Management Board Report on Operations of ING Bank Śląski S.A. Group in H1 2019

Net profit

(H1 2019)

PLN **795.7** million (+15% y/y)

Number of clients

(I półrocze 2019 roku)

4.98 million (+12% y/y)

Sale of mortgage loans

(H1 2019)

PLN **5.1** billion (+13% y/y)

Increase in the gross corporate receivables balance

(Q2 2019– growth rate y/y)

PLN **7.1** billion (+13% y/y)

Execution of strategic priorities for 2019

Priority	Execution
Increase in the number of clients	▪ As at the end of June 2019, the bank group served nearly 5.0 million clients. ▪ During the first half of the year, the number of retail clients went up by 117.7 thousand. ▪ The number of corporate clients went up by 4.1 thousand during the first half of 2019.
Compliance with regulatory requirements	▪ At the end of June 2019, the total capital ratio remained at a safe level (15.05%) ▪ As part of the works on PSD2, we gave access to a testing environment for providing data as part of open banking.
Operational excellence	▪ The commercial balance per FTE was PLN 28.9 million as at the end of June 2019 (+12.9% y/y). ▪ The number of clients per FTE was 614 as at the end of June 2019 (+3.9% y/y). ▪ The cost to income ratio (adjusted for BGF) amounted to 43.6% (-1.4 p.p. y/y). ▪ In 2019, we made Apple Pay available to individual clients, entrepreneurs and businesses.
Employees' motivation	▪ We implemented a programme called Well-beING which is addressed to employees and based on three priorities – energy, health and being active. In addition, we took initiatives addressed to employees with disabilities. ▪ We are working on a new training platform which is set to be launched in the second half of the year. ▪ We take efforts to strengthen the brand of our bank as a technology company through our employees' involvement in knowledge-sharing initiatives, such as meet-ups and techblog.ing.pl.
Data management	▪ My Assistant in Moje ING responds to client questions with an effectiveness at 96% (+2p.p. vs 2018). The knowledge base of My Assistant increased by 23% from March 2018. ▪ We implemented the account service functionality via Google Assistant. ▪ We carried out the Data Science Bootcamp programme to develop data analysis skills in terms of building solutions using artificial intelligence and machine learning. ▪ We take advantage of machine learning technology in marketing analyses.

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About us

Who we are

We have been present on the Polish market since 1989. We are proud to be one of the largest universal banks in Poland. We serve both retail clients and business entities. As at the end of June 2019, we served our clients through 332 branches and 64 ING Express service points. Furthermore, we offer state-of-the art online and mobile banking systems.

We want to be the bank of first choice for our clients. We care about the top quality and broad availability of our services.

Our operations are divided between two main centres – Warsaw and Katowice. This is where the most important decisions concerning our operations are taken. This is also where the Management Board and the Supervisory Board have their seat. ING Bank Śląski S.A. is formally incorporated in Katowice. As at the end of June 2019, our Group employed more than 8,000 people.

We implement our business model by:

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

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

Bank shares have been quoted on the Warsaw Stock Exchange since 1994. Since the very index formation (September 2013), we have been among the WIG30 companies.

In 2018, we were listed in the RESPECT Index (of the most socially responsible companies) for the twelfth time. Our presence in the index is a huge reason to be proud and a big distinction. The more so that we are the only company from the financial sector present in the RESPECT Index from the very beginning, i.e. 2009. Consistency, transparent and responsible approach to business as well as ethical relationships with stakeholders are our way to continue being part of this prestigious group.

How ING Group operates in Poland

ING Bank Śląski S.A. operating in Poland is part of the ING Bank Śląski S.A. Group. As a Group, for 30 business years, we have managed to establish our position among the top financial institutions in Poland. We are the fifth in terms of the balance sheet total (over PLN 146 billion as at the end of March 2019) and the fourth in terms of the commercial balance (the total of deposits and loans). We form the Group together with the subsidiaries, where we operate in the area of:

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

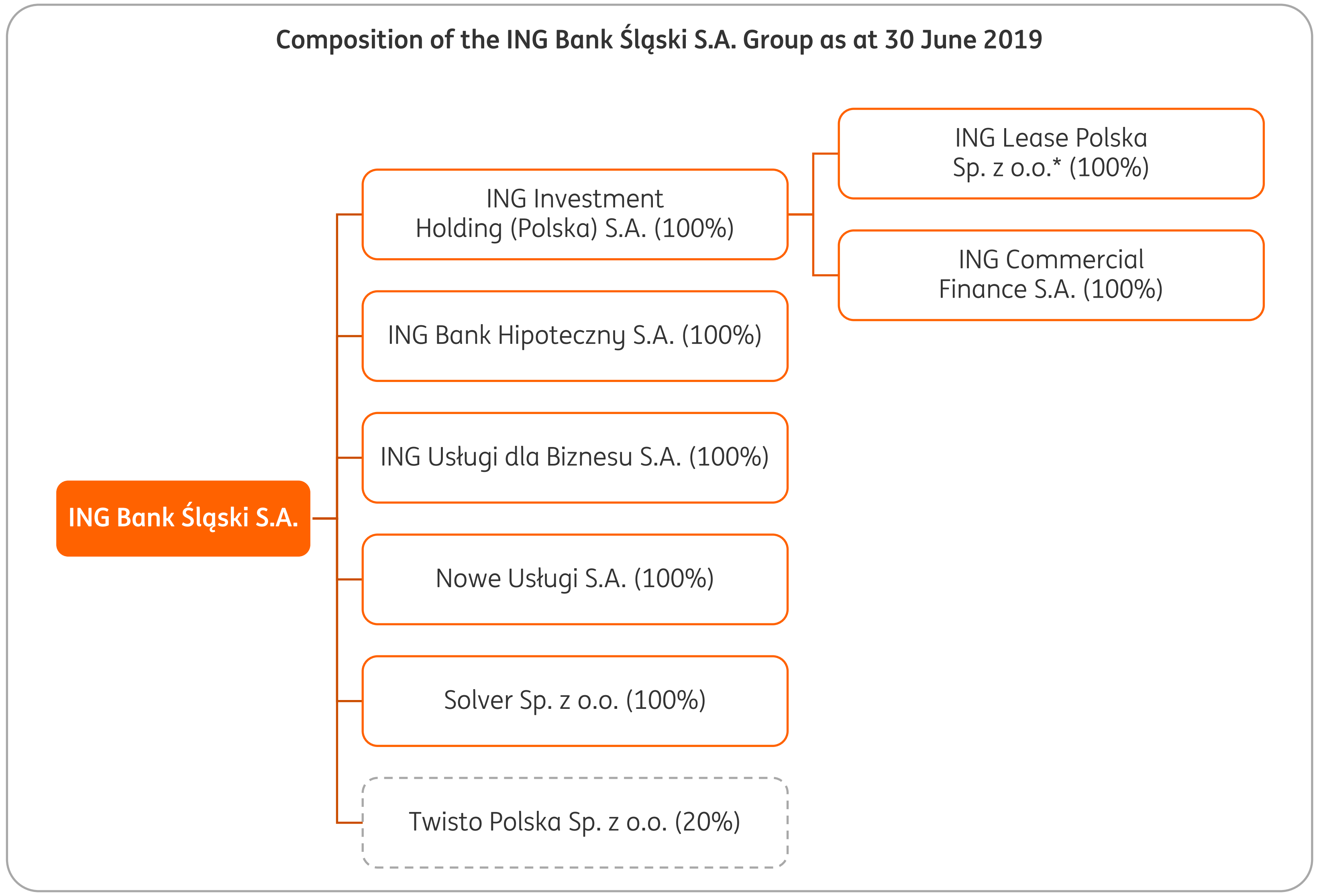
The Group members are also the founders of ING for Children Foundation and ING Polish Art Foundation.

Changes to Group structure

Intention to purchase 45% of the NN Investment Partners TFI S.A. share capital

On 18 December 2018 ING Bank Śląski S.A. and its subsidiary, ING Investment Holding (Polska) S.A., signed with NN Investment Partners International Holdings B.V. an initial agreement on purchasing 45% of the NN Investment Partners TFI S.A. shares. Pursuant to the purchase agreement, the key suspending condition for the transaction conclusion is lack of objection thereto from the Polish Financial Supervision Authority. In its sitting on 23 July 2019, the Polish Financial Supervision Authority unanimously agreed there were no grounds for objecting to the planned transaction.

ING Bank Śląski S.A. Group composition



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

ING Investment Holding (Polska) S.A.

ING Investment Holding (Polska) S.A. is a holding company. The Bank has shares in two subsidiaries through it: ING Commercial Finance and ING Lease (Polska).

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

ING Lease (Polska) has been present in the market since 1996 and has been a part of the Bank Group since 2012. ING Lease (Polska) offers all basic kinds of lease and a loan which enable financing both movables (such as passenger cars, light commercial vehicles, heavy transport vehicles, machines and medical and IT devices), and immovable property. ING Lease (Polska) Group additionally includes 9 subsidiaries where ING Lease (Polska) Sp. z o.o has 100% of shares. The company addresses its services to all market segments: big, medium and small companies as well as clients from the micro segment (entrepreneurs).

In H1 2019 the company new lease production totalled PLN 2.8 billion (up by 28% y/y). As at the end of June 2019, the company serviced 26,900 clients (up by 33% y/y), and its portfolio value exceeded PLN 9.1 billion (up by 25% y/y).

ING Commercial Finance S.A.

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

As per the Polish Factors Association's data, ING Commercial Finance is now number three in Poland in terms of factoring turnover. In H1 2019, ING Commercial Finance turnover totalled PLN 16.8 billion, or 19.5% of the total market turnover. In H1 2019, the company served more than 3,800 clients (up by 84% y/y) and bought out 46% more invoices than in H1 2018.

ING Bank Hipoteczny S.A.

On 2 January 2019, ING Bank Hipoteczny S.A. (ING BH) received permission to launch operations. ING Bank Śląski S.A. (ING BSK) holds 100% of shares in the new entity.

The main business purpose of ING BH is the issue of long-term mortgage bonds with the underlying instruments being debt claims under the mortgage-backed loans acquired from ING BSK or other banks.

Upon achieving that goal, it will be possible to:

- strengthen the funding stability within the ING BSK Group,
- diversify the funding sources for the funding of the existing retail mortgage portfolio,

- adjust the term structure of assets and liabilities in the balance sheet,
- release the liquidity of the ING BSK S.A. Group, and
- reduce the costs of funding of the lending funded with other long-term instruments.

During the H1 2019, ING BH focused on acquiring and building a portfolio of mortgaged receivables for the future issue of mortgage bonds. As at the end of that period, ING BH had more than PLN 1.3 billion worth of said receivables on its balance sheet.

ING Usługi dla Biznesu S.A.

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

- Aleo.com – open business purchase platform,
- ING Accounting – accountancy and payroll services for companies keeping full accounting records and a platform for invoicing and managing payments for entrepreneurs.

Nowe Usługi S.A.

The company was incorporated in May 2014. It conducts educational and marketing activities. As far as educational activities are concerned, the company runs the website edukacjagieldowa.pl. It is a website about investing and stock exchange, both for debuting and fully-fledged investors. The knowledge database and investment-related materials are published on an ongoing basis on the website. Marketing activity centres around popularisation of ING Turbo certificates on the Polish market. The instruments are issued by ING Bank N.V. Amsterdam and quoted on the Warsaw Stock Exchange. The main activities of the company are the organisation of marketing campaigns, ING Turbo helpline service or technical support while running the ingturbo.pl website.

Solver Sp. z o.o.

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

- arranging holidays for employees and their families as well as for pensioners of ING Bank Śląski S.A. This activity is carried out in the Pan Tadeusz Training and Recreational Centre in Krynica,
- renting 2 residential premises in the building at ul. Klimczoka 4 in Katowice.

Twisto Polska Sp. z o.o.

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

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

ING Bank Śląski S.A. business strategy

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

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

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

Our promises

We make banking clear and easy

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

We are available anytime, anywhere

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

We empower people

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

We keep getting better

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

Strategic priorities

We want to be the primary bank for our clients

Clients are at the centre of our actions. We care about it that they are numerous and feel attached to us. We will be the primary bank for them only if they are satisfied with us and if it is with us that they find answers to their problems. We know that we can ensure them a lasting and good relationship if, at the same time, we look after our financial strength and stable infrastructure.

We develop our competence to understand clients better

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

We implement innovations so as to meet client needs

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

We think beyond banking to develop new services and business models

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

Strategic priorities and main risks in 2019

Our strategic priorities for 2019

- Increase in the number of clients
- Regulatory compliance
- Operational excellence
- Employee motivation
- Data management

Risks to business strategy implementation in 2019

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

Significant events in H1 2019

Appointment of a Vice-President of the Bank Management Board

On 24 June 2019 the Supervisory Board appointed Mr Sławomir Soszyński as the Vice-President of the Management Board, effective as of 1 October 2019.

Bonds series INGBS191219

On 19 June 2019, due to commencing new, tenth coupon period and setting a new WIBOR rate for six-month deposits per the coupon period, the interest was changed for bonds series INGBS191219 of the total nominal value of PLN 300.000.000,00, issued by the Bank on 19 December 2014, under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A. The bonds interest for the subsequent coupon period is 2.54% per annum. The next coupon date falls on 19 December 2019. The other rights under the said bonds remain unchanged.

Amount of annual contribution to the banks' resolution fund

On 16 April 2019, the Bank was advised of the amount of annual contribution for the banks' resolution fund for 2019. It is PLN 131,2 million, including the adjustment of the contribution made in 2018. The entire contribution was recognised in costs for the 1 quarter of 2019 and is presented in the income statement, item: General and administrative expenses.

Moody's affirms ratings

On 1 April 2019 the rating agency Moody's Investors Service („Moody's") affirmed the ING Bank Śląski ratings:

1 Long-Term Deposits rating: „A2";
2 Short-Term Deposits rating: „P-1";
3 Baseline Credit Assessment (BCA): baa2;
4 Adjusted Baseline Credit Assessment (Adjusted BCA): baa1;
5 Counterparty Risk Assessment (CR Assessment) long-/short-term: A1 (cr) / P-1 (cr);
6 Counterparty Risk Rating (CR Rating) long-/short-term: A1 / P1.

At the same time, the agency maintained the "Stable" perspective for the long-term deposit rating.

ING Bank Śląski's ratings are supported by Poland's Macro Profile of "Strong-" and reflect the Bank's:

1 good quality, though unseasoned, loan book with very limited exposure to foreign-currency retail mortgages,
2 adequate, albeit declining capital ratio, and
3 comfortable funding and liquidity profiles.

Moody's rating for ING Bank Śląski S.A. has not been commissioned and is assigned pursuant to publicly available data.

General Meeting of ING Bank Śląski S.A.

On 29 March 2019, the General Meeting of ING Bank Śląski S.A. was held, during which the following resolutions were passed:

- on approval of the 2018 annual financial statements (separate and consolidated financial statements),

- on approval the Management Board Report on Operations of ING Bank Śląski S.A. Group covering the Report on Operations of ING Bank Śląski S.A. in 2018, including the Report on Observance of Corporate Governance Principles,
- on acknowledgement of 2018 reports of the Bank Supervisory Board and assessment of the Bank's remuneration policy,
- on acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for 2018,
- on distribution of 2018 profit and past-year loss coverage,
- on 2018 dividend payout,
- on amendments to the Charter of ING Bank Śląski Spółka Akcyjna,
- on appointing the Supervisory Board Member for a new term of office,
- on the collective suitability assessment of the Supervisory Board,
- on the amendments to the Supervisory Board Members Remuneration Policy.

Dividend policy update approval by the Supervisory Board of ING Bank Śląski S.A

On 1 March 2019 the Supervisory Board approved the updated ING Bank Śląski S.A. Dividend Policy ("Policy").

The Policy has been updated following the published stance of the Polish Financial Supervision Authority ("PFSA") on the dividend policy at banks in the following manner:

- the Policy has been tailored to the stance of the PFSA in that the specification of minimum capital ratios (common equity Tier 1, Tier 1 ratio and total capital ratio) was waived for the regulatory formula due to the volatile systemic risk buffer and countercyclical capital buffer; and
- the Policy provisions have been appended with the condition concerning the Bank's sensitivity to an adverse macroeconomic scenario.

ING Bank Śląski S.A. endorses a long-term stable process of dividend payout in adherence to the rules of prudent management and any and all regulatory requirements which the Bank shall comply with.

The Dividend Policy endorses the option to pay dividend from the capital surplus over the minimum capital adequacy ratios and over the minimum capital ratios set for the Bank by the PFSA for dividend payout purposes:

- minimum common equity Tier 1 (CET1) at the level of 4,5% + combined buffer requirement[1] + 1,5%,
- minimum Tier 1 (T1) at the level of 6% + combined buffer requirement[1] + 1,5%,
- minimum total capital ratio (TCR) at the level of 8% + combined buffer requirement[1] + 1,5%.

where [1] combined buffer requirement binding in the year of dividend payout from the profit of the previous year.

When determining the recommended dividend payout amount to the General Meeting, the Bank Management Board review in particular the following terms and conditions:

- 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),
- Bank's and Bank Group's assumptions of the management strategy and risk management strategy,
- Polish Financial Supervision Authority's stance on the banks' dividend policy, including – within capital criteria – the sensitivity of the Bank to unfavourable macroeconomic scenario (ST parameter),
- 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,
- the need to adjust profits of the present period or unapproved annual profits recognised as own funds with foreseeable dividends, according to art 26 of the Regulation EU 575/2013.

Sale of non-performing receivables portfolio

On 31 January 2019 the Group concluded an agreement on the sale of corporate receivables from the impaired portfolio. As a result of the transaction, the gross portfolio of irregular receivables decreased by PLN 135.1 million. The positive impact of the transaction on the Group's result before tax amounted to PLN 9.8 million.

Polish Financial Supervision Authority's approval of the subordinated loan amount recognition under Tier 2 capital

On 30 January 2019, the Polish Financial Supervision Authority's approval to recognise, in the Bank's Tier 2 capital, the funds available under the subordinated loan received from ING Bank N.V. in the amount of EUR 100 million.

Polish Financial Supervision Authority notice of the individual add-on ST used in the dividend policy

On 18 January 2019 ING Bank Śląski has received a letter from the Polish Financial Supervision Authority ("PFSA") on the criteria for the dividend policy of commercial banks in 2019. In their letter, the PFSA communicated the individual add-on ST for the Bank to be taken account of in the event of dividend payout of over 75% of earned net profit.

The add-on ST measures the Bank's sensitivity to an adverse macroeconomic scenario. It is defined as the difference between the total capital ratio ("TCR") in the baseline scenario and TCR in the stress scenario as at the 2020 yearend, considering supervisory adjustments. Due to the assumption of stable balance sheet, applicable to this year; i.e., banks' inability to respond to negative developments in their external landscape, the ST indicator was reduced by the conservation buffer in place since 1 January 2019; i.e. 2.5 p.p.

As a result of analyses made during the stress tests conducted by the PFSA Office, the individual add-on ST for ING Bank Śląski S.A. was set, upon reduced by the conservation buffer, at 3.34%.

Polish Financial Supervision Authority's approval of operations commencement by ING Bank Hipoteczny S.A

On 2 January 2019 ING Bank Śląski has obtained information that the Polish Financial Supervision Authority ("PFSA") approved operations commencement by ING Bank Hipoteczny S.A., a Bank subsidiary.

In their decision the PFSA stated that ING Bank Hipoteczny S.A. satisfied all the requirements set out in Article 36.3 of the Banking Law Act.

Significant events after the balance sheet date

Polish Financial Supervision Authority decision on the absence of grounds for objection against the planned acquisition of 45% of shares of NN Investment Partners TFI S.A. by a Bank subsidiary

On July 23, 2019 the Polish Financial Supervision Authority (PFSA) has issued a decision on the absence of grounds for objection against the intention of ING Investment Holding (Polska) S.A., a Bank subsidiary, and of ING Groep N.V., an original parent entity of ING Investment Holding (Polska) S.A. and the Bank, to acquire 45% of shares of NN Investment Partners TFI S.A.

As a result of issue of the above decision by the PFSA; i.e. satisfaction of the key condition precedent foreseen in the Purchase Agreement, the Bank expect the transaction to be closed in Q3 2019.

Awards and distinctions

Our daily efforts in offering attractive products to our clients, attention to high service quality, sustainability actions and practices as well as outstanding commercial and financial results have been honoured with numerous awards and distinctions. Below please find the list of the most important ones received in H1 2018:

- The main prize and the title of the Banking Star granted for the overall performance in 2018 in the ranking compiled by Dziennik Gazeta Prawna and PwC. The Bank was also awarded in the following categories: “Stability Star”, “Customer Relationship Star” and “Effectiveness Star”.
- Bank Gospodarstwa Krajowego Award for ING Bank Śląski S.A. for the largest share in the distribution of EU funds from the Smart Growth Operational Programme.
- The title of "The Most Friendly Bank" in the Leaders of Banking and Insurance World competition for the overall CSR activity of the Bank in 2018.

The full list is available at https://en.ingbank.pl/company-profile/prizes.

Macroeconomic situation of Polish banking sector growth

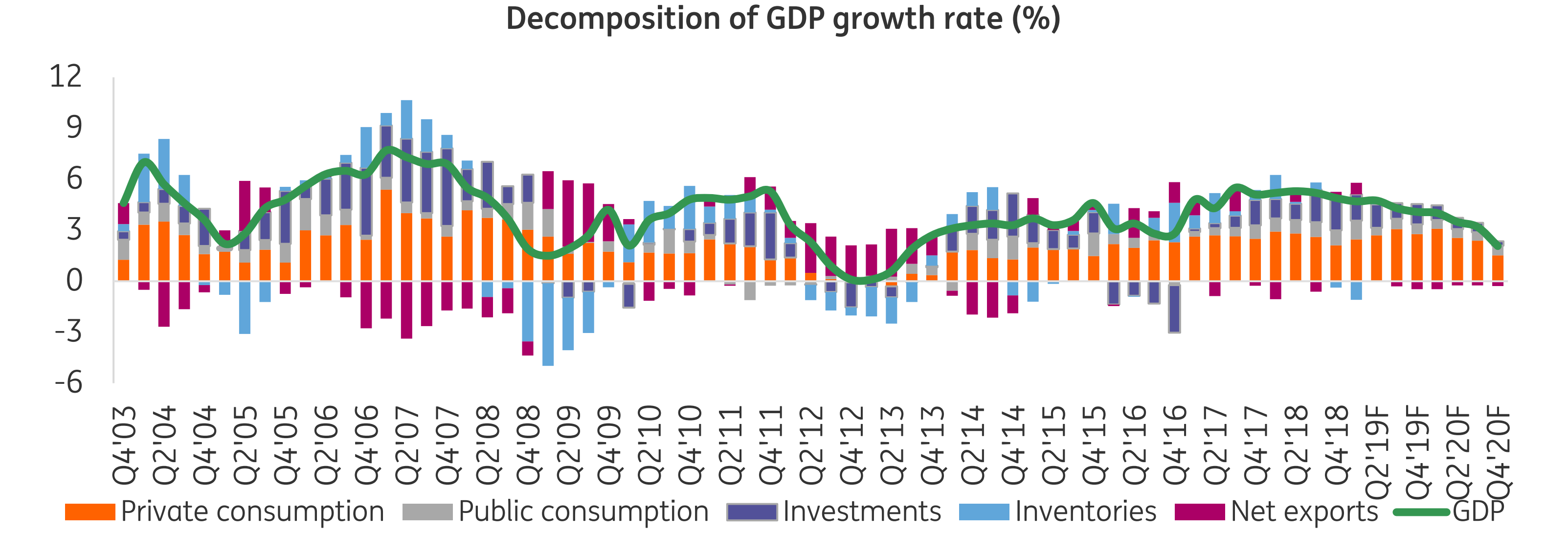
Major trends in Polish economy

Gross Domestic Product

According to the estimates of ING Bank Śląski economists the growth rate of Polish economy during the first half of the year was slightly lower than in the same period of 2018 and stood at 4.7% y/y. The growth was driven high growth rate of investment outlays (around 10% y/y) and consumption expenditure (more than 4% y/y). Polish economy proved resilient to the slowdown in the Eurozone thanks to internal demand resulting from the good situation on the job market, welfare programmes and the investment cycle, in the power sector, for example. Poland also benefited from the structure of the industry with little exposure, for example, to Asian economies which have suffered from a slowdown due to changes in global commercial relationships.

In the opinion of ING Bank Śląski economists the GDP growth rate in the second half of the year will be approximately 4.2% y/y and it will be lower than in the first half of 2019. A decline in the case of Poland's main trading partners, i.e. a recession in German industry, may dampen the propensity to invest among Polish companies. Limited labour resources and uncertainty as to private investment projects are another barrier to growth in Poland. Furthermore, the growth rate of EU funds' utilisation in Poland reached its peak last year (in 2018, the EU fund disbursement grew by 70% y/y) which means that in 2019 the growth rate of public investments will go down significantly.

The economic slowdown would be much deeper had it not been for the fiscal stimulus applied by the government. It is also the reason why consumption expenditure will remain the main growth driver of the economy. In May, retirement and disability pensioners received the so-called 13th pension (PLN 9 billion in total) and, starting the second half of the year, the government will start the payments under the Family 500+ child benefit programme to first-born children (an extra PLN 18 billion per year). Furthermore, the personal income tax rate will be lowered from 18% to 17% and people under 26 will be exempt from the personal income tax. Those activities will lead to a temporary increase in the growth rate of household incomes by one third (to more than 9% y/y).



Source: The Central Statistical Office, Q2.2019-Q4.2020 – ING forecast

Labour market and payroll

Early 2019, the growth rate of wages in the enterprise sector stabilised at a relatively high level (more than 7% y/y). The unemployment rate continued to decline. In May, the registered unemployment rate went down to 5.4% from 6.1% a year earlier.

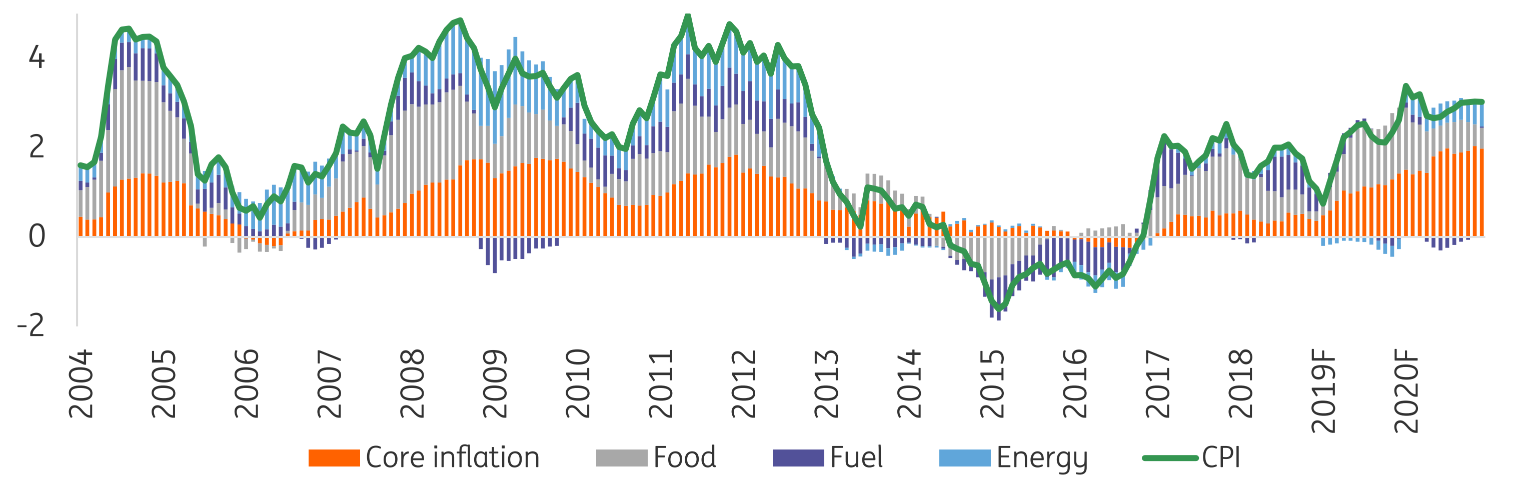
The economists of ING Bank Śląski expect that the good situation on the labour market will continue until the end of the year. According to the National Bank of Poland's report "Szybki Monitoring" the number of enterprises planning a rise in wages has significantly risen since the beginning of the year. However, in some areas of the economy there are signs of slowdown and deceleration of demand for labour. This is the case for residential construction and transport, among others. As a result, the bank analysts are of the view that in the second half of the year the growth rate of wages in the enterprise sector will remain above 7% y/y. The unemployment rate also should continue to decline.

Inflation

Since the beginning of 2019, CPI inflation increased from 0.7% y/y to 2.6% y/y in June. It was mainly the effect of rising food prices relating to the last year's drought, among other things. Core inflation also increased from 0.8% to 1.9% y/y. The increase of prices in that group reflects, among other things, the impact of changes in regulatory prices, higher labour costs, and recently also the consumption boom stimulated by excessive budgetary stimulus.

In the opinion of the bank economists the growth rate of CPI inflation in the second half of the year will temporarily go down below the National Bank of Poland's target (2.5% y/y). It will increase again at the turn of the year and at the beginning of 2020 the index will temporarily exceed the level of 3% y/y. High CPI growth rate at the beginning of 2020 will be related to a continuation of high rate of consumption expenditure, delayed effects of an increase in wages and also the increase in energy prices. In the opinion of the bank economists the currently existing mechanisms of compensations will be partly maintained; however, the regulator (the Energy Regulatory Office) will raise the tariffs for the retail off-takers by 8%. This adds to the risk relating to the introduction of the tax on turnovers in retail trade. As a consequence, the average CPI in Q1 2020 will approximate 3.5% y/y.

Inflation (CPI) – decomposition (%)



Source: The Central Statistical Office, Q2.2019-Q4.2020 – ING forecast

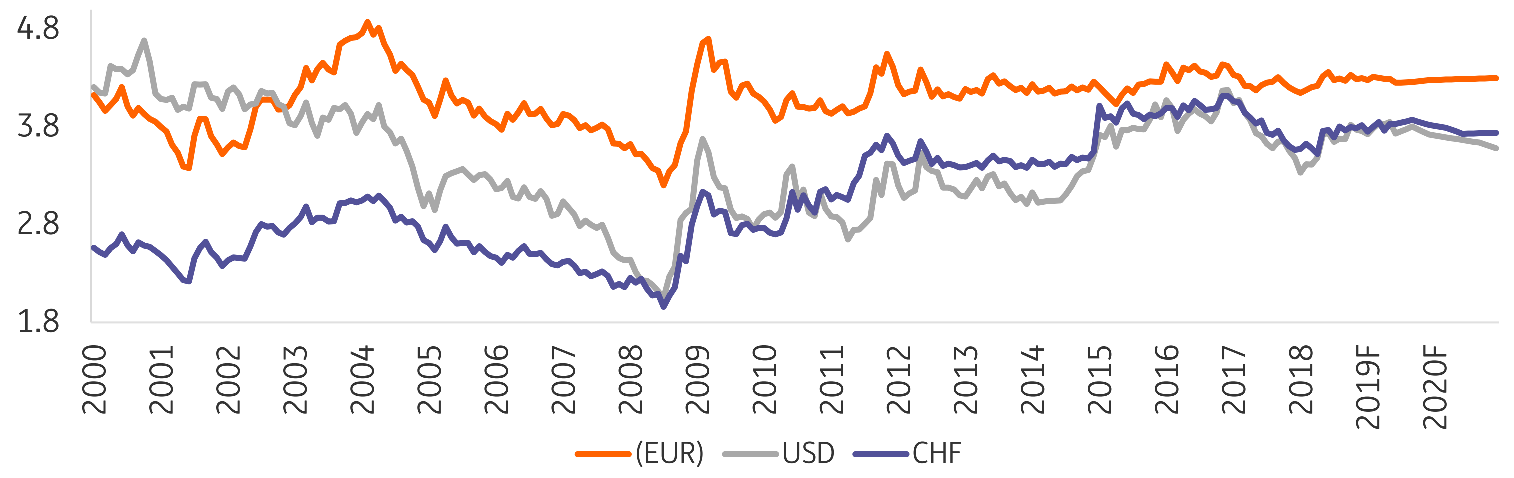
Impact of global financial markets on Polish economy

In the first half of the year the Polish zloty was in a narrow lateral trend vis-à-vis EUR. The stabilisation of the domestic currency was supported by the stable policy of the National Bank of Poland (which is in contrast to the situation in other countries of our region) and the continued good situation in the country, despite the slowdown in the Eurozone. In the first half of the year, and especially in the second quarter, the position of the domestic T-bonds significantly strengthened (more than 40bps in the 10-Y segment). This is the effect of lower yields on the major markets, for example in Germany, and of the drop in the risk of another fiscal easing in Poland after European Parliament elections, as estimated by the investors.

According to the economists of ING Bank Śląski the €/PLN exchange rate will remain in the lateral trend (i.e. close to 4.25) until the year-end. Due to the fiscal stimulus in Poland, the reductions of interest rates in Poland are unlikely in the coming quarters, despite the upcoming easing of the policies by the FED and the European Central Bank. In the opinion of the Bank's analysts, the higher interest rate disparity should compensate for market tensions, if any, due to an increase in global protectionism. Since Poland has relatively little commercial interactions with the US or the Asian economies, the volatility of the Polish zloty will likely remain relatively low.

