long-term liquidity, matching of the Bank's position, a hedging cost for sophisticated products and the pricing policy. Thereafter, based on quotation rates available at news services, yield curves are developed using mathematical equations. Revenue, costs, results, assets and liabilities for a given segment account for elements that are directly attributable to the segment in question, as well as element that may be attributed to that segment based on reasonable premises. The Bank presents segment's interest income reduced by the cost of the interest. In 12 months 2016, the Bank revised the allocation key for the ALCO's income. The data for previous periods presented herein were made comparable.

Geographical segments

The Bank pursues business within the territory of the Republic of Poland.

2016

	Retail banking segment	Corporate banking segment	TOTAL
Income total	2 444.0	1 692.0	4 136.0
net interest income	1 853.0	972.0	2 825.0
net commission income	368.7	646.4	1 015.1
other income/expenses	222.3	73.6	295.9
General and administrative expenses	1 230.6	779.1	2 009.7
Segment result	1 213.4	912.9	2 126.3
Impairment losses and provisions for off-balance sheet liabilities	137.5	131.0	268.5
Tax on certain financial institutions	101.7	178.5	280.2
Gross profit	974.2	603.4	1 577.6
Income tax	-	-	368.9
Net profit	-	-	1 208.7
Assets of the segment	46 540.2	65 663.8	112 204.0
Segment investments in controlled entities	21.0	218.2	239.2
Other assets (not allocated to segments)	0.0	0.0	1 086.2
Total assets	46 561.2	65 882.0	113 529.4
Segment liabilities	64 403.2	37 375.3	101 778.5
Other liabilities (not allocated to segment)	0.0	0.0	1 456.0
Equity	0.0	0.0	10 294.9
Total equity and liabilities	64 403.2	37 375.3	113 529.4
Capital expenditure	118.6	67.6	186.2
Net cash flow from operating activities	1 271.8	-522.9	748.9
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-44.6
Net cash flow from operating activities total	1 271.8	-522.9	704.3
Net cash flow from investment activities	-105.9	-2 322.9	-2 428.8
Net cash flow from financial activities	-10.8	83.6	72.8

2015

	Retail banking segment	Corporate banking segment	TOTAL
Income total	2 044.9	1 598.8	3 643.7
net interest income	1 490.0	853.5	2 343.5
net commission income	347.5	603.8	951.3
other income/expenses	207.4	141.5	348.9
General and administrative expenses	1 296.0	739.0	2 035.0
Segment result	748.9	859.8	1 608.7
Impairment losses and provisions for off-balance sheet liabilities	69.8	143.0	212.8
Gross profit	679.1	716.8	1 395.9
Income tax	-	-	255.9
Net profit	-	-	1 140.0
Assets of the segment	41 023.5	63 852.4	104 875.9
Segment investments in controlled entities	36.0	233.3	269.3
Other assets (not allocated to segments)	0.0	0.0	960.7
Total assets	41 059.5	64 085.7	106 105.9
Segment liabilities	60 378.9	34 237.1	94 616.0
Other liabilities (not allocated to segment)	0.0	0.0	1 004.7
Equity	0.0	0.0	10 485.2
Total equity and liabilities	60 378.9	34 237.1	106 105.9
Capital expenditure	169.6	96.7	266.3
Net cash flow from operating activities	3 610.6	-3 311.3	299.3
Net cash flow from operating activities (not allocated to segment)	0.0	0.0	-569.7
Net cash flow from operating activities total	3 610.6	-3 311.3	-270.4
Net cash flow from investment activities	7.5	-1 076.5	-1 069.0
Net cash flow from financial activities	-11.3	-533.0	-544.3

2. Net interest income

	2016	2015
Interest income		
Interest on loans and receivables to other banks	51.2	62.7
Interest on loans and receivables to customers, including:	2 980.6	2 714.3
interest on entities from the financial sector other than banks	155.1	146.5
interest on entities from the non-financial sector*	2 718.6	2 447.2
interest on entities from the government and self-government institutions' sector	106.9	120.6
Interest on repo transactions made with customers	9.6	8.0
Interest on financial assets held for trading	17.5	25.3
Interest on available-for-sale financial assets	510.4	562.7
Interest on financial assets held to maturity	133.3	78.3
Net interest income on derivatives **	75.9	32.3
Total interest income	3 778.5	3 483.6
Interest expenses		
Interest on deposits from other banks	27.2	40.9
Interest on deposits from customers, including:	891.2	1 073.8
interest on entities from the financial sector other than banks	26.2	33.1
interest on entities from the non-financial sector*	844.7	1 016.6
interest on entities from the government and self-government institutions' sector	20.3	24.1
Interest on repo transactions made with customers	0.2	0.4
Interest on issue of debt securities	22.7	23.7
Interest on subordinated liabilities	11.2	0.0
Interest on financial liabilities held for trading	1.0	1.3
Total interest expense	953.5	1 140.1
Net interest income	2 825.0	2 343.5

*) The Bank applies the principles of cash-flow hedge accounting for a certain portfolio of financial assets/liabilities. The hedging strategies used are to secure the Bank against the risk of change to the future cash flows due to IR risk. For the strategy used for the portfolio of mortgage loans denominated in a foreign currency or indexed to CHF or EUR, the change due to IR risk and FX risk is hedged against simultaneously. The net interest income of the reporting period shows the result on cash-flow hedge accounting of PLN 443.9 million in 2016 (PLN 535.4 million in interest income, PLN 91.5 million in interest expense) versus PLN 449.2 million in 2015 (PLN 563.9 million in interest income, PLN 114.7 million in interest expense). The hedge accounting strategy of the Bank has been detailed in the latter part hereof: explanatory note 19. *Hedge accounting*

**) The Net interest income on derivatives item shows the net interest income on derivatives where to no hedge accounting applies; it includes net interest income on IR instruments (IRS, CIRS) and interest element of FX derivatives (FX Swap, FX Forward).

Interest income on financial assets is calculated on the basis of the net exposure amounts; i.e. the amounts including effective impairment losses.

In 2016, the amount of PLN 42.3 million represents interest income on financial assets for which impairment loss was recognised. In 2015, the amount reached PLN 40.1 million.

3. Net commission income

	2016	2015
Commission income		
transaction margin on currency exchange transactions*	282.0	284.2
account maintenance fees	252.6	247.1
lending commissions	255.4	224.2
payment and credit cards fees	115.6	57.5
participation units distribution fees	88.6	99.1
insurance product offering commissions	51.1	64.2
fiduciary and custodian fees**	24.6	26.0
foreign commercial business	24.3	20.1
agency in financial instruments transactions	13.3	11.7
brokerage activity fees***	15.9	3.0
other	23.2	18.8
Total commission income	1 146.6	1 055.9
Commission expenses		
commission paid on intermediation in selling deposit products	37.0	30.5
commission paid on disclosing credit information	15.4	12.1
commission paid on cash handling services	12.6	11.3
brokerage activity fees***	10.2	7.0
electronic banking services fees	10.1	7.2
costs of the National Clearing House (KIR)	8.1	7.3
agency in financial instruments transactions	8.1	6.8
commission paid on trading in securities	7.9	7.8
other	22.1	14.6
Total commission expenses	131.5	104.6
Net commission income	1 015.1	951.3

*) Transaction margin on FX transactions covers the margin on all buy/sell transactions made with spot delivery value date or forward delivery value date.

**) Fiduciary and custodian fees show the commissions earned on custody services, where the Bank keeps or invests assets for their clients.

***) On 19 January 2016 the Polish Financial Supervision Authority granted ING Bank Śląski S.A. the licence to conduct brokerage activity.

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

	2016	2015
Net income on financial assets and liabilities held for trading, including:	24.2	-6.9
Net income on debt instruments	25.0	5.1
Net income on derivatives, including:	-0.8	-12.0
- currency derivatives	4.5	-46.1
- interest rate derivatives	-5.3	34.0
- securities derivatives	0.0	0.1
FX result	31.5	88.8
Net income on financial instruments at fair value through profit or loss and FX result	55.7	81.9

Net income on debt instruments includes net income on trading in treasury securities and money market instruments (treasury bills) as well as result on fair value measurement of those instruments.

Net income on derivatives includes net income on trading and fair value measurement of IR derivatives (FRA, IRS/CIRS, cap options), FX derivatives (swaps and options) as well as stock exchange index options.

Net interest income on the instruments listed above is shown under net interest income.

5. Net income on investments

	2016	2015
Dividend income **	18.5	99.3
Net income on equity instruments *	189.6	91.9
Net income on debt instruments	37.2	54.3
Impairment losses	0.0	0.0
Net income on investments	245.3	245.5

*) The amount of PLN 189.6 million under the net income on equity instruments item shows the result under the settlement of the acquisition of Visa Europe Limited by Visa Inc. in June 2016. For details of the transaction discussed, refer below.

The amount presented for 2015 covers the result on sale of shares of ING Powszechne Towarzystwo Emerytalne S.A. Company of PLN 87.9 million.

**) In the 2015 financials, the dividend income encompassed PLN 82.1 million worth of the 2014 dividend received from ING Powszechne Towarzystwo Emerytalne S.A.

Acquisition of Visa Europe Limited (Visa Europe) by Visa Inc.

On 17 June 2016, the Management Board of ING Bank Śląski S.A. communicated that they received the information regarding the proposed allocation of the settlement of the Visa Europe Limited (Visa Europe) takeover by Visa Inc. transaction. The transaction amount (Visa Europe value) was valued as EUR 18.37 billion, out of which EUR 12.25 billion was paid out in cash (up-front) as at the transaction settlement date and EUR 5.0 billion in Visa Inc. preferred stock. Furthermore, the transaction provides for a deferred cash payment of EUR 1.12 billion, which will be paid after the third anniversary of the closing date. As a Visa Europe member, ING Bank Śląski S.A. was one of the transaction beneficiaries. Pursuant to the information received, the impact of the transaction closing on ING Bank Śląski S.A. is as follows:

- EUR 33.1 million in cash,

- 12,030 Series C Visa Inc. preferred stock,
- a percentage of the deferred payment totalling 0.2553478580% of the amount, subject to potential adjustments, if any.

On 21 June 2016, the Bank received the payment under the settlement of the Visa Europe Limited (Visa Europe) takeover by Visa Inc. transaction on the terms listed above.

The net income on transaction settlement of PLN 189.6 million was recognised at fair value of the fee received, including cash payments, deferred cash payments and the fair value of Visa Inc. shares. The Group classifies the Visa Inc. preference shares obtained as a result of the transaction settlement as available-for-sale financial assets, and it carries them at their fair value through other total income.

6. Net income on hedge accounting

	2016	2015
Fair value hedge accounting for securities:	-1.7	21.8
valuation of the hedged transaction	-276.7	-113.2
valuation of the hedging transaction	275.0	135.0
Cash flow hedge accounting:	-0.9	1.1
ineffectiveness under cash flow hedges	-0.9	1.1
Net income on hedge accounting	-2.6	22.9

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the financial statements, note no 19 *Hedge accounting*

7. Net income on other basic activities

	2016	2015
Net income on the investment properties, including:	5.0	6.9
income from rental of the investment property	6.5	8.9
maintenance expenses relating to the investment property	-1.5	-2.6
valuation of investment property to fair value	0.0	0.6
Banking activity-related compensations and losses	-2.3	-1.6
Net income on disposal of property, plant and equipment and intangible assets	-4.0	-2.1
Impairment on other non-financial assets	0.0	-0.2
Other	-1.2	-4.4
Total	-2.5	-1.4

8. General and administrative expenses

	2016	2015
Personnel expenses, including:	970.1	893.0
wages and salaries, including:	810.8	744.8
variable remuneration programme	32.3	25.8
ING Group's incentive programme	1.1	1.3
retirement benefits	9.3	1.6
employee benefits	159.3	148.2
Cost of marketing and promotion	94.0	116.3
Depreciation and amortisation, including:	208.9	185.2
on property, plant and equipment	105.9	104.6
on intangible assets	103.0	80.6
Other general and administrative expenses, including:	736.7	840.5
maintenance, refurbishment and rental of buildings	245.6	240.4
IT costs	71.9	82.6
consulting	68.3	68.8
material and leasing costs	42.5	46.5
obligatory Bank Guarantee Fund payments*	143.9	261.3
cash handling services	20.7	28.2
other	143.8	112.7
Total	2 009.7	2 035.0

*) Apart from mandatory payments and prudential fees, BGF contributions also covered the contributions allocated for payment of guaranteed funds:

- PLN 12.2 million in 2016 – the amount earmarked for payment of guaranteed funds to the depositors of Bank Spółdzielczy in Nadarzyn.
- PLN 157.4 million in 2015 – the amount earmarked for payment of guaranteed funds to the depositors of Spółdzielczy Bank Rzemiostła i Rolnictwa in Wołomin.

8.1. Employee benefits

8.1.1. Variable Remuneration Programme

In 2016, the Variable Remuneration Programme initiated in 2012, was continued. The Programme is addressed to:

- persons holding managerial positions having a material impact on the risk profile of the Group (to satisfy the requirements under Polish Financial Supervision Authority Resolution No.258/2011, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Commission Delegated Regulation (EU) No. 604/2014 of 04 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile), and
- employees displaying special potential and skills (part involving award of a financial instrument).

Benefits are awarded to the employees covered with the Programme, based on their performance appraisal for a given year. The Programme description and characteristics are included in Chapter IV. Significant accounting principles in item 13.3.3. *Variable Remuneration Programme benefits.*

The below table presents basic information about the Programme addressed to persons holding managerial positions having material impact on the Bank's risk profile.

Programme 2012						
Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2013 – payable in 2014)	Deferred shares total	Phantom stock - 1 year of deferral (assigned in 2014 – payable in 2015)	Phantom stock - 2 years of deferral (assigned in 2015 – payable in 2016)	Phantom stock - 3 years of deferral (assigned in 2016 – payable in 2017)
12 369	1.8	-	12 369	-	-	12 369
Programme 2013						
Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2014 – payable in 2015)	Deferred shares total	Phantom stock - 1 year of deferral (assigned in 2015 – payable in 2016)	Phantom stock - 2 years of deferral (assigned in 2016 – payable in 2017)	Phantom stock - 3 years of deferral (assigned in 2017 – payable in 2018)
21 329	3.1	-	21 329	-	10 657	10 672
Programme 2014						
Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2015 – payable in 2016)	Deferred shares total	Phantom stock - 1 year of deferral (assigned in 2016 – payable in 2017)	Phantom stock - 2 years of deferral (assigned in 2017 – payable in 2018)	Phantom stock - 3 years of deferral (assigned in 2018 – payable in 2019)
29 153	4.2	-	29 153	9 699	9 720	9 734
Programme 2015						
Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2016 – payable in 2017)	Deferred shares total	Phantom stock - 1 year of deferral (assigned in 2017 – payable in 2018)	Phantom stock - 2 years of deferral (assigned in 2018 – payable in 2019)	Phantom stock - 3 years of deferral (assigned in 2019 – payable in 2020)
105 821	15.3	63 586	42 235	14 050	14 078	14 107
Programme 2016*						
Number of shares	Value of shares (in PLN million)	Number of nondeferred shares - held 1 year (assigned in 2017 – payable in 2018)	Deferred shares total	Phantom stock - 1 year of deferral (assigned in 2018 – payable in 2019)	Phantom stock - 2 years of deferral (assigned in 2019 – payable in 2020)	Phantom stock - 3 years of deferral (assigned in 2020 – payable in 2021)
98 332	14.3	59 031	39 301	13 071	13 099	13 131

*) 2016 data account for the provision established for the programme, the actual benefits will be awarded in Q1 2017.

8.1.2. ING Group's incentive programme

To the end of 2012, the Bank participated in the long-term incentive programme of ING Group (LSPP- Longterm Sustainable Performance Plan), formerly known as LEO (Long-term Equity Ownership). Description of system variants is included in Chapter IV. *Significant accounting principles in item 13.3.2. ING Group's long-term incentive system benefits.*

As at the balance sheet date, the Bank recognises in their books the measurement of instruments held by Bank employees. The fair value of options granted is recognised as personnel expenses (on the other side of the balance sheet – in capitals) and is allocated throughout the vesting period.

Parameters used in the valuation model

	2016		2015	
	min	max	min	max
risk-free interest rate	2.02%	4.62%	2.02%	4.62%
expected exercise term	5 lat	9 lat	5 lat	9 lat
current share price	2.9 EUR	25.42 EUR	2.9 EUR	26.05 EUR
expected volatility of share certificates	25%	84%	25%	84%
expected dividends	0.94%	8.99%	0.94%	8.99%

Changes in option rights outstanding

	Options outstanding (in numbers)		Weighted average exercise price (in euros)	
	2016	2015	2016	2015
Opening balance	357 313	450 453	16.79	16.64
transferred	41 674	-9 716	13.95	17.11
exercised	-2 225	-14 589	2.90	6.01
written off	-5 794	-733	16.31	21.33
expired	-71 797	-68 102	24.62	18.01
Closing balance	319 171	357 313	14.76	16.79

All options as at 31 December 2016 are settled through issue of shares. As at 31 December 2015, the outstanding options covered 14,699 options settled through issue of shares and 342,614 options settled in cash.

The range of exercise prices and weighted average remaining contractual life of options outstanding and exercisable are presented in the below table:

2016

Range of exercise prices (in EUR)	Options outstanding as at 31 Dec 2016	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	Options exercisable as at 31 Dec 2016	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0,00 - 5,00	37 477	2.21	2.90	37 477	2.21	2.90
5,00 - 10,00	81 513	3.21	7.35	81 513	3.21	7.35
10,00 - 15,00	9 122	1.71	14.36	9 122	1.71	14.36
15,00 - 20,00	105 448	1.20	16.66	105 448	1.20	16.66
20,00 - 25,00	85 611	0.22	24.72	85 611	0.22	24.72
	319 171			319 171		

2015

Range of exercise prices (in EUR)	Options outstanding as at 31 Dec 2015	Weighted average remaining contractual life	Weighted average exercise price (in EUR)	Options exercisable as at 31 Dec 2015	Weighted average remaining contractual life	Weighted average exercise price (in EUR)
0,00 - 5,00	40 418	3.22	2.90	40 418	3.22	2.90
5,00 - 10,00	60 496	4.21	7.35	60 496	4.21	7.35
10,00 - 15,00	4 145	2.72	14.36	4 145	2.72	14.36
15,00 - 20,00	109 431	2.20	16.66	109 431	2.20	16.66
20,00 - 25,00	84 777	1.22	24.72	84 777	1.22	24.72
25,00 - 30,00	58 046	0.23	25.16	58 046	0.23	25.16
	357 313			357 313		

The aggregate intrinsic value of options outstanding and exercisable as at 31 December 2016 was EUR 883.092 versus EUR 694.522 as at 31 December 2015.

9. Impairment losses and provisions for off-balance sheet liabilities

	2016	2015
Loans and other receivables		
Impairment losses on loans and other receivables	920.2	843.6
Reversed impairment losses on loans and other receivables	-653.2	-638.7
Net impairment losses on loans and other receivables, including:	267.0	204.9
- losses on loans and other receivables with evidence of impairment	241.7	199.3
- losses on loans and other receivables with no evidence of impairment (IBNR)	25.3	5.6
Financial assets held to maturity		
Establishment of impairment losses	1.1	0.6
Release of impairment losses	0.0	0.0
Net impairment losses, including:	1.1	0.6
- non-impaired portfolio loss (IBNR)	1.1	0.6
Provisions for off-balance sheet liabilities		
Establishment of impairment losses	22.9	20.8
Release of impairment losses	-22.5	-13.5
Net impairment losses and provisions for off-balance sheet liabilities, including:	0.4	7.3
- for the impaired portfolio	-9.5	5.4
- for the non-impaired portfolio	9.9	1.9
Total increase in impairment losses and provisions	944.2	865.0
Total reversed impairment losses and provisions	-675.7	-652.2
Net impairment losses and provisions for off-balance sheet liabilities	268.5	212.8

The values presented under the item *Loans and other receivables – Release of impairment losses* cover i.a. repayments under previously derecognised liabilities which in 2016 were PLN 3.7 million (PLN 8.9 million in 2015).

As at 31 December 2016, the Bank had a portfolio of retail CHF mortgage loans of PLN 1.3 billion (CHF 308.4 million). The Bank Management Board is of the opinion that the said portfolio bears an increased CHF-associated credit risk which will materialise if the PLN/CHF exchange rate materially decelerates or the PLN/CHF exchange rate deceleration sustains. The Management Board believes that the continuing CHF/PLN exchange rate can adversely impact the borrowers' capacity to pay their liabilities. The historical data/parameters for the portfolio in question do not mirror sufficiently the CHF-associated credit risk which can materialise in future cash flows in the loss identification period.

The Bank analysed the portfolio focusing on key risk parameters which are most affected by FX rate changes; that is LTV and DTI and resolved in keeping with IAS 39.62 to adjust the (PD) risk parameter used for calculation of the provisions for incurred but not reported losses for the portion of the portfolio with an increased risk profile by PLN 31.8 million vis-a-vis the provisions stemming from the historical liability repayment data-based model.

Impairment losses on loans and other receivables by client sector

	2016	2015
Impairment losses on loans and other receivables, including:	920.2	843.6
banks	0.6	0.1
entities from the financial sector other than banks	0.4	0.4
entities from the non-financial sector	919.0	842.9
entities from the government and self-government institutions' sector	0.2	0.2
Reversed impairment losses on loans and other receivables, including:	-653.2	-638.7
banks	0.0	-0.6
entities from the financial sector other than banks	-0.4	-0.3
entities from the non-financial sector	-652.6	-637.2
entities from the government and self-government institutions' sector	-0.2	-0.6
Net impairment losses on loans and other receivables, including:	267.0	204.9
banks	0.6	-0.5
entities from the financial sector other than banks	0.0	0.1
entities from the non-financial sector	266.4	205.7
entities from the government and self-government institutions' sector	0.0	-0.4

Impairment losses on loans and other receivables by client segment

	2016	2015
Impairment losses on loans and other receivables, including:	920.2	843.6
corporate banking	513.3	489.5
retail banking	406.9	354.1
Reversed impairment losses on loans and other receivables, including:	-653.2	-638.7
corporate banking	-379.5	-354.4
retail banking	-273.7	-284.3
Net impairment losses on loans and other receivables, including:	267.0	204.9
corporate banking	133.8	135.1
retail banking	133.2	69.8

10. Tax on certain financial institutions

On 01 February 2016, the Act on Tax on Certain Financial Institutions came into force. Pursuant to the Act, since February 2016, banks, insurance companies, credit unions and lending companies, to name a few, have been obliged to pay the bank levy being 0.0366% of their assets per month. The tax base is the entity's assets less PLN 4 billion, own funds and T-securities. The bank levy was paid first in March 2016. For 2016, the tax totalled PLN 280.2 million.

11. Income tax

Income tax recognised in the income statement

	2016	2015
Current tax, including:	439.8	248.2
Current year	440.1	213.7
Adjustment of last-year tax settlement	-0.3	34.5
Deferred tax, including:	-70.9	7.7
Recognised and reversed temporary differences	-70.9	7.7
Total income tax recognised in the income statement	368.9	255.9

Effective tax rate calculation

	2016	2015
A. Profit before tax	1 577.6	1 395.9
B. 19% of profit before tax	299.7	265.2
C. Increases – non-deductible expenses, including:	73.5	19.6
tax on certain financial institutions	53.2	0.0
prudential fee in favour of BGF	8.0	4.1
expenses due to loan and non-loan receivables written off	2.3	5.7
provisions for disputable debt claims and other assets	2.7	2.2
State Fund for Rehabilitation of Disabled Persons (PFRON) payments	1.2	1.4
impairment on receivables in the part not covered with the deferred tax	-0.2	2.9
representation expenses	0.7	0.9
thin capitalisation	0.0	0.4
tax loss on the sale of debt	4.1	1.0
other	1.5	1.0
D. Decreases – tax exempt income, including:	4.3	28.9
dividends received	2.5	17.8
release of provisions for disputable debt claims	1.7	2.7
adjustment of previous year tax settlement	0.0	8.4
other	0.1	0.0
E. Income tax from the income statement (B+C-D)	368.9	255.9
Effective tax rate (E : A)	23.38%	18.33%

The effective tax rate deviated in 2016 above 19% due to the tax on certain financial institutions of PLN 280.2 million and the BGF prudential fee of PLN 42.3 million. The effective tax rate deviation in

2015 below 19% was substantially impacted by the dividend paid out to the Bank by ING Powszechne Towarzystwo Emerytalne S.A. (ING PTE) totalling PLN 82.1 million that is exempted from income tax pursuant to Article 22 section 4 of the Corporate Income Tax Act.

12. Earnings per ordinary share

Basic earnings per share

Basic earnings per one share of the parent company for 2016 were calculated based on net profit of PLN 1,208.7 million (in 2015, it was PLN 1,140.0 million) and weighted average number of ordinary shares at the end 2016 and 2015 being 130,100,000.

	2016	2015
Net profit attributable to ING Bank Śląski S.A. shareholders	1 208.7	1 140.0
Weighted average number of ordinary shares	130 100 000	130 100 000
Earnings per ordinary share (in PLN)	9.29	8.76

Diluted earnings per share

In 2016 as well as in 2015, there were no factors that would dilute the profit per one share. In the described periods, ING Bank Śląski S.A. issued neither bonds convertible to shares nor options for shares. The share capital comprises ordinary shares only (no preference shares). Therefore, the diluted earnings per share are the same as the underlying profit per share.

13. Cash in hand and balances with the Central Bank

	2016	2015
Cash in hand	1 056.6	1 102.7
Balances with the Central Bank	768.4	2 487.0
Total	1 825.0	3 589.7

The Bank maintains a mandatory provision – 3.5% of the value of deposits received by the Bank – in its current account kept with the National Bank of Poland.

The arithmetic mean of balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 3,264.9 million for the period from 30 November 2016 to 01 January 2017, and
- PLN 3,109.5 million for the period from 31 December 2015 to 31 January 2016.

The Bank can avail itself of the credit line from the National Bank of Poland against the pledge on Tsecurities. As at 31 December 2016, the line was PLN 9,398.8 million versus PLN 15,200.0 million as at 31 December 2015.

14. Loans and receivables to other banks

	2016	2015
Current accounts	933.7	820.7
Interbank deposits	0.0	59.4
Loans and advances	180.0	133.1
Total (gross)	1 113.7	1 013.2
Impairment losses, including:	-0.3	-0.1
- concerning loans and advances	-0.3	-0.1
Total (net)	1 113.4	1 013.1

Loans and receivables to other banks by maturity

	2016	2015
up to 1 month	944.8	856.9
over 1 month and up to 3 months	19.0	45.9
over 3 months and up to 1 year	144.7	68.9
over 1 year and up to 5 years	5.2	41.1
over 5 years	0.0	0.4
Total (gross)	1 113.7	1 013.2

15. Financial assets at fair value through profit or loss**Financial assets held for trading**

	2016	2015
Debt instruments, including:	2 805.2	964.3
Treasury bonds	2 795.7	964.3
European Investment Bank bonds	9.5	0.0
Transactions with the buy-back commitment	21.6	162.8
Total financial assets held for trading	2 826.8	1 127.1

Financial assets at fair value through profit or loss by maturity

	2016	2015
up to 1 month	117.0	268.0
over 3 months and up to 1 year	141.7	175.6
over 1 year and up to 5 years	2 109.3	400.4
over 5 years	458.8	283.1
Total	2 826.8	1 127.1

Interest income on financial assets carried at fair value through profit or loss is recognised in the net interest income. Profits and losses due to movements in fair value of the said assets are recognised in item *Net income on financial instruments at fair value through profit or loss and FX result*.

16. Valuation of derivatives

The below table shows face values for derivatives whose valuation is presented on the assets side (positive valuation) and liabilities side (negative valuation) of the Bank's statement of financial position.

Notional amounts of the same-currency transaction derivatives were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

2016	Fair value measurement of derivatives			Face value of instruments with the remaining maturity		
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL
Interest rate derivatives, including:	612.2	622.4	28 769.7	61 790.4	171 847.8	262 407.9
Cleared by CCP	68.5	80.9	26 717.2	56 703.8	147 988.6	231 409.6
Forward rate agreements (FRA) - PLN	1.7	2.4	23 150.0	34 590.0	9 000.0	66 740.0
Interest rate swaps (IRS PLN) fixed - float	387.9	418.6	5 241.6	25 429.7	147 105.0	177 776.3
Interest rate swaps (IRS EUR) fixed - float	104.3	78.4	378.1	893.9	6 744.4	8 016.4
Interest rate swaps (IRS USD) fixed - float	106.0	110.7	0.0	0.0	4 362.1	4 362.1
CAP - EUR options	12.2	12.2	0.0	876.8	4 380.1	5 256.9
CAP - PLN options	0.1	0.1	0.0	0.0	256.2	256.2
FX derivatives, including:	502.2	490.6	37 559.8	27 834.8	14 608.8	80 003.4
FX contracts (swap, forward), including:	307.2	253.5	34 404.4	17 162.6	3 346.7	54 913.7
FX contracts (swap, forward) EUR/PLN	51.2	47.0	13 865.8	6 989.9	2 202.4	23 058.1
FX contracts (swap, forward) USD/PLN	146.4	143.3	11 240.6	6 191.5	1 124.9	18 557.0
FX contracts (swap, forward) EUR/USD	96.2	55.2	4 304.4	3 457.4	0.0	7 761.8
CIRS, including:	81.2	128.4	0.0	2 462.5	3 088.7	5 551.2
CIRS CHF/PLN (float-float)	53.4	57.1	0.0	1 228.0	192.3	1 420.3
CIRS EUR/PLN (float-float)	12.8	56.4	0.0	1 234.5	2 040.5	3 275.0
CIRS EUR/PLN (fixed-fixed)	15.0	14.9	0.0	0.0	855.9	855.9
Currency options (purchased), including:	111.1	2.0	1 577.7	4 237.1	4 086.7	9 901.5
CHF/PLN options	1.9	0.0	0.0	264.5	0.0	264.5
EUR/PLN options	35.8	2.0	371.5	493.7	1 816.1	2 681.3
USD/PLN options	73.4	0.0	1 206.2	3 478.9	2 270.6	6 955.7
Currency options (sold), including:	2.7	106.7	1 577.7	3 972.6	4 086.7	9 637.0
EUR/PLN options	2.7	33.3	371.5	493.7	1 816.1	2 681.3
USD/PLN options	0.0	73.4	1 206.2	3 478.9	2 270.6	6 955.7
Current off-balance sheet transactions, including:	1.2	1.6	4 252.1	0.0	0.0	4 252.1
FX operations	0.9	1.6	1 391.1	-	-	1 391.1
Securities operations	0.3	0.0	2 861.0	-	-	2 861.0
Fair value measurement of other financial instruments	1.5	1.4	-	-	-	-
Total	1 117.1	1 116.0	70 581.6	89 625.2	186 456.6	346 663.4

The amount of fair value measurement of derivatives includes the credit value adjustment for counterparty insolvency (CVA) and debt value adjustment for Bank insolvency (DVA).

2015	Fair value measurement of derivatives		Face value of instruments with the remaining maturity			
	Assets	Liabilities	up to 3 months	over 3 months and up to 1 year	over 1 year	TOTAL
Interest rate derivatives, including:	1 698.9	1 707.1	27 070.8	71 483.1	123 218.7	221 772.6
Cleared by CCP	356.3	359.2	15 343.0	56 695.1	71 905.3	143 943.4
Forward rate agreements (FRA) - PLN	13.1	16.8	21 425.0	48 150.8	1 350.0	70 925.8
Interest rate swaps (IRS PLN) fixed - float	1 171.4	1 236.2	5 475.3	21 734.8	104 014.0	131 224.1
Interest rate swaps (IRS EUR) fixed - float	304.1	239.2	170.5	754.3	7 906.7	8 831.5
Interest rate swaps (IRS USD) fixed - float	202.7	207.3	0.0	0.0	5 873.3	5 873.3
CAP - EUR options	7.6	7.6	0.0	843.2	3 851.2	4 694.4
CAP - PLN options	0.0	0.0	0.0	0.0	223.5	223.5
FX derivatives, including:	289.7	294.0	33 000.7	11 556.8	12 683.1	57 240.6
FX contracts (swap, forward), including:	167.3	140.2	30 668.4	9 401.1	2 093.0	42 162.5
FX contracts (swap, forward) EUR/PLN	55.7	54.6	16 564.9	5 047.2	733.9	22 346.0
FX contracts (swap, forward) USD/PLN	74.8	63.7	7 096.1	3 225.7	1 216.4	11 538.2
FX contracts (swap, forward) EUR/USD	33.9	14.7	5 900.0	756.6	130.0	6 786.6
CIRS, including:	53.3	73.7	167.7	400.5	4 254.3	4 822.5
CIRS CHF/PLN (float-float)	40.1	42.9	0.0	0.0	1 387.4	1 387.4
CIRS EUR/PLN (float-float)	3.6	28.1	167.7	0.0	2 027.2	2 194.9
CIRS EUR/PLN (fixed-fixed)	2.8	2.7	0.0	0.0	839.7	839.7
CIRS EUR/CHF (float-float)	6.8	0.0	0.0	400.5	0.0	400.5
Currency options (purchased), including:	67.3	0.0	971.5	958.2	3 255.2	5 184.9
CHF/PLN options	0.0	0.0	3.2	1.1	0.0	4.3
EUR/PLN options	18.2	0.0	724.9	224.5	303.8	1 253.2
USD/PLN options	49.1	0.0	243.4	732.6	2 951.4	3 927.4
Currency options (sold), including:	1.8	80.1	1 193.1	797.0	3 080.6	5 070.7
CHF/PLN options	0.0	0.0	3.1	1.5	0.0	4.6
EUR/PLN options	1.8	21.5	883.9	388.5	294.4	1 566.8
USD/PLN options	0.0	58.6	306.1	407.0	2 786.2	3 499.3
Current off-balance sheet transactions, including:	0.7	0.2	5 207.7	0.0	0.0	5 207.7
FX operations	0.3	0.2	464.9	-	-	464.9
Securities operations	0.4	0.0	4 742.8	-	-	4 742.8
Fair value measurement of other financial instruments	1.6	1.5	-	-	-	-
Total	1 990.9	2 002.8	65 279.2	83 039.9	135 901.8	284 220.9

Embedded derivatives

At the end of 2016 and 2015, the Bank had PLN deposits with embedded derivatives. Embedded instruments are FX options. As at 31 December 2016, embedded derivatives were worth PLN +1.6 mln million versus PLN +0.8 million as at 31 December 2015.

