



ING Bank Śląski S.A.  
Capital Group

**Opinion and Report**

**of the Independent Auditor**

**Financial Year ended 31 December 2016**

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.*

## **OPINION OF THE INDEPENDENT AUDITOR**

*To the General Meeting of ING Bank Śląski S.A.*

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is ING Bank Śląski S.A. with its registered office in Katowice, Sokolska 34 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

#### *Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements*

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act"), management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the accompanying consolidated financial statements of ING Bank Śląski S.A. Capital Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with the applicable regulations that apply to the consolidated financial statements of the Group.

#### **Specific Comments on Other Legal and Regulatory Requirements**

##### *Report on the Group's Activities*

Management of the Parent Entity is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act, and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree included in the statement of corporate governance, in all material respects:

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

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Registration No. 3546  
ul. Inflancka 4A  
00-189 Warsaw

*Signed on the Polish original*

.....  
Ewa Józwik  
Key Certified Auditor  
Registration No. 11154  
Limited Liability Partner with power of attorney

*Signed on the Polish original*

.....  
Stacy Ligas  
Member of the Management Board of  
KPMG Audyt Sp. z o.o., entity which is  
the General Partner of KPMG Audyt  
Spółka z ograniczoną  
odpowiedzialnością sp.k.

2 March 2017



ING Bank Śląski S.A.

Capital Group

**Report on the audit**

**of the consolidated financial statements**

**Financial Year ended 31 December 2016**



**ING Bank Śląski S.A. Capital Group**

the report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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**ING Bank Śląski S.A. Capital Group**

The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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## **1. General**

### **1.1. Identification of the Group**

#### **1.1.1. Name of the Group**

ING Bank Śląski S.A. Capital Group

#### **1.1.2. Registered office of the Parent Entity of the Group**

Katowice, ul. Sokolska 34

#### **1.1.3. Registration of the Parent Entity in the National Court Register**

Registration court:	District Court in Katowice, VIII Commercial Department of the National Court Register
Date:	10 April 2001
Registration number:	KRS 0000005459
Share capital as at the end of reporting period:	PLN 130,100,000

#### **1.1.4. Management of the Parent Entity**

The Management Board is responsible for management of the Parent Entity.

As at 31 December 2016, the Management Board of the Parent Entity was comprised of the following members:

- Brunon Bartkiewicz – President of the Management Board,
- Mirosław Boda – Vice President of the Management Board,
- Michał Bolesławski – Vice President of the Management Board,
- Joanna Erdman – Vice President of the Management Board,
- Marcin Giżycki – Vice President of the Management Board,
- Justyna Kesler – Vice President of the Management Board,
- Patrick Roesink – Vice President of the Management Board.

On 4 March 2016 Mrs. Małgorzata Kołakowska resigned from the position of the President of the Management Board effective 31 March 2016.

According to the resolution of the Supervisory Board dated 4 March 2016 Mr. Brunon Bartkiewicz was appointed to the position of the President of the Management Board subject to the required consent of the Financial Supervision Authority. On 19 April 2016 the Financial Supervision Authority approved Mr. Brunon Bartkiewicz for this position.

On 30 April 2016 Mr. Ignacio Juliá Vilar resigned from the position of the Vice President of the Management Board effective 1 May 2016.

According to the resolution of the Supervisory Board dated 27 June 2016 Mr. Marcin Giżycki was appointed to the position of the Vice President of the Management Board effective 1 August 2016.



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## **1.2. Key Certified Auditor and Audit Firm Information**

### **1.2.1. Key Certified Auditor information**

Name and surname: Ewa Józwik  
Registration number: 11154

### **1.2.2. Audit Firm information**

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw  
Registration number: KRS 0000339379  
Registration court: District Court for the Capital City of Warsaw in Warsaw,  
XII Commercial Department of the National Court Register  
NIP number: 527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

## **1.3. Prior period consolidated financial statements**

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 31 March 2016.

The consolidated financial statements were submitted to the Registration Court on 5 April 2016.

## **1.4. Audit scope and responsibilities**

The Parent Entity prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements were audited in accordance with the engagement letter dated 13 June 2016, concluded on the basis of the resolution of the Supervisory Board dated 27 November 2015 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 3 October 2016 to 2 March 2017.

In accordance with Article 111a paragraph 3 of the Banking Act dated 29 August 1997 (Official Journal from 2016, item 1988 with amendments) ("Banking Act") our responsibility was to audit financial information, described in Article 111a paragraph 2 of the Banking Act presented in the report on the Group's activities. The audit was performed in accordance with the scope presented in the paragraph "Auditor's responsibility" of the opinion of the independent auditor.

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting





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The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the financial statements.