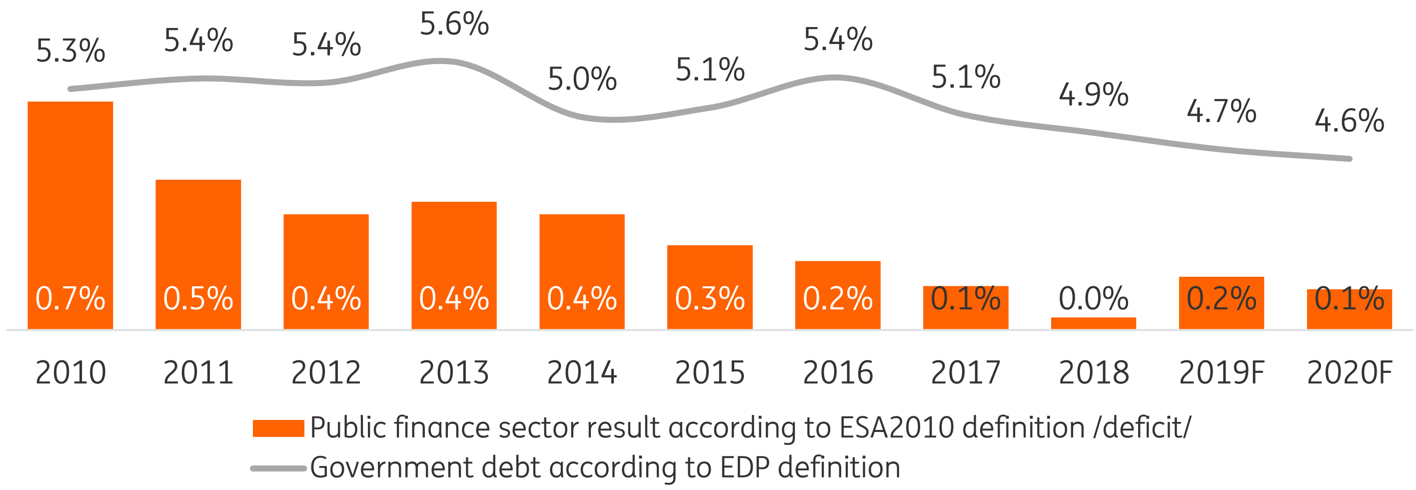
According to the economists of ING Bank Śląski the perspective of policy easing by the major central banks and the favourable structure of supply of domestic T-bonds will translate into further compression of T-bond spreads vis-à-vis PLN IRS by an additional 15bps on the long end of the curve in the second half of the year. In Q3 and Q4, the supplies of debt will be lower than in 2018 and in 2020 the net bond issues will drop by as much as a half. In the view of the bank analysts, shorter T-bonds should remain stable because there is hardly any chance for changes in interest rates in Poland in view of fiscal policy easing. It is also the reason why the bank analysts do not expect further drop in PLN IRS rate in the second half of the year.

PLN exchange rates



Source: NBP, ING forecast

Government debt and public deficit according to the EU methodology (ESA2010)



Source: The Central Statistical Office, ING forecast

Public finance

In the first half of 2019, the situation of the public finance remained good, although it deteriorated from the same period of 2018. An improvement in tax receipts (under VAT, CIT and PIT) largely compensated for the increase in welfare expenditure relating to the disbursement of the 13th pension in May (at an estimated cost of PLN 9 billion). As a result, as at the end of May 2019 the state budget reached a deficit of PLN 2.2 billion (vs a surplus of PLN 9.6 billion in the same period last year). The path of income and expenditures of the State to date is consistent with the overall annual deficit of 1.7% of GDP.

In February, the government presented a package of spending pledges worth PLN 18 billion in 2019 and PLN 42 billion (year to date) in 2020. It comprises: (1) the expansion of the 500+ child benefit programme to cover all children, (2) the payment of the so-called 13th pension to pensioners and (3) the reduction of the main personal income tax rate from 18% to 17%, the introduction of the zero personal income tax for people under 26 years of age and an increase in the tax deductibles.

To finance the package, the government decided to use one-off sources of income – PLN 5 billion in 2019 and PLN 20 billion in 2020. This includes: the transfer fee of the open-end pension funds, the sale of CO2 emission allowance and an auction of 5G spectrum. The government also decided to raise taxes (including but not limited to the excise duty on cigarettes), contributions (liquidation of the limit on the social security contribution – the so-called 30-times salary limit) and to continue the policy of fraud-proofing the fiscal system. The one-off budget revenue will stabilise the lending needs in 2020 and 2021; however, in the years to follow, the fiscal situation is likely to deteriorate visibly, especially if it coincides with a global slowdown.

In the opinion of ING Bank Śląski economists, the deficit of the public finance sector will amount to 1.7% of the GDP in 2019 which is a deterioration from last year (0.4% of GDP). A slight improvement is expected in 2020 (1.3% of GDP);

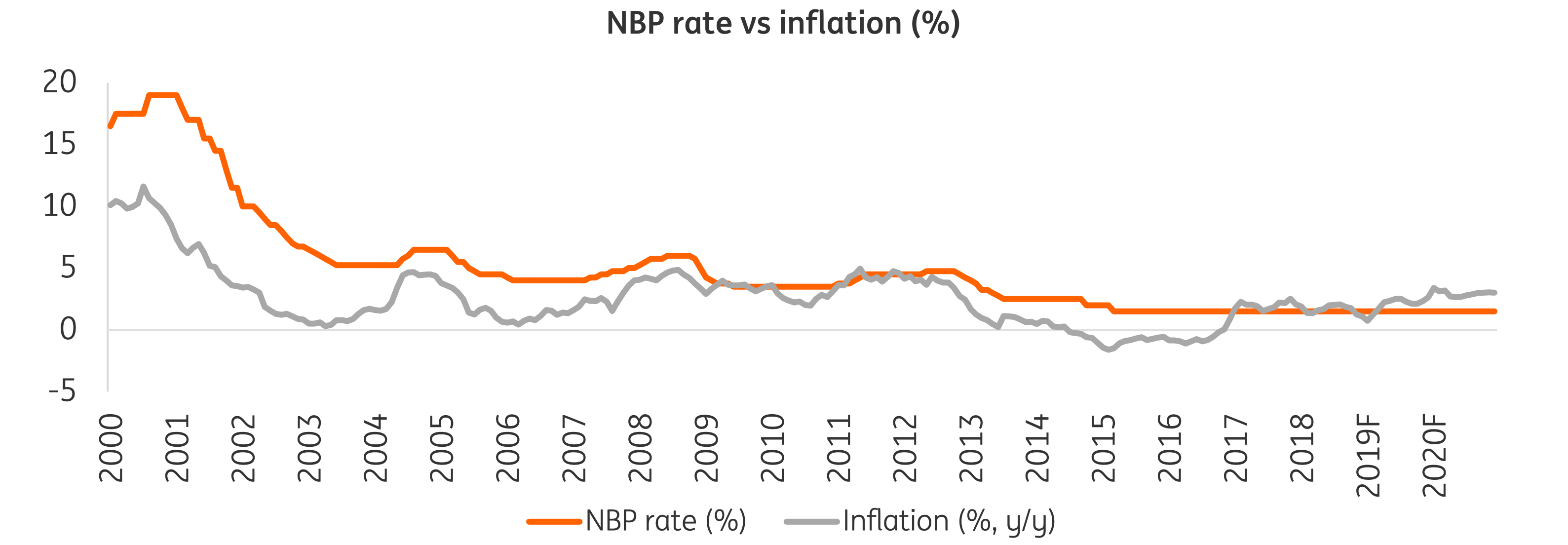
however, in the years to follow the deficit of the public finance sector will most likely exceed 2% of GDP on a permanent basis and will get closer to 3% of GDP.

Monetary policy

In H1 2019, the Monetary Policy Council kept the interest rates at a stable level, notably:

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

In the opinion of the ING Bank Śląski economists, the interest rates in Poland should remain unchanged until the end of 2020. Following a transitional increase in inflation and the fiscal stimulus, the Monetary Policy Council changed its stance from dovish to neutral. A combination of local- and global factors discourages any change in interest rates in the coming quarters. A strong growth of GDP in Poland driven by the fiscal stimulus and the perspective of inflation growth do not allow for any interest rate cuts, following the European Central Bank. In addition, there is a risk related to electricity prices. The next decision of the Council (although in a distant future) will probably be a reduction of the interest rates in response to a global economic slowdown which will also begin to affect the economic situation in Poland. However, it will not be seen until 2021 at the earliest because the fiscal stimulus will cushion the adverse international environment until that time.



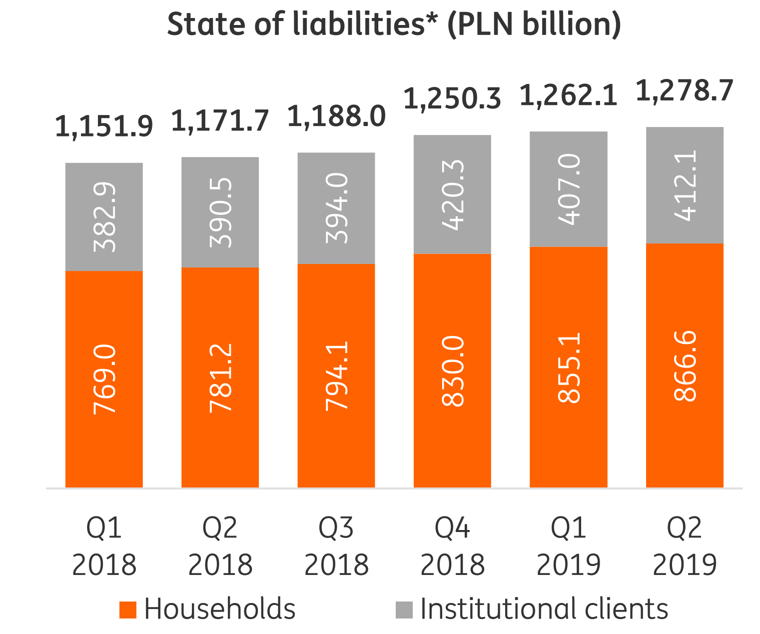
Source: Central Statistical Office, National Bank of Poland, ING forecast

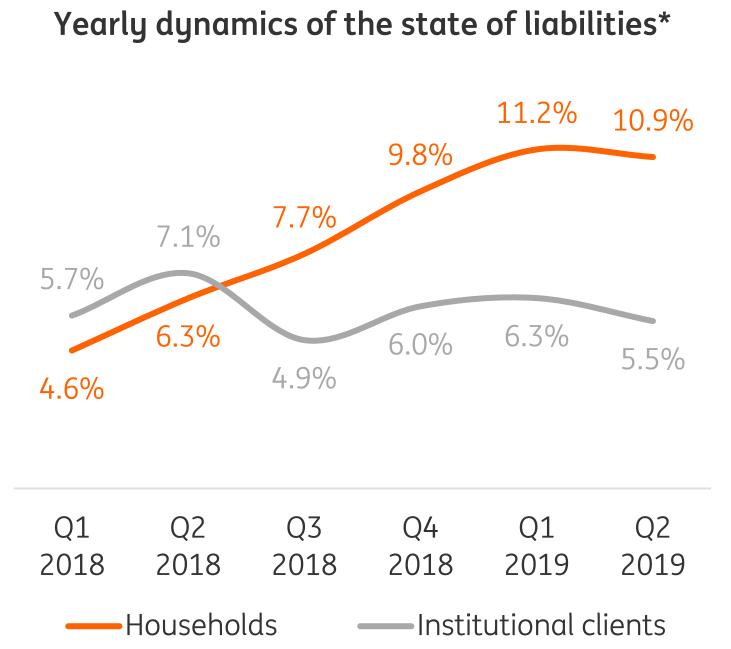
Banking sector

Receivables and liabilities

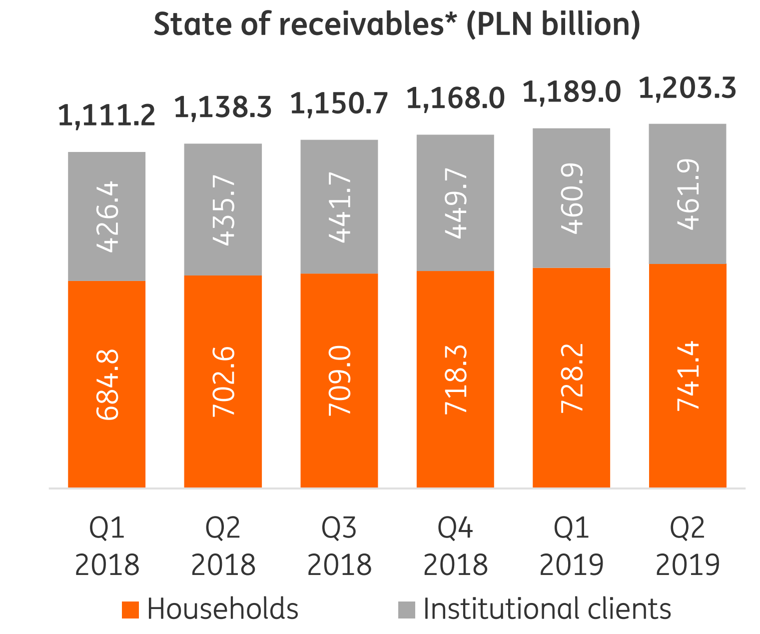
As at the end of June 2019, he basic cash categories were as follows:

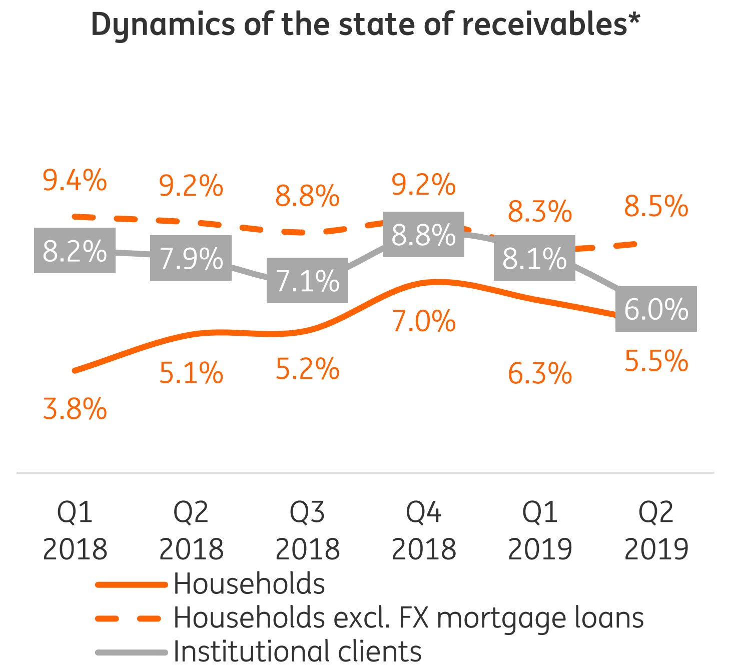
- In comparison to the end of June 2019, liabilities towards households increased by PLN 85.5 billion and reached the value of PLN 866.6, i.e. they were higher by 10.9% than one year ago.
- Liabilities towards institutional clients totalled PLN 412.1 billion, i.e. they were higher by 5.5% than one year ago. The volume increase – by PLN 21.6 billion – was, most of all, achieved as a result of the increase of liabilities towards entrepreneurs (by 6.7%, i.e. by PLN 17.6 billion) and towards local government institutions and the Social Insurance Fund (by 17.2% y/y, i.e. PLN 7.0 billion). Liabilities towards non-commercial institutions acting for households increased in the discussed period by 4.9%, i.e. by PLN 1.3 billion. At the same time, liabilities towards nonmonetary financial institutions dropped by 7.2% or by PLN 4.3 billion.





*based on the data of the National Bank of Poland





*based on the data of the National Bank of Poland; **excluding the FX mortgage loans portfolio

- In June 2019, receivables from households totalled PLN 741.4 billion, i.e. they were higher by 5.5% than one year ago. Mortgage loans, being the main part of the banks credit exposure towards households, were up by 5.6% to PLN 427.2 billion (including mortgage loans denominated in PLN, which went up by 11.7% to PLN 304.3 billion).
- In comparison to June 2018, receivables from institutional clients increased by PLN 26.3 billion (+6.0%) to the level of PLN 461.9 billion. The following elements contributed to it:
  - receivables from entrepreneurs went up by PLN 13.6 billion (+4.1%),
  - in comparison to June 2018, receivables from nonmonetary financial institutions increased by 14.6% y/y (PLN 9.3 billion),
  - receivables from local government institutions and social insurance funds increased by 9.6% y/y (PLN 2.8 billion),
  - receivables from non-commercial institutions acting for households increased by 7.2% y/y (+PLN 0.5 billion).

Financial results and quality of assets

During the first five months of 2019, the net result of the banking sector (basing on the PFSA data) went down by 9% y/y to PLN 5.9 billion. The main reasons behind the decrease in net profit was a marked increase in the general and administrative expenses (by 9% y/y) and in the risk costs (by 14% y/y). Net interest income increased by 9% y/y due to a better interest margin and higher business volumes. Other revenue, including income from fees and commissions, went down from a year earlier (-2% y/y).

The increase in general and administrative expenses was largely driven by the growth of other general and administrative expenses and amortisation/ depreciation (including the bank levy; by 13% y/y) – due to a high growth of contributions for BGF funds, and, to the lesser degree, by an increase in remuneration costs (by 3% y/y).

The growth rate of revenue (+5% y/y) which was lower than the growth rate of costs (+9% y/y) resulted in a deterioration of the C/I ratio which increased to 59.8% from 57.8% a year earlier.

The risk costs in the sector recorded a high growth rate (+14% y/y), which translated into an increase in risk cost from 64bps a year ago to 69bps.

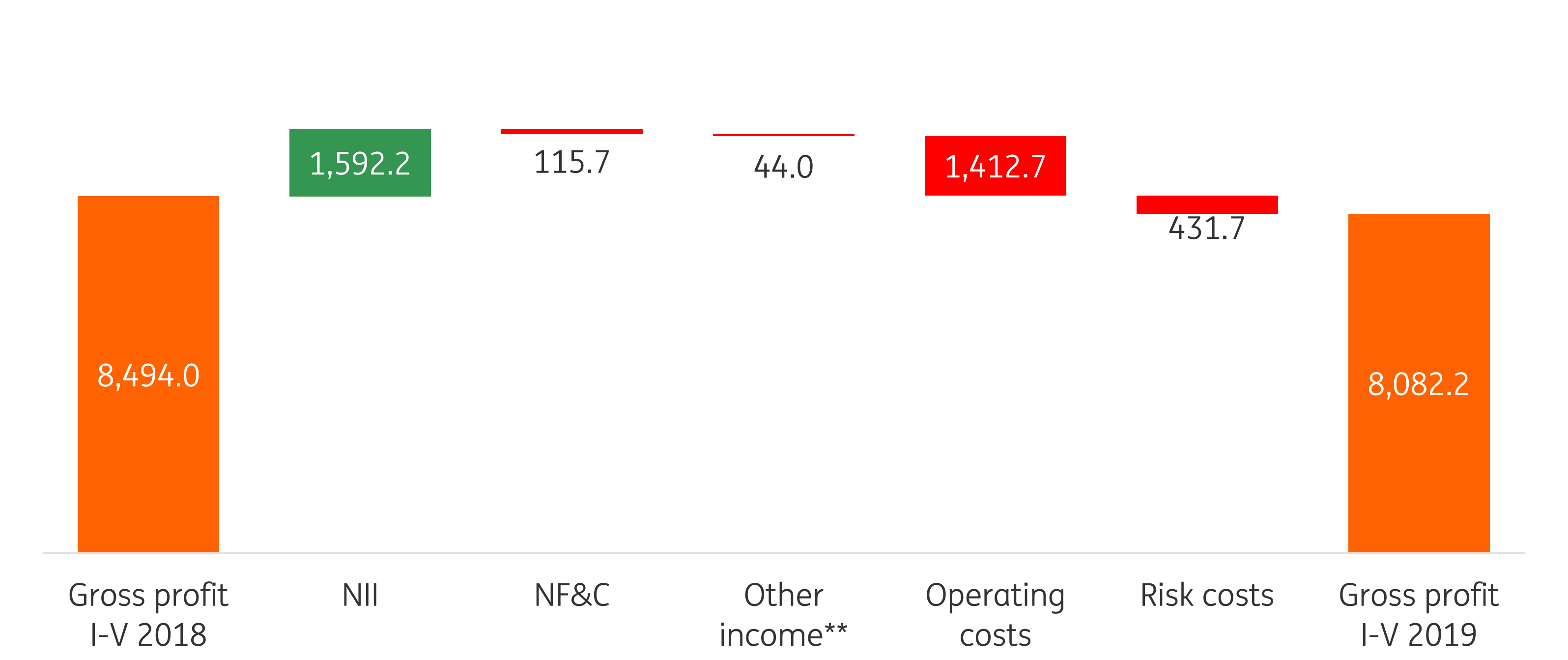
Profit before tax for the sector amounted to PLN 8.1 billion zł (-5% y/y). The income tax burden of the sector increased by 7% y/y due to an increase in BGF contributions, among other things, which are not tax deductible.

The core effectiveness metrics for the banking sector were as follows (y/y):

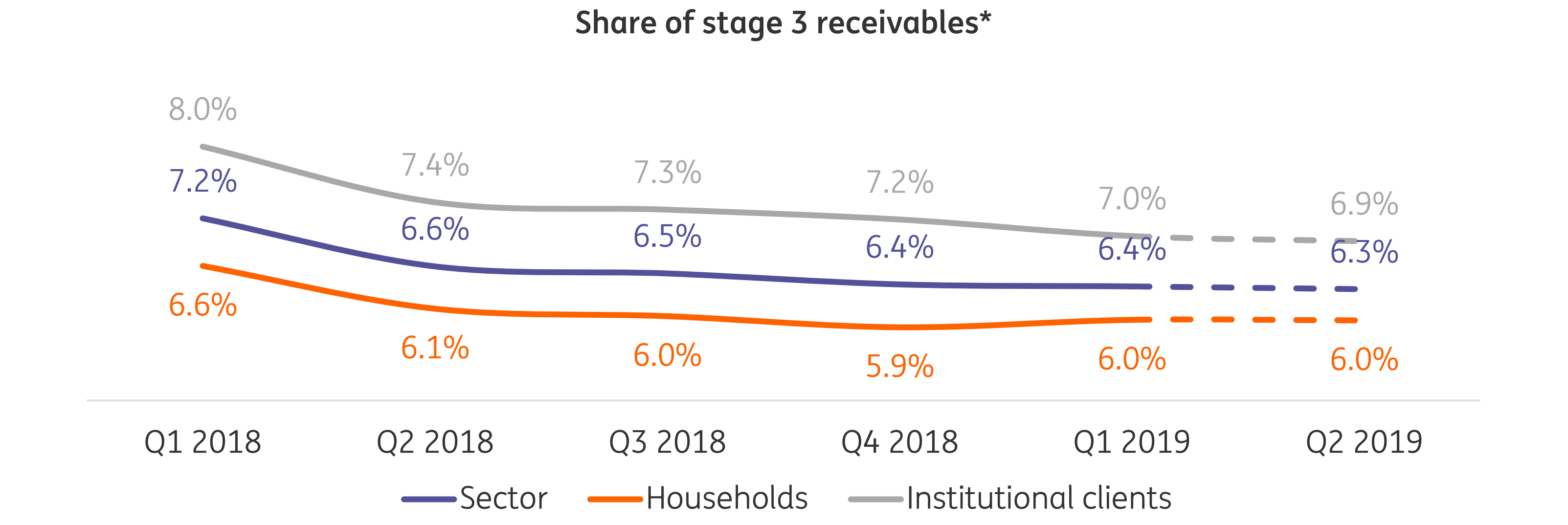
- return on assets (ROA) was 0.7% versus 0.9% a year ago, and
- return on equity (ROE) deteriorated from 7.6% to 6.9%.

The share of stage 3 receivables (PFSA data) in the total receivables in May 2019 was 6.3% (vs. 7.1% in May 2018).

In May 2018, the share of receivables from households in stage 3 was 6.0%. In the institutional clients segments, stage 3 receivables represented 6.9% of the portfolio.



*Estimates based on PFSA data; **upon including the share of profit in associates



* Estimates based on PFSA data; data for May 2019 for Q2 2019

Capital market

Stock Exchange

The main Warsaw Stock Exchange indexes closed the H1 2019 at a higher level than at the end of 2018. The WIG broad market index gained 4.3% from the end of 2018. The indexes grouping the top large-cap companies (WIG20 and WIG30) recorded similar performance, as they gained, respectively, +2.2% and +3.6%. The smaller companies indexes sWIG80 and mWIG40 also ended the H1 2019 on a positive note. They gained, respectively, +11.8% and +4.4%.

As at the end of June 2019, 460 companies were listed on the main floor of WSE, including 50 foreign ones. The capitalisation of domestic companies totalled PLN 594.4 billion, up by +2.7% from December 2018. Total capitalisation of domestic- and foreign companies amounted to PLN 1,161.7 billion, up by +2.9% from December 2018. In the first half of the year, there were four debuts (of which three were transfers from the NewConnect market); eight companies were delisted.

The first half of 2019 saw lower trading on the main floor. The value of trading volumes went down by -4.1% from the same period last year and exceeded PLN 97.5 billion. Total volumes (including block trades) went down by -5.1% to PLN 99.6 billion.

Mutual funds

As at the end of June 2019, the mutual funds assets (based on the data of the Chamber of Fund and Asset Management) totalled PLN 250.7, down by PLN 6.0 billion (or, -2.3%) from the end of 2018. The vast majority of the decrease was due to lower value of assets accumulated in dedicated funds (which are frequently established for the private needs of affluent individuals or enterprises), down by PLN -7.5 billion (to PLN 93.7 billion). The non-dedicated funds which are available to a broad group of investors had PLN 157.0 billion worth of assets under management as at the end of the first year-half (up by PLN 1.5 billion, or +0.9%, from the end of 2018).

In H1 2019, only the cash funds and bond funds show marked growth in nominal terms (up by PLN 2.9 billion in total) Equity funds gained PLN 0.7 billion, and the mixed funds lost PLN 1.2 billion.

Open-End Pension Funds

As at the end of June 2019, the open-end pension funds assets totalled PLN 161.8, up by PLN 4.5 billion (or, +2.8%) from the end of 2018. As at the end of June 2019, 84.4% of those assets represented stock of domestic- and foreign issuers.

The launch of the Employee Capital Plans (ECP) early July 2019 marks an important event in terms of saving for retirement. Initially, the requirement to offer the Employee Capital Plans will apply to the largest companies (having more than 250 employees) but gradually it will also apply to smaller entities. The first contributions to the ECP participant accounts may be made as soon as August 2019. The contributions to the account will be paid by the employer (1.5% of the gross salary), the employee (2% of the gross salary) and the State (PLN 250 as a welcome contribution and PLN 240 each year).

Macroeconomic factors that will have impact on our business in H2 2019

The increase in global protectionism remains a major threat for the global economic situation. The US-China conflict erupted anew, and the US protectionist policy spread outside the trade area. As a result, the slowdown in global trade and industry continues. It has already hit the Asian- and Euroland economies but the growth in the US has also started to decelerate. We expect the growth rate of the global GDP to go down below the potential in the coming quarters. The impact of those events on Poland remains limited but it will probably result in a lower number of private investments domestically.

The introduction of protectionist barriers by the US on the Eurozone remains a risk, and it would be particularly painful for the automotive sector. According to the estimates by CesIfo Institute higher tariffs on the import of cars in the US will result in a lower GDP growth in the EU (by 0.06% p.p.). The most affected countries will be Hungary (0.18 p.p.), Germany (0.16 p.p.), Slovakia (0.12 p.p.) and the Czech Republic (0.1 p.p.). The role of the automotive sector in the Polish economy is lesser than in other CEE countries – its share in total industry sales approximates 11%, whereas in the other countries it ranges from 24% to 35%.

The slowdown in the Eurozone in 2019 will be relatively strong due to a high share of foreign trade in the economy – the GDP growth rate will go down this year from 1.9 to 1.0% y/y. The difficult fiscal situation of peripheral economies is another problem. This makes it impossible to introduce a fiscal stimulus on a larger scale. Nevertheless, the budget expenditure and strong labour market will help maintain internal demand at a high level in certain economies, such as in Germany. The US economy was not very sensitive to the effects of global downturn or trade wars. The growth was upheld by the last year's fiscal stimulus, among other things. Nevertheless, recently there have been some signals of a slowdown, for example in the industry. The effect of tax cuts will soon wear off, and the Democrats will not support another major fiscal stimulus before the 2020 elections.

That is why the ING Group economists are of the view that the FED and the ECB will probably ease their policies this year. The FED will cut the rates by 50bps this year; the ECB has several tools to choose from, for example cut the deposit facility rate (and vary the rates at which banks deposit their funds in the ECB), resume QE or provide direct support to lending. As a consequence of such policies, the US bonds will become even stronger and the US dollar will depreciate against EUR and PLN.

Macroeconomic forecasts

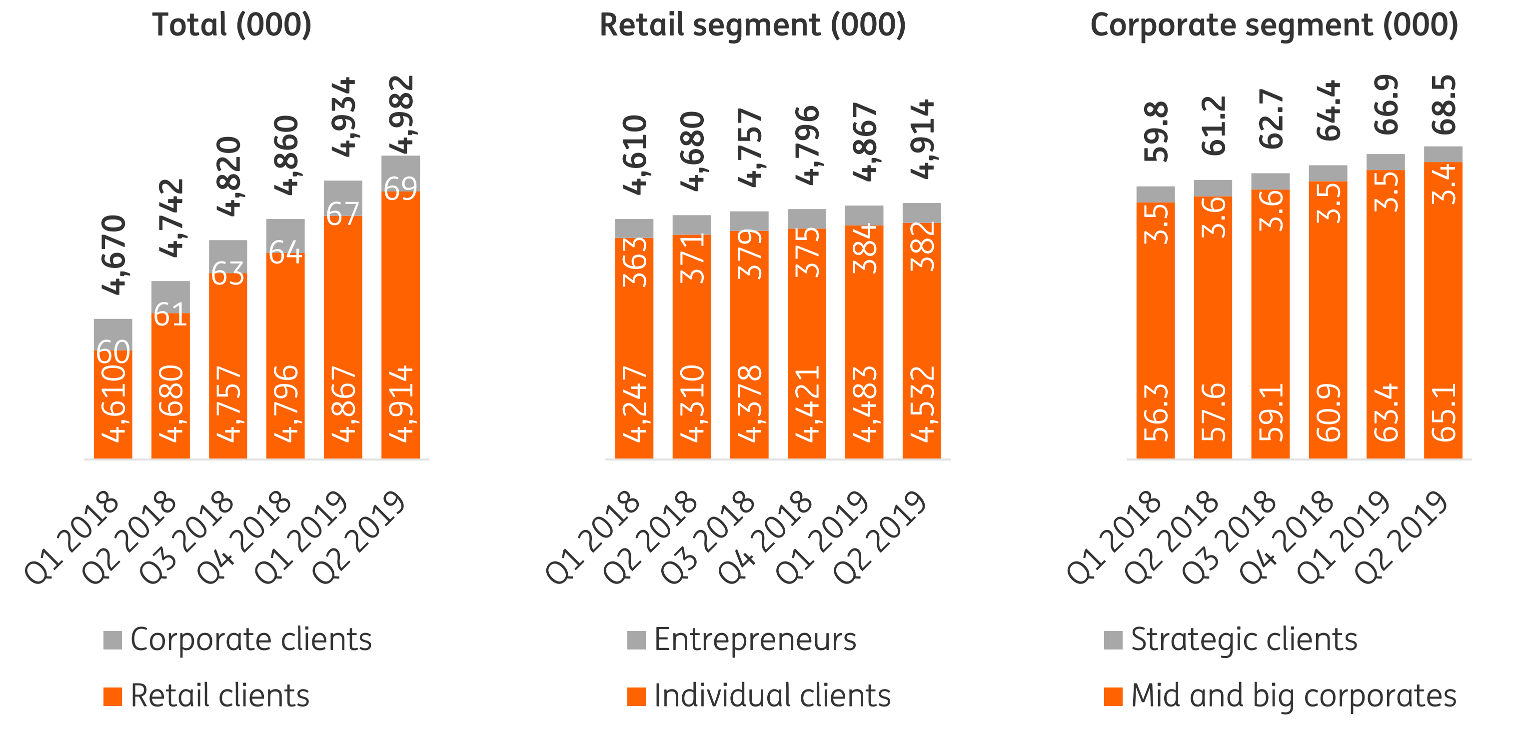
	2014	2015	2016	2017	2018	2019F	2020F
GDP growth (%)	3.3	3.8	3.1	4.8	5.1	4.5	3.3
General government sector debt according to the EU methodology (% of GDP)	50.4	51.3	54.2	50.6	48.9	47.7	47.2
Average inflation (CPI) per year (%)	0.0	-0.9	-0.6	2.0	1.7	2.1	2.9
Unemployment rate (%)	11.4	9.7	8.2	6.6	5.8	5.5	5.8
USD/PLN exchange rate (as at year-end)	3.51	3.90	4.18	3.48	3.76	3.72	3.58
EUR/PLN exchange rate (as at year-end)	4.27	4.26	4.42	4.17	4.30	4.28	4.30
WIBOR 3M (as at year-end)	2.5	1.7	1.7	1.7	1.7	1.7	1.7

Operations of ING Bank Śląski S.A. Group in H1 2019

The business model of the bank is sub-divided into the two main segments:

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

The number of ING Bank Śląski S.A. Group clients



Retail banking

Number of clients

As at the end of June 2019, 4.9 million retail clients used the services of ING Bank Śląski, including:

- 4.5 million individual clients, and
- 382 thousand entrepreneurs.

