



# ING Bank Śląski S.A. Group

## Management Board Report on Operations in 2016

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## Chairman's Statement

### *Dear Shareholders,*

2016 was a year full of challenges for the banking sector in Poland. Banks had to face up the landscape of record low interest rates accompanied by the decelerating economic growth that resulted from the negative investment dynamics, and declining lending in the corporate segment in particular. In terms of the regulatory environment, the financial sector was encumbered with significant costs – tax on certain financial institutions and the capital add-on which was imposed on the largest banks – buffer of other systemically-important institution. For the second consecutive year, the sector incurred direct bankruptcy costs of the cooperative bank – namely Bank Spółdzielczy in Nadarzyn – and indirect bankruptcy costs of a number of credit unions. The Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Resolution required banks to intensify their actions to adjust internal procedures, including the recovery plan, to the new legal regime. The public debate on CHF-denominated mortgage loans continued, and towards 2016 yearend, the Polish Sejm proceeded with the bill on the principles of reimbursement of certain amounts due under credit facility and cash loan agreements. Adoption of the Mortgage Loan Act and amendments to the Consumer Credit Act are also in the pipeline. Additionally, economic and political developments around the globe (such as Brexit, presidential election in the USA or investors concerns about the banking sector in Italy and Germany) translated into higher volatility of financial markets – FX, debt and capital ones. These factors were also significant for the ownership changes in Poland in the financial sector, among banks in particular. On the other hand, strong consumption dynamics should be noted as well as a strong situation on the labour market visible in the trending down unemployment rate and higher salaries.

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 our clients in all segments. In 2016, 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. The Bank Supervisory Board actively assisted the Management Board through close analysis of their 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 were also involved in the setting of the Group's priority development directions. The Supervisory Board members were in the composition of the Audit Committee, Remuneration and Nomination Committee as well as Risk Committee.

As at 2016 yearend, the Group served 4.32 million clients more, or up by 6%, than as at 2015 yearend (4.27 million in the retail segment and 48 thousand in the corporate segment). As at 2016 yearend, credit receivables from customers amounted to almost PLN 78 billion, up by 14% from 2015 yearend. Concurrently, the value of funds deposited by clients grew by 9% and totalled over PLN 94 billion as at the yearend. In consequence, the Group's balance sheet total was PLN 117 billion, up by 8% from 2015.

The Group finished the year with a solid capital and liquidity base. The total capital ratio remained at a comfortable level of 14.7%. As the loans grew faster than deposits, the LTD ratio arrived at 81.5% as at the yearend, or up by 3.3 p.p. from the year earlier.

The Group's net profit in 2016 went up by 11% y/y, reaching all-time record of PLN 1,253 million. Taking into account difficult market conditions, it proves that the actions taken by the Management Board as part of the Group's strategy neutralised negative factors.

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

### *Ladies and Gentlemen,*

I would like to present to you the annual report of the ING Bank Śląski S.A. Group for 2016. I do hope that our commercial and financial results prove that the Group and the Bank are developing in the right direction. We are unvaryingly focusing on client needs, service quality, good offering, state-of-the-art products and innovations in the belief that they consolidate our competitive edge.

The Group consistently proves its skill to grow organically. The number of clients entrusting their finance to us is growing steadily. As at 2016 yearend, it stood at PLN 4.32 million, out of which PLN 4.27 million are retail clients (private individuals and entrepreneurs) and 48,000 are businesses. Last year, we welcomed 422,000 retail clients and 10,000 corporate clients. The success is all the greater as the client base growth is accompanied by enhanced customer experience. The foregoing is confirmed by our score in the NPS survey where we are among the leaders.

Customer experience, service quality and competitiveness as well as cost optimisation are all inherently linked to digitalisation. In the past year, we offered clients multiple new solutions in that regard. One of the biggest developments in the retail banking area was the rollout of a new mobile banking application, Moje ING, plus its version dedicated to entrepreneurs which was used by 2.1 million of our clients already. We also launched the Visiona system for cards to ensure better efficiency and easier management; Money Coach – the feature which assists clients in money management; Trusted profile in Moje ING with which clients can comfortably use public administration services; or the Remote Advisory pilot programme in which clients can request mortgage loans remotely. In the corporate banking area, we embarked on a pilot programme of a new online banking system for companies, ING Business. It was presented in February 2016 at the international technology competition, Finovate in London. Furthermore, we offered new mobile application features like: TouchID – logon and transaction authorisation and 3D Touch – the technology which detects the screen pressure, whereby users can make many transactions and operations easier and faster. We also implemented a new process for remote opening of the ING Direct Business account. Our top institutional clients were provided with the digital flow of transaction banking documents. It speeds up the exchange of agreements and forms and eliminates hard copies.

Digitalisation of banking services does our clients good. It enables them to move in the modern world more easily and effectively. Still, their needs are changing and we need to adapt to them. That is why, we established a new Bank unit – Innovation Office. On the one hand, it is a hub which by delivering tools and initiating projects stimulates our organization to act in a new way. On the other hand, the office closely cooperates with fintechs, regulators and government departments to ensure a steady influx of inspirations and partnership with the heavyweights in that domain. As part of this initiative, we started ING Accelerator at our Bank. It is a programme designed to develop space-age ideas and transform them into the products and services eagerly used by our clients. At the ING N.V. Group level, ING Bank Śląski S.A. employees had the chance to participate in the Innovation Bootcamp initiative for the fourth time. 17 out of 100 short-listed ideas come from Poland.

However, as the organization we are not to rest on our laurels, we think forward and try to foresee various event scenarios. This is why, the Group started the Fit for Future programme, whereby we will become more flexible, as efficient as possible and better prepped for changes happening around us. In 2016, we began the Agile organization-oriented transformation of the Group. We will mainly work at the foundations of our organisation – we will revise the structure in different bank areas, compile new KPIs and implement an incentive system that will be better fit for this business model. In the long term, we will digitalise our processes and the Bank will operate even more efficiently.

I do hope that our digitalisation- and innovation-related initiatives will be appreciated by our clients and shareholders in the future just like our achievements in performance, service quality, new solutions and technologies were recognised in key rankings and competitions in 2016. In 2016, the Group was honoured with the “Best Bank 2016” title by the Gazeta Bankowa monthly, “Golden Bank” prize from the Puls Biznesu monthly and Bankier.pl portal as well as the “2016 Service Quality Star” award in the Banks category in the ninth edition of the Polish Service Quality Programme, to name a few. Our activities in the area of new technologies were appreciated with the title of “IT Leader of 20 Years” in

the Banking and Finance category and the “Golden Bell” prize for mobile applications in the Mobile Bank of 2015 category presented at the Mobility Trends Gala. Further, our supplier financing solution, Aleo, was presented at the Autumn round of Finovate in New York.

Despite the turbulent environment in which ING Bank Śląski S.A. pursues business, the Group managed to stay very competitive in the market and increase its market shares. Throughout 2016, the client lending portfolio rose by PLN 9 billion, arriving at PLN 78 billion. Although growth saw the pace of 14% and was over twice faster than the dynamics of the entire sector, the quality of our lending portfolio remains high. We are proud of the growth rate of receivables from retail customers. Sale of mortgage loans went up by 9% from 2015 and settled at PLN 5.7 billion, while sale of cash loans augmented by 28% to the record-breaking PLN 3.9 billion. Throughout 2016, client savings rose by over PLN 7 billion, or 9% from 2015, arriving at almost PLN 95 billion. Capitalising on a faster increase in loans vis-a-vis deposits, we managed to improve our balance sheet structure for the fourth consecutive year. Loan to deposit ratio went up to 81.5%

The subsidiaries operating in leasing and factoring heavily contributed to the Bank Group growth. ING Commercial Finance S.A., providing factoring services, should be appreciated here. Its turnover was over PLN 24 billion and it was higher by 29% than a year earlier. Thus, the company consolidated its position of a top factoring company in Poland. Over the year, ING Lease (Polska) Sp. z o.o. multiplied its portfolio by 10%, focusing on lease of machinery and equipment as well as expanding its vehicle lease offer.

That the dynamic growth of lending was achieved while keeping a prudent approach to risk assessment, which is reflected in a good quality of the lending portfolio, is worth accentuating. As at the yearend, the share of impaired receivables was 2.6% and it was 0.6 p.p. lower than as at 2015 yearend. This result is also much better than that of the sector which settled at 6.1% as at 2016 yearend. Despite a dynamic growth of assets, the Group managed to retain adequate capital position. As at 2016 yearend, the total capital ratio and the Tier 1 ratio stood at 14.7% and 13.7%, respectively.

I believe that the 2016 performance proves that a higher scale of operations contributed to the financial results of the Group. Notwithstanding the considerable new regulatory burdens – the levy on certain financial institutions (PLN 280 million) and the extraordinary BGF contribution due to the bankruptcy of Bank Spółdzielczy in Nadarzyn (PLN 12 million), the Group managed to post the all-time high net result. It closed with PLN 1,253 million. In other words, it improved by 11% from the net result a year ago. Let me also draw your attention to the result drivers: a Visa transaction (positive impact on the revenues of PLN 190 million) and the sale transactions of the irregular receivables (approx. PLN 51 million of loan provisions released). When cleaned from one-offs, revenues arrived at PLN 4,135 million (or went up by 12%) while costs closed with PLN 2,087 million (or went up by 5%). In other words, the clean C/I ratio stood at 50.5% (2015: 54.2%).

2016 proved to be much more favourable for the Warsaw Stock Exchange than 2015 was. Naming it a good year would be hard, nonetheless. Investors feared for the slowing GDP in Poland, the issue of FX mortgage loans in the banking sector and the world developments like the presidential election in the USA, Brexit or the capital standing of German and Italian banks, for example. Consistent strategy caused ING Bank Śląski S.A. shares to be appreciated by investors. In 2016, Bank shares went up 38% in price. As at 30 December 2016, they floated at PLN 161.40. The sector index – WIG-Banks – and the broad market measured with the WIG index went up by 3% and 11%, respectively, in that period.

ING Bank Śląski S.A. Group is an organization which respects ING Values: integrity, prudence and accountability. It is our promise to the world around us. To one another, we also promise to abide by ING Behaviours (You take it on and make it happen, You help others to be successful and You are always a step ahead). For the seventh time we were honoured with the Top Employers Poland certificate which proves that we achieve the highest standards as employer. For the tenth time the Bank was included in the stock exchange index of socially responsible companies: RESPECT Index. Our Bank is among the eight companies – and is the only company from the finance industry – that have been continuously present in the RESPECT Index since its very beginning.

The Polish banking sector is to face numerous legal and regulatory challenges. Still, I am convinced that the Group is well prepared for the capital- and liquidity-related changes as well as for the organisational changes to occur in its surroundings. We want our clients to perceive us as partners and

enter into long-lasting relationships with us. The Group will continue to develop its products and services in response to the changing needs and technological progress. We do hope that such approach, just like in previous years, will make the Group welcome more clients, will improve customer satisfaction with its services as well as will enable the Group to expand business in key areas.

Yours respectfully,

**Brunon Bartkiewicz**

***President of the Management Board***

## Brief characteristics of ING Bank Śląski S.A. Group

ING Bank Śląski S.A. has been present in the market since 1989, i.e. the year when ING Bank Śląski S.A. Head Office in Katowice was established under the Resolution of the Council of Ministers. Currently, the Bank's Head Office is also located in Warsaw.

In its nearly 28-year history, the Bank has become one of the largest universal banks in Poland. As at 31 December 2016, the Bank Group (Group) balance sheet total was PLN 117.5 billion, or 6.6% of the total assets of the Polish banking sector. Consequently, the Bank was ranked fifth in the Polish market as per the balance sheet total. The Bank managed PLN 95.8 billion worth of funds in the accounts, i.e. 8.6% of total deposits in the commercial banks sector, which made it the fourth largest deposit bank in Poland.

In 2016, ING Bank Śląski S.A. had a strong position in the core markets of banking services, notably:

- **Retail banking**

Fourth in the market in terms of the value of household deposits (with the 8.9% share) and third in mortgage loan production (with the 13.9% share). Fifth as for the number of personal accounts of individual clients (8.6% of personal accounts<sup>1</sup>).

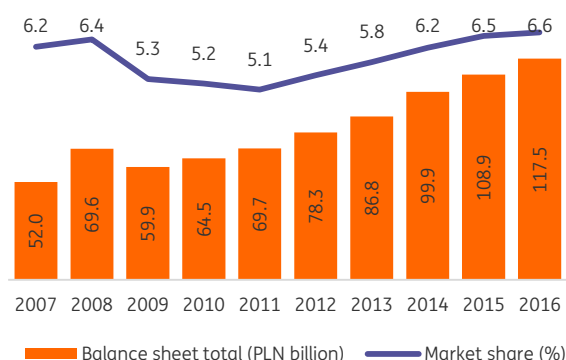
- **Corporate banking**

19%<sup>2</sup> of companies with the turnover exceeding PLN 5 million used the Bank's services (fourth in the market). The Bank was also the fourth largest lender and savings bank (with 10.5% share in the lending market and 8.0% in the savings market).

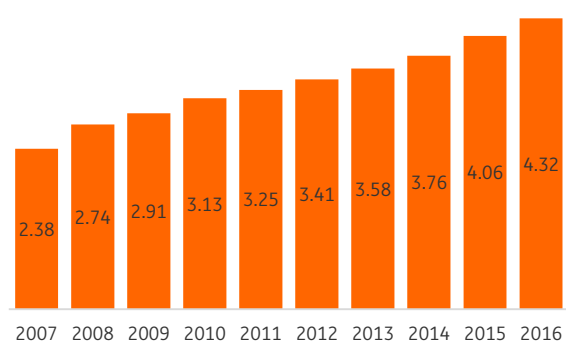
- **Leasing and factoring operations**

As at 2016 yearend, ING Commercial Finance Polska S.A. – a Bank Group member – was ranked first in the factoring services market (15.4% market share). ING Lease (Polska) Sp. z o.o was ranked fifth with its 9.6% share in the leased assets value.

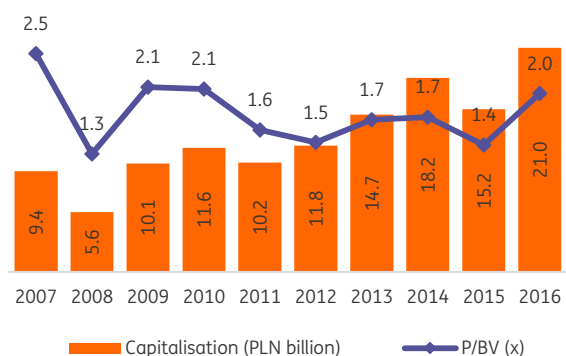
### ING Bank Śląski S.A. Group balance sheet total



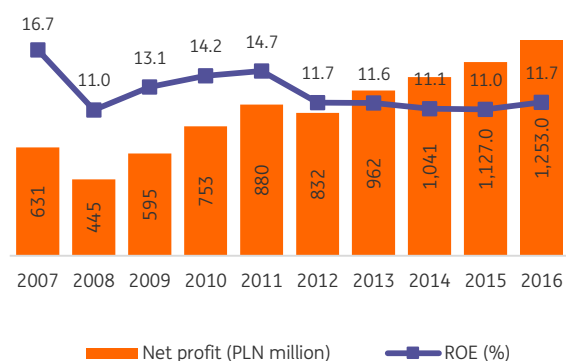
### Number of ING Bank Śląski S.A. clients (million)



### Market value of ING Bank Śląski S.A.



### Net profit of ING Bank Śląski S.A. Group



<sup>1</sup>As at 30 September 2016. Data based on the "PRNews.pl report: Market of personal accounts – Q3 2016" of 23 November 2016

<sup>2</sup>Based on the GfK Polonia survey, October 2016.

- Money markets and capital markets

As at the end of December 2016, ING Bank Śląski S.A. serviced securities trading of 85 issuers being corporates, banks and municipalities. The third position in the corporate debt securities market with the share of 12.8% in the total of securities issued and the second position in the short-term securities market (share of 18.5%).

In December 2016, 4,321 thousand clients used the services of ING Bank Śląski S.A., i.e. 262 thousand clients more compared with 2015, including 4,272 thousand retail clients and 48 thousand corporate clients.

The Bank had a nationwide network of 384 bank outlets with self-banking zones open 24 hours a day. Furthermore, as at 2016 yearend, the Bank had 65 ING Express sales points located in the largest shopping malls in Poland. ING Bank Śląski S.A. clients may gratuitously use 1,145 self-service cash machines (including 932 recyclers – i.e. dual machines for cash withdrawals and deposits) with the ING logo and over 2.5 thousand Planet Cash ATMs. Besides, the Bank provides its clients with access to banking services via modern electronic banking channels like: online banking systems (Moje ING, ING BankOnLine, ING BusinessOnLine), mobile banking (Moje ING Mobile, ING BankMobile, ING BankMobile HD, ING BusinessMobile), phone banking (HaloŚląski) and the text message system.

**Abridged financial results of ING Bank Śląski S.A. Group for 2008 to 2016**

	2016	2015	2014	2013	2012	2011	2010	2009	2008
<i>PLN million</i>									
Income <sup>3</sup>	4,324.5	3,778.1	3,544.8	3,328.5	3,245.1	2,990.0	2,747.2	2,548.6	2,132.5
Costs	2,099.2	2,155.7	1,929.7	1,868.4	1,866.2	1,700.0	1,609.5	1,505.9	1,503.9
Risk costs	300.6	232.1	267.7	267.2	362.8	172.4	203.6	304.4	65.6
Profit before tax	1,644.5	1,390.3	1,347.4	1,192.9	1,016.1	1,117.6	934.1	738.3	563.0
Net profit <sup>4</sup>	1,253.0	1,127.0	1,040.7	961.5	832.3	880.1	753.1	595.1	445.4
<i>PLN million</i>									
Balance sheet total	117,478	108,893	99,861	86,751	78,267	69,723	64,518	59,883	69,611
Liabilities to customers	95,825	87,819	75,659	67,548	57,898	52,861	47,448	47,319	46,910
Net loans and other receivables to customers <sup>5</sup>	78,070	68,682	57,131	48,553	45,206	38,457	31,241	26,704	23,931
Equity <sup>6</sup>	10,475	10,678	10,454	8,626	8,134	6,414	5,651	4,884	4,222
<i>%</i>									
Total Capital Ratio <sup>7</sup>	14.7	13.7	14.2	17.3	14.6	11.9	13.2	12.0	10.4
Tier 1 Ratio	13.7	13.7	14.2	17.3	14.6	11.9	13.2	12.0	10.4
Net profit / Balance sheet total (ROA)	1.1	1.1	1.1	1.2	1.1	1.3	1.2	0.9	0.7
Net profit / Equity (ROE)	11.7	11.0	11.1	11.6	11.7	14.7	14.2	13.1	11.0
Costs / Income	48.5	57.1	54.4	56.1	57.5	56.9	58.6	59.1	70.5
<i>PLN</i>									
Earnings per share <sup>8</sup>	9.63	8.66	8.00	7.39	6.40	6.76	5.79	4.57	3.42
Dividend per share	-	4.30	4.00	4.40	0.00	0.00	1.50	0.00	0.00

As at the end of December 2016, the Group had 7,970 FTEs vis-a-vis 8,219 FTEs as at 2015 yearend. ING Bank N.V., which holds a 75% share in the Bank's equity, is the strategic investor of ING Bank Śląski S.A.

<sup>3</sup> Including net profit of affiliated entities recognised on an equity basis.

<sup>4</sup> Attributable to shareholders of ING Bank Śląski S.A.

<sup>5</sup> Eurobonds excluded.

<sup>6</sup> Attributable to shareholders of ING Bank Śląski S.A.

<sup>7</sup> Since 2014 the total capital ratio (previously solvency ratio) has been calculated under the CRD IV/CRR (Basel III) regulations.

<sup>8</sup> Upon making data comparable (split of the face value of shares 1:10 in November 2011).



Abridged financial results of ING Bank Śląski S.A. Group for 2008 to 2016 (converted into EUR)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008
<i>EUR million</i>									
Income	988.3	902.8	846.2	790.4	777.5	722.2	686.0	587.2	603.7
Costs	479.7	515.1	460.6	443.7	447.1	410.6	401.9	346.9	425.8
Risk costs	68.7	55.5	63.9	63.5	86.9	41.6	50.8	70.1	18.6
Profit before tax	375.8	332.2	321.6	283.3	243.5	269.9	233.3	170.1	159.4
Net profit	286.4	269.3	248.4	228.3	199.4	212.6	188.1	137.1	126.1
<i>EUR million</i>									
Balance sheet total	26,555	25,553	23,429	20,918	19,145	15,786	16,291	14,576	16,684
Liabilities to customers	21,660	20,607	17,751	16,288	14,162	11,968	11,981	11,518	11,243
Net loans and other receivables to customers	17,647	16,117	13,404	11,707	11,058	8,707	7,889	6,500	5,736
Equity	2,368	2,506	2,453	2,080	1,990	1,452	1,427	1,189	1,012
<i>%</i>									
Total Capital Ratio	14.7	13.7	14.2	17.3	14.6	11.9	13.2	12.0	10.4
Tier 1 Ratio	13.7	13.7	14.2	17.3	14.6	11.9	13.2	12.0	10.4
Net profit / Balance sheet total (ROA)	1.1	1.1	1.1	1.2	1.1	1.3	1.2	0.9	0.7
Net profit / Equity (ROE)	11.7	11.0	11.1	11.6	11.7	14.7	14.2	13.1	11.0
Costs / Income	48.5	57.1	54.4	56.1	57.5	56.9	58.6	59.1	70.5
<i>EUR</i>									
Earnings per share	2.20	2.07	1.91	1.75	1.53	1.63	1.45	1.05	0.97
Dividend per share	-	1.03	0.95	1.04	0.00	0.00	0.37	0.00	0.00

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

- 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 in:
  - 2016: PLN 4.3757,
  - 2015: PLN 4.1848,
  - 2014: PLN 4.1893,
  - 2013: PLN 4.2110,
  - 2012: PLN 4.1736,
  - 2011: PLN 4.1401,
  - 2010: PLN 4.0044,
  - 2009: PLN 4.3406,
  - 2008: PLN 3.5321.
- for the statement of financial position items – the exchange rate of the National Bank of Poland as at 31 December:
  - 2016: PLN 4.4240,
  - 2015: PLN 4.2615,
  - 2014: PLN 4.2623,
  - 2013: PLN 4.1472,
  - 2012: PLN 4.0882,
  - 2011: PLN 4.4168,
  - 2010: PLN 3.9603,
  - 2009: PLN 4.1082,
  - 2008: PLN 4.1724.

As at the publication date hereof, ING Bank Śląski S.A. had the following ratings assigned by rating agencies:

<b>Fitch Ratings Ltd.</b>	
Long-term IDR	A-
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Viability rating	bbb+
Support rating	1

<b>Moody's Investors Service Ltd.</b>	
LT rating	A3
ST rating	P-2
Baseline Credit Assessment (BCA)	baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa2
Outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term / short-term	A2 / P-1

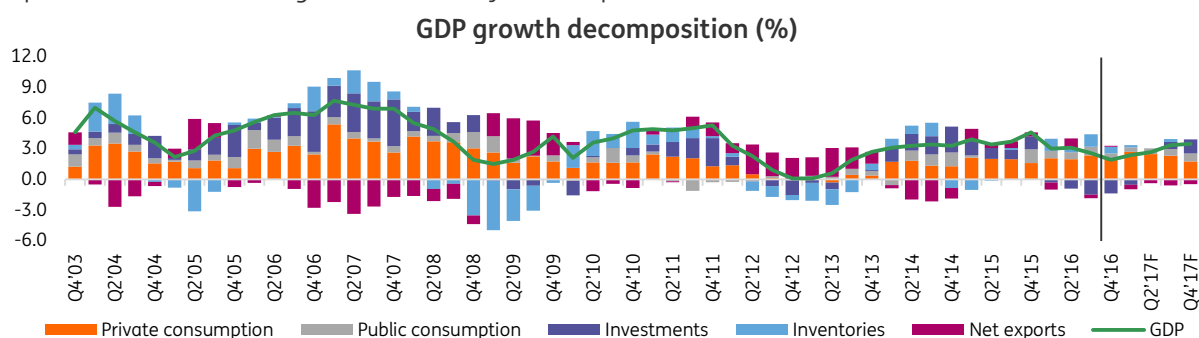
## I. Macroeconomic situation of the Polish banking sector growth in 2016

### 1. Major trends in Polish economy

#### Gross Domestic Product

In 2016, Polish economic growth slowed down to 2.8% y/y from 3.9% the year before. This mainly resulted from the slump in the public investment projects co-financed with the EU funds that was caused by the stoppage in new project contracts in between the changing EU financial frameworks. The rise in private consumption following the pay-out of 500+ benefits was lower than expected – according to the consumer surveys, a significant part of households used the funds received either to increase their savings or to repay their debt, which is visible in the slowdown in the consumer credits growth. Relatively low domestic demand and weak Polish zloty meant that a rather high surplus in international trade (estimated at 0.5% GDP) was maintained.

In the consecutive quarters, GDP growth in Poland is likely to accelerate and in the opinion of the ING Bank Śląski S.A. economists, it will average at 3.1% y/y throughout 2017. The progress in contracts for projects co-financed with the EU funds (approximately PLN 100 billion) allows us to expect a marked revival for public investments in mid-2017. At the same time, private businesses from certain sectors, like the power sector for instance, declare a rise in their investment plans. However, the total investment growth rate will probably be moderate. The Bank's economists estimate that it will accelerate from -5.2% y/y in 2016 to 1.3% y/y in 2017. Private entities declare a significantly growing level of uncertainty in the economic environment as a result of which they may be inclined to postpone their strategic decisions. A higher domestic demand in Poland will most probably lead to a trade balance deterioration. The investment process in Poland tends to be import-intensive. As per the Bank's forecasts, the increase in imports will be partly compensated with higher exports, as suggested by the improved business activity of Poland's major trade partners.



#### Labour market and payroll

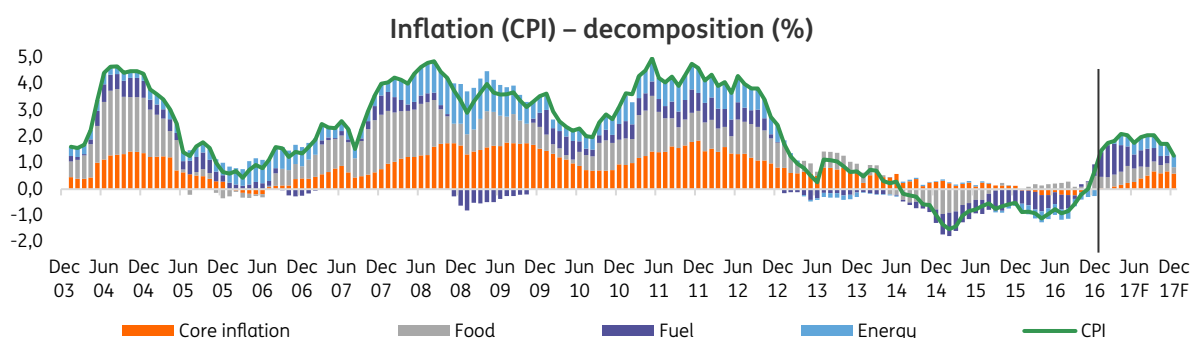
In 2016, the unemployment rate decreased by nearly 1.5% p.p. versus 2015. This was however accompanied by only a moderate wage pressure – the real wage growth in the entrepreneurs sector was close to 4% y/y but only slightly (versus 3.5% y/y in 2015). A slowdown in the wage pressure was facilitated by deflation and the high influx of employees from Ukraine. Employment in the entrepreneurs sector grew in 2016 by nearly 3% y/y. However, this was partly (not less than 1 p.p.) the result of regulatory changes that lead to the conversion of civil law contracts (not covered in the statistics) into contracts of employment.

The economists at ING Bank Śląski S.A. expect that 2017 will see a further intensification of the wage pressure in domestic economy. As a result of lowering the retirement age, in Q4 2017 on average there will be 200 thousand people more to retire than in the years before. Business entities declare growing difficulties in finding employees. The problem may be additionally intensified by regulatory changes like a relatively high rise in minimum wage rates or introduction of the minimum hour rate, to name a few, as well as the said lowering of the retirement age. It will be only partly curbed by the influx of employees from Ukraine as a result of granting Ukraine a visa-free travel regime in all EU Member States.

## Inflation

In Poland, deflation was observed throughout most of 2016. This was caused by low fossil fuels prices (leading to the undervalued fuel and electricity components in the Consumer Price Index), import of low prices from abroad and a slow increase in labour costs. A rise in crude oil prices seen not earlier than in Q4 translated into more dynamic CPI growth above zero. At the end of the year, it coincided with the effect of regulatory changes that increased some core inflation components.

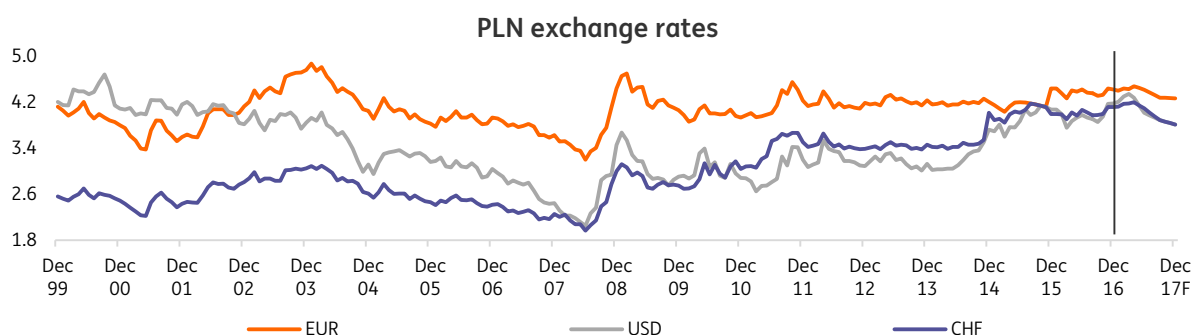
In the view of the Bank's economists, CPI inflation in Poland in H1 2017 will exceed the bottom threshold of the National Bank of Poland target (1.5% y/y) and average inflation throughout the year will exceed 2.0% y/y. It is reflected by a considerable rise in fuel prices (which will boost CPI by 0.8 pp versus the end of the previous year). A change in prices of other energy sources, e.g. electricity, will be an additional driver. A gradual rise in core inflation is also expected. It will be the consequence of strong domestic demand and cost pressure (increase in the minimum wage will affect the labour cost-sensitive services), to name a few.



## Impact of global financial markets on Polish economy

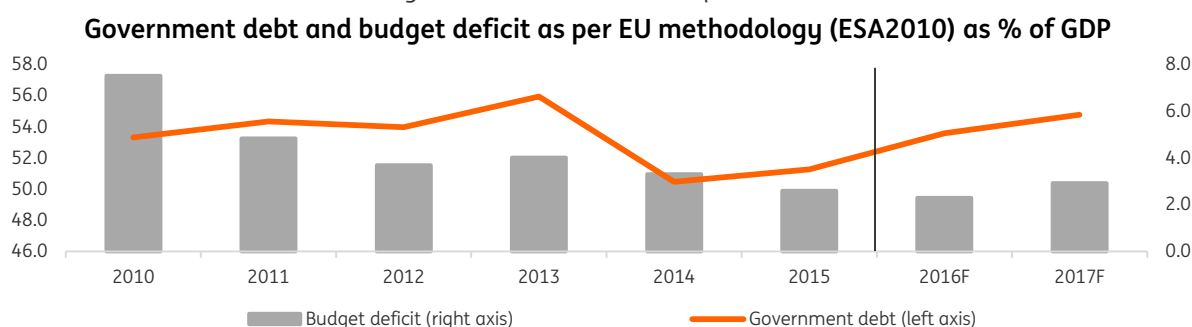
In 2016, domestic bonds and Polish zloty tumbled. To a large extent, it was caused by the sell-out of bonds on global markets, particularly in the USA. Victory of Donald Trump who had promised significant easing of fiscal policy strengthened expectations that the Federal Reserve would raise interest rates quicker. The emerging markets' assets also suffered, which stemmed from the feeling of anxiety that the USA would introduce protectionary policies impacting some of them. Domestic factors like uncertainty about the shape of Poland's economic policy (mainly speculations that mandatory conversion of the entire FX loans portfolio to Polish zloty would take place at once) and the S&P downgrading Poland's rating were also of key importance. Domestic assets turned out to be particularly vulnerable to stresses in the region. In the view of the ING economists, this was caused by Poland's deteriorated picture on international markets and the utilisation of domestic instruments as synthetic hedging of items in other economies in the region, due to higher liquidity of domestic assets. S&P is the first and so far the only agency to have downgraded Poland's rating. The risk of further Poland's rating downgrades came down: the threat of the banking sector destabilisation due to the Swiss Franc Act abated. Concerns raised by some international institutions about the National Bank of Poland's independence did not come true. Additionally, rating agencies assume that a substantial rise in outlays may be covered from the income obtained thanks to better tax collection. However, lowering of the retirement age does pose a risk, which prevents the agencies from upgrading their ratings.

ING Bank Śląski S.A. economists are of the view that Polish zloty will remain relatively weak versus euro in H1 2017. Neither the uncertainty in the international arena (e.g. connected with the fear about the EU political stability following the elections in the key Eurozone economies) nor the policy of the Monetary Policy Council, which will likely decide to keep interest rates unchanged until 2017 yearend, indicate that Polish zloty may appreciate. Potential appreciation of Polish zloty may take place in H2 2017 along with the expected acceleration in the GDP growth and the growing expectations of interest rates rise by MPC. In the view of the economists at ING Bank Śląski S.A., profitability of domestic bonds will continue to rise in 2017. This is the reflection of prospects for continued intensification of inflationary pressure in Poland and tightening of monetary policy by the Federal Reserve and the European Central Bank.



### Public finance

Public finance remained stable in 2016. Higher expenditure was mainly caused by the implementation of the 500+ programme. Budget revenue throughout most of the year exceeded expectations by even 5 p.p., however in December 2016 was surprisingly negative. This was partly a result of the acceleration of VAT refunds, previously scheduled for January so as to shift part of the deficit from 2017 to 2016. Another probable reason was the unlocking of delayed VAT refunds. As per the ESA2010 methodology, budget deficit oscillated at the level close to 2.9% GDP, that is 0.3 more than provided for in the Budget Act. An important factor in maintaining this percentage below 3% GDP was the surplus of local governments in the amount of PLN 7 billion, caused by the delay in EU investment projects as a result of which own contribution of local governments was not required.



The main factors triggering public expenditure hike in 2017 will include social expenditure under the 500+ programme to function throughout the entire year for the first time and the lowering of the retirement age (as of Q4). Despite that, the economists at ING Bank Śląski S.A. project that in 2017 the budget deficit as per ESA2010 will reach 2.9% GDP, that is the level below the EU 3% GDP level triggering the excessive deficit procedure. This will be possible by limiting expenditure on education and the servicing of the government debt, lower deficit of the Social Insurance Fund (due to beneficial situation in the labour market) and by further improvement in tax collection. All the same, government debt which was 53.6% GDP at 2016 yearend will come closer to the level of 55% GDP in 2017 as per the ESA2010 methodology. The debt increase and the lowering of the retirement age, which will generate a material increase in public expenditure in 2018, have caused the fears of rating agencies, for instance, about the stability of the public finance in mid-term to grow.

## 2. Monetary policy

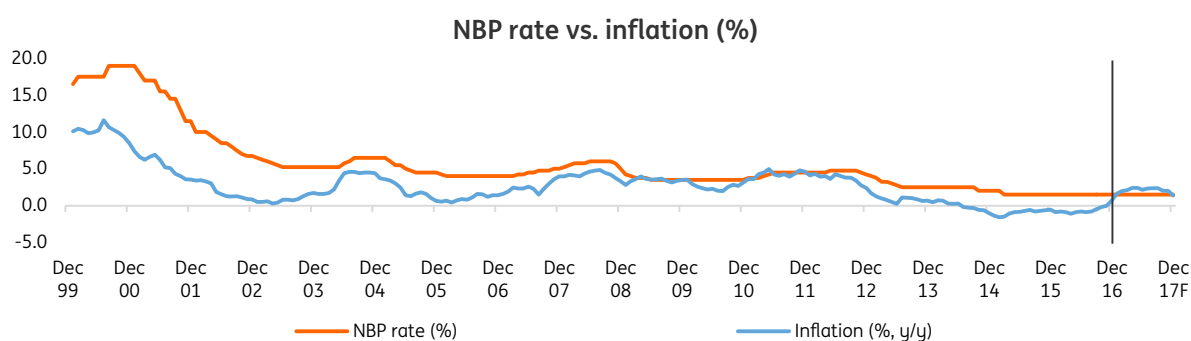
In 2016, the Monetary Policy Council decided to keep the interest rates unchanged, i.e.:

- reference rate – 1.50%,
- rediscount rate – 1.75%,
- lombard rate – 2.50%,
- deposit rate – 0.50%.

The MPC is of the view that the slowdown in the domestic economy in H2 2016 was temporary (it was the upshot of the stoppage in public investment projects co-financed with the EU funds) and was not an argument for monetary policy easing.

In the view of the economists at ING Bank Śląski S.A., the Monetary Policy Council will not decide to tighten its policy before 2018 despite growing CPI inflation in Poland (it will reach the NBP's inflation target of 2.5% y/y mid-year but will not exceed it). The price hike is largely dictated by external factors (crude oil prices, for example) that remain beyond the MPC's control. The Council is also of the opinion that interest rates shall be kept unchanged for a longer period so as to guarantee stable economic upturn in Poland. Besides, there exists uncertainty as to changes in the external environment (like the USA's trade policy).

The analysts at ING Bank Śląski S.A. are of the view that the Federal Reserve will continue to tighten monetary policy in 2017, among others, due to the expected fiscal policy easing to be introduced by Trump's administration. The European Central Bank will likely not change its policy throughout the year due to the uncertainty as to the shape of the economic policy of the Eurozone countries following the elections in the major EU member states in 2016, for example. In H2 the European Central Bank however may resort to stricter rhetoric and prepare the markets to gradual tightening of the scale of its asset purchase programme due to growing inflationary expectations and gradual economic upturn.



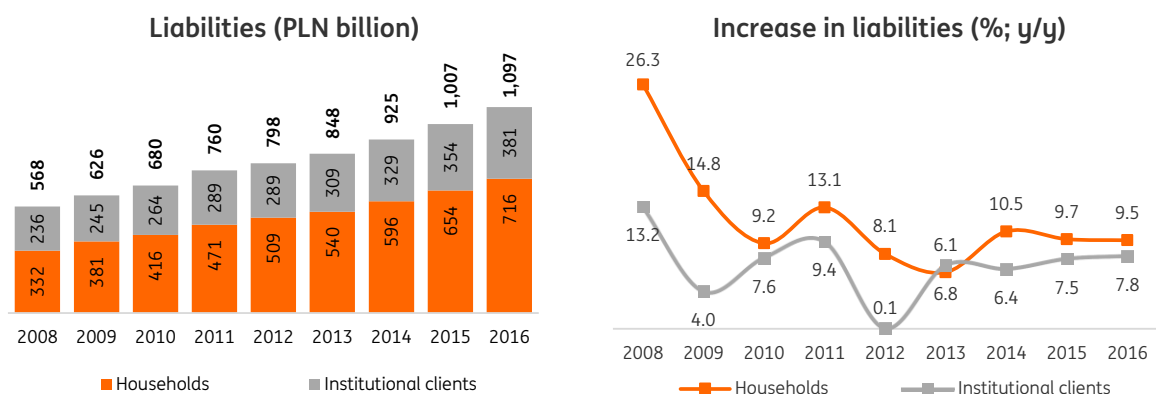
### 3. Banking sector<sup>9</sup>

As at the end of December 2016, the main monetary categories were as follows:

- Liabilities to households went up by PLN 62.3 billion versus 2015 yearend and reached PLN 716.0 billion, up by 9.5% as compared with the year before.
- Liabilities to institutional clients<sup>10</sup> amounted to PLN 381.3 billion, up by 7.8% from 2015 yearend. The volume increase by PLN 27.7 billion can be mainly attributed to higher liabilities to local government institutions (up by 27.0%, or by PLN 6.6 billion) and enterprises (up by 7.9%, or by PLN 19.7 billion). Liabilities to non-commercial institutions for households augmented by 13.5%, or by PLN 2.7 billion, in that period. In contrast, as at the end of December 2016, liabilities to non-monetary financial institutions were lower by PLN 1.9 billion (3.4%) than as at 2015 yearend.