17. Investments

	2016	2015
Available-for-sale financial assets, including:	20 557.2	20 678.0
fair value hedge-hedged items	12 191.3	3 515.5
Financial assets held to maturity	5 164.1	2 800.7
Total	25 721.3	23 478.7

Fair value hedge-hedged items

	2016	2015
Fixed rate debt instruments, including:	12 191.3	3 515.5
Treasury bonds	11 356.0	3 002.4
French government bonds	525.5	513.1
European Investment Bank bonds	309.8	0.0
Total	12 191.3	3 515.5

For details of the hedge accounting applied by the Bank, refer to note no. 19 *Hedge accounting*.

17.1. Available-for-sale financial assets

	2016	2015
Debt securities, including:	20 508.4	20 494.9
Fixed rate debt instruments, including:	15 729.2	8 050.9
Treasury bonds	14 902.1	7 032.6
French government bonds	533.0	518.5
European Investment Bank bonds	294.1	0.0
NBP bills	0.0	499.8
Floating rate debt instruments, including:	4 779.2	12 444.0
Treasury bonds	4 779.2	12 444.0
Total debt instruments, including:	20 508.4	20 494.9
listed instruments	20 508.4	19 995.1
unlisted instruments	0.0	499.8
Equity instruments, including:	48.8	183.1
Equity instruments at cost	43.3	5.2
Marked to market	5.5	177.9
Equity instruments – carrying amount, including:	48.8	183.1
unlisted instruments	48.8	183.1
Total available-for-sale financial assets	20 557.2	20 678.0

The item *Equity Instruments* includes shares of and interests in a few entities not quoted on the stock exchange. In the amount shown for 2015 under the item *Equity instruments*, PLN 177.9 million represented the fair value of Visa Europe Limited's shares. In June 2016, the shares were divested and the Group received, inter alia, Visa Inc.'s preferred shares under the sale transaction settlement. In the amount shown for 2016, PLN 43.4 million represented the fair value of received Visa Inc.'s

shares. For transaction details, refer to note no 5 *Net income on investments*.

The Bank does not determine the fair value of shares of and interest in other entities as it is difficult or impossible due to absence of active market for those instruments. The Bank holds certain shares and interest due to the functioning of Bank units (National Clearing House, SWIFT, Credit Information Bureau, Polish Payment Standard). The Bank is of the opinion that the purchase price is the best indicator of their value.

Available-for-sale financial assets by maturity

	2016	2015
up to 1 month	20.1	499.8
over 3 months and up to 1 year	1 557.0	274.8
over 1 year and up to 5 years	16 562.2	13 969.1
over 5 years	2 417.9	5 934.3
Total	20 557.2	20 678.0

Changes in available-for-sale financial assets

	2016	2015
Opening balance	20 678.0	22 828.6
Increases, including:	22 582.2	82 519.1
purchase of debt securities	21 761.2	81 695.6
increase in the value of securities	784.9	823.2
purchase of shares in other parties	36.1	0.3
Decreases, including:	22 703.0	84 669.7
sales of debt securities	13 226.1	3 577.2
redemption of debt securities	8 199.7	78 559.0
decrease in the value of securities	1 083.1	811.7
sale of shares in other parties	194.1	8.5
reclassification of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio	0.0	1 713.3
Closing balance	20 557.2	20 678.0

In 2016, the Bank sold the shares of 1 company (Visa Europe Limited) from the investment portfolio, posting the result on sale of PLN +189.6 million. For transaction details, refer to note no 5 *Net income on investments*.

In 2015, the Bank sold a portion of shares of 1 company from their investment portfolio. The net income on sale of those shares was PLN +4.0 million.

17.2. Financial assets held-to-maturity

	2016	2015
Fixed rate debt instruments, including:	4 813.7	2 643.8
Treasury bonds	3 006.4	987.1
BGK bonds	1 605.3	1 656.7
European Investment Bank bonds	202.0	0.0
Floating rate debt instruments, including:	350.4	156.9
Treasury bonds	350.4	156.9
Total debt instruments, including:	5 164.1	2 800.7
listed instruments	5 164.1	2 800.7
Total financial assets held to maturity	5 164.1	2 800.7

In 2015 the Bank reclassified the part of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio. Detailed disclosure about reclassification, refer to the note no. 17.3.

Financial assets held-to-maturity by maturity

	2016	2015
over 1 year and up to 5 years	3 865.6	1 995.4
over 5 years	1 298.5	805.3
Total	5 164.1	2 800.7

Changes in assets held-to-maturity

	2016	2015
Opening balance	2 800.7	0.0
Increases, including:	2 549.7	2 934.1
purchase of debt securities	2 416.4	1 138.6
Interest accrued	133.0	82.2
amortization of discount / premium	0.3	0.0
reclassification of debt securities from the available-for-sale portfolio to the held-to-maturity portfolio	0.0	1 713.3
Decreases, including:	186.3	133.4
Interest paid	140.5	87.6
depreciation valuation detained in the revaluation reserve	45.3	40.2
impairment losses	0.5	0.6
amortization of discount / premium	0.0	5.0
Closing balance	5 164.1	2 800.7

17.3. Reclassification of debt securities

The Group presents the disclosures in connection with two reclassification of securities made in 2008 and 2015.

17.3.1. Reclassification in 2015

In 2015, the Bank reclassified a portion of debt securities (T-bonds) from the available-for-sale financial assets to the financial assets held to maturity. Reclassification aimed at making the Bank's capital less sensitive to the change in the fair value of securities.

As a result, the rules of debt securities valuation were changed from fair-value measurement to measurement at amortised cost. The fair value of debt securities of PLN 1,713.3 million as at the reclassification date was their new amortized cost.

17.3.2. Reclassification in 2008

In 2008, the Bank reclassified a portion of debt securities from the available-for-sale financial assets to the loans and other receivables category.

The reason for reclassification was the absence of or inactiveness of the market, which in the opinion of the Bank causes the above securities to match the definition of loans and receivables according to IAS, namely they "are financial assets other than derivatives, with the determined or possible to determine payments, and which are not quoted on active market", while the Bank's intention pertaining thereto, i.e. Bank's intention and possibility to hold them in a foreseeable future, did not change.

The reclassification resulted in a change in the basis of the debt securities measurement, that is from measurement at fair value to measurement at amortised cost. Fair value of debt securities as of reclassification date constituted their new amortised cost.

Debt securities reclassified from available-for-sale category to loans and receivables

Name of security	Reclassification date	2016			2015		
		fair value as at the reclassification date	carrying amount	fair value	fair value as at the reclassification date	carrying amount	fair value
T-eurobonds	01.10.2008	1 242.9	1 802.8	1 751.6	1 242.9	1 796.6	1 747.3
Corporate bonds	19.12.2008	4.5	4.3	4.2	6.7	6.4	6.1
Municipal bonds	19.12.2008	5.0	5.0	4.9	12.8	12.8	12.4
Total		1 252.4	1 812.1	1 760.7	1 262.4	1 815.8	1 765.8

Upon reclassification, the above-named securities are presented in the financial statements under the item *Loans and other receivables to customers*.

T-bonds denominated in EUR (T-eurobonds) classified as at their purchase date to the available for-sale financial assets were the base instruments secured in the fair value hedge accounting against the interest rate risk. Upon reclassification, the original strategy of hedging the securities from the available-for-sale portfolio was closed. Due to the fact that the intention of the Bank was to sustain the hedging connection, from the reclassification date a new hedging strategy was started, i.e. the strategy which hedged the fair value against the interest rate risk of the securities classified to loans and other receivables category.

Fair value of gain or loss which would be presented in revaluation reserve once reclassification is not performed

Name of security	Fair value recognised in equity	
	2016	2015
T-eurobonds	-51.2	-49.3
Corporate bonds	-0.2	-0.4
Municipal bonds	-0.1	-0.3
Total	-51.5	-50.0

Had the above securities not been re-classified to the category of loans and other receivables but left in the category of available-for-sale financial assets, the amounts of measurement at fair value would have been recognised in full in the revaluation reserve. The above figures have been estimated without including the impact that the further application of the fair value hedge accounting would have on the income statement or the capitals because in the opinion of the Bank such calculations would be prone to error and would rely on hypothetical assumptions that would be difficult to verify.

Costs and revenues included in the income statement

2016

Name of security	accrued interest (coupon)	amortised discount/premium	depreciation of the revaluation reserve	carrying amount of hedged instruments in FVH strategy adjustment *)
T-eurobonds	80.9	-3.0	2.0	-62.3
Corporate bonds	0.2	0.0	0.0	0.0
Municipal bonds	0.2	0.0	0.0	0.0
Total	81.3	-3.0	2.0	-62.3

2015

Name of security	accrued interest (coupon)	amortised discount/premium	depreciation of the revaluation reserve	carrying amount of hedged instruments in FVH strategy adjustment *)
T-eurobonds	77.4	-2.8	1.9	-57.6
Corporate bonds	0.2	0.0	0.0	0.0
Municipal bonds	0.4	0.0	0.0	0.0
Total	78.0	-2.8	1.9	-57.6

*) measurement due to the hedged interest rate risk

18. Assets securing liabilities

Market value of assets securing liabilities

	2016	2015
From the portfolio of financial assets at fair value through profit or loss:		
treasury bonds collateralising the liabilities due to securities sold with buy-back commitment (sell-buy-back transactions)	21.2	60.1
From the portfolio of available-for-sale financial assets:		
treasury bonds constituting collateral to the Bank Guarantee Fund	542.2	507.2
treasury bonds collateralising the loan received by the subsidiary of the European Investment Bank	294.6	203.8
French government bonds to hedge settlements with the LCH	521.3	507.5
treasury bonds collateralising the liabilities due to securities sold with buy-back commitment (sell-buy-back transactions)	0.0	42.4

Securities are pledged on the terms provided for by:

- The Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Resolution (Journal of Laws of 10 June 2016, item 996),
- Commercial Companies and Partnerships Code, Article 495 (Journal of Laws of 2000, no. 94, item 1037 as amended),
- agreements, and
- the basic of the transaction.

The carrying amount of liabilities from repurchase transactions (sell-buy-back and repo) is presented in the following notes:

- note 27 *Liabilities due to other banks*
- note 28 *Financial liabilities at fair value through profit or loss*
- note 30 *Liabilities under repurchase transactions made with customers.*

Besides the instruments indicated herein, assets limited as to use also include the mandatory provision which the Bank has to maintain in the current account with NBP. For mandatory provision details, see note no. 13 *Cash in hand and balances with the Central Bank.*

The majority of sell-buy-back/repo transactions are effected assuming the option of legal transfer of ownership of the securities transacted. The above indicates that the counterparty who purchased ownership of securities can still sell them back or pledge them in accordance with the generally adopted market practice.

Securities not recognised as the Bank's assets accepted as collateral for liabilities under repo transactions

The market value of securities under buy-sell-back / reverse repo transactions totalled PLN 20.4 million as at 31 December 2016, as compared with PLN 1,507.1 million as at 31 December 2015.

The majority of buy-sell-back/reverse repo transactions are effected assuming the option of legal transfer of ownership of the securities transacted. The above indicates that the securities can be still sold back or that a pledge can be established thereon in accordance with the generally adopted market practice.

19. Hedge accounting

The table below presents fair values and notional amounts of hedging instruments in the cash flow hedge accounting and fair values and notional amounts of hedging instruments and hedged items in the fair value hedge accounting. Notional amounts of the same-currency transaction derivatives

were presented in the amounts purchased, while two-currency transactions showed both purchased and sold amounts.

2016

	Fair value		Notional amounts of instruments with time remaining to maturity				Total
	Assets	Liabilities	up to 1 year	over 1 year and up to 3 years	over 3 year and up to 8 years	over 8 years	
Cash flow hedge accounting							
Cash flow hedging instruments, including:	1 331.9	778.9	17 432.2	22 785.2	41 909.4	11 996.3	94 123.1
Cleared by CCP	16.1	43.3	11 750.9	13 307.9	24 466.9	11 215.0	60 740.7
Interest rate swaps (IRS PLN) fixed - float	1 099.1	402.6	14 546.5	20 478.6	35 695.8	10 386.0	81 106.9
Interest rate swaps (IRS EUR) fixed - float	232.8	182.2	1 544.9	1 962.9	5 607.0	1 610.3	10 725.1
CIRS CHF/PLN (float-float)	0.0	191.0	-	-	-	-	-
float CHF	-	-	720.5	185.3	329.4	0.0	1 235.2
float PLN	-	-	620.3	158.4	277.2	0.0	1 055.9
CIRS EUR/PLN (float-float)	0.0	3.1	-	-	-	-	-
float EUR	-	-	0.0	0.0	0.0	221.2	221.2
float PLN	-	-	0.0	0.0	0.0	212.1	212.1
Fair value hedge accounting							
Instruments hedging the fair value of securities, including:	6.7	689.2	840.0	2 893.0	11 469.4	310.0	15 512.4
Cleared by CCP	6.5	0.5	250.0	1 439.5	8 666.8	310.0	10 666.3
Interest rate swaps (IRS PLN) fixed - float	6.7	31.5	840.0	1 840.0	8 627.0	310.0	11 617.0
Interest rate swaps (IRS EUR) fixed - float	0.0	657.7	0.0	1 053.0	2 842.4	0.0	3 895.4
Hedged items, including:	16 095.5	0.0	840.0	2 888.5	11 445.1	310.0	15 483.6
Debt securities from available-for-sale portfolio, including:	12 191.3	0.0	840.0	1 840.0	9 069.4	310.0	12 059.4
Treasury bonds PLN	11 356.0	0.0	840.0	1 840.0	8 627.0	0.0	11 307.0
French government bonds EUR	525.5	0.0	0.0	0.0	442.4	0.0	442.4
European Investment Bank bonds PLN	309.8	0.0	0.0	0.0	0.0	310.0	310.0
Debt securities from loans and other receivables portfolio, including:	3 904.2	0.0	0.0	1 048.5	2 375.7	0.0	3 424.2
Treasury bonds EUR	3 904.2	0.0	0.0	1 048.5	2 375.7	0.0	3 424.2

2015

	Fair value		Notional amounts of instruments with time remaining to maturity				
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Total
Cash flow hedge accounting							
Cash flow hedging instruments, including:	2 454.6	1 020.6	20 297.5	15 949.4	27 187.0	15 703.0	79 136.9
Cleared by CCP	179.6	83.6	7 309.2	4 735.6	7 380.8	6 047.2	25 472.8
Interest rate swaps (IRS PLN) fixed - float	2 275.8	740.9	19 637.0	12 577.7	23 797.8	11 557.0	67 569.5
Interest rate swaps (IRS EUR) fixed - float	177.5	130.7	660.5	1 983.3	2 650.2	4 035.6	9 329.6
CIRS CHF/PLN (float-float)	0.4	149.0	-	-	-	-	-
float CHF	-	-	0.0	728.8	393.9	59.1	1 181.8
float PLN	-	-	0.0	659.6	345.1	51.3	1 056.0
CIRS EUR/PLN (float-float)	0.9	0.0	-	-	-	-	-
float EUR	-	-	0.0	0.0	0.0	213.1	213.1
float PLN	-	-	0.0	0.0	0.0	212.1	212.1
Fair value hedge accounting							
Instruments hedging the fair value of securities, including:	0.2	810.3	0.0	3 165.0	3 401.7	0.0	6 566.7
Cleared by CCP	0.2	8.0	0.0	200.0	702.0	0.0	902.0
Interest rate swaps (IRS PLN) fixed - float	0.0	76.1	0.0	2 155.0	685.0	0.0	2 840.0
Interest rate swaps (IRS EUR) fixed - float	0.2	734.2	0.0	1 010.0	2 716.7	0.0	3 726.7
Hedged items, including:	7 370.0	0.0	0.0	3 165.0	3 399.6	0.0	6 564.6
Debt securities from available-for-sale portfolio, including:	3 515.5	0.0	0.0	2 155.0	1 111.2	0.0	3 266.2
Treasury bonds PLN	3 002.4	0.0	0.0	2 155.0	685.0	0.0	2 840.0
French government bonds EUR	513.1	0.0	0.0	0.0	426.2	0.0	426.2
Debt securities from loans and other receivables portfolio, including:	3 854.5	0.0	0.0	1 010.0	2 288.4	0.0	3 298.4
Treasury bonds EUR	3 854.5	0.0	0.0	1 010.0	2 288.4	0.0	3 298.4

Fair value hedge accounting

In the financial statements for the year 2016 (similar to year 2015), the Bank used fair value hedge accounting for securities.

The hedged risk is the risk of the change of the fair value of the financial asset resulting from the change of the interest rates. The subject of hedging is the fair value of the fixed interest rate debt instrument, namely the position (or its part) on a given security in the available-for-sale portfolio, that as of establishing the hedging relationship has a specific fair value recognised in the revaluation reserve and the position (or its part) on a given security in the loans and other receivables portfolio as the result of reclassification from the available-for-sale portfolio.

For the strategy purposes, the part of the fair value change under the hedged risk is separated with the use of valuation models based on the same assumptions as for interest rate derivatives ones. The valuation curves applied in the model are based on market rates corresponding to revaluation tenors of variable interest rate hedging instruments.

Interest Rate Swap, changing fixed interest rate into the floating one, is the hedging instrument. As a result, changes to the fair value of the hedging instrument show the opposite trend from the changes to the fair value of the hedged item. Therefore, owing to the established hedging

relationship, the fair values of the hedging instrument and the hedged item offset one another in the income statement. The mismatch element caused by application of different valuation curves (i.e. interest rate derivatives measured using valuation curves made taking account of the OIS discounting) impacts effectiveness of the hedging strategy, which is visible in the income statement. Since only one type of risk (interest rate risk) is hedged against, changes to the fair value of the hedged item included in the available-for-sale assets portfolio and caused by other unsecured risks are carried through the revaluation fund.

The net interest income on derivative hedge instruments is presented in the item Interest on available-for-sale financial assets wherein the interest income on the hedged instrument is presented under the described strategy.

The valuation of hedging and hedged transactions is presented in the Bank's income statement under the *Net income on hedge accounting* item. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market and additionally hedged with a margin made or received, depending on the exposure, as well as transactions forwarded for daily clearing through the agency of LCH Central Counterparty were designated as the hedging instrument.

Cash flow hedge accounting

In the financial statements for the year 2016 (similar to year 2015), the Bank applied the rules of accounting of cash flow hedges with regard to a specific portfolio of assets/ liabilities/ highly probable planned financial transactions of the Bank (e.g. extrapolation of cash flows arising from revolving deposits/overdrafts). Hedging strategies are used to hedge the Bank's exposure against changes in the size of future cash flows arising from interest rate risk. In 2012, the Bank implemented the new strategy for hedging the mortgage loans indexed to EUR or CHF against changes arising from interest rate risk and foreign currency risk at the same time.

The hedged item is the specified portfolio of assets and/or financial liabilities or the portfolio of planned transactions, which includes financial instruments with variable interest rate (financial products based on the WIBOR/EURIBOR/LIBORCHF market interest rate) that are therefore exposed to the risk of future cash flows arising from the change of the WIBOR/EURIBOR, EURIBOR/LIBORCHF market interest rate and in part of the portfolio denominated in CHF/EUR exposed to foreign exchange risk arising from changes in the exchange rate.

For the strategy purposes, as regards changes to the fair value calculation for the future cash flows of the portfolio being hedged, the Bank applies the hypothetical derivative approach (i.e. the method whereunder it is possible to reflect the hedged item and the nature of the risk hedged in the form of a derivative). The measurement principles are the same as for the interest rate derivatives. Bilateral value adjustments of hedging instruments do not impact the presented values due to the fact that only the transactions concluded on the interbank market, additionally hedged with a margin made or received, depending on the exposure, were designated as the hedging instrument.

The instrument hedging asset items in the strategy hedging the risk of interest rate changes are the Pay-Variable, Receive-Fixed Interest Rate Swaps, while the instrument hedging liabilities items are the Pay-Fixed, Receive-Variable Interest Rate Swaps and the separated parts of the Currency Interest Rate Swap that reflect the Pay-Fixed, Receive-Variable Interest Rate Swaps. The instrument hedging asset items in the strategy of hedging both the risk of interest rate changes and the currency risk are the separated parts of the Currency Interest Rate Swap that reflect the Pay-Variable in CHF/EUR, Receive-Fixed in PLN Currency Swaps.

Considering the fact that the hedging instrument being the object of individual strategies has impact on the income statement on a continuous basis (i.e. by measurement at the amortized cost), the net interest income on derivative instruments to hedge the portfolio of:

- financial assets is presented in the item Interest on loans and other receivables to customers,
- financial liabilities is presented in the item Interest on deposits from customers.

As at 31 December 2016, the revaluation reserve included PLN 354.6 million (including deferred tax) relating to the effective part of the hedging relationship in the cash flow hedge accounting (PLN 960.6 million as at 31 December 2015). In 2016, the ineffective part of the hedging relationship resulting from the mismatch in compensating changes in fair value of the hedging instrument and hedged item recognised in the income statement totalled PLN -0.9 million compared with PLN +1.1 million in 2015.

The periods in which the Bank expects that the cash flows hedged within hedge accounting will appear and have impact on the financial result are presented below.

2016

	Cash flows (PLN million)			Cash flows (EUR million)			Cash flows (CHF million)	
	Cash inflows (assets)	Cash outflows (liabilities)	Net cash flows	Cash inflows (assets)	Cash outflows (liabilities)	Net cash flows	Cash inflows (assets)	Net cash flows
up to 1 year	827.7	-169.1	658.6	-3.3	0.0	-3.3	-1.2	-1.2
over 1 year and up to 3 years	1 450.3	-286.5	1 163.8	-3.9	0.0	-3.9	-1.0	-1.0
over 3 year and up to 8 years	2 915.1	-483.8	2 431.3	10.6	-1.8	8.8	0.3	0.3
over 8 years	260.0	-37.7	222.3	4.5	-0.2	4.3	0.0	0.0

2015

	Cash flows (PLN million)			Cash flows (EUR million)			Cash flows (CHF million)	
	Cash inflows (assets)	Cash outflows (liabilities)	Net cash flows	Cash inflows (assets)	Cash outflows (liabilities)	Net cash flows	Cash inflows (assets)	Net cash flows
up to 1 year	592.2	-83.6	508.6	-1.9	0.0	-1.9	-2.1	-2.1
over 1 year and up to 3 years	951.2	-178.1	773.1	-1.3	0.0	-1.3	-1.5	-1.5
over 3 year and up to 8 years	2 030.3	-382.7	1 647.6	15.7	-3.0	12.7	1.0	1.0
over 8 years	253.3	-41.1	212.2	4.7	-0.5	4.2	0.1	0.1

20. Loans and receivables to customers

20.1. Customer loan portfolio

	2016	2015
Customer loan portfolio, including:	75 367.9	67 157.8
Loans and advances	72 838.0	63 998.7
Corporate and municipal bonds	2 529.9	3 159.1
Other receivables, including:	3 999.3	3 913.6
T-eurobonds	3 910.7	3 838.6
Other	88.6	75.0
Total loans and receivables to customers (gross)	79 367.2	71 071.4
Impairment losses (including IBNR), including:	-1 329.2	-1 438.0
concerning customer loan portfolio, including:	-1 328.5	-1 437.0
concerning loans and advances	-1 311.4	-1 333.5
concerning debt securities (corporate and municipal bonds)	-17.1	-103.5
concerning other receivables, including:	-0.7	-1.0
concerning T-eurobonds	-0.7	-0.5
other	0.0	-0.5
Total loans and receivables to customers (net), including:	78 038.0	69 633.4
to entities from the financial sector other than banks	8 334.7	8 043.6
to entities from the non-financial sector	62 377.4	53 867.1
to entities from the government and self-government institutions' sector	7 325.9	7 722.7

Loans and other receivables to entities from the financial sector other than banks

	2016	2015
Loans and advances, including:	7 867.5	7 590.5
- in the current account	2 733.9	1 993.2
- term ones	5 133.6	5 597.3
Debt securities (notes)	386.6	384.5
Other receivables	81.6	69.3
Total (gross)	8 335.7	8 044.3
Impairment losses (including IBNR), including:	-1.0	-0.7
concerning loans and advances	-0.9	-0.6
concerning debt securities	-0.1	-0.1
Total (net)	8 334.7	8 043.6

Loans and other receivables to entities from the non-financial sector

	2016	2015
Business entities, including:	31 136.2	28 097.0
Loans and advances, including:	30 172.9	26 589.7
- in the current account	6 965.6	7 000.3
- term ones	23 207.3	19 589.4
Debt securities (corporate bonds i notes)	956.3	1 502.1
Other receivables	7.0	5.2
Households, including:	32 567.5	27 205.9
Loans and advances, including:	32 567.5	27 205.4
- in the current account	1 762.7	1 632.6
- term ones	30 804.8	25 572.8
Other receivables	0.0	0.5
Total (gross)	63 703.7	55 302.9
Impairment losses (including IBNR), including:	-1 326.3	-1 435.8
Business entities, including:	-743.9	-882.8
concerning loans and advances	-727.3	-779.7
concerning debt securities	-16.6	-103.1
concerning other receivables	0.0	0.0
Households, including:	-582.4	-553.0
concerning loans and advances	-582.4	-552.5
concerning other receivables	0.0	-0.5
Total (net)	62 377.4	53 867.1

Loans and other receivables to entities from the government and self-government institutions' sector

	2016	2015
Loans and advances, including:	2 230.1	2 613.1
- in the current account	7.4	6.7
- term ones	2 222.7	2 606.4
Debt securities (municipal bonds)	1 187.0	1 272.5
T-eurobonds	3 910.7	3 838.6
Total (gross)	7 327.8	7 724.2
Impairment losses (including IBNR), including:	-1.9	-1.5
concerning loans and advances	-0.8	-0.7
concerning debt securities (municipal bonds)	-0.4	-0.3
concerning T-eurobonds	-0.7	-0.5
Total (net)	7 325.9	7 722.7

In 2008, the Bank reclassified a portion of the debt securities portfolio from available-for-sale financial assets to loans and other receivables category. The said securities included, but were not limited to, T-bonds (eurobonds) and corporate and municipal bonds that after reclassification are presented herein. T-bonds are hedged against IR risk under the fair value hedge accounting. Specific disclosures on reclassification are presented in note no. 17.3.

Loans and receivables to customers by maturity

	2016	2015
up to 1 month	13 835.3	12 545.0
over 1 month and up to 3 months	2 715.8	2 086.6
over 3 months and up to 1 year	8 031.0	8 023.3
over 1 year and up to 5 years	28 859.1	25 558.8
over 5 years	24 995.4	21 852.1
overdue	930.6	1 005.6
Total	79 367.2	71 071.4

Fair value hedge-hedged items

The below table presents value of securities classified to the category of loans and other receivables and hedged under FVH accounting.

	2016	2015
Fixed rate debt instruments, including:	3 910.7	3 838.6
T-eurobonds	3 910.7	3 838.6
Total	3 910.7	3 838.6

For details of the hedge accounting applied by the Bank, refer to the subsequent part of the report, note no. 19 Hedge accounting.

Customer loan portfolio by client segment

	2016	2015
Gross value, including:	75 367.9	67 157.8
Corporate banking segment, including:	44 230.0	41 040.6
- loans and advances	41 700.1	37 881.5
- corporate and municipal debt securities	2 529.9	3 159.1
Retail banking segment, including:	31 137.9	26 117.2
- mortgages	23 887.1	20 294.5
- other loans and advances	7 250.8	5 822.7
Impairment losses (including IBNR), including:	-1 328.5	-1 437.0
Corporate banking segment, including:	-802.3	-922.0
- loans and advances	-785.2	-818.5
- corporate and municipal debt securities	-17.1	-103.5
Retail banking segment, including:	-526.2	-515.0
- mortgages	-195.0	-197.1
- other loans and advances	-331.2	-317.9
Net value, including:	74 039.4	65 720.8
Corporate banking segment, including:	43 427.7	40 118.6
- loans and advances	40 914.9	37 063.0
- corporate and municipal debt securities	2 512.8	3 055.6
Retail banking segment, including:	30 611.7	25 602.2
- mortgages	23 692.1	20 097.4
- other loans and advances	6 919.6	5 504.8

20.2. Quality of customer loan portfolio

Customer loan portfolio division by impairment condition and impairment loss estimation method

	2016	2015
Corporate banking segment		
Gross value, including:	44 230.0	41 040.6
unimpaired (IBNR*)	43 071.0	39 680.9
impaired, including:	1 159.0	1 359.7
- measured individually (ISFA*)	884.7	1 145.5
- measured as the portfolio (INSFA*)	274.3	214.2
Impairment losses, including:	-802.3	-922.0
unimpaired (IBNR*)	-64.7	-72.0
impaired, including:	-737.6	-850.0
- measured individually (ISFA*)	-530.8	-687.6
- measured as the portfolio (INSFA*)	-206.8	-162.4
Net value, including:	43 427.7	40 118.6
unimpaired (IBNR*)	43 006.3	39 608.9
impaired, including:	421.4	509.7
- measured individually (ISFA*)	353.9	457.9
- measured as the portfolio (INSFA*)	67.5	51.8
Retail banking segment		
Gross value, including:	31 137.9	26 117.2
unimpaired (IBNR*)	30 606.9	25 579.1
impaired	531.0	538.1
Impairment losses, including:	-526.2	-515.0
unimpaired (IBNR*)	-141.5	-101.4
impaired	-384.7	-413.6
Net value, including:	30 611.7	25 602.2
unimpaired (IBNR*)	30 465.4	25 477.7
impaired	146.3	124.5
Total gross value, including:	75 367.9	67 157.8
unimpaired (IBNR) portfolio	73 677.9	65 260.0
impaired portfolio	1 690.0	1 897.8
Total impairment losses, including:	-1 328.5	-1 437.0
unimpaired (IBNR) portfolio	-206.2	-173.4
impaired portfolio	-1 122.3	-1 263.6
Total net value, including:	74 039.4	65 720.8
unimpaired (IBNR) portfolio	73 471.7	65 086.6
impaired portfolio	567.7	634.2

*) IBNR – Incurred But Not Reported; ISFA – Individually Significant Financial Assets; INSFA – Individually Non-Significant Financial Assets

Receivable sale

In 2016, the Bank made the following transactions of receivables sale:

- 19 December 2016 – the Bank concluded a sales agreement for a portion of corporate receivables from the impaired portfolio. The positive impact of the transaction on the Bank's result before tax was PLN 11.5 million, including a decrease of PLN 10.7 million in risk costs.
- On 27 July 2016, the Bank entered into an agreement on the sale of the portfolio of non-performing loans, unsecured loans in particular. The receivables sold under the agreement totalled PLN 139.7 million (principal, interest and other costs). The positive impact of the transaction on the result before tax was PLN 13.8 million PLN, including a decrease of PLN 10.1 million in risk costs. As a consequence of the aforesaid agreement, the Bank decreased its portfolio of non-performing loans by PLN 84.7 million.
- On 31 May 2016, the Bank concluded an agreement on the sale of corporate receivables from the impaired portfolio. The positive impact of the transaction on the Bank's result before tax was PLN 17.4 million. Following the transaction, the non-performing receivables portfolio decreased by PLN 305.8 million.
- On 29 March 2016, the Bank entered into an agreement on the sale of the portfolio of non-performing loans, mortgage loans in particular. The receivables sold under the agreement totalled PLN 92.4 million (principal, interest and other costs). The positive impact of the transaction on the Bank's result before tax was PLN 18.9 million, including a decrease of PLN 12.9 million in risk costs. As a consequence of the said agreement, the Bank reduced its non-performing loans portfolio by PLN 62.0 million.

In 2015 the Bank made some receivables sale transaction:

- On 23 July 2015, the Bank concluded an agreement on the sale of a portion of corporate receivables from the impaired portfolio. The impact of the transaction on the Bank's gross income was PLN 9 million,
- On 08 July 2015, the Bank concluded the agreement on the sale of the portfolio, mainly of retail receivables recognised as impaired loans or written off the balance sheet in full. The total amount of the receivables sold under the agreement equalled PLN 253.4 million (principal and interest). The positive impact of the transaction on the Bank's risk costs was PLN 21 million. As a consequence of the said agreement, the Bank decreased its non-performing loans portfolio by PLN 139.4 million,
- On 14 May 2015, the Bank sold portfolio of corporate receivables recognized as impaired loans or loans written off the balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 265.6 million (principal and interest). The positive transaction impact on the Bank's risk costs was PLN 7.0 million. As a consequence of the agreement described, the Bank decreased its non-performing loans portfolio by PLN 191.7 million.

Repayment security

In line with the lending policy, the Bank accepts collateral to secure repayment of the loans extended in the form of blocked borrower's account funds and the borrower's assets. More information about collaterals is presented in the part "Risk management at ING Bank Śląski S.A.", in chapter I Credit risk management, in item 8.4. *Repayment security and other forms of credit risk mitigation.*

20.3. Changes in impairment losses concerning customer loan portfolio

	2016	2015
Opening balance	1 437.0	1 613.9
Movements in impairment losses, including:	-108.5	-176.9
recognised during the period	920.2	843.6
reversed during the period	-653.2	-638.7
receivables written off*	-352.9	-401.9
amounts recovered from loans previously written off	3.7	8.9
unwinding interest	9.8	14.3
other	-36.1	-3.1
Closing balance	1 328.5	1 437.0

*) In 2016, the amount of written-off receivables covered PLN -324.7 million worth (PLN -371.3 million in 2015) of redemptions under the sale transactions of receivables discussed in item 20.2.

