

Management Board Report on Operations of ING Bank Śląski S.A. Group in 2018

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

Table of contents

Management Board Report on Operations of ING Bank Śląski S.A. Group in 2018

Letter from the Chairman	5
President's review	6
About us	8
Who we are	8
What makes us stand out	15
Ethics, values and compliance	21
How we create value	23
Market now and in the future	23
Value creation model	35
ING Bank Śląski S.A. strategy	43
Our financial results	50
Consolidated results of ING Bank Śląski S.A. Group	50
Separate results of ING Bank Śląski S.A.	64
Customer experience	75
Dialogue	78
Solutions	79
Facilities for companies and entrepreneurs	84
Market growth by access to financing	86
Branches	89
Communication addressed to companies	91

Financial education of customers and access to know-how	91
---	----

Green investment and care for the environment **93**

Bank of green investments	93
---------------------------	----

Bank which is eco-aware	95
-------------------------	----

Bank and client safety **99**

Risk and capital management system	99
------------------------------------	----

Credit risk	106
-------------	-----

Market risk	114
-------------	-----

Funding and liquidity risk	116
----------------------------	-----

Model risk	118
------------	-----

Business risk	118
---------------	-----

Way of working **120**

Who are our employees	120
-----------------------	-----

Innovation culture and competent employees	123
--	-----

Strong employer	126
-----------------	-----

Social responsibility and financial education	129
---	-----

Non-financial statement **136**

Business model	136
----------------	-----

Key non-financial performance indicators	138
--	-----

Applied policies related to non-financial issues and due diligence procedures	138
---	-----

Description of non-financial risk	147
-----------------------------------	-----

ING Bank Śląski S.A. Management Board report on observance of principles of corporate governance

Principles and scope of corporate governance	155
Risk control and management system in the financial reporting process	157
Shares and shareholding structure of ING Bank Śląski S.A.	158
Charter and rules of amending the Charter	159
The General Meeting	160
Supervisory Board	161
Management Board	164
Remuneration of the members of the Management Board and the Supervisory Board	167
Diversity Policy	170

Other information 172

Investor information	172
Position of the Management Board on the potential realisation of the previously published forecasts	174
Seasonal or cyclical nature of the business in the reporting period	174
Agreements conducted	174
Types of credit risk collateral	175
Instigated court proceedings	175
Business development perspectives	175
Entity authorised to audit financial statements	176

About the report 177

How was the report compiled	177
Who was involved in the report compilation	178

Glossary 180

GRI Content Index 184

Profile indicators	184
Detailed indicators	185

Management Board statements 186

Truthfulness and fairness of statements	186
Selection of entity authorised to audit financial statements	186

Letter from the Chairman

Dear Stakeholders,

2018 was a year of a marked economic revival in the Poland. After the successful year 2017, the GDP growth accelerated from 4.8% to 5.1%, despite an ongoing downturn in Eurozone economies. The internal demand, in particular household expenses, and investments co-financed from EU funds remained the driving force of the Polish economy growth. Solid economic growth and moderate inflation prompted the Monetary Policy Council to maintain the unchanged level of interest rates in 2018, invariably from March 2015. Those factors were reflected in the monetary aggregates. A strong private consumption led to accelerated growth rate of PLN retail housing loans and a continued relatively high growth in other retail loans. A marked rebound in private investment projects made corporate lending gather speed.

Despite the environment of low interest rates, the growth rate of deposits significantly accelerated, especially in the area of households. This was related to the downturn in the capital market and problems in the investment fund market.

In 2018, regulatory changes also took place. At the beginning of 2018, a new financial reporting standard was introduced – IFRS 9: Financial instruments which replaced IAS 39. In 2018, also the Directive No. 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MIFID II) went into force. In addition, business entities, including banks, also worked very intensively on the implementation of Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons and on implementation of the VAT split payment mechanism. Since January 2018, the NBP reduced reserve requirement rate, and since March 2018 the reduced reserve requirement rate on funds acquired for at least two years have been in force. The public discussion about CHF-denominated housing loans continued for the fourth year. Still unresolved, although the works of the Sejm committee have accelerated again in early 2019.

The financial sector continues to be affected by changes to ownership. The sector consolidation continued in 2018 and it will most likely also take place in 2019.

Despite volatile economic and regulatory conditions, the ING Bank Śląski S.A. Group consistently delivered on its business strategy, aimed at increasing the scale of operations through welcoming clients and offering convenient and state-of-the-art solutions and products, designed to meet expectations of clients in all segments. In 2018, invariably

and consistently for over 10 years now, the Group increased its lending and deposit portfolios considerably, while maintaining good quality assets and sustaining solid capital and liquidity positions.

As at 2018 yearend, the Group served 4.86 million clients, or 6% clients more than as at 2017 yearend. In the retail segment, the number of clients rose by 6% to 4.80 million; in the corporate segment, by 11% to 62 thousand. As at 2018 yearend, net loans and other receivables from customers amounted to over PLN 103 billion, up by 13% from 2017 yearend. The value of funds deposited by customers grew at a similar pace and totalled nearly PLN 118 billion as at the yearend. In consequence, the Group's balance sheet total was PLN 142 billion, up by 12% from 2017.

The Group closed the year with a solid capital and liquidity base. The total capital ratio settled at a comfortable level of 15.6%. As the loans grew faster than deposits (loans excluding Eurobonds), the LTD ratio arrived at 87.6% as at the yearend, or went up by 3.9 p.p. from the year earlier.

2018 also proved a record year for the ING Bank Śląski S.A. Group in terms of profitability. Net profit went up by 8.8% y/y to PLN 1,526 million and ROE arrived at 12.5% (12.6% the year earlier).

The Bank Supervisory Board actively assisted the Management Board through close analysis of its actions, and also participated in the making of key decisions. The Supervisory Board monitored market risk, liquidity and capital adequacy management areas with particular care. The Supervisory Board was also involved in the setting of the Group's priority development directions. The Supervisory Board members were in the composition of the Audit Committee, Risk Committee as well as Remuneration and Nomination Committee.

I do hope that the strategy of the ING Bank Śląski S.A. Group and prudent actions of the Management Board supported by the Supervisory Board will enable the Group to develop further.

Yours faithfully,

Antoni F. Reczek

Chairman of the Supervisory Board

President's review

GRI [102-14]

Ladies and Gentlemen,

We would like to present to you the annual report of the ING Bank Śląski S.A. Group for 2018. We do believe that our financial results and commercial performance prove that the Bank and the whole Group are heading in the right direction. Invariably, we put great focus on customer needs, high quality of service, innovative products and services and sustainability, and we consistently develop in these areas. With such an approach, we continue to cement our competitive position.

Organic growth still stirs our development. Higher number of clients and their growing activity translate into higher business volumes and better financial results. We service 4.8 million clients. As the number of clients is growing, so is their satisfaction with our services. This is affirmed by the results of the NPS in which we are repeatedly listed among the leaders in the country.

We calibre our products and services to the today's context of our clients – online, mobile and direct. We offer Google Pay service to individual clients to allow them make payments with their mobile. Mobi Account - a modern bank account facilitating mobile banking designed for young people.

We want to support our clients in their businesses and give them tools and solutions that make their business life easier. Business Financial Manager provides our clients with clear analysis of business finances, businessman's calendar and ING Accounting.

We also support innovative enterprises that purchase technologies or implement in-house solutions; we extended most of the technological loans under the cooperation agreement signed with BGK; we also made available the microfactoring service helping the entrepreneurs to maintain financial liquidity of their businesses quickly and easily.

We have launched imoje – the first in Poland online payments for online shops offered by the bank, with all most popular methods of payment: BLIK, payment cards, instant transfers and the novelty in the Polish market: “Buy now and pay in 21 days” option that was implemented in collaboration with the start-up Twisto. With fast development of digital technology, the clients' behaviours and expectations change, also as regards their contact with the bank.

My Assistant is our answer to the needs of clients who use browsers and chat applications on a daily basis. It helps them to find information about functions of the My ING system quickly and easily.

Sustainability is a key element of the long-term value building strategy of our bank. We know that the future world in which next generations will live depends on the decisions we take today. Being a financial institution we influence numerous business processes and choices made by individuals. We feel responsible for that. We want to take our decisions respecting the environment and our stakeholders. Thus, in 2018 we formed and followed a new sustainability strategy which laid down 4 key directions: Bank for the enterprising, Bank of equal opportunities, Bank of green investments and Bank which is eco-aware.

In our day-to-day work, we abide by the Orange Code encompassing ING Values and Behaviours. It is a very important part of our corporate culture.

Despite high competition on the market, our Group keeps growing and increasing its market shares. In 2018, our major business achievements included:

- The portfolio of gross receivables from customers exceeded PLN 104.4 billion. This translates into an increase by 23% y/y, more than twice as fast as the entire sector.
- Savings money of our clients arrived at PLN 117.7 billion, or went up by 13% y/y.
- Factoring turnover totalled PLN 31.5 billion, more by 13% y/y.
- Lease sale amounted to PLN 4.6 billion, more by 25% y/y.

Growing scale of business translates into better financial results of the Group. Due to our continuing work to improve effectiveness, the C/I ratio went down to 44.5%. This improved the net result by 8.8% y/y, up to PLN 1,526 million, which is the best net result in the 30-year history of our Group. Capital and liquidity ratios stay above the regulatory requirements. Our assets continue to be of much better quality than the sector average.

2018 saw a very high economic growth, in excess of 5%. Domestic demand, especially household spending and investment projects co-financed with the EU funds, drove the growth. We expect that the GDP growth rate will slow down in 2019 due to lower dynamics of private consumption. However, it will remain at a relatively high level of 3.6%.

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

Yours respectfully,

Brunon Bartkiewicz

President of the Management Board

About us

Who we are

[GRI \[102-1\]](#) [\[102-3\]](#) [\[102-4\]](#) [\[102-6\]](#) [\[102-7\]](#) [\[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

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

We have been present in the Polish banking market since 1989. We enjoy the position of one of the largest all-round banks in Poland. We render services to both retail clients and business entities. As at 2018 yearend, we operated through 337 branches and 63 ING Express points. We also offer modern online and mobile banking systems.

Our organisation has two main locations – in Warsaw and in Katowice. This is where we take the most important decisions concerning the operations of our Bank. The Management Board and Supervisory Board are seated there as well. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of December 2018, as a Group we employed over 8,000 people.

We pursue our business model by:

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

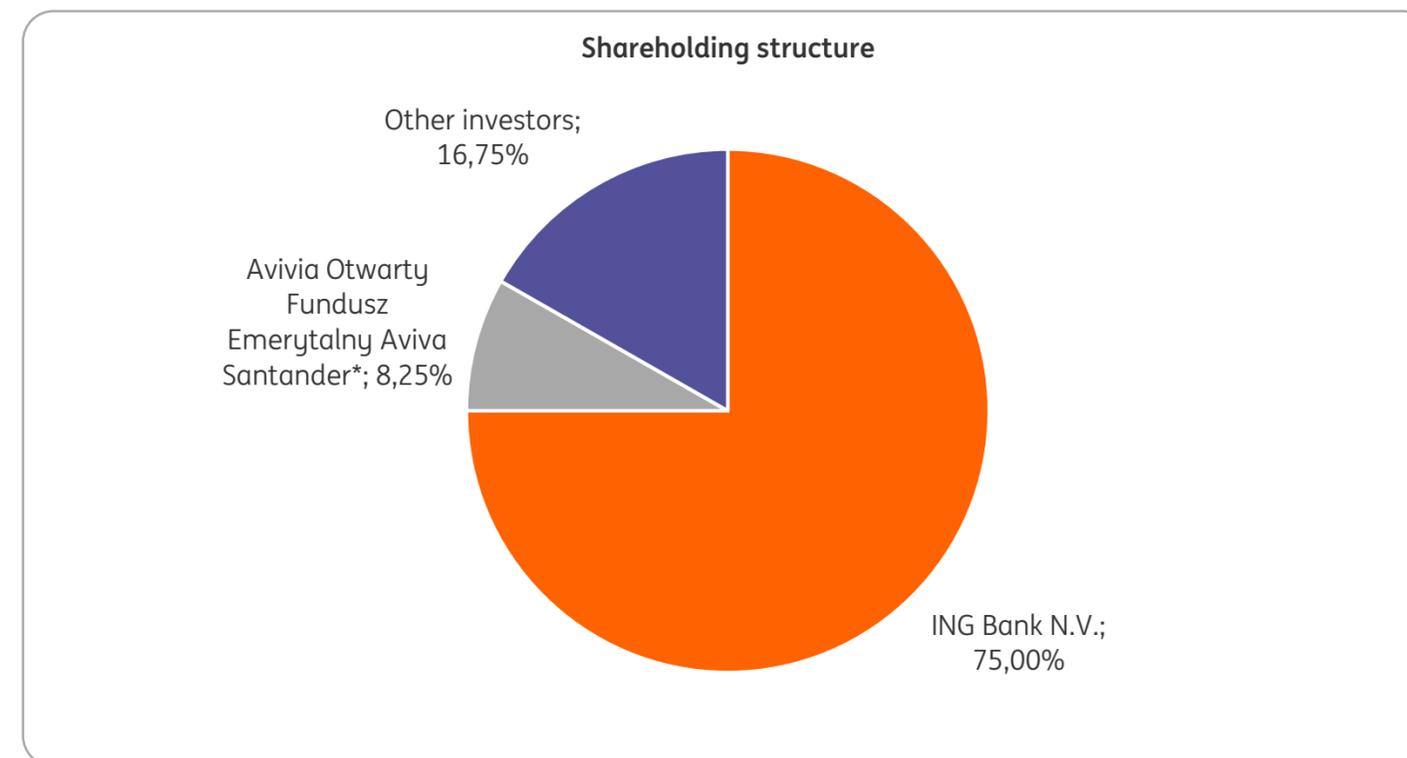
We are empowering our clients to make accurate financial decisions. We provide them with tools to make banking easy, transparent and available 24/7. Delivery of our strategy is supported by our strong brand. ING is one of the three best recognisable banking brands in Poland. This is confirmed by the "Brand Tracking" study conducted by Kantar Millward Brown (CAPI measurement method, October-December 2018). The bank's offer is attractive to consumers - we take first place in account, savings and loans consideration (CAWI measurement method, October-December 2018). ING definitely stands out from the competition at the image level. We are the leaders in two dimensions of key importance for ING: "bank for the resourceful and enterprising" and "bank which responds to people's needs" (CAPI and CAWI, October-December 2018). ING ads are the most recognizable in the categories, and bank marketing

campaigns have been awarded in industry competitions (Golden Banker, EFFIE, Advertising Creators Club, MIXX Awards).

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

Bank shares have been quoted on the Warsaw Stock Exchange since 1994. Since the very index formation (September 2013), we have been among the WIG30 companies. We are the only company from the finance sector which has been uninterruptedly present (for 12 rounds) in the Respect Index – the index of most socially responsible WSE companies.

Who is the owner of our bank



*As per annually reported assets structure of Avia Otwarty Fundusz Emerytalny Aviva Santander, as at 31 December 2018.

Our bank is a public company. It means that every single person can co-own it by acquiring shares on the Warsaw Stock Exchange. As at 2018 yearend, 75% of shares were held by ING Bank N.V. from the Netherlands, while 8.25% were owned by Aviva Otwarty Fundusz Emerytalny Aviva Santander (as per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 31 December 2018).

The other shares (16.75%) are held by remaining investors, mainly of other open-end pension funds and mutual fund companies.

For detailed information on the controlling shareholder of the Bank, see Chapter “ING Bank Śląski S.A. Management Board Reports on Observance of Principles of Corporate Governance” in item “Profile of the Controlling Shareholder”.

How does ING Group operate in Poland

ING Bank Śląski S.A. is part of a bigger organism – ING Bank Śląski S.A. Group. As a Group, for 30 business years, we have managed to establish our position among the top financial institutions in Poland. We are number five as far as the balance sheet total is concerned (over PLN 141 billion as at 2018 yearend) and number four in terms of the commercial balance (the total of deposits and loans). We form the Group together with the subsidiaries, where we operate in the area of:

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

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

Changes to Group structure:

ING Bank Hipoteczny S.A.

On 16 January 2018, the Polish Financial Supervision Authority permitted us to establish a mortgage bank under the name of ING Bank Hipoteczny Spółka Akcyjna with its registered office in Katowice. The sole shareholder of ING Bank Hipoteczny S.A. is ING Bank Śląski S.A. On 2 January 2019, the Bank was notified that the Polish Financial Supervision Authority had authorised ING Bank Hipoteczny S.A. to start operations.

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

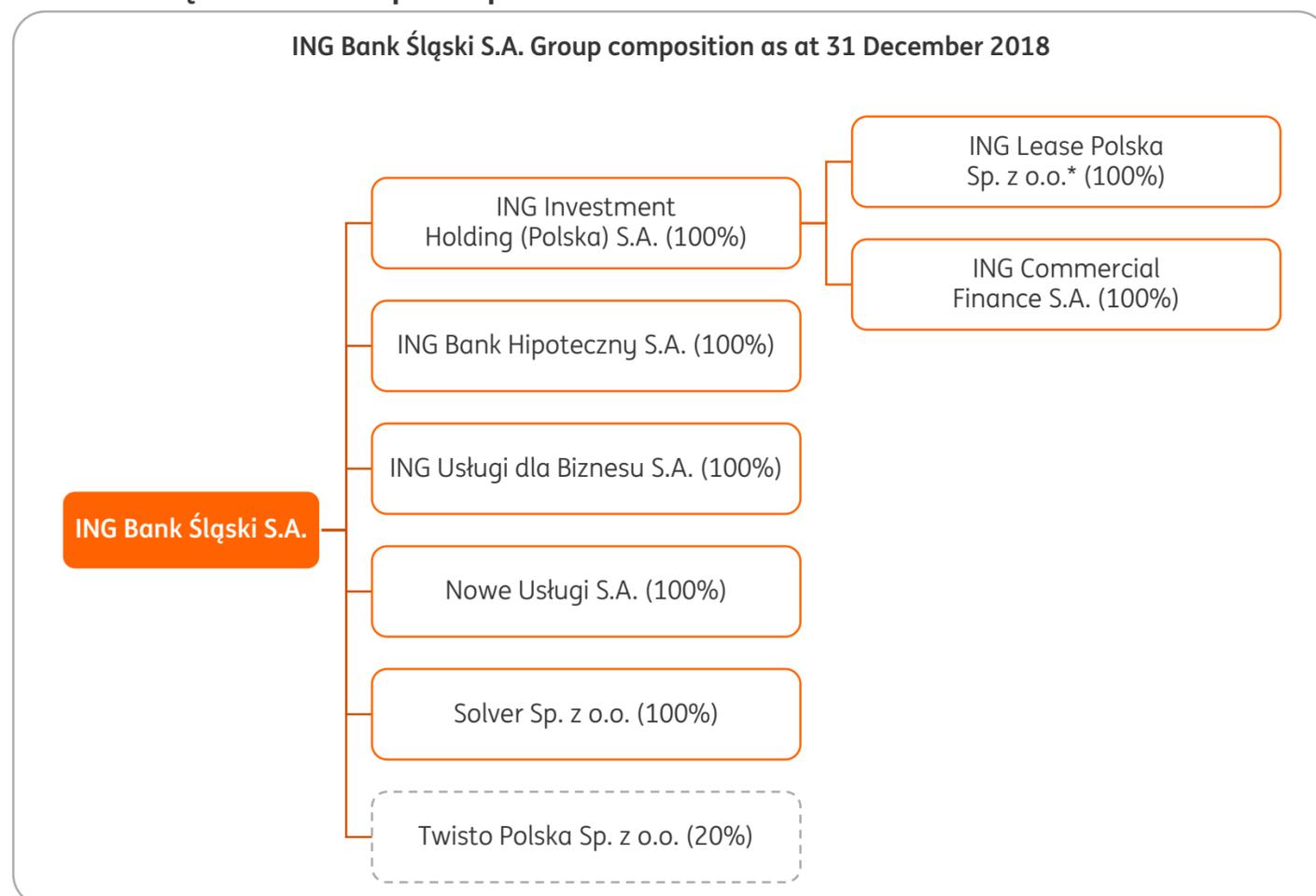
Renaming ING ABL S.A. to ING Investment Holding (Polska) S.A.

In accordance with the resolution of the Extraordinary General Meeting, ING ABL S.A. changed its name to ING Investment Holding (Polska) S.A. The District Court for Katowice-Wschód in Katowice, Commercial Division No. 8 of the National Court Register registered the change of name on 13 December 2018.

Intention to purchase a 45%-stake in NN Investment Partners TFI S.A.

On 18 December 2018, ING Bank Śląski and its subsidiary, ING Investment Holding (Polska) S.A., signed with NN Investment Partners International Holdings B.V. preliminary agreement for the acquisition of a 45% of shares of NN Investment Partners TFI S.A. According to the purchase agreement, the key condition precedent for the closing of the transaction is the absence of an objection by the Polish Financial Supervision Authority. We expect the purchase transaction to be finalised in Q2 2019.

ING Bank Śląski S.A. Group composition



*The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares.

ING Investment Holding (Polska) S.A.

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

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

ING Lease (Polska) has been present in the market since 1996. Since 2012, it has been a member of the ING Bank Śląski S.A. Group. ING Lease (Polska) offers all basic types of lease and a cash loan which can be used to finance both

movables (passenger cars, light-duty vehicles, heavy transport means, machinery and equipment, medical and IT equipment) and immovables. The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares. Company services are targeted at all market segments: large, medium and small enterprises as well as clients from the micro (Entrepreneurs) segment.

In 2018, the new lease production of the company totalled PLN 4.6 billion (up by 25% y/y). It allowed ING Lease (Polska) to be #7 in the market, with a market share of 5.6%. At the end of 2018, the company served 24.9 thousand clients (up by 40% y/y) and its portfolio worth exceeded PLN 8.6 billion (up by 20% y/y).

ING Commercial Finance S.A.

ING Commercial Finance offers factoring products. The company was incorporated in 1994 under the name of Handlowy Heller. Upon its incorporation into ING Group, since 2006 the company has been operative under the name of ING Commercial Finance. Since 2012, it has been the member of the ING Bank Śląski S.A. Group – like ING Lease (Polska).

As per the Polish Factors Association's data, since 2014, ING Commercial Finance has been the leader of the factoring market in Poland. In 2018, ING Commercial Finance turnover totalled PLN 31.5 billion, which represented 13.0% of the market turnover. In 2018, the Company served nearly 3.2 thousand clients (up by 87% y/y) and bought out 24% more invoices versus 2017.

ING Bank Hipoteczny S.A.

In 2018, the Bank Group was joined by a new subsidiary – ING Bank Hipoteczny S.A. The Polish Financial Supervision Authority consented to ING Bank Hipoteczny establishment on 16 January 2018 and on 2 January 2019 it consented for ING Bank Hipoteczny to start operations. ING Bank Śląski S.A. holds 100% of shares in the new entity.

The main business purpose of ING Bank Hipoteczny will be issue of long-term mortgage bonds with the underlying instruments being debt claims under the mortgage-backed loans acquired from ING Bank Śląski S.A. or other banks.

ING Usługi dla Biznesu S.A.

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

- Aleo.com – open business purchase platform,

- ING Accounting – accountancy and payroll services for companies keeping full accounting records and a platform for invoicing and managing payments for entrepreneurs.

Nowe Usługi S.A.

The company was incorporated in May 2014. It conducts educational and marketing activities. As far as educational activities are concerned, the company runs the website edukacjagieldowa.pl. It is a website about investing and stock exchange, both for debuting and fully-fledged investors. The knowledge database and investment-related materials are published on an ongoing basis on the website.

Marketing activity centres around popularisation of ING Turbo certificates on the Polish market. The instruments are issued by ING Bank N.V. Amsterdam and quoted on the Warsaw Stock Exchange. The main activities of the company are the organisation of marketing campaigns, ING Turbo helpline service or technical support while running the ingturbo.pl website.

Solver Sp. z o.o.

Solver Sp. z o.o. runs business being:

- arranging holidays for employees and their families as well as for pensioners of ING Bank Śląski S.A. This activity is carried out in the Pan Tadeusz Training and Recreational Centre in Krynica,
- renting 5 residential premises in the building in Katowice at ul. Klimczoka 4 in Katowice.

Twisto Polska Sp. z o.o.

Twisto Polska Sp. z o.o. was incorporated in 2017. Its shareholders are ING Bank Śląski S.A. and Twisto Payments a.s. – a Czech fintech offering innovative solutions for payments in e-stores.

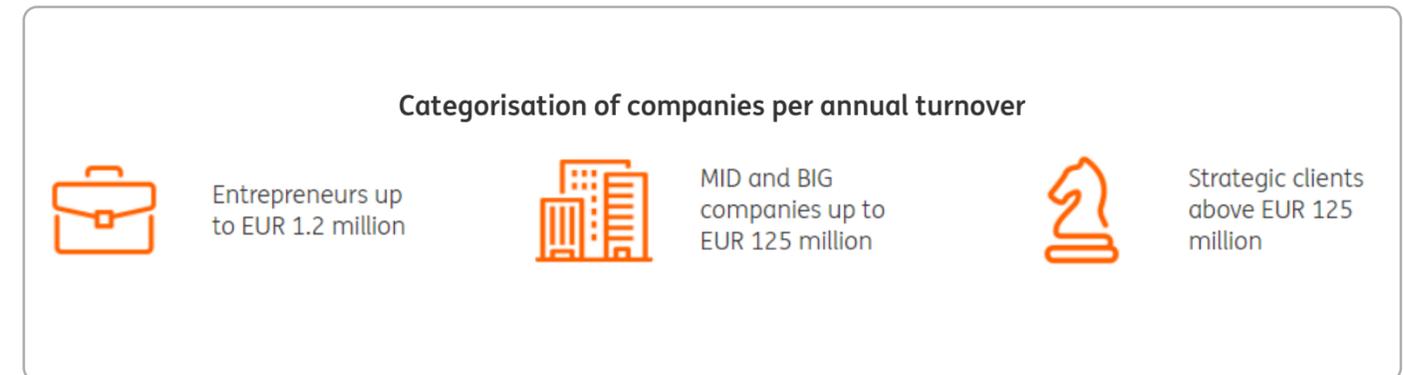
The ING Bank Śląski's investment was made primarily to launch Twisto services on the Polish market and their innovative purchase formula “Buy now and pay in 21 days”, with which clients buying at e-stores can make orders and pay for them within 21 days. The Twisto payment method is available in the payment gateway “imoje” activated by the Bank in April 2018.

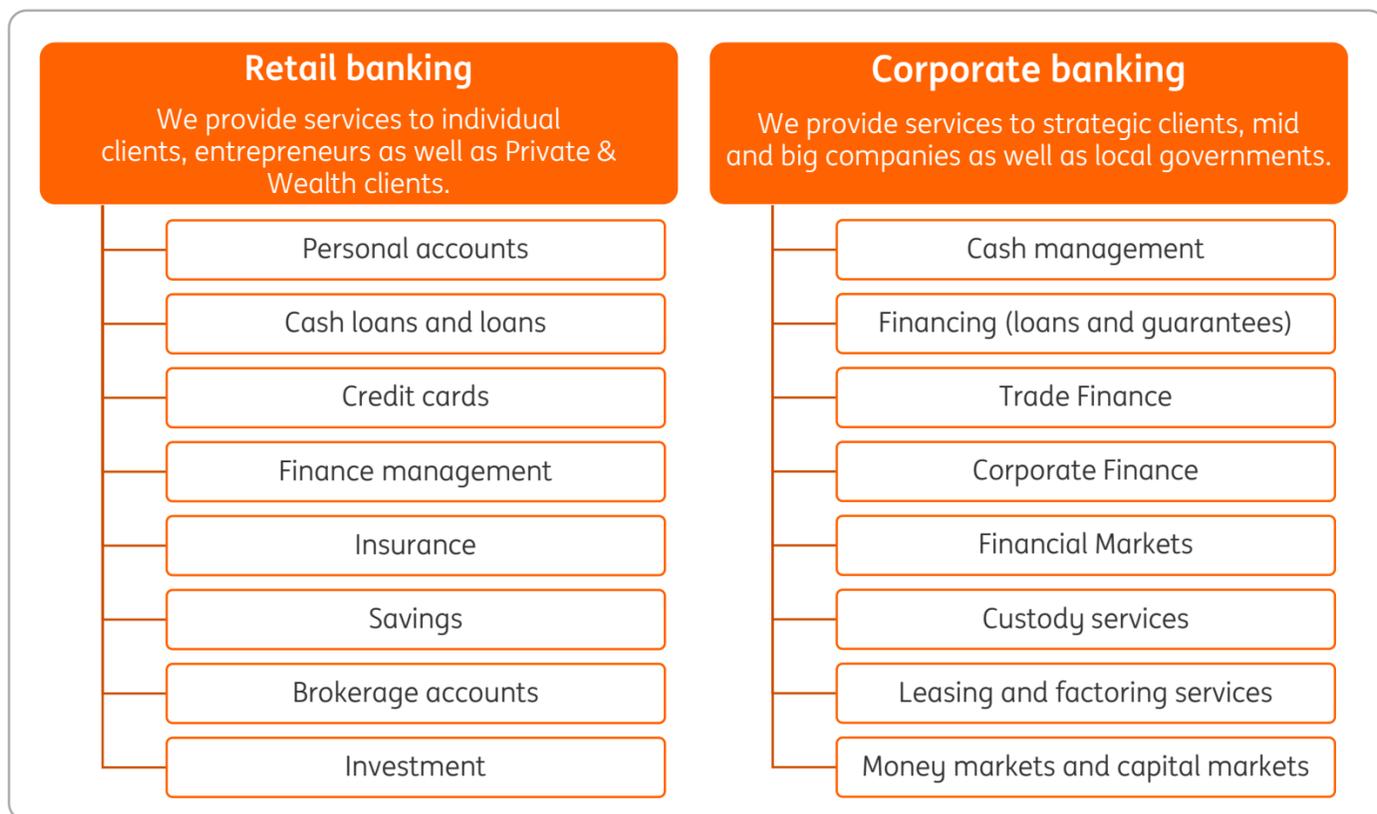
Offered products

GRI [102-2] [102-6]

We are one of the largest all-round banks in Poland. We are strong in the primary markets of banking services (loans and deposits) and banking-related products (leasing and factoring). We run business via two segments: retail banking and corporate banking. As at 2018 yearend, we served 4.86 million clients.

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





External initiatives we are involved in

GRI [102-12] [102-13]

ING Group is a signatory of e.g.:

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

We are also members of:

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

In Poland, we are members of:

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

Our vendors

GRI [102-9] [308-1] [414-1]

In 2018, in line with in the Procurement Policy, the supplier qualification process continued. The supplier qualification process mitigates the risk of cooperation with suppliers engaged in undesirable criminal, financial or economic practices, including bribery- and corruption-related practices or that are financially, socially or environmentally unsound.

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

In 2017, the number of qualified suppliers went up locally and globally. As at 2018 yearend, 534 suppliers in the procurement area were assigned the qualified status. In 2018, 215 suppliers were screened, out of which 194 (90%) were qualified positively. Suppliers are qualified on the basis of the adopted criteria that are compliant with the values and ethical principles adopted in the Bank’s mission and strategy.

Vendors with whom the bank cooperates are in 91.1% of vendors from Poland. The remaining 8.9% are foreign vendors. In only 2018, 357 purchasing processes were carried out.

Vendors who declare compliance with the vendors code at <https://www.ingbank.pl/o-bank/dostawcy> and accept the document developed by the ING Group „ING Supplier Terms of Engagement" undertake to comply with the basic standards. These include: compliance with applicable law, including employee rights, in relations with employees, as well as respect for their personal dignity, privacy and individual rights. The vendor should also provide its employees with a safe and harmless workplace in terms of health and take care of environmental protection, striving to minimize the burden of the environment as part of the conducted activity and taking actions to improve it. He should also comply with bans on forced labour, child labour, corruption and discrimination.

It is important for us to be able to document compliance with the above standards. For this purpose, the bank may ask vendors to provide the so-called evidence:

- certificates issued by third parties confirming compliance with the provisions by the vendor, if available

- copies of current internal documents related to the policy of codes of conduct and equivalent documents confirming the vendor's activities undertaken for the purpose of establishing and observing them.

In 2018, we sent a wider questionnaire in the area of social responsibility to a selected group of 5 vendors. There were questions about environmental protection, employees and forms of employment, questions about general information about the company (examples: percentage energy consumption broken down into renewable and non-renewable energy, or the company operates according to international ISO standards).

Vendors of ING Bank Śląski S.A. also used the trading and auction platform for companies – Aleo. Following registration on the www.aleo.com website, suppliers could participate in auctions organized under the Bank tender proceedings. In 2018, over 75 auctions were organized through the platform, while all of the auctions using the platform were 455. Bank suppliers and clients could also use the platform to support their own procurement processes.

As part of the Supplier Management process, which includes establishing and maintaining relationships, we set the following goals:

- setting a coherent vision and cooperation strategy with the bank's suppliers.
- minimizing risk in cooperation with suppliers.
- covering suppliers with a uniform management process, including comprehensive management information on the supplier.

In 2018, 78% of strategic vendors assessed the cooperation with the Bank as very good. Moreover, on the basis of business partner cards, we analyse:

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

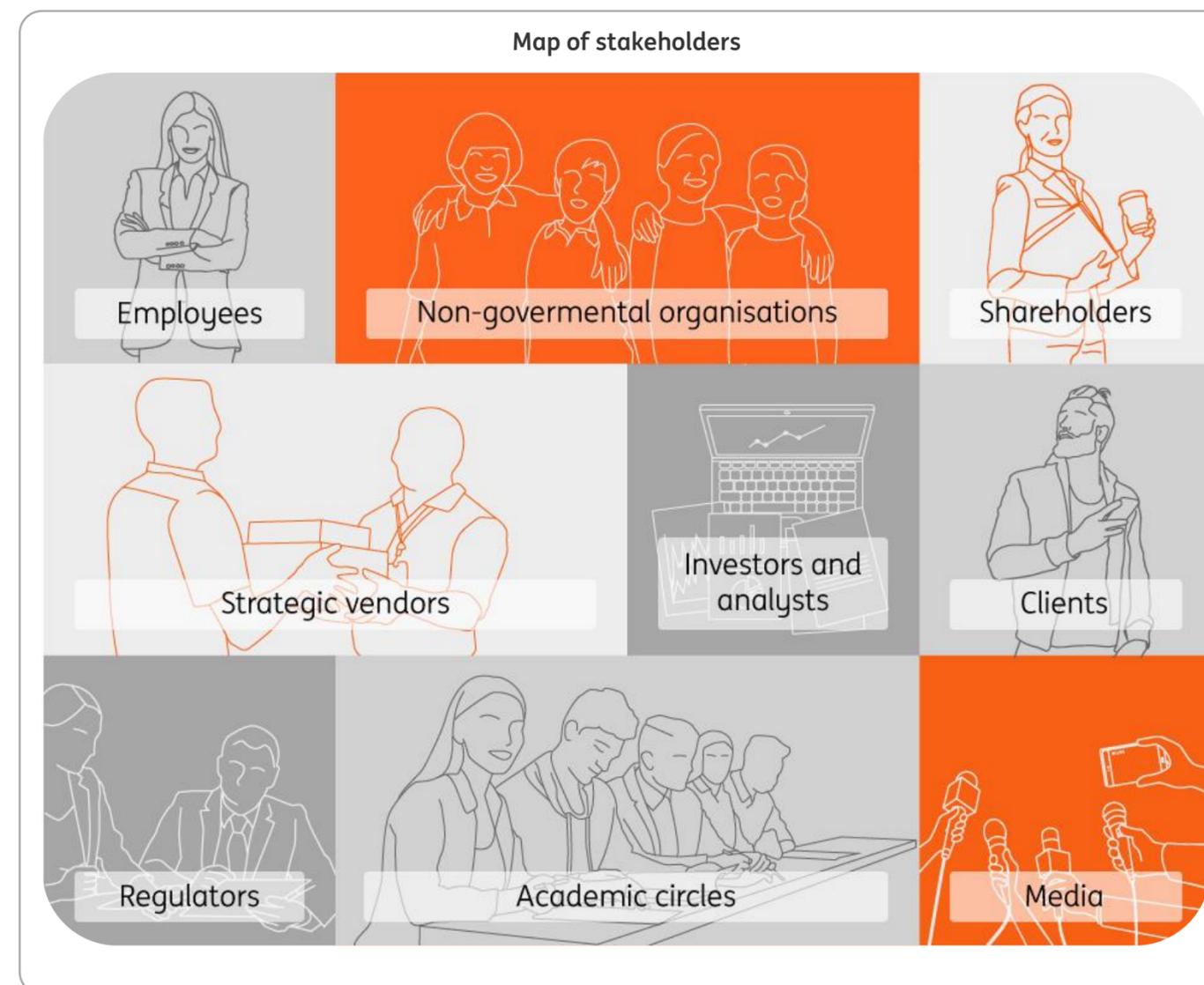
Additionally, suppliers are asked to inform us about innovations they implement or they are planning to implement in their company. The said materials are discussed at the annual vendor performance review meeting.

Good communication is the basis for finding an agreement in mutual cooperation, therefore, when choosing a partner, the bank pays attention to the financial but also to the non-financial aspects of this cooperation. We expect from our suppliers an innovative approach and support, knowledge sharing, flexible response to the bank's needs and building partner relations.

Relationships with external parties

GRI [102-40] [102-42] [102-43] [103-1] [103-2] [103-3]

Our operations touch many lives: customers, employees, shareholders, vendors and society at large. We are aware that expectations of our stakeholders vary. We try to balance them in our daily work. We spare no effort to ensure professional and friendly communication between our bank and its both internal and external environment. We use advanced tools to develop the best practices as regards cooperation and dialogue with stakeholders. We operate with awareness of and respect for international standards – the Universal Declaration of Human Rights and the UN Global Compact. We also apply the Good Banking Practice Principles– we care for equal treatment of all shareholders and attach importance to wide access to information and effective communication with capital market participants.



All groups of our stakeholders are important from the perspective of business strategy, sustainable development strategy, direct and indirect influence of the organization. The strategic dimension is the most important for them themes. Thanks to this, we can implement them effectively and quickly. We identified our stakeholders while developing the 2011-2012 CSR Report. No other stakeholders have been identified since then.

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

Clients

Clients are one of the most important groups of our stakeholders because without them we would not be our organization. Their opinions and needs are extremely important to us, which is why we collect them on a regular basis, analyse them and try to implement them into our products and services (client voice). We run satisfaction and other surveys like NPS or FCR on a quarterly or yearly basis.

Investors and analysts

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

Shareholders

We ensure that all shareholders are treated equally as well as pay attention to wide information access and effective communication with capital market participants.

Media

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

Employees

Every year, we hold an Organizational Health Index (OHI) survey or a Work Performance Culture (WPC) scan alternately. Additionally, Pulse Check is carried out once a quarter. On the intranet, employees chat and blog with the CEO. We also organize anonymous chats with board members, where each employee can ask a question which is answered each time. Employee interests and rights are represented by employee organisations – the Works Council and trade unions. The Works Council provides information and runs consultations on the matters of significance to the employees. The Council has 8 members and holds cyclical meetings. There is a trade union, NSZZ Solidarność, at the Bank which gathers over 450 employees.

Non-governmental organisations

Communication with non-governmental organisations is very important for us. We contact them regularly, via various tools. We invite them to meetings, enter into partnerships with them and participate in joint initiatives.

Academic circles

The academic circles encompass first and foremost students who are our very important stakeholders. We arrange meetings with students and participate in student-oriented initiatives. Every year, we organise the Traineeship with the Lion which targets the students who want to pursue their career in banking.

Strategic vendors

Cooperation with strategic vendors is reviewed on an annual basis. From 2018, we have included additional extended surveys in the area of social responsibility.

What makes us stand out

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

In 2018, invariably and consistently as for over 12 years now, we considerably increased our lending and deposit portfolios. At the same time, we managed to maintain the good quality assets and sustain solid capital and liquidity positions.

High rate of client acquisition

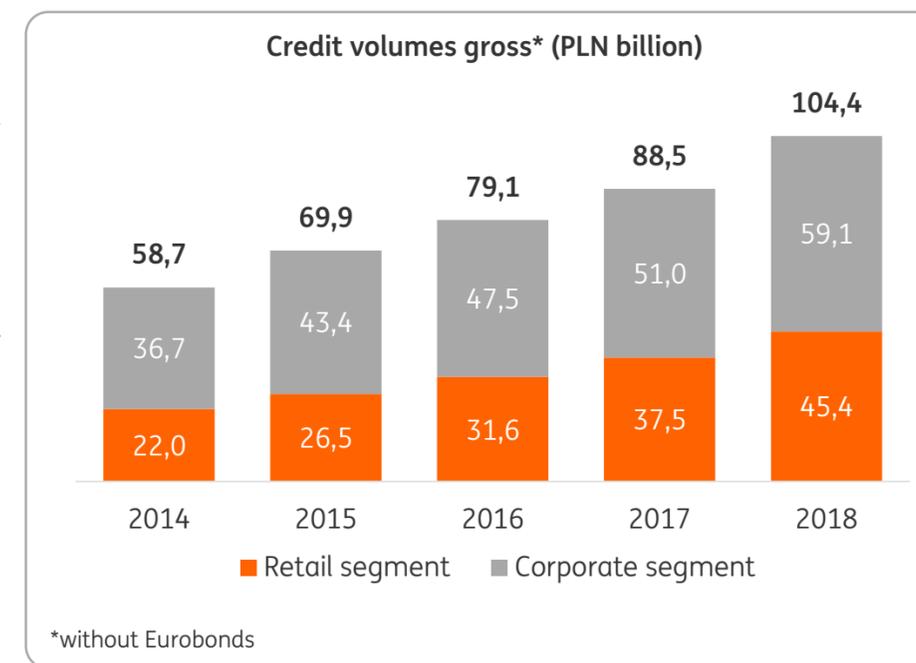
In 2018, we kept the high growth rate for clients. Throughout the year, the Bank's client base went up by 270 thousand versus 267 thousand the year before. As at the end of December 2018, the number of clients was 4.86 million and it was broken down into the following segments:

- 4.80 million retail clients, including:
 - 4.42 million individual clients (up by 243 thousand clients throughout the year),
 - 375 thousand entrepreneurs (up by 21 thousand throughout the year),
- 62 thousand corporate clients (SME/MC and groups; up by 7 thousand).

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

Lending growth

In 2018, the growth rate of the credit balance remained high and was 18.0% y/y. At the same time, the volume of loans in the Polish banking sector rose by 7.6% y/y. We recorded a higher than the sector increase in both the retail and corporate segments. The volume of retail loans at our Bank went up by 20.9% y/y. The volume of corporate loans went up 15.9% y/y.

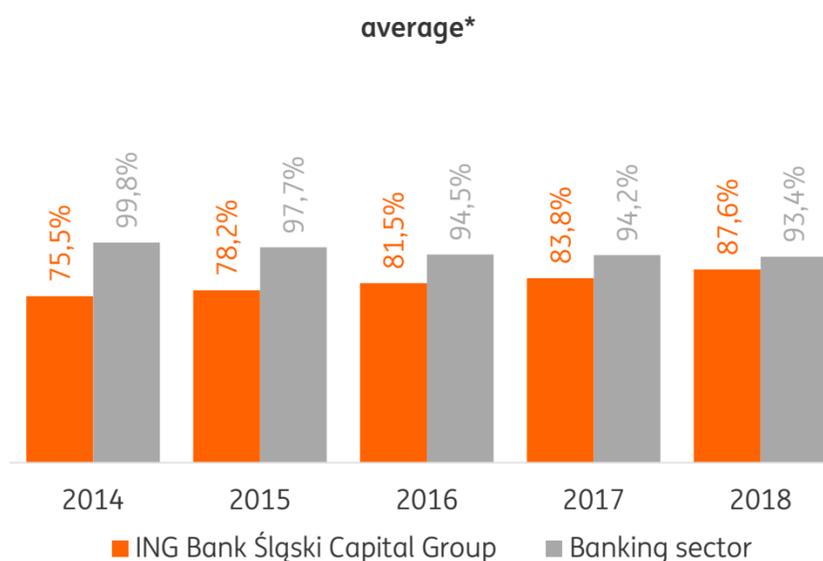


Our past accomplishments prove our persistence in supporting the development of the Polish economy. Since 2008, our credit balance has been uninterruptedly above the sector average. Over 2008-2018, we grew 3.1 times faster in retail loans and 2.2 faster in corporate loans than the market.

LTD ratio increase

The faster growth rate of loans over deposits caused the LTD ratio go up from 83.8% as at 2017 yearend to 87.6% as at 2018 yearend (throughout 2018 it was even up to 90% in Q3). This was the fifth consecutive year in which we recorded that ratio increase, while for the sector this ratio has been falling down uninterruptedly since 2011. Despite opposite trends, for our Bank, the ratio in question proves to be very safe and still below the sector average.

The LTD ratio for ING Bank Śląski S.A. Group vis-a-vis the sector average*



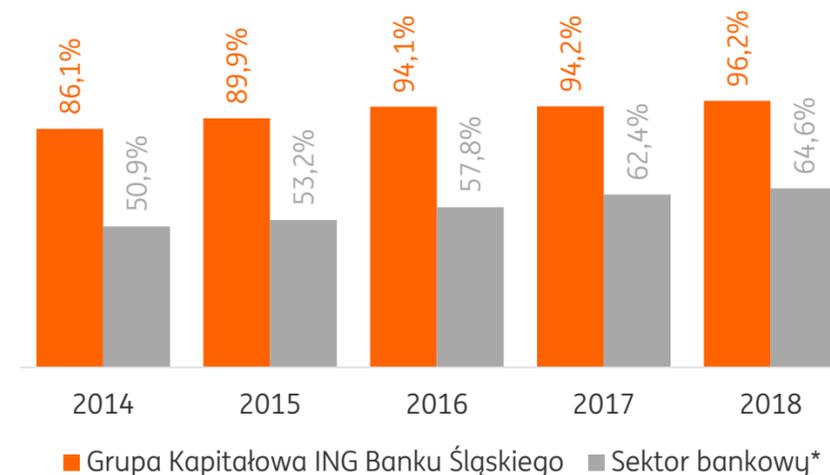
* NBP data-based estimates

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

More and more clients perceive ING Bank Śląski S.A. as their primary bank in everyday banking. Thanks to this, the balance of deposits accumulated in current and savings accounts shows constant and stable growth. They are a key element of financing the Bank's operations. As at 2018 yearend, current and savings accounts represented 97.0% of retail segment deposits and 94.3% of corporate segment deposits.

The average for the sector is 63.2% for household deposits and 67.4% for institutional clients.

The share of current and savings accounts in the deposits structure*

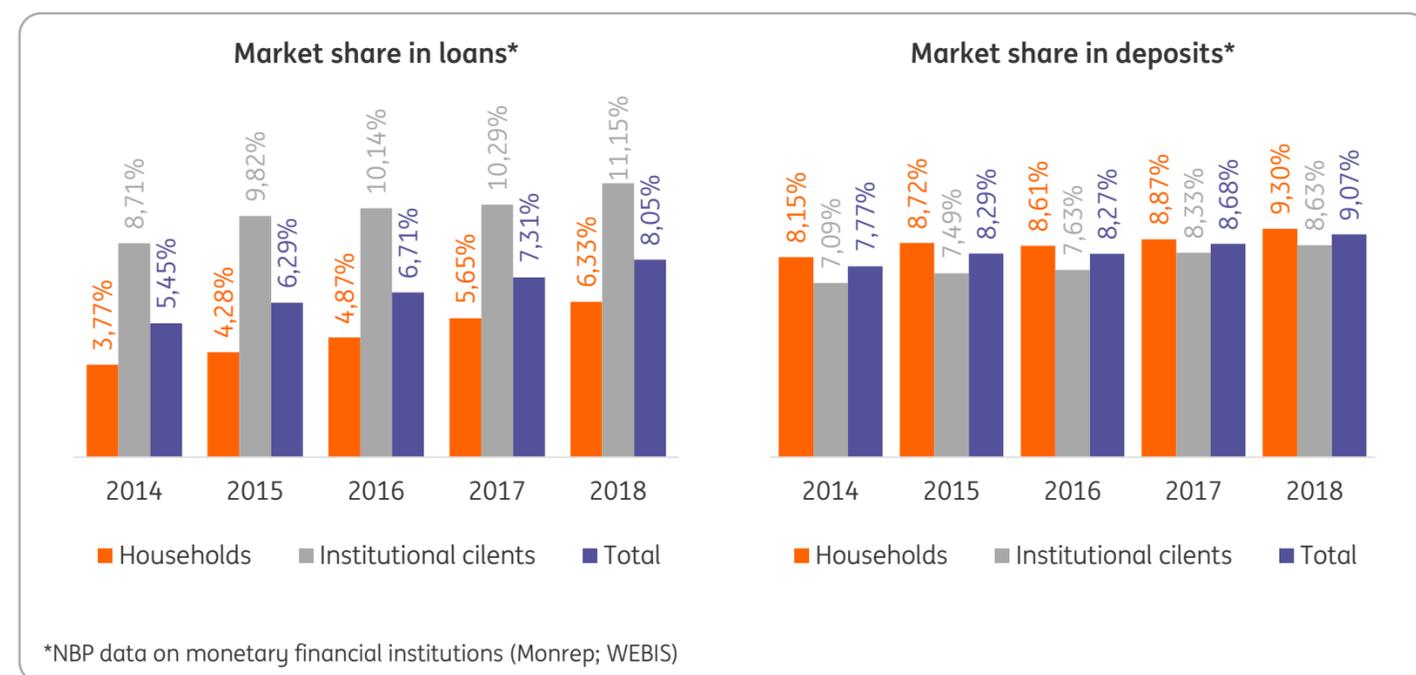


Market position consolidation

As at 2018 yearend, we ranked fifth in the market, with an approximately 7.1% share in terms of assets.

In 2018, we raised our market shares in retail and corporate loans to the record-high levels (up to 6.33% and 11.15%, respectively). Excluding FX mortgage loans from the retail loan portfolio, the market share as at 2018 yearend arrived at 7.52% versus 6.82% as at 2017 yearend.

In the client deposit area, our market share in the corporate segment went up to 8.63%, while in the retail segment it hovered around 9.30%.

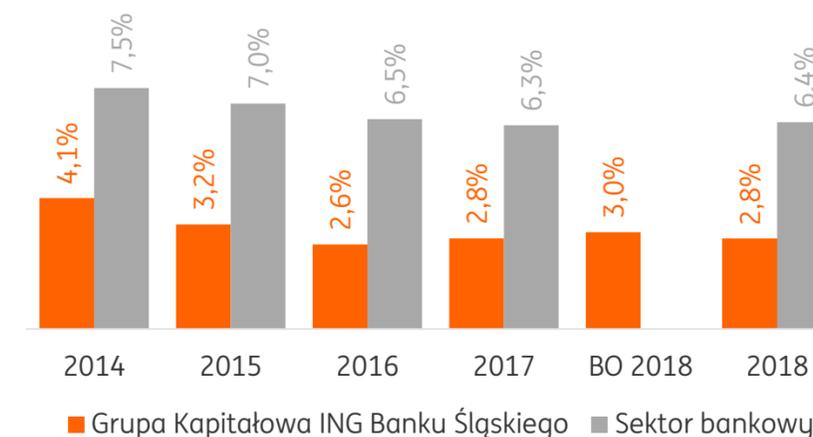


High quality of assets

The high growth rate of the receivables from customers does not impair the portfolio quality. Share of loans in stage 3 is clearly lower than the sector average. As at 2018 yearend, the share of loans in stag 3 was 2.8% versus 6.4% for the sector. It is also visible in segment data. As at 2018 yearend, the share of loans in stage 3 for the corporate banking segment was 3.6% versus 7.2% in the sector, and for the retail banking segment 1.8% and 5.9%, respectively.

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

Group against sector average*

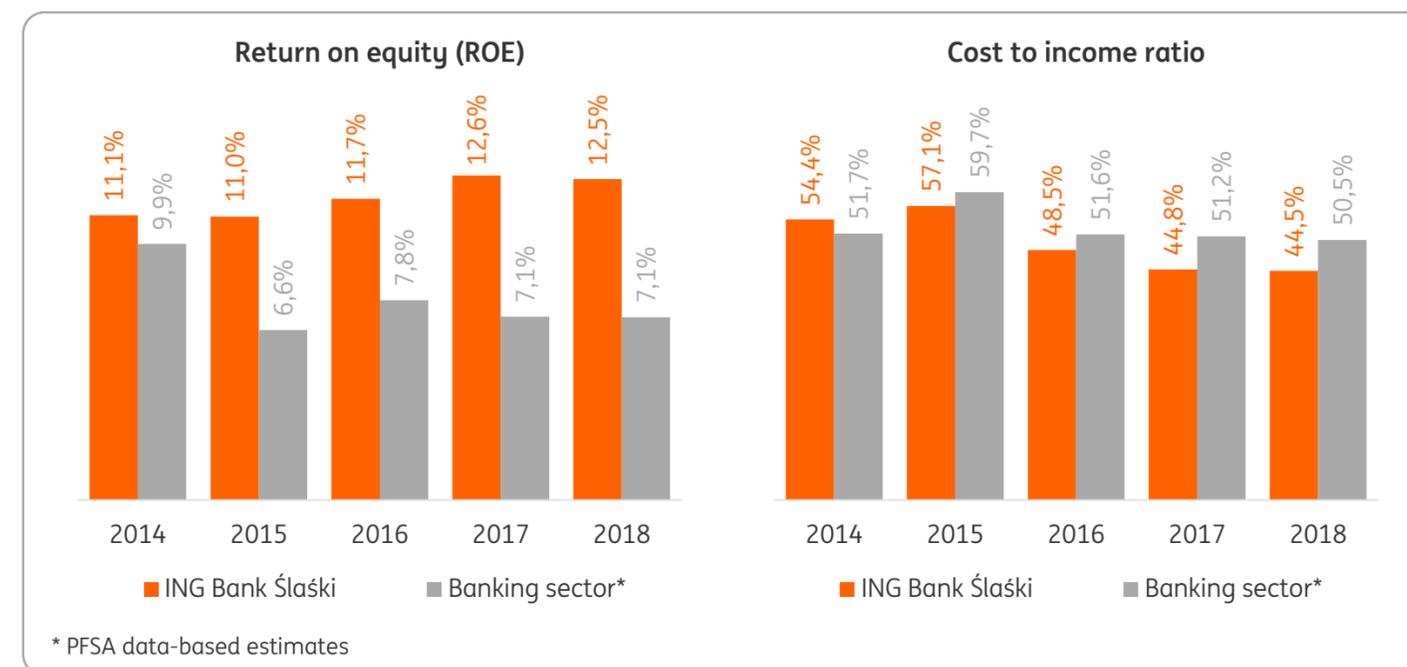
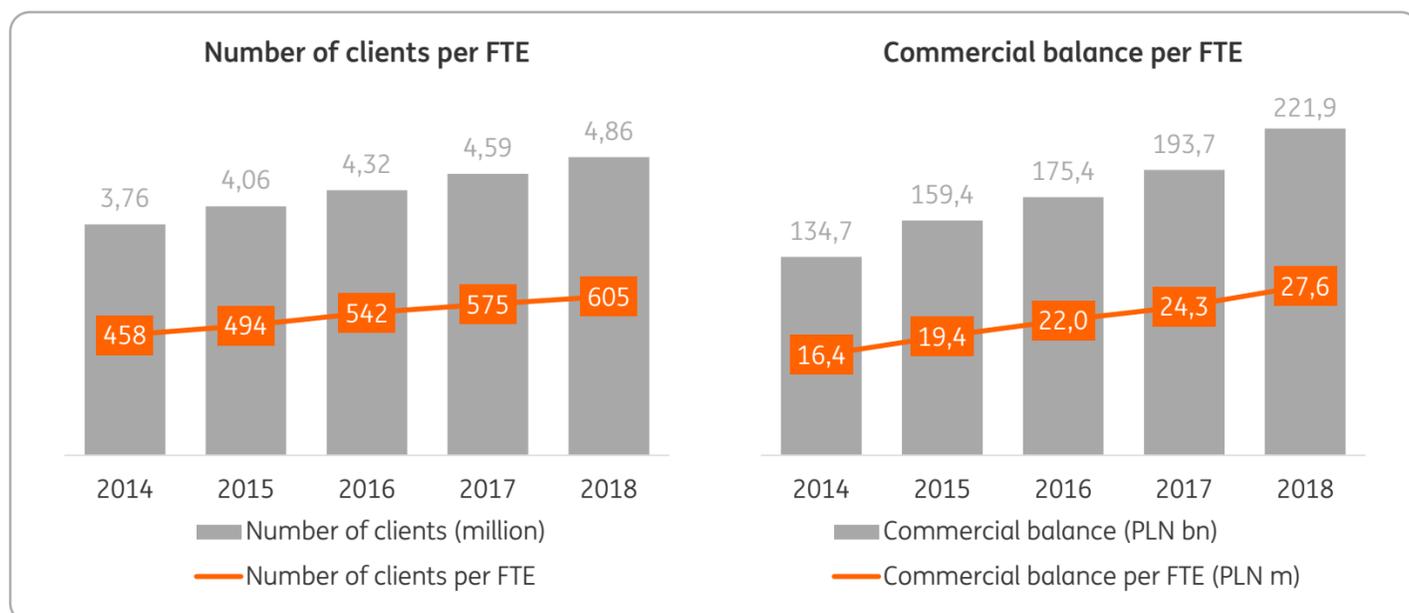


* PFSA data-based estimates

Performance improvement

Performance improvement per employee

As an organisation, we strive after improving our performance on an ongoing basis. We optimise and automate our operations so as to be able to attend to more and more clients with our relatively stable over time resources. As at 2018 yearend, the number of clients per FTE was 605. As at 2017 yearend, this ratio was 575 which shows improvement of 5.2% y/y. However, the value of commercial balances (total deposits and loans) per FTE improved by 13.8% y/y up to PLN 27.6 million.



High profitability

In 2018, our return on equity (ROE) settled at 12.5%, or up by 0.1 p.p. from 2017 and thus remained markedly above the sector average. In the same period, the return on equity in the sector remained at 7.1%.

We continue to work on our cost effectiveness. It enabled the Bank to improve its C/I ratio by 0.3 p.p. vis-à-vis 2017 to 44.5% in 2018. The figure is lower (better) than the average in the sector (50.5%). It has been a significant improvement over the last six years – in 2013 the sector's C/I ratio was lower (better) than the Bank's (53.3% and 56.1%, respectively).

Attractive banking direct channels

We offer our clients modern bespoke products and services. We offer access to intuitive online and mobile banking. In 2018, over 99% of client transfers were made in direct channels (online). In 2018, 76% of cash loans for individual clients and entrepreneurs were sold online.

We offer our clients modern payment solutions, e.g. BLIK. In 2018, they made nearly 10.1 million transactions online with the use of that payment system – or five times more than the year before. The use of a trusted profile and its use for official matters are also very popular. Our clients in 2018 established 182 thousand trusted profiles and used them to handle 691 thousand official matters. We were the second bank on the market in terms of applications for 500+ (117 thousand) or 300+ (221 thousand) benefits.

As the only bank on the market, we offer our clients our own solution for online payments - imoje payment gateway. As at 2018 yearend already 301 stores used this solution.

In mobile banking, mobile banking is becoming increasingly popular – at the 2018 yearend, 20.8 thousand of them used it or 26.4% more than the year before. We maintain high interest of our corporate clients in submitting credit applications online – in this way, in 2018, we received 94% of credit applications (93% in 2017).

Awards and distinctions

Our daily efforts in offering attractive products to our clients, attention to high service quality, sustainability actions and practices as well as outstanding commercial and financial results have been honoured with numerous awards and distinctions. Below please find selected 2018 awards. The full list is available at: <https://en.ingbank.pl/company-profile/prizes>.

For overall performance

- The main prize and the title of the Banking Star granted for the overall performance in 2017 in the ranking compiled by the Dziennik Gazeta Prawna daily and PwC.
- The Best Bank title awarded for all actions taken in 2017 awarded in the competition Leaders of Banking and Insurance World.
- #2 in the 2017 Best Bank ranking organised by Gazeta Bankowa in the Large Commercial Banks category.

For the attractive offering and customer service quality

- An award for the Moje ING mobile application for its adaptation to the needs of people with disabilities, awarded in the competition Applications without Barriers organised by the Integracja organisation.
- ING Turbo certificates recognised as the best investment product in the FxCuffs 2018 competition.
- The prize for imoje of ING Bank Śląski S.A. in the Best E-commerce Tool category in the e-Commerce Polska Awards competition.
- The title Leader of Modern Sales Channels in the Cashless Poland Programme awarded for the customer-friendly process of ordering payment terminals.
- An award granted by the Global Finance magazine in the Best Corporate/Institutional Digital Banks in Central & Eastern Europe 2018 ranking for the Trade Finance functions on the ING Business platform.
- Distinctions for ING Bank Śląski S.A. in the following categories: Treasury BondSpot Poland Award; KDPW [National Depository for Securities]Group Award; KDPW Group Award for the ING Bank Śląski Brokerage Office awarded during the summary of the Stock Exchange Year.
- #3 for the Brokerage Office of ING Bank Śląski S.A. in the Brokerage House Ranking compiled by the Bankier.pl editorial team on the basis of the Polish Investor Survey.

- #3 in the Most Business Friendly Banks ranking published by the Forbes monthly.
- The title of the 2017 Business Champion i.a. for a good recognition of consumer needs and involvement in development of modern solutions for companies in the e-commerce area, awarded by Businessman magazine.
- 2018 Service Quality Star in Banks category in the eleventh edition of the Polish Service Quality Programme.
- ING Bank Śląski S.A. was also among the winners of the 2017 Institution of the Year in the following categories: The Best Service Quality in the Facility, The Best Service Quality in Direct Channels, Friendly Account Opening via the Internet and Friendly Opening of the Company Account in the ranking carried out by the portal moжебankowanie.pl.
- The title of the Bank Appreciated by Clients for #2 in the main category Banks' Clients Satisfaction, #2 in the category: Assessment of Points of Contact and #3 in the Products category, granted on the basis of surveys made by ARC Rynek i Opinia: Bank Retail Clients' Satisfaction Monitor.

For CSR actions and practices

- For the twelfth time, ING Bank Śląski S.A. has been included in the RESPECT Index among the companies meeting the highest standards of responsible business.
- Ethical Company title in the competition organised by the Puls Biznesu editorial team.
- Silver CSR Leaf awarded to ING Bank Śląski S.A. by the POLITYKA weekly.
- #2 in the Banking, Financial and Insurance Sector category and #5 in the general classification in 2018 Ranking of Responsible Companies.
- Green Office eco certificate confirming ecological office management awarded by the international Foundation for Ecological Education.
- The title of the 2018 Electromobility Leader awarded for involvement of ING Bank Śląski S.A. in the development of electric cars market in Poland based on the ranking compiled by the Polish Alternative Fuels Association and PwC consulting company.

For communication with clients, market and employees

- The award was granted in the Social Media category in the Tech Project Awards 2018 competition organised by The Banker magazine.

- The Best of the Best Award in The Best Annual Report 2017 competition and distinction in the online report category for the ING Bank Śląski S.A. Integrated Report in the competition organised by the Accounting and Tax Institute. ING Bank Śląski S.A. Integrated Report awarded in the Social Reports competition organised by the Responsible Business Forum and the Deloitte company.
- Second place for ING Bank Śląski S.A. in the investor relations study in WIG30 companies developed by the Stock Exchange magazine Parkiet and the Brokerage Houses Chamber.
- Grand Prix, Gold, Silver and Bronze Columns of the Year 2018 for all content marketing activities for employees of ING Bank Śląski S.A. awarded in the Power of Content Marketing Awards 2018 contest.

For marketing actions

- Three bronze statuettes for the most successful advertising campaigns in the following categories: Finance (two statuettes) and Business-to-Business in the Effie Awards competition.
- #1 in the Lamparty contest, rewarding the best bank brands creations.
- First place for the Clean Air campaign in the Golden Banker competition in the Best Spot category.
- Best in Show award, Gold, Silver and honourable mention in the IAB Mixx Awards competition recognising the best digital campaigns.
- Golden Arrow Award for ING Bank Śląski S.A. for a comprehensive BLIK payment promotion granted by the Polish Marketing Association and VFP Communication.

Ethics, values and compliance

GRI [102-16]

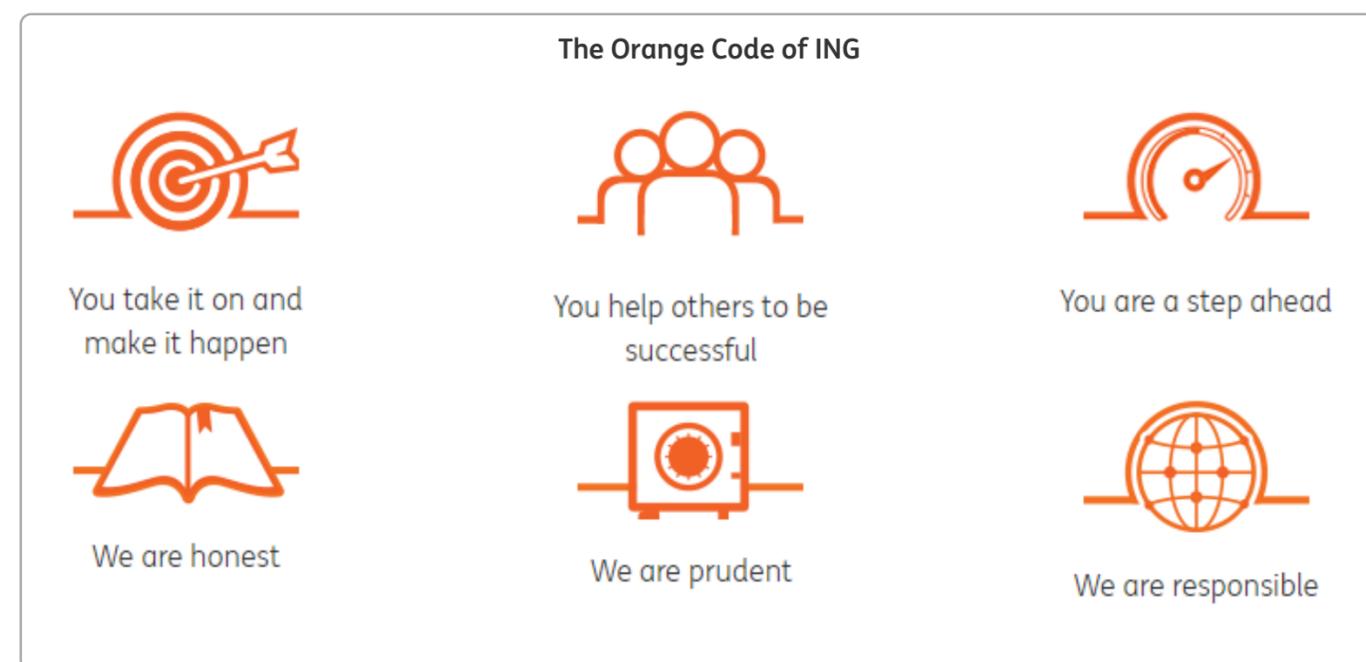
Corporate culture

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

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

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

The Orange Code is an important element of our corporate culture. It is also applied in many banking processes, e.g. in the employee performance evaluation. Employees together with their supervisors set the actions through which the Orange Code is being implemented. Our values and behaviours are also part of the recruitment process. Employees can give each other Kudos. Kudos is our way to show recognition. We use it every day, as it is a convenient and good method of thanking others for the behaviours which agree with our Orange Code. Since the launch of the application (June 2016), we have given in total 100 thousand kudos in Poland.



We counteract corruption

GRI [205-2] [205-3]

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

- We do not take or give any gifts or invitations to events whose value exceeds the amount thresholds set.

- We declare acceptance or presentation of benefits above the permitted value to the electronic Register of Gifts- currently the threshold is PLN 200. We report such acceptance or handing in relations with clients and business partners. In relations with public officials, we report each case of accepting or giving benefits regardless of value. We also require our vendors and business partners to comply with those rules. We encourage them to adopt the ING Bank Śląski S.A. Anti-Bribery and Corruption Declaration. In 2018, no cases of bribery or corruption were identified.

We combat conflicts of interest

GRI [102-17]

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

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

We report instances of breach of law and Business Ethics Standards

GRI [102-17]

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

Reports are received by the Compliance Department Director who relays them to the CEO and agrees with him the necessary measures. For positively verified reports, appropriate remedial and preventive measures are taken.

In 2018, 9 applications were submitted. After analysis and explanatory actions, in 2 cases irregularities were confirmed and corrective actions were implemented.

At the bank, we do not have external dedicated channels for reporting violations of the law and ethical principles. Stakeholders can, however, contact us with all available channels and inform us about the occurrence of violations. If this were the case, he would be referred directly to the Compliance Department.

Corporate governance and oversight

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

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

For more details on corporate governance and oversight, see Chapter "ING Bank Śląski S.A. Management Board Reports on Observance of Principles of Corporate Governance".

How we create value

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

We understand this expectation. A careful analysis of the macroeconomic and social environment in the short- and mid-terms allows us to take apt business decisions. We always strive after the solutions that will be of maximum benefit both to the Bank clients and its shareholders. Our analyses and forecasts are also used in a broader context – to create the Bank's business strategy. We listen attentively to the voice of a wide group of stakeholders. The topics that are the most crucial for them underpin our social responsibility strategy. We adopt a multi-faceted approach to our role in creating the value for the community. We go beyond the usability of banking products and services. People are our most important asset. We engage our resources in developing competence and building work environment that fosters innovativeness. The results of our actions translate into unique customer experience, safety and development perspectives. In the case of our shareholders, we focus on delivering stable and predictable financial results. We also ensure that our contribution to the economic and social environment is long-lasting and positive.

Market now and in the future

GRI [102-15]

In 2017 and 2018, the financial results and standing of the banking sector, ING Bank Śląski included, were shaped by multiple external factors. They are of material significance for the future development strategy of the Bank. They translate directly into profitability of banks.

Banking sector

Liabilities

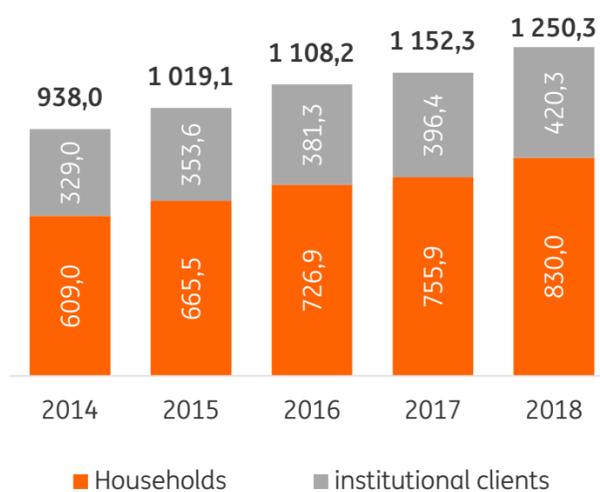
As at the end of December 2018, the main monetary categories were as follows:

- Liabilities to households totalled PLN 830.0 billion, up by PLN 74.1 billion y/y (or by 9.8%) versus 2017 yearend.
- Liabilities to institutional clients amounted to PLN 420.3 billion, up by 6.0% from 2017 yearend. The volume increase by PLN 23.8 billion can be mainly attributed to higher liabilities to enterprises (up by 4.3%, or by PLN 11.9 billion) and to local government institutions and the Social Insurance Fund (up by 17.7%, or by PLN 6.8 billion). Liabilities to non-monetary financial institutions augmented by 5.2% that is by PLN 3.0 billion, in that period.

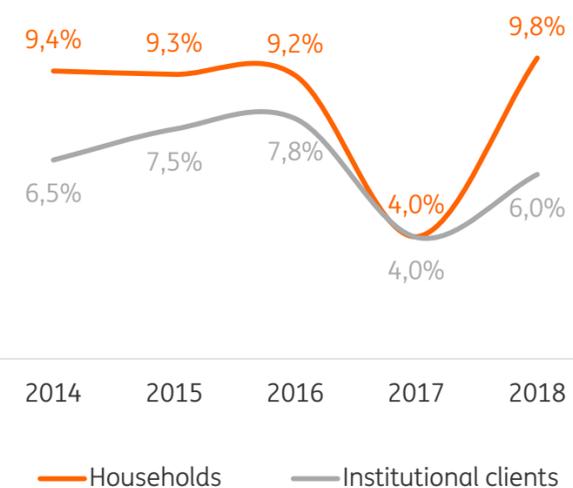
Receivables

- In December 2018, receivables from households amounted to PLN 718.3 billion, up by 7.0% from December 2017. Housing loans, which formed the main part of the banks' credit exposure to households (representing 57.9% of receivables from that group of clients), went up by 7.0%, arriving at PLN 416.1 billion. This increase ensued from accelerated dynamics of increment in the portfolio of PLN housing loans, from 10.4% in 2017 to 11.7% at 2018 yearend. As at the end of 2018, the portfolio of PLN housing loans arrived at PLN 288.1 billion, up by PLN 30.3 billion y/y. The portfolio of the FX housing loans shrank by PLN 3.1 billion y/y down to PLN 127.9 billion. This ensued from natural depreciation of the CHF portfolio (at 2018 yearend, PLN to CHF was weaker by 7.0% y/y, which had a positive effect on the dynamics of the FX credit portfolio). Other retail loans, consumer credits included, rose by 7.0% (by PLN 19.7 billion) from 2017 yearend, arriving at PLN 302.3 billion.
- Receivables from institutional clients went up by PLN 36.2 billion (or 8.8%) from December 2017, arriving at PLN 449.7 billion. Receivables from enterprises rose by PLN 24.9 billion (or 7.9% y/y), arriving at PLN 340.1 billion.