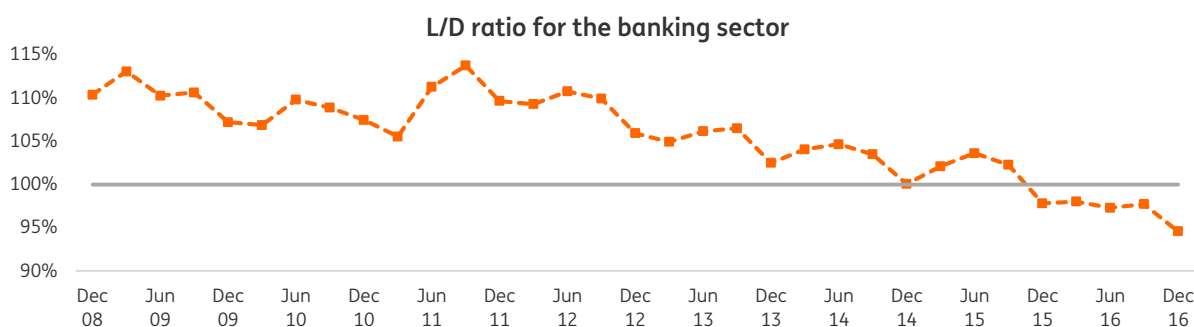
<sup>9</sup>The amounts discussed are for receivables and liabilities of monetary financial institutions from/ to other domestic sectors. Source: NBP, NALEZ\_ZOBOW\_BANKI.xlsx file – December 2016

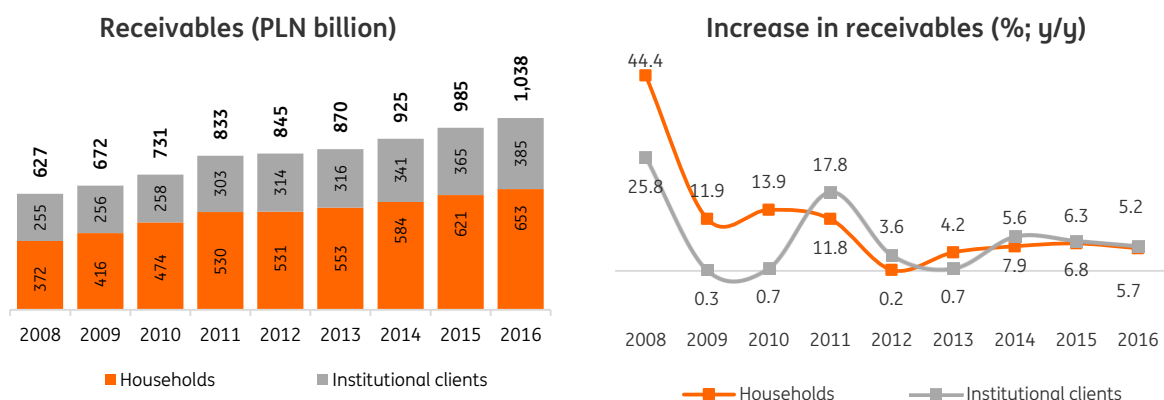
<sup>10</sup>Total for the following classes of entities: non-monetary financial institutions, enterprises, non-commercial institutions for households, local government institutions and social insurance funds.



- In December 2016, receivables from households amounted to PLN 652.7 billion, up by 5.2% from December 2015. Housing loans, which formed the main part of the banks' credit exposure towards households (representing 60% of receivables from that group of clients), grew in nominal terms by 5.0%, arriving at PLN 394.3 billion. The growth was not homogenous, as PLN loans went up by 10.7% from the last year, while FX loans dropped by 2.3% from the year before due to the natural portfolio amortization (partly neutralised by PLN/CHF and PLN/EUR depreciation). Upon excluding the exchange rate effect, the housing loans portfolio went up by approximately 3.6% in 2016. According to the preliminary data of the Polish Bank Association, in 2016 banks granted mortgage loans totalling approximately PLN 41.2 billion (PLN 40.3 billion in 2015); 98.4% of which were PLN loans. The other retail loans, consumer credits included, rose by 5.5% (PLN 13.4 billion) from 2015 yearend, arriving at PLN 258.4 billion.
- Receivables from institutional clients went up by PLN 20.6 billion (or 5.7%) from December 2015, arriving at PLN 385.2 billion. Corporate receivables rose by PLN 13.9 billion (or 4.9%). Their growth was mainly triggered by investment loans which enlarged by PLN 13.1 billion (or 12.9%) throughout the year, supported by the other loans which augmented by PLN 1.2 billion (or 12.6%). The other categories of corporate loans were relatively stable; in other words, real property loans went up by 0.4%, while working capital loans fell by 0.4%.
- In the analysed period, receivables from other sectors were as follows:

  - receivables from non-monetary financial institutions: +20.5% (or up by PLN 8.5 billion),
  - receivables from local government institutions and social insurance funds: -6.9% (or down by PLN 2.3 billion),
  - receivables from non-commercial institutions for households: +7.0% (or up by PLN 0.4 billion).





In 2015 and 2016, the financial results of the banking sector<sup>11</sup> were shaped by multiple external factors. 2015 saw interest cutbacks by the National Bank of Poland in March, a statutory reduction of the maximum interchange fee for payment cards, a rise in the regulatory costs connected with the operations of the Bank Guarantee Fund and two significant one-offs: extra payments of PLN 2.0 billion following the bankruptcy of the SK Bank (Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin) for reimbursement of the guaranteed deposits and a contribution of PLN 600 million to the new Mortgage Support Fund. The results of some banks were shored up by one-off deals, namely the sale of shares in subsidiaries.

In contrast, in 2016, sector results were laden with the levy on certain financial institutions (of approximately PLN 3 billion), and extra payment of PLN 144.5 million due to the bankruptcy of Bank Spółdzielczy in Nadarzyn and a positive impact of sale of Visa Europe shares of PLN 2.5 billion.

In 2016, net interest income went up by 7.6% from the past year. The growth can be attributed to a slight improvement in the interest margin, but, first and foremost, to a stronger rise in interest assets (8.5%) vis-a-vis the interest liabilities (7.9%). Net income on fees and commissions shrank by 5.4%. Total income built up by 6.7% owing to the sale transaction of Visa Europe holdings by banks.

General and administrative expenses along with amortisation/depreciation went up by 2.4% from 2015. Their rise was mainly driven by the levy on certain financial institutions carried through the relevant line of the income statement, higher regulatory costs and BGF contributions following the bankruptcy of Bank Spółdzielczy in Nadarzyn (2015 costs were also impacted by the bankruptcy of SK Bank and formation of the Borrower Financial Assistance Fund). The said growth rates translated into a better C/I ratio, down from 59.2% to 56.8%. Upon excluding from the sector results the above-listed one-offs but keeping there the impact of the levy on certain financial institutions, the C/I ratio settled at 58.9% versus 54.6% in 2015. The nature of the costs increase was independent of the sector which maintained costs discipline and reduced both the headcount figures (by over 2 thousand FTEs from December 2015) and the number of branches (by almost 200).

Costs of impairment losses under credit facilities and cash loans went down by 10.6% in the analysed period. This was also the consequence of the bankruptcy of SK Bank in 2015.

As a result of the above-discussed phenomena, net profit of the sector rose by 24.3%, i.e. to PLN 13.9 billion, from 2015.

The core effectiveness measures of the banking sector looked as follows:

- return on assets (ROA) was 0.8% as compared with 0.7% the year before, and
- return on equity (ROE) improved to 7.8% from 6.6%.

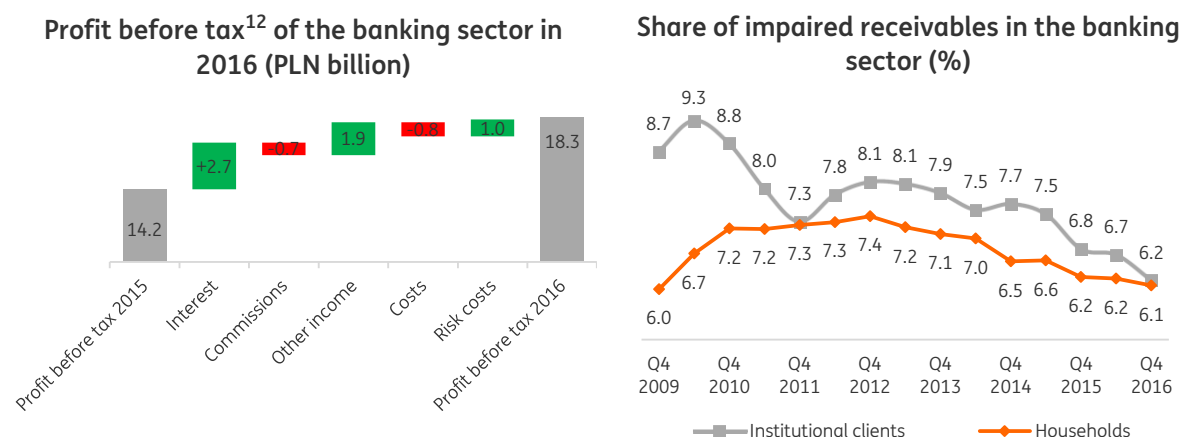
In December 2016, the share of impaired receivables in total receivables was 6.1% (6.5% as at 2015 yearend). The portfolio quality improvement was reported primarily for institutional clients. The share of impaired receivables in the sector came down from 6.8% as at 2015 yearend to 6.2% in

<sup>11</sup>Based on the PFSA data for the banking sector with foreign branches



December 2016, mainly courtesy of that ratio impairment in the corporate segment (from 10.0% to 9.0%).

The share of impaired receivables from households in the analysed period saw a slight decrease – from 6.2% to 6.1%. The share of non-performing housing loans remained stable at 2.9%, while the share of other “bad” household receivables fell from 11.4% to 10.9%.



The main changes introduced in 2016 by the Polish Financial Supervision Authority as regards regulatory requirements were as follows:

- Issuing Recommendation C on concentration risk management to be implemented by 01 January 2017.
- Introducing by 30 June 2016 of the 2015 Recommendation W concerning the rules of model risk management at banks.
- Introducing selected requirements from the 2015 Recommendation on the security of online payment transactions processed by banks, domestic payment institutions, domestic electronic money institutions and credit unions (remaining requirements of the Recommendation were introduced in 2015).

#### 4. Asset-backed funding market

##### Leasing

2016 was yet another very good year for the leasing industry in Poland. The overall value of agreements concluded by leasing companies grew by 16.6% from 2015 and it reached a new record level of PLN 58.1 billion<sup>13</sup>. The active portfolio of lease agreements totalled PLN 105.1 billion as at 2016 yearend (up by 19.7%); for comparison, the value of capex loans extended by the banking sector stood at PLN 114.5 billion in December 2016. These figures confirm that in terms of value, leasing is the second biggest funding source for investment undertakings in Poland after investment loans.

Vehicles weighing up to 3.5 tons constituted the biggest segment of the leasing market (with their share in the sales up from 37.5% to 42.1%). The funds granted in that leasing category totalled PLN 24.4 billion (+30.9% y/y). Passenger cars were the main category triggering this segment's growth (+31.7% y/y) followed by the increase in the heavy goods vehicles with the weight of up to 3.5 tons (up by +27.4%, unlike 2015 when the sales tumbled by 22.6% as a result of the high 2014 basis).

A high growth rate was also reported in 2016 for the financing of heavy transport<sup>14</sup> which stood at PLN 17.2 billion (+27.7% y/y). In 2016, the growth rate in this segment was triggered by the replacement of the old fleet with vehicles meeting the Euro 6 standard and also by economic processes

<sup>12</sup>Going concern gross profit

<sup>13</sup> As per the Polish Leasing Association data.

<sup>14</sup>Tractor units, semitrailers/trailers, heavy goods vehicles with the approved gross vehicle weight above 3.5 tons, buses, airplanes, ships and means of railway transport.

being the development of the Eurozone (increase in exports) and strong domestic demand.

The segment of machines and equipment (IT included) reported a 3.4% drop y/y. The total value of the machines financed reached PLN 15.3 billion. A drop in the value of assets financed in this segment was caused by the transition period between subsequent EU financial perspectives which particularly impacted loan-financed agricultural machinery.

The leasing industry recorded a slump in the real property segment. The real properties leased in 2016 totalled PLN 719 million which means a drop by nearly 50% from 2015. The annual results were mainly shadowed by the low sales in Q1 (sales of PLN 82.5 million). The decline in the value of this segment was caused by both the lower average real property price (PLN 5.3 million versus PLN 8.1 million the year before) and fewer agreements being made (134 versus 166 in 2015).

### Factoring

In 2016, the turnover of the factoring companies belonging to the Polish Factors Association multiplied by 20.6%, arriving at the record-breaking PLN 158.2 billion (versus PLN 131.1 billion in 2015)<sup>15</sup>. Export factoring and non-recourse factoring were the market segments to enjoy the fastest growth with their turnover up by 31.1% y/y and 24.8% y/y, respectively. The data confirm the reported trend being clients' more common use of factoring services that eliminate the problem of their turnover security. The reasons behind the turnover growth were the greater number of clients that went up to approximately 8 thousand (up by 11.5%) and the concurrent growth in the invoices financed. The average turnover per client rose to over PLN 20 million, which means that the limits set were utilised better. Factoring was most popular (as for the turnover) in the manufacturing and distribution sectors of the Polish economy.

## 5. Capital market

### Warsaw Stock Exchange

2016 was not explicitly favourable for investors on the Warsaw Stock Exchange. The situation on the stock market was shaped by a number of worldwide events. The most important among them were:

- *Brexit*,
- USA presidential election,
- referendum in Italy and situation of the Italian banking sector,
- rise in exchange rates in the United States.

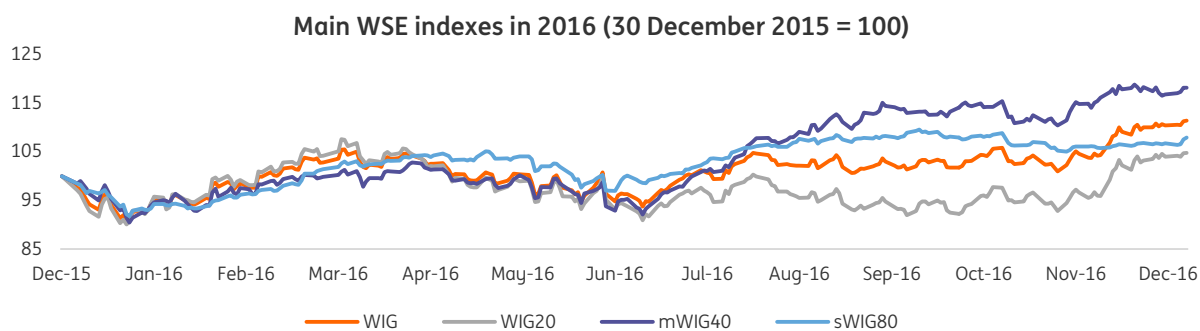
On the other hand, internal factors that had impact on the Warsaw Stock Exchange were: political situation in Poland (such as a continuing discussion on the FX mortgage loan solution, review of the pension system and planned wind-up of the Open-End Pension Funds), banking levy, uncertainty about Poland's ratings, or weaker than expected macroeconomic figures in H2 2016.

The broad market index WIG went up by 11.4% throughout 2016. The result of the indexes grouping the companies with the biggest capitalisation was worse – WIG20 and WIG30 went up by 4.8% and 8.1%, respectively. Higher growth was reported by the indexes of smaller companies – sWIG80 gained 7.9%, while mWIG40 18.2%. Also the NewConnect market index performed well – NCIndex went up by 10.1% from the 2015 yearend.

In 2016, the biggest growth was reported by the sector represented by the WIG-Mining index (+79.7%), and further by WIG-IT (+33.7%) and WIG-Oil&Gas (+26.9%). The biggest drops were recorded by WIG-Chemical (-16.4%), WIG-Energy (-12.9%) and WIG-Telecom (-9.7%).

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<sup>15</sup>Based on the data of the Polish Factors Association.



As at 2016 yearend, there were 487 companies listed on the WSE main floor, including 53 foreign ones. The number of companies listed on the WSE main floor did not go up versus the year earlier for the first time since 2003. The domestic companies were worth PLN 557.1 billion, up by 7.8% from December 2015. Domestic and foreign companies were worth PLN 1,115.7 billion in total, up by 3.0% from 2015. 2016 saw 19 IPOs of domestic companies only. IPOs on the main floor totalled PLN 1.0 billion (2015: PLN 1.9 billion).

In 2016, NewConnect saw 16 companies listed for the first time, while 7 moved their quotations to the WSE main floor. As at the end of December 2016, there were 406 companies quoted on the alternative market (418 as at 2015 yearend). The said companies were worth PLN 9.8 billion in total.

2016 saw fewer main floor trades despite companies market capitalisation going up. Trading volumes went down by 6.9% from 2015 and amounted to PLN 189.3 billion. Total trading (block trades included) went down by 10.0%, arriving at PLN 202.1 billion. Total trading on the alternative stock market NewConnect went down and reached PLN 1.4 billion, down by 29.6% from 2015.

Investors' activity in the bonds market intensified in 2016. Total trading volumes on the WSE went up to PLN 1.4 billion, or up by 57.7% from 2015. Trading volumes did not go up on the Catalyst market as much as on the WSE, but still they saw a solid increase of 24.2%, totalling PLN 3.1 billion. The issues of non-government bonds on the Catalyst market totalled PLN 81.8 billion versus PLN 69.5 billion as at 2015 yearend.

In 2016, the volume of futures contracts went down by 2.2% from the year before. Index futures formed the vast majority of that market and their volume improved by 5.0% from 2015.

### Mutual funds<sup>16</sup>

In 2016, the mutual funds market worth measured with asset under management (AuM) gathered by these institutions went up to PLN 258.9 billion (+2.7% from 2015 yearend). Favourable market conditions, in particular in H2 2016, and net inflows (PLN 4.2 billion) had positive impact especially on non-dedicated funds, which 2016 yearend AuM totalled PLN 135.6 billion (7.0%). AuM gathered in dedicated funds shrank to PLN 123.4 billion (1.7%) mainly due to high redemptions in December 2016 (PLN -7.8 billion, PLN -7.7 billion y/y). This may be linked to the implementation of the CIT applicable to a part of that market.

Clients of retail (non-dedicated) funds are most eager to deposit their cash in funds with a relatively low risk profile. The most popular category of (non-dedicated) retail mutual funds were bonds funds (26.9% of the retail funds market), which went up by 10.2%. Money market funds came next (24.8% of the retail funds), which given low interest rates constituted an attractive alternative to bank deposits; their AuM augmented by +7.6% during the year. They were followed by mixed funds forming 18.0% of the retail part of the market (AuM down by 2.2%) and equity funds forming 17.8% of the market (AuM down by 4.4%). Absolute yield funds saw a significant increase and built up their share in the retail funds structure by 1.9 pp, up to 7.4% (AuM up by 43.3%).

<sup>16</sup> On the basis of data of the Chamber of Fund and Asset Management.

### Open-end pension funds<sup>17</sup>

In December 2016, pension fund assets amounted to PLN 153.4 billion, up by PLN 12.9 billion (+9.2%) from the year before. This was triggered by the bull market on the WSE. On the other hand, the balance of payments and redemptions was negative. In 2016, only PLN 3.2 billion was transferred to open-end pension funds, while the “safety zipper” transfers to the Social Insurance Institution amounted to PLN 3.5 billion.

The changes to the open-end pension funds modus operandi were to a great extent reflected in the investment policy of those institutions. As at the end of December 2016, similarly to 2015, approximately 84% of their assets were domestic and foreign issuers' stock. 2016 saw a small increase in the nominal value of foreign stock held by open-end pension funds. As at 2016 yearend, foreign stock in their portfolios totalled PLN 10.9 billion as compared with PLN 10.7 billion as at 2015 yearend (+1.8%).

In accordance with the pension scheme review, liquidation of open-end pension funds is recommended. Approximately 25% of funds accumulated in open-end pension funds will be allocated to the Demographic Reserve Fund and their value recorded on sub-accounts maintained by the Social Insurance Institution. Other assets accumulated in open-end pension funds (approximately 75%) will be transferred to and managed by mutual funds, which will be formed from the transformation of existing open-end pension funds.

## 6. Macroeconomic factors to affect ING Bank Śląski S.A. operations in the future

Global economy continues to see divergence of monetary policies. The Federal Reserve raised interest rates again in December 2016 by 25 bps (with their effective ranges between 50 and 75 bps) and announced further tightening of interest rates by 50–75 bps in 2017. The European Central Bank, on the other hand, extended the asset purchase programme until December 2017 and concurrently lowered the scale of the assets purchased (from EUR 80 billion to EUR 60 billion a month). In the view of the economists at ING Bank Śląski S.A., inflation growth in the Eurozone and the gradual economic upturn will persuade the European Central Bank to taper the QE programme next year. The Bank will probably try to prepare the markets to such a scenario and will resort to stricter rhetoric in H2 of this year. This indicates further growth in long-term EUR and USD interest rates in that period. In the view of the analysts at ING Bank Śląski S.A., this, along with the MPC's conservative policy, will lead to further steeping of the PLN interest rate curve.

Changes in economic policy are the source of additional uncertainty. Following Donald Trump's inauguration as the US president, fiscal expansion boosting GDP growth in the US economy in the short term is expected starting from 2018 along with the concurrent protectionism in trade relations (that will affect the global growth adversely). In Europe, the shape of the policy remains uncertain due to: 1) elections in the three major Eurozone economies: Holland, Germany and France; 2) unclear Brexit picture; 3) growing support for populist and nationalistic movements across the continent. The said events may have a material adverse impact on the fragile improvement in the business activity in Eurozone economies observed in H2 2016. Further EU disintegration poses additional risk, which in the new EU financial framework may affect the budget size (particularly the Cohesion Fund) across the EU.

In the long run, tightening trade relations will also adversely affect the BRICS developing economies. Despite the improved business activity in these economies, material structural imbalances prevail, i.e. fiscal problems in Brazil or Russia or the high debt of the entrepreneurs sector in China.

In Poland, public finance will be the major risk source for the economy in 2017. The first full year of the 500+ programme and one quarter of the lowered retirement age will increase public expenditure by approximately PLN 10 billion (per annum). The central and local budgets will see additional costs under co-financing of accelerating EU investment projects. The government is planning to finance this expenditure by improving tax collection, particularly VAT collection. The achievements in this field up to date are uncertain as they may partly result from withholding VAT refunds to companies by the tax administration. If the continued tightening of the fiscal system brings results that are smaller than

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<sup>17</sup> On the basis of data of the PFSA.

expected, the budget deficit may exceed the 3% GDP limit under the Maastricht Treaty and the fiscal perspectives for 2018 may materially deteriorate, which could be reflected negatively in the debt and FX market.

The situation in the labour market is a risk to the economic growth in Poland – the outflux of employees will for the first time be higher than their influx. In the view of the economists at ING Bank Śląski S.A., the foreign employee influx to Poland has also decreased at the same time. The possible further deterioration of the economic climate (e.g. due to fiscal risk) may slow down thanks to the rebound of private investments expected this year. The analysts at ING Bank Śląski S.A. are of the opinion that the deteriorated picture of Poland that foreign investors have may translate into greater volatility of Polish zloty exchange rate should the situation in the international financial markets worsen again.

Domestic regulatory landscape remains the source of uncertainty for the banking sector. According to the announcements of the Ministry for Finance, by March 2017, the Financial Stability Committee will have presented the measures designed to induce banks to convert FX mortgage loans.

Polish economy in 2008-2017											
	2008	2009	2010	2011	2012	2013	2014	2015	2016F	2017F	2018F
GDP growth (%)	3.9	2.6	3.7	5.0	1.6	1.4	3.3	3.9	2.8	3.1	3.7
Sector debt general government debt as per the EU methodology (% GDP)	46.6	49.4	53.1	54.1	53.7	55.7	50.2	51.1	53.6	54.8	55.3
M3 money supply (PLN billion)	666	720	784	882	921	979	1,059	1,138	1,248	1,339	1,454
Producer Price Index growth (%)	3.9	-3.6	11.0	7.2	1.4	2.3	3.4	4.9	2.9	4.3	4.2
Average annual inflation (CPI) (%)	4.2	3.4	2.6	4.3	3.7	0.9	0.0	-0.9	-0.6	2.0	2.5
Unemployment rate (%)	9.5	12.1	12.4	12.5	13.4	13.4	11.4	9.7	8.3	7.3	6.2
PLN/USD (yearend)	2.96	2.85	2.96	3.42	3.10	3.01	3.51	3.90	4.18	3.78	3.63
PLN/EUR (yearend)	4.17	4.10	3.98	4.46	4.07	4.15	4.27	4.26	4.42	4.23	4.17
WIBOR 3M (yearend)	6.4	4.3	3.9	4.6	4.9	3.0	2.5	1.7	1.7	1.7	2.2

## II. Major achievements of ING Bank Śląski S.A. Group in 2016

### 1. Increase in number of clients

In 2016, ING Bank Śląski S.A. maintained the growth rate of the clients served by the Bank. Throughout the year, the Bank's client base went up by 262 thousand versus 294 thousand the year before. As at the end of December 2016, the number of Bank clients amounted to 4.32 million and was broken down into the following segments:

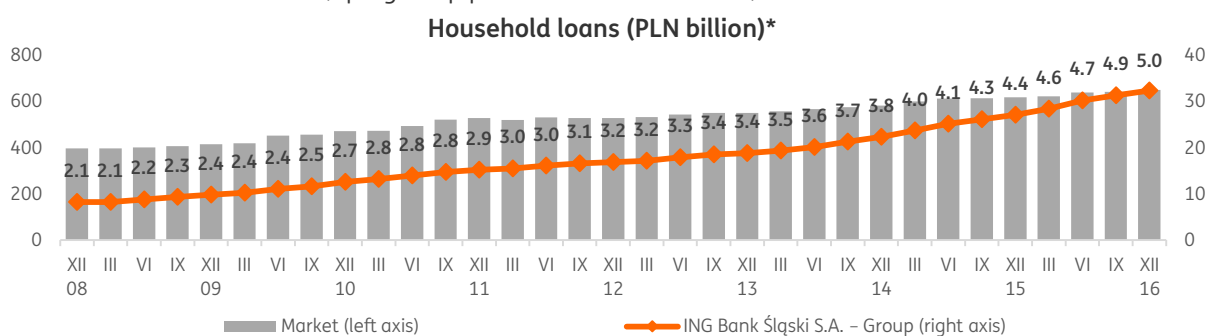
- 4.2 million retail clients, including:
  - 3.95 million individual clients (up by 234 thousand clients throughout the year),
  - 326 thousand entrepreneurs (up by 23 thousand clients throughout the year),
- 48 thousand corporate clients (mid-sized, mid-corporates and groups; up by 6 thousand clients).

The constantly growing number of ING Bank Śląski S.A. clients (both individuals and businesses) is the result of the activities pursued by the Bank to reinforce long-term relationships with clients. These relationships are based on the trusted brand of the Bank, transparent product offer tailored to the ever-changing preferences of clients and a continuously developed modern distribution and customer service system.

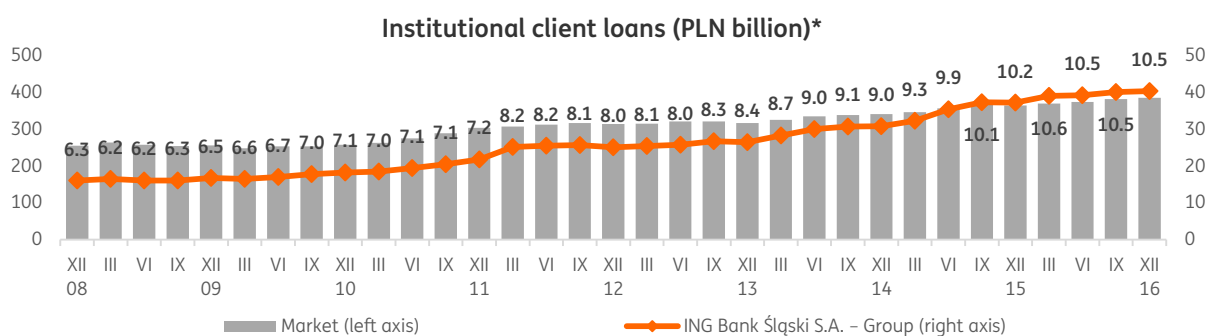
### 2. Better position on credit market

As at the end of December 2016, total net loans and other receivables to customers of the ING Bank Śląski S.A. Group amounted to PLN 78.1 billion<sup>18</sup>, up by PLN 9.4 billion (or by 13.7%) throughout the year.

The Group was estimated to have a 7.0%-share in the total amount of loans extended to clients in the commercial banks sector<sup>19</sup> (up by 0.5 p.p. from the end of 2015).



\*The figures denote the ING Bank Śląski S.A. Group's share in the commercial banks market (%).



\*The figures denote the ING Bank Śląski S.A. Group's share in the commercial banks market (%).

<sup>18</sup>This amount covers net loans and other receivables, except for Eurobonds and receivables from customers under repo transactions.

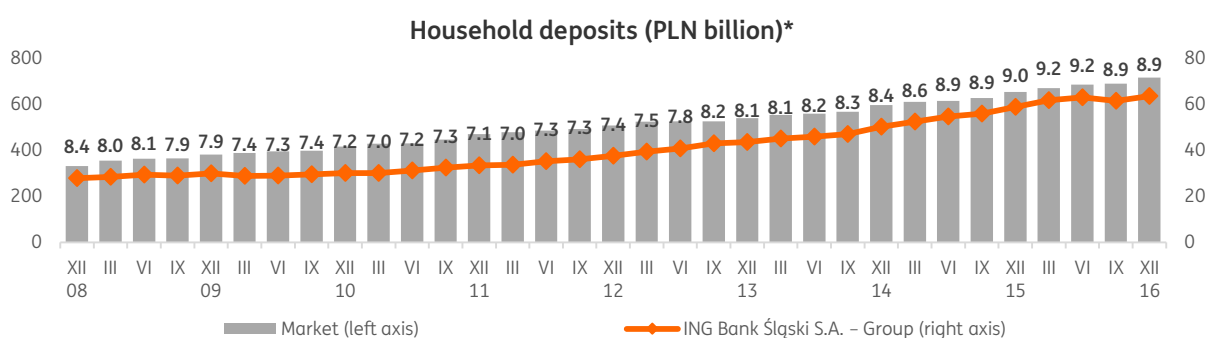
<sup>19</sup>Banking sector meaning commercial banks sector in line with data published by NBP in the file *Assets and liabilities of banks*.

Changes to balances of individual categories of credit receivables are presented in the table below:

Net loans and other receivables to customers of ING Bank Śląski S.A. Group (PLN million)				
	31 December 2016 PLN million	31 December 2015 PLN million	Change y/y PLN million	%
Credit receivables from households, including:	32,865.4	27,276.6	5,588.8	20.5%
Loans and cash loans	31,931.4	26,620.2	5,311.2	20.0%
Leasing receivables	854.9	600.4	254.5	42.4%
Factoring receivables	79.1	56.0	23.1	41.3%
Credit receivables from institutional clients <sup>20</sup> , including:	45,204.1	41,404.9	3,799.2	9.2%
Loans and cash loans	33,475.8	30,552.9	2,922.9	9.6%
- Business entities	29,452.9	26,048.7	3,404.2	13.1%
- Financial entities (other than banks)	1,878.1	1,935.5	-57.4	-3.0%
- Entities of the sector of central and local government agencies	2,144.8	2,568.7	-423.9	-16.5%
Debt securities <sup>21</sup>	2,512.8	3,055.5	-542.7	-17.8%
Leasing receivables	4,855.2	4,282.3	572.9	13.4%
Factoring receivables	4,271.7	3,333.7	938.0	28.1%
Other receivables	88.6	180.5	-91.9	-50.9%
<b>Total net credit receivables</b>	<b>78,069.5</b>	<b>68,681.5</b>	<b>9,388.0</b>	<b>13.7%</b>
- Eurobonds	3,910.0	3,838.1	71.9	1.9%
Total net loans and other receivables to customers	81,979.5	72,519.6	9,459.9	13.0%

### 3. Maintaining strong position on deposit market

The deposit base held by ING Bank Śląski S.A. is one of the largest in the Polish banking sector, which ensures high liquidity of the balance sheet and comfort as regards shaping the lending policy. As at the end of December 2016, total funds accumulated in the accounts of the ING Bank Śląski S.A. Group amounted to PLN 95.8 billion<sup>22</sup>, up by PLN 8.0 billion (9.1%) from the end of 2015. Thus, the Bank's share in the commercial banks sector<sup>23</sup> deposits was maintained at 8.6%.



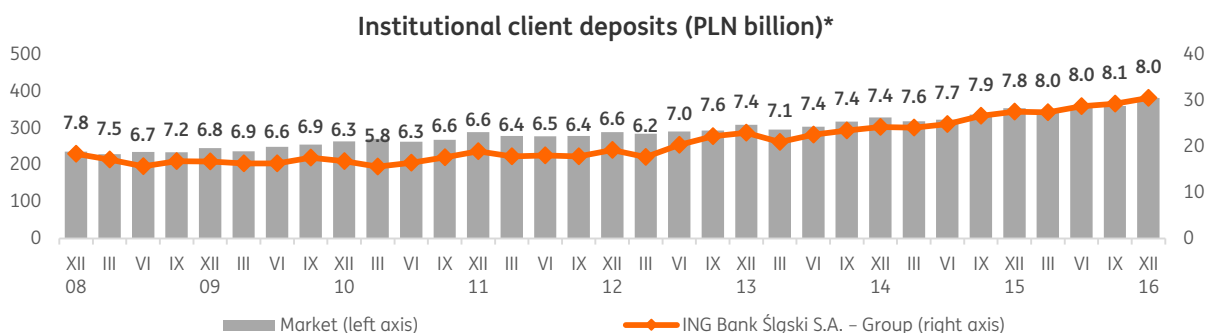
\*The figures denote the ING Bank Śląski S.A. Group's share in the commercial banks market (%).

<sup>20</sup>Excluding receivables from customers under repo transactions.

<sup>21</sup>Eurobonds excluded.

<sup>22</sup>The amount includes the deposits and other liabilities except for liabilities to customers under repo transactions.

<sup>23</sup>Banking sector meaning commercial banks sector in line with data published by NBP in the file *Assets and liabilities of banks*.



\*The figures denote the ING Bank Śląski S.A. Group's share in the commercial banks market (%).

Changes to balances of individual categories of liabilities to customers are presented in the table below:

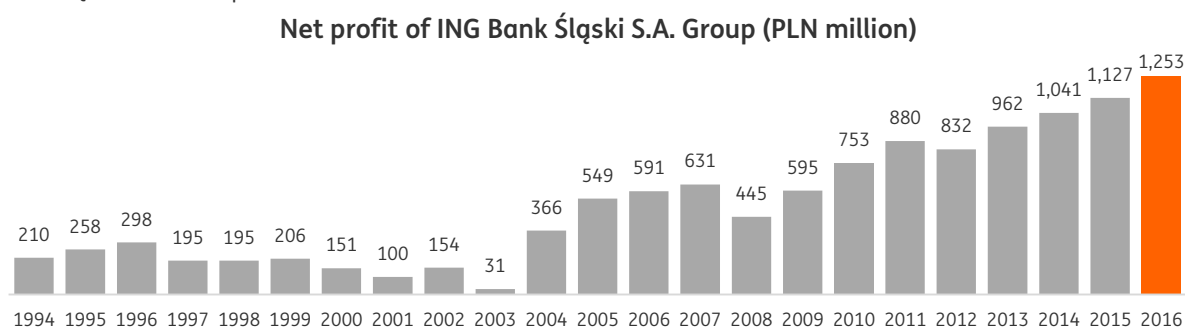
Liabilities to clients of ING Bank Śląski S.A. Group (PLN million)				
	31 December 2016	31 December 2015	Change y/y	
	PLN million	PLN million	PLN million	%
Liabilities to households, including:	63,615.6	58,976.4	4,639.2	7.9%
Deposits	63,548.0	58,896.2	4,651.8	7.9%
Other liabilities	67.6	80.2	-12.6	-15.7%
Liabilities to institutional clients <sup>24</sup> , including:	32,209.8	28,842.1	3,367.7	11.7%
Deposits	30,565.4	27,567.5	2,997.9	10.9%
– Business entities	25,395.4	23,594.2	1,801.2	7.6%
– Financial entities (other than banks)	3,429.2	2,353.8	1,075.4	45.7%
– Entities of the sector of central and local government agencies	1,740.8	1,619.5	121.3	7.5%
Other liabilities	1,644.4	1,274.6	369.8	29.0%
<b>Total liabilities to customers</b>	<b>95,825.4</b>	<b>87,818.5</b>	<b>8,006.9</b>	<b>9.1%</b>

#### 4. Highest net financial result in Group track record

In 2016, the net profit of the ING Bank Śląski S.A. Group totalled PLN 1,253.0 million, up by 11.2% from a year earlier. It was the best net financial result in the Group track record.

As at the end of December 2016, Return on Assets (ROA) was 1.10% (up by 0.03 p.p. versus 2015), while Return on Equity (ROE) settled at 11.7% (up by 0.7 p.p. versus 2015).

The individual components of the result and ratios were described in Chapter Financial standing of ING Bank Śląski S.A. Group in 2016.



<sup>24</sup>Excluding liabilities to customers under repo transactions.



### ING Bank Śląski S.A. share quotations versus comparable selected WSE indexes



## 5. Awards and honourable mentions

2016 brought numerous awards and honourable mentions for ING Bank Śląski S.A., inter alia:

- For the appeal of its product offer and quality of the customer service:
  - The main prize and the title of Gwiazda Bankowości (Banking Star) granted for the overall performance in 2015 in the ranking compiled by the Dziennik Gazeta Prawna daily and PwC.
  - 1st place in the Najlepszy Bank 2016 (2016 Best Bank) ranking by the Gazeta Bankowa monthly.
  - IT Leader of 20 Years in the Banking and Finance category for the launch of innovative IT solutions.
  - Złoty Bell (Golden Bell) prize for mobile applications of ING Bank Śląski S.A. in the Mobile Bank of 2015 category presented at the Mobility Trends Gala.
  - 1st place in the Mortgage Banking category and 2nd place in the Bank for Mr. Smith category in the ranking Przyjazny Bank Newsweeka (Newsweek Friendly Bank).
  - 1st place in the brokerage accounts ranking, compiled by the Puls Biznesu daily.
  - 1st place in the ranking of accounts for big corporates, compiled by the TotalMoney.pl portal.
  - 1st prize in the Corporate Loan category in the Portfel Roku Tygodnika Wprost (Wprost Weekly Portfolio of the Year) ranking for the vendor finance service.
  - 2nd place in the Highest Volume and Highest Value of OTC Transactions Cleared in KDPW\_CCP in 2015 category.
  - Złoty Bank (Golden Bank) title awarded by the Puls Biznesu daily and the Bankier.pl portal for top service quality.
  - Gwiazda Jakości Obsługi 2016 (2016 Service Quality Star) in the Banks category in the ninth edition of the Polish Service Quality Programme.
- For the marketing actions:
  - Team award for the Marketing Communication Department for exceptional and effective marketing actions, awarded during the Marketing Summit 2016.
  - 1st place in the Leopards competition, rewarding the best bank brands creations.
  - Two silver Effie statuettes for the Those who save can afford independence campaign and the Navidom online service.
  - A silver statuette at the IAB MIXX Awards gala for the Moje ING campaign in the Product

- Launch category.
- Three Bronze Swords of the Advertising Creators Club, awarded for the best and most interesting creations that shape the communication and marketing landscape in Poland.
- Golden Banker for the best bank in the social media.
- For the manner in which ING Bank Śląski S.A. operates in the community and its ability to effectively combine social responsibility with business values:
  - RESPECT Index – the Bank was included in the index of socially responsible companies for the tenth consecutive time.
  - Three awards in the Best Annual Report 2015 competition – 2nd prize in the Banks and Financial Institutions category and two honourable mentions for the best report on operations and much progress in enhancing the quality of the financial statements.
  - Silver Pearl Awards, in the Corporate Social Responsibility category in the custom publishing competition for the CSR Report of ING Bank Śląski S.A.
  - Srebrny Listek CSR (Silver CSR Leaf) awarded by the POLITYKA weekly.
  - International Top Employers Certificate awarded for the seventh time by the Top Employers Institute.
  - Green Office Certificate for the office of the Bank head office located at ul. Puławska 2 in Warsaw.
- ING Bank Śląski S.A. management also received high praise:
  - Bankowiec Roku (Banker of the Year) title awarded to Małgorzata Kołakowska, President of ING Bank Śląski S.A. (until 31 March 2016) by the Forbes monthly.
  - Wizjoner Rynku Bankowego 2015 roku (2015 Banking Market Visionary) title awarded to Małgorzata Kołakowska, President of ING Bank Śląski S.A. (until 31 March 2016) at the Banking Horizons conference.
  - CMO Roku (CMO of the Year) title awarded by the Media & Marketing Polska magazine to Barbara Pasterczyk, Marketing Communication Department Director at ING Bank Śląski S.A.