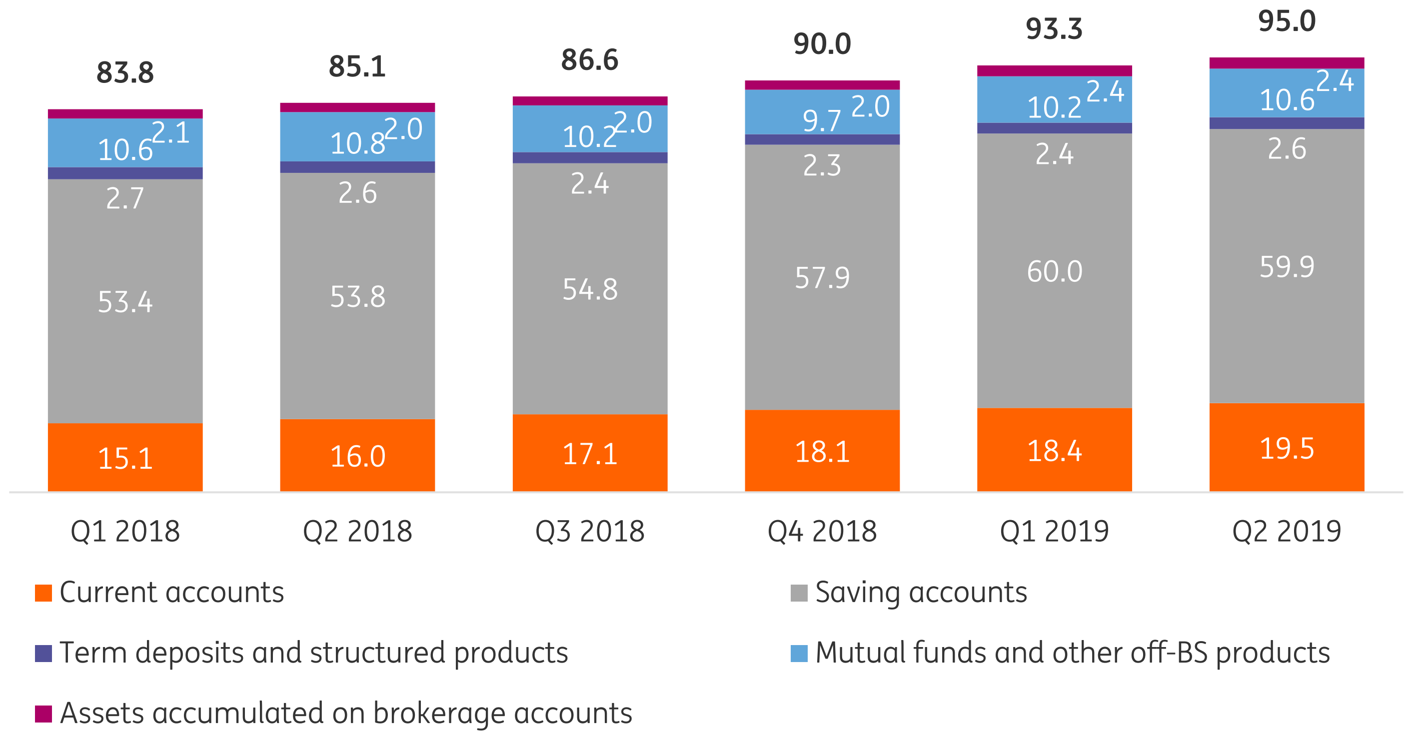
Throughout H1 2019, the bank acquired 219 thousand new retail clients, whereby the number of clients served by the bank went up by 118 thousand from 2018 year-end.

Deposits

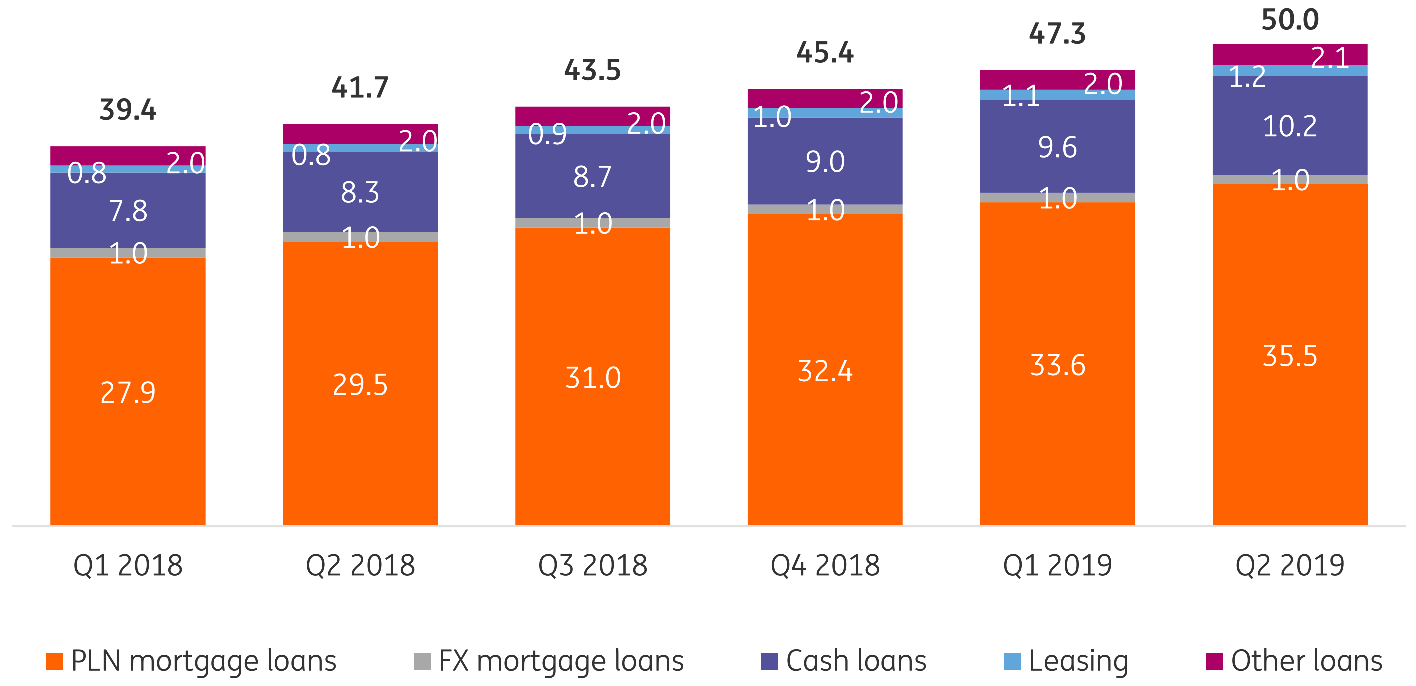
As at 30 June 2019, the total value of funds entrusted to ING Bank Śląski by retail clients amounted to PLN 95.0 billion, up by more than PLN 5.0 billion (or, 5.6%) throughout H1 2019, and by more than PLN 9.9 billion (or, 11.7%) year on year.

The pace of the Bank deposit base growth was similar to the volume increase in the sector, and translated into a stable share in the household deposit market in H1 2019. As at the end of June, it was 9.32%, whereas it was 9.30% at the end of December 2018.

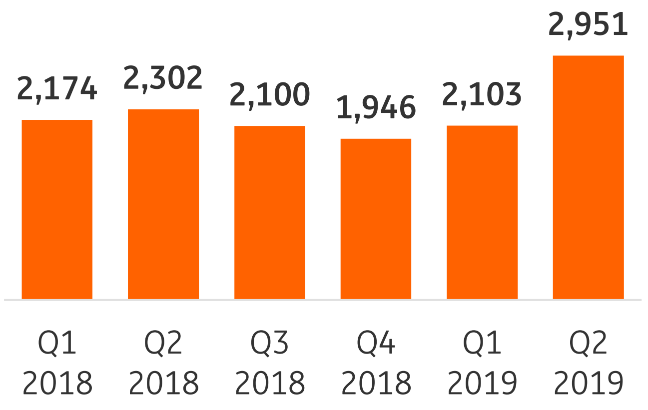
Portfolio of liabilities to retail segment clients by product (PLN billion)



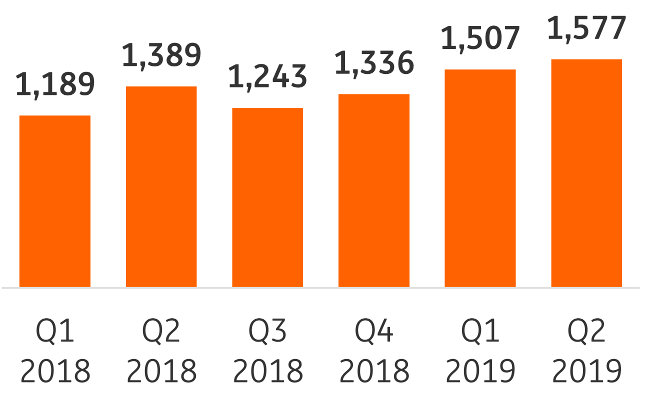
Portfolio of gross receivables from the retail segment clients by product (PLN billion)



Mortgage loan sales (PLN million)



Cash loan sales (PLN million)



The first half of 2019 saw a major increase in the scope of settlement service of the retail clients at the bank. As at the end of June 2019, ING Bank Śląski maintained 3.7 million personal accounts for retail clients; the vast majority of those accounts were Direct accounts (84%).

Lending

As at the end of June 2019, the gross credit receivables from the retail clients were PLN 50.0 billion. Throughout H1 2019, the bank's credit exposure towards that group of clients went up by PLN 4.6 billion, or +10.2%. The Bank increased its share in the market of credit receivables from households to the level of 6.71% (compared to 6.33% in December 2018).

In H1 2019, the bank sold PLN 5,053.7 million worth of mortgage loans, up by PLN 578.0 million, or 13% from H1 2018. According to the data published by the Polish Banks Association, in H1 2019 ING Bank Śląski S.A. held the second position in the market with 17.5% share of the sale of mortgage loans to private persons.

The growing cash loans' balance also results from the intensified Bank operations as regards the offer and sale. Throughout H1 2019, the bank granted cash loans to the total amount of PLN 3.1 billion, up by 19.6% (or, PLN 506 million) from H1 2018.

Corporate banking

Number of clients

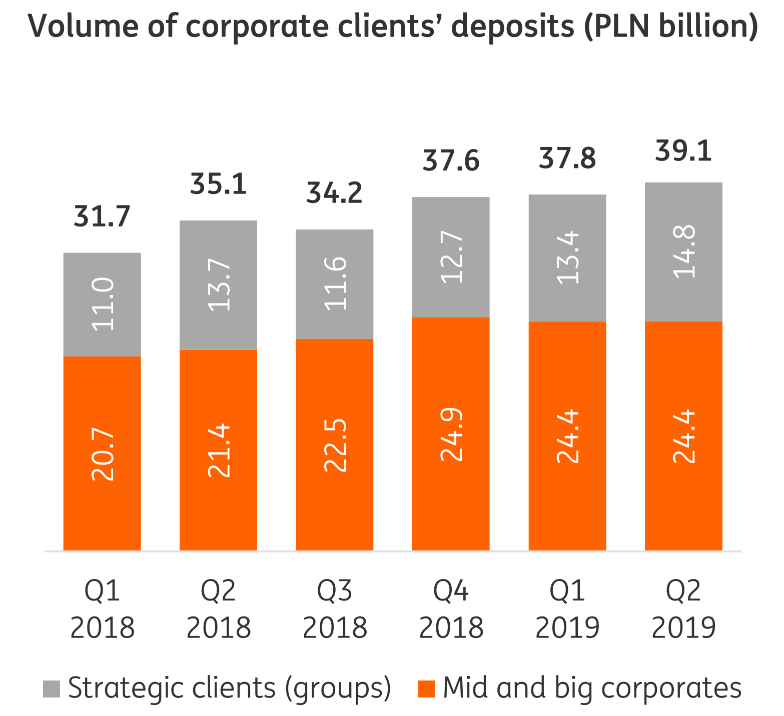
As at the end of June 2019, 68.5 thousand corporate clients used the services of ING Bank Śląski, including:

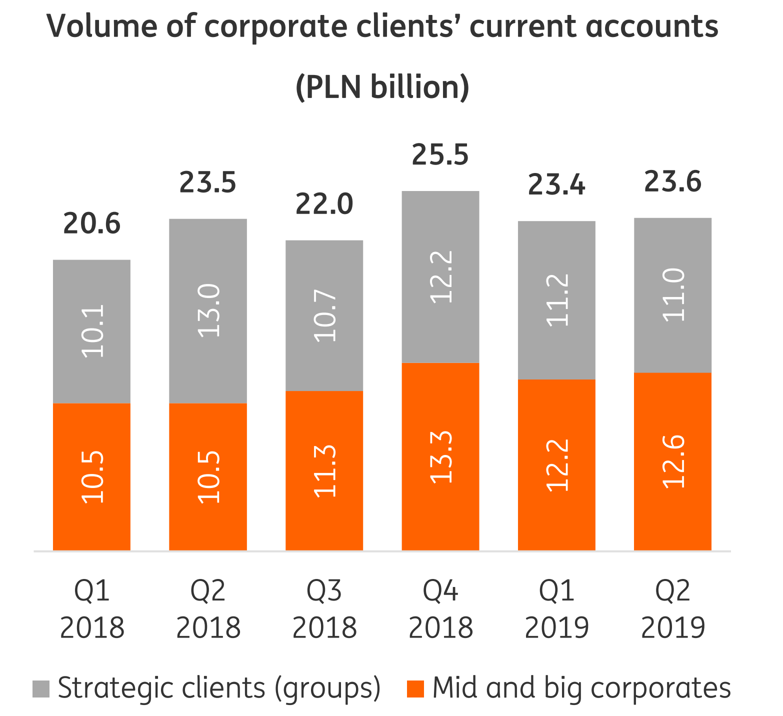
- 3.4 thousand strategic clients, and
- 65.1 thousand of mid- and big companies.

Throughout H1 2019, the bank acquired 6.6 thousand new corporate clients, whereby the number of clients served by the bank went up by 4.1 thousand from 2018 year-end.

Deposit and settlement activity

As at the end of June 2019, the total funds deposited by corporate clients at the bank amounted to PLN 39.1 billion, i.e. the Bank had 9.31% share in the institutional clients deposit market (8.63% as at the 2018 yearend).

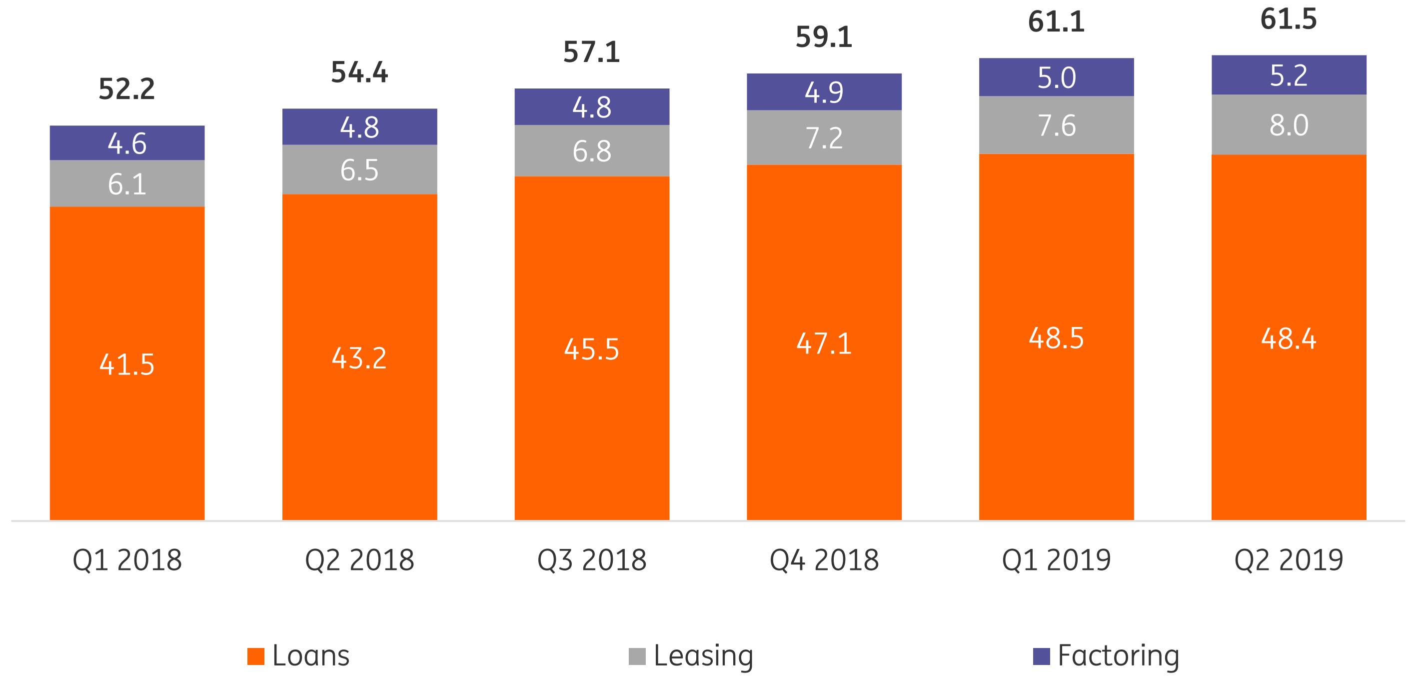




Lending

As at the end of H1 2019, corporate client funding granted by the ING Bank Śląski S.A. Group totalled PLN 61.5 billion (in gross terms). The amount increased by more than PLN 2.4 billion (+4.1%) during the first six months of 2019. We estimate that in June 2019 the Bank had 11.51% share in the institutional clients loan market (compared to 11.15% as at the 2018 yearend).

Portfolio of gross receivables from the corporate segment clients by product (PLN billion)



Our consolidated financial results

Basic financial data

Abbreviated information on the financial results of ING Bank Śląski S.A. Group

PLN million	H1 2019	H2 2018	H1 2018	Change H1 2019 vs H1 2018
Income*	2,837.5	2,665.3	2,567.1	10.5%
Cost	1,302.2	1,143.5	1,183.3	10.0%
Risk cost	260.9	232.4	268.5	-2.8%
Profit before income tax	1,065.9	1,096.3	936.7	13.8%
Net profit**	795.7	831.0	694.9	14.5%
Balance sheet total	150,609.8	141,589.6	130,758.6	15.2%
Liabilities to customers	122,992.0	117,682.5	109,174.1	12.7%
Net loans and other receivables to customers	110,509.9	103,125.8	94,724.3	16.7%
Equity**	14,236.6	13,336.3	11,889.5	19.7%

* including net profit of affiliated entities recognised on an equity basis; ** attributable to parent entity shareholders;

Core effectiveness ratios

Core effectiveness ratios of ING Bank Śląski S.A. Group

	H1 2019	H2 2018	H1 2018	Change H1 2019 vs H1 2018
Cost to income ratio (C/I ratio)	45.9%	44.5%	46.1%	-0.2p.p.
Cost to income ratio (C/I ratio) – adjusted	43.6%	44.5%	45.0%	-1.4p.p.
Return on assets (ROA)	1.16%	1.15%	1.16%	+0.0p.p.
Return on equity (ROE)	12.5%	12.3%	12.5%	+0.0p.p.
Return on equity (ROE) – adjusted	12.6%	12.3%	12.5%	+0.2p.p.
Interest margin ratio (cumulated)	2.94%	2.93%	2.93%	+0.01p.p.
Loan to deposit ratio (LtD ratio)	89.9%	87.6%	86.8%	+3.1p.p.
LCR	122%	133%	123%	-1p.p.
LR according to transitional definition	7.23%	7.42%	7.50%	-0.27p.p.
Total capital ratio	15.05%	15.60%	15.24%	-0.19p.p.
Tier 1 ratio	13.80%	14.75%	14.35%	-0.55p.p.

Cost to Income ratio (C/I) – adjusted – operating expenses/ total income together with net profit of affiliated entities recognised on an equity basis; after the adjustment of the BGF costs, whereby the contribution for the resolution fund was spread over the four quarters.

Return on Equity (ROE) – adjusted – return on equity after the adjustment of BGF costs, whereby the contributions for the resolution fund was spread over the four quarters.

Income statement

Basic consolidated income statement figures of the ING Bank Śląski S.A. Group for H1 2019 and changes vis-à-vis the previous year are presented in the table below.

Basic consolidated income statement figures in analytical terms

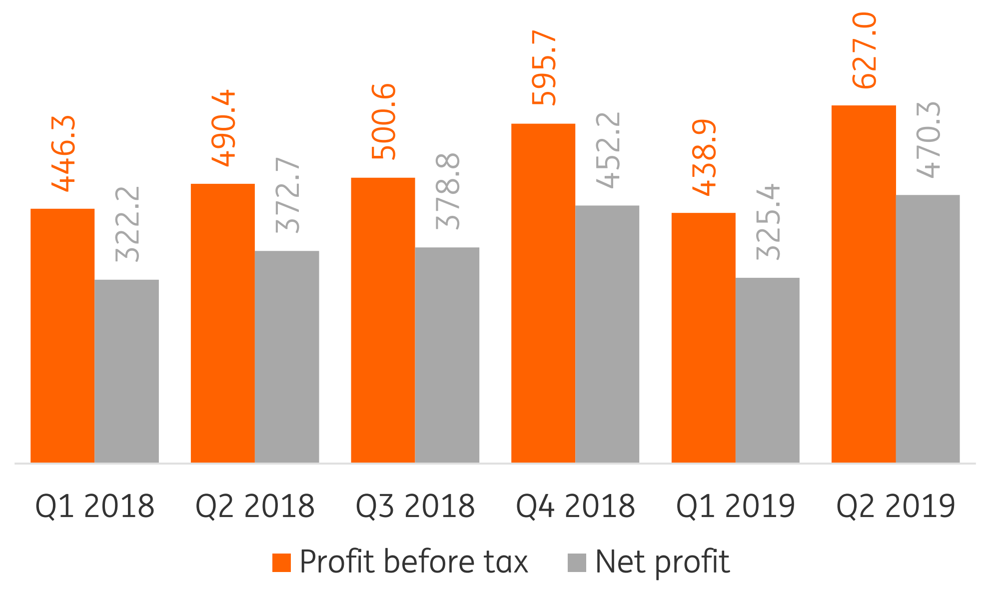
PLN million	H1 2019	H2 2018	H1 2018	Change H1 2019 vs H1 2018 PLN million	%
Net interest income	2,058.2	1,956.3	1,803.0	255.2	14.2%
Net commission income	686.7	647.2	657.7	29.0	4.4%
Other income*	92.6	61.8	106.4	-13.8	-13.0%
Total revenue	**2,837.5**	**2,665.3**	**2,567.1**	**270.4**	**10.5%**
Operating expenses	**1,302.2**	**1,143.5**	**1,183.3**	**118.9**	**10.0%**
Impairment losses and provisions	260.9	232.4	268.5	-7.6	-2.8%
Bank levy	208.5	193.1	178.6	29.9	16.7%
Gross financial result	**1,065.9**	**1,096.3**	**936.7**	**129.2**	**13.8%**
Income tax	270.2	265.3	241.8	28.4	11.7%
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	0.0	-
Net financial result	**795.7**	**831.0**	**694.9**	**100.8**	**14.5%**

*Net income on financial instruments at fair value through profit or loss and FX result, net income on the sale of securities measured at amortised cost, net income on the sale of securities measured at fair value through other comprehensive income and dividend income, net income on investments, net income on hedge accounting, net income on other basic activities and net profit of affiliated entities recognised on an equity basis

Profit before tax and net profit

In H1 2019, the ING Bank Śląski S.A. Group posted the net profit attributable to the shareholders of the parent entity of PLN 795.7 million. It shows that the net income improved by 14.5% from H1 2018. The result before tax was PLN 1,069.5 million, up by 13.8% from H1 2018. There were no one-off factors in 2019.

Profit before tax and net profit of ING Bank Śląski S.A. Group (PLN million)

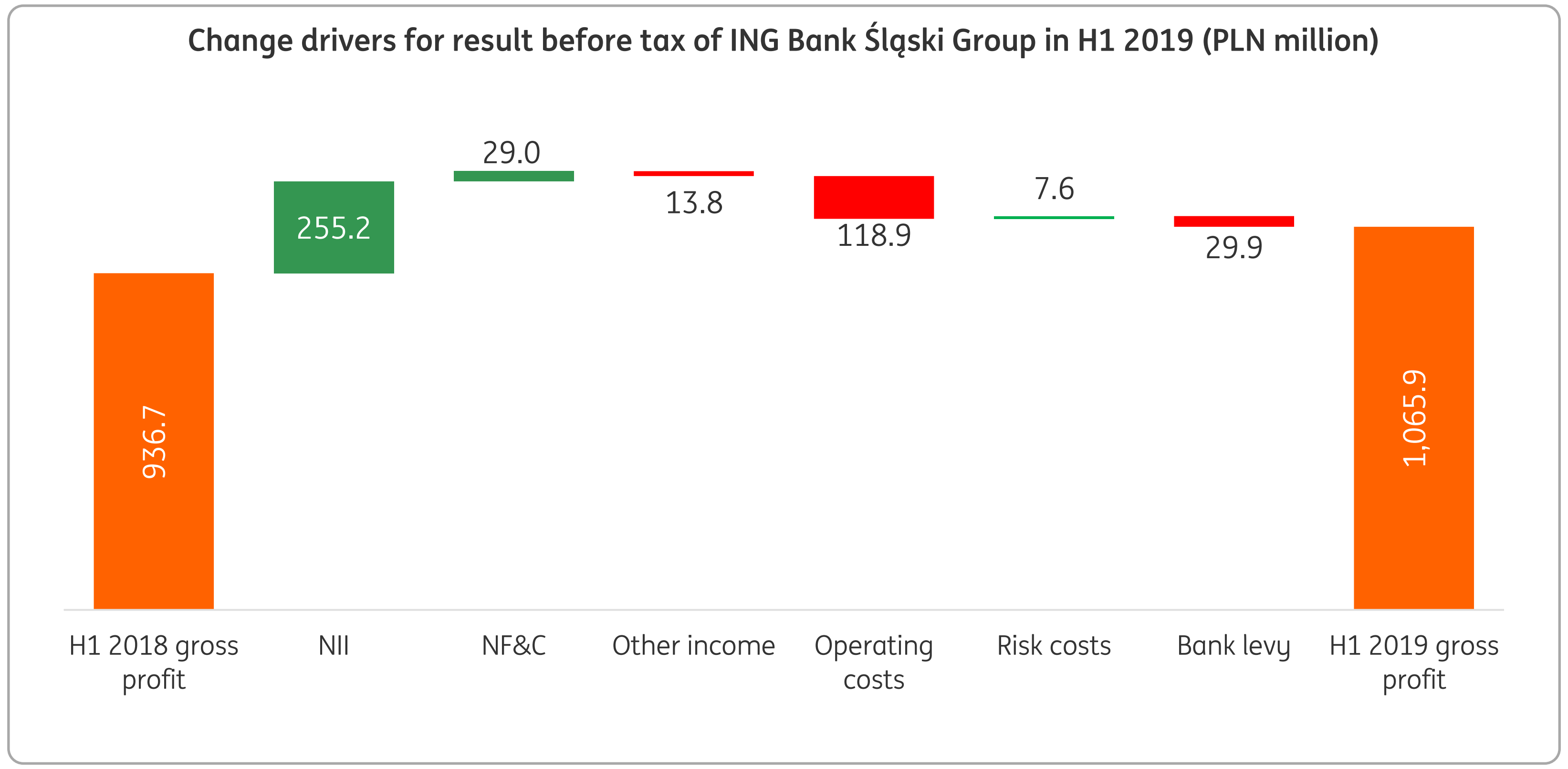


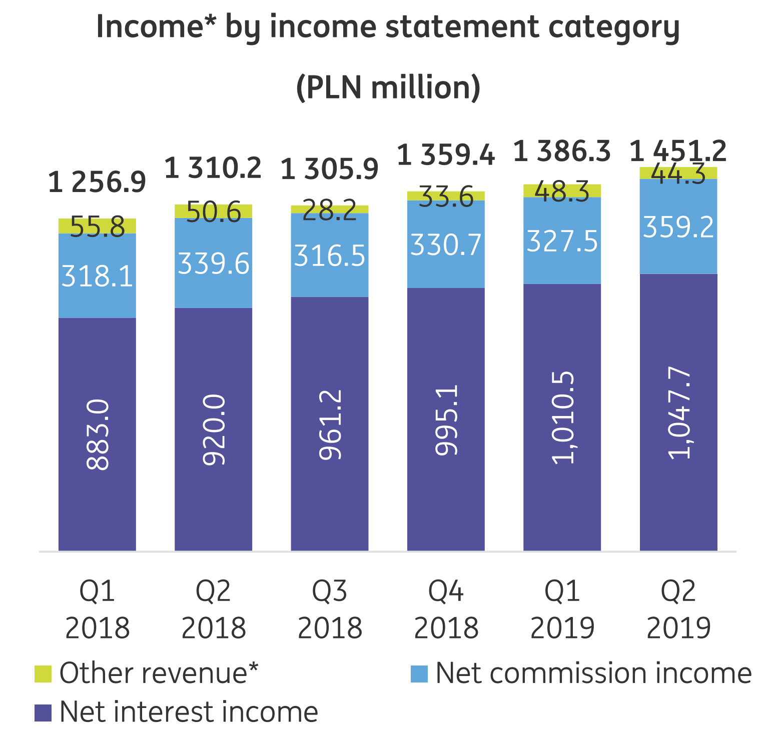
Improvement of the H1 2019 profit before tax by PLN 129.2 million (or 14.2%) from H1 2018 was most fuelled by:

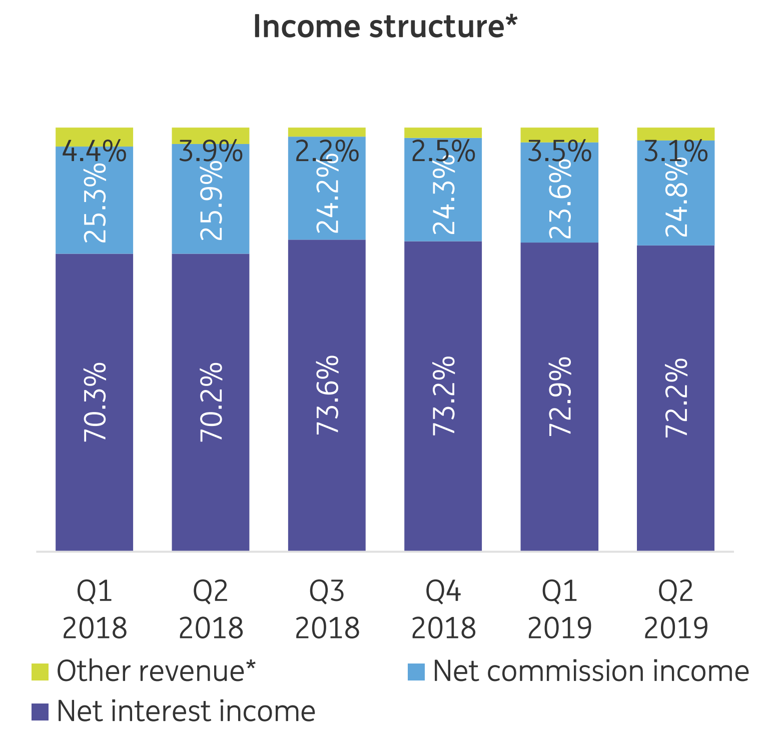
- higher net interest income, up by PLN 255.2 million, or 14.2%,
- better net commission income, up by PLN 29.0 million, or 4.4%, and
- slightly lower risk costs, down by PLN 7.6 million, or 2.8%.

By contrast, the negative factors impacting the result before tax during the first six months of 2019 vs 2018 were:

- higher operating expenses, up by PLN 118.9 million, or 10.0%, and
- higher bank levy, up by PLN 29.9 million, or 16.7%.