Liabilities* (PLN billion)

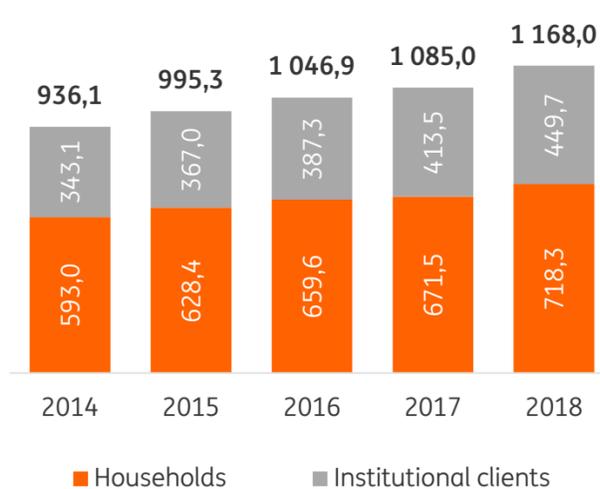


Liabilities growth rate*

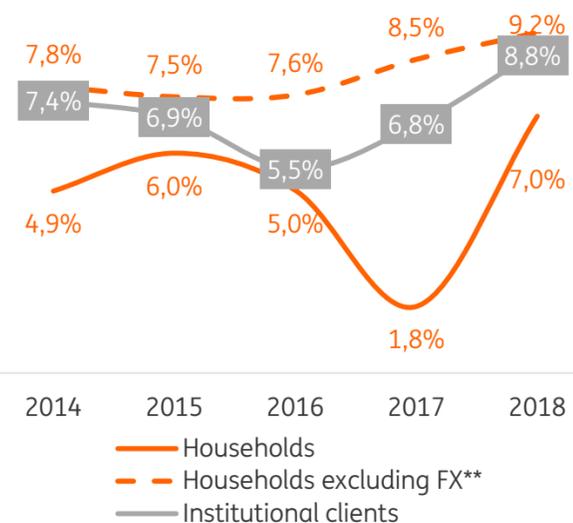


*based on NBP data

Receivables* (PLN billion)



Receivables growth rate*



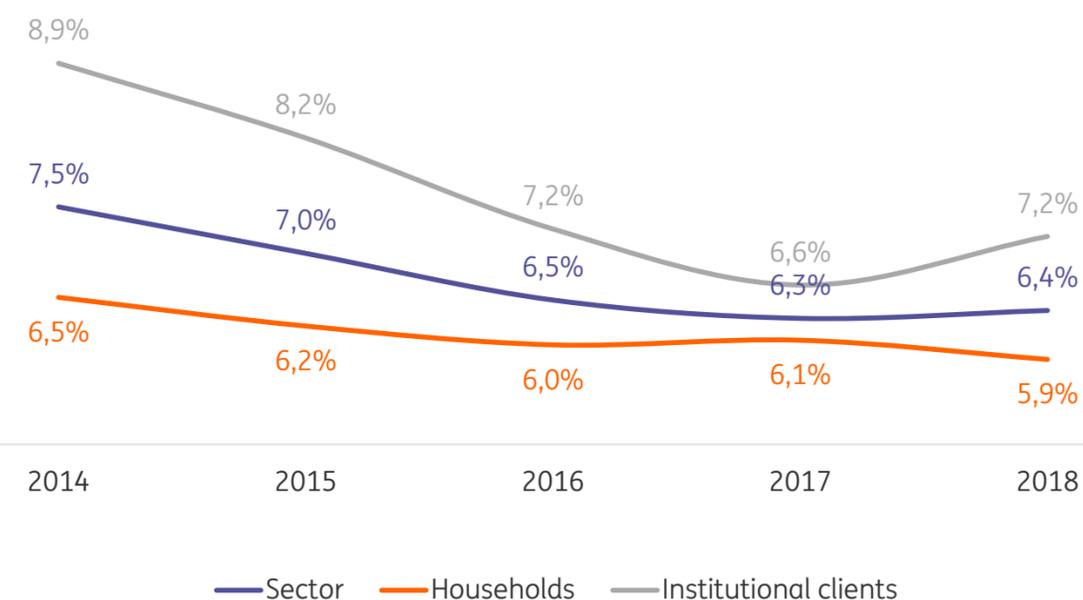
*based on NBP data, **excluding the FX mortgage portfolio

Our economists expect that the GDP dynamics will slow down to 3.6% in 2019 from 5.1% in 2018. That will be reflected in the growth rate of savings money and loans in the market in 2019. The economists estimate that the dynamics of savings money will slow down from 8.5% y/y in 2018 to 5.9% y/y, mostly due to savings money of households – from 9.8% y/y in 2018 to 5.5% y/y in 2019. In 2019, dynamics of loans will also slow down from 7.7% y/y in 2018 to 5.2% y/y, where increase in retail loans is estimated at 5.0% y/y, and in corporate loans 5.6% y/y.

Assets quality

As regards asset quality, in December 2018 the share of loans in Stage 3 in total loans measured at amortized cost was 6.4% (compared to 6.3% share of impaired receivables at the end of 2017).

Share of impaired receivables / in stage 3 *



*estimate based on PFSA data

The relatively stable asset quality ratio was due to the improvement in the quality of the household segment (from 6.1% to 5.9%), which compensated for the deteriorating quality of institutional sector loans (from 6.6% to 7.2%). The improvement in the quality of household loans was due to higher quality of real estate loans (improvement from

2.9% to 2.6%) and consumer loans (improvement from 11.0% to 10.8%). The lower quality of loans in the institutional sector was caused by the decline in the quality of operating loans (from 9.5% to 10.2%), investment loans (from 7.2% to 7.9%), as well as real estate loans (from 9.0 % to 9.7%).

Financial results

The general condition of the banking sector in 2018 was good, which was influenced by the accelerating pace of growth of the Polish economy and very good data from the labour market. The trends of further limiting employment in the banking sector as well as a reduction in the number of branches were continued.

In 2018, the net financial result of the banking sector improved by 7.5% y/y to PLN 14.7 billion.

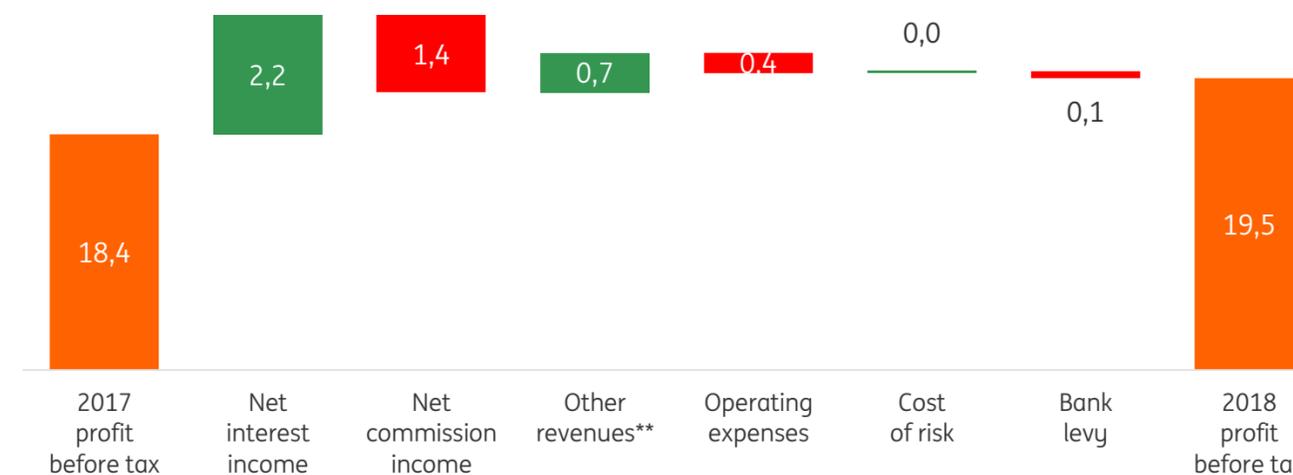
In 2018, the result before tax of the banking sector amounted to PLN 19.5 billion and was 5.7% higher compared to the profit before tax for 2017. The increase in the result before tax was caused by a faster growth rate of total revenues (2.4% y/y) than operating costs (1.2% y/y). The positive contribution to the revenues before tax of the sector in 2018 was provided by:

- net interest income (increase by PLN 2.2 billion or 5.2% y/y),
- other revenues (increase by PLN 0.7 billion or 10.7% y/y), and
- costs of risk (decrease by PLN 36 million or 0.4% y/y).

On the other hand, the negative impact on it was caused by:

- net commission income (a decrease of PLN 1.4 billion or 10.5% y/y),
- operating costs (increase by PLN 0.4 billion or 1.2% y/y), and
- bank levy (increase by PLN 0.1 billion or 3.6% y/y).

Change drivers for result before tax of the banking sector in 2018 (PLN billion)*



*estimate based on PFSA data; **including the share in net profits of affiliated entities

Asset-backed funding market

Leasing

In 2018, the Polish lease market went up by 21.8%, arriving at PLN 82.6 billion. The active portfolio of lease agreements totalled PLN 146.6 billion (up by 22.9% y/y) as at the yearend. For comparison, the value of capex loans extended by the banking sector stood at PLN 124.4 billion as at the end of December 2018. This means that in terms of value of the portfolio lease exceeded capex loans and is the biggest funding source of the investment undertakings in Poland. Vehicles weighing up to 3.5 tons constituted the biggest segment of the leasing market (with their share in the sales up from 45.0% to 48.4%). The funds granted in that leasing category totalled PLN 39.9 billion (+30.7% y/y). Passenger cars were the main turnover driver in that segment (+33.8% y/y). This resulted in part from a very strong Q4 2018, which is attributable to the changes in the limit for tax deductible lease instalments effective as of 1 January 2019. The segment of machines and equipment (IT included) reported a 17.7% annual growth. The total value of the machines financed reached PLN 21.7 billion.

Source: Polish Leasing Association

Factoring

In 2018, the turnover of the factoring companies belonging to the Polish Factors Association multiplied by 26.7% y/y, arriving at PLN 242.8 billion. The most popular funding form chosen by companies was non-recourse factoring (51% of the turnover value); its turnover in 2018 reached over PLN 123 billion and the growth rate was 18.3% y/y.

The number of clients of companies associated in the Polish Factors Association was 16,900, following the growth of 81.9% y/y. The number of invoices that were repurchased was higher by 44.5% than in 2017, or it was 14.9 million. Sector-wise, the highest volumes of receivables were entrusted to factoring companies by production and distribution companies (44.2% and 38.3%, respectively).

Source: Polish Factors Association

Capital market

Warsaw Stock Exchange

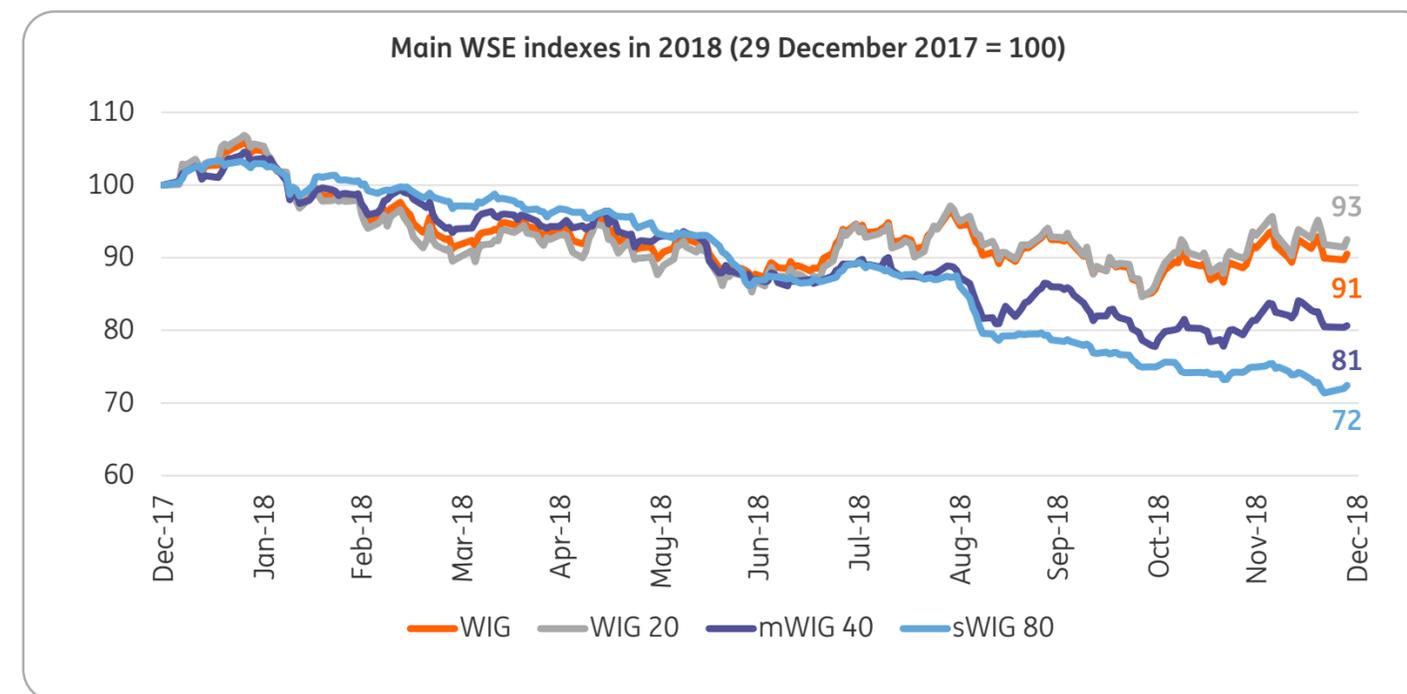
Despite of high increment in GDP and good economic situation, the year 2018 showed decreases in majority of the main WSE indexes. The only exception thereto was WIG-Paliwa that increased last year. Both internal and external factors contributed to the decreases. Internal factors include, for instance, outflow of capital from domestic mutual funds companies (TFI) and mass media publications concerning supervision over the financial market, or impending bankruptcy of one of the biggest debt collection companies in Poland. Whereas, external factors that were bad for the Polish financial market include weakness of foreign stock exchanges in the U.S.A., Europe or Asia.

In 2018, the WIG broad market index went down by 9.5% y/y and distanced itself from the historically highest figure in 2007. Meanwhile, in the very same period the alternative market NC Index went down by as much as 28.6% y/y.

The volume of trades on the main floor reached PLN 211.8 billion, or down by 18.8% y/y. Although NC Index went down, the New Connect alternative market reported increase in turnover up to PLN 1.7 billion (+13.1% y/y). Catalyst reported a turnover decline of 7.6%, down to PLN 2.6 billion.

In the context of the number of WSE-listed companies, 2018 was the second (and second in a row) year when more companies were delisted (25) than newly listed on the main floor (7). As at 2018 yearend, 465 companies were listed on the main floor (482 a year before). Their total capitalisation went down to PLN 1,128.5 billion (down by -18.2% y/y). A higher number of Initial Public Offerings was reported for the NewConnect market with 15 debuts in 2018, however the number of listed companies went down to 387 (36 withdrawals, of which 2 were moved to WSE). The

worth of listed corporate and municipal issues on the Catalyst market dropped by 9.6% y/y, down to PLN 86.6 billion.



Source: Warsaw Stock Exchange

Mutual funds

In 2018, the mutual funds market worth measured with funds under management gathered by these institutions went down by 7.9% y/y, down to PLN 256.8 billion. December 2018 was the fifth month in a row when the total value of accumulated assets decreased. Unfavourable market conditions pressed heavily on non-dedicated funds and as at 2018 yearend the assets accumulated therein totalled PLN 155.6 billion (-2.9% y/y). Funds accumulated in dedicated funds shrank to PLN 101.2 billion (PLN -14.7% y/y) mainly due to the effect of net outflows (PLN -13.0 billion).

The situation of Getback and the mutual funds sector

Getback S.A. is a debt collection firm that had its debut on WSE in 2017. The company funded its growth also with the issue of bonds. Change in investors' approach caused problems for the company to get debt financing, which was followed by problems to obtain also equity funding. This had a negative impact on the debt collector's share price. Later on, it came to light that the sale of bonds to individual investors could be a financial fraud in some cases, and that there could be irregularities related to operation of the company itself. Both public prosecutor's office and PFSA started their investigations concerning the company's business. Getback initiated the restructuring process to get protection against its creditors. By the end of 2018, no final settlement was reached with the creditors.

TFI sector was affected by the problems of the debt collector as the assets were invested both in the debt collector's shares (in 2018, their value went down by 80% until their quotes were suspended in April 2018) as well as bonds. Investors' affection for the sector diminished, which led to redemption of the participation units and shrinking of the assets under management in the TFI sector.

Clients of non-dedicated funds were most eager to deposit their cash in funds with a relatively low risk profile. The most popular category were money market funds (36.4% of the non-dedicated funds' assets), which went up by 32.7% y/y. Debt funds came next (25.7% of the non-dedicated funds' assets). Their assets decreased by 4.2% during the year. They were followed by mixed funds forming 16.3% of the non-dedicated part of the market (assets down by 12.1% y/y) and equity funds forming 13.7% of the market (assets down by 25.6% y/y).

Source: Chamber of Fund and Asset Management

Changes in the mutual funds market following the MiFID 2 implementation

In 2018, the MiFID 2 was implemented into the Polish legal system. It is a comprehensive package of solutions that affects the relationship between the client and the investment product provider (TFI), the investment product provider and the distributor (e.g. a bank) and between the client and the distributor. As a consequence, these changes will affect the way in which individual entities operate. With reference to this regulatory package, in December 2018, the Minister of Finance issued a regulation regarding the maximum amount of fixed fee for management payable by the client to TFI. It assumes gradual decrease of this fee from 3.5% per annum in 2019 to 2.0% in 2022, which may have a negative impact on the level of revenues generated by individual TFIs. In addition, on 21 December 2018, the PFSA issued a stance on the accepting and providing of "incentives" in connection with the provision of services for accepting and transmitting orders concerning TFI units. The stance also covered the principles of mutual settlements between A TFI and distributor. As at the date of signing the annual report for 2018, a uniform market practice in this area has not yet been established. Nevertheless, new market solutions in the field of settlements between TFI and distributors may have an impact on the level of TFI operating costs, and thus on the level of distributors' revenues.

Open-end pension funds

As at the end of December 2018, pension funds' assets amounted to PLN 157.3 billion, down by PLN 22.2 billion (12.4%) from the year before. This was triggered by the bear market on the WSE and by a negative balance of inflows and outflows. In 2018, only PLN 3.3 billion was transferred to open-end pension funds (vs PLN 3.3 billion in 2016), while the "safety zipper" transfers to the Social Insurance Institution, as estimated by Analiza Online, amounted to PLN 7.9 billion (vis-à-vis PLN 5.9 billion the year earlier).

Source: Analiza Online and Polish Financial Supervision Authority

IFRS 16 implementation

IFRS 16 "Leases" was published by the International Accounting Standards Board in January 2016 and approved by the European Union in October 2017. IFRS 16 replaces IAS 17 "Leases" and it concerns the recognition, measurement, presentation and disclosure of a lease. The key changes refer to the lessee.

The new Standard becomes effective on 1 January 2019. Lessees will recognize new assets under the use of assets and lease liabilities – so far recognised on an off-balance sheet-basis. In the case of our bank, the new standard concerns, among others the lease of real property (mainly bank branches) and lease of a car fleet. As at 1 January 2019: asset = liability = present value of future lease payments discounted by the funding rate. The Standard allows simplifications, i.e. the option of excluding low-value assets, contracts shorter than one year and intangible assets.

IAS 17 and IFRS 16 comparison

Area	IAS 17	IFRS 16	Impact on ING Bank Śląski S.A.
Balance sheet – operating lease at the lessee	No recognition in the balance sheet	Asset and liability recognition in the balance sheet	Balance sheet total increase by approximately PLN 489 million
Income statement – operating lease	Costs of operating lease/rent	Costs of amortisation of the right to use assets and interest expenses on liabilities	Change of presentation from building maintenance and lease costs to: <ul style="list-style-type: none"> – amortisation/depreciation, – interest expenses (5-10% of lease costs). No material impact on net result.

We estimate that the implementation of IFRS 16 will lower our consolidated Tier 1 ratio and the Total capital ratio by approximately 10 b.p.

More information on IFRS 16 may be found in the ING Bank Śląski S.A. Group Annual Consolidated Financial Statements for the year 2018 on page 11.

Modification of regulations concerning the banking sector

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

Modification of regulations concerning the banking sector

Name	Effective date	Description
2018		
Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products	The Regulation has been effective since 1 January 2018	The Regulation introduces a common standard for documents with the key information on the so-called packaged retail and insurance-based investment products. It covers, for example, mutual funds, structured deposits (combination of bank deposits with investment solutions) and insurance policies with an investment element.
The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on the Flat-Rate Income Tax on Some Income Earned by Natural Persons of 27 October 2017	1 January 2018	The main amendments affecting the tax issues of, among others, the financial sector include: <ul style="list-style-type: none"> - amending the principles of including in the banks' tax base the provisions formed for the business risk of banks and the provisions formed by the banks that apply the International Accounting Standards to making loss allowance for expected credit losses – IFRS 9; - ring-fencing in the Corporate Income Tax Act the sources of income in the form of capital gains and separating the income earned from that source from the taxpayers' other income; - modifying the provisions limiting the amount of the interest deducted (costs of debt financing), known as “thin capitalisation” – financial institutions have been excluded from that modification; - introducing the provisions limiting the amount of tax deductible costs linked to the intangible services agreements (licence agreements, advisory, management and control services, for example) and associated with the use of intangible assets, as well as the provisions clarifying the definition of “acquisition” of an intangible assets item; - amending the regulation that enables recognition under tax deductible costs of the losses under the paid disposal of the debt claim formerly recognised as the income due by reducing the amount of the losses to the previously recognised income; - implementing a separate income tax on commercial properties.
Regulation (EU) No. 600/2014 of the European Parliament and of the Council (MiFIR) and Directive No. 2014/65/UE of the European Parliament and of the Council on markets in financial instruments (MIFID II)	The MiFIR has been directly applied since 3 January 2018. The Directive has been implemented into the Polish law with the Act Amending the Act on Trading in Financial Instruments of 1 March 2018 that became effective on 21 April 2018 (with an additional transition period to adjust business)	The package of provisions contained in the Regulation (MiFIR) and Directive (MiFID II) as well as in the secondary legislation issued thereunder establishes new regulations regarding provision of investment services. The European Union provisions impose the duties relating to, inter alia, investor protection and market transparency on the financial market entities.
The Act on amending Certain Acts to Prevent the Use of the Financial Sector for Tax Frauds of 24 November 2017	Most of the provisions of the Act took effect on 13 January 2018. The Act of specified transition periods for the banks to adapt to the new duties.	The Act provides for the Head of the National Revenue Administration analysing the risk of the banks being used to commit tax crimes. To that end, he or she will use the analysis prepared by the National Clearing House which will determine in its ICT system the risk ratios on the basis of the data obtained from banks and credit unions.
Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data	The Regulation has been effective since 25 May 2018.	The General Data Protection Regulation constitutes a new, comprehensive regulation pertaining to the processing of the personal data of natural persons by entrepreneurs. The new provisions set out the principles of personal data protection, the rights of data subjects, the duties of the controller and the processor as well as the competence of regulators. The regulation creates the duty to report incidents and infringement upon personal data protection to supervisory bodies.

The Act amending the Act on Payment Services and Certain Other Acts of 10 May 2018	The Act came into effect on 20 June 2018, however it allowed for a 6-month transition period to adapt to new obligations.	The Act implements into the Polish law Directive (EU) 2015/2366 (PSD II) that includes new regulations regarding provision of payment services. The provisions introduce, among others, the duty to use the so-called strong user authentication mechanism by payment services providers. Moreover, distribution of the liability between banks and users for unauthorised payment transactions will be changed.
The Act amending the Value-Added Tax Law and Certain Other Acts of 15 December 2017	1 July 2018	The amendment introduces the so-called split payment mechanism for the Value-Added Tax. Under the solution, the payment for the goods or services purchased is made in such a way that the payment corresponding to the net sales value is remitted by the buyer to the clearing account or it is settled differently, while the rest of the payment being the VAT amount is remitted to a dedicated bank account – i.e. VAT account. It entails the banks' duties to maintain the VAT accounts.
The Act on Counteracting Money Laundering and Terrorism Financing of 1 March 2018	13 July 2018	The Act implements into the Polish law Directive (EU) 2015/849. It introduces, inter alia, wider duties relating to the banks' assessing the money laundering and terrorist financing risk, including the amendments to the procedure of using the financial security measures. It also provides for introducing the register of information on ultimate beneficial owners of corporate persons and other legal entities.
The Act amending the Act on Payment Services and Certain Other Acts of 22 March 2018	11 August 2018	The aim of this Act is to make it possible for those who mistakenly transferred funds to a wrong bank account number to recover the lost funds effectively.
Insurance Distribution Act of 15 December 2017	1 October 2018	The new provisions result from the implementation of Directive 2016/97 on insurance distribution. The Act covers the duties of the insurance distributing entities. It provides for, in particular, the disclosure duties towards clients, an adequate remuneration system and training duties.
The Act on Succession Management at a Sole Proprietor's Business of 5 July 2018	25 November 2018	The Act regulates the principles of interim business management after the death of an entrepreneur being a natural person who ran business in their own name. Following the death of the entrepreneur, the bank will continue to maintain their business account if the succession management is established.

2019

The Act amending Some Laws in Conjunction with Strengthening the Supervision of the Financial Market and Protection of Investors in that Market of 9 November 2018	Some of the provisions of the Act took effect in December 2018, and most of them on 1 January 2019. The regulations on dematerialization of some of securities will become effective on 1 July 2019.	The amendments concern, among others, the organisation and method of financing of the Polish Financial Supervision Authority. The Act empowers also the PFSA to take a decision about take-over of a bank by another bank if the taking-over bank agrees thereto - should the total own funds of a bank decrease, or be prone to decreasing, below the level specified in the law. Furthermore, as of 1 July 2019 there will be an obligation to dematerialize corporate bonds, investment certificates issued by the closed-end mutual funds and mortgage bonds.
The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and Some Other Laws of 23 October 2018	1 January 2019	The main amendments affecting the tax issues of, among others, the financial sector include: - amendment of the principles of recognising lease instalments as tax-deductible costs (lease, tenancy or car lease contracts after 31 December 2018) – a cap limit was set for value of instalments (PLN 150,000 inclusive of non-tax deductible VAT) that may be recognised as tax deductible; a requirement to exclude some of the car use expenses from tax-deductible costs if the car is used both for business purposes as well as for any other purposes unrelated to business activity, - if the loan agreements are signed after 31 December 2018, the civil law tax will be 0.5% (so far 2%). This amendment is not applicable to the loans extended by a shareholder to a company which continue to be exempt from the civil law tax.
The Act amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on the Flat-Rate Income Tax on Some Income Earned by Natural Persons of 15 June 2018	1 January 2019	The main amendments affecting the tax issues of, among others, the financial sector include: - Amendment of the principles of taxation of commercial properties as of 1 January 2019. This tax was implemented in 2018 and it covered, among others, taxpayers owning shopping centres and office buildings. Since this year, the group of taxpayers whereto this tax is applicable has been significantly broadened. As a rule, this tax is applicable to income derived from non-current assets being buildings located in the Republic of Poland that are owned or co-owned by the taxpayer and which are the object of lease, tenancy or any other contract of similar nature. Elaboration of the in-kind contribution of the loan and trade debts.
The Act on Court Enforcement Officers	1 January 2019	This Act provides for the rights and obligations of court enforcement officers. It also lays down the rules for attachments on bank accounts and sets specific principles of maintaining bank accounts for the Court Enforcement Offices.

<p>The Act amending the Personal Income Tax Act, the Corporate Income Tax Act, Tax Statute Act and Some Other Laws of 23 October 2018</p>	<p>1 January 2019</p>	<p>The main amendments affecting the tax issues of, among others, the financial sector include:</p> <ul style="list-style-type: none"> - Implementation of major modifications as regards the withholding tax mechanism. Assuming fulfilment of all statutory preconditions, by the end of 2018, any income earned in Poland by non-residents (legal entities) was CIT-exempt (for instance, dividends, interest and royalties for licences) or a lowered tax rate was applied thereto (under double taxation agreements). Starting from 2019, the current principles will still be applicable if income paid in a given tax year to a single non-resident from all sources subject to a withholding tax does not exceed PLN 2 million in total. Should this cap be exceeded, the tax withholder (an entity paying remuneration), as a rule, will be obligated to withhold the tax at the rate stipulated in the CIT Act (that is the base rate), without any option to apply preferences ensuing from the CIT Act or double taxation agreements (with two exceptions laid down by the law). On 31 December 2018, Finance Minister issued an executive regulation on exclusion or restricted application of Article 26.2(e) of the CIT Act. The regulation suspends temporarily application of the CIT Act to payments in excess PLN 2 million. - Implementation of new thresholds applicable to documentation of transfer pricing: <ul style="list-style-type: none"> - PLN 10 million for transactions concerning property, plant and equipment as well as financial transactions, - PLN 2 million for services and other transactions. <p>As of 1 January 2019, taxpayers preparing the consolidated financial statements shall prepare a master file if their consolidated income exceeds PLN 200 million.</p> <ul style="list-style-type: none"> - Limitation of the scope of individual interpretation requests. It refers to limitation of the right to submit applications concerning actual conditions or future events where to the regulation of the double taxation avoidance clause may apply. From the rationale to the implemented regulations one can derive, for example, that the purpose thereof is to channel the taxpayers to apply for a much more expensive protective tax decision when they want to get a confirmation that they do not apply an aggressive tax policy. Any requests for individual interpretation concerning confirmation that the double taxation avoidance clause is not applicable will be rejected. - Implementation of the reporting obligation concerning tax framework to the Tax Statute regulations. The legislator introduced numerous criteria that define the tax scheme concept whereunder a decision must be taken about the need to make a disclosure about the implemented scheme to the Head of the National Revenue Administration. The reporting obligation will refer mostly to tax advisors, lawyers, attorneys-at-law, bank employees and employees of other financial institution providing consulting services for the customers; in certain circumstances, those who apply the tax scheme themselves are also under the obligation to report it to the tax authority. To streamline the implementation of DAC6 Directive, the legislator imposed severe sanctions for failure to report the schemes or for failure to keep an internal procedure in place.
<p>Recommendation L concerning the role of certified auditors in the process of supervising the banks and credit unions.</p>	<p>PFSAs expects that the Recommendation will be implemented by banks by 31 March 2019 at the latest.</p>	<p>The Recommendation lays down generic rules concerning liability of the bank for selection of a certified auditor, relationship of the internal audit unit with certified auditors, making the documentation concerning contacts of the banks with the PFSAs available to the certified auditor, any matters concerning documentation from the statutory audit and its availability, and also disclosure and interchange of information between certified auditors and the PFSAs.</p>

The Act amending Some Laws to Implement Simplifications for Entrepreneurs in Tax and Business Law of 9 November 2018	1 July 2019	Starting from 1 July 2019, an entity obligated to pay a civil law tax will have an option to submit a single collective monthly tax return that will include all civil law transactions whereon civil law tax is payable in that period. Now, such a tax return shall be submitted per transaction entailing the obligation to pay the civil law tax.
The Act amending the Excise Tax Law and Certain Other Acts of 28 December 2018	1 January 2019	Since the beginning of this year, excise rate for electricity has changed. It has gone down from the current PLN 20 per 1 MWh to PLN 5 per 1 MWh.

Changes to capital requirements

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

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

Whereas, the combined buffer requirement is a total of:

- capital conservation buffer,
The capital conservation buffer was instituted in 2016 under the Act on macroprudential supervision over the financial system and crisis management in the financial system. In 2016-2017, it was 1.25%; in 2018, it went up to 1.875%; and as of the beginning of 2019, it is 2.5%.
- countercyclical capital buffer,
Under the Act on macroprudential supervision over the financial system and crisis management in the financial system, it amounts to 0% at present.
- buffer of other systemically-important institution,
In July 2018, the PFSA updated the list of banks which were deemed by it systemically important institutions. Currently, it features 11 banks (9 commercial and 2 cooperative ones). Capital add-on was imposed on these institutions both at the consolidated and separate levels. The imposed buffer (OSII) cap is 2%. The PFSA decided to impose buffers of 0% – for cooperative banks – up to 1.0% for one commercial bank. Four commercial banks were

assigned a buffer of 0.25%, three commercial banks (ING Bank Śląski S.A. included) 0.5% and one commercial bank 0.75%. For more details, please visit the PFSA website at

https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_OSII_PL_8_08_2018_62553.pdf.

- systemic risk buffer.
The systemic risk buffer has been effective since 1 January 2018. It was introduced by the Regulation of the Minister for Economic Development and Finance on systemic risk buffer of 1 September 2017. Its current value is 3%.

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

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

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

Gross Domestic Product

In 2018, Polish economy was even more thriving than in the prosperous 2017 - GDP growth was almost 5% y/y, while a year earlier GDP was 4.8%. This was achieved despite the progressing downturn in the Eurozone markets. Domestic demand, especially household spending and investment projects co-financed with the EU funds, drove the growth in domestic economy. As the effects of implementation of the 500 Plus Programme were no longer observed, dynamics of consumption slowed down a bit in 2018 from almost 5% y/y in 2017 to approximately 4.6%. Consumer optimism

was also reflected in increased dynamics of the consumer credits and mortgage loans volumes. Whereas, dynamics of investment projects increased from 3.4% y/y to about 8%. Slow-down on the main export markets of Poland and increase in import due to investment acceleration deteriorated slightly the contribution of net export to GDP - in 2018 it was zero, while a year earlier it was 0.3% of GDP.

Economists of ING Bank Śląski S.A. are of the opinion that, after a very successful 2018, in 2019 we will see slower increase in GDP. However, it will still be at a relatively high level of 3.6% y/y. Lower increase ensues, first and foremost, from decreased dynamics of household spending, which is expected to go down from 4.6 to 3.7% y/y. Weaker contribution of consumption stems from stagnation of dynamics of remuneration that was already observed at the end of last year, deceleration of the dynamic inflow of Ukrainian workers, and also from increase in new financial burdens for the companies and uncertain situation on the export markets. Economists of ING Bank Śląski S.A. are of the opinion that the dynamics of investments will slow down too - from 8% to 6% y/y. Their forecast reflects, for instance, lower budgeted expenditure of local governments, problems with choosing the winners in the road and rail tendering procedures and continuously uncertain international landscape. Furthermore, economy downturn suffered by the main trade partners of Poland may lead to deterioration of net export, though most probably to a much less extent than last year.

Macroeconomic projections

	2014	2015	2016	2017	2018F	2019F	2020F
GDP growth (%)	3.3	3.8	3.1	4.8	5.1	3.6	2.5
General government debt as per the EU methodology (% of GDP)	50.4	51.3	54.2	50.6	49.0	48.1	47.4
Average annual inflation (CPI) (%)	0.0	-0.9	-0.6	2.0	1.7	1.9	2.6
Unemployment rate (%)	11.4	9.7	8.2	6.6	5.8	5.8	6.2
USD/PLN exchange rate (yearend)	3.51	3.90	4.18	3.48	3.76	3.61	3.27
EUR/PLN exchange rate (yearend)	4.27	4.26	4.42	4.17	4.30	4.33	4.35
3M WIBOR (yearend)	2.5	1.7	1.7	1.7	1.7	1.7	1.7

Low interest rate landscape

Strong economic upturn and moderate inflation affected the decision of the Monetary Council to keep the interest rates unchanged in 2018. Interest rates were cut back to a record low levels for the last time in March 2015 (reference rate and lombard rate to 1.5% and 2.5% respectively). Despite the stable policy of the National Bank of Poland, money-market instruments measured increase in interest rates (maximum increase by approx. 75 b.p. within a 2-year horizon). The situation changed only after economic situation deteriorated in major economies and when the crude oil prices went down.

Economists of ING Bank Śląski S.A. take the view that the MPC will uphold their policy unchanged at least by the 2020 yearend. Analysts of ING Bank Śląski S.A. are of the opinion that in 2019 the main inflation rate, CPI, will not exceed in Poland the mid-target of the National Bank of Poland, that is 2.5% y/y. Keeping in mind the projected slowdown in domestic economy, parameters of monetary policy shall not be changed, which is also confirmed by the Monetary Council Members. Later, relaxation of monetary policy is more likely, which can entail lowering of interest rates and debates about application of non-standard tools.

It may be expected that in 2019 Polish zloty will continue to be relatively stable compared to currencies of other emerging economies, which ensues from stable policy of the National Bank of Poland and relatively little exposure of Poland to international landscape (among others, due to small share of the motor industry, that may be subject to increase in U.S. custom duties, in our domestic economy vis-à-vis CEE economies, or due to FX debt reduction by the State Treasury).

Condition of public finance

In 2018, fiscal situation of Poland kept improving, which was attributable mostly to the continuing prosperity. Most notably, it was reflected in increased PIT and CIT income by 14% and 16% a year, respectively. VAT and excise income increased less (by 7% and 5% a year, respectively), which indicates depletion of effects of tightening up the tax system. However, state budget deficit totalled PLN 10.4 billion, whereas, according to the ING economists, deficit of the whole public finance sector went down to approx. 0.7% of GDP (from 1.4% of GDP in 2017). This led to decrease in government debt from nearly 51% of GDP to 49% in 2018. Furthermore, according to IMF forecasts, structural deficit of Poland (that is, deficit exclusive of impact of the economic situation) went down to approx. 1.25% of GDP, somewhere around the mid-term target for public finances (MTO-1% of GDP) set up by the European Commission.

Following improved fiscal situation of Poland, profitability spread of Polish bonds to German debt decreased. However, this can change this year due to the fiscal boost announced by the government. Details thereof will be presented, most probably, at the end of February 2019. Should the boost signify a long-term increase in fixed expenditure from the state budget (for example, extension of the 500 Plus Programme to each child, or raise in pensions) or decrease in income (increased PIT threshold), that would be reflected in structural deterioration of the state budget.

International business landscape

In 2019, further trade talks with the U.S.A. will be important for the economies of the EU states, Poland included. Increased customs barriers in the U.S.A. resulted, for example, in deteriorated situation on the export markets of the Eurozone members, which led to slowdown in Europe. This year, U.S.A. intends to consider also a tenfold increase in custom duties imposed on European car manufacturers. However, based on the last year experience, we may brace for long negotiations.

From the standpoint of Poland, Brexit will also be important as Great Britain is one of our key trade partners, most notably, in service sectors, including, but not limited to, transportation. Most probably, rejection of the Withdrawal Agreement with EU by the British Parliament does not imply hard Brexit (no-deal Brexit), however the negotiation process would be extended beyond 29 March 2019 that is beyond the final date of the UK's leaving the EU. As no agreement satisfactory for the UK can be reached, a new referendum on leaving the EU seems possible.

Worse economic situation in Eurozone in 2018 ensued, in part, also from one-off factors, such as painful for the motor industry regulations concerning emission standards. These adverse effects, most probably, expired as at the end of the fourth quarter. Thus, the economists of the ING Group believe that, after a strong decrease in dynamics of growth in Eurozone in the second half of 2018, the situation will improve. However, the annual dynamics of the GDP growth in Eurozone will be lower than last year.

Economy slowdown will be probably observed in the U.S.A. too. In 2018, the U.S. economy was stimulated with the fiscal boost in the form of lowered taxes. No new fiscal boost occurred in 2019. Also, increased GDP in Q1 will materially decrease the stagnation in the public sector. Despite all that, the economists of the ING Group are of the opinion that U.S. economy will grow significantly more than the Eurozone one.

Challenges to the financial sector

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

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

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

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

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

Value creation model

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

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

When developing the value creation model, we analysed the organisation's potential, our operating expenses and the results and effects we achieve from the perspective of the employed capital.

Employed capital

Human capital

These are our employees, their knowledge, competence and engagement. It also encompasses our clients that cooperate with us in developing our products and services.

Key characteristics:

- The Group headcount was 8,086 persons (2017: 8,032).
- Over 6 thousand employees participated in WPC survey in 2018 (2017: nearly 6 thousand employees participated in the OHI survey).
- Average length of service was 12.2 years (2017: 12.2 years).

Financial capital

We understand it as the funds entrusted to us by clients, the capital contributed by shareholders and bondholders as well as the financial results of our Bank.

Key characteristics:

- Worth of accumulated deposits – PLN 117.7 billion (2017: PLN 104.5 billion).
- Worth of equity – PLN 13.3 billion (2017: PLN 11.8 billion).
- Net profit attributable to Bank shareholders – PLN 1,525.9 million (2017: PLN 1,403.1 million).
- Return on equity (ROE) – 12.5% (2017: 12.6%).

Intellectual capital

It encompasses our skills and knowledge which we employ to create cutting-edge products and services which respond to current and future needs of clients.

Key characteristics:

- In 2018, the Innovation Bootcamp 5.0 was held – 51 ideas enrolled came from Poland (out of 349 sent by all ING Group entities).

- 9 teams, 23 participants, 8 experts from the Bank and 2 experts from outside the Bank (PACE Coach + Service Designer) took part in two editions of the Accelerator programme in 2018.
- In a year, every employee devotes 41 hours for training, on average (2017: 34 hours).

Environment capital

It is natural environment which we impact mainly indirectly by the ventures funded by us. We try to minimise our direct environmental footprint.

Key characteristics:

- 88% of agreements with business partners contain a natural environment clause (2017: 92%).
- All corporate projects (as part of the Fast Track and Normal Track) were assessed for compliance with the ESR policy (2017: 100%).
- Since 2016, 100% of energy purchased by our Bank has come from renewable resources.

Social capital

It betokens relationships with stakeholders from our circle: clients, employees, suppliers, local communities as well as social and charity organisations.

Key characteristics:

- Number of clients – 4.86 million (2017: 4.59 million).
- Two corporate foundations: ING for Children Foundation and ING Polish Art Foundation.
- Number of hours devoted by employees to voluntary activity – 5.2 thousand (2017: 4.9 thousand).
- Number of qualified suppliers – 534 (2017: 452).

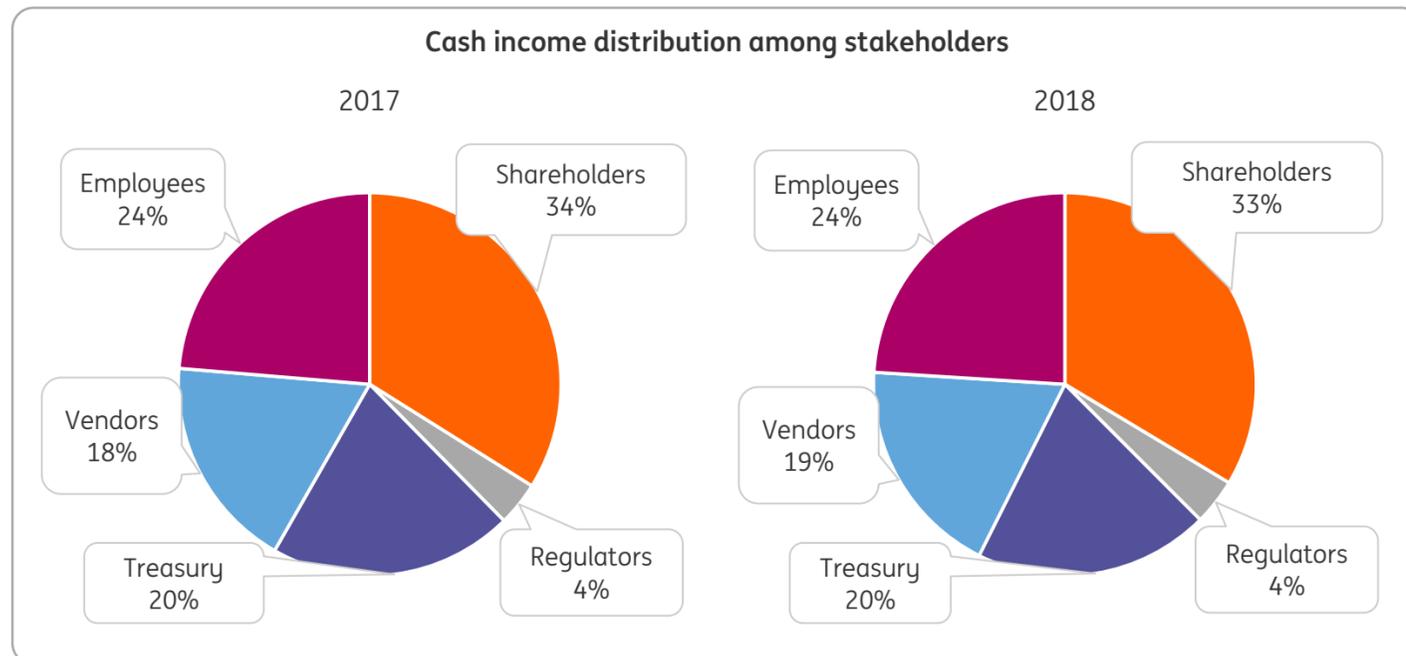
Cash income distribution

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

Cash income

(PLN million)	2018	2017	2016	2015	2014	Change 2018 / 2017
Cash income	4,538.0	4,165.5	3,813.3	3,356.8	3,102.0	8.9%
Net interest income	3,759.3	3,389.4	2,953.4	2,467.1	2,330.2	10.9%
Net commission income	1,304.9	1,196.0	1,064.8	1,017.2	1,062.9	9.1%
Other income	168.2	183.7	306.3	293.8	151.7	-8.4%
Amortisation and depreciation	-193.5	-182.4	-210.6	-189.2	-175.1	6.1%
Risk costs	-500.9	-421.2	-300.6	-232.1	-267.7	18.9%

Cash income distribution among stakeholders



Value creation model





How our Bank works

Easy saving, easy lending

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

Payments and transactions

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

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

Customer service quality

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

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



Customer experience

Human, financial, intellectual and social capital

Availability, speed and intuitiveness

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

How did we measure it in 2018?

- 337 branches and 63 ING Express points of sale (2017: 357 and 66, respectively).
- We provide sign language services at all branches (2017: 100%).
- 1,051 ATMs, including 860 processing NFC-enabled withdrawals (2017: 1,081 and 876, respectively).

- 99.88% of retail transfers placed by the electronic banking (2017: 99.84%).
- 99.8% of online service platform availability (2017: 99.8%).
- 49.4% of retail clients actively used electronic banking in Q4 2018 (Q4 2017: 46.9%).
- 33.6% of corporate clients actively used electronic banking in Q4 2018 (Q4 2017: 29.6%).
- The average speed of answer by the Contact Centre advisor was 48 seconds (2017: 20 seconds).
- In 2018, the Business Centre Advisors received 197 thousand calls and opened 2.0 thousand accounts (in 2017: 181 thousand and 1.9 thousand, respectively).
- The average duration of the Fast Track process for decisions with limits was 0.88 working days (2017: 1.69).
- In 2018, we took 6.7% of credit decisions in the automatic Easy Lending process.
- 81% of problems solved in the first call resolution mode by the Contact Centre (2017: 80%).

Dialogue and plain communication

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

How did we measure it in 2018?

- Over 2.0 thousand messages and documents rewritten using plain language rules since the beginning of the project in November 2015 (2017: over 1.4 thousand).
- NPS for Retail – 32 (2017: 30).
- 247 thousand followers of ING Bank Śląski S.A. on Facebook (2017: 214 thousand).
- Contact Centre published over 78 thousand responses on Facebook (2017: 52 thousand).
- 100 thousand users visiting the ING Community website every month (2017: 80 thousand).

Independent and informed choices

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

How did we measure it in 2018?

- 89.4 thousand retail clients had a regular investment instruction (2017: 82.1 thousand).
- We had over 20.1 thousand active brokerage accounts (2017: 18.3 thousand).
- We had over 279 thousand retail users of online Currency exchange module who effected over 2 million transactions (2017: 125 thousand and 433 thousand, respectively).
- We had 10.6 thousand corporate users of online Currency exchange module who effected 338.2 thousand transactions (2017: 8.0 thousand and 226.5 thousand, respectively).
- Retail clients pinned over 141 thousand multicurrency cards to FX accounts (2017: 54 thousand).
- We organised 2 educational webinars (1.8 million recipients, 400 thousand views) and recorded 7 educational videos with answers to the most frequent financial questions of Poles (2.3 million views).
- In 2018, we conducted 210 lessons as part of BAKCYL initiative (2017: 313 lessons).

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

- Technology advancement.
- Digitalisation of banking services.
- New interaction channels.
- New clients' needs.
- Personalised client approach.
- Poor finance awareness on the part of the society.
- Growing non-banking sector competition.

More information

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



Supporting sustainable development

Human, financial, environmental, intellectual and social capital

Bank of green investments

We support and promote natural environment protection solutions. We are active in designing and offering new products, supporting green ventures, raising environmental awareness and managing environmental and social risk. We help our clients with energy transformation.

How did we measure it in 2018?

- All corporate projects (as part of the Fast Track and Normal Track) were assessed for compliance with the ESR policy (2017: 100%).
- Together with our partner, we have provided 50 electric scooters in Katowice and 60 electric scooters in Warsaw.
- Together with our partner, we have mounted 23 charging stations for electric cars in Katowice.

Bank which is eco-aware

We strive after minimizing adverse environmental impact of our activity. We run communication campaigns which lead to a lower use of resources and raise ecology awareness and sensitivity of employees.

How did we measure it in 2018?

- We reduce our carbon footprint by 79% vis-à-vis the starting year – 2014.
- We reduced water consumption by 13% vis-à-vis the starting year – 2014.
- We have 11 electric cars in our fleet (2017: 4).
- We have 8 own charging stations for electric cars (2017: 2).
- 88% of agreements with business partners contain a natural environment clause (2017: 92%).

Market trends and challenges that we observe in the Sustainability support

- Growing ecological awareness of Poles.
- Growing role of circular economy.
- Growing regulatory pressure in the eco area.

- Greater availability of electric vehicles.

More information

More information on Sustainability support may be found in Chapter “Green investments and care for the environment”.



Risk and security management

Human, financial and intellectual capital

Transaction security and IT system stability

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

How did we measure it in 2018?

- The percentage of employees trained in security aspects:
 - 98% in compliance (2017: 97%),
 - 94% in fraud prevention (2017: 98%),
- 99.8% of online service platform availability (2017: 99.8%).
- In 2018, we made 10 calls and sent 20 text messages communicating suspicions of unauthorised transaction on average each day (2017: average of 5 and 8, respectively).

Personal data security

We care for digital and physical security of all entrusted data. We educate our clients and employees.

How did we measure it in 2018?

- No substantiated complaints about breach of customer privacy (2017: 0).
- 99.5% of employees trained in personal data security (2017: 100%).

Funds security

Our risk management system includes constant identification, measurement and monitoring of the level of risk borne by the Bank in order to ensure the security of funds entrusted to us by clients.

How did we measure it in 2018?

- Tier 1 ratio – 14.75% (2017: 15.78%).
- Total Capital ratio (TCR) – 15.60% (2017: 16.71%).
- Share of loans in stage 3 – 2.8% (2018 opening balance: 3.0%).
- Provisioning ratio for loans in stage 3 – 59.6% (2018 opening balance: 59.6%).

Market trends and challenges that we observe in the Risk and security management area

- Growing number of financial sector regulations.
- Growing capital requirements.

More information

More information on Risk and security management may be found in Chapter “Bank and client safety” and in the Chapter “Non-financial statement”.



Engaged employees and a strong employer

Human, intellectual and social capital

Sound employer

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

How did we measure it in 2018?

- Sustainable employee engagement ratio – 82% (2016: 85%).
- Over 6 thousand employees participated in WPC survey in 2018 (2017: nearly 6 thousand employees participated in the OHI survey).
- Remuneration of the bottom-level employees vis-à-vis the market – 125% (2017: 143%).
- Women account for 52% of employees being managers (2017: 52%).
- Average length of service was 12.2 years (2017: 12.2 years).

Culture of innovation

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

How did we measure it in 2018?

- In 2018, the Innovation Bootcamp 5.0 was held – 51 ideas enrolled came from Poland (out of 349 sent by all ING Group entities).
- 304 employees trained in PACE methodology (2017: 550) during 24 PACE training courses (2017: 52).
- We organised 2 Start-up Demodays where we invited 16 start-ups (2017: 2 and 15, respectively).
- 9 teams, 23 participants, 8 experts from the Bank and 2 experts from outside the Bank (PACE Coach + Service Designer) took part in two editions of the Accelerator programme in 2018.

Competent employees

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

How did we measure it in 2018?

- In a year, every employee devotes 41 hours for training, on average (2017: 34 hours).
- There are, on average, 11 development actions per employee (2017: 18).
- Market trends and challenges that we observe in the Engaged employees and strong employer area
- Flexible response to changes and growing competition.
- New generations entering the labour market.
- Adapting to changing employee expectations.

More information

More information on Engaged employees and a strong employer may be found in Chapter “Way of working”.



Stability and predictability

Financial, environmental and social capital

Consistent and stable growth

We are consistently pursuing our business strategy. We focus on the higher number of clients and business volumes which translates into our higher market share.

How did we measure it in 2018?

- Loan to Deposit ratio – 87.6% (2017: 83.8%).
- Market share in loans – 8.0% (2017: 7.3%).
- We awarded PLN 8.5 billion worth of mortgage loans reaching 16.2% of the market share (2017: PLN 6.7 billion and 15.3%, respectively).
- We awarded 278 thousand cash loans (75.7% of them via electronic channel) totalling PLN 5.2 billion (2017: 278 thousand, 64.9% and PLN 4.3 billion, respectively).
- 13.0% market share in factoring (2017: 15.0%).
- 5.6% market share as regards the amount of lease agreements made and assets provided (2017: 5.5%).
- Market share in deposits – 9.1% (2017: 8.7%).

Predictable results

We care about the capital entrusted to us and we try to ensure that it is effectively allocated. We are working to provide a medium- and long-term return that will satisfy our capital providers.

How did we measure it in 2018?

- Interest margin – 2.93% (2017: 2.88%).
- Cost to Income ratio – 44.5% (2017: 44.8%).
- Risk costs margin – 0.52% (2017: 0.50%).
- Return on equity – 12.5% (2017: 12.6%).

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

- Uncertain market situation.
- Low interest rates.
- Growing number of financial sector regulations.

- Financial markets volatility.

More information

More information on Stability and predictability may be found in Chapter “Our financial results” and in Chapter “Customer experience”.

ING Bank Śląski S.A. strategy

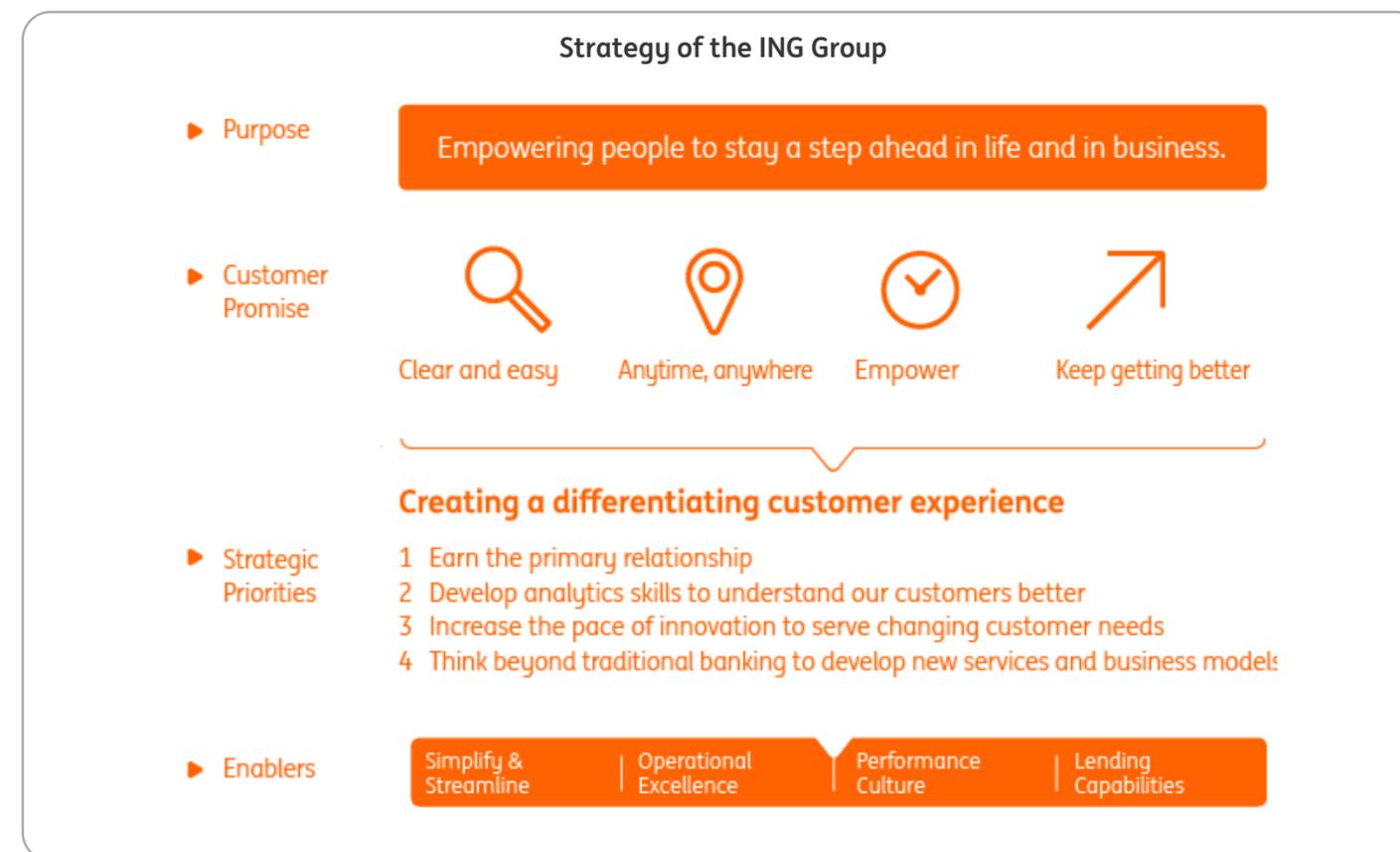
Business strategy

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

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

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

And also from supporting our clients in their development. We want them to make informed choices.



Our promises

Clear and easy banking

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

We are there for you anytime, anywhere

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

Empowerment

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

We keep getting better

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

Strategic priorities

We want to be the primary bank for our clients

Clients are at the centre of our actions. We care to have numerous loyal clients. They will choose us as their primary bank only if they have good relationship with us and if we help them solve their problems. We know that we can ensure them a lasting and good relationship if, at the same time, we look after our financial strength and stable infrastructure.

We develop our competence to understand clients better

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

We implement innovations so as to meet client needs

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

We think beyond banking to develop new services and business models

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

Execution of strategic priorities for 2018

As part of the business strategy implementation, we identified several key areas of focus for 2018. The table below presents the results of priorities' implementation:

Our 2018 priorities

Priority	Deliverables
Increase in the number of clients supported by digital solutions and high client satisfaction	<ul style="list-style-type: none"> - Increase in the number of clients by 269.9 thousand y/y to 4.86 million - #2 in NPS in the retail segment
Motivated employees, engaged in implementation of the Bank strategy	<ul style="list-style-type: none"> - Remuneration of the bottom-level employees vis-à-vis the market – 125% - We implemented the talent/succession management programme
Leader in artificial intelligence use and data management	<ul style="list-style-type: none"> - We launched a virtual assistant for retail segment clients available at Moje ING - We launched the imoje payment gateway - We ran the “Lion’s Den ING Modelling Challenge” hackathon in the field of risk and data analysis - We share with our corporate clients knowledge regarding the use of robots supporting operating activity
Optimal and stable balance sheet	<ul style="list-style-type: none"> - The share of funds in current accounts was at 37.6% (+0.2 p.p. y/y) - The value of loans gross was PLN 104.4 billion as at the yearend (+18.0% y/y). - LTD ratio went up by +3.9 p.p. to 87.6%
Operating effectiveness improvement	<ul style="list-style-type: none"> - LTD ratio settled at 44.5%. - Return on equity (ROE) settled at 12.5% (-0.1 p.p. y/y) - The Management Board recommended the payout of 30% of standalone profit as a dividend

Strategic priorities and main risks in 2019

Our strategic priorities for 2019

- Higher number of clients.
- Regulatory compliance.
- Operational excellence.
- Employee motivation.
- Data management.

Risks to business strategy implementation in 2019

- Global instability and/or economic slowdown.
- Political events leading to regulatory instability.
- Regulatory costs of the banking sector.
- Wage pressure.
- Upturn in the mutual funds market.

Sustainability strategy

Any action through which we will be able to leave the world for future generations at least as it is today lies at the centre of the sustainability. Ideally, we will make it even better, using technology development.

Starting from the projects funded by us and ending with our office lighting – we are aware that each aspect of our activity impacts society and environment. We respect human rights and care for the environment, trying to avoid negative footprint or manage it adequately. We engage in relationships with our clients to support their continuous development. We promote any and all forms of diversity – not only because such an approach is right, but also because diverse sources and different ways of thinking trigger new and valuable ideas. We invest in local communities and participate in voluntary activities.

Sustainability is inherent in our business strategy. To ensure that these activities are consistent and that they set the directions we follow, we have updated our previous sustainability strategy. Our response can be formulated through being: the Bank for the enterprising, the Bank of equal opportunities, the Bank of green investment projects and the Bank which is eco-aware.

Implementation of ING Bank Śląski S.A. sustainability strategy

Implementation of ING Bank Śląski S.A. sustainability strategy

Goal	Success measures as at the year-end 2018	Execution
Bank for the enterprising		
We are enterprising. We introduce <i>beyond banking</i> solutions in the Retail, SME/ Mid-Corp and Wholesale Banking.	<p>Retail: MojelD implementation, implementation of online invoicing including the accounting module.</p> <p>SME / Mid-Corp: Beyond Banking revenue up by 35%%</p> <p>Wholesale Banking: Robotics; Purchase-to-pay platform.</p>	<ul style="list-style-type: none"> As a bank in 2018, we were ready to implement MyID. Delays in implementation result from the service provider and are independent of the bank's operations. For entrepreneurs, we have implemented online invoicing together with an accounting module. The indicator has been incorrectly included in the strategy. The target level to be achieved in 2021 is 10% in core business revenues. At the end of 2018, the increase in beyond banking income was at the level of 1.34%. In 2018, we focused on the development of the Robotics service. We share corporate knowledge with our clients regarding the use of robots to improve operational activities. The proof of concept (POC) process was carried out in the strategic clients segment. The second POC ended in January 2019.
We support companies in the development of their businesses. We are building a platform to deliver new solutions that meet the enterprises' needs.	x-buy ratio up by 10%;	<ul style="list-style-type: none"> The x-buy ratio at the end of 2018 is lower than at the end of 2017. This is related to the change in the sales process of the ROR and OKO accounts. We have also focused on providing clients with products from external websites that are not included in the calculation of the x-buy index. In 2019, we will work on changing the definition of PRIMARY to include products from external websites.
We support the spirit of enterprise of employees, we encourage continuous growth (we are a learning organisation). We look for and develop new competences.	We support the spirit of enterprise of employees, we encourage continuous growth (we are a learning organisation). We look for and develop new competences.	<ul style="list-style-type: none"> In Innovation Bootcamp 5.0, 349 ideas were submitted, including 51 ideas from Poland. The final took place in June 2018 - in Alwernia near Kraków.
We develop tools and services supporting the enterprising. From the business set-up decision, through business running and growth to its closure/ handover to the successor.	Minimum 10% of our clients actively use our solutions.	<ul style="list-style-type: none"> The products implemented in 2018 offered to the Entrepreneurs segment are: ING Księgowość - 42 thousand. customers; 9,000 payment terminals; 300 goals imoje; 900 microfractoring contracts; 250 microleasing contracts. In total, over 10% of Qualified segment customers use new solutions.
We develop collaboration with fintechs and start-ups. We want to support start-ups where for we recognise potential for realistic business actions.	3 rounds of in-house Start-ups Demo Days.	<ul style="list-style-type: none"> In 2018, two editions of DemoDay meetings took place. In addition, 2 thematic events took place in the bank, to which we invited start-ups (the main themes of the events are Open Banking and AI).
We provide financial education to people eager to learn, both children and adults. We increase the number of beneficiaries of financial education-related actions and programmes.	Up by 10%	<ul style="list-style-type: none"> In 2018 the number of projects related to financial education grew under the Good Idea programme. Out of 73 projects 45 were devoted to education (62%) compared to 2017, when out of 71 project, 42 were educational (59%). The number of students participating in the Entrepreneurial Youth Programme slightly declined from 610 in 2017 to 600 in 2018. A new event was an Entrepreneurial Youth Gala that was held at the corporate offices of ING Bank Śląski. It hosted 12 teams presenting their projects. The number of our volunteers, who participated in the Bakcyl Programme increased from 62 to 69 (11%). In 2018 they gave 210 lessons.

The Bank of equal opportunities

We develop and implement a plan of actions supporting clients with disabilities.	Implementation by the year-end 2018.	<ul style="list-style-type: none"> - We are striving to make our branches accessible to everyone, including those with disabilities or those who visit us with prams. We design the interior to suit their needs and we eliminate barriers. In 2018 we liquidated architectural barriers in 22 retail branches. Additionally, 29 of our branches were provided with ramps and calling bells. At the end of 2018, 88% of our branches had no architectural barriers and 91% were without barriers or the barriers were eliminated (mobile ramps). - In addition, in all our branches clients have access to a sign language interpreter using the Migam application that is available on telephones or tables of our professionals.
We continuously improve the working conditions so that they are suitable and allow for hiring disadvantaged people.	A completed ergonomic audit; identified work places for disadvantaged people.	<ul style="list-style-type: none"> - We have completed the ergonomic audit. Identification of places for people with disabilities is under way. From 1 January 2019, we introduced a package of disability-related benefits in our bank.
We actively support diversity culture by getting involved in cooperation with organisations that involve disadvantaged people.	Identifying organisations with which the bank will enter into a co-operation agreement. Conducting at least one exercise involving disadvantaged people together with the selected organisation.	<ul style="list-style-type: none"> - We have started cooperation with two Foundations that help people with disabilities to build self-esteem, support the process of self-empowerment and show how to effectively look for a satisfying job. - We have prepared a Savoir-vivre guide for people with disabilities with one foundation. - We have established cooperation with the other foundation to support us in the recruitment processes of people with disabilities (we are in the process of signing the contract).
We continue to further simplify and promote "Prostu" communication. We develop standards and tools that enhance the scope of simple communication.	Simplification of 2,000 external and internal messages	<ul style="list-style-type: none"> - So far we have succeeded in simplifying 2,015 internal and external messages.

The Bank of green investments

<p>We have been implementing the assumptions of the Green Statement. We restrict cooperation in the area of lending with companies that generate the majority of their revenues from the production and/or sales of hard coal. We are planning to end that type lending business by 2025. At the same time, we support projects in the scope of renewable energy sources and electromobility.</p>	<p>At least 3 projects focus on care about the natural environment.</p>	<ul style="list-style-type: none"> - In 2018 we completed a large project called My Air. It included a campaign “Do we Poles have anything in common? You can't see it. Because it is the air”. As part of the campaign we encouraged Poles to a proactive attitude for the sake of the clean air. The campaign accompanied the introduction of energy efficient products and solutions into the financing offer under which we waive commissions for its provision. As part of the offer of loans and borrowings for retail clients and businesses, we offered promotional financing for products and solutions that contributed to the reduction of conventional energy and the increase of clean energy consumption. We initiated the construction of the Smog Free Tower to draw attention to a necessity of undertaking actions for the clean air's sake. The #mojepowietrze action encouraged Poles to take an active attitude for the clean air's sake. Web surfers shared their ideas about combating the smog. - In 2018 we continued our activities as part of electromobility development. We initiated cooperation with 4 partners supplying electrified cars and charging stations and electric scooters. - Under the partnership with Innogy, apart from signing the letter of intent, we successfully conducted a pilot project of leasing electrified cars pursuant to the rules of car sharing, and in July 2018 we launched 10 new charging stations in the Janki Shopping Centre. - In November 2018 we signed a letter of intent on joint activities with ENGIE Technika Instalacyjna. Electromobility development and solutions in the area of energy efficiency mark the scope of the cooperation initiated between ENGIE and our Bank. - In December 2018 we started a pilot carsharing project and launched first charging stations for electrified cars in Katowice. 23 charging stations and 20 electrified cars are the basis for an electromobility system being launched by the Bank Tauron. - Last year we also successfully tested rental of electric scooters. As part of the cooperation with Jeden Ślad, a company operating a network of urban scooters, in June 2018 we provided 50 scooters in Katowice, and in August 60 ING electric scooters in Warsaw.
<p>All our investments are subject to risk assessment in terms of a socio-environmental impact in line with the ESR Policy.</p>	<p>100%</p>	<ul style="list-style-type: none"> - In 2018 all our investments were subject to risk assessment in terms of a socio-environmental impact in line with the ESR Policy.
<p>We promote the assumptions of the circular economy. We see a chance and potential for business in that area. We are active in inspiring and knowledge sharing.</p>	<p>The Bank's involvement as a partner in at least 2 external conferences</p>	<ul style="list-style-type: none"> - Pursuant to a goal of the Sustainability Strategy in 2018 we promoted the assumptions of the circular economy. - Together with Deloitte and other partners we published a report on “Circular Flow – Open Opportunities” about the circular economy that was first disclosed at EEC Green. The purpose of the report is to look at a situation in Poland and identify opportunities that the circular economy creates. The report was present to conference participants during EEC Green. We were the main partner of EEC Green and Open Eyes Economy. Panel sessions on the circular economy were held during both events.
<p>We are in active dialogue with non-governmental organisations (NGOs).</p>	<p>At least 4 meetings</p>	<ul style="list-style-type: none"> - There were 4 meetings with various non-governmental organisations held in 2018.

The ecologically aware Bank

We carry out activities that are aimed at reducing the carbon footprint.	The carbon footprint down by 84% by 2020 compared to the 2014 level.	– At 79% against the 2014 base year. It is a long-term programme, however, we are on a good route to reach the target.
We have been lowering water consumption, increasing recycling of waste	Water consumption down by 20% by 2020 compared to the 2014 level, 100% recycled waste by 2020.	– Lowering water consumption is currently at 13% compared to the 2014 base year. As of 2016, 100% of all waste produced by the employees (paper, waste electrical and electronic equipment, toner cartridges, or furniture) has been subject to recycling. All communal waste is collected by communes, and is not subject to recycling by the Bank.
We promote pro-environmental initiatives in our own business (e.g. a fleet of electrified and hybrid cars).	<ul style="list-style-type: none"> – Replacement of another 6 internal combustion engine cars on duty with electrified cars. – Erection of 3 charging stations for electrified cars next to our branches. – Training of some 50 in eco-driving 	<ul style="list-style-type: none"> – In 2018 we purchased and brought to use 7 new electrified cars that replaced internal combustion engine cars. Thus, our fleet now has 11 electrified and 6 hybrid cars. We have been erecting car charging stations, too. – At the year-end 2018 we had 8 own charging points in Katowice, Łódź, Kraków, Warsaw, Gdańsk, and Wrocław. – In 2018 we trained 18 persons in eco-driving.
We build eco-awareness of our employees and educate them in that area.	Organising 2 competitions for employees as part of eco-brand promotion.	– We organized 3 contests for employees regarding ecology and the environment. They concerned ways to give the product life again, avoid plastic and reduce air pollution. In each of them employees could get adequate rewards: our bags from billboards, bottle and can crusher and anti-smog masks.
We are working on the approach to sustainable procurement.	90% of all vendors accept and will apply the Vendors Code of Conduct	– Pursuant to the Purchase Policy, in 2018 the activities were continued as part of the supplier selection process. The process of qualifying suppliers reduces the risk of cooperation with suppliers engaged in undesirable financial and economic criminal activities, including those that bear the characteristics of bribery and corruption or about uncertain financial, social or environmental situation. There has been an increase in the number of suppliers qualified at the local and global level. At the end of 2018, 534 suppliers in the purchasing area received the status of qualified supplier. In 2018 alone, 215 suppliers were verified, of which 194 (90%) passed the qualification positively. Verification of suppliers is based on established criteria in line with the ethical values and principles included in the bank's mission and strategy.

Our financial results

Consolidated results of ING Bank Śląski S.A. Group

GRI [201-1]

Key financial data

Abridged financial results of ING Bank Śląski S.A. Group for 2014 to 2018

PLN million	2018	2017	2016	2015	2014	Change 2018 / 2017
Income*	5,232	4,769	4,325	3,778	3,545	9.7%
Cost	2,327	2,136	2,099	2,156	1,930	8.9%
Risk cost	501	421	301	232	268	18.9%
Profit before tax	2,033	1,882	1,645	1,390	1,347	8.0%
Net profit**	1,526	1,403	1,253	1,127	1,041	8.8%
Balance sheet total	141,590	126,014	117,478	108,893	99,861	12.4%
Liabilities to customers	117,683	104,503	95,825	87,866	75,689	12.6%
Net loans and other receivables to customers***	103,126	87,544	78,070	70,036	57,238	17.8%
Equity**	13,336	11,795	10,477	10,681	10,457	13.1%
Earnings per share in PLN	11.73	10.78	9.63	8.66	8.00	8.8%
Dividend per share in PLN	-	3.20	0.00	4.30	4.00	-

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

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

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

EUR/PLN exchange rate

	2018	2017	2016	2015	2014
For statement of financial position items	4.3000	4.1709	4.4240	4.2615	4.2623
For income statement items	4.2669	4.2447	4.3757	4.1848	4.1893

Abridged financial results of ING Bank Śląski S.A. Group for 2014 to 2018

EUR million	2018	2017	2016	2015	2014	Change 2018 / 2017
Income*	1,226	1,124	988	903	846	9.1%
Cost	545	503	480	515	461	8.4%
Risk cost	117	99	69	55	64	18.3%
Profit before tax	476	443	376	332	322	7.5%
Net profit**	358	331	286	269	248	8.2%
Balance sheet total	32,928	30,213	26,555	25,553	23,429	9.0%
Liabilities to customers	27,368	25,055	21,660	20,619	17,758	9.2%
Net loans and other receivables to customers***	23,983	20,989	17,647	16,435	13,429	14.3%
Equity**	3,101	2,828	2,368	2,506	2,453	9.7%
Earnings per share in PLN	2.75	2.54	2.20	2.07	1.91	8.2%
Dividend per share in PLN	-	0.75	0.00	1.03	0.95	-

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

Core effectiveness ratios

Core effectiveness ratios of ING Bank Śląski S.A. Group for 2014 to 2018

	2018	2017	2016	2015	2014	Change 2018 / 2017
C/I ratio	44.5%	44.8%	48.5%	57.1%	54.4%	-0.3 p.p.
C/I ratio – adjusted	44.5%	44.9%	50.5%	54.2%	54.4%	-0.4 p.p.
ROA	1.16%	1.16%	1.10%	1.07%	1.10%	0.00 p.p.
ROE	12.5%	12.6%	11.7%	11.0%	11.1%	-0.1 p.p.
ROE – adjusted	12.8%	12.9%	12.8%	12.2%	11.9%	-0.1 p.p.
Interest margin ratio	2.93%	2.88%	2.67%	2.45%	2.67%	+0.05 p.p.
LTD ratio	87.6%	83.8%	81.5%	78.2%	75.5%	+3.9 p.p.
LCR	133%	145%	155%	178%	168%	-12 p.p.
NSFR	131%	122%	124%	124%	114%	+9 p.p.
LR according to transitional definition	7.42	7.68	7.10	6.71	6.61	-0.26
Total capital ratio	15.60%	16.71%	14.73%	13.74%	14.17%	-1.11 p.p.
Tier 1 ratio	14.75%	15.78%	13.70%	13.74%	14.17%	-1.03 p.p.

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

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

Income statement

Basic consolidated income statement figures of the ING Bank Śląski S.A. Group for 2018 and changes vis-à-vis 2017 are presented in the table below.