The Management Board of the Parent Entity submitted a statement dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



## ING Bank Śląski S.A. Capital Group

The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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## 2. Financial analysis of the Group

### 2.1. Summary analysis of the consolidated financial statements

#### 2.1.1. Consolidated statement of financial position

<b>ASSETS</b>	<b>31.12.2016</b>	<b>% of total</b>	<b>31.12.2015</b>	<b>% of total</b>
	<b>PLN mln</b>	<b>assets</b>	<b>PLN mln</b>	<b>assets</b>
Cash in hand and balances with the Central Bank	1,825.0	1.6	3,589.7	3.3
Loans and receivables to other banks	1,113.4	0.9	1,014.6	0.9
Financial assets measured at fair value through profit or loss	2,826.8	2.4	1,127.1	1.0
Valuation of derivatives	1,117.1	1.0	1,990.9	1.8
Investments	25,721.3	21.9	23,478.8	21.6
Derivative hedge instruments	1,338.6	1.1	2,454.8	2.3
Loans and receivables to customers	81,979.5	69.8	72,519.6	66.6
Receivables from customers due to repo transactions	-	-	1,354.4	1.2
Non-financial assets	1,004.5	0.9	1,070.5	1.0
Assets held for sale	31.8	-	38.4	-
Tax assets	237.5	0.2	59.6	0.1
Other assets	282.2	0.2	194.7	0.2
<b>TOTAL ASSETS</b>	<b>117,477.7</b>	<b>100.0</b>	<b>108,893.1</b>	<b>100.0</b>
<b>EQUITY AND LIABILITIES</b>	<b>31.12.2016</b>	<b>% of total</b>	<b>31.12.2015</b>	<b>% of total</b>
	<b>PLN mln</b>	<b>equity and liabilities</b>	<b>PLN mln</b>	<b>equity and liabilities</b>
<b>Liabilities</b>				
Liabilities due to other banks	5,043.0	4.3	3,913.5	3.6
Financial liabilities measured at fair value through profit or loss	474.8	0.4	629.4	0.6
Valuation of derivatives	1,116.0	0.9	2,002.7	1.8
Derivative hedge instruments	1,468.1	1.2	1,830.9	1.7
Liabilities due to customers	95,825.4	81.6	87,818.5	80.7
Liabilities due to customers under repo transactions	-	-	47.5	-
Liabilities under issue of debt securities	866.4	0.7	866.3	0.8
Subordinated debt	664.9	0.6	-	-
Provisions	73.8	0.1	67.2	0.1
Tax liabilities	121.3	0.1	156.8	0.1
Other liabilities	1,346.8	1.2	879.8	0.8
<b>Total liabilities</b>	<b>107,000.5</b>	<b>91.1</b>	<b>98,212.6</b>	<b>90.2</b>
<b>Equity</b>				
Share capital	130.1	0.1	130.1	0.1
Supplementary capital - issuance of shares over nominal value	956.3	0.8	956.3	0.8
Revaluation reserve	577.5	0.5	1,485.0	1.4
Retained earnings	8,811.0	7.5	8,106.5	7.5
<b>Total equity attributable to shareholders of ING Banku Śląski S.A.</b>	<b>10,474.9</b>	<b>8.9</b>	<b>10,677.9</b>	<b>9.8</b>
Non-controlling interests	2.3	-	2.6	-
<b>Total equity</b>	<b>10,477.2</b>	<b>8.9</b>	<b>10,680.5</b>	<b>9.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>117,477.7</b>	<b>100.0</b>	<b>108,893.1</b>	<b>100.0</b>
Book value of equity	10,474.9		10,677.9	
Number of shares	130,100,000		130,100,000	
Book value of equity per share (in PLN)	80.51		82.07	



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**2.1.2. Consolidated statement of profit and loss**

	1.01.2016 - 31.12.2016 PLN mln	1.01.2015 - 31.12.2015 PLN mln
Interest income	3,922.9	3,628.6
Interest expense	969.5	1,161.5
<b>Net interest income</b>	<b>2,953.4</b>	<b>2,467.1</b>
Commission income	1,203.9	1,134.7
Commission expense	139.1	117.5
<b>Net commission income</b>	<b>1,064.8</b>	<b>1,017.2</b>
Net income on financial instruments measured at fair value through profit and loss and FX result	57.2	85.1
Net income on investments	232.3	165.0
Net income on hedge accounting	(2.6)	22.9
Net income on other basic activities	19.4	20.8
<b>Result on core activities</b>	<b>4,324.5</b>	<b>3,778.1</b>
General and administrative expenses	2,099.2	2,155.7
Impairment losses and provisions for off-balance sheet liabilities	300.6	232.1
Tax on certain financial institutions	280.2	-
<b>Profit before income tax</b>	<b>1,644.5</b>	<b>1,390.3</b>
Income tax	391.4	263.2
<b>Net profit</b>	<b>1,253.1</b>	<b>1,127.1</b>
- <i>attributable to shareholders' of the ING Bank Śląski S.A.</i>	1,253.0	1,127.0
- <i>attributable to non-controlling interests</i>	0.1	0.1
<b>Net profit attributable to shareholders' of the ING Bank Śląski S.A.</b>	<b>1,253.0</b>	<b>1,127.0</b>
<b>Weighted average number of shares</b>	<b>130,100,000</b>	<b>130,100,000</b>
<b>Profit per share (in PLN)</b>	<b>9.63</b>	<b>8.66</b>