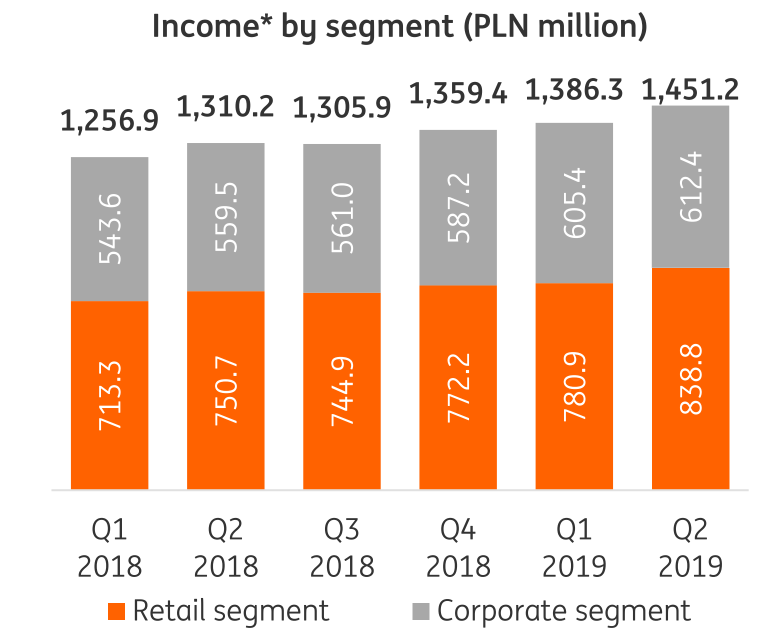


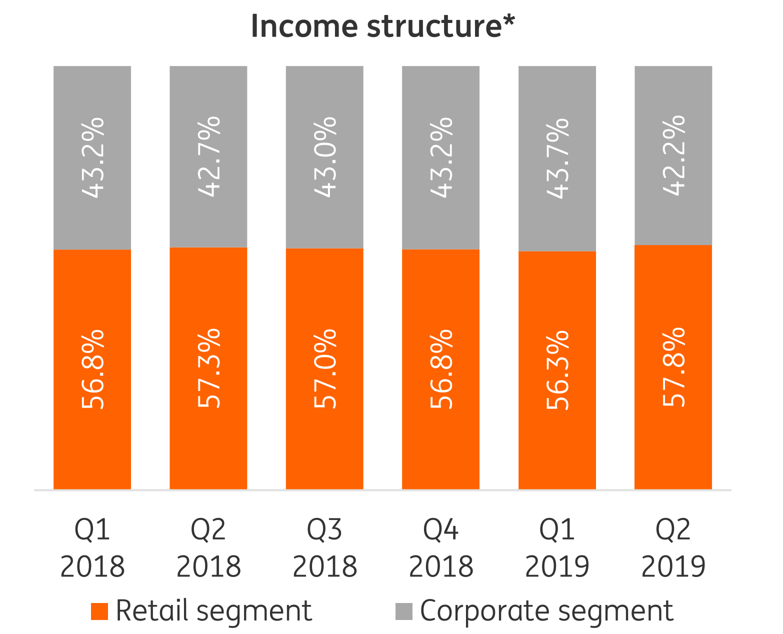
*including the share in net profits of affiliated entities recognised on an equity basis

Revenue

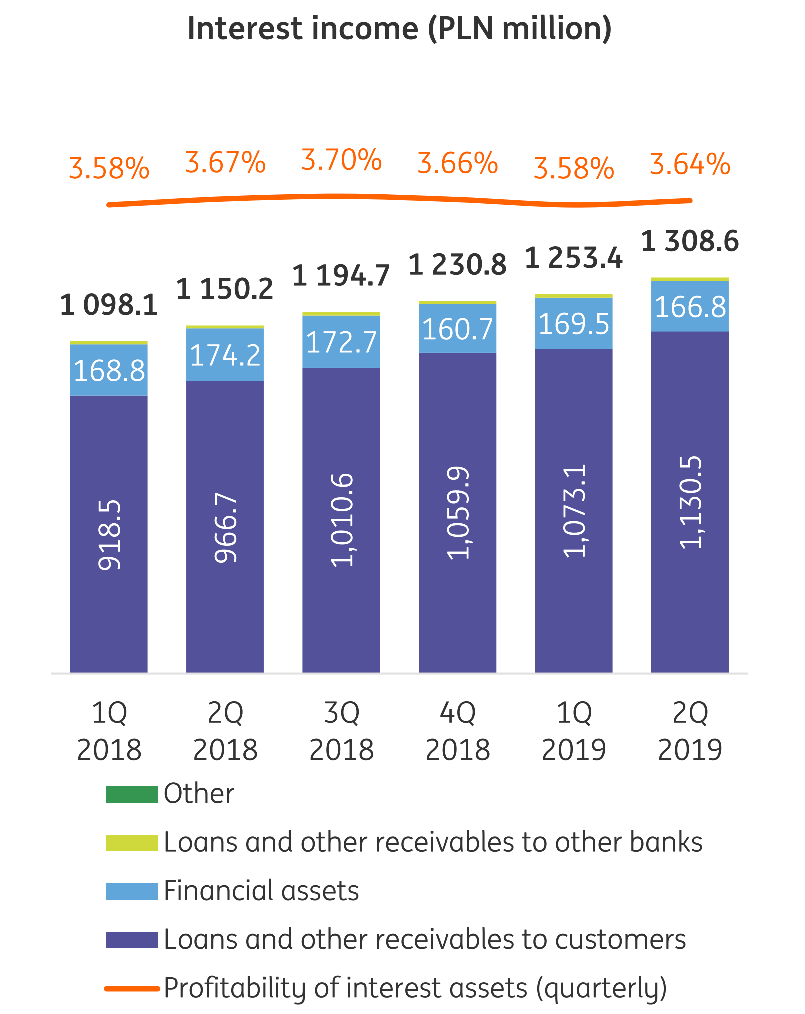
In H1 2019, total revenue of the ING Bank Śląski S.A. Group closed with PLN 2,837.5 million. This shows an improvement from H1 2018 by PLN 270.4 million, or 10.5%, mainly due to a higher net interest income. Its share in total revenue went up by 2.3p.p. y/y and totalled 72.5%.

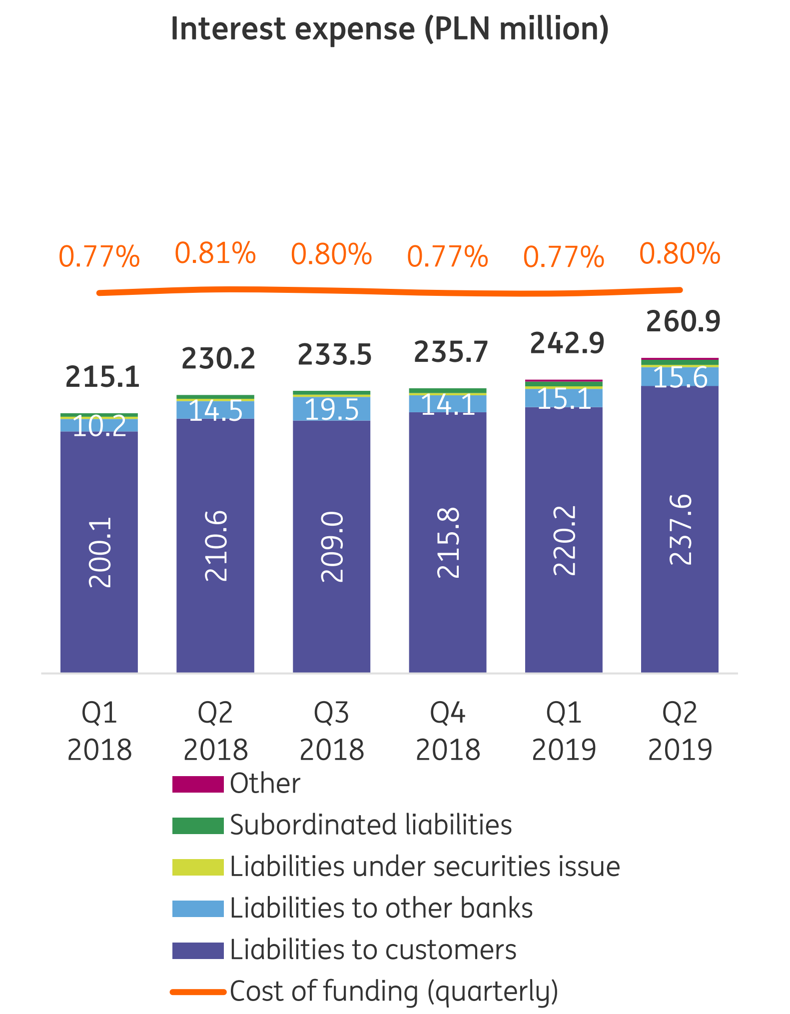
In the first half of 2019, the retail segment was the main income growth contributor. Its income rose by PLN 155.7 million, or 10.6%, arriving at PLN 1,619.7 million. As a result, its share in the structure went up by 0.1p.p. y/y and totalled 57.1%. The income of the corporate segment rose by PLN 114.7 million, or 10.4%, arriving at PLN 1,217.8 million.





*including the share in net profits of affiliated entities recognised on an equity basis



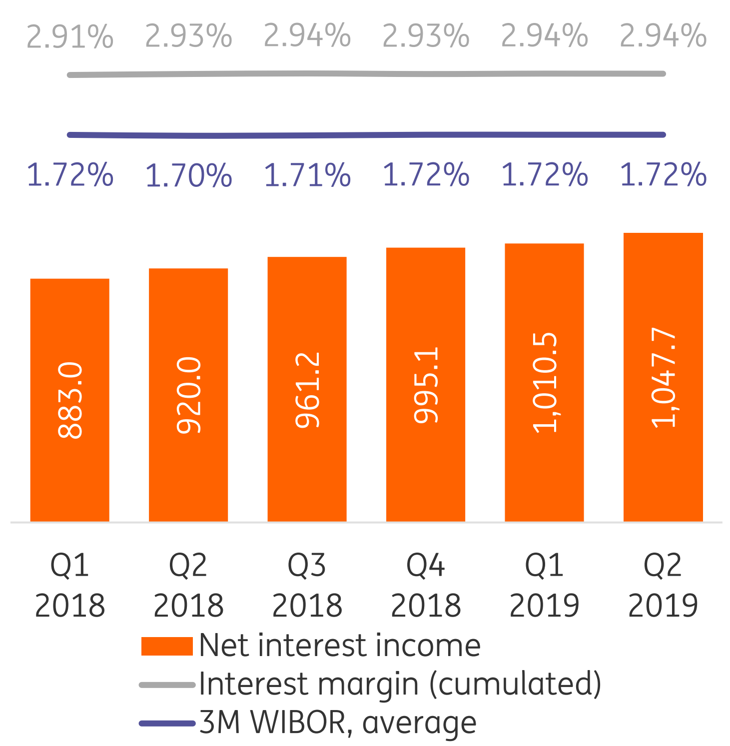


Net interest income

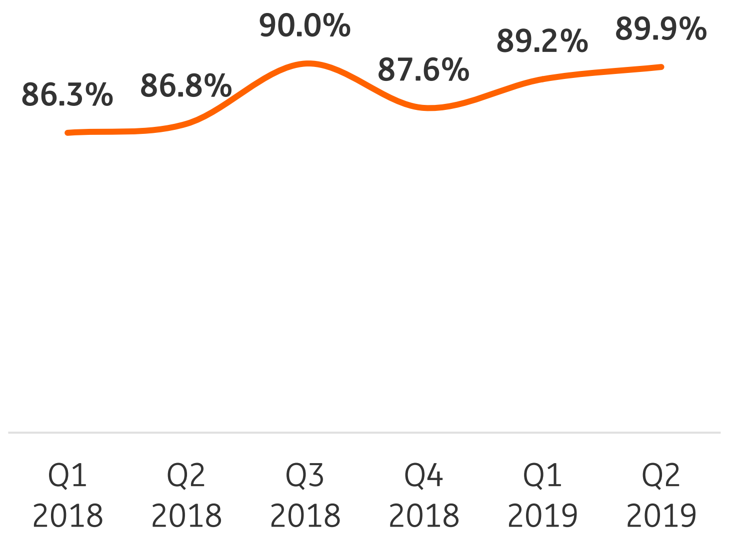
In H1 2019, the interest income built up by 14.0% from H1 2018, mainly in consequence of higher interest on loans and other receivables. On the other hand, interest expenses increased by 13.1% y/y, first and foremost, due to higher costs of liabilities to customers. This led to an increase in the net interest result by 14.2% y/y, or by PLN 255.2 million, to PLN 2,058.2 million. Despite record low interest rates (reference rate of 1.5%), net interest income went up due to both higher business volumes and improved interest margin.

A growing share of high-margin assets (PLN loans first and foremost) and a higher LtD ratio translated into a higher cumulated interest margin (up by 1bp y/y to 2.94%).

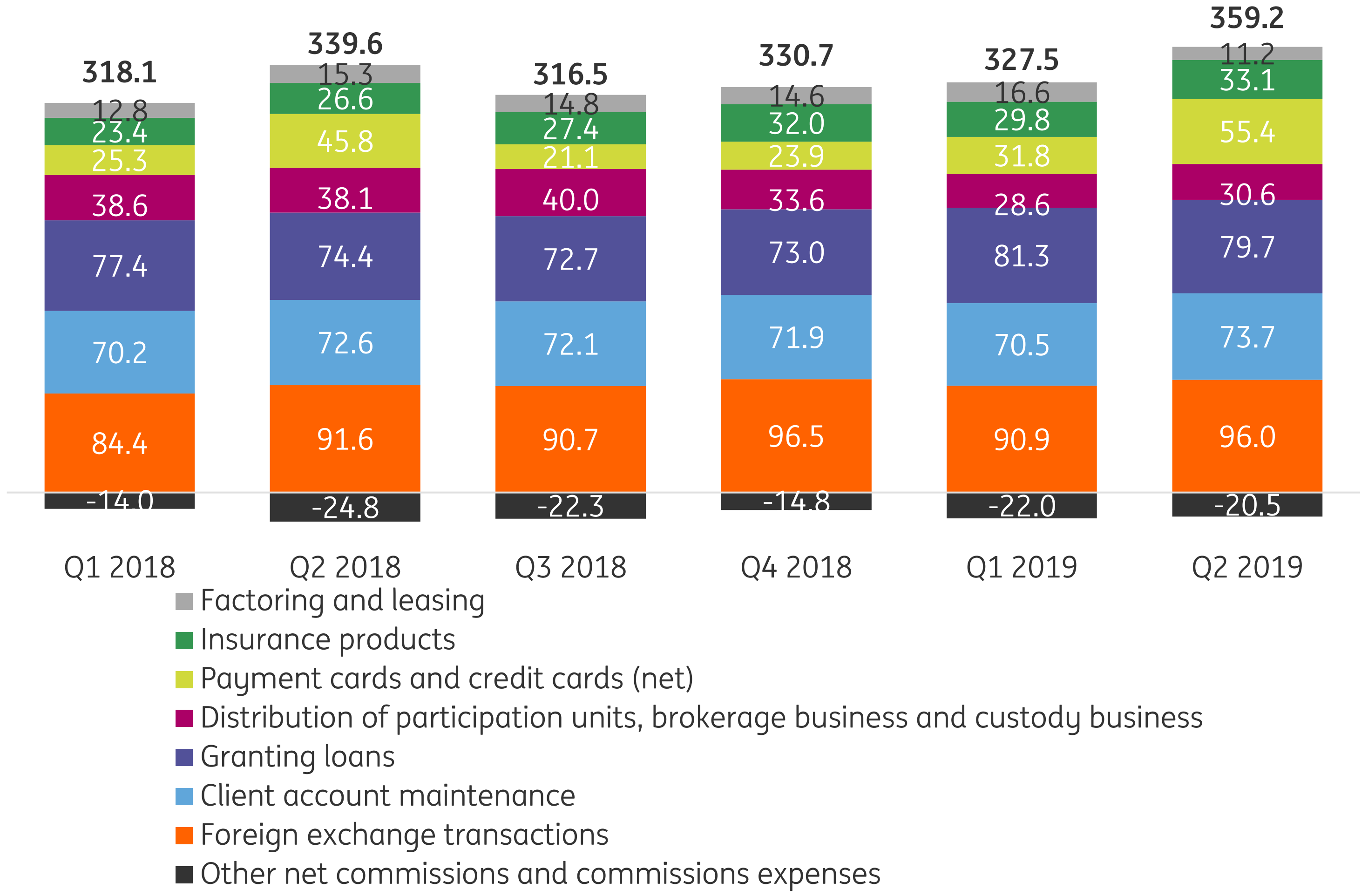
Net interest income (PLN million) and interest margin versus average 3M WIBOR



L/D ratio



Net fee and commission income (PLN million)



Net fee and commission income

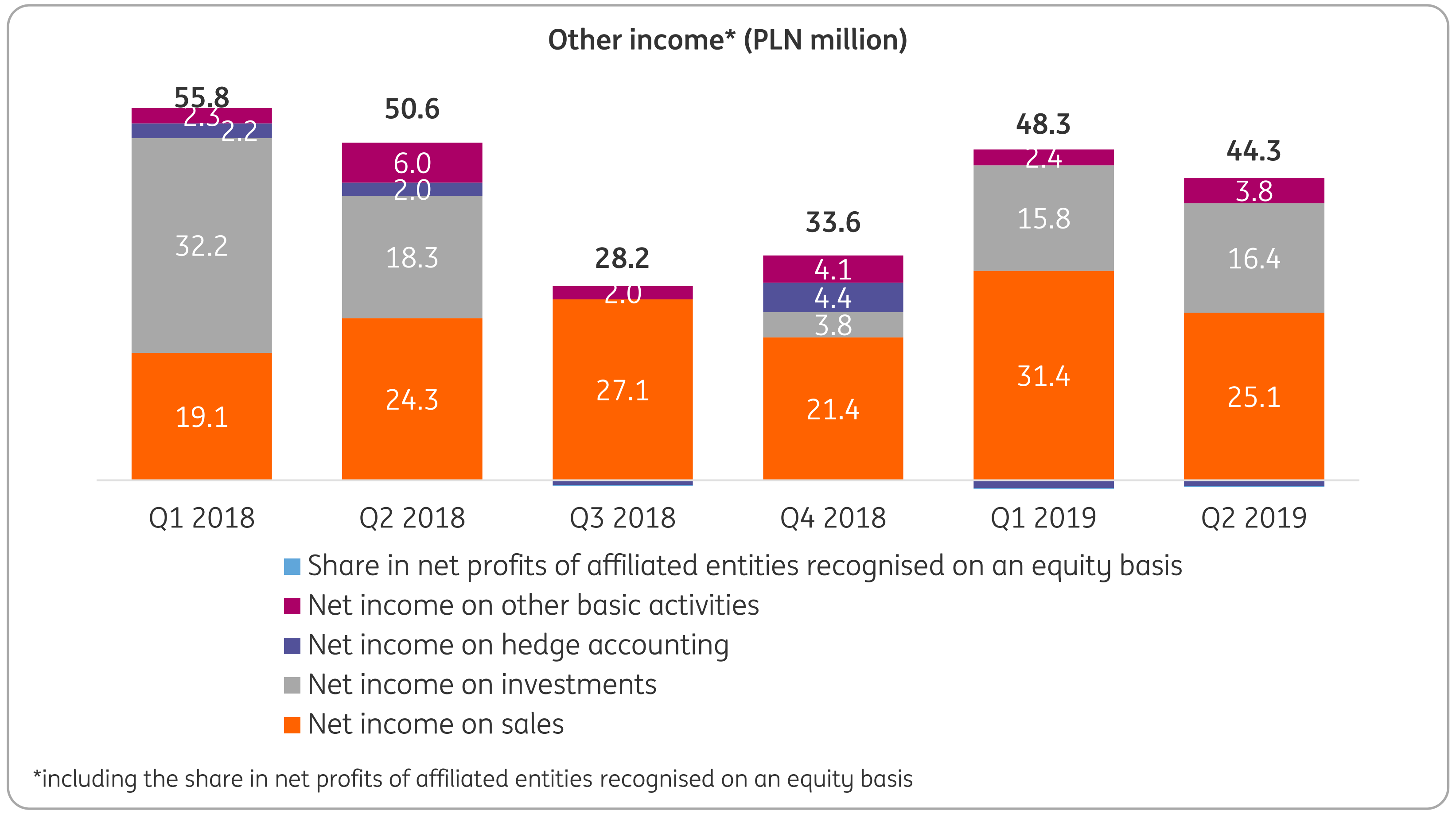
In H1 2019, the net fee and commission income of the ING Bank Śląski S.A. Group augmented by PLN 29.0 million, or 4.4%, from H1 2018, and settled at PLN 686.7 million.

The most significant fee and commission income growth was noticed in:

- commissions on payment- and credit cards (net): up by PLN 16.1, or 22.6% y/y, to PLN 87.2 million.
- insurance products: up by PLN 12.9, or 25.8% y/y, to PLN 62.9 million.
- the margin on foreign exchange transactions: up by PLN 10.9, or 6.2% y/y, to PLN 186.9 million.

Other income

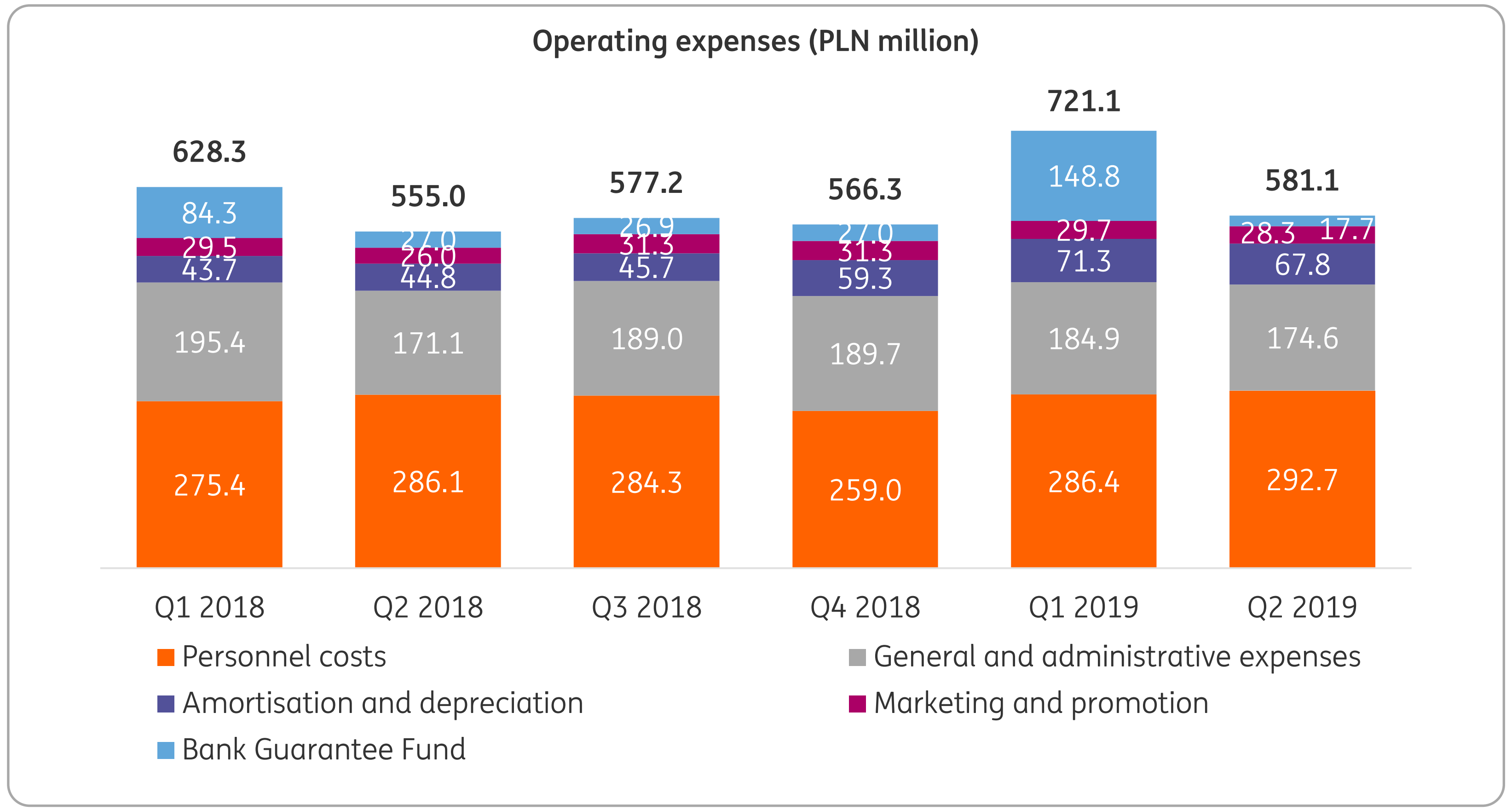
In H1 2019, other income of the Group (including the share in the net result of associates recognised on an equity basis) was PLN 92.6 million and it was lower by PLN 13.8 million compared with the previous year. The decrease results from a lower value of the result realised on the sale of T-bonds (PLN 32.2 million in H1 2019 vs PLN 50.5 million in H1 2018).



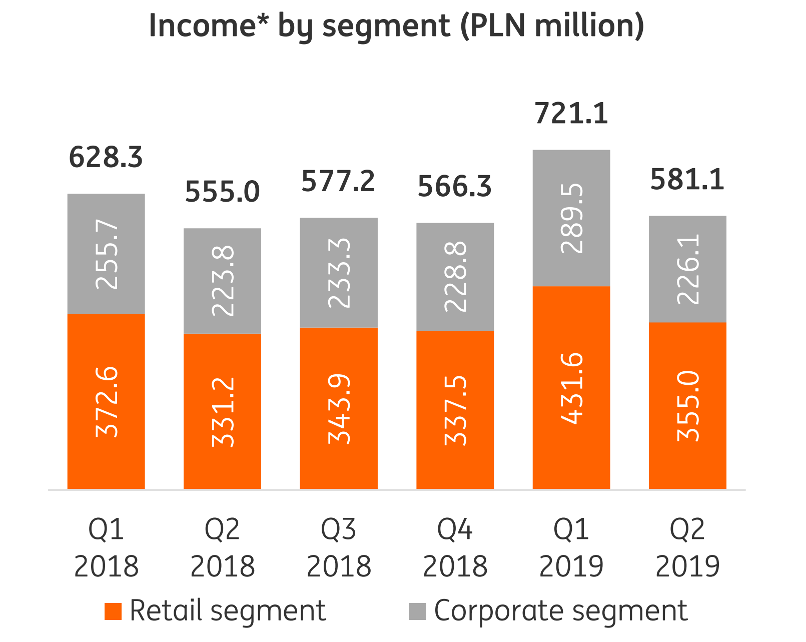
Operating expenses

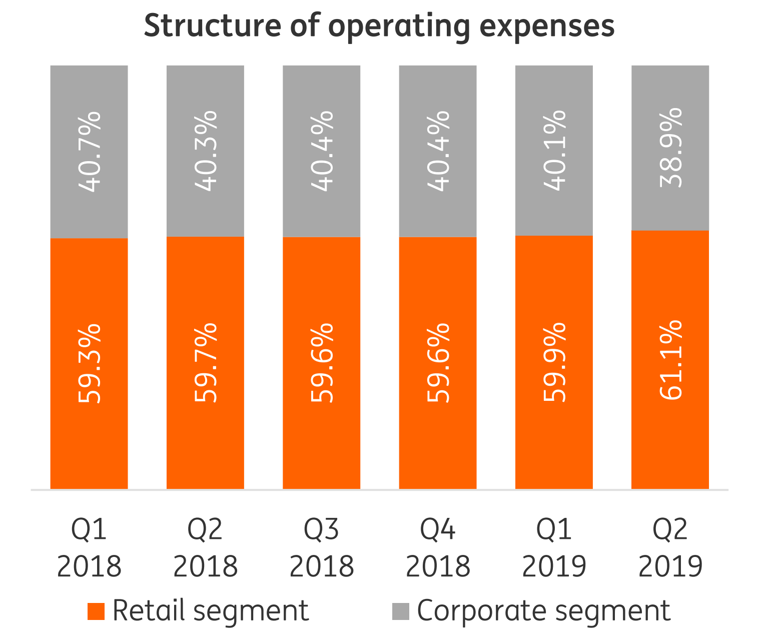
In H1 2019, the operating expenses of the ING Bank Śląski S.A. Group went up by 10.0% y/y to PLN 1,302.2 million. Costs increase was observed in all main categories. The costs related to the fees to BGF recorded the highest growth in 2019 (+PLN 55.2 million y/y, or 49.6% y/y). The contribution to the resolution fund (recognised in whole in the Q1 results) totalled PLN 131.2 million (PLN 58.2 million in Q1 2018). The contribution to the deposit guarantee fund in H1 2019 totalled PLN 35.3 million (vs PLN 53.1 million in H1 2018). A high increase in the amortisation/depreciation line is related to the implementation of IFRS 16 which resulted in the transition of some other general and administrative expenses to that line. In total, the other general and administrative expenses including amortisation/depreciation rose by PLN 46.0 million, or 9.0% y/y, from the previous year. The increase was partly related to the increase in the costs of PFSA supervision which amounted to PLN 16.1 million (recognised in whole in the Q1 2019 results; vs PLN 11.1 million in 2018).

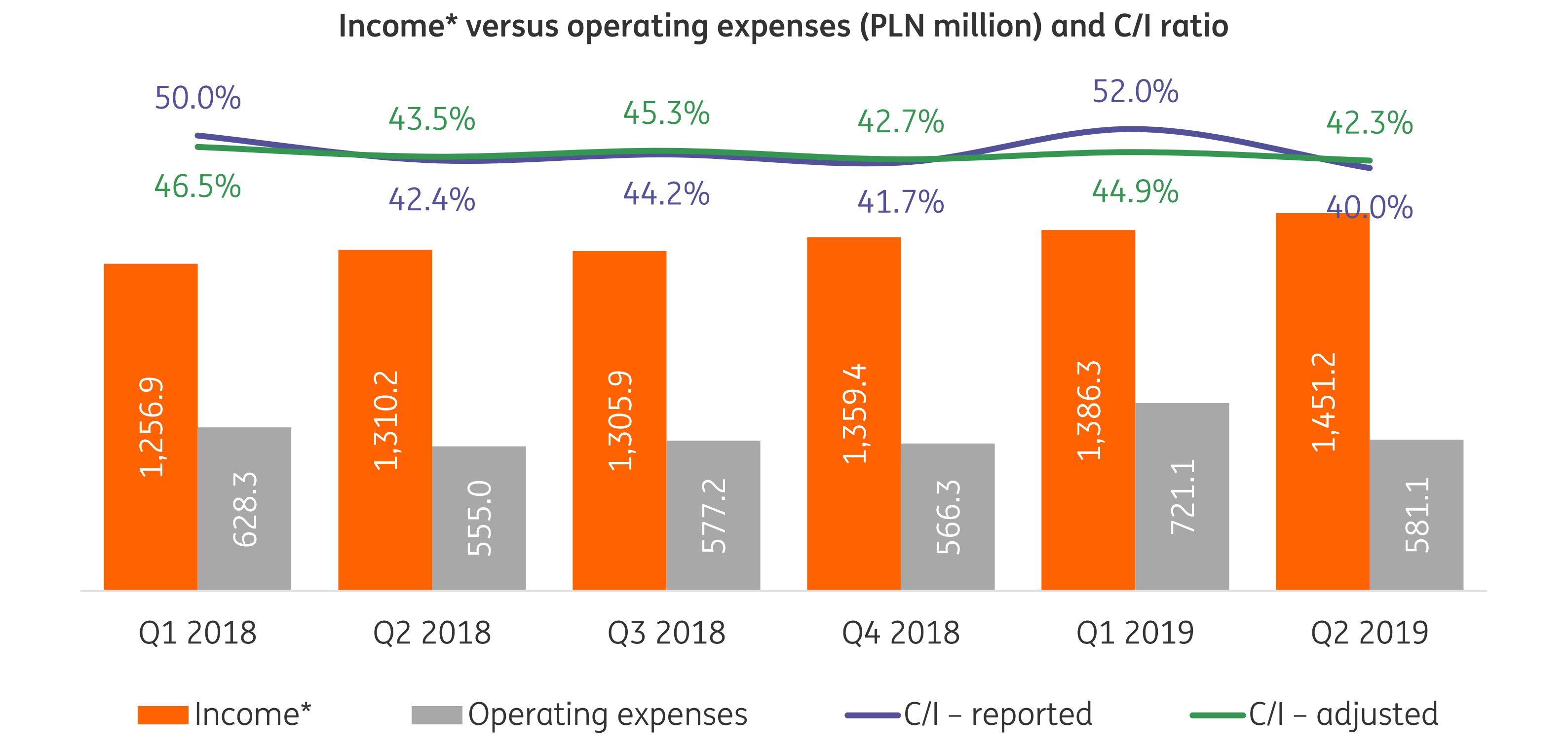
Employment in the ING Bank Śląski S.A. Group was relatively stable (8,119.3 FTEs as at the end of June 2019 compared to 8,033.6 FTEs as at the 2018 year-end).



The operating costs of the retail segment rose by PLN 82.8 million y/y (+11.8%) to PLN 786.6 million. The operating costs of the corporate segment rose by PLN 36.1 million y/y (+7.5%) to PLN 515.6 million. As a result, the share of the retail segment in costs increased by 0.9 p.p. from H1 2018 and stood at 60.4%.