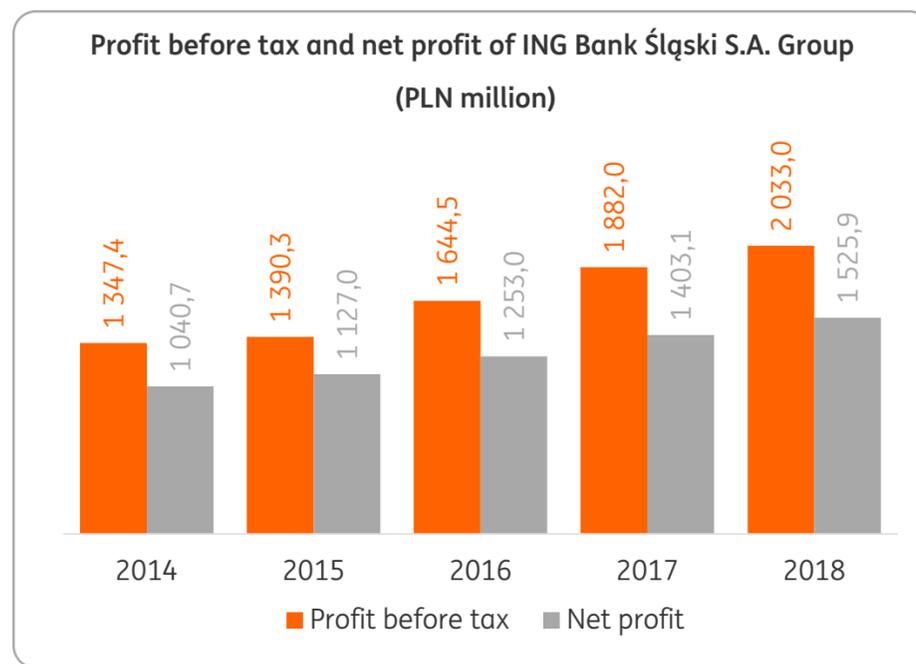
Basic consolidated income statement figures in analytical terms

	2018	2017	2016	2015	2014	Change 2018 / 2017	
					PLN million		%
PLN million							
Net interest income	3,759.3	3,389.4	2,953.4	2,467.1	2,330.2	369.9	10.9%
Net commission income	1,304.9	1,196.0	1,064.8	1,017.2	1,062.9	108.9	9.1%
One-off income*	0.0	11.9	189.6	100.5	0.0	-11.9	-100.0%
Other revenues**	168.2	171.8	116.7	193.3	151.7	-3.6	-2.1%
Total revenue	5,232.4	4,769.1	4,324.5	3,778.1	3,544.8	463.3	9.7%
Operating expenses	2,326.8	2,135.8	2,099.2	2,155.7	1,929.7	191.0	8.9%
including one-off costs*	0.0	0.0	12.2	163.8	0.0	0.0	-
Impairment losses and provisions	500.9	421.2	300.6	232.1	267.7	79.7	18.9%
Bank levy	371.7	330.1	280.2	0.0	0.0	41.6	12.6%
Gross financial result	2,033.0	1,882.0	1,644.5	1,390.3	1,347.4	151.0	8.0%
Income tax	507.1	478.9	391.4	263.2	306.6	28.2	5.9%
Net result attributable to non-controlling shareholders	0.0	0.0	0.1	0.1	0.1	0.0	-
Net financial result	1,525.9	1,403.1	1,253.0	1,127.0	1,040.7	122.8	8.8%
Adjusted net result*	1,525.9	1,393.5	1,109.3	1,162.7	1,040.7	132.4	9.5%

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

Profit before tax and net profit

In 2018, the ING Bank Śląski S.A. Group posted the net profit attributable to the shareholders of the parent entity of PLN 1,525.9 million. This is the all-time high result of the Bank. It shows that the net income improved by 8.8% from 2017. As since the beginning of 2018, the Bank has applied, in its financial statements, the equity method to measure investments in its subsidiaries and affiliates, the consolidated net result of the Bank Group is the same as the separate net result of the Bank.



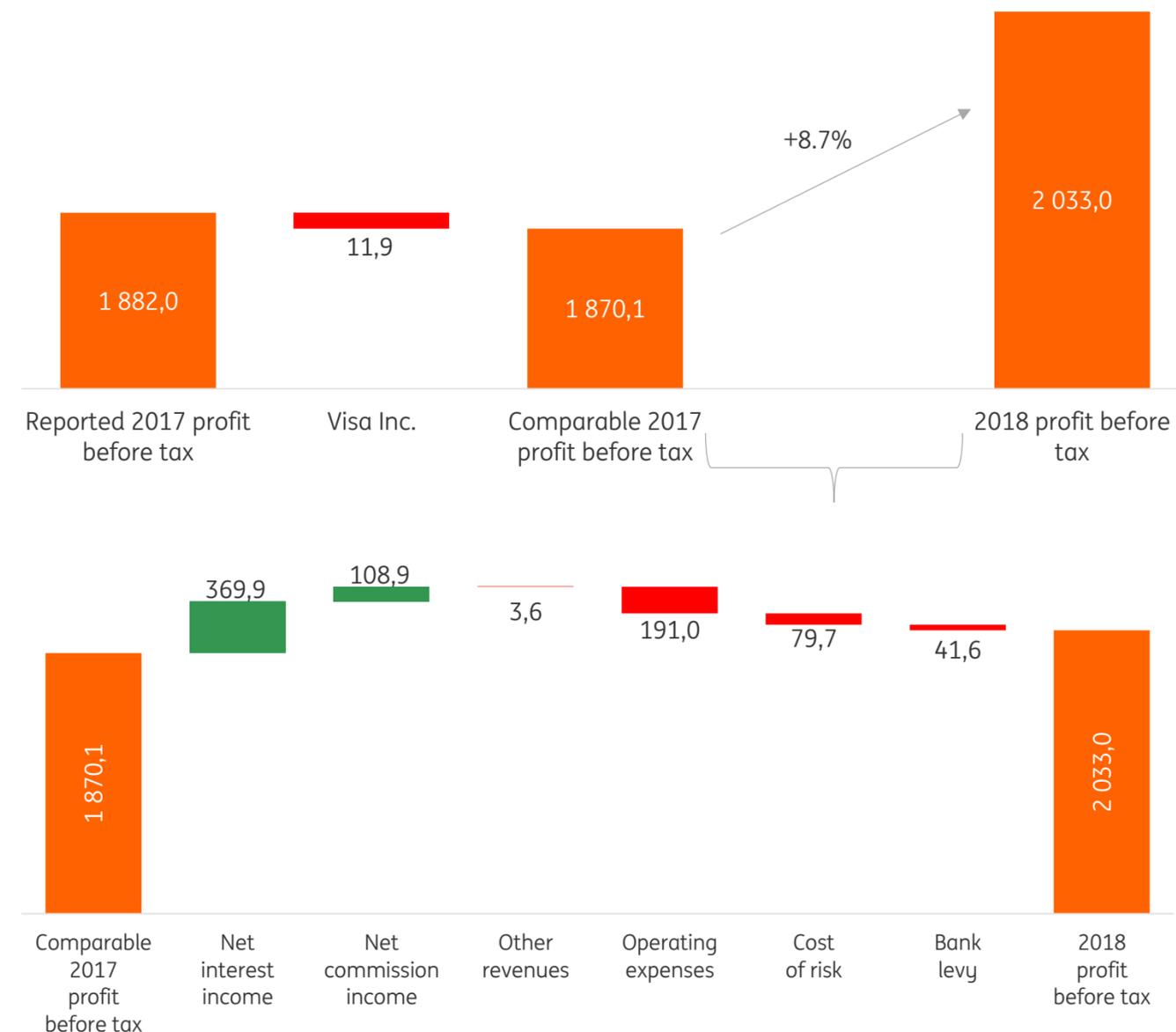
The result before tax was PLN 2,033.0 million and it went up by 8.0% from 2017. There were no one-off factors in 2018. Whereas, upon eliminating the one-off event (sale of the shares of Visa Inc. of PLN 11.9 million in Q2 2017) from the profit before tax, its recurring level would be PLN 1,870.1 million. Improvement of the 2018 profit before tax by PLN 162.9 million (or 8.7%) y/y was most fuelled by:

- higher net interest income (up by PLN 369.9 million, or 10.9%) and
- better net commission income (up by PLN 108.9 million, or 9.1%).

Whereas, the negative factors impacting the 2018 result before tax y/y were:

- higher operating expenses (up by PLN 191.0 million, or 8.9%),
- higher expected/impairment losses and provisions (up by PLN 79.7 million, or 18.9%), and
- higher bank levy (up by 41.6 million, or 12.6%).

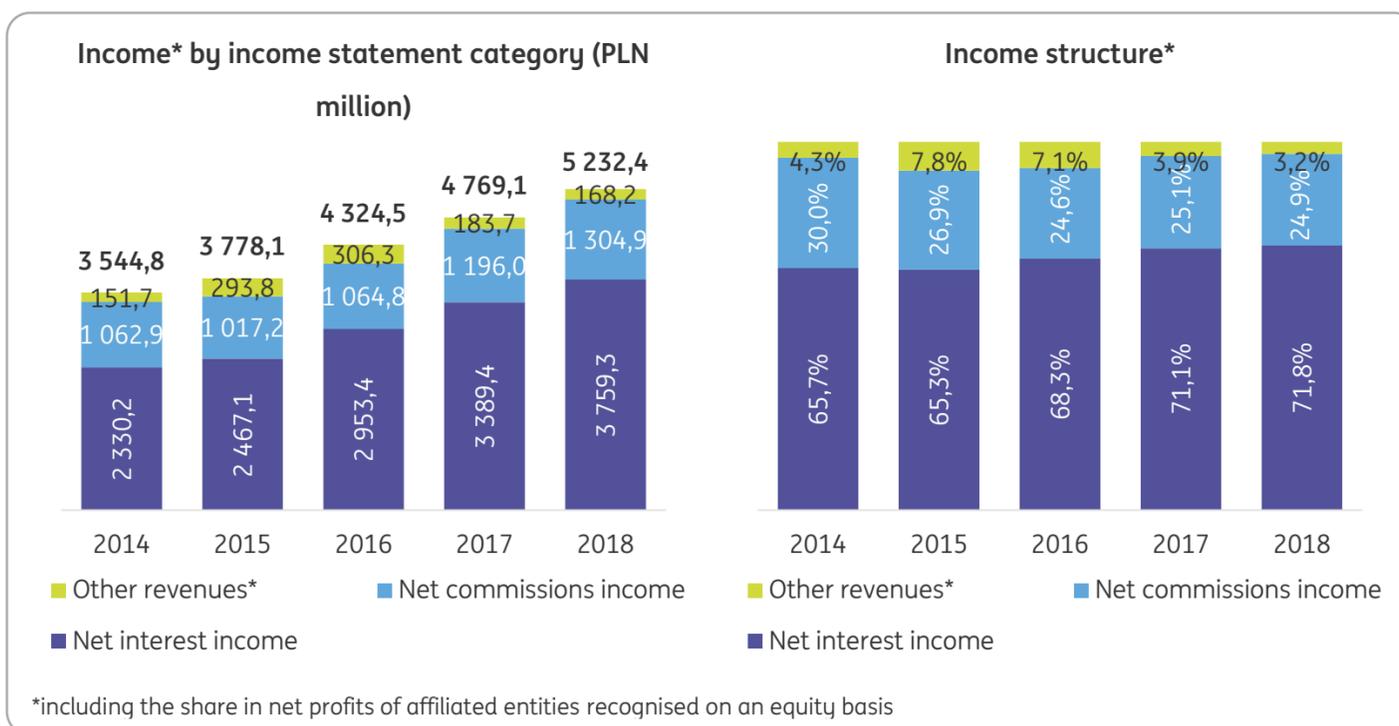
Change drivers for result before tax of ING Bank Śląski Group in 2018 (PLN million)



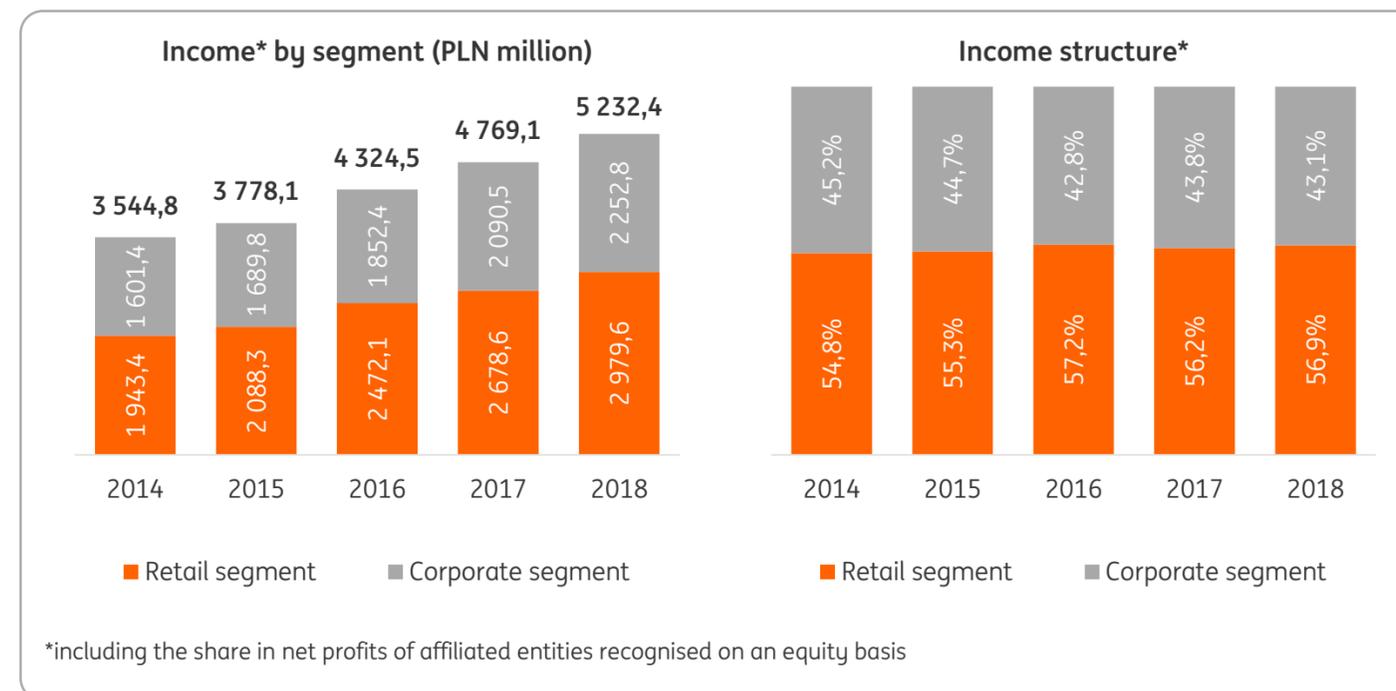
In 2018, total income of the ING Bank Śląski S.A. Group attributable to shareholders of the parent entity (including, apart from net profit, other items of income and expenses recognised in equity) stood at PLN 2,205.3 million versus PLN 1,319.1 million in 2017.

Revenue

In 2018, total revenue of the ING Bank Śląski S.A. Group closed with PLN 5,232.4 million. This betokens improvement of PLN 463.3 million (or 9.7%) from 2017, fuelled by a higher net interest income first and foremost. Its share in total revenue went up by 0.8 p.p. y/y to 71.8%.

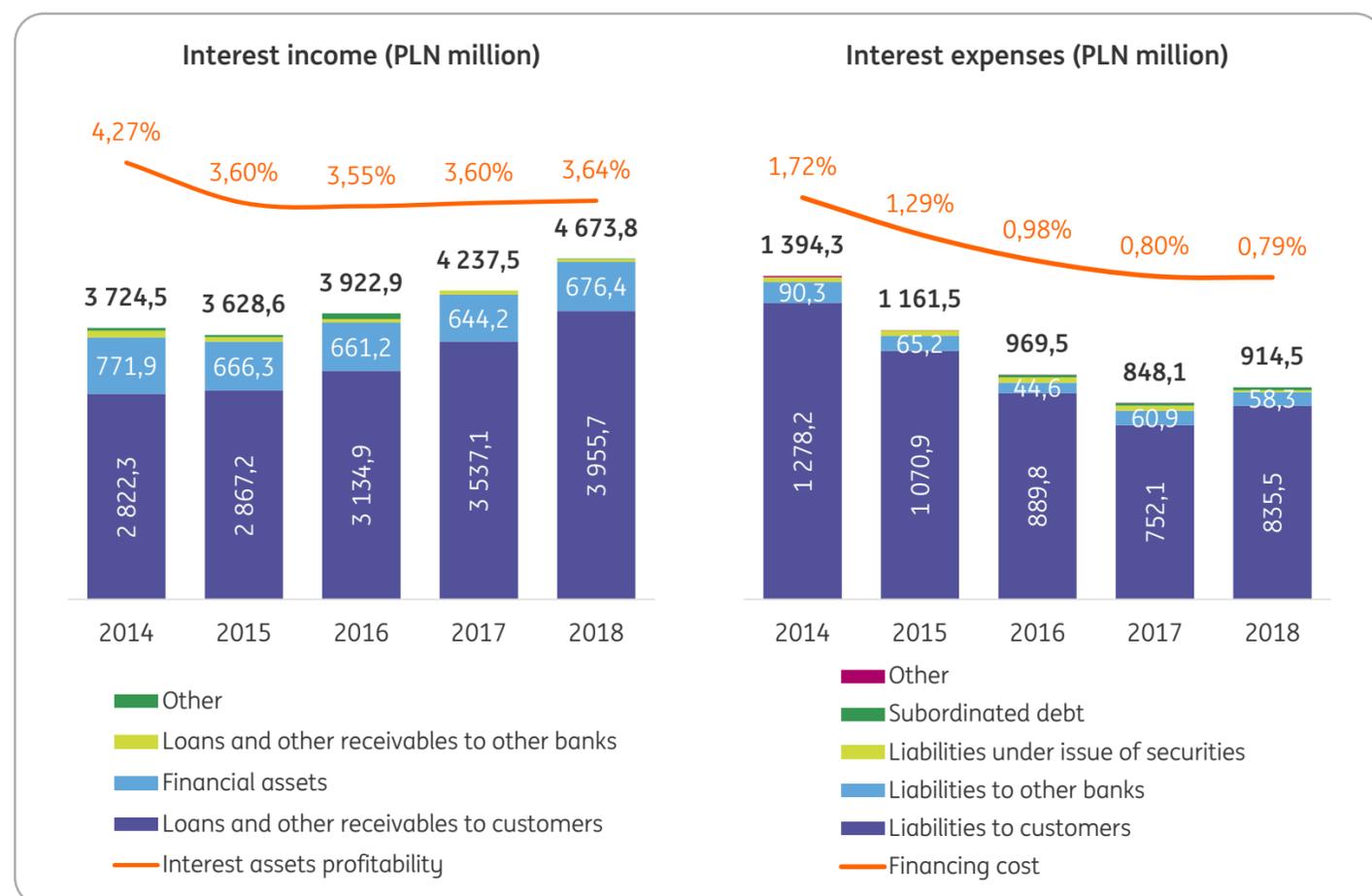


In 2018, the retail segment was the main income growth contributor. Its income rose by PLN 301.0 million or 11.2% arriving at PLN 2,979.6 million. As a result, its share in the structure rose by 0.8 p.p. to 56.9%. The income of the corporate segment rose by PLN 162.3 million or 7.8% arriving at PLN 2,252.8 million.

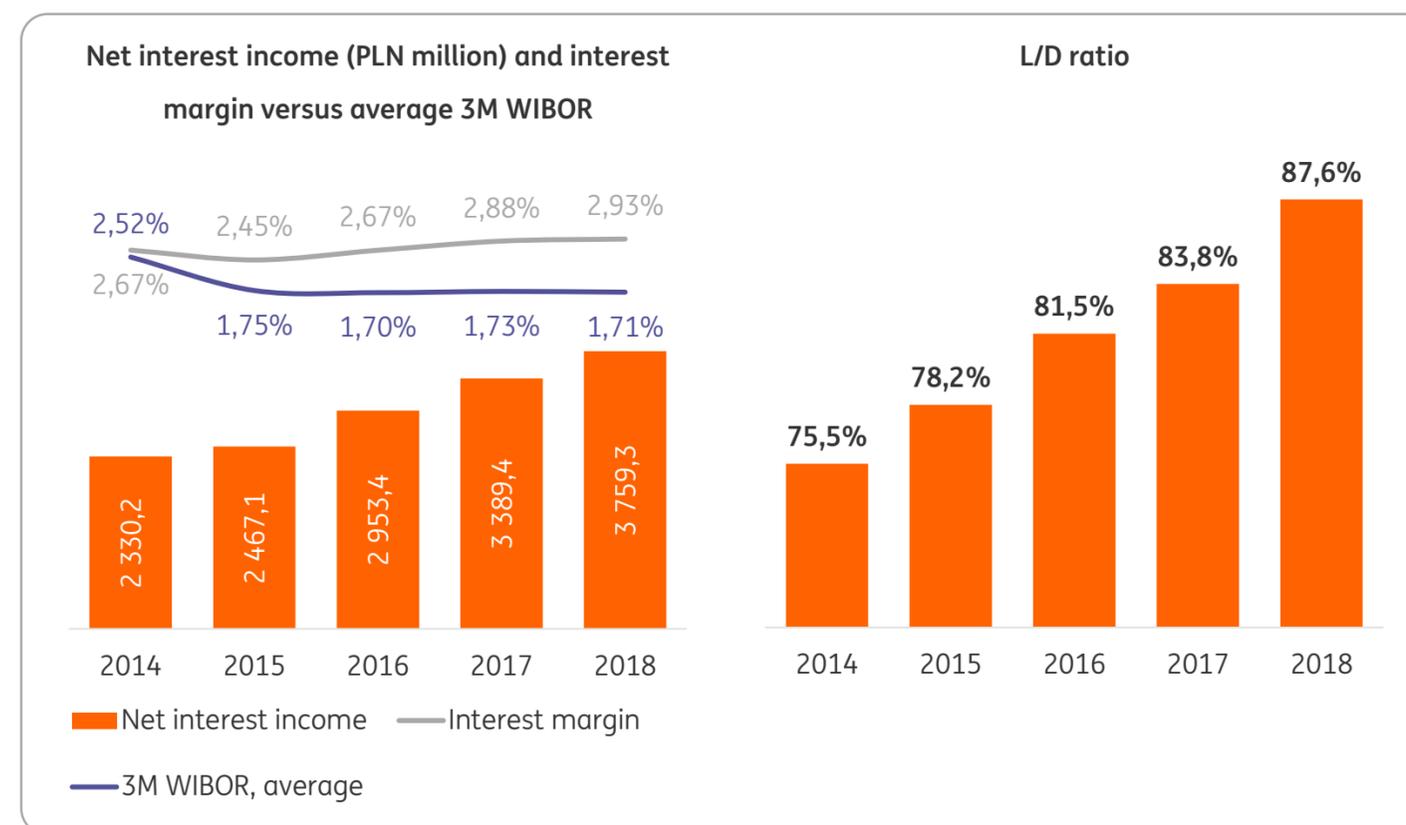


Net interest income

In 2018, the interest income built up by 10.3% from 2017, mainly in consequence of higher interest on loans and other receivables. On the other hand, interest expenses increased by 7.8% y/y, first and foremost, due to higher costs of liabilities to customers. This led to increase in the net interest result by 10.9% y/y, or by PLN 369.9 million to PLN 3,759.3 million. Despite record low interest rates (reference rate of 1.5%), net interest income went up due to both higher business volumes and improved interest margin.



A growing share of high-margin assets (PLN loans first and foremost) and a higher L/D ratio translated into a higher 2018 interest margin (up by 5 b.p. y/y to 2.93%).



Average base interest rate* in 2018

	Segment		Total
	Retail	Corporate	
Deposits			
PLN	0.75%	0.80%	0.77%
FX	0.04%	0.04%	0.04%
Loans			
PLN	4.61%	3.16%	3.94%
FX	0.61%	1.89%	1.76%
including: mortgage loans			
PLN	3.60%		3.60%
FX	0.61%		0.61%

*based on management data

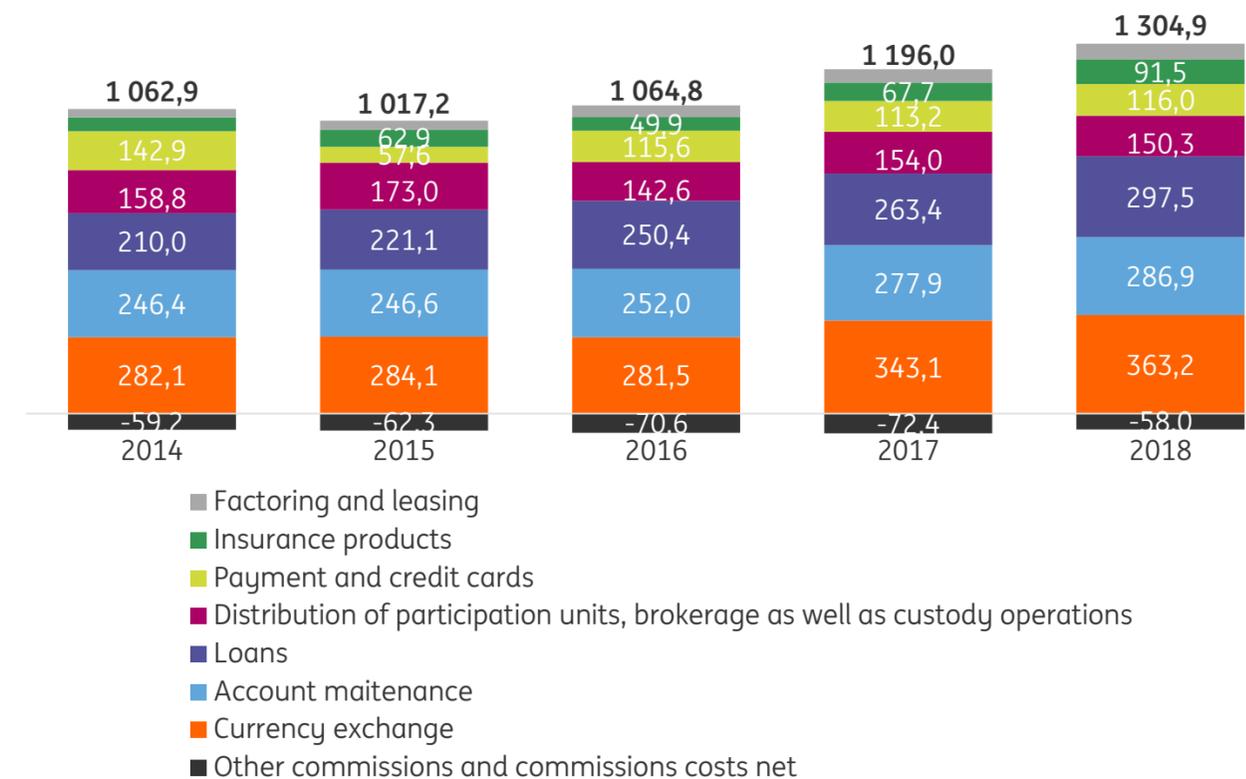
Net fee and commission income

In 2018, the net fee and commission income of the ING Bank Śląski S.A. Group augmented by PLN 108.9 million or 9.1% from 2017, and settled at PLN 1,304.9 million.

The highest fee and commission income growth was noticed in:

- granted credit facilities: improvement by PLN 34.1 million, or by 12.9% y/y up to PLN 297.5 million, which was related to record sales volumes of loans;
- insurance products: up by PLN 23.8 million or 35.2% y/y to PLN 91.5 million, which stemmed from increased sale and wider product offer of the bank in this field;
- the FX transaction spreads: up by PLN 20.1 million or 5.9% y/y to PLN 363.2 million, which was attributable to higher transaction volumes of both the retail as well as corporate customers.

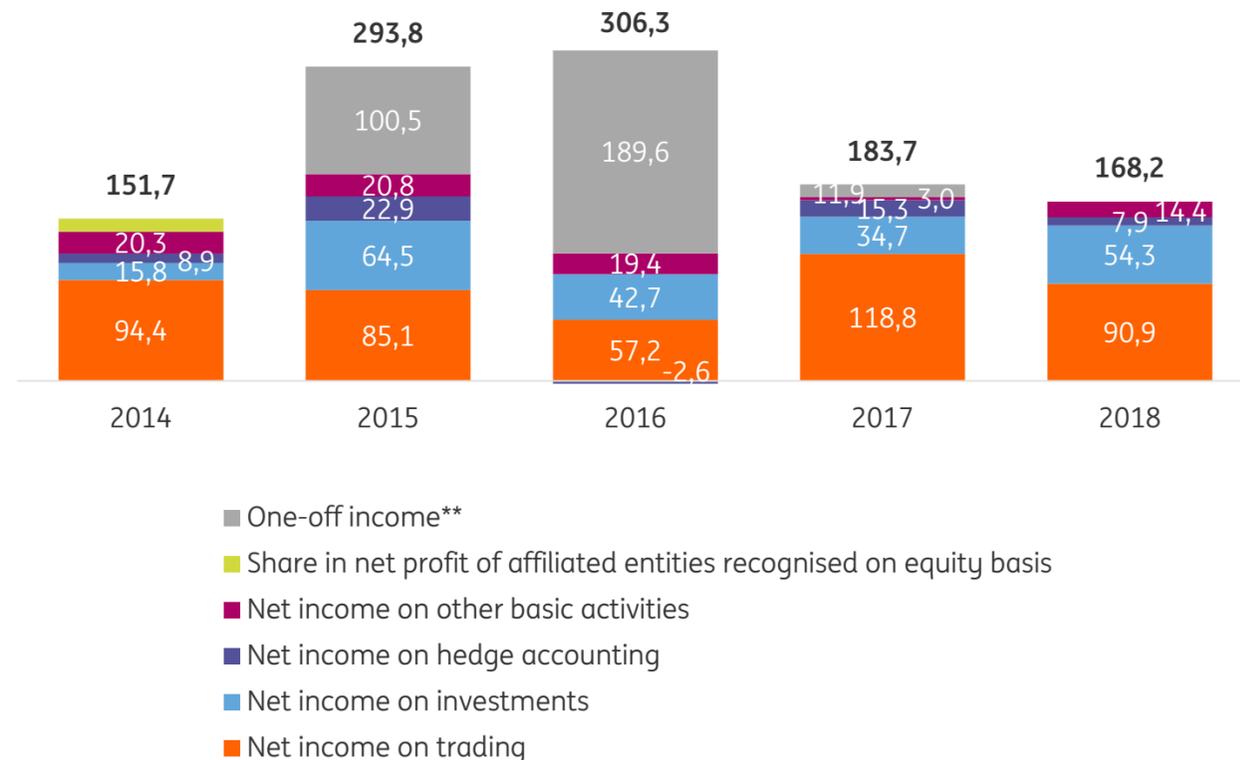
Net fee and commission income (PLN million)



Other income

In 2018, other income of the Group (including the share in the net result of associates recognised on an equity basis) was PLN 168.2 million and it was lower by PLN 15.5 million compared with the previous year. In 2017, other income was affected by a one-off trade - the Bank sold shares of Visa Inc. In consequence of that transaction settlement, the one-off income was PLN 11.9 million (Q2 2017).

Other income* (PLN million)



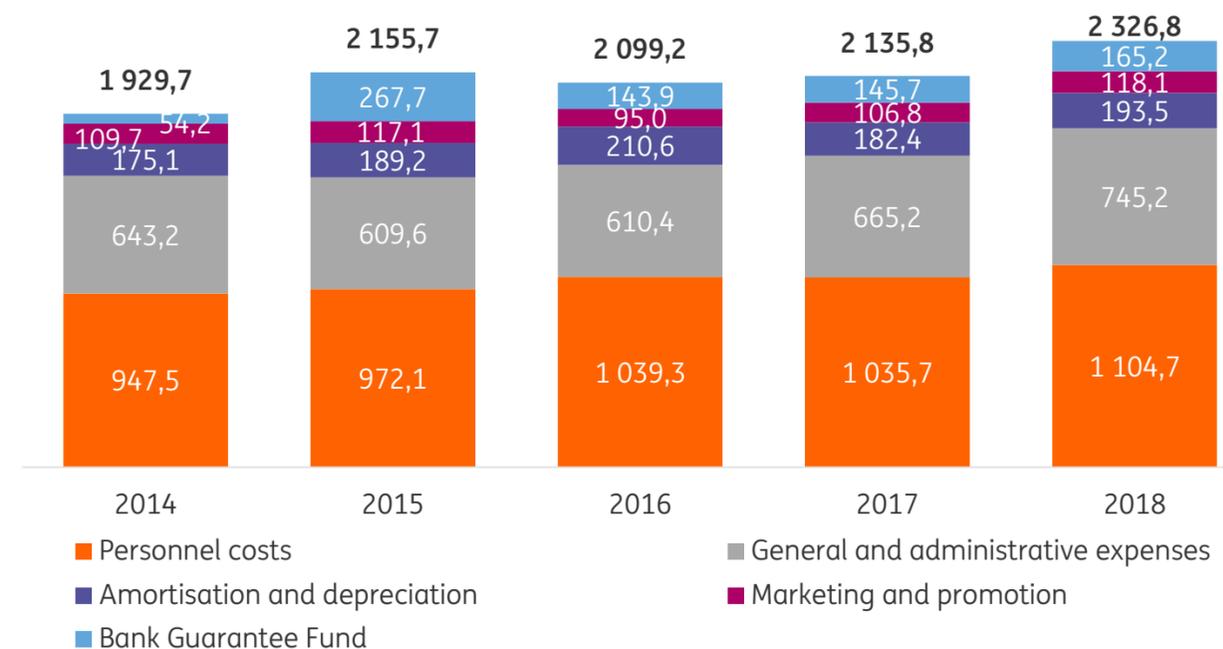
* including the share in net profits of affiliated entities recognised on an equity basis; **dividends of PLN 82.1 million from ING PTE in Q2 2015, income on sale of ING PTE of PLN 18.4 million in Q3 2015; income of PLN 189.6 million under the VISA Europe transaction in Q2 2016 and income of PLN 11.9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

Operating expenses

In 2018, the operating expenses of the ING Bank Śląski S.A. Group went up by 8.9% y/y to PLN 2,326.8 million. Costs increase was observed in all main categories, which was connected with the business development. General and administrative expenses increased most (by PLN 80.0 million, or 12.0% y/y). The second biggest increment was observed in personnel expenses (by PLN 69.0 million, or +6.7% y/y). High dynamics of the general and administrative expenses has been related to the research and development projects carried out since 2018, mostly in the area of IT and regulations. Increase in personnel expenses stems from raises in wages and salaries (two pay rise exercises were

carried out in 2017 and yet another one in 2018). Employment in the ING Bank Śląski S.A. Group was relatively stable (8,034 FTEs as at 2018 yearend compared to 7,979 FTEs a year earlier).

Operating expenses (PLN million)

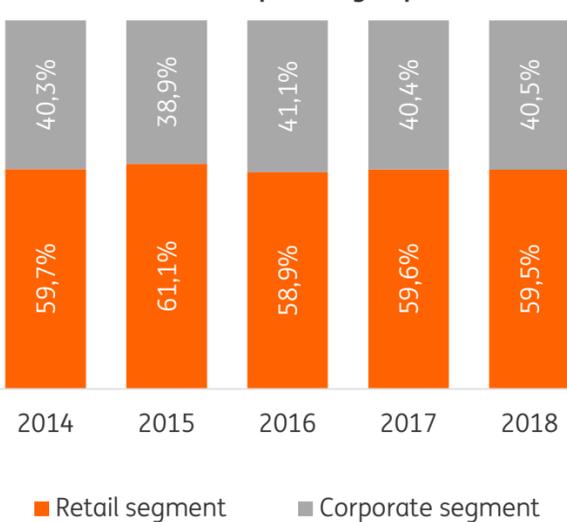


The operating costs of the retail segment rose by PLN 112.5 million y/y (+8.8%) to PLN 1,385.2 million. The operating costs of the corporate segment rose by PLN 78.5 million y/y (+9.1%) to PLN 941.6 million. As a result, the share of the retail segment in costs decreased by 0.1 p.p. to 59.5% in 2018.

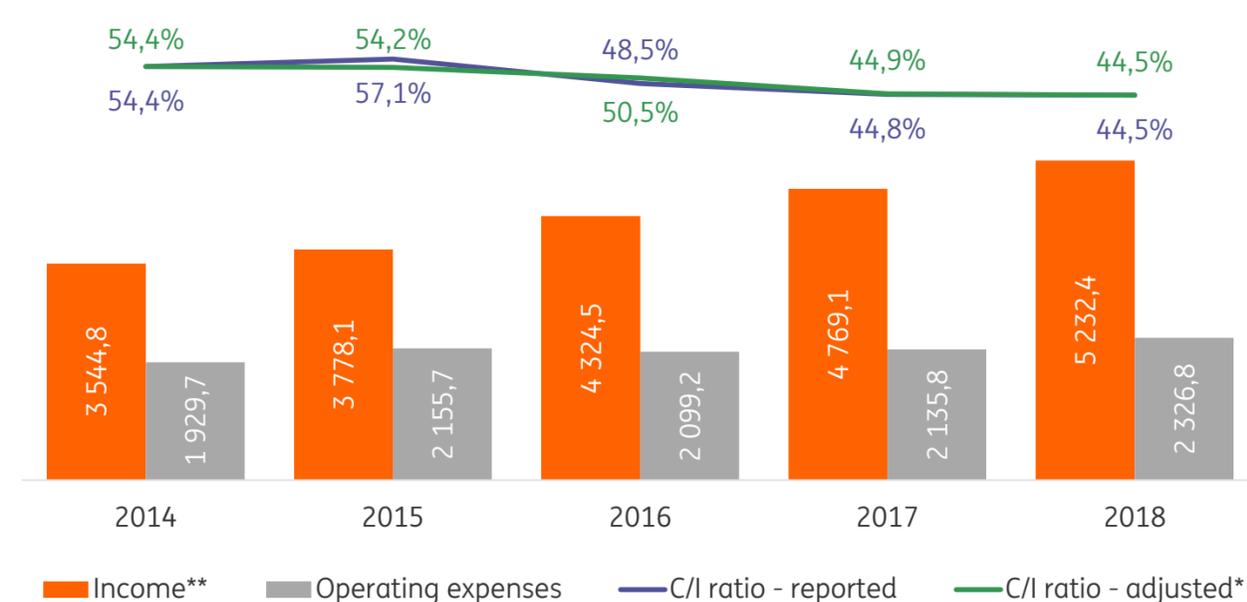
Operating expenses by segment (PLN million)



Structure of operating expenses



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

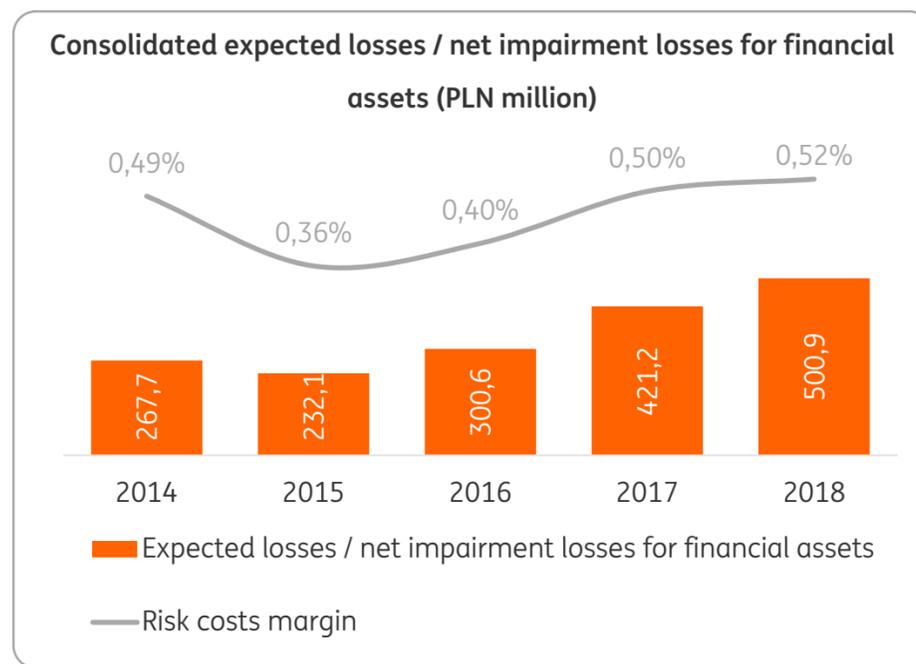


Because of a faster growth rate of income than operating expenses, the efficiency ratio – C/I ratio – improved in 2018 y/y. It was 44.5%, which shows decrease by 0.3 p.p. y/y. After deducting impact of the one-off trade (sale of the shares of Visa Inc. in Q2 2017) from the income of the Group, the adjusted C/I ratio was 44.5%, or increased by 0.4 p.p. y/y.

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

Impairment losses and provisions

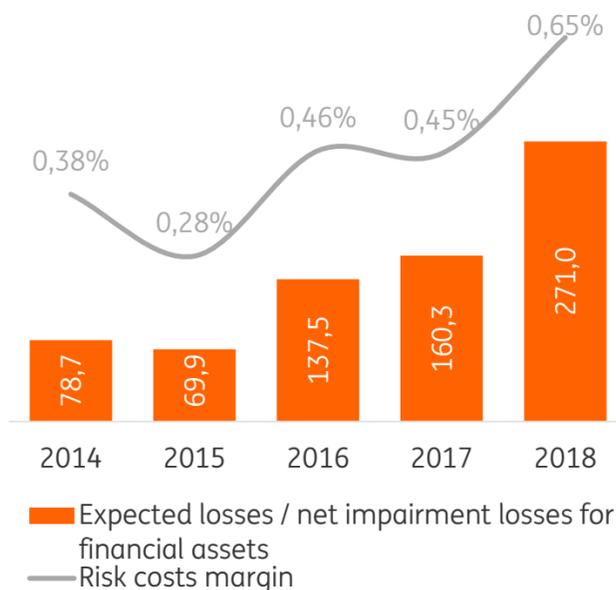
2018 saw a growth in the risk costs margin ratio (net loan loss provisions to the gross lending portfolio) from 0.50% in 2017 to 0.52%; this was caused by a higher ratio in the retail segment – up from 0.45% in 2017 to 0.65% in 2018. In the corporate segment – the risk costs margin dropped from 0.53% in 2017 to 0.42% in 2018.



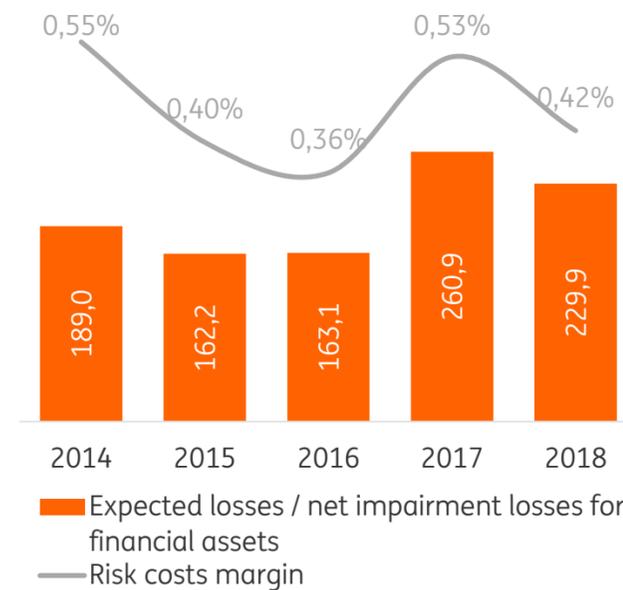
Comparability of the risk costs with earlier years is disrupted by the new accounting standard IFRS 9 Financial Instruments that was implemented (in lieu of the previously applicable IAS 39) as at the beginning of 2018. This was most notably noticeable in the retail segment. Higher risk costs margin y/y in the retail segment is partly attributable to the implementation of the new standard (IFRS 9) and partly to the changing structure of the portfolio – the share of the cash loans and loans for entrepreneurs is growing.

In 2018, our bank sold stage 3 receivables twice. In Q1 2018, the corporate portfolio was sold whose negative impact on the risk costs was relatively insignificant (-PLN 1.4 million). Whereas, in Q3 2018 the portfolio of stage 3 receivables, consisting of both retail and corporate exposures, was sold. The impact of this sale on the risk costs in the retail and corporate segments was PLN 24.9 million and PLN 0.7 million, respectively. The Bank sells its portfolios of impaired receivables / receivables in stage 3 on a regular basis under its credit risk management policy.

Expected / net impairment losses for financial assets in the retail segment (PLN million)



Expected / net impairment losses for financial assets in the corporate segment (PLN million)



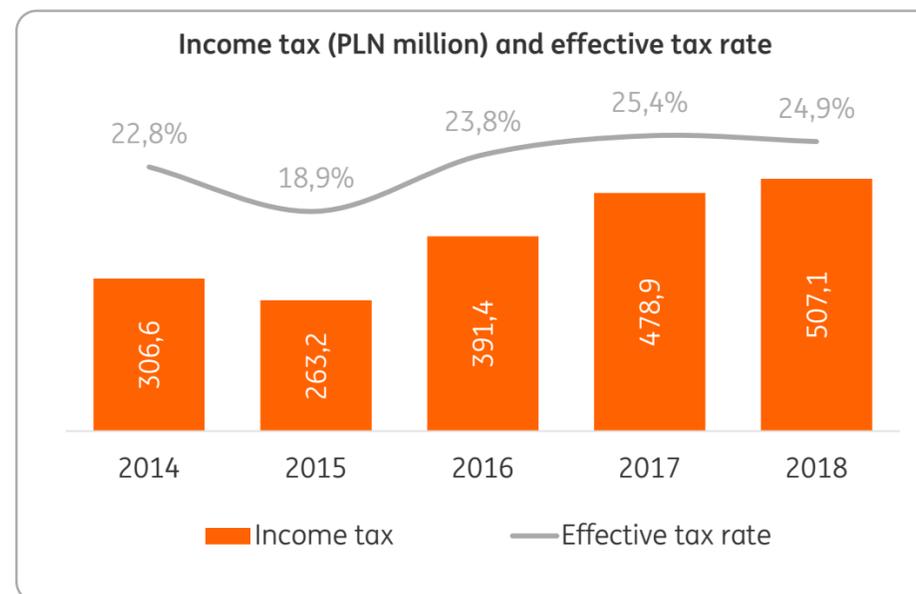
The quality of the lending portfolio was described in Chapter “Bank and client safety” under “Credit risk”.

Tax on certain financial institutions

In 2018, the ING Bank Śląski S.A. Group paid the tax on certain financial institutions (the so-called bank levy) of PLN 371.7 million. It was PLN 41.6 million (or 12.6%) higher than in 2017 due to a higher tax base. This follows a consistent growth in commercial volumes.

Income tax

In 2018, the ING Bank Śląski S.A. Group posted the income tax of PLN 507.1 million. It was 5.9% higher than in 2017. In 2018, the effective tax rate was 24.9% versus 25.4% the year before. Both in 2017 and 2018 - in keeping with Article 16.1.71 of the Corporate Income Tax Act - neither the banks' guarantee fund contribution nor the payment to the banks' compulsory resolution fund were tax deductible.



- Bank levy is also tax deductible (in keeping with Article 16.1.70 of the Corporate Income Tax Act).

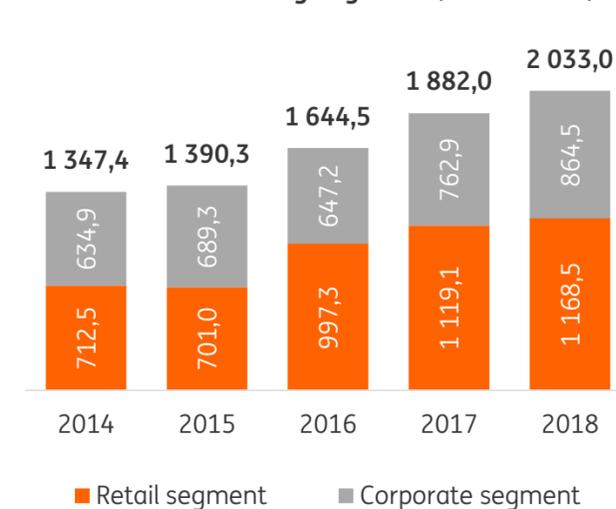
Report by business segment

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

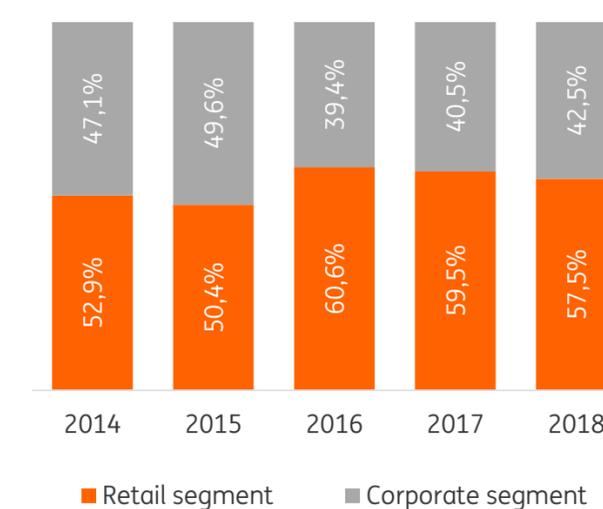
- retail banking segment, which encompasses private individuals (mass clients and affluent clients sub-segments) and entrepreneurs (small business), and
- corporate banking segment, which comprises service of institutional clients and FM products' operations.

In 2018, the Group result before tax broken down into segments was as follows:

Profit before tax by segment (PLN million)



Profit before tax structure



In 2018, results of the retail banking segment and of the corporate banking segment accounted for 57.5% and 42.5% of the Group's result before tax respectively (in 2017: 59.5% and 40.5%, respectively).

Result before tax in the retail banking segment

	2018	2017	2016	2015	2014	Change 2018 / 2017	
	PLN million					PLN million	%
Net interest income	2,383.8	2,133.3	1,862.6	1,516.9	1,367.9	250.5	11.7%
Net commission income	455.1	426.9	380.7	363.0	436.4	28.2	6.6%
Other income	140.7	118.4	228.8	208.4	139.1	22.3	18.8%
Total revenue	2,979.6	2,678.6	2,472.1	2,088.3	1,943.4	301.0	11.2%
Operating expenses	1,385.2	1,272.7	1,235.6	1,317.4	1,152.2	112.5	8.8%
Risk costs	271.0	160.3	137.5	69.9	78.7	110.7	69.1%
Bank levy	154.9	126.5	101.7	0.0	0.0	28.4	22.5%
Gross financial result	1,168.5	1,119.1	997.3	701.0	712.5	49.4	4.4%

Result before tax in the corporate banking segment

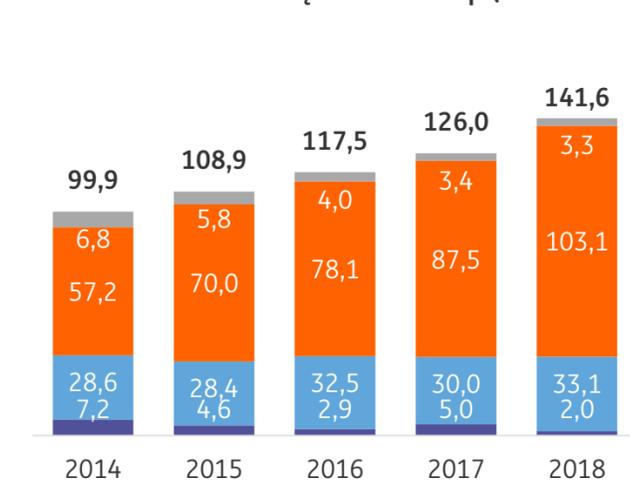
	2018	2017	2016	2015	2014	Change 2018 / 2017	
						PLN million	%
Net interest income	1,375.5	1,256.1	1,090.8	950.2	962.3	119.4	9.5%
Net commission income	849.8	769.1	684.1	654.2	626.5	80.7	10.5%
Other income	27.5	65.3	77.5	85.4	12.6	-37.8	-57.9%
Total revenue	2,252.8	2,090.5	1,852.4	1,689.8	1,601.4	162.3	7.8%
Operating expenses	941.6	863.1	863.6	838.3	777.5	78.5	9.1%
Risk costs	229.9	260.9	163.1	162.2	189.0	-31.0	-11.9%
Bank levy	216.8	203.6	178.5	0.0	0.0	13.2	6.5%
Gross financial result	864.5	762.9	647.2	689.3	634.9	101.6	13.3%

Statement of financial position

Assets

As at 2018 yearend, the total assets of the ING Bank Śląski S.A. Group were PLN 141.6 billion (up by 12.4% from 2017 yearend). The portfolio of net loans and other receivables from customers (Eurobonds excluded) was the primary growth trigger. It went up by PLN 15.6 billion y/y (or 17.8%) and closed with PLN 103.1 billion. These items prevail in the assets structure. As at 31 December 2018, they represented 72.8% of all Group assets.

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



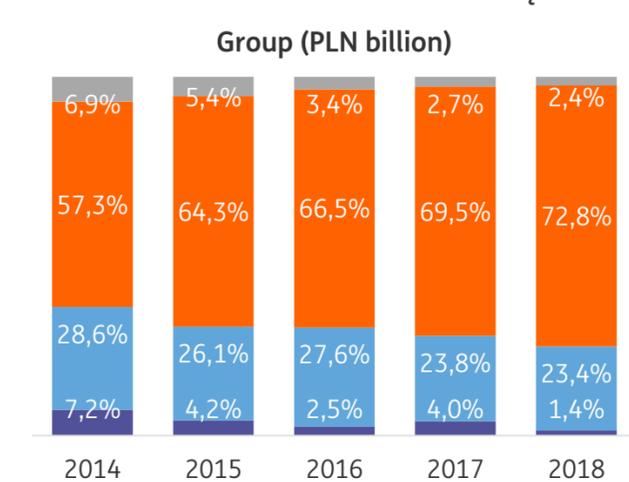
Other

Loans and other receivables from customers (Eurobonds excluded)

Securities (Eurobonds included)

Loans and receivables from other banks + cash with Central Bank

Structure of the assets of ING Bank Śląski S.A. Group (PLN billion)



Other

Loans and other receivables from customers (Eurobonds excluded)

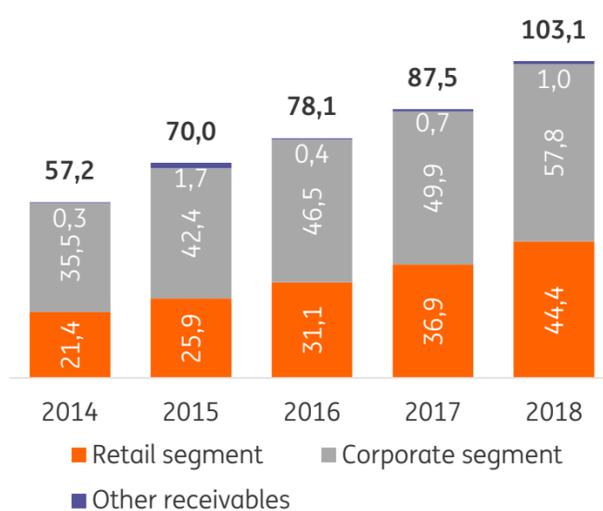
Securities (Eurobonds included)

Loans and receivables from other banks + cash with Central Bank

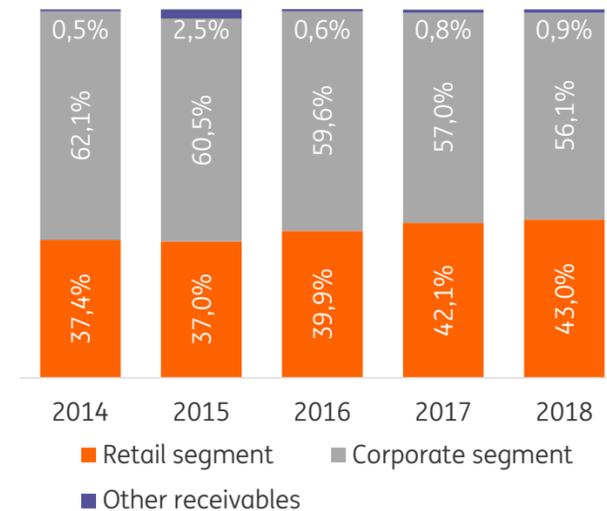
The securities portfolio (Eurobonds included) also represented a major item in the statement of financial position of the Group – PLN 33.1 billion (or 23.4% of assets). Debt securities composed of investment assets of PLN 31.9 billion (including assets measured at fair value through total income of PLN 20.1 billion and financial assets at amortised cost of PLN 11.9 billion) dominated the portfolio.

Both retail and corporate net loans and other receivables from clients increased the balance as at 2018 yearend when compared with 2017. The growth attributed to retail segment was PLN 7.5 billion y/y and the one attributable to corporate segment was also PLN 7.9 billion y/y. As a result, the share of the retail segment rose by 0.9 p.p. y/y to 43.0%.

Net lending* by segment (PLN billion)



Net lending* structure



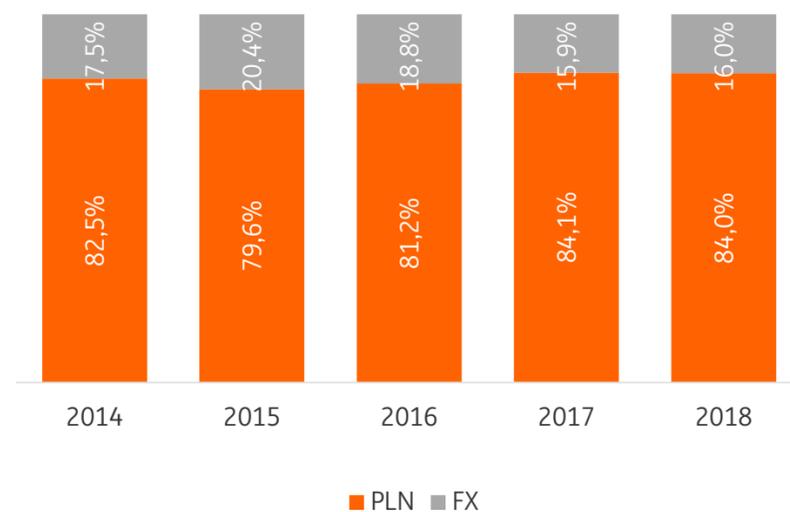
*loans and other receivables from customers excluding Eurobonds

The portfolio of net receivables from customers

	2018	2017	2016	2015	2014	Change 2018 / 2017	
						PLN million	%
at amortised cost	102,907.4	91,108.1	81,979.5	73,874.0	61,161.4	11,799.3	13.0%
at fair value through profit or loss	218.4	-	-	-	-	-	-
Total	103,125.8	91,108.1	81,979.5	73,874.0	61,161.4	12,017.7	13.2%

The currency structure of the portfolio of net receivables from customers (excluding Eurobonds) showed a stable share of PLN-denominated exposures. Their growth follows a similar rise in PLN-denominated receivables by PLN 12.9 billion y/y (or +17.6%) and an increase in FX-denominated exposures by PLN 2.6 billion y/y (or +19.0%).

FX structure of the portfolio of net receivables from customers*



*loans and other receivables from customers excluding Eurobonds

The portfolio of net receivables from customers at amortised cost

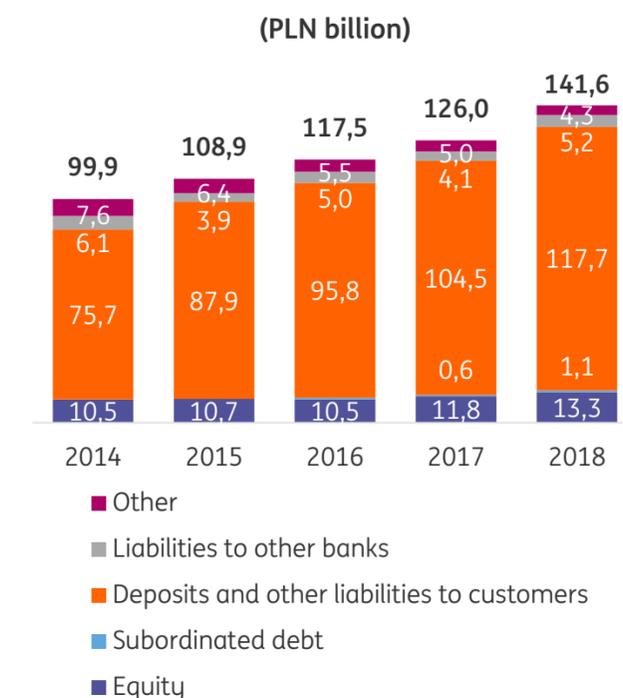
	2018	2017	2016	2015	2014	Change 2018 / 2017	
	PLN million					PLN million	%
Customer loan portfolio, including:	101,956.8	86,817.0	77,633.6	68,312.0	56,951.3	15,139.8	17.4%
Households	47,525.7	39,059.8	32,865.4	27,276.7	22,318.5	8,465.9	21.7%
Business entities	51,223.9	44,909.9	41,352.2	37,149.5	30,831.6	6,314.0	14.1%
Government and self-government institutions' sector	3,207.2	2,847.3	3,416.0	3,885.8	3,801.2	359.9	12.6%
Total, including:	101,956.8	86,817.0	77,633.6	68,312.0	56,951.3	15,139.8	17.4%
Corporate banking	57,602.0	49,935.8	46,520.1	42,374.4	35,548.5	7,666.2	15.4%
Loans in current account	10,322.8	8,920.1	7,278.9	7,100.0	6,229.8	1,402.7	15.7%
Term loans	32,517.3	28,023.2	27,168.8	24,281.2	19,621.5	4,494.1	16.0%
Leasing receivables	7,118.1	5,871.4	5,209.2	4,548.2	4,115.2	1,246.7	21.2%
Factoring receivables	4,834.5	4,589.0	4,350.4	3,389.4	2,815.9	245.5	5.3%
Debt securities	2,809.3	2,532.1	2,512.8	3,055.6	2,766.1	277.2	10.9%
Retail banking	44,354.8	36,881.2	31,113.5	25,937.6	21,402.8	7,473.6	20.3%
Mortgages	33,146.8	27,369.4	23,284.0	18,010.3	14,745.8	5,777.4	21.1%
Overdrafts	1,223.4	1,239.8	1,143.9	1,095.5	1,072.6	-16.4	-1.3%
Leasing receivables	975.5	688.7	501.4	334.5	223.7	286.8	41.6%
Other loans and advances	9,009.1	7,583.3	6,184.2	6,497.3	5,360.7	1,425.8	18.8%
Other receivables, including:	950.6	4,291.1	4,345.9	5,562.0	4,210.1	-3,340.5	-77.8%
Concerning T-eurobonds	0.0	3,564.1	3,910.0	3,838.1	3,923.4	-3,564.1	-100.0%
Hedges of call type	733.0	540.1	329.0	180.5	71.9	192.9	35.7%
Receivables due to repo transactions	0.0	19.8	0.0	1,354.4	106.6	-19.8	-100.0%
Other receivables	217.6	167.1	106.9	189.0	108.2	50.5	30.2%
Total	102,907.4	91,108.1	81,979.5	73,874.0	61,161.4	11,799.3	13.0%

Liabilities and equity

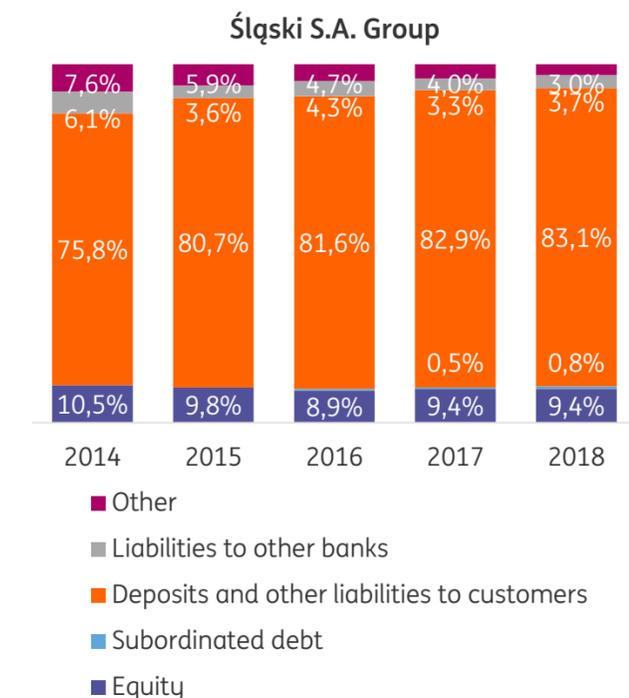
The clients' funds constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. As at 2018 yearend, the liabilities to customers were PLN 117.7 billion, or represented 83.1% of all liabilities.

Equity was another most important funding source. As at the end of December 2018, it stood at PLN 13.3 billion and represented 9.4% of total liabilities.

Liabilities and equity of ING Bank Śląski S.A. Group



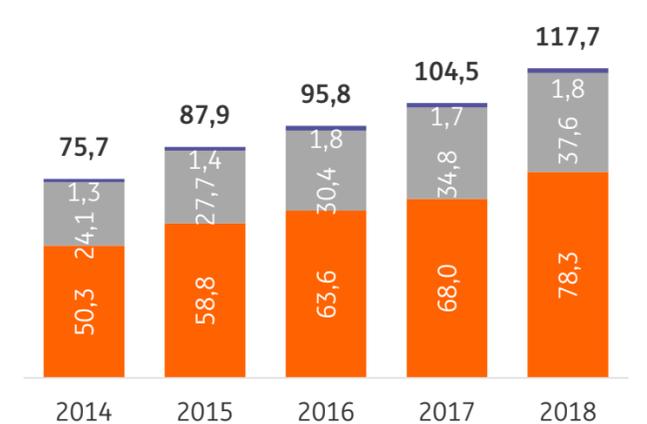
Structure of the liabilities and equity of ING Bank Śląski S.A. Group



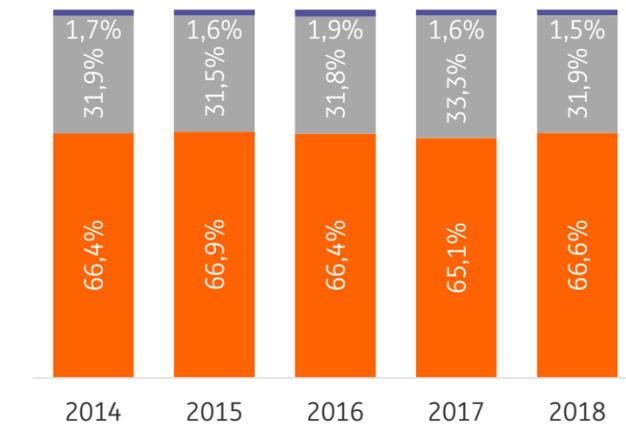
On 30 October 2018, our bank took a subordinated loan of EUR 100 million, and then, on 30 January 2019, was granted a PFSA's approval to include it to the Tier 2 capitals of the Bank.

As at 2018 yearend, deposits and other liabilities to customers amounted to PLN 117.7 billion or were 12.6% (PLN 13.2 billion) higher y/y. Growth of deposits was generated mostly in the retail segment (+PLN 10.3 billion y/y), which led to higher share of that segment in the structure of deposits y/y (from 65.1% to 66.6%).

Deposits* by segment (PLN billion)



Structure of deposits*



■ Retail segment ■ Corporate segment ■ Other liabilities

■ Retail segment ■ Corporate segment ■ Other liabilities

*deposits and other liabilities to customers

Portfolio of liabilities to customers

	2018	2017	2016	2015	2014	Change 2018 / 2017
					PLN million	%
Deposits, including:	115,908.0	102,849.1	94,048.4	86,463.7	74,405.7	13,058.9 12.7%
Households	78,255.5	67,918.6	63,548.0	58,896.1	50,217.1	10,336.9 15.2%
Business entities	35,735.0	33,156.6	28,759.6	25,948.1	22,320.1	2,578.4 7.8%
Government and self-government institutions' sector	1,917.5	1,773.9	1,740.8	1,619.5	1,868.5	143.6 8.1%
Total, including:	115,908.0	102,849.1	94,048.4	86,463.7	74,405.7	13,058.9 12.7%
Corporate banking	37,589.9	34,799.5	30,438.9	27,673.4	24,123.6	2,790.4 8.0%
Current accounts	25,478.6	23,605.0	20,094.9	16,563.0	13,331.8	1,873.6 7.9%
Savings accounts	9,969.3	8,553.8	8,608.3	8,355.0	6,293.1	1,415.5 16.5%
Term deposits	2,142.0	2,640.7	1,735.7	2,755.4	4,498.8	-498.7 -18.9%
Retail banking	78,318.1	68,049.6	63,609.5	58,790.3	50,282.1	10,268.5 15.1%
Current accounts	18,051.2	14,792.0	11,920.7	9,872.2	7,707.9	3,259.2 22.0%
Savings accounts	57,948.1	49,935.0	47,872.3	42,962.0	36,747.6	8,013.1 16.0%
Term deposits	2,318.8	3,322.6	3,816.5	5,956.0	5,826.6	-1,003.8 -30.2%
Other liabilities, including:	1,774.5	1,654.2	1,777.0	1,402.3	1,282.9	120.3 7.3%
Liabilities under cash collateral	329.5	274.0	311.2	300.1	256.8	55.5 20.3%
Repo transactions	0.0	0.0	0.0	47.5	29.7	0.0 -
Other liabilities	1,445.0	1,380.2	1,465.8	1,054.7	996.4	64.8 4.7%
Total	117,682.5	104,503.3	95,825.4	87,866.0	75,688.6	13,179.2 12.6%

Off-Balance Sheet items

As at 2018 yearend, the ING Bank Śląski S.A. Group had:

- contingent liabilities granted totalling PLN 34.3 billion. This shows a rise of 14.5% or PLN 4.3 billion from 2017 yearend. Unutilised credit limits which represent 86.1% of all granted off-balance sheet liabilities form the dominant item. Committed credit facilities comprise: approved loans, credit card limits and bank overdrafts,
- received contingent liabilities in the amount of PLN 93.2 billion (up by 12.5% from a year earlier).

Off-balance sheet items of ING Bank Śląski S.A. Group

PLN million	2018	2017	2016	2015	2014
Contingent liabilities granted	34,284.1	29,953.3	27,954.5	24,423.2	23,802.6
Unutilised credit lines	25,791.0	22,250.4	21,302.2	17,760.7	18,940.1
Guarantees	5,575.6	4,897.7	3,989.1	4,038.4	3,393.2
Unutilised overdrafts	1,371.2	1,336.1	1,273.7	1,310.3	302.8
Credit card limits	1,251.2	1,078.9	997.7	921.7	844.6
Letters of Credit	295.1	390.2	391.8	392.1	321.9
Contingent liabilities received	93,219.1	82,850.1	79,093.3	53,515.3	43,228.2
Off-balance sheet items total	127,503.2	112,803.4	107,047.8	77,938.5	67,030.8

Details of off-balance sheet liabilities were presented under note 36 to the Consolidated Financial Statements of ING Bank Śląski S.A. Group for the year 2018 on page 121.

Separate results of ING Bank Śląski S.A.

Key financial data

Abridged financial results of ING Bank Śląski S.A. for 2014 to 2018

PLN million	2018	2017	2016	2015	2014	Change 2018 / 2017
Income*	5,073	4,637	4,136	3,644	3,394	9.4%
Cost	2,213	2,049	2,010	2,035	1,814	8.0%
Risk cost	477	400	269	213	243	19.3%
Profit before tax	2,012	1,859	1,578	1,396	1,336	8.2%
Net profit**	1,526	1,403	1,209	1,140	1,068	8.8%
Balance sheet total	137,712	122,339	113,529	106,106	96,742	12.6%
Liabilities to customers	117,294	104,076	95,168	87,384	75,326	12.7%
Net loans and other receivables to customers***	99,126	83,795	74,128	65,795	54,029	18.3%
Equity**	13,336	11,795	10,295	10,485	10,248	13.1%
Earnings per share in PLN	11.73	10.78	9.29	8.76	8.21	8.8%
Dividend per share in PLN	-	3.20	0.00	4.30	4.00	-

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

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

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

EUR/PLN exchange rate

	2018	2017	2016	2015	2014
For statement of financial position items	4.3000	4.1709	4.4240	4.2615	4.2623
For income statement items	4.2669	4.2447	4.3757	4.1848	4.1893

Abridged financial results of ING Bank Śląski S.A. for 2014 to 2018

EUR million	2018	2017	2016	2015	2014	Change 2018 / 2017
Income*	1,189	1,092	945	871	810	8.8%
Cost	519	483	459	486	433	7.5%
Risk cost	112	94	61	51	58	18.6%
Profit before tax	471	438	361	334	319	7.7%
Net profit**	358	331	276	272	255	8.2%
Balance sheet total	32,026	29,332	25,662	24,899	22,697	9.2%
Liabilities to customers	27,278	24,953	21,512	20,505	17,673	9.3%
Net loans and other receivables to customers***	23,053	20,090	16,756	15,439	12,676	14.8%
Equity**	3,101	2,828	2,327	2,460	2,404	9.7%
Earnings per share in PLN	2.75	2.54	2.12	2.09	1.96	8.2%
Dividend per share in PLN	-	0.75	0.00	1.03	0.95	-

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

Core effectiveness ratios

Core effectiveness ratios of ING Bank Śląski S.A. for 2014 to 2018

	2018	2017	2016	2015	2014	Change 2018 / 2017
C/I ratio	43.6%	44.2%	48.6%	55.8%	53.5%	-0.6 p.p.
ROA	1.19%	1.20%	1.09%	1.11%	1.16%	-0.01 p.p.
ROE	12.5%	12.6%	11.5%	11.4%	11.7%	-0.4 p.p.
Interest margin ratio	2.94%	2.78%	2.64%	2.40%	2.63%	+0.05 p.p.
LTD ratio	84.5%	80.5%	77.9%	75.3%	71.7%	+4.0 p.p.
LCR	138%	151%	160%	183%	176%	-13 p.p.
NSFR	127%	119%	122%	121%	111%	+8.0 p.p.
LR according to transitional definition	8.19	8.47	7.65	6.85	6.82	-0.28
Total capital ratio	17.19%	18.39%	16.60%	15.07%	15.52%	-1.20 p.p.
Tier 1 ratio	16.26%	17.34%	15.43%	15.07%	15.52%	-1.08 p.p.

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

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

Income statement

Basic income statement figures of ING Bank Śląski S.A. for 2018 and changes vis-à-vis 2017 are presented in the table below:

Basic income statement figures in analytical terms							
	2018	2017	2016	2015	2014	Change 2018 / 2017	
	PLN million					PLN million	%
Net interest income	3,619.1	3,254.3	2,825.0	2,343.5	2,211.2	364.8	11.2%
Net commission income	1,236.6	1,145.9	1,015.1	951.3	1,002.9	90.7	7.9%
One-off income*	0.0	11.9	189.6	100.5	0.0	-11.9	-100.0%
Other revenues**	217.2	225.2	106.3	248.4	179.4	-8.0	-3.6%
Total revenue	5,072.9	4,637.3	4,136.0	3,643.7	3,393.5	435.6	9.4%
Operating expenses	2,212.9	2,048.6	2,009.7	2,035.0	1,814.2	164.3	8.0%
including one-off costs*	0.0	0.0	12.2	163.8	0.0	0.0	-
Impairment losses and provisions	476.6	399.6	268.5	212.8	243.4	77.0	19.3%
Bank levy	371.7	330.1	280.2	0.0	0.0	41.6	12.6%
Gross financial result	2,011.7	1,859.0	1,577.6	1,395.9	1,335.9	152.7	8.2%
Income tax	485.8	455.9	368.9	255.9	268.0	29.9	6.6%
Net financial result	1,525.9	1,403.1	1,208.7	1,140.0	1,067.9	122.8	8.8%
Adjusted net result*	1,525.9	1,393.5	1,065.0	1,175.7	1,067.9	132.4	9.5%

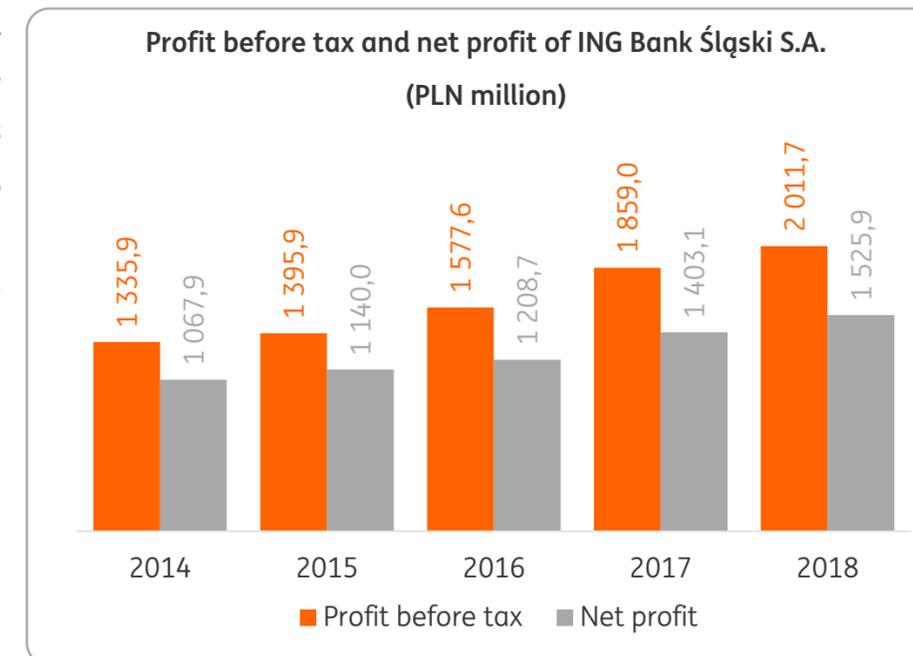
* Income: dividend of PLN 82.1 million from ING PTE in Q2 2015, income of PLN 18.4 million from the disposal of ING PTE shares in Q3 2015 and positive impact of PLN 189.6 million under the Visa Europe transaction in Q2 2016 and positive impact of PLN 11.9 million under the Visa Inc. transaction in Q2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

Profit before tax and net profit

In 2018, ING Bank Śląski S.A. posted net profit of PLN 1,525.9 million. This is the all-time high result of the Bank. It shows that the net income improved by 8.8% from 2017.