For more information about awards and honourable mentions please visit the Bank website, in the About us tab.

### III. Operations of ING Bank Śląski S.A. in 2016

#### 1. Retail banking

The aim of ING Bank Śląski S.A. is to maintain a strong position in the retail banking market. 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. Furthermore, other important factors are: continuous simplification and automation of processes and higher significance of the internet and direct channels.

The main actions taken in 2016 to deliver on the strategic goals centred around:

- full leveraging on existing distribution power,
- adding new features to direct channels,
- implementing new payment solutions,
- ensuring convenient online and mobile processes for clients, and
- directing the branches towards the advisory services.

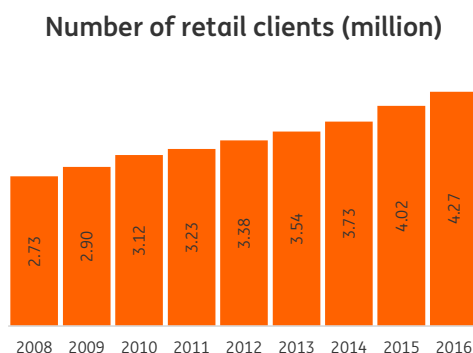
The strategy translated into better sales results and sustainable higher deposits and loans balances. A higher x-buy ratio resulted in income increase and diversification. What is more, branches became more efficient and thus raised their cost effectiveness, direct distribution channels and customer service became more relevant and operations were automated.

#### Number of clients

In December 2016, 4.27 million retail clients used the services of ING Bank Śląski S.A., including:

- 3.95 million individual clients and
- 326 thousand entrepreneurs.

Throughout 2016, the Bank entered into relationships with 422 thousand retail clients, whereby the number of clients went up by 256 thousand from the 2015 yearend.



#### Changes to product offer and customer service rules

##### Savings, investments

The main actions taken in 2016 for the savings and investments offer focused on:

- redesigning of the investment offer and the manner of communication in the client relationship management area,
- continuation of retention actions and operations stabilising the portfolio (volume) of retail deposits, with particular focus placed on the long-term deposit portfolio,
- further offering of periodical, special terms and conditions for new funds under the special offer, i.e. Bonus for Start and Bonus Open Savings Account,
- creation, implementation and improvement of marketing communication activities aimed at (1) supporting the sale of investment products, and (2) promoting regular savings and investments,
- actions geared towards digitalisation of transactions with the aim to reduce the number of

cash transactions made at tellers,

- continuation of the “from saving to investing” education programme to transform the structure of the funds entrusted.

In 2016, the Bank continued the educational activities commenced in 2015. The Bank was active on the social media throughout the year (videos, articles). In November, a campaign with a large media partner, Onet.pl, was started under the name “My better plan”. The campaign was accompanied by the promotion of a new ING service – a Money Coach. It is oriented towards educating and raising client financial awareness. The coach shows the advantages of investing and encourages clients to move some money to mutual funds to make it work better.

Also, operational processes were improved for servicing mutual funds. Individual clients were given the option to handle their mutual funds orders end to end and to make the so-called “agency agreements” in the new online banking system, Moje ING, to name a few new features.

### *Investing – brokerage activity*

In January 2016, ING Bank Śląski S.A. obtained the licence of the Polish Financial Supervision Authority to conduct brokerage activity in its full range. In turn, in June 2016, the Bank acquired a part of the ING Securities enterprise. The consolidation of the acquired enterprise with the Bank Brokerage Office gave rise to a new division – the Brokerage Office of ING Bank Śląski S.A., which offers a full array of brokerage services. The Bank discontinued to offer brokerage services to institutional clients on 31 August 2016. The above decision was taken in response to the challenges faced by the banking sector which require ongoing business model accommodation to the changes that the future may hold. At the same time, the Bank continues to provide investment banking services (M&A) and to maintain brokerage accounts for institutional clients of the Bank via the Securities Services Centre.

In July 2016, a Broker module was set afloat in the Moje ING system. Since then, clients may comfortably invest money from any device they use – laptop, smartphone or tablet. The launch of the Broker module was accompanied by the rollout of a new, simple brokerage account opening process in Moje ING.

A Mobile Broker (ING Makler Mobile) application ranked second in terms of user scores among brokerage applications in Google Play (score of 4.1).

Throughout 2016, the Brokerage Office of ING Bank Śląski S.A. recorded the second best result among all the brokerage offices as regards the increase in the number of new accounts. Their number rose by 16% in that year.

### *Accounts and payments*

In 2016, the Bank continued its promotional actions oriented towards new and existing individual clients. Two rounds of the “Recommend Our Account to Your Friend” promotion campaign, targeting individual clients, were delivered. They encouraged existing clients of our Bank to use their accounts actively and to recommend personal accounts to their friends as well as inspired new clients to open accounts at our bank.

In 2016, the online account opening process was improved considerably. This boosted satisfaction of clients entering into the relationship with the Bank.

Since April 2016, Moje ING has been the core system for individual clients. In November, the Bank launched the system for entrepreneurs – sole traders. Clients’ personal and business finance are co-located in Moje ING and can be accessed using one login. The solution allows personal finance to be separated from business finance, presentation of an adequate product offer and separation of the analysis of business finance from the examination of the household budget. Towards the yearend, there were already over 2.1 million users of Moje ING, including over 220 thousand entrepreneurs.

In 2016, Moje ING was promoted in the media: on TV and on the internet, and also with the use of outdoor commercials under the campaign: “My changes everything. And Moje ING (My ING) – a new, personal banking functionality – helps you take financial decisions.” In the campaign, ING encouraged clients to take independent and courageous decisions, which agree with their aspirations, but which are also underpinned by rational arguments. Moje ING features assist the clients in the decision-

making process. Therefore, in line with the “It's the people that count” brand tagline, our clients received support not only in the form of a mobilising message, but also a friendly offer.

### *Bank cards and mobile payments*

In January 2016, the Table of Fees and Commissions was modified due to the change to the structure of free ATMs. Besides ING Bank Śląski S.A. ATMs, clients can also withdraw money free of charge from the Planet Cash ATM network as well. As far as other ATMs are concerned, here, the first cash withdrawal in the month is free for clients. As at 2016 yearend, ING Bank Śląski S.A. had the network of nearly 800 NFC-enabled machines.

ING Bank Śląski S.A. implemented a modern system for debit card servicing (Visiona), which, among others, applies improved security and card data protection standards and which will also enable the implementation of new products and services regarding payment.

In December 2016, the Bank launched a wide BLIK service-oriented communication campaign, targeting clients of mobile payments. Further, a Blikomania promotion lottery was inaugurated, in which also clients of ING Bank Śląski S.A. can take part. The campaigns will continue in Q1 2017. Both initiatives support increase in the number of BLIK transactions.

By the end of December 2016, ING Bank Śląski S.A. issued nearly 3.1 million payment cards to its retail clients, while in December 2015 retail Bank clients held 2.9 million cards of this type.

### *Cash self-service machines*

In May 2016, ING Bank Śląski S.A. offered clients the so-called Dynamic Currency Conversion service at all its ATMs found at the Bank branches. DCC is a service enabling clients to clear transactions in their account currency. They will see on the ATM screen the option to convert the value of the withdrawn cash already while withdrawing it from the ATM – at the current ING Bank Śląski FX rate. The service is available in 6 top currencies: euro (EUR), American dollar (USD), British pound (GBP), Swiss franc (CHF), Swedish krona (SEK) and Norwegian krone (NOK).

In response to clients' expectations, in Q4 2016, ING Bank Śląski S.A. made it possible to withdraw a larger number of banknotes from cash service machines (ATMs). For the time being, clients may withdraw 40 banknotes at once when making a cash withdrawal transaction at ING Bank Śląski S.A.'s machines.

### *Lending products*

#### Unsecured loans for individual clients

In 2016, the Bank also strongly developed its lending offer as part of pursuing the strategy of constant and balanced growth of lending product exposure. The said activities were supported by the following media campaigns:

- “You have to return the money but what you get is yours” – a campaign in which we encouraged clients to pursue their plans and continued to promote the idea of reasonable borrowing,
- “Combine instalments and win” – a campaign in which the Bank encouraged clients having a few credit liabilities at various banks to consolidate them into one instalment and sort out their finance,
- “Borrow and win more” – since car purchase is one of the primary credit goals of Poles, the Bank prompted clients planning such a purchase to take the cash loan from ING Bank Śląski S.A.

In November, the Bank continued the campaign of a new, personal banking functionality – Moje ING. The new campaign release introduced another system functionality – Cash loan with a click in Moje ING – which provides fast access to extra money, even on the smartphone.

Starting from May 2016, cash loan and overdraft documents (agreement) are presented to the client

in a new graphic design and with easier language. In May, a new process was also rolled out to enable the clients to buy insurance for active cash loans (use of the insurance offer for existing loans; before the client, who chose not to insure the loan at the time it was granted, could not change that decision afterwards).

New/additional functionalities (overdraft increase, credit card limit increase or consolidation of loans from other banks) were added to the sale process in the Moje ING online banking system for individual clients, which means that now all processes (credit card, overdraft, cash loan, including: cash loan with insurance and cash loan with consolidation) are fully available in the online banking system. In 2016, 43% of cash loan agreements were made online.

#### Unsecured loans for entrepreneurs

The Bank conducted numerous promotional activities concerning the lending offer for entrepreneurs as well. Entrepreneurs were offered preferential margins and commitment fees. The changes introduced therein included beneficial pricing conditions for clients holding other ING products and clients moving their liabilities from other banks. At the same time, the Bank launched a special lease offer in the ING Auto programme titled "Holidays without instalments". New lease objects were added to the programme: heavy goods vehicles, tractor units and semitrailers. Thanks to a simple programme formula, clients do not have to present company finance documents to lease cars.

The largest area developed throughout 2016 was online banking sale which gains in significance in the total sale – as at yearend, as many as 20% of cash loans were sold via this channel.

In the Entrepreneurs Segment, the service of all unsecured products, i.e. cash loans for entrepreneurs, credit lines, and credit cards, was offered in one system. Service of prescoring offers and central credit application handling process were provided as well.

#### Mortgage products

The Bank was customising its offer of mortgage loans on an ongoing basis. Besides its regular offering, the Bank ran subsequent rounds of the special offer "Live without compromise", targeting young people looking for residential real property purchase funding. The offer was very well seen by the market, clients and Bank's sale channels. Additionally, the Bank introduced three special offers with attractive credit margin, limited in time, during the year.

In 2016, the Bank voluntarily undertook to take account of negative interest of CHF-indexed mortgage loans and discharged of the duty imposed by the President of the Office of Competition and Consumer Protection (decision DDK-21/2015 of 28 December 2015). The Bank paid back clients the instalment differential between the interest charged and that including negative interest for the interest periods before 31 January 2016. At present, the Bank includes negative interest of those loans in the instalment amount on an ongoing basis. Following the household expenditures-oriented recommendation of the Polish Financial Supervision Authority, the Bank adapted its creditworthiness computation and interest rate buffer assessment methods. Blanket mortgage security-related changes were made. In response to the guidelines of the Polish Financial Supervision Authority, the Bank resigned from granting loans with the downpayment being another or second real property. Regardless of the number of real properties to secure the loan, a downpayment representing 20% of the investment project amount needs to be made.

To ensure the best customer service possible, the Bank introduced a solution enabling online submission of mortgage loan applications. Clients can discuss business, choose a lending offer, file an application and send the requisite documents by contacting the Contact Centre Advisor. Credit agreements are signed at the Bank branch. The solution was appreciated by clients. The Bank streamlined the functionality used to value the real property. By doing so, the number of automated decisions made for real property went up, the mechanisms used to value the real property were simplified and the lending process was shortened. Additionally, the Bank strove after improving the existing functionalities in the credit system. The application was tailored to users' needs, whereby the process is more efficient and clients can be served faster.

## Insurance products

The Bank took actions focusing primarily on the comprehensive conversion of group insurances into individual ones. This initiative was dictated by changes in laws – amendments to the Insurance and Reinsurance Activity Act and implementation of Recommendation U issued by KNF. The mainstream of the insurance conversion process was finalised in December 2016.

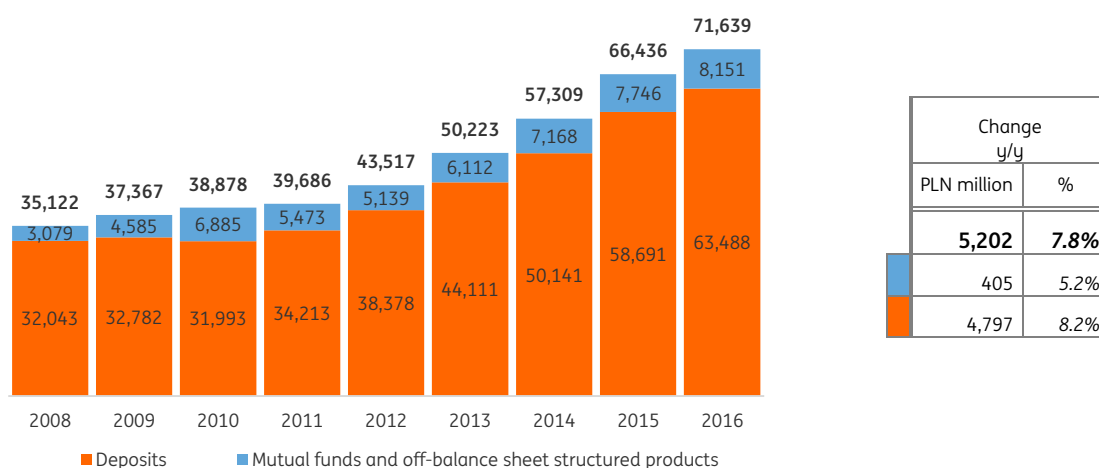
In 2016, new products were added to the insurance offer: Best Doctors – offered by Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and the insurance for cash loans – offered together with Nationale-Nederlanden. Insurance is offered into two coverage variants: Silver and Golden packages.

## Deposits<sup>25</sup>

As at 31 December 2016, funds entrusted<sup>26</sup> to ING Bank Śląski S.A. by retail clients totalled PLN 71.6 billion, compared with PLN 66.4 billion in December 2015 (up by 7.8%). Banking deposits constituted their main part.

After the Bank had brought the prices of the deposits offered into line with those of competitors, the deposit base rose at a slower pace than the sector volumes did. In consequence, the market share of household deposits dropped to 8.9% from 9.0% as at 2015 yearend.

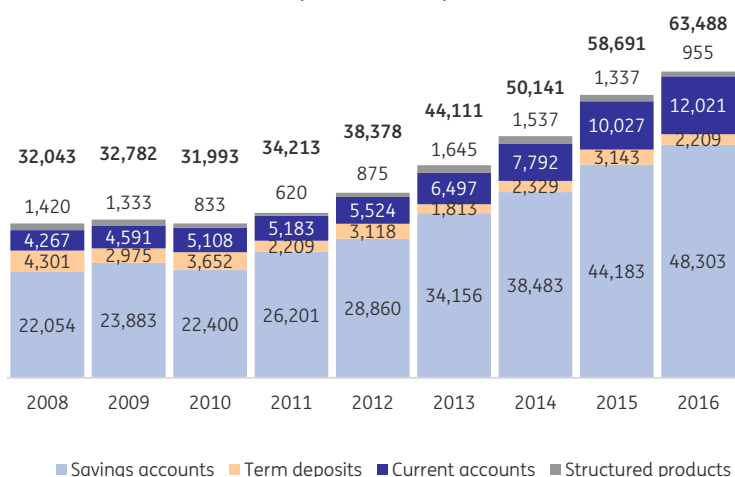
Funds entrusted by retail clients  
(PLN million)



<sup>25</sup>Due to the availability of more detailed product-related information, the description is made based on the data from the management information system.

<sup>26</sup>Total value of deposits, structured products and mutual funds distributed by the Bank.

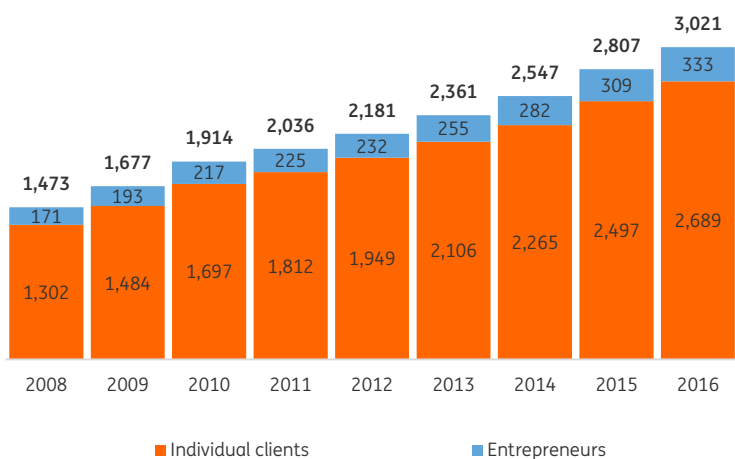
### Retail client deposits – product structure (PLN million)



Change y/y	
PLN million	%
<b>4,797</b>	<b>8.2%</b>
-382	-28.6%
1,994	19.9%
-935	-29.7%
4,119	9.3%

Throughout 2016, the array of settlement services rendered by the Bank to its retail clients grew significantly. At the end of December 2016, ING Bank Śląski S.A. maintained 3.0 million personal accounts for retail clients. Most of them (80%) were Direct accounts.

### Number of retail client current accounts (thousand).



Change y/y	
thousand	%
<b>215</b>	<b>7.6%</b>
23	7.6%
191	7.7%

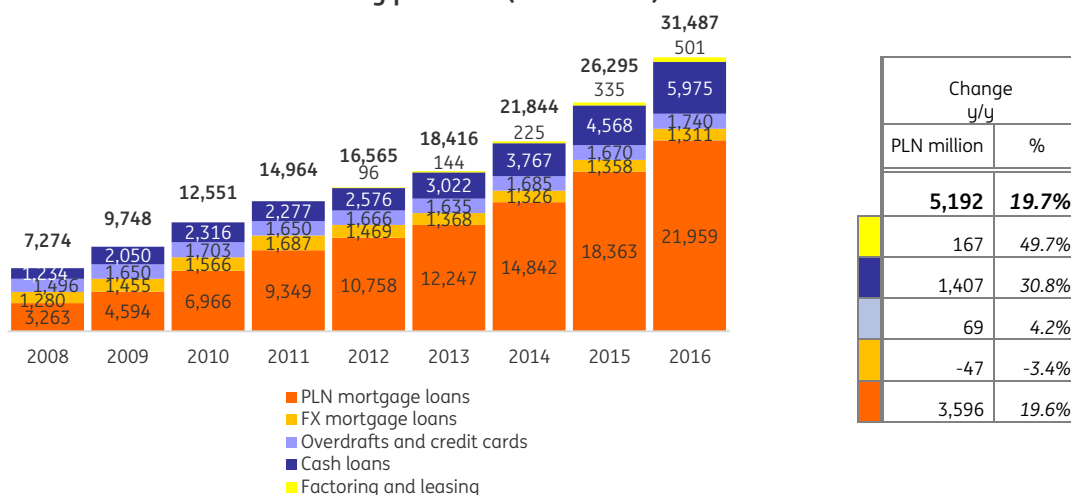
### Lending<sup>27</sup>

As at 2016 yearend, credit receivables from retail customers totalled PLN 31.5 billion. In 2016, the Bank's credit exposure towards that group of clients went up by PLN 5.2 billion, or 19.7%. The Bank increased its share in the household credit receivables market to 5.0% (versus 4.4% in December 2015).

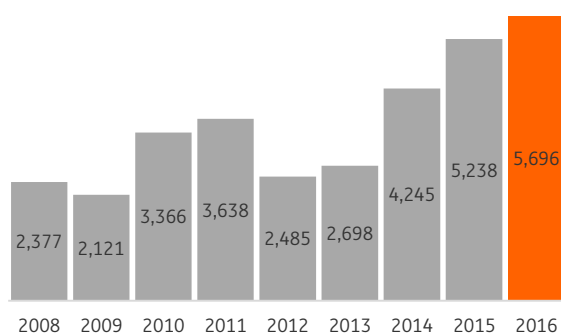
<sup>27</sup>Due to the availability of more detailed product-related information, the description is made based on the data from the management information system.



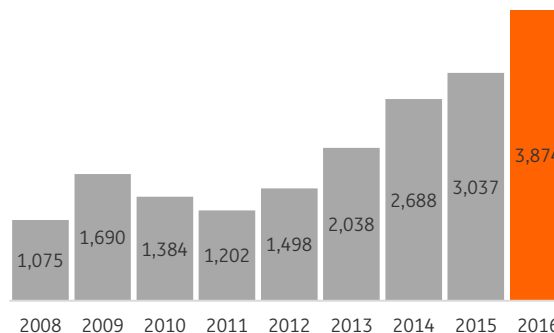
### Value of the retail lending portfolio (PLN million)



### Sale of mortgage loans (PLN million)



### Sale of cash loans (PLN million)



In 2016, the Bank increased mortgage loans sales by nearly PLN 0.5 billion, or 8.7% y/y. According to initial data of the Polish Bank Association, in 2016 ING Bank Śląski S.A. was third in the market with a 13.9% share in the sales of housing loans for private individuals.

The growing cash loans' balance results from the intensified Bank operations as regards the offer and sale. In 2016, more than 250 thousand cash loans totalling over PLN 3.9 billion were granted. It stands for nominal sales growth by 27.5% year on year.

#### Bank cards and cash self-service machines

The Bank continues to develop self-service machines. As the end of December 2016, Bank clients could use 1,145 ING-branded machines (including 932 CDMs; dual machines included). The Bank also expands the network of machines with a unique on the Polish market NFC feature – as at 2016 yearend the Bank offered 773 such machines to its clients.

By the end of December 2016, ING Bank Śląski S.A. issued over 3.1 million payment cards to its retail clients, where almost 2.6 million were contactless cards (Zbliżak paypass sticker included), whereas in December 2016 Bank retail clients held 2.9 million cards, including 2.4 million contactless ones.

## 2. Corporate banking

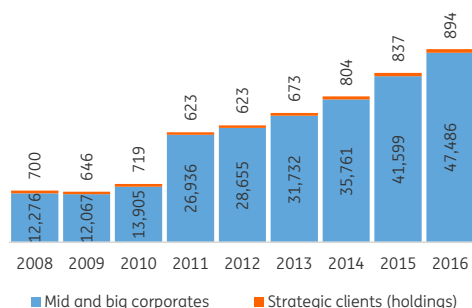
### Number of clients

In December 2016, 48.4 thousand corporate clients used the services of ING Bank Śląski S.A., including:

- 47.5 thousand mid-corporate and mid-sized companies as well as
- 894 strategic clients (holdings).

Throughout 2016, the Bank entered into relationships with 10.5 thousand corporate clients, whereby the number of companies went up by 5.9 thousand from the 2015 yearend.

Number of corporate clients



### Product offer and modifications introduced

When corporate clients choose their bank, they take into account not only reputation of a stable and trustworthy institution, but also high quality of the offer, matching their specific needs. Constant enhancements to the offer, process streamlining and distribution channels' improvement are an inherent element of the Bank's operations.

### Accounts and clearings

ING Bank Śląski S.A. offers companies a very modern and comprehensive array of cash transaction processing solutions. The Bank continues to develop its network of electronic depositories which as at 2016 yearend was formed of 136 machines. The process of replacing all old machines with modern depositories was completed in 2016 to ensure fast and secure channel for closed cash deposits. The number of clients using light depositories is growing gradually. These are machines installed at the client's premises which make transactions more convenient and safer. As at the end of December 2016, there were 42 of them.

Moreover, ING Bank Śląski S.A. provided additional mini and micro CDMs, i.e. small devices installed in the company's registered office for placing open deposits. All CDMs can be used 24/7 and deposits are booked into the selected accounts as soon as they are made (on-line mode). As at the end of December 2016, there were 16 of them.

The Bank continued to increase the number of available fee collection machines. These are special automatic tills where clients can pay administration fees conveniently, efficiently and quickly. By 2016 yearend, ING Bank Śląski S.A. mounted 15 fee collection machines for corporate clients.

As part of the product development process, the Bank activated the Electronic Withdrawal System for all ING Bank Śląski S.A. ATMs. The new service enables clients to instruct the withdrawal of up to PLN 4 thousand in ING Business and to process it at any of the Bank's ATM. Information on the withdrawal and its details are sent to the authorised recipient via text message.

Furthermore, in June 2016, the Bank implemented a new process for remote opening of ING Direct Business Offer. The application is filled in 5 minutes only because external databases are used and client's personal data are verified. Only the basic information about the company is required – Statistical Identification Number (REGON) or Tax Identification Number (NIP) as well as ID cards of the company's representatives that sign the account agreement. Upon filling in the application, clients receive access ING Business online banking where they will find an agreement to be signed electronically. The application is available for Bank employees and directly for clients at the Bank's website. All documents and access are generated automatically. The account is activated within an hour from agreement signature. The key advantage of this process is the speed of starting the relationship with the client.

Clients could also use the ING Direct Business opening service with the assistance of Business Centre advisors. The Business Centre advisor acquires data for the agreement, which is signed in the system.

## Cards

In 2016, ING Bank Śląski S.A. was the first bank in Poland to offer corporate clients with a solution that facilitates the accommodation booking process and settlement of business trip expenses. This feature enables automatic hotel booking and settlement through the generation of one-off virtual credit cards. The credit card is generated automatically at the time of the booking and it is valid for the period specified by the booker and its credit limit is adjusted to a given booking.

Furthermore, the end of April 2016 saw changes in the processing of debit card applications, personalisation of business pre-paid cards and individual deposit identification cards for corporate clients. The biggest change consists in departing from taking the card user's signature in the Personal Data Form for the Card User. In the new process, it is enough for the client applying for the debit card in the ING Business system to attach a complete Simplified Personal Data Form to the electronically submitted application.

In 2016, the Bank together with clients developed a new service for accepting payments via POS. The new service will be implemented in Q1 2017. Throughout this year, we are planning to add new features to the service and implement online payments.

## Loans

In 2016, ING Bank Śląski S.A. continued to automate and optimise its lending processes. These actions bring notable benefits visible in the systematic increase in the share of electronic credit applications filed through ING Direct Business Credit and ING BusinessOnLine in the total number of credit applications filed by businesses, for example. As at 2016 yearend, the share stood at 90.3%.

After new solutions had been rolled out at the end of the third quarter, the share of Fast Track credit decisions rose visibly as well (up from 48.6% in Q1-Q3 2016 to 60.5% in Q4 2016).

Since its launch in 2014, the ING Monitoring application used to monitor the client's satisfaction of liabilities under credit agreements with the Bank and watch the Client's financial standing has been constantly improved. In 2016, a series of pre-planned modifications and improvements were introduced which to large extent were proposed by users. Local Government Units (LGUs) were included in the ING Monitoring application and the monitoring process was automated for the clients with exposure of up to PLN 400,000, for example.

2016 saw a few rounds of calls for subsidy proposals under the centralised Operational Programmes. In two calls for Action 3.2.2 Loans for technological innovations, 947 subsidy applications totalling over PLN 3 billion were filed across the country. Almost 130 of them were provided with the commitment letters from our Bank. It is not only that there were most applications with our commitment letters. The volume of subsidies requested by our clients was the highest too among all the banks; it approached PLN 500 million. The ING's share in the number of applications filed represented approximately 14% of all the applications. Their volume went over 16% of the entire volume of subsidies requested by the applicants under that Action.

ING Bank Śląski S.A. keeps the fifth place in the sale market of BGK de minimis guarantees extended since 15 March 2013 to corporate clients (their share as regards the amount of guarantees granted stands at 8%). Under the Portfolio Guarantee Agreement with a re-guarantee extended by the European Investment Fund under the COSME (PLG) Programme, on 01 January 2016, a PLG-COSME Guarantee Programme was launched. Under the programme, 80% of the credit amount is guaranteed (the maximum credit amount is PLN 600,000). At the beginning of April 2016, the PLD POIG de minimis Guarantee Programme was launched. Under the programme, up to 60% of the credit amount is secured and up to PLN 3.5 million is collateralised for innovative SMEs. In August 2016, a standardised Claims Recovery Agreement with BGK was signed for all BGK guarantees granted (De Minimis Portfolio Guarantee Line (PLD), De Minimis Portfolio Guarantee Line under the Innovative Economy Operational Programme (PLD POIG) and PLG-COSME). In 2016, we ran meetings with BGK and the Polish Bank Association during which we wrapped up the initiatives suggested to improve the BGK guarantee programmes geared towards optimising the service process and increasing programme sale.

As for the cooperation between ING Lease Sp. z o.o. and the European Investment Bank (EIB), 2016 saw a continued service of the tranches of bonds held by the Bank and securing the financial contract

between ING Lease Sp. z o.o. and EIB. In Q2 2016, another Financial Pledge Agreement was signed for the bonds totalling EUR 60 million.

ING Bank Śląski S.A. continues a project on acquiring electronic data on clients from external sources to the Bank's systems. At the beginning of 2016, a functionality of data download from the National Court Register was launched, for example. In 2016, the Bank worked on acquiring data from the Credit Information Bureau and the Social Insurance Institution, from the Central Registration and Information on Business/ Statistical Identification Number database and the eKW database (Digital Land and Mortgage Register). The objective of the project is to automate the way data are obtained at selected stages of the credit process, so as to streamline and improve its effectiveness and security.

The Easy Lending project's objective is to devise and implement a new credit process for smaller credit exposures that would be based on a new assessment of clients' creditworthiness and the automation of the majority of process-related tasks. In 2016, two pilot programmes of the prescoring process were carried out in the project. The former pilot programme was addressed to the Corporate Sales Network clients not having loans at our Bank and it was handled manually. It closed in April with 354 cash loans granted, totalling PLN 64.2 million. In September, the latter pilot programme started. It targeted both the clients having and not having loans at our Bank. Further, the list of products offered was increased to four. Under the latter pilot programme, an automated mechanism verifying an array of behavioural criteria, tracking the client's history with the Credit Information Bureau and computing the creditworthiness was deployed. The sale part of the process was still handled manually, however. By 2016 yearend, 183 new loans were disbursed, totalling over PLN 35 million and 31 loans totalling over PLN 5.8 million were refinanced or renewed. The Bank plans to launch the fully automated process in Q1 2017. At the same time, works on other releases under the project are underway.

### Trade finance

2016 proved a turning year for Trade Finance, and Supplier Financing in particular. In June, we were ranked first in the Portfolio of the Year of the Wprost Daily competition, in the corporate lending category. Three months later, the Aleo platform solution was presented at the international FinovateFall conference, dedicated to the finance industry, held in New York. The product is first and foremost appreciated by our clients who willingly use the service in their daily routine. This is how we achieved a six-time exposure growth from 2015 and recorded over PLN 1 billion-worth turnover.

2016 was also a year full of changes and improvements in Supplier Financing. We enhanced transactional security with the text message code-based authorisation, offered prepayment of liabilities directly from the Aleo platform and launched the option of four-eye transaction confirmation. For off-balance sheet products (letters of credit and guarantees), in 2016, we retained the 10%-growth rate of exposures granted. Last year, we continued to promote e-guarantees and provided clients with that order form as an option to issue guarantees.

In 2017, Trade Finance-related actions will revolve around: automation of letter of credit, guarantee and Supplier Financing service processes to curb service costs, enriching the Supplier Financing offer on Aleo, implementing the online e-guarantee verification service, adding letters of credit and guarantees to the new ING Business, and adding the application sign-off module to ING BusinessMobile. In the long-term, the actions will be oriented at standardisation of the letter of credit-, guarantee- and Supplier Financing-related processes, verification of the blockchain technology application for the trade finance products, analysis of the entrepreneurs needs in terms of trade exchange with other countries, and analysis of wider integration of trade finance products with the Aleo platform.

### Aleo

In 2016, ING Usługi dla Biznesu S.A. continued its actions to increase the number of active users of the Aleo platform. As at yearend, the number of corporate clients registered on the platform exceeded 57 thousand (up by 19% y/y). Since March 2016, Aleo services have been offered in the freemium model. The basic scope of services covering, among others, the unlimited access to published electronic requests for proposal and the option of proposal submission is still available for free under the Start package. Paid accounts – Pro, Pro+ and Enterprise – are designed for the users that require a wider range of features and additional support. As part of the current special offer, ING Bank Śląski S.A. clients

may use the Pro package free of charge.

The Bank continues to add new features to the Aleo Platform. In 2016, clients with the Pro, Pro+ and Enterprise package could check financial standing ratios of other companies based on the Bisnode company data. This can be used to check potential counterparties and take better business decisions as well as publish financial data of their company. We also adapted part of the application that does not require a login (e.g. home page or companies' profiles) to mobile devices (RWD).

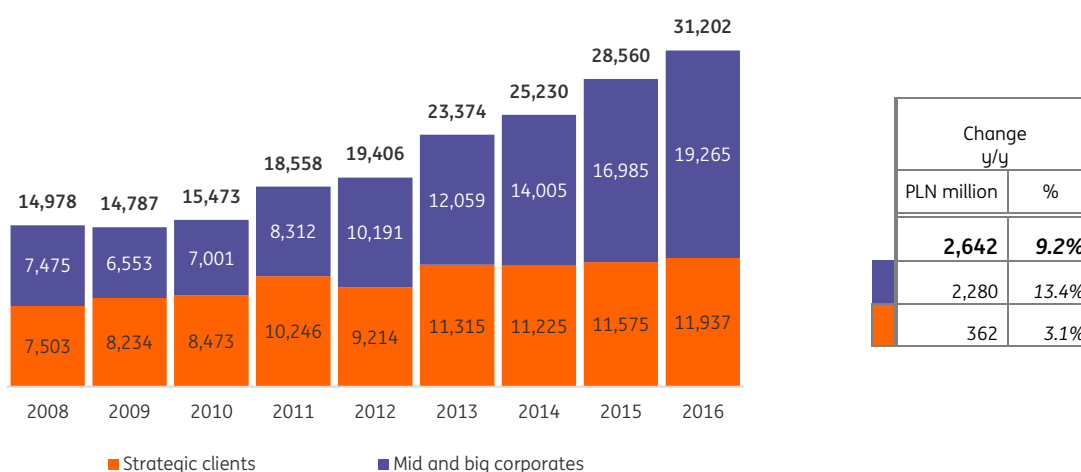
The key element of the Aleo product offer which is most popular among its users and currently is the main direction of development is the Supplier Financing service rendered by ING Bank Śląski S.A. Over the year, the number of active supplier financing agreements went up four times, exceeding 650.

As part of the ING Accounting service, actions focused mainly on making customer service more effective, automating processes and cooperating with the Corporate Sales Network of ING Bank Śląski S.A. as regards distribution of accountancy and payroll services. With the new distribution model implemented during the year, ING Accounting oriented its acquisition activities towards the companies with a higher income potential, following which average profitability of new clients doubled versus the old portfolio.

### Deposits and settlements<sup>28</sup>

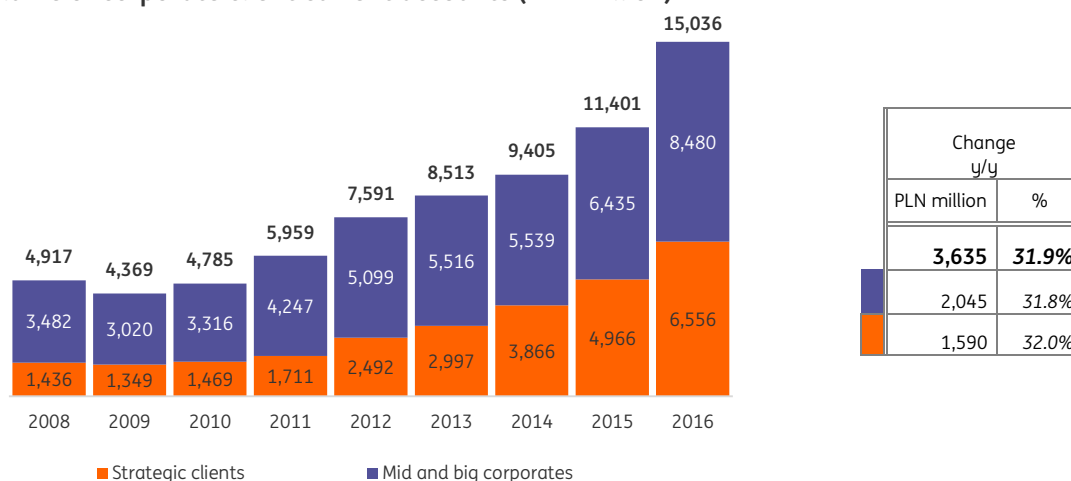
As at 2016 yearend, the funds of the corporate clients accumulated in their accounts totalled PLN 31.2 billion, up by 9.2% from a year before. Thus, the Bank had an 8.0% share in the institutional clients' deposits market (up by 0.2 p.p. from 2015 yearend).

Value of corporate client deposits (PLN million)



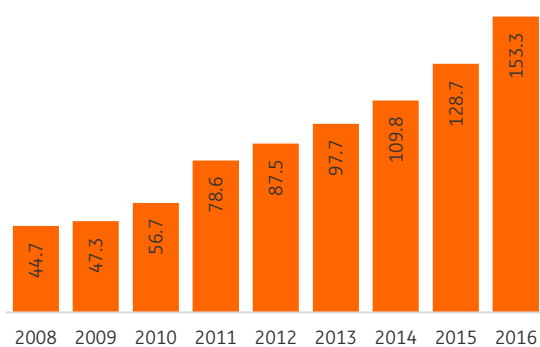
<sup>28</sup>Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

### Volume of corporate client current accounts (PLN million)

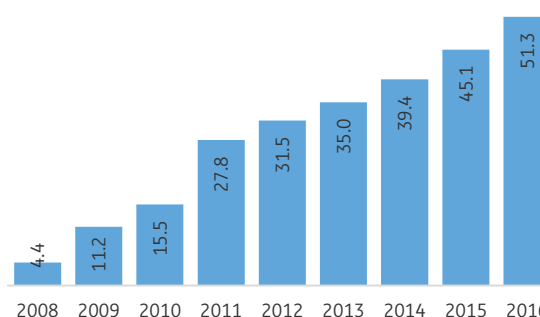


As at 2016 yearend, ING Bank Śląski S.A. maintained 153 thousand corporate current accounts (PLN and FX), up by 19.1% from December 2015. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the ING BusinessOnline electronic banking system to interact with the Bank. In December 2016, the system was used by 51 thousand companies (versus 45 thousand in December 2015).