**ING Bank Śląski S.A. Capital Group**

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**2.1.3. Consolidated statement of comprehensive income**

	1.01.2016 - 31.12.2016 PLN mln	1.01.2015 - 31.12.2015 PLN mln
<b>Net profit for the period</b>	<b>1,253.1</b>	<b>1127.1</b>
<b>Total other comprehensive income, including:</b>	<b>(898.1)</b>	<b>(383.9)</b>
<b>Items which can be reclassified to income statement, including:</b>	<b>(898.0)</b>	<b>(380.4)</b>
Gains/losses on remeasurement of available-for-sale financial assets	(76.1)	12.9
Reclassification to the financial result as a result of sale of available-for-sale financial assets	(183.7)	(47.2)
Amortisation of gains or losses on financial assets re-classified from the available-for-sale portfolio to the held-to-maturity portfolio	(32.2)	(28.4)
Effective part of cash flow hedging instruments revaluation	(606.0)	(317.7)
<b>Items which will not be reclassified to income statement, including:</b>	<b>(0.1)</b>	<b>(3.5)</b>
Revaluation of non-current assets	(1.6)	(3.8)
Disposal of non-current assets	(0.2)	0.7
Actuarial gains/losses	1.7	(0.4)
<b>Net comprehensive income for the reporting period, including</b>	<b>355.0</b>	<b>743.2</b>
- attributable to shareholders' of the ING Bank Śląski S.A.	354.9	743.1
- attributable to non-controlling interests	0.1	0.1



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**2.2. Selected financial ratios**

	2016	2015	2014
Total assets (PLN mln)	117,477.7	108,893.1	99,860.7
Gross profit (PLN mln)	1,644.5	1,390.3	1,347.4
Net profit (PLN mln)	1,253.1	1,127.1	1,040.8
Shareholders' equity (PLN mln)	10,474.9	10,677.9	10,454.0
Return on Equity*	11.85%	10.67%	10.91%
Return on Assets**	1.11%	1.08%	1.12%
Cost to income ratio***	48.54%	57.06%	54.44%
Total Capital ratio	14.73%	13.74%	14.17%
Loan to deposit ratio****	85.55%	82.58%	80.70%
Loan Portfolio Coverage ratio*****	1.76%	2.09%	2.75%

\* *net profit for the period attributable to shareholders' of the Bank / average equity attributable to shareholders' of the Bank*

\*\* *net profit for the period attributable to shareholders' of the Bank / average total assets*

\*\*\* *general and administrative expenses / (results on core activities + share in net profit of associated entities recognised under equity method)*

\*\*\*\* *loan and receivables to customers / liabilities due to customers*

\*\*\*\*\* *impairment allowance / loans and receivables to customers*



**ING Bank Śląski S.A. Capital Group**

The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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### **3. Detailed report**

#### **3.1. Accounting principles**

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Entity.

#### **3.2. Basis of preparation of the consolidated financial statements**

The consolidated financial statements of the ING Bank Śląski S.A. Capital Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

#### **3.3. Method of consolidation**

The method of consolidation is described in note II point 6 of the notes to the consolidated financial statements.

#### **3.4. Goodwill arising on consolidation**

The method of calculating goodwill arising on consolidation is described in note III point 8.2.1 of the notes to the consolidated financial statements.

#### **3.5. Consolidation of equity and calculation of non-controlling interest**

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.



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**3.6. Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of ING Bank Śląski S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

**3.7. Compliance with banking regulations**

Based on our audit, we have not identified significant incompliance by the Group with banking prudential regulatory norms, and also, we have not identified any material misstatements in determination of the capital ratio.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Registration No. 3546  
ul. Inflancka 4A  
00-189 Warsaw

*Signed on the Polish original*

.....  
Ewa Józwik  
Key Certified Auditor  
Registration No. 11154  
Limited Liability Partner with power of attorney

*Signed on the Polish original*

.....  
Stacy Ligas  
Member of the Management Board of  
KPMG Audyt Sp. z o.o., entity which is  
the General Partner of KPMG Audyt  
Spółka z ograniczoną  
odpowiedzialnością sp.k.

2 March 2017