In 2016, the Bank changed the recognition of the interest and commission-related provisions. Prior to the change, the amount of the interest and commission-related provisions was presented as a component of the impairment loss, while after the change the amount adjusts in minus the gross carrying amount of loans and other receivables. As the change has no impact on the total assets in the statement of financial position and no material impact on the impaired portfolio coverage ratio, the Bank abandoned transforming the data for previous periods.

Movements in impairment losses concerning customer loan portfolio by client segment

2016

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	818.5	103.5	922.0	197.1	317.9	515.0	1 437.0
Movements in impairment losses, including:	-33.3	-86.4	-119.7	-2.1	13.3	11.2	-108.5
recognised and reversed during the period	122.9	11.0	133.9	42.0	91.1	133.1	267.0
receivables written off	-117.0	-116.4	-233.4	-39.7	-79.8	-119.5	-352.9
amounts recovered from loans previously written off	0.1	0.0	0.1	0.6	3.0	3.6	3.7
unwinding interest	0.8	1.7	2.5	1.1	6.2	7.3	9.8
other	-40.1	17.3	-22.8	-6.1	-7.2	-13.3	-36.1
Closing balance	785.2	17.1	802.3	195.0	331.2	526.2	1 328.5

2015

	Corporate banking segment			Retail banking segment			TOTAL
	loans and advances	bonds	TOTAL	mortgages	other loans and advances	TOTAL	
Opening balance	1 042.0	5.6	1 047.6	173.3	393.0	566.3	1 613.9
Movements in impairment losses, including:	-223.5	97.9	-125.6	23.8	-75.1	-51.3	-176.9
recognised and reversed during the period	40.6	94.5	135.1	25.6	44.2	69.8	204.9

receivables written off	-265.3	0.0	-265.3	-4.5	-132.1	-136.6	-401.9
amounts recovered from loans previously written off	2.0	0.0	2.0	0.2	6.7	6.9	8.9
unwinding interest	5.1	1.6	6.7	1.2	6.4	7.6	14.3
other	-5.9	1.8	-4.1	1.3	-0.3	1.0	-3.1
Closing balance	818.5	103.5	922.0	197.1	317.9	515.0	1 437.0

21. Receivables from customers under repo transactions

The Bank has been presenting customer receivables under reverse repo and buy-sell-back transactions in a separate item of the statement of financial position. Such presentation is to ensure separate recognition of highly volatile assets measured at amortised cost from stable assets.

Reverse repo/ buy-sell-back transactions (purchase of financial instruments to be sold back in the future at the same price plus interest determined upfront) are used as a liquidity management tool to deposit cash surplus short-term.

As at 2016 yearend, there were no repo transactions entered into with Bank clients. As at 2015 yearend, the carrying amount of receivables from customers under repo transactions was PLN 1,354.4 million.

22. Investments in controlled entities

The Bank has shares in subsidiaries and associated entities. All the Bank's subsidiaries operate in Poland.

Name of entity	Type of capital link	Bank's percentage share in the business's equity	Carrying amount of shares (at cost)	
			2016	2015
ING ABL Polska S.A.	subsidiary	100.00%	206.1	206.1
ING Usługi dla Biznesu S.A.	subsidiary	100.00%	15.9	15.9
Nowe Usługi S.A.	subsidiary	100.00%	0.2	0.1
ING Securities S.A.*	subsidiary	100.00%	0.0	30.2
Solver Sp. z o.o.	subsidiary	88.93%	17.0	17.0
Total			239.2	269.3

*) In 2016, the Bank subsidiary, ING Securities S.A., was divided. As a result, the brokerage services provided until then via ING Securities S.A. and ING Bank Śląski S.A. were integrated within one entity (ING Bank Śląski S.A.). The services other than brokerage services which had been provided by ING Securities S.A. were transferred to Nowe Usługi S.A., a member of the ING Bank Śląski S.A. Group.

23. Non-financial assets

	2016	2015
Investment properties	0.0	52.9
Property, plant and equipment	571.6	574.1
Intangible assets	419.6	409.1
Total	991.2	1 036.1

23.1. Investment properties

	2016	2015
Opening value	52.9	60.0
Disposals, due to:	-52.9	-7.7
reclassification to own real properties	-52.9	-7.7
Revaluation:	0.0	0.6
Included in profit or loss *	0.0	0.6
Closing value	0.0	52.9

*) in line Net income on the other basic activities, in detailed item Net income on the investment properties

Bank has a real property Chorzowska 50 which since used for own investment purposes was classified partly as *investment property* and partly as *property, plant and equipment*. In Q4 2016, the entire property was classified as *property, plant and equipment*, as its utilisation for own purposes increased considerably.

There are no legal constraints on the investment property nor contractual obligations relating to the purchase of the aforementioned real property.

On account of the investment property ownership, the Bank posted rental income and incurred direct maintenance costs, which were recognised in the income statement under the *Net income on other basic activities* item.

23.2. Property, plant and equipment

	2016	2015
Real estate and leasehold improvements	338.7	305.0
Computer hardware	70.4	60.8
Other property, plant and equipment	150.3	171.9
Construction in progress	12.2	36.4
Total	571.6	574.1

2016

	Real estate and Leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	666.9	238.2	482.7	36.4	1 424.2
Additions, including:	83.2	45.4	31.4	75.0	235.0
purchases	-	-	-	75.0	75.0
investment take-overs	25.5	43.0	30.7	-	99.2
reclassification from assets held for sale	52.9	-	-	-	52.9
reclassification to assets held for sale	4.5	-	0.3	-	4.8
merger with a subsidiary	0.3	2.4	0.4	-	3.1
Disposals, including:	-50.5	-29.8	-103.1	-99.2	-282.6
sale and liquidation	-38.5	-29.8	-100.9	-	-169.2
investment takeovers	-	-	-	-99.2	-99.2
reclassification to assets held for sale	-12.0	-	-1.5	-	-13.5
other	-	-	-0.7	-	-0.7
Revaluation:	-12.3	0.0	0.0	0.0	-12.3
Included in comprehensive income *	0.7	-	-	-	0.7
Included in profit or loss**	-13.0	-	-	-	-13.0
Closing gross value	687.3	253.8	411.0	12.2	1 364.3
Opening accumulated depreciation/amortisation	-361.9	-177.4	-310.8	0.0	-850.1
Movements, including:	13.3	-6.0	50.1	0.0	57.4
amortisation charges	-27.1	-32.9	-45.9	-	-105.9
sale and liquidation	38.1	29.2	95.3	-	162.6
reclassification to assets held for sale	3.3	-	1.2	-	4.5
reclassification from assets held for sale	-0.9	-	-0.1	-	-1.0
merger with a subsidiary	-0.1	-2.3	-0.4	-	-2.8
Closing accumulated depreciation/amortisation	-348.6	-183.4	-260.7	0.0	-792.7
Closing net value	338.7	70.4	150.3	12.2	571.6

*) in detailed item *revaluation reserve from measurement of property, plant and equipment*

***) in line *General and administrative expenses*, in detailed item *Maintenance and rental of buildings*

2015

	Real estate and Leasehold improvements	Computer hardware	Other property plant and equipment	Construction in progress	TOTAL
Opening gross value	686.6	228.0	461.2	37.3	1 413.1
Additions, including:	42.1	34.7	70.0	137.2	284.0
purchases	-	-	-	137.2	137.2
investment take-overs	33.4	34.7	70.0	-	138.1
reclassification from assets held for sale	7.7	-	-	-	7.7
other	1.0	-	-	-	1.0
Disposals, including:	-52.3	-24.5	-48.5	-138.1	-263.4
sale and liquidation	-27.3	-24.5	-42.0	-	-93.8
investment takeovers	-	-	-	-138.1	-138.1
reclassification to assets held for sale	-24.8	-	-4.6	-	-29.4
other	-0.2	-	-1.9	-	-2.1
Revaluation:	-9.5	0.0	0.0	0.0	-9.5
Included in comprehensive income *	-3.7	-	-	-	-3.7
Included in profit or loss**	-5.8	-	-	-	-5.8
Closing gross value	666.9	238.2	482.7	36.4	1 424.2
Opening accumulated depreciation/amortisation	-358.6	-176.2	-296.6	0.0	-831.4
Movements, including:	-3.3	-1.2	-14.2	0.0	-18.7
amortisation charges	-26.8	-25.2	-52.6	-	-104.6
sale and liquidation	17.4	24.0	34.8	-	76.2
reclassification to assets held for sale	7.1	-	3.6	-	10.7
other	-1.0	-	-	-	-1.0
Closing accumulated depreciation/amortisation	-361.9	-177.4	-310.8	0.0	-850.1
Closing net value	305.0	60.8	171.9	36.4	574.1

*) in detailed item *revaluation reserve from measurement of property, plant and equipment*

***) in line *General and administrative expenses*, in detailed item *Maintenance and rental of buildings*

The item Real estate and leasehold improvements comprises, among others, land whose worth considering the fair value measurement as at 31 December 2016 was PLN 4.1 million (PLN 3.9 million as at 31 December 2015).

There are no legal constraints on property, plant and equipment.

Contractual obligations to purchase property, plant and equipment

In 2016, the Bank concluded agreements with counterparties that in the future will effect increase in the value of property, plant and equipment of PLN 21.2 million. These are framework agreements and their value will be estimated under cost overviews developed in performance thereof. The agreements refer to real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets.

In 2015, the Bank concluded framework agreements concerning real properties (buildings and structures), leasehold improvements, non-current assets under construction and other non-current assets of PLN 3.0 million.

23.3. Intangible assets

	2016	2015
Goodwill	223.3	223.3
Software	168.4	154.6
Outlays for intangible assets	26.4	29.2
Other	1.5	2.0
Total	419.6	409.1

2016

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	223.3	787.7	29.2	10.5	1 050.7
Additions, including:	0.0	122.7	111.2	1.3	235.2
purchases	-	-	111.2	-	111.2
investment takeovers	-	112.7	-	1.3	114.0
merger with a subsidiary	-	10.0	0.7	-	10.7
other	-	-	-0.7	-	-0.7
Disposals, including:	0.0	-3.7	-114.0	0.0	-117.7
investment takeovers	-	-	-114.0	-	-114.0
other	-	-3.7	-	-	-3.7
Closing gross value	223.3	906.7	26.4	11.8	1 168.2
Opening accumulated depreciation/amortisation	0.0	-633.1	0.0	-8.5	-641.6
Movements, including:	0.0	-105.2	0.0	-1.8	-107.0
amortisation charges	-	-101.2	-	-1.8	-103.0
merger with a subsidiary	-	-4.0	-	-	-4.0
Closing accumulated depreciation/amortisation	0.0	-738.3	0.0	-10.3	-748.6
Closing net value	223.3	168.4	26.4	1.5	419.6

2015

	Goodwill	Software	Outlays for intangible assets	Other intangible assets	TOTAL
Opening gross value	223.3	670.9	19.1	8.5	921.8
Additions, including:	0.0	117.0	129.1	2.0	248.1
purchases	-	-	129.1	-	129.1
investment takeovers	-	117.0	-	2.0	119.0
Disposals, including:	0.0	-0.2	-119.0	0.0	-119.2
investment takeovers	-	-	-119.0	-	-119.0
sale and liquidation	-	-0.2	-	-	-0.2
Closing gross value	223.3	787.7	29.2	10.5	1 050.7
Opening accumulated depreciation/amortisation	0.0	-554.2	0.0	-6.8	-561.0
Movements, including:	0.0	-78.9	0.0	-1.7	-80.6
amortisation charges	-	-78.9	-	-1.7	-80.6
Closing accumulated depreciation/amortisation	0.0	-633.1	0.0	-8.5	-641.6
Closing net value	223.3	154.6	29.2	2.0	409.1

Contractual obligations to purchase intangible assets

In 2016, the Bank concluded with counterparties the agreements that in the future will effect increase in the value of intangible assets of PLN 1.7 million. Since these are framework agreements, the said amount is not ultimate. As in the previous year, those agreements concern licence purchase and computer software implementation.

As at 2015 yearend, the Bank held the agreements for licence purchase and computer software implementation totalling PLN 8.5 million. These agreements were partly framework arrangements.

Impairment test of cash generating units with respective goodwill

The goodwill impairment test is carried out at least once every year, irrespective of identification of any objective evidence of impairment.

At the Bank, the impairment test is made for the goodwill created as a result of the in-kind contribution of ING Bank NV branch. The smallest identifiable cash-generating units were determined and goodwill totalling PLN 223.3 million was assigned thereto. No other additional elements of intangible value and indefinite useful life were identified that could be assigned to the identified cash-generating units. The test input data for the cover the economic capital, risk-weighted assets and profit before tax per segment.

The test is performed using the model that calculates and compares the current value of free cash flow of the unit to the estimated book value of the unit's funds. The free cash flows of the unit are defined as net profits less capital needed to maintain the solvency ratio at the required level. To discount the cash flows, the discount rate of 8.04% is used that represents the average weighted cost of capital. Other assumptions are: projected income tax rates (26.14%), nominal growth rate after the forecast horizon (3%) and projected 3M WIBOR (1.73%).

The recoverable value was determined based on the estimation of the useable value of the assets component taking into account the estimated forecast of expected future cash flows generated during the continued use. The cash flow forecasts are based on rational assumptions that reflect the most accurate appraisal of the management regarding all the conditions that will appear during the remaining lifetime of the assets. The cash flow forecasts are based on mid-term plan approved by

the Bank and the strategy covering the maximum period of the next three years. The data regarding the subsequent two years come from extrapolation. Extrapolation assumes that the cash flow generating centre will maintain the gross profit to risk weighted assets ratio at the level from the last year of the Bank's forecast and its profits will increase by previously determined growth rate. Legitimacy of the assumptions made is verified periodically, and any divergence between the cash flows estimated based on the future cash flows and the actual ones is analysed as appropriate.

As at 31 December 2016, net present value of cash flows was PLN 3,628.4 million. The test showed the surplus of present value over the net book value of the cash-generating unit, totalling PLN 2,005.5 million thus, no impairment was determined. For the discount rate lower by 1p.p. the surplus of present value of cash flows over the net book value of the cash-generating unit would amount to PLN 2,878.0 million; for the rate higher by 1p.p. the surplus of the present value of cash flows over the net book value of the cash-generating unit would be PLN 1,424,7 million.

24. Assets held for sale

	2016	2015
Opening value	38.4	68.4
Additions, including:	9.0	18.7
reclassification from property, plant and equipment	9.0	18.7
Disposals, including:	-15.6	-44.5
sale	-11.8	-44.5
reclassification to property, plant and equipment	-3.8	0.0
Revaluation:	0.0	-4.2
Included in profit or loss*	0.0	-4.2
Closing value	31.8	38.4

*) in line *General and administrative expenses*, in detailed item *Maintenance and rental of buildings*

As at 31 December 2016, the amount of *Property, plant and equipment held for sale* included:

- 14 real properties (buildings together with land) which were reclassified from Property, plant and equipment. The real properties are available to be immediately sold in their current condition. The Bank intends to sell the abovementioned real properties using services of a specialized company that searches for potential buyers with the use of various, available sources (advertisements, direct mailing, contact with other real property agencies, etc.). The real property should be sold within 12 months from the reclassification date.
- Assets acquired from debt collection including real properties (buildings and land) and means of transport. The Bank intends to sell the said assets by using available ways of selling, inclusive of among others: tender procedure.

25. Income tax assets / liabilities

	2016	2015
Deferred income tax assets, including:	154.2	0.0
Current tax assets	0.0	0.0
Deferred tax assets	154.2	0.0
Income tax liabilities, including:	119.6	153.7
Liabilities of the current income tax	119.6	20.6
Reserve on deferred income tax	0.0	133.1

Movements in temporary differences during the year

2016

	Balance as at 01 Jan 2016	Changes carried through profit or loss	Changes carried through equity	Balance as at 31 Dec 2016
Deferred tax assets				
Interest accrued	-22.1	12.7	-	-9.4
Revaluation	-97.8	-	44.0	-53.8
Impairment losses on credit receivables	-109.1	-3.7	-	-112.8
Other provisions	-45.0	1.3	-	-43.7
Employee benefits	-33.7	-6.1	-	-39.8
Correction due to effective interest rate	-12.3	-	-	-12.3
Other	-15.9	-	-	-15.9
Total	-335.9	4.2	44.0	-287.7
Deferred tax provision				
Interest accrued	2.7	-74.9	-	-72.2
Settlement of the difference between tax and balance sheet depreciation	1.6	7.4	-	9.0
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	5.4	-1.0	-	4.4
Revaluation	444.4	0.4	-260.4	184.4
Other	14.9	-7.0	-	7.9
Total	469.0	-75.1	-260.4	133.5
Deferred tax disclosed in the balance sheet	133.1	-70.9	-216.4	-154.2

2015

	Balance as at 01 Jan 2015	Changes carried through profit or loss	Changes carried through equity	Balance as at 31 Dec 2015
Deferred tax assets				
Interest accrued	-31.3	9.2	0.0	-22.1
Revaluation	-118.6	0.0	20.8	-97.8
Impairment losses on credit receivables	-133.0	23.9	0.0	-109.1
Other provisions	-45.8	0.8	0.0	-45.0
Employee benefits	-34.9	1.2	0.0	-33.7
Correction due to effective interest rate	-12.3	0.0	0.0	-12.3
Other	-15.9	0.0	0.0	-15.9
Total	-391.8	35.1	20.8	-335.9
Deferred tax provision				
Interest accrued	35.4	-32.7	0.0	2.7
Settlement of the difference between tax and balance sheet depreciation	2.3	-0.7	0.0	1.6
Settlement of prepayments/accruals due to depreciation/ amortisation resulting from the investment relief	5.8	-0.4	0.0	5.4
Revaluation	556.9	0.9	-113.4	444.4
Other	9.4	5.5	0.0	14.9
Total	609.8	-27.4	-113.4	469.0
Deferred tax disclosed in the balance sheet	218.0	7.7	-92.6	133.1

Unrecognised deferred tax assets

Unrecognised deferred tax assets relate to the specific provisions whose recovery will not become probable. As at the 2016 yearend, the amount of respective unrecognized temporary differences was PLN1.6 million (expiry date of temporary differences: 2018) compared with PLN 1.5 million as at the end of 2015 (expiry date of temporary differences: 2017).

Deferred tax recognised directly in equity

	2016	2015
Revaluation of available-for-sale financial assets	48.4	117.0
Revaluation of property, plant and equipment	2.7	2.9
Revaluation of cash flow hedging instruments	77.3	225.3
Actuarial gains/losses	1.0	0.6
Total	129.4	345.8

26. Other assets

	2016	2015
Prepayments, including:	82.2	76.2
accrued income	17.5	25.4
commission-related settlements	32.6	23.7
prepaid bank operating expenses	28.6	25.5
expenses to be settled	1.7	1.2
other	1.8	0.4
Other assets, including:	50.6	43.8
settlements of material purchases	4.0	4.0
interbank settlements	9.6	14.4
settlements with customers	8.9	5.8
public and legal settlements	0.5	0.4
other	27.6	19.2
Total	132.8	120.0
Including financial assets	50.6	43.8

27. Liabilities to other banks

	2016	2015
Current accounts	933.4	1 527.1
Interbank deposits	1 050.6	316.5
Other liabilities	35.9	11.8
Total	2 019.9	1 855.4

Liabilities due to other banks by maturity

	2016	2015
up to 1 month	1 998.0	1 845.8
over 1 month and up to 3 months	5.2	9.6
over 3 months and up to 1 year	16.7	0.0
Total	2 019.9	1 855.4

28. Financial liabilities at fair value through profit or loss

	2016	2015
Financial liabilities held for trading, including:	21.6	162.8
repo transactions	21.6	162.8
Book short position in trading securities	453.2	466.6
Total	474.8	629.4

Financial liabilities at fair value through profit or loss by maturity

	2016	2015
up to 1 month	21.6	162.8
over 3 months and up to 1 year	7.8	0.0
over 1 year and up to 5 years	424.6	249.4
over 5 years	20.8	217.2
Total	474.8	629.4

29. Liabilities to customers

	2016	2015
Deposits	94 187.0	86 596.8
Liabilities under cash collateral	311.1	300.1
Other liabilities	670.3	486.8
Total liabilities due to customers, including:	95 168.4	87 383.7
due to entities from the financial sector other than banks	3 655.3	2 667.0
due to entities from the non-financial sector	89 762.2	83 084.8
due to entities from the government and self-government institutions' sector	1 750.9	1 631.9

Liabilities due to entities from the financial sector other than banks

	2016	2015
Deposits, including:	3 466.6	2 610.4
- current accounts	3 250.5	2 284.2
- term deposits	216.1	326.2
Liabilities under cash collateral	4.5	0.5
Other liabilities	184.2	56.1
Total	3 655.3	2 667.0

Liabilities due to entities from the non-financial sector

	2016	2015
Business entities, including:	26 156.6	24 272.4
Deposits, including:	25 431.7	23 615.3
- current accounts	15 564.2	13 129.0
- saving accounts	8 414.4	8 000.5
- term deposit	1 453.1	2 485.8
Liabilities under cash collateral	256.4	244.1
Other liabilities	468.5	413.0
Households, including:	63 605.6	58 812.4
Deposits, including:	63 548.0	58 751.6
- current accounts	11 960.2	9 730.6
- saving accounts	47 726.0	42 989.9
- term deposit	3 861.8	6 031.1
Liabilities under cash collateral	43.7	49.5
Other liabilities	13.9	11.3
Total	89 762.2	83 084.8

Liabilities due to entities from the government and self-government institutions' sector

	2016	2015
Deposits, including:	1 740.7	1 619.5
- current accounts	1 684.3	1 530.6
- term deposit	56.4	88.9
Liabilities under cash collateral	6.5	6.0
Other liabilities	3.7	6.4
Total	1 750.9	1 631.9

Liabilities due to customers by maturity

	2016	2015
up to 1 month	91 932.6	81 970.0
over 1 month and up to 3 months	1 186.3	2 003.8
over 3 months and up to 1 year	1 960.5	3 214.4
over 1 year and up to 5 years	86.4	192.3
over 5 years	2.6	3.2
Total	95 168.4	87 383.7

30. Liabilities to customers under repo transactions

The Bank has been presenting customer receivables under reverse repo and sell-buy-back transactions under a separate item of the statement of financial position. Such presentation is to ensure separate recognition of highly volatile assets measured at amortised cost from stable assets.

Reverse repo/ sell-buy-back transactions (purchase of financial instruments to be sold back in the future at the same price plus interest determined upfront) are used as a liquidity management tool to deposit short-term cash surpluses.

As at 2016 yearend, there were no repo transactions entered into with Bank clients.

At the end of 2015 the following assets were sold under repo transactions made with customers:

2015

	Repurchase date	Market value	Carrying amount
Debt securities	2016-01-04	43.3	43.4
Debt securities	2016-01-05	4.1	4.1
Total		47.4	47.5

31. Liabilities under issue of debt securities

	2016	2015
Liabilities under issue of debt securities, including:	866.4	866.3
- Bonds issued by ING Bank Śląski S.A., including:	866.4	866.3
bonds series INGBS191219	300.3	300.2
bonds series INGBS061217	566.1	566.1
Total	866.4	866.3

Liabilities under issue of debt securities by maturity

	2016	2015
over 3 months to 1 year	566.1	0.0
over 1 year to 5 years	300.3	866.3
Total	866.4	866.3

- bonds series INGBS191219

On 19 December 2016, due to commencing new, fifth coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS191219 of the total nominal value of PLN 300,000,000.00, issued by the Bank on 19 December 2014, under the *Own Debt Securities Issuance Programme of ING Bank Śląski S.A.* The bonds interest for the subsequent coupon period is 2.56% per annum.

The next coupon date fell on 19 December 2016. The remaining rights under the said bonds did not change. On 19 December 2016, due to the opening of a new coupon period and setting of a new WIBOR rate for six-month deposits per that coupon period, the interest on the aforementioned bonds changed again. The bonds interest for the subsequent coupon period is 2.56% per annum. The next coupon date falls on 19 June 2017. The other rights under the said bonds remain unchanged.

- bonds series INGBS061217

On 6 December 2016, due to commencing new, ninth coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS061217 of the total nominal value of PLN 565,000,000.00, issued by the Bank on 6 December 2012, under the *Own Debt Securities Issuance Programme of ING Bank Śląski S.A.*

The bonds interest for the subsequent coupon period was 2.64% per annum. The next coupon date falls on 06 December 2016. The remaining rights under the said bonds did not change. On 6 December 2016, due to the opening of a new coupon period and setting of a new WIBOR rate for six-month deposits per that coupon period, the interest on the aforementioned bonds changed again. The bonds interest in the subsequent coupon period is 2.71% per annum. The next coupon date falls on 06 June 2017. The other rights under the said bonds remain unchanged.

32. Subordinated liabilities

On 23 February 2016, ING Bank Śląski S.A. and ING Bank N.V. with its registered office in Amsterdam entered into a subordinated loan agreement for EUR 150.0 million. The loan was granted for 10 years. The Bank has the right to prepay the loan after the lapse of 5 years, provided the relevant approval of the Polish Financial Supervision Authority (PFSA) is obtained. Interest will be paid quarterly at the 3M EURIBOR rate plus margin. The financial terms and conditions of the loan were set on an arm's length basis. ING Bank N.V. is the parent company, holding 75% of shares and votes at the Bank General Meeting. On 19 April 2016, the Polish Financial Supervision Authority approved loan amount recognition under Tier II capital by the Bank. As at 2016 yearend, the carrying amount of the subordinated loan was PLN 664.9 million.

33. Provisions

	2016	2015
Provision for issues in dispute	4.2	3.3
Provision for off-balance sheet liabilities	26.8	26.1
Provision for retirement benefits	28.0	20.6
Provision for unused holidays	12.2	13.8
Total	71.2	63.8

2016

	Provision for issues in dispute	Provision for offbalance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	TOTAL
Opening balance	3.3	26.1	20.6	13.8	63.8
provisions recognised	2.9	22.9	8.9	0.0	34.7
provisions reversed	-1.5	-22.5	0.0	-2.1	-26.1
provisions utilised	-0.5	0.0	-2.0	0.0	-2.5
exchange rate changes	0.0	0.3	0.0	0.0	0.3
merger with a subsidiary	0.0	0.0	0.5	0.5	1.0
Closing balance	4.2	26.8	28.0	12.2	71.2
Expected provision settlement period:					
up to 1 year	2.0	0.0	3.5	12.2	17.7
over to 1 year	2.2	26.8	24.5	0.0	53.5

2015

	Provision for issues in dispute	Provision for offbalance sheet liabilities	Provision for retirement benefits	Provision for unused holidays	TOTAL
Opening balance	20.4	18.3	19.1	12.5	70.3
provisions recognised	0.7	20.8	0.9	1.3	23.7
provisions reversed	-1.9	-13.5	0.0	0.0	-15.4
provisions utilised*	-15.9	0.0	0.0	0.0	-15.9
exchange rate changes	0.0	0.5	0.0	0.0	0.5
actuarial gains/losses	0.0	0.0	0.6	0.0	0.6
Closing balance	3.3	26.1	20.6	13.8	63.8
Expected provision settlement period:					
up to 1 year	1.5	0.0	1.7	13.8	17.0
over to 1 year	1.8	26.1	18.9	0.0	46.8

*) The amount of utilised provisions for litigations comprises PLN-14.1 million worth of payment of the fine imposed on the Bank under the President of the Office of Competition and Consumer Protection's decision in 2006. The decision of the Office of Competition and Consumer Protection became final and binding in consequence of the judgement of the Appeals Court in Warsaw, made in 2015. In the previous years, the Bank provisioned for the projected costs of the said fine in 100%.

Provision for issues in dispute

The value of the proceedings conducted in 2015 concerning liabilities and debt claims did not exceed 10% of the Bank's equity.

The Bank is of the opinion that none of the proceedings conducted in 2015 before court, competent authority for arbitration proceedings or public administration authority, pose a risk to the Bank's financial liquidity, individually or in total.

Provision for retirement benefits

Provisions for retirement severance pay are estimated on the basis of actuarial valuation with discount rate, which at the end of 2016 stood at 3.6% (3.0% at the 2015 yearend). The actuarial valuation-based provision is recognised and reviewed per annum.

In 2016, the Bank recognised an additional provision under the reduced retirement age of PLN 7.5 million. The changed retirement age was recognised in item *General and administrative expenses – personnel expenses*.

Provision for retirement benefits –revision of the balance-sheet liability

	2016	2015
Opening balance	20.6	19.1
Merger with a subsidiary	0.5	0.0
Costs included in the income statement, including:	9.3	1.6
regular employment costs	1.2	1.2
past service cost	7.5	0.0
costs of interest	0.6	0.4
Actuarial gains / losses	-1.9	0.6
Paid benefits	-0.5	-0.7
Closing balance	28.0	20.6

34. Other liabilities

	2016	2015
Accruals, including:	364.6	322.2
due to employee benefits	244.4	201.4
variable remuneration programme	63.4	48.9
due to commissions	103.9	99.9
other	16.3	20.9
Other liabilities, including:	900.6	465.0
interbank settlements	671.7	225.8
settlements with suppliers	150.4	183.8
public and legal settlements	59.3	38.7
other	19.2	16.7
Total	1 265.2	787.2

35. Share capital

The Bank's share capital is PLN 130,100,000 and is sub-divided into:

- 92,600,000 A-series ordinary bearer's shares with face value of PLN 1.00 each, and
- 37,500,000 B-series ordinary bearer's shares with face value of PLN 1.00 each.

Each ordinary share entitles its holder to dividend and one vote during the general meeting.

36. Revaluation reserve

	2016	2015
Revaluation reserve from measurement of available-for-sale financial assets	206.4	498.5
- including deferred tax	-48.4	-117.0
Revaluation reserve from measurement of property, plant and equipment	11.5	12.4
- including deferred tax	-2.7	-2.9
Revaluation reserve from measurement of cash flow hedging instruments	354.6	960.6
- including deferred tax	-77.3	-225.3
Actuarial gains / losses	4.3	2.6
- including deferred tax	-1.0	-0.6
Total	576.8	1 474.1

2016

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant and equipment	including deferred tax	Revaluation reserve from measurement of cash flow hedging instruments	including deferred tax	Actuarial gains / losses	including deferred tax	TOTAL
Opening balance	498.5	-117.0	12.4	-2.9	960.6	-225.3	2.6	-0.6	1 474.1
gains/losses on remeasurement of available-for-sale financial assets carried through equity	-76.2	17.9	-	-	-	-	-	-	-76.2
reclassified to the financial result as a result of sale of available-for-sale financial assets	-183.7	43.1	-	-	-	-	-	-	-183.7
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	0.0	0.0	-	-	-	-	-	-	0.0
effective part of cash flow hedging instruments revaluation	-32.2	7.6	-	-	-606.0	148.0	-	-	-638.2
remeasurement of property, plant and equipment	-	-	0.6	-0.2	-	-	-	-	0.6
disposal of fixed assets	-	-	-1.5	0.4	-	-	-	-	-1.5
actuarial gains / losses	-	-	-	-	-	-	1.7	-0.4	1.7
Closing balance	206.4	-48.4	11.5	-2.7	354.6	-77.3	4.3	-1.0	576.8

2015

	Revaluation reserve from measurement of available-for-sale financial assets	including deferred tax	Revaluation reserve from measurement of property, plant and equipment	including deferred tax	Revaluation reserve from measurement of cash flow hedging instruments	including deferred tax	Actuarial gains / losses	including deferred tax	TOTAL
Opening balance	560.7	-131.6	26.9	-6.3	1 278.3	-299.8	3.1	-0.7	1 869.0
gains/losses on remeasurement of available-for-sale financial assets carried through equity	13.4	-3.2	-	-	-	-	-	-	13.4
reclassified to the financial result as a result of sale of available-for-sale financial assets	-47.2	11.1	-	-	-	-	-	-	-47.2
amortisation of gains or losses previously recognised in equity concerning securities re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	-28.4	6.7	-	-	-	-	-	-	-28.4
effective part of cash flow hedging instruments revaluation	-	-	-	-	-317.7	74.5	-	-	-317.7
remeasurement of property, plant and equipment	-	-	-3.7	0.8	-	-	-	-	-3.7
disposal of fixed assets	-	-	-10.8	2.6	-	-	-	-	-10.8
actuarial gains / losses	-	-	-	-	-	-	-0.5	0.1	-0.5
Closing balance	498.5	-117.0	12.4	-2.9	960.6	-225.3	2.6	-0.6	1 474.1

37. Retained earnings

	2016	2015
Other supplementary capital	66.1	65.4
Reserve capital	6 089.8	5 466.6
General risk fund	1 160.2	1 110.2
Valuation of share-based payments	50.3	49.2
Retained earnings	61.4	93.3
Result in approval	-4.8	0.0
Result for the current year	1 208.7	1 140.0
Total	8 631.7	7 924.7

2016

	other supplementary capital	reserve capital	general risk fund	Valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	65.4	5 466.6	1 110.2	49.2	1 233.3	0.0	7 924.7
net result for the current period	-	-	-	-	-	1 208.7	1 208.7
profit allocation, including:	0.0	623.2	50.0	0.0	-1 232.6	0.0	-559.4
profit written off to reserve capital	-	623.2	-	-	-623.2	-	0.0
profit written off to general risk fund	-	-	50.0	-	-50.0	-	0.0
dividend	-	-	-	-	-559.4	-	-559.4
Settlement of a subsidiary takeover	-	-	-	-	59.9	-4.8	55.1
disposal of fixed assets	0.7	-	-	-	0.8	-	1.5
Valuation of share-based payments	-	-	-	1.1	-	-	1.1
Closing balance	66.1	6 089.8	1 160.2	50.3	61.4	1 203.9	8 631.7

2015

	other supplemen tary capital	reserve capital	general risk fund	Valuation of share-based payments	retained earnings	result for the current year	TOTAL
Opening balance	65.4	4 969.1	1 060.2	48.0	1 149.7	0.0	7 292.4
net result for the current period	-	-	-	-	-	1 140.0	1 140.0
profit allocation, including:	0.0	497.5	50.0	0.0	-1 067.9	-	-520.4
profit written off to reserve capital	-	497.5	-	-	-497.5	-	0.0
profit written off to general risk fund	-	-	50.0	-	-50.0	-	0.0
dividend	-	-	-	-	-520.4	-	-520.4
disposal of fixed assets	-	-	-	-	11.5	-	11.5
Valuation of share-based payments	-	-	-	1.2	-	-	1.2
Closing balance	65.4	5 466.6	1 110.2	49.2	93.3	1 140.0	7 924.7

Supplementary capital

Supplementary capital is formed from appropriations from profit after tax, surpluses generated under issue of shares above their face value and extra contributions paid up by the shareholders to be used for covering balance-sheet losses. The decision on the use of the supplementary capital is taken at the General Meeting.