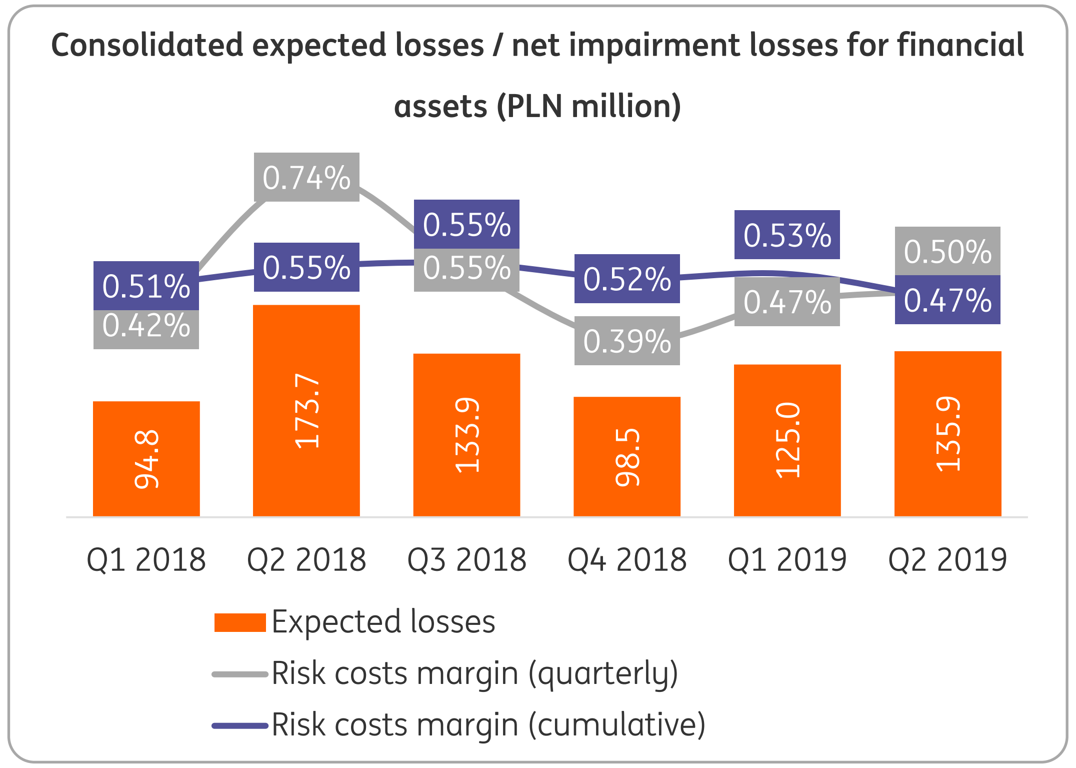


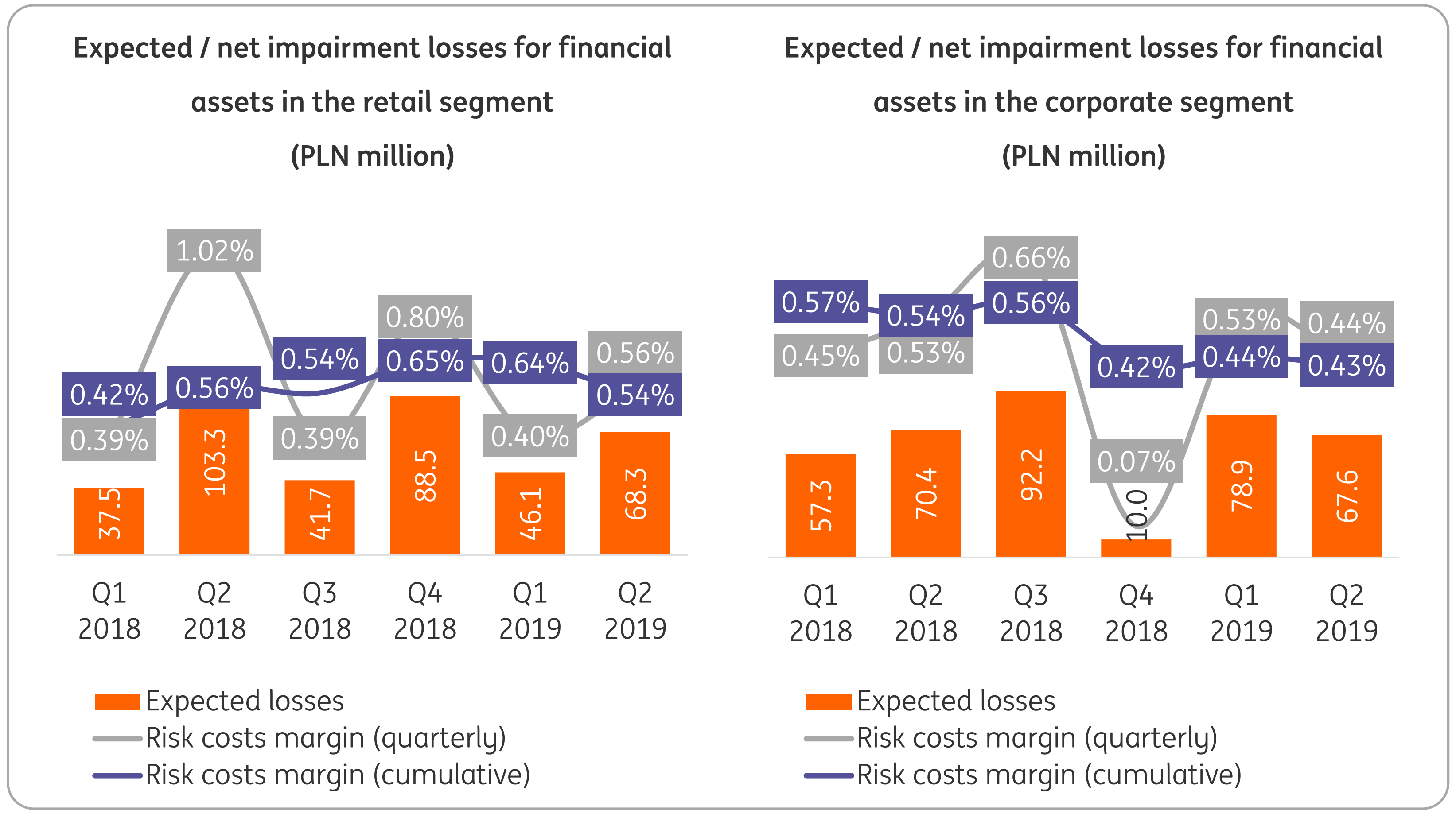
*including the share in net profits of affiliated entities recognised on an equity basis; adjusted ratio – upon the adjustment of the BGF costs, whereby the contribution to the resolution was spread over the four quarters.

Because of a faster growth rate of income than of operating expenses, the efficiency ratio – C/I ratio – improved in H1 2019 from a year earlier. It was 45.9%, which shows a decrease by 0.2 p.p. y/y. The adjusted C/I ratio for H1 2019 (assuming quarterly recognition of the contribution to the resolution fund) was 43.6%, up by 1.4 p.p. y/y.

Expected impairment losses

The first half of 2019 saw a decrease in the risk costs margin ratio (net loan loss provisions to the gross lending portfolio) to 0.47% from 0.55% in the previous year; this was caused by a lower ratio in the retail segment – a decrease from 0.56% in H1 2018 to 0.54% in H1 2019, and in the corporate segment where the risk costs margin went down from 0.54% in H1 2018 to 0.43% in H1 2019.





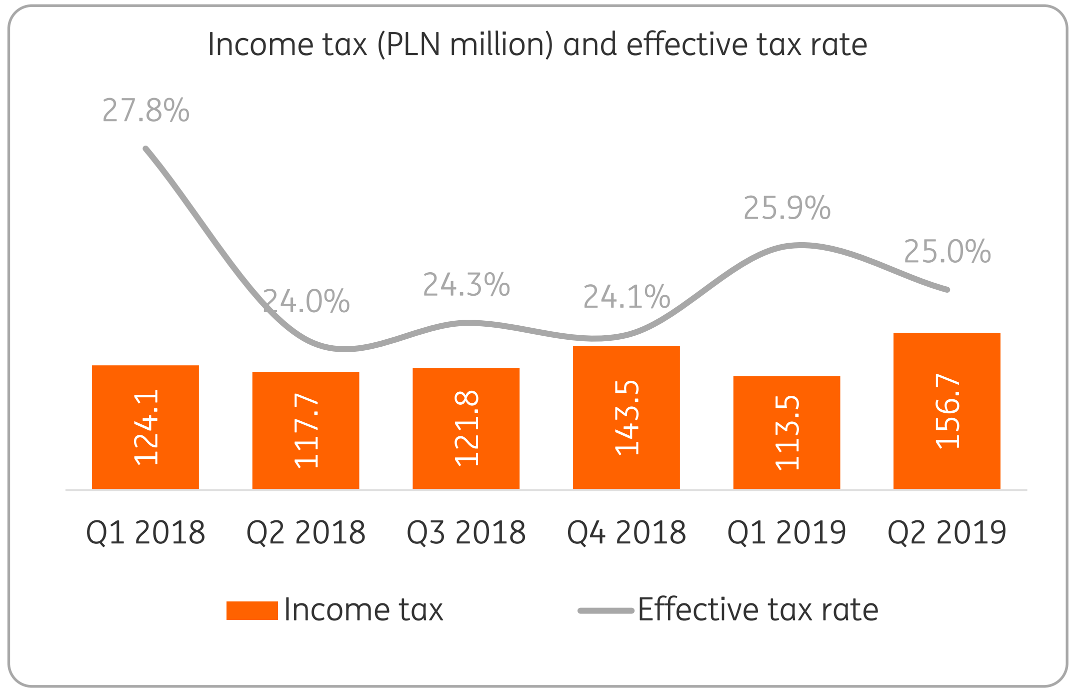
In H1 2019, our bank sold stage 3 receivables once. In Q1 2019, a corporate portfolio was sold whose impact on the risk costs was PLN 9.8 million. In H1 2018, there was also one sale of stage 3 receivables, and its impact on the risk costs was PLN 1.1 million. The Bank sells its portfolios of receivables in stage 3 on a regular basis under its credit risk management policy.

Tax on certain financial institutions

In H1 2019, the ING Bank Śląski S.A. Group paid the tax on certain financial institutions (the so-called bank levy) of PLN 208.5 million. It was PLN 29.9 million, or 16.7%, higher than in H1 2018 due to a higher tax base. This follows a consistent growth in business volumes.

Income tax

In H1 2019, the ING Bank Śląski S.A. Group posted the income tax of PLN 270.2 million. It was 11.7% higher than a year earlier. The effective tax rate in H1 2019 was 25.3% versus 25.8% the year before.

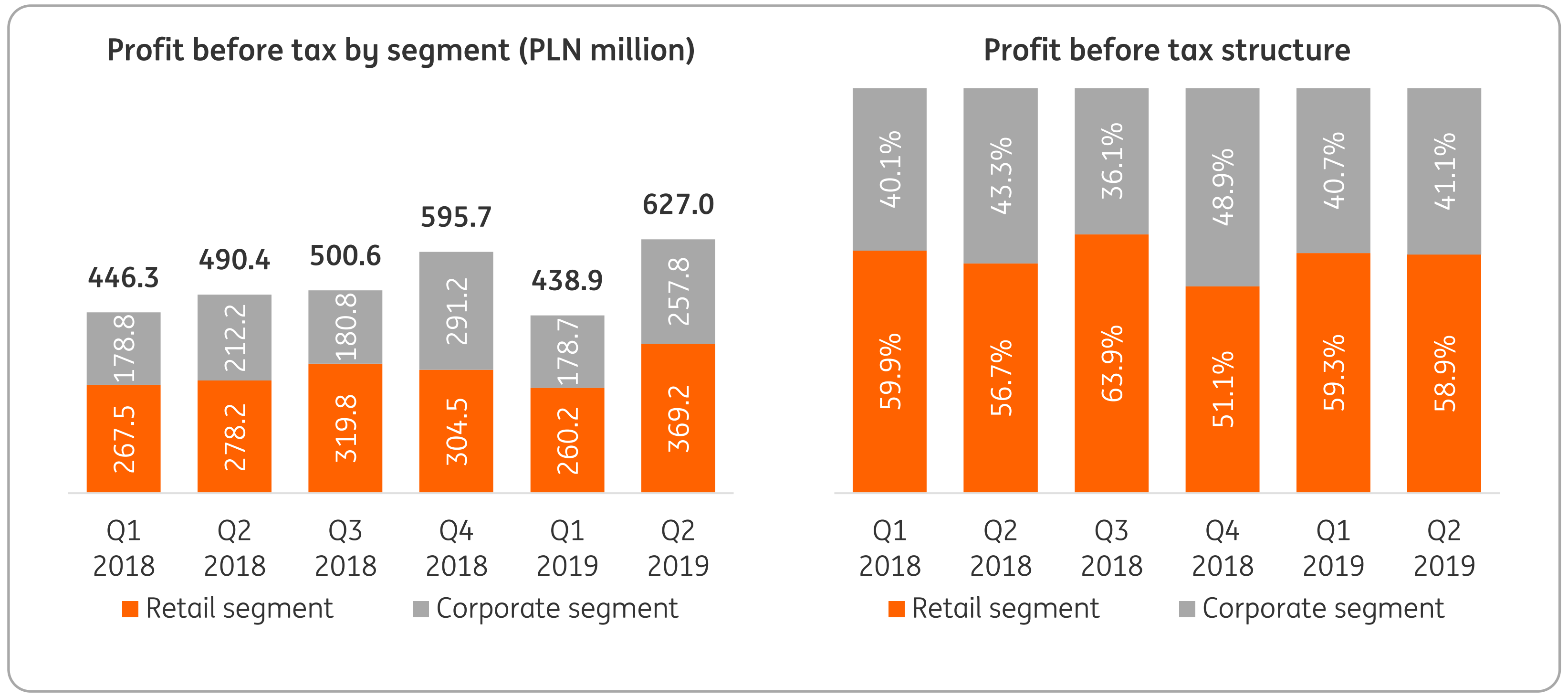


Report by business segments

The business model of our bank is sub-divided into the two main segments:

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

In H1 2019, the Group result before tax broken down into segments was as follows:



In H1 2019, results of the retail banking segment and of the corporate banking segment accounted for 59.0% and 41.0% of the Group's result before tax respectively (in 2017: 58.3% and 41.7%, respectively).

Result before tax in the retail banking segment

PLN million	H1 2019	H2 2018	H1 2018	Change H1 2019 vs H1 2018 PLN million	%
Net interest income	1,298.8	1,236.0	1,150.1	148.7	12.9%
Net commission income	267.0	219.2	257.5	9.5	3.7%
Other income	53.9	61.9	56.4	-2.5	-4.4%
Total revenue	**1,619.7**	**1,517.1**	**1,464.0**	**155.7**	**10.6%**
Operating expenses	**786.6**	**681.4**	**703.8**	**82.8**	**11.8%**
Risk costs	114.4	130.2	140.8	-26.4	-18.8%
Bank levy	89.3	81.2	73.7	15.6	21.2%
Gross financial result	**629.4**	**624.3**	**545.7**	**83.7**	**15.3%**

Result before tax in the corporate banking segment

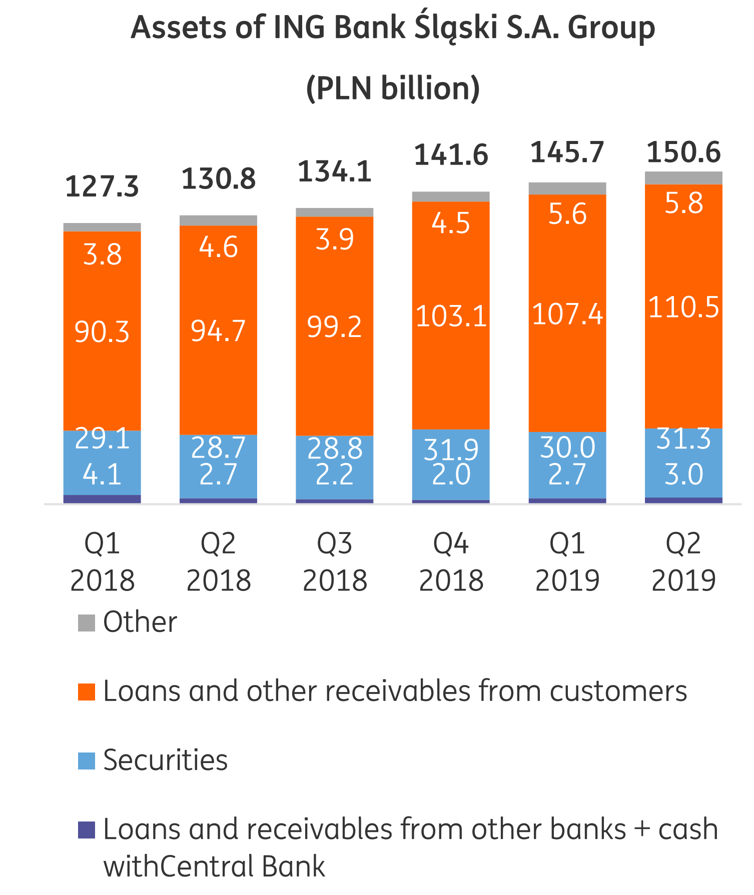
	H1 2019	H2 2018	H1 2018	Change H1 2019 vs H1 2018	
PLN million				PLN million	%
Net interest income	759.4	720.0	652.9	106.5	16.3%
Net commission income	419.7	428.0	400.2	19.5	4.9%
Other income*	38.7	0.2	50.0	-11.3	-22.6%
Total revenue	**1,218.0**	**1,148.5**	**1,103.1**	**114.9**	**10.4%**
Operating expenses	**515.6**	**462.1**	**479.5**	**36.1**	**7.5%**
Risk costs	146.5	102.2	127.7	18.8	14.7%
Bank levy	119.2	111.9	104.9	14.3	13.6%
Gross financial result	**436.5**	**472.0**	**391.0**	**45.5**	**11.6%**

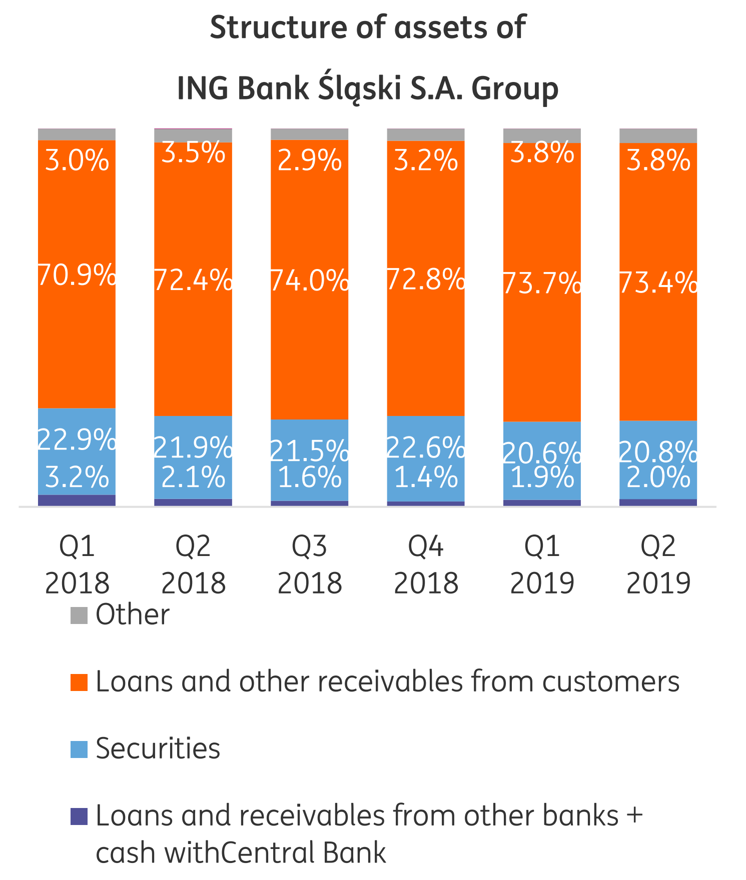
*including net profit of affiliated entities recognised on an equity basis

Statement of financial position

Assets

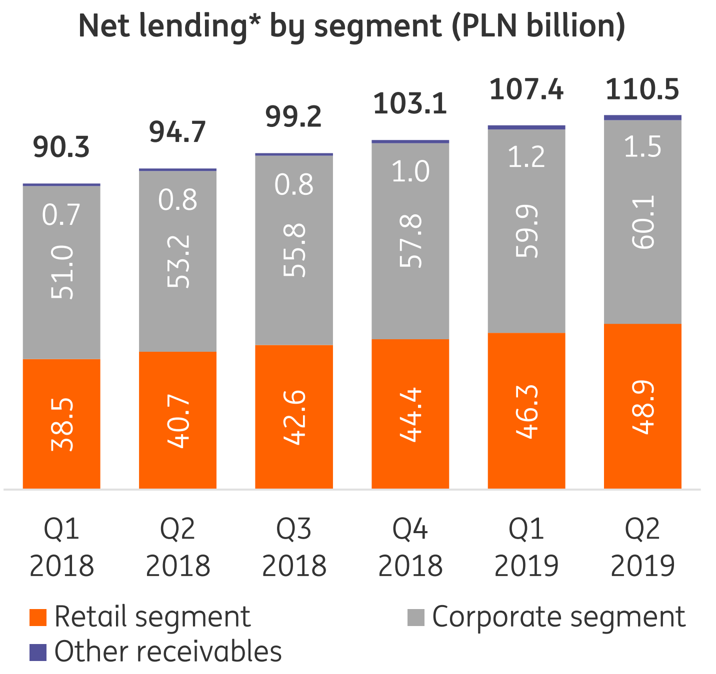
As at the end of June 2019, the total assets of the ING Bank Śląski S.A. Group were PLN 150.6 billion. This shows an increase by 6.4% from the 2018 year-end. The portfolio of net loans and other receivables from customers was the primary growth trigger. It went up by PLN 7.4 billion y/y, or 7.2%, and closed with PLN 110.5 billion. These items prevail in the assets structure. As at 30 June 2019, they represented 73.4% of all Group assets.

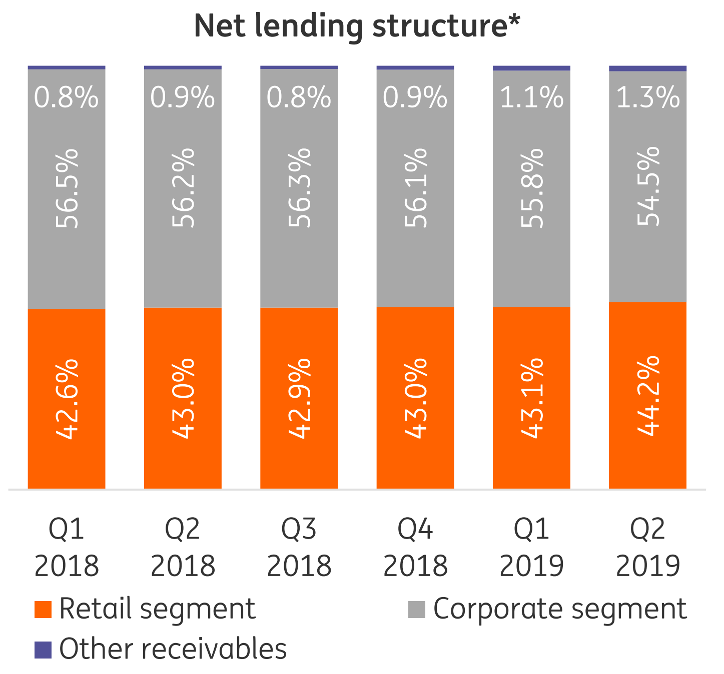




At PLN 31.3 billion (or, 20.8% of assets), the securities portfolio also represented a major item in the balance sheet of the Group. Debt securities, including assets measured at fair value through other comprehensive income of PLN 19.2 billion and financial assets at amortised cost of PLN 12.1 billion, dominated the portfolio.

Both retail and corporate net loans and other receivables from clients increased the balance as at the end of June 2019 when compared with 2018 year-end. The growth attributed to retail segment was PLN 4.5 billion and the one attributable to corporate segment was PLN 2.4 billion. As a result, the share of retail exposures went up by 1.2p.p. y/y and totalled 44.2%.





*loans and other receivables from customers, Eurobonds excluded

The portfolio of net receivables from the customers

PLN million	June 2019	December 2018	June 2018	Change June 2019 to June 2018 PLN million	%
at amortised cost	193.5	218.4	249.0	-55.5	-22.3%
at fair value through profit or loss	110,316.4	102,907.4	94,475.3	15,841.1	16.8%
Total	**110,509.9**	**103,125.8**	**94,724.3**	**15,785.6**	**16.7%**

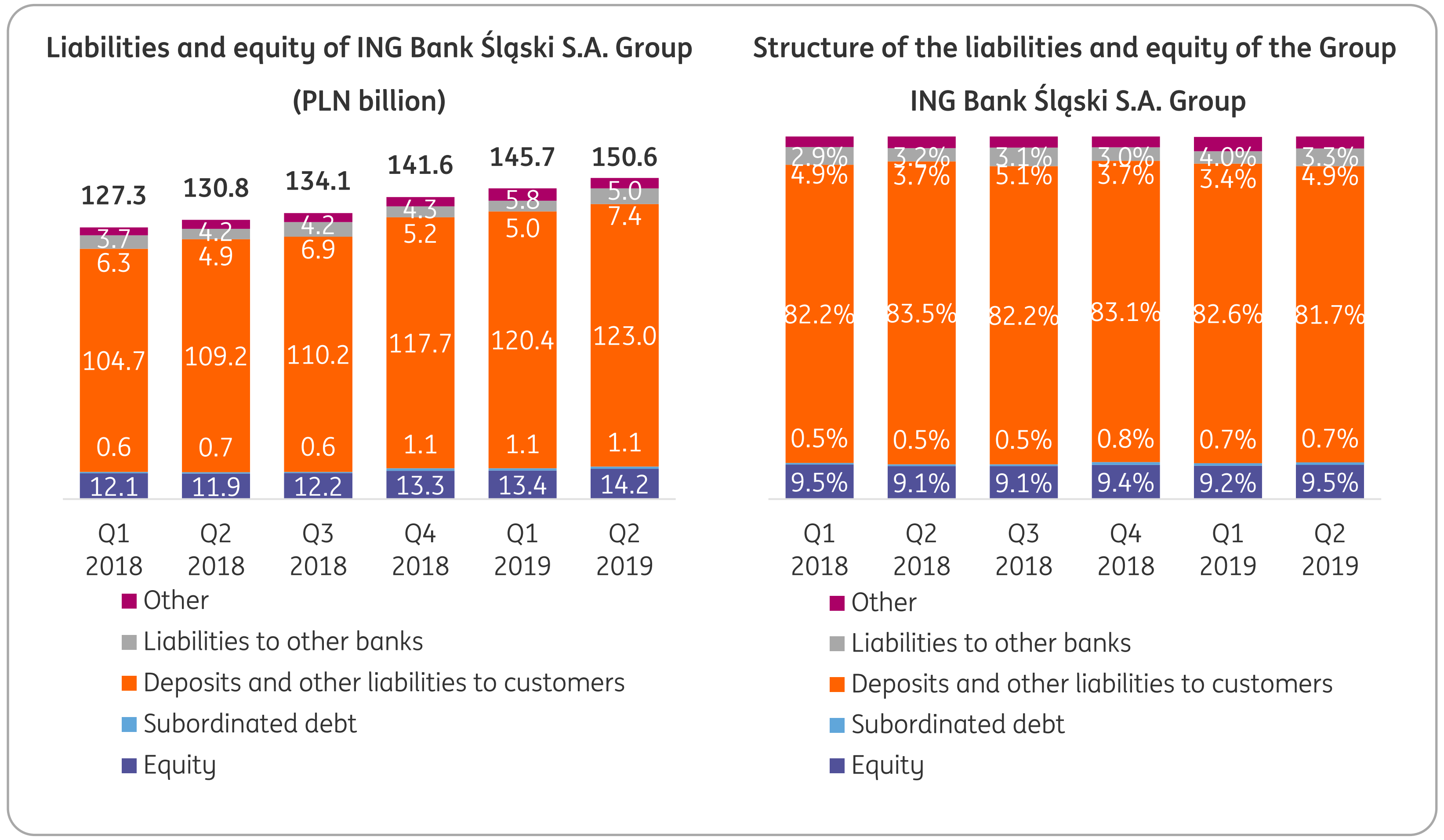
The portfolio of net receivables from the customers measured at amortised cost

PLN million	June 2019	December 2018	June 2018	Change June 2019 to June 2018 PLN million	%
Lending portfolio, including:	**108,857.2**	**101,956.8**	**93,666.3**	**15,190.9**	**16.2%**
households	52,210.1	47,525.7	43,707.4	8,502.7	19.5%
businesses	53,402.3	51,223.9	47,402.1	6,000.2	12.7%
government- and self-government institutions sector	3,244.8	3,207.2	2,556.8	688.0	26.9%
Total, including:	**108,857.2**	**101,956.8**	**93,666.3**	**15,190.9**	**16.2%**
Corporate banking	59,995.7	57,602.0	52,967.6	7,028.1	13.3%
overdraft facilities	11,227.3	10,322.8	9,987.0	1,240.3	12.4%
term loans and advances	33,388.4	32,517.3	29,701.4	3,687.0	12.4%
leasing receivables	7,909.1	7,118.1	6,438.5	1,470.6	22.8%
factoring receivables	5,133.4	4,834.5	4,751.6	381.8	8.0%
debt securities	2,337.5	2,809.3	2,089.1	248.4	11.9%
Retail banking	48,861.5	44,354.8	40,698.7	8,162.8	20.1%
mortgage loans and cash loans	36,264.5	33,146.8	30,295.4	5,969.1	19.7%
overdraft facilities	1,307.3	1,223.4	1,299.4	7.9	0.6%
leasing receivables	1,168.8	975.5	807.8	361.0	44.7%
other loans and borrowings	10,120.9	9,009.1	8,296.1	1,824.8	22.0%
Other receivables, including:	**1,459.2**	**950.6**	**809.0**	**650.2**	**80.4%**
Eurobonds (State Treasury bonds)	0.0	0.0	0.0	0.0	-
call deposit margin	1,081.1	733.0	651.7	429.4	65.9%
receivables from repo transactions	0.0	0.0	0.0	0.0	-
other receivables	378.1	217.6	157.3	220.8	140.4%
Total	**110,316.4**	**102,907.4**	**94,475.3**	**15,841.1**	**16.8%**

Liabilities and equity

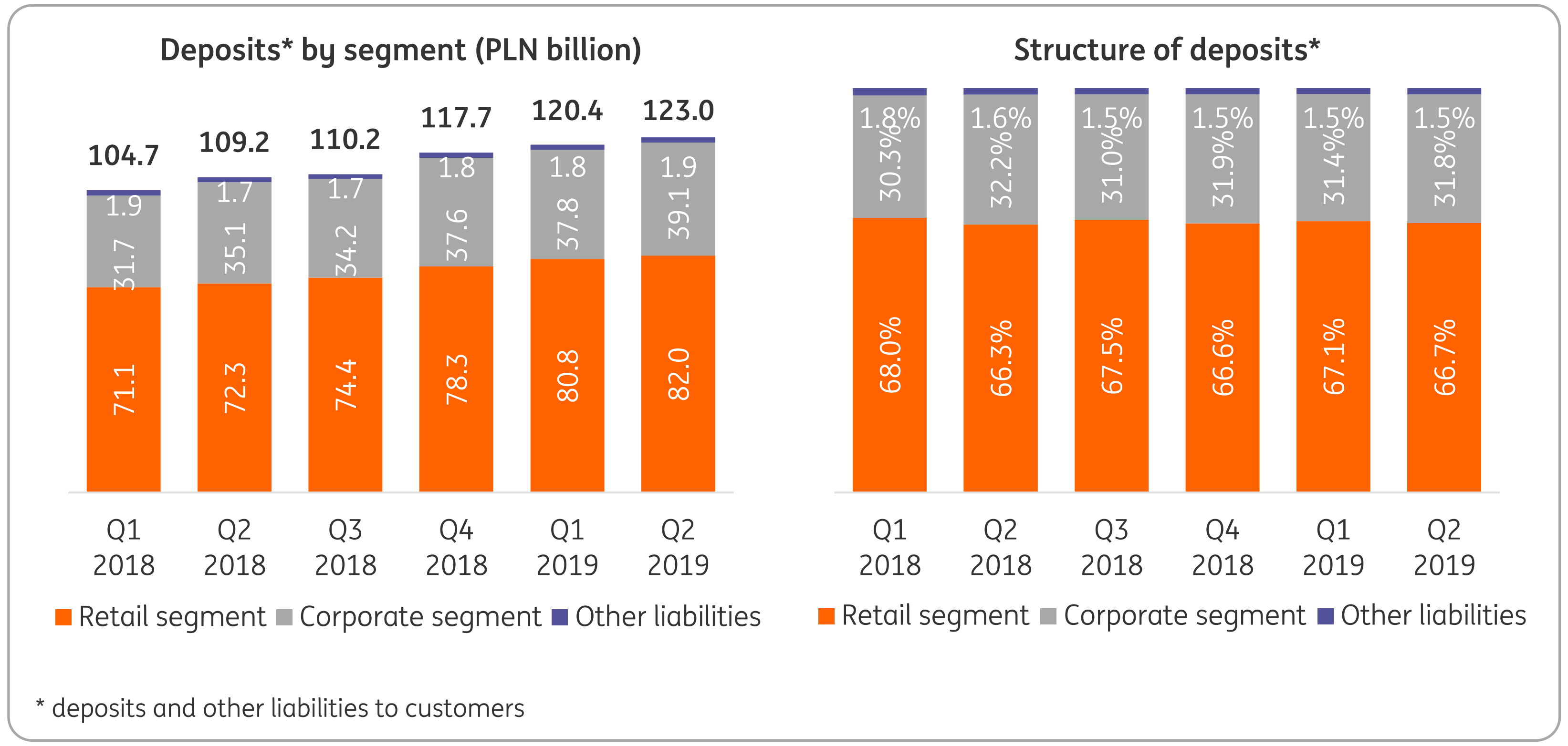
The clients' funds constituted the dominant funding source for the operations of the ING Bank Śląski S.A. Group. As at the end of June 2019, the liabilities to customers were PLN 123.0 billion, or 81.7% of all liabilities.