### Number of corporate client current accounts (in thousand).



### Number of clients of ING BusinessOnline (in thousand)\*



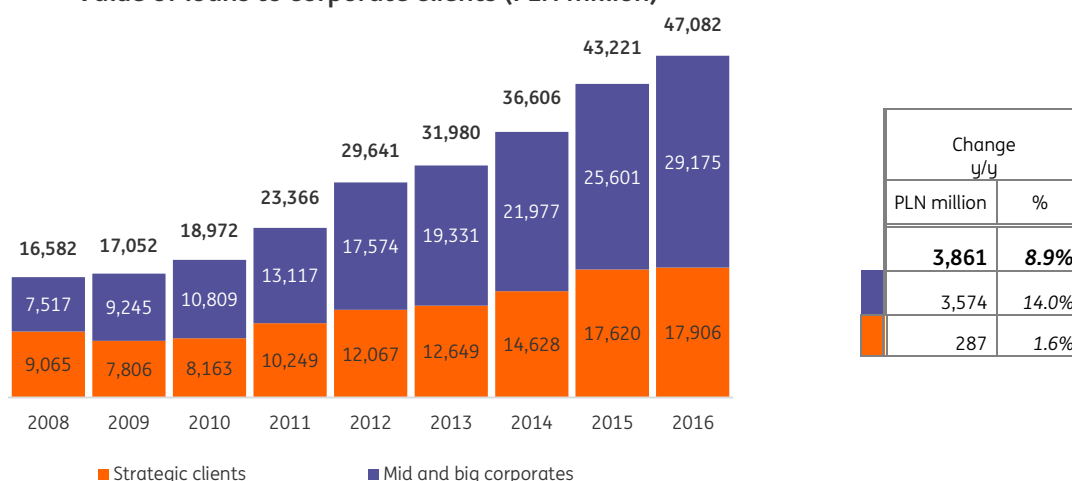
\* In the case of holdings, individual holding members are recognised separately. Additionally, it covers some retail clients (housing communities), which the corporate segment provides with operational service.

### Lending<sup>29</sup>

As at the end of December 2016, corporate client funding granted by the ING Bank Śląski S.A. Group totalled PLN 47.1 billion. Throughout the year, this amount went up by PLN 3.9 billion (or 8.9%). The Bank is estimated to have held 10.5% of the institutional credit market share in December 2016 (10.2% a year earlier).

<sup>29</sup>Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

### Value of loans to corporate clients (PLN million)



In 2016, the Bank won 8 bids worth over PLN 88 million for funding local government units. This result enabled the Bank to maintain its 7.0% share in financing local government institutions as at the end of December 2016.

### 3. Money markets and capital markets

The operations of ING Bank Śląski S.A. in the area of financial markets in 2016 covered adaptation to the changes in the market and in the regulatory environment, process optimisation and organisational changes.

As at 2016 yearend, ING Bank Śląski S.A. serviced securities trading of 85 issuers being corporates, banks and municipalities. The face value of debt securities issued through the agency of ING Bank Śląski S.A. and traded last year was PLN 13.1 billion. Out of that amount, PLN 10.6 billion was due to corporate issues (banks and LGUs excluded), including PLN 2.6 billion under short-term securities issue. This enabled the Bank to rank third in the corporate debt securities market in 2016 (with the share of 12.8% calculated as per the value of corporate securities in trading) and second in the short-term securities market (with the share of 18.5% calculated as per the value of corporate securities in trading).

In 2016, the Bank worked with a view to ensure compliance with MiFID II and MiFIR whose implementation date was moved to the beginning of 2018. In connection with entry into force of the obligation for specific transactions in derivatives to be cleared by the National Clearing House (CCP), the Bank implemented the respective EMIR requirements. To this purpose, the Bank is a direct member of KDPW\_CCP S.A. and, as the only bank in Poland, London-based clearing house LCH.Clearnet Ltd. At the same time, adaptation works to implementation of the last stage of EMIR requirements were underway, i.e. the requirements as regards securing credit risk for bilateral transactions with implementation date in 2017.

On 28 November 2016, the spread module for the FX Trader platform in Esquadra was introduced. The platform offers a number of business functionalities such as:

- flexible exchange rate management depending on the sales channel and the time of the day,
- effective spread and exchange rate management for clients,
- management of limits for individual currency pairs,
- online uploading of exchange rates to other systems,
- longer trading hours,
- monitoring of clients' activity at electronic trading platforms,

- full control over the quoting and sales process.

Moreover, in 2016, ING Bank Śląski S.A. was qualified as the 2016 Money Market Dealer by the National Bank of Poland, the status to be preserved in 2017 as well. Further, the Ministry of Finance qualified the Bank as the Primary Dealer for 2017.

The 2016 achievements of the Bank's economists team include:

- Third position in the Reuters ranking for accuracy of forecasts of key macroeconomic indicators: GDP growth rate, inflation, interest rates, unemployment and exchange rates.
- Development of 662 media comments (articles, interviews, notes) whose advertising value equivalent (AVE) totalled over PLN 11 million according to Newton Media agency monitoring commissioned by the Press Office of ING Bank Śląski S.A.
- Participation in 162 meetings with Financial Markets Division clients where the economists commented on macroeconomic situation and discussed team forecasts. The clients represented enterprises and investment firms from Great Britain, Luxembourg and Poland.
- Introduction of the ING Weekly – a new cyclical analytical material developed for the purpose of the Financial Markets Division and Bank clients. The ING Weekly supplements the ING economists team publications issued so far, e.g. the economic daily addressed to a wide group of clients and the MonitorING Poland monthly (in English) as well as the MonitorING.PL quarterly (in Polish).
- Participation in the works of a team developing cyclical ING International Survey conducted in 13 European countries. The team of economists co-organised 2 press conferences presenting the results of the survey in Poland.
- Preparation of macroeconomic scenarios for the purpose of Bank's stress tests performed as part of ICAAP, BRRD and PFSA stress tests.



## IV. Business Operations of ING Bank Śląski S.A. Group Companies

### 1. Structure of ING Bank Śląski S.A. Group

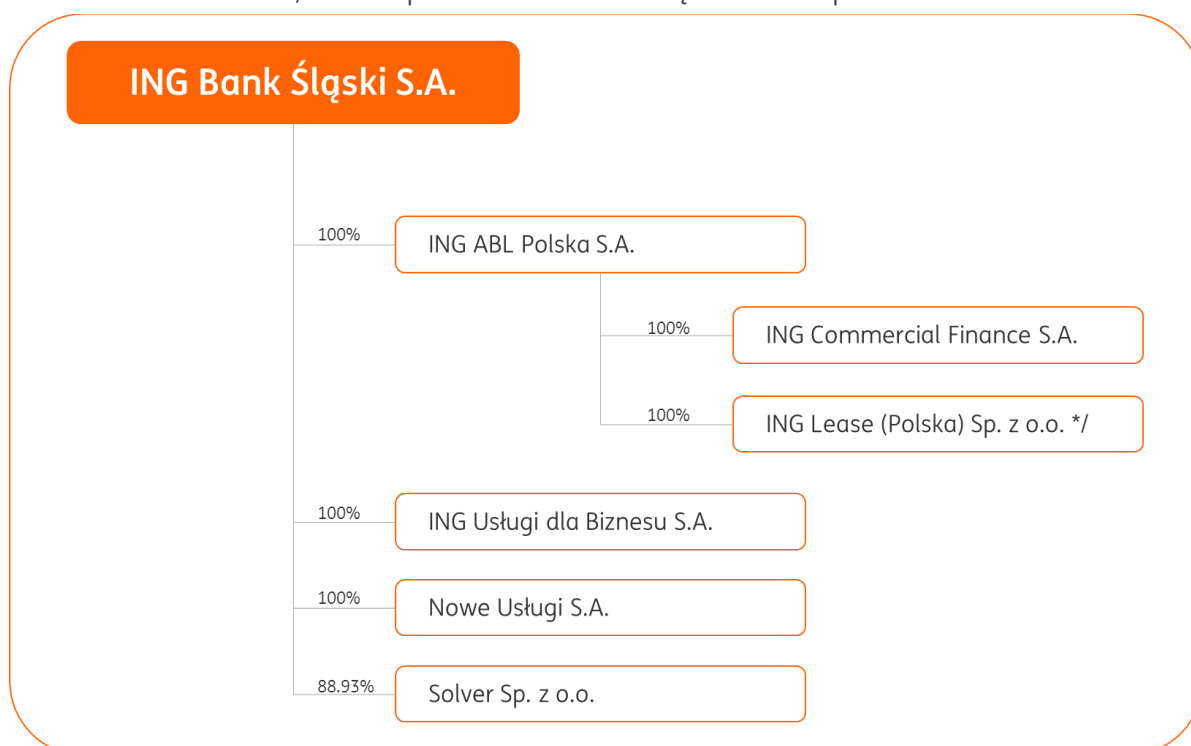
ING Bank Śląski S.A. is an universal commercial bank which offers a wide range of banking services for individual and institutional clients pursuing business in Poland. ING Bank Śląski S.A. Group comprises financial institutions operating in the banking, leasing and factoring markets.

Under Article 4.1.48 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the Bank and all Bank subsidiaries, on the consolidated basis, have the registered office within the Republic of Poland.

The ING Bank Śląski S.A. Group comprises subsidiaries operating predominantly in the financial market. ING Bank Śląski S.A. – as the parent company – takes key decisions concerning both the scope of operations and the finances of the Group members. The Group companies have their current accounts with and deposit their free funds in term deposits at ING Bank Śląski S.A. The Bank also credits business operations of some of its subsidiaries. Transactions of ING Bank Śląski S.A. with its subsidiaries are performed on an arm's length basis.

In January 2016, ING Bank Śląski S.A. obtained the licence of the Polish Financial Supervision Authority to conduct brokerage activity in its full range. In 2016, there was a change in the Group structure. On 31 May 2016, ING Securities S.A. was divided through transfer of all its assets onto ING Bank Śląski S.A. (brokerage operations) and Nowe Usługi S.A. (other activities).

As at 31 December 2016, the composition of ING Bank Śląski S.A. Group looked as follows:



\* The ING Lease (Polska) Sp. z o.o. Group has 10 special-purpose vehicles where ING Lease holds 100% of shares.

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

ING Lease (Polska) Sp. z o.o. has been operating in the market since 1996, while it was incorporated into the ING Bank Śląski S.A. Group structure at the beginning of 2012. It offers all basic types of lease (operating, financial and sale-and-leaseback) and a cash loan which can be used to finance both movables (being passenger cars and light-duty vehicles up to 3.5 tonnes, machinery and equipment, technological lines, commercial vehicles, medical and IT equipment) and immovables (office buildings, commercial facilities and logistics centres). Company services are targeted at all market segments:

large, medium and small enterprises as well as clients from the micro-enterprises segment.

As at 31 December 2016, the portfolio of receivables from clients of ING Lease went up to PLN 6.58 billion (up by 13% from 31 December 2015). The latest available data of the Polish Leasing Association (as at 31 December 2016) read that the company has the fifth biggest portfolio of receivables out of all leasing companies in Poland.

The Polish Leasing Association data as at the end of December 2016 rank the company eight among the leasing companies in Poland in terms of the amount of active leasing agreements and assets provided in 2016 – which gives a market share of approximately 5.2%.

Modified offering and processes allowed the company to continue its dynamic growth in the movables lease area (particularly vehicles as well as machinery and equipment) and to remain among the leaders in the immovables lease market at the same time.

ING Lease strives for maintaining its dynamic growth as far as the sale of vehicle leases is concerned (in Q4 2016, the company went up by 41% y/y). In September 2016, based on the deliverables of the analysis of client needs in the field of vehicle lease, ING Lease revised its financing offer for passenger cars and light-duty vehicles up to 3.5 tones which made the ING AUTO programme more available through: higher financing limits, lower minimum downpayments, coverage of older vehicles, abolishment of some constraints for companies that recently enter the market.

Moreover, the company extended its offer with the ING TRUCK programme for transportation sector representatives under which heavy-duty vehicles (i.e. heavy goods vehicles, tractor units, trailers, semitrailers) can also be funded without finance documents being presented.

By focusing on process modifications enabling transaction services to be far more effective, the company was able to dynamically expand its portfolio and the number of clients serviced (up by approx. 35% versus 2015 yearend).

### **3. ING Commercial Finance Polska S.A.**

ING Commercial Finance Polska S.A. provides factoring services; it was incorporated into the ING Bank Śląski S.A. Group structure at the beginning of 2012. Since then, it has been gradually expanding the scale of its business and the number of serviced clients.

The turnover from factors under the Polish Factors Association totalled PLN 158.2 billion in 2016, up by 21% from 2015. 2016 was a year of record turnover for ING Commercial Finance – for the very first time in its history, the company passed the PLN 20 billion line and recorded turnover of PLN 24.4 billion. The turnover was 29% higher than in the year before. Such excellent result allowed the company to secure its position of the factoring market leader in Poland and to increase its market share from 14.1% at 2015 yearend to 15.9% at 2016 yearend.

The total number of clients handled by ING Commercial Finance as at 2016 yearend was 1,495, that is 252 clients more versus 2015 yearend (up by 20% y/y). In turnover, clients from food (18%), chemical (12%), electronics (12%) and metal (8%) industries prevailed.

ING Commercial Finance bought the record and the greatest number of invoices in 2016 – 1.5 million invoices, i.e. 16% more than in 2015.

As at the end of December 2016, ING Commercial Finance employed 97 staff members and had 13 sale outlets.

### **4. ING Usługi dla Biznesu S.A.**

In 2016, ING Usługi dla Biznesu S.A. continued its actions to increase the number of active users of the Aleo platform. As at the yearend, the number of corporate clients registered on the platform exceeded 57 thousand (up by 19% y/y). Since March 2016, Aleo services have been offered in the freemium model. The basic scope of services covering the unlimited access to published electronic requests for proposal and the option of proposal submission, to name a few, is still available for free under the Start package. Paid accounts – Pro, Pro+ and Enterprise – are designed for the users that require a wider range of features and additional support. As part of the current special offer, ING Bank Śląski S.A. clients

may use the Pro package free of charge.

The operations of the Aleo platform also include running the blog: *Firma kupuje*. It is intended to present the readers with the strategic potential of business sourcing and share the best procurement practices. 2016 saw the publication of 39 new articles on the blog.

In 2016, Aleo conducted the survey "Procurement and e-procurement practices in companies" (carried out by GfK) in which a representative group of Polish companies took part. As a result, on 10 January 2017, the *B2B Market Digitalisation. E-commerce platforms* report was published in cooperation with Deloitte. The report describes the changes and the most important trends in B2B commerce that will take place by 2020.

As part of the ING Accounting service, the actions focused mainly on making customer service more effective, automating processes and cooperating with the Corporate Sales Network of ING Bank Śląski S.A. as regards distribution of accountancy and payroll services. With the new distribution model implemented during the year, ING Accounting oriented its acquisition activities towards the companies with a higher income potential, following which the average profitability of new clients doubled compared with the old portfolio.

## 5. Nowe Usługi S.A.

The Nowe Usługi S.A. company was incorporated in May 2014. Between January and May 2016, Nowe Usługi S.A. did not run any business operations. Following implementation of Resolution No. 19/2016 of the General Meeting of Nowe Usługi S.A. regarding the split of ING Securities S.A., on 31 May 2016 a part of the ING Securities S.A. operations relating to education and marketing was moved to Nowe Usługi S.A.

- The business of Nowe Usługi S.A. is focused on a few areas linked to the functioning of the capital market.
- Running marketing activity in the area of investments in ING Turbo certificates. The instruments are issued by ING Bank N.V. and quoted on the Warsaw Stock Exchange. In 2016, as part of these operations, Nowe Usługi S.A. held a number of marketing campaigns to popularize the ING Turbo certificates in the Polish market and organised a nationwide investment game for investors. In its ongoing activities, Nowe Usługi S.A. operates the ING Turbo help line and administers the [ingturbo.pl](http://ingturbo.pl) website, among others.
- Administering and managing the content of the website [edukacjagiieldowa.pl](http://edukacjagiieldowa.pl). It is a website introducing investment and stock exchange aspects, both to debuting and fully-fledged investors. The site offers regular articles published by the analysts from the ING Bank Śląski S.A. brokerage office and the knowledge database "Stock Market ABC" for investors; further, investors can enrol in the online training courses there. In 2016, the site redesign project was conducted; its aim was to adapt the site layout to the present market trends, improve the site features and increase its accessibility by using the RWD technology.
- Holding training courses for clients which are given by experienced analysts of the brokerage office of ING Bank Śląski S.A. In 2016, Nowe Usługi S.A. organised a series of training courses as part of the Capital Building Academy (six meetings with investors in the biggest Polish cities); it held training courses within the Summer Stock Market School in cooperation with the Warsaw Stock Exchange and organised a series of online training courses for clients.

## 6. Solver Sp. z o.o.

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

- holding the Smile Stays for children from the poorest regions of Poland as part of charity operations of the ING for Children Foundation. The activity is carried out in the Regle Training and Recreational Centre in Wisła. Acting upon the decisions of the Supervisory Board, on 14

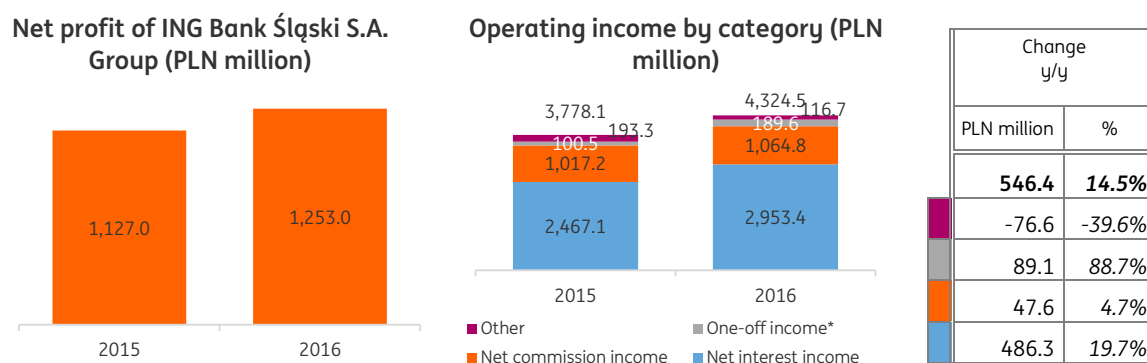
July 2016 an agreement on the sale of the Regle real property in Wisła to the ING for Children Foundation was signed;

- 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 space to ING Bank Śląski S.A. at the commercial edifice in Katowice at ul. Mickiewicza 3 and 3a. In implementation of the Supervisory Board's decision, in April 2016 a preliminary building sale agreement was signed. The final agreement was concluded and the building was transferred to a new owner on 19 December 2016;
- managing hotel rooms at ul. Limanowskiego in Warsaw; and
- renting seven residential premises in the building in Katowice at ul. Klimczoka 4.

## V. Financial standing of ING Bank Śląski S.A. Group in 2016

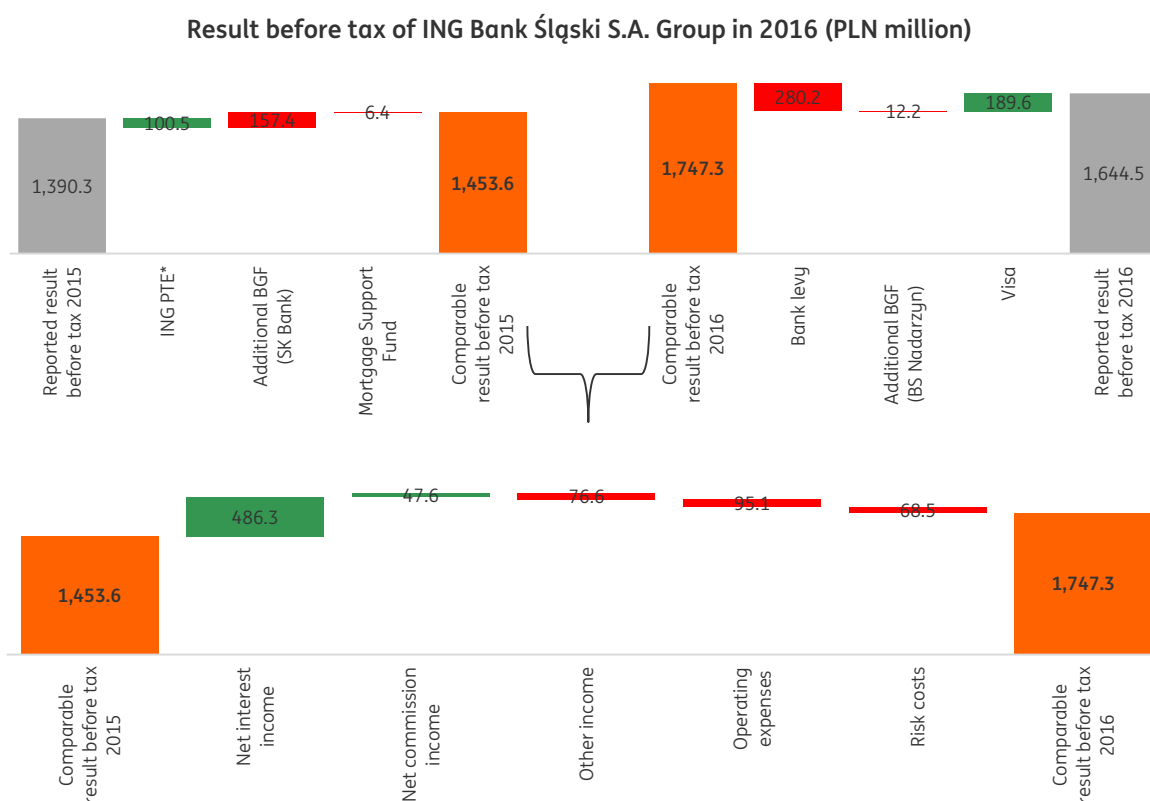
### 1. Profit before tax and net profit

In 2016, the ING Bank Śląski S.A. Group generated a financial result higher by 11.2% compared with that of 2015. Thereby, a record high net profit attributable to shareholders of the parent entity of PLN 1,253.0 million was reached.



\* 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 income of PLN 189.6 million under the Visa transaction in Q2 2016.

The factors which impacted the 2016 result before tax the most versus the previous year are presented in the chart below:



\* Dividend of PLN 82.1 million from ING PTE in Q2 2015 plus income of PLN 18.4 million from the disposal of ING PTE shares in Q3 2015

### Basic consolidated income statement figures in analytical terms

	2016	2015	Change y/y	
	PLN million	PLN million	PLN million	%
Net interest income	2,953.4	2,467.1	486.3	19.7%
Net commission income	1,064.8	1,017.2	47.6	4.7%
One-off income*	189.6	100.5	89.1	88.7%
Other income	116.7	193.3	-76.6	-39.6%
<b>Total income</b>	<b>4,324.5</b>	<b>3,778.1</b>	<b>546.4</b>	<b>14.5%</b>
General and administrative expenses	2,099.2	2,155.7	-56.5	-2.6%
including one-off costs*	12.2	163.8	-151.6	-92.6%
Impairment losses and provisions	300.6	232.1	68.5	29.5%
Bank levy	280.2	0.0	280.2	-
<b>Financial result before tax</b>	<b>1,644.5</b>	<b>1,390.3</b>	<b>254.2</b>	<b>18.3%</b>
Income tax	391.4	263.2	128.2	48.7%
Net result attributable to non-controlling shareholders	0.1	0.1	0.0	0.0%
<b>Net financial result</b>	<b>1,253.0</b>	<b>1,127.0</b>	<b>126.0</b>	<b>11.2%</b>
<b>Adjusted net result*</b>	<b>1,109.3</b>	<b>1,162.7</b>	<b>-53.4</b>	<b>-4.6%</b>

\* 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 income of PLN 189.6 million under the Visa transaction in Q2 2015; Costs: PLN 157.4 million of extraordinary contribution to BGF stemming from the SK Bank bankruptcy in Q4 2015, PLN 6.4 million 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 in Q4 2016

In 2016, 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 355.0 million versus PLN 743.2 million in 2015.

## 2. Net interest income

In 2016, net interest income of the ING Bank Śląski S.A. Group totalled PLN 2,953.4 million versus PLN 2,467.1 million the year earlier (up by 19.7%).

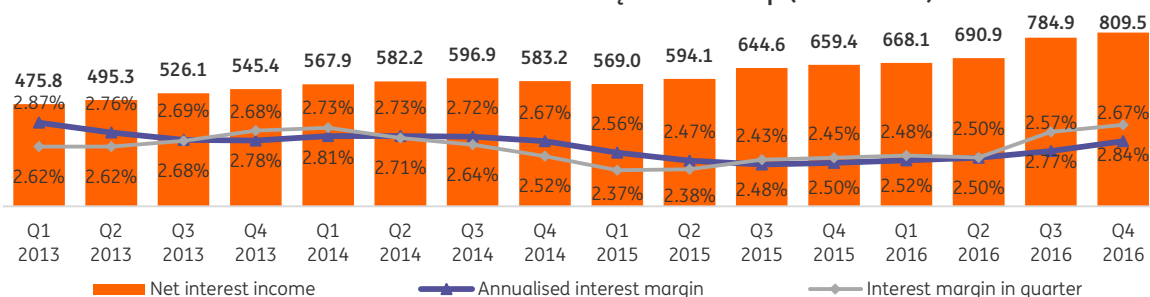
2016 saw the NBP reference rate maintained at the stable level of 1.5% versus the average level of 1.58% in 2015 (in March 2015, it was reduced from 2.0% to 1.5%). Despite record low interest rates, net interest income went up. This was the upshot of both higher business volumes (lending portfolio up by PLN 9.4 billion (or 13.7%) and the total liabilities to customers – by PLN 8.0 billion (or 9.1%)) and the improved interest margin.

Adjustment of the deposit offer to the market conditions meant that interest margin went up by 22 bp to 2.67%.

### Average base interest rate

	Segment		Bank Total
	Retail	Corporate	
<b>Deposits</b>			
PLN	0.89%	0.99%	0.91%
FX	0.11%	0.02%	0.07%
<b>Loans</b>			
PLN	4.58%	2.97%	3.75%
FX	0.60%	1.85%	1.69%
<b>including: mortgage loans</b>			
PLN	3.54%	-	3.54%
FX	0.60%	-	0.60%

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

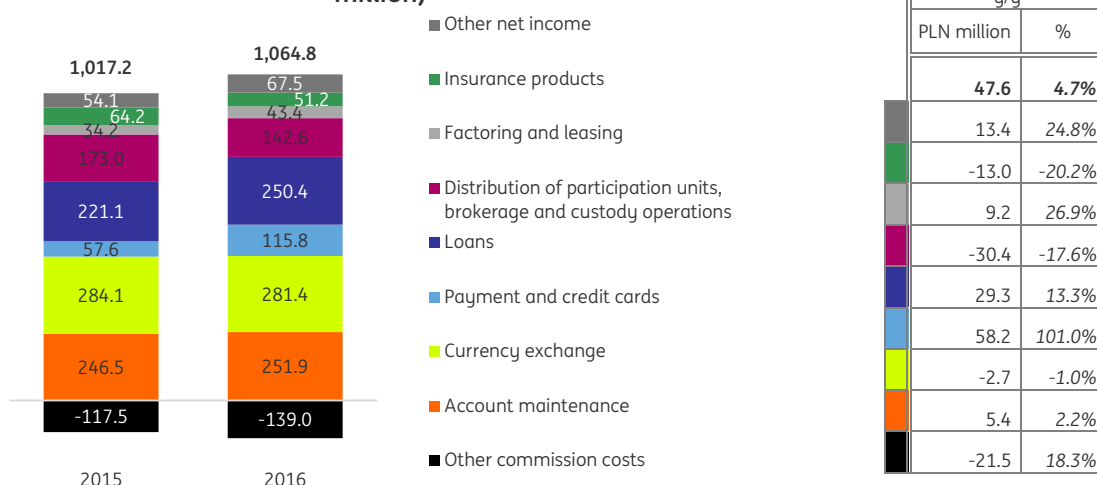


### 3. Non-interest income

Net income on fees and commissions represented the major part of non-interest income of the ING Bank Śląski S.A. Group. In 2016, it totalled PLN 1,064.8 million and was higher by PLN 47.6 million (or 4.7%) versus 2015.

The most significant increase in the income on fees and commissions was seen on the income on payment and credit cards, which went up by PLN 58.2 million (or 101.0%). This stemmed from more cards being issued, growing client transactions and a fee for cash withdrawal from third party ATMs having been introduced.

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

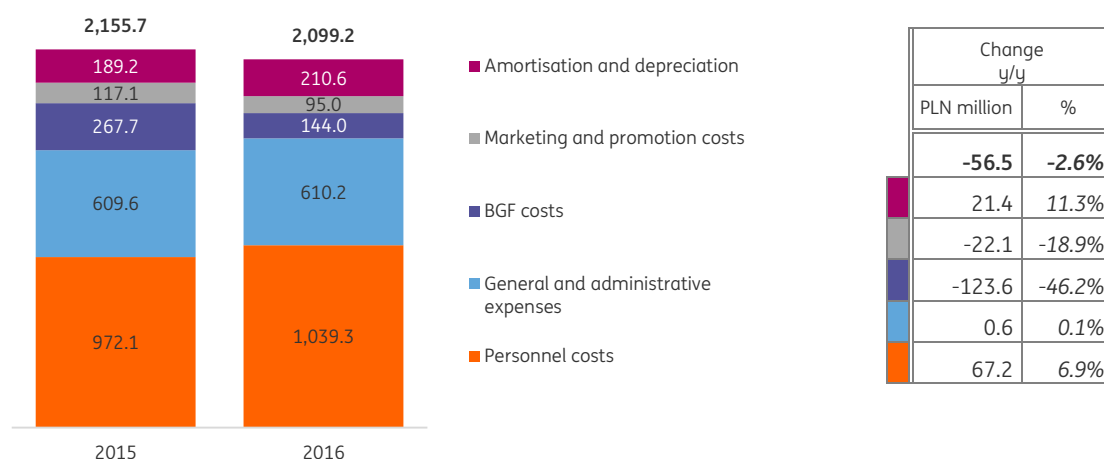


In 2016, other income of the Group was PLN 306.3 million and it was higher by PLN 12.5 million compared with the previous year. Both in 2015 and 2016, one-off trades had a significant impact on its level. In 2015, the Bank sold 20% of shares in ING PTE, the one-off income so generated totalled PLN 100.5 million (PLN 82.1 million dividend in Q2 2015 and PLN 18.4 million income from the disposal thereof in Q3 2015). In 2016, one-off income stood at PLN 189.6 million and it resulted from the Visa transaction settlement (Q2 2016).

### 4. General and administrative expenses

In 2016, as compared with 2015, the general and administrative expenses were as follows:

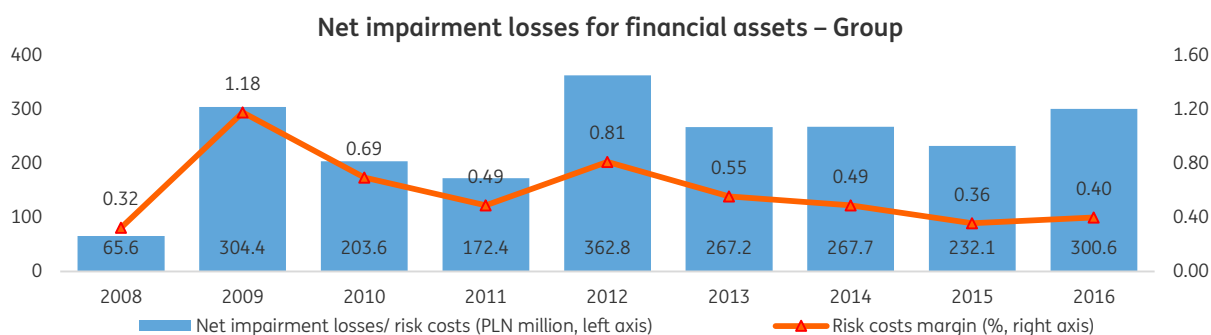
### Group expenses by category (PLN million)



In 2015 and 2016 alike, one-off costs impacted the level of general and administrative expenses. In Q4 2016, following the bankruptcy of the Cooperative Bank in Nadarzyn the Group made an additional contribution to BGF totalling PLN 12.2 million. In Q4 2015, as a result of the SK Bank in Wołomin (Spółdzielczy Bank Rzemiosła i Rolnictwa) bankruptcy, these costs stood at PLN 157.4 million. Additionally, in Q4 2015 the Bank provisioned PLN 6.4 million for contribution to the Mortgage Support Fund established at the end of the year. In consequence, general and administrative expenses, upon excluding one-off trades, totalled PLN 2,087.0 million in 2016.

### 5. Impairment losses and provisions

2016 saw a growth in the risk costs margin (net loan loss provisions to gross loans) from 0.36% in 2015 to 0.40%; this was caused by a higher ratio in the retail segment – up from 0.28% in 2015 to 0.46% in 2016. In the corporate segment, the risk costs margin decreased from 0.40% in 2015 to 0.36% in 2016.

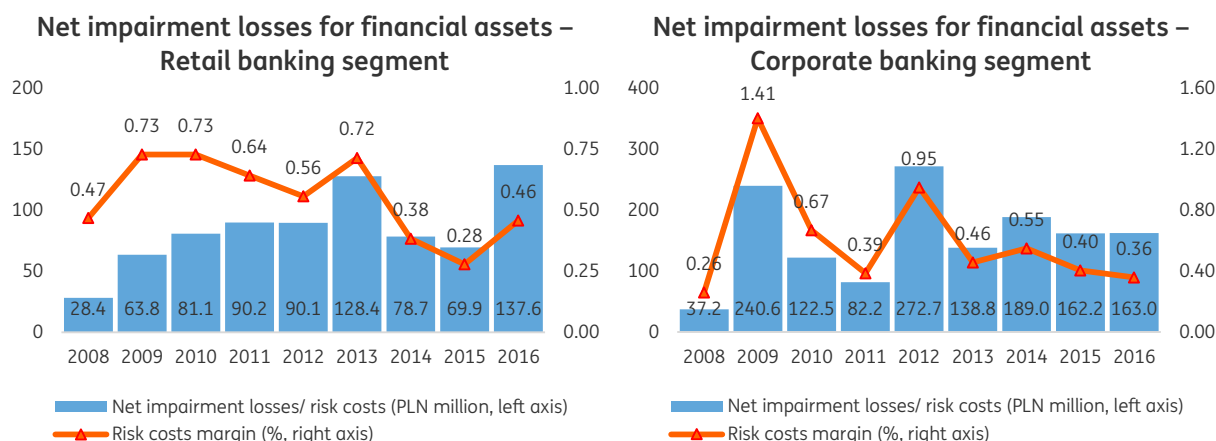


Creating an additional IBNR provision of PLN 31.8 million for a part of the FX mortgage loan portfolio was the main driver of the risk costs margin increase in the retail segment in 2016. Having analysed the portfolio in terms of key risk parameters, the Bank decided to adjust the PD risk parameter. Moreover, the growing risk costs margin also stemmed from the higher share of unsecured loans in the structure of the retail lending portfolio. In 2016, the Bank performed two sale transactions of retail receivables classified as impaired or fully written-off loans. Both transactions positively impacted impairment losses totalling PLN 23.0 million (versus PLN 21.0 million in 2015).

Improved quality of the lending portfolio was the main reason for a drop in the risk costs margin in the corporate segment in 2016. Moreover, 2016 also saw two transactions performed by the Bank concerning the sale of corporate receivables classified as impaired or fully written-off loans. Both transactions positively impacted impairment losses totalling PLN 55.7 million (versus PLN 28.1 million



in 2015).



## 6. Tax on certain financial institutions

In 2016, the Group paid the tax on certain financial institutions (the so-called bank levy) of PLN 280.2 million. In keeping with the Act, the tax has been accrued monthly since February 2016.

## 7. Income tax

In 2016, the ING Bank Śląski S.A. Group posted the income tax of PLN 391.4 million, which was visibly higher than the one shown in 2015 (up by PLN 48.7 million). In 2016, the effective tax rate was 23.8% versus 18.9% the year before.

This 2016 increase was influenced by the bank levy, which under Article 16 section 1 item 70 of the Corporate Income Tax Act is not a tax deductible cost. A relatively low income tax in 2015 stemmed from the dividend of PLN 82.1 million paid out to the Group on 20% of ING PTE shares. It was not taxed in keeping with Article 22 section 4 of the Corporate Income Tax Act.

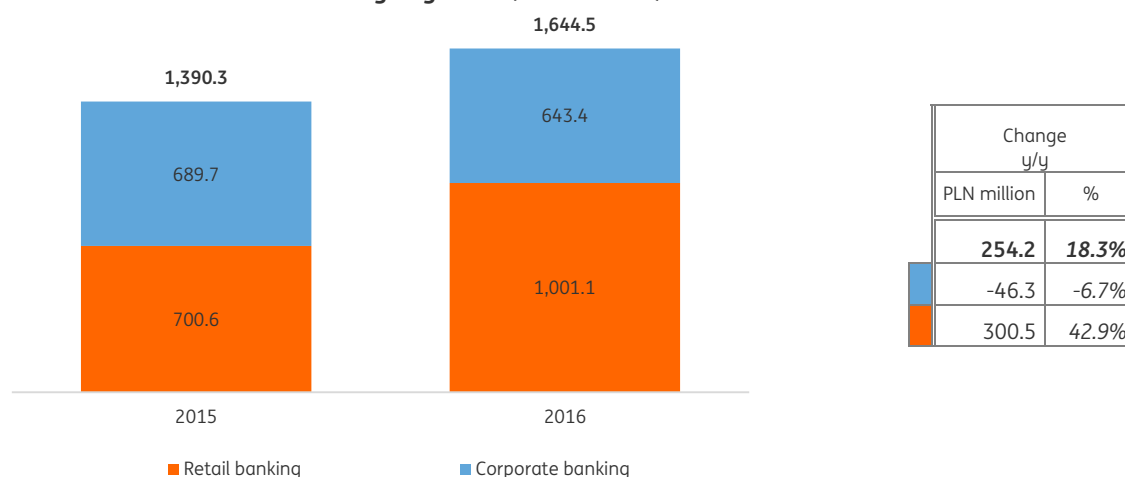
## 8. Share of individual business segments in the financial result

The 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),
- corporate banking segment, which comprises institutional clients and FM products' operations.

In 2016, the Group result before tax broken down into segments was as follows:

### Result before tax by segment (PLN million)



In 2016, results of the retail banking segment and of the corporate banking segment accounted for 60.9% and 39.1% of the Group's result before tax respectively (the year before it was: 50.4% and 49.6% respectively).

#### Result before tax drivers for retail banking segment

	2016	2015	Change y/y	
	PLN million	PLN million	PLN million	%
Net interest income	1,866.3	1,516.6	349.7	23.1%
Net commission income	380.7	363.1	17.6	4.8%
Other income	228.8	208.2	20.6	9.9%
<b>Total income</b>	<b>2,475.8</b>	<b>2,087.9</b>	<b>387.9</b>	<b>18.6%</b>
General and administrative expenses	1,235.6	1,317.4	-81.8	-6.2%
Impairment losses and provisions	137.5	69.9	67.6	96.7%
Bank levy	101.6	0.0	101.6	-
<b>Financial result before tax</b>	<b>1,001.1</b>	<b>700.6</b>	<b>300.5</b>	<b>42.9%</b>

#### Result before tax drivers for corporate banking segment

	2016	2015	Change y/y	
	PLN million	PLN million	PLN million	PLN million
Net interest income	1,087.1	950.5	136.6	14.4%
Net commission income	684.1	654.1	30.0	4.6%
Other income	77.5	85.6	-8.1	-9.5%
<b>Total income</b>	<b>1,848.7</b>	<b>1,690.2</b>	<b>158.5</b>	<b>9.4%</b>
General and administrative expenses	863.6	838.3	25.3	3.0%
Impairment losses and provisions	163.1	162.2	0.9	0.6%
Bank levy	178.6	0.0	178.6	-
<b>Financial result before tax</b>	<b>643.4</b>	<b>689.7</b>	<b>-46.3</b>	<b>-6.7%</b>

## 9. Core effectiveness ratios

Core effectiveness ratios (%)			
	2016	2015	Change y/y
C/I ratio	48.5%	57.1%	-8.5 p.p.
C/I ratio – adjusted	50.5%	54.2%	-3.7 p.p.
ROA	1.10%	1.07%	+0.03 p.p.
ROE	11.7%	11.0%	+0.7 p.p.
ROE – adjusted	12.8%	12.2%	+0.6 p.p.
Net Interest Margin	2.67%	2.45%	+0.22 p.p.
L/D	81.5%	78.2%	+3.3 p.p.
Total capital ratio	14.7%	13.7%	+1.0 p.p.
Tier 1 ratio	13.7%	13.7%	0.0 p.p.