Reserve capital

The reserve capital is created irrespective of the supplementary capital from profit after tax write-offs, in the amount passed by the General Meeting. The reserve capital may be allocated to cover special costs and expenses, and also to increase the share capital from the Bank's funds. The decision on activation of the reserve capital is taken by the General Meeting.

General Risk Fund

The General Risk Fund is established in accordance with the Banking Law Act from the post-tax profits and is used for unidentified risk of banking activity. The decision on the use of the Fund is taken by the Management Board.

Dividend payout

Details of the Bank's dividend policy and dividend payout constraints are included in the risk management part of this report, in chapter 5. *Regulatory and Economic Capital Management*

38. FX structure of assets and liabilities

Hereinbelow, the statement of financial position of the Bank and contingent liabilities were presented per base currencies. The following currency rates were applied to calculate values in original currency:

	31.12.2016	31.12.2015
EUR	4.4240	4.2615
USD	4.1793	3.9011
CHF	4.1173	3.9394

2016

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
Assets									
Cash in hand and balances with the Central Bank	1 464.4	282.1	63.8	44.9	10.7	6.6	1.6	27.0	1 825.0
Loans and receivables to other banks	274.5	784.3	177.3	35.5	8.5	1.3	0.3	17.8	1 113.4
Financial assets at fair value through profit or loss	2 826.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2 826.8
Valuation of derivatives	602.9	180.4	40.8	275.9	66.0	55.4	13.5	2.5	1 117.1
Investments	24 625.9	1 052.0	237.8	43.4	10.4	0.0	0.0	0.0	25 721.3
Derivative hedge instruments	1 105.8	232.8	52.6	0.0	0.0	0.0	0.0	0.0	1 338.6
Loans and receivables to customers	62 726.4	12 792.8	2 891.7	904.2	216.4	1 319.9	320.6	294.7	78 038.0
Receivables from customers due to repo transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments in controlled entities	239.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	239.2
Non-financial assets	991.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	991.2
Assets held for sale	31.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	31.8
Tax assets	154.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	154.2
Other assets	119.1	13.5	3.1	0.2	0.0	0.0	0.0	0.0	132.8
Total assets	95 162.2	15 337.9	3 467.1	1 304.1	312.0	1 383.2	336.0	342.0	113 529.4

2016

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
Liabilities									
Liabilities due to other banks	1 254.7	743.1	168.0	16.8	4.0	0.3	0.1	5.0	2 019.9
Financial liabilities at fair value through profit or loss	474.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	474.8
Valuation of derivatives	743.7	127.6	28.8	239.7	57.4	0.1	0.0	4.9	1 116.0
Derivative hedge instruments	628.1	840.0	189.9	0.0	0.0	0.0	0.0	0.0	1 468.1
Liabilities due to customers	82 541.2	9 699.9	2 192.6	2 430.3	581.5	14.6	3.5	482.4	95 168.4
Liabilities due to customers under repo transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities under issue of debt securities	866.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	866.4
Subordinated liabilities	0.0	664.9	150.3	0.0	0.0	0.0	0.0	0.0	664.9
Provisions	63.9	5.6	1.3	1.7	0.4	0.0	0.0	0.0	71.2
Tax liabilities	119.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	119.6
Other liabilities	1 242.7	21.3	4.8	1.2	0.3	0.0	0.0	0.0	1 265.2
Total liabilities	87 935.1	12 102.4	2 735.7	2 689.7	643.6	15.0	3.6	492.3	103 234.5
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Supplementary capital – issuance of shares over nominal value	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Revaluation reserve	511.6	59.7	13.5	5.5	1.3	0.0	0.0	0.0	576.8
Retained earnings	8 631.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8 631.7
Total equity	10 229.7	59.7	13.5	5.5	1.3	0.0	0.0	0.0	10 294.9
Total equity and liabilities	98 164.8	12 162.1	2 749.2	2 695.2	644.9	15.0	3.6	492.3	113 529.4
Contingent liabilities granted	23 342.9	2 258.7	510.6	1 383.0	330.9	0.0	0.0	9.9	26 994.5
Contingent liabilities received	63 348.8	13 564.5	3 066.1	613.4	146.8	40.7	9.9	112.7	77 680.1

2015

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
Assets									
Cash in hand and balances with the Central Bank	3 120.0	352.9	82.8	81.7	20.9	7.8	2.0	27.3	3 589.7
Loans and receivables to other banks	232.2	692.8	162.6	62.7	16.1	1.4	0.4	24.0	1 013.1
Financial assets at fair value through profit or loss	1 127.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 127.1
Valuation of derivatives	1 385.5	326.0	76.5	237.9	61.0	40.0	10.2	1.5	1 990.9
Investments	22 283.1	1 195.6	280.6	0.0	0.0	0.0	0.0	0.0	23 478.7
Derivative hedge instruments	2 277.0	177.8	41.7	0.0	0.0	0.0	0.0	0.0	2 454.8
Loans and receivables to customers	54 948.6	11 857.2	2 782.4	1 284.2	329.2	1 395.2	354.2	148.2	69 633.4
Receivables from customers due to repo transactions	1 354.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 354.4
Investments in controlled entities	269.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	269.3
Non-financial assets	1 036.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1 036.1
Assets held for sale	38.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38.4
Tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	117.8	2.1	0.5	0.1	0.0	0.0	0.0	0.0	120.0
Total assets	88 189.5	14 604.4	3 427.1	1 666.6	427.2	1 444.4	366.8	201.0	106 105.9

2015

STATEMENT OF FINANCIAL POSITION	PLN	EUR		USD		CHF		Other currencies (after translation into PLN)	TOTAL
		after translation into PLN	in currency	after translation into PLN	in currency	after translation into PLN	in currency		
Liabilities									
Liabilities due to other banks	467.7	1 371.1	321.7	12.3	3.2	2.2	0.6	2.1	1 855.4
Financial liabilities at fair value through profit or loss	629.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	629.4
Valuation of derivatives	1 533.8	247.2	58.0	221.0	56.7	0.0	0.0	0.8	2 002.8
Derivative hedge instruments	966.0	864.9	203.0	0.0	0.0	0.0	0.0	0.0	1 830.9
Liabilities due to customers	77 638.8	7 030.0	1 649.7	2 329.7	597.2	10.5	2.7	374.7	87 383.7
Liabilities due to customers under repo transactions	47.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	47.5
Liabilities under issue of debt securities	866.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	866.3
Provisions	57.0	4.0	0.9	2.8	0.7	0.0	0.0	0.0	63.8
Tax liabilities	153.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	153.7
Other liabilities	775.1	11.2	2.6	0.9	0.2	0.0	0.0	0.0	787.2
Total liabilities	83 135.3	9 528.4	2 235.9	2 566.7	658.0	12.7	3.3	377.6	95 620.7
Equity									
Share capital	130.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.1
Supplementary capital – issuance of shares over nominal value	956.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	956.3
Revaluation reserve	1 243.0	231.1	54.2	0.0	0.0	0.0	0.0	0.0	1 474.1
Revaluation of share-based payments	49.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.2
Retained earning	7 875.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7 875.5
Total equity	10 254.1	231.1	54.2	0.0	0.0	0.0	0.0	0.0	10 485.2
Total equity and liabilities	93 389.4	9 759.5	2 290.1	2 566.7	658.0	12.7	3.3	377.6	106 105.9
Contingent liabilities granted	19 696.9	2 077.9	487.6	1 660.4	425.6	0.0	0.0	18.3	23 453.5
Contingent liabilities received	42 693.0	7 338.5	1 722.0	1 303.2	334.1	54.7	13.9	35.4	51 424.8

39. Contingent liabilities

39.1. Contingent liabilities granted

	2016	2015
Undrawn credit facilities	21 135.2	17 367.6
Guarantees	3 195.5	3 461.0
Undrawn overdrafts in current account	1 273.7	1 310.3
Credit card limits	998.3	922.5
Letters of credit	391.8	392.1
Total	26 994.5	23 453.5

The Bank discloses obligations to grant loans. These obligations include approved loans, credit card limits and overdrafts in current accounts.

The Bank issues guarantees and letters of credits to secure fulfilment of obligations of the Bank's customers to third parties. The value of guarantees and letters of credit disclosed above reflects the maximum loss that can be incurred and that would be disclosed as at the balance sheet date should the customers fail to fulfil their obligations in full.

The Bank charges commissions for contingent liabilities granted, which are settled in line with the specific nature of the particular instrument.

Financial guarantee contracts by maturity

	2016	2015
up to 1 month	86.7	113.6
over 1 month and up to 3 months	335.7	382.9
over 3 months and up to 1 year	1 183.8	1 028.9
over 1 year and up to 5 years	1 222.9	1 566.4
over 5 years	366.4	369.2
Total	3 195.5	3 461.0

Information on issue underwriting for other issuers

As at the 2016 yearend, the Bank underwrote to purchase bonds issued by five issuers. The total amount of the obligation (understood as the unused limit of the total nominal underwriting facility) was PLN 960.1 million. As at the 2015 yearend, the Bank underwrote to purchase bonds issued by six issuers, totalling PLN 404.5 million.

39.2. Contingent liabilities received

	2016	2015
Guarantees received	77 479.5	51 373.2
Financing	200.6	51.6
Total	77 680.1	51 424.8

40. Fair value

Fair value, which is best reflected by a market price, if available is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in a direct transaction, other than forced sale or liquidation.

40.1. Financial assets and liabilities at fair value in statement of financial position

Based on the employed methods of determining the fair value, financial assets/liabilities are classified to the following categories:

- Level 1: financial assets/liabilities measured directly on the basis of prices quoted in the active market.
- Level 2: financial assets/liabilities measured using the measurement techniques based on assumptions using data from an active market or market observations.
- Level 3: financial assets/liabilities measured using the measurement techniques commonly used by the market players, the assumptions of which are not based on data from an active market.

The table below presents the balance-sheet figures for financial assets and liabilities per individual measurement levels.

2016

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	23 313.6	2 477.3	48.8	25 839.7
Financial assets held for trading, including:	2 805.2	21.6	0.0	2 826.8
- treasury bonds	2 795.7	0.0	0.0	2 795.7
- European Investment Bank bonds	9.5	0.0	0.0	9.5
- repo transactions	0.0	21.6	0.0	21.6
Valuation of derivatives	0.0	1 117.1	0.0	1 117.1
Financial assets available-for sale, including:	20 508.4	0.0	48.8	20 557.2
- treasury bonds	19 681.3	0.0	0.0	19 681.3
- French government bonds	533.0	0.0	0.0	533.0
- European Investment Bank bonds	294.1	0.0	0.0	294.1
- equity instruments	0.0	0.0	48.8	48.8
Derivative hedge instruments	0.0	1 338.6	0.0	1 338.6
Financial liabilities, including:	453.2	2 605.7	0.0	3 058.9
Financial liabilities held for trading, including:	0.0	21.6	0.0	21.6
- repo transactions	0.0	21.6	0.0	21.6
Book short position in trading securities	453.2	0.0	0.0	453.2
Valuation of derivatives	0.0	1 116.0	0.0	1 116.0
Derivative hedge instruments	0.0	1 468.1	0.0	1 468.1

2015

	Level 1	Level 2	Level 3	TOTAL
Financial assets, including:	20 959.4	5 108.3	183.1	26 250.8
Financial assets held for trading, including:	964.3	162.8	0.0	1 127.1
- treasury bonds	964.3	0.0	0.0	964.3
- repo transactions	0.0	162.8	0.0	162.8
Valuation of derivatives	0.0	1 990.9	0.0	1 990.9
Financial assets available-for sale, including:	19 995.1	499.8	183.1	20 678.0
- treasury bonds	19 476.6	0.0	0.0	19 476.6
- French government bonds	518.5	0.0	0.0	518.5
- NBP bills	0.0	499.8	0.0	499.8
- equity instruments	0.0	0.0	183.1	183.1
Derivative hedge instruments	0.0	2 454.8	0.0	2 454.8
Financial liabilities, including:	466.6	3 996.5	0.0	4 463.1
Financial liabilities held for trading, including:	0.0	162.8	0.0	162.8
- repo transactions	0.0	162.8	0.0	162.8
Book short position in trading securities	466.6	0.0	0.0	466.6
Valuation of derivatives	0.0	2 002.8	0.0	2 002.8
Derivative hedge instruments	0.0	1 830.9	0.0	1 830.9

Movements between valuation levels

In 2016, there were no movements between valuation levels.

Valuation of financial instruments classified to level 2

The Bank classifies derivatives, cash bills of the National Bank of Poland and repo transactions to level 2 of valuation.

Derivatives

The following models are applied for non-linear transactions (FX options), depending on the product type:

- the European vanilla option – the Garman-Kohlhagen model,
- the European digital option – the Garman-Kohlhagen model adjusted by the call spread,
- the touch option – the Murex Skew Model,
- the (American) barrier option – the Murex Skew Model,
- the (European) barrier option – the Garman-Kohlhagen model, and
- Cap/Floor (back-to-back transactions) – the Black model.

The following are the input data for the models:

- the foreign exchange rate – obtained by the parties from the National Bank of Poland's website,
- implied volatilities – obtained from Bloomberg BGN or Bloomberg Synthetic for currency pairs with lower liquidity, and
- profitability curves similar to those for linear derivatives.

Fair value for linear instruments (other derivatives) is determined based on discounted future cash

flows at the transaction level. The fair value determined in that manner is the PV of those cash flows. All input data used for the creation of the revaluation curves are observed on the market, and include: deposit market rates, forward points, FRA rates, IRS rates, OIS rates, FX basis points, basis points among the indexes for variable rates, and FX rates. The data come from the Reuters system and come mainly from brokers. Market data quality is controlled during the daily contribution process for revaluation rates.

Derivative instruments are valued according to the OIS curve concept on the assumption that the transaction valuation is hedged with a deposit at the EONIA rate. PLN transactions settled in central clearing houses (London Clearing House, Central Securities Depository of Poland) are exception, where NPV settlement is in the original currency which is reflected in the applied valuation curves (initial zero curve based on WIBOR and IRS quotations).

Cash bills of the National Bank of Poland

Flat profitability curve set at the level of the NBP reference rate is applied for the valuation of NBP cash bills.

Repo transactions

Fair value for repo transactions is determined based on future payment flows discounted according to the profitability curve for the so-called cash instruments.

Measurement adjustment

The Bank adopted prudent valuation for financial assets and liabilities measured at fair value and based the said measurement on the guidelines provided for in the Technical Standards of the European Banking Authority (i.e.: EBA – Article 105(14) of the Regulation EU 575/2013 published in March 2014). This approach aims at determining the fair value with a high, 90%, confidence level, considering uncertain market pricing and closing cost.

As at 2016 yearend, the prudent valuation adjustment totalled PLN 43.7 million (PLN 38.8 million for 2015), out of which PLN 32.1 million (PLN 32.9 million for 2015) reduced the revaluation reserve of cash flow hedging instruments, whereas PLN 5.7 million (PLN -1.6 million for 2015) encumbered the financial result (including: PLN -6.2 million was recognised under the item Net income on hedge accounting while PLN -0.5 million under the item Net income on financial instruments measured through profit and loss and FX result for 2015 PLN -1.9 million and +0.3 million respectively).

Valuation of financial instruments classified to the level 3

As at 31 December 2015, the Bank classified to the 3rd valuation level, among other instruments, the shares of Visa Europe Limited whose fair value as at 2015 yearend was PLN 177.9 million. In Q2 2016, the shares were divested and the Bank received, inter alia, Visa Inc. preferred shares under the sale transaction settlement. The Bank also classifies to the 3rd valuation level the shares of Visa Inc. whose fair value as at 31 December 2016 was PLN 43.4 million. Visa Inc. shares are not quoted, but in the future they will be gradually converted into A-series shares (which are quoted). The assumptions adopted for pricing shares at fair value were defined having regard to such factors as limited capacity to divest shares in the initial period and share conversion conditions (among others, conversion period and rates).

Shares and participations of several companies for which it is difficult or impossible to determine the fair value due to absence of an active market for those instruments are classified to level 3 of valuation. The Bank is of the opinion that the purchase price less impairment (if any) is the best indicator of their value.

Movements in financial assets/liabilities classified to the level 3 of measurement

	2016	2015
Opening balance	183.1	4.9
Increases, including:	237.7	178.2
Visa Inc. share purchase	36.1	0.0
net income on sale of VISA Europe shares	189.6	0.0
FX differences	6.5	0.0
purchase of shares and interests	0.0	0.3
valuation recognized in the revaluation reserve	5.5	177.9
Disposals, including:	-372.0	0.0
Sale of VISA Europe shares	-194.1	0.0
valuation recognized in the revaluation reserve	-177.9	0.0
Closing balance	48.8	183.1

The fair value measurement changes carried through the income statement are recognised in the item of the income statement *Net income on financial instruments at fair value through profit or loss and FX result*.

Potential changes to the estimates of the measured financial instruments classified to level 3 of the measurement do not have a significant impact on the financial statements of the Bank.

40.2. Non-financial assets at fair value in statement of financial position

2016

	Level 1	Level 2	Level 3	TOTAL
Investment property	-	-	0.0	0.0
Own real property	-	-	338.7	338.7
Property, plant and equipment held for sale	-	-	31.8	31.8

2015

	Level 1	Level 2	Level 3	TOTAL
Investment property	-	-	52.9	52.9
Own real property	-	-	305.0	305.0
Property, plant and equipment held for sale	-	-	38.4	38.4

Changes in non-financial assets classified to level 3 of the measurement is presented in this statement, note no. 23. Non-financial assets.

Fair value measurementInvestment properties

The Bank has a real property Chorzowska 50 which since used for own and investment purposes was classified partly as at 2015 yearend as *investment property* and partly as *property, plant and equipment*. As at 2016 yearend, the entire property was classified as *property, plant and equipment*, as its utilisation for own purposes increased considerably. Valuation of the real property at fair value was described hereinbelow in the section *Own real properties*.

Own real properties

The Bank measures its real properties at fair value. The measurement is carried out by an independent appraiser in line with the applicable principles of real property appraisal.

In 2016, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice (Sokolska) – as at 31 December 2016, the building's value was PLN 106.5 million; the change in the value of this real property for the year 2016 decreased the financial result by PLN 2.2 million (PLN 1.7 million including the deferred tax),
- ING Bank Śląski S.A. Head Office in Katowice (Chorzowska 50) – as at 31 December 2016, the building's value was PLN 126.6 million; the change in the value of this real property for the year 2016 decreased the financial result by PLN 8.1 million (PLN 6.5 million including the deferred tax), and
- 13 other real properties located across Poland; change in the value of the real properties for the year 2016 increased the revaluation reserve by PLN 0.7 million (PLN 0.6 million including the deferred tax) and reduced the financial result for 2016 by PLN 2.8 million (PLN 2.3 million including the deferred tax).

In 2015, the following real properties were appraised:

- ING Bank Śląski S.A. Head Office in Katowice – as at 31 December 2015, the building's value totalled PLN 107.1 million, the change in the value of this real property for the year 2015

increased the financial result by PLN 0.1 million (PLN 0.1 million upon including deferred tax) and

- 24 other real properties located across Poland; change in the value of the real properties for the year 2015 increased the revaluation reserve by PLN 4.5 million (PLN 3.6 million upon including deferred tax) and decreased the 2015 financial result by PLN 8.3 million (PLN 6.7 million upon including deferred tax).

The results of real properties appraisals were presented in the income statement in the item Operating costs (in note no. 8 in detailed item *Maintenance and rental of buildings*).

As at 31 December 2016, PLN 11.5 million, which amount (including deferred tax) refers to the real properties assessed at fair value, was recognised in the revaluation reserve. As at 31 December 2015, the same item amounted to PLN 12.4 million.

The value of the appraised real properties estimated at the historical cost upon including impairment loss and depreciation would amount to PLN 324.5 million as at 31 December 2016 against PLN 289.7 million as at 31 December 2015.

40.3. Financial assets and liabilities not carried at fair value in statement of financial position

2016

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	1 825.0	-	1 825.0	-	1 825.0
Financial assets held to maturity	5 164.1	5 058.0	-	-	5 058.0
Loans and receivables to other banks	1 113.4	-	1 113.2	-	1 113.2
Loans and receivables to customers	78 038.0	-	3 904.2	71 220.1	75 124.3
Investments in controlled entities	239.2	-	-	239.2	239.2
Other assets	50.6	-	-	50.6	50.6
Liabilities					
Liabilities due to other banks	2 019.9	-	2 019.9	-	2 019.9
Liabilities due to customers	95 168.4	-	-	95 167.6	95 167.6
Liabilities under issue of debt securities	866.4	-	864.5	-	864.5
Subordinated liabilities	664.9	-	-	664.9	664.9

2015

	Carrying amount	Fair value			TOTAL
		Level 1	Level 2	Level 3	
Assets					
Cash in hand and balances with the Central Bank	3 589.7	-	3 589.7	-	3 589.7
Financial assets held to maturity	2 800.7	2 758.4	-	-	2 758.4
Loans and receivables to other banks	1 013.1	-	1 013.1	-	1 013.1
Loans and receivables to customers	69 633.4	-	3 854.5	62 813.9	66 668.4
Receivables from customers due to repo transactions	1 354.4	-	1 354.4	-	1 354.4
Investments in controlled entities	269.3	-	-	269.3	269.3
Other assets	43.8	-	-	43.8	43.8
Liabilities					
Liabilities due to other banks	1 855.4	-	1 855.4	-	1 855.4
Liabilities due to customers	87 383.7	-	-	87 383.0	87 383.0
Liabilities due to customers under repo transactions	47.5	-	47.5	-	47.5
Liabilities under issue of debt securities	866.3	-	862.3	-	862.3

The Bank discloses the data on the fair value of loans and deposits recognised respectively in the groups of financial assets and financial liabilities carried at amortised cost considering the effective interest rate.

For calculation purposes, the yield curve is applied with transfer prices calculated on the basis of:

- PLN: BID rates up to 9M (inclusive) being WIBID and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being WIBOR and over 1Y adequate IRS rates.
- EUR: BID rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being EURIBOR and over 1Y adequate IRS rates.
- USD and CHF: BID rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates; OFFER rates up to 9M (inclusive) being LIBOR and over 1Y adequate IRS rates.

BID rates are used to compute fair value of financial liabilities measured at amortized cost; in the case of financial assets measured at amortized cost OFFER rates are applied. All intermediate points on the curves are interpolated linearly.

Credit loss estimations reflect the loan loss provisioning model in place at the Bank.

In certain aspects, the model adopted by the Bank is based on the assumptions that do not confirm the prices of verifiable current market transactions referring to the same instrument – the model does not take into account restructuring-based changes either.

Loans and other receivables

The credit portfolio including securities classified to financial assets measured at amortised cost is divided into sub-portfolios according to the product type, client segment and the currency.

For mortgage portfolio, the prepayment model is applied. Data on the maturity of PLN and CHF mortgage portfolios are used to determine the estimated prepayments according to the model maturity structure. On the basis thereof, the average interest rate weighted with unmaturing principal is calculated separately for PLN and CHF portfolios. A model schedule of principal and interest payments is aggregated on the basis of the model maturity structure and future interest flows measured at average interest rate separately for PLN and CHF.

In the case of those sub-portfolios, the discounting factor is used for each cash flow.

For loans/securities, the discounting factor is assumed as the total of:

- the market rate based on the yield curve as at the balance sheet date, and

- the average margin based on the portfolio of loans granted in the last two-month period.

For that purpose, the following assumptions are adopted:

- use of the loans granted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each loan.

To estimate the fair value of CHF mortgage loans portfolio, an average margin used when extending EUR mortgage loans adjusted with swap instruments quotations for CHF/EUR currencies was applied on account of active market disappearance.

As a result, the fair value is the total of the net present value of cash flows of a single loan/ security (in the case of the mortgage portfolio, the fair value is the total of the net present value of cash flows of the aggregated mortgage portfolio calculated separately for PLN and CHF).

For FX loans, fair value is measured without impact of potential future regulatory changes. In the case of loans without any repayment schedules and loans from the impaired group, it is assumed that the fair value for those loans equals their book value.

Liabilities due to other banks and to customers

The deposit portfolio is divided according to the product type, client segment and the currency. For deposits paid on demand, it is assumed that the fair value equals their book value.

Another phase involves the calculation of future cash flows as the total of principal- and interest cash flows. After that, by applying the discounting factor for each cash flow one receives the fair value of individual deposits. The sum of fair values of individual deposits represents the fair value of the portfolio of deposits reviewed.

For deposits, the discounting factor represents the total of:

- the market rate based on the yield curve as at the balance sheet date, and
- the average margin based on the portfolio of deposits accepted in the last two months.

For that purpose, the following assumptions are adopted:

- use of the deposits accepted in the last two months for calculation,
- division into the abovementioned product groups, and
- the spot at the yield curve on the basis of which the relevant market rate is set is reflected by the revaluation date for each deposit.

Liabilities under issue of securities, Subordinated liabilities

Fair value is calculated with the use of the discounting factor for each cash flow. Accordingly, the discounting factor is the total of:

- the market rate based on the yield curve from the balance sheet date, and
- the estimated margin applied should the securities be bought.

For that purpose, it is assumed that the spot at the yield curve on the basis of which the relevant market rate is set reflects the bond repricing date.

Investments in controlled entities

The Bank holds shares of and interest in subsidiaries. It is difficult or impossible to determine their fair value due to the absence of active market for those instruments. The Bank is of the opinion that the purchase price less impairment (if any) is the best indicator of their value.

Cash in hand and balances with the Central Bank, Other assets

As the financial assets recognised in the above item are of short-term nature, it was assumed that the carrying amount is approximately the same as the fair value.

Financial assets held to maturity

In the case of financial assets classified into the portfolio held to maturity used an approach that for the purpose of determining the fair value measurement parameters were adopted, which would be applied if these assets were included in the portfolio of financial assets available for sale.

Below the comparison of the carrying amount with the fair value of the lending portfolio and deposits by segment is presented:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Net lending portfolio, including:	74 039.4	71 131.5	65 720.8	62 739.4
Corporate banking segment, including:	43 427.7	43 009.9	40 118.6	39 520.8
- loans and advances	40 914.9	40 690.8	37 063.0	36 574.2
- corporate and municipal debt securities	2 512.8	2 319.1	3 055.6	2 946.6
Retail banking segment, including:	30 611.7	28 121.6	25 602.2	23 218.6
- mortgages	23 692.1	21 193.5	20 097.4	17 627.2
- other loans and advances	6 919.6	6 928.1	5 504.8	5 591.4
Deposits, including:	94 187.0	94 186.2	86 596.8	86 596.1
deposits of customers from corporate banking segment	30 576.8	30 576.8	27 951.0	27 951.0
deposits of customers from retail banking segment	63 610.2	63 609.4	58 645.8	58 645.1

41. Offsetting financial instruments

The below disclosure concerns offsetting of financial assets and liabilities subject to enforceable master agreements. ISDA agreements (for derivative transactions) and GMRA (for securities repo and reverse repo transactions) are the main framework agreements concluded by the Bank.

Margins additionally hedge derivative exposures; the Bank deposits and receives them under the Credit Support Annex (CSA), an annex to the ISDA agreement.

IRS/FRA derivatives settled to market

In 2016, the Bank joined a new service provided for in the Regulations of London Clearing House Clearnet (hereinafter: LCH) as to the settlement of IRS and FRA derivatives. Before the change, the net exposure under the LCH transactions was collateralised with the variation margin as per the collateralised to market approach. In line with the terms and conditions of the new service, the transaction exposure is settled daily based on changed market value of specific transactions (i.e. under the settled to market approach). Therefore, no variation margin is placed. The fair value of individual transactions includes the daily exposure settlement flows.

Financial assets**2016**

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	2 665.4	2 455.7	-1 288.8	-705.7	461.2
valuation of derivatives	1 245.5	1 117.1	-657.3	0.0	459.8
derivative hedge instruments	1 419.9	1 338.6	-631.5	0.0	707.1
derivatives collateral	0.0	0.0	0.0	-705.7	-705.7
Reverse sale and repurchase agreements, including:	21.6	21.6	0.0	-20.4	1.2
transactions classified to category of financial assets held for trading	21.6	21.6	0.0	-20.4	1.2
Total					462.4

2015

	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Derivatives, including:	4 445.7	4 445.7	-2 178.9	-1 268.6	998.2
valuation of derivatives	1 990.9	1 990.9	-1 185.4	0.0	805.5
derivative hedge instruments	2 454.8	2 454.8	-993.5	0.0	1 461.3
derivatives collateral	0.0	0.0	0.0	-1 268.6	-1 268.6
Reverse sale and repurchase agreements, including:	1 517.1	1 517.1	0.0	-1 507.2	9.9
transactions classified to category of financial assets held for trading	162.7	162.7	0.0	-158.9	3.8
transactions classified to category of loans and other receivables	1 354.4	1 354.4	0.0	-1 348.3	6.1
Total					1 008.1

Financial liabilities**2016**

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including:	2 793.7	2 584.1	-1 288.8	-1 066.8	228.5
valuation of derivatives	1 221.2	1 116.0	-657.3	0.0	458.7
derivative hedge instruments	1 572.5	1 468.1	-631.5	0.0	836.6
derivatives collateral	0.0	0.0	0.0	-1 066.8	-1 066.8
Sale and repurchase agreements, including:	21.6	21.6	0.0	-21.2	0.4
transactions classified to category of financial liabilities held for trading	21.6	21.6	0.0	-21.2	0.4
Total					228.9

2015

	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral pledged	
Derivatives, including:	3 833.7	3 833.7	-2 178.9	-857.8	797.0
valuation of derivatives	2 002.8	2 002.8	-1 185.4	0.0	817.4
derivative hedge instruments	1 830.9	1 830.9	-993.5	0.0	837.4
derivatives collateral	0.0	0.0	0.0	-857.8	-857.8
Sale and repurchase agreements, including:	210.3	210.3	0.0	-210.2	0.1
transactions classified to category of financial liabilities held for trading	162.8	162.8	0.0	-162.8	0.0
transactions classified to category of liabilities due to other banks and customers	47.5	47.5	0.0	-47.4	0.1
Total					797.1

42. Custody activities

As at 31 December 2016, the Bank maintained 791 (800 as at 31 December 2015) customer accounts used to hold customers securities. The accounts do not meet the definition of assets and are not recognised in the financial statements of the Bank.

As at 2016 yearend, the Bank acted as the custodian bank for 133 mutual funds and subfunds, 2 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (144 funds in total). To compare, as at 2015 yearend, the Bank acted as the custodian bank for 154 mutual funds and subfunds, 2 pension funds, 1 staff fund and measured the net asset value and net asset value per participation unit of 8 insurance capital funds (165 funds in total).

43. Operating leases

43.1. Bank as a lessee

The Bank cooperates with a lease company in respect of car leasing and fleet management. The Bank also incurs costs under the lease of dwelling units, recognised as operating leases. Those agreements do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the option of their prolongation, object purchase or price change.

Lease payments by maturity are disclosed in the table below:

	2016	2015
up to 1 year	116.6	109.2
over 1 year and up to 5 years	268.6	248.6
over 5 years – annual payment amount	35.6	29.8

43.2. Bank as a lessor

The Bank earns income from renting own real estate. Those agreements are treated as operating lease agreements. They do not provide for any contingent fees to be paid by the lessee; no constraints arise from the provisions of the lease agreements. In some cases, the agreements provide for the option of prolongation or price change; however they do not warrant the purchase option.

Lease payments by maturity are disclosed in the table below:

	2016	2015
up to 1 year	0.8	11.8
over 1 year and up to 5 years	4.1	13.7
over 5 years – annual payment amount	2.6	2.2

44. Additional information on cash flow statement

44.1. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash disclosed in the statement of financial position as well as current accounts and overnight deposits in other banks.

	2016	2015
Cash in hand (presented in note 13)	1 056.6	1 102.7
Balances with the Central Bank (presented in note 13)	768.4	2 487.0
Current accounts in other banks (presented in note 14)	933.7	820.7
Total	2 758.7	4 410.4

44.2. Explanation of the classification of the Bank's activities into operating, investment and financial activities in the cash flow statement

Operating activity includes the core activities of the Bank, not classified as investment or financial activities.

Investment activity covers purchase and sale of shares and holdings in controlled entities, intangible assets and property, plant and equipment as well as financial assets held to maturity. Investment activity proceeds also comprise dividends received under shares and holdings in other entities.

Financial activity pertains to long-term financial transactions (over one year) with financial entities. Inflows from financial activity indicate sources of financing of the Bank, including, for example, longterm loans and cash loans from other banks as well as financial entities other than banks and issuance of debt securities. Outflows from financial activity are mainly due to repayment of longterm liabilities (e.g. repayment of received loans including interest, interest on debt securities issued) by the Bank and payment of dividends to the owners and other outflows due to profit distribution.