Equity was another most important funding source. As at the end of June 2019, it stood at PLN 14.2 billion and represented 9.5% of total liabilities.



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

As at the end of June 2019, deposits and other liabilities to customers amounted to PLN 123.0 billion, up by 4.5%, or PLN 5.3 billion) from the end of 2018. The absolute majority of the growth of deposits was generated in the retail segment (+PLN 3.7 billion), which led to a higher share of that segment in the structure of deposits from 66.6% as at the end of 2018 to 66.7%.



Portfolio of liabilities to customers

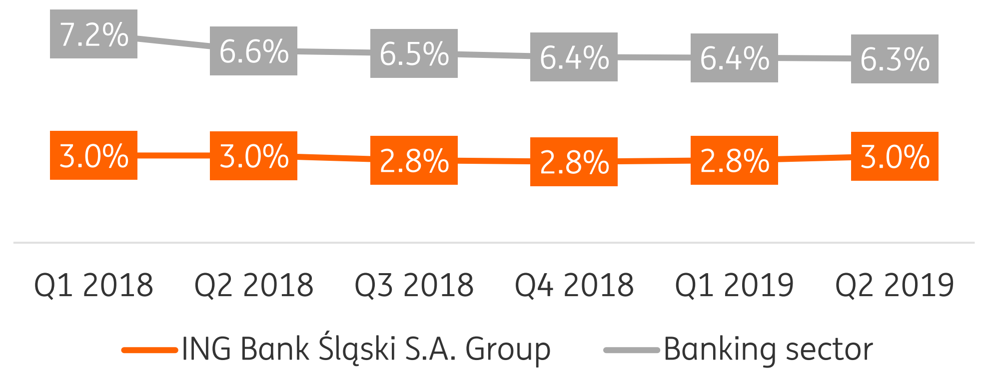
PLN million	June 2019	December 2018	June 2018	Change June 2019 to June 2018 PLN million	%
Deposits, including:	**121,131.2**	**115,908.0**	**107,467.7**	**13,663.5**	**12.7%**
households	84,558.1	78,255.5	72,253.5	12,304.6	17.0%
businesses	33,211.0	35,735.0	33,446.9	-235.9	-0.7%
government- and self-government institutions sector	3,362.1	1,917.5	1,767.3	1,594.8	90.2%
Total, including:	**121,131.2**	**115,908.0**	**107,467.7**	**13,663.5**	**12.7%**
Corporate banking	**39,134.3**	**37,589.9**	**35,119.2**	**4,015.1**	**11.4%**
current deposits	23,584.6	25,478.6	23,521.5	63.1	0.3%
saving deposits	10,214.6	9,969.3	9,157.1	1,057.5	11.5%
term deposits	5,335.1	2,142.0	2,440.6	2,894.5	118.6%
Retail banking	**81,996.9**	**78,318.1**	**72,348.5**	**9,648.4**	**13.3%**
current deposits	19,470.8	18,051.2	16,013.5	3,457.3	21.6%
saving deposits	59,916.4	57,948.1	53,784.8	6,131.6	11.4%
term deposits	2,609.7	2,318.8	2,550.2	59.5	2.3%
Other liabilities, including:	**1,860.8**	**1,774.5**	**1,706.4**	**154.4**	**9.0%**
liabilities under cash collateral	399.9	329.5	299.0	100.9	33.7%
repo transactions	0.0	0.0	0.3	-0.3	-100.0%
other liabilities	1,460.9	1,445.0	1,407.1	53.8	3.8%
Total	**122,992.0**	**117,682.5**	**109,174.1**	**13,817.9**	**12.7%**

Quality of lending portfolio

Share of stage 3 receivables

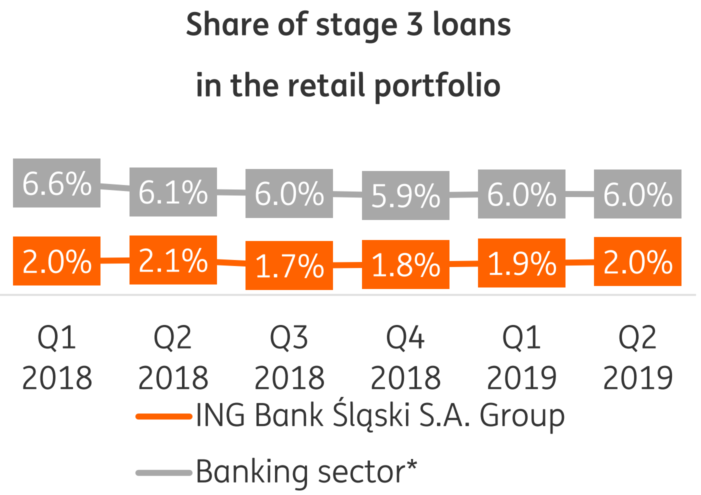
In H1 2019, the quality of our lending portfolio slightly deteriorated from the end of 2018. The share of loans in stage 3 in the ING Bank Śląski S.A. Group rose from 2.8% as at the end of 2018 to 3.0% as at the end of June 2019. The value of loans in stage 3 at the Group stood at PLN 3,310.7 million versus PLN 2,905.0 million as at the end of 2018 (up by 14.0%).

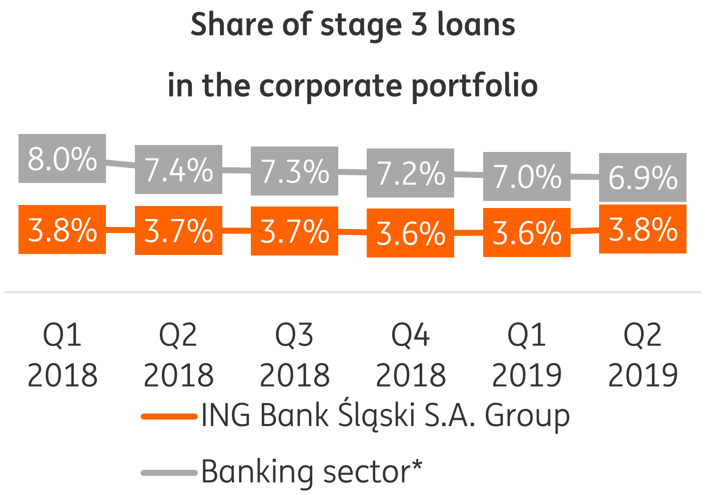
The share of loans in stage 3 for ING Bank Śląski S.A. Group versus the sector average*



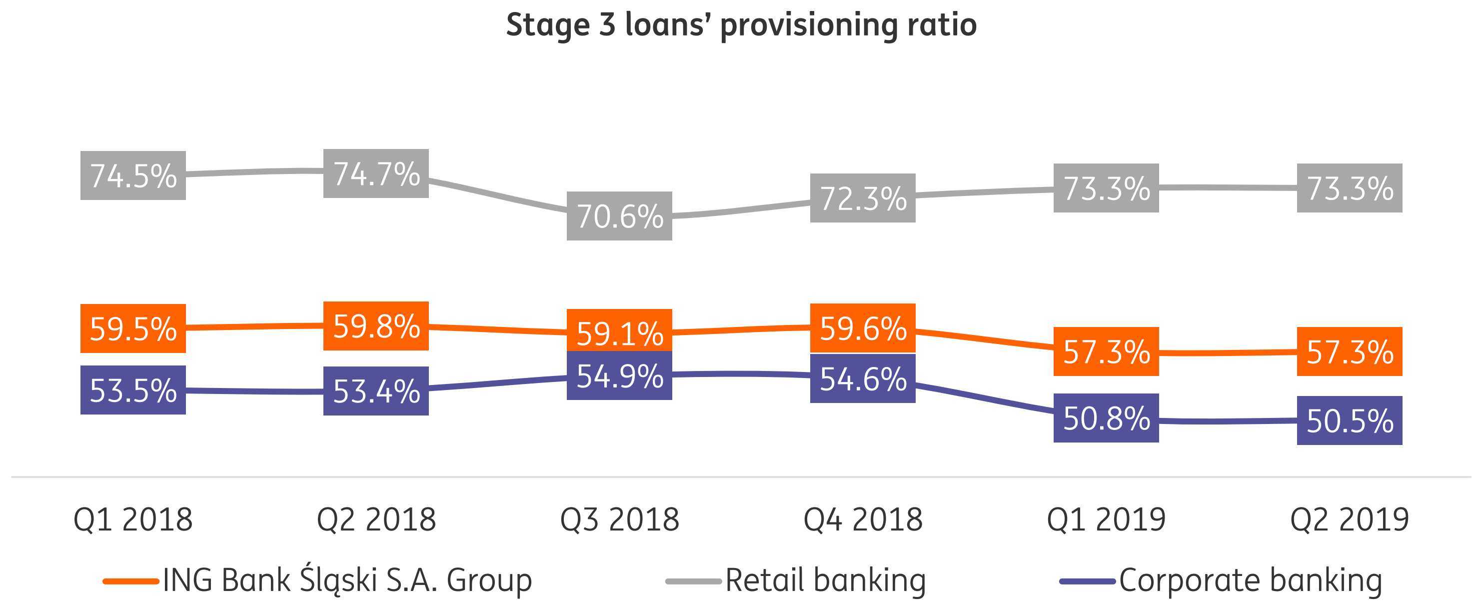
* Estimates based on PFSA data; data for May 2019 for Q2 2019 in the sector

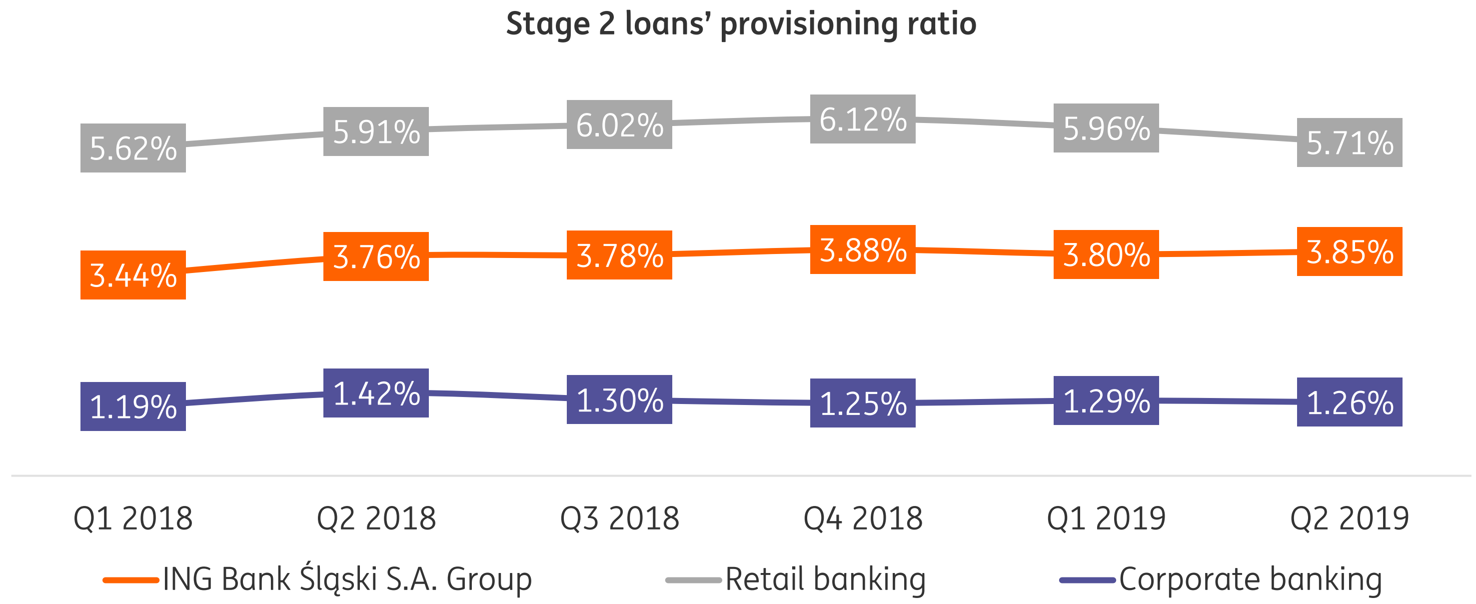
The quality of the lending portfolios of our bank is higher than the average for the entire banking sector when comparing stage 3 ratios. As at the end of May 2019, the share of receivables in stage 3 in the sector stood at 6.3%. It is important to note that the credit quality of our loans in the retail segment and in the corporate segment is higher than the respective averages for the entire banking sector. As at the end of June 2019, the share of stage 3 loans in the retail segment of ING Bank Śląski Group stood at 2.0% vis-à-vis 6.0% for the household sector (the data for May 2019). The same ratios for the corporate segment amount to, respectively, 3.8% for the ING Bank Śląski S.A. Group and 6.9% for the institutional clients sector (the data for May 2019).





* Estimates based on PFSA data; data for May 2019 for Q2 2019 in the sector





In H1 2019, the quality of our lending portfolio was impacted, apart from the higher business volumes and the prudent lending policy, by a sale transaction of receivables classified as stage 3 loans. The receivables sold (principal, interest, other costs as at the agreement date) totalled PLN 135.1 million, and the amount of PLN 117.4 million represented the receivables forming the credit exposure. A similar transaction was conducted in H1 2018 – the receivables sold at that time totalled PLN 102.5 million, out of which PLN 85.6 million represented the credit exposure.

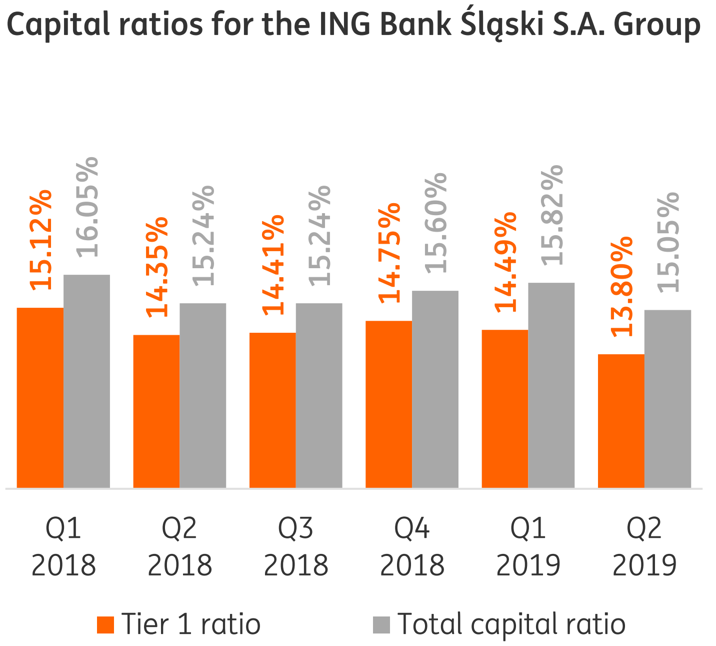
Stage 3 loans' provisioning

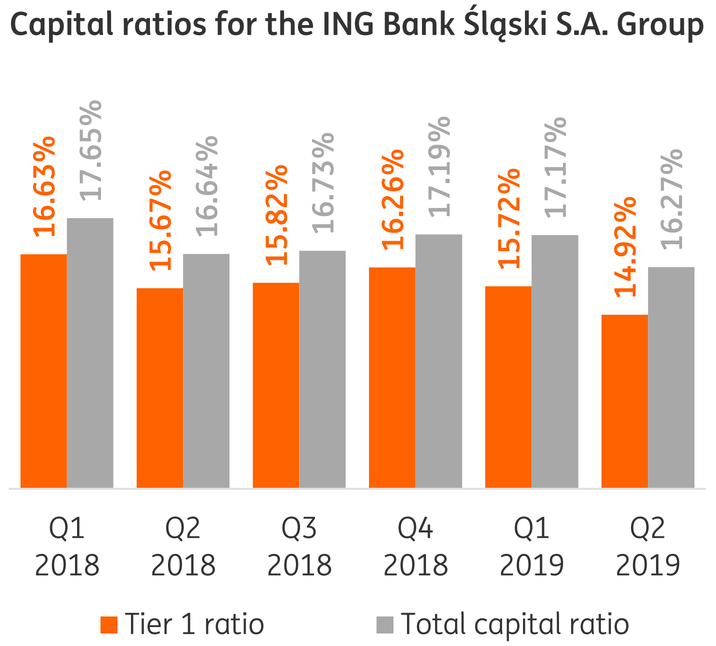
As at the end of June 2019, the ING Bank Śląski S.A. Group had PLN 1,896.2 million worth of provisions for the lending portfolio in stage 3. The stage 3 portfolio provisioning ratio was 57.3%.

As at the end of June 2019, the ING Bank Śląski S.A. Group had PLN 395.2 million worth of provisions for the lending portfolio in stage 2. The stage 2 portfolio provisioning ratio was 3.85%.

Capital adequacy

On 30 June 2019, the TCR (total capital ratio) value for the ING Bank Śląski S.A. Group was 15.05%, compared to 15.60% as at the 2018 yearend, and the Tier 1 ratio value was 13.80%, compared to 14.75% as at the 2018 yearend.





In order to calculate the capital ratios, the Group used the transitional provisions on mitigating the impact of the IFRS 9 standard implementation on the level of own funds. For the total inclusion of the IFRS 9 standard implementation as at the end of June 2019:

- on the consolidated level, the total capital ratio would be 14.73% and the Tier 1 capital ratio would be 13.49%,
- on the individual level, the total capital ratio would be 15.93% and the Tier 1 capital ratio would be 14.58%,

Dividends declared and paid out

ING Bank Śląski S.A., following the resolution of the Ordinary General Meeting of 29 March 2019, paid out the dividend for 2018 totalling PLN 455.35 million or 29.8% of the consolidated profit of the Bank's Group. The dividend per share is PLN 3.50 gross. The record date was set at 18 April 2019 and the dividend payout date at 6 May 2019. The dividend covered all shares issued by the Bank, i.e. 130,100,000.

In 2018, ING Bank Śląski S.A. paid out the dividend totalling PLN 416.32 million from 2017 profit (or 29.7% of the consolidated profit of the Bank's Group) i.e. PLN 3.20 gross per share, following the decision of the Ordinary General Meeting of 5 April 2018. The record date was 25 April 2018 and the dividend payout date – 10 May 2018. The dividend covered all shares issued by the Bank, i.e. 130,100,000.

More information about the Bank's dividend policy and the dividend payout history is available at https://en.ingbank.pl/company-profile/investor-relations.

Resources and infrastructure of ING Bank Śląski S.A. Group

Electronic banking

We offer our clients modern bespoke products and services. We offer access to intuitive online and mobile banking platforms that we develop together with our clients. In 2016, we introduced a new Moje ING online banking system for retail clients and the year later ING Business for corporate segment clients.

Number of electronic banking clients

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Moje ING, ING BusinessOnLine (in million)	4.3	4.2	4.1	4.0	3.9	3.7
ING BankMobile. Moje ING Mobile* (in million)	4.1	3.8	3.6	3.4	3.2	2.9
HaloŚlqski (in million)	2.2	2.2	2.2	2.2	2.2	2.2
ING BusinessMobile (in thousands)	23.5	22.1	20.8	19.8	18.4	17.4

*the number of downloaded applications

The monthly number of transactions in June 2019 was at the level of 33.2 million, and in the analogical period last year it was 37.7 million.

Retail banking

We offer our clients innovative bespoke products and services. By focusing primarily on mobility, we provide access to the modern Moje ING app and online banking, which are prepared to serve individual clients and entrepreneurs. As at the end of H1 2019, nearly 1.8 million clients had the Moje ING mobile app while over 4.2 million individual clients had access to online banking.

In the area of mobile payments in H1 2019, we provided the Apple Pay service to debit and credit card holders, while the Google Pay service was expanded for credit card users. In addition, we also implemented the opportunity to order a new Mastercard prepaid card offered to individual clients and children from 13 to 18 years of age in Moje ING.

As one of the first banks in Poland, we provided the BLIK recurring payment service, thanks to which our clients using the Moje ING mobile application can pay regular bills via BLIK. Recurring payments managed by users are a great convenience that gives a sense of control and easy management of this type of liabilities.

We offered the clients who use the Currency exchange module in Moje ING the notifications and automated orders execution functionalities.

In cooperation with the National Clearing House, our clients are one of the first in Poland to use the myID service, electronic identity confirmation, which facilitates access to online services.

We want to be where our clients are, therefore, as part of the POC (Proof of Concept), we have provided three functionalities in the Google Assistant available without logging in (checking the balance, generating the BLIK code, Express transfer).

In May, we provided an automatic process of cash advising for individuals in Moje ING. During the conversation with the bot, the client provides the data necessary to place the order – account, amount, advising branch and date. The works on launching the functionality for entrepreneurs are in progress.

In H1 2019, we provided remote company opening in Moje ING. Clients can submit an application for business activity registration which is signed with a Trusted Profile. In the process, a bank account is also opened and it is activated upon receipt of confirmation of business registration with the Central Registration and Information on Business. The service was prepared in cooperation with the Ministry of Entrepreneurship and Technology.

As part of work on PSD2, we made available a testing environment for data transfer in open banking where external application providers can test the API access banking interface. The live environment will be launched before 14 September 2019. Full interface specification with a detailed description of its operational rules is available on the development portal (https://devportal.ing.pl/#/). Thanks to Open Banking, the rules whereof are governed by PSD2, the information about client accounts may, with their consent, be made available to external entities in order to increase the efficiency of their finance management.

Corporate banking

The online banking platform for corporate clients is well received by clients. NPS for ING Business is regularly over 30 points, with a high level of satisfaction with the platform operation.

In addition, the ING Business platform was awarded by SME Banking Club with the award for the best online banking for corporate clients in Central and Eastern Europe. The award was granted on the basis of an analysis of the application functions and possibilities which covered corporate clients from over 25 banks in the Central and Eastern Europe.

The ING Business ecosystem is composed of the browser version, tablet version, native apps for smartphones and smartwatches and H2H channel – ING WebService.

Already over 35% of companies use the ING Business mobile application. This mode of access to banking data is gaining popularity among clients. The users more often use mobile devices to effect transfers and seek information.

We keep on developing and improving the online banking platform. In Q1 2019, we expanded the operation of the Currency exchange platform, we introduced a number of improvements related to opening an account and adding a user to the system.

We are currently working on the implementation of PSD2 guidelines: transfer initiation services, downloading information about the account and available funds.

In H1 2019, we provided services in the test form (sandbox), and currently we are implementing the production version.

Network of bank outlets

As at the end of H1 2019, ING Bank Śląski S.A. had a network of 332 retail branches (including 118 branches with a modern cash service – cash available in ATMs, CDMs and dual machines). All our branches have self-banking zones where clients can make both cash withdrawals and deposits on their own. The Bank continues to modernize its retail branches, primarily through changing equipment and decor, as well as through new functional solutions.

As at the end of June 2019, the Bank had 278 branches in the new standard. We continue to optimise our network by relocation and consolidation of branches to the locations most appealing to clients in business terms in towns/cities and regions.

As at the end of H1 2019, the Bank had 65 sales points deployed in the largest shopping malls in Poland. The network of ING Express points was formed in response to expectations of clients who want their bank to be available anytime and anywhere.

Corporate clients from the SME/MC 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 largest corporate clients were served by the Strategic Clients Department located in Warsaw and by its regional office in Katowice.

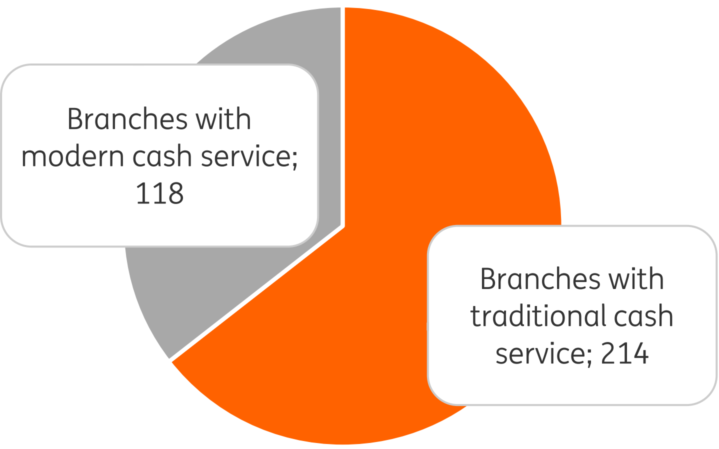
As at the end of June 2019, clients could use 1.047 machines for cash self-service, including 183 standard ATMs and 864 dual machines (1,073, 186, and 882, respectively as at the end fo June 2018).

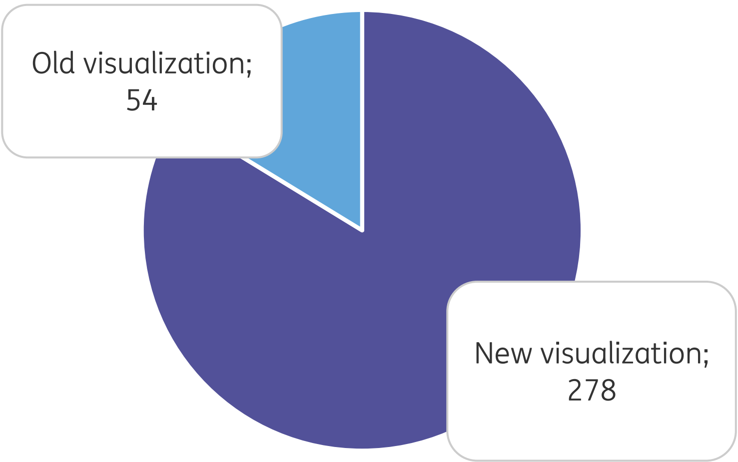
Number of payment cards (thousand)

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
debit cards	2,959	2,887	2,795	2,788	2,550	2,692
credit cards	259	253	254	254	248	227
other cards*	155	151	145	140	133	128
Total payment cards, in which:	**3,373**	**3,291**	**3,194**	**3,182**	**2,931**	**3,047**
paywave**	3,208	3,135	3,049	2,563	2,807	2,939
virtual cards	165	156	145	136	124	108

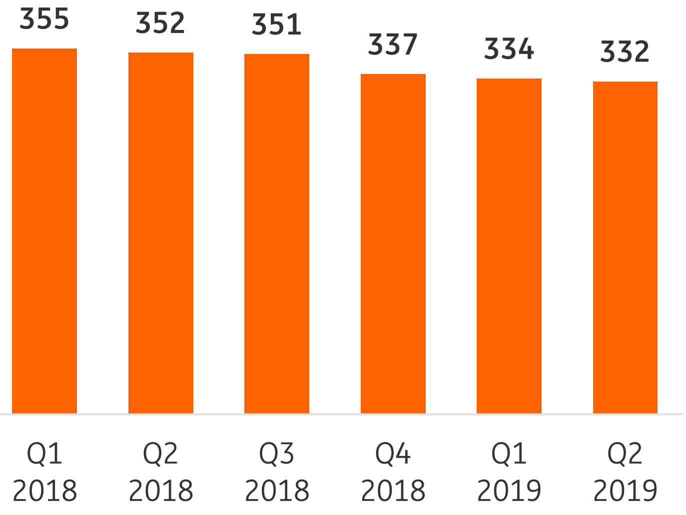
*including charge and prepaid cards; **cards: Contactless VISA, Contactless Visa Business, Contactless MasterCard Debit, Visa Zbliżak, Zbliżak, VISA 2016, VISA NFC, Mastercard in EUR, MasterCard Debit in phone, Mastercard in phone Business.

332 branches in 198 towns/cities (including 163 branches which are "1 in the city")





Number and geographic structure of branches



Human resources management

Headcount

As at 30 June 2019, the ING Bank Śląski S.A. Group had 8,170 employees (ING Bank Śląski S.A. had 7,740 employees). There were 84 persons (or 1%) more over December last year. This headcount increase is a result of implementation of the Know Your Customer Project mainly in the Operations Division (verification of client information files).

Number of employees

	30 June 2019	31 December 2018	Change
Head Office in Warsaw	742	729	13
Head Office in Katowice	3,160	3,085	75
Branches	3,838	3,851	-13
Bank total	**7,740**	**7,665**	**75**
ING Lease (Polska) Sp. z o.o.	227	227	-
ING Commercial Finance Polska S.A.	113	110	3
ING Bank Hipoteczny S.A.	37	30	7
Solver Sp. z o.o.	2	2	-
ING Usługi dla Biznesu Sp. z o.o.	48	49	-1
Nowe Usługi S.A.	3	3	-
Subsidiaries	**430**	**421**	**9**
ING Bank Śląski S.A. Group	**8,170**	**8,086**	**84**

Remuneration policy

During the Ordinary General Meeting held on 29 March 2019, the report on assessment of the Remuneration Policy at ING Bank Śląski S.A. in 2018 was presented in line with the guidelines of the Principles of Corporate Governance for Supervised Institutions. The General Meeting established that the remuneration policy applied by the Bank is conducive to the development and safety of the Bank's business.

Fixed remuneration

In H1 2019, ING Bank Śląski S.A. upheld its remuneration policy, the aim whereof is to effectively support the strategic goals. The assumptions of the policy are to offer marked-to-market, transparent and coherent remuneration to employees.

On 1 April 2019, the Bank performed the pay rise exercise. The pay rise was of discretionary nature.

Variable Remuneration

Once again, the Bank settled the bonuses for employees covered by the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. In compliance with the Policy, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to cash dependent on the value of ING Bank Śląski S.A. shares.

In H1 2019, the non-deferred 2018 bonus and the deferred bonus for 2016 and 2015 were paid out to the persons holding managerial positions. Thus, the entire 2015 bonus for the persons holding managerial positions was settled.

Amendment to remuneration regulations

For remuneration regulations regarding Management Board Members and key function holders (excluding control functions), a provision was introduced allowing taking decision on the application of the variable remuneration risk adjustment indicator. The update concerned the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A., Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. and the Bylaw for Appraisal of Identified Staff at ING Bank Śląski S.A. The amendment was approved at the Supervisory Board meeting held on 7 June 2019.

On 29 March 2019, the Ordinary General Meeting of ING Bank Śląski S.A. adopted amendments to the ING Bank Śląski S.A. Supervisory Board Members Remuneration Policy consisting in increasing the base remuneration for independent members of the Supervisory Board.

Amendment to the Suitability Policy

In addition, due to the entry into force on 4 May 2019 of the Act of 21 February 2019 amending certain acts in relation to ensuring the application of Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), the Policy for the assessment of the suitability of the members of the Supervisory Board, Management Board and key function holders at ING Bank Śląski S.A. has been adapted to the new requirements. In the Policy, the records regarding the acquisition of data from candidates have been updated and an enclosure with the Policy in the form of a declaration of assets, has been introduced. All candidates for the members of the Supervisory Board, the Management Board and for key function holders will be obliged to submit such a declaration. The amendment was approved at the Supervisory Board meeting held on 7 June 2019.

Fringe benefits

As part of our social policy, at the beginning of the year we launched a package of disability-related benefits. As part of the package, we introduced permanent monthly allowances of PLN 500, financed from the In-House Social Benefits Fund for employees with moderate or severe disability. In addition, a fixed PLN 500 allowance is paid to employees - parents bringing up children with disabilities.

At the same time, we introduced facilities for employees with disabilities or caring for such persons. For employees with a slight degree of disability certificate – additional 3 days off during the year while preserving their right to receive remuneration.For employees taking care of their spouse/partner, parents, parents-in-law, grandparents who have moderate or severe disabilities we offer additional 2 days off during the year.

Recruitment and employer branding (preferred employer)

In H1 2019, ING Bank Śląski S.A. took employer branding activities geared towards students, graduates and professionals.

In the area of activities geared towards specialists (people with professional experience), various types of activity and reach were used. These include, among others, participation in thematic conferences (mainly for the IT area), organisation of meet-ups (organised at the Bank's Head Office in Katowice) and participation in job fairs.