**Cost to Income ratio (C/I)** – operating expenses/ total income together with net profit of associated entities recognised on an equity basis.

**Cost to Income ratio (C/I) – adjusted** – operating expenses/ total income together with net profit of associated entities recognised on an equity basis, excluding the following income: 1) Dividend of PLN 82.1 million from ING PTE in Q2 2015, 2) income of PLN 18.4 million from the disposal of ING PTE in Q3 2015, and 3) income of PLN 189.6 million under the Visa transaction in Q2 2016, excluding costs being: 1) extraordinary contribution to BGF stemming from the bankruptcy of SK Bank (Bank Rzemiosła i Rolnictwa) in Wolomin 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 Assets (ROA)** – net profit/ average assets for 5 consecutive quarters.

**Return on Equity (ROE)** – net profit/ average equity for 5 consecutive quarters.

**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).

**Net Interest Margin** – net interest income/ average interest assets for 5 consecutive quarters.

**Loans/ Deposits ratio (L/D)** – total net loans and other receivables from customers without Eurobonds/ liabilities to customers. The net value of Eurobonds was PLN 3,838.1 million in 2015 and PLN 3,910.0 in 2016.

**Total capital ratio** – own funds/ off-balance sheet assets and liabilities including risk weights; the ratio calculated in line with Basel III regulations.

**Total capital ratio** – Tier 1/ off-balance sheet assets and liabilities including risk weights; the ratio calculated in line with Basel III regulations.

## 10. Consolidated statement of financial position

As at 31 December 2016, the balance sheet total of the ING Bank Śląski S.A. Group was PLN 117.5 billion, up by PLN 8.6 billion, or 7.9%, from the end of 2015.

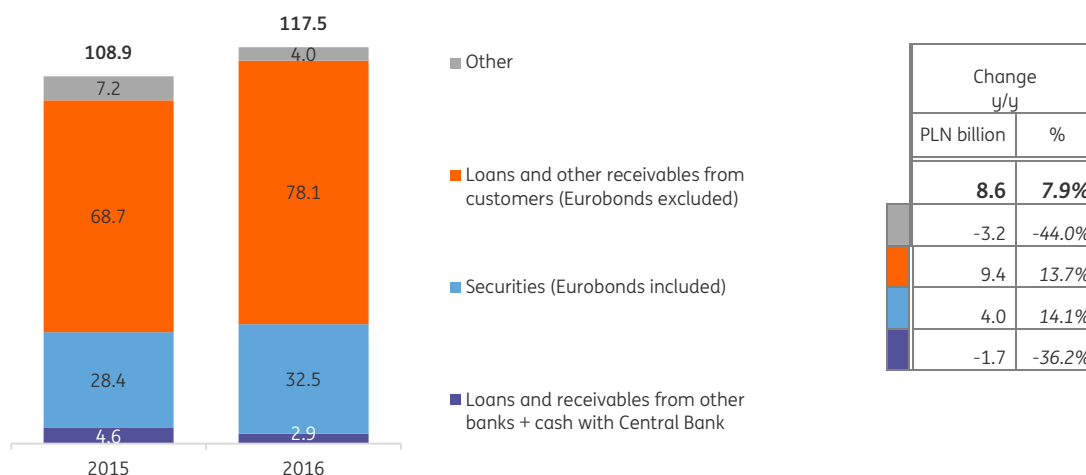
The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of December 2016, the balance sheet total of ING Bank Śląski S.A. was PLN 113.5 billion (96.6% of the Group's balance sheet total) versus PLN 106.1 billion in December 2015 (up by 7.0%).

### Assets

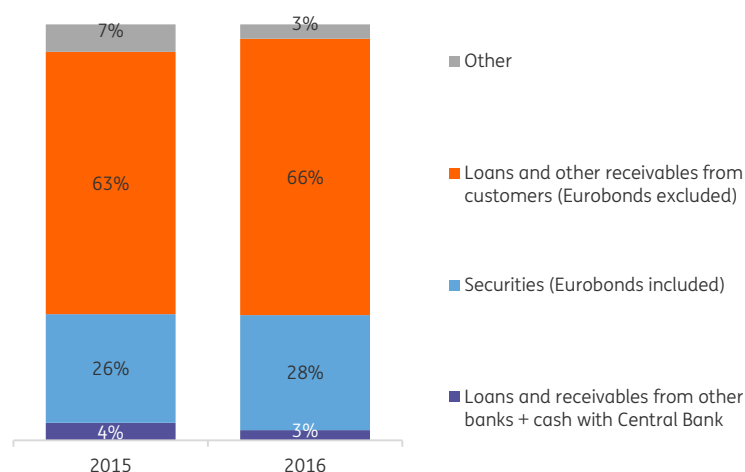
Loans and other receivables from customers represent the biggest item of ING Bank Śląski S.A. Group's assets (excluding Eurobonds). As at 31 December 2016, they represented 66% of all Group assets.

The securities portfolio (Eurobonds included) represented a major item in the statement of financial position of the Bank Group – PLN 32.5 billion (or 28% of assets). Debt securities composed of investment assets of PLN 25.7 billion (including available-for-sale assets of PLN 20.5 billion and financial assets held to maturity of PLN 5.2 billion) dominated the portfolio.

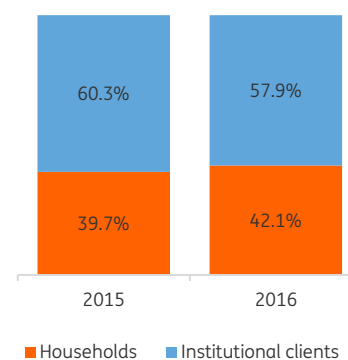
### Assets of ING Bank Śląski S.A. Group (PLN billion)



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



### Net loans\* by client group (%)



\* Loans and other receivables from customers excluding Eurobonds

The FX structure of the portfolio of net receivables from customers (excluding Eurobonds) is presented in the table below:

#### Currency structure of net receivables from customers (including Eurobonds)

	2016		2015	
	PLN million	%	PLN million	%
PLN	63,391.8	77.3	55,725.2	76.8
Foreign currencies	18,587.7	22.7	16,794.4	23.2
<b>Total</b>	<b>81,979.5</b>	<b>100.0</b>	<b>72,519.6</b>	<b>100.0</b>

The increase in and structure of the portfolio of net receivables from customers over long term are presented in the table below:

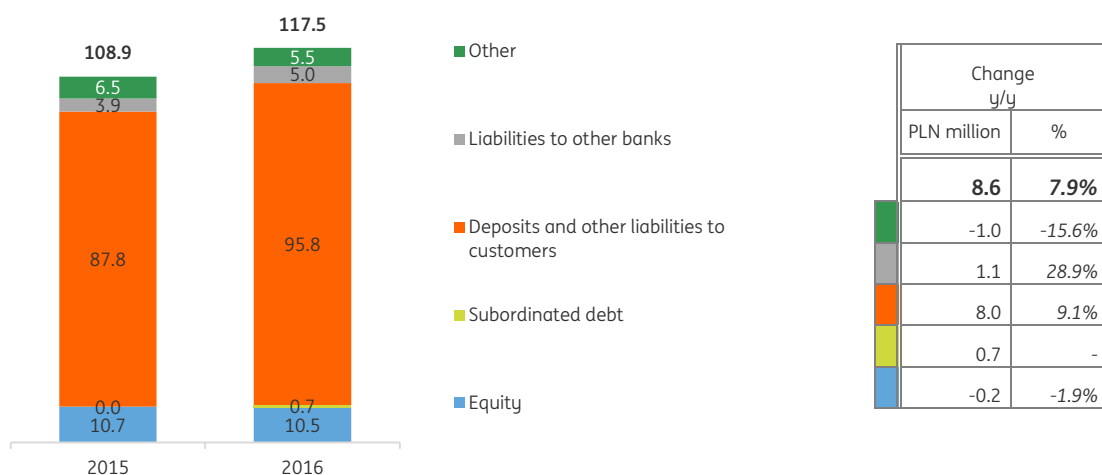
Loans and other receivables from customers of ING Bank Śląski S.A. Group (PLN million)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Credit receivables from households, including:	32,865.4	27,276.6	22,318.5	18,520.4	16,551.9	14,938.3	12,311.4	9,566.5	7,260.8
Loans and cash loans	31,931.4	26,620.2	21,844.7	18,348.0	16,444.3	14,921.4	12,304.8	9,562.2	7,256.5
Leasing receivables	854.9	600.4	423.3	140.0	87.6	0.0	0.0	0.0	0.0
Factoring receivables	79.1	56.0	50.5	32.4	20.0	16.9	6.6	4.3	4.3
Credit receivables from institutional clients <sup>30</sup> , including:	45,204.1	41,404.9	34,812.9	30,032.1	28,653.7	23,518.8	18,929.1	17,137.7	16,669.9
Loans and cash loans	33,475.8	30,552.9	25,267.8	21,860.8	21,166.6	21,076.6	17,492.8	16,110.0	15,742.8
- Business entities	29,452.9	26,048.7	20,830.5	17,775.9	16,543.8	14,986.0	12,095.1	11,266.3	11,866.7
- Financial entities (other than banks)	1,878.1	1,935.5	1,777.5	1,457.1	1,533.2	2,821.5	2,583.1	2,543.8	2,923.1
- Entities from the sector of central and local government agencies	2,144.8	2,568.7	2,659.8	2,627.8	3,089.6	3,269.1	2,814.6	2,299.9	953.0
Debt securities <sup>31</sup>	2,512.8	3,055.5	2,766.1	2,174.9	2,107.6	2,086.8	1,177.7	643.4	640.5
Leasing receivables	4,855.2	4,282.3	3,912.3	3,450.8	3,076.9	0.0	0.0	0.0	0.0
Factoring receivables	4,271.7	3,333.7	2,766.0	2,421.4	2,182.7	255.5	116.1	168.8	160.3
Other receivables	88.6	180.5	100.7	124.2	119.9	99.9	142.5	215.5	126.3
<b>Total net credit receivables</b>	<b>78,069.5</b>	<b>68,681.5</b>	<b>57,131.4</b>	<b>48,552.5</b>	<b>45,205.6</b>	<b>38,457.1</b>	<b>31,240.5</b>	<b>26,704.2</b>	<b>23,930.7</b>
- Net Eurobonds	3,910.0	3,838.1	3,923.4	3,685.4	3,779.7	3,872.6	3,268.5	3,261.9	1,654.0
Total net loans and other receivables from customers	81,979.5	72,519.6	61,054.8	52,237.9	48,985.3	42,329.7	34,509.0	29,966.1	25,584.7

### Liabilities and equity

The funds deposited with the Bank by clients constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. In December 2016, the liabilities to customers were PLN 95.8 billion, or 82% of all liabilities and equity.

Equity was another most important funding source. As at the end of December 2016, it stood at PLN 10.5 billion and represented 9% of total liabilities and equity.

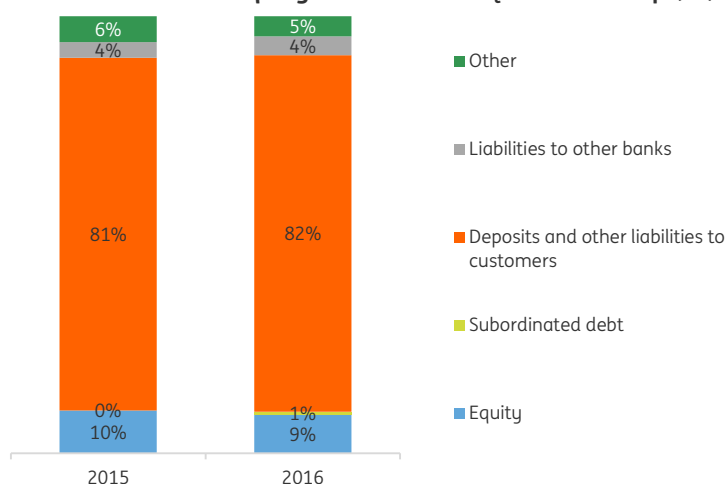
### Liabilities and equity of ING Bank Śląski S.A. Group (PLN billion)



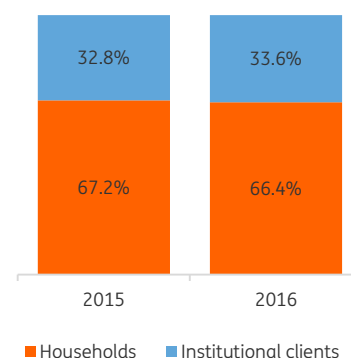
<sup>30</sup> Excluding receivables from customers under repo transactions.

<sup>31</sup> Eurobonds excluded.

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



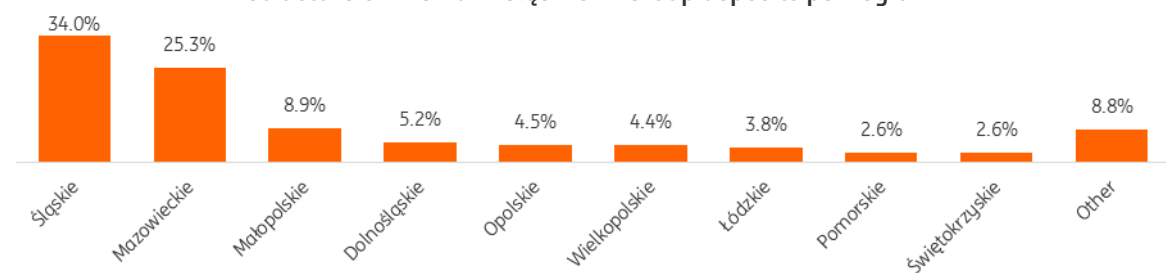
### Deposits\* by client group (%)



\* Deposits and other liabilities to customers

Deposits per region are presented in the graph below:

### Structure of ING Bank Śląski S.A. Group deposits per region



The increase in and structure of the portfolio of liabilities to customers over long term are presented in the table below:

Liabilities to clients of ING Bank Śląski S.A. Group (PLN million)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008
Liabilities to households, including:	63,615.6	58,976.4	50,278.8	43,628.9	37,683.7	33,481.8	30,167.2	30,103.9	28,011.3
Deposits	63,548.0	58,896.2	50,217.1	43,563.8	37,627.7	33,434.7	30,117.7	30,039.7	27,945.7
Other liabilities	67.6	80.2	61.7	65.1	56.0	47.1	49.5	64.2	65.6
Liabilities to institutional clients <sup>32</sup> , including:	32,209.8	28,842.1	25,380.1	23,919.0	20,214.7	19,378.8	17,281.0	17,215.2	18,898.6
Deposits	30,565.4	27,567.5	24,188.6	22,980.2	19,206.9	18,944.4	16,767.2	16,722.3	18,372.0
- Business entities	25,395.4	23,594.2	20,177.3	17,746.3	13,739.9	13,887.3	12,483.6	11,861.7	11,173.5
- Financial entities (other than banks)	3,429.2	2,353.8	2,142.8	3,143.1	3,368.0	2,954.5	2,588.6	3,352.4	4,312.3
- Entities from the sector of central and local government agencies	1,740.8	1,619.5	1,868.5	2,090.8	2,099.0	2,102.6	1,695.0	1,508.2	2,886.2
Other liabilities	1,644.4	1,274.6	1,191.5	938.8	1,007.8	434.4	513.8	492.9	526.6
<b>Total liabilities to customers</b>	<b>95,825.4</b>	<b>87,818.5</b>	<b>75,658.9</b>	<b>67,547.9</b>	<b>57,898.4</b>	<b>52,860.6</b>	<b>47,448.2</b>	<b>47,319.1</b>	<b>46,909.9</b>

<sup>32</sup> Excluding liabilities to customers under repo transactions.

## VI. Management of key risks

### 1. Credit risk

#### General information

ING Bank Śląski S.A. manages credit risk end-to-end, based on strategic planning and a consistent system of policies and procedures as well as the risk management tools, including risk identification, measurement and control.

The primary goal of the Bank 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.

The credit risk management objective is pursued by:

- 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.

The risk management strategy sets out short-, mid- and long-term goals for the credit risk management area as well as their accomplishment manner. The strategy is defined to warrant optimum development of the lending portfolio while keeping adequate quality and profitability of credit operations and capital allocation. Risk appetite, which translates the Bank's strategy into a consistent set of portfolio measures, defined as maximum thresholds for the lending portfolio, is an element of the that strategy. The credit risk management strategy is approved by the Supervisory Board. The Supervisory Board also periodically assess the degree of accomplishment of strategic goals by the Bank Management Board.

Lending policy mirrors the market strategy of the Bank. It defines the quality brackets for credit risk acceptance. It is operated based on principles of secure and prudent credit risk management. It is put into practice by the Bank Management Board that established the Credit Policy Committee to take decisions as regards credit risk management on a daily basis.

ING Bank Śląski S.A. defines 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 and when due or the risk of lowering economic value of the credit exposure (or a group of credit exposures) due to deterioration of the debtor's capacity to service their debt as agreed.

Lending-related losses arise in consequence of risk remaining after the Bank's mitigation actions in that regard. In order to keep the losses at or below the level set in the planning documents, the Bank impacts their level using accepted risk limits, risk exposure amounts plus risk hedging instruments and in case the risk materializes by direct actions mitigating the losses.

The credit risk management system used by ING Bank Śląski S.A., including the organisational structure, the lending process framework, the system of internal regulations and the applied tools and models, is verified on an ongoing basis and adapted as needed to ensure that the Bank's strategy, the risk appetite included, is accomplished. This is how the Bank strives for the identification, assessment, measurement, monitoring and management actions taken for the business bearing credit risk to be adequate and, at the same time, consistent and compliant with the regulatory requirements.

ING Bank Śląski S.A. manages its credit risk with the use of advanced credit risk assessment models. For the corporate credit portfolio, capital requirements are computed using the Advanced Internal Rating-Based Approach (AIRB). Also for the retail portfolio, the Bank aspires to obtain the Polish Financial Supervision Authority's approval of using this method for the mortgage and consumer portfolios. The risk management models applied by the Bank are systematically validated and developed.

The Bank conducts stress tests to:

- assess and measure the impact of adverse (stress) internal and external conditions on the Bank's standing (lending portfolio and capital adequacy included),
- identify significant risk factors through determination of the Bank's sensitivity to changes of certain factors, and
- identify potential threats (possibility to work out hedging strategies).

The Bank actively uses stress tests to manage credit risk on an ongoing basis, inter alia to set the RAS limits and internal limits capping credit risk as well as to define the principles of credit capacity and viability quantification.

ING Bank Śląski S.A. maintains the credit risk management model based on three lines of defence:

- 1st line of defence: business and operational units of the Bank which pursue day-to-day business under the approved lending policy and risk limits; they are supervised by the unit managers,
- 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 top banking standards.

Credit decisions are taken following a comprehensive transaction risk analysis – in the proper credit approval track, determined by the transaction complexity and amount. For more automated tracks, transaction risk is analysed on the basis of clearly defined criteria, including behavioural ones, and on the basis of credit limit computed automatically using the algorithm approved by the Credit Policy Committee. All transactions are accepted in line with the explicitly defined credit mandate. The persons taking credit decisions are personally liable for them.

The credit mandates exercised in respect of sale and risk acceptance for individual credit transactions are separated from the activities in the lending policy area and the construction and validation processes for the tools assisting the risk management process.



## Lending policy

In 2016, the lending policy of ING Bank Śląski S.A. 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.

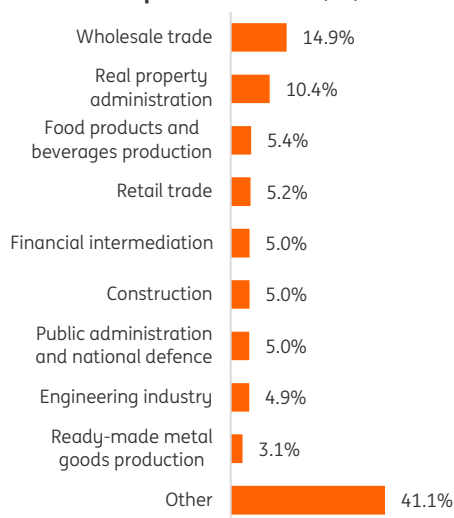
The said modifications were particularly aimed at the following:

- making the lending process more effective while ensuring adequate credit risk identification, measurement and control mechanisms,
- making 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,
- adapting the internal regulations of the Bank to the changes in the legal landscape, inter alia:
  - the Act on the Agricultural System of 06 July 2016 and the Act on Land and Mortgage Register and Mortgage,
  - Commission Implementing Regulation (EU) 2015/1278 of 09 July 2015 amending Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions,
  - Recommendation C on concentration risk management, issued in May 2016,
- continuing development of credit risk reporting and monitoring systems to support fast and effective risk identification and measurement in the corporate and retail credit portfolios,
- strengthening further the active sectorial policy management through quarterly reviews of the situation in individual industries and appropriate 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).

The main modifications of the Bank's lending policy for corporate clients were as follows:

- the rules of credit capacity and viability assessment for agricultural companies were modified – the documents required in the lending process were specified in more detail, and the rules of recognising the financial data delivered as reliable for Borrower's rating determination were defined,
- the lending process was further streamlined; e.g. the cap on the exposures processed under fast track within the preset risk parameters was raised,
- the credit capacity assessment and exposure monitoring process and rules were optimized for LGUs,
- the Bank's regulations were adapted to the modifications stemming from the Act on the

### Concentration of (on-balance and off-balance sheet) exposures towards corporate clients (%)<sup>33</sup>



<sup>33</sup> The breakdown includes exposure towards corporate clients excluding banks but embracing gross credit receivables (loans, leasing and factoring receivables and corporate bonds) as well as off-balance sheet exposure.

Agricultural System and the Act on Land and Mortgage Register and Mortgage,

- the standard credit documents and collaterals were modified in consequence of their review connected with the certificate renewal process by a Law Firm,
- the provisions of the policy-like documents were adapted to the requirements of Recommendation C,
- the so-called fast track was extended with expert assessment of waivers from preset conservative risk parameters, whereby a larger group of clients was covered with the said path and the lending process improved,
- forbore exposure reporting rules were specified in more detail,
- monitoring rules were modified for corporate clients; e.g. the monitoring process of financial covenants was streamlined,
- applicability of the fast track procedure (within the preset risk parameters) for large corporate clients was extended,
- the rules for securing credit exposures of new corporate clients were specified in more detail,
- the impairment triggers for credit exposures in the loan provisioning process were clarified,
- the monitoring process for the correct application of the AIRB Approach was streamlined,
- Bank's regulations were supplemented with the provisions of the Restructuring Law Act, and
- the lending process was further streamlined in that the tool to make credit decisions for the non-performing corporate portfolio was introduced.

The main modifications of the Bank's lending policy for retail clients were as follows:

- the cap on the credit exposure and non-secured exposure was raised for selected clients from the entrepreneurs segment,
- the credit capacity computation rules were modified by recognising household costs, determining the interest rate buffer and accounting for early retirement during tenor and the parameter used to compute corporate revolving credit-based charges,
- the usage of the Credit Information Bureau (Entrepreneur segment) data to assess the credit capacity and viability for the Individual Client segment was increased,
- automated credit decision was launched and made more available for the clients running businesses in the individual client segment,
- simplified methods of real property valuation with the use of the Banking Real Estate Data were replaced with the borrower's duty to deliver the appraisal study made by an independent appraiser,
- in the entrepreneurs segment, assessment of the credit history based on the client's representation was introduced for the corporate exposures wherefor there are no data available in the Credit Information Bureau,
- the lending process was sealed by introducing additional controls for selected distribution channels or groups of clients bearing increased risk,
- the availability of exposures awarded under short-track credit capacity assessment principles was limited, and
- a number of tests to optimise the lending policy was conducted.

Furthermore, the Bank continued to test the process of early identification of financial standing deterioration for corporate clients which will supplement the current process of ongoing monitoring for corporate clients.

The Bank also further tested – within the preset limits – the automated credit risk assessment paths for small transactions made with corporate clients; they are geared towards making the lending process more effective while streamlining the risk/reward ratio per transaction and per portfolio.

### *Credit risk modelling and reporting*

In 2016, ING Bank Śląski S.A. remained compliant with the requirements of the Advanced Internal Rating-Based Approach (AIRB) under Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR/CRD IV) and other regulations and recommendations of the Polish Financial Supervision Authority. As part of those actions, among other things:

- retail PD and LGD models were recalibrated for consumer credits and mortgage loans and the LGD model was recalibrated for entrepreneurs (small business); the models are used to compute credit impairment losses (provisions),
- the adequacy of the duration of the Loss Identification Period was analysed to confirm the value used in the provisioning process for the corporate IBNR portfolio,
- the rules of estimating impairment losses for credit exposures were revised to accommodate for the new backtesting rules for the corporate portfolio provisions,
- the applicability of the PD model for the corporate SME segment was expanded with the clients being farmers,
- 2015 CRR compliance sign-off procedure was performed as part of the annual Bank's self-assessment for the AIRB Approach regulations,
- corporate and retail portfolios were stress tested as needed by the 2016 EU-Wide Stress Test conducted by the European Banking Authority and the Polish Financial Supervision Authority,
- a new credit risk stress testing methodology was developed, based on the replication of risk model factors in stress, and
- a PD behavioural model was developed and implemented for the entrepreneurs segment to compute impairment losses (provisions) and economic capital.

Further, an array of changes streamlining and automating the retail and corporate portfolio reporting process were made in the credit risk reporting area. Dedicated reconciliation and quality reports were introduced for data used in management information.

Together with ING Group, the Bank continued to work on adapting the Bank to new accounting standards (IFRS 9). The IFRS 9-compliant modelling standard, developed by ING Group, provides for the use of the Bank's IRB models customised to meet IFRS 9 requirements.

In adaptation to the new requirements of data exchange with the Credit Information Bureau, arising from the Banking Law, the frequency of data revision at the Bureau was increased. At present, data are revised twice a week (on a monthly basis before).

In 2016, works continued at the Bank to implement Recommendation W and Recommendation C, which took effect respectively on 30 June 2016 and on 01 January 2017.

### *Quality of lending portfolio and provisioning*

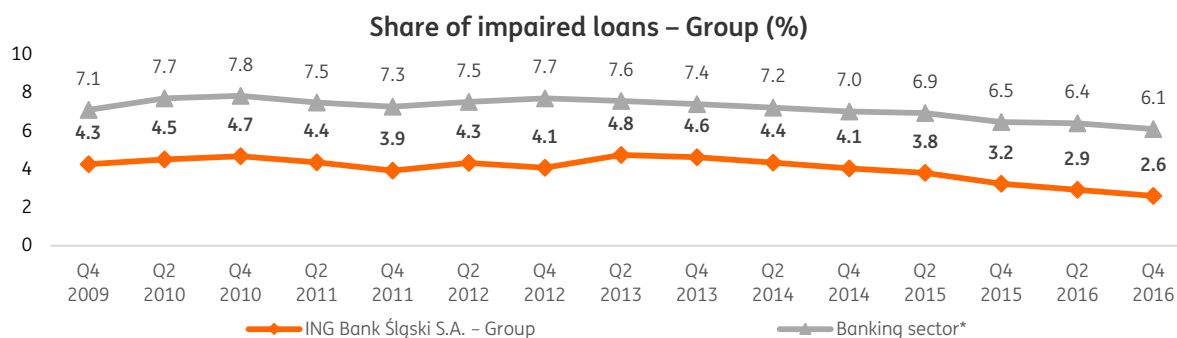
In 2016, the quality of the lending portfolio of the ING Bank Śląski S.A. Group improved – the share of the impaired portfolio in the entire lending portfolio went down from 3.2% in December 2015 to 2.6% as at 2016 yearend. Impaired loans were worth PLN 2,076.8 million versus PLN 2,268.4 million as at 2015 yearend (down by 8.4%).

The quality of lending portfolios of the ING Bank Śląski S.A. Group (both retail and corporate) is significantly better than the average in the banking sector. At the yearend, the share of impaired receivables was 6.1% in the sector.

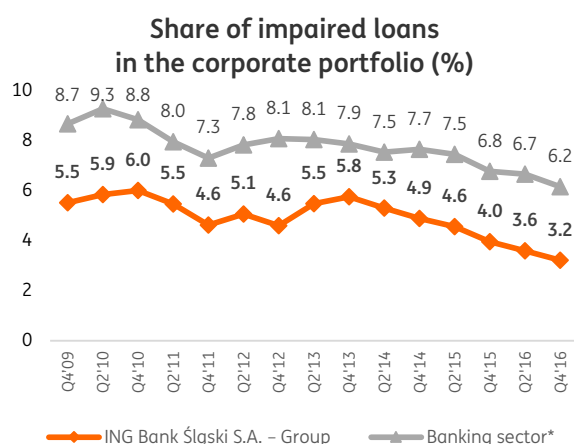
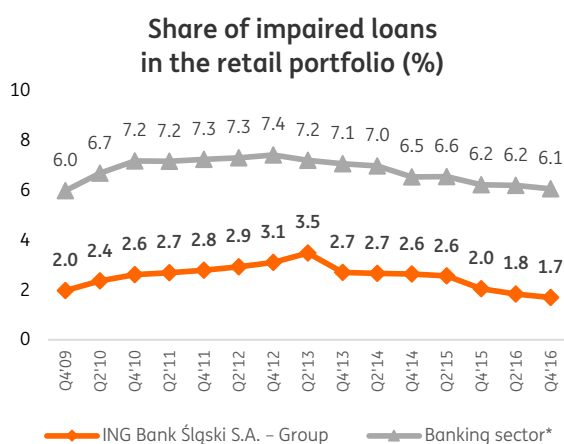
In 2016, the quality of the Bank's portfolio was impacted, apart from the prudent lending policy, by

four sale transactions of receivables classified as impaired loans or receivables written-off of the balance sheet in full. Two transactions being corporate segment transactions closed in Q2 and Q4 2016 impacted the ratios the most. The total amount of the corporate receivables sold was PLN 421.0 million and it decreased the impaired receivables balance in full. The remaining two transactions concerned the retail segment. They were made in Q1 and Q3 2016. The total amount of the retail receivables sold (principal, interest, other costs as at the agreement date) was PLN 232.1 million, out of which PLN 143.5 million decreased the impaired receivables balance.

As at the end of December 2016, the ING Bank Śląski S.A. Group had PLN 1,254.9 million provisions for the impaired lending portfolio. The provision coverage ratio was 60.4%.



\*Market ratios – estimate based on the data published by the NBP



\*Market ratios – estimate based on the data published by the NBP

Quality of portfolio of loans and cash loans extended to the ING Bank Śląski S.A. Group clients <sup>34</sup>	2016	2015	Change 2016 / 2015

<sup>34</sup>Including leasing and factoring receivables as well as corporate and municipal bonds.



	PLN million	PLN million	PLN million	%
<b>Total exposure</b>	<b>79,447.9</b>	<b>70,046.9</b>	<b>9,401.0</b>	<b>13.4%</b>
Non-impaired portfolio	77,371.1	67,778.5	9,592.6	14.2%
Impaired portfolio	2,076.8	2,268.4	-191.6	-8.4%
Impairment loss and provisions	1,493.8	1,572.0	-78.2	-5.0%
Non-impaired portfolio loss	212.1	180.9	31.2	17.2%
Impaired portfolio loss	1,254.9	1,365.0	-110.1	-8.1%
Provisions for off-balance sheet liabilities	26.8	26.1	0.7	2.7%
<b>Share of impaired portfolio</b>	<b>2.6%</b>	<b>3.2%</b>		<b>-0.6 p.p.</b>
<b>Provision coverage ratio</b>	<b>60.4%</b>	<b>60.2%</b>		<b>0.3 p.p.</b>
<b>Exposure – Corporate Banking</b>	<b>47,807.3</b>	<b>43,593.4</b>	<b>4,213.9</b>	<b>9.7%</b>
Non-impaired portfolio	46,269.2	41,867.2	4,402.0	10.5%
Impaired portfolio	1,538.1	1,726.2	-181.1	-10.9%
Impairment loss and provisions	962.3	1,056.1	-93.8	-8.9%
Non-impaired portfolio loss	70.2	79.2	-9.0	-11.4%
Impaired portfolio loss	869.6	950.8	-81.2	-8.5%
Provisions for off-balance sheet liabilities	22.5	26.1	-3.6	-13.8%
<b>Share of impaired portfolio</b>	<b>3.2%</b>	<b>4.0%</b>		<b>-0.7 p.p.</b>
<b>Provision coverage ratio</b>	<b>56.5%</b>	<b>55.1%</b>		<b>1.5 p.p.</b>
<b>Exposure – Retail Banking</b>	<b>31,640.6</b>	<b>26,453.5</b>	<b>5,187.1</b>	<b>19.6%</b>
Non-impaired portfolio	31,101.9	25,911.3	5,190.6	20.0%
Impaired portfolio	538.7	542.2	-3.5	-0.6%
Impairment loss	531.5	515.9	15.6	3.0%
Non-impaired portfolio loss	141.9	101.7	40.2	39.5%
Impaired portfolio loss	383.3	414.2	-28.9	-7.0%
Provisions for off-balance sheet liabilities	4.3	0.0	4.3	-
<b>Share of impaired portfolio</b>	<b>1.7%</b>	<b>2.0%</b>		<b>-0.3 p.p.</b>
<b>Provision coverage ratio</b>	<b>71.5%</b>	<b>76.4%</b>		<b>-4.9 p.p.</b>

### Off-Balance Sheet Items (including contingent liabilities)

As at 31 December 2016, the ING Bank Śląski S.A. Group had:

- committed but non-utilised credit lines, commitments to grant loans (such as overdrafts and card limits) and commitments under issued guarantees and letters of credit totalling PLN 28,0 billion (up by 14.8% from the end of 2015),
- received contingent liabilities in the amount of PLN 79.1 billion (up by 47.9% from a year earlier), and
- off-balance sheet financial instruments (derivative transactions) totalling PLN 439.5 billion (up by 22.6% from the end of 2015).

Off-balance sheet items of ING Bank Śląski S.A. Group (PLN million)		
	2016	2015
Contingent liabilities granted	27,954.5	24,423.2
Contingent liabilities received	79,093.3	53,515.3
Off-balance sheet financial instruments	439,511.9	358,574.2
<b>Total off-balance sheet items</b>	<b>546,559.7</b>	<b>436,512.7</b>

## 2. Market risk

### General information

At ING Bank Śląski S.A. we apply a broad definition of market risk which takes into account (both at standalone and consolidated levels) sensitivity to changes to the market parameters and liquidity-related behaviours of clients, where:

- sensitivity encompasses both changes to the economic results and presentation in the relevant reports of financial results, changes to the extent where to the statutory and economic capital requirements are covered, as well as Bank's capacity to cover liabilities once they become due and payable, and
- market parameters cover FX rates, interest rates, prices of real property and securities, implied variability of FX rates and interest rates. Liquidity-related behaviour of clients covers the profile of Bank's depositaries in terms of renewal and premature termination and profile of Bank's debtors in terms of prepayments, past due repayments and default.

### General approach to market risk management

Market risk management process at ING Bank Śląski S.A. covers market risk identification, measurement, monitoring and reporting, both within the Bank itself and in its subsidiaries. Being independent from the Bank units generating market risk, the Market Risk Management Department provides market risk updates to the Supervisory Board Members, the Management Board Members, the Assets and Liabilities Management Committee, the Financial Markets Division Management and the Treasury Department. An important advisory role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V.

The Market Risk Management Department is sub-divided into two sections:

- the Trading Risk Management and FM Product Control Section which deals with risk generated by the Bank's trading operations, and
- the ALCO Management Section, concentrated on the Bank's balance sheet and liquidity risk management.

The Bank books structure is based on intentions of concluded transactions and it reflects the types and areas of market risk existing at the Bank, which should be internally transferred and hedged. Notably, the structure of books includes the following purposes of the Bank's activity:

- Trading Book. It includes books of the Financial Markets Division area (FX and interest rate books). These books include items kept for short-term in order to sell them back or to obtain financial benefits due to current or expected in short-term changes to prices or items included for arbitrary purposes. The examples are: own trading items, items resulting from servicing the client and/or market making.
- Banking Book. It includes Commercial Banking Books and Banking Books of the Treasury Department. Commercial Banking Books are banking books of the retail and corporate divisions, including commercial deposits and loans. The risk embedded in these items is transferred via internal transactions to the Treasury Department's banking books, where it is further managed under the market risk limits adopted by the Bank.

### Risk models

Risk models are calibrated to the profile, scale and complexity of market risk at ING Bank Śląski S.A. The models take into account both the current and the planned scopes of Bank's business. All models are periodically (at least once a year) reviewed (models' assumptions in particular). The review includes back-testing.

Risk models cover:

- VaR models – used to manage interest rate risk and FX risk,
- ALM models comprising:
  - liquidity models – regulatory and internal models applied in liquidity risk management (covering assets and liabilities),

- interest rate models – applied in interest rate risk management, including demand deposits replication, and
- internal capital adequacy models – applied to the economic capital requirements calculation.

When particularised, the model life cycle can be split into the following elements:

- model development or change initiation,
- model development and testing,
- model pre-validation preceding its acceptance,
- model acceptance,
- model implementation,
- validation of model implementation,
- model functioning and its monitoring, and
- periodical validation.

### **3. Interest rate risk and FX risk**

#### *General information*

Interest rate risk may be defined as a risk of loss due to changes to the specified features of interest rates. Interest rate risk is managed for all Bank's balance and off-balance sheet items sensitive to interest rate changes.

FX risk is a risk of loss due to FX rates changes.

#### *General approach to interest rate risk and FX risk management*

The methods of interest rate risk management are adjusted to the structure of books at the Bank. The risk transfer system plays a key role in the banking books. The risk transfer process is intended to transfer the interest rate risk (including the underlying risk) and the liquidity risk (understood as the revaluation risk of the liquidity premium) of products registered in the commercial books (loans and deposits) to the Treasury Department's books where the risk is further managed under the risk appetite adopted by the Bank. Risk transfer encompasses the risk modelling process (optionality risk in particular) and internal pricing of the products recorded in the commercial books.

The acceptable level of interest rate risk (risk appetite) is expressed as a set of limits used to manage the interest rate risk level. The limits system is adjusted to the general level of risk as approved by the Supervisory Board.

The Bank manages the FX risk by transferring it internally to the Financial Markets Division where the risk is further managed under the system of internal limits for FX risk, as accepted by the Bank Management Board, reflecting the general risk level approved by the Supervisory Board.

For subsidiaries, the Bank's intent is to keep the market risk low, which is reflected in the limits for FX risk and IR risk accepted by the Bank Management Board. When needed, subsidiaries close their FX positions and IR exposures with the Bank.

#### *Main methods of IR risk and FX risk measurement*

Value at Risk (VaR) is the main methodology used to measure market risk both in FM books (trading) and the Treasury Department's books (banking). The VaR index specifies a potential loss, which in line with expectations should not be exceeded with a given confidence (probability) level assumed. The Bank calculates VaR separately for individual interest rate and FX transaction portfolios. The Market Risk Management Department applies the historical simulation method for trading books and banking books of the Treasury Department. The VaR measurement does not present a full picture of the risk as it fails to show potential loss under stress circumstances. In order to cover the above-mentioned risk,

the Market Risk Management Department calculates a Stressed VaR and runs stress tests for market risk.