The result before tax was PLN 2,033.0 million and it went up by 8.2% from 2017.

There were no one-off factors in 2018.



Whereas, upon eliminating the one-off event, being the sale of the shares of Visa Inc. of PLN 11.9 million in Q2 2017, from the profit before tax, its recurring level would be PLN 1,847.1 million. Improvement of the 2018 profit before tax by PLN 164.6 million (or 8.8%) y/y was most fuelled by:

- higher net interest income (up by PLN 364.8 million, or 11.2%) and
- better net commission income (up by PLN 90.7 million, or 7.9%).

Whereas, the negative factors impacting the result before tax when compared with 2017 were:

- higher operating expenses (up by PLN 164.3 million, or 8.0%),
- higher expected/impairment losses and provisions (up by PLN 77.0 million, or 19.3%), and
- higher bank levy (up by 41.6 million, or 12.6%).

Change drivers for result before tax of ING Bank Śląski in 2018 (PLN million)



In 2018, the total income of ING Bank Śląski S.A. (including, apart from net profit, other items of income and expenses recognized in equity) was PLN 2,205.3 million versus PLN 1,319.1 million in 2017.

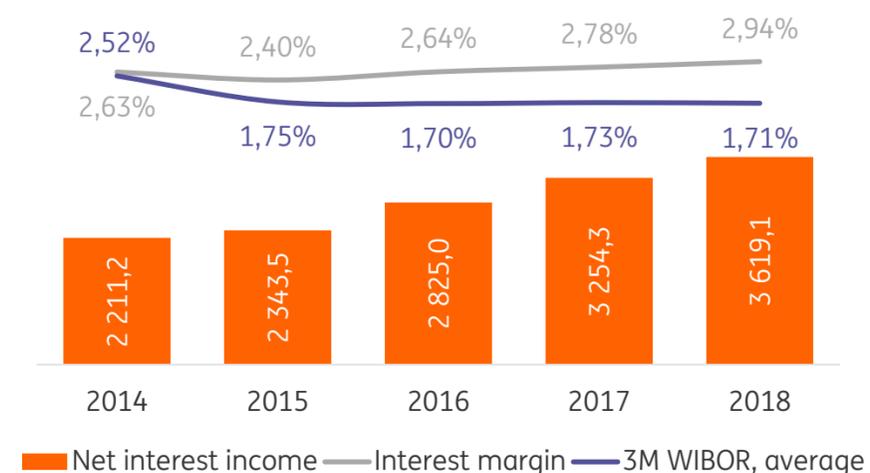
Revenue

In 2018, total revenue of the ING Bank Śląski S.A. closed with PLN 5,072.9 million. This betokens improvement of PLN 435.6 million (or 9.4%) from 2017, fuelled by a higher net interest income first and foremost. Its share in total revenue went up by 1.2 p.p. y/y to 71.3%.

Net interest income

In 2018, the net interest income of ING Bank Śląski S.A. augmented by PLN 364.8 million, or 11.2% from 2017, and settled at PLN 3,619.1 million. As in 2017, 2018 saw the NBP reference rate keep the level of 1.5%. Despite record low interest rates, net interest income went up. This was the upshot of both higher business volumes and the improved interest margin.

Net interest income (PLN million) and interest margin versus average 3M WIBOR



Average base interest rate* in 2018

	Segment		Total
	Retail	Corporate	
Deposits			
PLN	0.75%	0.80%	0.77%
FX	0.04%	0.04%	0.04%
Loans			
PLN	4.61%	3.16%	3.94%
FX	0.61%	1.89%	1.76%
including: mortgage loans			
PLN	3.60%		3.60%
FX	0.61%		0.61%

*based on management data

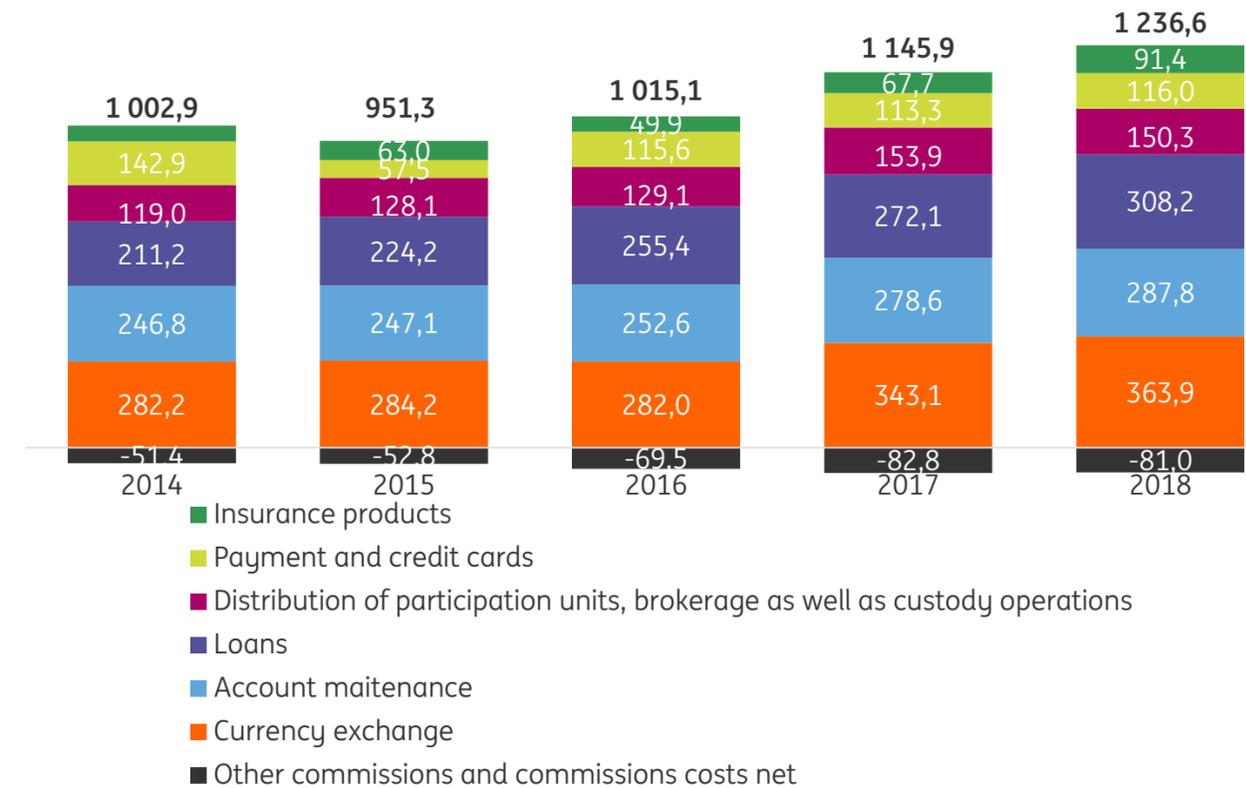
Net commission income

In 2018, the net commission income of the Bank augmented by PLN 90.7 million or 7.9% from 2017 and settled at PLN 1,236.6 million.

The highest commission income growth was noticed in:

- granted credit facilities: improvement by PLN 36.1 million, or by 13.3% y/y up to PLN 308.2 million, which was related to record sales volumes of loans;
- insurance products: up by PLN 23.7 million or 35.0% y/y to PLN 91.4 million, which stemmed from increased sale and wider product offer of the bank in this field;
- the FX transaction spreads: up by PLN 20.8 million or 6.1% y/y to PLN 363.9 million, which was attributable to higher transaction volumes of both the retail as well as corporate customers.

Net fee and commission income (PLN million)



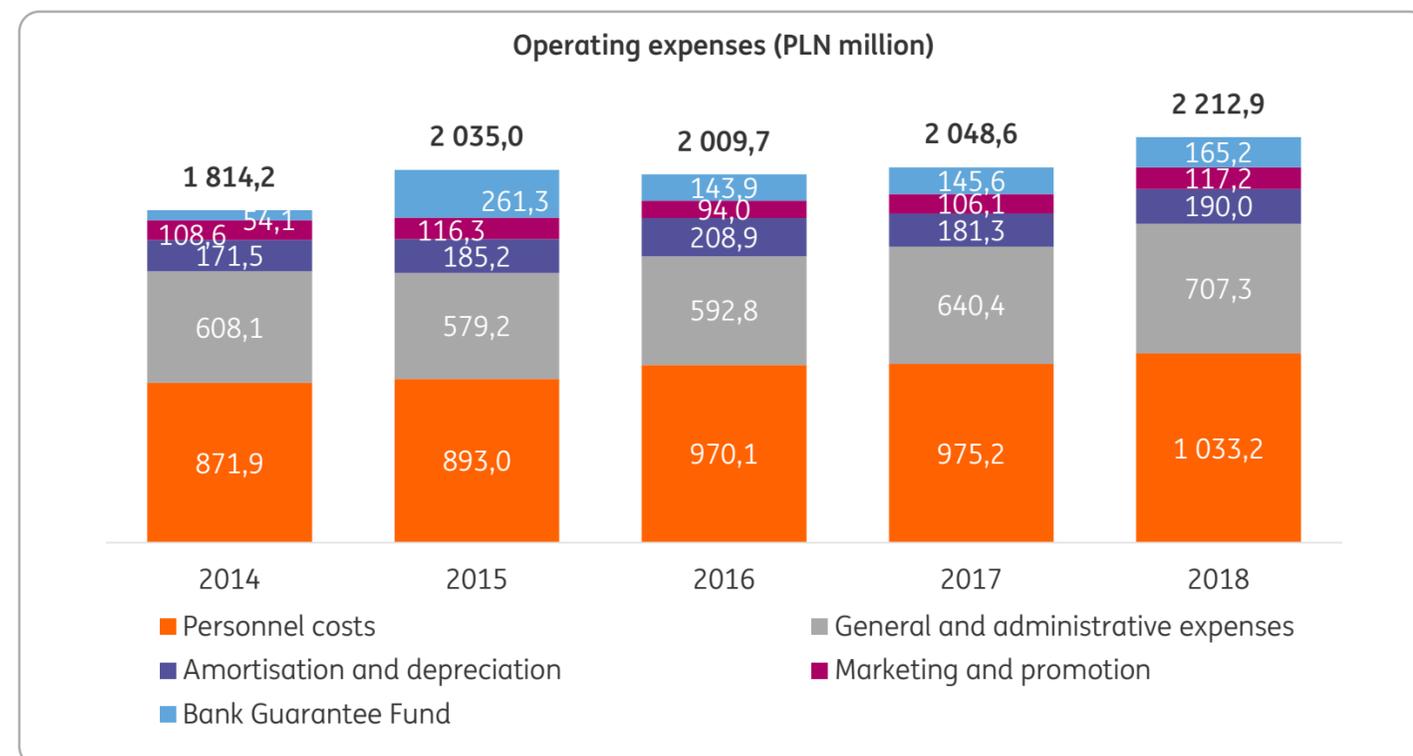
Other income

In 2018, other income of the Bank was PLN 217.2 million and it was lower by PLN 19.9 million compared with the previous year. In 2017, other income was affected by a one-off trade - the sale of shares of Visa Inc. As a result of that transaction settlement, the one-off income was PLN 11.9 million (Q2 2017).

Operating expenses

In 2018, the general and administrative expenses of ING Bank Śląski S.A. went up by 8.0% y/y to PLN 2,212.9 million. Costs increase was observed in all main categories, which was connected with development of the Bank's business. General and administrative expenses increased most (by PLN 66.9 million, or by 10.4% y/y). The second biggest increment was observed in personnel expenses (by PLN 58.0 million, or by +5.9% y/y). High dynamics of the general

and administrative expenses has been related to the research and development projects carried out since 2018, mostly in the area of IT and regulations. Increase in personnel expenses stems from raises in wages and salaries (two pay rise exercises were carried out in 2017 and yet another one in 2018). Employment in ING Bank Śląski S.A. was relatively stable (7,616 FTEs as at 2018 yearend compared to 7,612 FTEs a year earlier).



Impairment losses and provisions

In 2018, value of impairment charges for expected credit losses stood at PLN 476.6 million. In 2017, the value of impairment losses for financial assets and provisions for off-balance sheet liabilities settled at PLN 399.6 million.

Comparability of the risk costs with earlier years is disrupted by the new accounting standard IFRS 9 Financial Instruments that was implemented (in lieu of the previously applicable IAS 39) as at the beginning of 2018, which was most notably noticeable in the retail segment. Higher risk costs margin y/y in the retail segment is partly attributable

to the implementation of the new standard (IFRS 9) and partly to the changing structure of the portfolio – the share of the cash loans and loans for entrepreneurs is growing.

In 2018, our bank sold stage 3 receivables twice. In Q1 2018, the corporate portfolio was sold whose negative impact on the risk costs was relatively insignificant (-PLN 1.4 million). Whereas, in Q3 2018 the portfolio of stage 3 receivables, consisting of both retail and corporate exposures, was sold. The impact of this sale on the risk costs in the retail and corporate segments was PLN 24.9 million and PLN 0.7 million, respectively. The Bank sells its portfolios of impaired receivables / receivables in stage 3 on a regular basis under its credit risk management policy.

Tax on certain financial institutions

In 2018, ING Bank Śląski S.A. paid the tax on certain financial institutions (the so-called bank levy) of PLN 371.7 million. It was PLN 41.6 million (or 12.6%) higher than in 2017 due to a higher tax base. This follows a consistent growth in commercial volumes.

Income tax

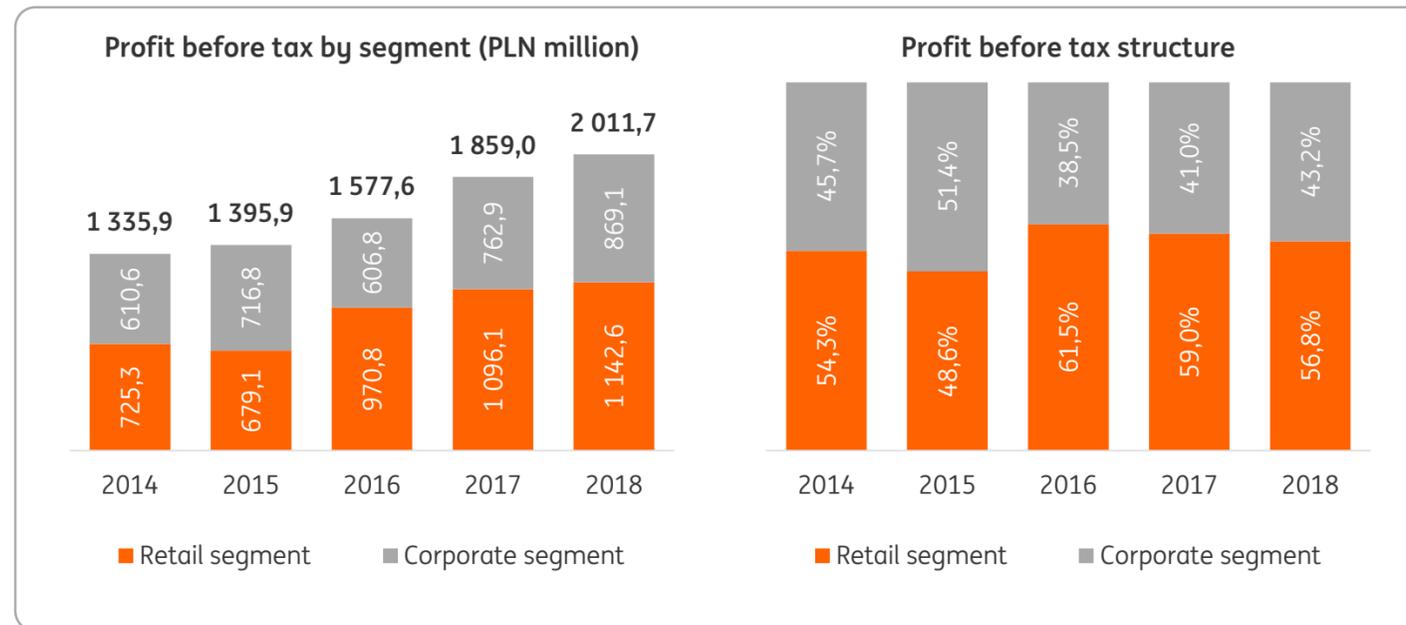
In 2018, ING Bank Śląski S.A. posted the income tax of PLN 485.8 million. It was 6.6% higher than in 2017. In 2018, the effective tax rate was 24.1% versus 24.5% the year before. Both in 2017 and 2018 – in keeping with Article 16.1.71 of the Corporate Income Tax Act – neither the banks' guarantee fund contribution nor the payment to the banks' compulsory resolution fund were tax deductible. Bank levy is also tax deductible (in keeping with Article 16.1.70 of the Corporate Income Tax Act).

Report by business segment

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

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

In 2018, the result before tax by segment was as follows:



In 2018, results of the retail banking segment and of the corporate banking segment accounted for 56.8% and 43.2% of the result before tax respectively (in 2017: 59.0% and 41.0%, respectively).

Result before tax in the retail banking segment

	2018	2017	2016	2015	2014	Change 2018 / 2017	
						PLN million	%
Net interest income	2,368.3	2,119.1	1,849.5	1,490.0	1,358.0	249.2	11.8%
Net commission income	434.4	410.4	368.4	347.5	422.0	24.0	5.8%
Other income	137.0	125.2	222.6	207.4	160.8	11.8	9.4%
Total revenue	2,939.7	2,654.7	2,440.5	2,044.9	1,940.8	285.0	10.7%
Operating expenses	1,374.3	1,273.9	1,230.6	1,296.0	1,136.8	100.4	7.9%
Risk costs	267.9	158.2	137.5	69.8	78.7	109.7	69.3%
Bank levy	154.9	126.5	101.7	0.0	0.0	28.4	22.5%
Gross financial result	1,142.6	1,096.1	970.8	679.1	725.3	46.5	4.2%

Result before tax in the corporate banking segment

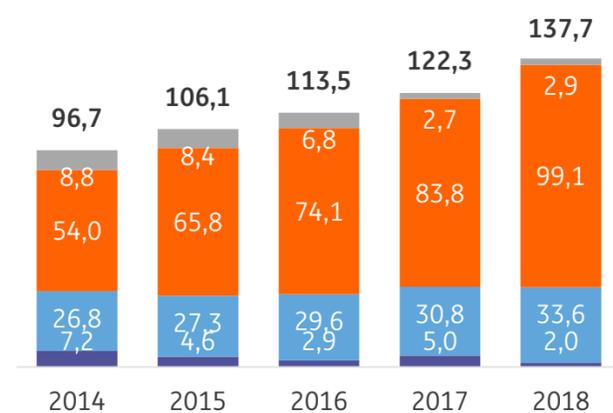
	2018	2017	2016	2015	2014	Change 2018 / 2017	
						PLN million	%
Net interest income	1,250.7	1,135.2	975.5	853.5	853.2	115.5	10.2%
Net commission income	802.3	735.5	646.7	603.8	580.9	66.8	9.1%
Other income	80.2	111.9	73.3	141.5	18.6	-31.7	-28.3%
Total revenue	2,133.2	1,982.6	1,695.5	1,598.8	1,452.7	150.6	7.6%
Operating expenses	838.6	774.7	779.1	739.0	677.4	63.9	8.2%
Risk costs	208.7	241.4	131.0	143.0	164.7	-32.7	-13.5%
Bank levy	216.8	203.6	178.5	0.0	0.0	13.2	6.5%
Gross financial result	869.1	762.9	606.8	716.8	610.6	106.2	13.9%

Statement of financial position

Assets

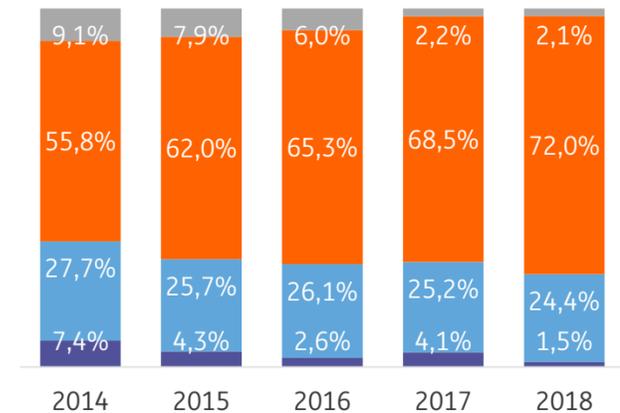
As at 2018 yearend, the total assets of ING Bank Śląski S.A. were PLN 137.7 billion (up by 12.6% from 2017 yearend). The portfolio of loans and other receivables from customers was the primary growth trigger. It went up by PLN 15.3 billion y/y (or 18.3%) and closed with PLN 99.1 billion. These items prevail in the assets structure. As at 31 December 2018, they represented 72.0% of all Bank assets.

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



■ Other
 ■ Loans and other receivables from customers (Eurobonds excluded)
 ■ Securities (Eurobonds included)
 ■ Loans and receivables from other banks + cash with Central Bank

Structure of the assets of ING Bank Śląski S.A.

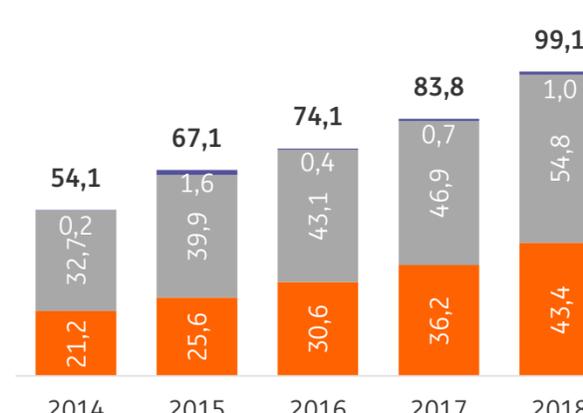


■ Other
 ■ Loans and other receivables from customers (Eurobonds excluded)
 ■ Securities (Eurobonds included)
 ■ Loans and receivables from other banks + cash with Central Bank

The securities portfolio (Eurobonds included) also represented a major item in the statement of financial position – PLN 33.6 billion (or 24.4% of assets). Debt securities composed of investment assets of PLN 31.9 billion (including assets measured at fair value through total income of PLN 20.1 billion and financial assets at amortised cost of PLN 11.9 billion) dominated the portfolio.

Both retail and corporate net loans and other receivables from clients increased the balance as at 2018 yearend when compared with 2017. The growth attributed to retail and corporate segments was PLN 7.2 billion y/y and PLN 7.9 billion y/y, respectively. As a result, the share of the retail segment rose by 0.6 p.p. y/y to 43.8%.

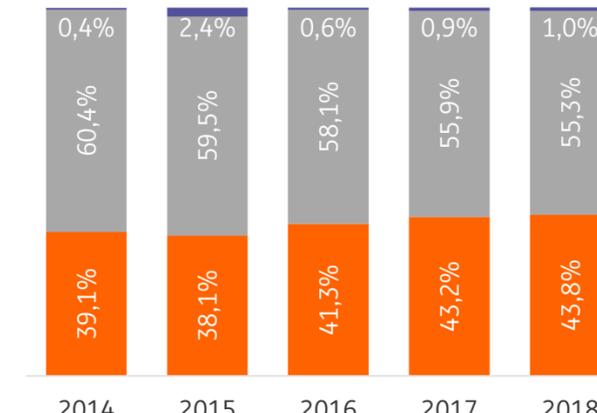
Net lending* by segment (PLN billion)



■ Retail segment
 ■ Corporate segment
 ■ Other receivables

*loans and other receivables from customers excluding Eurobonds

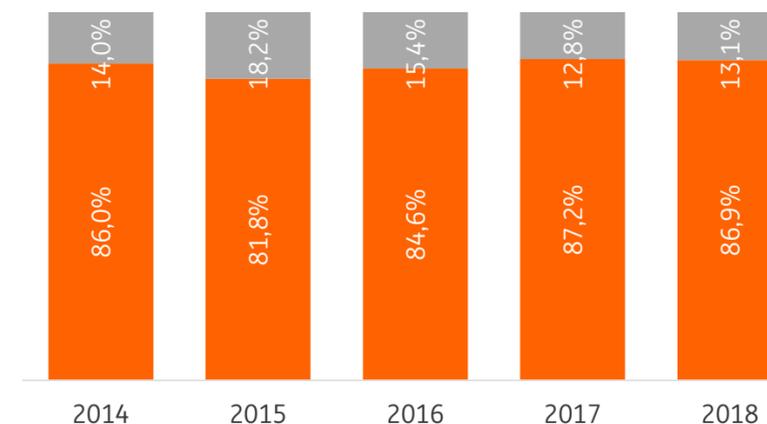
Net lending* structure



■ Retail segment
 ■ Corporate segment
 ■ Other receivables

The currency structure of the portfolio of net receivables from customers (excluding Eurobonds) showed a stable share of PLN-denominated exposures. Their growth follows a similar rise in PLN-denominated receivables by PLN 13.1 billion y/y (or +17.9%) and an increase in FX-denominated exposures by PLN 2.2 billion y/y (or +20.8%).

FX structure of the portfolio of net receivables from customers*



■ PLN
 ■ FX

*loans and other receivables from customers excluding Eurobonds

The portfolio of net receivables from customers

	2018	2017	2016	2015	2014	Change 2018 / 2017	
						(PLN million)	%
at amortised cost	98,907.4	87,358.7	78,038.0	70,987.8	58,058.7	11,548.7	13.2%
at fair value through profit or loss	218.4	-	-	-	-	-	-
Total	99,125.8	87,358.7	78,038.0	70,987.8	58,058.7	11,767.1	13.5%

The portfolio of net receivables from customers at amortised cost

	2018	2017	2016	2015	2014	Change 2018 / 2017	
						(PLN million)	%
Customer loan portfolio, including:	97,956.8	83,067.7	73,692.1	65,531.8	53,894.0	14,889.1	17.9%
Households	45,819.7	37,737.6	31,985.1	26,652.9	21,884.6	8,082.1	21.4%
Business entities	48,937.0	42,483.2	38,291.1	34,994.3	28,209.3	6,453.8	15.2%
Government and self-government institutions' sector	3,200.1	2,846.9	3,415.9	3,884.6	3,800.1	353.2	12.4%
Total, including:	97,956.8	83,067.7	73,692.1	65,531.8	53,894.0	14,889.1	17.9%
Corporate banking	54,586.8	46,879.1	43,080.4	39,929.6	32,717.7	7,707.7	16.4%
Loans in current account	13,093.6	11,659.7	9,638.0	8,936.3	7,450.2	1,433.9	12.3%
Term loans	38,683.9	32,687.2	30,929.6	27,937.7	22,501.4	5,996.7	18.3%
Debt securities	2,809.3	2,532.2	2,512.8	3,055.6	2,766.1	277.1	10.9%
Retail Banking	43,370.0	36,188.6	30,611.7	25,602.2	21,176.3	7,181.4	19.8%
Mortgages	33,146.8	27,789.0	23,283.9	18,010.3	14,745.8	5,357.8	19.3%
Overdrafts	1,223.4	1,240.6	1,143.9	1,095.5	1,072.6	-17.2	-1.4%
Other loans and advances	8,999.8	7,159.0	6,183.9	6,496.4	5,357.9	1,840.8	25.7%
Other receivables, including:	950.6	4,291.0	4,345.9	5,456.0	4,164.7	-3,340.4	-77.8%
Concerning T-eurobonds	0.0	3,564.1	3,910.0	3,838.1	3,923.4	-3,564.1	-100.0%
Hedges of call type	733.0	540.1	329.0	180.5	71.9	192.9	35.7%
Receivables due to repo transactions	0.0	19.8	0.0	1,354.4	106.6	-19.8	-100.0%
Other receivables	217.6	167.0	106.9	83.0	62.8	50.6	30.3%
Total	98,907.4	87,358.7	78,038.0	70,987.8	58,058.7	11,548.7	13.2%

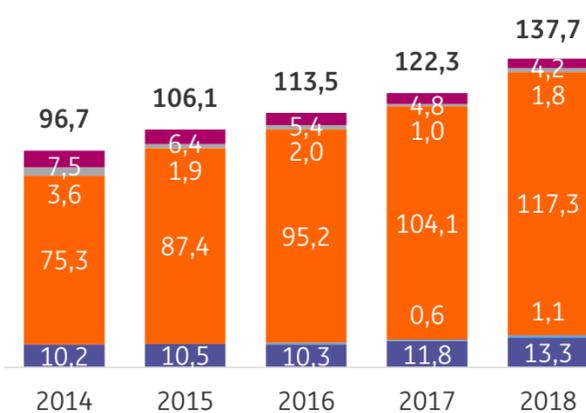
Liabilities and equity

The customers' funds constituted the dominant source of funding for the operations of ING Bank Śląski S.A. As at 2018 yearend, the liabilities to customers were PLN 117.3 billion, or represented 85.2% of all liabilities.

Equity was another most important funding source. As at the end of December 2018, it stood at PLN 13.3 billion and represented 9.7% of total liabilities.

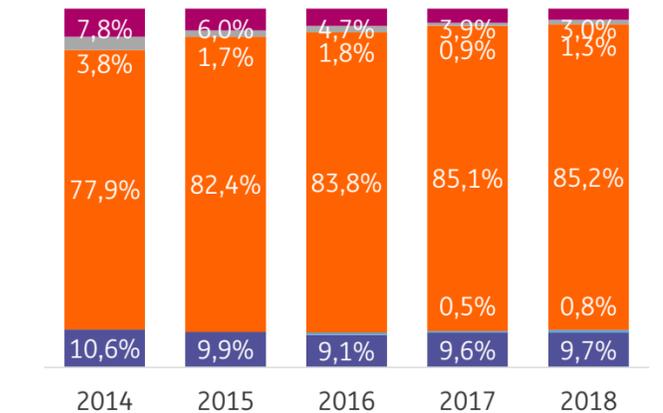
Liabilities and equity of ING Bank Śląski S.A.

(PLN billion)



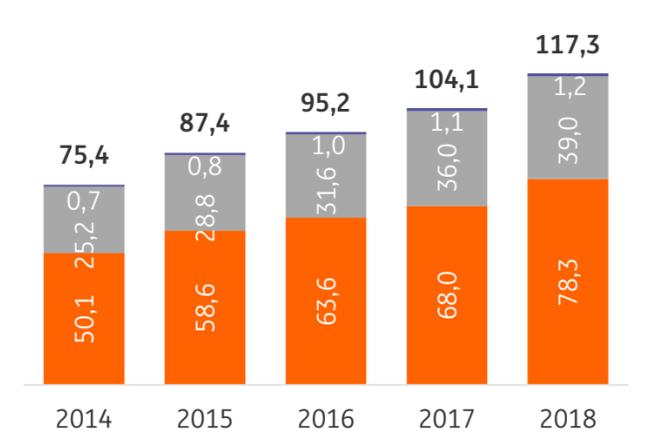
Structure of the liabilities and equity of ING Bank Śląski S.A.

Śląski S.A.

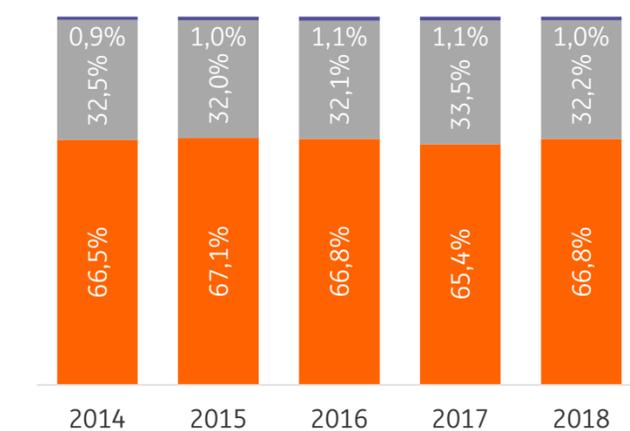


In 2018, deposits and other liabilities to customers built up by PLN 13.2 billion y/y or 12.7% to PLN 117.3 billion. This nominal increment is attributable mostly to the retail segment (increase by PLN 10.3 billion, or by 15.1%). The share of the retail segment went up by 1.4 p.p. y/y and it invariably dominates in the structure of liabilities to customers with a weight of 66.8% as at 2018 yearend.

Deposits* by segment (PLN billion)



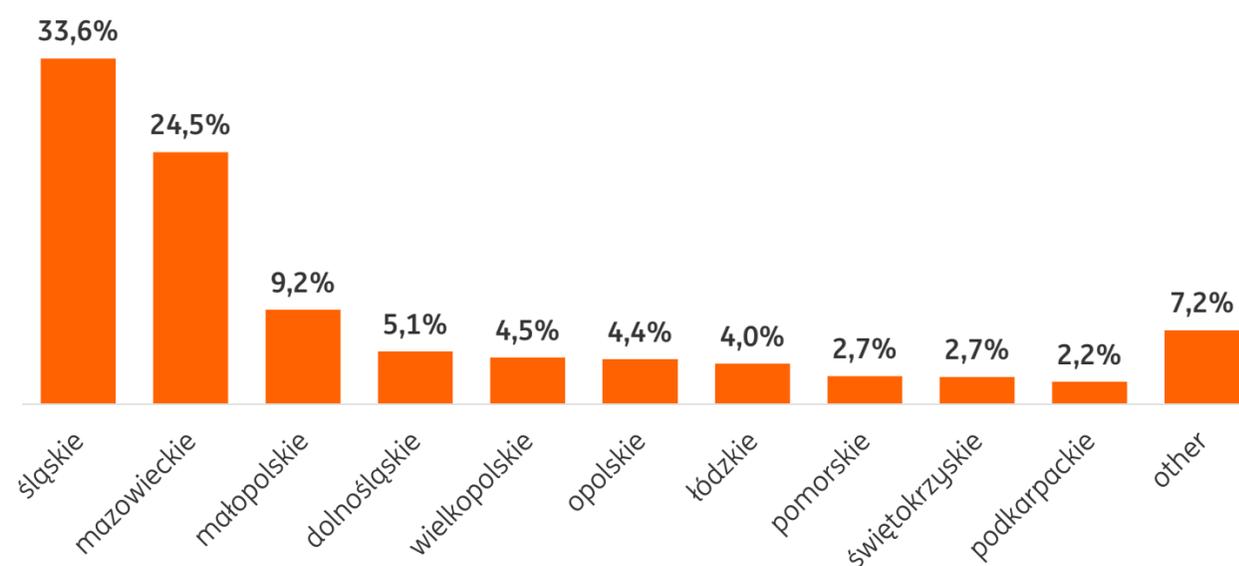
Structure of deposits*



■ Retail segment ■ Corporate segment ■ Other liabilities ■ Retail segment ■ Corporate segment ■ Other liabilities

*deposits and other liabilities to customers

Structure of ING Bank Śląski S.A. deposits* by province



*deposits and other liabilities to customers

Portfolio of liabilities to customers

	2018	2017	2016	2015	2014	Change 2018 / 2017	
	PLN million					PLN million	%
Deposits, including:	116,102.7	102,936.9	94,122.2	86,596.8	74,652.3	13,165.8	12.8%
Households	78,255.5	67,918.6	63,548.0	58,751.6	50,077.2	10,336.9	15.2%
Business entities	35,929.7	33,244.4	28,833.4	26,225.7	22,706.6	2,685.3	8.1%
Government and self-government institutions' sector	1,917.5	1,773.9	1,740.8	1,619.5	1,868.5	143.6	8.1%
Total, including:	116,102.7	102,936.9	94,122.2	86,596.8	74,652.3	13,165.8	12.8%
Corporate banking	37,784.7	34,887.3	30,512.7	27,951.0	24,510.1	2,897.4	8.3%
Current accounts	25,613.6	23,645.6	20,133.5	16,580.0	13,348.4	1,968.0	8.3%
Savings accounts	9,982.1	8,566.6	8,608.3	8,355.0	6,293.1	1,415.5	16.5%
Term deposits	2,189.0	2,675.1	1,770.9	3,016.0	4,868.7	-486.1	-18.2%
Retail Banking	78,318.0	68,049.6	63,609.5	58,645.8	50,142.2	10,268.4	15.1%
Current accounts	18,051.1	14,792.0	11,920.7	9,727.7	7,568.0	3,259.1	22.0%
Savings accounts	57,948.1	49,935.0	47,872.3	42,962.0	36,747.6	8,013.1	16.0%
Term deposits	2,318.8	3,322.6	3,816.5	5,956.0	5,826.6	-1,003.8	-30.2%
Other liabilities, including:	1,191.1	1,138.9	1,046.2	834.4	703.4	52.2	4.6%
Liabilities under cash collateral	329.5	274.0	311.2	300.1	256.8	55.5	20.3%
Repo transactions	0.0	0.0	0.0	47.5	29.7	0.0	-
Other liabilities	861.6	864.9	735.0	486.8	416.9	-3.3	-0.4%
Total	117,293.8	104,075.8	95,168.4	87,431.2	75,355.7	13,218.0	12.7%

Off-Balance Sheet items

As at 2018 yearend, the ING Bank Śląski S.A had:

- contingent liabilities granted totalling PLN 32.0 billion. This shows a rise of 10.8% or PLN 3.1 billion from 2017 yearend. Unutilised credit limits which represent 75.4% of all granted off-balance sheet liabilities form the dominant item. Committed credit facilities comprise: approved loans, credit card limits and bank overdrafts,
- received contingent liabilities in the amount of PLN 92.5 billion (up by 13.0% from a year earlier).

Off-balance sheet items of ING Bank Śląski S.A. Group

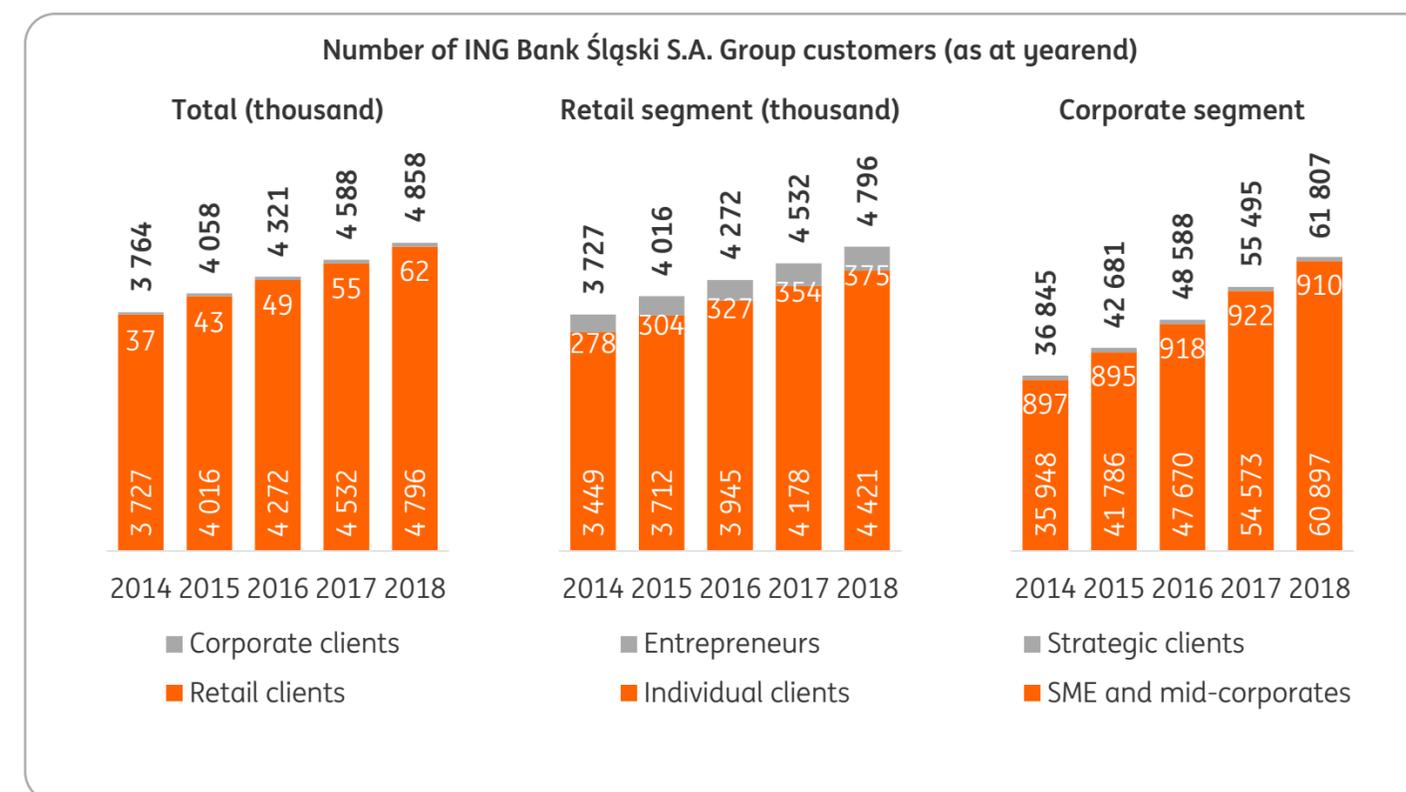
PLN million	2018	2017	2016	2015	2014
Contingent liabilities granted	31,958.8	28,844.2	26,994.5	23,453.5	23,394.6
Unutilised credit lines	24,097.0	21,598.6	21,135.2	17,367.6	18,120.4
Guarantees	4,943.8	4,439.9	3,195.5	3,461.0	2,892.4
Unutilised overdrafts	1,371.2	1,336.1	1,273.7	1,310.3	1,214.7
Credit card limits	1,251.7	1,079.4	998.3	922.5	845.2
Letters of Credit	295.1	390.2	391.8	392.1	321.9
Contingent liabilities received	92,484.3	81,822.3	77,680.1	51,424.8	41,454.6
Off-balance sheet items total	124,443.1	110,666.5	104,674.6	74,878.3	64,849.2

Details of off-balance sheet liabilities were presented under note 36 to the Financial Statements of ING Bank Śląski S.A. for the year 2018 on page 117.

Customer experience

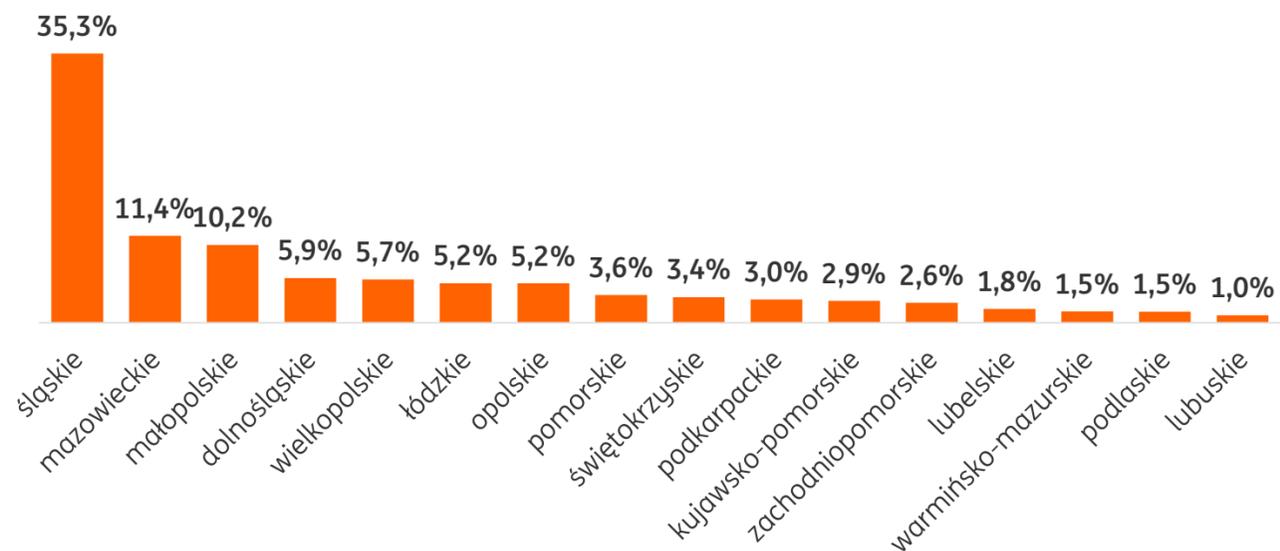
We see our role in developing customer care in a broader perspective than just providing typical banking services and products. We want our customers to take better financial decisions that will improve their lives. To satisfy those assumptions, we set goals that may be worded as follows: to earn customers' trust. We want to make the customers feel that with our efforts they can get more than just banking services. So that the innovative solutions that we present make their life better. Therefore, apart from banking services and products we keep extending our offer with supra-banking products.

We know that our Bank would not exist without clients. As at 2018 yearend, nearly 4.42 million individual clients, 375 thousand entrepreneurs and over 62 thousand corporate and strategic clients put their trust in us – they deposited over PLN 127 billion with our Bank.

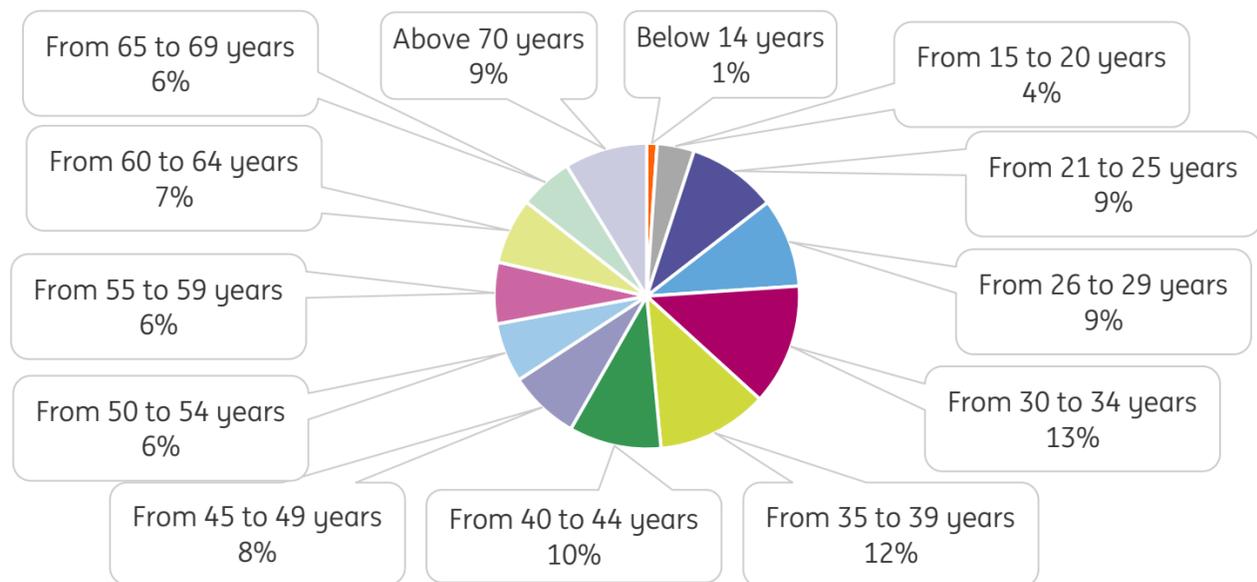


The structure of our retail clients

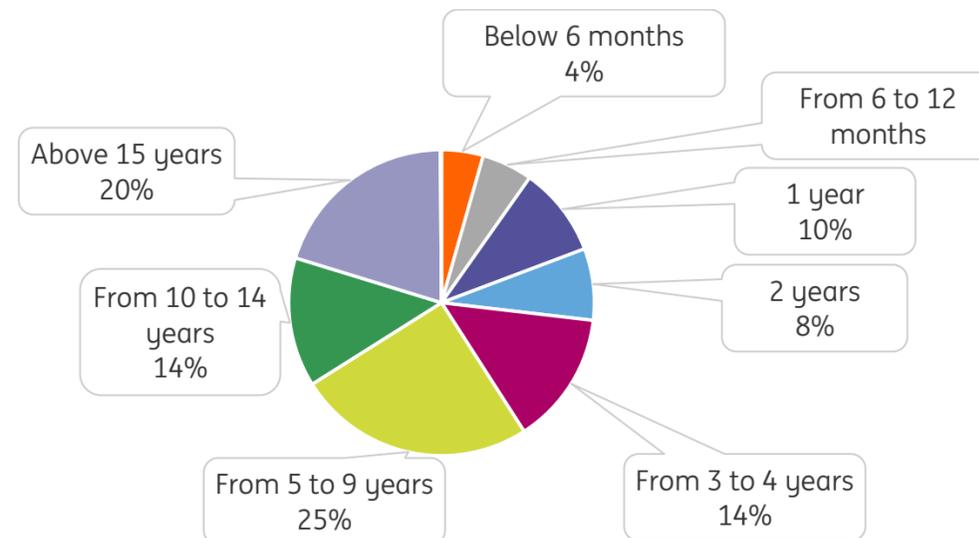
Structure of retail clients by province (as at 2018 yearend)



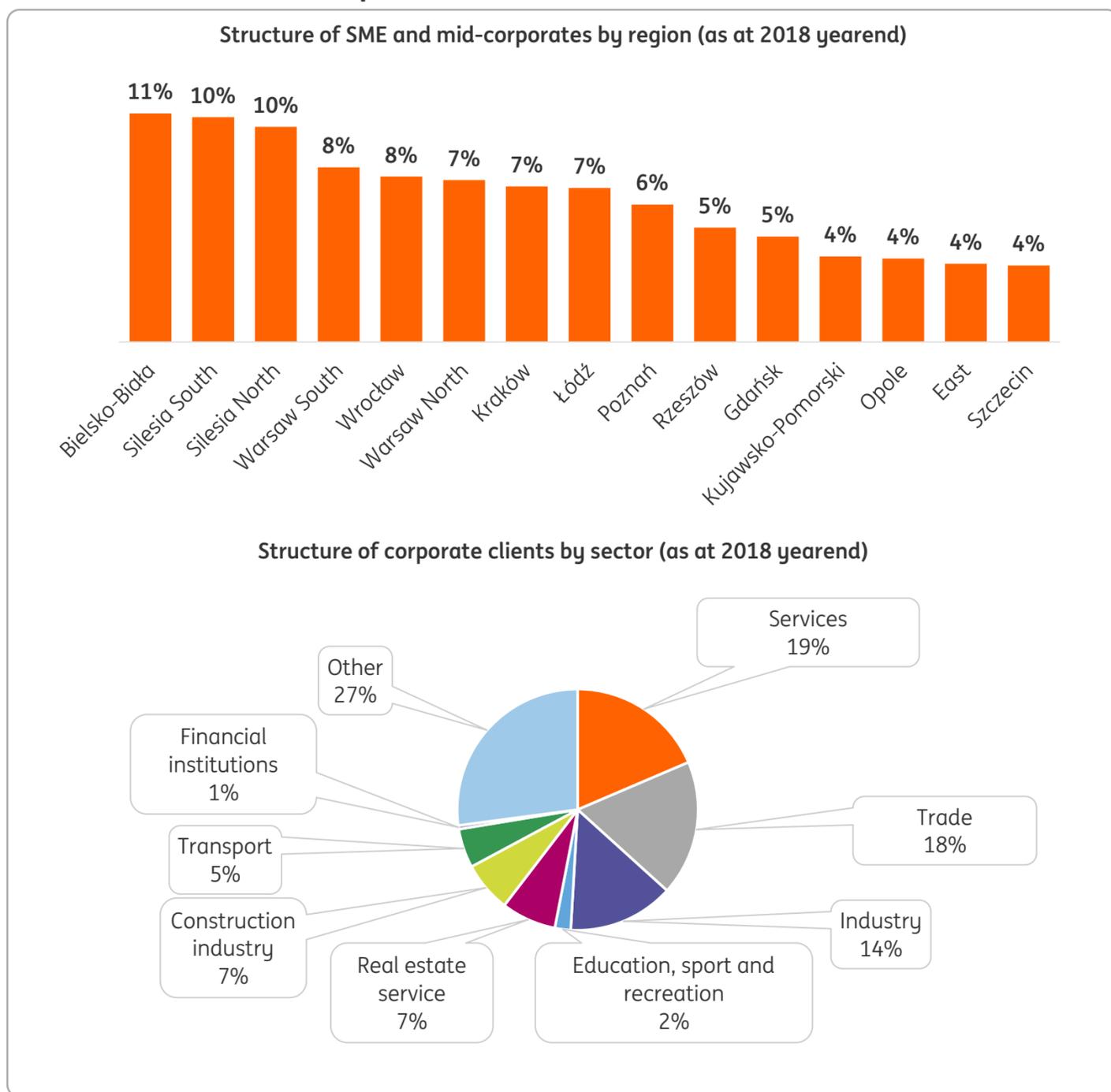
Structure of individual clients by province (as at 2018 yearend)



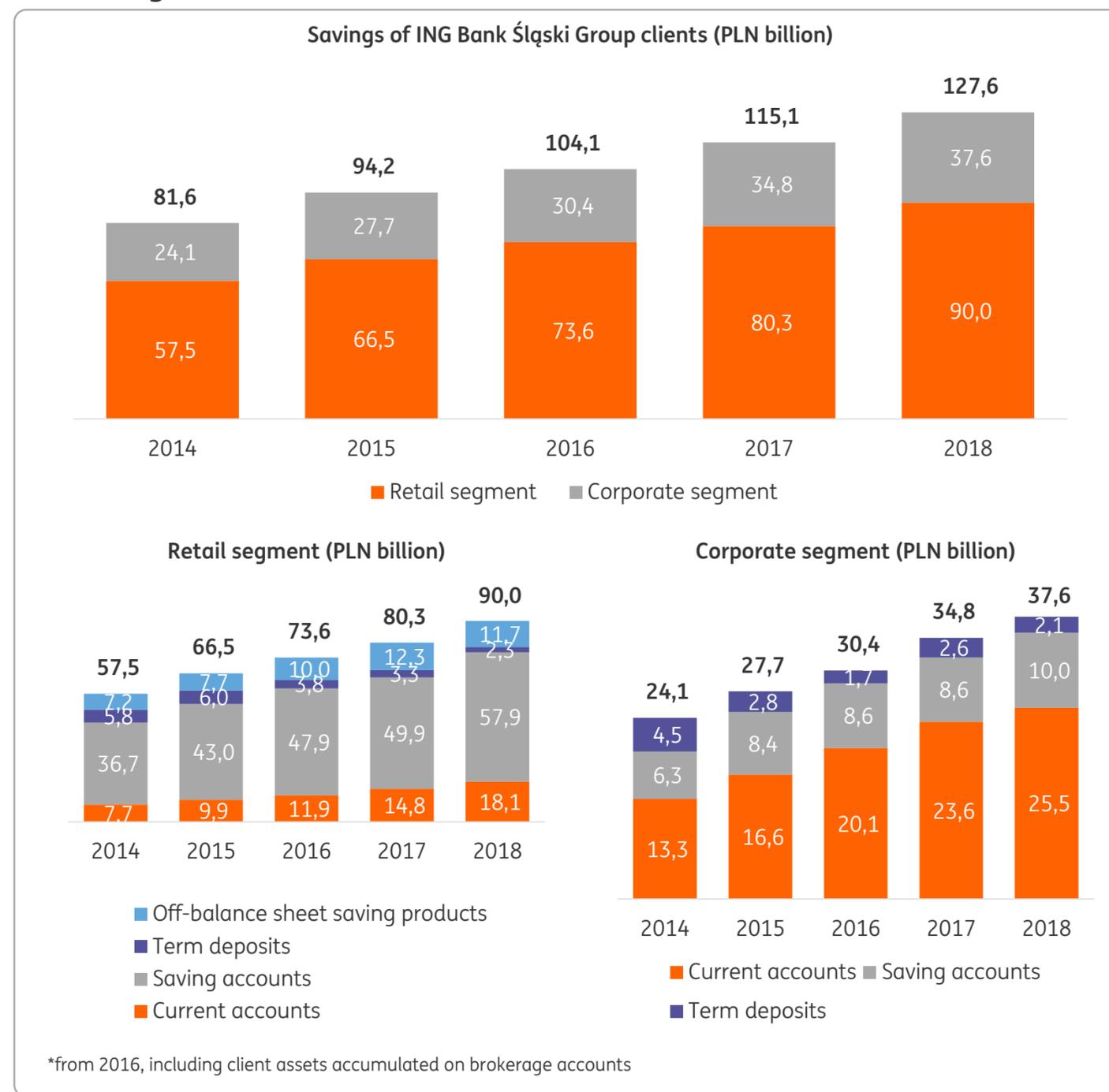
Structure of entrepreneurs by duration of business (as at 2018 yearend)



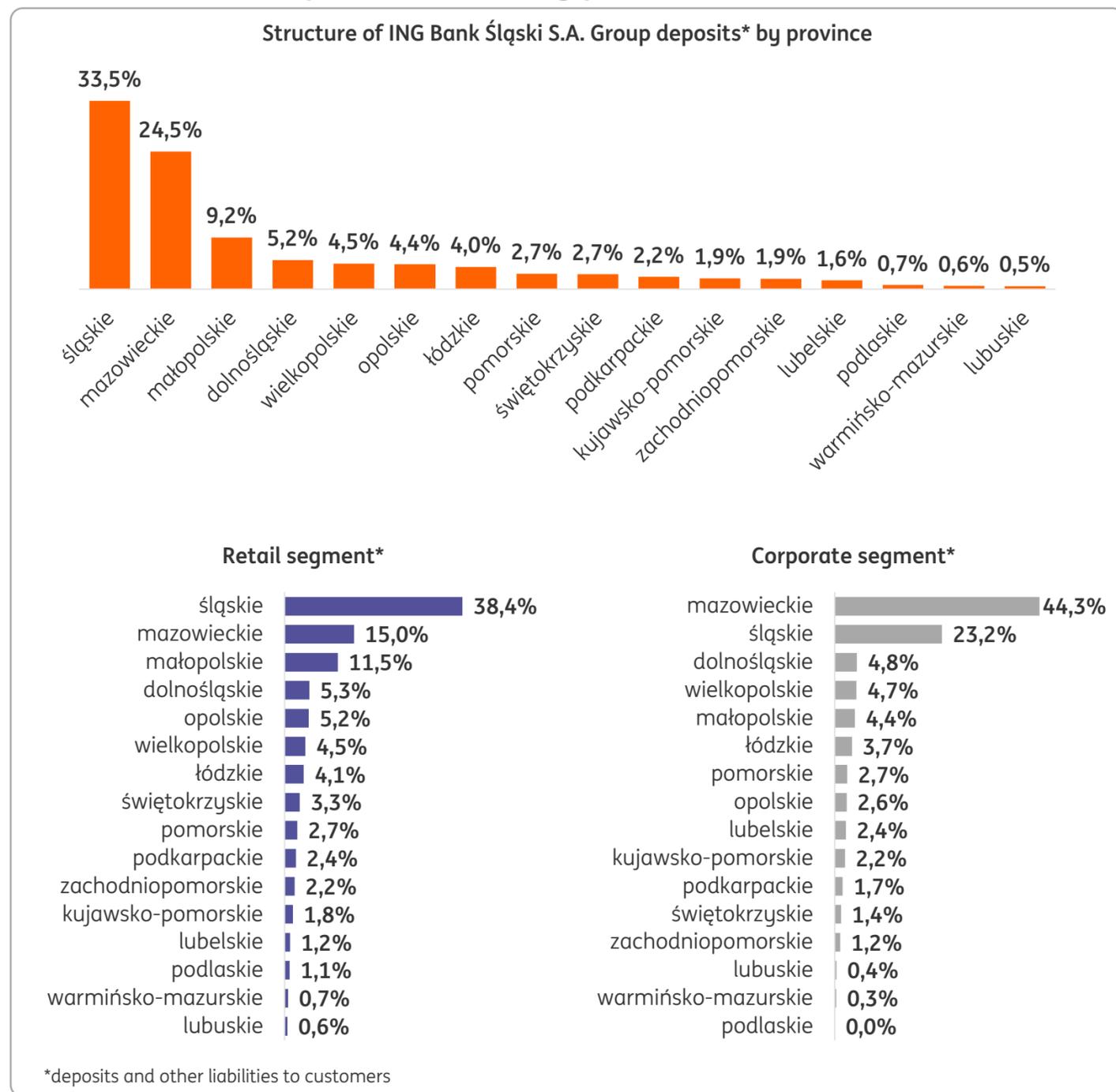
The structure of our corporate clients



The savings of our clients



The structure of deposit balances by province



Dialogue

We listen to our customers

GRI [102-43] [102-44]

At ING Bank Śląski S.A. we believe that our customers know their financial needs best. The comments we are provided with are an inspiration for us. We treat communication with customers as an invaluable source of opinions and as a stimulus for ongoing improvements that are the best response to customers' needs when implemented.

In 2018 we collected about 660 thousand comments from retail customers. 60% of them came as messages from Moje ING. Most often customers wrote to us about cards, accounts, ATM and ADM transactions as well as Internet and mobile banking. In 2018 Customers were largely absorbed with the subjects of promotion and settlement thereof, operations of mobile applications, public compensation (decision by the President of UOKiK No. RBG -10/2018 of 8.08.2018). In the second half of the year, customers noted the closing of the old mobile application and increasingly frequently asked if we were planning to provide Apple Pay services. Customers' opinions help our organisation in developing and modifying existing solutions and in developing completely new solutions. In 2018, based on our customers' opinions, we made over 480 proposals of changes to various business areas. With the commitment of many units, over 180 were implemented.

We keep surveying customer satisfaction so that we could deliver increasingly better products and services.

How we survey our customer satisfaction:

- Over the phone – we surveyed opinions on the services of our infoline. At the end of 2018, 77% of our individual customers satisfied their problem with the first telephone contact. 95% were satisfied and very satisfied with the services of specialists, their involvement and way of communication. We keep surveying customer satisfaction among enterprises, mortgage customers and affluent customers. In 2018 we surveyed overall over 10 thousand customers.
- Over social portals and chat we invite our customers to visit our portal ING Community – the place where “answers meet replies”. We are also active at Facebook where are posts are followed by over 240 thousand people and at Twitter (we have almost 20 thousand followers). We responded to posts within less than 4 minutes. Apart from activity in social media, 75% of our customers resolved their issues on the chat with our specialists.

- In branches we regularly carry our Mystery Shopper reviews. The surveys confirm the top-notch quality of individual customer and entrepreneur service standards.
- Personally – we meet with our corporate customers face-to-face on a regular basis. Relationship Managers gather customers' suggestions as regards our products and services on a regular basis.
- By e-mail – in 2018, we compiled over 121 thousand completed questionnaires in the NPS survey (Net Promoter Score). We reviewed 8 points of customer contact with the Bank. We sent several thousand emails to customers each week as part of the NPS survey. We asked them whether they would recommend our bank to their family members and friends. Through this we learnt that in 2018 customers gave the cash loan disbursement procedure 9.3 points out of 10. At the same time, they awarded 7.4 points to the complaint handling process, while 9.0 to the service quality at branches and 8.6 for mobile banking. In the corporate banking segment NPS survey in 2018, we compiled over 14 thousand questionnaires with assessments and opinions for 5 points of customer contact with the Bank. The customers assessed the business account opening procedure at 8.7 points out of 10, the quality of telephone services at Business Centre at 9.1, internet banking at 8.

Work with customers' opinions:

- Collection of customers' opinions from various sources: social media, complaints, NPS surveys, marketing surveys, branches, contact centre, internet and mobile banking.
- Analysis of customers' opinions.
- "Customer Opinion" meetings (we talk to people who develop processes and products at the Bank on what our customers say).
- Proposed changes.
- Implementation of changes.
- Monitoring of changes.

Po prostu [just like that]

Po prostu project at ING Bank Śląski is 5 years old now. We keep simplifying communication – we realise that no one wishes to lose time on difficult banking gobbledegook. We are committed to simplicity, transparency and good relations. As a result, our customers save time, they know what they are buying and take the best financial decisions.

Plain language for us means for instance omitting redundant words, difficult grammatical structures or terms that evoke associations with bureaucratic language.

Apart from written communication, we also look at spoken communication. Our specialists at branches and in the infoline have already departed from artificial and specialist language. We are committed to naturalness and we get adjusted to our customers. And we know it works.

So far we have managed to simplify over 2000 messages and 76 contracts; over 1000 of our staff have attended dedicated training. We have also been simplifying internal communication – it is worth starting with oneself. Customers may send difficult messages to poprostu@ingbank.pl. The Po prostu project complies with our sustainable development project as a bank offering equal opportunities.

In 2017 we were awarded a plain language certificate for our internet banking Moje ING. We are the first bank to have been granted such prize.

In 2018 we reached our target and simplified over 2000 messages: 574 of A4 pages – as many as 170 thousand words! We have also simplified the language used by My Assistant – he responds to customers to questions asked in Moje ING: 216 of A4 pages – as many as 65 thousand words!

Solutions

[GRI \[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

In the world of today we provide access to our banking on any device. We rely on technology and keep enhancing our applications so that customers can navigate intuitively. We do not forget about handicapped people. We want to ensure access to our banking to everybody.

Individual customers and small enterprises use the same Moje ING system and the same mobile Moje ING application.

Individual customers and micro entrepreneurs

Moje ING personal banking

Moje ING is a friendly internet banking system with broad functionalities providing comprehensive and comfortable access to finances. It is a kind of a remote assistant that, at any time, prompts the best solution for a customer. It provides advice on how to manage finances in an informed manner. The Coach Module helps customers to analyse their financial standing and indicates solutions for expenditure control, savings or financial investments. At Moje ING

we combined the image with efficiency. We want our customers navigate in a system that is visually attractive and would not have to think hard how to perform operations.

Failure on 29 November 2018

Throughout the year, we recorded short periods of system unavailability. On 29 November 2018, there was a failure and our banking systems did not respond for more than 7 hours – the failure affected both online- and mobile systems, our ATMs and helpline. The failure was caused by problems with our network infrastructure. We took immediate measures to remedy the situation and the Crisis Management team started to work within an hour from the begin of the failure. We posted regular updates for the clients on the Bank's website, in social media and also on the home page of the online banking systems.

We diagnosed the root causes of the failure and launched a business continuity plan based on those conclusions. We took actions in the area of IT systems stability to avoid similar situations in the future.

Available on each device

In Moje ING the same actions can be performed with equal ease on any device, be it a smartphone, tablet or computer. We also developed a Moje ING mobile application for smartphones.

Everything in one place – your banking

With electronic banking, customers may make simple transfers and payments and recharge phones. With financial coach and savings targets they control their spending, plan budgets and get better saving results. For us banking is not only how full the wallet is. That is why we propose supra-banking services like: My documents – a private disk with files in Moje ING internet banking. Customers can securely keep e.g. contracts, invoices, PIT tax returns, and access them from any device, from any place in the world. Additionally, over Moje ING parents may file applications for 500+ or the Good Start Program. We also provide an opportunity to establish the Trusted Profile ePUAP via Moje ING internet banking.

Additionally, it is possible for pay for codes for games, films and programmes. This makes the recharging more secure as customers do not have to specify their card details in the Internet.

Moje ING mobile application

The Moje ING mobile application has all functions available in Moje ING. Additionally it provides for:

- view of the account and credit card balance without login,
- login with PIN or finger print (for phones with iOS from iOS9 and Android from 6.0 version),
- customers' own shortcuts on the screen before login,
- generation of BLIK codes,
- saving of cash receipts,
- PUSH notifications after each transaction,
- fast transfers without login – from a savings account to a personal account and between personal and company accounts.

Moje ING as a platform to manage personal and private finances

Most of the services for micro entrepreneurs have been integrated within one platform – Moje ING. Irrespective of the device, they use the same functionalities in a similar way. Customers have access to their personal and company finances with one login.

Moje ING for businesspeople offers a number of possibilities and functions, e.g.: transfers, payments by phone, messages with changes to balances, account opening, access to additional cash but also filing applications for leasing or microfactoring.

BFM (Business Financial Manager)

BFM is a transparent analysis of company finances. The company's financial condition may be checked at a glance. Counterparty analysis provided a view of all business partners with whom our customer makes settlements over its account with ING. The customer can see the structure of cooperation with suppliers and buyers, statistics of cooperation, selected partners may be tagged, transaction history with a selected counterparty may be displayed, etc. The customer does not have to make specifications or calculations, they can see the number of customers, trends in cooperation, etc. We support in taking right business decisions.

Businessman's Calendar

Businessman's Calendar is a module in Moje ING facilitating management and timely execution of payments and other events related to the company, for instance: planned cyclical transactions (prediction), operational communication, deadlines that are important for the Businessman that are not related to payments (e.g. tax returns), ZUS/tax payments, legal changes, defining your own events. The Businessman will select the messages to receive and the type of message to be sent (SMS, Push, message, etc.)

ING Accounting

Modern online accounting integrated with Moje ING internet banking to issue and book invoices, to manage warehouses, settle payments and keep HR documentation. In 2018 new modules were launched: Revenue and Expense Ledger, HR and Payroll and Warehouse Management.

Moje ING for everybody

We keep striving at ING Bank Śląski to propose internet banking to our customers that would be useful for all. The actions we take do not result from legal regulations.

Persons with mobility impairment may use the Moje ING transactional service (main page, menu, transaction history and transaction execution) with tabs, arrows and enter. They are supported with a blue frame around the element that is active. People with visual impairment are provided with an alternative contrast version. Users may select the view when login to Moje ING.

Moje ING transactional service (main page, menu, transaction history and execution) is available for the blind with screen readers (NVDA for PC, VoiceOver for iOS and TalkBack for Android). For several years we have been cooperating with the Widzialni Foundation. For several months now the Foundation has been analysing selected functionalities of Moje ING for compliance with the WCAG guidelines. The analysis covers most popular banking sub-pages, like transfers, main page, history. The correctly functioning facilities analysed by the Foundation in its last audit in case of the main page include for instance: non-text content, Information and relations, understandable sequence, sensual properties, use of colour, control of sound reproduction, (minimum) contrast, change of text size, text images, no keyboard trap, possibility to adjust the time, three flashes or values below the threshold, possibility to skip blocks, page titles, multiple paths, headers and labels, visible focus, language of the page, language of parts, when focus is marked, when data is uploaded, consistent navigation, consistent identification, error identification, labels or

instructions, prompts to correct errors, error prevention (legal, financial context, related to data provision), parsing, name, role, value.

The Moje ING mobile application relies on a responsive version of the Moje ING system so all enhancements made to the Moje ING transactional service apply also to the mobile application. Moje ING transactional service (main page, menu, transaction history and execution) is available for the blind with screen readers (VoiceOver for iOS and TalkBack for Android). As a result, the application may be handled with the swipe method moving a finger on the screen without looking at it.

Mandatory changes resulting from PAD Directive

The Bank has been implementing the duties imposed by the Act on payment services. We have launched Konto z Lwem PRP (Account with PRP Lion) to our offer for individual customers – a basic payment account. We have unified the names of banking services related to the payment account so that fees and commissions may be compared with other banks. We have launched the “Document with fees” which is provided to customers before the payment account agreement is concluded. We have started sending “Specifications of fees” in which we present to our customers all fees and commissions for the services they were using and information on interest the customers paid or were paid in the period covered with the specification. The document is delivered to customers once a year and within 2 weeks of closing the account.

Development of mobile payments

In 2018 we continued developing mobile payments – on the basis of BLIK and HCE technology (host card emulation). With respect to BLIK payments, we have launched a solution of a “remembered browser”. As a result, with subsequent payments made from the specified browser the BLIK code does not have to be re-introduced – payments need only to be authorised with PIN in the mobile application.

In March 2018 we extended the functionality of telephone transfers by displaying information that in the telephone directory uses BLIK. With this information, the customer is certain that when he/she sends a telephone transfer to a specific person, the transfer will be received immediately.

Following proposals of our customers, in March 2018 we launched Google Pay. A contactless Visa card can be added to the Google Pay application and payments can be made with the card over the telephone.

In order to expand and develop a complementary offer, in June 2018 we provided for a possibility to digitalise (create a virtual form) a contactless Visa card in the Bank's application – Moje ING mobile. Without installing an additional application, our customers may make card payments over the telephone.

Apple Pay

In 2018 we were working on implementation of Apple Pay for Visa payWave card holders. It required the cooperation of several Bank units and ING Group in the Netherlands. We implemented the solution at the beginning of January 2019. The new service provides quick, easy, convenient payments that are both secure and ensure the privacy of the user.

Outright transfers

In May 2018 we provided individual customers and businessmen with the possibility to send outright PLN payments in Moje ING over BlueCash. With the solution, we increased the number of banks to which customers may send transactions to be received by addressees within moments.

Enhancements in the account opening process over the Internet

In 2018 we launched a number of enhancements in the account opening process over the Internet, e.g. modifications to e-mail messages and welcome letters “Welcome Call” to customers; we help close the process by customers who interrupted the process. With the enhancements, we shortened the account activation time and improved customer satisfaction.

FX offer

In 2018 we extended our FX offer (ING Exchange Office, Visa multicurrency card) with a packet of cash disbursement from ATMs. With a lump-sum fee packet, customers for 30 days disburse cash from all ATMs (depending on the selected packet – in Poland and abroad) without additional expenses.

Transaction – cut-off times

Last December we changed the cut-off times for submission of electronic outgoing Payment Orders (external) for selected currencies. Customers may thus file FX payment orders until later cut-off times both for urgent and standard transfers.

Customers' internal transfers without currency conversion in EUR, GBP and USD are booked 24/7, irrespective of the time such order is placed, customers may use the funds immediately.

My Bills

My bills is a service with which in internet banking customers receives and accepts bills for electricity, water, telephone or the Internet.

My bill service is a joint initiative of the largest banks in Poland operating by the Polish Bank Association. This is an agreement between payers and service providers operating via Krajowa Izba Rozliczeniowa S.A. (KIR). Thus, information on payments due comes directly from the providers.

Mobi account for the young

We launched Mobi account – a modern bank account to facilitate telephone banking. The account is addressed to people aged 13 to 26. Mobi account may be opened via the Internet or at a branch. It may be credited at any time with a transfer from any account in PLN (it will be accessible immediately) or with cash in ING ADM (with a card or BLIK). Additionally, Mobi account is accompanied by a savings account for PLN 0 – it is enough to set the transfer amount and date to start saving in a conscious way.

Corporate customers – SMEs, corporations

Account opening over the internet

The company that wishes to open an account with ING Bank needs just 5 minutes – to complete a form with data that we provide ourselves downloading it online from official databases. The customer may login to ING Business to sign the agreement electronically and get the account number. Within a short time up to one hour, the customer may use all functionalities of the account – perform transactions, order more products, etc. The solution proved useful for our sales people who servicing customers in a remote manner (e.g. over ING Business Centre) also may resort to the fastest method. As many as 46% of relations with new customers are opened with the tool. NPS for the remote account opening is 60.7.

