



# 2010

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**Report of the Management Board on Operations  
of the ING Bank Śląski S.A. Capital Group  
in 2010**

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## CHAIR'S STATEMENT

### Dear Stakeholders,

Throughout 2010, the Supervisory Board analysed in-depth all facets of the operations of ING Bank Śląski S.A. During the time of slower growth rate of the Polish economy and uncertain situation on the financial markets we were engaged in a dialogue with the Bank's Management Board to define the best solutions that would stimulate the development of the Company.

The Supervisory Board members discussed on a regular basis the commercial and financial results of ING Bank Śląski S.A., as well as the main issues related to the company's management including: Credit and financial risk management, compliance, HR policy and the plans for the Company's development. The co-operation between the Supervisory Board and the Management Board of the Bank was effective, and the co-operation formula developed by the parties ensured objective ownership oversight and adherence to the best corporate governance practices.

In the opinion of the Supervisory Board, the strategy adopted by the Management Board of ING Bank Śląski S.A. in 2010 proved right in the difficult operating environment. This opinion is confirmed both by further growth of the Company's operations, as well as the financial results, which were much better than in the past.

The Capital Group of ING Bank Śląski S.A. closed 2010 with net profit of PLN 753.1 million, up by 26.6% from a year earlier. It has been the best financial result in more than twenty years of the Bank's operations. At the same time, the market value of the Bank went up by PLN 1.5 billion, and totalled PLN 11.6 billion.

As at the end of December 2010, total assets and liabilities of the Capital Group of ING Bank Śląski S.A. amounted to PLN 64.5 billion, up by 8% from a year earlier. There was also a positive change in the balance-sheet structure consisting in the higher share of loans in the assets - from 45% as at the end of 2009 to 47% in December 2010; the loans to deposit ratio increased to 66.2%.

We closed the last year with the volume of credit receivables at the level of PLN 31.0 billion, up by 16% over the year. The Group increased its shares in the core segments of the credit market, specifically in terms of lending to households (mainly in the area of housing loans) and funding business development of corporate clients (businesses and local government units).

Lending was developed with continuing high liquidity. As at the end of 2010, the overall value of deposits in the accounts of the Bank's Capital Group totalled PLN 46.8 billion. In an environment that was still characterised by an increased competition for surplus funds of the clients, the Group retained high level of both household deposits and corporate deposits.

In 2010, profitability returned to the levels recorded before the 2008-crisis. Each PLN 100 worth of equity brought profit of PLN 14.2, up by PLN 1.1 from a year earlier. At the same time, the Bank maintained high security of its operations. In December 2010, solvency ratio for the Bank's Capital Group totalled 13.15% compared with 12.01% as at the end of 2009.

The simulations prepared for the purpose of the mid-term plan show that ING Bank Śląski S.A. has adequate capital reserves to enable further dynamic development of lending and to ensure full safety and security of business operations even in the event of unexpected turmoil on the financial markets. In view of the above, the Supervisory Board agree to the Management Board's request for allocating nearly 28% of the Bank's 2010 profit to shareholders and will recommend the General Meeting to pay out PLN 195,150,000 as dividend. The proposed dividend will total PLN 15 per share. We strongly believe that the decision will result in further growth of the Company's market value.

Full assessment of the Company's standing in 2010 prepared by the Supervisory Board in keeping with the *Best Practices of WSE-Listed Companies* has been enclosed with the *Report of the Management Board on the Operations of the ING Bank Śląski S.A. Capital Group in 2010*. I do encourage you to read it.

Yours sincerely,

**Anna Fornalczyk**

**Chair of the Supervisory Board**

## CHIEF EXECUTIVE'S REVIEW

### Ladies and Gentlemen,

In 2010, the Capital Group of ING Bank Śląski S.A. recorded the best financial result ever. It gives me immense satisfaction to inform you that the Bank's net profit totalled PLN 753.1 million, up by 19% from our previous best result, which was recorded in 2007. Compared with 2009, net profit went up by nearly 27%. Throughout the year, the Bank's market capitalisation increased by 15% and totalled PLN 11.6 billion.