Additionally, to measure interest rate risk for banking book items (both for the Treasury Department and for trading books) the Bank applies:

- measurement of value of the earnings at risk (with the use of the simple and advanced methods: Earnings at Risk – EaR, Advanced Earnings at Risk – AEaR) with the use of adverse scenarios,
- measurement of the NPV of the discounted future cash flows at risk (NPV at Risk), which is a yardstick of the sensitivity of the economic interest rate position to abrupt interest rate changes,
- measurement of mismatch between the position transferred to the Treasury Department's books and the model-based position (for demand deposits), and
- measurement of residual risk, which was not transferred to the books of the Treasury Department.

Market risk (underlying risk included) is transferred and centralised via the Risk Transfer System (RTS). The underlying risk is valued and then transferred to the Treasury Department's books, where it is actively managed. The "Earnings at Risk" (EaR) concept is applied to measure that risk which is part of the interest rate risk. The Bank measures the revaluation reserve change risk. The level of the revaluation reserve resulting from keeping the AFS portfolio is sensitive to changes to the yield curve following the changes to the interest rates and asset swap levels.

The Bank uses the following revaluation reserve change risk metrics:

- IR RRaR (Interest Rate Revaluation Reserve at Risk) shows a potential impact of interest rate changes on the revaluation reserve level,
- CS RRaR (Credit Spread Revaluation Reserve at Risk) shows a potential impact of the credit spread change on the revaluation reserve.

#### *VaR exposures and limits in 2016*

In 2016, the Bank maintained the following trading exposure versus the binding limits:

- low exposure for FX risk – average VaR limit utilization by the FX Section was 6%,
- significant exposure for interest rate risk – average VaR limit utilization of 49%.

In November 2016 trading for the FX options portfolio was terminated through conclusion of trades opposite to open ones. Since then, options have been traded on a back-to-back basis only (zero market risk).

Average utilization of VaR limits for interest rate risk of the banking book (Treasury Department's positions) was below 63%.

In 2016, we saw three instances of VaR limit overrunning for IR trading. Two instances were pre-authorized by the Vice-President of the Management Board in charge of the Risk Division. Since IR trading was active and trading results were good, the VaR limit was raised from EUR 900,000 to EUR 1 million during the annual review.

## **4. Liquidity risk**

### *General information*

Liquidity and funding risk is understood by ING Bank Śląski S.A. as the risk consisting in inability to fulfil, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank



maintains liquidity so that the Bank's cash liabilities could be met at all times with the use of available funds and inflows from maturing transactions.

Depending on the timeframe, liquidity risk management can be broken down as follows:

- operational liquidity management – focused on current funding of Bank's positions and management of nostro positions, and
- strategic liquidity management – focused on ensuring that structural (all maturity dates) liquidity items of the Bank are at acceptable levels.

#### *General approach to liquidity risk management*

General approach to funding and liquidity risk management consists of the cycle of five repetitive actions: risk identification, assessment, control, monitoring and reporting.

The binding Internal Liquidity Adequacy Assessment Process (ILAAP) originates from the Basel Committee on Banking Supervision. Meeting ILAAP principles by the Bank may be perceived as "compliance with industry's best practices, which is not directly required under Polish supervisory regulations". It needs to be highlighted that ILAAP and Polish regulations do not clash, on the contrary, they do overlap in many areas. Meeting ILAAP requirements is compliant with the ING Bank N.V.'s policy.

The liquidity and funding risk management relating to the stress understood as the risk of Bank's inability to satisfy its own financial liabilities once they mature due to insufficient funds available or due to failure to generate such funds at any price is a specific element of that process.

The contingency funding plan provides guidance as regards active identification of the liquidity crisis and actions to be taken to survive it.

The acceptable level of liquidity risk is defined by a two-element system:

- general level of Bank's acceptable risk, which is approved by the Supervisory Board (following the Bank Management Board's recommendation). The Supervisory Board are updated on compliance with the said metrics at least on a quarterly basis,
- a set of limits based on Bank's strategic objectives, identified liquidity risks and principles specified by regulatory bodies. The limits are taken into consideration in the planning processes (i.e. accomplishment of the adopted targets cannot lead to limit overrunning). In the majority of cases, the limits have a warning level defined for their under- or overrunning. The acceptable level of liquidity risk is determined and updated at least once a year.

Regular stress tests are an additional and material element of the process. The Bank launched the stress tests programme, based on Recommendation P issued by the Polish Financial Supervision Authority, which ensures that stress tests are planned, developed, run and analysed in order to indicate the sources of potentially limited liquidity and to specify how such situations can be prevented so that the current exposures remain within the set limits.

#### *Main methods of liquidity risk measurement and replicating portfolios*

ING Bank Śląski S.A. applies the following liquidity risk measures:

- NBP and EBA liquidity ratios,
- daytime liquidity norms,
- funding concentration per client and per client segment,
- structural liquidity gap,
- Cash&Collateral gap, and
- liquidity gap for the stress scenario.

The basic model employed to manage liquidity risk is the model used in establishing a stable and volatile deposit bases. We use the internal statistical model to that purpose.

Due to the balance sheet structure, and the Bank's deposit base in particular, the Bank applies the advanced approach to modelling the risks associated with demand deposits – the “replicating portfolio” concept. It consists in “replicating”, i.e. reproducing the actual period during which clients keep demand deposits at the Bank as well as the Bank's pricing policy. This concept makes it possible to convert demand deposits into interest rate forwards. The reinvestment mode of the acquired funds is different for the “volatile” and “stable” parts.

Market risk (liquidity risk included) is transferred and centralised via the Risk Transfer System (RTS). This process covers full transfer of (modelled) liquidity risk to the Treasury Department's books in particular.

#### *Liquidity limits in 2016*

In 2016, no cases of overrunning liquidity risk regulatory limits were found.

### **5. Operational risk**

ING Bank Śląski S.A. manages operational and anti-fraud risks pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulatory bodies as well as by abiding by the standards developed by ING Group.

Operational risk is recognised at ING Bank Śląski S.A. as the risk of sustaining direct or indirect material loss or reputational damage resulting from inadequate or failing internal processes, people, technical systems or external events. Reputation and business risk factors and impact are also watched within the operational risk domain.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing operational and anti-fraud risks by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of Bank employees relating to mitigation of effects and probability of incidents' occurrence in that area.

Furthermore, in agreement with the Supervisory Board, the Bank Management Board adopted the Non-Financial Risk Appetite Statement in 2016, wherein they specified the maximum acceptable limits of losses, capital limits and the risk that the Bank would be willing to undertake when achieving planned business goals in full compliance with the law and regulatory requirements. Limit utilisation is monitored and presented from time to time to the Bank Management Board, Audit Committee, Risk Committee and Supervisory Board. The Risk Appetite Statement was revised due to the incorporation of ING Securities into the Bank's framework on 01 June 2016.

The role of the Bank Non-Financial Risk Committee and the task forces within individual business lines which support the former in performing supervisory and decision-taking functions is crucial for ensuring continuity and consistency of risk management.

In 2016, caring about the safety of funds entrusted by clients and in order to ensure them access to the services offered by the Bank as well as to maintain the acceptable operational risk level, the Bank continued its efforts to ensure compliance with the new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- analysing key business development-related threats to the Bank business,
- testing controls mitigating key risks at the Bank,
- monitoring and testing business continuity mechanisms for key processes, the crisis management system and the mechanisms ensuring physical security of individuals and the Bank's property,
- becoming more effective in combatting cybercrimes connected with payment transactions and identity theft or funds theft, and predominantly counteracting the Advanced Persistent Threat (ATP) to the Bank's IT infrastructure,
- running a series of risk analyses for the technical applications essential for business and for support applications, including an in-depth analysis of IT systems security vulnerabilities (particularly for transactional and e-banking systems), penetration tests and intensive

monitoring of the electronic banking systems,

- continuing thorough risk analyses for individual Bank processes,
- reviewing the scope of scenario analyses and their adaptation to the business strategy of the Bank,
- updating regulations for risk assessment and key control testing as well as for IT security and data management,
- instituting new information risk regulations,
- instituting new IT security standards,
- renewing the local insurance programme of the ING Bank Śląski S.A. Group as regards third-party liability and property insurance adjusted to the current market situation,
- developing the integrated system supporting the operational risk management processes,
- raising employee awareness as regards information safety, IT security included, by conducting the Leaders of Security training project in 2016,
- raising client awareness as regards payment security and other banking services-related threats, and
- showing zero tolerance towards any forms of criminal activity; proven instances of crime are reported to the law enforcement bodies.

## 6. Compliance risk

ING Bank Śląski S.A. manages compliance risk pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulators as well as by abiding by the standards developed by ING Group. Compliance risk is managed as part of the Three Lines of Defence Model devised by the Bank Management Board and aimed at protection against threats.

The objective of compliance risk management is to protect clients' and stakeholders' trust and the Bank's reputation. The Bank Management Board is responsible for the effective compliance risk management. The President of the Bank Management Board is the direct supervisor thereof on its behalf. The Supervisory Board supervises compliance risk management at the Bank.

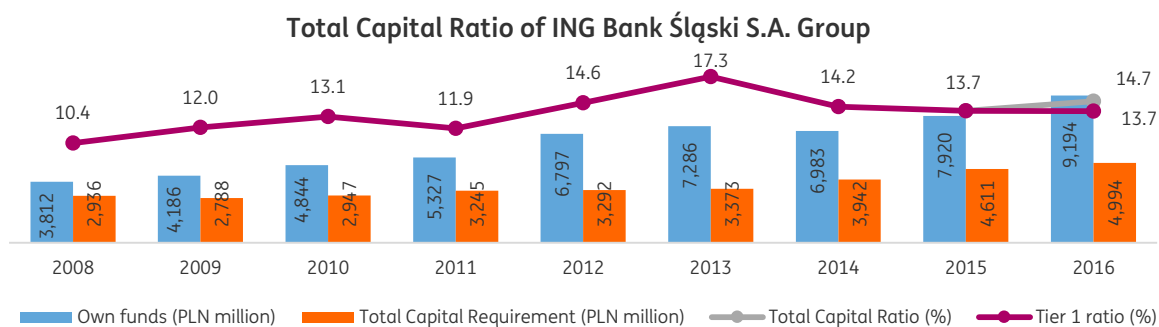
To ensure effective compliance risk management, the Bank continued the following tasks:

- monitoring first line of defence control and performing independent key control tests that limit compliance risk;
- analysing key business landscape-related threats to the Bank business;
- issuing guidance and recommendations within the advice-seeking process concerning changes in products, legislation and marketing materials;
- developing and monitoring training courses intended to upgrade employees' knowledge and awareness of compliance risk and observance of the business ethics standards;
- devising or updating compliance risk-related internal regulations

2016 saw no material compliance risk events; the level of compliance risk remained medium.

## 7. Capital adequacy

As at 2016 yearend, the total capital ratio and the Tier 1 ratio stood at 14.7% and 13.7% respectively. The said values betoken a safe position of the Group as regards capitals and further lending capacity growth.



Starting from January 2016, the Bank's calculation of own funds has included 60% of unrealised profits and 100% of unrealised losses from the valuation of available-for-sale financial assets presented in the revaluation reserve (as per Article 171a of the Banking Law). In 2015, the Bank recognised 40% of unrealised profits and 100% of unrealised valuation losses respectively in the calculation of own funds. Further, on 23 February 2016, ING Bank Śląski S.A. concluded with ING Bank N.V. a subordinated loan agreement worth EUR 150.0 million. On 19 April 2016, the Polish Financial Supervision Authority approved loan amount recognition under Tier 2 capital by the Bank, whereby the total capital ratio as at 2016 yearend improved.

## VII. Organisation and Infrastructure Development at ING Bank Śląski S.A. Group in 2016

### 1. IT and Operations

The main focus of IT actions at ING Bank Śląski S.A. is on developing valuable business solutions while keeping high quality, accessibility and the top security standards. The key tasks performed in 2016 which are worth mentioning include:

- replacement of the debit card service system,
- launch of new feature at branch ATMs, the so-called dynamic currency conversion, whereby the amount of the withdrawn cash can be converted at the very time of withdrawal from the ATM,
- change of the core online banking system for retail clients from ING BankOnLine to Moje ING and its further extension with, for example:
  - service of “Family 500+” programme applications,
  - rollout of the brokerage module along with the integration process of ING Securities with the Bank,
  - implementation of the module for entrepreneurs being sole traders; the module has many advantages, like quick transfers to the Social Insurance Institution or analysis of inflows and expenditures, to name a few,
  - a function of a financial coach advising clients on how to manage their funds, supporting them in accomplishing their savings goals and providing investment advice,
  - the option to set up, via the online banking functionality, a trusted profile with which public administration services can be used with ease,
- rollout of a new mobile banking functionality for retail clients for systems: Android, iOS and Windows Phone,
- launch of a new online banking system for corporate and strategic clients,
- betterment of service capacity of Elixir domestic transactions through migration of their service to the Domestic Payments System,
- rollout of a new system to handle electronic flow of documents (IWA2), and
- IT infrastructure optimisation through storage exchange for the mainframe and completion of the application migration process to a private cloud of ING Bank Śląski S.A.

Last year, the Bank also made modifications, whereby the availability of transactional systems, online banking ones (Quark for Moje ING) included, improved. An array of security-enhancing solutions was implemented hand in hand; they include but are not limited to:

- upgrade of the Active Directory, used by all Bank employees and clients,
- direct access rollout,
- shorter patch installation cycle, and
- banking network segmentation.

Works continue on using the BigData environment to improve the security of banking systems and construct models supporting better banking offer customisation.

There were also many changes implemented in the Operations area to ensure continuous development and streamlining of processes. Among others, the following projects were continued in 2016:

- Cash machinery modernisation continued:

- as at 2016 yearend, ING Bank Śląski S.A. had the network of 773 own self-service cash machines with proximity readers and closed-loop cash management (so-called recyclers) and the network of 139 electronic depositories, including 9 depositories in the dual machine (ATM/CDM) casing,
- the network of cash machines located outside bank branches was extended and transferred for service to an external company under co-branding (372 machines),
- first EUR depositing machines (3 machines) were introduced,
- there was a diversification of machines for corporate and strategic clients, installed directly at clients' premises – 41 electronic depositories, 35 light depositories, 15 fee collection machines, 14 mini CDMs and 2 micro CDMs.
- Outsourcing of documents and of operational processes was launched:
  - cashier logs' handling,
  - deposit and credit documentation.
- The application ensuring access to external databases (such as BIK, CEiDG, PESEL, RDO, MSiG, KRS, DHL, KRDL, REGON and DHL) was developed, whereby architecture was streamlined, service costs optimised and labour consumption trimmed (data are acquired electronically instead of in hard copies).
- A new domestic payments platform (ELIXIR) was set afloat, whereby the handling time for incoming and outgoing transactions was cut down.
- As part of the Visiona project, the application used to process card transactions (for debit and prepaid cards) was changed. Additionally, the host to host (H2H) functions were implemented – clearing of clients' withdrawals in the ATM network without the participation of Visa and MasterCard payment organisations, which reduced the costs.
- A new complaint handling model was introduced, whereby interdisciplinary teams combining the customer service-related knowledge and experience of the Operations and Contact Centre Department employees were put together (handling complaints and messages written by clients via electronic and mobile banking channels). The aim of the project is the first contact resolution and sharing knowledge and competencies.
- The Enterprise Risk Management project was set up to build and implement the non-financial risk management model for all processes. The model is developed in cooperation with other ING Group units and assumes a stronger role of business units in managing the key risks and controls in processes. As a result, tasks from the non-financial risk management area were taken over by the Operations Division.
- A systemic solution was worked out to handle clearings in the Financial Instruments Market of Towarowa Giełda Energii S.A. [Polish Power Exchange] (bank is the clearing member of the Commodity Clearing House, IRGiT S.A.).

## 2. Development of electronic distribution channels

Within retail segment, in 2016 the online and mobile banking functionality-related activities aimed at providing clients with new tools facilitating remote use of bank services and enhancing sales options for the bank products across online channels. Providing individual clients with the Moje ING system as the primary online banking system was among the key innovations in that domain.

In 2016, the Bank continued to expand the Moje ING system with new features boosting customer satisfaction. They included for example: (1) proposal of future, projectable payments in the Planned tab – a feature showing clients the transactions they make regularly and enabling them to set up a transfer or standing order for them, (2) option to set up a business by individual clients, (3) option to file 500+ allowance applications and set up the Trusted profile within the e-state platform, (4) implementation of a new process of online banking functionality activation and unblocking, (5)

temporary blocking and unblocking of debit cards, (6) ID document blocking, (7) option to add or revoke an authorised signatory for personal savings and term deposits accounts.

Features for entrepreneurs: (1) option to order a Contactless Visa Business card, MasterCard Business in PLN and MasterCard Business in EUR, (2) first features for entrepreneurs from the finance management area – categorisation of transactions in PLN business accounts, analysis of inflows and expenditures for PLN business accounts and Entrepreneur Agenda – a new feature displaying notifications reminding entrepreneurs of the approaching dates of payments to the Social Insurance Institution and Tax Office, (3) sale of prescored credit products – credit cards, overdrafts and loans, (4) sale of debit cards.

In 2016, the Bank developed the ING BankMobile application as regards the prescoring offer of credit products and support of client migration to the new system (a functionality of the user entering Moje ING directly from the ING BankMobile application, to name a few. In that way, the single sign-on to Moje ING via login and PIN became possible). At the same time, in August 2016, the option to download ING BankMobile HD application on tablets was deactivated. Now, clients working with the application can use the Moje ING system which has been also customised for tablets.

In mid-2016, ING Bank Śląski S.A. also launched a new mobile application for individual clients – Moje ING mobile. From the very beginning of that application rollout, Moje ING mobile has been constantly expanded with new features, considering opinions of our clients. We improved capacity, launched the BLIK payment feature, provided clients with credit card balance check before login and customised the application for entrepreneurs. At 2016 yearend, a new mobile application was downloaded 387,854 times. Both applications have already 840,000 active users. Adaptation to the Moje ING system brought about remodelling and adaptation of the ingbank.pl service.

Bank's efforts to deliver top-notch mobile banking service were rewarded with the Golden Bell statuette in the "2015 Mobile Bank of the Year" category.

As at 2016 yearend, over 3.4 million clients used the electronic banking systems of ING Bank Śląski S.A. By the end of 2016, Moje ING Mobile, ING BankMobile (for smartphones) and ING BankMobile HD (for tablets) were downloaded 2.0 million times in total.

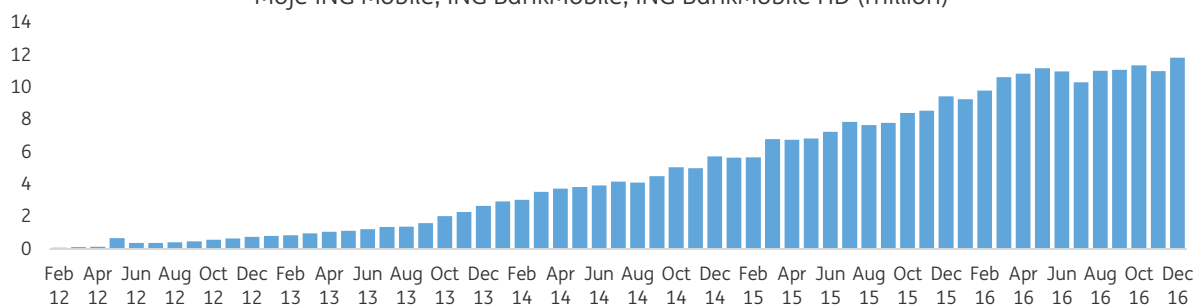
#### Number of clients<sup>35</sup> of electronic banking systems at ING Bank Śląski S.A.

	2016	2015	2014	2013	2012	2011	2010	2009
ING BankOnLine, Moje ING, ING BusinessOnLine	3,446,610	3,178,500	2,846,079	2,575,708	2,350,269	2,115,325	1,879,525	1,559,504
HaloŚląski	2,245,801	2,083,323	1,819,028	1,605,063	1,433,433	1,285,261	1,072,099	786,008
ING BankMobile, Moje ING Mobile*	1,985,853	1,231,376	764,457	364,867	123,269			
ING Business	12,109	9,541	6,703	3,712				

\* Number of application downloads

Bank mobile applications – Moje ING Mobile, ING BankMobile and ING BankMobile HD – are used more and more often by clients to make day-to-day transactions. In December 2016, 11.8 million logins were recorded (versus 9.5 million in December 2015).

**Number of logins to mobile applications**  
Moje ING Mobile, ING BankMobile, ING BankMobile HD (million)



<sup>35</sup> The number of clients is not identical with the number of users; one client can have several users in the given system.

In 2016, the Bank launched in the corporate segment a new version of an online banking system for the Bank's corporate and strategic clients.

Since October 2016, ING Bank Śląski S.A. clients have been using a new version of ING Business which being designed in the Customer Design mode enables its users to access key features immediately after logging in. The new release of online banking has great personalisation features: each user can adjust the system to their needs with widgets for specific products. Access to data is instant thanks to context search features implemented in the system. The system now has a fresh look, possible through the application of uniform graphics guidelines. The system was designed and developed in keeping with RWD guidelines which makes its use on tables simple and effective.

In Q3 2016, the Bank also provided its clients with an upgraded ING Business mobile application for the iOS system. The greatest novelty is the introduction of the 3D Touch feature that recognises the level of pressure applied by the user to the screen. Touching the application icon harder, enables the user to move quickly to current exchange rates or instruct a new transfer. In the application itself, users can now have a quick preview of accounts, transactions, operations or beneficiary details. After the TouchID login (finger print), this is yet another step to improve the usability of the application.

As at 2016 yearend, 49.2 thousand clients used ING Business out of whom 12.0 thousand used its mobile version.

### 3. Network of bank outlets

As at 2016 yearend, ING Bank Śląski S.A. had 384 retail branches (including 102 non-cash branches – where cash transactions are done only in multifunctional devices or in ATMs). There are 24/7 self-banking zones in Bank branches where the clients may deposit or withdraw funds on their own.

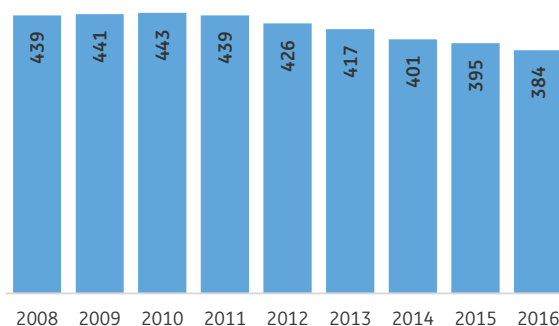
The Bank is still modernising its retail branches by changing their furnishings and design. This is coupled with the review of the current functionalities and the introduction of new elements to the existing model of the branch – equipping branches with modern tools.

As at the end of June 2016, the Bank had 250 branches in the new standard. Moreover, the actions to relocate branches to the most attractive locations in business terms in given cities, towns and regions continued. The Bank is planning to maintain the number of branches at a stable level, similar to the current one, and to continue its efforts to modernise the traditional branches.

As at 20 December 2016, the Bank opened a new outlet located at Al. Jerozolimskie 54 (Central Railway Station) in Warsaw. This branch has a flexible and modular structure to which new functionalities can be added depending on the emerging needs; solutions attractive for the “enterprising” in particular. The outlet offers its clients meeting points of different kind, co-working tables, or access to printers and chargers.

Corporate clients from the mid-sized and mid-corporates segments were served at the Bank by 36 corporate branches and 15 corporate banking centres. Almost all of them were operating in the same locations as retail branches. The biggest corporate clients were served by the Strategic Clients Departments in Warsaw and in Katowice.

Network of ING Bank Śląski S.A. outlets (as at 31 December 2016)





#### 4. Human resources management

##### Headcount

As at 31 December 2016, the ING Bank Śląski S.A. Group employed 8,025 persons. Compared to 2015, the number of employees declined by 164 persons (i.e. by 2.0%). This staff reduction in the Group resulted mainly from the revision of the organisational structure and the implementation of projects for process improvement and digitalisation.

As at the end of December 2016, ING Bank Śląski S.A. employed 7,669 persons, that is 59 persons (or 0.8%) less than in December 2015.

2016 also saw the takeover of ING Securities S.A. under which and pursuant to Article 23<sup>1</sup> of the Labour Code, 100 employees were transferred to the Bank on 01 June 2016,

##### Headcount in the ING Bank Śląski S.A. Group

	2016		2015	
	staff members	%	staff members	%
Retail Banking	3,821	49.8	3,892	50.4
Corporate Banking and Financial Markets	1,184	15.5	1,185	15.3
Operations/IT/Services	1,879	24.5	1,887	24.4
Risk/Organisation/Finance/HR	785	10.2	764	9.9
<b>Bank Total</b>	<b>7,669</b>	<b>100.0</b>	<b>7,728</b>	<b>100.0</b>
ING Securities S.A.	-	-	100	21.7
ING ABL Polska S.A.	1	0.3	1	0.2
ING Lease (Polska) Sp. z o.o.	187	52.5	173	37.5
ING Commercial Finance Polska S.A.	99	27.8	99	21.5
Solver Sp. z o.o.	19	5.3	33	7.2
ING Usługi dla Biznesu S.A.	47	13.2	55	11.9
Nowe Usługi S.A.	3	0.9	-	-
<b>Subsidiaries</b>	<b>356</b>	<b>100.0</b>	<b>461</b>	<b>100.0</b>
<b>ING Bank Śląski S.A. Group</b>	<b>8,025</b>		<b>8,189</b>	

##### Remuneration policy

In 2016, ING Bank Śląski S.A. kept its remuneration policy whose aim is to effectively support the Bank's strategic goals. The assumptions of the policy are to offer marked-to-market, transparent and coherent remuneration to employees.

*Variable remuneration policy of persons holding managerial positions having material impact on the risk profile of ING Bank Śląski S.A.* is reviewed regularly for changes in laws and regulatory requirements. In January 2016, the wording of the Policy was brought into line with the provisions of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 05 August 2015. The amendment concerned the manner of determination of the currency exchange rate used to compute the equivalent of euro remuneration in order to discharge of the duty to provide the Polish Financial Supervision Authority with the number of persons whose past-year remuneration totalled at least the equivalent of EUR 1 million.

In March 2016, the Bank settled the bonuses for employees covered by the *Variable remuneration policy of persons holding managerial positions having material impact on the risk profile of ING Bank Śląski S.A.* In compliance therewith, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling their holders to cash dependent on the value of ING Bank Śląski S.A. shares. In H1 2016, a portion of the non-deferred bonus for 2015 and the deferred bonus for the years 2014, 2013 and 2012 were paid to the persons holding managerial positions. Thus, the entire 2012 bonus for the persons holding managerial positions was settled.

The following took place at the Ordinary General Meeting held on 31 March 2016:

- the remuneration of the Bank Supervisory Board Members was set. *ING Bank Śląski S.A.*



*Supervisory Board Members Remuneration Policy* was adopted with Resolution No. 27 of the Ordinary General Meeting. The document elaborates the manner of remuneration determination, particularly when Supervisory Board members have more than one role.

- the report on assessment of the remuneration policy at ING Bank Śląski S.A. in 2015 was presented in line with the *Principles of Corporate Governance for Supervised Institutions*.

In November 2016, the Bank finalised the project aimed at adapting internal regulations to the *Guidelines of the European Banking Authority on proper functioning of the remuneration policy*, referred to in Articles 74 section 3 and 74 section 2 of Directive 2013/36/UE as well as disclosing information in line with Article 450 of EU Regulation No. 575/2013 effective as of 01 January 2017.

Moreover, the internal regulations were extended with a new document being the *Remuneration policy in the ING Bank Śląski S.A. Group*. The document sets forth the key assumptions for shaping the remuneration principles at the Bank so as to attract and retain employees, by ensuring the remuneration that is competitive in the market. The Policy applies to all ING Bank Śląski S.A. Group employees but ING Bank Śląski S.A. Management Board Members. In internal regulations to take effect as of 01 January 2017, the issues on criteria for qualifying remuneration as fixed and variable remuneration, severance payments and other remuneration components have been regulated and the variable remuneration principles have been modified for persons whose professional activities are considered to have a material impact on the Bank's risk profile (Identified Staff). The *Methodology for Updating the List of Identified Staff at ING Bank Śląski S.A.* was also adapted to the aforementioned guidelines of the European Banking Authority. Internal regulations also reflected the new approach to performance appraisal within the ING Group. This approach intuitively combines job performance assessment with the increased role of non-financial categories and the building of the strong corporate culture.

### *Recruitment and employer branding*

In 2016, ING Bank Śląski S.A. took employer branding activities geared towards professionals and students.

Initiatives addressed to the persons with experience covered: joining job fairs, developing a new employer profile on employment websites, communicating with the candidates through Social Media. The Bank also devised a new model of the recruitment process for the IT and Contact Centre area providing better accessibility to candidates.

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

- Participation in spring and autumn job fairs (14 events, 3 IT-dedicated).
- Ambassadors Programme – 12 students representing the Bank at universities under the mentorship of the Bank employees who support ambassadors in learning about ING and shaping their career paths.
- Promotion of ING at universities – ING career zones, series of workshops/ training courses for students, cooperation with science clubs, students' organisations and students councils at selected universities.
- Internship with the Lion programme – tenth edition addressed to students from different majors and specialisations who are planning to work in banking in the future. The internship was finalised by 51 students across the country.
- The ChallengeING traineeship programme – it was continued in the IT area and extended with customer intelligence topics. Under two programme paths, 11 participants were employed. They work in line with the Agile methodology.
- ING International Talent Programme – it covers 5 business paths (Risk, IT, Retail and Corporate Banking, Finance) and gives its participants the possibility to join projects, take development actions and participate in international assignments which are considered to be crucial for the Bank.

- Meetings with the Lion – a series of workshops conducted by Bank experts in which more than 1,000 students participated. The workshops made the students familiar with the aspects of banking and IT.
- Corporate Readiness Certificate – cooperation with ING Services and IBM under the IT educational programme at two Silesian universities.

Vast offer and quality of internships within the HR area conducted at ING Bank Śląski S.A. were appreciated by external research and ranking institutions.

In February 2016, ING Bank Śląski S.A. was honoured for the seventh time with the (2016) Top Employers Poland certificate. The award granted by the Top Employers Institute – an independent international organisation – confirms that ING Bank Śląski S.A. belongs to the group of top employers worldwide. At the same time, ING Bank Śląski S.A. was honoured for the second time with the Top Employers Europe certificate. The Bank was awarded in the Power to Attract competition in the Best Initiative Boosting Engagement and Loyalty category for its employee recognition platform (Kudos). The Bank also received the Silesia HR Trends distinction for the Top Silesian Employers, and was ranked fifth in the Employer of the Year ranking by the AIESEC students' organisation.

### *Employee development and training courses*

In 2016, ING Bank Śląski S.A. pursued the development and training policy based on the priorities of the continuously learning company.

As per the assumptions, the development actions supported the implementation of the Bank's Strategy and the HR Strategy under the following priorities:

- We develop the leadership of the future.  
Under this priority, the Bank carried out the following: a development programme for senior management, a programme for newly appointed managers, development programmes for managers across the Bank and individual actions for managers across all levels of management to support their development.
- We create climate for innovation and change.  
A series of training courses concerned specialist and expert knowledge, (e.g. highly specialised training courses, domestic and international sector conferences geared towards field specialists as well as certifications, particularly audit-, bank advisory- and IT-related certificates). Development actions supporting innovation building methodology and Agile work were also taken. Concurrently, the Bank continued to hold meetings with guiding spirits; there were three of them in 2016. The above-mentioned actions were supported with development assignment programmes and short-term assignments.
- We attract and engage great people.  
Actions under this priority focused on upgrading employees' skills and behaviours through, above all, training courses on products and sales quality as well as through a wide offer of development actions. Moreover, processes for knowledge sharing and teaming up with another person were also implemented, including: coaching, mentoring and one-on-one consultations.

Actions for the rollout of the new Performance Management across the organisation were of great significance as well. A website giving access to the most important information was created and the workshops for senior managers were prepared.

The Bank promotes development with the use of diverse tools, which are chosen based on actual needs and as being the most effective ones, including: on-the-job training, formal and informal knowledge sharing, working with another person and self-learning. The Bank employs modern technologies when working on development, especially in the knowledge sharing area, such as: chats, webinars and fora. Thanks to the diversity of the available tools, almost every employee participated in at least one development action.

Apart from in-house development actions, the Bank used external training courses, workshops and conferences. The Bank also supports employee self-improvement, through certification, post-graduate studies or the Polish Bank Association standards.

## VIII. Outlook on ING Bank Śląski S.A. Operations Development

The Preferred Bank strategy is based on three pillars:

- Client Centricity – all operations of the organisation focus on tailoring products and the service model to the needs of clients from individual segments,
- Operational Excellence – keeping the position of the best internet and mobile bank, and continuous streamlining of the processes.
- Top Employer – acquiring and retaining the best personnel by supporting employee professional development and using modern communication tools.

In order to ensure long-term growth of the goodwill, the Bank undertakes actions to reinforce and then keep the leading position in the Polish banking sector by harmonious development of core operations; i.e. retail and corporate banking. The multichannel and integrated sales and customer service model, with special focus put on enhancing the electronic banking systems, is further developed.

### 1. Retail banking

In 2016, ING Bank Śląski S.A. strove after strengthening its position in the consolidating market environment and aimed at becoming the preferred bank. As in previous years, customer experience improvement and sustainable growth of both savings and loans volumes remained the main areas of focus. Moreover, the Bank paid more attention to the potential created by digitalisation and innovations when it comes to satisfying the client changing needs.

The key principles which actively support the delivery of the strategic goals have proved successful, and therefore remain unchanged: clear and transparent offering with a good quality to price ratio, broad and innovative multichannel distribution network (384 branches, network of IFAs, direct channels: Contact Centre, electronic and mobile banking), client knowledge translated into personalised communication and tailored offering, strong brand recognition and high performing team.

Main goals for 2017:

- Increase in the number of clients for whom we are the preferred bank accompanied by a higher x-buy ratio and sustained modern client relationship and satisfaction,
- Focus on the sale of flagship products with cash loans and investment products particularly emphasised,
- Sustainable growth of savings and loans,
- Improved performance courtesy of a new work organisation system (Agile).

Further digitalisation of sales processes and consistent ING brand shaping will underlie the above measures.

In order to achieve the above-mentioned priorities, ING Bank Śląski S.A. will strive to fully leverage on the potential of the multichannel distribution system and to ensure its clients top service quality. Extending the functionality of direct channels, implementing new payment solutions, providing clients with convenient online processes and orienting the branch role towards advisory services will allow the Bank to increase the number of transactions made by clients.

Such a strategy should bring better sales results, higher deposits and loans balances as well as more clients for whom ING is the primary bank. A higher x-buy ratio (sales of insurance and investment products) will additionally result in income increase and diversification. While rising branches' efficiency, increased importance of direct distribution and service channels as well as operations automation will favour cost effectiveness improvement.

## 2. Corporate banking

Private habits more and more frequently shape the manner in which corporate clients want to use banking services. In order to maintain the competitive edge in that market, the Bank makes necessary modifications in its strategy. In particular, the Bank puts more emphasis on direct distribution channels: online, mobile and phone banking. The purpose is to have a vast majority of client instructions submitted via those channels. The Bank will also aspire to welcome a dominant part of new clients and sell a meaningful number of products via direct channels. As part of those actions, there are also ongoing works aimed at implementing client identification with the use of a videoconference feature. Likewise in the area of cash solutions, the Bank will be developing direct service processes and upgrading the devices dedicated to optimisation of cash processes on the side of the Bank and our clients.

Online banking is becoming more and more important for contacting clients. The Bank is creating a versatile transaction and communication platform. The maximum possible number of products and services should be available on that platform. The new online platform release for corporate clients, ING Business, draws on the latest usability solutions and is tailored to users' changing needs and behaviours. Thanks to the RWD technology, it can be accessed from various devices.

The Bank will also expand its offer in the payment service area. In 2017, it will offer clients the payment card acquiring services. With the new service, the Bank will offer payment terminals enabling acceptance of card and mobile payments (Blik, Visa, MasterCard) and sale of additional services, like GSM phone top-ups. In the next stages, the Bank plans to expand its offering with acceptance of online payments, a loyalty programme and many other features. With this offer, the Bank will cater for business clients from all segments, regardless of their business form and size.

As part of the adaptation to PSD requirements actions, the Bank will introduce a number of improvements for its clients. We are also planning to expand instant payments in EUR so as to enable our clients to make fast and safe settlements.

As regards financing, the Bank is planning further cooperation with the subsidiaries from the asset-backed funding area (leasing and factoring). The aim is to work out a coherent approach to offering credit, leasing and factoring products in a way that will guarantee transparent communication and optimal customisation of the offer to the needs of specific clients plus will ensure the most effective use of the Group's resources.

The Bank will continue its works aimed at streamlining and automation in the products area through introducing electronic solutions and leveraging the digitalisation of individual areas of e-state. This means that in the field of cooperation with external institutions, in the nearest future, we will keep on:

- offering BGK-guaranteed programmes that are widely appreciated by clients. At the same time, we will participate in developing together with the Polish Bank Association and BGK the assumptions of those programmes for the coming years. Our aim is such cooperation with BGK that will facilitate lower labour intensity and increased sale of the programmes using innovative and electronic solutions.
- providing in bank systems the features of collecting data from external sources, that will both shorten and enhance the safety credit processes.

The results shown for the corporate banking and referring to the EU loans are strictly correlated with the implementation of operational programmes. Credit finance responds to the beneficiaries' needs for downpayment funding or pre-financing the bridge part of loans. According to the intentions of the institutions that implement the EU programmes, 2017 should see a growth in utilisation of the EU funds. This will entail a higher demand for credit financing. That trend should sustain until the end of the Financial Perspective 2014-2020. Concurrently, it can be expected that the growth in the need for credit instruments will be accompanied with automation of loan approval processes. Unification of financing requirements will enable products standardisation and substantial progress in the remote service of programmes supported from the EU funds. That expectation is in harmony with the processes of automation of the Bank's credit offer.

We will continue the above-described plans according to the progress of electronization of specific areas of e-state and the institutions implementing the aforementioned programmes.

In the area of processes tied with the Fit for Future strategy, further implementation works are planned to automate and digitalise the credit products sale and service process:

- As part of the Easy Lending project:
  - We are planning to launch a fully-automatic prescoring process in Q1 2017.
  - In mid-2017: implementation of the process of requests submission and automatic decision for the Corporate Sales Network clients with credit exposure not higher than PLN 1.2 million. The process is also to allow remote service of clients migrated from the retail segment.
  - Towards the end of 2017, also new clients will be undergoing the automated service process.
  - The following rollouts will be supplementary and will involve: automatic renewal of one-year revolving loans, automation of collateral review, new monitoring process, restructuring and debt collection.
- The other lending processes:
  - introduction of solutions streamlining the advisors' work, i.e. transfer of information from the financial data provided by clients to the credit process servicing system (OCR tool),
  - automation of screening how clients meet the document contractual conditions in the ING Monitoring application,
  - automation of client instruction processing under the Multi-Product Agreement, and
  - further simplification of clients post-sale monitoring and service processes.

In the years to come, we will continue the initiated works aimed at process costs containment, digitalisation and automation.