New application to open another account in ING Business

In September we provided customers with a modified application to open another account in ING Business. Now the process is fully automatic and the account opening process is much simpler and faster.

Online access to funding

It has been 8 years that the Bank corporate customers may apply for funding online. The companies that do not have an account with us may use a special ING Direct Business Credit application available on the Bank website to file loan applications. Our customers who already use ING Business may file such an application in the system.

We have continued work on the so-called fast track for lower-value exposures. In 2017 we started introducing a pre-scoring process whereunder the customer has a ready-made offer of credit limit in internet banking. At the end of 2018 we added a process supporting on-line credit decisions – at the time standard applications are filed by customers.

We are currently working on full automation of lending processes in sale and after-sale services. All those activities are mainly aimed at reducing the period at each stage and improving external and internal user experience.

Automatic loan handling for corporate customers

In 2018, we continued to automate and optimise lending processes. Those actions have translated into tangible benefits. This is reflected in for instance a systematic increase in the share of online credit applications. They are submitted by new customers via the ING Direct Business Credit application and by the existing ING Business customers. In 2018 the share stood at 94%. Additionally, the number of contracts signed online has been growing. In 2018 the share was as high as 36%.

In 2018 there was a systematic growth of the number of transactions processed over the automatic path – Easy Lending. The share of the path among customers with smaller exposures reached 17% at the end of 2018. As part of the Easy Lending process aimed at maximum possible reduction of time from filing of an application to disbursement of funds under the loan and a new mode of creditworthiness assessment, we handled over 1,500 loans and at the end of 2018 we reached a volume of over PLN 120 M.

In 2018 we introduced modifications to reduce credit risk in lending processes – “STIR risk ration”, informing decision makers of the minimum risk of tax fraud. It is determined by the National Clearing House.

We have launched the Optical Character Recognition (OCR) technology that would automatically read data from documents and process them in Bank’s systems. It reduces the time of handling those documents as well as other inquiries and applications filed with the Bank by the customers.

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

In order to enhance the applicability (UX), in the instructions to disburse loan funds we added the possibility to make urgent transfers in PLN and foreign currencies.

As a result of the enhancements introduced to the Bank’s applications, we have improved the level of automatic handling of loan repayment (without employees being involved), ordered by customers over internet banking.

ING Business

The ING Business internet banking platform keeps being developed and improved.

User satisfaction measured with NPS kept growing last year and in the last quarter was twice as high as a year earlier.

We keep focusing on four aspects of its operation:

Security

In 2018 we launched new mechanisms to ensure security of system users and to prevent fraud, inter alia additional notifications sent automatically to customers when our algorithms detect suspicious actions in the system (at login or transaction execution).

Accessibility

Accessibility of the application during the whole year was 99.6% of customers. We continue enhancing mechanisms and algorithms in the application to improve accessibility.

Performance

This is an important parameter for us. Last year we launched a new login page thus relieving and shortening the process 2.5 times. We made a number of enhancements to multiple modules thus making the application operate faster.

Functionality

We keep working on system functionalities. In 2018 we designed new forms and applications providing for remote access to banking products, e.g. applications for new accounts, payment cards, loan and leasing applications. We have simplified the operation of the FX exchange office and we added additional currencies.

ING BusinessMobile

The ING Business mobile application is now used by over 35% companies. This is becoming an increasingly popular access by customers to banking information. Users increasingly use mobile devices to make transfers (in Q4 2018 the number of executed transfers was by 39% more than in the equivalent period in 2017) and to obtain information.

We keep developing and improving the internet banking channel. In 2019 we will provide our corporate customers with a new version of the application.

Foreign currency transfers

In 2018 we substantially extended the cut-off times for 7 currencies (USD, CAD, EUR, GBP, CHF, HUF, RON). As a result, our customers can execute FX transfers until a later time. Now we offer most advantageous conditions of FX transfers in the Polish market.

In 2019 we will continue work on further extending the cut-off times for all currencies.

Cash management

For several years we have been offering our customers an innovative model of cash services – installation of cash devices, light depositories, mini ADMs and cash machines, at companies' offices. ADMs accept cash in PLN and EUR, and depositories also in other currencies. With the cash machines, our customers may collect cash and cashless payments directly from their customers or from local inhabitants if installed in public offices. The solution supports cash handling – transactions are booked online and company accounts are credited immediately. All those devices can be leased by customers.

Mini ADMs in a new service model

Last June we started offering mini ADMs to our corporate customers in a new cooperation model with a banking outsourcer integrating the solution. Apart from leasing the devices, in the model our customers may buy or rent them. Most of the activities related to the provision of ADMs have been outsourced to external entities. As a result, the costs on the customers' side have been reduced.

Deposits to Planet Cash machines

We have provided our customers with a possibility to make deposits to Planet Cash machines. Now Planet Cash operates about 350 machines with cash deposit functionality. The number of the machines has been growing and customers have an increasing number of locations at their disposal.

Cards

In 2018 we added several new innovations to our card offer for corporate customers.

- We extended the offer with MasterCard Corporate Charge cards with contactless payments and fast contactless cash withdrawal from ING's ATMs.
- We have provided for immediate attaching and disconnecting FX accounts by customers (USD, GBP, CZK, HUF, and SEK) to multicurrency cards in ING Business.
- We have improved the process and shortened the delivery of prepaid cards without printing the user's names on the customer's card.

Facilities for companies and entrepreneurs

Irrespective of its size, each business which is a customer of ours may count on support which is beyond traditionally understood banking. We establish close relations with customers and it is our ambition to respond to current needs as well as inspire and support in development. That is why, at ING Bank Śląski we are committed to process digitalisation, remote contacts with the bank and simplification of banking services. Additionally, we have been intensively developing our beyond banking offer.

Terminals

The offer of POS terminals is addressed to all businesses – from sole proprietorships to corporations.

We have already installed 13,000 terminals with 12,000 customers. Only in 2018 we acquired overall over 10,000 customers and our terminals are increasingly visible in the market.

By the end of 2018 our business customers processed over 8 million transactions for almost PLN 605 M. In December we recorded as many as four times the number of transactions than in the previous year.

imoje – online payments for internet stores

imoje is Poland's first and only online payment system for internet stores provided by a bank. The service has been available since June 2018 and it has been growing very fast in the market. By the end of 2018 over a dozen thousand customers executed transactions and the payment volume has been growing by several hundred percent monthly.

Imoje processes the most popular payment methods – BLIK, outright transfers, credit cards with the most important and unique function being an option of deferred payment. Internet store customers may pay for their shopping within as many as 21 days of placing the order. The option does not require any additional data or documents to be signed – the purchase may be finalised with one click, also on a smartphone – without any authorisation codes or switching between windows of various applications. The function is supported by Twisto – a Czech fintech for which ING Bank is a strategic partner in Poland. About 97% of customers who made their payments with Twisto are satisfied with the service.

In combination of a bank account and handling of internet payments, stores get a bank-class standard of payment and settlement security and the entire proceeds from sales are credited to their account on the next business day. Stores have also access to a modern administration panel that can be comfortably used on smartphones and which facilitates refund transfers.

Offering attractive forms of payment to their customers, internet stores may increase their sales and customers are provided with more comfort and secure shopping.

Imoje payments have also been appreciated by the sector – we won the prize of the Best Tool for e-Commerce 2018. The e-Commerce Polska Awards competition, organised by the Chamber of Digital Economy, promotes the next e-commerce business in Poland.

Test Your Idea

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

Apart from numerous favourable opinions also the figures prove the platform's success. Since September 2017, almost 3,500 projects with over 400 thousand interviews were implemented.

Split Payment mechanism

In connection with the amendments introduced with the Act of 15 December 2017 amending the Act on VAT and certain other Acts, on 1 July 2018 we introduced a new method of transfer execution with a split payment mechanism. In compliance with the act, for each customer we opened a VAT account, connected to all PLN clearing accounts. We have adjusted other payment services to those modifications.

ALEO platform

Since 2013 Aleo has been supporting companies offering professional purchase tools to optimise company procurement and facilitate search for and selection of suppliers while supplier find it easier to reach potential customers.

Over the time Aleo has extended the database of companies registered with the National Court Register (KRS) and in the Central Registration and Information on Business (CEiDG). Now we provide information on over 3 million entities. Such resources supported a very dynamic growth of internet traffic. Aleo is increasingly visited by users looking for such information.

In 2018 we decided to focus on developing the area and on Aleo we provided more information on companies to support growth of transparent business in Poland.

We keep updating Aleo resources with data from official sources like KRS, CEiDG, and REGON. We provide users with business registration data, financial data, we show capital relationships. We were the first in Poland to provide access to financial statements in a comfortable manner – in the portal we have complete financial statements of 170 thousand companies for 2017. We also publish assessments and opinions issued by companies and consumers. All the information is provided free of charge. Aleo is the sole address in the internet which provides so much reliable information on Polish companies.

Additionally, companies may also use their profiles to publish their own information and thus use additional promotion in the web (Aleo is highly positioned in browsers and thus many internet users who look for information on companies find their profiles in our portal). The option is also very advantageous for companies that do not have their own web sites – profiles on Aleo can replace such sites for free.

ING Invoice Financing

In cooperation with ING Commercial Finance Polska, we have offered our business customers the ING Invoice Financing services being online financing of sales services. The flexible solution has been developed for smaller businesses that wish to improve financial liquidity without resorting to loans.

The service is also available to all companies that do not hold accounts with ING Bank and it is fully handled online in finansowaniefaktur.pl. The service imposes no obligations – a registered user may use the service at will and have just one invoice financed; the decision on financing is made within seconds. We apply very transparent fees – only a commission for each specific invoice. At finansowaniefaktur.pl we provide a calculator (even to unlogged users) which shows an approximate cost of the service.

The portal is becoming increasingly popular among customers and the number has exceeded 1300 since it was activated.

Market growth by access to financing

GRI [203-1]

We efficiently take credit decisions that assist retail and corporate customers accomplish their personal and business objectives. This has positive impact on the market and economy. As at 2018 yearend, gross receivables – including first and foremost loans to ING Group clients – totalled over PLN 105 billion. It went up by PLN 16.2 billion, or 18.1% during the year. The amount covers PLN 3.2 billion worth loans which we granted to the entities from the sector of central and local government agencies.

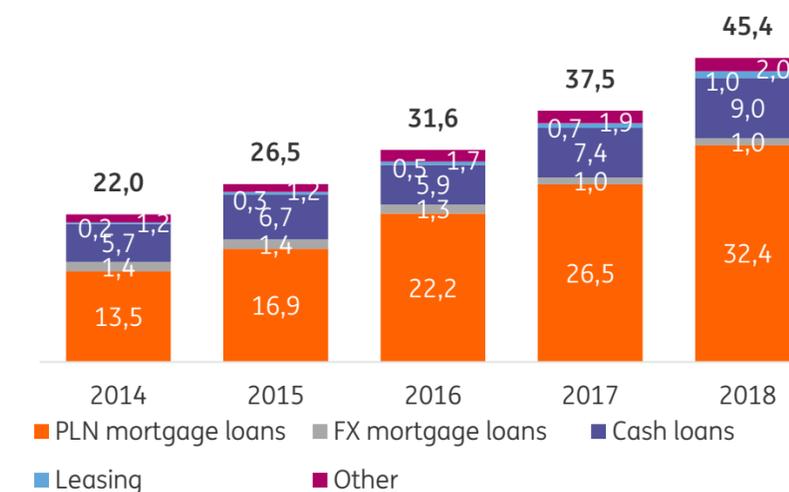
Retail banking

As at 2018 yearend, total gross receivables from households went up to PLN 45.4 billion, or by 20.9% y/y. In other words, as at 2018 yearend, our market share in the retail segment rose to 6.3% from 5.6% a year earlier.

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

Portfolio of receivables from retail customers per product

(PLN billion)

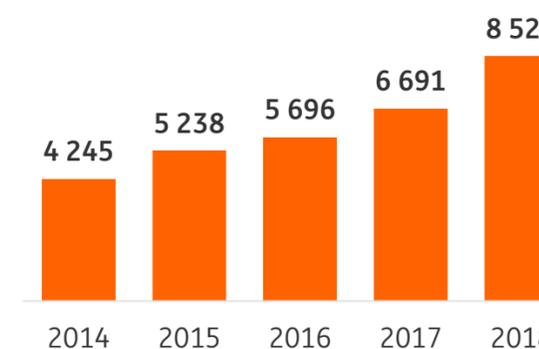


Mortgage loans

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

In 2018, we granted PLN 8.5 billion worth mortgage loans and mortgage cash loans in total i.e. up by as much as 27.4% y/y. In that way, we were able to become third on the market in terms of new production, with the market share of 16.2% (versus 15.3% in 2017). As a result, the

Sale of mortgage loans (PLN million)



total amount of mortgage loans granted rose as at 2018 yearend to PLN 33.4 billion or by 21.2% y/y.

Cash loans

We grant cash loans for any purpose – our customers do not need to present us with any sureties or property. We accept various income sources like contracts of employment, mandate contracts, contracts for specific tasks as well as pension and retirement allowances. Customers may apply for cash loans at a branch or online.

In 2018, we granted PLN 5.2 billion worth mortgage cash loans (up by 20.8% y/y). 75.7% of those loans were sold via internet channel (64.9% in 2017). As at 2018 yearend, the portfolio of cash loans totalled PLN 9.0 billion (up by 22.4% y/y).

Overdraft facilities

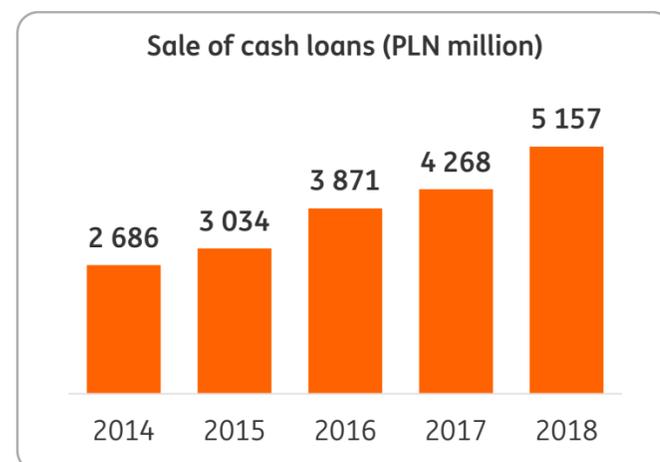
Our customers are also overdraft facilities. We grant such facilities without collateral and up to sixfold net income of the customer.

As at 2018 yearend, the overdraft-based debt of our clients closed with PLN 1.3 billion (up by 1.1% y/y).

Funding for entrepreneurs

Within the retail segment, we also have an offer for entrepreneurs. We know that they do not have time to ponder over it long. They need to act fast and they should have funding on hand. This is why, the customers running business more and more frequently opt for easy funding of needs – via internet. As far as loans to entrepreneurs are concerned, 71.7% of cash loans were sold via this channel. Customers activate cash loans, credit lines or credit cards online within minutes.

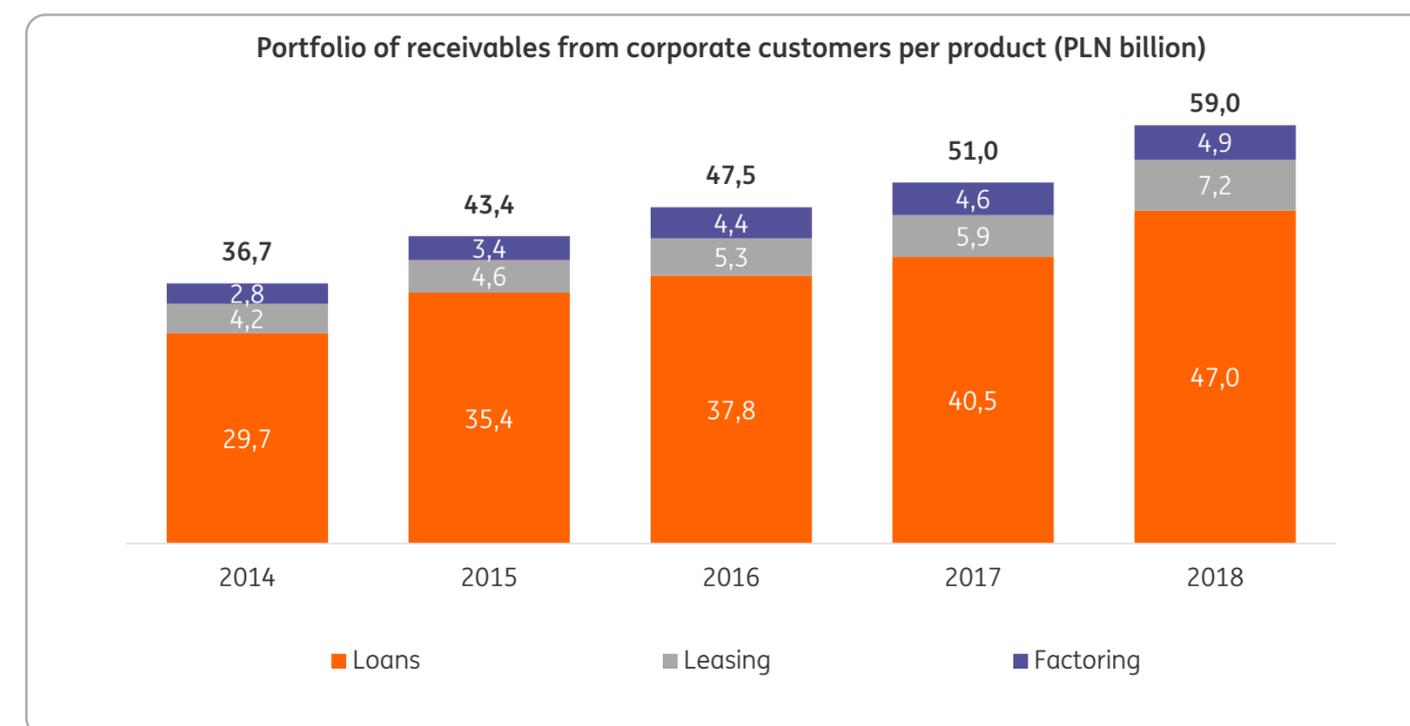
As at 2018 yearend, the debt of entrepreneurs with the Bank totalled PLN 5.2 billion (up by 23.2% y/y).



Corporate banking

As at 2018 yearend, total gross receivables from institutional clients went up by 15.9 % y/y to PLN 59.1 billion. The dynamic growth in lending translated into a higher market share as at the 2018 yearend i.e. 11.1% from 10.3% a year ago.

As at 2018 yearend, portfolio of gross receivables of strategic clients was PLN 22.1 billion (+20.4% y/y), while portfolio of gross receivables from SME and mid-corporates was PLN 37.0 billion (+13.4% y/y).



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

Loans

We analyse the needs of our customers on an ongoing basis and we prepare an attractive lending offer. We develop various products which satisfy customers' needs. For entrepreneurs, those are also products to finance their business, investment projects or trade. Under one agreement, we can define adequate sub-limits for individual products or

product groups in PLN and other currencies. Multi-product agreements may cover a few entities (borrowers) and it operates then as a multi-party multi-product agreement.

In our offer, we also have: working capital loans, capex loans, corporate cash loans, technological loans, loans with BGK premium and capex credit facilities for agricultural- and agricultural land-related investment projects. In 2018 the offer was extended with fixed interest rate loans. It is intended for companies that require long-term funding and wish to hedge the cost. Those customers are not so well versed in banking products to use other interest-rate hedging products.

Asset funding

We offer attractive asset funding to our corporate customers: leasing and factoring.

As for leasing, we cooperate with our subsidiary, ING Lease (Polska) Sp. z o.o., which offers all basic types of lease (operating, financial, sale-and-leaseback) and a cash lease loan to finance the following: movables (passenger cars and light commercial vehicles of up to 3.5 tonnes, heavy goods vehicles, machines and equipment, production lines, commercial vehicles, medical, office and IT equipment) and real property (office buildings, shopping facilities, logistics centres).

The Company directs its services to all market segments: big, medium-sized and small enterprises, and also customers from the segment of micro-businesses.

In 2018 we expanded the funding offer with new simplified programmes without requiring financial documentation:

- ING EKO – leasing of electrical and hybrid vehicles without registration fees
- ING Machines – leasing of standard production, construction, food machines and fork-lift trucks without unnecessary formalities.

In 2018 ING Lease extended its external distribution channels with dealer salons and developed remote channels.

In 2018 ING Lease was awarded in the plebiscite Best Business Partner 2018 in "Leasing", organised by Home&Market monthly. Additionally, also ING Machines and ING AUTO along with sub-programme ING EKO were appreciated as one of the Best Products for SMEs 2018 in "Leasing" in a plebiscite of "Turbina Polskiej Gospodarki" organised by Gazeta Finansowa.

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

Trade finance

Trade finance instruments are modern solutions ensuring safe performance of transactions with domestic and foreign counterparties and financing of contracts. Depending on the transaction, relationship with the counterparty, and the collateral type, we provide our customers with an offer tailored to their needs and expectations. We have been developing an offer of guarantees and L/Cs that keep being popular among our customers as well as documentary collection and purchase of receivables. Our Bank is among leading banks in terms of issued bank guarantees and documentary L/Cs.

We keep enhancing our trade finance products – we were the first in the Polish market to launch e-guarantees and a platform to verify qualified signatures.

Customers begin to appreciate e-guarantees as the fastest and most comfortable form of securing obligations. There was a major growth of electronic guarantees – in 2018 we issued almost 5% guarantees in that form.

Supplier Financing

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

Supplier Financing is a key function of the Aleo platform supporting the business of its users by improving their daily liquidity. At Aleo supplier may be disbursed cash for their invoices before due date while buyers may postpone the payment date by a period to be agreed with our Bank. With the growing interest in the market, in 2018 we financed almost 25% more invoices than a year earlier.

BGK sureties and guarantees

We provide our customers with access to attractive loan collateral offered in cooperation with Bank Gospodarstwa Krajowego. Those are working capital and capex credit facility guarantees offered as part of the so-called portfolio guarantee lines. At the end of 2018 we reached a record level of active BGK guarantees securing credit products in the entire history of the BGK guarantee program.

Support in financing subsidised projects

For many years, ING Bank Śląski SA has been a leader among Polish banks in financing projects subsidised by the European Union. The Bank helps pre-finance projects to improve the competitive advantages of Polish small and medium-sized industry. Out of 1,672 applications filed with BGK since the programme started in 2017, as many as

252 had promises for technological loans issued by ING Bank Śląski SA. A market share of over 15% makes ING first among banks but also wins appreciation by customers. Our customers have been granted the largest number and the highest volume of subsidies.

In 2018 in each of the four phases of enrolment for loans for technological innovations, the number of promises and loans from ING Bank Śląski SA was the highest. Overall our customers applied for subsidies in excess of PLN 800 M and planned investments for almost PLN two billion. The volume of granted loans reached PLN 2 billion and as at the end of 2018 ING's exposure under those loans was about PLN 600 M.

Relying on those subsidies, our customers may offer new or materially improved products and become competitive worldwide while the projects supported with EU loans have positive impact on the environment. Among the preferred project proposals included projects aimed at the development of products with lifecycle extended through cost-effective service or multiple application; non-waste technologies; products minimising energy or raw materials' consumption; and products that can be reprocessed.

Structural financing and bond issues

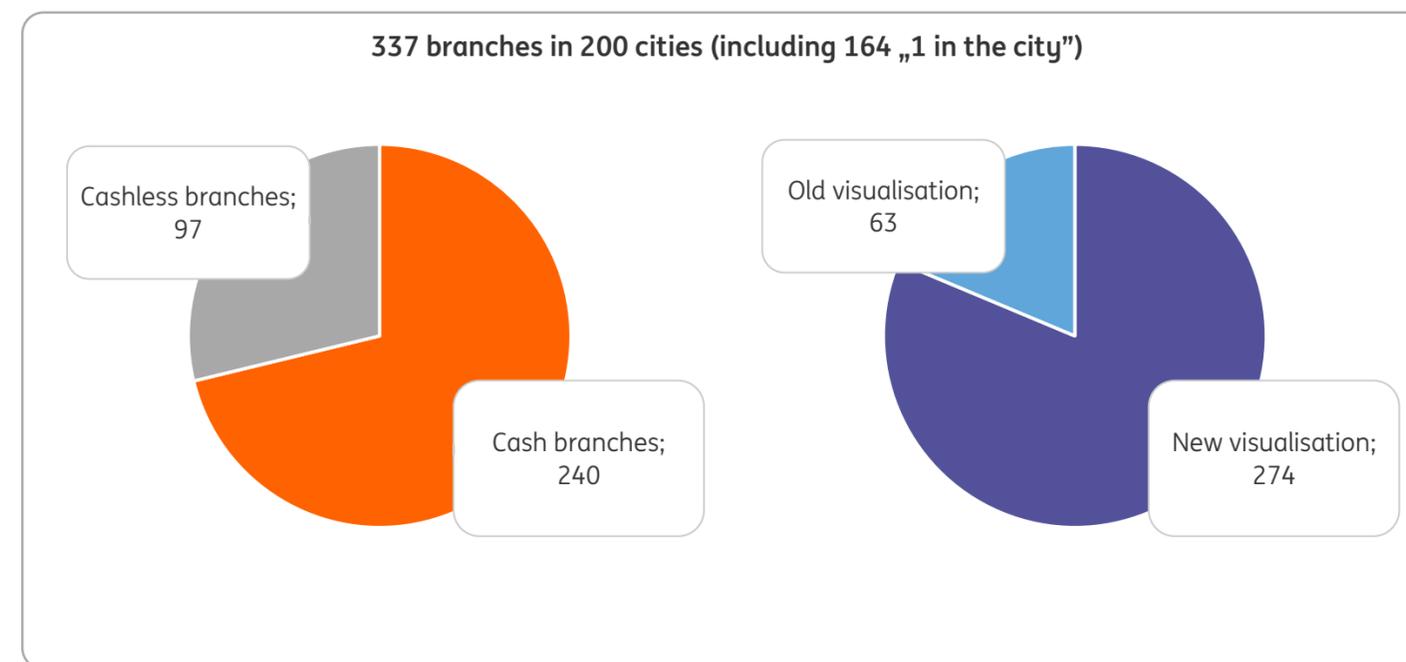
We prepared a structural financing offer for customers who wish to follow their development vision and strengthen their market position through capital transactions like management buyouts or mergers and acquisitions.

We help our incorporated customers and local government units in obtaining financing through bond issues.

Branches

Retail network in numbers as at the 2018 yearend:

- total number of branches: 337 (in 200 cities in Poland), of which:
 - 240 cash branches and 97 branches where cash deposits and withdrawals are made solely in ATMs and ADMs
 - 274 branches in new visualisation and 63 branches in old visualisation
- total number of ING Express: 63.



Customer meeting places

Branch

At our branches we look for new ways of direct contact with customers, we adjust solutions, as assist, we shorten the distance and also reduce the formal interior décor in favour of a more casual atmosphere. With a view to the comfort of our specialists, primarily considering the changing priorities of our customers, we keep changing our outlets. Comfortable sofas and modern internet desks change the traditional look of bank branches.

Transfer of a majority of banking operations to internet banking also directly affects the way branches function and the work is organised. Assistance plays a significant role in customer services – understood as support to customers in using Moje ING on computers and mobile devices. In such situations, it is not necessary to hold all interviews in closed meeting rooms. The change results in a reduction of glass meeting rooms to the required minimum and in developing alternative meeting places.

Customer service

Last year brought many major changes impacting customer experience in branches. We extended the coverage and reinforced the signal of our Wi-Fi at branches so that customers can comfortably use their smartphones at branches. Our specialists have been provided with modern smartphones with a DEMO version of our application. Thus, we supported more effective presentation of benefits from the Moje ING mobile application to customers. With our efforts, 75% of new customers leave branches with the application being active on their smartphones.

At the end of the year we also started providing our specialists with modern touch-screen laptops. Jointly 1,700 specialists were provided with the modern devices with which customer service and assistance to customers at product purchase becomes more comfortable. In 2018 we sold over 60% of our products in a process that consists in active support to customers in their own purchase of products and services using internet and mobile banking. This has had material effect on customer experience and their active use of new products. The good results of assistance also result from the changed internet desks that have been modernised and adjusted to customers' changing needs. We take efforts so that our customers right away experience the advantages of our products and that they actively use the products. The assistance service model not only supports the presentation of an offer tailored to customers' needs but also effective education how the functionalities can be used in Moje ING and Moje ING mobile. Our customers appreciate our internet and mobile banking, including the possibility to buy products on their own."

Our machines in numbers as at the 2018 yearend:

- number of banking devices, at branches (owned by the bank): 547 recyclers (deposits+withdrawals), all with contactless transactions,
- number of devices provided to services to ITCard: 516 devices, of which:
 - 185 extra-branch ATMs (including one de-installed temporarily for the modernisation of the location),
 - 172 extra-branch recyclers (including two de-installed temporarily for the modernisation of the location) – contactless transactions are possible in 166 recyclers,
 - 88 branch recyclers – contactless transactions are possible in 88 recyclers,
 - 59 two-currency recyclers in branches (deposits + withdrawals in PLN and withdrawals in EUR) – contactless transactions are possible in 59 two-currency devices,
 - 12 EUR ATMs after a pilot run – more will be successively installed,

- 3,252 – preferred network – Planet Cash + Planet Cash c-branded with other banks.

Conversion of cash branches into non-cash branches

Our environment is becoming increasingly digital, also in the sphere of payments. Our customers expect modern banking, specialist know-how, support, time to discuss finances and tailored offers. As a bank we respond to the changes, we create solutions and train our customers for such solutions. Since 2016 we have been pursuing intensive and effective actions to digitalise cash transactions. We have provided our customers with multiple new solutions like multi-currency cards, electronic FX exchange office, BLIK. We have developing the ATM network, including those offering UER for withdrawal (59). In November 2018 we started converting some branches with traditional cash services to such where cash will be available solely in self-banking devices, available 24/7.

We adapt our branches to handicapped people.

Branches

We are striving to make our branches accessible to everyone, including those with disabilities or those who visit us with prams. We design the interior to suit their needs and we eliminate barriers. Our objective is that by the end of 2019, 98% of our branches do not have architectonic barriers at entrance or are provided with appropriate facilities (ramps) so that customers can enter the branch being assisted by employees. In 2018 we liquidated architectonic barriers in 22 retail branches. Additionally, 29 of our branches were provided with ramps and calling bells. At the end of 2018, 88% of our branches had no architectonic barriers and 91% were without barriers or the barriers were eliminated (mobile ramps).

Examples of facilities for people with disabilities:

- ramps, lifts and other devices supporting access to branches,
- handrails by traffic routes,
- broad entrances to facilitate access in wheelchairs,
- sanitary facilities,
- anti-slippery floors,
- bells to call assistance,
- coloured signs, clear descriptions and notices that support orientation,

- devices with embossed keyboards that inform customers with eyesight problems about the possibility to make contactless transactions.

Machines

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

- headphone outlet sockets at ATMs (audio),
- machine keyboard with markers (convexly marked keys),
- Braille alphabet stickers for machine elements (e.g. card readers, printers of confirmations),
- contactless transactions,
- “ATM for visually impaired”, “contactless feature” filter in the machine search engine on the Bank’s website – for all machines with ING logo,
- additionally, at the end of the year all devices outside branches with an audio input were provided with stickers with a convex headphone symbol. The sticker is placed by the audio input.

Communication addressed to companies

“How to have more customers?” campaign

In our “How to have more customers?” advertising campaign we encouraged companies to use solutions with which they can attract more customers: POS terminals, Test Your Idea and imoje payments for internet stores. In advertising spots, various entrepreneurs who are also our customers, tell what they do to attract more buyers of their products or services.

A good voice for companies

In November we started the campaign “A good voice for companies’ with the participation of Mela Koteluk and Paweł Domagała. The artists encouraged Poles to publish positive opinions on their favourite companies, their products and services, and converted those into songs that became short clips dedicated to companies. We wished to demonstrate that positive opinions help companies attract more customers and grow.

Campaign Management Tool – a tool to manage communication with the bank’s corporate customers

The Campaign Management Tool launched last year was a major step towards a change in the approach to planning and performing communication with corporate customers. CMT is a tool to support dynamic dialogue with the use of advertising banners in the ING Business transactional system. Relying on prior analysis, we learn what product a company may need at the moment. We care that the communication is personalised thus demonstrating that the banner we provide is not a traditional advertisement but a place where information useful for the customer can be found – related to its product offer or supporting self-service. Monitoring the customer’s behaviour we are able to respond in real time and modify the communication. In the near future we will focus on developing the tool and add more channels to ensure integrated communication with corporate customers.

New web site for corporate customers

In 2018 we partly re-designed our web site ing.pl, addressed to medium-sized and big companies in order to support users in finding the information they require. On the basis of several surveys, jointly with customers we have developed new simplified navigation and adjusted the information coverage to our customers’ expectations.

Financial education of customers and access to know-how

Just do your job!

Just do your job! – this is the idea underlying our campaign addressed to people aged 18-26, promoting the Moby Account. This way we propose support to the young to follow their passions and the Moje ING mobile application with the MOBI account. We have joined forces with Patronite.pl to guide people with passions to success. The most experienced developers at Patronite.pl share their know-how and experience with young enthusiasts. We have also initiated a special action offering funds to develop their ideas.

Apart from promoting the new account for the young, the entire action proved that it was worth to be entrepreneurial and that money can be made with passion. Within the campaign, free meet-ups were held in three cities in Poland with well-known artists to learn how to Just do your job. The meet-ups were a great opportunity to discuss but also to talk face to face, get advice and get inspired.

Simply about money

On the basis of Google Trends, we checked what questions about finances are most often asked by Poles over the Internet. Those include for instance: how to save, how to invest, what are investment funds and what is IKE. Jointly with a well-known specialist on personal finances – Marcin Iwuć, we developed simple answers to those questions in the form of short video clips. Videos in the “Simply about money” cycle were added to the Bank’s profile on YouTube. All those efforts are to support customers with daily banking.

“Cashless is worth it”

Once again we supported the ““Cashless is worth it” action and the Cashless Payment Day. The “Cashless is worth it” action was initiated by the Coalition for Cashless Transactions and Micro Payments. This is an educational action aimed at developing awareness of the benefits of using cashless payment instruments. The Ministry of Entrepreneurship and Technology and the Ministry of Finance are the honorary patrons of the action. The Cashless Payment Day was celebrated on 16 October 2018.

European Economic Congress

Once again we supported the European Economic Congress in Katowice as the Main Sponsor. That was the largest business meeting in Central Europe, overall attended by almost 14 thousand people. For many years the Congress has been identifying the directions of major changes that are important for development strategies of companies and economies. ING experts shared their know-how and experience in 17 discussion panels.

European Start-up Days

The third edition of the European Start-up Days held during the European Economic Congress was another opportunity for sharing knowledge by successful entrepreneurs. During two days, the conference was attended by over 2.5 thousand participants and over 75 speakers took the floor. Over 250 start-ups were present at the event. We were the main sponsor of the conference. Our panellists took part in four discussions and we awarded an additional prize in the Start-up Challenge competition in the category of environment.

Educational meetings for corporate customers

In 2018 we held numerous meetings with existing and prospective corporate customers. They were organised as conferences either by the bank on its own or jointly with media or regional business organisations.

The meetings with corporate segment customers covered the following subjects:

- optimisation of company finances (cash and settlement management, issues related to Split Payments),
- succession in family businesses,
- selected economic sectors (e.g. agriculture, food sector, retail trade),
- selected economic issues (recent analyses of FX exchange rates, interest rates, Brexit, issues related to sustainable development, power generation and electromobility).

Green investments and care for the environment

GRI [103-1] [103-2] [103-3]

Environmental protection and sustainability are an important element of our long-term strategy. We are aware of the perils arising from the excessive usage of natural resources. We are trying to counteract climate change. We know that each aspect of our activity impacts the environment. Today, our decisions determine how the world will look and what the reality of the next generations will be. We strongly believe that care for the environment is more than just good will. It is our duty and an inseparable element of running a business. That is why, we proactively support and promote natural environment protection solutions.

At the end of 2017, we announced the Green Statement in which we undertook, among others, to support areas such as:

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

At the same time, we plan to become more involved in funding green energy projects. We want to help clients with energy transformation and switching to low-carbon business. At the same time, we undertake internal pro-ecological activities.

The year 2018 was a breakthrough for us in the initiatives undertaken in line with the announced Green Statement. As part of the new Sustainability Strategy for 2018-2021, we have set the direction of Bank of green investment projects and Bank which is eco-aware to help us implement the assumptions of the Green Statement.

Bank of green investments

My air

At the beginning of the year we launched the campaign “Do we, Poles, have anything in common with one another? One cannot see it. Because the air.” In the campaign we encouraged Poles to be proactive for clean air. The campaign coincided with the implementation of energy-efficient products and solutions to the Bank’s funding offer where we resigned from the commission.

As part of the credit and loan offer for individual and business clients, we implemented special financing for the products and solutions contributing to the reduction of the conventional energy consumption and encouraging consumption of the green energy. Eco-funding included:

- Eco-loan for individual clients
- Eco-loan for companies
- Construction and mortgage eco-loan for passive and energy-efficient house
- Eco-capex loan for housing communities
- Eco-lease for hybrid and electric cars.

In the campaign, we used various communication channels: advertising on television, OOH, display campaign, content marketing, social media activities and cooperation with influencers. Because we wanted to stimulate discussion and promote proactive attitudes towards clean air, social media was at the heart of digital activities. The #mojepowietrze [my air] campaign encouraged Poles to be proactive for clean air. Internet users shared their ideas for fighting the smog. Everyone could publish a post, comment or photograph in social media with #mojepowietrze and show their own ways of caring for the common good which is the air. Such actions on the one hand educated and on the other influenced the attitudes of Poles. We wanted to make people aware that every even the smallest thing matters and only by joint effort we can change the state of air.

As part of our activities in social media, we have also invited well-known and popular figures from the online and offline world. On short videos, invited people talked about their differences but also how they share the concern for clean air.

Bringing to Kraków a Smog Free Tower – the world's first external air purifier – had a special place in our activities. We initiated the Smog Free Tower construction to highlight the need for clean air actions. It is not accidental that Kraków was selected for that project. It is the city which was among the first to start the smog combat by taking far-reaching clean air initiatives.

We also spoke about clean air at conferences and external events. During the European Start-up Days in May, Joanna Erdman, Vice-President of the Bank Management Board, took part in the Technologies for climate panel during which the issue of air pollution in Poland was also widely discussed. In turn, during the Open Eyes Economy, Joanna Erdman took part in the special panel session: SMOG. Wawelski, polski czy globalny? [SMOG. In Kraków, in Poland or global?] devoted to smog and clean air.

We were also the main partner of Smogathon, an international competition where startups present solutions that aim to reduce air pollution. Participation in Smogathon is open to any project that has an innovative anti-smog solution. The semi-finals of this year's Smogathon were held in Katowice, Sao Paulo, Berkeley, London, New Delhi and in Beijing, and the finals in Krakow. “We know at ING that as an institution which exerts a significant impact on the economic life in Poland, we are required to participate in the life quality improvement-oriented initiatives in an active and responsible manner. That is why, we proactively support and promote natural environment protection solutions. Smogathon is an important initiative. It shows that we can and should use technology to improve air quality” – said Małgorzata Jarczyk-Zuber, awarding one of the final prizes.

Electromobility

In 2018 we continued our activities in the electromobility development area. We started cooperation with 4 partners supplying electric cars and charging stations as well as electric scooters.

Cooperation with Innogy

As part of the partnership with Innogy, in addition to signing the letter of intent, we successfully carried out, among others a pilot programme for the lease of electric cars on car sharing principle, and in July we launched 10 new charging points at the Janki shopping centre.

Pilot programme summary

		
Active users	1,555	30
Number of cars rented	1,050	175
Distance travelled	14,500 km	2,500 km

In the agreement signed in December with Innogy, we pledged to jointly develop solutions for the integration of services related to the electromobility market, including both financial and transactional ones. As part of the cooperation, in the spring of 2019, we will provide 500 electric cars as part of the car-sharing service in the capital. New charging stations for electric vehicles will also be created.

Cooperation with ENGIE Technika Instalacyjna

In November, we signed a letter of intent regarding joint activities with ENGIE Technika Instalacyjna. The development of electromobility and energy efficiency solutions are covered by the scope of the cooperation initiated between ENGIE and our Bank. The purpose of the joint initiative is the promotion of sustainability and support for activities for the protection of the natural environment as well as active action for the development of electromobility in Poland.

Cooperation with Tauron

In December, we began the car-sharing pilot programme and launched the first electric vehicle charging stations in Katowice. 23 charging stations and 20 electric cars are the basis of the electromobility system launched by us and Tauron. The network of terminals for charging electric cars consists of four fast charging stations (DC) and 19 accelerated charging (AC). The locations of the stations have been planned throughout the city in such a way that it is possible to move around freely using an electric car. This infrastructure is now available for electric car drivers. The stations are located in the city centre i.a. at the International Congress Centre or Vienna House Hotel (previously Angelo) at Sokolska street and also in individual Katowice districts: Osiedle Witosa, Ligota, Bogucice, Bażantowo or Giszowiec. Electric car drivers can use all the charging stations free of charge.

As of 3 December, together with Tauron we made 20 electric cars available to the Katowice residents and visiting guests – BMW i3 and RENAULT ZOE. Cars can be rented using the eCar test app from Tauron, which allows you to rent, start and return your car. The goal of cooperation between our Bank and Tauron is to achieve the synergy effect from

previous experience both in the area of infrastructure construction and in the area of building new business models for electromobility.

We also provided electric cars during COP24. The guests of the summit drove with them approx. 150,000 km.

Cooperation with Jeden Ślad

Last year we also successfully tested the rental of electric scooters. As part of cooperation with the Jeden Ślad company, a network of electric urban scooters, in June we made 50 scooters available in Katowice and in August – 60 ING electric scooters in Warsaw. The scooters were highly popular.

The maximum speed of electric scooters is 45 km/h, and the real range is around 50 km from a full charge. In the trunk of each scooter there are two helmets in sizes M and L and one-off protective caps. Scooters can be rented using the JedenSlad application (on Android and iOS), where an earlier registration with an ID card is required. Then you select the payment plan optimal for your needs.

We also published a report on electromobility, "Which lane are we going to ride?", prepared jointly with EY in May 2018. The report and our analyses indicate, that before 2023 the number of electric cars (EV) sold will double.

We were also present at conferences and events where we talked about electromobility. At the European Economic Congress, Kazimierz Rajczyk, director of the Energy Sector Centre, was the moderator of the panel on electromobility. At the event, we additionally had a Sustainability stand where we held talks, among others on the topics of ecology and electromobility. At Green EEC, an event accompanying COP24, in the session "Smart City and eco-development", Kazimierz Rajczyk was a panellist. We were also a partner of the Impact mobility rEvolution'18 event. During the two-day congress dedicated to smart electromobility, our experts were also present and Kazimierz Rajczyk participated in the discussion panel.

Circular economy

In accordance with the Sustainability Strategy objective in 2018 we promoted the circular economy assumptions.

Together with Deloitte and other partners, we published the report "Closed loop – open opportunities" on the subject of circular economy which premiered at EEC Green. The aim of the report is to look at the situation in Poland and identify the opportunities created by the circular economy. It answers the questions:

- At what stage of the change is Poland?

- What are the key challenges and opportunities in the country from the point of view of the economy and enterprises?
- What should we do to become the circular economy leader?

During the EEC Green the report was presented to conference participants. Additionally, during "The circular economy (CE) – theory and practice" panel, Brunon Bartkiewicz, President of the Management Board raised a strong point in the discussion. "Those who do not meet the environmental requirements must be aware in the near future of the increased funding costs, and in special cases, of difficulties in the funding acquisition".

Bank which is eco-aware

Caring about the environment - participation in the Environmental Programme

Our own activities also affect the environment, including through the functioning of our buildings, IT systems and business trips. We are committed to reducing this impact and work closely with our clients and suppliers to take advantage of the opportunities in the low-carbon and resource-efficient economy of the future. Our environmental approach describes how we manage our direct environmental footprint. Our 2020 goals for improving our ecological operational efficiency are as follows:

- We will reduce our CO2 emissions by 84% by 2020 (base year 2014). We are on track to achieve the goal - by 2018 the reduction was 79%.
- We will reduce our water footprint by 20% by 2020 (base year 2014). By 2018 we managed to reduce the water footprint by 13%.

Electricity

Since 2016, 100% of energy purchased by our Bank has come from renewable resources. In 2018, we bought energy origin certificates for the third time and, in consequence, we cut back our carbon footprint by over 70%. In the following years, we will also use green energy.

Our activities and objectives regarding our operational environmental footprint are managed through the ING Environmental Programme which established the Environmental Management System (EMS). It ensures effective processes and an ongoing improvement of our efficiency.

[GRI 302-4]

Energy-efficient actions in 2018:

- replacement of lighting columns around the Head Office buildings in Katowice for modern energy-efficient LED lighting;
- hybrid (solar and wind) lighting of external parking lots at the Head Office in Katowice: use of energy exclusively from renewable sources;
- during the overhaul of the lift lobbies at the Head Office in Katowice – the use of LED lighting with motion sensors;
- modernisation of lighting in the underground parking lots at the Head Office in Katowice. During these activities, an energy-saving follow-me LED lighting system was used.

[GRI 302-1] [302-4]

Our electric energy consumption:

- 2017 – 31,530,936 kWh,
- 2018 – 30,558,890 kWh,
- Energy consumption drop by 3.1% y/y.

Other types of energy (apart from electric energy)

Natural gas:

- 2017 – 202,704.97 m³,
- 2018 – 188,968.00 m³,
- Natural gas utilisation drop by 6.8% y/y.

Gas oil:

- 2017 – 17,000.00 l,
- 2018 – 13,012.00 l,

- Gas oil use drop by 23% y/y.

We limit air pollution emissions

As part of the pilot programme, anti-smog filters were installed in Katowice at Chorzowska street and in the branches in Wadowice and Będzin. Changes in other branches will occur at the next replacement (once a year). The purpose of the exchange was to increase the efficiency of dust filtration.

We are gradually expanding our fleet of electric cars. In 2018, we purchased and put into service 7 new electric cars that replaced gasoline cars. Thanks to this, we already have 11 electric cars and 6 hybrid cars in our fleet. We are also mounting car charging stations. At the end of the year, we had 8 own posts in Katowice, Łódź, Kraków, Warsaw, Gdańsk and Wrocław.

We manage waste wisely

- We mandatorily sort waste at our branches. On top of this, we collect and safely destroy data carriers (either the paper or magnetic ones).
- At each branch, we gather office waste like toners, furniture or electronic waste and have them recycled by an authorised company.
- We extended the waste segregation with the collection of dead batteries. Adequate containers can be found in rooms with printers and annexes at the Head Office buildings in Katowice and Warsaw. They are also gradually delivered to our regional office buildings.
- All Bank employees in Warsaw and Katowice Head Offices use the follow-me printing system. The solution enables printing a document only upon tapping the employee's identification badge against the printer.
- In 2018, we also included branches throughout Poland in waste segregation.

[GRI 306-2]**Total weight of hazardous waste, broken down by the following disposal method**

kg	2018	2017	Change 2018 / 2017
Recycling	4,130	17,894	-76.9%

Total weight of non-hazardous waste, broken down by the following disposal methods

kg	2018	2017	Change 2018 / 2017
Recycling	536,836	571,028	-5.9%

The waste disposal method is determined by the company responsible for the recycling of the waste supplied by the Bank.

Total weight of waste

kg	2018	2017	Change 2018 / 2017
Waste paper	523,040,	554,052	-5.6%
Screens	570	14,094	-95.9%
Electronic equipment and bulk waste	13,796	16,976	-18.7%
Toners	3,560	3,800	-6.3%
Total waste	540,966	588,922	-8.1%
Waste to be recycled	540,966,	585,390	-7.6%
Waste not to be recycled	0	3,532	-100.0%

OFF Culture – What do you know about the plastic?

Environmental Programme-related actions are supported by the OFF Culture. With this project, we encourage employees to be active in sustainable electricity and water consumption, for example. In 2018, we initiated subsequent stages of the OFF Culture. Plastic is everywhere: from food packaging, through screw tops, toys, buttons and radio volume controls to the laptop keyboard. It is a functional material, but over time has become very burdensome for the environment. Its durability becomes a big problem. Experts raise the alarm and we act!

Through the OFF Culture campaign, we encourage people to conscious waste segregation and to having a closer look at one's choices and ... plastic. A small triangle symbol placed on the bottom of the box with a digit inside will tell us what kind of material the packaging has been made of and whether it is safe for us.

Eco gadgets from our billboards

We convert our billboards into eco gadgets, i.e. bags, belt packs or laptop covers. They were prizes in internal and external competitions but they were also available in internal stores.

Water consumption

We analysed the use of water for the Head Office buildings and regions. This helped us to set new modernisation standards for the Head Office and branch buildings. Another stage of the OFF Culture started; the action promotes water consumption reduction.

[GRI 303-3]

Our water consumption:

- 2017 – 55,541 m³,
- 2018 – 57,130 m³,
- Water consumption growth by 2.8% y/y,
- Water source: municipal water supply.

Increased water consumption was associated with the hot summer, and thus very intensive use of air conditioning, which in turn generated a large use of water, i.a. due to cooling towers in the Sokolska 34 building, maintenance of green areas and water failures.

Aerators as a way to save water

In the Q3 2018 in Katowice and in Q4 2018 in Warsaw, we replaced aerators in the sanitary buildings of the Head Office in Katowice and Warsaw. Previous aerators had a water throughput at 5l/min. The operating system in the new aerators is slightly different. Underpressure is exerted on the water flowing through the aerator, which sucks the air through small holes and mixes it with water. As a result, we get a stream of water with millions of bubbles which on the one hand limit the amount of water flowing, and on the other increase the volume of the stream. Thanks to this, the water flow is 1.7l/min, which saves up to 60%.

Green Office

At our offices, we used the solutions which reduce the negative environmental footprint. Since 2014, we have undergone certification regarding application of green and user friendly solutions at our branches. The Head Office buildings in Katowice and Warsaw were awarded several times the Green Office Certificate for the use of the technology limiting energy, water, consumables consumption and supporting waste segregation. In November 2018, the buildings were audited again and the positive assessment of green solutions implemented was upheld.

We educate our employees

As part of educational activities for employees, we published news on the intranet about our ongoing activities in the field of environmental protection. We have also created a dedicated Odpowiedzialni [The Responsible] community where employees share information and inspiration. We also organised several employee contests where the prizes for the participants included but were not limited to anti-smog masks and bottle crushers.

Mieszkaj EKO [eco-living] internal conference

The Mieszkaj EKO conference was an internal event for interested employees. We discussed there i.a. ecological trends in housing, ecological standards in construction, but also ecological trends in architectural design.

We promote sustainable transport

We continue the action of promoting bicycle transport. Since it began (in 2013), we have purchased 68 bikes for Head Office employees and for 11 regional offices. In addition, to promote bike travelling among our clients as well, we installed 540 bike stands in front of 160 branches.

Another step was creation of a special bicycle zone for employees in the garages of our Katowice Head Office buildings. Cyclists may store their sports outfit, shoes or helmet there in dedicated lockers. Moreover, we arranged repair stations in the bicycle zone, where employees can mend their bikes themselves.

Since June 2018, Nextbike Polska in cooperation with our Bank has set two new bike stations in the City by bike system – ING Sokolska (between the Head Office buildings at Sokolska and Chorzowska) and ING Roździeńska. City bikes are a great alternative to other means of transport. It can be useful for people who do not have bicycles, but also who leave cars in large parking lots or for people commuting by train.

For many years now, we have supported the Sustainable Transport Week by promoting carpooling, or sharing of car journeys, among employees. We provided a database where all employees may offer or find a ride. Our interest in joint rides is steadily on the rise. Next 7 proposals of popular commuting routes were added to the previous 29 ones

in the service and now we already have 36 joint routes used by our Bank employees. As part of the Car Free Day, we encouraged employees to actively participate in the action and to use public transport or to commute to work by bike or go on foot.

Data regarding business trips:

- Trips by company cars:
 - 2017 – 26,829,329 km,
 - 2018 – 26,450,992 km,
 - Drop by 1% y/y.
- Air travel – Bank employees:
 - 2017 – 2,246,272 km,
 - 2018 – 2 875,629 km,
 - Increase by 22% y/y.

The increase in air travel was caused by the greater involvement of our employees in global projects which automatically increased the need for frequent meetings, workshops and direct trips, i.a. to the Netherlands or Singapore – this direction generated the most kilometres.

"Sunny Schools for a Better City" competition with Ikea

We joined the IKEA campaign supporting children and youth in their efforts to improve the climate and act for cleaner environment. The "Sunny Schools for a Better City" competition is associated with the UN climate summit COP24, which took place in December in Katowice. The winners of the competition will receive a photovoltaic installation with assembly, funded by IKEA. The other finalists can also count on attractive prizes from our Bank.

Bank and client safety

Risk and capital management system

GRI [102-11]

Risk management system

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

Under the risk management system, the Bank:

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

Risk management rules

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

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

Internal capital adequacy assessment process

At ING Bank Śląski S.A. Group, the Capital Management Policy at ING Bank Śląski S.A. governs the process of material risks identification, the key elements regarding risk quantification as well as the capital adequacy management principles.

Based on the above-referred document, the following risks are identified at the Group:

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

Classification of risks as material

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

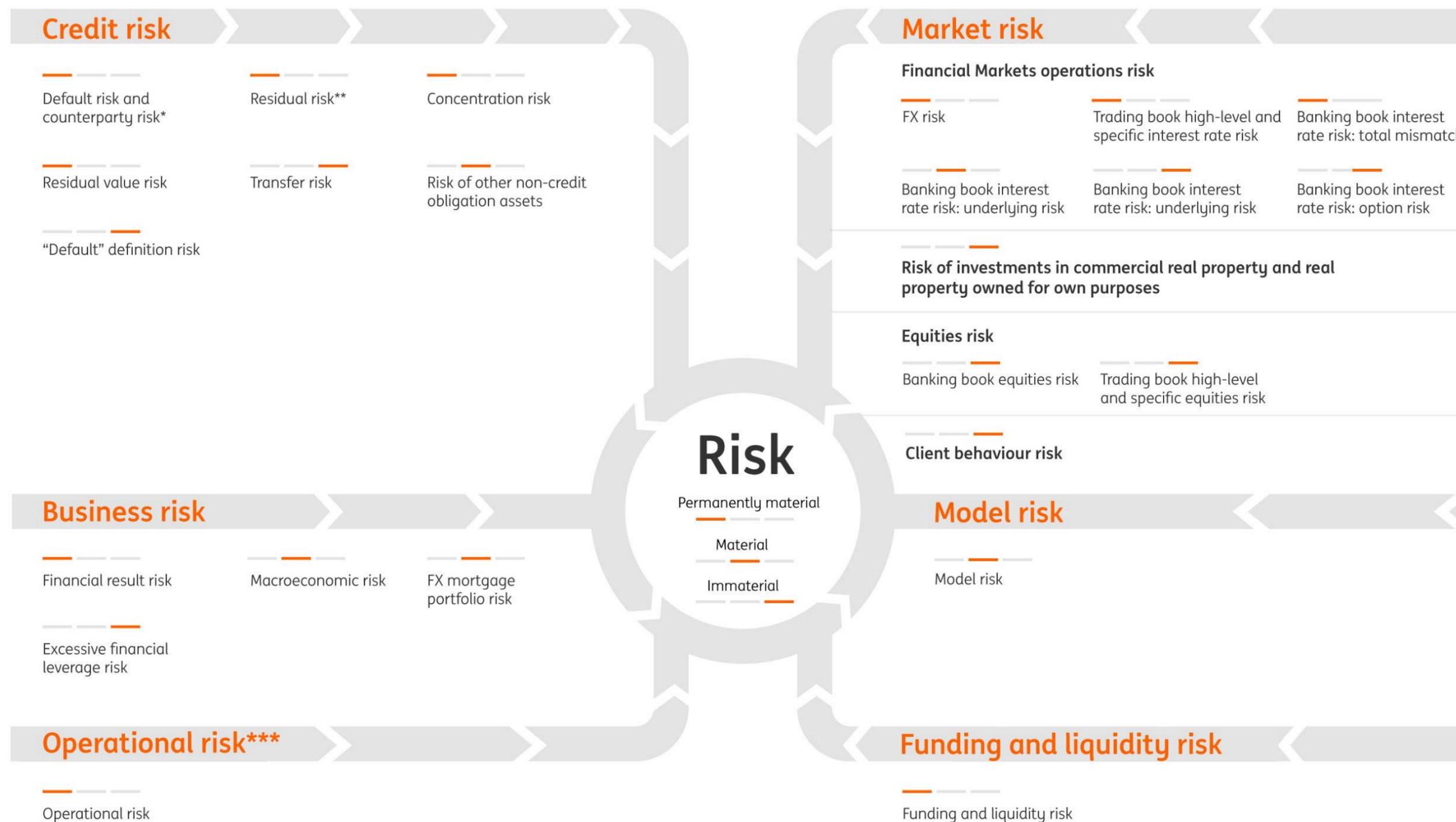
Every month, standalone and consolidated reports are compiled by the Group; they read the realised capital requirements for all material risks and planned metrics values. Reports are delivered to the Assets and Liabilities Committee (ALCO) and the Bank Management Board. The Supervisory Board is advised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

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

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

Risk categories

In 2018, the workshops on risk materiality assessment were carried out in the first quarter. As a result, the interest rate risk in the banking book was identified: the residual convexity risk as material risk and the notion of "difficult-to-measure risk" was abandoned.



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

Risk appetite

The risk appetite sets the maximum risk the Group is willing to accept while supporting its stability and further growth.

As part of capital and risk management at the Group, the risk appetite parameters are set within the so-called Risk Appetite Statement (RAS) in the following areas:

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

RAS for Group capital adequacy is set for the following capital ratios:

- Common Equity Tier 1 ratio (CET1) – at least 9.875%,
- Tier 1 ratio (T1) – at least 10.375%, and
- Total Capital Ratio (TCR) – at least 13.375%

The capital adequacy RAS results from the obligation to maintain the minimum levels of capital ratios resulting from the following external regulations:

- Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (4.5% for CET1, 6% for T1 and 8% for TCR),
- Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015 sanctioning additional capital buffers, including:
 - capital conservation buffer which was at 1.875% in 2018,
 - buffer of other systemically-important institution (O-SII) at 0.5% imposed by the PFSA decision of 19 December 2017 and upheld with the PFSA letter of 2 August 2018,
 - a countercyclical buffer applied to exposure to which such buffer was imposed by competent authorities. The countercyclical buffer varies over time depending on the structure of the relevant exposures and the levels of countercyclical buffer rates imposed on the relevant exposures (as at December 2018 the countercyclical buffer was effectively 0.006%);

- Regulation of the Minister for Economic Development and Finance of 1 September 2017 on the systemic risk buffer introducing a systemic risk buffer of 3% of the total risk exposure amount for all exposures located in the territory of the Republic of Poland (because the Group has a small pool of the so-called foreign exposure, the effective level of systemic risk buffer is variable over time (as at 31 December 2018 it was 2.961%).

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

The primary metrics listed in the RAS for the funding and liquidity risk are discussed in the Chapter “Bank and client safety”, sub-chapter “Funding and liquidity risk”, item “Risk management framework”. Further, the RAS metrics for market risk were discussed in Chapter “Market risk”, sub-chapter “Bank’s book structure and risk measurement methods”.

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

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

More information on the risk appetite in the operational risk area can be found in Chapter “Non-financial statement”, sub-chapter “Description of non-financial risks”, item “Operational risk – Operational risk management process”.

Economic capital, own funds and capital requirement

Economic capital

ING Bank Śląski S.A. Group quantifies capital for the following types of risk:

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

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

Definitions of the above risks were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 141.

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

In 2018, own funds were above the internal capital.

Own funds

The own funds of the Group encompass:

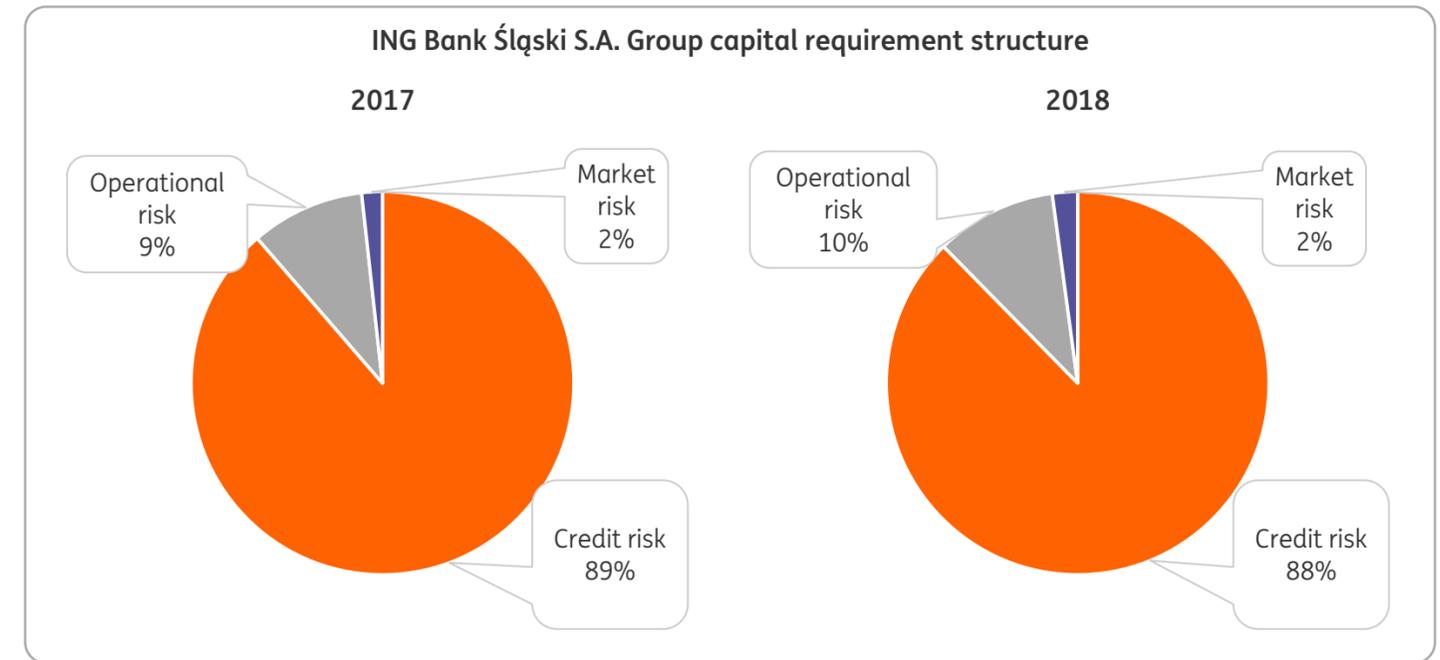
- Tier 1 capital which as at 2018 yearend was PLN 11,301.5 million in the Group and PLN 11,317.3 million at the Bank,
- Tier 2 capital which as at 2017 yearend was PLN 645.0 million in the Group and PLN 645.0 million at the Bank.

As at 31 December 2018, the Group did not identify additional Tier 1 capital (AT1).

Capital requirement

For the purpose of 2018 reporting, the Group calculated the credit risk capital requirement using Advanced Internal Ratings Based approach as well as the Standardised Approach. The Group received the approval from the Polish Financial Supervision Authority and De Nederlandsche Bank to apply AIRB approach for exposure classes: corporates and credit institutions for the Bank and ING Lease Sp. z o.o. For operational risk, the Group uses the Basic Indicator Approach. For market risk, the Group uses the Standardised Approach. The Group also sets the capital requirements for concentration risk, settlement and delivery risk and credit value adjustment risk (CVA). In all the cases, the requirements are set in compliance with the Capital Requirements Regulation.

The total capital requirement is dominated by the credit risk capital requirement. As at 2018 yearend, its share accounted for as much as 88%.



Capital adequacy

As at 31 December 2018, the TCR for the ING Bank Śląski S.A. Group was 15.60% versus 16.71% as at 2017 yearend and the Tier 1 ratio was at 14.75% versus 15.78% as at the end of December 2017. The capital ratios changes were due to:

- recognition in own funds of part of the 2017 net profit less the amount following the General Meeting's resolution on 2017 profit distribution less the amount which the Bank included in own funds in 2017 (PLN 285 million) and a portion of Bank's profit for the first 9 months of 2018 (PLN 742 million),
- accounting for IFRS9 impact,
- increased business volumes and operations,

- lowered effective risk weight on retail mortgage portfolio (covering a bigger part of the portfolio with the preferential risk weight of 35%),
- imposing additional mark-ups on risk-weighted assets in the IRB models used, in connection with the model management process in place.

As at 30 June 2018, the Bank conducted consolidated stress tests based on the scenarios prepared by the Chief Economist and using the in-house tools, the new tool for the credit risk included. Stress tests covered:

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

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

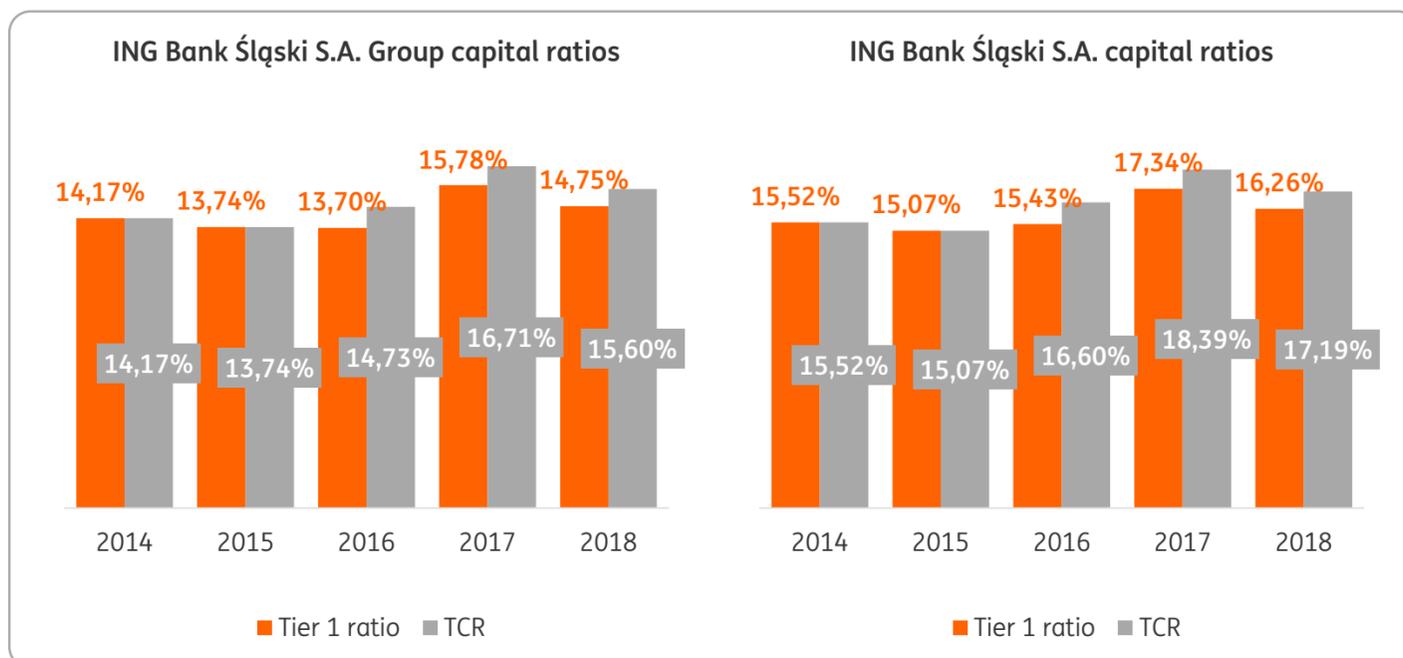
Dividend policy

On 15 September 2016, the Supervisory Board approved the ING Bank Śląski S.A. Dividend Policy as recommended by the Bank Management Board. On 9 March 2018, the Supervisory Board approved the amended Dividend Policy. The main assumptions of the dividend policy are the following:

- a long-term stable process of dividend payout in adherence to the rules of prudent management and any and all regulatory requirements which the Bank shall comply with, and
- the option to pay dividend from the capital surplus over the minimum capital adequacy ratios and over the minimum Tier 1 capital ratio of 12.875% and the minimum Total capital ratio of 14.875% set for the Bank by the Polish Financial Supervision Authority for dividend payout purposes.

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

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



In their calculation of capital ratios, the Group was using interim regulations to alleviate the impact of IFRS 9 implementation on own funds. Had IFRS 9 been fully applied as at 2018 yearend:

- at the consolidated level – the TCR and Tier 1 ratio would be 15.31% and 14.47% respectively, while
- at the standalone level – the TCR and Tier 1 ratio would be 16.88% and 15.95 % respectively.

Stress tests

According to the ING Bank Śląski S.A. Stress-Testing Policy, the Group performs the stress tests for economic capital and capital requirement. The report with the stress-tests results is presented to the Assets and Liabilities Committee, Bank Management Board and Bank Supervisory Board.

PFSA guidance on 2018 dividends

On 15 January 2019, the Polish Financial Supervision Authority adopted a stance on the banks dividend policy in 2019 (dividend for 2018). The PFSA recommends, in particular, that the dividend of up to 75% from the profit earned in 2018 be paid out solely by banks meeting all the below criteria:

- the banks which do not pursue the recovery programme;
- their SREP final score is not worse than 2.5;
- their financial leverage is above 5%;
- banks whose Common Equity Tier 1 (CET1) ratio is not lower than the required minimum plus 1.5 p.p.: 4.5% + 56%*add-on + combined buffer requirement effective in 2019 + 1.5%
- banks whose Tier 1 capital (T1) ratio is not lower than the required minimum plus 1.5 p.p.: 6% + 75%*add-on + combined buffer requirement effective in 2019 + 1.5%;
- banks whose Total Capital ratio (TCR) is not lower than the required minimum plus 1.5 p.p.: 8% + add-on + combined buffer requirement effective in 2019 + 1.5%.

Furthermore, the Polish Financial Supervision Authority indicated the option of payout of up to 100% of the profit earned in 2018 by the banks meeting all the above criteria and accounting for the bank's sensitivity to the stress scenario (ST) in their capital criteria. Bank's sensitivity to stress scenario measured with the results of regulatory stress tests defined as: the difference between the TCR in the reference scenario and the TCR in the adverse scenario at the end of the forecast period (2020) including regulatory adjustments, less the capital conservation buffer value at the target level (2.5%).

Full stance of the PFSA on the dividend in 2019 (for 2018) is available on the PFSA's website at:

https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_KNF_ws_zalozen_dot_polityki_dywidendowej_w_2019_64453.pdf

In line with the guidelines, the PFSA requirements applicable to ING Bank Śląski S.A. as regards the 2018 dividend payout of up to 75% of net profit are the following (taking account of nominal capital buffer values):

- CET1 \geq 12.0% (and 15.34% with the dividend over 75%),
- T1 \geq 13.5% (and 16.84% with the dividend over 75%),

- TCR \geq 15.5% (and 18.84% with the dividend over 75%).

Dividends declared and paid out

The Bank Management Board intends to recommend to the General Meeting the dividend for 2018 totalling PLN 455.4 million or 29.8% of the consolidated profit of the ING Bank Śląski S.A. Group or 29.8% of the standalone profit of ING Bank Śląski S.A. The proposed dividend per share is PLN 3.50 gross. The proposed record date is 18 April 2019 and the proposed dividend payout date is 6 May 2019. The dividend proposal takes account of the current financial standing of the Group and Bank and its development plans.

In 2018, ING Bank Śląski S.A. paid out the dividend from net profit for 2017 in the total amount of PLN 416.3 million, i.e. PLN 3.20 gross per share. It was 29.7% of the consolidated profit of the ING Bank Śląski S.A. Group or 29.7% of the standalone net profit of ING Bank Śląski S.A. The record date was 25 April 2018 and the dividend payout date – 10 May 2018.

Recovery and resolution plans

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

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

The BGF set the MREL for the Bank at 20.7% of risk-weighted assets (11.8% of total own funds and total liabilities). The MREL according to the current BGF methodology (available here: <https://www.bfg.pl/en/2018/11/26/summary-of->

[mrel-methodology-for-banks-in-2018/](#)) for the bail-in strategy for risk-weighted assets may be estimated using the following formula:

$$(CRR_{TCR} + FXB + OSII) + [1 - (CRR_{TCR} + FXB + OSII)] * (CRR_{TCR} + FXB + OSII + CCB + SRB + CB)$$

- CRR_{TCR} – TCR minimum required under CRR,
- FXB – pillar 2, i.e. add-on for FX mortgage exposure,
- OSII – buffer of other systemically-important institution,
- CCB – capital conservation buffer,
- SRB – systemic risk buffer.
- CB – countercyclical capital buffer.

Credit risk

Introduction

We understand credit risk as:

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

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

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

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

- solvency and liquidity kept at a safe level and provisions retained at a proper level, and

- legal and regulatory compliance ensured.

We manage credit risk end to end based on:

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

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

Detailed credit risk management objectives are:

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

Risk management strategy and risk appetite parameters

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

Credit risk management strategy

The credit risk management strategy supports delivery of business goals while maintaining safe solvency and liquidity of the Bank and adequate provisions. We define the strategy to warrant optimum development of the lending portfolio while keeping adequate quality and profitability of credit operations and capital allocation. The primary objective of the credit risk management strategy is to optimise the ratio of risk to ROE, considering the information about the current and prospective macroeconomic landscapes, the Bank's portfolio and RAS limits utilisation.

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

Risk appetite (RAS) determination

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

RAS limits on credit risk:

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

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



Credit risk management process

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

- make the risk management process more efficient and

- keep risk at the level set in the strategy, risk appetite and financial plans of the Bank as well as in the approved RAS. At our Bank, the credit risk management process is carried out within three lines of defence which are independent in organisational and functional terms from one another.

- **1st line of defence:** business and operational units of the Bank. They pursue day-to-day business under the approved lending policy and risk limits.

- **2nd line of defence:**

- Credit risk. It identifies and measures the risk stemming from the commercial operations on an ongoing basis and controls its materialisation within the approved risk parameters.

- Credit inspection. It conducts an unbiased assessment of efficiency, adequacy and effectiveness of the actions taken in the lending process and their compliance with the internal regulations of the Bank.

- **3rd line of defence** – internal audit. It conducts a detailed periodical verification of compliance of the actions of the 1st and 2nd lines of defence with the regulatory requirements and best banking standards.

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

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

Credit risk management framework

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

- Credit Risk – Transactional Credit Risk, composed of:
 - Central Credit Risk Department,

- Regional Credit Risk Department, and
- Counterparty Credit Risk position.

- Credit Risk – Risk Policy, Modelling and Reporting, composed of:

- Credit Risk Policy Department,
- Credit Risk Systems Department,
- Credit Risk Modelling Department,
- Credit Risk Regulation Team, and
- Credit Risk Reporting Team.