44.3. Reasons for differences between changes in certain items recognised in statement of financial position and in cash flow statement

The reasons for differences between changes recognised in statement of financial position and in cash flow statement are as follows:

- 1) Changes in the individual assets and liabilities were adjusted with interest disclosed in the position Interest received/ paid.
- 2) Change in the receivables being an equivalent of cash (current accounts and O/N deposits at other banks) was excluded from the position Change in loans and other receivables to other banks; it was disclosed in the position Net increase/decrease in cash and cash equivalents.
- 3) Change in available-for-sale financial assets does not account for the part of financial assets valuation that was carried through equity (revaluation reserve from measurement of availablefor-sale financial assets).
- 4) The change following reclassification to the portfolio of financial assets held to maturity was excluded from the change in available-for-sale financial assets.
(for details of the 2015 reclassification, refer to note 17.3).

2016

	changes		difference including:	1)	2)	3)
	in statement of financial position	in cash flow statement				
Change in loans and other receivables to other banks	-100.3	12.5	112.8	-0.2	113.0	
Change in financial assets at fair value through profit or loss	-1 699.7	-1 700.6	-0.9	-0.9		
Change in available-for-sale financial assets	120.8	-163.3	-284.1	8.0		-292.1
Change in loans and other receivables to customers	-7 050.2	-7 084.8	-34.6	-34.6		
Change in liabilities due to other banks	164.5	164.4	-0.1	-0.1		
Change in liabilities due to customers	7 737.2	7 754.5	17.3	17.3		

2015

	changes		difference including:	1)	2)	3)	4)
	in statement of financial position	in cash flow statement					
Change in loans and other receivables to other banks	808.2	664.1	-144.1	-1.4	-142.7		
Change in financial assets at fair value through profit or loss	729.7	729.6	-0.1	-0.1			
Change in available-for-sale financial assets	2 150.6	286.0	-1 864.6	-89.1		-62.2	-1 713.3
Change in loans and other receivables to customers	-12 929.1	-12 903.8	25.3	25.3			
Change in liabilities due to other banks	-1 788.8	-1 788.5	0.3	0.3			
Change in liabilities due to customers	12 075.5	12 107.1	31.6	31.6			

45. Related entities

ING Bank Śląski S.A. subsidiaries:

- ING ABL Polska S.A. (holds 100% of shares of ING Commercial Finance S.A. and ING Lease (Polska) Sp. z o.o.),
- ING Usługi dla Biznesu S.A.,
- Solver Sp. z o.o.,
- Nowe Usługi S.A.,

ING Bank Śląski S.A. is a subsidiary of ING Bank NV, which as at 30 June 2016 held 75% share in the initial capital of ING Bank Śląski and 75% shares in the total number of votes at the General Meeting of Shareholders.

ING Bank Śląski performs operations with ING Bank NV and its subsidiaries on the inter-bank market. These are both short-term deposits and loans, as well as operations in derivatives. Moreover, ING Lease Sp. z o.o. received long-term funding for leasing contracts in EUR ("matched funding").

In 2016, the Bank entered into the following agreements and annexes with subsidiaries:

Credit Agreement and annexes with ING Commercial Finance Polska S.A.

On 22 April 2016, the Bank signed a new credit agreement with its subsidiary ING Commercial Finance Polska S.A. that will ultimately replace the credit agreement of 02 January 2012 as amended. Conclusion of the new credit agreement did not increase the total exposure of the Bank towards the subsidiary.

On 01 June 2016, two annexes were signed with ING Commercial Finance Polska S.A.: one to the Credit Agreement of 02 January 2012 and one to the Credit Agreement of 22 April 2016; on 05 October 2016, another annex was signed. Consequently, the amount of the loan granted to that company was raised to PLN 3,500.00 million.

Securities Provision Agreement with ING Lease (Polska) Sp. z o.o.

On 21 June 2016, the Bank signed the Securities Provision Agreement with ING Lease (Polska) Sp. z o.o. The Agreement was concluded following the financial pledge of bonds held by the Bank worth PLN 328 million in favour of the European Investment Bank in order to secure liabilities of ING Lease (Polska) Sp. z o.o. under the credit agreement concluded between that company and the European Investment Bank. The Securities Provision Agreement became effective as of 21 June 2016.

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

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

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

As at 31 December 2016, ING Bank Śląski S.A. had no financial exposure to the Supervisory Board Members (in the composition as at the end of 2016) or any entities connected with them in equity or organisational terms.

Transactions between related entities (PLN million)

	ING Bank NV	Other ING Group entities	Subsidiaries	ING Bank NV	Other ING Group entities	Subsidiaries
	as of 31 Dec 2016			as of 31 Dec 2015		
Receivables						
Nostro accounts	16.5	14.3	-	4.7	31.1	-
Loans	-	0.5	6 114.6	3.8	5.9	5 811.6
Positive valuation of derivatives	206.9	127.5	2.9	364.8	235.7	0.9
Other receivables	7.4	2.3	0.6	8.7	2.2	0.1
Liabilities						
Deposits received	135.6	34.5	73.8	274.2	12.6	277.7
Subordinated loan	665.0	-	-	-	-	-
Loro accounts	9.3	57.8	-	54.6	5.8	-
Negative valuation of derivatives	261.9	119.7	-	351.6	166.2	0.2
Other liabilities	61.9	1.0	-	66.4	3.1	0.1
Off-balance-sheet operations						
Off-balance sheet liabilities granted	330.8	94.2	2 189.3	706.7	95.0	1 723.7
Off-balance sheet liabilities received	351.9	97.7	-	745.3	95.1	300.0
FX transactions	11 828.7	125.5	-	8 329.4	35.6	-
Forward transactions	2 747.9	-	-	72.2	-	77.3
IRS	3 824.6	2 816.0	74.9	11 186.7	3 532.9	74.1
Options	7 401.7	293.0	49.8	2 141.3	478.3	48.0
	2016 YTD			2015 YTD		
	the period from 01Jan 2016 to 31 Dec 2016			the period from 01Jan 2015 to 31 Dec 2015		
Income and expenses						
Income, including:	-164.6	-40.3	128.7	45.5	49.0	110.7
interest and commission income/expenses	-13.4	13.3	126.7	11.8	22.0	109.3
income on financial instruments	-151.6	-53.6	1.4	33.1	26.5	0.8
net income on other basic activities	0.4	0.0	0.6	0.6	0.5	0.6
General and administrative expenses	59.7	4.5	8.3	64.8	12.0	-3.9
Outlays for non-current assets						
Outlays for property, plant and equipment	-	0.9	-	-	0.3	-
Outlays for intangible assets	3.8	0.2	2.0	2.6	0.2	14.2

When compared with the financial statements for previous periods, the Bank adapted comparable data to agree with the changed note presentation. Receivables, liabilities, income and expenses are shown as in the financial statements. In the Bank's opinion, change of the presentation method enhanced the quality of financial statements disclosures.

46. Transactions with the management staff and employees

Loans to Bank employees and senior management

Employees of the ING Bank Śląski S.A. are granted loans on the same terms and conditions as the customers of the Bank (no preferential loans for employees exist). Loans for employees disclosed in the amount of loans for customers as at 31 December 2016 amounted to PLN 153.6 million excluding loans from the In-House Social Benefits Fund. As at 31 December 2015, their value amounted to PLN 154.0 million.

Granting of a loan, cash loan, bank guarantee and surety for the Bank's senior management group is regulated in a separate procedure and monitored in accordance with the Ordinance of the President of ING Bank Śląski S.A.

The financial statements for 2016 cover loans, cash loans, bank guarantees and sureties for the Bank's senior management (within the meaning of Article 79 of the Banking Law) amounting to PLN 36.5 million. As at 31 December 2015, their value amounted to PLN 34.4 million.

In-House Social Benefits Fund

The employees may use various forms of social assistance within the framework of In-House Social Benefits Funds. The balance of money advances granted from the In-House Social Benefits Fund as at 31 December 2016 amounts to PLN 6.2 million versus PLN 7.1 million as at 31 December 2015. The balance of the In-House Social Benefits Fund as at 31 December 2016 was PLN 4.7 million versus PLN 3.6 million as at 31 December 2015.

Remuneration of ING Bank Śląski S.A. Management Board Members (PLN million)

As at the end of 2016, the composition of ING Bank Śląski S.A. Management Board was as follows:

- Mr Brunon Bartkiewicz - Bank Management Board President,
- Mr Mirosław Boda - Bank Management Board Vice-President,
- Mr Michał Bolesławski - Bank Management Board Vice-President,
- Ms Joanna Erdman - Bank Management Board Vice-President,
- Mr Marcin Giżycki - Bank Management Board Vice-President,
- Ms Justyna Kesler - Bank Management Board Vice-President,
- Mr Patrick Roesink - Bank Management Board Vice-President.

Emoluments of ING Bank Śląski S.A. Management Board Members (PLN million)

	2016	2015
Short-term employee benefits, including:	11.3	11.3
- remuneration	9.1	8.8
- benefits	2.2	2.5
Total	11.3	11.3

Short-term employee benefits comprise: base remuneration, insurance, mutual fund contributions, medical care and other benefits awarded by the Supervisory Board.

Emoluments of ING Bank Śląski S.A. Management Board Members under the Variable Remuneration Programme (PLN million)

	2016		2015	
	Short-term benefits	Long-term benefits	Short-term benefits	Long-term benefits
Cash payments	2.7	1.8	2.7	1.8
Phantom stock	2.7	1.8	2.7	1.8
Total	5.4	3.6	5.4	3.6

Short-term benefits comprise the benefits under the Variable Remuneration Programme – the non-deferred part.

Long-term benefits comprise the benefits under the Variable Remuneration Programme – the deferred part.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2016 under the Variable Remuneration Programme have not yet been awarded.

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2016 bonus; some part of it will be paid out in 2017, and some part will be deferred for the upcoming years (2018-2021). The maximum obtainable amount of the bonus for 2016, for which a reserve was established, arrives at PLN 9.0 million, including cash pay-out in 2017 of PLN 2.7 million, and for the deferred part of the bonus PLN 6.3 million. The Bank Supervisory Board will take the final decision on the bonus amount.

As at 31 December 2015, the reserve for the cash payment under the bonus for the Bank Management Board Members was PLN 9.0 million. The bonus for 2015 approved in 2016 by the Bank Supervisory Board was PLN 8.3 million.

In the years ended 31 December 2016 and 31 December 2015, there were no post-employment benefits paid out to the Bank Management Board Members.

The Members of the Management Board have signed non-competition agreements after they stop holding their function on the Bank's Management Board. In the event that a Management Board Member is not reappointed for another term of office or is recalled from his/ her function, he or she is entitled to severance pay. Information on severance pay for the Management Board Members is contained in their employment contracts and shall be paid only in case of termination of the employment contract by the Bank due to other reasons than those giving rise to termination without notice.

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

As at the end of 2016, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chair,
- Mr Roland Boekhout - Deputy Chair,
- Mr Aleksander Galos - Secretary,
- Mr Adrianus Johannes Antonius Kas (Ad Kas) - Member,
- Ms Małgorzata Kołakowska - Member,
- Mr Aleksander Kutela - Member,
- Mr Christopher Steane - Member.

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

	2016	2015
Short-term employee benefits, including:	0.6	0.6
- remuneration	0.6	0.6
Total	0.6	0.6

The Management Board Members and other persons employed by ING Bank Śląski S.A. do not receive any remuneration or awards for performing functions in the governing bodies of subsidiaries and affiliated entities of the ING Bank Śląski S.A. Group.

Volume of ING Bank Śląski shares held by Bank Management Board and Supervisory Board Members

As at 31 December 2016, neither Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A., similarly as at the date of rendering the annual consolidated financial statements of the ING Bank Śląski S.A. Group for 2015 into the public domain.

47. Headcount

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

	2016	2015
Individuals	7 669	7 728
FTEs	7 618.7	7 686.3

48. Significant events after the balance sheet date**Rating update by Moody's**

On 23 January 2017, Moody's Investors Service rating agency ("Moody's") in its semi-annual review affirmed the ratings for ING Bank Śląski S.A.:

- 1) LT Rating: A3,
- 2) LT Rating Outlook: Stable
- 3) ST Rating: P-2,
- 4) Baseline Credit Assessment (BCA): baa3,
- 5) Adjusted Baseline Credit Assessment – Adjusted BCA: baa2,
- 6) Counterparty Risk Assessment (CR Assessment) long-term/ short-term: A2/P-1.

The agency stressed in its announcement that the ING Bank Śląski S.A.'s ratings reflect its good financial results, including the quality of its assets above the sector's average and the self-financing nature of the Bank's operations. Moody's rating for ING Bank Śląski S.A. is not a commissioned rating and it is assigned on the basis of available public disclosures.

Risk management in ING Bank Śląski S.A.

All of the Bank's operations involve the analysis, assessment, approval and management of certain types of risk or their combination. The most important types of risk generated by financial assets include: credit risk, liquidity risk and market risk that incorporates FX risk, interest rate risk and pricing risk. Significant risks from the Bank's perspective are also operating risk, model risk and business risk. Presented below is a description of management of all the risk types that are significant for the Bank.

I. Credit risk management

1. Definition of credit risk

Credit Risk is the risk that the Bank will take financial losses as a result of the debtor's failure to fulfil, in whole and when due, his liabilities towards the Bank resulting from the single credit exposure (or from the group of credit exposures), or the risk that the economic value of the credit exposure will deteriorate as a result of downgrading of the debtor's ability to repay indebtedness when due.

The credit losses are a derivative of risk and actions taken by the Bank to reduce them. The Bank influences the level of losses by the level of risk it accepts, the amount of exposure at risk, the security against the risk borne and also – in case of risk materialisation – by direct actions taken to minimise the losses.

Aiming to maintain the balance between the economic value creation and the business activity long-term development, the Bank is striving to apply the profitability determining principles and pricing policy rules that are based on the concept of return on risk-weighted assets (RWA). With this end in view, the Bank uses a tool for setting the risk premium (level of income to be generated on a transaction/client) depending on the client and transaction risk profile (among others: risk rating, collateral quality). The basis for calculating this premium is the relation of income (less the cost of funding) to risk-weighted assets (RWA).

As part of planning and defining its credit strategy the Bank sets the portfolio risk appetite limits (RAS = Risk Appetite Statement), including, in particular, maximum risk levels linked to the credit portfolio EAD, RWA, EL, PD and LGD parameters.

2. Aim and tasks in the credit risk management process

The basic aim of the Bank in the credit risk management process is to support the effective execution of business objectives in the way of proactive risk management and the activities for organic growth, and at the same time:

- maintaining a safe level of solvency and liquidity and the appropriate level of provisions,
- ensuring compliance with the law and the requirements of supervisory institutions.

Banks effects the purpose of the credit risk management in the way of:

- supporting of business initiatives,
- maintenance of credit losses at the assumed level,
- continuous verification, assessment of adequacy and development of applied procedures, models and other elements of the risk management system,
- adjustment of activities to the changing external conditions,
- keeping of the credit losses on the adequate level the capital requirements for credit risk and loan loss provisions,
- assurance of compliance with regulatory requirements.

In view of the above, credit risk management covers the following elements:

- risk identification, assessment and approval,
- risk measurement and monitoring,
- risk mitigation and prevention,
- development of tools supporting risk identification and measurement,
- provisioning policy.

Credit risk management system in place in ING Bank Śląski S.A., including organizational structure, credit process organization, system of internal regulations, used - tools and models – is subject to on-going verification and adjustment in order to ensure implementation of the Bank's strategy, including the risk appetite.

Credit risk management of the portfolio of credit exposures includes the following actions:

- determination of the Credit Risk Management Strategy and the RAS level,
- development, implementation and monitoring of the Credit Policy execution,
- an analysis of the macroeconomic situation and of the situation of specific industries and formulation of guidelines as regards directions of lending,
- development of credit products,
- determination of the competence levels as regards acceptance of exceptions,
- development and implementation of tools supporting risk measurement and assessment,
- an analysis and appraisal of the method of the credit process execution and the scope of functional control,
- training of staff members participating in the credit process,
- creation of and maintaining an incentive system addressed to the employees and aimed at compliance with internal credit standards.

Maximum exposure to credit risk (PLN mio)

	2016	2015
Loans and other receivables to other banks	1 113.4	1 013.1
Financial assets measured at fair value through profit or loss	2 826.8	1 127.1
Valuation of derivatives	1 117.1	1 990.9
Investments (excluding equity instruments)	25 672.5	23 295.6
Derivative hedge instruments	1 338.6	2 454.8
Loans and other receivables to customers	78 038.0	69 633.4
Receivables from customers due to repo transactions	0.0	1 354.4
Receivables presented in other assets	50.6	43.8
Off-balance sheet liabilities granted, including:	26 994.5	23 453.5
- unused credit facilities	21 135.2	17 367.6
- guarantees	3 195.5	3 461.0
- unused overdraft facilities	1 273.7	1 310.3
- credit card limits	998.3	922.5
- letters of credit	391.8	392.1
Total	137 151.5	124 366.6

3. Organisational structure of risk management

For credit risk management, the organisational structure of the Bank includes the following organisational units:

- Bank Supervisory Board,
- Bank Management Board ,
- Credit Policy Committee,
- Credit Risk Policy Department,
- Credit Risk Modelling Department,
- Credit Risk Reporting Department,
- Central Credit Risk Department,
- Regional Credit Risk Department,
- Monitoring and Collection Department,
- Corporate Credit Restructuring Department, and
- Credit Risk Inspection Department.

The mission of these units is to ensure proper balance between the commercial objectives of ING Bank Śląski S.A. and a risk appetite level that is acceptable for the Bank, while taking account of the existing economic environment.

This objective is achieved by taking the following actions:

- developing the principles of credit policy, as well as processes and procedures for acceptance of the permissible credit risk level towards entrepreneurs and business partners; supporting the development of tools for risk identification and measurement; enforcing the implementation of credit decisions; establishing provisions for credit risk, and initiating changes that may be necessary to manage the credit process,
- conducting credit analysis and taking credit decisions,
- raising the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- managing problem loans to minimize the risk and losses for the Bank,
- independent and objective assessment of efficiency, adequacy and effectiveness of actions of the crediting units and units assessing credit risk owing to regular inspections in those units.

Presented below in more detail are the roles and responsibilities of the individual organisational units involved in the credit risk management process at ING Bank Śląski S.A.

3.1. Supervisory Board

The Supervisory Board of ING Bank Śląski S.A.:

- set the key credit risk limits (RAS),
- approve the annual planning documents, including the risk management strategy,
- assesses periodically the realisation by the Management Board of the strategy of the credit risk management in the Bank, among others by regular review of current utilisation of limits included in RAS,
- approves credit risk policies for which approval at the Supervisory Board level is appropriate either due to regulatory requirements or to express the importance of the policy,
- approves individual transactions for big exposures – defined in the Bank's Charter and internal regulations as regards credit approval authorities,

- issues opinions on agreements with the Bank-related entities, as provided for in the provisions on disclosure duties of public companies, regarding disposal of assets of high worth defined in the Bank's Charter and regulations on credit.

3.2. Management Board

The Management Board of ING Bank Śląski S.A.:

- approve the Credit Policy that defines the strategic approach to credit risk and the acceptable risk level,
- appoint and approve the composition of the Credit Policy Committee through which they ensure ongoing oversight of the credit risk management process,
- at least once a year presents to the Supervisory Board the proposals of the full planning document, including the risk strategy and the Risk Appetite Statement containing the key limits regarding to credit risk,
- regularly reviews limits utilization in RAS containing key risk limits as well as takes decisions in case of exceeding of limits,
- periodically but at least once a year informs the Supervisory Board of the Bank on the risk level, profile and material changes in the credit policies,
- actively supports promote implementation and execution of the Credit Policy by actions taken by the individual members of the Management Board in charge of their respective subordinate areas; among the members of the Management Board, there is a Chief Risk Officer who oversees the credit risk management,
- reviews the efficiency of methods used for identifying impaired credit exposures and determining the related write-offs; assess the adequacy and sensitivity of the methods to changes of external conditions,
- review the processes and the methods of monitoring the quality of credit exposures.

3.3. Committees

There are the following standing committees at the Bank whose powers covers the credit risk areas:

- Credit Policy Committee (or CPC) whose key objective is to oversee the implementation and control the adherence of the organisational units of ING Bank Śląski S.A. to the "Credit Policy Rules" and RAS limits,
- Credit Committees:
 - of ING Bank Śląski S.A. (the Bank Credit Committee),
 - the Restructuring Committee,taking the credit decisions within the powers defined in the internal regulations of the Bank.

In the strategic clients area decisions are taken by two authorised individuals. The similar process of taking credit decisions by two Approval Signatories is used to these transactions with the corporate network clients, for which the lower level of credit approval authorities is required than the powers reserved for the Bank Credit Committee or Restructuring Committee.

3.4 Risk Division

There is a separate Risk Division in the organisational structure of the Bank. Two areas were separated within this Division which are in charge of credit risk management:

- corporate clients transactional risk area,
- non-transactional risk area involving credit risk policy, modelling and reporting.

The credit risk policy, modeling and reporting functions in relation to the retail and corporate credit portfolio are merged under the relevant departments in order to strengthen the coherence and obtain the synergy effect in the field of credit risk management of both areas.

The mission of the Risk Division is to maintain an adequate level of risk at the Bank, including the credit risk. The division is headed by Bank Executive Directors, supervising transactional risk area and the non-transactional risk area, respectively. The Bank Executive Directors are subordinated and report to the Chief Risk Officer.

The Bank Executive Director responsible for the transactional risk area oversees the following departments:

- Central Credit Risk Department,
- Regional Credit Risk Department.

The Bank Executive Director responsible for the non-transactional risk area oversees the following departments:

- Credit Risk Policy Department,
- Credit Risk Modelling Department, and
- Credit Risk Reporting Department.

Departments subordinated directly to Chief Risk Officer who is in charge of Risk Division are:

- Corporate Credit Restructuring Department,
- Market Risk Management Department,
- Operational Risk Management Department,
- Risk Management Division Support Team.

The area of competence of all above mentioned departments includes system management of the credit risk in the Bank, excluding Market Risk Management Department and Operational Risk Management Department, which are responsible for the management of other type of risks (respectively for market and operational risk).

Units outside the Risk Division participating in the credit risk management process are the following: Department of Monitoring and Restructuring in Operations Division and the Credit Risk Inspection Department which is subordinated directly to the Management Board.

The tasks of the individual Departments involved in the credit risk management process are as follows:

3.5. Credit Risk Policy Department

- development of effective systems for credit risk management by management of the credit policy principles and maintenance of description of processes and procedures in order to ensure a proper balance between the current commercial objectives of ING Bank Śląski S.A. and the adequate awareness level/ risk appetite level, while taking into account the market environment in Poland,
- ensuring effective functioning of the risk and process management area, in line with the current conditions, by management, participation in projects, delivering opinions to the proposed modifications, modelling the organisation, review of processes, reacting to the needs of the units within the Corporate Sales Network Division, Strategic Clients Division, Retail Banking Division and Operations Division, as well as by implementation of the requests of the Bank Management Board and ING Group Head Office,
- raising credit risk awareness among the employees of the Bank and opportunities and methods of its mitigation,
- support for the credit risk and counterparty risk management units in the interpretation of the regulatory regulations and recommendations.

3.6. Credit Risk Modelling Department

- creation, maintenance and development of models for measuring and controlling of credit risk, including in particular the regulatory models, in all business segments of the Bank,
- development and update of credit capacity calculation algorithms,
- initiation of the preparation and update of the statistical acceptance models,
- support for the credit risk and counterparty risk management process by development of tools for risk identification and measurement, issuance of the recommendations concerning provisions for credit risk,
- regular verification of the compliance of internal methodologies and procedures with regulatory requirements and ING Group standards as regards the construction of models and estimation of the capital requirements.

3.7. Credit Risk Reporting Department

- development of the credit risk reporting principles,
- execution of tasks in the field of measurement and reporting of credit risk, including the collective method of impairment provisions calculation and capital requirements for credit risk calculation,
- development, maintenance and support of tools and support systems for credit risk management,
- implementation of credit risk models, including models for making impairment provisions and models for estimating capital requirements for credit risk,
- planning and forecasting the level of impairment provisions under the collective method and capital requirements for credit risk,
- carrying out assessments of the credit risk monitoring process on the basis of the reports.

3.8. Central Credit Risk Department / Regional Credit Risk Department

- approval of rating and approval of credit risk connected with transactions for corporate clients,
- management of the credit risk related to client funding by providing advice in respect of the risk in the process of taking credit decisions, executing credit decisions and recommending required changes in the credit process management,
- provision of important data for the credit policy principles as well as processes and procedures in order to approve the acceptable client risk level,
- raising the level of credit- and counterparty risk awareness among the Bank's employees in order to mitigate those risks,
- recommending and providing opinions to the provisioning level and changes in the management of credit processes, defining products and credit policy in order to mitigate the risk.

3.9. Monitoring and Collection Department

- management of exposures to retail customers and small businesses as regards monitoring of the timeliness of repayments, verification of collaterals and conducting dunning actions against the debtor in order to minimize the credit risk and losses of the Bank,
- restructuring and negotiation of the terms of repayment and collection of credit debts,
- verification of collateral value, takeover and sales of credit collaterals,

- cooperation with external debt collection companies and law firms in charge of the debt collection process.

3.10. Corporate Credit Restructuring Department

- management of (corporate) problem loans oriented towards minimising the risk and Bank's losses resulting from the irregular portfolio, i.e.:
 - comprehensive restructuring and collection of problem loans,
 - risk rating setting and identification of credit exposure's impairment for irregular customers,
 - calculation of impairment provisions for credit exposures and provisions for off-balance sheet credit liabilities with discounted cash flow method for clients with the biggest impaired exposure and their planning and forecasting,
 - identification of forbearance regarding credit process for irregular portfolio,
- participation in the Watch List portfolio reviews,
- development of principles related to problem loans management in order to mitigate risks and reduce losses,
- analysis and reporting as regards corporate problem loans portfolio,
- co-operation with the auditor, banking supervision authorities, inter-bank organizations and appropriate organisational units of ING Group in respect of problem corporate loans management, loan loss provisioning and provisions for off-balance sheet liabilities,
- participation in projects connected with credit risk management, especially referring to problem loans management, loan loss provisioning and provisions for off-balance sheet liabilities, including issuing opinions and recommendations for changes in the said areas.

3.11. Credit Risk Inspection Department

- verification on a regular basis of the credit documentation and assessment of the functioning of the credit process at the Group of ING Bank Śląski S.A. at the front-office and back-office levels (the ability to recommend changes to the existing policies and processes),
- analysis of the selected loans and adequacy of risk management during regular inspections at the Bank organisational units,
- identification of potentially problematic areas and responding to the signals coming from the organisation,
- control of the adherence to the transaction approval criteria, the process of loan disbursement; behaviour patterns/statistics regarding repayments, statistics of overdue repayments, adequacy of monitoring of exposures and risk categories and correctness of the credit data entered in the IT system and debt collection.

4. Determining the decision approval mode in the credit process

Decision-making competencies in relation to the sale and acceptance of credit risk of individual transactions which are carried out by the business units and units of transactional credit risk are separated (including functional separation) from the activities in the area non-transactional credit risk, including credit policy shaping and from the processes of development and validation of credit risk management supporting tools which are executed by the risk policy, modeling and reporting area. Credit risk is accepted by authorised persons.

The credit decisions are taken based on a comprehensive analysis of the risks of the transaction – in the adequate credit path, depending on the complexity and amount of the transaction. In case of the paths with a higher level of automation, credit decisions are taken based on clearly defined criteria, including behavioral criteria, and automatically calculated credit limit using the algorithm approved by the Credit Policy Committee. Acceptance of all transactions is done in accordance with clearly defined rules of credit approval authority. Personal responsibility of individual decisions makers for credit decisions taken is the rule.

The credit decisions in the credit process for regular portfolio are taken by two Approval Signatories in the Signatory Approval Process (SAP), taking into account the credit decision-making process as set forth in the Credit Manual. Some exceptions apply to some corporate clients wherefore:

- decisions are taken by the Bank Credit Committee (BCC) – as regards the largest credit exposures provided for the Credit Manual,
- decisions are taken by one Approval Signatory – as regards “Fast Track” credit process.

The credit decisions in the credit process for irregular portfolio are taken by two Approval Signatories in the Signatory Approval Process (SAP) or by the Restructuring Committee (if the issue exceeds the SAP approval authorities).

The delegated authority level is co-related with the level of credit risk arising from the client risk and the transaction risk. As the credit risk rises, the decisions are taken by more experienced individuals who have the ability of broad and thorough risk identification.

Decision-taking level for credit decisions concerning regular credit exposures is determined based on the client's risk rating and the following elements:

- the total exposure of ING Group towards the debtor and the members of the group (within Article 3 section 1 item 44 of the Accounting Act of 29 September 1994) of which the debtor is also the member, as well as entities related to the debtor by personal ties by spouses (only when the Bank funds an entrepreneur who is a private individual),
- the subject matter of the credit decision in question.

In the retail segment the decision may be taken on a one-person or two-person basis. For specific situations decisions are taken automatically by IT system. In the case of two-person basis mode, for positive decision, unanimous approval of both decision-makers is always required. The scope of decisions taken on a one-person or two-person basis and rules of establishing, giving and reviewing of authorities to approve credit decision are specified in the General Terms and Conditions of Lending: “Rules of Taking Credit Decisions”.

An appropriate risk acceptance level depends on the overall exposure of the Bank to the client. Each new exposure to a private individual involved in business operations in another form than a separate legal entity shall be approved at a level corresponding to the Bank's overall exposure to the client as a private individual and in relation to his/her business operations.

5. Structure of credit exposure portfolio

Credit exposure portfolio*	exposure in PLN million			
	2016		2015	
	on-balance	off-balance	on-balance	off-balance
Gross credit exposure to corporate clients, including:	44 230.0	22 138.4	41 040.6	19 415.4
exposures with no impairment triggers	42 776.7	22 005.4	39 566.0	19 298.1
exposures with impairment triggers but with no actual impairment declared**	294.3	73.1	114.9	35.2
impaired exposures, including:	1 159.0	59.9	1 359.7	82.1
- exposures measured individually	884.7	47.6	1 145.5	74.1
- exposures measured as per portfolio	274.3	12.3	214.2	8.0
Gross credit exposure to retail clients, including:	31 137.9	3 455.8	26 117.2	3 009.1
exposures with no impairment triggers	30 606.9	3 454.5	25 579.1	3 007.4
impaired exposures	531.0	1.3	538.1	1.7
Total credit exposure	75 367.9	25 594.2	67 157.8	22 424.5

*) The on-balance exposures taken for analysis include the outstanding principal, the interest accrued and adjustments under the effective interest rate method.

***) Among exposures wherefor impairment triggers occurred but no impairment was recognized there were exposures amounted to PLN 166.9 million (114.9 million as at 31 December 2015) where the value of collateral (mortgages on real estate, surety, pledge or assignment debts) was included in the expected future discounted cash flows, while the exposure with default on principal or interest accounted for PLN 29.2 million compared with PLN 15.2 million as at 31 December 2015.