## IX. Investor information

### 1. ING Bank Śląski S.A. share price

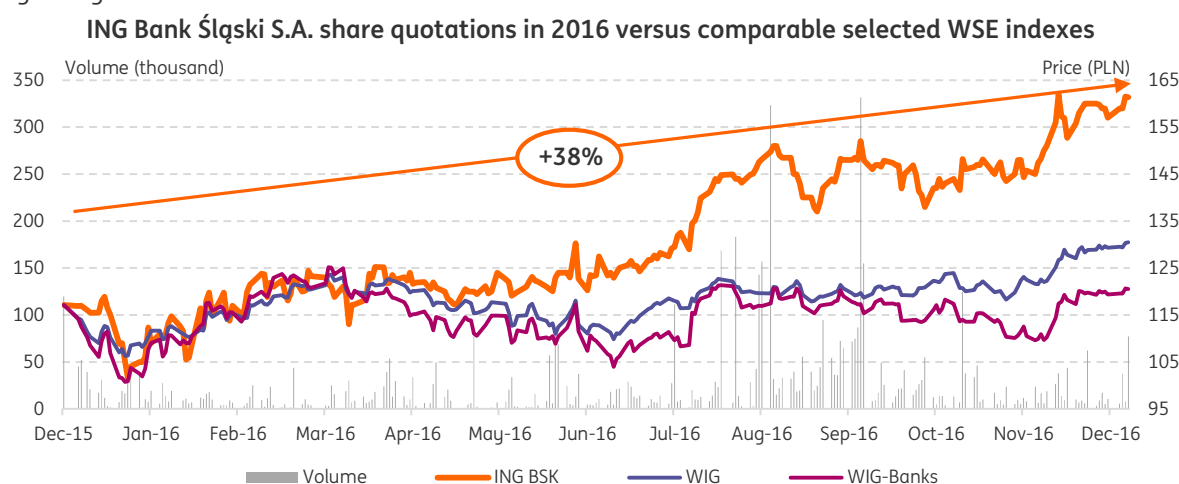
ING Bank Śląski S.A. shares data	2016	2015
Share price as at the yearend (PLN)	161.40	117.15
Max share price (PLN)	162.00	150.00
Min share price (PLN)	101.55	108.25
Number of shares	130,100,000	130,100,000
Yearend capitalization (PLN billion)	21.0	15.2
Average trading volume	24,545	29,150
Earnings per share (PLN)	9.63	8.66
Share book value (PLN)	80.51	82.07
Dividend paid per share in the year (PLN)	4.30	4.00
P/E ratio (x)*	16.8	13.5
P/B ratio (x)*	2.00	1.43

\* ratio computed based on the share price at the yearend

In 2016, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 101.55 (as quoted on 21 January) to PLN 162.00 (as at 06 December). On 30 December 2016, the price of ING Bank Śląski S.A. share equalled PLN 161.40, up by 37.8% from the last quotation day in 2015 (to compare: WIG-Banks sub-index went up by 2.9% at that time).

As at 2016 yearend, the Bank's market value arrived at PLN 21.0 billion, while its book value amounted to PLN 10.5 billion.

ING Bank Śląski S.A. is a member of WIG30 & mWIG40 indexes and RESPECT Index since their beginnings.



### 2. Ratings

ING Bank Śląski S.A. cooperates with Fitch Ratings and Moody's Investors Service rating agencies.

Fitch Ratings assigns a full rating to ING Bank Śląski S.A. under the agreement between the Bank and the Agency. In the announcement of 20 April 2016, the Agency upgraded the Long-Term Issuer Default Rating (Long-Term IDR) for ING Bank Śląski S.A. from A- to A. The rating outlook is stable. The upgrade is the result of the same rating action taken towards ING Bank N.V. which is the Bank's dominant shareholder. Additionally, the Agency upheld the support rating at 1.

The Agency carried out its annual review of ratings at the turn of October and November. As a result, all the ratings of the Bank were affirmed (Fitch Agency press release of 09 November 2016). Fitch emphasised in its announcement that the ratings upheld for ING Bank Śląski S.A. reflected the Bank's solid financial standing and strong capital position, high asset quality and stable funding source relying on client deposits.

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

Fitch Ratings	
Long-term IDR	A
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Viability rating	Bbb+
Support rating	1

Long-term IDR and Short-term IDR specify the entity's capacity to satisfy its financial liabilities on time. "A" Long-term IDR of the entity reflects high capacity of the Bank to promptly pay its long-term financial liabilities. "F1" Short-term IDR stands for the highest appraisal of the capacity to promptly pay the short-term financial liabilities (up to 13 months). For both ratings, Fitch Agency took into account high probability of getting potential support from the controlling shareholder of the Bank – ING Bank N.V. (ING Bank Śląski S.A. has the highest support rating – level 1). Viability rating of bbb+ means that the intrinsic creditworthiness of the Bank; i.e., without any support (understood as the capacity to promptly pay one's liabilities) is high. The Agency is of the opinion that the Bank has a strong capital and liquidity position.

The Moody's Investors Service Agency on the other hand, assigns a rating to ING Bank Śląski S.A. on the basis of public information. In its announcement of 23 January 2017, the Agency upheld all the Bank's ratings and stressed that the Bank's rating reflected its good financial results, including the quality of its assets above the sector's average and the self-financing nature of the Bank's operations. As at the Financial Statements' publication date, the Bank's financial viability ratings assigned by the Agency were as follows:

Moody's Investors Service	
LT Rating	A3
ST Rating	P-2
Baseline Credit Assessment (BCA)	baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa2
Outlook	Stable
Counterparty Risk Assessment (CR Assessment) long-term/ short-term	A2 / P-1

The below breakdown compares the long-term ratings for Poland, ING Bank Śląski S.A and ING Bank N.V. as at the Financial Statements' publication date:

Rating agency	Poland	ING Bank Śląski S.A.	ING Bank N.V.
Fitch Ratings	A-	A	A+
Moody's Investors Service	A2	A3	A1
Standard & Poor's	A- (local currency) BBB+ (foreign currency)	-	A

### 3. 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 company data are presented to the broad capital market. The Investor Relations Bureau is responsible for investor and equity analyst communications (e-mail: [investor@ingbank.pl](mailto:investor@ingbank.pl), phone no.: +48 (22) 820 44 16).

In 2016, the representatives of the Management Board and the Bureau held over 70 meetings with investors and participated in key investor conferences on the banking sector.

As a rule, open meetings for investors and analysts are held once a quarter, at the quarterly report publication date. Each time, approximately 30 representatives of brokerage houses and investors attend such a conference.



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 contains up-to-date information such as ING BSK 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. Owing to the RWD technology used, it is also 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 the 2016 yearend, analysts representing 18 domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

On its website, 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; see a separate tab *Analysts*: <http://en.ingbank.pl/company-profile/investor-relations/analysts>. As at 31 December 2016, the structure of share recommendations for ING Bank Śląski S.A. was as follows:

Recommendation	Buy / Accumulate	Hold / Neutral	Reduce / Sell
Number of recommendations	6	8	4

#### 4. Dividend policy and dividend

On 15 September 2016, the Supervisory Board approved the ING Bank Śląski S.A. Dividend Policy as recommended by the Bank Management Board. The Policy provides for:

- a long-term stable process of dividend payout in adherence to the rules of prudent management and any and all regulatory requirements which the Bank shall comply with, 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 13.25% set for the Bank by the Polish Financial Supervision Authority for dividend payout purposes.

When determining the recommended dividend payout amount, the Bank Management Board will review in particular:

- the current financial standing of the Bank and 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 05 August 2015.

Following the PFSA's announcement of 06 December 2016 concerning their stance on the banks' 2017 dividend policy, wherein the said ratio was increased additionally with the O-SII buffer imposed on the Bank, the Bank Management Board took a decision to recognise it in the Bank's dividend policy and filed a motion with the Supervisory Board for approval of 13.75% as the minimum value of the Tier 1 ratio for the dividend payout purposes.

The ING Bank Śląski S.A. Management Board has not resolved on the 2016 profit distribution recommendation for the General Meeting by the approval date of the Financial Statements.

Following the decision of the Ordinary General Meeting of 31 March 2016, on 05 May 2016 the Bank paid out the dividend for 2015 totalling PLN 559.4 million, that is PLN 4.30 gross per share. 20 April 2016 was the record date.

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

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 of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A., 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.

ING Bank Śląski S.A. 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 Card Family 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,
- 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 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 three subsequent years, so as to evaluate the impact of employee's actions on the Bank's long-term results. For President of the Management Board at least 50% of the variable remuneration is deferred.

The bonus is divided into two parts (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 ING Bank Śląski S.A. stock value, 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.

**Emoluments paid out to Members of ING Bank Śląski S.A. Management Board in 2016 (PLN thousand)**

Name and surname	From – to	Remuneration	Awards*	Other benefits**	Total
Małgorzata Kołakowska	01 January 2016 – 31 March 2016	572.4	1,483.3	80.2	2,135.9
Brunon Bartkiewicz	19 April 2016 – 31 December 2016	1,765.8	-	140.9	1,906.6
Mirostaw Boda	01 January 2016 – 31 December 2016	1,236.0	968.2	219.3	2,423.6
Michał Bolesławski	01 January 2016 – 31 December 2016	1,285.5	1,020.1	217.6	2,523.2
Joanna Erdman	01 January 2016 – 31 December 2016	1,197.0	695.1	202.6	2,094.7
Ignacio Juliá Vilar	01 January 2016 – 30 April 2016	381.5	985.8	352.1	1,719.4
Justyna Kesler	01 January 2016 – 31 December 2016	1,197.0	953.5	225.1	2,375.6
Patrick Roesink	01 January 2016 – 31 December 2016	954.3	111.0	722.3	1,787.6
Marcin Giżycki	01 August 2016 – 31 December 2016	510.0***	87.7***	67.7	665.4***
<b>Total</b>		<b>9,099.5</b>	<b>6,304.7</b>	<b>2,227.8</b>	<b>17,632.0</b>

\*/ Awards include:

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

\*\*\*/ where remuneration of PLN 125.0 thousand and bonus of PLN 87.7 thousand apply to the remuneration due for 2016 for holding a position of President of the Management Board of ING Securities S.A.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2016 under the Variable Remuneration Programme have not been awarded yet. Following the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2016 bonus to be paid out in the years 2017-2021. Accordingly, a reserve was formed for the cash payment of the 2016 bonus for the Bank Management Board Members, which as at 31 December 2016 was PLN 9.0 million. The Bank Supervisory Board will take the final decision on the bonus amount.

**Emoluments paid out to Members of ING Bank Śląski S.A. Management Board in 2015 (PLN thousand)**

Name and surname	From – to	Remuneration	Awards*	Other benefits**	Total
Małgorzata Kołakowska	01 January 2015 – 31 December 2015	1,801.5	1,433.9	502.2	3,737.6
Mirostaw Boda	01 January 2015 – 31 December 2015	1,232.2	957.7	218.8	2,408.7
Michał Bolesławski	01 January 2015 – 31 December 2015	1,266.0	1,023.8	399.1	2,688.9
Joanna Erdman	01 January 2015 – 31 December 2015	1,128.0	565.6	307.1	2,000.7
Ignacio Juliá Vilar	01 January 2015 – 31 December 2015	1,121.7	906.2	947.7	2,975.6
Justyna Kesler	01 January 2015 – 31 December 2015	1,184.3	953.6	222.7	2,360.6
Oscar Swan	01 January 2015 – 30 June 2015	584.3	898.8	248.7	1,731.8
Patrick Roesink	01 July 2015 – 31 December 2015	464.7	0.0	505.6	970.3
<b>Total</b>		<b>8,782.7</b>	<b>6,739.6</b>	<b>3,351.9</b>	<b>18,874.2</b>

\* Awards include awards paid out in 2015, but due to be paid out for the periods until 31 December 2014:

– Bonus under the Variable Remuneration Programme: for 2014 non-deferred cash, for 2013 1st tranche of deferred cash and for 2012 2nd tranche of deferred cash,

– Phantom Stocks under the Variable Remuneration Programme: for 2013 retained and for 2012 1st tranche deferred,

- 2011-deferred bonus.

\*\* 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 of ING Group.

As at the 2015 yearend, the reserve for the 2015 bonus cash payment for the Management Board Members was PLN 9.0 million.

Employment contracts provide for benefits for all Bank Management Board Members being threefold of their monthly base remuneration calculated for the last three 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 has 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 being twelvefold of the gross base remuneration received by the Management Board Member during the term of the agreement.

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.

In 2016, total remuneration (defined hereinabove) due and paid out by ING Bank Śląski S.A. to the Supervisory Board Members reached PLN 645.4 thousand, while in 2015 it was 620.9 thousand.

#### Emoluments paid out to Members of ING Bank Śląski S.A. Supervisory Board in 2016 (PLN thousand)

Name and surname	From – to	Remuneration and awards*	Other benefits	Total
Brunon Bartkiewicz	01 January 2016 – 04 March 2016	0.0	0.0	0.0
Małgorzata Kołakowska	01 April 2016 – 31 December 2016	0.0	0.0	0.0
Roland Boekhout	01 January 2016 – 31 December 2016	0.0	0.0	0.0
Christopher Steane	31 March 2016 – 31 December 2016	0.0	0.0	0.0
Ad Kas	01 January 2016 – 31 December 2016	0.0	0.0	0.0
Diederik van Wassenaeer	01 January 2016 – 31 March 2016	0.0	0.0	0.0
Aleksander Galos	01 January 2016 – 31 December 2016	172.6	0.0	172.6
Aleksander Kutela	01 January 2016 – 31 December 2016	171.2	0.0	171.2
Antoni Reczek	01 January 2016 – 31 December 2016	301.6	0.0	301.6
<b>Total</b>		<b>645.4</b>	<b>0.0</b>	<b>645.4</b>

\* 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 paid out to Members of ING Bank Śląski S.A. Supervisory Board in 2015 (PLN thousand)**

<b>Name and surname</b>	<b>From – to</b>	<b>Remuneration and awards*</b>	<b>Other benefits</b>	<b>Total</b>
Brunon Bartkiewicz	01 January 2015 – 31 December 2015	0.0	0.0	0.0
Roland Boekhout	01 January 2015 – 31 December 2015	0.0	0.0	0.0
Aleksander Galos	01 January 2015 – 31 December 2015	173.3	0.0	173.3
Nicolaas Cornelius Jue	01 January 2015 – 31 March 2015	0.0	0.0	0.0
Ad Kas	01 January 2015 – 31 December 2015	0.0	0.0	0.0
Aleksander Kutela	01 January 2015 – 31 December 2015	172.0	0.0	172.0
Antoni Reczek	01 January 2015 – 31 December 2015	275.6	0.0	275.6
Diederik van Wassenauer	31 March 2015 – 31 December 2015	0.0	0.0	0.0
<b>Total</b>		<b>620.9</b>	<b>0.0</b>	<b>620.9</b>

\* 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 2016 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.

## X. Corporate Social Responsibility (CSR) at ING Bank Śląski S.A. in 2016

Corporate Social Responsibility is embedded in all operations of ING Bank Śląski S.A. The Bank frames its activity in constant and close interaction with key stakeholders: clients, employees, investors, suppliers, non-government organisations and academic circles. The topics of key importance to stakeholders are given a strategic imperative so that the Bank can deliver on and evaluate them effectively.

ING Bank Śląski S.A. operates with awareness of and respect for international standards – the Universal Declaration of Human Rights and the UN Global Compact Principles. The Bank applies the Good Banking Practice Principles. The Bank ensures that all shareholders are treated equally and finds it important to ensure wide information access and effective communication to the participants of the capital market. Since 2009, ING Bank Śląski S.A. has been invariably present in the *Respect Index*, an index of socially responsible companies listed on the Warsaw Stock Exchange. It is one of eight companies and the only one from the financial sector that was in the index in all 10 editions.

In 2016, ING Bank Śląski S.A. made the transparent and ethical relations with stakeholders its priority. Employees act in line with 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). All employees received 2016 calendars that promoted ING Behaviours-compliant actions. The majority of communication initiatives relating to the implementation of Orange Code standards took place in 2015. A year later, they were recognised in the contest Power of Content Marketing Awards 2016 Szpalty organised by Stowarzyszenie Prasy Firmowej where the Bank received the gold in the category Content Marketing Strategy for Employees.

In 2016, the Bank started to revise its Corporate Social Responsibility Strategy (CSR Strategy). In later stages of that process, the result of materiality assessment (made among key stakeholders) was benchmarked against the sector, United Nations Sustainable Development Goals, business strategy assumptions and other documents of key importance for the organisation. As a consequence, the CSR Strategy for 2012-2015 could be thoroughly analysed and used as the starting point for the new document. It was being developed during workshops by employees from various levels – starting from specialists, through managerial staff and the Management Board members.

Last year, the POLITYKA weekly and Deloitte awarded ING Bank Śląski S.A. with a Silver CSR Leaf. They highlighted that the CSR Leaf winners build transparent and ethical relations in the corporate landscape. Our last year's achievements were also recognised in the 2015 Responsible Business Forum's report – 'Responsible Business in Poland. Best Practices' – which embraced the record number of 31 practices of ING Bank Śląski S.A. (13 new and 18 long-time practices). The Bank also shared its experience as an exhibitor during the CSR Marketplace organised by the Responsible Business Forum in November 2016.

The Bank was also recognised for the way of communicating its corporate social responsibility activity. In November, the CSR Report of ING Bank Śląski S.A. for 2013-2014 won Silver Pearl Awards in Best Corporate Social Responsibility in the custom publishing competition held in New York. The same report won gold in the contest Power of Content Marketing Awards 2016 Szpalty in the category Content Marketing Strategy for Employees and received an honourable mention in the category One-Off Publication.

### 1. Relations with clients

ING Bank Śląski S.A. engages in a dialogue with clients not only to receive information about their needs and their feedback. Clients contribute a lot to creation and modification of new products and services. To this end, the Bank uses the existing communication channels and innovative methodologies of product implementation.

In 2016 the Bank set up the Innovation Office, a unit reporting directly to the Management Board. Its mission is to build innovation culture in the entire organisation, to receive and grasp the signals from the environment, to proactively operate in the existing innovation ecosystem, to implement innovative solutions through low-budget experiments and tests and to be a source of support in the

transformation process. ING Group also introduced the PACE methodology based on Design Thinking, Lean Startup and Agile as a unified approach to innovation implementation. This was accompanied by training courses for the managerial staff and employees as well as the development of new skills for trainers, facilitators and coaches in this innovative way of working.

In 2016, the Bank launched the ING Accelerator, a 16-week long programme designed to accelerate innovations. The Accelerator consists of 4 small and independent teams that work like start-ups to create new products. Another edition of Innovation Bootcamp was held – a contest where employees submitted their ideas, and the best ones were implemented in the organisation. The Bank started cooperation with start-ups. The Bank community interested in innovations has over 400 people.

### Communication with clients

In 2016, the Bank continued to improve the verbal communication model. The new standard was developed with language experts and introduced both in the branches and Contact Centre. In the Contact Centre, it helps the employees adjust to certain types of clients or go through certain characteristic points of conversation, among other things. This gives clients a feeling that they actually talk to a human being who will listen to them, explain the unclear and find a simple solution to any problem they may have. This is another stage of the bank-wide project Plain Language (*Po Prostu*).

The project allowed the Bank to further simplify written communication with clients. Employees participated in workshops and training courses on plain writing, revised agreements, letters and forms. As a result, the Bank scored high in the report compiled by linguists from the Plain Polish Laboratory – “Plain Polish – friendly dunning letters”. The report presents the conclusions and recommendations from the analysis of dunning letters sent by companies to their clients. As per the report, reminders and dunning letters sent to clients by the Bank can be read easily (Quick Reading index) and do not require knowledge of the banking jargon to understand them (the FOG index). The texts use short sentences and few long-syllabled words. Furthermore, bank letters are transparent in terms of structure and get right to the point (“no talking about the talk”). The Bank was the most successful out of all analysed companies in avoiding grammatical complexities that make it hard for the recipient to process the information.

In the era of cutting edge technologies, clients expect fast and convenient access to time-saving solutions. Since May 2016, ING Bank Śląski S.A. has been piloting remote service of mortgage loans. A team of advisors was established at the Contact Centre Department that assist clients in completing all mortgage loan-related formalities: they present the offer via phone, complete the set of documents in Moje ING online banking, accept the credit request and sign the agreement with the client during a video call. The Remote Premium Centre was also established in July 2016 dedicated to serving affluent clients. It is a pilot project at the Contact Centre. Specially trained advisors can now provide more advisory services: apart from general advice, they offer clients with remote individual service and remote purchase of investment products.

Since April 2016, Moje ING has been the core online banking system for individual clients of ING Bank Śląski S.A. Then, until the yearend the Bank was developing more features of Moje ING such as:

- Trainer module that helps clients to analyse their financial standing and use the analysis results to indicate solutions for expenditure control, savings or money multiplication.
- Broker module that helps clients to comfortably invest money from any device they use – be it a laptop, smartphone or tablet. The brokerage account opening process was also simplified.
- The Bank streamlined the processes for selling current- and FX savings accounts, investment products including the Investment Term Deposit, regular savings instructions and the up-sale prescoring loan offer.
- Payments via BLIK codes and the Pay by Link service integrated with Moje ING.

In November, the Bank launched the Moje ING system for sole traders. Clients can access their personal and business finance using a single login name, but these two spheres remain separate in the system. Also, the analysis of business finance is separated from the analysis of the household budget. Towards the yearend, there were over 2,100,000 users of Moje ING, including over 220,000 entrepreneurs.

In 2016, a new Moje ING mobile application was implemented. Apart from the Moje ING system features, the mobile application also offers: PIN or Touch ID login, account and credit card balance on the screen without the need to log in, BLIK payments and PUSH notifications.

In 2016, the Bank communicated with clients through social media both on the most popular social networking services in Poland and its own ING Community. Communication is available 24/7:

- ING Community ([www.spolecznosc.ingbank.pl](http://www.spolecznosc.ingbank.pl)) was visited by approx. 55 thousand users a month,
- the Bank's Facebook profile ([www.facebook.com/INGBankSlaski](http://www.facebook.com/INGBankSlaski)) had over 192 thousand fans as at the yearend,
- the Bank's YouTube video channel ([www.youtube.com/ingbsk](http://www.youtube.com/ingbsk)) had over 52 million views and over 18 thousand subscribers as at the yearend,
- the Bank's Twitter account ([www.twitter.com/INGBankSlaski](http://www.twitter.com/INGBankSlaski)) had 10 thousand followers as at the yearend,
- the Bank's Instagram account ([www.instagram.com/ingbankslaski](http://www.instagram.com/ingbankslaski)) was followed by over 3 thousand users as at the yearend, and
- the Bank's LinkedIn account ([www.linkedin.com/company/698107](http://www.linkedin.com/company/698107)) had over 5 thousand followers as at the yearend.

In 2016, the customer service in the Polish sign language with a video interpreter was continued in all branches of ING Bank Śląski S.A.

The Bank continued a cycle of meetings with entrepreneurs under the theme "Business relies on seizing opportunities, your business relies on you". Grzegorz Albrecht and Jakub Bączek shared their experiences during the meetings. In 2016, over 650 entrepreneurs from Rzeszów, Szczecin, Bydgoszcz and its environs received practical tips on how to run their business, capitalise on opportunities and trends or implement the changes.

ING Bank Śląski S.A. contacted corporate clients using both traditional service channels (visit at a branch, e-mail or phone), as well as diverse new media. In 2016, the Bank launched a new version of ING Business, the online banking system for the Bank's corporate and strategic clients. The new version was designed in the Customer Design technology. It has great personalisation features: each user can adjust the system to their needs with widgets for specific functions. This enables clients to use the key elements right after logging in – they are available on the main screen. Access to data is instant thanks to context search features implemented in the system.

The Bank also upgraded the ING Business mobile application into the iOS system. The greatest novelty is the introduction of the 3D Touch feature that recognises the level of pressure applied by the user to the screen. If you click harder on the application icon, you can move quickly to current exchange rates or instruct a new transfer. In the application itself, users can now have a quick preview of account, transaction, operation or beneficiary details. After the TouchID login (finger print), this is yet another step to improve the usability of the application.

In June 2016, the Bank implemented a new process for remote opening of ING Direct Business. It takes only 5 minutes to fill in the request: you need to have basic company information – REGON (Statistical Identification Number) or NIP (Tax Identification Number) – and personal ID cards of representatives that sign the account agreement. Once the request has been completed, the client receives access to ING Business online banking with the agreement to be signed electronically. Other improvements of remote processes include automatic update of the National Court Register, among other things.

In 2016, ING Bank Śląski S.A. opened other electronic depositories for clients. The process of replacing all old machines with modern depositories was completed to ensure fast and secure channel for closed cash deposits.

The Bank continued the blog called "Company purchases" under the Aleo brand. So far 39 articles have been published on the blog on the strategic potential of business sourcing and on procurement best practice. In 2016, Aleo users took part in the survey "Procurement practices in companies and internet



use in that respect” (carried out by GfK). As a result, “B2B Market Digitalization. E-commerce Platforms” report was developed in cooperation with Deloitte. The report describes the changes and the most important trends in B2B commerce that will take place by 2020.

In 2016, corporate- and strategic clients of the Bank participated in educational meetings, including:

- sector conferences: for telecom, food, construction industries (during the European Economic Congress), for companies from the agricultural sector;
- Brexit conference attended by an ING analyst from Great Britain;
- conference on proper succession planning and implementation – this topic has been popular among clients for years. The conference was attended by the experts for the Family Business Institute and law firms;
- lecture of the business psychologist on boosting effectiveness in running a business.

### *Customer satisfaction surveys*

High quality of customer service in all channels remained a priority for ING Bank Śląski S.A. in 2016. The Bank regularly collected and analysed their opinions which were later used for change and improvement implementation.

The Bank used the Mystery Shopping methodology for individual clients. It was used to measure customer service at the retail branches, ING Express sales points, credit centres and external sales network. The Mystery Caller and Mystery Mailer methods were used to verify work quality of advisors at the Contact Centre.

High quality of their work was recognised with two awards granted in 2016:

- Quality Star – granted by the website [jakoscobslugi.pl](http://jakoscobslugi.pl),
- 1st place in the ranking “Institution of the Year – Customer Service Quality in Branches” – granted by the website [mojebankowanie.pl](http://mojebankowanie.pl),
- 2nd place in the ranking “Institution of the Year – Remote Contact Channels” – granted by the website [mojeBankowanie.pl](http://mojeBankowanie.pl),
- Golden Banker in the category “Best Omnichannel Customer Service” – granted by the website [bankier.pl](http://bankier.pl),
- 1st place in the category “Mortgage Banking – in the “Newsweek’s Friendly Bank” ranking, and
- 2nd place in the category “Bank for Mr. Smith” in the “Newsweek’s Friendly Bank” ranking.

The Bank continued a cyclical recommendation and satisfaction survey through NPS (Net Promoter Score) for clients that opened a personal or savings account, drew a loan, contacted the Bank at the branch, via mobile banking, online banking or filed a complaint. It is a key indicator that helps to monitor the level of ING Bank Śląski S.A. client referrals. In 2016, the Bank received almost 59 thousand such surveys with score and opinions from clients.

The respondent may use a 0 to 10 score rating scale. Based on the scores awarded, clients are categorised to one of the three groups:

- Promoters (score from 9 to 10) – clients who willingly recommend the Bank and give positive opinion,
- Passives (score from 7 to 8) – clients not that eager to recommend us, but not talking poorly about us either,
- Detractors (score from 0 to 6) – clients whose loyalty and satisfaction we have to fight for.

The NPS index stands for the difference between the percentage of promoters and the percentage of detractors.

Clients propensity to recommend ING rather than competitors is also verified. In each quarter, an

external research agency make telephone interviews on a sample of clients (the same number for each bank). The results confirm that ING Bank Śląski S.A. belongs to the leaders of this opinion poll.

The Customer Effort Score is also used regularly to measure the easiness of banking with the Bank. It checks whether clients find it easy or difficult to purchase Bank products online (personal account and cash loan) and to use online banking.

The First Contact Resolution, or FCR, survey is also continued. This metric shows whether clients are able to get things done at first contact with the Bank with the use of direct channels, Contact Centre or a Bank branch.

Corporate clients and strategic clients also undergo regular satisfaction surveys. Hence, clients' opinion about the offer and service quality, as well as other aspects of cooperation with the Bank can be continuously monitored. The Bank also applies the NPS survey in both segments.

### *Complaint analysis*

Just like in previous years, we adjusted the complaint handling process to clients' needs.

In 2016, the number of lodged complaints went up, but the increase was smaller than the increase in the number of clients and transactions – in 2016 the number of complaints went up by 3% as compared with the 2015 result. Despite a higher number of complaints filed last year, we managed to improve the percentage of complaints resolved within 24 hours to 64% (from 63% in 2015). By doing so, we were able to obtain the NPS result of 22% (27% in 2015).

Thanks to complaint details, we were able to eliminate a portion of CDM-related complaints and to simplify the principles of special offers. In consequence, the number of savings-related complaints went down. Remarks of ING Bank Śląski S.A. clients voiced in complaints also had an impact on:

- Adding embossed cards to the debit cards offer. It helps to reduce the number of cards replaced due to their excessive wear and tear. The application of raised print is the most permanent technique of card personalisation – it prevents card number and owner data from rubbing off.
- Online processing of the majority of NFC transactions from mid-2016 – transactions are visible on the client's account as soon as they are made. This helps clients to have better control over their expenditure. It also reduces the number of complaints about the available balance overrun.
- The Bank foregoes the fee for deposits over the counter if it is impossible for the client to use the CDM or a debit card.
- Complaints lodged by corporate clients can now be resolved in their presence.
- The resolution time for complaints concerning ATM transactions made with MasterCard was shortened from 60 to 30 days.

## **2. Relations with suppliers**

In 2016, ING Bank Śląski S.A. implemented a uniform vendor qualification process applied by the entire ING Group. Its aim is to gather all relevant information about vendors selected for collaboration with the Bank. With this initiative the Bank emphasised the importance of the unbiased sourcing and that the procurement decisions need to be based on objective criteria.

Potential vendors could continue to use the self-registration form on the ING Bank Śląski S.A. website. 78 vendors completed the qualification process successfully and could later participate in the procurement processes at the Bank.

All vendors represent that they observe the standards set forth in the ING Bank Śląski S.A. Vendors Code of Conduct. The observance thereof is a prerequisite for starting and continuing cooperation with the Bank. 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. Suppliers should also provide their employees with safe workplace that is not harmful to their health and protect the environment by striving for reducing environmental burden as part of their

business and undertaking actions leading to environment improvement. Moreover, suppliers should observe prohibition of forced labour, child labour, corruption and discrimination.

Each year, the Bank creates a list of strategic vendors subject to end-to-end assessment. In 2016, 78% of strategic vendors (or 71 out of 90 respondents) assessed the cooperation with the Bank at a very good level. To make it easier for employees cooperating with vendors to assess their areas of activity and identify the risks associated with the service entrusted, a detailed document called *Drogowskaz*, or the *Signpost*, was developed with tips for such assessment.

ING Bank Śląski S.A. vendors continued to use Aleo – a trading and auction platform for businesses. Following registration on the [www.aleo.com/pl\\_en](http://www.aleo.com/pl_en) website, suppliers could participate in auctions organized under the Bank tender proceedings. In 2016, there were over 80 auctions held via the platform. Bank suppliers and clients could also use the platform to support their own procurement processes.

### **3. Relations with employees**

ING Bank Śląski S.A. is a member of international ING Group. So far, each member of the Group has pursued separate employer branding actions. In 2016, the Group took on the initiative to frame the global Employer Value Proposition (EVP) based on common values and corporate culture.

At present, the Bank is implementing the EVP which entails the adoption of a new recruitment strategy and employer branding. The Bank wants to give satisfaction to young people who expect to have an impact on the work performed and fast effects. The Bank attracts people with the corporate culture based on Orange Code values and behaviours as well as interesting work. Internally, it implements a consistent approach to performance management. Additionally, ING is no longer a bank with a standard organisational structure where employees are allocated to specific divisions. This makes the work environment modern and innovative.

ING Bank Śląski S.A. employees can anonymously express their opinion on work in the Work Performance Culture scan which is performed on a cyclical basis. In 2016, 85% of Bank employees took part in the survey. Participants appreciated the Bank operations in the Client Orientation, Leadership and Strategy, Team Work and Efficiency as well as People Management domains. As two years ago, the scan also showed a very high level of sustainable engagement (84%). The Bank employees' feedback from the scan is the starting point for setting priorities for the following year.

Vast offer and quality of internships within the HR area conducted at ING Bank Śląski S.A. were appreciated by external research and ranking institutions. In February 2016, ING Bank Śląski S.A. was honoured with the (2016) Top Employers Poland certificate for the seventh time. The award is granted by the Top Employers Institute – an independent international organisation, and confirms the Bank's position among the leading employers around the globe.

Moreover, the Bank was mentioned in the Responsible Business in Poland report, developed by Forum Odpowiedzialnego Biznesu (Responsible Business Forum). The following activities were presented in the "Labour-related Practices" category: Employer branding activities, innovations as an integral element of corporate culture, IT Tech Day, a cycle of compliance- and risk training courses, as well as the following long-standing practices – short term assignments for employees, first aid training, green education and Orange Bikes for employees, as well as packages for parents. Further, the Social Engagement and Local Community Development category listed the participation of employees in the educational programme of the Warsaw Institute of Banking (Bakcyl), educational campaign "From saving to investing", employee engagement in charitable events and also a long-standing practice called *Praktyka z Lwem* (Internship with the Lion) addressed to students and voluntary activities (Good Idea, Run Warsaw, blood donation drives).

### **4. Activities for community**

In 2016, ING Bank Śląski S.A. was involved in the Bakcyl programme – a joint project of the banking sector to promote financial education of teenagers from junior high schools launched by the Warsaw Institute of Banking. In the project, Bank employees volunteer to teach finance at schools: "Your

money”, “Put your mind into borrowing”, “Wise investment”, “Lifelong finances”. A cycle of four lessons is the foundation of financial education for young people as they start their adult life.

ING Bank Śląski S.A. was represented by 43 volunteers that held nearly 60 classes in junior high schools in the provinces of Silesia, Łódź, Masovia and Pomerania.

Last year, together with the ING for Children Foundation, the Bank continued to pursue the ING Voluntary Services Programme.

- projects for local communities – as part of the *Good Idea* contest, employees conducted 50 initiatives at hospitals, schools, kindergartens and community youth centres across Poland,
- ad hoc projects for a selected community partner – in 10 group initiatives employees worked for the benefit of, among others, children's homes and therapeutic centres,
- charitable fairs – employees organised 4 Christmas and Easter fairs and 1 fair under the name “Help for a friend”.

Approximately 1,440 Bank employees took part in the ING Voluntary Services Programme in total.

Following the long-standing tradition of social initiatives, employees engaged themselves in charity raisers for children – charges of the ING for Children Foundation. An Orange Schoolbag raiser of school supplies was organised in September, while in December the employees prepared Christmas gifts for underprivileged children under Santa’s Helpers initiative.

In October 2016, 440 employees took part in yet another edition of the *Run Warsaw* race. The Bank made a donation to the ING for Children Foundation for each runner from the ING team. The Foundation received a total donation of PLN 44,300. The amount will be earmarked to deliver projects run by local non-governmental organisations selected in the contest for the sports initiative for children and young people.

Traditional blood donation drives were held in spring and autumn of 2016. 75 Bank employees took part in 4 such initiatives. In total, they donated 33 litres of blood.

#### *Activity of ING for Children Foundation*

The ING for Children Foundation continued programmes to provide equal chances by educating underprivileged children and ill children:

- ING Voluntary Services Programme – as part of the employee voluntary activities run together with the Bank, the Foundation supported public benefit institutions as well as urban and commune welfare centres that Bank volunteers cooperate with. It allocated PLN 361,759.40 for that purpose (for more details see the Activities for Community section).
- Smile Camps – nearly 550 children participated in 11 such camps. These are profiled camps: therapeutic and rehabilitation, winter camps for the charges of the Foundation from special schools, therapeutic groups and community youth centres.
- ING Internet Clubs – 1 internet club was modernised in 2016. In total, there are 30 internet clubs across Poland.

ING Bank Śląski S.A. employees supported the activity of the Foundation in the form of 1% tax donations for the total amount of PLN 19,682.30 and in the form of charitable contributions by payroll deductions for the total amount of PLN 16,264.

#### *Activity of ING Polish Art Foundation*

Next editions of the “Art in Our Age” exhibition – whose 15th jubilee was celebrated in 2015 – were held in 2016. It was staged in BWA city galleries in Katowice and Tarnów. For each edition a guided tours and workshops for children and young people were organised.

The Foundation also published a book “Art in Our Age” and organised meetings with authors in Warsaw, Cracow, Tarnow, Katowice, Opole, Lublin and Leszno.

The ING Polish Art Foundation started works on two brand new projects scheduled to be closed in 2017:

- a richly illustrated book for children that will familiarise them with the essence of artistic work through simple stories about siblings;
- a website about contemporary art designed to provide knowledge about social functioning of art and the latest artistic phenomena as well as to encourage people to participate in previews, exhibitions and to function in the world of art independently and with awareness.

In 2016, the collection of the ING Polish Art Foundation grew bigger. The following works of art were added to the collection: *Bez tytułu*, relief made in the 3D print technique by Janek Simon, a video work under the title *Gift for God* by Łukasz Surowiec, a photo cycle *A-Z (Gabloty Edukacyjne)* by Andrzej Tobis and a photo cycle *Winners* by Rafał Milach.

In 2016, the ING Polish Art Foundation implemented a number of educational activities addressed to Bank employees. These embraced the following actions:

- 15-20-minute meetings organised each week for interested employees in which they can learn about specific works of arts from the collection and its author output, the trend the given work represents and historical references in the background,
- tours and visits at exhibitions and interesting contemporary art events,
- 1st Office Art Review ended with a contest in which employees created works of art inspired by the office environment, and
- workshops for employees' children.

## 5. Activities for natural environment

### *Global environmental programme*

At the beginning of 2016, ING Bank Śląski S.A. and other ING Group members joined the Environmental Programme. In May the Bank adopted the ING's Environmental Approach. The document requires the Bank to take measures to minimise its direct and indirect negative environmental footprint. In terms of direct environmental footprint management, the Bank focuses on the following areas: energy, business travel, carbon off-setting, water, paper use and waste.

In 2016, actions were largely focused on carbon footprint reduction (by 50% by 2020) and energy and water consumption reduction (by 20% by 2020). Throughout 2016, ING Bank Śląski S.A. reduced its carbon footprint by over 70%. The Bank analysed the use of water for the Head Office buildings and regions which helped to set new modernisation standards for the Head Office buildings and Bank branches. In 2016, water consumption at the Bank went down by 3.24% versus 2015.

### *OFF Culture*

In 2016, ING Bank Śląski S.A. introduced OFF Culture – a project that supports Environmental Programme related actions. The project was designed to encourage Bank employees to actively participate in sustainable management of offices.

OFF Culture was divided into 4 stages. In summer it pivoted around air conditioning. Stickers were placed above thermostats with information on how to optimise the temperature in the office. The next stage concentrated on water-, energy- and time waste – tips on boiling only the necessary amount of water were put in kitchen areas on kettles and water coolers. To deliver the message, we paraphrased the sentences of famous people – John Lennon and Albert Einstein. In autumn and winter, the campaign focused on proper use of heating. By thermostats, there were stickers with paraphrases of famous quotes along with information on the benefits of the rational heating usage and proper temperatures in office rooms.

Each OFF Culture release contains an element of surprise (stickers). It is also strengthened with the intranet publication of news. The last stage of the project is scheduled for 2017 and will focus on water.

### *Green Office Warszawa – recertification*

In May 2016, the Head Office facilities in Warsaw at ul. Puławska 2 was re-assessed for the applied

technical solutions that lower the consumption of energy, heat, water, paper and that are related to waste segregation. Following the positive assessment the building was granted the prestigious Green Office Certificate. A year before, a similar certificate was granted to the Head Office buildings in Katowice (at ul. Sokolska 34 and ul. Chorzowska 50).

#### *Purchase of energy certificates of origin*

Taking into account the Environmental Approach signed by ING, the Bank looked for ways to accomplish the reduced carbon footprint target, which is the highest in Poland. Ultimately, following the purchase of energy origin certificates, 100% of energy used at the Bank in 2016 came from renewable resources. The purchase of green energy will be renewed in the upcoming years. The positive effect of the green energy purchase is a reduction of carbon footprint in 2016 by over 70% (as compared with 2014 data).