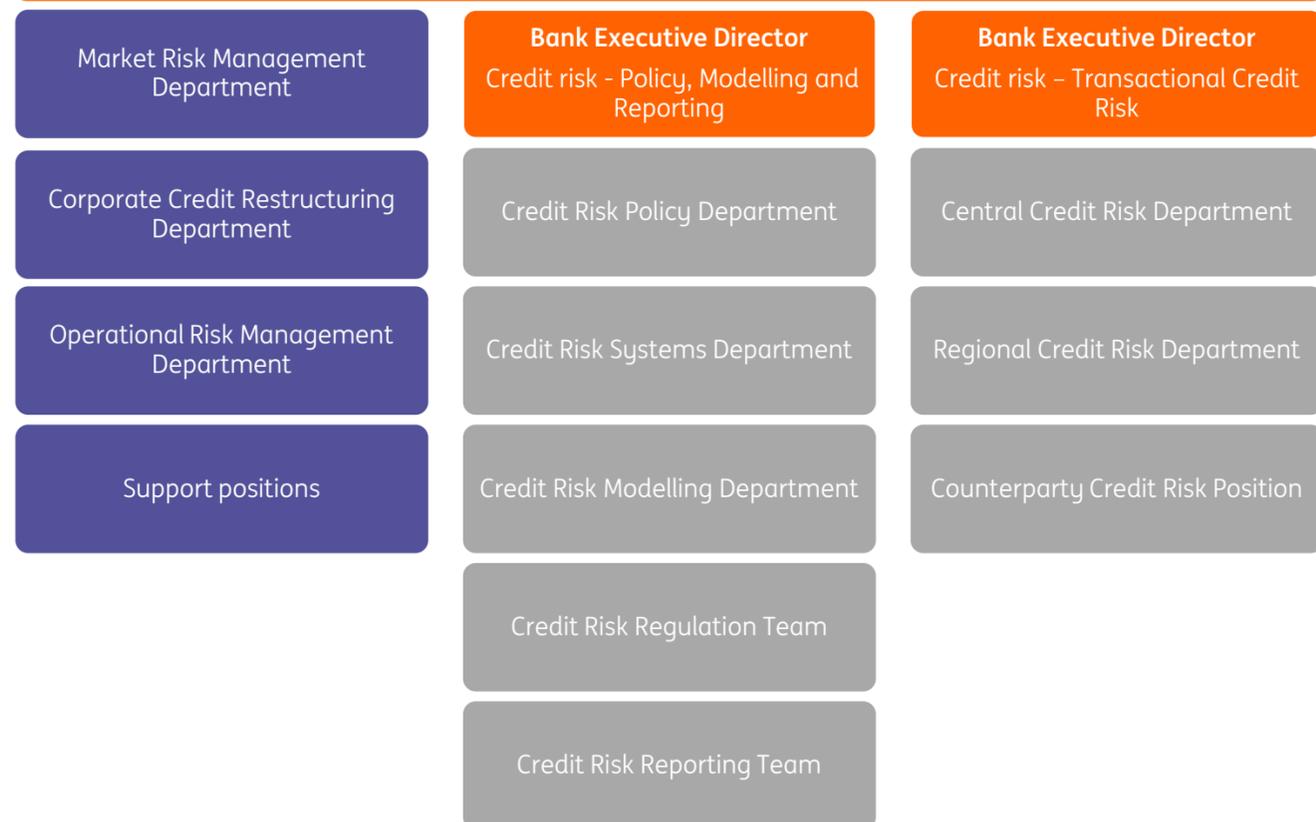
Each of the abovementioned areas exercises control and supervision over the respective area of the Bank's operations and risk management process.

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

List of units engaged in the risk management process

RISK DIVISION

Vice-President of the Bank Management Board in charge of the Risk Division



More information on the organizational structure of Risk Division were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 151.

Information on lending principles, credit risk management, risk management system were discussed in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 156.

Lending portfolio quality

Share of impaired receivables / stage 3

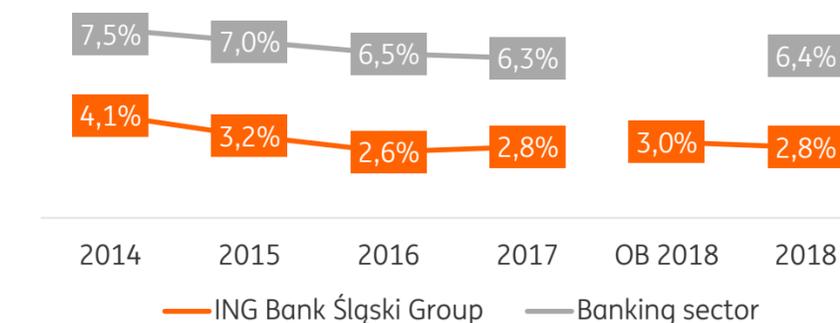
In 2018, the quality of our lending portfolio improved slightly from the opening balance of 2018 (IFRS 9 implementation). The share of loans in stage 3 in the ING Bank Śląski S.A. Group fell from 3.0% at the 2018 opening balance to 2.8% as at 2018 yearend. The value of loans in stage 3 in the Group was at PLN 2,905.0 million versus 2,645.2 million at the opening balance of 2018 (up by

9.8%). The quality of lending portfolios of our Bank is significantly better than the average in the entire banking sector. At the yearend, the share of receivables in stage 3 was 6.4% in the sector.

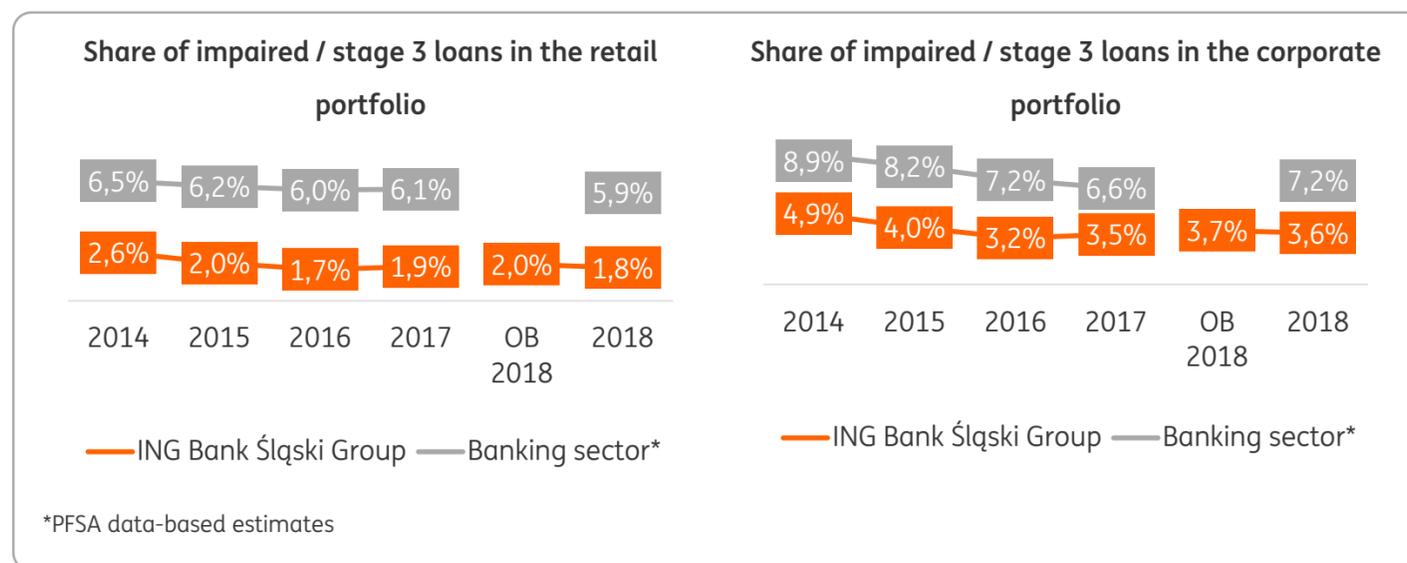
Important is the fact that both our loans in the retail segment and in the corporate segment are of a higher credit quality than the relevant averages for the entire banking sector. The share of stage 3 loans in the retail segment of the ING Bank Śląski S.A. Group stood at 1.8% vis-à-vis 5.9% for the households segment in the sector as at 2018 yearend. Analogical corporate segment ratios are 3.6% for the ING Bank Śląski S.A. Group and 7.2% for the institutional clients in the sector.

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

Group against sector average*



*PFSA data-based estimates



In 2018, the quality of our lending portfolio was impacted, apart from the higher business volumes and the prudent lending policy, by two sale transactions of receivables classified as stage 3 loans. The receivables sold (principal, interest, other costs as at the agreement date) totalled PLN 346.2 million, out of which PLN 252.5 million represented the receivables forming the credit exposure.

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

	2018	OB 2018	2017	Change 2018 / OB 2018	
PLN million	IFRS 9	IFRS 9	IAS 39	PLN million	%
Total exposure	104,226.8	88,313.4	89,043.6	15,913.4	18.0%
Stage 1 and 2 / non-impaired portfolio	101,321.8	85,668.2	86,546.7	15,653.6	18.3%
Stage 3 / impaired portfolio	2,905.0	2,645.2	2,496.9	259.8	9.8%
Impairment loss and provisions	2,348.5	2,593.4	1,712.8	-244.9	-9.4%
Stage 1 and 2 / non-impaired portfolio provision	539.0	953.1	242.2	-414.1	-43.4%
Stage 3 / impaired portfolio provision	1,731.0	1,576.8	1,424.7	154.2	9.8%
Provisions for off-balance sheet liabilities	78.5	63.5	45.9	15.0	23.6%
Stage 3 / impaired portfolio share	2.8%	3.0%	2.8%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	59.6%	59.6%	57.1%	-	0.0 p.p.
Exposure – corporate banking	58,863.5	50,763.5	51,534.6	8,100.0	16.0%
Stage 1 and 2 / non-impaired portfolio	56,772.1	48,864.8	49,737.7	7,907.3	16.2%
Stage 3 / impaired portfolio	2,091.4	1,898.7	1,796.9	192.7	10.1%
Impairment loss and provisions	1,324.9	1,213.3	1,079.7	111.6	9.2%
Stage 1 and 2 / non-impaired portfolio provision	118.8	122.3	78.4	-3.5	-2.9%
Stage 3 / impaired portfolio provision	1,142.7	1,035.1	960.7	107.6	10.4%
Provisions for off-balance sheet liabilities	63.4	55.9	40.6	7.5	13.4%
Stage 3 / impaired portfolio share	3.6%	3.7%	3.5%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	54.6%	54.5%	53.5%	-	0.1 p.p.
Exposure – retail banking	45,363.3	37,549.9	37,509.0	7,813.4	20.8%
Stage 1 and 2 / non-impaired portfolio	44,549.7	36,803.4	36,809.0	7,746.3	21.0%
Stage 3 / impaired portfolio	813.6	746.5	700.0	67.1	9.0%
Impairment loss and provisions	1,023.6	1,380.1	633.1	-356.5	-25.8%
Stage 1 and 2 / non-impaired portfolio provision	420.2	830.8	163.8	-410.6	-49.4%
Stage 3 / impaired portfolio provision	588.3	541.7	464.0	46.6	8.6%
Provisions for off-balance sheet liabilities	15.1	7.6	5.3	7.5	98.7%
Stage 3 / impaired portfolio share	1.8%	2.0%	1.9%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	72.3%	72.6%	66.3%	-	-0.3 p.p.

*excluding Eurobonds and other receivables

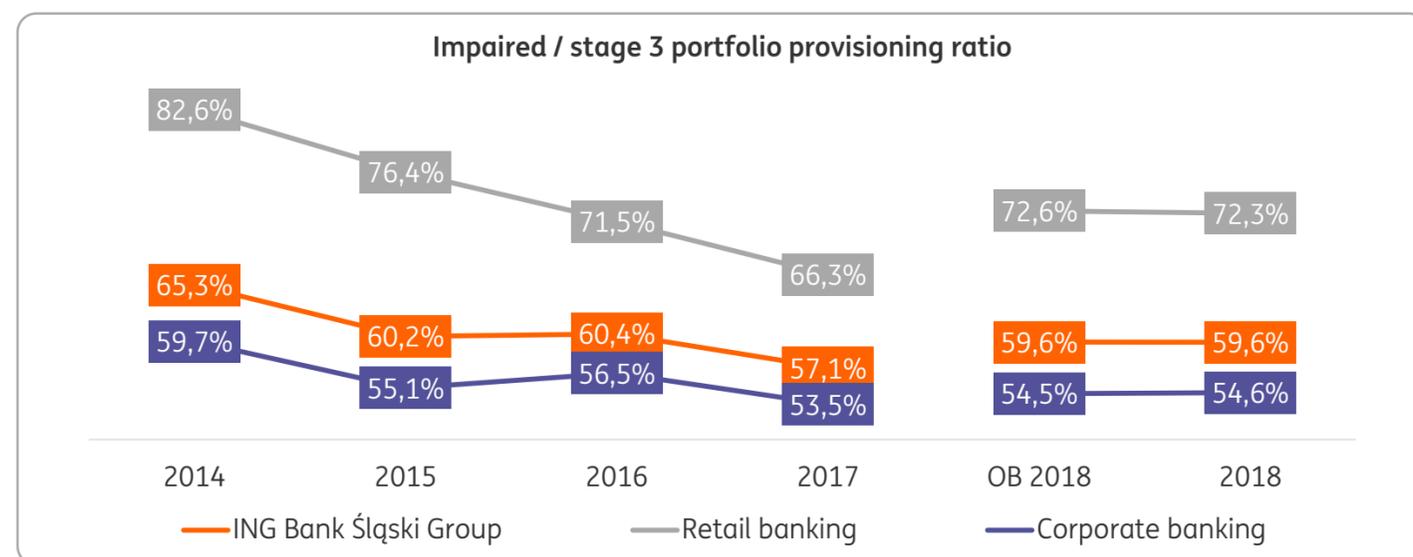
Quality of portfolio of receivables extended to the ING Bank Śląski S.A. clients*

	2018 IFRS 9	OB 2018 IFRS 9	2017 IAS 39	Change 2018 / OB 2018 PLN million	IFRS 9
PLN million					
Total exposure	100,067.6	84,431.0	85,161.1	15,636.6	18.5%
Stage 1 and 2 / non-impaired portfolio	97,600.6	82,185.6	83,059.1	15,415.0	18.8%
Stage 3 / impaired portfolio	2,467.0	2,245.4	2,102.0	221.6	9.9%
Impairment loss and provisions	2,189.3	1,965.1	1,579.7	224.2	11.4%
Stage 1 and 2 / non-impaired portfolio provision	520.3	454.3	234.3	66.0	14.5%
Stage 3 / impaired portfolio provision	1,590.5	1,447.3	1,299.5	143.2	9.9%
Provisions for off-balance sheet liabilities	78.5	63.5	45.9	15.0	23.6%
Stage 3 / impaired portfolio share	2.5%	2.7%	2.5%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	64.5%	64.5%	61.8%	-	0.0 p.p.
Exposure – corporate banking	55,693.0	47,575.7	48,346.7	8,117.3	17.1%
Stage 1 and 2 / non-impaired portfolio	54,005.1	46,048.5	46,916.4	7,956.6	17.3%
Stage 3 / impaired portfolio	1,687.9	1,527.2	1,430.3	160.7	10.5%
Impairment loss and provisions	1,169.6	1,071.4	948.6	98.2	9.2%
Stage 1 and 2 / non-impaired portfolio provision	101.5	107.6	71.1	-6.1	-5.7%
Stage 3 / impaired portfolio provision	1,004.7	907.9	836.9	96.8	10.7%
Provisions for off-balance sheet liabilities	63.4	55.9	40.6	7.5	13.4%
Stage 3 / impaired portfolio share	3.0%	3.2%	3.0%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	59.5%	59.4%	58.5%	-	0.1 p.p.
Exposure – retail banking	44,374.6	36,855.3	36,814.4	7,519.3	20.4%
Stage 1 and 2 / non-impaired portfolio	43,595.5	36,137.1	36,142.7	7,458.4	20.6%
Stage 3 / impaired portfolio	779.1	718.2	671.7	60.9	8.5%
Impairment loss and provisions	1,019.7	893.7	631.1	126.0	14.1%
Stage 1 and 2 / non-impaired portfolio provision	418.8	346.7	163.2	72.1	20.8%
Stage 3 / impaired portfolio provision	585.8	539.4	462.6	46.4	8.6%
Provisions for off-balance sheet liabilities	15.1	7.6	5.3	7.5	98.7%
Stage 3 / impaired portfolio share	1.8%	1.9%	1.8%	-	-0.2 p.p.
Stage 3 / impaired portfolio coverage ratio	75.2%	75.1%	68.9%	-	0.1 p.p.

*excluding Eurobonds and other receivables

Impaired / stage 3 loans' provisioning

As at the end of December 2018, the ING Bank Śląski S.A. Group had PLN 2,905.0 million worth of provisions for the lending portfolio in stage 3. The stage 3 portfolio provisioning ratio was 59.6%.



Risk costs

2018 saw a growth in the risk costs margin ratio y/y (net loan loss provisions to the gross lending portfolio) due to a higher ratio in the retail segment.

For more information about the risk costs, see Chapter "Our financial results".

Main modifications of the Bank's lending policy in 2018

In 2018, the lending policy of the Bank was modified so as to ensure proper and stable functioning and continuous improvement of the credit risk management system in the changing legal, economic and business landscape. Ensuring policy compliance with the approved credit risk appetite was the primary objective. The modifications took account of Poland's overall economic situation and the financial standing of individual groups of borrowers, among other factors.

They served to

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

Main modifications of the Bank's lending policy for retail clients segment

- We introduced modifications enabling increase in the level of automated credit decisions.
- We introduced new mechanisms to reject unreliable clients applying for facilities via electronic channels, including the CARE tool using artificial intelligence.
- We conducted tests to assess new offers, distribution channels and solutions for credit risk assessment.
- We performed a periodical update of credit capacity assessment parameters.
- As regards mortgage loans:
 - We introduced a preferential risk weight of 35% for the exposures which are effectively secured with residential properties wherefor the Bank has a Banking Real Property Data-based valuation or an in-house valuation.
 - We introduced more stringent credit risk assessment principles due to conducted backtesting,
 - We offered mortgage products based on fixed interest rate.
- As regards non-mortgage loans to individual clients:

- We introduced the requirement of factoring in subsistence costs at the minimum subsistence level for the requested cash loans with the tenor of over 5 years.
- We introduced the option to apply for a credit card backed with the cash security deposit.
- As regards loans for entrepreneurs:
 - We took into account the provisions of the updated environmental and social policy in force at the Bank (including the Bank's green statement).
 - We changed the principles of monitoring the financial standing of entrepreneurs to increase the portfolio volume to be monitored.

Main modifications of the Bank's lending policy for the corporate clients segment

- We the monitoring process of corporate clients (SME/MC) using the Early Warning Signals statistical model data.
- We updated algorithms for the automated lending process tracks to enhance their effectiveness and extended the list of collaterals available in the Fast Track.
- We simplified the lending process for local government units.
- We simplified the annual review for clients with a good rating using the commercial property funding transactions.
- we increased availability of trade finance products as part of multi-facility agreements,
- We introduced the policy principles for leveraged transactions and the options of their automated reporting.
- We implemented of a new Income-Producing Real Estate Valuation Manual.
- We approved behavioural PD models: credit and deposit ones for use in the lending process for corporate clients qualifying for the Easy Lending process.
- We extended the pilot programme of the Easy Lending process for corporate clients with a process with an automatic decision for a client application including behavioural rating models (KP) and a credit capacity assessment algorithm based on inflows or financial data.
- We implemented additional "single concentration" limits, defining the appetite for a single concentration in the strategic clients segment, in order to limit the risk of financial loss caused by excessive exposure to individual entities.

- We introduced a pilot programme of the process for restructuring corporate clients for exposures up to EUR 1 million, where we defined standard restructuring paths.

Key modelling actions

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

Market risk

Introduction

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

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

Market risk management process

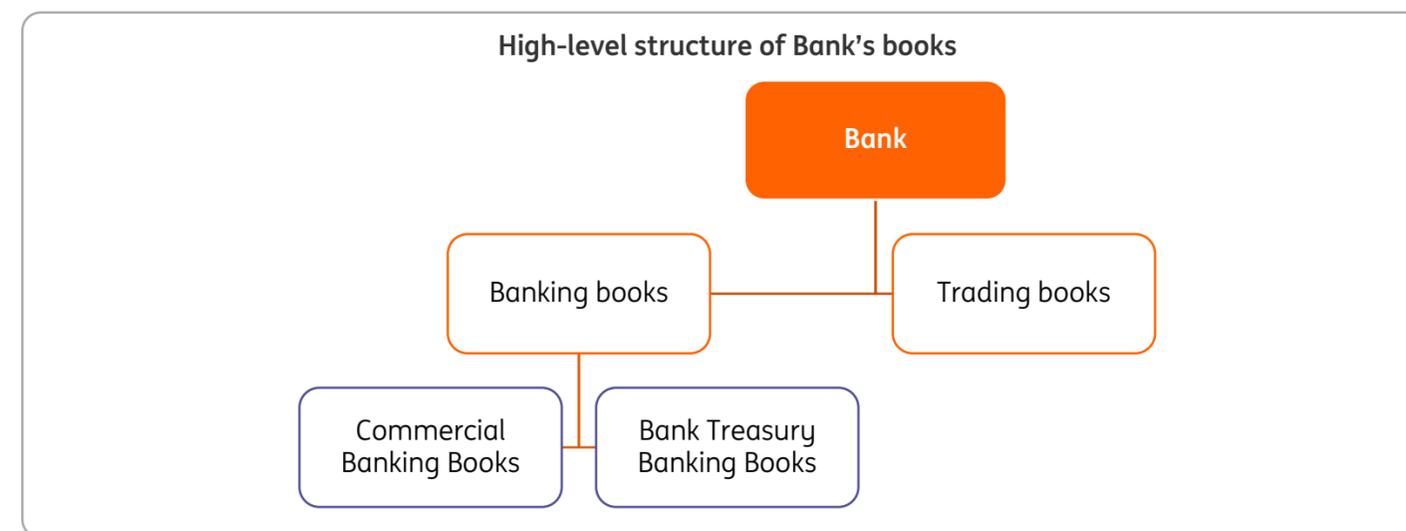
The market risk management process within the Bank covers the identification, measurement, monitoring and reporting of risk. The Market Risk Management Department provides FM and Group Treasury Management, selected Management Board and ALCO Committee members with regular risk updates. Furthermore, the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

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

Bank's book structure and risk measurement methods

The Bank maintains an intention-based book structure which drives many processes, including market risk management. The book structure reflects what kind of market risk is expected and acceptable in different parts of the Bank and where market risk should be internally transferred/hedged within the Bank. Books are categorized based on intention as:

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



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

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

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

The Group Treasury Banking Books serve to manage:

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

Open positions are allowed within approved market risk limits.

Trading Books are books in the Financial Markets area: FX and interest rate trading books. These books include items held over a short period of time:

- for resale, or
- with the intent of benefiting from actual or expected short-term price movements, or

- items to lock in arbitrage profits.

The open positions in trading books are limited.

More information on the methods of the interest rate risk measurement were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 175.

Measuring the interest rate risk in the banking book

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

More information on the measuring the interest rate risk in the banking book were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 177.

Market risk measurement in trading book

The Bank calculates VaR in line with the best market practice taking into account the following assumptions:

- one-day position holding period, 99% confidence level,
- 260-day observation period.

More information on the market risk measurement in trading book were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 178.

Sensitivity of the result and capital to the interest rate risk

The tables below present an overview of the Bank's consolidated sensitivity to the interest rate risk:

- banking book – the changes observed in the measurement for both the NII and EVE measure result mainly from the two factors:
 - changes (increase) in product volumes, and
 - changes in model parameters used to determine the economic value of product portfolios without maturity.
- market value of debt instruments classified as HtC&S in the Group Treasury portfolio:
 - slight changes in the sensitivity of the HtC&S portfolio were observed compared to the previous year. The BPV measure of the portfolio (BPV short position) went up from PLN 1.32 million to PLN 1.36 million.

The sensitivity of consolidated results to the interest rate movements resulting from the banking book

PLN million	Change in the economic result for yield curve move		Change in the reported financial result for yield curve move	
	-2%	2%	-2% gradual	2% gradual
2017	-607.1	230.7	-29.6	60.3
2018	-1,104.0	-158.5	-76.3	3.9

Sensitivity of own funds to interest rate changes due to HtC&S debt securities

PLN million	Approximate change in regulatory capital base for yield curve move			
	-2%	-1%	+1%	+2%
2017	159.5	80.1	-94.5	-190.0
2018	221.0	110.5	-110.5	-221.0

Summary

In the reporting period, the market risk profile and the method of managing this risk did not change significantly.

Funding and liquidity risk

Introduction

ING Bank Śląski S.A. recognizes the process of stable liquidity and funding risk management as one of the most important processes at the Bank.

Liquidity and funding risk is understood by the Bank as the risk of inability to meet, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that its cash liabilities could be paid at all times from the available funds and inflows from maturing transactions, available funding sources at market prices and/or from sale of marketable assets.

Funding and Liquidity Risk Management

In order to optimize the liquidity and funding risk management process, the Bank has developed the ING Bank Śląski S.A. Liquidity and Funding Risk Management Policy which aims to describe the rules assuring adequate funding

sources and minimization of risk and funding costs. The policy describes a general approach to liquidity and funding risk management process at the Bank. The primary objective of the funding and liquidity risk management process is to keep adequate liquidity to ensure safe and sound Bank's operations under normal and stress market conditions.

The policy results from the business risk management strategy (including strategy of liquidity and funding risk management) approved by the Supervisory Board. In particular, it reflects the risk appetite set in that strategy and approved by the Supervisory Board.

Additionally, the Bank compiles the ILAAP report. It presents key measures and figures on the Bank's liquidity profile in a comprehensive and coherent way. It takes account of the strategy, the funding plan and Bank's risk tolerance.

The results of the report are approved by the Management and Supervisory Boards.

General approach to funding and liquidity risk management consists of the cycle of five repetitive actions: 1) risk identification, 2) risk assessment, 3) risk control, 4) risk monitoring and 5) reporting.

- Risk identification and assessment. Risk is identified annually through the risk identification workshops. Each identified risk is assessed in order to determine the importance of such risk for the Bank. Risks are controlled through actions that reduce probability of risk materialisation or actions that reduce the effects of risk materialisation. One of the elements of risk control is to define the acceptable risk level.
- Control. The important element of risk management is continuous verification whether an implemented risk control is being executed. Regular control allows to show whether actions in scope of risk control are effective. The key element of liquidity and funding risk management is adequate reporting which supplies management with information needed to manage risk.
- Monitoring and reporting. Pursuant to the requirements of PFSA Resolution 386/2008 and Recommendation S, the Bank prepares an in-depth analysis of the long-term liquidity focusing on mortgage loans in particular. This liquidity analysis shows the risk level connected with financing of long-term mortgage loans.

The Bank operates an active policy of liquidity management for major currencies. For these currencies, liquidity risk is measured and limited per currency and operational liquidity is managed separately for each currency to capture them in the risk transfer system.

Intraday liquidity is actively managed by the Treasury Department. In that process, the position and short-term liquidity risk are managed (one-day and intraday). It has been designed to meet payment and settlement obligations in a timely manner in normal times as well as in extraordinary/stress situations.

The Bank has the risk transfer system in which market risks, including liquidity risk, are transferred to the Treasury Department. Using proper tooling, it manages risks in a centralised manner through the system of limits adopted at the Bank.

Types of risk

The Bank splits the liquidity risk into two groups:

- liquidity risk arising from external factors and
- risk of internal factors associated with a given bank.

The Bank aims at having a conservative approach towards liquidity risk management which will enable it to safely survive the events specific to ING Bank Śląski S.A. and related to the whole banking sector.

In terms of the time horizon, the Bank splits the liquidity risk into:

- operational – focused on current financing of the Bank's position and intraday day liquidity management,
- strategic – focused on ensuring that structural liquidity positions of the Bank are at acceptable levels.

Taking account of the time and client behaviour (two aspects having impact on the Bank's liquidity), the Bank distinguishes three types of funding and liquidity risk:

- structural,
- related to customer behaviour,
- related to stress conditions.

More information on the structure and organization of the risk management process were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 183.

Risk management framework

Liquidity and funding risk management framework includes all relevant methods of daily, short-term, medium-term and long-term liquidity and funding risk management. It includes the following key elements:

- limits system and liquidity risk measurement,

- monitoring the funding sources and concentration risk,
- liquidity reserves management,
- intraday liquidity management,
- collateral positions management, and
- stress tests and contingency plans.

More information on the risk management framework were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 184.

Summary

In the reported period the liquidity and funding risk profile and the way of managing that risk did not change in a significant way. In terms of risk measurement, the changes resulted from regulators' guidelines including PFSA and EBA.

Model risk

Introduction

Model risk is managed in line with the Risk Model Management Policy at ING Bank Śląski S.A. The Policy provides inter alia for the following:

- model lifecycle,
- principles of model materiality assessment,
- principles of model register functioning,
- capital computation principles for the model risk, and
- validation principles.

Model risk management process

The Capital Management Department keeps the model register, which is a repository of information about the risk models and valuation models effective in the Group. The model register and logs read model materiality, model monitoring and validation results and their risk levels, among others.

The Group regularly assesses the risks of individual models and estimates corresponding economic capital as per internal regulations. The capital calculation manner in the case of identification of material- or medium material models of high- or increased risk is set out in the methodology of economic capital requirement calculation for the model risk.

Model performance quality is verified via model monitoring and validation in the course of which the degree of model risk exposure is assessed as well. Models are validated in line with the Model Validation Policy at ING Bank Śląski S.A. and validation manuals.

Management reporting of the status of model management and validation actions to Committees, Management Board and Supervisory Board includes but is not limited to: model risk assessment and validation results, assessment of aggregated model risk in the context of adopted risk tolerance level, and also the actual model risk capital.

In 2018, the economic capital of PLN 28.9 million for risk models was allocated from January 2018 to September 2018 to newly developed models for provision calculation in line with IFRS 9 which have been applied since January 2018.

Business risk

Introduction

The following material risks were identified by the Group under the business risk:

- financial result risk,
- macroeconomic risk, and
- FX mortgage portfolio risk.

Financial result risk

Financial result risk, deemed permanently material, is defined at the Group as the risk associated with taking adverse or erroneous business decisions, the lack of or faulty execution of taken assumptions/actions and changes in the external environment plus an inappropriate response to those changes which results in the financial result being below the requirements arising from the need to conduct ongoing operations and grow, mainly in order to supply the capital base.

In principle, financial result risk is recognised in the area of planned mergers and acquisitions on the market. For organic growth of the Group, the risk is recognised as limited.

The main financial result risk triggers are: failure to earn the income planned or budget cost overrun. The said triggers are influenced by accomplishment of the planned client number, volume and market share, offer for clients and cost control. Additionally, innovativeness and attractiveness of the Group as well as its perception by clients and the market are crucial.

In 2018, the Group increased the number of clients served to 4.86 million. Systematic innovations for the clients and marketing campaigns contributed to the increase in the client base. The Group is strongly oriented towards the development and promotion of the internet channel, which results in a high share of cash loans sold in that channel to individual clients (76%) and entrepreneurs (71%). Furthermore, 99.88% of all transfer orders are performed electronically.

The Group continues measures to reinforce its market position by promoting cash loans and mortgage loans and by encouraging people to increase their savings. The Group does it in the form of attractive financial solutions as part of a simple and honest product offer.

The implementation of those actions resulted in an increase in the Bank's market share as at the 2018 year end to 6.33% (versus 5.65% as at the end of 2017) in the household lending market, and to 9.30% (up from 8.87%) in the household deposits market. For the corporate segment, the figures were, respectively: 11.15% (up from 10.28%) and 8.63% (up from 8.33%).

The above factors helped the Bank fulfil its financial plan.

Macroeconomic risk

Macroeconomic risk is the risk due to macroeconomic factors changes and their impact on the minimum capital requirements. The Bank manages that risk by conducting regular internal stress tests, whereby the sensitivity of minimum capital requirements to macroeconomic factors can be monitored on an ongoing basis. In 2018, the Bank ran full capital tests twice: for the data as at Q4 2017 and Q2 2018.

Based on internal stress test results for the mild recession scenario, the Group estimates the additional capital requirement to secure against the impact of the said scenario materialisation. Stress-test results show that should the mild recession risk materialise it will not affect a decline in the capital adequacy below the required level.

FX mortgage portfolio risk

FX mortgage portfolio risk is the risk of financial losses connected with FX mortgage loans conversion into PLN mortgage loans.

To manage the risk, the Group uses current legislation proposals for conversion of FX mortgage loans.

One should highlight at that point that the Group did not receive a capital add-on for that risk (imposed by the Polish Financial Supervision Authority on the banks having significant FX mortgage portfolios). Still, bearing in mind the risk of legislative uncertainty in that area, the Group resolved to secure itself by computing the economic capital add-on. As at 2018 yearend, the value of the FX mortgage portfolio of the Group was PLN 1.0 billion.

Way of working

In view of the demanding external environment of our Bank, we need to measure up to many challenges. These are, inter alia, generation changes, the growing dynamics of the labour market and, consequently, new expectations.

At our Bank, we focus on implementing new, flexible ways of working as well as on developing and enhancing the human capital.

Our employees develop bank products in interdisciplinary teams and involve clients in this process. They pursue their ambitions and impact on both their own and the Bank's development.

Who are our employees

GRI [103-1] [103-2] [103-3]

Every day, the ING Bank Śląski S.A. brand is created by over 8,000 employees. We hire not only financial advisers. Our modern organisational structure accepts many professions. Our employees have various interests and passions which contribute to increased effectiveness and higher engagement in work performance, striving after development and innovativeness. As much as 68% of the Bank staff are women. Most of them are between 30 and 50 years of age. 52% of managers are women.

As at 31 December 2018, the ING Bank Śląski S.A. Group employed 8,086 persons. There were 54 persons (or 0.7%) more than in December 2017. As at the end of December 2018, ING Bank Śląski S.A. hired 7,665 employees that is 4 persons more than in December 2017.

As at 31 December 2018, the headcount in the ING Bank Śląski S.A. Group was 8,034 FTEs. There were 54 FTEs (or 0.7%) more than in December a year earlier. As at the end of December 2018, the number of FTEs at ING Bank Śląski S.A. totalled 7,616, down by 3 FTEs from December 2017.

[GRI 102-8]

Number of employees

	2018	2017	Change y/y
Head Office in Katowice	3,085	2,990	0.6%
Head Office in Warsaw	729	725	3.2%
Branches	3,851	3,946	-2.4%
Bank Total	7,665	7,661	0.1%
ING Lease (Polska) Sp. z o.o.	227	208	9.1%
ING Commercial Finance Polska S.A.	110	105	4.8%
ING Bank Hipoteczny S.A.	30	-	-
Solver Sp. z o.o.	2	3	-33.3%
ING Usługi dla Biznesu Sp. z o.o.	49	52	-5.8%
Nowe Usługi S.A.	3	3	0.0%
Subsidiaries	421	371	13.5%
ING Bank Śląski S.A. Group	8,086	8,032	0.7%

Total workforce by gender and type of employment contract

	2018	2017	Change y/y
Female	5,506	5,531	-0.5%
Open-ended	5,259	5,283	-0.5%
Temporary	247	248	-0.4%
Male	2,580	2,501	3.2%
Open-ended	2,399	2,328	3.0%
Temporary	181	173	4.6%
Total	8,086	8,032	0.7%
Open-ended	7,658	7,611	0.6%
Temporary	428	421	1.7%

Total workforce by region and type of employment contract*

	2018	2017	Change y/y
Head Office in Katowice	3,085	2,990	3.2%
Open-ended	2,929	2,843	3.0%
Temporary	156	147	6.1%
Head Office in Warsaw	729	725	0.6%
Open-ended	676	688	-1.7%
Temporary	53	37	43.2%
Branches	3,851	3,946	-2.4%
Open-ended	3,663	3,729	-1.8%
Temporary	188	217	-13.4%

*applicable to the bank only

Total workforce by gender and type of employment contract

	2018	2017	Change y/y
Female	5,506	5,531	-0.5%
Full-time employment	5,383	5,406	-0.4%
Part-time employment	123	125	-1.6%
Male	2,580	2,501	3.2%
Full-time employment	2,540	2,456	3.4%
Part-time employment	40	45	-11.1%
Total	8,086	8,032	0.7%
Full-time employment	7,923	7,862	0.8%
Part-time employment	163	170	-4.1%

GRI [102-41] Percentage of total employees covered by collective bargaining agreements

The percentage of total employees covered by collective bargaining agreements was:

- 2018: 5.4%,
- 2017: 5.6%.

GRI [202-1] Employment terms and conditions

Our employees are offered marked-to-market and stable employment conditions. The remuneration of the bottom-level employees – vis-à-vis the minimum wage – is shown below.

Remuneration of the bottom-level employees (split into male and female staff) vis-à-vis the minimum wage

	2018	2017	Change y/y
Female	190%	200%	-10 p.p.
Male	190%	200%	-10 p.p.

During the recruitment process as well as when taking promotion-related decisions, the candidates' salaries are consulted with individual business partners. The practice is intended to counteract the unjustified remuneration differences. At the same time, there is a simplified management structure with the expert career path aimed at

expanding the employee development options. It enable systematic promotion of employees and remuneration increase.

Remuneration of the bottom-level employees vis-à-vis the market*

	2018	2017	Change y/y
Bank/Market	125%	143%	-18 p.p.

*base remuneration against the banking sector

GRI [401-2]

Sound base salaries are complemented with an attractive fringe benefits package like:

- extra days off due to child birth or wedding (more days off than provided for by the state law),
- 5 extra days off a year for the parents of children with the certificate of disability,
- extra 2 days off for employees taking care of the disadvantaged family members,
- the possibility of using the sabbatical (a longer break in work for recuperation or training),
- option to work from home,
- option to use 8 hours every year for voluntary service activity,
- medical care, employee pension programme and group insurance schemes, and
- cafeteria plan.

Cafeteria plan

From January 2018, we introduced a cafeteria plan whereunder we offered access to sports cards and a flexible offer of benefits. All employees are covered by the cafeteria plan and the number of points awarded depends on the employee's remuneration level.

Employees can choose in the online system from a wide range of products such as cinema or theatre tickets, weekend or annual vacation, they can also shop in sports stores or bookstores. The offer on the platform is constantly developed, and employees can themselves report potential suppliers whose products they would like to see in the system.

Sabbatical

As of January 2018, we have the Sabbatical program aimed at enabling employees to rest from work. Employees make take advantage of the programme:

- one month – every 3 years,
- three months – every 5 years and
- six months – every 7 years.

After returning from Sabbatical, the employee is guaranteed a return to the current position with the current remuneration. Throughout the year 2018, 10 people have already used the programme.

A package of disability-related benefits

The Bank's Management Board made the decision to introduce in 2019 monthly permanent supplements financed from the in-house social benefits fund for employees with a moderate or severe disability certificate and raising children with a disability certificate. The first payouts will be effected in January 2019.

In addition, we offer the opportunity to take advantage of an additional 2 days off from work for employees with a slight degree of disability and taking care of the closest relatives (spouse/partner, parents, parents-in-law, and grandparents) with a certain degree of disability.

Employee Referral Programme

We have introduced the Employee Referral Programme in our Bank because we want to use the network of our employees' contacts and together build the future of ING.

The Bank is primarily people. We want employees to be able to shape our workplace and influence who we work with. We care primarily about the knowledge and experience of people who work here. By launching the program in mid-2018, we hired 31 people on employees' recommendations.

Innovation culture and competent employees

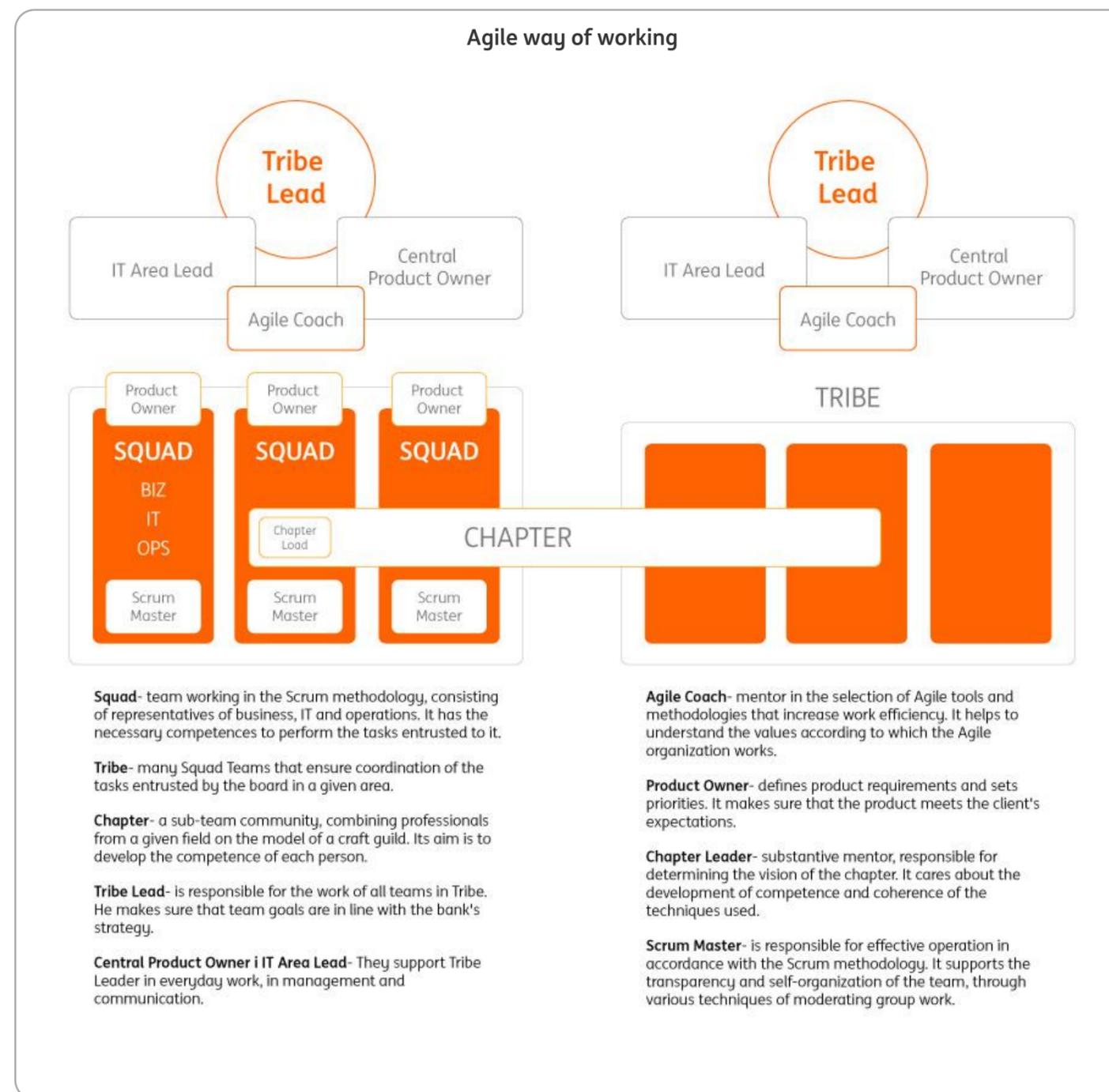
GRI [103-1] [103-2] [103-3]

Agile

The development of technology contributes to the today's world changing at a remarkable pace. All technology companies change the way of dialogue with clients and models of creating new products or services. The same pertains to the banking industry – until recently considered very traditional and conservative; today, it is seen as very modern and technology-based. We want to transform ourselves to respond to clients' needs faster, engage them as frequently as possible in the solution development process and verify every step of the way whether or not our solutions hold well in reality.

That is why we have introduced the Agile way of working, mainly known from technology companies, on a large scale. The persons that formerly used to work in separate units were joined into interdisciplinary teams. Now, colleagues from business, IT, operations and other units sit together side by side in one team.

All this is to enable the team to carry out its tasks end-to-end. Such a solution is conducive to innovative product creation as well as helps to respond to client needs faster. Our aim is to set up self-organising teams that will achieve the best results possible. We modified the area responsible for building products for retail and corporate clients and in many other areas where that way of working adds value.



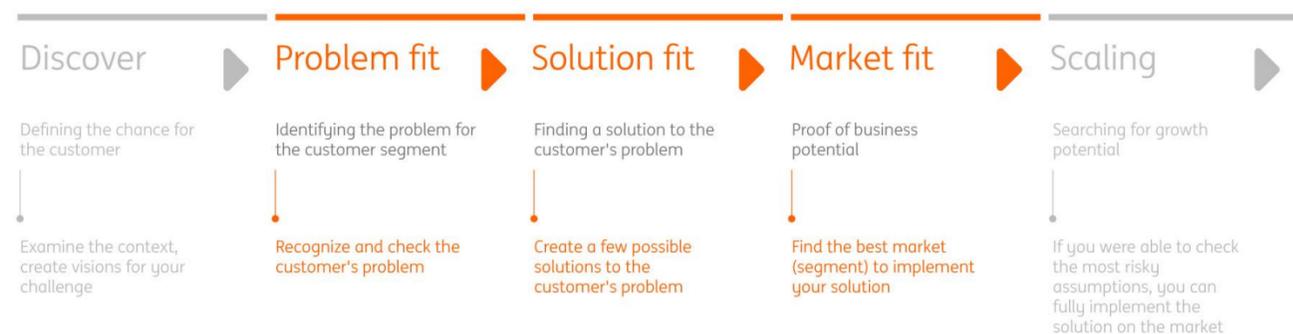
Squads work most often in two-week work cycles, called Sprint. Each Sprint starts with planning work to be done in a given cycle. In addition, teams meet daily at Daily Scrum to plan work for the next day, identify possible threats to the Sprint objective and adapt the work plan to the current situation. Each Sprint ends with delivery of a specific business value, ready for immediate use (Increment). The Increment produced in the Sprint (e.g. new functionality in the IT system) is presented to stakeholders during the Sprint Review. This presentation is the basis for the simultaneous gathering of stakeholders' opinions on the priorities for the near future regarding product development. Sprint ends with Retrospection or team meeting during which Squad members analyse their work during this cycle and work out improvements that they will implement in the next Sprint. It is crucial for the value for the client to be delivered as soon as possible.

ING Accelerator

ING Accelerator is one of the key projects that supports implementation of the PACE methodology.

PACE is the ING Group's own methodology, which is based on direct work with clients. Thanks to this, we can provide solutions that respond to their real problems. PACE is based on project work based on design thinking in lean start-up and agile methodology.

Simplified diagram of the PACE methodology



In practice, the Accelerator is about small, self-organising teams established for a definite period of time. They are composed of employees from various Bank divisions, delegated to work solely on a given project.

The overriding principle is that teams are always close to the client. To verify their assumptions and identify at the testing stage what is working and what calls for improvement. As a result, they can easily extract key functionalities of a given product from the user's point of view. Then they verify the assumptions about whether and how much the client is willing to pay for a specific solution. Rapid prototyping involving the use of MVP (Minimum Viable Product - the first version of the product that captures the heart of its operation), gathering feedback and learning from own mistakes allows for a significant minimisation of costs. During the accelerator, a group of external experts and PACE coaches support our teams on a permanent basis. Each of the teams works on a different solution, but the goal is similar - to create a product that will suit client needs and solve their problems.

Innovation Bootcamp

Innovation Bootcamp

We also use global ING projects at the Bank. Innovation Bootcamp may serve as an example here. It is an annual global programme to create new ideas.

- Employees can submit ideas that respond to challenges faced by ING.
- The competition lasts from 6 to 7 months.
- The competition consists of several stages, during which teams verify their assumptions with clients. In the finals, the best competitors fight for acquiring the financing for their project and for the option of its further development within one of ING Accelerators in Amsterdam.

The ideas reported are to empower our clients to stay a step ahead in life and in business. In Innovation Bootcamp 5.0 there were 349 ideas reported, including 51 ideas from Poland. The final took place in June 2018 in Alwernia near Krakow and it was the first time that the final took place in a different place than Amsterdam.

Employee development

We help to discover and channel our employees' potential. We care about upgrading employees' competence and we empower them to make informed choices of a career path.

We want each employee to get everything they need to perform their job tasks. We ensure various packages of development and training activities - both internally and using the third-party training courses, workshops and

conferences. Moreover, projects based on knowledge sharing and teaming up with another person are also implemented, including: coaching, mentoring and one-on-one consultations.

We also support self-enhancement of professional qualifications by employees, through certification, post-graduate studies or the Polish Bank Association standards. We promote activities, inspire one another towards development and recommend specific tools. In communication, we use the internal community devoted to learning and development. We promote digital development activities, while encouraging employees to use external training platforms available online.

Year-end evaluation

Year-end evaluation is the basic tool supporting employee development. It is a special type of a meeting of the employee and the superior. During such meetings, we create development plans for the coming year, set new priorities and assess employee task performance. We also talk about aspirations and stretch ambitions. Two-way feedback holds the key here – the employee and superior need to be at the receiving end.

Internal regulations also reflected the new approach to performance appraisal within the entire ING Group. The approach intuitively connects the job performance evaluation with an intensified role of the so-called soft or non-financial categories. It also impacts our strong corporate culture.

The new performance assessment model implemented in 2017 – Step Up – combines the values, supports engagement and ensures partnership. We want our employees to discover their potential, meet their ambitions and have a feeling of full support. This approach promotes dialogue and employee motivation. The approach increases the intuitiveness of the year-end evaluation system, combines it with the values and individual performance of the employee.

GRI [404-3]

Percentage of employees who took part in the year-end evaluations:

- 2018 – 96%,
- 2017 – 97%.

E-learning and multimedia tools

We also want our employees to have an easy access to diverse and customised training materials. Self-study is often the first step to taking relevant career-related decisions. That is why we activated a wide array of e-learning training

courses. They provide employees with immediate access to effective laws and regulations, e.g. in the compliance area or best practice recommended in everyday work. We employ modern technologies, especially in the knowledge sharing area, such as: chats, webinars and fora (communities). We encourage employees to use courses on MOOC (massive open online course) platforms, which are ready-made training courses and materials prepared by renowned universities and organizations around the world, covering a very wide spectrum of knowledge. All employees can also use a well-equipped e-book library and access the electronic version of Harvard Business Review Polska magazine. Thanks to diversity of tools, almost each employee took part in at least one development action.

Multimedia sources of information are another form of self-improvement, with the so-called knowledge pills, e.g. presentations and videos. Going one step further – in 2018 we made available to employees a tool in which they can prepare attractive e-learning materials and even more effectively share knowledge.

GRI [404-1]

Training courses in figures in 2018:

- Number of development actions/ employee – 10.62,
- Number of development actions' hours/ employee – 40.63,
- 99% of employees took part in at least one development action.

Assignments and placements for employees

An internal assignment is a well-trying professional development solution. It enables the employee to gain professional experience in other organisational units of the Bank located in Poland or abroad. A development assignment usually lasts from one to three months. Such a solution makes it possible to get to know the work in a given job, but even more importantly, to gain new skills and professional experience.

Participation in internal assignments looked as follows:

- 2017 – 170,
- 2018 – 180.

We also offer international assignments which give the employees a chance to develop their knowledge and competence in the international environment. Usually, such assignments last up to 6 months.

Number of employees in foreign offices (length of assignment)

	2018	2017	Change y/y
up to 1 year	30	23	30.4%
over 1 year	19	19	0.0%

The highest number of employees travel to the main office of ING Netherlands. Other frequent destinations are Germany, Great Britain, Belgium, Spain, Luxembourg and Italy.

Unlearning

Unlearning – a key skill of companies and people open to change. Speaking of unlearning, we think about the ability to switch to an alternative way of thinking, different logic of action, and depart from old habits. Unlearning is much harder than learning. Unlearning is going beyond the mental model and choosing a new way of working. It happens every day in business, at work. Many ways of doing things that we've learned at schools and we've been building on, based on which we've achieved excellent results as employees, are no longer working or work differently.

Let us not confuse the unlearning with forgetfulness. We forget unused knowledge, unpractised skills, and unnecessary messages. Forgetting does not require effort, while unlearning is hard work. It applies to automatisms, habits, skills that have worked and served us well and which we must now give up because circumstances have changed.

Take, for example, the organisational structure – we still think of it as schematic, usually hierarchical structure with different management layers. In fact, it is more and more a network, not a ladder. What does it mean for unlearning?

For example, traditional thinking about the structure means that we mainly assign the responsibility for decisions to the bosses. Meanwhile, in a network organisation, every employee must have autonomy and responsibility for decisions.

Therefore, they must develop completely new habits and a new way of thinking about managing.

To promote this way of thinking in the organisation, we have created a community that will help us to get inspiration how to meet the current trends in learning new habits that support the acquisition of knowledge. It is a virtual platform OD-UCZANIE [UNLEARNING] for sharing inspirations, experiences and discussions.

Strong employer

The future of our Bank depends on its employees. It is their engagement, creative ideas and innovative concepts that make the Bank successful in business.

We know how employees evaluate us

Committed employees form the basis for our development, so we regularly ask them what impacts their work most and what they need to make it even more satisfying. We invite them to participate in cyclical and anonymous WPC (Winning Performance Culture Scan), OHI (Organizational Health Index) and Pulse Check surveys.

The OHI survey verifies how we can adapt to the changing environment and perform well. On the other hand, the WPC concentrates on examining the employees' engagement in a given period. The OHI gives a much broader picture of the organisation and its health, as it explores many areas. Pulse Check supplements OHI and WPC surveys. Thanks to the Pulse Check, we keep our “finger on the pulse” and we are constantly monitoring ING - our engagement, organisation's health and leadership.

The WPC and OHI surveys are carried out alternately, once a year. And Pulse Check is a quarterly survey. After each survey, we analyse the results together and talk about how to perfect our organisation – how to consolidate our strengths and develop the areas which need improvement. On that basis, we develop action plans and report on their performance.

Following the results' analysis, we implemented multiple interesting initiatives, like card decks for feedback, shadowing, conference about different ways of learning and a series of local initiatives.

Be orange, get kudos

Kudos is our way to show recognition. We use it every day, as it is a convenient and good method of thanking others for the behaviours which agree with our Orange Code. The word “kudos” comes from Greek and means recognition, prestige and respect expressed for accomplishments. At ING, kudos is used to mean two things. First, “kudos” stands for praise. Second, “kudos” is the application used to express recognition. Since the launch of the application (June 2016), we have given in total 100 thousand kudos in Poland.

CEO blog

One of the channels of open communication with staff members is BBblog. The blog is run by the CEO, Brunon Bartkiewicz. He shares there his reflections and observations as well as publishes information on both important events at the Bank and those concerning the daily life. The blog has been available for over a year and a half now and it is followed by over 7,100 people that is above 3/4 of the employees. All entries are commented by employees. In 2018 posts were liked 2377 times and 144 comments were added.

Diversity and equal chances

“At ING we promote diversity – not only because it is proper to do so. We promote diversity because we cannot deliver on our strategy without it.” – so starts the ING Diversity Manifesto which we adopted in 2016. We believe that taking various perspectives drives innovativeness, boosts growth and helps one in taking proper decisions and achieving better results.

With this Manifesto, we want to show that we are open and responsible and that our intention is to stimulate creation of culture that is based on mutual respect. We want to be a workplace where all can feel themselves. The experiences stemming from, inter alia, the gender, age, origin or religion differences enable us to face up to challenges.

In 2016, we approved the diversity strategy for the years 2017-2019 which covers the care of diversity in terms of gender, experience, education, employment of women in managerial positions. We want to focus, among other things, on promoting effective management of various generations in the organisation. At present, we are in the middle of implementing the actions and new programmes to deliver on the strategy. We are building an environment in which all employees have equal opportunities. As of 1 January 2019, we have provided a package of benefits for people with disabilities, which supports employees and their families.

1 Pecuniary benefits

Monthly, permanent allowances, financed from the In-House Social Benefits Fund for:

- 1.1 Employees with moderate or severe disabilities
- 1.2 Employees bringing up children with disabilities

2 Non-business days

- 2.1 For employees with a slight degree of disability certificate -- additional 3 days off during the year.

- 2.2 For employees taking care of their spouse/partner, parents, parents-in-law, grandparents, who have moderate or severe disabilities – additional 2 days off w during the year.

We have also started cooperation with foundations that help people with disabilities build self-esteem, support the process of self-empowerment and show how to effectively look for a satisfying job.

- with Fundacja Integracja [Integration Foundation] we have prepared a guide - Savoir-vivre vis-a-vis disadvantaged people;
- with Fundacja Aktywizacja [Activation Foundation] we have established cooperation to support us in the recruitment processes of disadvantaged people.

[GRI 405-1] [GRI 405-2]

Headcount structure and ratio of basic salary of women to men

	Female	Male	Salary ratio
2018			
Senior management staff	10	26	108.0%
Management staff	221	194	100.0%
Junior management staff	188	166	95.0%
Specialists	4,964	2,150	92.0%
Other employees	123	44	100.0%
2017			
Senior management staff	10	22	98.3%
Management staff	227	197	94.9%
Junior management staff	180	159	97.0%
Specialists	4,969	2,091	97.0%
Other employees	145	32	100.4%

After the liquidation of one of the management layers in 2017, the proportions between individual groups of employees in the organisational hierarchy remain stable. The year 2018 brought changes in the composition of the management boards of the group members which positively affected the ratio of the remuneration of women and men.

One of the elements of the strategy defined for the years 2017-2019 in the diversity policy is to take measures to eliminate the gender pay gap. The basic assumption in this aspect is to conduct a transparent remuneration policy

that ensures equal treatment for all employees. In 2018, we conducted an in-depth analysis of employees' remuneration in the context of gender, which included criteria such as pay grade, absences related to parenthood, seniority, evaluation and results achieved, and the number of promotions. The analysis showed no statistically significant differences in the remuneration of women and men.

[GRI 405-1]

Total workforce by gender and age group			
	2018	2017	Change y/y
Senior management staff	36	32	12.5%
Below 30 years of age	0	0	-
From 30 to 50 years of age	24	25	-4.0%
Above 50 years of age	12	7	71.4%
Management staff	415	424	-2.1%
Below 30 years of age		3	-
From 30 to 50 years of age	344	359	-4.2%
Above 50 years of age	71	62	14.5%
Junior management staff	354	339	4.4%
Below 30 years of age	4	5	-20.0%
From 30 to 50 years of age	294	280	5.0%
Above 50 years of age	56	54	3.7%
Specialists	7,114	7,060	0.8%
Below 30 years of age	992	1,023	-3.0%
From 30 to 50 years of age	5,178	5,122	1.1%
Above 50 years of age	944	915	3.2%
Other employees	167	177	-5.6%
Below 30 years of age	78	78	0.0%
From 30 to 50 years of age	74	79	-6.3%
Above 50 years of age	15	20	-25.0%

Parents at work

We attach particular importance to special protection of permanent employment of the employees returning from the parental leave. We also support those who become parents in their new role. At the beginning, we provide them with information about the rights and privileges they are entitled to, and then we pay out a one-off newborn allowance. Male employees of our Bank use a paid two-week paternity leave. They can do so until their child becomes 2 years of age. In 2018, 57% of young fathers took this opportunity (vs 80% in 2017).

Parental leave returns

[GRI 401-3]

In 2018, as in 2017, all employees returned to work after their parental leave (save for the persons for whom the temporary contract of employment had come to an end or who had tendered resignation letters themselves).

Retention ratio for employees returning from the parental leave (percentage of persons eligible for parental leave who returned after the parental leave and continued to work for at least 12 months afterwards)*

	Female	Male	Total
2018	99.7%	100%	99.7%
2017	98%	100%	99%

*save for the persons for whom the temporary contract of employment came to an end or who tendered resignation letters themselves

Employee Pension Programme (EPP)

The Employee Pension Programme is a solution whereby the Bank enables employees to jointly and voluntarily accumulate extra funds for future pension.

The programme is designed for all employees who have been hired for the period of at least 3 months. You just need to file a participation declaration. The Bank finances the basic premium of those employees who decided to enrol for the Programme; the premium is invested in selected mutual funds. With the programme, one can also systematically invest additional own funds. The account balance can be viewed via the online application. Upon acceding to the Employee Pension Programme, ING Bank Śląski S.A. each month pays in to an individual employee register the premiums which build up extra capital for the future pension.

We aim to keep the employee participation in the Employee Pension Programme at over 60%. The target performance was as follows:

- in 2017: 70% of employees participated in the Employee Pension Programme,
- in 2018: 77% of employees participated in the Employee Pension Programme.

As of December 2018, we increased the possibility of saving for pension by increasing the basic bank-funded contribution to the Employee Pension Programme up to 3.5%. This encouraged more (about 200) employees to join the programme and save

Programmes for students and graduates

We encourage students to cooperate with us in internship initiatives and programmes. This solution helps them to get to know their future employer. We offer many development paths in multiple internship programmes:

Traineeship with the Lion

Traineeship with the Lion is a unique traineeship addressed to students who are agile in the world of technology and have a variety of passions.

At ING Bank Śląski, we develop trainees throughout the year. We offer Traineeships with the Lion to all students and graduates in all areas of the Bank. Our trainees gain valuable experience working with the best experts on the market, for example in the Agile methodology. Many of them after a traineeship receive an offer of permanent cooperation. In 2018, 331 trainees from all over the country took part in the Traineeship with the Lion programme.

ChallengING

ChallengING is an annual development programme of intensive learning and work full of challenges, combined with performance of unassisted tasks as part of one of two paths: Data Science or software design and development.

Along the software design and development path, participants perform tasks linked to the business analysis of internal client needs, solution design, programming and testing.

Within the Data Science path, they play rotationally two roles – of a Big Data analyst and a data engineer. In 2017, we hired 7 participants who worked according to the Agile methodology.

International Talent Programme

International Talent Programme covers 6 business paths: Risk, IT, Retail and Corporate Banking, Finance and HR.

It gives its participants the possibility of joining important projects, taking multiple development actions and participating in international assignments. In 2018, 3 trainees started their participation in the programme.

ING Ambassadors Programme

We once again organised the ING Ambassadors Programme which is a form of cooperation between ING Bank Śląski S.A. and university circles in the entire territory of Poland.

ING student ambassadors cooperate with us in building the Bank's image as an attractive employer at selected universities. Last year, 14 selected students represented us at universities. The ambassadors act under the mentor care of our employees who offer support in getting to know ING and shaping career paths.

Our activities in the employer branding area were noticed and appreciated in the market:

- for the eighth time, we were awarded the Top Employers title,
- ING Bank Śląski S.A. ranked first in the “Most Desired Employers in the Opinion of Professionals and Managers” study by Antal in the Banking category,
- we ranked fourth in the Employer of the Year 2016, organised by AIESEC,
- we were the only bank to be put in the top ten of the “Employers for Engineers” ranking of the Warsaw University of Technology.

Social responsibility and financial education

In 2018, we focused on developing programmes and projects for financial education and entrepreneurship as well as on supporting social engagement of our employees. We pursued the initiatives, together with our social partners and volunteers – our Bank employees.

Financial education and development of entrepreneurship

[GRI \[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

Cooperation with partners

Centre for Citizenship Education

The Centre for Citizenship Education (CCE) is an independent educational institution acting in favour of education. It works with schools, teaching staff, local governments and central educational authorities towards more efficient learning at school.

Entrepreneurial Youth

In 2018, together with ING for Children Foundation we partnered with CCE in the Entrepreneurial Youth programme. The programme is practical and innovative education which enables participants to use economic issues in concrete activities. As part of the project, students solve economy and entrepreneurship tasks on a dedicated online platform, after which they carry out their own projects with the assistance of teachers and mentors. The programme helps them to understand, among others, how to manage their own funds, it teaches them how to save and shows selected banking services, etc.

Young people also learn to make own investments, dispose and manage limited finances and analyse risk. This translates into development of such skills as creativity, innovativeness, risk taking, planning and efficient delivery of projects.

ING for Children Foundation has contributed content to the programme related to sustainable development and the Bank – apart from financing – furnishes knowledge and promotes the programme. Marcin Giżycki, Vice-President of the Management Board of ING Bank Śląski S.A., has become the patron of the programme.

In 2018, 120 teams from 58 schools, that is 600 students in total, enrolled for the programme. In June we invited 12 student teams from primary and junior high schools from all over Poland to the Bank's head office – to the Entrepreneurial Youth Conference – so that they could present projects that stood out with their creativity and innovation. Influencers, who collaborated with ING, encouraged to study the ideas presented by the students. In short films, responses to the question: “what was your first business idea and how do you assets it”, were provided by:

- Marcin Iwuć – a financial expert and youtuber;
- Michał Sadowski – influencer, manager of Brand24

- Bartek Sibiga – IT specialist, former skier and Poland's champion in free skiing, founder of start-up DDOB (Daily Dose Of Beauty).

A report from the event was held on Insta stories by Marcin Dubiel – a leading Polish youtuber and influencer.

Warsaw Institute of Banking

Since 2015, the Bank has been part of the BAKCYL project – a joint project of the banking sector organised by the Warsaw Institute of Banking to support finance education of teenagers from junior high schools.

In the project, Bank employees volunteer to teach finance at schools (junior high schools) within the cycle of four themes: Your money, Put your mind into borrowing, Wise investment, Lifelong finances. In grades from 6 to 8 (the cycle of three themes): Your money, From saving to investing and Rules of safe borrowing.

Among the most active Bank volunteers who conducted over 20 lessons in the school year 2017/2018 were: – Jarosław Głogowski, Beata Goliasz, Andrzej Kania, Violetta Król, Jacek Morawski, Andrzej Żbikowski

The lessons are organised in schools all over Poland.

Summary of the BAKCYL project

	2018	2017
Number of volunteers	69	62
Number of lessons	210	313

Social commitment and voluntary service programme

[GRI \[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

As part of our ING Voluntary Services Programme, we encourage employees to show activeness in the fields of financial education, entrepreneurship and local community projects. The formula of the voluntary services programme is open and anybody can get involved the way they like. Our Bank ensures for every employee the option of devoting 8 hours of work per year to voluntary activities. The Bank volunteers closely cooperate with ING for Children Foundation.

In 2018 the employees devoted 5221 hours for voluntary activities. In view of the method of data acquiring – registration of the number of hours in the HR system, we will use this information in our summaries instead of the number of volunteers as previously.

CoderDojo Foundation

CoderDojo is a national community of passionate for new technologies. Poland's first dojo was set up in Zambrów in 2013. CoderDojo is a place to develop technological talents (programming, modelling, graphic design, 3D printing) for children and teenagers. Classes are held away from schools, often in rooms provided by IT companies. The classes are free of charge and the community may be joined by all those who wish to become CoderDojo students or mentors. ING CoderDojo is a new initiative, in cooperation with the CoderDojo Foundation. In Katowice and Siedlce there are "clubs of modern technologies" – dojo. Bank employees – volunteers (23 mentors) hold classes for children in programming, robotics and 3D designing, on Saturdays during the school year. Within ING CoderDojo, the bank held a CodeWeek, organised jointly with the CoderDojo Foundation. Ninety people jointly designed a virtual playground, we also arranged a competition on the Children's Day for our employees' children.

The way to Harvard

In 2018 we started cooperation with Harvard Club of Poland Association to hold a competition for students of junior and senior high schools and of universities who interested in studying abroad – The way to Harvard.

Lesław Paga Foundation

CEE Capital Market Leaders Forum 2018 (December) FINTECH EDITION – within the cooperation we got involved in workshops for 40 students with the participation of ING experts – completed with the publication "Regulated Capital Market in Poland. The Beginnings".

Boston Consulting Group

Under the EmpowerPL100 programme, the group of mentors of exceptionally talented students, studying in Poland and abroad – was joined by Joanna Erdman, Vice-President of the Management Board. 2018 the programme celebrated the 100th Anniversary of Independence. The objective of the organisers was to gather 100 mentors from among the top management and 100 students – Mentees who will collaborate in 2019.

Donations and sponsorship

Donations

In 2018, ING Bank Śląski S.A. made financial and in-kind donations. The Bank made 25 financial donations.

The donations were made pursuant to the Donation Policy of ING Bank Śląski S.A; the Policy sets out the purposes to be supported by the Bank's donations, in the selected community investment areas:

- operations centred around children and youth, including holidays for children and youth,
- science, higher education, school system, education and schooling (including in particular financial education),
- health protection and disease prevention.

Among the donations made by the Bank were the donations in the financial education area: for the Centre for Citizenship Education to support the development of the Entrepreneurial Youth programme, for the Warsaw Institute of Banking to develop the BAKCYL programme, for CoderDojo Foundation for the development of ING CoderDojo. In the tertiary education area, among others, for the Silesian University of Technology to develop the My Idea for Business initiative, and in the healthcare area for the Professor Zbigniew Religa Foundation of Cardiac Surgery Development in Zabrze and the Polish Gastroenterology Foundation.

In line with the approach adopted in 2016, the Bank continued to support local charity organisations in the pre-Christmas season by reallocating for that purpose the funds earmarked for buying souvenirs for corporate and strategic clients. The funds were donated to 9 local organisations, such as Fundacja Zachodniopomorskie Hospicjum dla Dzieci i Dorosłych (Foundation of the Western Pomerania Hospice for Children and Adults), Stowarzyszenie Dzieci i Młodzieży Niepełnosprawnej "Razem" w Drzazgowie (Association of the Children and Youth Together of Drzazgów), Stowarzyszenie Osób Niepełnosprawnych Promyk z Zielonej Góry (Association for the Disabled Sunbeam, Zielona Góra), Fundacja "Dziecięce Marzenia" z Bielska-Białej (Children's Dreams Foundation of Bielsko-Biała)

In 2018, the Bank also transferred in-kind donations such as phased-out IT equipment (in a good technical condition) and office furniture. In-kind donations were made pursuant to the Procedure for the sale/donation/reprocessing of assets at ING Bank Śląski S.A. In-kind donations were given mainly to kindergartens, schools, hospitals, and charities.

Sponsorship

In 2018, ING Bank Śląski S.A. was involved in sponsorship activities targeted at entrepreneurs, young people, activities related to ecology, electromobility, as well as SME owners and management. They were designed to empower and motivate people to stay a step ahead in life and in business.

The most important sponsored events included:

- European Economic Congress in Katowice,
- European Start-up Days in Katowice,
- Run Warsaw,

- Open Eyes Economy in Cracow,
- Impact Fintech in Łódź,
- Smogathon in Cracow,
- Impact Mobility Revolution in Katowice,
- EEC Green, an event accompanying COP24 in Katowice,
- European Week of Sustainable Transport in Katowice.

The Smog Free Tower in Kraków

The Smog Free Tower in Kraków, an outdoor display by Dutch designer and visionary Daan Roosegaarde, was one of the most important events sponsored by the Bank. ING Bank Śląski initiated construction of the tower to draw attention to a necessity of undertaking actions in caring for clean air. The Smog Free Tower is the largest smog cleaner in the world and the first such project in Poland.

European Economic Congress in Katowice

ING Bank Śląski as a Main Sponsor of the European Economic Congress in Katowice and the European Startup Days. These were the largest business meetings in Central Europe, which all together were attended by nearly 14,000 persons. ING experts shared their knowledge and experience in 17 discussion panels. To emphasise its image as a bank for entrepreneurial people, ING Bank Śląski broadcast online two session days of the European Startup Days. EKG Green, where ING Bank Śląski acted as a main sponsor, was the event accompanying the 24th Conference of the United Nations Framework Convention on Climate Change in Katowice. ING representatives attended convention debates, and a film with their participation shot during the event by videoblogger Kasia Gandor had over 50,000 visits on YouTube.

Run Warsaw

ING Bank Śląski S.A. once again cooperated with the organisers of Run Warsaw as the General Partner to the event in 2018. Through its involvement and the event's slogan We transfer heaven to the streets of Warsaw ING Bank Śląski continued its actions as part of #mojepowietrze (my air) in which it supported pro-active attitudes focused on clean air. Additionally, ING Bank Śląski S.A. was involved in sponsoring TEDx Katowice Salon – a series of local events assembling and engaging the local community that teach, inspire with their innovation and engage to undertake

dialogue and actions. It is a series of events promoting valuable ideas in Poland and encouraging putting them into practice.

Fundacja ING Dzieciom [The ING for Children Foundation]

ING for Children Foundation pursues the social mission of ING by supporting development, education and self-reliance of children and youth. ING for Children Foundation is one of the oldest corporate foundations in Poland. The foundation strives after providing equal chances to young people whose adult life initiation is difficult for various reasons.

Voluntary services

ING employees within Good Idea and ad-hoc volunteering actions carried out 85 social projects with the support of the Foundation.

Good Idea

Since 2006, employees have been taking part in the Good Idea voluntary competition. They can win there the subsidies for a voluntary project from ING for Children Foundation. In 2018, our employees – ING volunteers carried out 71 projects for local communities, associations, foundations, community centres and schools. In 2018, 92 people, including one half being new volunteers, took part in the training courses of ING for Children Foundation. The purpose of the training courses was to provide volunteers with substantive and organisational support. The training courses covered, inter alia, cooperation with social partners, social project management, diverse forms of both entrepreneurship and financial education.

Voluntary activities roundup

Year	Good ideas - number of actions	Ad-hoc initiatives - number of initiative	Number of volunteered hours
2018	71	14	5,221
Total amount for the projects	PLN 361,900	PLN 70,804	-
2017	68	11	4,929
Total amount for the projects	PLN 345,2000	PLN 50,000	-

Following the long-standing tradition of social initiatives, employees engaged in charity collections for children. An Orange Schoolbag collection of school supplies was organised in September, while in December the employees prepared Christmas gifts in the Santa's Helpers initiative.

Training for ING volunteers

Training sessions covering work with children and project management were attended by 92 employees.

Smiling Holidays

We arranged 22 Smiling Holidays, including an innovative camp TBRI® (Trust-Based Relational Intervention®). The holidays were attended by 1,085 people.

Run Warsaw 2018

A team of Bank employees participates each year in the "Run Warsaw" event – a 10 km run in Warsaw. In 2018, 708 runner and 585 walker ING employees participated in the event. It is already a tradition that the runners and walkers participating in the event are engaged in ING for Children Foundation's activities. For each person, ING for Children Foundation received a donation from the Bank – overall PLN 100,050. The money, by way of the "Orange Power" competition, is transferred to the social organisations recommended by ING employees; the organisations prepared sports-and-educational projects for children.

Orange Power

In 2018, 1,137 employees selected 9 sport projects that we co-financed by the Foundation for the total amount of PLN 93,600 being the amount for Run Warsaw 2017. Between March and August children were practising new sports and a healthy life style.

Involvement of the ING running team / Orange Power competition

Year	Number of runners	Funds for ING for Children Foundation	Sports projects
2018	708 runners and 585 walkers	PLN 100,050	In 2018, the Foundation called a competition, Orange Power, for the children and youth activating projects. The projects recommended by employees are submitted by social organisations. The projects winning in voting will be implemented in 2019.
2017	803 runners and 266 marching people	PLN 93,600	In 2018, grants for projects were allocated to the following associations: <ul style="list-style-type: none"> – "Helpful Hand" Association for Handicapped Persons in Tarnowskie Góry, – Saint Philip Neri Association in Ruda Śląska, – Students' Sports Club Ronin 1, – Association for Help for Students and Schools "Our Children" at the Janusz Korczak Special School Complex in Mysłowice, – Świetlik Association for Handicapped Children in Pińczów, – "Open Heart" Association in Ruda Śląska, – Physical Culture Foundation Non Iron in Warsaw, – "Hope to the Family" Association in Kielce, – Scouting Association of the Republic, (Poland) – 8th Scouting Team in Gorzów – "Forest Trackers".

Books

We have donated 1739 therapeutic books. A première was held in November of scenarios to the book published by the ING Polish Arts Foundation titled "Bałwan w lodówce" [Snowman in the Fridge]. ING for Children Foundation sent free copies to schools, libraries and NGOs.

Training for ING Day-Care Centres

On 5-6 September in a location of the Foundation in Wisła we received representatives of eight ING Day-Care Centres at a workshop called "New technologies for social change". Afterwards, animators from the Association of Creative Initiatives visited three ING Day-Care Centres and worked on projects with the young people.