Credit exposure to corporate clients by risk rating

2016

risk rating	Credit exposure to corporate clients in PLN million								Credit exposure to retail clients in PLN million								
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including:- measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL		
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	
1	-	-	-	-	-	-	-	-	-	0.0	0.0	516.2	5.9	-	-	516.2	5.9
2	-	-	-	-	-	-	-	-	-	0.0	0.0	1 172.1	10.9	-	-	1 172.1	10.9
4	-	35.1	-	-	-	-	-	-	-	0.0	35.1	4 739.1	501.3	-	-	4 739.1	501.3
5	272.7	0.1	-	-	-	-	-	-	-	272.7	0.1	2 499.5	136.3	-	-	2 499.5	136.3
6	805.9	271.9	-	-	-	-	-	-	-	805.9	271.9	8 234.5	933.8	-	-	8 234.5	933.8
7	1 538.1	944.6	-	-	-	-	-	-	-	1 538.1	944.6	85.8	183.8	-	-	85.8	183.8
8	5 117.4	4 209.4	-	-	-	-	-	-	-	5 117.4	4 209.4	30.9	117.1	-	-	30.9	117.1
9	6 888.3	3 297.9	-	-	-	-	-	-	-	6 888.3	3 297.9	5 298.6	737.7	-	-	5 298.6	737.7
10	5 155.5	3 326.7	-	-	-	-	-	-	-	5 155.5	3 326.7	592.8	262.9	-	-	592.8	262.9
11	4 351.5	1 297.1	-	-	-	-	-	-	-	4 351.5	1 297.1	2 246.3	277.1	-	-	2 246.3	277.1
12	6 196.5	3 170.7	1.1	-	-	-	-	-	-	6 197.6	3 170.7	738.5	85.7	-	-	738.5	85.7
13	5 054.9	2 840.5	29.5	22.5	-	-	-	-	-	5 084.4	2 863.0	982.3	67.2	-	-	982.3	67.2
14	3 359.5	1 440.1	0.1	-	-	-	-	-	-	3 359.6	1 440.1	1 511.9	93.8	-	-	1 511.9	93.8
15	3 045.0	863.6	51.3	6.5	-	-	-	-	-	3 096.3	870.1	912.8	23.1	-	-	912.8	23.1
16	789.6	226.6	26.4	1.3	-	-	-	-	-	816.0	227.9	342.3	12.2	-	-	342.3	12.2
17	170.9	48.1	9.0	-	-	-	-	-	-	179.9	48.1	203.9	2.5	-	-	203.9	2.5
18	11.8	30.4	68.6	28.2	-	-	-	-	-	80.4	58.6	115.0	2.3	-	-	115.0	2.3
19	19.1	2.6	108.3	14.6	-	-	-	-	-	127.4	17.2	384.4	0.9	-	-	384.4	0.9
20	-	-	-	-	489.9	44.9	93.4	10.5	-	583.3	55.4	-	-	411.7	1.2	411.7	1.2
21	-	-	-	-	-	-	5.1	-	-	5.1	0.0	-	-	-	-	0.0	0.0
22	-	-	-	-	394.8	2.7	175.8	1.8	-	570.6	4.5	-	-	119.3	0.1	119.3	0.1
Total	42 776.7	22 005.4	294.3	73.1	884.7	47.6	274.3	12.3	44 230.0	22 138.4	30 606.9	3 454.5	531.0	1.3	31 137.9	3 455.8	

2015

risk rating	Credit exposure to corporate clients in PLN million								Credit exposure to retail clients in PLN million								
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including:- measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL		
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	
2	-	-	-	-	-	-	-	-	-	0.0	0.0	1 199.8	35.3	-	-	1 199.8	35.3
4	0.0	35.1	-	-	-	-	-	-	-	0.0	35.1	5 105.8	528.2	-	-	5 105.8	528.2
5	133.1	0.1	-	-	-	-	-	-	-	133.1	0.1	2 353.6	128.2	-	-	2 353.6	128.2
6	227.8	622.6	-	-	-	-	-	-	-	227.8	622.6	6 710.3	743.9	-	-	6 710.3	743.9
7	5 549.9	1 270.6	-	-	-	-	-	-	-	5 549.9	1 270.6	-	-	-	-	0.0	0.0
8	2 301.7	2 638.0	-	-	-	-	-	-	-	2 301.7	2 638.0	29.4	89.9	-	-	29.4	89.9
9	6 853.7	3 166.9	-	-	-	-	-	-	-	6 853.7	3 166.9	3 563.9	263.1	-	-	3 563.9	263.1
10	4 539.4	2 441.4	-	-	-	-	-	-	-	4 539.4	2 441.4	193.2	100.1	-	-	193.2	100.1
11	3 314.6	1 471.5	-	-	-	-	-	-	-	3 314.6	1 471.5	1 501.4	197.3	-	-	1 501.4	197.3
12	4 904.8	2 786.9	-	-	-	-	-	-	-	4 904.8	2 786.9	427.0	44.4	-	-	427.0	44.4
13	5 126.3	2 313.5	-	-	-	-	-	-	-	5 126.3	2 313.5	638.1	47.9	-	-	638.1	47.9
14	3 109.2	1 212.3	-	-	-	-	-	-	-	3 109.2	1 212.3	2 784.1	799.6	-	-	2 784.1	799.6
15	2 510.0	1 047.5	-	-	-	-	-	-	-	2 510.0	1 047.5	589.7	19.5	-	-	589.7	19.5
16	749.5	193.6	-	-	-	-	-	-	-	749.5	193.6	172.8	4.0	-	-	172.8	4.0
17	139.8	77.7	-	-	-	-	-	-	-	139.8	77.7	123.3	4.8	-	-	123.3	4.8
18	64.7	17.7	48.7	12.0	-	-	-	-	-	113.4	29.7	49.1	0.9	-	-	49.1	0.9
19	41.5	2.7	66.2	23.2	-	-	-	-	-	107.7	25.9	137.6	0.3	-	-	137.6	0.3
20	-	-	-	-	748.7	58.2	54.8	3.5	-	803.5	61.7	-	-	330.4	1.5	330.4	1.5
21	-	-	-	-	3.2	-	6.1	0.1	-	9.3	0.1	-	-	-	-	0.0	0.0
22	-	-	-	-	393.6	15.9	153.3	4.4	-	546.9	20.3	-	-	207.7	0.2	207.7	0.2
Total	39 566.0	19 298.1	114.9	35.2	1 145.5	74.1	214.2	8.0	41 040.6	19 415.4	25 579.1	3 007.4	538.1	1.7	26 117.2	3 009.1	

Credit exposures to corporate clients by days past due

2016

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including:- measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	42 394.9	22 000.0	265.1	73.1	404.0	47.6	50.0	12.2	43 114.0	22 132.9	29 913.2	3 421.0	88.8	1.1	30 002.0	3 422.1
1-30	375.9	1.3	2.8	-	-	-	3.7	0.1	382.4	1.4	557.5	32.2	33.7	0.1	591.2	32.3
31-60	4.6	-	18.0	-	-	-	14.4	-	37.0	0.0	100.8	0.8	21.1	-	121.9	0.8
61-90	1.0	-	7.6	-	27.2	-	6.7	-	42.5	0.0	30.9	0.4	15.7	-	46.6	0.4
91-180	0.2	0.2	0.8	-	20.5	-	19.9	-	41.4	0.2	2.1	0.1	54.5	0.1	56.6	0.2
181-365	-	-	-	-	72.1	-	30.2	-	102.3	0.0	0.8	-	73.0	-	73.8	0.0
>365	0.1	3.9	-	-	360.9	-	149.4	-	510.4	3.9	1.6	-	244.2	-	245.8	0.0
Total	42 776.7	22 005.4	294.3	73.1	884.7	47.6	274.3	12.3	44 230.0	22 138.4	30 606.9	3 454.5	531.0	1.3	31 137.9	3 455.8

2015

number of days past due	Credit exposure to corporate clients in PLN million										Credit exposure to retail clients in PLN million					
	exposures with no impairment triggers		exposures with impairment triggers but with no actual impairment declared		impaired exposures, including:- measured individually		impaired exposures, including:- measured as per portfolio		TOTAL		exposures with no impairment triggers		impaired exposures - measured as per portfolio		TOTAL	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
0	39 522.4	19 292.1	99.7	35.2	524.6	74.1	38.7	7.9	40 185.4	19 409.3	24 979.8	2 985.2	78.2	1.5	25 058.0	2 986.7
1-30	35.6	2.1	3.1	0.0	16.1	0.0	3.8	0.0	58.6	2.1	463.8	20.1	24.5	0.1	488.3	20.2
31-60	5.5	0.0	10.5	0.0	2.9	0.0	8.0	0.0	26.9	0.0	103.1	1.7	14.7	0.0	117.8	1.7
61-90	1.7	0.0	1.2	0.0	0.0	0.0	5.0	0.0	7.9	0.0	27.6	0.2	10.6	0.0	38.2	0.2
91-180	0.5	0.0	0.4	0.0	10.9	0.0	15.2	0.0	27.0	0.0	2.4	0.2	42.9	0.1	45.3	0.3
181-365	0.1	0.0	0.0	0.0	53.8	0.0	36.9	0.0	90.8	0.0	1.5	0.0	62.0	0.0	63.5	0.0
>365	0.2	3.9	0.0	0.0	537.2	0.0	106.6	0.1	644.0	4.0	0.9	0.0	305.2	0.0	306.1	0.0
Total	39 566.0	19 298.1	114.9	35.2	1 145.5	74.1	214.2	8.0	41 040.6	19 415.4	25 579.1	3 007.4	538.1	1.7	26 117.2	3 009.1

6. Forborne exposures and non-performing exposures

The Bank has established rules on the identification and reporting of transactions with the granted concession in repayment (so called: forborne exposures) and non-performing exposures) based on the Implementing Regulation of Commission (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation of Commission (EU) no 680/2014 establishing implementing technical standards on supervisory reporting of institutions with respect to instructions, patterns and definitions.

According to this definition, forbearance has occurred if the following conditions are simultaneously met:

- the client has just recognized or expected in the short term difficulties in meeting their financial commitments,
- due to these difficulties, the Bank decided to grant the concession to the customer to enable it to fulfill its contractual obligations or non-admission to the difficulties in repayment,
- concession is not granted due to commercial reasons and it has been granted under the more favorable conditions than the standard market conditions and this would not be granted if the customer is not experiencing financial difficulties, and the revised agreement provides terms more favorable than market conditions, i.e. such they could get in the bank at this time by other debtors with a similar risk profile,
- client accepted the concession, i.e. a change in the existing conditions of the contract has been done or a new agreement was concluded for refinancing or the embedded forbearance clause has been entered into force or the Bank failed to take any action in case of a material breach by the customer of the key financial covenants.

Forbearance is recognized in the above mentioned situations, irrespective from receiving any compensation for the convenience from the client or irrespective from legal collateral taken by the Bank to the given credit exposure.

In non-performing assets category Bank includes exposures which meet at least one of the following criteria:

- important commitment is overdue more than 90 days,
- in the Bank's opinion, there is little likelihood that the customer has fulfilled in full its credit obligations without recourse by the Bank of actions such as realizing collateral (regardless of the value of the overdue amount and the number of days past due),
- impaired of the credit exposure is recognized.

Exposures are also classified in the group of non-performing exposure if a situation appears that forborne exposure is overdue more than 30 calendar days or if a further concession recognized as forbearance is granted on such exposure. However it affects only cases in which the forborne exposure in the period from granting forborne status has been classified to non-performing portfolio and then was reclassified to the performing portfolio.

In the retail segment, all exposures included in the restructuring process are deemed exposures with concession in repayment (i.e. forborne exposures). For exposures subject to the non-performing restructuring the impairment is recognized.

Lending portfolio division into performing and non-performing exposure with forbearance exposures indication

2016	performing exposure	including forbearance				non-performing exposure	including forbearance				
			Modification of terms and conditions	Refinancing	Under probation*			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Gross lending portfolio, including:	73 685.3	321.4	321.4	0.0	321.4	1 682.6	599.9	599.1	0.8	597.6	597.6
Corporate banking including:	43 085.3	197.5	197.5	0.0	197.5	1 144.7	483.9	483.1	0.8	483.2	483.2
- loans and advances	40 555.4	197.5	197.5	0.0	197.5	1 144.7	483.9	483.1	0.8	483.2	483.2
- corporate and municipal debt securities	2 529.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking, including:	30 600.0	123.9	123.9	0.0	123.9	537.9	116.0	116.0	0.0	114.4	114.4
- mortgages	23 693.6	75.9	75.9	0.0	75.9	193.5	53.8	53.8	0.0	52.7	52.7
- other loans and advances	6 906.4	48.0	48.0	0.0	48.0	344.4	62.2	62.2	0.0	61.7	61.7
Impairment losses, including:	-221.0	-8.8	-8.8	0.0	-8.8	-1 107.5	-294.3	-293.5	-0.8	-294.1	-294.1
Corporate banking, including:	-80.0	-6.2	-6.2	0.0	-6.2	-722.3	-226.1	-225.3	-0.8	-226.0	-226.0
- loans and advances	-62.9	-6.2	-6.2	0.0	-6.2	-722.3	-226.1	-225.3	-0.8	-226.0	-226.0
- corporate and municipal debt securities	-17.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking, including:	-141.0	-2.6	-2.6	0.0	-2.6	-385.2	-68.2	-68.2	0.0	-68.1	-68.1
- mortgages	-64.6	-1.2	-1.2	0.0	-1.2	-130.4	-32.1	-32.1	0.0	-32.0	-32.0
- other loans and advances	-76.4	-1.4	-1.4	0.0	-1.4	-254.8	-36.1	-36.1	0.0	-36.1	-36.1
Netlending portfolio, including:	73 464.3	312.6	312.6	0.0	312.6	575.1	305.6	305.6	0.0	303.5	303.5
Corporate banking, including:	43 005.3	191.3	191.3	0.0	191.3	422.4	257.8	257.8	0.0	257.2	257.2
- loans and advances	40 492.5	191.3	191.3	0.0	191.3	422.4	257.8	257.8	0.0	257.2	257.2
- corporate and municipal debt securities	2 512.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail banking, including:	30 459.0	121.3	121.3	0.0	121.3	152.7	47.8	47.8	0.0	46.3	46.3
- mortgages	23 629.0	74.7	74.7	0.0	74.7	63.1	21.7	21.7	0.0	20.7	20.7
- other loans and advances	6 830.0	46.6	46.6	0.0	46.6	89.6	26.1	26.1	0.0	25.6	25.6

*) The Bank classifies to "Under probation" class the exposures for which forbearance measures were granted in the past, and which are currently in a curing period

2015	performing exposure	including forbearance				non-performing exposure	including forbearance				
			Modification of terms and conditions	Refinancing	Under probation*			Modification of terms and conditions	Refinancing	Defaulted	Impaired
Gross lending portfolio, including:	65 251.4	135.7	134.6	1.1	6.0	1 906.4	820.8	819.8	1.0	510.6	819.5
Corporate banking including:	39 679.0	129.7	128.6	1.1	0.0	1 361.6	745.4	744.4	1.0	436.5	745.4
- loans and advances	36 828.8	129.7	128.6	1.1	0.0	1 052.7	436.5	435.5	1.0	436.5	436.5
- corporate and municipal debt securities	2 850.2	0.0	0.0	0.0	0.0	308.9	308.9	308.9	0.0	0.0	308.9
Retail banking, including:	25 572.4	6.0	6.0	0.0	6.0	544.8	75.4	75.4	0.0	74.1	74.1
- mortgages	20 072.1	4.9	4.9	0.0	4.9	222.4	40.1	40.1	0.0	38.8	38.8
- other loans and advances	5 500.3	1.1	1.1	0.0	1.1	322.4	35.3	35.3	0.0	35.3	35.3
Impairment losses, including:	-174.1	-5.2	-5.1	-0.1	0.0	-1 262.9	-428.5	-428.5	-0.1	-326.0	-428.4
Corporate banking, including:	-73.2	-5.2	-5.1	-0.1	0.0	-848.8	-384.6	-384.6	-0.1	-282.2	-384.6
- loans and advances	-72.1	-5.2	-5.1	-0.1	0.0	-746.4	-282.2	-282.2	-0.1	-282.2	-282.2
- corporate and municipal debt securities	-1.1	0.0	0.0	0.0	0.0	-102.4	-102.4	-102.4	0.0	0.0	-102.4
Retail banking, including:	-100.9	0.0	0.0	0.0	0.0	-414.1	-43.9	-43.9	0.0	-43.8	-43.8
- mortgages	-39.9	0.0	0.0	0.0	0.0	-157.2	-22.5	-22.5	0.0	-22.4	-22.4
- other loans and advances	-61.0	0.0	0.0	0.0	0.0	-256.9	-21.4	-21.4	0.0	-21.4	-21.4
Netlending portfolio, including:	65 077.3	130.5	129.5	1.0	6.0	643.5	392.3	391.3	0.9	184.6	391.1
Corporate banking, including:	39 605.8	124.5	123.5	1.0	0.0	512.8	360.8	359.8	0.9	154.3	360.8
- loans and advances	36 756.7	124.5	123.5	1.0	0.0	306.3	154.3	153.3	0.9	154.3	154.3
- corporate and municipal debt securities	2 849.1	0.0	0.0	0.0	0.0	206.5	206.5	206.5	0.0	0.0	206.5
Retail banking, including:	25 471.5	6.0	6.0	0.0	6.0	130.7	31.5	31.5	0.0	30.3	30.3
- mortgages	20 032.2	4.9	4.9	0.0	4.9	65.2	17.6	17.6	0.0	16.4	16.4
- other loans and advances	5 439.3	1.1	1.1	0.0	1.1	65.5	13.9	13.9	0.0	13.9	13.9

Exposure with forborne exposures indication according risk rating

risk rating	gross exposure in PLN million				gross exposure in PLN million			
	2016				2015			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking	197.6	54.9	483.9	39.7	129.7	151.4	745.4	46.7
12	1.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
13	29.5	22.6	0.0	0.0	0.0	0.0	0.0	0.0
14	0.1	0.0	0.0	0.0	1.2	0.0	0.0	0.0
15	51.3	6.5	0.0	0.0	33.6	60.3	0.0	0.0
16	26.4	1.2	0.0	0.0	17.2	32.9	0.0	0.0
17	9.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
18	46.9	18.6	0.0	0.0	27.3	42.0	0.0	0.0
19	33.3	6.0	0.7	0.0	45.8	16.2	0.0	0.0
20	0.0	0.0	423.4	39.7	0.0	0.0	563.8	33.1
21	0.0	0.0	0.4	0.0	0.0	0.0	6.2	0.0
22	0.0	0.0	59.4	0.0	0.0	0.0	175.4	13.6
Retail banking	123.8	0.0	116.0	0.0	6.0	0.0	75.4	0.0
02	2.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
04	8.8	0.0	0.0	0.0	0.7	0.0	0.6	0.0
05	4.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0
06	13.8	0.0	0.0	0.0	1.1	0.0	0.0	0.0
09	14.6	0.0	0.0	0.0	1.7	0.0	0.0	0.0
10	2.7	0.0	0.1	0.0	0.0	0.0	0.0	0.0
11	16.1	0.0	0.4	0.0	0.9	0.0	0.0	0.0
12	3.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
13	12.5	0.0	0.2	0.0	0.5	0.0	0.0	0.0
14	13.8	0.0	0.1	0.0	0.3	0.0	0.0	0.0
15	9.9	0.0	0.1	0.0	0.3	0.0	0.0	0.0
16	6.3	0.0	0.0	0.0	0.0	0.0	0.3	0.0
17	3.8	0.0	0.0	0.0	0.1	0.0	0.1	0.0
18	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19	8.0	0.0	0.7	0.0	0.0	0.0	0.2	0.0
20	0.0	0.0	109.2	0.0	0.0	0.0	72.5	0.0
22	0.0	0.0	5.2	0.0	0.0	0.0	1.7	0.0
Total	321.4	54.9	599.9	39.7	135.7	151.4	820.8	46.7

Exposure with forbore exposures indication according days past due

number of days past due	gross exposure in PLN million				gross exposure in PLN million			
	2016				2015			
	performing		non-performing		performing		non-performing	
	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance	on-balance	off-balance
Corporate banking	197.6	54.9	483.9	39.7	129.7	151.4	745.4	46.7
0	177.8	54.9	354.7	39.7	128.6	151.4	487.0	46.7
1-30	2.8	0.0	0.1	0.0	0.0	0.0	1.5	0.0
31-60	9.4	0.0	0.7	0.0	1.1	0.0	2.5	0.0
61-90	7.6	0.0	27.4	0.0	0.0	0.0	1.3	0.0
91-180	0.0	0.0	11.4	0.0	0.0	0.0	9.0	0.0
181-365	0.0	0.0	34.8	0.0	0.0	0.0	31.3	0.0
>365	0.0	0.0	54.8	0.0	0.0	0.0	212.8	0.0
Retail banking	123.8	0.0	116.0	0.0	6.0	0.0	75.4	0.0
0	109.9	0.0	61.3	0.0	5.8	0.0	49.6	0.0
1-30	11.8	0.0	21.1	0.0	0.2	0.0	11.8	0.0
31-60	1.6	0.0	10.4	0.0	0.0	0.0	4.5	0.0
61-90	0.5	0.0	3.0	0.0	0.0	0.0	2.4	0.0
91-120	0.0	0.0	2.6	0.0	0.0	0.0	0.8	0.0
121-150	0.0	0.0	1.5	0.0	0.0	0.0	0.3	0.0
151-180	0.0	0.0	1.1	0.0	0.0	0.0	0.2	0.0
>180	0.0	0.0	15.0	0.0	0.0	0.0	5.8	0.0
Total	321.4	54.9	599.9	39.7	135.7	151.4	820.8	46.7

Interest on loans and other receivables to customers in the 2016 income statement includes interest income on “forborne exposures” of PLN 29.1 million (as on 2015 PLN 20.3 million), where PLN 12.9 million derives from the performing exposures portfolio and PLN 16.2 million from non-performing exposures (as on 2015 PLN 6.7 million and PLN 13.6 million respectively).

7. Impairment identification for credit exposures

Impairment identification for credit exposures is an integral part of the credit risk management process for both corporate and retail clients.

The events being impairment triggers are the events which occurred on the part of an asset or a group of financial assets and which may reduce the amount of expected cash flows. The events considered objective evidences of impairment or impairment triggers by the Bank were discussed in Chapter III. *Significant accounting principles*, item 6.11. *Impairment*.

Occurrence of an impairment trigger requires the Bank to analyse the expected cash flows for a given exposure. In the analysis, presence or absence of financial asset impairment is declared. Occurrence of an objective evidence of impairment requires the identification of impairment of financial asset without the need to perform the analyses of expected cash flows for a given exposures.

The impairment loss computation basis and approach for credit exposures and provisions for off-balance sheet liabilities were described in Chapter III. *Significant accounting principles*, item 3.1.1. *Impairment of financial assets*.

8. Rules and process of corporate credit risk management

8.1. Reviews and credit risk rating

Commercial functions performed by the person whose actions generate credit risk are separated from the process of transaction- and client risk rating (the four-eye principle). Credit risk is rated (by the Risk Manager) independently from the commercial function's rating (Relationship Manager).

The following parties are involved in the process of risk rating: Rating Owner (Front Office unit servicing the client) and Risk Manager.

The Rating Owner inputs the financial data related to the client and has exclusive responsibility for the correctness of the risk rating, including review.

There is only one owner of a borrower's risk rating. For borrowers rated 18 to 22, with applied restructuring or debt collection strategy whose exposure is called irregular, Corporate Credit Restructuring Department becomes a Rating Owner.

The Rating Owner makes the rating proposal using the rating model dedicated for a given group of clients.

The final rating is determined by the Risk Manager, or by the Appeal Judge if an appeal has been made (who is also an employee of the Risk Division).

The Risk Manager is responsible for:

- verifying that the appropriate rating model has been used for the borrower,
- verifying that financial and non-financial data entered are correct,
- assessing the financial data,
- finalizing the rating in case the appeal has not been requested.

The outcomes of specific models may be subjects to arbitrary adjustments in that the ultimate rating grades are determined as part of the appeal process.

A one notch difference (positive or negative) between the rating calculated by the rating model and the view of the appellant (the person initiating an appeal) is sufficient to start a rating appeal.

Reasons for a rating appeal are for example:

- circumstances that may not (yet) be captured by the rating model but which are likely to have a (usually negative) effect on the borrower's PD, especially if:
 - a borrower has defaulted or is expected to default on any financial obligation to any party,
 - there has been a major disruption of client's activities,
 - there have been changes in legislation that may seriously impact the client's financial performance.
- additional information is available supporting the setting of the rating for customer.

The IT system at ING Bank Śląski S.A., used in whole ING Group, supports credit risk rating process and makes centralized gathering of data on risk rating grades of clients possible.

8.2. Frequency of Risk Rating Reviews and Updates (if any)

Only the Rating Owner can review the risk rating. The following rules apply to rating reviews:

- a risk rating must be reviewed at least annually; a risk rating is considered overdue after 12 months from the last approval date of the risk rating,
- the Rating Owner should take appropriate action to either review or cancel the risk rating if the Bank has terminated the relationship with the borrower and no credit risk remains; the Rating Owner should perform an interim rating review when the value of one or more risk drivers has materially changed; events that could cause a consideration for a rating review are for example a change of risk rating of the parent entity or a change of any of the qualitative risk model drivers,
- in absence of a review till the end of 18th month from the last approval date of the risk rating, a risk rating will automatically expire (not applicable to irregular borrowers whose ratings do not expire).

8.3. Concentration limits

To mitigate the concentration risk, in the 2016 the Bank observed the following exposure concentration limits as defined in Article 395 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26th June 2013:

- limit of 25% of the Bank's eligible capital as regards other domestic bank, credit institution, foreign bank or a group of equity - or organisationally linked entities consisting in at least one domestic bank, credit institution or foreign bank,
- limit of 25% of the Bank's eligible capital - as regards other entities.

Furthermore, in keeping with the rules and recommendations of the banking regulator, the Bank sets internal concentration limits for exposures to specific sectors, the collaterals accepted, and it monitors on a regular basis the concentration levels in the geographical areas of its operations (the Regions).

The Bank sets the regulatory concentration limits on a monthly basis. Based on the data verified, the Bank prepares a report covering the up-to-date balance of the Bank's eligible capital and the individual regulatory limits. The report is then distributed among the Bank units concerned, including among others: the Corporate Banking Centres, the Regional Branches, the departments of the Risk Division. The Regional Branches redistribute the report among their respective subordinate units.

The Bank monitors the utilisation of limits by preparing a specification of clients and groups of related clients, and by comparing their existing exposure to the current limits.

On the operational level, the control of concentration limits is performed during the writing of credit applications and approving of specific transactions.

Over the year 2016, the regulatory exposure concentration limits were not overrun.

To avoid excessive credit risk concentration in the sectors, the Bank monitors the exposures in the individual economy sectors. Based on analyses, the Bank sets the desired directions where its exposure should increase, and the sectors with unfavourable development perspectives in which the exposure should be lowered.

The above tasks also include among other things the determination of limits for groups of sectors with a material share in the Bank's portfolio, i.e. whose total share in the entire credit portfolio is around 60%. Limits for the individual sectors are determined by the Credit Policy Committee.

Concentration of exposures to corporate clients in national economy sectors

industry	exposure (on-balance and off-balance)			
	2016		2015	
	exposure in PLN million	share in total exposure (%)	exposure in PLN million	share in total exposure (%)
financial intermediation	11 830.3	17.8%	10 997.7	18.2%
wholesale trade	7 683.4	11.6%	7 154.2	11.8%
real estate service	6 122.9	9.2%	5 208.9	8.6%
public administration and national defence	3 510.2	5.3%	4 101.2	6.8%
power industry	3 458.2	5.2%	2 828.9	4.7%
construction industry	3 142.4	4.7%	2 686.9	4.4%
foodstuff and beverage production	2 984.9	4.5%	2 782.8	4.6%
retail trade	2 546.6	3.9%	2 649.8	4.4%
ready-made metal goods productions	1 791.0	2.7%	1 574.5	2.6%
remaining business activities	1 729.3	2.6%	1 640.6	2.7%
agriculture, forestry, fishery	1 722.9	2.6%	1 465.7	2.4%
rubber industry	1 545.4	2.3%	1 281.7	2.1%
wood and paper industry	1 349.5	2.0%	1 244.1	2.1%
equipment rent	1 219.9	1.8%	674.5	1.1%
remaining non-metal raw materials industries	1 141.6	1.7%	879.8	1.5%
computer industry and associated service	1 110.7	1.7%	975.8	1.6%
post and telecommunications	1 072.9	1.6%	908.7	1.5%
chemicals and chemical good production	1 061.5	1.6%	737.9	1.2%
support activities for transportation	1 051.2	1.6%	993.4	1.6%
other	10 293.6	15.6%	9 668.9	16.1%
Total	66 368.4	100.0%	60 456.0	100.0%

Exposure concentration risk in the geographical areas is monitored according to the branch network regional division. A 20% limit of the Bank's total portfolio is adopted for controlling concentration at the level of Regions. Exceeding this limit may trigger setting a geographical limit.

However, since geographical concentration is minor and does not increase the credit risk, so far there has been no need for ING Bank Śląski to set geographical limits.

Bank's greatest exposures

The table below presents the breakdown of 20 largest Bank exposures towards entities/ related entities (inclusive of groups of entities wherefore the bank is a parent entity). The amount of exposures takes account of the value of the balance sheet assets (extended loans, deposits made and debt securities), extended off-balance sheet exposures and the value of balance sheet equivalent of derivatives. Exposures were reduced by the amounts of exclusions admissible under the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 and Polish Financial Supervision Authority Resolution No 208/2011 of 22 August 2011.

Client	exposure in PLN million	
	2016	2015
Group 1	1 255.5	743.8
Group 2	1 061.6	675.0
Group 3	938.0	650.3
Group 4	854.0	520.1
Group 5	847.0	1 007.2
Group 6	786.7	717.1
Group 7	779.3	177.1
Group 8	706.8	150.2
Group 9 (banking)	640.0	636.4
Group 10 (banking)	617.5	1 029.3
Group 11	598.0	519.7
Group 12	579.9	679.3
Group 13	550.6	706.0
Group 14 (banking)	472.9	318.4
Group 15	463.2	446.2
Group 16	459.1	315.1
Group 17	453.2	504.3
Group 18	442.8	392.8
Group 19 (banking)	406.9	382.0
Group 20	400.2	363.9

Considering the potential risk level, the Bank introduced limits for mortgage loans/ mortgage secured credit exposure, among others in accordance with Recommendation S of the Polish Financial Supervision Authority for the following types of facilities:

- mortgage secured financing – Corporate Sales Network,
- mortgage secured financing – Strategic Clients,
- in retail area:
 - portfolio of mortgage secured retail credit exposures,
 - portfolio of mortgage secured retail exposures in foreign currencies,
 - portfolio of credit exposures secured by mortgage on commercial property,
- in retail area, for mortgage segment:
 - share of consolidation loans,
 - portfolio of credit exposures, with maturity over 25 years at the time of loan disbursement,
 - share of the biggest single region,
 - portfolio of credit exposures granted by external sales channels,

- performance of loans with delinquencies in the portfolio of credit exposures granted by external sales channels (separately for delinquencies 30-90 days and loans defaulted in particular year),
- share of the portfolio with current LTV above 80% for PLN portfolio,
- share of the portfolio with current LTV above 80% for portfolio in foreign currencies,
- share of mortgage loans with LTV>75% in new acquisition.

Adherence to the statutory and internal concentration standards is the subject of a monthly risk report distributed among the Bank Management Board and Credit Policy Committee members. The report is also presented to the Bank Supervisory Board on a periodic basis.

8.4. Collaterals and other forms of credit risk mitigation

Even though collaterals are a major factor that allows the Bank to mitigate the credit risk, it is the Bank's policy to extend loans in amounts and on terms that allow for regular repayment without the need to recover the receivables by liquidating the security.

The Bank accepts all types of collaterals permitted by the law; however, the choice in specific cases is conditioned by various factors, including in particular:

- the client's ability to offer specific types of collaterals,
- the type and duration of exposure,
- the level of client's risk,
- the level of transaction's risk,
- the liquidity of collaterals offered (the ability to cash it easily),
- the collateral value.

The internal regulations of the Bank concerning collaterals cover, among others, the following areas:

- indications of the criteria for accepting the collateral in the capital requirement for credit risk calculation process,
- setting the general rules for the Bank when choosing the collateral forms, inclusive of the acceptable credit risk level,
- adjustment to the collateral-related procedures and to the requirements of the LGD models that are in harmony with the advanced internal ratings' method (the so-called AIRB).

Moreover, the internal regulations of the Bank concerning collaterals take into account in particular those aspects of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, which concern the application of LGD models, legal reliability of collaterals and their monitoring.

The LGD models developed for corporate assets are based on statistically estimated recovery ratios for specific groups of collaterals. The estimations are based on an analysis of historical recovery processes at the Bank. The rates of recovery for specific types of collateral determine their fair value.

The recovery rate for a specific type of collateral depends on the character of the collateral item, the legal form of the security and the efficiency of the collateral liquidation process by the Bank. The final level of the recovery is also influenced by the costs of debt-collection and the costs of keeping an irregular exposure in the Bank's books (until the debt is recovered or cancelled).

Apart from the classic types of collaterals (tangible and personal), the Bank also applies additional instruments to mitigate the risk of loss, namely additional covenants in loan agreements. As part of the basic or standard covenants, the Bank applies protective and financial clauses. The scope of the covenant or combination of covenants to be applied depends on: the term, type of lending product, the specific organisational and legal form or the business objects of the borrower and the risk rating

of the client. By including certain covenants in the credit agreements, the Bank is sometimes able to give up some or all of the repayment collaterals.

The structure of individual collateral types is diversified. The following types of collaterals have the biggest share:

- mortgages – this is due to the scale of the involvement of the Bank in financing of the residential real estate purchase and in commercial real estate financing as well as due the fact that mortgages usually secure long-term investment loans,
- suretyships and corporate guarantees – there are guarantors from different industry sectors with different economic and financial standing within this group. Therefore, there is no significant risk in terms of concentration. In case of assuming a specific recovery ratio from collateral, greater than 0%, it is necessary to examine the economic and financial standing of the guarantor and determine the risk rating as investment or speculative.

8.5. Exposure Classification Methodology

8.5.1. Client Risk Class Determination

Each entity with the Bank's credit exposure must have an internal rating assigned as is used in a standard manner at the Bank and ING Group. Determination of the client risk grade forms an integral part of the Bank's credit risk evaluation process for corporate clients, which is independent from the credit transaction approval process.

For entrepreneurs' exposures, the Bank uses a 22grade rating, employed throughout ING Group. Its grades present the debtor-related risk. The client is assigned to a given risk class based on the:

- statistical model, using the data from the debtors' financial reports,
- evaluation of qualitative factors,
- financial standing of the parent company.

Investment grade 1-10

Investment grade comprises the entities which the Bank assess as encumbered with a relatively low risk; however, in making risk classification, the Bank takes account of the threats arising from economic and business conditions. This group includes borrowers with solid level of revenues and margins, strong balance sheet structure and long-term, stable perspective.

Speculative grade 11 - 17

It is a group of a relatively large scale of risk levels, and thus the characteristics of extreme grades within this group vary considerably. In general, we may say that:

- the entities from top grades under this group are fulfilling their financial obligations at present, however the debt service ratio (principal and interest) over a longer term is not certain, and thus the safety margin is limited; there is real threat of credit risk growth due to unfavorable business or economic conditions;
- the borrowers assigned to the top risk grades (the worst grades from that group) can be characterized by uncertain income perspectives, worse quality of assets and over a longer term the risk of equity mismatch and possibility of loss occurrence.

Problem loan grade 18 - 22

This risk group comprises the borrowers who showed explicit symptoms of problems with debt service or who are in the situation of financial asset impairment.

Borrowers from this risk group are rated first of all by Corporate Credit Restructuring Department and in limited scope by regular risk units.

8.5.2. Corporate credit risk management tools

Following the requirement of permanent compliance with the advanced internal-ratings based approach (AIRB) for the purpose of regulatory capital calculation¹, the Bank developed, implemented, monitored and validated models in accordance with requirements of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, for the following basic risk parameters:

- PD (probability of default),
- LGD (loss given default),
- EAD (exposure at default)

for classes of assets in line with AIRB.

As far as corporate exposures are concerned, the following models, among others, are applied at the Bank:

- for the clients with annual income from sales above EUR 100 million:
 - PD rating model (expert and statistical) developed at the ING Group level accounting for the local data and monitored regularly on the local data,
 - LGD and EAD models (hybrid, expert and statistical) also developed at ING Group level accounting for the local data and monitored regularly based on the local data,
- for the clients with annual income from sales in the range of EUR 0,8 to 100 million:
 - PD rating model (expert and statistical) fully developed on the Bank's internal data,
 - LGD and EAD models (hybrid, expert and statistical) developed on the Bank's internal data.