In the discussed period, the activities promoting the employer's brand and supporting recruitment activities in social media (mainly LinkedIn) were continued. The candidates were reached via posts related directly or indirectly to work in the bank, through the publication of job offers, actions of managers, recruiters and employees aimed at building and extending their business contacts network. The presence of our employer brand in the internet, especially in the channels dedicated to young talents (students, graduates) was supported by the activities carried out by the participants of the ING Ambassadors Program 2018/2019 from 13 universities from all over the country. By raising the attractiveness of ING's employer brand on the market, we reach for modern communication tools (e.g. a virtual walk around the office).

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

- **Ambassadors Programme** – 13 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. Owing to the cooperation with Ambassadors, the Bank was involved in the following projects: B in Banking, Nationwide Festival of Financial Intelligence or BOSS Meetings.
- **Traineeship with the Lion** – the next traineeship programme edition and further implementation of the all-year-round recruitment concept. In the programme recruitment process, the Bank used again the Assessment Centre in the form of escape rooms and the "Orange Carousel" task (previously "Green Locomotive") as an alternative to escape rooms. There are also new, standardised layouts of recruitment ads emphasizing specific skills that will be gained by the participant during the traineeship. Monitoring of sources of candidate lead was also introduced (verification of where the candidate learned about the traineeship programme).
- **The ChallengeING traineeship programme** – an annual programme currently continued in the IT and Customer Intelligence areas. Under two programme paths, 8 participants were employed. They all work in line with the Agile methodology applied at the Bank.
- **ING International Talent Programme (ITP)** covers 7 business paths (Risk, IT, Retail and Corporate Banking, Finance, HR and Analytics) 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. Recruitment takes place in Head Offices in Warsaw and Katowice all year round.
- **Meetings with the Lion** – a series of workshops conducted by Bank experts who present to students practical aspects of banking in a friendly manner.
- **Promotion of ING in academic circles** – ING Career Zones at universities combined with organisation of Meetings with the Lion, cooperation with student research clubs, student organisations and student councils at selected universities as well as participation in their projects.
- As part of the activities in this area, we reach the representatives of the target group using various forms of reach and tools (including student press, posters in buildings, online activities and others).

Participation in spring job fairs.

Exceptional working conditions at ING, constant improvement of our employment-related practices and building the company's corporate culture have been appreciated by external research and ranking institutions. As one of three companies in Poland, for the tenth time in a row we received the title of TOP Employers Poland 2019 and TOP Employers Europe 2019.

Employee developmentand training courses

In H1 2019, the Bank pursued development actions in correspondence with the strategic goals in the domains of inclusive leadership, innovativeness, new ways of working as well as acquisition and retention of exceptional employees.

The actions were carried out in the following areas of focus:

- Fostering the corporate culture (including but not limited to the multifaceted programme for fledgling managers or actions to consolidate the values and behaviours forming the Orange Code).
- Upgrading employees' competences and behaviours (through, above all, training courses on products and sales quality as well as with the use of development actions covering inter alia meetings with inspirers, knowledge sharing and work with coaches or mentors, shadowing as a new tool, as well as consultations and development assignment programmes).
- The specialist and expert knowledge (through, above all, highly specialised training courses, domestic and international sector conferences geared towards field specialists as well as certifications).
- Strengthening the competences of independent learning (through, above all, inspiring with market trends, development of various communities within the organisation and building digital solutions).

- Dedicated development programmes for indicated organisational units or identified audience as a response to strategic challenges, such as knowledge sharing or sale management.

Apart from in-house development actions, we used third-party training courses, workshops and conferences. The Bank also supports self-enhancement of professional qualifications by employees, through certification, post-graduate studies or the Polish Bank Association standards. In communication, it uses the internal community devoted to learning and development. We promote digital development activities, the use of external training platforms available online and digital information resources (e-book library, ICAN).

Bank employees shared their knowledge and experience both within the organisation (e.g. during internal training courses, webinars, posts in Intranet communities) and externally acting as speakers during external events.

Development actions are addressed to employees of the Retail and Corporate Sales Networks and of the Head Office units (including new employees, specialists and managers).

Main modifications to risk and capital management

As part of the Management Board Report on Operations in H1 2019 we are presenting the main changes to risk and capital management that took place from the 2018 yearend. The risk and capital management system, the description of risks and their quantification were described in detail in the Annual Consolidated Financial Statements of ING Bank Śląski S.A. Group for 2018 in the chapter "Risk and capital management" (from page 148).

Capital management

In H1 2019, we continued our actions aimed at implementation of the capital management strategy. In the internal capital adequacy assessment process in Q1 2019, we held another Workshops on risk materiality assessment. As a result, we changed the monitoring units for the types of risk for which this role until the end of 2018 had been performed by the Capital Management Department whose tasks were transferred to other Bank units and we recognized the financial result risk as insignificant risk.

Under RAS regarding the capital adequacy we are obliged to maintain in 2019 the following minimum thresholds for capital ratios:

- CET1 >= 10.5%
- T1 >= 12.0%
- TCR >= 14.0%

We amended the dividend policy in line with the guidelines of the Polish Financial Supervision Authority by resigning from indication of minimum capital ratios' levels and introducing the regulatory formula, due to the variable level of the systemic risk buffer and the countercyclical buffer, and taking into account the premise regarding our sensitivity to stress scenario.

Credit risk

Credit risk management framework

The structure in the area reporting to the Bank Executive Director – Credit Risk Policy, Modelling and Systems was changed as of 1 April 2019.

The area covers units organised as part of the "Centre of Expertise – Credit Risk Policy, Modelling and Systems", which includes the following organisational units:

4 Consumer Credit Risk Area

5 Business Credit Risk Area,

6 Credit Risk Modelling Area,

7 Regulations Expert Team,

8 Credit Risk Tech Squad, and

9 Support Positions.

Consumer Credit Risk Area

- It manages the credit risk of the individual clients portfolio implementation in order to ensure controlled, in terms of risks, development of the bank's lending activity.
- It manages the credit risk management in the individual clients portfolio by way of credit risk identification, measurement, assessment, monitoring and control.
- It identifies areas of the bank's business operations impacting the credit risk profile, and gaps within business processes, which may adversely impact the credit risk profile of individual clients.

- It oversees the effective implementation of the credit risk management policy for individual clients.
- It develops and implements regulations and procedures on credit risk management, including credit risk assessment and collateral rules and standards for individual clients. It maintains permanent compliance of the credit risk management process for individual clients with supervisory regulations and ING standards.
- It gives advice on processes and products that bear credit risk for individual clients and supports the risk identification and acceptance process for those changes.
- It cooperates with the relevant bank units in terms of: individual clients credit risk reporting and building models and tools supporting credit risk management at the bank.
- It manages initiatives and projects to improve the effectiveness of processes relating to the credit risk in the individual clients segment.
- It promotes the credit risk awareness culture and its identification, measurement, acceptance and control options and methods among the bank employees.
- It cooperates with other ING Group units, including the bank's subsidiaries in terms of shaping the credit risk management rules in line with the good practices and standards of the bank and of ING Group.

Business Credit Risk Area

- Credit risk management in the business clients portfolio (i.e. clients from the Entrepreneurs Segment, the Corporate Clients and Strategic Clients) to ensure a controlled development of the Bank's lending (from the risk level perspective).
- Credit risk management in the business clients portfolio by way of credit risk identification, measurement, assessment, monitoring and control.
- Identification of areas of the bank's business operations impacting the credit risk profile, and of gaps within business processes, which may adversely impact the Bank's credit risk profile for business clients.
- Oversight of the effective implementation of the credit risk management policy for business clients.
- Development and implementation of regulations and procedures on credit risk management, including credit risk assessment and collateral rules and standards for business clients.
- Maintenance of permanent compliance of the credit risk management process for business clients with supervisory regulations and ING standards.
- Giving advice on processes and products that bear credit risk for business clients and supporting the risk identification and acceptance process in respect to those changes.
- Cooperation with the relevant bank units in terms of: business clients credit risk reporting and building models and tools supporting credit risk management at the bank.
- Management of initiatives and projects to improve the effectiveness of processes relating to the credit risk for the business clients.
- Promotion of credit risk awareness culture and its identification, measurement, acceptance and control options and methods among the bank employees.
- Cooperation with other ING Group units, including the bank's subsidiaries in terms of shaping the credit risk management rules in line with the good practices and standards of the bank and of ING Group.

Credit Risk Modelling Area

- Developing the methodology of building and monitoring regulatory credit risk models in line with the requirements of the regulatory authorities and internal standards of the bank and of ING Group, as well as other credit risk models (including those for stress testing) used for the purpose of supporting the risk assessment and the development of bank products sales.
- Building and regular monitoring of regulatory- and other credit risk models (including the stress testing).
- Looking for new modelling methods and means and the possibilities of using advanced techniques of data analysis, including machine learning, predictive analytics and artificial intelligence.
- Performing stress tests for credit risk in line with the requirements of the supervisory authorities and the internal standards of the bank and of ING Group.
- Keeping the credit risk model documents and model register up to date.
- Preparing, updating the plan for the rebuilding and monitoring the credit risk models.

- Cooperation with the relevant bank units in terms of using the models and statistical tools supporting credit risk management at the bank.
- Cooperation with the Model Validation Department, external- and internal auditors and the relevant organisational units of ING Group in terms of credit risk models.
- Promoting credit risk awareness culture among the Bank employees, including the use of the risk models, the IRB approach and the use of Data Science in credit risk management.

Regulations Expert Team

- Creating the credit risk management policy at the bank, supervision and control over the effective implementation of requirements under that policy, the law, supervisory regulations, recommendations of the regulators, and compliance with the good practices and standards of the bank and of ING Group.
- Developing and implementing regulations as part of the risk management system, including but not limited to the standards and rules of credit risk assessment, provision calculations, regulatory- and economic capital in terms of credit risk, credit risk model management rules and stress testing rules.
- Verification of amendments to external regulations, i.e. statutes, regulations and recommendations of PFSA, ECB/ EBA and ING Group policies and the assessment of their impact on the bank credit risk management system.
- Adapting and coordinating the process of internal regulations amendments due to the update of external rules and of ING Group policies
- Giving advice on processes and products that bear credit risk and supporting the risk identification and acceptance process in respect to those changes.
- Cooperation with internal- and external auditors, bank regulators, Polish Bank Association and relevant ING Group organisational units in terms of developing credit risk management system, maintaining its compliance and compliance of the bank's regulations with supervisory regulations and ING standards.
- Change management and monitoring the quality of the advanced internal rating-based (AIRB) method functioning at the bank, and preparing the annual self-assessment of the bank in that respect.
- Coordinating the credit risk management process at the level of the bank, including determination of the risk appetite statement (RAS), stress testing and reporting to the Bank Management Board and Supervisory Board.
- Manning the secretary's office and arranging the work of the Credit Policy Committee.
- Promotion of credit risk awareness culture and its identification, measurement, acceptance and control options and methods among the bank employees.

Credit Risk Tech Squad

- Building, developing and maintaining credit risk management supporting tools and systems.
- Fulfilling the role of the centre of data, reports and systems ensuring the monitoring and reporting of changes in the retail- and corporate credit risk profiles, based on high quality data and information.
- The management of initiatives and projects to automate and improve the effectiveness of processes relating to the credit risk measurement.
- Implementing credit risk models. including models for establishing provisions for impairment losses and models for estimation of capital requirements for credit risk in the risk systems.
- Maintaining compliance of the risk systems and the process of changes to those systems in line with the internal requirements (IT, security policy) and external requirements concerning data security and management.
- Cooperation with the providers of external databases used for credit risk management.
- Raising awareness of credit risk, and particularly of its control and measurement methods, among the bank employees.

Support Positions

- Providing thematic and organisational support for the management staff and employees of the Centre of Expertise – Credit Risk Policy, Modelling and Systems (hereinafter referred to as: Centre of Expertise) while executing the strategy, the targets and priorities as well as coordination of related processes.
- Implementing new initiatives and solutions in line with the vision and needs of the management staff and employees of the Centre of Expertise.

- Being involved in the organisation of key projects of the Risk Division, that is the Risk Town Hall, Lion's Den Hackathon, Lion's Den meetup, Risk Monthly Meeting, Risk University, ING Ambassadors Programme, etc.
- Coordinating the work in the Centre of Expertise and cooperating with other bank units in order to promote the Risk Division and the Centre of Expertise among internal clients and outside the bank via the Intranet, articles, meetings, conferences, training courses, etc.
- Administrating the work and providing organisational support for the management staff and employees of the Centre of Expertise in terms of: gathering the materials for presentations at the Credit Policy Committee and Management Board meetings, budget activities, procurement processes, creating internal surveys and collecting survey results, and organising an internal recruitment process for employees.
- Organising the work in the Centre of Expertise in line with the "Agile One Way of Working" rules in order to increase work effectiveness, improve the use of resources, as part of employees development, to share knowledge and information among teams in the Agile system.
- Cooperating with the Agile Coach, holding the function of Scrum Masters in teams, taking part in the communities of Scrum Masters and Product Owners, carrying out the retrospection, giving feedback, supporting employees when using the SNOW tool, maintaining and developing the Obeya Room.
- Organising internal conferences and meetings of management staff, including: Risk Area Leads, Expert Leads and Product Owners and employees of the Centre of Expertise.

Main changes in the bank's credit policy in the retail- and corporate client segments

Retail Segment

- We updated the parameters used for the calculation of credit capacity in the mortgage-, individual clients- and entrepreneurs segments (buffers for the interest rate risk, margins for default interest rates).
- We implemented new rules of credit capacity assessment in the mortgage segment that account for:
  - the risk of the borrower's dwindling income during the term of the credit agreement, upon considering the forecast pension income,
  - the maximum age of the borrowers on loan repayment equal to 75 years.
- In the retail client segment, we implemented the sales of cash loans as a fixed part of our offer, and in the entrepreneurs segment we added the sale of lending products via the Bank Representatives channel.
- In the retail client segment, we restricted the preferential rules of granting loans to clients from the Premium segment.
- We tightened up the criteria for the assessment of credit applications in the Entrepreneurs Segment filed by clients acquired via external channels (Intermediaries).
- We added a new chapter to the "Credit Risk Reporting Manual" defining the rules of regular analyses of the mortgage portfolio and of the market situation. The analyses refer to the risk of changes in the client's income upon retirement.
- We adapted our internal regulations to the EBA (European Bank Authority) Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06 of 31 October 2018) that came into effect as of 30 June 2019.

Corporate Segment

- We adapted our internal regulations to the EBA (European Bank Authority) Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06 of 31 October 2018) that came into effect as of 30 June 2019.
- We optimised the process of calculating and reporting provisions for anticipated loan losses due to exposures arising from transactions on financial markets and we updated the FM methodology.
- In the "Provisioning Rules", we changed the rule of the full provision policy towards selected corporate credit exposures.

Main activities in the modelling area

- As part of the process of managing the risk of the models used in the loan loss provision, or LLP, process:

  - we adjusted the threshold for significant increase in credit risk (SICR) for the SME portfolio as a result of findings of the regular review of the expected loss calculations (LLP Committee meetings);
  - we adjusted the cure rate parameter in the LGD model for the retail mortgage portfolio following a validation of the model implementation;
  - we positively verified the possibility of using the IFRS 9 models in the LLP process during the regular monitoring and back-testing of those models.
- We performed the stress tests for credit risk as at 31 December 2018, in line with the internal policy.
- As part of the data structure automation project, we prepared tables for models for the retail segment clients.
- As part of the new default definition project, we prepared a business specification of the default triggers.

Furthermore, we continue to focus on long-term projects aimed at separating, optimising and ensuring effectiveness of various credit- and rating processes, depending on the related risks.

Stress testing

According to the *ING Bank Śląski S.A. Stress-Testing Policy*, the Group conducts the stress testing process for economic capital and capital requirement. The report on the stress-tests results is submitted to the ALCO, the Bank Management Board and the Bank Supervisory Board.

As at 31 December 2018, the bank conducted consolidated stress tests based on the scenarios prepared by the Chief Economist and using the in-house tools, the new tool for the credit risk included. Stress tests covered:

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

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

Market risk

In the area of market risk, the Bank manages the risk in line with the developed principles, methodologies and approved policies. In H1 2019, we introduced a new limit for NPVaR at EUR 180 million and we adapted the tool to the latest EBA requirements (document EBA/GL/2018/02).

Funding and liquidity risk

In H1 2019, we continued actions aimed at mitigation of funding and liquidity risk in line with the funding and liquidity risk management policy, Bank strategy and regulatory requirements. As regards regulatory requirements – all monitored metrics are within limits. The internal regulations and documents are also subject to systematic review, and we continue to improve our reporting and modelling processes.

Model risk

In H1 2019, we continued efforts in the area of model risk management. The models used at the bank were subject to quarterly reviews and risk assessments, and also to materiality reviews and validation.

During the period, the model risk on an aggregated basis in the group of models classified as medium material was above the tolerance level adopted at the bank which is 3 models with a higher model risk. The bank identified five such models. The bank launched a corrective programme in regard to two of those models and immediately redeveloped them. The economic capital for model risk remained below the limit adopted at the bank.

The *ING Bank Śląski S.A. Model Risk Management Policy* was also reviewed and updated.

Operational risk

In H1 2019, we continued our efforts to ensure compliance with the regulatory requirements and enhance the internal control system. We continue to structure and standardise the key controls for individual areas and processes of the Bank. We monitor threats and improve security systems and solutions used to protect our clients and the Bank itself. We are constantly improving the quality of data used, expanding the possibilities of using advanced data analysis methods in the processes of identifying and monitoring threats and we are automating operational activities related to risk management. Among other things, we conducted an analysis of concentration factors in operational risk and defined a number of potential scenarios for internal frauds, together with proposals for monitoring warning flags. We optimise risk quantification methodologies in relation to IT security risk and continuity risk.

Compliance risk

In H1 2019, we continued efforts to ensure compliance with regulatory requirements. As in the previous year, we improve controls in business processes, especially in terms of personal data protection and Know Your Customer. The bank also continued building and strengthening the employees' awareness of business ethics topics through mandatory thematic training courses.

Personal data security

In H1 2019, we worked to strengthen our employees' knowledge of the rights and duties of natural persons. We also implemented procedures relating to the copying of identity documents which is a requirement under the Anti-Money Laundering and Terrorism Prevention Act.

Investor information

Shares and shareholding structure of ING Bank Śląski S.A.

Shareholding structure

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 28 June 2019 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 number has not changed since March 2005. The remaining shares of the Bank (25.0%) are in free float. They are held by institutional investors, mainly Polish pension funds as well as domestic and foreign mutual funds, and by private investors. As at the end of June 2019, Aviva Otwarty Fundusz Emerytalny (Open-End Pension Fund) Aviva Santander was the largest among them. As per semi-annually reported assets structure of that Fund, as at 28 June 2019, it had a 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 the company's equity.

Throughout 2019, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's stake in the share capital remained unchanged.

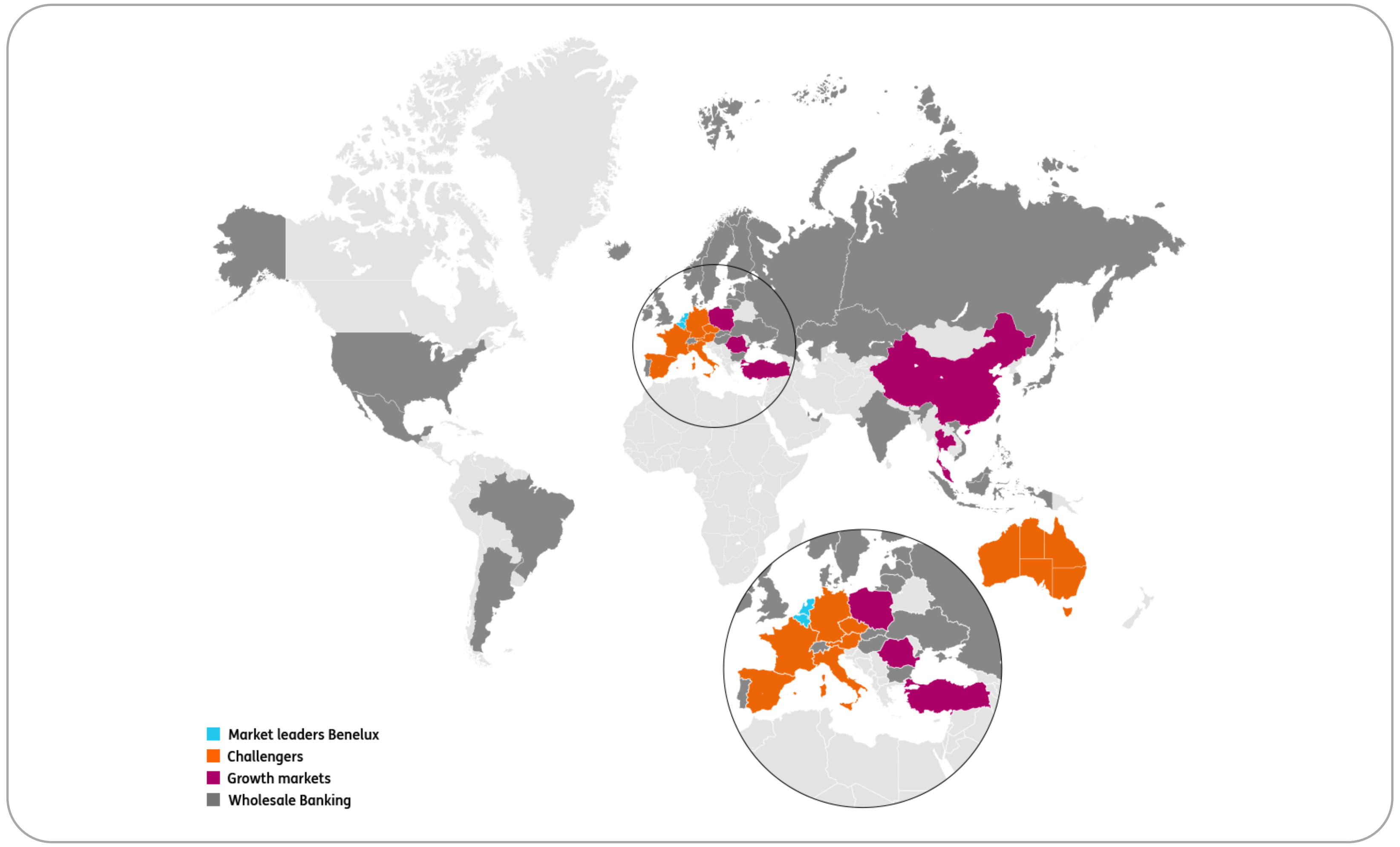
Shareholding structure of ING Bank Śląski S.A.

	30 July 2019		31 March 2019	
Shareholder name	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM	Number of shares and votes at GM	Share in share capital and in the overall number of votes at GM
ING Bank N.V. (ING Groep N.V. subsidiary)	97,575,000	75.00%	97,575,000	75.00%
Aviva Otwarty Fundusz Emerytalny Aviva Santander*	10,792,367	8.30%	10,732,305	8.25%
Other	21,732,633	16.70%	21,792,695	16.75%
Total	**130,100,000**	**100.00%**	**130,100,000**	**100.00%**

*as per Annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 31 December 2018 and as per Semi-annually reported assets structure of Aviva Otwarty Fundusz Emerytalny Aviva Santander as at 28 December 2018

Profile of the controlling shareholder

ING Bank N.V. is a member of ING Group – a global group of financial institutions offering retail and corporate banking services to over 38 million clients. ING Group companies have over 54 thousand employees and pursue business in over 40 countries in Europe, North and South Americas, in the Near East as well as in Asia and Australia. ING Group pursues business in four areas: Market Leaders – businesses in the Netherlands, Belgium and Luxembourg; Challengers – businesses in Germany, Austria, Spain, Italy, France, Australia and Czech Republic; Growth Markets – businesses in Poland, Romania, Turkey and Asia as a well as through a global corporate banking network dedicated to strategic clients – Wholesale Banking.



A Dutch financial institution, ING Groep N.V., is the ING Group's parent company. It was incorporated in 1991 through the merger of a Dutch insurance company, Nationale-Nederlanden, with a Dutch bank, NMB Postbank Groep. In subsequent years, ING Group developed leveraging on both the organic growth as well as mergers and acquisitions. During the financial crisis, in 2008 and 2009 the Group received state aid (later repaid in 2009-2014) conditioned by a restructuring programme. Restructuring assumed inter alia a separation of banking from insurance and investments that should be divested. ING Group restructuring was finalised in April 2016.

ING Groep N.V. is a public company, listed on the stock exchanges in Amsterdam, Brussels and New York. Its shareholding is dispersed. As at June 2019, there were only two shareholders with capital holdings of over 3%. These were: BlackRock Inc. (5.09%) and Artisan Investments GP LLC (3.01%). In 2018, ING Group posted net profit of EUR 4,703 million vis-a-vis EUR 4,905 million in 2017. Assets totalled EUR 887 billion. As at 2018 yearend, the total assets of ING Bank Śląski S.A. Group accounted for 3.7% of the ING Group's assets. Our net profit represented 7.6% of the net profit of ING Group.

More information about the controlling shareholder is available on the website: https://www.ing.com/Home.htm.

Shares and share capital

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

Furthermore, the Management Board is authorised under the Charter to increase the share capital by the amount of up to PLN 26 million (i.e. the issue of 26 million shares at maximum) until 21 April 2020 (authorised capital) and to exclude the pre-emptive right for the issue of shares under authorised capital. Charter amendment was entered into the National Court Register on 22 May 2017. The Management Board decisions concerning issue price fixing and pre-emptive right exclusion need to be approved by the Supervisory Board.

As at the report's publication date, ING Bank Śląski S.A. did not have any information about agreements which might change the ratio of shares held by existing shareholders in the future.

Share price

In 2019, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 180.00 (as quoted on 3 January) to PLN 203.00 per share (as at 13 June). On 28 June 2019, the price of ING Bank Śląski S.A. shares equalled PLN 202.00, up by 12.2% from the last quotation day in 2018 (to compare: WIG-Banking sub-index went up by 6.1% at that time).

As at the end of June 2019, the Bank's market value was PLN 26.3 billion, while its book value amounted to PLN 14.2 billion.

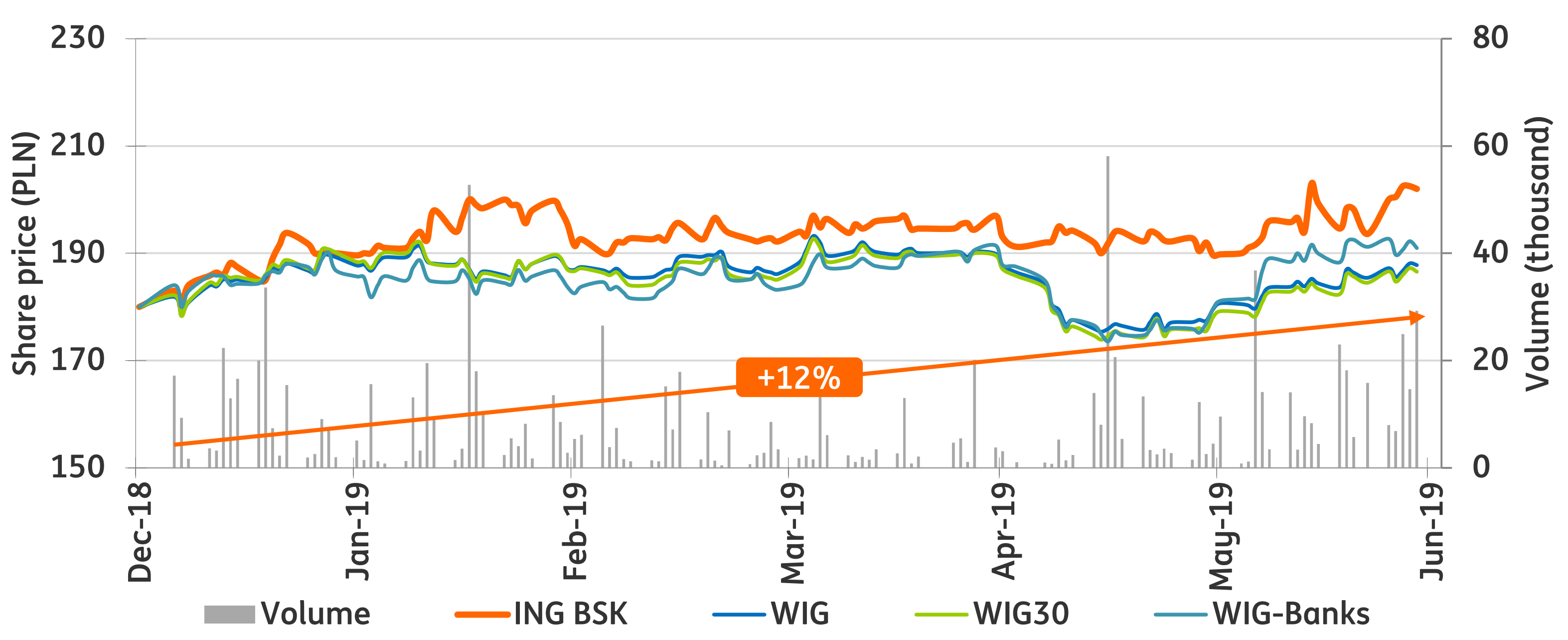
ING Bank Śląski S.A. shares data

	30 June 2018	31 December 2018
Share price as at the end of the period (PLN)	202.00	180.00
Top share price (PLN)	203.00	221.50
Bottom share price (PLN)	180.00	160.60
Number of shares	130,100,000	130,100,000
End-of-period capitalization (PLN billion)	26.3	23.4
Average trading volume	8,449	11,711
Earnings per share (PLN) – annualised	12.50	11.73
Share book value (PLN)	109.43	102.51
Dividend paid per share in the year (PLN)	3.50	3.20
P/E ratio (x)*	16.2	15.3
P/B ratio (x)*	1.8	1.8

* ratio computed based on the share price at a period end

The Bank has been listed in the WIG30 and mWIG40 indexes and RESPECT Index since their beginnings.

ING Bank Śląski S.A. share quotations in 2019 versus comparable selected WSE indexes



Ratings

Our stable financial position is also confirmed by external credit ratings assigned to our Bank. Our Bank cooperates with two rating agencies: Fitch Ratings and Moody's Investors Service.

Fitch Ratings Ltd.

Fitch Ratings assigns the full rating pursuant to an agreement between the bank and the agency. As at the date of signing the half-yearly report for H1 2019, the bank's rating from the Agency is as follows:

Fitch Ratings Ltd.	
Long-Term Issuer Default Rating (Long-term IDR)	A
Long-Term IDR Outlook	Stable
Short-Term Issuer Default Rating (Short-term IDR)	F1
Viability Rating	bbb+
Support Rating	1
National Long-Term Rating	AAA (pol)
National Long-Term Rating Outlook	Stable
National Short-Term Rating	F1+ (pol)

In its communication published on 12 October 2018, the Agency affirmed the ratings assigned to the bank. In the rationale, the Agency highlighted that the bank's ratings reflected:

- the stable business model,
- the conservative approach to credit risk,
- the strong capital position,
- high quality of assets and profitability, and
- stable source of the bank's funding.

Moody's Investors Service Ltd.

Moody's Investor Service assigns ratings to the bank on the basis of public information. As at the date of signing the half-yearly report for H1 2019, the bank's rating from the Agency is as follows:

Moody's Investors Service Ltd.	
Long-term deposits rating (LT rating)	A2
Short-term deposits rating (ST rating)	P-1
Baseline Credit Assessment (BCA)	baa2
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa1
Outlook	Stable
Long-Term/ Short-Term Counterparty Risk Assessment (CR Assessment)	A1 (cr) / P-1 (cr)
Counterparty Risk Rating (CR Rating)	A1 / P-1

The last change of the rating took place on 23 March 2018 when the Long-Term Deposit Rating was upgraded from A3 to A2 and the rating outlook was changed from Positive to Stable.

In its communication published on 1 April 2019, the Agency affirmed the ratings assigned to the bank. The Agency underlined that the bank's rating reflected:

- good quality credit portfolio (though not seasoned) with a very limited exposure to FX mortgage loans,
- an adequate, though declining, total capital ratio of the bank,
- good funding profile and liquidity profile of the bank.

Comparison of ratings

In the table below, we have presented a comparison of long-term ratings for Poland, ING Bank Śląski S.A. and ING Bank N.V. as at the signing date of the half-yearly report for H1 2019.

Comparison of ratings

	Poland	ING Bank Śląski S.A.	ING Bank N.V.
Fitch Ratings	A-	A	AA-
Moody's Investor Services	A2	A2	Aa3
Standard & Poor's	A (domestic currency) A (foreign currency)	-	A+

Changes to the statutory authorities of ING Bank Śląski S.A.