#### *Water*

In 2016, the Bank decided to implement a new standard of equipping rest rooms and kitchens to increase water efficiency. Bank branches and offices will be equipped with dual-flush toilets and water-saving taps, among other things. Energy-efficient and water-saving dish washers will be standard equipment in the kitchenettes in the Head Office buildings and the regional offices. They will be replaced on ongoing basis, with each renovation of kitchenettes and rest rooms. Every OFF Culture campaign will promote using dish washers in the kitchenettes and sensible water management, among other things.

#### *Lightning*

Last year, the Bank implemented LED technology fittings as a new lightning standard at the branches and Head Office. The fittings in this technology were mounted e.g. on the renovated floors at the Head Office buildings at ul. Sokolska and Chorzowska and also at the retail branch in Katowice at ul. Sokolska and at the bank branch at the Warsaw Central Train Station. In the past, LED technology was used e.g. in external advertisement lighting. LED fittings will be systematically mounted during subsequent modernisations.

Motion-sensitive LED lightning was mounted at the garage in the Bank's Head Office in Katowice at ul. Sokolska (zone sensors). The lamps switch on when motion (man, car) is detected and switches off when there is no motion. With this solution we are able to reduce energy consumption. Similar lightning was used at staircases and elevated walkways in the Bank's Head Office in Katowice at ul. Sokolska.

#### *Follow-me printing at Region's Offices*

Upon implementation of the follow-me printing in the Head Office buildings in Katowice and Warsaw, the system was introduced in other offices where several Bank units are located. This solution enables printing a document only upon tapping the employee's identification badge against the printer. As a consequence, over a million A4 pages were not printed in 2016.

#### *Subscription*

In December 2016, the Bank decided to discontinue the paper version of Baška bi-monthly for the Head Office employees in Katowice and Warsaw. Baška's paper circulation was also limited – by 70% – for the retail and corporate networks employees. The number of daily newspapers subscribed by employees for 2017 in the paper format was also reduced, while its number in the electronic format went up.

#### *Carpooling*

During the Sustainable Transport Week the Bank promoted carpooling, or sharing of car journeys, among employees. The driver offers a seat in a car and, together with the passengers, arrange details for the journey to a specific place, e.g. to the office. Before that, they arrange the exact time and collection place for the journey. The internal magazine published an article with pros and cons of this

solution. We also offer a database where all employees may offer or find a ride. There are 29 most popular routes travelled by Bank employees published on the website.

### Orange Bike

As part of the Orange Bike initiative, bicycle racks for Bank employees and clients are successively mounted at our facilities. In 2016, we mounted 162 new racks in 53 locations and provided employees with more orange bikes. Since the very beginning of the initiative, there have been 501 racks mounted in 145 locations and 60 bikes provided in 12 regional offices and Head Offices in Katowice and Warsaw.

### Electric and hybrid cars

In 2016, employees were given the ability to choose company cars with a hybrid engine. Together with the leasing company, the Bank started to analyse the possibility of adding electric cars to the ING fleet. The Bank is also reviewing the locations where it would be possible to mount quick charge points for electric cars. The analysis' deliverables will be available in 2017.

### Eco-education for employees – competitions, articles

In 2016, the following articles were published in the *Baśka* internal magazine as part of educational campaigns on sustainable growth addressed to the Bank employees:

- Sustainable transport – an article centred around connecting the Bank's transport-related activities and environment protection. The authors reminded the readers about the applicable car policy that limits the type of lease cars, in terms of e.g. engine type or capacity; about orange bikes that can be used by the employees of the Head Office and of the majority of regional offices. They also promoted carpooling as the most economic and ecological way of travelling.
- Real estate eco-management – an article about the technologies implemented to reduce energy consumption, air conditioning modernisation and phase-out of devices with the harmful R22 refrigerant. It announces the positive close-out of the external audit on the Environmental Management System ISO 14001. It also presents the real estate management-related environmental goals.
- Our goal: sustainable office management – an article about sustainable office management benefits for the Bank and for the environment. The Bank limits its negative environmental footprint by sustainable energy and water management, sustainable use of office resources and office waste management. The Bank implemented selective waste collection (in the Head Office buildings), collects wastepaper, replaces computers with newer generation equipment and no longer uses plastic dishes (disposable cups and cutlery).
- Get carried away with OFF Culture – authors warn against actions that result in loss of natural resources and exert a negative environmental footprint. They also encouraged employees to change their behaviours and habits so that they are more environment-friendly.
- We throw out sensibly – it reminds readers about waste sorting rules. Apart from waste thrown into the containers in the kitchen areas, wastepaper and batteries are also collected at the Bank.
- Triple responsibility – the last 2016 edition recapitulates on the eco-actions taken throughout the year. These projects were designed to minimise the environmental footprint and create optimum environmental conditions for employees themselves. The actions were carried out in line with the sustainable growth assumptions, i.e. they were based on the triple responsibility principle: ecological, economic and social.

The Ecological Contest was also held in 2016 on the intranet community page *Aktywni ING+* (Active ING+). In the contest, employees published photos from their summer holidays to show that they spent the time in an eco-friendly way or used eco-friendly means transportation. The summer photo contest was designed to promote eco-leisure. Employees share their ideas in the category eco-friendly transportation, eco-friendly summer activity and recommended go-to eco-friendly places. Many employees share their ideas for eco-holidays. In such actions, we promote the idea of healthy life and

build awareness on limiting negative environmental footprint during the holiday season. The ten winners received a total of 391 likes.

#### **6. Further information**

Information about corporate social responsibility at ING Bank Śląski S.A. and contact details are available on the [en.ingbank.pl](http://en.ingbank.pl) site in the Corporate Social Responsibility of ING Bank Śląski S.A. tab.



## XI. ING Bank Śląski S.A. Management Board Report on Observance of Principles of Corporate Governance in 2016

Pursuant to Article 91 section 5 item 4 of the Minister of Finance Ordinance 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 of 19 February 2009 (Journal of Laws of 2014 item 133 as amended), the ING Bank Śląski S.A. Management Board presented the Report on observance of principles of corporate governance in 2016.

The Bank's corporate bodies are the General Meeting, Supervisory Board and Management Board. The joint-stock company structure under the Polish law provides for the division of management and supervisory functions, therefore the management board and the supervisory board are separate bodies with separate authorities. The works of the Supervisory Board are overseen by the Chair of the Supervisory Board who represents the Supervisory Board outside the Bank and within its structure. The Bank Management Board Operations are overseen by the President of the Management Board who organises the work of the Management Board, chairs their meetings and represents the Management Board before the General Meeting and Supervisory Board.

### 1. Principles and scope of corporate governance

A set of principles of corporate governance ING Bank Śląski S.A. (Bank) complied with in 2016 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: <http://en.ingbank.pl/company-profile/corporate-governance>.

On 05 January 2016, the Bank filed a report no. 01/2016 (Electronic Information Base) on the application of the said document. In the report, the Bank informed about non-application of the principles included in the *Code of Best Practice for WSE Listed Companies 2016* as regards the following: Rule I.Z.1.15. reading that the company lists on the website information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and it should also specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.

The Bank's comment on the application of the above rule:

The Bank has been implementing for years best practices supporting diversity, promoting equal treatment and preventing discrimination. A great number of elements of those practices have been reflected in various procedures or processes.

In September 2016, the Bank Management Board approved the Diversity Policy defining the areas and ways of diversity management at ING Bank Śląski S.A. It is aimed at integrating all the actions, including processes, procedures and other documents that are associated with diversity management at ING Bank Śląski S.A. so that all employees and job candidates are treated equally and can work in a friendly environment. Diversity management is an element of delivering on the Bank's strategy.

The policy is designed to build the awareness of the organisation in which the principles of equal treatment at work are applied, 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. The diversity policy pertains to all employees, regardless of the positions they hold, and especially to the Bank authorities and key managers. Diversity management concerns all the organisation levels and starts already during the recruitment process.

In its strategy, processes and actions the Bank ensures equal treatment and those principles are reflected in specific regulations and processes. Furthermore, the agreed ratios are regularly monitored on a six-month basis to show how the Bank delivers on the Diversity Policy.

In consequence of implementation of the Diversity Policy, Principle I.Z.1.15 is fully applied across the Bank.

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 (PFSA Resolution No. 258/2011, CRD III, CRD IV, CEBS/EBA Guidelines). Under the Policy, minimum 40% of the variable remuneration of the management staff shall be deferred for 3 years (in the case of the President of the Bank Management Board – at least 50%) and paid every year 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.

The manner and scope of Principles VI.Z.2. application by the Bank did not change.

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, organisational and technical nature associated with providing shareholders not participating personally at the General Meeting with real-time bilateral communication and voting facilities using electronic communication means, which may negatively impact the course of the General Meeting.

At the same time, the Bank gives notice that the *Principles of Corporate Governance for Supervised Financial Institutions* introduced by the Polish Financial Supervision Authority with Resolution No. 218/2014 of 22 July 2014 (Official Journal of the PFSA item 17) (hereinafter referred to as *CG Principles*) have been applied at ING Bank Śląski S.A. in the scope as specified in Bank Management Board Report of 30 December 2014 published on the Bank website.

Currently, after amending the Bank Charter in keeping with 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 section 4 of the *CG Principles* to the extent limited to the broadcasting of Bank General Meeting debates online.

At the same 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 *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 this Resolution. The Resolution is available on the Bank's website: <http://en.ingbank.pl/fileserver/item/1100308>.

The *Principles of Corporate Governance for Supervised Institutions* are available on the Bank's website: <http://en.ingbank.pl/company-profile/corporate-governance>.

Taking into account the above-listed 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 2016 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.**

There were no cases of non-observance of the principles of corporate governance adopted by the Bank in the period covered by this report.

## **2. Control and risk management systems in the process of financial statements development**

### *Internal control*

Financial statements are developed by the Finance Division; the process is among the key elements of compliance. The basic elements enabling execution 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 following risks were identified 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 process of financial statements development was structured in two layers: application- and content-related.

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 in particular: 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 process of financial statements development was described 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 controls embedded in the process of financial statements development 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 following solutions were adopted, among others:

- to estimate loan impairment – specific models and applications as well as internal regulations for credit risk assessment were implemented,

- to measure debt financial instruments quoted in active markets or in the case of which the valuation is based on those quotations – the required functionality of core systems was implemented; furthermore, the control exercised by the market risk management units was instituted,
- to measure financial instruments not quoted in active markets – valuation models were implemented, which had been subject to a validation before application,
- to estimate the pension and disability provisions – an independent actuary was commissioned to make an estimate,
- to estimate the provisions for employees and executive staff bonuses – the calculations used are in line with the *General Terms and Conditions of Bonus Award* adopted at the Bank, considering the forecasts regarding Bank's results,
- to appraise investment properties and own properties – the following rule was adopted: the appraisal is obtained from independent experts on an annual basis – for investment properties of significant value, and every three to five years for other properties.

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.

### **3. 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, and 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, which is in line with 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 of 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.

#### Auditor's net fee

	Accounting year ended 31 December 2016 <sup>36</sup>	Accounting year ended 31 December 2015 <sup>36</sup>
Audit of the annual consolidated financial statements	1\ PLN 741.0 thousand + reimbursement of documented direct expenses (maximum PLN 70 thousand) 2\ PLN 38.5 thousand	1\ PLN 1,034.0 thousand + reimbursement of documented direct expenses (maximum PLN 72 thousand) 2\ PLN 38.0 thousand
Other attestation services	For review of the financial statements PLN 169.0 thousand Other PLN 110 thousand	For review of the financial statements PLN 146.0 thousand Other PLN 115 thousand

#### 4. Shares and shareholders of ING Bank Śląski S.A.

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 31 December 2016 had a 75% share in the share capital of ING Bank Śląski S.A. and a 75% share in the overall number of votes at the General Meeting – the said shares have not changed since March 2005. The other Bank shares (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as local and foreign mutual funds, and by private investors. As at 2016 yearend, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva BZ WBK was the largest among them. As per annually reported assets structure of that Fund, as at 30 December 2016, it had an 8.30% share in the share capital and overall number of votes at the General Meeting. As at the date hereof, the Bank does not have any information about any other shareholder going over the threshold of 5% of company capital.

Throughout 2016, 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	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM	Shareholder	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM
ING Bank N.V.	97,575,000	75.00%	ING Bank N.V.	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK <sup>37</sup>	10,796,936	8.30%	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK <sup>38</sup>	7,826,379	6.02%
Other	21,728,064	16.70%	Other	24,698,621	18.98%
<b>Total</b>	<b>130,100,000</b>	<b>100.00%</b>	<b>Total</b>	<b>130,100,000</b>	<b>100.00%</b>

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 35 million clients. ING Group companies have over 52 thousand employees and pursue business in over 40 countries in Europe, North and South America, 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,

<sup>36</sup>Line Audit of the annual consolidated financial statements:

item 1/ Audit of the annual financial statements of ING Bank Śląski S.A., ING Securities S.A. (only for 2015), and ING Lease Polska Sp. z o.o., ING ABL Polska S.A., ING Commercial Finance S.A. and subsidiaries of ING Lease Polska Sp. z o.o.

item 2/ The auditors' fee under the audit of the annual financial statements of the subsidiaries: Nowe Usługi S.A., ING Usługi dla Biznesu S.A. and SOLVER Sp. z o.o. (KPMG did not audit financial statements of those companies).

<sup>37</sup>As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 30 December 2016.

<sup>38</sup>As per annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, as at 31 December 2015.

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 parent company. It was incorporated in 1991 through the merger of a Dutch insurance company, Nationale-Nederlanden, with a Dutch bank, NMB Postbank Groep. In subsequent years, ING Group developed leveraging on both the organic growth and mergers and acquisitions. During the financial crisis in 2008 and 2009, the Group received state aid (later repaid in 2009-2014) conditioned by a restructuring programme. Restructuring assumed inter alia a separation of banking from insurance and investments, to 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 2016 yearend, there were only two shareholders with capital holdings of over 3%. These were: BlackRock Inc (5.07%) and Artisan Investments GP LLC (3.01%). In 2016, ING Group posted net profit of EUR 4,651 million vis-a-vis EUR 4,010 million in 2015. Assets totalled EUR 845 billion (down by 16% from 2015).

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

Pursuant to the provisions of the Bank Charter, the Bank Management Board do not have any special rights concerning share issue or buyout.

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.

## **5. Charter and mode of operation of General Meeting of ING Bank Śląski S.A.**

### *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). Any amendment to the Charter within the scope stipulated in Article 34 section 2 of the Banking Law Act requires approval 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.

In 2016, the Bank Charter was amended as regards Bank's business objects:

- the scope of financial instruments which can be acquired and divested by the Bank in proprietary trading was expanded within the non-brokerage business,
- the services of reporting to trade repositories and the services connected with direct or indirect clearing of financial instruments by central counterparties (CCP) under Regulation of the European Parliament and of the Council (EU) No. 648/2012 were added to the catalogue of financial services provided by the Bank, and
- maintenance of share registers was added to the Bank's business.

It was also stated in the Charter that the Bank may process the 500+ allowance applications as laid down in the Act on State Aid in Raising Children ("Family 500+" Programme) of 11 February 2016.

### *Operation of the General Meeting and its essential rights and shareholders' rights*

The General Meeting is convened by way of a notice published on the Bank's website as well as in the way specified for publishing current information by public companies, and it functions according to the principles defined in the regulations of the Commercial Companies and Partnerships Code and the Bank

Charter as either an Ordinary or Extraordinary General Meeting.

General Meetings are convened at the time enabling all eligible and interested shareholders to attend them.

Bank shareholders representing at least one twentieth of the share capital are entitled to:

- 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.

When an Extraordinary General Meeting is convened, the Management Board present the rationale for convening such a meeting and for putting specific matters on the agenda or ask 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.

The General Meeting shall be valid regardless of the number of shares represented. Each share shall represent 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 governed by 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.

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.

## **6. Supervisory Board operations**

### *Supervisory Board composition*

The Supervisory Board consists of 5 to 11 Members appointed by the General Meeting for a 5-year term of office. The General Meeting determine 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.

Independent Members shall be included in the Bank Supervisory Board composition pursuant to the Principles of Corporate Governance. 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 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 2016, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- on 04 March 2016, Ms. Małgorzata Kołakowska tendered her resignation as the President of the Bank Management Board, effective as of 31 March 2016. The reason for resignation was the assumption of the position of Global Head of Network, Wholesale Banking at ING Group as of 01 April 2016.

- on 04 March 2016, Mr Brunon Bartkiewicz, Deputy Chairman of the Supervisory Board, tendered resignation from his capacity as Member of the Supervisory Board, with immediate effect, in connection with his running for the position of the Bank Management Board President.
- on 24 March 2016, Mr. Diederik van Wassenauer tendered his resignation from his capacity as Member of the Supervisory Board, effective as of 31 March 2016,
- on 31 March 2016, the Ordinary General Meeting appointed Supervisory Board Members Ms Małgorzata Kołakowska (as of 01 April 2016) and Mr Christopher Steane (as of 31 March 2016). Furthermore, during the meeting on 31 March 2016, the Bank Supervisory Board appointed Mr Roland Boekhout Deputy Chairman of the Supervisory Board.

Taking into account the abovementioned changes, as at the end of December 2016, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Mr Antoni Reczek - Chairman, Independent Member,
- Mr Roland Boekhout - Deputy Chairman,
- Ms Aleksander Galos - Secretary, Independent Member,
- Mr Ad Kas - Member,
- Ms Małgorzata Kołakowska - Member,
- Mr Aleksander Kutela - Member, Independent Member,
- Mr Christopher Steane - Member.

The powers of the Supervisory Board Members of ING Bank Śląski S.A. are presented at the Bank's website at <http://en.ingbank.pl/#management=2>.

#### *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 pass 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 shall take place at least 5 times a year.

In 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 Bylaw of the Supervisory Board approved by the Supervisory Board.

The Supervisory Board appoint 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 line with the *Bylaw*, the Audit Committee consists of at least 3 Members of the Supervisory Board, including at least two Independent Members. At least one Independent Member should have qualifications and experience in accounting or financial audit. Currently, there are two Independent Members of the Supervisory Board in the Audit Committee which fulfils the requirements of the *Principles of Corporate Governance for Supervised Institutions*.

As at the end of December 2016, the Audit Committee worked in the following composition:

- Mr Antoni Reczek – Chairman, Independent Member,
- Mr Aleksander Galos – Member, Independent Member,
- Mr Ad Kas – Member,
- Ms Małgorzata Kołakowska – Member.

The Audit Committee meet at least once per quarter. While performing their tasks, the Audit Committee may avail themselves of experts' assistance.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee support the Supervisory Board in the area of monitoring and supervision over the Bank's HR and payroll area, including in particular 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, including at least one Independent Member. Currently one Independent Member of the Supervisory Board is also the Committee Member.

Between 01 January 2016 and 31 March 2016, the Remuneration and Nomination Committee worked in the following composition:

- Aleksander Kutela – Chairman, Independent Member,
- Brunon Bartkiewicz – Member,
- Roland Boekhout – Member,
- Diederik van Wassenauer – Member.

The following changes took place in 2016 on the Remuneration and Nomination Committee:

- on 04 March 2016, the Supervisory Board accepted Mr Brunon Bartkiewicz's resignation from his function as the Deputy Chairman of the Supervisory Board and Member of the Remuneration and Nomination Committee, effective as of 04 March 2016;
- on 24 March 2016, the Supervisory Board accepted Mr Diederik van Wassenauer's resignation from his function as a Member of the Supervisory Board and Member of the Remuneration and Nomination Committee, effective as of 31 March 2016;
- on 31 March 2016, the Supervisory Board appointed Ms Małgorzata Kołakowska (effective as

of 01 April 2016) and Mr Christopher Steane (effective as of 31 March 2016) as Committee Members.

As at 01 April 2016, the Remuneration and Nomination Committee worked in the following composition:

- Aleksander Kutela – Chairman, Independent Member,
- Roland Boekhout – Member,
- Małgorzata Kołakowska – Member,
- Christopher Steane – Member.

In reference with the EBA Guidelines concerning the proper remuneration policy referred to in Article 74 section 3 and Article 75 section 2 of Directive 2013/36/EU as well as disclosing information in accordance with Article 450 of EU Regulation No 575/2013 (Chapter 4, Title I, item 2.4.1 (50)), in November 2016 the Supervisory Board approved the changes on the Remuneration and Nomination Committee so that the Committee composition were as required under the EBA Guidelines, i.e. the majority of the Committee Members, including its Chairman, are Independent Members.

As a consequence, the Remuneration and Nomination Committee worked in the following composition:

- Aleksander Kutela – Chairman, Independent Member,
- Małgorzata Kołakowska – Member,
- Aleksander Galos – Member, Independent Member.

The Committee composition remained unchanged until the end of 2016.

The Remuneration and Nomination Committee meet at least once per quarter. While performing their tasks, the Committee may avail themselves of experts' assistance.

### *Risk Committee*

The Risk Committee support 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 consist of at least 3 Members of the Supervisory Board.

In 2016, the Risk Committee was appointed in the following composition:

- Mr Ad Kas – Chairman,
- Mr Roland Boekhout – Member,
- Mr Antoni Reczek – Member, Independent Member,
- Mr Christopher Steane – Member.

The Risk Committee meet at least once per quarter. While performing their tasks, the Committee may avail themselves of experts' assistance.

## **7. Bank Management Board operations**

### *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 5-year term of office. In the event of changes to the Management Board composition during the term of office, the mandate of the Management Board Member appointed during the term of office expires upon the termination of the Management Board's term of office.

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 credit risk management, are appointed with the approval of the Polish Financial Supervision Authority. Other Bank Management Board Members are appointed by the Bank Supervisory Board upon consultation with the Bank Management Board President. The Bank Management Board Members may be dismissed at any time by the Supervisory Board. Vice-President of the Bank Management Board may be dismissed by the Supervisory Board upon consultation with the Bank Management Board President.

On 04 March 2016, Mr Ignacio Juliá Vilar tendered resignation from his capacity as Bank Management Board Vice-President, effective as of 30 April 2016, due to the planned assumption of the positions of Chief Innovation Officer and Head of Retail Segment at ING Group as of 01 May 2016.

Following the resignation of Ms Małgorzata Kołakowska from her capacity as Bank Management Board President, on 04 March 2016, the Supervisory Board appointed Mr Brunon Bartkiewicz to the position of Bank Management Board President, provided the required approval of the Polish Financial Supervision Authority was obtained. On 19 April 2016, the Polish Financial Supervision Authority approved the appointment of Mr Brunon Bartkiewicz as the Bank Management Board President.

The powers of the individual Bank Management Board Members are presented on ING Bank Śląski S.A. website at <http://en.ingbank.pl/#management=1>.

#### *Powers of the Bank Management Board*

The Bank Management Board manage the Bank and represent it with external matters. Any matters not restricted to the powers of other Bank's bodies pursuant to the laws or the Bank Charter shall rest with the Bank Management Board. The Bank Management Board act 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 formulate the strategy of the Bank's operations as part of a three-year rolling action plan which requires approval by the Supervisory Board.

The Bank Management Board pass 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 shall have the casting vote.

The Bank Management Board Members supervise individual divisions and organisational units in accordance with the segregation of duties defined by the Supervisory Board at the request of the Management Board President, 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.

### Scope of responsibilities of Bank Management Board Members

As at 31 December 2016		As at the report publication date	
<ul style="list-style-type: none"> <li>Mr Brunon Bartkiewicz</li> </ul>	<p><b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, Antifraud Department, Innovation Office, Data Protection Officer position, HR units)</p>	<ul style="list-style-type: none"> <li>Mr Brunon Bartkiewicz</li> </ul>	<p><b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, Antifraud Department, Data Protection Officer position and HR units)</p>
<ul style="list-style-type: none"> <li>Mr Mirosław Boda</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department</p>	<ul style="list-style-type: none"> <li>Mr Mirosław Boda</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department</p>
<ul style="list-style-type: none"> <li>Mr Michał Bolesławski</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Corporate Sales Network Division and the following subsidiaries: ING Usługi dla Biznesu S.A., ING ABL Polska S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)</p>	<ul style="list-style-type: none"> <li>Mr Michał Bolesławski</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Corporate Sales Network Division and the following subsidiaries: ING Usługi dla Biznesu S.A., ING ABL Polska S.A. (ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.)</p>
<ul style="list-style-type: none"> <li>Ms Joanna Erdman</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.</p>	<ul style="list-style-type: none"> <li>Ms Joanna Erdman</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division and of the following subsidiary – Nowe Usługi S.A.</p>
<ul style="list-style-type: none"> <li>Mr Marcin Giżycki</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division</p>	<ul style="list-style-type: none"> <li>Mr Marcin Giżycki</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division</p>
<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as well as the Project Management Department, IT Security Department, the position of the Bank Management Board Representative for the Environmental Management System, and of the following subsidiary – Solver Sp. z o.o.</p>	<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as well as the Project Management Department, IT Security Department, the Process Control Centre and the position of the Bank Management Board Representative for the Environmental Management System, and of the following subsidiary – Solver Sp. z o.o.</p>
<ul style="list-style-type: none"> <li>Mr Patrick Roesink</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department</p>	<ul style="list-style-type: none"> <li>Mr Patrick Roesink</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Risk Division, the Model Validation Department, and the Credit Risk Inspection Department</p>

## XII. Supervisory Board's assessment of operations of ING Bank Śląski S.A. Group in 2016

A slowdown in the Polish economy growth from 3.6% in 2015 to 2.8% in 2016 stemmed from the drop in the demand for corporate lending (particularly visible in H2 2016) and was most likely connected with the investments being suspended by business entities. On the other hand, demand for household lending was at the level similar to that in 2015. ING analyses show that there is lower interest in short-term loans, but this is mainly true for non-bank lending institutions. This was most probably the result of the pay-out of 500+ allowances that materially add to the budgets of less well-off households. As per the Central Statistical Office, business entities were more likely to decide to finance investment projects with their own funds. As a result, the enterprise deposits growth saw a downward trend throughout most of 2016. Household deposits growth remained relatively high. This was the upshot of a good situation in the labour market (and the continued increase in the salary fund) as well as the pay-out of 500+ allowances (the major part of which was put aside by the households).

Banks' results were also shaped by regulatory and statutory factors. After interest rates were cut back to yet another record-breaking level for the last time in March 2015 (reference rate and lombard rate to 1.5% and 2.5% respectively), the area of the monetary policy of the National Bank of Poland saw no further changes. Since February 2016, the Act on Tax on Certain Financial Institutions has been in force. The so-called bank levy burdened the sector costs with approximately PLN 3.2 billion. Furthermore, banks had to pay the bankruptcy costs of a cooperative bank for a second consecutive year. The bankruptcy of Bank Spółdzielczy in Nadarzyn encumbered sector costs with approximately PLN 150 million.

Despite those additional encumbrances, in 2016, the ING Bank Śląski S.A. Group posted the net profit of PLN 1,257.0 million vis-a-vis PLN 1,127 million in 2015 (up by 11.2%). The increase was possible due to:

- income increase. In 2016, the Group's income totalled PLN 4,324.5 million versus PLN 3,778.1 million a year earlier (up by 14.5%). The main driver was the increase in the net interest income of 19.7%, triggered both by higher business volumes and improved interest margin which followed marking to market of the deposit offer. Income and fees and commissions rose by 4.7%, mainly owing to higher income on payment and credit cards. Income was further lifted by the closed sale transaction of Visa shares – impact of PLN 189.6 million.

and it was partially neutralised with:

- increase in operating expenses. Although the costs of the Bank Group dropped by PLN 56.5 million to PLN 2,099.2 million (or down by 2.6%), it followed additional one-off charges borne by the Group in 2015 (additional BGF contribution following the bankruptcy of SK Bank and Mortgage Support Fund provisioning in 2015 as well as additional BGF contribution due to the bankruptcy of Bank Spółdzielczy in Nadarzyn in 2016). Had the one-offs been eliminated, the costs would have gone up by PLN 95.1 million to PLN 2,087.0 million (or by 4.8%) due to higher personnel expenses (PLN 67.2 million y/y), recurring BGF costs (PLN 28.0 million y/y) and depreciation/amortization (PLN 21.4 million y/y) driven by the expanded business scale.
- higher balance of loan loss provisions. Provisioning balance increase of PLN 68.5 million (or up by 29.5%) to PLN 300.6 million has been primarily triggered by the formation of the IBNR provision for the portion of the CHF mortgage portfolio as higher portfolio severity was expected due to depreciation of PLN against CHF (provisions of PLN 31.8 million). The other increase is owed to the higher provisioning balance connected with the higher lending portfolio. As a year ago, the provisioning balance was also impacted by the receivables sale transactions, whereby the balance was reduced by PLN 51.1 million vis-a-vis PLN 37.0 million in 2015. The balance of provisions versus the gross credit receivables portfolio settled at 0.40% in 2016 (2015: 0.36%). Upon adjusting the ratio with the IBNR provision formed for the portfolio of CHF mortgage loans, it goes down to 0.35%. The quality of the lending portfolio remains high (the share of impaired loans settled at 2.6% in December 2016). Adequacy of loan provisions is proven by the provision coverage ratio for the impaired receivables of 60.4%.

- bank levy costs. Since 2016 the Bank has been incurring the costs of bank levy. In 2016, it closed with PLN 280.2 million. Although the payment was made, it should be noted that it is not tax deductible, and thus it results in a higher effective tax rate (up to 23.8% from 18.9% in 2015).

As part of the operations of the Risk Committee and Audit Committee, the Supervisory Board supervise on an ongoing basis the management of various types of risk at ING Bank Śląski S.A.

Following the amendments to the Banking Law Act made as at the end of previous year, in 2016, the Risk Committee established by the Supervisory Board on 26 November 2015, formally started their operations. The Risk Committee took over some tasks so far performed by the Audit Committee. Specifically, the 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.

During the first year of business, the Risk Committee recommended that the Supervisory Board approve the 2016-2018 risk management strategy along with the funding plan, both being a component of the 2016-2018 ING Bank Śląski S.A. strategy; high-level RAS for 2016 for the retail and corporate areas as well as for market risk, and also 2016 non-financial risk appetite statement of the Bank as amended.

The Committee also accepted amendments to the bank regulations concerning risk management, including the amendments to the following documents: *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and Variable Components of Remuneration of ING Bank Śląski S.A.*, *By-law of making use of the bank products by the Bank authorities members and the persons holding senior positions and the entities connected with them in terms of capital or in organisational terms, as well as by other entities stipulated by the By-law*, *Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A.*, *Operational Risk Management Policy at ING Bank Śląski S.A.*, *General Principles of Credit and Market Risk Management and Mitigation in ING Bank Śląski S.A.* (including a change to the document title to *General Principles of Credit, Market and Operational Risk Management and Mitigation at ING Bank Śląski S.A.*), *Risk Materiality Assessment Policy at ING Bank Śląski S.A.*, *ICAAP and Capital Management Policy at ING Bank Śląski S.A.* (including a change to the document title to *Capital Management Policy at ICAAP and Capital Management Policy at ING Bank Śląski S.A.*) and amendments to the *Stress-Testing Policy in ING Bank Śląski S.A.*

Furthermore, the Risk Committee recommended that the Supervisory Board approve the *Recovery Plan for ING Bank Śląski S.A. Group* drafted in line with the Directive of the European Parliament and of the Council 2014/59/EU of 15 May 2014 and the Bank Guarantee Fund Act of 10 June 2016 and transposing the directive requirements into Polish law.

At each of their meetings, the Risk Committee reviewed the Risk Report and the Non-Financial Risk Dashboard which was included in the Risk Report in 2016. The Committee received quarterly risk reports on utilisation of non-financial risk tolerance limits. Both documents are a fixed item on the agenda of the Supervisory Board meeting.

In 2016, the Committee also reviewed the update on the activities of the Anti-fraud Department and the update from the Data Protection Officer.

Assessment of effectiveness of risk mitigants and of quality of compliance risk management rests with the Audit Committee. In this context, at each of their meetings, the Audit Committee reviewed the Compliance Risk Report (including the 2015 Report), and also the report on actual loss limits utilisation as laid down in the 2016 Non-Financial Risk Appetite Statement of ING Bank Śląski S.A. as well as the Non-Financial Risk Dashboard. These documents are another fixed item on the agenda of the Supervisory Board meeting. Furthermore, the Committee recommended that the Supervisory Board approve the *2016 Non-Financial Risk Appetite Statement of the Bank* (as amended) as well as amendments to the *Operational Risk Management Policy at ING Bank Śląski S.A.* as well as recommended approval of the *Policy – General Rules of Limiting and Managing Conflicts of Interest Related to Segregation of Responsibilities at ING Bank Śląski S.A.*

As part of monitoring the efficiency of internal control systems and internal audit, throughout 2016

the Audit Committee recommended that the Supervisory Board approve: the *Annual Report on the standard of internal control of ING Bank Śląski S.A. as at 31 December 2016*, results of the review of the competence profiles and headcount level and structure at the Internal Audit Department and the *Report on the execution of the audit assignments in 2016 – status and update, including amendments to the 2016 Audit Plan*. The Audit Committee also recommended that the Supervisory Board approve the Audit Strategy Memorandum with Long-Term Internal Audit Plan for years 2017-2019 and Internal Audit Plan for 2017. Furthermore, the Audit Committee issued a positive opinion on the candidates for the position of the Compliance Department Director and Internal Audit Department Director and recommended that the Supervisory Board approve the same.

In 2016, the Committee recommended that the Supervisory Board approve the 2016-2018 Capital Plan of ING Bank Śląski S.A., the *ING Bank Śląski S.A. Dividend Policy*, and also amendments to the *Planning Policy at ING Bank Śląski S.A.* and *ING Bank Śląski S.A. External Auditor Independence Policy*. The Committee reviewed the update on actual and forecast capital ratios as well.

To fulfil the requirement arising from Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 and PFSA Recommendation M concerning operational risk management at banks (enclosure with PFSA Resolution No. 8/2003 of 08 January 2013), the Audit Committee recommended that the Supervisory Board approve the updated *Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and Variable Components of Remuneration of ING Bank Śląski S.A.* (being the revision of the previous Policy of Disclosing Qualitative and Quantitative Information on Capital Adequacy and the Scope of Published Information of ING Bank Śląski S.A.).

As part of monitoring the financial reporting process, the Audit Committee periodically analyse the Bank financial statements and the results of their audit. Further, the Chairman of the Audit Committee holds periodic meetings with the Chief Financial Officer in which the Chairman is updated on the interim financial results of the Bank prior to their publication.

The Supervisory Board also attend to the client and staff-related matters. At each of their meetings, the Supervisory Board review the client complaint report. The Supervisory Board analyse the complaint root causes and may judge the actions taken by the Bank to resolve them. Each year, the Supervisory Board review the results of the employee satisfaction survey. In 2016, the Supervisory Board received the OHI survey results for 2015 (organizational health index survey) which revealed that the organization was in a very good condition (83 scores out of 100 possible). There was also established the Remuneration and Nomination Committee within the Supervisory Board, which monitors inter alia the process of employee turnover or staff satisfaction survey results. The turnover report which the Committee reviewed in 2016 read that the attrition rate at the Bank is stable, while the number of employees who resolve to leave the Bank is falling down. The Committee regularly monitors the remuneration system of the Bank, the payroll and bonus policy included.

In the opinion of the Supervisory Board, the risk management system at the ING Bank Śląski S.A. Group covers all material risk types. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2016, ING Bank Śląski S.A. satisfied all the requirements of sound business operations and capital adequacy, and in particular:

- pursued prudent lending policy. The lending processes and procedures applied by the Bank were compliant with the regulatory requirements and best practices on the market. In 2016, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors characterised by increased risk. The Bank's lending portfolio was diversified with a significant share of high-quality loans granted to business entities. Within the Bank Group, impaired credit receivables represented 2.6% of the total exposure, which is significantly less than the average for the entire banking sector,
- has systems and procedures in the market risk management area (for interest rate or currency risk, among others) that meet the top market standards. Throughout 2016, individual market risk categories were managed actively so that their levels were within the limits effective at the Bank. The balance sheet structure is balanced from the currency perspective; its distinctive

feature is the low share of FX receivables in the total mortgage receivables, among other things,

- maintained good liquidity. As at 2016 yearend, the LtD ratio settled at 81.5%. The sound liquidity position of the Group is attributable to one of the largest among Polish banks (and still growing) stable household deposits base,
- had a high level of equity. In December 2016, the solvency ratio of the ING Bank Śląski S.A. Group was 14.7%, while the Tier 1 ratio stood at 13.7%.

Furthermore, the internal audit and compliance risk management procedures binding at the Bank effectively secure its operations against unexpected developments in that regard.

The expected acceleration of the economic growth in 2017 and continuation of stable interest rates may bring about higher demand for loans and increase in their volume in the banking sector. However, the new regulations concerning FX mortgage loans may limit the capacity of banks to build the capital base needed to keep the lending growing. This is why, the Supervisory Board are of the opinion that the Bank should continue to focus on the actions to enhance its security as well as competitiveness of products and customer experience, such as:

- adequate capital management in order to ensure safe lending growth as well as fulfilment of all present and future regulatory requirements,
- further development of the product offer and electronic distribution channels. In stiff competition, it is possible to increase revenues by expanding the customer base through acquiring new customers and increasing loyalty of the existing ones. Such an approach boosts customer balances and transactions' volumes,
- increasing lending capabilities, while being prudent when assessing clients' risk. This will foster keeping high quality of the portfolio and boost net interest income.
- maintenance of adequate stable deposits. It will ensure liquidity indispensable to develop lending,
- optimal use of available resources. Further increasing cost effectiveness by higher scale of operations based on available resources and maintaining high quality of the processes.

According to the Supervisory Board, the strategy pursued by the Bank over the last few years to increase the scale of its operations proved to be successful which is reflected in the achieved financial and commercial results. It justifies the assumption that also in 2017 the Bank will continue its strategy, while keeping adequate capital base.



## XIII. ING Bank Śląski S.A. Management Board statement

### 1. Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the annual financial data for 2016 and the comparable data presented in the consolidated annual financial statements of the ING Bank Śląski S.A. Group were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank Group and its financial result. The Management Board Report being part of this document is a true presentation of the development, achievements and situation (including a description of key risks) of the Bank Group in 2016.

### 2. Selection of entity authorised to audit financial statements

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

### 3. Additional information

#### Agreements concluded

The Bank Management Board represent that as at 31 December 2016, 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, or
- liabilities towards the Central Bank
- agreements referred to in Article 141t.1 of the Banking Law Act.

As at 31 December 2016, the Bank had PLN 866.4 million worth of contractual liabilities under the own bonds issued.

Under the agreement signed on 22 April 2016, ING Commercial Finance Polska S.A. has an open credit line at the Bank totalling PLN 3,500.0 million. The line can be used in the form of an overdraft or as fixed-term drawdowns. The line can be used in PLN and FX within the predefined limits. The price of the limit utilised equals the market rate for a given currency and fixed margin of the Bank. As at 2016 yearend, the limit was utilised at PLN 2,786.1 million. The agreement was concluded until 31 January 2018 and is automatically revoked for another year, unless the parties agree otherwise.

#### 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.

Following the amended Banking Law Act of 27 November 2015, the Bank no longer issues banking writs of execution.

The value of liabilities or debt claims under the proceedings in progress in 2016 did not exceed 10% of the Bank's equity. The Bank is of the opinion that neither the individual proceedings that were pending in 2016 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.

As at 2016 yearend, the Basel II collateral established on the Group's borrowers' accounts or assets totalled PLN 82,845.7 million, out of which 72.9% were mortgages.

**Signatures of Management Board members of ING Bank Śląski S.A.:**

**Brunon Bartkiewicz**

President

(signed on the Polish original)

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**Mirostaw Boda**

Vice-President

(signed on the Polish original)

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**Michał Bolesławski**

Vice-President

(signed on the Polish original)

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**Joanna Erdman**

Vice-President

(signed on the Polish original)

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**Marcin Giżycki**

Vice-President

(signed on the Polish original)

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**Justyna Kesler**

Vice-President

(signed on the Polish original)

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**Patrick Roesink**

Vice-President

(signed on the Polish original)

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2 March 2017