Besides the above, the Bank uses specific models developed at ING Group level for exposures to banks and other financial institutions, to sovereigns and local governments as well as for specialised lending exposures.

The models are employed to calculate the economic capital allowing its level to be optimised. They contribute to a better quantification of the credit risk for the Bank's portfolio.

On the basis of the models the provisions are calculated under IFRS standards. The models (PD, LGD) are appropriately adjusted in accordance with requirements of IAS 39 OS 87, in particular, the influence of current (the most recent) data and Point-in Time approach has been included. Additionally, LGD risk parameters for impaired exposures are determined by the time the exposure has been impaired.

The models are used also for the credit decision-making, loan prices, Bank's reference limits and risk appetite determination.

While employing the risk models, the Bank makes use of advanced IT systems supporting the client and transaction risk rating processes. An integrated ING Group's environment is the primary IT tool used to manage credit risk. This tool combines key applications used in the credit risk management process. It enables the Bank to manage risk effectively not only on the Bank's branch level, but also on the level of individual relationship manager's portfolio.

8.6. Restructuring

In some cases, ING Bank Śląski S.A. will work with a borrower and its other creditors (if any) to restructure the borrower's business and its financial obligations in order to minimize any financial losses to the creditors as a whole, and ING Bank Śląski S.A. in particular.

This can be accomplished through many means available to the creditors, the most common of which are:

¹ The Bank obtained the final approval to apply AIRB method for the corporate credit portfolio from the Dutch National Bank (DNB) and the Polish Financial Supervision Authority on 6 October 2011.

- extending the repayment period,
- redeeming part of the financial obligations,
- selling assets,
- selling business lines of the borrower,
- a combination of the above.

The decision to enter into such a restructuring is done after careful internal assessment and approval by the appropriate (internal) delegated authorities. Once a restructuring is completed, the borrower is again subject to normal credit risk monitoring procedures.

9. Rules and the process of retail credit risk management

Credit risk management is realized by identification, assessment, acceptance, measurement and monitoring as well as credit risk control in scope of integrated system, consisting of all processes realized at the Bank in relation to pursuing activity connected with granting loans, cash loans and other lending products. Rules of retail credit risk management are described in the *Credit Risk Management Policy in ING Bank Śląski S.A.*

The Bank regards all the retail receivables (from individual and entrepreneur clients) as individually non-significant as well as calculates and makes relevant charges and provisions pursuant to the collective approach.

The impairment calculation is based on the idea of incurred loss, which means that only those assets are provisioned for, for which the impairment triggers occurred (without recognition of losses expected as a result of future events).

If there exists objective evidence that the impairment loss on loan/cash loan was incurred, the impairment provision equals the difference between the carrying amount of given financial asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The Bank groups balance sheet credit exposures into, so called, groups of exposures, according to similar characteristics of credit risk, which reflect ability of borrower to repay credit obligations according to credit agreement conditions. The Bank distinguishes three basic groups of exposures (product segments):

- consumer loans and cash loans – loans, cash loans and credit lines granted to individuals not aimed at conducting economic activity excluding mortgage loans and cash loans,
- mortgage loans and cash loans – loans for housing purpose or secured by mortgage on housing real estate granted to individual person, payable in instalments, except for mortgage loan (without finance target) and mortgage line (payable in instalments since fixed moment, previously payment of interest),
- loans and cash loans in the Entrepreneurs segment – loans and cash loans granted to individual persons, legal persons or organizations, who were awarded by the legal act with legal capacity regarding conducting economic activity on their behalf for the purpose connected with conducted economic activity. The Entrepreneurs group includes companies with annual net sales income not exceeding equivalent in Polish currency of EUR 1.2 million according to average exchange rate of the National Bank of Poland (according to the Accounting Act) and total credit exposures on all credit products at the Bank not exceeding the amount of PLN 2 million.

10. Compliance reviews

The basic compliance reviews in the credit risk management area are performed by the Credit Risk Inspection Department in the scope defined under item 3.11.

11. Identification of derivative-related credit risk

Each client concluding a derivative transaction with the Bank must be assigned a relevant transaction limit by the Bank. The transaction limits are assigned pursuant to the credit procedures and authorities binding at the Bank, as for all other credit exposures.

ACR system (Adaptive Credit Risk) is used to monitor the risk connected with transactions concluded by the Bank's counterparties. ACR is a global system, used by the entire ING Group in which all the FM ("Financial Markets") limits and transactions concluded by dealers are registered.

The transactions that generate risk on the counterparty's side (settlement and pre-settlement risk), and that are input to the Bank systems, require registration in ACR.

From the perspective of risk measurement, it may be divided into:

- pre-settlement risk – arising for FX and derivative transactions as well as transactions in securities as a result of replacing the transaction on the market at a potentially unfavorable price,
- credit risk – connected with placing money on the market (deposits).

11.1. Pre-settlement risk

The pre-settlement risk derives from a breach of transaction terms by the counterparty, before its settlement, which makes it necessary to replace this transaction with a transaction with another counterparty, according to the market price (potentially unfavourable).

To control the counterparty's risk, not only the cost of replacement in case of breach is determined (current market value "MtM"), but also the growth of MtM during the transaction duration.

Since the financial markets are not fully predictable and one cannot be 100% sure about the set maximum MtM, statistical models are used to define the level of trust. Pursuant to the policy of ING Group, this trust level is 97.5%.

11.2. Money market risk

The money market risk arises when the Bank places deposits with another counterparty (bank). The Bank loses funds in case of terms being breached by the counterparty. Due to this, the risk is measured simply as the deposit face value.

10.3. Settlement risk

The settlement risk is a risk at which the counterparty will not deliver the assets that they are obliged to deliver due to the transaction settlement and the Bank may lose up to 100% of the expected value. This risk arises when the exchange of value is to take place (funds or other instruments) on the same or different delivery date and this delivery is unchecked or expected till the moment when the Bank delivers an irrevocable instruction of payment or the Bank has paid itself or delivered its part of the liability deriving from the transaction.

Some products always generate the settlement risk, some never do, and there are also such products for which the occurrence of this risk is connected with the mechanism of settlements.

The settlement risk always arises when the transaction involves a bilateral exchange of funds/securities but this exchange is not made on the DVP basis (Delivery Versus Payment).

11.4. Risk connected with securities purchase/ sale

The risk connected with securities purchase/sale emerges when the exchange of funds into securities does not take place on the DVP basis. Then the settlement risk arises on the day of transaction settlement, unless the settlement is made in such a way that the Bank can control the transactions so as not to allow the flow of funds/ securities before confirming the obligation fulfilment by the counterparty.

11.5. Mark to Market plus Model Based Add-on approach

Presently the approach which consist from Markt to Market plus Model-Based Add-on (calculated based on statistic model) is used for assessment of exposure at the level of individual transactions.

For pre-deal exposure assessments, Bank uses the approach based on MtM increased by Add-on. This approach is also used for the purposes of determining the post-deal Counterparty Exposure for those products which are outside the coverage by the Simulation Scenario came from the Monte Carlo Model.

The Risk Weights (RW) are used to determine the Add-on values, which RW are calculated using statistical models based on Monte Carlo method. The model calculates the Risk Weights determining the risk profile of the hypothetical transactions, as a percentage value of the nominal value of these transactions.

Risk Weights used by the ACR system are periodically updated.

Within the Mark to Market + Model based Add-on approach, the exposure is calculated for each transaction separately (including the benefits that come from collateral) and then it is re-aggregated into the total portfolio (including the netting rule).

The portfolio of derivative transactions concluded with the Bank's counterparties, covered by ACR (unsettled transactions), is as follows (all data in EUR million):

	2016	2015
Money market	17.5	13.8
Net MtM of transactions not cleared by CCP	-6.8	119.1
Net MtM of transactions cleared by CCP	27.2	20.0
Utilisation of PS limits	300.9	618.3

11.6. Derivative-related credit risk

In view of an existing credit risk in derivative transactions (mainly FX options) made by the Bank with clients, the Bank regularly reviews the portfolio of those instruments. The approach adopted by the Bank to estimate the credit risk generated by derivative instruments is described in Chapter III. *Significant accounting principles* in item 3.2. *Derivative-related credit risk*.

The item *Loans and other receivables to customers* in the statement of financial position presents receivables resulting from restructuring of derivative transactions made by the Bank with clients. The receivables equaled to PLN 99.6 million as at 31 December 2016 compared to PLN 109.1 million as at 31 December 2015. The carrying amount of impairment losses connected with transactions on derivatives amounted to PLN 99.6 million as at 31 December 2016 compared to PLN 103.9 million as at 31 December 2015.

II. Market Risk Management

1. General Information

The main goals of Market Risk Management in ING Bank Śląski are to ensure that the Bank's exposure to market risk is understood, properly managed, and - where applicable - within approved limits.

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

The market risk management process within the Bank covers the identification, measurement, monitoring and reporting of risk. The MRM Department provides FM and Bank Treasury Management, selected Board and ALCO Committee members with regular risk updates. Additionally ALCO, Management Board and Supervisory Board receive periodic updates containing the most important market risk metrics. The MRM Department is staffed with trained specialists and the independence of this department is ensured by its separation from the Bank units which generate market risk. An important consultative role in the market risk management process is performed by the Bank's majority shareholder - ING Bank NV.

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

2. Bank's Book Structure in Context of Market Risk Management

The Bank maintains an intention-based book structure which drives many processes, including the management of market risk. The book structure reflects what kind of market risk is expected and acceptable in different parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Specifically, books are categorized based on intention as "trading" (positions taken in expectation of short-term financial gain from market movements) or "banking" (all other positions). A high-level view of the Bank's book structure is as follows:

- Bank
 - |___ Trading Books
 - |___ Banking Books
 - |___ Commercial Banking Books
 - |___ Bank Treasury Banking Books

Trading Books

These are Financial Markets ("FM") books: FX and Interest Rate Trading. These books include positions held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits, and include, for example, proprietary positions, positions arising from client servicing and/or market making. The market risks of open positions in trading books are limited by various Value-at-Risk and positions/sensitivities limits.

Commercial Banking Books

These are Retail and Wholesale Banking books containing commercial loans and deposits. The risk of these positions is internally hedged as well as possible to Bank Treasury Banking books (for interest rate risk, basis risk and liquidity risk) and to trading books of Financial Markets (for FX risk) via internal contracts, which ensures that these books do not contain material levels of economic market risk. However, as described later in more detail, the short-term financial results of these books are sensitive to changes in market rates.

Bank Treasury Banking Books

These are Liquidity Management & Funding and ALM books. Their primary responsibility is the liquidity risk management of the Bank as a whole and interest rate risk management of the positions of Commercial Banking Books in particular. Open positions are allowed within approved market risk limits, e.g. VaR, EaR, NPVaR or position/sensitivity limits. Like in Commercial Banking books, there is usually a difference between the sensitivity of economic and financial results to changes in market rates.

3. Value at Risk (“VaR”) Concept

The Value at Risk (VaR) is the main methodology used to calculate market risk in both Trading and Banking books. The VaR gives the potential loss that is expected not to be exceeded assuming certain confidence (probability) level. The Bank calculates VaR separately for individual interest rate portfolios, FX and FX options portfolios. The following assumptions for VaR calculation are taken: one-day position holding period, 99% confidence level and 260 day observation period is used. For trading and banking books Bank uses the historical simulation methodology. To strengthen the risk control, Bank implemented additionally within FX risk area, the intra-day risk measurement and monitoring against approved limits.

Market risk of commercial banking books is calculated in the framework of the banking portfolio using the methodology EaR and NPV at Risk described in further parts of the document.

VaR measurement in ING Bank Śląski is performed in accordance to market best practice. The VaR model accuracy for trading books is checked in a daily back-testing process. P&L figures, both “actual” and “hypothetical P&L” (change in end-of-day market value of the positions in a trading portfolio over 1 day, so excluding all intra-day activities that occurred during that day) are compared to the VaR figure. Any model outliers are investigated and explained.

Stress-testing

The Bank is aware that normal VaR does not present a full picture of market risk of a portfolio as it does not give an indication of potential losses in extreme changes of market circumstances. Therefore “Stressed VaR” calculation is performed. The Stressed VaR is a measure replicating calculations applied in the historical simulation calculations assuming that the current portfolio and continuous, historical 12-month market data, characterized by a significant deviation of the market parameters relevant for a given portfolio, are used.

Bank-wide stress test is performed on a half-yearly basis covering market risk, liquidity risk and credit risk under regulatory scenario and various other scenarios provided by Bank’s economists and approved by ALCO. Moreover, on half-yearly basis stress-test for derivatives is performed presenting impact of shock scenarios on derivatives valuation.

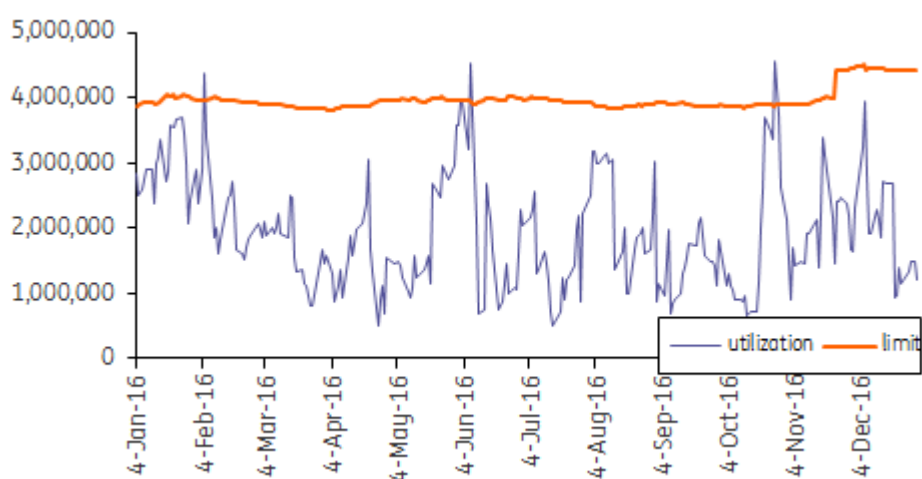
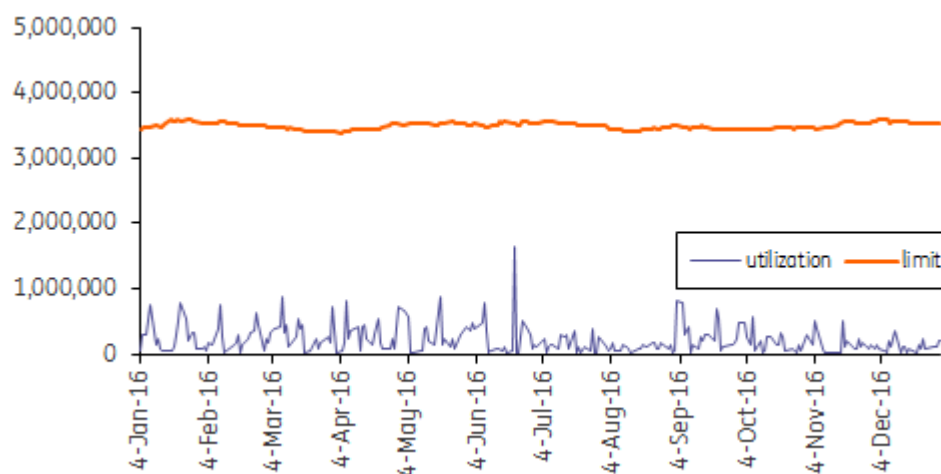
Trading Books Market Risk (VaR statistics)*VaR numbers in 2016 (in PLN thousand)

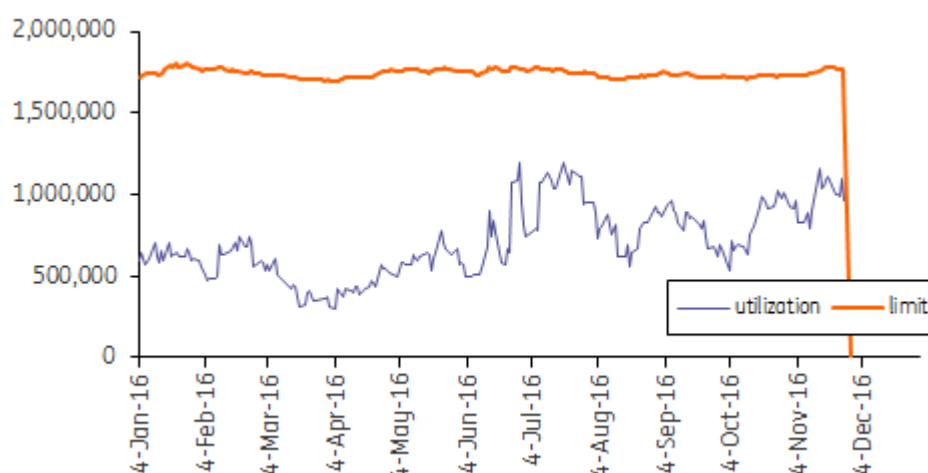
Area	Limit	as at 31 Dec 2016	Average	Min	Max
Interest rate	4 424.0	1 216.4	1 948.9	492.9	4 544.6
FX	3 539.2	204.6	217.3	7.9	1 637.7
FX Options	0	0	712.4	0	1 201.0

VaR numbers in 2015 (in PLN thousand)

Area	Limit	as at 31 Dec 2015	Average	Min	Max
Interest rate	3 835.4	2 835.5	1 986.6	345.2	3 736.5
FX	3 409.2	72.4	299.6	5.8	1 852.6
FX Options	1 704.6	557.3	357.8	192.2	1 160.1

* All VaR limits and their usage in ING Bank Śląski are denominated in EUR. Limit levels and their usage in tables and graphs for the purpose of this document were converted into PLN using daily NBP fixing rate, in column "Limit" numbers are presented using end of year fixing.

Interest Rate VaR (PLN)FX VaR (PLN)

FX Options VaR (PLN)

Financial Markets Division actively has taken interest rate open position while minimalizing trading FX risk. The average VaR limit utilization in 2016 amounted to: 49% for interest rate risk, 6% for FX risk and 41% for foreign exchange options risk. In November 2017 the trading activity on foreign exchange options desk was closed by concluding opposing deals to the existing ones. Since then only back-to back transactions with no market risk are allowed. The only exception was purchasing by the Bank the CHF/PLN call option with notional of CHF 30 mio in order to hedge the potential negative P&L impact from the Swiss mortgage portfolio in case of PLN weakening against CHF. The position has not a trading nature and Bank had a cost in form of premium paid for the option. The position is not subject to VaR measurement.

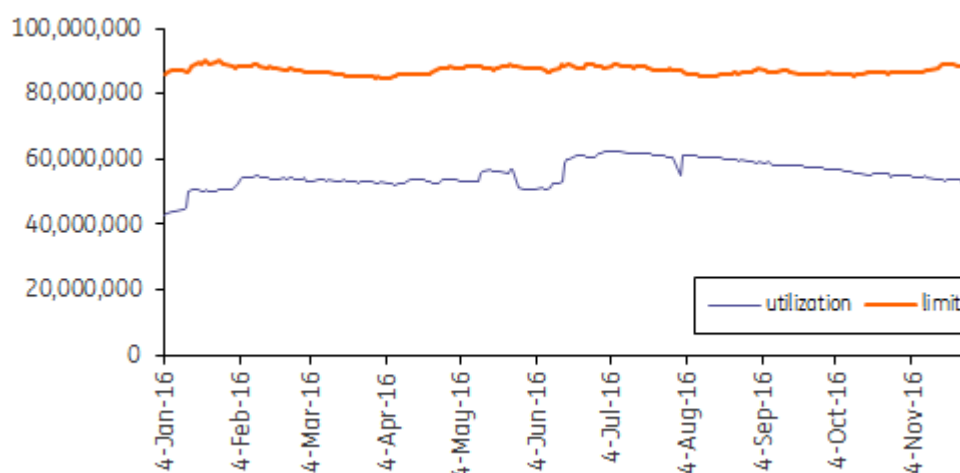
There were three VaR limit breaches reported for interest rate trading; two of them were pre-approved by Chief Risk Officer. Due to high trading activity on interest rate desk and good trading results VaR limit was increased during yearly review from EUR 900 thousands to EUR 1 million.

Bank Treasury Banking Books Market Risk (VaR statistics)VaR numbers in 2016 (in PLN thousand)

Area	Limit	as at 31 Dec 2015	Average	Min	Max
Bank Treasury	88 480.0	52 712.9	55 158.5	42 910.6	62 321.8

VaR numbers in 2015 (in PLN thousand)

Area	Limit	as at 31 Dec 2015	Average	Min	Max
Bank Treasury	85 230.0	42 471.5	43 866.2	39 413.4	51 439.1

Bank Treasury VaR (PLN)

Treasury Department kept their exposures in banking book at moderately high levels comparing to approved limits. The average usage of limit for Bank Treasury banking book amounted to 63 %. The VaR measure was stable over the year. VaR level resulted mainly from significant position in government bonds which was hedged with instruments valued with swap curve and the spread between the swap and government curves. In 2016 there was no VaR limit breaches.

Commercial Banking Books Market Risk

As these books are materially hedged against changes in economic results, the main indication of the interest rate exposure of Commercial Banking books are Earnings at Risk "EaR" and NPV at Risk measurements. In these areas, the bank implemented in 2016 a new model, whose methodology - especially on the NPV-at-Risk (most important for this measure were taken into account in the flows the customer interest) - is significantly different from that which was used in previous years. The changes are mainly due to the implementation requirements of the new regulations of the European Banking Authority (EBA / GL / 2015/08). The process of adaptation to the new requirements will continue in 2017. These changes have significantly affected the size of the measure. The measurement results are presented in the tables sensitivity to interest rate risk in the rest of the document. (. Specifically, the Bank hedges optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or early re-payment of loans). Additionally Bank measures residual risk (the potential losses on these positions arising from non-standard rate-setting mechanisms which are not transferred to Bank Treasury responsible for interest rate risk management). This risk is considered as not material (potential losses typically represent a very small share of historical or projected results).

FX position generated from banking books is transferred in whole to trading book and managed there.

4. Earnings at Risk (EAR) Concept

EaR measurements are used for the all banking book positions. Two approaches are used; both approaches cover a 1-year time horizon and provide the possible changes in accrual results given shock changes of +/-1% and ramped changes of +/- 2%. The two approaches taken are as follows:

- A "basic" approach is used for positions comprised of term transactions and/or small volumes of demand positions. This approach assumes that:
 - prices for positions with variable interest rate shall be updated at the date of the revaluation according to the assigned index rate

- Positions with fixed interest rate are renewed according to the structure determined at the date of analysis
- The result on positions of the Treasury is calculated on the assumption that the structure of the position will not change during the analysis
- An “advanced” approach is used for material volumes of demand positions. At present it is the Bank’s PLN and EUR demand deposit base and its internal investment into Bank Treasury banking books. The measurements simulate the changes in the Bank’s results coming from the combination of:
 - Current (internal) investment of these funds and replenishment of these investments as previous investments mature and/or new volumes are attracted. Future (re-) investments are predicted based on continued use of current investment rules.
 - An assessment of the relation between changes in market rates and the rates that the Bank must pay its clients in order to maintain volumes.

5. NPV at Risk Concept

NPV-at-Risk is a measure of the sensitivity of the economic value of the interest rate position to shock changes in interest rates. The measurement is carried out for the curve changes by +/- 1% and +/- 2%. This measurement is used for all banking book positions and one is limited by regulatory limits of 20% of the equity.

Overall Interest Rate Sensitivity

The following tables provide a good overview of the sensitivity of the Bank to changes in interest rates. The first table shows the sensitivity of the Bank’s results to changes in interest rates; the following should be noted:

- Positions are divided into banking book vs. trading book. Positions include all material currencies; PLN positions represent the vast majority of the interest rate sensitivity of the Bank.
- Changes in the market value are fully and immediately reflected in reported results. The positions display an asymmetry between the economic and financial effect of a given yield curve shift; this is an unavoidable result of accounting regulations. The financial effects of yield curve shifts are calculated in line with the definition of EaR presented earlier. The “advanced” EaR approach is used for demand deposits; the “basic” EaR approach is used for all other positions. The economic result shown is the predicted change in the present value of future earnings, calculated over a long time horizon.
- In case of banking book there is a difference between the economic and financial sensitivity. Although the bank is aware of the sensitivity of its short-term financial results to changes in interest rates, the most important metric is the sensitivity of the long-term economic results of the bank.

The second table shows the sensitivity of the Bank’s capital base to changes in the market value of debt securities classified as Available-for-Sale (“AFS”) in Bank Treasury. The decrease of changes in capital base in 20165 comparing to 201 results from the strategy of mitigating the sensitivity of AFS portfolio by building HTM portfolio and using hedge accounting on AFS.

Sensitivity of results to changes in interest rates (PLN million)

2016

Book	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move*			
	-2%	-1%	1%	2%	-2% ramped	-1% shocked	1% shocked	2% ramped
BANKING	242.78	439.21	-522.34	-1 086.22	41.67	30.62	26.76	19.47
TRADING	27.96	13.98	-13.98	-27.96	27.96	13.98	-13.98	-27.96
TOTAL	270.74	453.19	-536.32	-1 114.18	69.63	44.60	12.78	-8.49

2015

Book	Change in Economic Result for Yield Curve Move				Change in Reported Financial Result for Yield Curve Move*			
	-2%	-1%	1%	2%	-2% ramped	-1% shocked	1% shocked	2% ramped
BANKING	-83.88	-39.57	39.57	83.88	54.18	-42.87	64.46	-11.49
TRADING	13.50	6.75	-6.75	-13.50	13.50	6.75	-6.75	-13.50
TOTAL	-70.38	-32.82	32.82	70.38	67.68	-36.12	57.71	-24.99

*) adopted scenarios in the case of change to the financial results assume an annual horizon of analysis for gradual (uniform over time) changes by 200 points and the shock (one-time) changes by 100 basis points.

Sensitivity of capital accounts to changes in interest rates (PLN million)

2016

Position	Approximate Change in Regulatory Capital Base for Yield Curve Move			
	-2%	-1%	+1%	+2%
AFS Portfolio	140.95	71.99	-77.4	-160.17

2015

Position	Approximate Change in Regulatory Capital Base for Yield Curve Move			
	-2%	-1%	+1%	+2%
AFS Portfolio	197.60	99.04	-101.06	-215.29

III. Liquidity Risk Management

1. General information

ING Bank Śląski recognizes the process of stable liquidity risk management as one of the most important processes in the Bank.

Liquidity and Funding Risk is understood by Bank as the risk of not being able to meet at a reasonable price the cash obligations arising from on- and off-balance sheet positions. Bank maintains liquidity in such a way that the cash obligations of the bank can always be done by available funds, inflows from maturing transactions, available funding source at market prices and/or from the liquidation of marketable assets.

To optimize its liquidity risk management, Bank has developed *ING Bank Śląski Liquidity and Funding Risk Management Policy* that intends to maximize liquidity access and minimize funding risk and costs. The policy describes general approach to liquidity risk management process in the Bank. The main objective of liquidity and funding risk management process is to maintain sufficient liquidity to ensure safe and sound operations under normal market circumstances and in times of crisis.

Bank divided the liquidity risk into two groups: risks arising from external vs. bank-specific internal factors. The purpose of the Bank is a conservative approach to liquidity risk management, which will allow safely survive the events specific to Bank and the banking sector.

Liquidity (risk) management can be separated into several types depending on the term: operational liquidity risk, is focused on the current funding of the Bank's positions and the management of the intraday positions and strategic liquidity management, is focused on ensuring that the structural (all tenors of payment) liquidity positions of the Bank are acceptable.

Taking into account the two aspects of the impact on the bank's liquidity: the term and the behaviour of the clients, Bank distinguishes three types of liquidity risk: structural liquidity and funding risk, is understood by the Bank as a potentially negative impact on the Bank's income due to a mismatch between expected maturities of the assets and liabilities of the Bank, as well as the risk of a lack of possibilities of refinancing in the future; customer behaviour liquidity, is understood as a potentially negative impact on the Bank's income due to liquidity options embedded in products offered by the Bank and stress liquidity and funding risk, is defined as the risk of the lack of the Bank's ability to meet its financial obligations, when they are required, due to the lack of an adequate level of available cash or the fact that they cannot be generated at any price an immediate insolvency of the Bank.

The general approach to risk management and liquidity financing consists of a cycle of five recurrent activities: risk identification, risk assessment, risk control, monitoring and reporting. The risk identification is prepared through the organization of annual workshops to identify risks. Each identified risk must be assessed in order to determine the importance of the risk for the Bank. Risk might be controlled by operations which reduce probability of risk materializing or action aimed to reduce of effects in case of risk materializing. One of the elements of risk control is set up of risk appetite.

The important element of risk managing is continuous checking whether implemented risk control is executed. Regular control is to prove whether actions in scope of risk control are effective. Adequate reporting delivers to management information needed to risk management.

According to the Polish Financial Supervision Authority Resolution no. 386/2008 and *Recommendation S* Bank prepares in-depth long term liquidity analysis with particular emphasis on

mortgage loans. This analysis is showing level of risk connected with financing the long term mortgage loans.

The Bank runs an active policy of liquidity management within major currencies. For these currencies the measurement and limiting liquidity risk is carried out per currency; and the operational liquidity management is performed separately for each currency and to take account the currency in the risk transfer system.

BT is responsible for implementation intraday liquidity management system. BT actively manage liquidity positions and risks of short-term (one-day and intraday) to meet payment and settlement obligations in a timely manner for regular operations and emergency / stress.

In the Bank operates the risk transfer system, under which, the market risks, including the liquidity risk are transferred to the BT, where centrally manages risks using appropriate tools.

2. Roles and responsibilities in the process of liquidity risk management

Bank's risk and control structure is based on the three lines of defence model. The model is designed to provide stable and effective framework for risk management by defining and implementing three risk management "levels", with distinct roles, responsibilities and oversight responsibilities.

First line of defence: The business management in the Bank. The managers heading up a given business units bear the primary accountability for the actions, operations, compliance with norms and effective risk control affecting the particular business unit.

Second line of defence: The risk and finance management functions. The risk management functions and, where applicable, finance management functions, are realized through:

- developing policies, standards and guidance for their particular risk areas;
- coordinating, supervision and control of the actions taken by the first line of defence within the scope of completed tasks and the management, control and reporting of risks generated by the first line of defence;
- escalating/vetoing of the business unit activities that could possibly create risks unacceptable for the Bank.

Third line of defence: Internal Audit Department. The Internal Audit Department is responsible for providing an independent assessment and assurance of:

- the design and effectiveness of internal controls over the risks resulting from the Bank's activity;
- the design and effectiveness of risk management performed by the first and second line of defence.

The Asset and Liability Management Committee (ALCO) takes a special role in the liquidity and financing management process:

- ALCO implements the Bank's liquidity and funding strategy, implements the limits of the accepted risk appetite (as approved by the Board), and supervises and monitors the level of liquidity risk as well as the structure of the financing under the Bank's balance sheet.
- ALCO manages the liquidity buffer under the relevant policies and limits approved by the Management Board, operational actions in this area are delegated to the Treasury Department.

3. Centralization of liquidity risk management and financing

The process of liquidity risk management is fully centralized at the level of the function of treasury and risk management. Liquidity risk (and generated liquidity position) of individual business lines are transferred to the Treasury Department for centralized management.

Bank includes cost and benefits resulting from different types of liquidity risk in risk transfer system, yield measurement and product approval process in all material bank activities (both balance sheet and off-balance sheet).

Bank Treasury manages the positions transferred to their books via risk transfer system, including liquidity risk management connected to the liquidity premium reprising risk.

In order to ensure proper, independent and centralized performance of tasks necessary in the liquidity risk management process (including risk measurement and reporting as well as preparation, review and update of the documentation), the Bank established the Market Risk Management Department reporting directly to the Vice-President of the Management Board.

4. Funding activities

Bank determines, at least once a year, the overall business strategy and resulting medium-term (3-year) financial plan together with the overall risk strategy, introduced by the Bank in 2015. An inherent element of the strategy is funding plan which provides effective diversification of funding sources and terms. ALCO actively manages the funding base and closely monitors sources of funding in order to verify compliance with the strategy and financing plan and to identify potential risks associated with the financing.

The main resource of funding in Bank are client deposits (retail and corporate). The bank monitors the funding structure observing diversification by type of products, client segments, currencies, type of funding, concentration of big ticket deposits. The Bank funding structure is well diversified. Please find below the funding structure as of the end of 2016 and 2015 with the split between direct and reciprocal funding.

Direct funding (in PLN million)

General customer type	2016		2015	
	direct funding	percentage share	direct funding	percentage share
Banks	1 093	1%	397	0%
Corporate clients	30 813	29%	28 147	29%
Retail clients	63 487	59%	58 690	60%
Own Issued Bonds	1 529	1%	865	1%
Equity	9 917	9%	9 181	9%

Reciprocal funding (in PLN million)

General customer type	2016		2015	
	reciprocal funding	percentage share	reciprocal funding	percentage share
Banks	19 536	98%	16 211	98%
Corporate clients	306	2%	346	2%
Retail clients	0	0%	0	0%

5. Stress tests and contingency funding plans

In accordance with the requirements set by regulators Bank introduced a stress testing program, which ensures that the stress tests are planned, designed, conducted and analysed to identify sources of potentially limited liquidity and to determine how to prevent such situations that the current exposure remained within the established limits. The Bank pays the special attention to stress test process and on a semi-annual basis prepares scenario analysis and sensitivity analysis for liquidity risk.

The results of stress tests are taken into account in the creation of the strategy, taking corrective action or actions to limit the bank's risk exposure, development of emergency action plans for when the stress of daily risk management practices, defining risk appetite and internal limits and to adapt and improve the internal regulations of the Bank.