Cooperation with imoje

The e-Commerce Innovation Lab team with ING for Children Foundation presented a new very comfortable method to support the activities of the Foundation. The first bank payment gateway in Poland supports a very simple method to provide a donation for our Foundation.

We joined the Donor Forum

The Foundation became a member of the Donor Forum in Poland. The Donor Forum groups foundations and associations that support other entities and individual persons.

ING Polish Arts Foundation

ING Polish Arts Foundation has been building a collection of contemporary arts and promoting young artists. It helps you people to become artists.

Collection

In 2018 the collection was supplemented with 3 new works. The first is a spatial form “SKU” made of plant fibre, silicon and metal, by Iza Tarasewicz from Białystok. The work inspired with the subjects of coding and storage. The thin plant canvass is cut into ribbons of various widths and creates a functional information and identity medium. The other two works were created by Agnieszka Brzeżańska born in 1972 in Gdańsk. The first “Flora” is a rectangular jacquard fabric on a polyester warp. In her work, the artist refers to female body, esotericism, vital energy, fertility. The other work is untitled and is made of glazed ceramics, inspired with Lausitz vases and refers to the “Family Land” series.

The works that are usually exhibited in ING office, happen to be lent to exhibitions in Poland and abroad.

- 1 Tallinn Art Hall, Tallinn, Estonia – Katarzyna Przeważska, Early Polishness, exhibition: “The State Is Not A Work Of Art”, lending time: 16.02. 2018 – 29.04.2018
- 2 EY, Warszawa, 10 works from the collection, exhibition: Bull’s Eye, 1.03–6.05.2018
- 3 Zachęta – National Gallery of Art in Warsaw, 26 works from the collection, exhibition “Wild at Heart”, 03.03.2018 – 06.05.2018
- 4 MOCAK, Kraków, Rafał Bujnowski, Graboszyce, exhibition “Motherland in Art”, 27.04.2018 – 30.09.2018
- 5 Rigas Starptautiska Biennale, Riga, Latvia, Katarzyna Przeważska Early Polishness, exhibition “Everything Was Forever, Until It Was No More”, 2.06.2018 – 28.10.2018

- 6 BWA Katowice, Jerzy Truszkowski, Sarmatian Fair, exhibition “Shade of Freedom”, lending time: 14.11.2018 – 31.01.2019

Cooperation with partners

In 2018 the ING Polish Art Foundation in cooperation with Zachęta – National Gallery of Art prepared exhibition titled “Wild at Heart”. The exhibition was based on the collection of the ING Polish Art Foundation which for years has been collecting works by Polish artists made after 1990. The exhibition presents the curator’s choice who using selected works from the collection told her story about political and economic transformation in Poland. During the exhibition, a series of educational workshops were organised for children and teenagers and guided tours by the curator.

Education – popularisation of art

Educational and popularising activity was pursued in the basis of the book published by the Foundation at the end of 2017 “Snowman in the Fridge” which tells about what artists do and why. The book encourages discovering artistic potential in daily situations and is an excellent starting point to talk about art with viewers of every age. Bartek and his sister Matylda, aged 5 and 8, are the protagonists of the book. Their dad works at an art gallery. They meet artists and see their surprising ideas that sometimes are very serious and sometimes change into great fun.

Scenarios of classes with children aged 6-12 were developed – they refer to individual chapters and the works of the artists mentioned there, they contain ideas and proposals of simple activities that may be supplementary to the book. Jointly with ING Polish Art Foundation, the ING Polish Art Foundation started distributing free copies with the scenarios to schools, libraries and local day-care centres. The book was also used to organise a number of workshops and meetings – e.g. winter holidays with the Snowman in the Fridge at the National Museum in Warsaw. “Snowman in the Fridge” was nominated to a prize in the Most Beautiful Books of the Year competition at the 9th Warsaw Book Fair.

In 2018 the Foundation continued a cycle of educational activities addressed to our Bank's employees. There were guided tours of the collection, meetings with artists whose works are exhibited at the Bank, joint outings to exhibitions and classes for children.

Prizes of the Polish Art Foundation

In the 8th edition of the Warsaw Gallery Weekend, the largest cyclical review of contemporary art in Poland, organised by private galleries, the Foundation awarded two prizes. The international jury, established with the initiative of Thiago de Paul Souza, co-curator of the Berlin Biennale, selected the artist participating in the event whose works were

purchased for the collection of the Foundation. Agnieszka Brzeżańska, represented by BWA Warszawa gallery was selected due to her artistic practice of return to energy and emotional sources that in the course of history have been intentionally erased from collective awareness and forgotten. A special cash prize was awarded to Dominika Olszowy who prepared a scenographic frame to exhibition “If I were the moon” in the Raster gallery for her lively and original works in various spaces – theatres, galleries and specially in the Internet.

With the prizes, the Foundation not only wishes to show its appreciation to Polish artists but also support WGW galleries that have been building a position of Polish artistic scene in the international art market. It is thanks to their work that the artistic scene in Warsaw is among the most active ones in Europe. The Warsaw Gallery Weekend was an opportunity to visit exhibitions but also to buy works of art. Private sponsorship is required to develop Poland’s artistic scene and to show support to Polish artists. Thus, we encourage private persons and enterprises to start the extraordinary adventure which is art collection.

Education of future artists – Professional Artist

The ING Polish Art Foundation for the second time organised an educational project Professional Artist at eight artistic universities in Poland: in Gdańsk, Katowice, Kraków, Poznań, Szczecin, Toruń, Warsaw and Wrocław. The objective of the project was to provide knowledge to students of artistic universities on the actual functioning of the world of art so that their confrontation with the world at large does not come as a shock to them. The lectures covered operational mechanisms of the art market and practical aspects of artistic work – how to develop a portfolio and how to have it insured, what should be noted when signing contracts or looking for a gallery to arrange the first exhibition or when to go away for residential studies. The second project edition was attended by 879 participants.

At that occasion, a sociological study was held to provide a view who today’s students of artistic universities are, their aspirations, images on the profession of an artist and how to get ready to it. The results were published in a report published in the September issue of Magazyn Szum devoted to art and artistic criticism. The publication of the results was accompanied by a debate organised in November at the Academy of Fine Arts in Warsaw, broadcast over the Internet.

Non-financial statement

The Management Board of ING Bank Śląski S.A hereby presents the 2018 Non-financial statement as per Articles 49b and 55 of the Accounting Act (Journal of Laws 1994.121.591 as amended).

The Management Board Operations Report - 2018 has been prepared in accordance with the IIRC integrated reporting directives and GRI Standards; the Non-financial statement is a part thereof.

Business model

How does ING Group operate in Poland

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

We have been present in the Polish banking market since 1989. We enjoy the position of one of the largest all-round banks in Poland. We render services to both retail clients and business entities. As at 2018 yearend, we operated through 337 branches and 63 ING Express points. We also offer modern online and mobile banking systems.

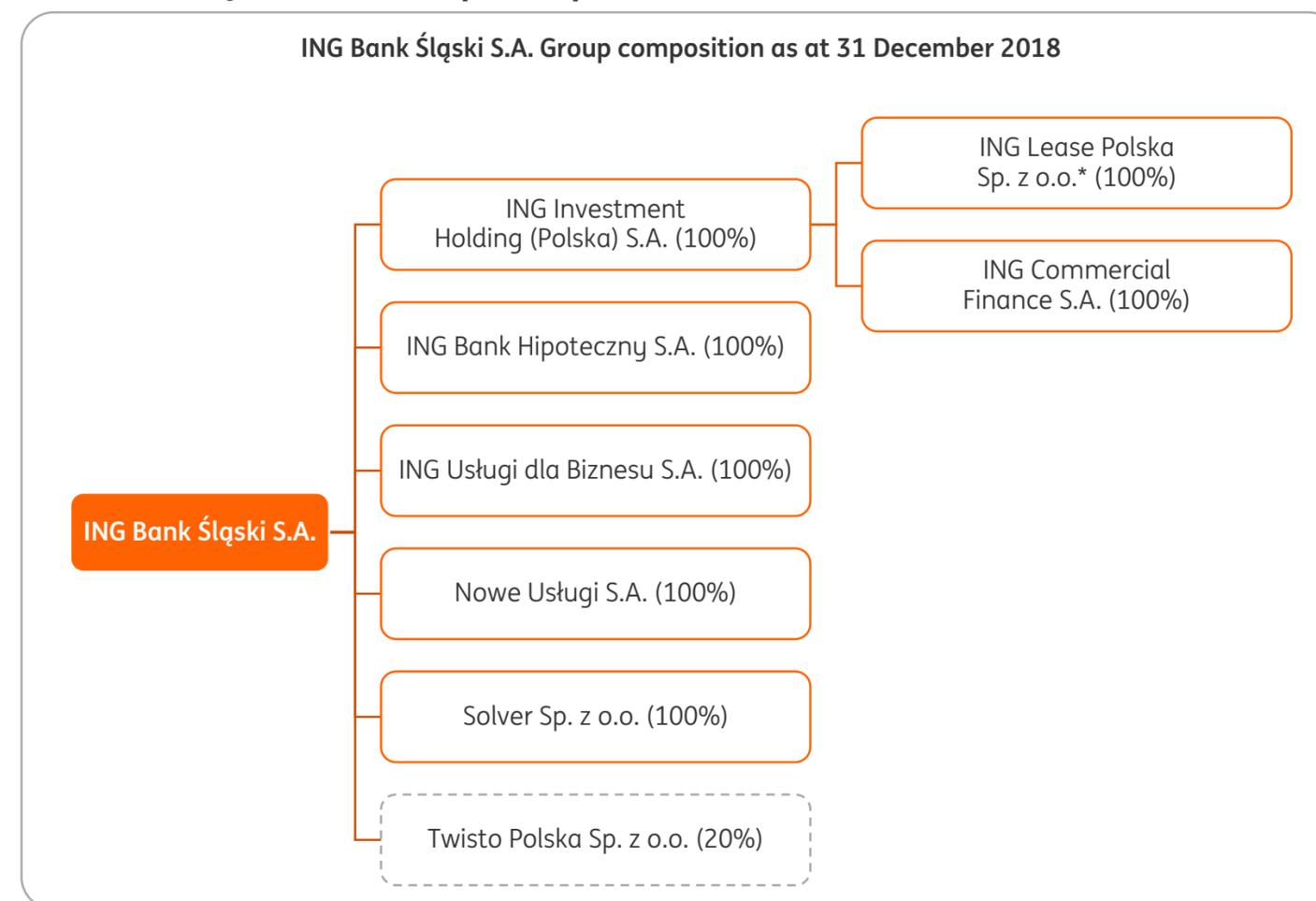
Our organisation has two main locations – in Warsaw and in Katowice. This is where we take the most important decisions concerning the operations of our Bank. The Management Board and Supervisory Board are seated there as well. ING Bank Śląski S.A. is formally registered in Katowice. As at the end of December 2018, as a Group we employed over 8,000 people.

We pursue our business model by enabling easy saving and easy lending, organising the payment and transactional system, and providing high customer service quality.

ING Bank Śląski S.A. is part of a bigger organism – ING Bank Śląski S.A. Group. We form the Group together with the subsidiaries, where we operate in the area of: leasing, factoring, financial advisory and intermediary services, and payroll and accounting services, for example.

Information supplementing this topic can be found in the chapter “About us” in point “Who we are”.

ING Bank Śląski S.A. Group composition



*The ING Lease (Polska) Group is composed of 9 subsidiaries wherein ING Lease (Polska) Sp. z o.o. holds 100% of shares.

Information supplementing this topic can be found in the chapter “About us” in point “Who we are”.

Value creation model

Together with the Management Board and senior leaders, we have developed a detailed value creation model. The value creation model is our reply to the questions about: what value we create for our clients, shareholders, employees and social environment and how it is measured and maximised. All this is to help us constantly improve the strategic management of our organisation. Key values we provide to our stakeholders are:

- customer experience,
- supporting sustainable development,
- risk and security management,
- Engaged employees and a strong employer, and
- stability and predictability.

Each of those values encompasses detailed goals.

More information about our Value creation model is available in Chapter “How we create value”, in item “Value creation model”.

Business strategy

In 2014, ING Group implemented the Think Forward strategy. We want to be perceived as a bank of the future for the enterprising. The one that delivers practical solutions to its clients, the solutions they need and will be willing to use. Our clients as well as the audience of our commercials probably associate us with the catchphrase: “It’s the people that count”. And that’s right, as we want people to be able to pursue their goals with our support. Often, we help them even become aware of and name their goals.

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

And also from supporting our clients in their development. We want them to make informed choices.

Strategy of the ING Group

► Purpose

Empowering people to stay a step ahead in life and in business.

► Customer Promise



Clear and easy



Anytime, anywhere



Empower



Keep getting better

► Strategic Priorities

Creating a differentiating customer experience

- 1 Earn the primary relationship
- 2 Develop analytics skills to understand our customers better
- 3 Increase the pace of innovation to serve changing customer needs
- 4 Think beyond traditional banking to develop new services and business models

► Enablers

Simplify & Streamline

Operational Excellence

Performance Culture

Lending Capabilities

More information on the business strategy can be found in the chapter "How we create value" in the "ING Bank Śląski strategy".

Trends and factors affecting us

Condition of the economy and economic events

Economists at our Bank expect a growth of GDP in 2019 to slow down to 3.6% from 5.1%. Lower growth is primarily the effect of a decline in the growth rate of household spending - it is expected to slow down from 4.6% to 3.7% y/y. The weaker contribution of consumption is due to the stagnation of wage growth observed already at the end of last year, the slowdown of the dynamic inflow of workers from Ukraine, but also the increase in new burdens for companies, or the uncertain economic situation on export markets. Investment growth rate will probably also slow down – in the opinion of economists of ING Bank Śląski S.A. from 8% to 5.8% y/y. The forecast reflects e.g. smaller

expense plans of local governments, or still uncertain international environment. The downturn among Poland's main trading partners also suggests a deterioration in net exports, although probably on a much smaller scale than last year.

For more details about the expectations of our economists see Chapter "How we create value".

Regulations of the financial sector

Local and European regulations have a huge impact on the operations of the Bank and our subsidiaries. 2018 saw a gradual implementation of significant EU regulations: MiFID 2 (regarding the distribution of financial products), GDPR (regarding the processing of personal data), and PSD 2 (regarding payment services). The split payment implementation also had its impact. 2019 is a period of many changes in taxation, both for private individuals (our clients) and legal persons.

For more details about the expected regulatory changes see Chapter "How we create value".

Challenges to the sector

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

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

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

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

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

Key non-financial performance indicators

ING Bank Śląski S.A.

	2018	2017	Change 2018 / 2017
Number of clients per FTE	638	603	5.8%
Commercial balance per FTE (PLN million)	28.6	24.8	153%
Trips by company cars (km)	22,827,141	23,608,516	-3.3%
Employee turnover ratio	6.9%	8.2%	-1.3 p.p.

ING Banku Śląskiego S.A. Capital Group

	2018	2017	Change 2018 / 2017
Number of clients per FTE	605	575	5.2%
Commercial balance per FTE (PLN million)	27.6	24.3	13.9%
Average power consumption per FTE (kWh) *	3,810	3,965	-3.9%
Average water consumption per FTE (m3) *	7.1	7.0	2.0%
Trips by company cars (km)	26,450,992	26,829,329	-1.4%
Employee turnover ratio	7.0%	8.2%	-1.2 p.p.

*Consumption per average number of FTE per year (counted as an average over the last 5 quarters)

Applied policies related to non-financial issues and due diligence procedures

Social area-related policies

In our social activities we mainly focus on financial education and support for entrepreneurship and on activities aimed at ensuring equality of opportunities. We pursue goals related to those activities under the *Sustainability Strategy for 2018-2021* in the area of the Bank for Entrepreneurial People and the Bank of Equal Opportunities. In the

area of the Bank for Entrepreneurial People we provide access to financial education to people who want to learn, to both children and adults. We have been increasing the number of beneficiaries of financial education activities and programmes. In the area of the Bank of Equal Opportunities we remove barriers to access our services. We develop standards and tools that enhance the scope of simple communication.

In the social area we are active ourselves and through two corporate foundations: ING for Children Foundation and ING Polish Art Foundation.

Since 2007 employees of the ING Group may use formal and legal solutions provided for the *Labour-By Laws* that facilitate voluntary activity. We warrant our employees 8 hours of work which they can use for voluntary activity. Volunteers carry out undertakings for schools, kindergartens, NGOs, and hospitals. They teach basics of finance and entrepreneurship. Together with kids, they refurbish, read, play sports or partake in blood donation initiatives and charity runs. Before Christmas, they prepare Christmas parcels for children at hospitals, community youth centres and children's homes. Since 2006, employees of ING Group have been participating in the Good Idea voluntary competition. They can win there the subsidies for a voluntary project from ING for Children Foundation. In 2018, our employees – ING volunteers carried out 71 projects for local communities, associations, foundations, community centres, and schools, including 42 educational projects. Most often, employees devote their working times to do volunteering.

We receive many sponsorship offers and proposals, as well as donation requests. The Bank has the *Charitable Donations Policy at ING Bank Śląski*. This Policy sets out the principles of awarding and transferring charity donations. In 2018 ING Bank Śląski S.A. made financial and in-kind charitable donations. The Bank made 25 donations. ING Lease sp. z o.o. has its own policy of donations. Other companies do not have their own policies of donations in place. Nonetheless, if needed, donations are made pursuant to resolutions of the management board. We also have the *Sponsorship Policy at ING Bank Śląski*, which is further supplemented with detailed provisions of the *Principles of Sponsorship at ING Bank Śląski*. In 2018 ING Bank Śląski S.A. was involved in sponsorship activities targeted at entrepreneurs, young people, activities related to ecology, electromobility, as well as SME owners and management. They were designed to empower and motivate people to stay a step ahead in life and in business. The ING Group companies do not have their own sponsoring policies in place.

Policy deliverables

The policies on social issues and the *Labour By-Laws* have no measures defined to determine achievement of the goals of those policies. Those measures are defined in the goals of the Sustainability Strategy of ING Bank Śląski S.A.

Policy deliverables of social area-related policies

Goal	Success measures as at the year-end 2018	Execution
The Bank for Entrepreneurial People		
We provide access to financial education to people who want to learn, to both children and adults. We have been increasing the number of beneficiaries of financial education activities and programmes.	Increase by 10%	<ul style="list-style-type: none"> - In 2018 the number of projects related to financial education grew under the Good Idea programme. Out of 73 projects 45 were devoted to education (62%) compared to 2017, when out of 71 project, 42 were educational (59%). - The number of students participating in the Entrepreneurial Youth Programme slightly declined from 610 in 2017 to 600 in 2018. A new event was an Entrepreneurial Youth Gala that was held at the corporate offices of ING Bank Śląski. It hosted 12 teams presenting their projects. - The number of our volunteers, who participated in the Bakcyl Programme increased from 62 to 69 (11%). In 2018 they gave 210 lessons.
The Bank of equal opportunities		
We develop and implement a plan of actions supporting clients with disabilities.	Implementation by the year-end 2018	<ul style="list-style-type: none"> - We are striving to make our branches accessible to everyone, including those with disabilities or those who visit us with prams. We design the interior to suit their needs and we eliminate barriers. In 2018 we liquidated architectonic barriers in 22 retail branches. Additionally, 29 of our branches were provided with ramps and calling bells. At the end of 2018, 88% of our branches had no architectonic barriers and 91% were without barriers or the barriers were eliminated (mobile ramps). - In addition, in all our branches clients have access to a sign language interpreter using the Migam application that is available on telephones or tables of our professionals.
We continue to further simplify and promote "Po prostu" communication. We develop standards and tools that enhance the scope of simple communication.	Simplification of 2,000 external and internal messages	<ul style="list-style-type: none"> - So far we have succeeded in simplifying 2,015 internal and external messages.

Employee issues-related policies

The Group has 8,000 employees. To ensure that we are legally-compliant in business, we apply numerous documents which govern employee aspects.

The Labour By-Laws of ING Bank Śląski S.A. which define the organisational framework and workflow, as well as the related rights and obligations of the employer and employee is the key document. Their provisions apply to all employees, regardless of their position, type, and work time regime, or the term of the contract of employment. At the Bank, we have more favourable solutions concerning occasional leaves than provided for in the Regulation of the Minister for Labour and Social Policy of 15 May 1996 on the manner of explaining one's absence from work and granting employees the leaves of absence. Further, parents with disabled children are eligible for extra 5 days off during the calendar year. All entities of the Capital Group have separate regulations adapted to the organizational needs of individual companies, which remain consistent with the banking regulations.

In 2018 the Bank's Management Board took a decision on introducing in 2019 monthly permanent financial allowances from the Company's Social Benefits Fund to employees with a moderate or significant degree of disability or to those who rear children with disabilities. First disbursements will be made in January 2019. Moreover, we offer a possibility of having additional 2 days off for employees with a mild degree of disability and to those looking after their next of kin (spouse/partner, parents, in-laws, grandparents) with a specific degree of disability.

The provisions of the Labour By-Laws are, among others, supplemented by the ING Diversity Manifesto that has been adopted by all ING Group entities worldwide and the Diversity Policy which defines the areas and lays down the manner of diversity management at our Bank. In ING we believe that everybody has large potential they can make full use of. We expect however that our employees will treat one another with kindness and respect.

The Orange Code is another important element of employee-related aspects. This applies to all employees of the capital group. It is a set of Values, or promises which we make to the world and Behaviours or commitments which we as co-employees make to one another.

At the Bank we have the Procedure of upgrading professional qualifications which governs the scope of rights and obligations of employees and the employer in the context of upgrading professional qualifications, understood as studies at various levels, post-graduate, and MBA ones included. In the regulation, we have set the terms on which employees may obtain tangible privileges due to studying like extra days off or refunds.

The procedure concerning advancement in the command of a foreign language lays down the framework of and the main terms on which funding of the English language course can be obtained; employees and their superiors can choose and are responsible for course realisation.

Based on the Orange Code, we introduced the Business Ethics Standards which apply to employee conduct due to performance of their professional duties; they may also concern their private activities which may negatively affect Bank's reputation and give rise to a conflict of interest. The rules of professional ethics are also enforced at the level of subsidiaries.

Further, employee-related aspects are an element of the Sustainability Strategy of ING Bank Śląski S.A.

Goals concerning employee-related issues are in the area of the Bank of equal opportunities and in 2018 they concerned persons with disabilities.

Policy deliverables

Policy deliverables of employee issues-related policies

	2018	2017	Change 2018 / 2017
Headcount (persons)			
Bank	7,665	7,661	0.1%
Group	8,086	8,032	0.7%
Average length of service (years)			
Bank	11.9	11.4	4.4%
Group	12.2	12.2	0.0%
Remuneration of the bottom-level employees vis-à-vis the market* (%)			
Bank	119%	143%	-24 p.p.
Group	119%	143%	-24 p.p.
Ratio of basic salary of women to men (%)			
Bank	99%	97%	-2.0 p.p.
Group	99%	99%	0.0 p.p.
Parental leave returns** (%)			
Bank	99.7%	100%	-0.3 p.p.
Group	99.7%	100%	-0.3 p.p.
Employee turnover ratio (%)			
Bank	6.9%	8.2%	-1.3 p.p.
Group	7.0%	8.2%	-1.2 p.p.

* base remuneration vis-à-vis the banking sector; ** save for the persons for whom the temporary contract of employment came to an end or who tendered resignation letters themselves

Natural environment-related policies

Environmental protection and sustainable growth are an important factor of our long-term strategy. We are aware of the perils arising from the excessive usage of natural resources. We are trying to counteract climate changes. We know that each aspect of our business has an environmental impact. We deeply believe that caring about the environment is not only the good will. It is our duty and an inherent element of doing business. Therefore, we proactively support and promote solutions related to the environmental protection.

Towards the end of 2017 we announced the Green Statement in which, among others, we committed ourselves to support areas, such as:

- Projects on renewable energy sources executed by electric power groups,
- Projects supporting development of modern energy transmission and distribution infrastructure,
- ESCO projects consisting in offering complex energy-related solutions that contribute to energy savings,
- Projects supporting electromobility,
- Other projects aimed at preventing pollution and increasing recycling possibilities.

At the same time, we intend to increase our exposure to funding project related to green energy. We want to help clients in energy transformation and switching to low-emission business. In parallel, we internally pursue eco-friendly activities.

The year of 2018 was a breakthrough for the Bank as regards the initiatives undertaken in line with the Green Statement

Our activities and goals concerning our environmental footprint are managed through ING Environmental Programme that has established the Environmental Management System (EMS). It provides for effective processes and continued improvement of our efficiency. Our goals for 2020 relating to the improvement of our ecological operational efficiency are:

- We will reduce our CO2 emissions by 84% by 2020 (2014 being the base year).
- We will reduce our water print by 20% by 2020 (2014 being the base year).

Under the Sustainability Strategy for 2018-2021 we have set a direction for the Bank of green investments and the ecologically aware Bank that are to help us in attaining the assumptions of the Green Statement and the ING Environmental Programme.

The *General Principles of Environmental and Social Risk* indicate business activities in which the Bank does not invest due to especially high risk of an adverse impact on the natural environment and the principles of sustainable development. We require that our clients to run their businesses in compliance with the regulations governing social and environmental issues and that they should have all permits and licences required under the law. The *General Principles* are applied to clients to whom we offer lending products. We do not establish relations with clients whose core business activity is covered by the Policy of Exclusions.

Detailed policies concerning the natural environment relate to the following areas:

- Well-being of animals,
- Forestry and plantations,
- Industrial processing,
- Chemical industry and utilisation of chemicals,
- Hard coal mining, coal-fired power industry, and related businesses,
- Other mining and power industry, petrochemical industry and metal manufacturing.

Our actions comply with business ethics, and we strive for transparent relations with vendors. Our vendors undertake to abide by the *Vendors Code of Conduct* which promotes human rights, fair market practices, environmental protection, and counteracting corruption.

Policy deliverables

Policy deliverables of natural environment-related policies

Goal	Success measures as at the year-end 2018	Execution
The Bank of green investments		
<p>We have been implementing the assumptions of the Green Statement. We restrict cooperation in the area of lending with companies that generate the majority of their revenues from the production and/or sales of hard coal. We are planning to end that type lending business by 2025. At the same time, we support projects in the scope of renewable energy sources and electromobility.</p>	<p>At least 3 projects focus on care about the natural environment.</p>	<ul style="list-style-type: none"> - In 2018 we completed a large project called My Air. It included a campaign "Do we Poles have anything in common? You can't see it. Because it is the air". As part of the campaign we encouraged Poles to a proactive attitude for the sake of the clean air. The campaign accompanied the introduction of energy efficient products and solutions into the financing offer under which we waive commissions for its provision. As part of the offer of loans and borrowings for retail clients and businesses, we offered promotional financing for products and solutions that contributed to the reduction of conventional energy and the increase of clean energy consumption. We initiated the construction of the Smog Free Tower to draw attention to a necessity of undertaking actions for the clean air's sake. The #mojepowietrze action encouraged Poles to take an active attitude for the clean air's sake. Web surfers shared their ideas about combating the smog. - In 2018 we continued our activities as part of electromobility development. We initiated cooperation with 4 partners supplying electrified cars and charging stations and electric scooters. - Under the partnership with Innogy, apart from signing the letter of intent, we successfully conducted a pilot project of leasing electrified cars pursuant to the rules of car sharing, and in July 2018 we launched 10 new charging stations in the Janki Shopping Centre. - In November 2018 we signed a letter of intent on joint activities with ENGIE Technika Instalacyjna. Electromobility development and solutions in the area of energy efficiency mark the scope of the cooperation initiated between ENGIE and our Bank. - In December 2018 we started a pilot carsharing project and launched first charging stations for electrified cars in Katowice. 23 charging stations and 20 electrified cars are the basis for an electromobility system being launched by the Bank Tauron. - Last year we also successfully tested rental of electric scooters. As part of the cooperation with Jeden Ślad, a company operating a network of urban scooters, in June 2018 we provided 50 scooters in Katowice, and in August 60 ING electric scooters in Warsaw. - In 2018 all our investments were subject to risk assessment in terms of a socio-environmental impact in line with the ESR Policy.
<p>All our investments are subject to risk assessment in terms of a socio-environmental impact in line with the ESR Policy.</p>	<p>100%</p>	
<p>We promote the assumptions of the circular economy. We see a chance and potential for as a partner in at least 2 business in that area. We are active in inspiring and knowledge sharing.</p>	<p>The Bank's involvement as a partner in at least 2 external conferences</p>	<ul style="list-style-type: none"> - Pursuant to a goal of the Sustainability Strategy in 2018 we promoted the assumptions of the circular economy. - Together with Deloitte and other partners we published a report on "Circular Flow - Open Opportunities" about the circular economy that was first disclosed at EEC Green. The purpose of the report is to look at a situation in Poland and identify opportunities that the circular economy creates. The report was present to conference participants during EEC Green. We were the main partner of EEC Green and Open Eyes Economy. Panel sessions on the circular economy were held during both events.
<p>We are in active dialogue with non-governmental organisations (NGOs).</p>	<p>At least 4 meetings</p>	<ul style="list-style-type: none"> - There were 4 meetings with various non-governmental organisations held in 2018.

Policy deliverables of natural environment-related policies

Goal	Success measures as at the year-end 2018	Execution
The ecologically aware Bank		
We carry out activities that are aimed at reducing the carbon footprint.	The carbon footprint down by 84% by 2020 compared to the 2014 level.	- At 79% against the 2014 base year. It is a long-term programme, however, we are on a good route to reach the target.
We have been lowering water consumption, increasing recycling of waste.	Water consumption down by 20% by 2020 compared to the 2014 level, 100% recycled waste by 2020.	- Lowering water consumption is currently at 13% compared to the 2014 base year. As of 2016, 100% of all waste produced by the employees (paper, waste electrical and electronic equipment, toner cartridges, or furniture) has been subject to recycling. All communal waste is collected by communes, and is not subject to recycling by the Bank.
We promote pro-environmental initiatives in our own business (e.g. a fleet of electrified and hybrid cars).	<ul style="list-style-type: none"> - Replacement of another 6 internal combustion engine cars on duty with electrified cars. - Erection of 3 charging stations for electrified cars next to our branches. - Training of some 50 in eco-driving 	<ul style="list-style-type: none"> - In 2018 we purchases and brought to use 7 new electrified cars that replaced internal combustion engine cars. Thus, our fleet now has 11 electrified and 6 hybrid cars. We have been erecting car charging stations, too. - At the year-end 2018 we had 8 own charging points in Katowice, Łódź, Kraków, Warsaw, Gdańsk, and Wrocław. - In 2018 we trained 18 persons in eco-driving.

Respect for human rights-related policies

Group activities affect diverse groups of stakeholders like clients, employees, and vendors. Representatives of each of these groups may and should expect fair treatment from us. In our business, we commit to respect and promote human rights with regard to all people we collaborate with.

The human rights-related aspects can be found in a few documents. For employees – the provisions of the *Labour By-Laws of ING Bank Śląski S.A.* are fundamental in this regard. They read that as the employer we undertake to respect the dignity and other personal rights of employees, abide by the principles of equal treatment, while establishing and terminating the employment relationship, in relation to terms of employment, promotion opportunities, or access to training. Further, we commit ourselves to counteracting mobbing. All entities of the Capital Group have separate regulations adapted to the organizational needs of individual companies, which remain consistent with the banking regulations. In 2018 we were working on the *Policy of Caring about Working Environment Free from Discrimination and Mobbing* and the *Procedure of Handling the Suspected Occurrence of Adverse Events*. The Policy and the Procedure will come into effect in 2019. Additionally, each employee will be obliged to undergo e-learning course on “Work free from discrimination and mobbing”. The Procedure also lay down how to report (whistleblowing) the occurrence of events that may be improper and how verification of reports and explanatory proceedings look like.

The *Labour By-Laws* are completed by the provisions of the *Orange Code*, among other documents. In this paper, we clearly describe the values we believe in and the behaviours one can expect from us. The *Orange Code* promotes integrity, common sense and accountability, for example. . It is applied in many banking processes, e.g. in the employee performance evaluation (*General Terms and Conditions of the Annual Performance Appraisal Interviews at ING Bank Śląski S.A.* and *General Terms and Conditions of Bonus Award to Employees of ING Bank Śląski S.A.*). Further, it is an important element of the recruitment process and corporate culture. This also applies to employees of subsidiaries.

The *Diversity Policy* is another document which supports us in complying with and promoting human rights. The Policy is designed to build the awareness of the organisation in which the principles of equal treatment are applied, meaning no discrimination whatsoever, both directly and indirectly, because of: gender, age, disability, lifestyle, form, scope, and basis of employment, other cooperation types, as well as other triggers of discriminatory behaviours. Additionally, in January 2016 the Management Board of ING Bank Śląski adopted the *ING Diversity Manifesto*. Adoption of various perspectives is a driver of innovation, supports growth, adoption of proper decisions, and better performance delivery.

Through the *Manifesto* we want to express our openness and responsibility and knowingly affect mutual respect. We do care about creating a friendly workplace in which everyone can feel themselves. The *ING Diversity Manifesto* has been adopted by all ING Group entities worldwide. Employees may report all irregularities relating to violations of

human rights using a special form, i.e. Whistleblowing. The form is anonymous and all Group employees can submit their reports. Reports are received by the Director of the Compliance Department, who will inform the President of the Management Board and agree with him actions to be taken. If a report is confirmed, appropriate corrective and preventing measures are taken for the future.

There were 9 reports made in 2018. After analysis and explanatory proceedings, irregularities were confirmed in 2 cases and corrective measures were applied.

The *General Principles of Environmental and Social Risk* indicate business activities in which the Bank does not invest due to especially high risk of violation of human rights. We require that our clients to run their businesses in compliance with the regulations governing social and environmental issues and that they should have all permits and licences required under the law. The *General Principles* are applied to clients to whom we offer lending products. We do not establish relations with clients whose core business activity is covered by the Policy of Exclusions. The key environmental and social risks related to violations of human rights as a result of forced labour, child labour, inappropriate working conditions, use of violence, predominantly occur in forestry and plantations and industrial processing.

All Group vendors represent that they observe the standards set out in the *Vendors Code of Conduct of ING Bank Śląski S.A.* Its observance is a prerequisite for starting and continuing cooperation with the Group. The key standards include: observing the applicable laws in relations with the employees, including the employees' rights, as well as respecting their personal dignity, privacy, and individual rights. Vendors should also provide their employees with safe and harmless workplace in health terms and consider environment protection by striving for reducing environmental burden as part of their business and they ought to undertake actions leading to environment improvement. Moreover, vendors should observe prohibition of forced labour, child labour, corruption, and discrimination.

Policy deliverables

The *Orange Code* is an element of the annual performance appraisal process at ING Bank Śląski S.A.

- In 2018, 100% employees underwent the annual performance appraisal (long-term absences excluded).
- We apply the *Vendors Code of Conduct of ING Bank Śląski S.A.* to all suppliers, regardless of their place of business.
- 100% vendors of ING Bank Śląski S.A. declare to comply with the standards of the *Code*.

Anti-corruption policies

As a public trust organisation, the Bank sees anti-corruption practices as the top priority in its relationships with clients, business partners, and among employees. Any and all forms of bribery or corruption are absolutely forbidden. All Group employees are required not to accept any actions suggesting an attempt to commit a crime or of corruption. The *Regulations – Employee Business Ethics Standards of ING Bank Śląski S.A.*, which lay down the principles of conduct for each employee in the context of anti-corruption and combating conflicts of interest, information protection, and the whistleblowing procedure is the formal document regulating those aspects.

The anti-corruption aspects are detailed in the *Anti-Bribery and Corruption Policy* which all our employees are required to comply with. The *Policy* provides for the restrictions on accepting and giving material and non-material benefits in contact with clients, business partners, and public servants as regards:

- gifts or invitations to events,
- cash or its equivalents,
- trip or accommodation funding,
- hiring a given person by the Bank or offering him or her a traineeship or internship,
- sponsoring or charity donations by the Bank,
- business meals,
- relationships with business partners.

In line with the accepted *Policy*, the Group follows the rules of integrity and ethics and applies the “zero tolerance rule to unfair behaviour”.

Should an employee accept or give gifts or benefits due to the participation in events – such an action always needs to be rationalised in business terms and the value of such benefits must be proportional to the specific nature of a business relationship. There must be always a legally compliant purpose of accepting or giving benefits. No such action can entail a conflict of interest, or even imply that such a conflict has occurred. The Bank disapproves giving benefits being political donations on its behalf. Staff decisions concerning employee hiring and secondment have to be substantiated with professional and objective criteria and they cannot serve illegal exertion of influence. The *Policy*

provides for the amount thresholds on the benefits being gifts and participation in events which can be given or accepted by our employees.

Furthermore, the Group maintains a Register of Benefits. Accepted or given gifts, participation in events or business meals – in contacts with clients, business partners, and public servants – need to be reported depending on their value. The above rules are an element of the *Anti-corruption Declaration ING Bank Śląski S.A.*, which is always enclosed with agreements made with vendors. As per the *Declaration*, the Group disapproves of actions which satisfy the criteria of or imply bribery, and expects its business partners to comply with the anti-corruption standards. Further, the Group does not cooperate with business partners who do not accept our standards.

All employees are required to report corruption- or conflicts of interest-related irregularities. Infringements of the above regulations and laws can be reported in person or anonymously via the whistleblowing procedure set out in the *Whistleblowing Policy for Infringements of Law, Internal Regulations and Ethical Standards*.

Compliance with policies is also ensured at the level of subsidiaries.

Policy deliverables

The *Anti-Bribery and Corruption Policy* and the *Regulations – Employee Business Ethics Standards of ING Bank Śląski S.A.* are among the employee-related documents whose knowledge each employee affirms upon being hired by the Group.

Furthermore, anti-corruption and conflict of interest training courses are conducted. In 2018, the following training course was held: Compliance risk and business ethics was completed by 98% of the Bank employees.

That the Group's principles of ethics and the *Anti-Bribery and Corruption Policy* are implemented is confirmed by the fact that no criminal proceedings were instituted in that regard towards the Group or its employees.

Description of non-financial risks

GRI [102-11]

The non-financial risk covers the operational- and compliance risk management functions based on the common framework which lays down clear rules and standards of risk identification, assessment, monitoring, mitigation and reporting. Non-financial risk management processes are supervised by the Non-Financial Risk Committee established by the Bank Management Board. The Bank Management Board accepts the joint Non-Financial Risk Appetite

Statement which is approved by the Supervisory Board. Compliance with the declared risk appetite is monitored using the periodic Non-Financial Risk Dashboard.

The common non-financial risk management framework enables us to identify the main threats and gaps as well as related risks which may trigger undesirable events. We are supported by such processes as risk and control self-assessment, scenario analyses, monitoring of key risk indicators or key control testing. Results of internal and external event analyses are continuously used to improve the adequacy and effectiveness of the internal control system of the Bank.

We believe that an effective control environment is indispensable to build and maintain a sustainable business, and that it also helps to maintain and increase the trust of clients, employees and shareholders.

Operational risk

Introduction

We understand the operational risk as the risk of direct or indirect loss from inadequate or failed internal processes, people and systems, or from external events. We recognise the legal risk as an element of the operational risk.

The definition of operational risk is broad and covers the following areas:

- Control risk,
- Unauthorised activity risk,
- Processing risk,
- HR and workplace security risk,
- Staff and physical security risk,
- IT risk,
- Business continuity risk,
- Internal and external fraud risk.

Definitions of the above risks were presented in the Consolidated Financial Statement of ING Bank Śląski S.A. Group for the year 2018 on page 194.

Operational risk management process

Our operational risk management goal is a continuous improvement of the Bank's and clients' security as well as reduction in the Bank's operating costs and improvement of the operating effectiveness.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing the operational risk. It implemented a coherent set of internal prescriptive documents. The said documents define the scope, principles and duties of organisational units and employees aimed at limiting the impact and probability of financial and reputational losses in that area. The operational risk management strategy of our Bank takes account of legal- and regulatory requirements and uses ING Group good practices.

Furthermore, in liaison with the Supervisory Board, the Bank Management Board adopted the Risk Appetite Statement, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full compliance with the law and regulations. Limit utilisation is monitored and presented periodically to the Management Board, Risk Committee and Supervisory Board. The operational risk management system applies to all spheres of our own- and our group operations, cooperation with clients, vendors and partners. It forms a consistent, permanent practice. It covers the following elements:

- risk identification and assessment,
- risk mitigation and issue tracking,
- control, and
- quality assurance and monitoring.

Our Bank manages operational risk using the following general principles:

- we maintain a complete, consistent and transparent structure of operational risk management and clearly stated scope of duties and responsibilities,
- we identify the nature of internal and external environments – including limitations and vulnerabilities – we draw conclusions from internal and external events to determine the root cause of an event and identify potential irregularities in the control environment or determine unidentified risk exposures,
- we identify root causes, types and levels of risk we are ready to accept. We set standards of control activities and mitigating measures,

- we operate effective and consistent risk identification and control for all products, activities, processes and systems functioning at the Bank,
- we monitor and report the amount of required capital, risk profile and risk exposure,
- we repeatedly highlight to need to raise awareness of employees and managers. We ensure that employees are properly qualified to perform non-financial risk management activities and equipped with proper tools.

Effectiveness of risk management processes and high quality of used data are the priority.

We find the following to be the key risk drivers are:

- employee knowledge and competence,
- working conditions,
- proper segregation of duties and supervision of their fulfilment,
- information (technology) security level,
- integrity of business processes and IT and technical systems,
- outsourcing,
- quality of internal and external documentation,
- external events associated with changes in the business environment,
- natural disasters, failures and catastrophes.

Cybersecurity

2018 was full of events relating to the publication of updates from various vendors on new gaps in IT products security and on methods of hacking and cracking, cybercrimes and cyber fraud committed all around the world. We can identify the following trends on the basis of those reports:

- the share of fraud and the advancement of social engineering methods used against private individuals are on the rise,
- the number of attacks and the technological sophistication of malware attacks are also on the rise,
- targeted attacks on companies and institutions (mainly financial ones) performed by well-organised cybercrime groups become more and more sophisticated.

Bearing in mind the current trends, the Bank consistently adapts its own cybersecurity system both at the local level and within the entire ING Group in order to prevent cybercrimes against the clients, employees and the Bank's ICT system.

We keep improving security solutions and systems to protect our clients and the Bank itself and we perform continual tests of their actual effectiveness; to that end, we perform penetration tests of the banking infrastructure and applications; Advanced Persistent Threat, or APT, tests; the Distributed Denial of Service, or DDoS, resiliency tests and many other.

We maintain and update the existing tools, and implement new ones that allow for early detection of all types of fraud and abuse, advanced targeted attacks, and also tools that prevent information leakage or unauthorised transfers of large amounts of money from the banking system.

We take efforts to improve cybercrime prevention as part of programmes implemented at ING Group. We have actively cooperated with other financial institutions, government authorities and law enforcement bodies, as well as Internet service providers, especially ever since the Bank was recognised as a Key Service Operator within the meaning of the Polish National Cybersecurity System Act.

Last year, the Bank took a number of actions to raise the awareness of the Bank employees in respect to cybersecurity threats. The Bank also implemented programmes to raise the skills of IT employees and of teams that are responsible for maintaining the appropriate level of cybersecurity at the Bank. As in the previous years, the Bank continued to update the Bank clients on the new threats and provided such information to the end users of the banking systems.

Thanks to coordinated efforts to ensure the optimum level of cybersecurity in 2018, the Bank did not record any material cybersecurity incidents or fraud that would result from any vulnerabilities of the banking security system.

Counteracting cybercrime is one of the key aspects of the safe, electronic client contact channels developed by our Bank. In view of the new threats that appear and the development of existing attack methods, we keep monitoring the market and respond in a flexible and dynamic manner to protect our clients. This applies to a broad range of attacks, starting from DoS (DDoS) to APT (Advanced Persistent Threats) to detection of viruses or malware that may have infected the users' computers or smartphones.

We also update the clients, on a regular basis, on any existing threats; we educate them and show them how to act so that they are able to use online- and mobile banking safely.

We keep developing tools, algorithms and rules to detect all types of fraud and abuse, and also to prevent data leakage. We perform a great number of those tasks together with other ING Group entities, or in collaboration with financial institutions, government bodies and law enforcement bodies. We establish cooperation with the providers of modern technologies to introduce new authentication factors based, for example, on biometrics or client behaviour.

The main changes that took place in 2018

In 2018, we continued to improve the risk management system while having regard to ensuring compliance with new regulatory requirements, including but not limited to:

- strengthening the principles for the risk data aggregation and risk reporting with respect to data that have a direct impact on the risk management process and on the decision-making process (verification of controls under BCBS 239),
- ensuring personal data security as required under GDPR,
- reviewing the organisational structure and the risk identification, management, monitoring and reporting processes, as well as the internal control system framework based on the EBA Guidelines on internal governance,
- preparing the Bank to operate in the post-PSD2 era, including changes in the systems in relation to the Strong Customer Authentication, and
- analysing the consequences of the possible Brexit scenarios.

As part of the review of existing processes, we:

- implemented a new model for the classification of IT resources based on the data classification and improved the model for technical risk analyses,
- defined the risk management rules for the new work organisation model at the Bank (Agile) and the new innovation implementation manner (PACE),
- specified the criteria for the internal control system adequacy and effectiveness assessment and extended the process materiality criteria for the internal control system,
- reinforced the risk awareness while focusing on cybersecurity, business continuity management and new tools and methods used in the risk management area,

- implemented new, or updated the existing, regulations concerning data management, security monitoring, change management, cybercrime resiliency and end user tools, to name a few.

We keep improving the quality of data used, expand the possibilities of using advanced data analysis methods for threat identification and monitoring processes; we also automate operational activities relating to risk management. As for the failures that resulted in service unavailability, we thoroughly analysed their root causes and took actions to minimise the risk of such situations happening again in the future.

2018 was above all the year of adapting the security measures in many systems to the effective technical- and legal requirements in order to ensure better protection of client data processed in our systems and for the Bank to start operations as part of the national cybersecurity system.

Compliance risk

Introduction

The mission of the Bank is to ensure compliance by building the corporate culture which is underpinned by knowledge of and compliance with laws, internal regulations, market standards and ING Values and Behaviours delineated in the Orange Code.

Compliance risk management process

The Bank Supervisory Board has oversight of compliance risk management at the Bank, and the Bank Management Board is responsible for the effective compliance risk management at the Bank, including responsibility for: implementing organisational solutions, regulations and procedures enabling effective compliance risk management and for ensuring adequate resources and funds as may be required to perform tasks in this area.

The Compliance Department is an organisational unit that performs the compliance risk management function; it is responsible for the organisation and operation of the compliance risk management process which is understood as the process of compliance risk identification, assessment, control and monitoring in terms of the Bank's compliance with laws, internal regulations and market standards; it also submits reports in that respect.

The main initiatives that took place in 2018

In 2018, the Bank continued efforts to implement regulatory requirements: MIFID II and the Polish secondary legislation, the Anti-Money Laundering and Combating Terrorism Financing Act, as well as the regulations on preventing the misuse of the financial sector for tax fraud (the IT system of the Clearing House, or STIR in Polish, and

the split payment mechanism). The Bank also intensified efforts to implement the requirements under the General Data Protection Regulation. To implement the requirements, the Bank introduced internal regulations, adapted business processes (including IT systems) and took training-related activities.

In order to ensure effective compliance risk management, the Compliance Department continued independent inspections, developed and monitored the implementation of training programmes, issued recommendations regarding the advice on product changes, legislative changes and marketing materials.

IT system stability and transaction security

[GRI \[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

Introduction

The security of the funds and of the data of our clients and partners is a key issue which is at the forefront of our attention in our day-to-day activities. We observe the threats on an ongoing basis and analyse their impact on the ICT infrastructure (applications, systems and networks), on our business processes, on the processes of our partners and their potential impact on the clients. Based on that information, we design and implement the appropriate organisational and technical solutions in the area of prevention, detection and reaction. Our ICT systems are protected by multi-layer mechanisms and cybersecurity systems.

Ensuring the stability of system operations is an extremely important aspect of the Bank's efforts to ensure an appropriate level of banking services for the clients.

The Bank takes a number of efforts to ensure a high stability of IT system operations, including but not limited to the following:

- Ensuring an appropriate process of change management in IT systems to guarantee the conduct of adequate tests of change impact on the system operations
- Ensuring an adequate architecture of critical systems that warrants a full redundancy of components and resilience to breakdowns
- Implementing mechanisms for monitoring the correct operations of the systems to allow for early detection of any component fault symptoms and fast error diagnostics
- Implementing the process for managing the increase in demand for resources to warrant the adaptation of hardware and software to changes in business volumes and changes in the ways the clients work.

IT security management process

The Bank established the ICT Environment Security Council which gathers the management of business units, IT units, cybersecurity units, operational risk units, data security units and anti-fraud units, among others. The Council makes strategic technology- and procedure-related decisions to ensure an adequate level of cybersecurity at the Bank.

We develop model security requirements for each ICT technology at our Bank; their effectiveness and correctness is subject to regular verification as part of security tests and reviews, as well as internal- and external audits. Such audits and tests are performed by recognised expert firms.

The components of the Bank's ICT system are subject to continuous scanning process to detect and immediately eliminate any vulnerabilities. Furthermore, the banking systems (the network, the infrastructure and the applications) have in place a security monitoring that enables the detection of any anomalies, undesirable actions and security incidents.

Processes aimed to ensure security are subject to continuous effectiveness control; as a result, we are able to improve our processes and procedures in order to prevent, detect and respond to any threats and to take actions to eliminate their potential consequences (such as banking services unavailability). As part of those efforts, we implemented additional mechanisms for the authentication and monitoring of the ICT system users' activity. We also tightened the layer of malicious software protection (e.g. to get protection against ransomware).

We apply the solutions of the leading suppliers of cybersecurity tools and services and unique solutions developed by our in-house specialists. We continue cooperation with ING Group entities and other companies and organisations in Poland (banks, industry associations, the police). This helps us to keep track of the trends, detect new vulnerabilities and counteract IT security threats before they arise.

We also require our partners to ensure an adequate security level.

As part of our online banking, we use the following security solutions:

- Transaction authorisation with a one-time code – it is possible to authorise an instruction in online banking system via an authorisation code. Users receive the code via a text message or HaloŚląski phone system. The code is generated for a specific instruction and is valid for a limited period of time. Together with the code, clients receive a notice on the transaction details which helps them perform an additional verification of the instruction.

- Encrypted Internet connection – banking systems may only be accessed if the clients give their ID name and password. The communication between the clients' computers and the Bank's servers is encrypted with the TLS protocol. The ingbank.pl service platform and the online banking system are protected with digital certificates with high confidence level for HTTPS. This warrants a fully secure transfer of encrypted data, secures them against outside changes and authenticates communicating computers.
- 3D Secure (online card payments standard) – whenever our clients make card payments in an online store that supports 3D Secure, they need to also confirm their payment with a one-time text message code. Clients do not need to activate anything to make a 3D Secure payment in our Bank – all they need is a card that supports online payments.
- Password masking – users do not need to give their full password to log into the online banking system – the system automatically and randomly chooses characters to be filled in.
- Automatic logout after inactivity timeout – the user is automatically logged out by the system after a 15-minute inactivity timeout.

As regards the mobile banking, we apply the following security solutions:

- Transaction authentication in the mobile application – that method is available for clients who use Moje ING online banking system, make transfer orders on a computer and who have installed the Moje ING mobile application on their phone; this method is used interchangeably with the text message code.
- Fingerprint login – that option is available to users who have fingerprint scanner enabled phones. That login method may be activated upon logging into the application.
- Hard daily limit – the amount threshold up to which transfer orders may be made via a mobile application on any given day.
- Automatic logout after inactivity timeout – the user is automatically logged out by the system after a 60-second inactivity timeout.

If there are reasonable grounds to suspect a cybercrime or fraud to the detriment of the bank clients, we freeze the service in order to protect the clients from unauthorised interception of their data or funds.

Personal data security

[GRI \[103-1\]](#) [\[103-2\]](#) [\[103-3\]](#)

IT systems stability is also about the protection of personal data of our clients, business partners and employees. However, apart from IT security we also care about the physical security of data and information kept at the Bank. Our bylaws strictly define the rules on which third parties may stay in our offices – they must be always accompanied by a Bank employee; no unverified devices may be connected to our ICT network either, among other things. We perform regular tests on our physical security features, and the audit findings inspire us to make changes. Testing physical security measures has become an integral element of APT tests that measure the Bank's cybersecurity resiliency.

Last year, we did not identify any justified complaints concerning client privacy breach.

We make sure that the bank employees are highly aware of the topics relating to the protection of personal-, financial- and business data in that we offer a cycle of mandatory training courses for all employees. In addition, programs aimed at continuous improvement of employees' competences in the field of data protection are constantly being implemented, indicating how important it is to protect the privacy of customers, business partners and the employees. We use meetings, workshops and periodic communication to our employees for that purpose.

The security solutions we develop provide effective protection for the Bank ICT infrastructure. The security of banking services use also depends on our clients and that is why we share with them the information on potential threats and recommend security solutions for devices our clients use to bank. We provide each client of our Bank with access to a set of rules on correct use of online banking:

- we tell them how to create safe passwords,
- we update them on threats in online banking,
- we remind them of the rules of safe banking,
- we explain how they can protect themselves against data theft on the Internet,
- we teach them how to protect the devices they use,
- we freeze the services in justified cases in order to protect the clients from unauthorised interception of their data,
- we make clients who visit us in our branches aware of the threats,

- we meet with seniors to raise their awareness so that they can better protect themselves,
- we participate in workshops for academic circles to raise their awareness.

We take care of our retail clients but we do not neglect the safety and security of our business clients. As in the previous years, we continue conferences for strategic clients where we present cybercrime threats, the mechanisms used in our applications and solutions that help prevent fraud.

Last year, the Bank implemented the requirements arising from the entry into force of the European Union Regulation on Personal Data Protection. We updated template documents, amended internal regulations, adapted business processes and prepared relevant training courses for employees. We also implemented new processes, for example to implement the right to data portability or the data protection impact assessment. As part of the Polish Bank Association, we also cooperate with other banks to work out a common code of conduct.

In 2018, we revised the classification of all banking systems and applications that process personal data and re-defined their criticality levels. In line with the changes, we adapted technical- and procedural security features, as required by law, internal regulations and best practices, to ensure better protection for our clients' data.

Environmental and social risk

As a bank, we have an influence on financing and lending projects that could have a significant negative impact on society and the environment. Respect for human rights, protection of the natural environment and sustainable development are an important element of the long-term strategy of building the value of our bank. We are aware of the dangers of irresponsible use of natural resources. We support clients in conducting business in a sustainable manner and encourage continuous improvement in this area. We require our clients to operate in accordance with the regulations governing social and environmental issues and to have all the permits and licenses required by law. Therefore, in order to avoid the risks associated with financing projects that have a negative impact on the environment, we use environmental and social risk assessment as well as the Policy of Exclusion. The most important social and-environmental risks include:

- violation of human rights as a result of forced labour, child labour, inadequate working conditions, and violence. The risk occurs primarily in forestry, agrocommodities and manufacturing,

- threat to the health of employees and local communities as a result of environmental contamination, contact with harmful chemical materials, transmission of animal diseases to people, non-compliance with labour law. The risk is primarily associated with the chemical industry, energy, mining, metal production and animal husbandry.
- threat to the health and lives of consumers as a result of consuming products harmful to health. The risk is primarily in the tobacco industry.
- controversial trade policy consisting in contracting extremely low prices for products produced in economically underdeveloped countries. The risk is mainly related to manufacturing,
- inhumane treatment of animals in the process of husbanding, transporting, slaughtering or conducting medical experiments (animal welfare),
- loss of biodiversity and uncontrolled spread of invasive species, including those genetically modified; erosion and soil degradation. The risk is associated primarily with forestry and agrocommodities,
- pollution of soils and waters with heavy metals, waste, sewage and increase of water consumption in areas poor in water resources. The risk is associated primarily with animal husbandry, forestry and agrocommodities, manufacturing, chemical industry, energy, mining and metal production

Environmental and social risk management

The environmental and social risk assessment covers the client and the transaction. We make the assessments to the best of our knowledge. At the client's level, we assess whether the activity is conducted with respect for human rights, environmental protection principles and whether it is not covered by the policy of exclusion. At the transaction level, we assess whether it is consistent with the requirements of sector policies.

Exclusion policy refers to activities with a particularly high risk of violation of human rights and the risk of negative impact on the natural environment and the principles of sustainable development. We do not establish relationships with clients whose core business is covered by the exclusion policy. We identify and properly manage relationships with clients who operate in areas more susceptible to social or environmental threats. We apply detailed policies that are designed to support environmental protection and minimize risks in vulnerable areas.

The ESR Sector Policies cover the following sectors:

- Animal Husbandry,

- Forestry and Agrocommodities,
- Manufacturing,
- Chemical industry and the use of chemicals,
- Defense and the arms industry,
- Coal mining, coal and related activities,
- Other mining and energy, petrochemistry and metal production.

In order to better manage risk, we have created an Environmental and Social Risk Manual for our employees. It supports the identification and proper management of customer relationships that operate in areas that significantly affect the environment in which we live.

ING Bank Śląski S.A. Management Board report on observance of principles of corporate governance

Pursuant to Article 70.6.5 of the Minister for Finance Ordinance on current and interim information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent of 29 March 2018 (Journal of Laws, item 757), the ING Bank Śląski S.A. Management Board present the Report on Observance of Principles of Corporate Governance in 2018.

Principles and scope of corporate governance

Code of Best Practice for WSE Listed Companies 2016

A set of principles of corporate governance the Bank complied with in 2018 is included in the Code of Best Practice for WSE Listed Companies 2016 passed with Resolution No. 26/413/2015 of the Supervisory Board of the Warsaw Stock Exchange of 13 October 2015. The document is available on the Bank's website: <https://en.ingbank.pl/company-profile/corporate-governance>.

The Bank applies the recommendations and principles laid down in the Code of Best Practice for WSE Listed Companies with the following reservations:

- Rule VI.Z.2.: To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the award of options or other instruments linked to the company's shares under the incentive scheme and their exercise should be no less than two years.

The Bank's comment on the application of the above rule:

The Bank adopted and applies the *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* ("Policy"). It governs the period between the award and possible exercise of financial instruments under variable remuneration in line with the variable remuneration regulations for financial institutions in Poland (Minister for Economic Development and Finance Ordinance of 6 March 2017, CRD III, CRD IV, CEBS/EBA Guidelines). Under the Policy, minimum 40% of the variable remuneration of the management staff shall be deferred for four years (in the case of the President of the Bank Management Board – at least 50%; the deferral period is six years; the bonus is divided into 5 equal parts) and paid during the deferral period in subsequent four years in equal parts, provided that there were no premises for lowering or not paying a portion of the remuneration. A material portion of the variable remuneration (at least 50%) granted in

the form of the phantom stock with Bank shares as the underlying instrument is subject to a one-year retention period, appropriately for each tranche. The above provisions are aimed at tying the remuneration of the management with the long-term strategic goals of the Bank. The Bank plans to apply the above-referred rule as far as provided for by the aforementioned regulations.

- Furthermore, the Bank does not apply Recommendation IV.R.2. of the Code of Best Practice for WSE Listed Companies 2016 in full and limits itself to broadcasting the General Meeting online. As in the previous years, the said decision was substantiated with the impossibility to fully eliminate the risks of legal as well as organisational and technical nature associated with providing shareholders not participating personally at the General Meeting with real-time bilateral communication using electronic communication means, which may negatively impact the course of the General Meeting.

Principles of Corporate Governance for Supervised Institutions

The Bank applies the Principles of Corporate Governance for Supervised Financial Institutions (CG Principles) introduced by the Polish Financial Supervision Authority by way of Resolution No. 218/2014 of 22 July 2014 (PFSA Official Journal No. 17). The CG Principles were adopted in the scope as laid down in the Management Board Report of 30 December 2014, published on the Bank's website: <https://en.ingbank.pl/company-profile/corporate-governance>.

Following the amendments to the Bank Charter made by virtue of Resolution No. 26 of the Ordinary General Meeting of the Bank of 31 March 2015, the Bank applies any and all rules set out in the CG Principles, with the proviso that, due to the impossibility of total elimination of risks of legal as well as organisational and technical nature that can adversely impact the course of the General Meeting, the Bank applies the rule set out under Article 8.4 of the CG Principles to the extent limited to the broadcasting of Bank General Meeting debates online.

Concurrently, with its Resolution No. 25 of 31 March 2015 the Ordinary General Meeting accepted the Bank Management Board Report of 30 December 2014 and declared readiness to apply the CG Principles in the part

regarding shareholders and relations of the Bank as a supervised institution with its shareholders, on the terms and conditions set out in that Resolution. The Resolution is available on the Bank's website: https://en.ingbank.pl/_files/1100308.

Management Board Report on Observance of Principles of Corporate Governance

Taking into account the above-given explanations, the Bank Management Board hereby submit the following report on observance of principles of corporate governance:

The Management Board of ING Bank Śląski S.A. hereby declare that in 2018 the Bank observed the principles of corporate governance as set out in the Code of Best Practice for WSE Listed Companies and the Principles of Corporate Governance for Supervised Institutions, in the scope as adopted by the Bank.

The Bank did not identify any case of non-observance of the principles of corporate governance adopted by the Bank in the period reported.

Code of Banking Ethics

Regardless of the principles of corporate governance, the Bank applies the Code of Banking Ethics as adopted at the 25th General Meeting of the Polish Bank Association held on 18 April 2013. The Code of Banking Ethics is available on the Polish Bank Association's website (<http://zbp.pl/dla-bankow/zespoly-rady-i-komitety/dzialania-w-obszarze-legislacyjno-prawnym/komisja-etyki-bankowej>). As the General Data Protection Regulation became effective, the Polish Bank Association in cooperation with the banks undertook works on the code of conduct to elaborate there on the application of GDPR. Now, the Code is being agreed upon with the Personal Data Protection Office.

Business Ethics Standards of ING Bank Śląski S.A.

The Bank introduced the Regulations – *Employee Business Ethics Standards of ING Bank Śląski S.A.* as well. These Regulations are intended to mitigate the compliance risk by indicating to the employees the rules abiding whereby is a precondition of ensuring the integrity of Bank's operations, including ensuring compliance with legal and regulatory

requirements, as well as ethical standards binding in the financial services sector. The rules stipulated therein shall apply to any and all employee activities related to performance of their professional duties. Some of the said rules may apply to the private activities of employees which may negatively affect Bank's reputation or give rise to a conflict of interest.

Orange Code

Orange Code is the starting point to define the elements of ethics of ING Bank Śląski employees. It determines the manner in which the strategic objective of the Bank – empowering people to stay a step ahead in life and in business – is delivered. The Orange Code defines our banking identity. It provides a set of standards valued by all bank employees who choose to follow them in their actions, and by which they are assessed by others. The Orange Code is composed of two parts:

- ING Values being the promise made to our external stakeholders:
 - We are honest,
 - We are prudent,
 - We are responsible.
- ING Behaviours which define the way of life of employees. These are the commitments the employees make towards one another and standards enabling assessment of their actions:
 - You take it on and make it happen,
 - You help others to be successful,
 - You are always a step ahead.

ING Bank Śląski S.A. disclosure policy

Being a public trust organisation, the Bank pursues disclosure policy which consists in keeping an open and transparent line of communication with its shareholders, investors, the media and all stakeholders. As part of the disclosure policy, the Bank as a public company and regulated institution meets requirements regarding information confidentiality and security imposed thereon by applicable laws. Pursuing the disclosure policy, the Bank abides by corporate governance rules, in particular by ensuring proper access to information about the Bank to shareholders,

investors, media and all stakeholders. The full text of the Disclosure Policy is available on the website: https://en.ingbank.pl/_files/asset_upload_data/1100073.

Risk control and management system in the financial reporting process

Financial statements are developed by the Finance Division; the process is among the key elements of compliance. The basic elements enabling performance of the process comprise: the Accounting Policy adopted by the Bank Management Board and the accounting framework within the Bank, which defines the main principles of recording business events at the Bank. Recording of events leads to formation of the Bank books, which, in turn, are the basis for the development of financial statements.

The Bank identified the following risks in the financial statements development process:

- risk of incorrect input data,
- risk of inappropriate presentation of data in financial statements,
- risk of use of incorrect estimates, and
- risk of lack of integration of IT systems and operating and reporting applications.

To mitigate the aforementioned risk, the Bank structured the process of financial statements development in two layers: application- and content-related ones.

The application part of the process comprises the flow of data from the Bank core operating systems via various interfaces to the reporting database, which hosts reporting applications. The application layer is controlled in line with the IT systems security policy adopted by the Bank. The following elements are controlled: user management, development environment management and integrity of data transmission systems, including correct operation of interfaces in terms of completeness of data transfer from operating systems to the reporting environment.

To ensure its adequate management, the Bank described the process of financial statements development in line with the principles binding at the Bank. The description covers the workflow, its actors and the “if... then...” situations. It also indicates the key financial statements development process controls, which include but are not limited to:

- quality control of input data for the financial statements, supported by the data control applications; a variety of principles concerning data correctness, error correction track and close monitoring of data quality were defined in the applications,
 - control of data mapping from source systems to the financial statements ensuring correct data presentation,
 - analytic review based on the experts’ knowledge, the main objective of which is to confront business know-how with financial data and identify potential indications of incorrect data presentation or incorrect input data, if any.
- The estimates adopted by the Bank and compliant with IAS/ IFRS were detailed in the Accounting Policy. To avoid the risk of incorrect estimates, the Bank adopted the following solutions, among others:
- to estimate loan impairment – the Bank implemented specific models and applications as well as internal regulations for credit risk assessment,
 - to measure debt financial instruments quoted in active markets or in the case of which the valuation is based on those quotations – the Bank implemented the required functionality of core systems; furthermore, the control exercised by the market risk management units was instituted,
 - to measure financial instruments not quoted in active markets – the Bank implemented valuation models, which had been subject to a validation before application,
 - to estimate the pension and disability provisions – the Bank commissioned an independent actuary to make an estimate,
 - to estimate the provisions for employees and executive staff bonuses – the Bank uses the calculations in line with the General Terms and Conditions of Bonus Award adopted at the Bank, considering the forecasts regarding Bank’s results,
 - to appraise own properties – the Bank adopted the rule that the appraisal is obtained from independent experts every three to five years.

The accounting principles have been detailed in the Annual Consolidated Financial Statements in the section called “Accounting policies and additional explanatory notes” and “Material principles of accounting”.

The Bank’s organisational structure makes it possible to retain the segregation of duties between the Front Office, Back Office, Risk and Finance. In addition, institution of an adequate internal control system enforces the

implementation of control of transactions and financial data in the back office and support units. The area is subject to an independent and objective assessment performed by the Internal Audit Department in terms of adequacy of the internal control system and risk management, as well as in terms of corporate governance.

Shares and shareholding structure of ING Bank Śląski S.A.

Shareholding structure

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 31 December 2018 had a 75% stake in the share capital of ING Bank Śląski S.A. and a 75% stake in the overall number of votes at the General Meeting – the number has not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as domestic and foreign mutual funds, and by private investors. As at 2018 yearend, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva Santander was the largest among them. As per semi-annually reported assets structure of that Fund, as at 31 December 2018, it had a 8.25% stake in the share capital and in the overall number of votes at the General Meeting. As at the date hereof, the Bank does not have any information about any other shareholder going over the threshold of 5% of the company's equity.

Throughout 2018, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's stake in the share capital remained unchanged.

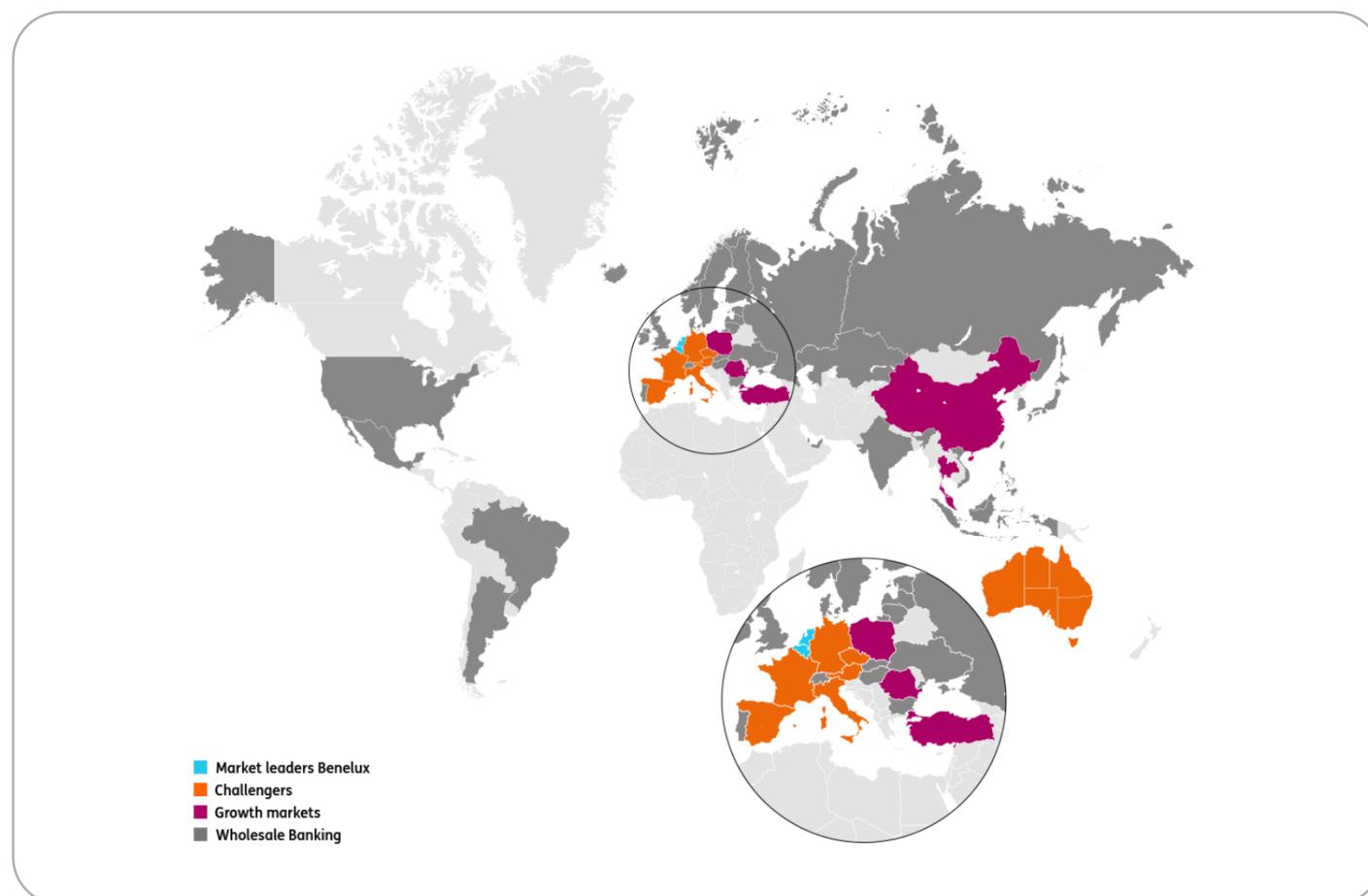
Shareholding structure of ING Bank Śląski S.A.

Shareholder	31 December 2018		31 December 2017	
	Number of shares and votes at GM	Stake in share capital and in the overall number of votes at GM	Number of shares and votes at GM	Stake in share capital and in the overall number of votes at GM
ING Bank N.V. (subsidiary of ING Groep N.V.)	97,575,000	75.00%	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny Aviva Santander*	10,732,305	8.25%	10,396,594	7.99%
Other	21,792,695	16.75%	22,128,406	17.01%
Total	130,100,000	100.00%	130,100,000	100.00%

*As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK as at 29 December 2017 and as per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 31 December 2018

Profile of the controlling shareholder

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 38 million clients. ING Group companies have over 52 thousand employees and pursue business in over 40 countries in Europe, North and South Americas, in the Near East as well as in Asia and Australia. ING Group pursues business in four areas: Market Leaders – businesses in the Netherlands, Belgium and Luxembourg; Challengers – businesses in Germany, Austria, Spain, Italy, France, Australia and Czech Republic; Growth Markets – businesses in Poland, Romania, Turkey and Asia as well as through a global corporate banking network dedicated to strategic clients – Wholesale Banking.



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

ING Groep N.V. is a public company, listed on the stock exchanges in Amsterdam, Brussels and New York. Its shareholding is dispersed. As at 2018 yearend, there were only two shareholders with capital holdings of over 3%. These were: BlackRock Inc. (5.01%) and Artisan Investments GP LLC (3.01%). In 2018, ING Group posted net profit of

EUR 4,703 million vis-a-vis EUR 4,905 million in 2017. Assets totalled EUR 887 billion. As at 2018 yearend, the total assets of ING Bank Śląski S.A. accounted for 3.7% of the ING Group's assets. Our net profit represented 7.6% of the net profit of ING Group.

More information about the controlling shareholder is available on the website: <https://www.ing.com/Home.htm>.

Shares and share capital

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

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

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

Charter and rules of amending the Charter

The current Charter of ING Bank Śląski S.A. is available on the website: https://en.ingbank.pl/_files/1100492.

Rules of amending the Charter

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the entrepreneurs register of the National Court Register (KRS). Also, an amendment thereto requires a prior permit of the Polish Financial Supervision Authority.

An amendment to the Bank Charter as for change of the business objects of the Bank does not require buyout of shares from those shareholders who do not approve such an amendment, provided that the resolution of the General Meeting concerning such an amendment was adopted by a two-third majority of votes in the presence of individuals representing at least a half of share capital.

Charter amendments in 2018

Amendments to the Bank Charter registered in 2018 include:

- specifying legal regulations as one of the sources taken into account by the Bank when determining criteria of independence of the members of the Supervisory Board (due to the effective entry of the Act on Statutory Auditors, Auditing Firms and Public Oversight of 11 May 2017),
- adjusting the requirements concerning the participation of the independent members in the Audit Committee to Article 129.3 of the Act on Statutory Auditors. In accordance therewith, the majority of the members of the Audit Committee, including its chairperson, are independent from a given public interest entity,
- deleting the provisions concerning the compliance risk management from the section regarding the risk management system due to the fact that these issues have been included in the internal control system (under Article 9c.1.4 of the Banking Law),
- emphasising the role of the Supervisory Board as regards overseeing the internal control system, and
- changing the clauses concerning the term of office of the members of the Bank authorities to avoid any potential doubts relating to the resolution of the Supreme Court of the Republic of Poland of 24 November 2016 (case reference III CZP 72/16). The said resolution reads that the last full financial year within the meaning of Article 369.4, in conjunction with Article 386.2 of the Commercial Companies and Partnerships Code, is the last financial year that started during the term of office of that member of the supervisory board of the joint-stock company (the same principle applies to the management board members).

Other amendments to the Bank Charter were of editorial nature only.

Furthermore, the General Meeting passed a resolution concerning an amendment to the object of the Bank's business, namely the current provision to issue electronic money instrument was replaced with the one providing for the possibility to issue electronic money. The proceedings for permitting that change are in progress before the Polish Financial Supervision Authority.

The General Meeting

Principles of convening the General Meeting

The General Meeting is convened by way of announcement on the Bank's website and in a way provided for the announcement of current information by public companies. The General Meeting functions according to the principles defined in the regulations of the Commercial Companies and Partnerships Code and in the Bank Charter as a General or Extraordinary Meeting.

General Meetings are convened at the time enabling all eligible and interested shareholders to attend them.