Supervisory Board

On 29 March 2019, the General Meeting appointed the existing Supervisory Board Members for the new term of office. As a result, as at 30 June 2019 the Supervisory Board composition was as follows:

Supervisory Board composition as at 30 June 2019

	Function on the Bank Supervisory Board	Audit Committee	Remuneration and Nomination Committee	Risk Committee
Mr Antoni F. Reczek	Chairman, Independent Member	🟠		⚫
Ms Małgorzata Kołakowska	Deputy Chairperson	⚫	⚫	
Mr Aleksander Galos	Secretary, Independent Member	⚫	⚫	🟠
Mr Ad Kas	Member			⚫
Mr Aleksander Kutela	Independent Member	⚫	🟠	⚫
Mr Michał Szczurek	Member			⚫
Mr Norman Tambach	Member	⚫		

🟠 – Chairman ⚫ – Member

Bank Management Board

With reference to the information provided in the annual report for 2018, the Supervisory Board appointed Mr Lorenzo Tassan-Bassut as the Vice-President of the Bank Management Board as of 1 January 2019. As a result, as at 30 June 2019 the Bank Management Board composition and the division of competence among the Management Board Members were as follows:

Management Board composition and scopes of responsibilities as at 30 June 2019

Mr Brunon Bartkiewicz	**President of the Bank Management Board** in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Spokesperson, Macroeconomic Research Bureau, Internal Audit Department, Legal Department, Compliance Department, HR units)
Mr Michał Bolesławski	**Vice-President of the Bank Management Board** in charge of the Corporate Clients Business Line
Ms Joanna Erdman	**Vice-President of the Bank Management Board** in charge of the Strategic Clients Business Line and the Financial Markets Division
Mr Marcin Giżycki	**Vice-President of the Bank Management Board** in charge of the Retail Clients Business Line
Ms Bożena Graczyk	**Vice-President of the Bank Management Board** in charge of the Finance Division, Procurement and Strategic Sourcing Department and Treasury Department
Mr Patrick Roesink	**Vice-President of the Bank Management Board** in charge of the Risk Division, the Credit Risk Inspection Department and the Model Validation Department
Mr Lorenzo Tassan-Bassut	**Vice-President of the Bank Management Board in charge of:** Operations Division and Tech Division, IT Security Department, Transformation and Change Management Department, ING Hub Services Department, Process Monitoring and Control Centre, Data Management Centre, Chief Data Officer and Facility Management and Services Department

Moreover, at the session on 24 June 2019, the Supervisory Board appointed Mr Sławomir Soczyński Vice-President of the Bank Management Board in charge of the Tech Division as of 1 October 2019.

Remuneration of the Members of the Management Board and the Supervisory Board of ING Bank Śląski S.A.

Emoluments due to Members of ING Bank Śląski S.A. Management Board (PLN million)

Period	Remuneration	Other benefits*	Total
H1 2018	4.9	1.1	6.0
H1 2019	4.9	1.1	6.0

*Other benefits cover, among other things: insurance, payments towards the mutual funds, medical care and other benefits awarded by the Bank Supervisory Board.

Emoluments of Members of the ING Bank Śląski S.A. Management Board for 2019 under the Variable Remuneration Programme have not been awarded yet.

In keeping with the Bank's remuneration system, the Bank Management Board Members may be entitled to the 2019 bonus to be paid out in the years 2020-2027. Accordingly, a reserve was formed for the payment of the 2019 bonus for the Bank Management Board Members, which as at 30 June 2019 was PLN 3.1 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 (PLN million)

Period	Remuneration	Awards*	Other benefits**	Total
H1 2018	4.9	6.0	1.1	12.0
H1 2019	4.9	4.1	1.0	10.0

*Awards for H1 2018 cover the following items:

- Bonus under the Variable Remuneration Programme: for 2017 non-deferred cash, for 2016 1st tranche of deferred cash, for 2015 2nd tranche of deferred cash and for 2014 3rd tranche of deferred cash;
- Phantom Stocks under the Variable Remuneration Programme: for 2016 retained stock, for 2015 1st tranche of deferred stock, for 2014 2nd tranche of deferred stock and for 2013 3rd tranche of deferred stock.

Awards for H1 2019 cover the following items:

- Bonus under the Variable Remuneration Programme: for 2018 non-deferred cash, for 2016 2nd tranche of deferred cash and for 2015 3rd tranche of deferred cash,
- Phantom Stock under the Variable Remuneration Programme: for 2017 retained, for 2016 1st tranche deferred, for 2015 2nd tranche deferred and for 2014 3rd tranche deferred;

**Other benefits cover, among other things: insurance, payments to the mutual funds, medical care and other benefits awarded by the Bank Supervisory Board.

The remuneration due and paid out by ING Bank Śląski S.A. in H1 2019 to its Supervisory Board Members totalled PLN 0.4 million.

Remuneration of ING Bank Śląski S.A. Supervisory Board Members (PLN million)

Period	Remuneration and awards	Other benefits	Total
H1 2018	0.4	0.0	0.4
H1 2019	0.4	0.0	0.4

As at 30 June 2019, neither Bank Management Board nor Supervisory Board Members held shares of ING Bank Śląski S.A.

Supplementary information

Position of the Management Board on the potential realisation of the previously published forecasts

The Bank did not publish the forecast of the 2019 financial results.

Business continuity

Uninterrupted provision of services to our clients is our top priority. At ING Bank Śląski S.A., we approach that goal in two ways. Firstly, we design services in such a way as to make them as resilient to all types of breakdowns as possible; this is so-called operational resilience. Secondly, we maintain a business continuity management system.

As part of the business continuity management system, we identify processes the availability of which is the most important for the clients and for the bank. We develop contingency plans for those processes so that we are able to operate despite the breakdowns or extraordinary events. In addition to contingency plans, we also maintain and test the disaster recovery plans (IT area) that enable us to get back to normal within the shortest time possible. We maintain the IT systems in computer centres that operate on a parallel basis. We use cloud solutions (private cloud).

The procedure for detecting and responding to disruptions is in place and is subject to regular tests. In case of events with big impact on customer service or internal processes, we establish crisis management structures to coordinate the activities of all the units concerned.

We do our best to counteract disruptions but if they do happen, we immediately notify the clients of any inconvenience and of alternative solutions.

The business continuity management system covers all areas of service provision, whether we provide the service on our own or use external service providers. We require them to have contingency plans too.

Transactions with related entities

ING Bank Śląski S.A. or its subsidiaries did not conclude any transactions with related entities on terms other than the arm's-length basis.

Contingent liabilities granted

ING Bank Śląski S.A. and the bank subsidiaries grant sureties in respect of loans and borrowings and guarantees as part of statutory business. The value of off-balance sheet financial liabilities granted as at the end of H1 2019 totalled PLN 34.8 billion (vs PLN 34.3 billion as at the end of 2018 and PLN 33.8 billion as at the end of H1 2018).

Off-balance sheet liabilities of ING Bank Śląski Group

PLN million	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Unutilised credit lines	26,138.9	25,719.0	25,791.0	25,030.4	25,670.5	21,853.6
Guarantees	5,673.3	5,591.1	5,575.6	5,698.2	5,409.9	4,906.8
Unutilised overdrafts	1,354.2	1,345.3	1,371.2	1,329.2	1,320.6	1,303.1
Credit card limits	1,318.8	1,293.6	1,251.2	1,271.8	1,169.3	1,105.1
Letters of credit	277.3	341.0	295.1	334.2	266.2	384.7
Total	**34,762.5**	**34,290.0**	**34,284.1**	**33,663.8**	**33,836.5**	**29,553.3**

Proceedings before the President of the Office of Competition and Consumer Protection (OCCP)

Proceedings concerning provisions providing for the possibility of changing the standard contract, contract or table of fees and commissions for important reasons (the so-called modification clauses)

On April 1, 2019 The President of OCCP instituted proceedings regarding the recognition of a standard contract as prohibited in the scope of provisions that may be considered as prohibited contractual provisions. The proceedings concern provisions providing for the possibility of changing the standard contract, contract or table of fees and commissions for important reasons (the so-called modification clauses).

The scope of the proceedings refers to the provisions in various general terms of contracts, regulations and contracts concluded with consumers: for cash loans, account debt limit, granting and repayment of loans in a brokerage account, using a credit card - in the version effective from March 7, 2016; for savings and billing accounts and savings accounts - in the version in force from November 9, 2015; for keeping payment accounts - in the version in force from August 6, 2018; for pre-paid cards - in the version effective from January 1, 2016.

According to the President of OCCP, the analysed modified clauses may constitute prohibited contractual provisions due to:

- the possibility of unilaterally changing the general terms and conditions of the agreement as to its essential provisions, as regards contracts enabling the generation of indebtedness on the part of consumers, concluded for a specific period of time,
- general, unspecified nature of the conditions for a unilateral change of the contract, which does not give consumers the possibility to verify them correctly, and in some cases there are no time limits as to the scope of changes,
- no provisions regarding the possibility of continuing a contract concluded for a specific period of time relating to the crediting of consumer needs on the current basis in the event of non-acceptance of unilateral proposals for changes directed by the bank.

Bank responded to the objections and submitted an application for commitment decision, which may include also changing of the modification clauses.

Proceedings regarding the application of practices violating collective consumer interests

Before the President of the Office of Competition and Consumer Protection there are the proceedings pending which were initiated ex officio by the Office President on 30 December 2015 regarding the application of the practices infringing collective consumer interests by the ING Bank Śląski. The practices consist in: informing the consumers being parties to the payment service agreement or having access to the online banking system about the amendments proposed to the terms and conditions of the payment service agreement during its term solely via electronic messages sent through the internet banking system which is not a durable medium under the Act on Payment Services; failure to include – in the messages sent to consumers regarding unilateral change of contractual terms, made during its term, wherewith certain documents are enclosed (regulations, general terms and conditions, the table of fees and commissions) regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking – material information enabling consumers to establish that the changes made are admissible, i.e. failure to provide the contractual legal basis for the said changes and their triggers (factual circumstances), whereby consumers cannot verify that the changes to the contractual terms made by the Bank during the obligation-based relationship are admissible; informing the consumers of unilateral modification of modification clauses enabling amendment to regulations and general terms and conditions regarding personal accounts, savings accounts, prepaid cards, credit cards and online banking under the circumstances where there were no legal grounds for modifying the contractual terms in that manner during the obligation-based relationship with consumers.

On 8 August 2018, the President of the UOKiK issued a decision obliging to take specific actions. In connection with this decision, the Bank committed in particular to:

- concluding with customers annexes to the agreement accounts or the agreement on the cards issued to the account and make individual settlement of fees and commissions, which entered into force between 1 January 2014 and 1 March 2017 and refunding to the clients the difference in the fee or commission charged resulting from its increase, calculation changes or newly introduced fee or commission charged,

- grant public compensation to clients in the form of exemption from collecting cash withdrawal fees from all ATMs in the country, made with a debit card issued to the account, pre-paid or credit card - from 29 October 29 to 28 November 2018.

Liabilities due to clients resulting from the decisions of UOKiK were made until 3 January 2019. On 17 July 2019, the Bank sent to UOKiK a report on the implementation of the above commitments.

Before the President of the UOKiK there are the proceedings pending which were initiated ex officio by the Office President on 9 July 2014 regarding the application of the practices infringing collective consumer interests by the Bank. The practices consist in: making cards replacement during the payment card contract from cards which are not equipped with the contactless function to the contactless cards without changing the content of the contract, derive the legal consequences from Announcement to General terms and conditions of providing by ING Bank Śląski S.A. services as part of maintaining personal accounts and savings accounts for individuals, not provided consumers with information about the opportunities and principles for using payment cards to contactless transactions, spending limits for payment transactions executed by these cards, on paper or on another durable medium, in time before conclusion of the contract All proposals of the bank's liabilities towards UOKiK in the framework of the above-mentioned proceedings have been implemented. On 18 December 2018, UOKiK decided to extend the proceedings.

Proceedings regarding the allegation of practices limiting competition on the market of acquiring services for the payments made with payment cards in Poland

Following the antimonopoly proceedings conducted against ING Bank Śląski S.A. and other banks upon the request of the Polish Trade and Distribution Organization – Employers' Confederation, on 29 December 2006, the President of the Office of Competition and Consumer Protection issued a decision stating that the Bank applied the practices limiting competition. The Office of Competition and Consumer Protection deemed as competition limiting the practice whereby various Polish banks, the Bank included, participated in the arrangement limiting competition on the market of acquiring services for clearance of consumer liabilities towards merchants under the payment of goods and services acquired by consumers using payment cards in Poland by setting together the interchange fees charged on the transactions made using the Visa and MasterCard system cards in Poland. In consequence of recognition of the practices limiting competition, the Office of Competition and Consumer Protection imposed fines on banks, the Bank included – of PLN 14,1 million.

The decision was appealed against inter alia by the Bank with the Court of Competition and Consumer Protection. With its judgement of 12 November 2008, the Court of Competition and Consumer Protection changed the decision of the Office of Competition and Consumer Protection in that it did not recognise the practice limiting competition. On 22 April 2010, the judgement was repealed with the judgement of the Court of Appeal which referred the case for re-review.

With its judgment of 21 November 2013, the Court did not change the decision of the Office of Competition and Consumer Protection on the allegation of limiting competition, but reduced the Bank's fine to PLN 403,209. Nonetheless, the judgement of the Court of Competition and Consumer Protection was changed with the judgment of the Court of Appeal of 6 Oct 2015 which ruled to change the judgment of the Court of Competition and Consumer Protection in that all appeals were dismissed in their entirety. Following the ruling, the President's decision became final and binding and in October 2015 the Bank paid the fine of PLN 14,1 million as ruled.

The Bank and other banks participating in the proceedings alike lodged a complaint for annulment of the judgment of the Court of Appeal. On 25 October 2017, the Supreme Court repealed the judgment of the Court of Appeal and referred the case thereto for re-review. In line with the position of the Office of Competition and Consumer Protection, the fine paid was refunded to the Bank.

The Court of Appeal set the date of another hearing for 24 October 2018. As final decisions have not been taken yet, the amount of the reimbursed fine was not recognised in the income statement. As at 30 June 2019, the Group holds the provision of PLN 14.1 million.

Issues relating to the opinions of the advocate of the Court of Justice of the European Union

The court cases, including those relating to the CHF-indexed mortgage portfolio, are subject to regular assessment pursuant to the Bank's internal procedures which are in line with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

As at 30 June 2019, the Bank had PLN 941.4 million worth of retail CHF-indexed mortgage loans (in gross terms), which represents 0.78% of the Bank's share in the FX-mortgage loans of the banking sector. The Bank does not have any loans denominated in CHF.

As at 30 June 2019, the Bank had 113 pending court cases relating to agreements on PLN-loans indexed to the Swiss franc. The total balance sheet value of the exposures covered by the said proceedings was PLN 35.7 million. In keeping with the accounting policy, as at 30 June 2019, the Bank established provisions for those cases in the total amount of PLN 19.9 million.

The Bank has not received any class action lawsuit; also, no clause used by the Bank in its agreements has been entered to the Register of Prohibited Clauses.

In relation to a lawsuit against a Polish bank brought before the Regional Court in Warsaw, in April 2018 the said court asked the Court of Justice of the European Union (hereinafter CJEU) for a preliminary ruling on the unfair terms in consumer contracts and effects of the abusiveness, if any, of the terms of an agreement on a mortgage loan indexed to the Swiss franc.

The opinion of the Advocate General of the CJEU was published on 14 May 2019. Under the opinion, if the exchange difference clause is found unlawful, the agreement on a loan indexed to CHF may be turned into a loan in the domestic currency based on the LIBOR for CHF or it may be annulled; however, it is for the national court to assess the facts of each specific case and to settle the dispute based on the effective provisions of the national law.

As at the date of these financial statements, no CJEU verdict in that matter has been announced (it is expected in September 2019); therefore, it is yet to be seen whether or not the CJEU shares the entire opinion of the Advocate General in its verdict.

According to the Polish Bank Association (hereinafter PBA) there is a material risk that the CJEU will issue a verdict based on the erroneous assumptions concerning the national law which are presented in the opinion of the Advocate General of CJEU. Consequently, in July 2019 the PBA requested the President of the Supreme Court that the Supreme Court analyse the concept of turning the agreement on a loan indexed to CHF into a PLN-loan based on LIBOR, which is expressed in the opinion of the CJEU Advocate General and which is flawed from both the legal- and economic perspective.

In light of the above, the Bank is of the opinion that the verdicts of national courts in such cases may still vary. That is because the opinion of the Advocate General does not resolve all issues relating to the loans indexed to CHF; it only gives Polish courts general guidelines concerning selected issues relating to the settlement of such cases and ultimately it will be the national courts that will be required to assess the facts of each specific case and settle the dispute based on domestic law. In view of the above, there are currently no premises that would have a material impact on the assessment of the probability of specific verdicts in specific cases which is taken into account by the Bank while establishing provisions in line with IAS 37.

The Bank will monitor the impact of the CJEU verdict on the conduct of borrowers, the practice and judicial decisions of the Polish courts in those matters and the Bank will assess the probability of expenditure in relation to CHF-indexed mortgages on a regular basis.

In reference to the request for preliminary ruling made by a Polish court to the CJEU, on 23 May 2019 the Advocate General of CJEU presented his opinion on the right of the consumer to a reduction in the cost of the credit where the consumer has fully or partially made an early repayment of a sum due under a credit agreement.

The case in question that was subject to the Advocate General's opinion concerned the interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on early repayment. The Advocate General found that the reduction to which the consumer was entitled might concern costs for which the amount did not depend on the duration of the credit agreement. According to the legal opinion held by the Polish Bank Association where the commission is an element of the total cost of the credit and it does not relate to the period by which the duration of the contract was shortened, the commission may not be reduced on a pro-rata basis and it may not be reimbursed to the borrower. As at the date of these financial statements, the CJEU has not given its verdict in that matter.

The interpretation of Article 49 of the Consumer Credit Act concerning the commission charged by the bank for granting said credit in the event of early credit repayment is also being reviewed by the Supreme Court; on 21 March 2019, the Supreme Court received a legal issue presented by the Regional Court in Warsaw in relation to its concerns whether or not, in the event of early repayment of the entire credit before the date set out in the agreement, the duty to reduce the entire credit cost arising from Article 49(1) of the Consumer Credit Act applies only to the costs spread in time or whether it covers only one-off costs, such as commissions. The Supreme Court has not yet taken a position on that matter.

In view of the above described facts and the unknown direction of the judicial decisions to be taken by the Polish courts in matters concerning the settlement of costs related to credits that are repaid early, there are currently no premises that would have a material impact on the assessment of the probability of the expenditure in relation to the commission on account of early repayment, which is taken into account by the Bank while establishing provisions in line with IAS 37.

Modification of regulations concerning the banking sector

Modification of regulations concerning the banking sector		
Name	Effective date	Description
	2019	
The Act of 9 April 2018 **amending certain acts in order to strengthen the supervision over the financial markets and investor protection on that market**	Some provisions of the Act took effect in December 2018 while most of them on 1 January 2019. The provisions related to the dematerialisation of some securities entered into force on 1 July 2019.	The amendments concern i.a. the organisation and funding mode of the Polish Financial Supervision Authority. Under the Act, the Polish Financial Supervision Authority is also authorised to take a decision on the acquisition of the bank by another bank, upon the acquiring bank consent in the event of a decrease or a a risk of a decrease in the bank's own funds below the level specified in the Act. In addition, as of 1 July 2019, obligatory dematerialisation of corporate bonds, investment certificates issued by closed-end mutual funds and mortgage bonds was introduced.
The Act of 23 October 2018 **amending the Personal Income Tax Act, the Corporate Income Tax Act and some other acts**	1 January 2019	Among the main amendments having an impact on the tax issues of, among others, the financial sector one may list: – changing the rules for including rental instalments in the tax deductible costs (car lease, rent or hire agreements after 31 December 2018) - a limit has been introduced on the value of fees (PLN 150 thousand including non-deductible VAT) which may be considered as tax deductible costs, – the need to exclude part of expenses related to the use of passenger cars from the tax deductible costs when the car is used both in business operations and for other non-business-related purposes, – limiting inclusion of the fees for car rental, hire or lease in tax costs by determining the proportion of the value of the leased (rented) car at the amount of PLN 150,000 in the case of conclusion of cash loan agreements after 31 December 2018, the tax on civil law transactions will amount to 0.5% (previously 2%). This change does not apply to cash loans granted by a shareholder to a corporation, whereto the exemption from tax on civil law transactions still applies.
The Act of 15 June 2018 **amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on the Flat-Rate Income Tax on Some Income Earned by Natural Persons**	1 January 2019	The main amendments having an impact on the tax issues of, among others, the financial sector include: – Amendment as of 1 January 2019 to the rules regarding taxation of commercial real estate . The tax in this area was introduced in 2018 and concerned i.a. taxpayers who own shopping centres and office buildings. As of 2019, the scope of taxpayers for this tax has been significantly expanded – by and large this tax applies to the income on non-current asset being a building, owned or co-owned by a taxpayer, transferred into lease, hire or a contract of a similar nature and located on the territory of the Republic of Poland. Clarification of the in-kind contribution of lending and commercial debt claims.
The Act of 22 March 2018 on **court debt collectors**	1 January 2019	The Act governs the rights and duties of debt collectors. It also applies to enforcement seizures in bank accounts and establishes special rules for keeping bank accounts of debt collector firms.

The Act of 23 October 2018 **amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Statute Act and some other acts**	1 January 2019	The main amendments having an impact on the tax issues of, among others, the financial sector include: – Introduction of quite significant modifications in the mechanism of collecting the withholding tax. Until the end of 2018, assuming the fulfilment of certain statutory conditions, revenues generated in Poland by non-residents (legal entities) were exempt from CIT (e.g. dividends, interest and royalties) or taxed at a reduced tax rate (under double taxation agreements). From 2019, the existing rules will still apply if the revenue paid in a given tax year to the same non-resident under all titles subject to withholding tax does not exceed a total of PLN 2 million. If this value is exceeded, the payer (the entity making the payment) will be obliged as a rule to collect the withholding tax at the rate provided for in the CIT Act (i.e. the base rate), without the possibility of applying preferences under the CIT Act and double taxation agreements (with two exceptions provided by law). On 31 December 2018, the Minister of Finance issued an implementing regulation on the exemption or limitation of the application of Article 26.2e of the CIT Act, which temporarily suspends the application of the provisions of the CIT Act to payments exceeding PLN 2 million. – Introduction of new thresholds applicable to transfer pricing documentation: ▪ PLN 10 million for transactions in property, plant and equipment and financial transactions, ▪ PLN 2 million for services and other transactions. Starting from 1 January 2019, the obligation to prepare the so-called master file will apply to taxpayers who prepare consolidated financial statements and their consolidated revenue exceeds PLN 200 million. – For taxpayers who purchased a bundle of at least 100 debt claims in one transaction, without separating the purchase price of individual debt claims, the income on such a bundle will be the surplus of revenue obtained from the debt claims over the cost of the bundle purchase. At the same time, the purchase cost of the debt claims bundle will be the purchase price of such a bundle. In the case of debt portfolios, it will no longer be necessary to settle costs in proportion to the value of individual debt claims from a given bundle. – Limiting the scope of applying for advance tax rulings. It is about limiting the right to file applications regarding facts or future events to which, in particular, the provision on the clause preventing tax avoidance may apply. From the justification to the implemented regulations it can be deduced, inter alia, that this procedure is aimed at making taxpayers apply for a much more expensive advance protective tax ruling in situations where they want to obtain confirmation that they do not apply aggressive tax policy. Applying for confirmation of the non-application of the anti-tax avoidance clause in the form of advance tax ruling will result in the decision to refuse the advance tax ruling. – Introduction of the obligation to report tax schemes to the Tax Statute Act provisions. The legislator has introduced a number of premises defining the concept of a tax scheme, based on which it will be necessary to decide whether there is a need to provide the Head of the National Tax Administration with information on the implemented scheme. The reporting obligation will apply, in particular, to tax advisors, lawyers, legal advisors, bank employees or other financial institution advising clients, but in certain circumstances also those who apply the tax scheme are obliged to report this fact to the tax authority. In order to quickly implement the provisions of the DAC6 Directive, the legislator set high sanctions for not reporting schemes or lacking an internal procedure.

The Act of 28 December 2018 **amending the Excise Duty Act and certain other acts**	1 January 2019	Since the beginning of this year, the excise duty rate for electricity has changed, i.e. it has been reduced from the existing PLN 20 per megawatt hour (MWh) to the amount of PLN 5 per MWh.
The Act of 6 December 2018 **amending the Civil Code Act**	15 February 2019	The amendment to the Civil Code has revoked a special basis for charging by credit institutions interest on overdue interest in the case of long-term loans.
Bill of 8 November 2018 **amending the Value-Added Tax Act and the Tax Statute Act**	The bill assumes the entry into force of some provisions of the Act on 1 January 2019, and the remaining provisions are to enter into force on 1 January 2020.	The bill provides for amendments to the Act of 11 March 2004 on Value-Added Tax: - introduction of a new VAT rate matrix, - introduction of binding rate information institution, - "translating" the current PKWiU 2008 into appropriate CN codes (for goods) or PKWiU 2015 symbols.
Recommendation L regarding the role of statutory auditors in the process of supervision over banks and co-operative savings and credit unions	31 March 2019	The recommendation specifies the general rules of the bank's liability for the selection of the statutory auditor, relations between the internal control unit and the statutory auditors, providing the statutory auditor with documentation on bank contacts with the Polish Financial Supervision Authority (PFSA), issues related to statutory audit documentation and its availability, as well as disclosure and exchange of information between statutory auditors and the PFSA.
The Act of 21 February 2019 **amending certain acts in relation to ensuring the application of Regulation (EU) No. 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)**	The majority of regulations entered into force on 4 May 2019	The Act has made amendments to the regulations of a hundred and several dozen of acts concerning, in particular, personal data processing. The amendments also covered the Banking Law, where i.e. the following regulations were introduced: the possibility of making decisions to assess credit capacity and credit risk analysis based on automated personal data processing, including profiling.
Regulation (EU) No 2019/87 of the European Parliament and of the Council of 20 May 2019 **amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements concerning own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, and reporting and disclosure requirements, and Regulation (EU) No. 648/2012**	The Regulation entered into force on 27 June 2019, with some provisions effective later (majority from 28 June 2021)	The CRR II is part of the EU banking sector package together with Directive 2019/878 (CRD V) and Directive 2019/879 (BRRD II). The Regulation applies i.e. to requirements for own funds and eligible liabilities as well as reporting and the respective disclosure. The CRR II is directly applicable, and the provisions of the directives require implementation in national law.

Minister for Finance Regulation of 27 June 2019 **amending the regulation on the exemption or limitation of the application of Article 26.2e of the Corporate Income Tax Act**	28 June 2019	The Regulation is aimed at extending until 31 December 2019 (from 30 June 2019) the date of application of the exemption from Article 26.2a of the CIT Act in relation to income on dividend, interest and royalties paid to entities with which the Republic of Poland has the possibility to exchange information returns and amounts due under dividends and other revenue (income) from participation in profits of legal entities paid to taxpayers being Polish tax residents (including national mutual and pension funds, etc.). – Introduction of new thresholds applicable to transfer pricing documentation: ▪ PLN 10 million for transactions in property, plant and equipment and financial transactions, ▪ PLN 2 million for services and other transactions. Starting from 1 January 2019, the obligation to prepare the so-called master file will apply to taxpayers who prepare consolidated financial statements and their consolidated revenue exceeds PLN 200 million. – Limiting the scope of applying for advance tax rulings. It is about limiting the right to file applications regarding facts or future events to which, in particular, the provision on the clause preventing tax avoidance may apply. From the justification to the implemented regulations it can be deduced, inter alia, that this procedure is aimed at making taxpayers apply for a much more expensive advance protective tax ruling in situations where they want to obtain confirmation that they do not apply aggressive tax policy. Applying for confirmation of the non-application of the anti-tax avoidance clause in the form of advance tax ruling will result in the decision to refuse the advance tax ruling. Introduction of the obligation to report tax schemes to the Tax Statute Act provisions. The legislator has introduced a number of premises defining the concept of a tax scheme, based on which it will be necessary to decide whether there is a need to provide the Head of the National Tax Administration with information on the implemented scheme. The reporting obligation will apply, in particular, to tax advisors, lawyers, legal advisors, bank employees or other financial institution advising clients, but in certain circumstances also those who apply the tax scheme are obliged to report this fact to the tax authority. In order to quickly implement the provisions of the DAC6 Directive, the legislator set high sanctions for not reporting schemes or lacking an internal procedure.
The Act of 9 November 2018 **amending certain acts to introduce for entrepreneurs simplifications in tax and economic law**	1 July 2019	As of 1 July 2019, the entity obliged to pay tax on civil-law transactions will be able to submit one collective tax return for a given month, including all civil-law transactions subject to tax on civil-law transactions in that period. At present, such a tax return must be submitted for each transaction where the obligation to pay tax on civil-law transactions occurred.
Bill of 14 May 2019 **amending the Value-Added Tax Act and certain other acts**	Under the Bill, the Act will com into force on 1 September 2019, with some exceptions.	The Bill assumes replacing the reverse charge and joint and several liability with an obligatory split payment mechanism. The split payment mechanism is a systemic solution, free from the disadvantages of reverse charge. Its use eliminates VAT frauds already in the bud. This mechanism is considered to be one of the solutions aimed at counteracting tax abuse and tax fraud, eliminating the risk of taxpayers disappearing together with the tax paid thereto by contractors and not paid to the tax office.

The Act of 12 April 2019 **amending the Value-Added Tax Act and certain other acts**	1 September 2019	The regulation assuming the publication by the Head of the National Tax Administration on the BIP website of the Ministry of Finance of the list of active VAT payers, so-called "white list" containing information (data) on taxpayers registered as active VAT payers, which will be updated on an ongoing basis, i.e. every business day, once a day. The Head of the National Tax Administration will maintain an electronic list of data on: - entities that the head of the tax office did not register or did remove from the register of VAT payers; - entities registered as VAT payers (i.e. data on active and exempt VAT payers), including those entities whose status of VAT payers has been restored. Thus, the registers operating until now will be combined into one base of VAT payers which will be extended with additional data (such as, for example, the numbers of settlement accounts indicated in the identification application or update application). The Ministry of Finance assumed that the white list would facilitate the verification of contractors. A transfer to an account other than the one indicated in the list will result in the inability to recognise expenses as tax costs (this applies to payments for transactions exceeding PLN 15,000 between entrepreneurs), and will trigger sanctions in the form of a joint and several liability of the buyer for the supplier's tax arrears - as regards the respective VAT part of the transaction.
Regulation (EU) No 2019/518 of the European Parliament and of the Council of 19 March 2019 **amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges**	Most provisions enter into force on 15 December 2019	The purpose of the Regulation is i.a. to adjust the charges for cross-border payments in euros within the Union to the level of charges for corresponding domestic payments in the national currency of the Member State where the provider of payment services to the payment services user is located.
Recommendation B regarding the banks' investment risk mitigation	The PFSA expects that the recommendation will be introduced no later than 31 December 2019	The objective of the revised Recommendation B is to indicate to banks good practices in selected aspects of investment risk management (analysis, identification, implementation, supervision, assessment, monitoring and reporting).
The Act of 4 July 2019 **amending the Value-Added Tax Act and certain other acts**	The Act will come into force on 1 January 2020, with certain exceptions and it is waiting for publication in the Journal of Laws.	The Act amends the provisions on VAT returns and VAT records. The elements of VAT records will, in principle, reflect the data currently sent in JPK_VAT and will contain additional data needed for the analysis. Elements from the current VAT-7 return (VAT-7K) will, in principle, be transferred to the new return in the form of a JPK file. This file, as a tax return, constituting a VAT settlement, will be sent in the same way as the current JPK_VAT file.

Draft Regulation of the Minister of Finance of 20 March 2019 **regarding the scope of data contained in the records of purchase and sale and in VAT returns**	The Act (quoted in the line above) wherewith the draft Regulation was processed was passed on 4 July 2019. The draft regulation provides for the regulation to enter into force as of 1 January 2020.	On the basis of the provisions of the Bill on Value-Added Tax and other acts, hereinafter referred to as: "amending act", amendments to the VAT Act are introduced to replace the VAT-7 and VAT-7K returns with sending a new transformed JPK_VAT file. The extended JPK_VAT files will contain data allowing for the replacement of the current VAT return submitted electronically and the currently sent JPK_VAT files. The new JPK_VAT file will be a single electronic document for the VAT return (which will replace current VAT-7 and VAT-7K returns) and VAT records. This file will be sent within the deadline applicable to submitting the VAT return (the so-called joint “scheme” for returns and records). A new single JPK_VAT file will be introduced, consisting of the tax return part and the tax records part.

ING Bank Śląski S.A. Management Board statements

Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the semi-annual condensed consolidated financial statements and the comparable data were prepared in accordance with the effective accounting principles and present fairly, accurately and transparently the financial standing of the Bank Group and the financial result it generated. The semi-annual Management Board Report on the Operations of the Bank Group being part of this document is a true presentation of the development, achievements and situation (including a description of key risks and threats) of the Bank Group in H1 2019.

This Management Board Report on Operations of the ING Bank Śląski S.A. Group in H1 2019 has 69 pages numbered consecutively.

Signatures of Management Board Members of ING Bank Śląski S.A.:

The original Polish document is signed with a qualified electronic signature Brunon Bartkiewicz President of the Bank Management Board	*The original Polish document is signed with a qualified electronic signature* Michał Bolesławski Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature Joanna Erdman Vice-President of the Bank Management Board	*The original Polish document is signed with a qualified electronic signature* Marcin Giżycki Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature Bożena Graczyk Vice-President of the Bank Management Board	*The original Polish document is signed with a qualified electronic signature* Patrick Roesink Vice-President of the Bank Management Board
The original Polish document is signed with a qualified electronic signature Lorenzo Tassan-Bassut Vice-President of the Bank Management Board	

30 July 2019