Testing program consists of a scenario analysis, sensitivity analysis, and reverse tests. During the scenario analysis are combined elements of shock, for which there is a likelihood of at the same time.

As part of the tests are analyzed three options:

- Idiosyncratic – specific to the Bank, market conditions generally remain at a good level, the banking sector as a whole is not subject to extreme conditions,
- System – external market crisis, the Bank is affected by extreme conditions as a result of the deterioration of market conditions,
- Mixed – a combination of the two variants mentioned above.

Within each variant we studied a number of risk factors and built a set of scenarios. As a rule, test scenarios are built assuming conservative assumptions. The aim of the sensitivity analysis is to understand the sensitivity of the Bank's individual risk factors. An additional element tests are reversed, that is analyzing the potential risks to the Bank.

The testing across the Bank, including the various risks in order to obtain a complete and comprehensive picture of the risks existing in the Bank.

In the process of testing liquidity are an important element of specific scenarios for liquidity risks in the day and the indicators and measures of liquidity during the day.

The results of the 2015 tests confirm a stable and safe position of the Bank. The Bank has liquidity reserves in an adequate level.

Development of the liquidity contingency plan, which is mutually linked to stress testing, is one of the essential processes of liquidity risk management. The Funding Contingency Plan developed by the Bank is designed to provide for guidelines on identification of a liquidity-related crisis and should such a crisis be identified to describe a set of actions to be taken to mitigate that crisis. The Funding Contingency Plan applies to the entire operations of the Bank. The Liquidity Crisis Team is a significant contributing factor if the Funding Contingency Plan needs to be implemented (started).

6. Management of the liquidity reserves

An important element of the Bank's liquidity management is to maintain adequate liquidity buffer. The liquidity buffer presents the available liquidity necessary to cover the gap between cumulative outflows and inflows in a relatively short time. The liquidity buffer is crucial in times of crisis, when bank has in a short time to gain liquidity while the standard funding sources are unavailable or insufficient.

Liquidity buffer is maintained as security prior to the implementation of various emergency scenarios, providing liquidity to meet additional needs that may arise at a certain time in exceptional circumstances, as well as under normal conditions.

The table below presents the structure of a buffer of liquid assets as at 31 December 2016:

The structure of the liquidity buffer	share%
bonds issued by the government or the central bank (in PLN)	81%
bonds issued by the government or the central bank (in EUR)	14%
BGK bonds	5%

7. The limits and measurement of liquidity risk

The formal limits are placed by regulators or the Bank on the various reported metrics. The acceptable level of funding and liquidity risk is determined in a two level system: acceptable risk level that is approved by the bank's Supervisory Board and the limit system which is approved by the Bank's Management Board. The Supervisory Board receives information on compliance with these metrics at least quarterly.

The levels of limits are based on strategic Bank goals, identified liquidity risk, the stress tests results and principles set by regulators. All of these limits are taken into account during the planning process (in sum: realization of approved plans should not lead to excesses of limits). In most cases, limits have a "warning level" set above the minimum (or maximum) limit. Acceptable level of liquidity risk is determined and updated at least annually.

This set of limits is consistent with but more detailed than the limits approved by Supervisory Board.

Acceptable level of risk is guaranteed by monitoring of risk in different liquidity and funding reports related to normal/regular activity of the Bank and also prepared in extreme/stress situations. Bank is monitoring the funding risk concentration, examination of external funding stability and internal liquidity buffer.

The Polish Financial Supervision Authority regulation no. 386/2008 requires banks to calculate the 4 liquidity measures: short term liquidity gap (minimum: 0.00), short term liquidity ratio (minimum amount: 1.00), own funds to non-liquid assets ratio (minimum amount: 1.00) and own funds and core deposits to non-liquid and semi-liquid assets ratio (minimum amount: 1.00). The bank is obliged to monitor the ratios above on daily basis and keep these ratios with limits predefined in the FSA regulation. In 2016 the bank kept all liquidity measures over their minimum amounts.

As of 31 December 2016 liquidity measures of Bank amounted as follows:

Liquidity measurement	Minimum	2016	2015
M1 Short term liquidity gap (in PLN million)	0	15 329.84	14 141.43
M2 Short term liquidity ratio	1	1.56	1.57
M3 Own Funds to Non-Liquid Assets Ratio	1	11.46	10.68
M4 Own Funds and Core Deposits to Non-Liquid and Semi-Liquid Assets Ratio	1	1.27	1.31

One of the key elements of the calculation of regulatory liquidity ratios is to study the stability of the deposit base through the calculation of the stable part of external funds. The analysis is based on internal statistical model. The model takes into account the following aspects: funding received from the major depositors, taking into account the distribution of changes, estimating volatility and scaling time, it take into account trends in long- and short-term, the impact of exchange rate volatility on the stability of the deposit base. The model subject to annual review, which includes a detailed analysis of the functioning of the model, an analysis of the assumptions and verification of historical (backtesting).

According with the obligations and principles set out in the Regulation of the European Parliament and of the Council (EU) No 575/2013, the Bank calculates regulatory liquidity measures: short-term liquidity measure (LCR - Liquidity Covered Ratio), the liquidity coverage ratio aimed at ensuring that the bank has the appropriate the level of liquid assets of high quality that will cover the liquidity needs within 30 calendar days of stress and long-term liquidity measures (NSFR - Net Stable Funding Ratio), stable funding ratio designed to ensure a minimum level of funding available in the medium and long term. Bank reports the size of the liquidity measures to the regulator, respectively, monthly and quarterly. In accordance with the provisions of the Ordinance of the liquidity coverage requirement is implemented in stages, in 2016 the limit was 70%. The target level of 100% will be introduced from 1 January 2018.

As of 31 December 2016 liquidity measures of Bank amounted as follows:

Liquidity measurement		Minimum	2016	2015
LCR	Liquidity coverage ratio	70%	160%	183%
NSFR	Net Stable funding ratio	n/a*	122%	111%

*) In keeping with the Regulation of the European Parliament and of the Council (EU) 575/2013, the target net stable funding ratio (NSFR) was not defined.

It is worthwhile to expand on the internally-defined reports as this gives good insight into the Bank's approach to measuring and managing risk. The Bank models the liquidity profile of both assets & liabilities to reflect the real customer behaviour. The analysis is done based on mixed approach i.e. analysis of historic data and expert approach.

One of the internal liquidity reports is the structural liquidity report. This liquidity gap represents the gap at time intervals between assets and liabilities of the Bank on properly functioning market. The report is used to monitor and manage mid-and long-term liquidity positions. It serves as a support in the process of planning and financing of the balance sheet, also indicates any significant need for future financing.

This report is an additional scenario for the current balance sheet in normal market conditions. It does not include any additional balance growth forecasts. However, it takes into account typical customer behavior observed in previous periods. For instance, cash flows for mortgage loans include prepayments, while cash flows for savings accounts and current accounts are allocated taking into account the liquidity characteristics.

Structural liquidity report (in PLN milion)

2016							(in mio PLN)
	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years	
Direct gap	25 443.94	5 749.79	20 852.08	-1 539.11	-42 049.02	-8 457.68	
Cumulative gap	25 443.94	31 193.73	52 045.81	50 506.70	8 457.68	0.00	
2015							(in mio PLN)
	1-6 months	7-12 months	1-5 years	6-10 years	11-15 years	over 15 years	
Direct gap	19 053.70	2 294.30	-4 133.80	-20 242.80	3 078.90	-50.50	
Cumulative gap	19 053.70	21 348.10	17 214.30	-3 028.50	50.50	0.00	

A maturity analysis for financial liabilities by remaining contractual maturities

The below table presents the financial liabilities by other contractual maturities – counting from the reporting date. The amounts include future interest payments. In the case of contingent liabilities extended, the earliest possible date for payment of the aforesaid liabilities by the Bank was taken into consideration when making the maturity analysis.

2016

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Liabilities due to other banks	1 998.0	5.2	16.7	0.0	0.0
Financial liabilities measured at fair value through profit and loss	21.6	0.0	7.8	424.6	20.8
Liabilities due to customers	91 933.5	1 188.2	1 966.7	86.7	2.7
Liabilities due to issue of debt securities	0.0	0.0	588.0	315.4	0.0
Subordinated liabilities	0.0	3.3	9.7	52.2	719.1
Contingent liabilities granted	26 994.5	0.0	0.0	0.0	0.0

2015

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Liabilities due to other banks	1 845.8	9.6	0.0	0.0	0.0
Financial liabilities measured at fair value through profit and loss	162.8	0.0	0.0	249.4	217.2
Liabilities due to customers	81 972.1	2 009.5	3 230.5	195.1	3.2
Liabilities due to customers under repo transactions	47.5	0.0	0.0	0.0	0.0
Liabilities due to issue of debt securities	0.0	0.0	22.8	902.9	0.0
Contingent liabilities granted	23 453.5	0.0	0.0	0.0	0.0

Maturity analysis of derivatives by contractual payment dates

The below tables present maturity analysis of derivatives with negative valuation as at the reporting date. The analysis is based on other contractual maturities.

Derivatives settled in net amounts

Derivatives settled net by the Bank include the IRS, FRA and FX Forward NDF transactions as well as options. For IRS transactions, the below data reflect the undiscounted interest future cash flows; for other transactions, their valuation as at 31 December 2016 and 31 December 2015 respectively was taken as the cash flow amount.

2016

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Interest Rate Swap, including:	-74.3	-52.1	37.2	272.8	-217.7
- hedging transactions in the hedge accounting	-31.6	-25.9	41.6	85.8	-129.3
other derivatives	-11.6	-12.6	-26.9	-64.4	-0.1

2015

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
Interest Rate Swap, including:	-79.3	-214.1	-589.6	-2 298.7	-563.6
- hedging transactions in the hedge accounting	-66.1	-115.0	-240.5	-1 057.2	-280.3
other derivatives	-11.6	-20.6	-40.8	-50.2	-3.2

Derivatives settled in gross amounts

Derivatives settled gross by the Bank include the FX Swap, FX Forward and CIRS transactions. The below data reflect the undiscounted contractual cash outflows and inflows on notes and for CIRS transactions – on interest as at 31 December 2016 and 31 December 2015 respectively.

2016

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
outflows	-6 282.3	-2 287.6	-5 818.2	-1 689.0	-628.4
inflows	6 205.9	2 239.6	5 717.9	1 714.6	582.8

2015

(in PLN million)

	up to 1 month	1- 3 months	3 – 12 months	1-5 years	over 5 years
outflows	-3 917.3	-2 963.1	-1 840.8	-2 934.0	-366.1
inflows	3 890.7	2 942.1	1 868.9	2 912.1	340.4

IV. Other material risks management

1. Operational risk management

ING Bank Śląski S.A. manages operational and anti-fraud risks pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulatory bodies as well as by abiding by the standards developed by ING Group.

Operational risk is recognised at ING Bank Śląski S.A. as the risk of sustaining direct or indirect material loss or reputational damage resulting from inadequate or failing internal processes, people, technical systems or external events. Reputation and business risk factors and impact are also watched within the operational risk domain.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing operational and anti-fraud risks by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of Bank employees relating to mitigation of effects and probability of incidents' occurrence in that area.

Furthermore, in agreement with the Supervisory Board, the Bank Management Board adopted the Non-Financial Risk Appetite Statement in 2016, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full compliance with the law and regulatory requirements. Limit utilisation is monitored and presented from time to time to the Bank Management Board, Audit Committee, Risk Committee and Supervisory Board. The Risk Appetite Statement was revised due to the incorporation of ING Securities into the Bank's framework on 01 June 2016.

The role of the Bank Non-Financial Risk Committee and the task forces within individual business lines which support the former in performing supervisory and decision-taking functions is crucial for ensuring continuity and consistency of risk management.

In 2016, caring about the safety of funds entrusted by clients and in order to ensure them access to the services offered by the Bank as well as to maintain the acceptable operational risk level, the Bank continued its efforts to ensure compliance with the new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- analysing key business development-related threats to the Bank business,
- testing controls mitigating key risks at the Bank,

- monitoring and testing business continuity mechanisms for key processes, the crisis management system and the mechanisms ensuring physical security of individuals and the Bank's property,
- becoming more effective in combatting cybercrimes connected with payment transactions and identity theft or funds theft, and predominantly counteracting the Advanced Persistent Threat (ATP) to the Bank's IT infrastructure,
- running a series of risk analyses for the technical applications essential for business and for support applications, including an in-depth analysis of IT systems security vulnerabilities (particularly for transactional and e-banking systems), penetration tests and intensive monitoring of the electronic banking systems,
- continuing thorough risk analyses for individual Bank processes,
- reviewing the scope of scenario analyses and their adaptation to the business strategy of the Bank,
- updating regulations for risk assessment and key control testing as well as for IT security and data management,
- instituting new information risk regulations,
- instituting new IT security standards,
- renewing the local insurance programme of the ING Bank Śląski S.A. Group as regards third-party liability and property insurance adjusted to the current market situation,
- developing the integrated system supporting the operational risk management processes,
- raising employee awareness as regards information safety, IT security included, by conducting the Leaders of Security training project in 2016,
- raising client awareness as regards payment security and other banking services-related threats, and
- showing zero tolerance towards any forms of criminal activity; proven instances of crime are reported to the law enforcement bodies.

2. Model risk management

Model risk is defined as a potential loss that the Bank may incur as a result of decisions which may substantially be based on data obtained using models in internal processes, due to errors in the development, implementation or application of such models.

In relation to aforementioned definition the following risk subcategories are distinguished that are described in "Policy on management of risk models and valuation models at ING Bank Śląski S.A." (Policy):

- the risk related to immanent limitations in the modelling of a specific phenomenon,
- the risk of data,
- the risk of assumptions,
- the administration risk,
- the correlation risk.

The legal basis for the model risk management process is the Policy and the activities are coordinated by the Capital Management Department. The Policy determines among others:

- model life cycle,
- rules for evaluating the significance of the models,
- principles of operation of the model register,
- the rules for calculating capital for model risk,
- the rules for carrying out the validation process.

PFSA requirements defined in Recommendation W, which is in force since 30th June 2016, have been adopted into model risk management process and policy. Mainly the tolerance for model risk (limit) has been established and model risk is reported and managed on individual and aggregated level.

Capital Management Department also maintains the models register which is a repository of information about Bank's risk models and valuation models and its functioning. During third quarter 2016 the register has been modified and transferred to Sharepoint platform, what helps its users access to their model documentation. The register contains among others information about the model significance, the monitoring date and results, the validation date and results and current models risk level.

The Bank regularly assesses the risk of individual models and estimates economic capital for model risk in accordance with the rules set in internal regulations. The method of capital calculation for significant and medium significant models with identified increased or high risk levels are described in economic capital calculation methodology.

The status of activities in that area of model risk management is reported to the relevant Committees, Management Board and Supervisory Board and includes the results of model validation and model risk assessment in the context of the adopted level of tolerance for this risk and the level of capital calculated for model risk.

Validation of models is performed in accordance with "Model Validation Policy at ING Bank Śląski S.A." and validation instructions.

3. Business risk management

Business risk in ING Bank Śląski S.A. includes:

- macroeconomic risk (stress tests) - risk arising from macroeconomic changes and their impact on the minimum capital requirements,
- financial result risk - risk associated with taking adverse or erroneous decisions, the lack of or faulty execution of taken assumptions/objectives and changes in the external environment and an inappropriate response to these changes which results in the financial results under the requirements arising from the need to conduct current operations and development mainly in order to ensure an adequate supply of capital,
- FX mortgage portfolio risk - risk of losses connected with FX mortgage loans conversion into PLN mortgage loans,
- excessive leverage risk- risk connected with institution susceptibility on threats from excessive financial leverage, what can cause unexpected changes in business plan, including fire sale or change in other assets valuation.

The main element of macroeconomic risk management are stress tests, which includes balance sheet, economic and regulatory capital, and profit and loss. These tests are performed twice a year and send to ALCO and once a year to Management Board and Supervisory Board. Economic capital is calculated only when the capital adequacy metrics, in mild recession scenario, are in one year horizon below required level.

Financial result risk has several sources:

- poorly defined financial objectives of the Bank or its improper transfer of the operational and tactical level. Defined financial objectives are not consistent with the introduced new products and/or services,
- inadequate response to events in the economic environment, such as the demand for financial services customers, changes in the socio-political and regulatory/legal environment,
- lack of appropriate means of qualitative and quantitative information to achieve financial objectives,
- improper management processes, including the adjustment of current operations to the market situation and planning of activities for the anticipated market environment.

The management process of financial result risk is realized through management accounting, which includes monthly financial result divided per business lines reporting.

One of the elements of business risk is FX mortgage portfolio risk. It is defined as risk of losses connected with fx mortgage loans conversion into PLN mortgage loans.

Bank on regular basis is monitoring proposed changes in law and takes part in preparing a solution, which will satisfy clients. Bank exposure on FX portfolio mortgage loans is around 1.4 bn PLN. Due to that the portfolio is not significant (around 1%) in relation to total assets PFSA decided not to impose any additional capital requirements on Bank.

Excessive financial leverage risk management is described in section V.2.

V. Regulatory and Economic Capital Management

ING Bank Śląski S.A. manages its capital under the Banking Law, EU Regulations, Macroprudential supervision on financial institutions Act, PFSA Resolutions and relevant internal rules. There are two basic internal documents on capital management:

- „Capital Management and ICAAP Process Policy at ING Bank Śląski S.A.”;
- „Stress-testing Policy at ING Bank Śląski S.A.”.

These documents describe the scope of responsibilities and regulations connected to capital requirements and the capital base calculation, allocation, planning, monitoring and reporting, rules of stress testing process and actions required in case of a solvency crisis.

The Bank's organisational structure and the management model are in line with the guidelines of the European and local regulations. The Bank implemented the resolutions of the European Parliament and Council Regulations (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter “CRR Regulation”); moreover, it is implementing resolutions of specific legal acts and guidelines on a daily basis. To improve this operation, the Bank introduced a process of identifying and monitoring whether the regulations published by the European Commission have been implemented and analyses its influence on the Bank.

The adequacy measures set by the Bank drive us to conclusion that the Bank maintains sufficient capital to facilitate the efficient and effective pursuit of the development plan and running of ongoing operations.

1. Regulatory capital

For the purpose of 2016 reporting, the Bank calculated the credit risk capital requirement using Advanced Internal Ratings Based approach, as well as the Standardised Approach. The Bank received an approval from the Polish Financial Supervision Authority and De Nederlandsche Bank to apply AIRB approach for the following exposure classes: corporates and credit institutions. Credit risk is managed by the Credit Risk Modelling Department, Credit Risk Reporting Department, Credit Risk Policy Department, Corporate Credit Restructuring Department, Central Credit Risk Department and Regional Credit Risk Department.

For operational risk the Bank uses the Basic Indicator Approach (BIA). This area is managed by each business unit with the support of the Non-Financial Risk Area units including Operational Risk Management Department, Compliance Department and Anti-Fraud Department.

For market risk the Bank uses standard approach following the CRR Regulation. The area is managed by the Market Risk Management Department.

The Bank also sets the capital requirements for concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases the requirements are set in compliance with the CRR Regulation.

Capital Adequacy Ratio in 2016 has been above PFSA minimum level (13,25% to November and 13,75% since December). The increase in required ratio is caused by identifying the Bank as other systematically important institution (ratio higher by 0,4 percentage point). To maintain capital ratios above minimum requirements, Bank has decided to keep part of the 2015 result and take additional subordinated loan.

Unrealised gains and losses on debt and equity instruments available for sale are recognized in own funds in accordance with the guidelines in European Parliament and Council Regulations (EU) No. 575/2013 of 26 June 2013 and the Banking Law Act. In accordance with the article 171a of the Banking Law Act applied the following percentages:

- unrealised gains are removed from own funds to 40%, and
- unrealised losses are included in own funds to 100%.

Own funds of the Bank are formed of the Tier 1 capital and Tier 2 capital. As at 31 December 2016, the Bank did not identify the additional Tier 1 capital (AT1).

Under the CRR Regulation, when determining the total capital requirement the Bank takes account of the so called regulatory floor which amounts to 80% of the total comparable capital requirement (it is the sum of capital requirements for individual risk types computed with the use of standard approaches). Should the total capital requirement be lower than 80% of the total comparable capital requirement, the Bank will include the difference as “a supplement to the overall level of capital requirements”.

The table below presents the detailed calculation of basic figures of regulatory capital and total capital ratio for the ING Bank Śląski S.A.

Regulatory capital base and total capital ratio

	2016	2015
Own funds		
A. Tier 1 capital (T1)	8 425.8	7 750.2
A.I. Common equity Tier 1 capital (CET1)	8 425.8	7 750.2
capital instruments eligible as CET1 Capital	130.1	130.1
share premium	956.3	956.3
retained earnings	420.2	398.8
- previous years retained earnings	111.7	93.3
- profit or loss eligible *	308.5	305.5
accumulated other comprehensive income	108.6	155.5
other reserves	6 155.9	5 532.0
funds for general banking risk	1 160.2	1 110.2
intangible assets	-419.6	-409.1
IRB shortfall of credit risk adjustments to expected losses	-85.3	-123.6
value adjustment due to the requirements for prudent valuation	-0.6	0.0
A.II. Additional Tier 1 capital (AT1)	0.0	0.0
B. Tier 2 capital (T2)	642.3	0.0
subordinated liabilities	663.6	0.0
IRB shortfall of credit risk adjustments to expected losses	-21.3	0.0
Own funds taken into account in total capital ratio calculation	9 068.1	7 750.2
Capital requirements		
capital requirements for credit risk, counterparty credit risk, dilution risks and free deliveries risk	3 631.0	3 513.2
capital requirements for position, foreign exchange and commodities risks	77.2	104.4
capital requirements for operational risk	496.3	472.0
capital requirements for credit valuation adjustment risk	15.5	25.8
supplement to the overall level of capital requirements	149.1	0.0
Total capital requirements	4 369.1	4 115.4
Total capital ratio	16.60%	15.07%

*) As at 31 December 2016 in the own funds of the Bank was recognized Bank's net profit in the amount of PLN 308.5 million for the period from 1 January 2016 to 30 June 2016, after deducting the expected charges and dividend, based on the decision of the Financial Supervision Authority of 15 September 2016.

2. Leverage ratio

The calculation of regulatory leverage ratio in the ING Bank Śląski S.A. as at 31 December 2016, was based on provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter referred to as the "Regulation 2015/62").

Leverage ratio is calculated as Tier 1 capital measure divided by the total exposure measure and expressed as a percentage. Total exposure measure is the sum of the exposure value calculated in accordance with the Regulation 2015/62 of all assets and off-balance sheet items not deducted when calculating the Tier 1 capital measure.

Calculation of the leverage ratio at 31 December 2016 for the ING Bank Śląski S.A.

Tier 1 capital	8 425,8
Total leverage ratio exposures	110 073,4
Leverage ratio (%)	7,65

On the basis of CRD IV Directive and implementing standards, the Bank prepared and implemented "The procedure of preparing the report: Leverage Ratio". This document describes the recipients and detailed rules of leverage ratio calculation in LIREP application for NBP reporting.

The Bank implemented management process, including: "Excessive financial leverage risk management policy" and "Leverage ratio planning procedure". The documents provision responsibilities of departments and ALCO Committee. In the Policy, the limit of leverage ratio level was also set and the actions to maintain the ratio on required level are defined. The Bank also included the leverage ratio in stress tests.

In 2016 the leverage ratio was at the level above internal and regulatory minimum. The massive influence on the leverage ratio resulted from credit volumes dynamics and inclusion of 2015 and first half of 2016 net result to Tier 1 capital.

3. Economic capital (internal)**Material risk types identification**

In 2016 at the ING Bank Śląski S.A. the process of material risk types identification is defined in "the Capital Management Policy". This document details the process of material risk types identification, the basic elements for their quantification and capital adequacy management rules. On the basis of above-mentioned document, the Bank identifies the following types of risk:

- permanently material risk - the risk which, in view of the nature of the Bank's business, is currently material and will be material in the future. The nature of the Bank's business shall be understood as deposit and credit services along with related: financial result, liquidity, interest rate and FX risk management and risk management connected with inappropriate and unreliable internal processes, people and technical systems or external events,
- material risk - the risk that may cause potential losses with the frequency of occurrence value qualifying it as material in line with the table below:

Frequency	At least once a year	[Material]			
	At least once in 5 years	[Non-material]			[Material]
	Less frequently than once in 5 years	[Non-material]			
	Potential losses (PLN)	up to 0.2% of capital base	from 0.2% to 1% of capital base	from 1% to 5% of capital base	above 5% of capital base

non-material
 material

- difficult-to-measure risk - the risk for which in the Bank's opinion it is not possible to build qualitative or quantitative metrics, which would properly quantify this risk.

During the 2016 Risk Assessment Workshops, the following risk classification was adopted.

	Risk type	Permanently material	Material	Non-material	Difficult-to-measure
Credit risk					
	Default risk and counterparty risk*	✓			
	Residual risk**	✓			✓
	Concentration risk	✓			
	Residual value risk	✓			
	Transfer risk			✓	
	Other non-credit obligation assets risk		✓		
	„Default” definition risk			✓	
Market risk					
	Exchange rate risk	✓			
	Interest rate general and specific risk in trading book	✓			
Trading risk	Interest rate risk in banking book: total mismatch	✓			
	Interest rate risk in banking book: base risk			✓	
	Interest rate risk in banking book: option risk			✓	
	Commercial property investment and property in own use risk			✓	
Equity investment risk	Capital securities investment risk in banking book			✓	
	Capital securities investment general and specific risk in trading book			✓	
Business risk					
	Financial result risk	✓			
	Macroeconomic risk		✓		
	Portfolio of currency mortgages risk		✓		
	Excessive of financial leverage risk			✓	
Liquidity and funding risk					
	Liquidity and funding risk	✓			
Operational risk					
	Operational risk***	✓			
Model risk					
	Model risk		✓		✓

*) Risk definition includes settlement risk.

**) Capital requirement assessed under the default and counterparty risk methodology.

***) Includes inter alia compliance risk and legal risk as well as IT risk, which is managed under this risk.

Economic capital assessment methodology

At present, ING Bank Śląski S.A. calculates capital for the following risks:

- Default and counterparty risk and residual risk - the risk of potential losses due to counterparty/debtor's failure to fulfill their obligations towards the Group (including transaction settlement and delivery of financial instrument at agreed date) and the risk of value decline for credit exposure due to deterioration of client's creditability. Capital requirement is calculated using modified AIRB method (INCAP) and completed with central counterparty credit risk capital and the capital for the credit valuation adjustment (CVA) risk

as well as the requirement due to settlement/delivery risk which are calculated in compliance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013. Since June 2014 recession LGD parameter has been also used to calculate capital (residual risk).

- Other non-credit obligation assets risk - the risk of not recovering the value of balance non-credit obligation assets by the Group. The capital is calculated in compliance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.
- Concentration risk - the risk resulting from an excessive exposure towards one entity, affiliated entities or groups of entities with similar characteristics, which are therefore exposed to increased credit risk (e.g., sector concentration). The capital requirement is calculated based on the following rules:
 - for individual borrowers or groups of borrowers with capital or organizational ties - according to the rules for determining regulatory capital requirements defined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.
 - for borrowers from the same economy sector/geographic sector, running the same business or trading in similar goods - as the excess of the set concentration limit for this exposures group, net of write-offs.
- Residual value risk - the risk arising from the residual value of the leased asset, which is the difference between the value of the asset and the sum of the lease payments. The contractor has the right to purchase the leased asset, but it is not absolutely obliged to do this. Capital requirement is calculated according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.
- Trading risk - the risk of losses connected with interest rate and exchange rate changes - capital requirement is calculated using the VaR approach.
- Financial result risk - the risk associated with taking adverse or erroneous decisions, the lack of or imperfect implementation of the assumptions/actions and changes in the external environment as well as an inappropriate response to these changes causing the financial results to be below those required to conduct ongoing business and develop, mainly in order to ensure an adequate capital supply. Capital requirement is estimated based on potential losses versus planned financial result.
- Macroeconomic risk - the risk arising from macroeconomic changes and their impact on the minimum capital requirements. The capital requirement determination methodology uses in-house stress tests for mild recession and required capital adequacy metrics.
- FX mortgage portfolio risk - the risk of losses connected with FX mortgage loans conversion into PLN mortgage loans. In connection with potential changes in the legislative environment the ING Bank Śląski S.A Group prudentially approached to the relevant risks. The capital is calculated on the basis of estimation of costs for the Bank and probability of their implementation.
- Liquidity and funding risk - the risk involving the inability to satisfy, at a reasonable price, financial obligations resulting from the balance sheet and off-balance sheet. The Bank and subsidiaries maintain liquidity in such a way that the monetary liabilities of the Bank and its subsidiaries can always be paid with the available funds, proceeds from maturing trades, available funding sources at market prices and/or the liquidation of marketable assets. Capital requirement for this type of risk is calculated as a sum of two elements: replicating portfolio valuation based on Monte Carlo simulation and internal liquidity limits overrunning over M1 and M2.
- Model risk - a potential loss that the Bank may incur as a result of decisions which may substantially be based on data obtained using models in internal processes, due to errors in the development, implementation or application of such models. Capital requirement is

calculated for significant and medium significant models with increased or high model risk using expert judgement.

- Operational risk - the risk of direct or indirect material loss resulting from inadequate or unreliable internal processes, bank employees and systems or from external events. Operational risk includes the risk of non-compliance, legal risk and IT risk which is managed under this risk. To calculate the economic capital requirement, the Group applies the Advanced Measurement Approach (AMA). The model applied is a hybrid model, allowing the Group to measure risk with the use of internal and external data on operational risk events, scenario analysis as well as business environment and internal control factors.

ICAAP review process

Every month, the Bank prepares separate and consolidated reports on realised capital requirements for all types of material risks and planned values. These reports are received by the Assets and Liabilities Committee (ALCO) and the Management Board. The Supervisory Board is informed about the Bank's and Bank's capital adequacy, including internal capital, on the regular basis.

Once a year, ICAAP review process is performed. The review report is sent to the Management Board and Supervisory Board of ING Bank Śląski S.A. Additionally, once a year, an independent ICAAP audit is carried out by the Internal Audit Department.

Due to KNF agreement on shifting ICAAP Review Report on first quarter 2017, the last full cycle of risk materiality assessment process has taken place in 2015. As a consequence in 2016 there has not been any changes in material risks list.

In 2016 own funds have been above economic capital. The main element of economic capital has been credit risk, which main driver is credit portfolio and model changes. The highest volatility has been identified in client behavior risk (part of liquidity and funding risk), which depends on interest rates.

4. Dividend

PFSA guidance on dividends

On 06 December 2016, the Polish Financial Supervision Authority (PFSA) adopted a stance on the banks dividend policy in 2017 (dividend for 2016). In order to ensure further stable sector development, the PFSA recommends the dividend policy to banks which will further consolidate their capital base, notably in the context of risk associated with the potential statutory resolution of the mortgage-backed FX loans issue. The PFSA recommends in particular that the dividend be paid out solely by banks meeting all the below criteria:

- banks which do not pursue the corrective programme,
- their BION final score is not worse than 2.5,
- their financial leverage is above 5%,
- the Tier 1 ratio plus the security buffer:
 - banks classified as other systemically important institutions (O-SII) – over 13.25% plus 75% of potential capital add-on for FX loans risk plus the buffer of other systemically-important institution,
 - other commercial banks – over 11.25% plus 75% of potential capital add-on for FX loans risk,
 - banks having the total capital ratio over 13.25% plus the FX buffer plus the buffer of other systemically-important institution

The PFSA recommends that the banks satisfying all the above criteria can pay out up to 50% of the profit earned.

By the end of Q1 2017, the PFSA Office will have provided the banks with individual dividend recommendations taking account of the current bank standing.

ING Bank Śląski S.A. Dividend Policy

On 15 September 2016, the Supervisory Board approved the ING Bank Śląski S.A. Dividend Policy as recommended by the Bank Management Board. The Policy provides for:

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

When determining the recommended dividend payout amount, the Bank Management Board will review in particular:

- the current financial standing of the Bank and Bank Group, including limitations in case of generating financial loss or low profitability (low ROA/ROE),
- the assumptions of the Bank's and Bank Group's management strategy, including risk management strategy,
- PFSA's stance on the banks' dividend policy, and
- the limitations under Article 56 of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 05 August 2015.

Dividends paid/proposed

By the approval date hereof, the Management Board of ING Bank Śląski S.A. did not take a decision on the 2016 profit distribution proposal to be recommended to the General Meeting.

On 31 March 2016, the General Meeting passed a resolution regarding dividend payout for 2015, pursuant to which the Bank paid out the dividend for 2015 totalling PLN 559,430.0 thousand, (PLN 4.3 gross per share). On 20 April 2016 the shareholders of record became entitled to the dividend payout which took place on 5 May 2016.

5. Disclosure requirements (Pillar III)

Regulatory disclosure are met by COREP and FINREP reporting as well as publishing additional qualitative and quantitative information, based on European and local regulations. The Bank analysed the regulations binding as at 31 December 2016 and published the required information on its website.

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

2017-03-02	Brunon Bartkiewicz President	<i>Signed on the Polish original</i>
2017-03-02	Mirosław Boda Vice-President	<i>Signed on the Polish original</i>
2017-03-02	Michał Bolesławski Vice-President	<i>Signed on the Polish original</i>
2017-03-02	Joanna Erdman Vice-President	<i>Signed on the Polish original</i>
2017-03-02	Marcin Giżycki Vice-President	<i>Signed on the Polish original</i>
2017-03-02	Justyna Kesler Vice-President	<i>Signed on the Polish original</i>
2017-03-02	Patrick Roesink Vice-President	<i>Signed on the Polish original</i>

SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTS

2017-03-02	Jolanta Alvarado Rodriguez	Director of Accounting Department Chief Accountant	<i>Signed on the Polish original</i>
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