Shareholder rights

Bank shareholders representing at least one twentieth of the share capital are entitled to:

- request convening the Extraordinary General Meeting,
- request putting particular items on the agenda of the nearest General Meeting,
- submit draft resolutions concerning items put on the agenda prior to the General Meeting.

Each shareholder is entitled to submit during the General Meeting draft resolutions concerning items put on the agenda.

Operations of the General Meeting

When an Extraordinary General Meeting is convened, the Management Board presents the rationale for convening such a meeting and for putting specific matters on the agenda or asks for presentation of the rationale, if the General Meeting was convened upon the request of another eligible entity.

Draft resolutions are presented to the General Meeting by the Management Board upon advice of the Bank Supervisory Board.

Subject to the cases provided for in the Commercial Companies and Partnerships Code, the General Meeting shall be valid regardless of the number of shares represented. Each share represents one vote. In principle, the resolutions of the General Meeting are passed with the absolute majority of votes, except for the cases as provided for in the Commercial Companies and Partnerships Code and the Charter. Apart from the Commercial Companies and

Partnerships Code, the issues regarding the convening and functioning of the General Meeting are specified in the Bank Charter, the Bylaw of the General Meeting and the Notice of the General Meeting.

General Meetings are held at the Company's registered office in Katowice. The debate of the General Meeting is transmitted via the Internet. The debate of the General Meeting may be also attended by interested media representatives acting as observers.

The principles concerning shareholders participation in the General Meeting, the mode of conduct during the General Meeting as well as the manner of shareholders' communication with the Bank are provided for in the Bylaw of the General Meeting which is available on the website: https://en.ingbank.pl/_files/1000031.

In keeping with the Code of Best Practice for WSE Listed Companies 2016 adopted by the Bank, the amendments to the Bylaw become effective as of the subsequent General Meeting.

The powers of the General Meeting are set out in particular by the regulations of the Commercial Companies and Partnerships Code, the Banking Law Act and the stipulations of the Bank Charter.

Supervisory Board

Supervisory Board composition

The Supervisory Board consists of 5 to 11 Members appointed by the General Meeting for a 5-year common term of office that starts from the date of appointment and runs for four full consecutive financial years.

The General Meeting determines the number of the Supervisory Board Members for a given term of office. The Members of the Supervisory Board may be dismissed at any time with the resolution of the General Meeting. This term of office started on 10 April 2014 and will end on the date of the General Meeting approving the 2018 financial statements.

Independent Members are included in the Bank Supervisory Board composition pursuant to the adopted by the Bank Principles of Corporate Governance and requirements stemming from the law. In line with the Charter, at least two Members of the Supervisory Board should have no ties with the Bank, its shareholders or employees, if such relations could have a significant impact on the ability of such Member to take impartial decisions (Independent Members). The minimum number of Independent Members of the Supervisory Board as well as detailed criteria of independence

result from the law and from the Code of Best Practice for WSE Listed Companies adopted by the Bank and are specified in detail in the Bylaw of the Supervisory Board.

Throughout 2018, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- On 9 March 2018, Mr Christopher Steane tendered his resignation from the capacity as the Supervisory Board Member effective as of the date of the General Meeting approving the 2017 financial statements,
- On 5 April 2018, the Ordinary General Meeting appointed Mr Michał Szczurek as Member of the Supervisory Board.

Supervisory Board Composition as at 31 December 2018

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

● - Chairman ● - Member

The qualifications of the Supervisory Board Members of ING Bank Śląski S.A. are presented on the Bank's website: <https://en.ingbank.pl/company-profile>.

In connection with appointment of Mr Michał Szczurek a Member of the Supervisory Board, in keeping with the Bank's *Policy for the Assessment of the Suitability of the Members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A.*, the Suitability Assessment of the Candidate was conducted. The said assessment was performed by an independent third party, Ernst & Young Doradztwo Podatkowe Spółka z o.o. It confirmed that Mr Michał Szczurek has the relevant knowledge, skills and experience to perform the function of the Supervisory Board Member, warrants due performance of such duties and meets other requirements set out in Article

22aa of the Banking Law Act, and thus fulfils the suitability criteria set out in the *Policy*. At the same time, the Remuneration and Nomination Committee stated that the competences of the individual members of the Supervisory Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank.

Rights and duties of the Supervisory Board

The primary mission of the Supervisory Board is to perform the supervisory function – the Supervisory Board conduct ongoing oversight of the Bank operations in all areas. Special powers and duties of the Supervisory Board include assessment of the report on the Bank operations and financial statements for the previous financial year, motions of the Bank Management Board regarding profit distribution or loss coverage as well as submitting the annual written report on the results of the said assessment to the General Meeting.

Apart from the aforementioned powers and duties, the Supervisory Board passes resolutions on the matters specified in the Bank Charter.

The resolutions of the Supervisory Board are passed with the absolute majority of votes, whereas in case of a tie, the Chairman of the Supervisory Board has the casting vote.

The resolutions of the Supervisory Board may be passed, if more than a half of the Supervisory Board Members are present at the meeting, including their Chairman or Deputy Chairman, to which all Supervisory Board Members have been invited.

The meetings of the Supervisory Board take place at least 5 times a year.

In the cases stipulated in the Charter and the Bylaw of the Supervisory Board, the resolutions of the Supervisory Board may be passed without holding a meeting, using the written mode or by means of remote communication.

Detailed principles of the operations of the Supervisory Board are determined in the Bank Charter and the Supervisory Board Bylaw approved by the Supervisory Board.

The Supervisory Board appoints members of the Audit Committee, Remuneration and Nomination Committee and Risk Committee out of their members to support the Supervisory Board in performing their duties.

Audit Committee

The Audit Committee supports the Supervisory Board in the monitoring of and supervision over the financial reporting, the internal and external audits and management system at the Bank and its subsidiaries. In particular, this covers

the adequacy and effectiveness of the internal control system and the system of risk management and the relations between the Bank and the entity auditing the Bank's financial statements.

The operations of the Audit Committee are described in more detail in the *Bylaw of the Audit Committee of the Supervisory Board of ING Bank Śląski S.A.* passed by the Supervisory Board.

In accordance with the By-law, the Audit Committee consists of at least 3 Members of the Supervisory Board. The majority of the Members of the Audit Committee, inclusive of its Chairman, should meet the independence criteria, and at least one of the Independent Members in the Audit Committee should additionally have qualifications in accounting or financial audit. Currently, there are three Independent Members of the Supervisory Board in the Audit Committee, which fulfils the requirements of the Act on Statutory Auditors, Auditing Firms and Public Oversight of 11 May 2017.

The Audit Committee meets at least once per quarter. While performing their tasks, the Audit Committee may avail themselves of experts' assistance.

In 2018, the composition of the Audit Committee did not change.

The Independent Members who met the statutory criteria of independence are: Antoni F. Reczek (Chairman), Aleksander Galos and Aleksander Kutela. The other Members of the Audit Committee, namely Małgorzata Kołakowska and Norman Tambach, are related to the strategic shareholder – ING Bank NV. Mr Antoni F. Reczek has knowledge and skills in accounting and auditing of financial statements. He became the licensed Statutory Auditor of the Republic of Poland in 1993. Also Mr Norman Tambach has knowledge and skills in these areas – he has been a chartered accountant registered with the Netherlands Institute of Chartered Accountants since 2002. All Members of the Audit Committee have knowledge and skills in finances and banking.

The Members of the Supervisory Board were assessed in terms of their suitability in keeping with the Bank's *Policy for the Assessment of the Suitability of the Members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A.* The assessment was carried out by an independent entity. Having familiarised with the assessment reports, the Remuneration and Nomination Committee of ING Bank Śląski S.A. confirmed that each of the Members of the Supervisory Board has knowledge, skills and experience to perform the function of the Supervisory Board Member, warrants due performance of such duties and meets other requirements set out in Article 22aa of the Banking Law Act, and thus fulfils the suitability criteria set out in the Policy.

At the same time, in keeping with Chapter III.3 of the Policy, the Remuneration and Nomination Committee stated that the competences of the individual members of the Supervisory Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank.

In 2018, the Audit Committee held four meetings, and had additional two meetings by way of circulation.

In 2018, the auditing firm that audited the financial statements (KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp.k.) provided the following services other than audit of the financial statements:

- semi-annual review of the Bank's financial statements and of the ING Bank Śląski S.A. Group,
- certifying service - fulfilling the requirements for storage of the customers' assets,
- attestation service – compliance of annual disclosure on capital adequacy of the Bank,
- review of the quarterly financial statements of the Bank for the needs of capital requirements.

Provision of the aforementioned services was approved by the Audit Committee after the assessment of threats to and safeguards for independence of the statutory auditor and auditing firm was carried out.

The main assumptions of the developed *Policy on selection of the auditing firm to audit the financial statements, assessment of its independence and provision of other permitted services at ING Bank Śląski S.A.:*

- 1 The Audit Committee take a decision as regards granting consent to hire a statutory auditor (auditing firm carrying out the audit, an entity related thereto and by a member of the auditing firm network) to provide the permitted services, other than the audit, by them,
- 2 The permitted services may be provided only within the scope other than the tax policy of the Bank, after the Audit Committee assess the threats to and safeguards for independence of the statutory auditor and auditing firm,
- 3 Independence of the statutory auditor or of the auditing firm is verified and monitored throughout the process of selection of the auditing firm to carry out the audit of the financial statements,
- 4 Making the final decision on selection of the auditing firm, or preparing the recommendations, the Supervisory Board or the Audit Committee, respectively, bear in mind the following transparent and non-discriminating selection criteria that are applied by the Bank to appraise the tenders submitted by the auditing firms:
 - 3 Assessment of independence of the auditing firm to carry out the audit already at the selection stage,

4.1 Potential to provide all the services specified by the Bank (audit of the separate financial statements, audit of the consolidated financial statements, reviews, etc.),

4.2 Track record of the auditing firm as regards audit of financial statements of the entities of the business profile similar to the Bank's,

4.3 Track record of the auditing firm as regards audit of financial statements of the public interest entities from the banking sector,

4.4 Professional qualifications, experience adequate for performance of auditing activities, and the number of persons directly involved in the audit carried out at the Bank,

4.5 Audit pricing conditions offered by the auditing firm.

The recommendation of the Audit Committee concerning the selection of the auditing firm to audit the financial statements of the Bank satisfied the applicable terms and conditions and was issued after the selection procedure, organised by the Bank, that fulfilled the applicable criteria.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee support the Supervisory Board in the area of monitoring and supervision of the Bank's HR and payroll area, including in particular selection of the Management Board Members, diversity policy, assessment of suitability of the Management Board Members, succession plans, the process of employee turnover, measuring the Bank employees' satisfaction and policy of remuneration and bonus award system, inclusive of the variable remuneration policy.

The operations of the Remuneration and Nomination Committee are described in detail in the *Bylaw of the Supervisory Board Remuneration and Nomination Committee of ING Bank Śląski S.A.* passed by the Supervisory Board.

The Remuneration and Nomination Committee consists of at least 3 Members of the Supervisory Board. The majority of the Remuneration and Nomination Committee members, including the Chairperson, should meet the independence criteria of the Independent Members of the Supervisory Board. Currently three Members of the Supervisory Board are also the Committee Members. Two of them are Independent ones.

The Remuneration and Nomination Committee meets at least once per quarter.

No changes took place in 2018 on the Remuneration and Nomination Committee.

Risk Committee

The Risk Committee supports the Supervisory Board in monitoring and supervising the risk management process, including operational risk, credit risk and market risk, as well as in the internal capital assessment, capital management and planning processes, as well as the model risk management and the capital adequacy area.

The operations of the Risk Committee are described in detail in the *Bylaw of the Supervisory Board Risk Committee of ING Bank Śląski S.A.* passed by the Supervisory Board.

According to the Bylaw, the Risk Committee consists of at least 3 Members of the Supervisory Board. The majority of the Committee members, including the Chairperson, should satisfy the criteria laid down for the Independent Members of the Supervisory Board.

The Risk Committee meets at least once per quarter.

The following changes took place in 2018 on the Risk Committee:

- On 9 March 2018, the Supervisory Board accepted Mr Christopher Steane's resignation from his function as Member of the Supervisory Board and Member of the Risk Committee;
- On 5 April 2018, the Supervisory Board recalled Mr Ad Kas (related to the ING Group) from the position of the Chairman of the Risk Committee and appointed Mr Aleksander Galos (Independent Member) as Chairman thereof – the change was effected following the EBA Guidelines whereunder the majority of the Committee Members, inclusive of its chairperson, should be Independent Members;
- Furthermore, on 5 April 2018, the Supervisory Board recalled Mr Norman Tambach from the Risk Committee, and at the same time appointed Mr Aleksander Kutela (Independent Member) and Mr Michał Szczurek (Member related to the ING Group) as Members thereof.

Now, the Risk Committee consists of 5 Members, of which 3 are independent ones.

Management Board

Management Board composition

The Bank Management Board is composed of 3 to 8 members appointed by the Supervisory Board. The number of the Management Board Members in a given term of office is determined by the Supervisory Board. The Management

Board Members are appointed for a common term of office that starts from the date of appointment and runs for four full consecutive financial years.

At least a half of the Bank Management Board Members have to be Polish citizens. Two Bank Management Board Members, including the Bank Management Board President and Vice-President in charge of management of the risk material to Bank business, are appointed with the approval of the Polish Financial Supervision Authority. The Bank Management Board Members may be recalled at any time by the Supervisory Board. The Vice-President of the Bank Management Board may be recalled by the Supervisory Board upon consultation with the Bank Management Board President.

On 20 September 2018, Ms Justyna Kesler tendered her resignation from the capacity of Vice-President of the Bank Management Board, effective as of 31 December 2018.

In consequence of the above resignation, on 23 November 2018 the Supervisory Board appointed Mr Lorenzo Tassan-Bassut to the position of Vice-President of the Bank Management Board, effective as of 1 January 2019.

In keeping with the Bank's *Policy for the Assessment of the Suitability of the Members of the Supervisory Board, Management Board and Key Function Holders at ING Bank Śląski S.A.*, prior to appointment to the position of the Vice President of the Management Board, the Suitability Assessment of the candidate was conducted. The said assessment was performed by an independent third party, EY Doradztwo Podatkowe Krupa Sp.k. It confirmed that Mr Lorenzo Tassan-Bassut has the relevant knowledge, skills and experience to perform the function of the Management Board Member, warrants due performance of such duties and satisfies other requirements set out in Article 22aa of the Banking Law Act, and thus fulfils the suitability criteria set out in the *Policy*. At the same time, the Remuneration and Nomination Committee stated that the competences of the individual members of the Bank Management Board are complementary and allow for ensuring adequate level of collective performance of supervision duties in respect of all the business areas of the Bank.

The qualifications of the individual Bank Management Board Members are presented on ING Bank Śląski S.A. website: <https://en.ingbank.pl/company-profile>.

Powers of the Bank Management Board

The Management Board shall manage and represent the Bank outside. Any matters not restricted to the competence of other Bank's bodies pursuant to the laws or the Bank Charter shall rest with the Management Board. The Bank

Management Board acts collectively with reservation of those matters which in line with the Bank's internal regulations have been entrusted to individual Bank Management Board Members.

The Bank Management Board formulates the strategy of the Bank's operations as part of a three-year rolling action plan, to be approved by the Supervisory Board.

The Bank Management Board passes resolutions, provided that the meeting is attended by more than a half of the Members and all Bank Management Board Members were invited. Bank Management Board Resolutions are passed with the absolute majority of votes. In the case of a tie, the Bank Management Board President has the casting vote.

The Bank Management Board Members supervise individual divisions and organisational units in accordance with the segregation of duties defined by the Management Board and approved by the Supervisory Board, and bear responsibility for implementation of their missions and core tasks.

Organisation of the Bank Management Board's work, the scope of matters requiring a resolution of the Bank Management Board and the mode of their operations are defined in the Bylaw of the Bank Management Board passed by the Bank Management Board and approved by the Supervisory Board. Powers of individual Bank Management Board Members are defined in the Bank Organisational Bylaw and the regulations concerning functioning of their areas as enacted by the Bank Management Board.

The Management Board is authorised to increase the share capital by the amount of up to PLN 26 million (i.e. the issue of 26 million shares at maximum) until 21 April 2020 (authorised capital) and to exclude the pre-emptive right for the issue of shares under authorised capital. The Management Board decisions concerning issue price fixing and pre-emptive right exclusion shall be approved by the Supervisory Board.

Scope of Responsibilities of Bank Management Board Members

As at 31 December 2018

As at 31 December 2018		From 1 January 2019	
Mr Brunon Bartkiewicz	President of the Bank Management Board in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Spokesperson, Internal Audit Department, Legal Department, Compliance Department, HR units, Macroeconomic Research Bureau, Centre of Expertise Communication and Brand Experience, Chief Data Officer and a subsidiary - ING Bank Hipoteczny S.A.)	Mr Brunon Bartkiewicz	President of the Bank Management Board in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Spokesperson, Internal Audit Department, Legal Department, Compliance Department, HR units, Macroeconomic Research Bureau, Centre of Expertise Communication and Brand Experience and a subsidiary - ING Bank Hipoteczny S.A.)
Mr Michał Bolesławski	Vice-President of the Bank Management Board in charge of the Corporate Clients Business Line and the following subsidiaries: ING Usługi dla Biznesu S.A., ING Investment Holding (Polska) S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)	Mr Michał Bolesławski	Vice-President of the Bank Management Board in charge of the Corporate Clients Business Line and the following subsidiaries: ING Usługi dla Biznesu S.A., ING Investment Holding (Polska) S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)
p. Joanna Erdman	Vice-President of the Bank Management Board in charge of the Strategic Clients Business Line and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.	p. Joanna Erdman	Vice-President of the Bank Management Board in charge of the Strategic Clients Business Line and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.
Mr Marcin Giżycki	Vice-President of the Bank Management Board in charge of the Retail Clients Business Line	Mr Marcin Giżycki	Vice-President of the Bank Management Board in charge of the Retail Clients Business Line
Ms Bożena Graczyk	Vice-President of the Bank Management Board in charge of the Finance Division, Treasury Department	Ms Bożena Graczyk	Vice-President of the Bank Management Board in charge of the Finance Division, Treasury Department and Procurement and Strategic Sourcing Department and of the following subsidiary - Solver Sp. z o.o.
Ms Justyna Kesler	Vice President of the Management Board in charge of: The Operations Division, Services Division and Tech Division as well as the Transformation and Change Management Department, IT Security Department, ING Hub Services Department, Monitoring and Process Control Centre, Data Management Centre and the position of the Bank Management Board Representative for the Environmental Management System plus the subsidiary – Solver Sp. z o.o.	Mr Lorenzo Tassan-Bassut	Vice-President of the Bank Management Board in charge of: The Operations Division and Tech Division as well as the Transformation and Change Management Department, IT Security Department, ING Hub Services Department, Monitoring and Process Control Centre, Data Management Centre, Chief Data Officer, Department of Real Property Management and Bank Servicing
Mr Patrick Roesink	Vice-President of the Bank Management Board in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department	Mr Patrick Roesink	Vice-President of the Bank Management Board in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department

Remuneration of the members of the Management Board and the Supervisory Board

The rules of the Management Board Members remuneration

In line with the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A. which follows the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A., the remuneration of a Bank Management Board Member is composed of:

- fixed remuneration composed of base remuneration as well as fringe benefits, and
- variable remuneration, i.e. annual bonus.

Base remuneration is determined by benchmarking it to the market, in accordance with the salary grade under the Hay job valuation methodology.

The Bank provides the Bank Management Board Members with the following fringe benefits:

- life insurance and accident insurance with the guaranteed insured sum totalling the gross annual base remuneration, another type of protection-and-investment insurance or a mutual fund as part of the same premium,
- payments towards the mutual fund in the amount equivalent to 15% of the monthly base remuneration of a Bank Management Board Member, and
- medical care (Golden Family Card Package).

Furthermore, the Supervisory Board may decide on granting other benefits, e.g. covering the education costs of children in a private school, rent and fittings of an apartment or a house or payment of a rent allowance, covering membership fees in clubs and associations in Poland and abroad, provided it is in the interest of the Bank.

A Management Board Member may be awarded a bonus of up to 100% of the annual base remuneration for performance of the bonus tasks set by the Supervisory Board. Bonus tasks support creating long-term goodwill of the Bank and take account of care about the risk cost of the Bank, the capital cost and liquidity risk. Objectives have the following nature:

- financial, including the Bank's gross profit, financial risk cost and tasks within the Management Board Member's responsibility, and

- non-financial.

Non-financial objectives constitute at least 50% of all objectives except for the Management Board Member exercising control functions where the objectives are based in at least 75% on the function-based targets and they comprise quality tasks. Moreover, the financial tasks cannot be linked to the results generated in the areas controlled by this particular Management Board Member.

The Bank tests capital to ensure that the total bonus pool for all employees does not limit the ING Bank Śląski S.A.'s ability to maintain an adequate capital base and activates the bonus fund upon satisfying a predetermined condition. 40% of the bonus is deferred and if the threshold defined by the Bylaw is exceeded – 60%. The results of assessment of the objectives performance are verified in the deferral period, i.e. for four subsequent years, so as to evaluate the impact of employee's actions on the Bank's long-term results. For the President of the Management Board at least 50% of the variable remuneration is deferred. The deferral period is six years and the bonus is divided into 5 equal portions.

The bonus is divided into two portions (rounding up to the integer of a financial instrument):

- at least 50% as phantom stocks making its beneficiaries eligible for cash in the amount conditional on the Bank's stock price, and
- the remainder as cash.

No bonus shall be due should the employment contract be terminated under Article 52 of the Polish Labour Code. The Supervisory Board may also decide to reduce the annual bonus or not to pay it out in a given bonus award period on the basis of verification of assessment of bonus tasks execution, taking ex post risk into account.

Remuneration of Management Board Members

In 2018, the total emoluments due and paid by the Bank to the Management Board Members reached PLN 18,239.4 thousand, while in 2017 it was 19,875.8 thousand.

Emoluments due and paid to Members of ING Bank Śląski S.A. Management Board in 2018

PLN thousand	From – to	Remuneration	Awards*	Other benefits**	Total
Brunon Bartkiewicz	01.01.2018 - 31.12.2018	2,514.0	1,019.3	436.0	3,969.3
Michał Bolesławski	01.01.2018 - 31.12.2018	1,334.1	1,406.9	224.2	2,965.1
Joanna Erdman	01.01.2018 - 31.12.2018	1,338.9	1,129.3	227.8	2,695.9
Justyna Kesler	01.01.2018 - 31.12.2018	1,200.0	1,292.6	231.8	2,724.4
Patrick Roesink	01.01.2018 - 31.12.2018	1,100.0	496.9	801.3	2,398.1
Marcin Giżycki	01.01.2018 - 31.12.2018	1,092.6	515.9***	189.7	1,798.3***
Bożena Graczyk	01.01.2018 - 31.12.2018	1,320.0	158.7	209.5	1,688.2
Total		9,899.6	6,019.6	2,320.2	18,239.4

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

** Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care, health insurance, tax advisory services, social insurance contributions in the home country and other benefits awarded by the Supervisory Board, and financial instruments exercised under the Long-term Incentive Schemes.

***Including the amount of PLN 111.6 thousand being the bonus paid by ING Securities S.A. under the Variable Remuneration Programme: for 2016 deferred cash 1st tranche, for 2015 deferred cash 2nd tranche and phantom stock under the Variable Remuneration Programme for 2016 – retained, for 2015 2nd tranche deferred.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2018 under the Variable Remuneration Programme have not been awarded yet. In keeping with the Bank's remuneration system, the Bank Management Board Members may be entitled to the 2018 bonus to be paid out in the years 2019-2026. Accordingly, a reserve was formed for the payment of the 2018 bonus for the Bank Management Board Members, which as at 31 December 2018 was PLN 9.25 million. The Bank Supervisory Board will take the final decision on the bonus amount.

Emoluments due and paid to Members of ING Bank Śląski S.A. Management Board in 2017

PLN thousand	From – to	Remuneration	Awards*	Other benefits**	Total
Brunon Bartkiewicz	01.01.2017 - 31.12.2017	2,514.0	366.3	436.0	3,316.3
Miroslaw Boda	01.01.2017 - 31.05.2017	515.0	1,357.2	330.9	2,203.1
Michał Bolesławski	01.01.2017 - 31.12.2017	1,290.0	1,476.6	216.9	2,983.5
Joanna Erdman	01.01.2017 - 31.12.2017	1,284.9	1,069.8	216.1	2,570.8
Justyna Kesler	01.01.2017 - 31.12.2017	1,200.0	1,362.1	226.2	2,788.3
Patrick Roesink	01.01.2017 - 31.12.2017	1,038.4	387.6	904.3	2,330.3
Marcin Giżycki***	01.01.2017 - 31.12.2017	993.3	297.7***	174.1	1,465.1***
Bożena Graczyk	01.06.2017 - 31.12.2017	776.1	-	1,442.2	2,218.3
Total		9,611.7	6,317.4	3,946.7	19,875.8

* Awards include: 1) Bonus under the Variable Remuneration Programme: for 2016 non-deferred cash, for 2015 1st tranche of deferred cash, for 2014 2nd tranche of deferred cash and for 2013 3rd tranche of deferred cash; and 2) Phantom Stocks under the Variable Remuneration Programme: for 2015 retained, for 2014 1st tranche deferred, for 2013 2nd tranche deferred and for 2012 3rd tranche deferred.

** Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care, health insurance, tax advisory services, social insurance contributions in the home country and other benefits awarded by the Supervisory Board, and financial instruments exercised under the Long-term Incentive Schemes.

***Including the amount of PLN 190.4 thousand being the bonus paid by ING Securities S.A. under the Variable Remuneration Programme: for 2016 non-deferred cash, for 2015 deferred cash 1st tranche and phantom stock under the Variable Remuneration Programme for 2015 – retained.

As at the 2017 yearend, the reserve for the 2017 bonus payment for the Management Board Members was PLN 9.4 million.

Employment contracts provide for benefits for all Bank Management Board Members being sixfold of their monthly base remuneration calculated for the last six months prior to the employment contract termination, if their term of office expires and they are not appointed for the next term of office or they are dismissed.

The above does not apply should the employment relationship be terminated under Article 52 of the Polish Labour Code or if the employment contract is terminated following Management Board Member resignation or if a Management Board Member or the entire Management Board of the Bank have been suspended by the Polish Financial Supervision Authority under the Polish Banking Law.

Furthermore, Bank Management Board Members conclude non-competition agreements with the Bank to govern the rights and obligations of the parties to the agreement as regards competitive activities during and after the expiry of the employment contract, during 12 months from the employment contract termination date with the option of payout of the non-competition compensation being twelvefold of the gross base remuneration received by the Management Board Member during the last term of the agreement.

Should the Management Board Member be recalled for the reasons substantiating termination of the employment relationship without termination notice (pursuant to Article 52 of the Labour Code) or should the Management Board Member or the entire Bank Management Board have been suspended by the Polish Financial Supervision Authority pursuant to the provisions of the Banking Law Act, the non-competition compensation equals 25% of the 12-month gross base salary for the last year preceding the termination of the employment contract.

In the event of employment relationship termination due to the resignation of the Management Board Member, the amount of the non-competition compensation is 50% of the 12-month gross base salary for the last year preceding the termination of the employment contract, with the proviso that the Supervisory Body authorises the Chairperson to increase the said compensation over that amount.

The Bank Management Board Members and other individuals employed by ING Bank Śląski S.A. receive neither compensation nor awards for holding functions in the governing bodies of subsidiaries or affiliates of the ING Bank Śląski S.A. Group.

Remuneration of Supervisory Board Members

In 2018, total remuneration (defined as for the Management Board Members) due and paid out by the Bank to the Supervisory Board Members reached PLN 774.5 thousand, while in 2017 it was 702.0 thousand.

Emoluments due and paid to Members of ING Bank Śląski S.A. Supervisory Board in 2018

PLN thousand	From – to	Remuneration and awards*	Other benefits	Total
Aleksander Galos	01.01.2018 - 31.12.2018	235.3	0.0	235.3
Aleksander Kutela	01.01.2018 - 31.12.2018	208.6	0.0	208.6
Antoni Reczek	01.01.2018 - 31.12.2018	330.5	0.0	330.5
Małgorzata Kołakowska	01.01.2018 - 31.12.2018	0.0	0.0	0.0
Michał Szczurek	05.04.2018 - 31.12.2018	0.0	0.0	0.0
Christopher Steane	01.01.2018 - 05.04.2018	0.0	0.0	0.0
Ad Kas	01.01.2018 - 31.12.2018	0.0	0.0	0.0
Norman Tambach	01.01.2018 - 31.12.2018	0.0	0.0	0.0
Total		774.5	0.0	774.5

* Remuneration and awards include the return of the Social Insurance Institution contributions due to exceeding the annual basis of contribution rates for retirement and disability pension insurance in keeping with the Social Insurance Institution decision.

Emoluments due and paid to Members of ING Bank Śląski S.A. Supervisory Board in 2017

PLN thousand	From – to	Remuneration and awards*	Other benefits	Total
Aleksander Galos	01.01.2017 - 31.12.2017	200.4	0.0	200.4
Aleksander Kutela	01.01.2017 - 31.12.2017	177.6	0.0	177.6
Antoni Reczek	01.01.2017 - 31.12.2017	323.9	0.0	323.9
Małgorzata Kołakowska	01.01.2017 - 31.12.2017	0.0	0.0	0.0
Roland Boekhout	01.01.2017 - 15.03.2017	0.0	0.0	0.0
Christopher Steane	01.01.2017 - 31.12.2017	0.0	0.0	0.0
Ad Kas	01.01.2017 - 31.12.2017	0.0	0.0	0.0
Norman Tambach	21.04.2017 - 31.12.2017	0.0	0.0	0.0
Total		702.0	0.0	702.0

* Remuneration and awards include the return of the Social Insurance Institution contributions due to exceeding the annual basis of contribution rates for retirement and disability pension insurance in keeping with the Social Insurance Institution decision.

As at 2018 yearend, no Member of the Bank Management Board or Supervisory Board held any shares of ING Bank Śląski S.A. or of any related company.

Diversity Policy

Our Diversity Policy:

- defines the diversity management areas of focus at the Bank,
- lays down the way of diversity management at our bank,
- integrates all actions, including the processes, procedures and other documents that are associated with diversity management at our bank,
- ensures equal treatment and friendly work environment for all employees and candidates for employees,
- supports the organisation in building the awareness of the principles of equal treatment at work, meaning no discrimination in any manner whatsoever, both directly and indirectly, because of: gender, age, disability, health condition, race, nationality, ethnic origin, religion, denomination, irreligion, political convictions, trade union memberships, sexual orientation, gender identity, family status, lifestyle, form, scope and basis of employment, other cooperation types as well as other triggers of discriminatory behaviours,
- pertains to all employees and candidates, regardless of the positions they hold, and especially to the Bank authorities and key managers,
- is monitored regularly, every 6 months.

More information on the Diversity Policy is described in the Chapter “Way of working” in the section “Diversity and equal chances”.

Diversity policy for supervisory, managing and administrative bodies

ING Bank Śląski S.A. has a *Diversity Policy for ING Bank Śląski S.A. Management Board and Supervisory Board Members* in place. The Policy seeks to:

- reach a wide scope of powers when appointing Supervisory Board and Management Board Members to have diverse points of view and experience and to enable issue of independent opinions and reasonable decisions within a given body,

- ensure high quality of tasks performed by the managing bodies by way of selecting competent persons to hold the positions at the Supervisory Board and Management Board, first of all applying therefor objective business-related criteria and taking into account benefits stemming from diversity.

As regards business-related criteria, the diversity strategy ensures selection of persons with diverse knowledge, skills and experience, suitable for positions held by them and duties entrusted to them, who complement each other at the level of the Management Board and Supervisory Board. The criteria are verified in the suitability assessment process described in the *Policy for the assessment of the suitability of the members of the Supervisory Board, Management Board and key function holders at ING Bank Śląski S.A.* Moreover, apart from knowledge, competences and professional experience, the diversity policy covers gender- and age-related differences, and applies them to arrive at the best outcome.

The policy assumes aiming at ensuring representation of both genders in the processes of selection and succession plans, keeping in mind the laws on fair treatment while establishing employment relationship.

Total workforce by gender

	Women	Men
Supervisory Board	1	6
Management Board	3	4
Employees performing key functions at the bank*	11	15

Total workforce by age group

	31-40 years old	41-50 years old	51-60 years old	61-70 years old
Supervisory Board		3	3	1
Management Board		5	2	
Employees performing key functions at the bank*	3	18	5	

Total workforce by length of service at ING Bank Śląski

	less than 5 years	from 6 to 10 years	from 11 to 15 years	from 16 to 20 years	from 21 to 25 years	from 26 to 30 years
Supervisory Board	5	1		1		
Management Board	1	1		2	2	1
Employees performing key functions at the bank*	2	3	7	8	2	4

*Key functions at ING Bank Śląski S.A. are defined in accordance with the definition from item 15 of the EBA Guidelines and the Policy for the Assessment of the Suitability of the members of the Supervisory Board, Management Board and key function holders at ING Bank Śląski S.A.

Other information

Investor information

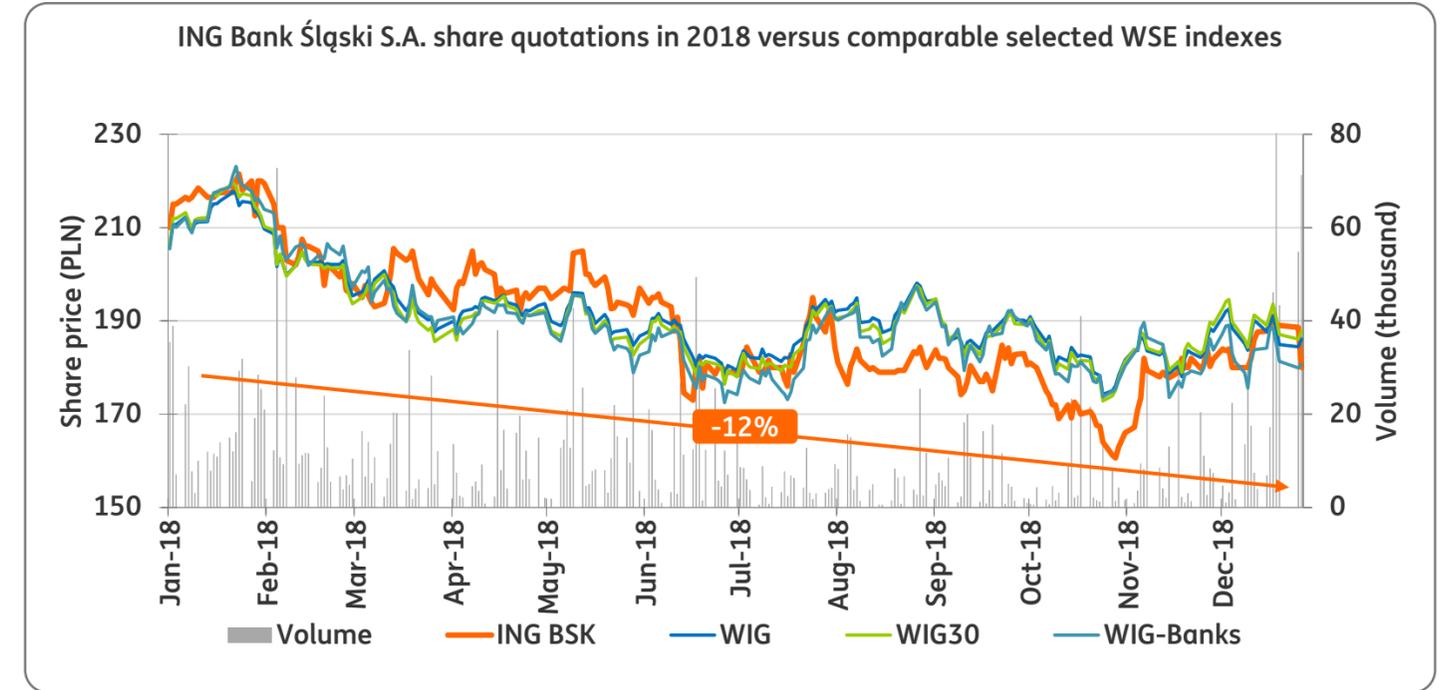
Share price

In 2018, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 160.60 (as quoted on 30 October) to PLN 221.50 per share (as at 25 January). On 28 December 2018, the price of ING Bank Śląski S.A. shares equalled PLN 180.00, down by 12.4% from the last quotation day in 2017 (to compare: WIG-Banking sub-index went down by 12.1% at that time).

As at 2018 yearend, the Bank's market value arrived at PLN 23.4 billion, while its book value amounted to PLN 13.3 billion.

ING Bank Śląski S.A. shares data		
	2018	2017
Share price as at the yearend (PLN)	180.00	205.60
Top share price (PLN)	221.50	212.60
Bottom share price (PLN)	160.60	157.80
Number of shares	130,100,000	130,100,000
Yearend capitalization (PLN billion)	23.4	26.7
Average trading volume	11,711	33,921
Earnings per share (PLN)	11.73	10.78
Share book value (PLN)	102.51	90.66
Dividend paid per share in the year (PLN)	3.20	0.00
P/E ratio (x)*	15.3	19.1
P/B ratio (x)*	1.8	2.3

* ratio computed based on the share price at a given yearend



The Bank has been listed in the WIG30 and mWIG40 indexes and RESPECT Index since their beginnings.

Ratings

Our stable financial position is also confirmed by external credit ratings assigned to our bank. Our bank cooperates with two rating agencies: Fitch Ratings and Moody's Investors Service.

Fitch Ratings Ltd.

Fitch Ratings assigns a full rating under the agreement between the Bank and the Agency. As at the 2018 annual report's signing date, the ratings are as follows:

Fitch Ratings Ltd.

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

In the press release published on 12 October 2018, the Agency sustained the ratings assigned to the Bank.

In the rationale, the Agency emphasised that the sustained ratings of the Bank reflect:

- stable business model,
- prudent credit risk approach,
- strong equity position,
- high quality of assets and profitability, and
- stable source of financing of the bank.

Moody's Investors Service Ltd.

The Moody's Investors Service Agency assigns their rating to the Bank on the basis of public information. As at the 2018 annual report's signing date the ratings are as follows:

Moody's Investors Service Ltd.

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

The last time the rating was changed was on 23 March 2018 when the LT Rating was upgraded from A3 to A2 and the rating outlook was revised from Positive to Stable.

In the press releases published on 15 October 2018, the Agency sustained the ratings assigned to the Bank. The Agency emphasised there that the rating of the Bank reflects:

- Bank's credit portfolio of good quality, though not seasoned, with very limited exposure to FX mortgage loans,
- adequate, though decreasing, total capital ratio of the Bank,
- a good funding and liquidity profiles of the Bank.

Rating breakdown

The table below compares the long-term ratings for Poland, ING Bank Śląski S.A. and ING Bank N.V. As at the 2018 annual report's signing date):

Rating breakdown	Poland	ING Bank Śląski S.A.	ING Bank N.V.
Fitch Ratings	A-	A	AA-
Moody's Investor Services	A2	A2	Aa3
Standard & Poor's	A (local currency) A- (foreign currency)	-	A+

Investor relations

ING Bank Śląski S.A. strives after the highest standards of capital market communications. The Bank pays particular attention to reliable and transparent information and to equal treatment of all stakeholders as well as observes all the laws regarding disclosure duties of listed companies. Important financial and business information in the form of financial reports, current reports, investor presentations and editable files with key Bank data are presented to the broad capital market. The Investor Relations Bureau is responsible for investor, share analyst and rating agency's communications.

Contact details to the Investor Relations Bureau
e-mail: investor@ingbank.pl | tel.: +48 (22) 820 44 16

In 2018, the representatives of the Management Board and the Investor Relations Bureau held over 64 individual and group meetings with investors and participated in key investor conferences.

As a rule, open meetings for investors, analysts and journalists are held once a quarter, at the quarterly report publication date. Each time, approximately 30 representatives of brokerage houses, investors and mass media attend such a conference. Conferences are broadcast live online.

The Bank pays a lot of attention to the quality of communication with stakeholders through its website: <http://en.ingbank.pl/company-profile/investor-relations>. The website offers up-to-date information such as shares quotations on the WSE, company shareholding structure, General Meetings, dividend payout track or ratings. Current, interim and annual reports, results presentations, Excel sheets with key financial and business information as well as video footage from the quarterly meetings dedicated to Bank's results are also published on the website. The website has been designed in the RWD technology, so it is adjusted to mobile devices – tablets and smartphones.

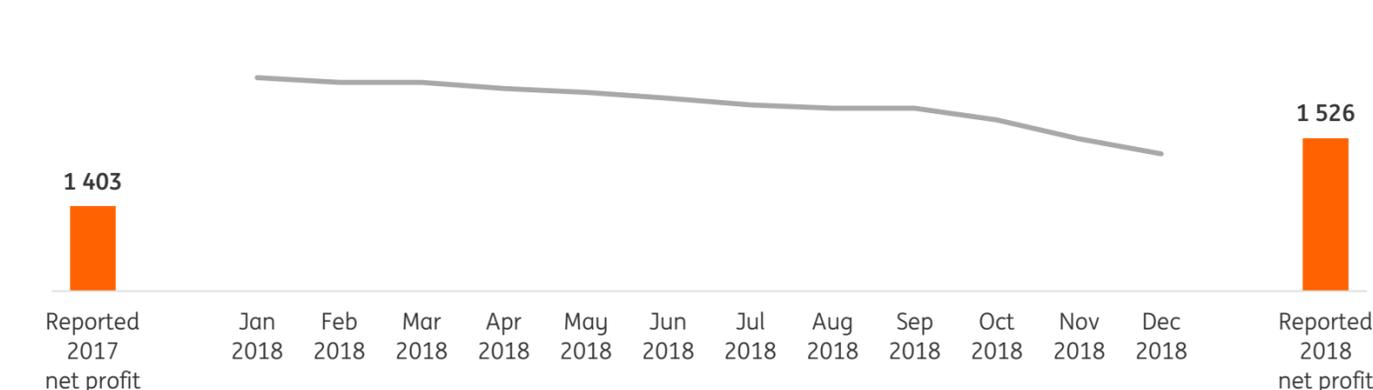
ING Bank Śląski S.A. is one of the companies that are watched and analysed by the market. As at 2018 yearend, analysts representing 12 domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

The Bank regularly updates the list of analysts' recommendations together with the average target price as well as the market consensus based on the averaged expectations on the Investor Relations website and in a separate tab Analysts: <http://en.ingbank.pl/company-profile/investor-relations>.

Structure of share recommendations for ING Bank Śląski S.A. as at 31 December 2018

Buy / Accumulate	5
Hold / Neutral	3
Reduce / Sell	4

Expectations of analysts concerning consolidated result of ING Bank Śląski throughout 2018 (PLN million)



Position of the Management Board on the potential realisation of the previously published forecasts

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

Seasonal or cyclical nature of business in the reporting period

The operations of the Bank and the Bank Group are conditioned by the seasonal and cyclical nature of the Polish economy. The Bank's economic expectations are described in Chapter "How we create value".

Agreements concluded

The Bank Management Board represent that as at 31 December 2018, ING Bank Śląski S.A. did not have any:

- significant cash loan agreements, sureties or guarantees not concerning operating activity,
- significant underwriting agreements,
- significant agreements on guarantees extended to subsidiaries,
- liabilities towards the central bank,
- significant agreements with the central bank or regulators, or
- agreements referred to in Article 141t.1 of the Banking Law Act.

Transactions with related entities

In 2018, the Bank and its subsidiaries did not conclude transactions with the related entities that would be separately or jointly significant transactions, concluded on the terms and conditions other than the market ones.

Details on transactions with related entities have been presented in note 42 to the Consolidated Financial Statements of ING Bank Śląski S.A. Group for the year 2018 on page 134 and in note 42 to the Financial Statements of ING Bank Śląski S.A. for the year 2018 on page 130.

Types of credit risk collateral

To safeguard the Bank against the credit risk, the Bank accepts various personal and tangible legal collaterals such as: bank guarantee, surety under the civil law, blank promissory note, draft guarantee, assignment of receivables, mortgage, registered pledge, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank account and freezing of funds in the bank account.

As at 2018 yearend, the Basel II collateral established on borrowers' accounts or assets totalled PLN 115.4 billion (out of which 69.6% were mortgages) for the ING Bank Śląski S.A. Group and PLN 96.0 billion (out of which 81.9% are mortgages) for ING Bank Śląski S.A.

Following the amended Banking Law Act of 27 November 2015, the Bank no longer issues banking writs of execution.

Instigated court proceedings

The value of liabilities or debt claims under the proceedings in 2018 did not exceed 10% of the Bank's equity. The Bank is of the opinion that neither the individual proceedings that were pending in 2018 before any court of justice,

competent arbitration body, or before any public administration authority, nor any proceedings in total pose any threat to the financial liquidity of the Bank.

Business development perspectives

The factors that will have impact on the Bank and Bank Group results

The Bank and the Bank Group focus their operations on Poland. That is why economic events, condition of the economy as well as local and European regulations for the financial sector will be the key elements that impact our results.

Condition of the economy and economic events

Economists at our Bank expect a growth of GDP in 2019 to slow down to 3.6% from 5.1%. Lower growth is primarily the effect of a decline in the growth rate of household spending - it is expected to slow down from 4.6% to 3.7% y/y. The weaker contribution of consumption is due to the stagnation of wage growth observed already at the end of last year, the slowdown of the dynamic inflow of workers from Ukraine, but also the increase in new burdens for companies, or the uncertain economic situation on export markets. Investment growth rate will probably also slow down - in the opinion of economists of ING Bank Śląski S.A. from 8% to 5.8% y/y. The forecast reflects e.g. smaller expense plans of local governments, or still uncertain international environment. The downturn among Poland's main trading partners also suggests a deterioration in net exports, although probably on a much smaller scale than last year.

For more details about the expectations of our economists see Chapter "How we create value".

Regulations of the financial sector

Local and European regulations have a huge impact on the operations of the Bank and our subsidiaries. 2018 saw a gradual implementation of significant EU regulations: MiFID 2 (regarding the distribution of financial products), GDPR (regarding the processing of personal data), and PSD 2 (regarding payment services). The split payment implementation also had its impact. 2019 is a period of many changes in taxation, both for private individuals (our clients) and legal persons.

For more details about the expected regulatory changes see Chapter "How we create value".

Directions of actions and business priorities

ING Bank Śląski S.A. is a universal bank which addresses its products and services to individual clients, entrepreneurs but also to mid and big companies.

Maintaining a strong market position is our goal in the retail segment. A wide and transparent product offer with good value proposition plus enhancement of marketing and operational communication with clients play a crucial role here; so does the extensive and innovative omnichannel distribution network.

As regards the corporate segment, the Bank and its subsidiaries support the operations of clients by offering traditional banking products and services, but also lease-, factoring- as well as accounting- and payroll-related services. We provide our clients with wide access to money and capital markets.

For more details about the directions of actions and business priorities see chapter “About us” and “How we create value”.

Entity authorised to audit financial statements

The independent chartered auditor of financial statements is selected by the Bank Supervisory Board on the basis of the recommendation provided by the Audit Committee. The choice is made taking into consideration the requirement to consolidate the financial statements and the related unified approach of ING Group as regards the change of the auditor. Such an approach is compliant with the applicable EU regulations.

On 18 January 2013, the ING Bank Śląski S.A. Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski S.A. and of the ING Bank Śląski S.A. Group for the period of 2013-2015.

On 27 November 2015, the Bank Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski

S.A. and the ING Bank Śląski S.A. Group for the period of 2016-2017. The agreement by and between the Bank and KPMG was concluded on 13 June 2016 and annexed on 20 September 2017.

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

Auditor's net fee

	Financial Year Ending 31 December 2018*	Financial Year Ending 31 December 2017**
Audit of the annual consolidated financial statements	[1] PLN 717.0 thousand + reimbursement of documented direct expenses (maximum PLN 73 thousand) [2] PLN 83.5 thousand	[1] PLN 1,071.0 thousand + reimbursement of documented direct expenses (maximum PLN 73 thousand) [3] PLN 38.5 thousand
Other attestation services	For review of the financial statements PLN 262.0 thousand Other PLN 110 thousand	For review of the financial statements PLN 262.0 thousand Other PLN 200 thousand

* Line Audit of the annual consolidated financial statements: item [1] Audit of the annual financial statements of ING Bank Śląski S.A., ING Lease Polska Sp. z o.o., ING Investment Holding (Polska) S.A. – former ING ABL Polska S.A., ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o. subsidiaries; item [2] Auditors' fees for the audit of the financial statements of subsidiaries: Nowe Usługi S.A., ING Usługi dla Biznesu S.A. and ING Bank Hipoteczny S.A. (KPMG did not audit the financial statements of those companies).

** Line Audit of the annual consolidated financial statements: item [1] Audit of the annual financial statements of ING Bank Śląski S.A., ING Lease Polska Sp. z o.o., ING ABL Polska S.A., ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o. subsidiaries; item [2] Auditors' fees for the audit of the financial statements of subsidiaries: Nowe Usługi S.A., ING Usługi dla Biznesu S.A. and ING Bank Hipoteczny S.A. and ING Bank Hipoteczny S.A. (KPMG did not audit the financial statements of those companies).

About the report

[GRI \[102-44\]](#) [\[102-46\]](#) [\[102-47\]](#) [\[102-48\]](#) [\[102-49\]](#) [\[102-50\]](#) [\[102-51\]](#) [\[102-52\]](#) [\[102-53\]](#) [\[102-54\]](#)

We are glad to provide you with another integrated report of ING Bank Śląski S.A., for the year 2018. We drafted the document in keeping with the top global standards:

- international non-financial data reporting guidelines – Global Reporting Initiative GRI Standards – compliance with Core indicators, and
- the integrated reporting guidelines of the International Integrated Reporting Council (IIRC).

The report also meets the formal requirements set out in the Minister of Finance Ordinance of 19 February 2009 on Current and Periodic Information Published by Issuers of Securities and the Conditions for Regarding Information Required by the Law of a Non-Member State as Equivalent.

The report discusses the operations of the ING Bank Śląski S.A. Group from 1 January 2018 to 31 December 2018, unless another period has been given. Both the financial and non-financial data are disclosed for the ING Bank Śląski S.A. Group (plus selected financial data for ING Bank Śląski S.A.). The size, structure, ownership or supply chain of our bank did not change materially in the reporting period. The report does not include any restatements. As far as the reporting scope or applied measurement methods are concerned, this report does not differ from the previous one. It discusses the operations of the ING Bank Śląski S.A. Group and their deliverables.

In the report, we included material particulars of the strategy, management and results of as well as the outlook for our bank. The information was disclosed considering the economic, social and environmental landscapes. We also presented our understanding of the corporate responsibility and our social footprint – today and in the future. We believe that our integrated report explains how the non-financial aspects of our business shape our capacity to create and keep value in the short-, mid- and long-term.

We publish the report on an annual basis. The previous report for 2017 was published in March 2018.

How was the report compiled

In accordance with the guidelines of GRI Standards, we carried out a three-stage process:

- **Identification**
During that stage, we identified the key issues concerning the bank's responsibility and business. We analysed other sources, too. They included but were not limited to press publications in the reporting period, the topics covered by internal communications, the current business blueprint and the sustainability strategy. We also reviewed the topics of significance for non-financial reporting by our sector.
- **Prioritization**
We have conducted surveys among external stakeholders, including: clients, analysts, regulators, investors, the media, NGOs, suppliers, students and our employees. With the survey deliverables, we were able to define the most important topics to be included in the report.
- **Validation**
We have verified and clarified the indicated topics with the management staff. The management agreed that the same aspects that the stakeholders selected in the prioritization process should be included in the report. It translated directly into the reported aspects.

Key prioritisation and validation process aspects

Aspect	Impact on the Bank	Impact on the environment	Our response in the report
Key stakeholders and relations with them, relations with local communities	●	●	– Relationships with external parties – Social commitment and voluntary service programme
Bank employees - value and potential, knowledge management, training and development	●	●	– Innovation culture and competent employees – Who are our employees
Activities in the field of bank's social involvement, employee volunteering	●	●	– Social commitment and voluntary service programme
Initiatives in the field of financial education	●	●	– Financial education and development of entrepreneurship
Investments supporting environmental protection	●	●	– Green investments and care for the environment
Opportunities and plans for the bank's development, ING Bank Śląski against the background of competition in Poland	●	●	– About us
ING Bank Śląski footprint	●	●	– ING Bank Śląski strategy
Bank's strategy and its implementation	●	●	– ING Bank Śląski strategy
Digitization, e.g. electronic banking	●	●	– Solutions
Preserving the security of customer data	●	●	– IT system stability and transaction security – Personal data security

In the report, we described in detail the key topics. We make both disclosures on management approach and the corresponding indicators. Further, we resolved to present the other reporting aspects reflecting best their nature and weight for the organisation.

- Diversity management - guidelines and policies (information about employees with disabilities, older people at particular levels in the management structure, equality of wages for women and men).
- Employer branding, approach to recruitment, promotion and bonus rules in the company.
- Relationships with trade unions.
- Occupational Health and Safety.
- Ensure respect for human rights.
- Actions to protect the environment within the green office.
- An approach to reducing resource consumption.
- Corporate governance and Bank management.
- Investment activities, securing financing for investments, ensuring financial stability of the Company.
- Responsible sales, responsible marketing - policies, internal procedures, etc.
- Types of banking products, introduction of new products.
- Innovation, for example, cooperation with start-ups.
- Supporting entrepreneurship - services and products dedicated to Small and Medium Enterprises.
- The method of building customer relations, customer satisfaction, matching banking services to the needs of various customer groups, customer service with disabilities.

Figures used in the report were retrieved from internal reporting systems. Before being published they were all internally verified.

You may read more about our relationships and dialogue with stakeholders in the chapters titled "About us" and "How we create value".

Who was involved in the report compilation

Report compilation works were coordinated by a team composed of representatives of CSR, investor relations and financial reporting areas. This report was produced thanks to many people.

These are first and foremost:

- employees of all layers who participated in the preparatory works, filled in the questionnaires, attended the workshops and developed report data,
- customers, analysts, regulators, investors, the media, NGOs, vendors, who responded to our survey.

The contribution of all the people and institutions allowed us to prepare the next Integrated Report of ING Bank Śląski S.A. for 2017.

In case of questions, please inquire about the report with:

Iza Rokicka

Investor Relations Bureau Director

Finance Division

Phone: +48 22 820-4416

e-mail: iza.rokicka@ingbank.pl

- Klaudia Jabłońska
Senior Specialist of Sustainability and CSR
Management Board Bureau
Phone: +48 606 494 289
e-mail: klaudia.jablonska@ingbank.pl

Glossary

500+ – A governmental Family 500+ programme which warrants regular assistance for parents raising children. The monthly amount of PLN 500 is awarded to the second and every subsequent child in a family.

Add-on – Imposed on the capital requirements in keeping with Regulation No. 575/2013 (CRR).

AFS – Available for Sale, one of the financial instruments classification categories under the International Accounting Standard 39 – Financial Instruments: Recognition and Measurement.

Agile – It is a new way of working at selected Bank units, adopted from the IT sector. It enables fast response to changing client and market needs.

AIRB – Advanced Internal Rating-Based – It is a method used to measure credit risk.

ALCO – Asset-Liabilities Committee.

Bank – Bank when capitalised means ING Bank Śląski S.A.

Bank Group – Bank Group when capitalised means the ING Bank Śląski S.A. Group.

Bank tax, Bank levy – A popular name of the tax on certain financial institutions. The monthly tax of 0.0366% (0.44% per year) is collected from the value of assets as at the month-end – upon previous deductions. For banks, the value of assets is reduced by the amount of sovereigns held and own funds of a bank and PLN 4 billion, for example. The banks that have launched rehabilitation proceedings and state-owned banks (BGK – Bank Gospodarstwa Krajowego) are exempted from the tax.

Basel III – Regulations on capital requirements and risk management at credit institutions. The Basel III solutions were introduced in the European Union with Regulation No 575/2013 (CRR) and Directive No 2013/36/EU (CRD IV).

BGF – Bank Guarantee Fund – A deposit guarantee and resolution scheme. BGF guarantee covers deposits being the equivalent of up to EUR 100,000.

BGK – Bank Gospodarstwa Krajowego – A Polish development-oriented bank. The main task of BGK is to support economic development of Poland and improve the quality of life for Poles.

Big companies – Companies with the annual turnover ranging from EUR 10 million to EUR 125 million, corporate segment clients.

Brexit – A popular name of the process whereby Great Britain is to exit the European Union.

BRRD – Bank Recovery and Resolution Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

CAPI Method – Computer Assisted Personal Interview – an interviewing technique in which the interviewer records the answers of the respondent on mobile devices.

Capital conservation buffer – An element of macroeconomic supervision of the banking sector. The buffer is imposed on all banks; it has to comprise the top-quality capital (Tier 1) and account for 2.5% of the capital requirement at the maximum. In 2016-2017, it was 1.25%; in 2018, it went up to 1.875%; and in 2019 has increased to 2.5%.

Carbon Disclosure Project (CDP) – CDP is an independent non-profit organisation from London. It encourages companies to reduce the emission of greenhouse gases and foster sustainable usage of water resources.

Carbon footprint – The total set of greenhouse gas emissions caused directly or indirectly by an individual, organisation, event or product.

CAWI Method – Computer Assisted Personal Interview – an interviewing technique in which the respondent or interviewer uses electronic questionnaires.

Compliance – Ensuring observance of laws, norms and standards, and recommendations.

Corporate Finance – A specific finance area dealing with financial, investment and operational decisions taken by companies as well as tools and analyses supporting and helping them in the decision-making process.

Corporate segment – Simply: clients of mid and big companies segments and strategic clients.

Cost to Income ratio (C/I) – The ratio calculated as the relation of the general and administrative expenses (banking tax excluded) to income with the net result of associated entities recognised on an equity basis.

Costs of risk – Pursuant to IAS 39: the balance of provisions made and released under impairment of assets, credit facilities and cash loans granted to clients, first and foremost. Pursuant to IFRS 9: the balance of allowances for credit losses. Pursuant to IFRS 9 the term covers receivables reflected in Stage 3 and POCI (purchased or originated credit impairment) assets.

CPI – Consumer Price Index that measures changes in the price level of consumer goods and services. The most popular global inflation/deflation index.

Credit Information Bureau – An institution that processes information on the repayment discipline of liabilities of natural and legal persons.

Credit rating – Evaluation of the ability of a legal entity drawing a loan to repay the debt in full that is to repay interest and principal on the contractual terms and conditions. The entity can be both a company and a state, for example.

CSR – Corporate Social Responsibility.

CVA – Credit Value Adjustment is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of a counterparty's default.

DGSD – Deposit Guarantee Schemes Directive of the European Parliament and of the Council.

EAD – Exposure At Default – It is a measure showing bank exposures at client's default.

EaR – Earnings at Risk – It is a measure showing the maximum potential change in earnings versus the earnings budgeted in the financial plan.

Easy lending – The Bank's approach to financing the mid and big companies. It covers the option of electronic conclusion of credit agreements and tracking the status of applications filed by clients in the ING Business system.

EBA – European Banking Authority.

EBC – European Central Bank.

Entrepreneurs – Companies, mainly sole proprietorships, with the annual turnover of up to EUR 1.2 million, retail segment clients.

ePUAP – Electronic Public Administration Services Platform where users may communicate with and arrange their matters at various authorities online (Tax Office or Social Security Office, for example).

Equator Principles Association – The rules adopted by international financial institutions which set the social and environmental responsibility standards for financial risk management of development projects.

ESR – Environmental and Social Risk.

EWS – Early Warnings Signal – It is a predictive model used to assess the probability of the client's financial standing deterioration.

Factoring – Purchase by the factor of not past-due receivables of companies (clients) due thereto from business partners (offtakers) under delivery of goods and services.

Fast Track – A simplified lending track in the mid and big companies segment.

FCR – First Call Resolution – It is a contact centre performance evaluation. It checks what volume of problems reported by clients to the contact centre is solved at the first contact.

Funding cost – interest cost/ average interest liabilities for 5 subsequent quarters.

GDP – Gross Domestic Product – Aggregated market value of goods and services produced by national and foreign factors in a given country and in a given period.

Global Investor Statement on Climate Change – A global arrangement of investors which lays down the manner in which investors can contribute to increasing the number of low-emission and climate-resistant investment projects. The arrangement also provides for practical proposals how to multiply this contribution with adequate government measures.

Global Reporting Initiative (GRI) – An international organisation which publishes non-financial reporting guidelines.

Guarantee – A bank guarantee is a written commitment of the bank to pay the amount given there to the beneficiary on the terms and conditions stated therein. The agreement is, however, of securing nature only. It is not a tool to settle commercial agreements.

IAS – International Accounting Standards; gradually superseded by the IFRS, i.e. International Financial Reporting Standards.

ICAAP – Internal Capital Adequacy Assessment Process.

IFRS – International Financial Reporting Standards and their interpretations approved by the International Accounting Standards Board.

IIRC – International Integrated Reporting Council.

ILAAP – Internal Liquidity Adequacy Assessment Process.

Interest assets – Assets earning interest income for the bank; loans granted to clients form their major portion.

Interest assets profitability – Income under interest/ average interest assets for 5 subsequent quarters.

Interest liabilities – Liabilities generating interest cost for the bank; client deposits form their major portion.

Interest margin ratio – net interest income/ average interest assets for 5 consecutive quarters.

KRS – National Court Register

LCR – Liquidity Coverage Ratio. Computed as a ratio of very liquid assets to short-term liabilities. It is introduced in stages. The minimum value is: 60% in 2014 and 2015, 70% in 2016, 80% in 2017 and 100% starting from 2018.

Leasing – The agreement, whereunder the owner of an assets item (lessor) provides the user (lessee) with the right to use the assets item for a defined period in exchange for payment or a series of payments.

LGD – Loss Given Default – The share of an asset (exposure) that is lost if a borrower defaults.

Loans/ Deposits ratio (L/D) – Total net loans and other receivables to customers without Eurobonds/ liabilities to customers.

LTV – Loan To Value – A ratio used to assess credit risk. It is computed as a ratio of the loan amount to the (usually mortgage) collateral amount.

Mid companies – Companies with the annual turnover of or below EUR 10 million, corporate segment clients.

MiFID II – Markets in Financial Instruments Directive II.

MiFIR – Markets in Financial Instruments Regulation.

Mortgage Support Fund – A fund to be used by natural persons in a difficult financial situation and required to repay a housing loan.

MPC – Monetary Policy Council – A body of the National Bank of Poland (NBP). Its tasks include but are not limited to determining the NBP interest rates.

MREL – Minimum Requirement for own funds and Eligible Liabilities The institution transposed into Polish law under the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution of 10 June 2016.

Mystery Shopper – One of the methods used to score the client service satisfaction where service quality is assessed during client sales and service points visits.

NBP – National Bank of Poland – a central bank which acts as the issue bank, the bank of banks and the central state-owned bank.

Non-performing loans – “Bad” loans in simple terms; that is loans wherefor clients default on payment or it is highly probable that they will default in the future. Pursuant to IFRS 9 the term covers receivables reflected in Stage 3 and POCI (purchased or originated credit impairment) assets.

NPL coverage ratio – Non-Performing Loans coverage ratio. The ratio of impairment losses and other client receivables to clients to the value of impaired loans and other receivables to clients. Pursuant to IFRS 9 the ratio of impairment losses reflected in Stage 3 and POCI (purchased or originated credit impairment) assets to the value of such receivables.

NPL Ratio – Non-Performing Loans Ratio – simply: the share of “bad” loans in the gross lending portfolio. Pursuant to IFRS 9 it is the share of receivables reflected in Stage 3 and POCI (purchased or originated credit impairment) assets to the gross lending portfolio.

NPS – Net Promoter Score – a client loyalty survey. Client database is split into three categories: promoters, neutral clients and detractors. NPS ratio is the difference between the share of promoters and detractors in the entire client database.

NSFR – Net Stable Funding Ratio. It is computed as the ratio of available stable funding to required stable funding. In keeping with Regulation No 575/2013 of the European Parliament and of the Council (EU), the target net stable funding ratio (NSFR) was not defined.

OHI – Organizational Health Index.

O-SII buffer – Buffer of other systemically-important institution – an element of macroeconomic supervision of the banking sector. The buffer is imposed on banks of systemic importance on both the standalone and consolidated bases. The buffer takes values from 0% to 2% of the capital requirement.

Own funds – The funds forming Tier 1 capital (encompassing, inter alia, share capital, supplementary capital, reserve capital and retained earnings of previous years) and Tier 2 capital (encompassing inter alia subordinated liabilities, when approved by the competent regulator).

PACE – An organised process boosting innovations across ING Group. It fosters a fast market launch of new products and services, developed by small and independent scrums.

PD – Probability of Default.

PFSA – Polish Financial Supervision Authority – supervises the banking sector as well as the capital, insurance and pension markets, payment institutions and payment services offices, electronic money institutions and the sector of credit unions.

Private & Wealth – The offer targeting the segment of retail clients whose assets are over PLN 500,000 (Private) or PLN 2 million (Wealth).

RAS – Risk Appetite Statement – The document that sets the maximum risk the Group is willing to accept for a given type of risk.

Respect Index – Index of the most socially responsible companies on the Warsaw Stock Exchange.

Retail segment – Simply: natural persons and natural persons running business.

Return on Assets (ROA) – net profit/ average assets for 5 subsequent quarters.

Return on Equity (ROE) – net profit/ average equity for 5 consecutive quarters.

Risk costs margin ratio – Net loan loss provisions (pursuant to IFRS 9: allowances for expected credit losses) to the average value of the gross lending portfolio in a given period.

STIR – ICT System of the National Clearing House – a set of algorithms that analyse financial data delivered obligatorily by banks and credit unions on entrepreneurs designed to identify potential VAT frauds.

Strategic clients – Groups with the annual turnover of over EUR 125 million, corporate segment clients.

Supervisory Review and Evaluation Process (SREP) – One of the supervisory tools of the Polish Financial Supervision Authority (PFSa). The SREP seeks to identify the volume and nature of risk exposure at banks, evaluate the quality of the risk management process and assess the capital covering the risk associated with bank business and bank governance.

SWIFT – Society For Worldwide Interbank Financial Telecommunication. SWIFT participates in international transactions between financial institutions.

Tier 1 – Top-quality capital, computed in line with Basel III regulations.

Tier 1 capital ratio – The ratio of the Tier 1 capital to off-balance sheet assets and liabilities, including risk weights; the ratio is calculated in line with Basel III regulations.

Total Capital Ratio (TCR) – It is computed as the relation of own funds to off-balance sheet assets and liabilities including risk weights; the ratio is calculated in line with Basel III regulations.

United Nations Environment Programme Finance Initiative – A global partnership between the United Nations and over 200 representatives of the world financial sector. The partnership seeks to promote sustainable funding.

United Nations Global Compact – The largest global initiative gathering business striving after sustainable growth.

VaR – Value at Risk – the ratio which defines the anticipated maximum potential loss at certain probability.

WCAG – International guidelines on making Web content more accessible. These guidelines read how to make content accessible to everyone, regardless of one's ability, age, equipment or software.

WIBOR – Warsaw Interbank Offered Rate – It is a reference interest rate of loans on the Polish interbank market.

WIG 30 – WIG 30 index has been published by the Warsaw Stock Exchange (WSE) since 23 September 2013. It is a capitalization-weighted stock market index of the thirty largest companies on the Warsaw Stock Exchange.

WPC – Winning Performance Culture – It is a survey to measure employee engagement.

GRI Content Index

Profile indicators

General Disclosures		
Disclosure Number	Disclosure Title	Reference in the content of the report
GRI 102-1	Name of the organization	- About us
GRI 102-2	Activities, brands, products, and services	- Offered products
GRI 102-3	Location of headquarters	- About us
GRI 102-4	Location of operations	- About us
GRI 102-5	Ownership and legal form	- Who is the owner of our bank
GRI 102-6	Markets served	- About us - Offered products
GRI 102-7	Scale of the organization	- About us
GRI 102-8	Information on employees and other workers	- Who are our employees
GRI 102-9	Supply chain	- Our vendors
GRI 102-10	Significant changes to the organization and its supply chain	- How does ING Group operate in Poland
GRI 102-11	Significant changes to the organization and its supply chain	- Risk and capital management system - Description of non-financial risks
GRI 102-12	External initiatives	- External initiatives we are involved in
GRI 102-13	Membership of associations	- External initiatives we are involved in
GRI 102-14	Statement from senior decision-maker	- Letter from the Chairman
GRI 102-15	Key impacts, risks, and opportunities	- Market now and in the future
GRI 102-16	Values, principles, standards, and norms of behaviour	- Ethics, values and compliance - We combat conflicts of interest
GRI 102-17	Mechanisms for advice and concerns about ethics	- We report instances of breach of law and Business Ethics Standards
GRI 102-18	Governance structure	- Management Board composition

GRI 102-40	List of stakeholder groups	- Relationships with external parties
GRI 102-41	Collective bargaining agreements	- Who are our employees
GRI 102-42	Identifying and selecting stakeholders	- Relationships with external parties
GRI 102-43	Approach to stakeholder engagement	- Relationships with external parties
GRI 102-44	Key topics and concerns raised	- About report

Reporting		
Disclosure Number	Disclosure Title	Reference in the content of the report
GRI 102-45	Entities included in the consolidated financial statements	- How does ING Group operate in Poland
GRI 102-46	Defining report content and topic Boundaries	- About report
GRI 102-47	List of material topics	- About report
GRI 102-48	Restatements of information	- About report
GRI 102-49	Changes in reporting	- About report
GRI 102-50	Reporting period	- About report
GRI 102-51	Date of most recent report	- About report
GRI 102-52	Reporting cycle	- About report
GRI 102-53	Contact point for questions regarding the report	- About report
GRI 102-54	Claims of reporting in accordance with the GRI Standards	- About report
GRI 102-55	GRI content index	- GRI Index
GRI 102-56	External assurance	- GRI Index

GRI 102-56 - The report will be subject to external verification.

Management approach

Disclosure Number	Disclosure Title	Reference in the content of the report
GRI 103-1	Explanation of the material topic and its Boundary	<ul style="list-style-type: none"> - Relationships with external parties - Innovation culture and competent employees - Who are our employees - Social commitment and voluntary service programme - Financial education and development of entrepreneurship - Green investments and care for the environment - About us - ING Bank Śląski strategy - Solutions - IT system stability and transaction security - Personal data security
GRI 103-2	The management approach and its components	<ul style="list-style-type: none"> - Relationships with external parties - Innovation culture and competent employees - Who are our employees - Social commitment and voluntary service programme - Financial education and development of entrepreneurship - Green investments and care for the environment - About us - ING Bank Śląski strategy - Solutions - IT system stability and transaction security - Personal data security
GRI 103-3	Evaluation of the management approach	<ul style="list-style-type: none"> - Relationships with external parties - Innovation culture and competent employees - Who are our employees - Social commitment and voluntary service programme - Financial education and development of entrepreneurship - Green investments and care for the environment - About us - ING Bank Śląski strategy - Solutions - IT system stability and transaction security - Personal data security

Detailed indicators

Detailed indicators		
Disclosure Number	Disclosure Title	Reference in the content of the report
GRI 201-1	Ratios of standard entry level wage by gender compared to local minimum wage	<ul style="list-style-type: none"> - What makes us stand out - Consolidated results of ING Bank Śląski S.A. Group
GRI 202-1	Ratios of standard entry level wage by gender compared to local minimum wage	<ul style="list-style-type: none"> - Employment terms and conditions
GRI 203-1	Infrastructure investments and services supported	<ul style="list-style-type: none"> - Market growth by access to financing
GRI 203-2	Significant indirect economic impacts	<ul style="list-style-type: none"> - ING Bank Śląski strategy
GRI 205-2	Communication and training about anti-corruption policies and procedures	<ul style="list-style-type: none"> - We counteract corruption
GRI 205-3	Confirmed incidents of corruption and actions taken	<ul style="list-style-type: none"> - We counteract corruption
GRI 302-1	Energy consumption within the organization	<ul style="list-style-type: none"> - Electricity
GRI 302-4	Reduction of energy consumption	<ul style="list-style-type: none"> - Electricity
GRI 303-3	Water withdrawal	<ul style="list-style-type: none"> - Water consumption
GRI 306-2	Waste by type and disposal method	<ul style="list-style-type: none"> - We manage waste wisely
GRI 308-1	New suppliers that were screened using environmental criteria	<ul style="list-style-type: none"> - Our vendors
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	<ul style="list-style-type: none"> - Employment terms and conditions
GRI 401-3	Parental leave	<ul style="list-style-type: none"> - Parents at work
GRI 404-1	Average hours of training per year per employee	<ul style="list-style-type: none"> - E-learning and multimedia tools
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	<ul style="list-style-type: none"> - Year-end evaluation
GRI 405-1	Diversity of governance bodies and employees	<ul style="list-style-type: none"> - Diversity and equal chances
GRI 405-2	Ratio of basic salary and remuneration of women to men	<ul style="list-style-type: none"> - Diversity and equal chances
GRI 414-1	New suppliers that were screened using social criteria	<ul style="list-style-type: none"> - Our vendors
GRI 404-1 - The indicator reported in part due to a unavailability of data on the number of training hours by gender and employment category		

Management Board statements

Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the annual financial data for 2018 and the comparable data presented in the annual financial statements of ING Bank Śląski S.A. and the annual consolidated financial statements of the ING Bank Śląski S.A. Group were prepared in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the financial standing of the Bank and the Bank Group and the financial result generated by the Bank and the Bank Group. The Management Board Report being part of this document is a true presentation of the development, achievements and situation (including a description of key risks and threats) of the Bank and the Bank Group in 2018.

Selection of entity authorised to audit financial statements

The auditing firm to audit the separate and consolidated financial statements for 2018 was selected in accordance with the applicable regulations, inclusive of the regulations on selection of the auditing firm and auditing firm selection procedure.

The auditing firm (KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.) and members of the auditing team met the prerequisites to issue an impartial and independent audit report from the audit of the annual financial statements in line with the applicable regulations, professional and business ethics standards.

The bank complies with the applicable regulations regarding rotation of the auditing firm and key statutory auditor as well as grace periods. The maximum 5-year duration of the audit engagement granted by the Bank to the current auditing firm ended with the audit of the 2017 financial statements. However, on 28 May 2018, the Polish Financial Supervision Authority permitted the Bank to extend the maximum duration of the engagement for one year under Article 17.6 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

The Agreement between the Bank and the audit firm (KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.) was signed on 13 June 2016. It was annexed three times on: 20 September 2017, 26 February 2018 and 1 July 2018. The annex signed on 1 July 2018 concerned the 2018 statutory audit.

The Bank has the “Policy on selection of the auditing firm to audit the financial statements, assessment of its independence and provision of other permitted services at ING Bank Śląski S.A.” in place. It comprises the policy concerning the selection of the auditing firm and the policy on provision of additional services, other than an audit, including, but not limited to, the services exempted conditionally from the ban on being provided by an auditing firm, for the Bank by the auditing firm, any entity related to the auditing firm or a member of its network.

This Management Board Report on Operations of the ING Bank Śląski S.A. Group in 2018 comprising the Management Board Report on Operations of ING Bank Śląski S.A. in 2018 has 187 pages numbered consecutively.

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

*The original Polish document is signed with
a qualified electronic signature*

Brunon Bartkiewicz

President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Michał Bolesławski

Vice-President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Joanna Erdman

Vice-President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Marcin Giżycki

Vice-President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Bożena Graczyk

Vice-President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Patrick Roesink

Vice-President of the Bank Management Board

*The original Polish document is signed with
a qualified electronic signature*

Lorenzo Tassan-Bassut

Vice-President of the Bank Management Board

26 February 2019