We are very pleased with the more and more visible upward trend in the area of income generation. In 2010, the income of the Bank's Capital Group totalled PLN 2,731.7 million, up by 8% from 2009. This growth was largely possible thanks to a 16-per cent increase in the interest result, which derived among others from the increasingly more balanced structure of the balance-sheet.

Financial results generated in 2010 translated into significant improvement in the core measures of operational efficiency. Marked increase in the return on assets from approx. 0.9% in 2009 to 1.2% in 2010 is one of the elements that prove the effectiveness of the Company's management. On the other hand, the increase of income with balanced cost management resulted in an improvement of the cost and income efficiency. In 2010, the Cost/ Income ratio (C/I) totalled 58.3%, down by 0.5p.p. from 2009.

The year 2010 was also yet another year of organic development of ING Bank Śląski S.A. in which the Bank reinforced its position on many markets that are important for its long-term development strategy. In particular, the Bank's position on the credit market improved. At the end of 2010, credit receivables of the Bank's Capital Group totalled PLN 31.0 billion, up by PLN 4.3 billion from 2009. With our consistent long-term policy of sales support, in 2010 we became a leader on the mortgage market. The Loans/ Deposits ratio increased to 66%.

Last year we also took part in the largest transactions on the Polish market concerning the funding of business entities and we won tenders for credit service of subsequent large Polish cities. At the same time, we took great care to ensure high quality of our assets - in December 2010; impaired loans represented 4.9% of the total credit exposure of the Group, which is considerably lower than the average for the entire banking sector. With healthy assets, we were able to lower the burden of risk costs on the Group's financial result to PLN 203.6 million.

The Bank's higher exposure in lending last year to finance the Polish economy was funded from our own deposit base. In December 2010, clients held PLN 46.8 billion worth of funds in the accounts of ING Bank Śląski S.A. With that result, we were able to retain our position as the third largest deposit bank in Poland. Household savings, which are the core of those deposits, totalled PLN 30.1 billion.

The growing scale of diversified lending activity was adjusted to our capacities in terms of equity. In December 2010, the solvency ratio for the Bank's Capital Group amounted to 13.15%. Capital adequacy was therefore at a safe level, and proved the Group's considerable capacities to increase even further its exposure in the lending to the Polish economy.

The financial and commercial results show that we are a strong institution with sound foundations. We are also a close-knit and committed team, and that is what helped us to achieve our goals for 2010 – to maintain a strong position of the savings bank and increase our exposure on the lending side.

In the coming years, our priority will be to build long-term value for our clients, employees and shareholders. We are obliged to take measures that will help ING Bank Śląski S.A. strengthen its position of the preferred bank and be a good workplace for employees. The *Preferred Bank* strategy is founded on three pillars: client centricity, operational excellence and maintaining the top employer position.



In 2011, we will focus on further optimisation of the balance-sheet structure involving more exposure of the deposit base in lending activity. We also intend to continue activities aimed at improving the quality of customer service and increasing availability of banking services, by further development of the electronic banking systems and expansion of the self-banking infrastructure, among other things. I am firmly convinced that our strong deposit base, high liquidity of the balance sheet, long-term relationships with our clients, as well as high qualifications and commitment of our employees will help us to adjust to the challenges that await us on the market.

At the end, I wish to emphasise our unwavering commitment to the values, which underlie our success: openness, respect, honesty, responsibility and common sense. Actions based on those values determine the choices made by our clients, employees and shareholders – they help build their trust and create a unique culture of our Bank.

Yours respectfully,

**Małgorzata Kołakowska**

**Chief Executive Officer**

## BRIEF CHARACTERISTICS OF ING BANK ŚLĄSKI S.A.

ING Bank Śląski S.A. has been present on the market since 1989. Over more than twenty years of its operations, it has reached the position of one of the largest universal banks in Poland. As at 31 December 2010, total assets and liabilities of the Bank's Capital Group amounted to PLN 64,517.5 million, or 5.6% of the total assets of the Polish banking sector. Consequently, the Bank was ranked on the fourth position on the Polish market by total assets and liabilities. The Bank managed PLN 46.8 billion worth of funds in the Group's accounts, which made it the third largest deposit bank in Poland.

In December 2010, ING Bank Śląski S.A. had a strong position on the core markets of banking services, notably:

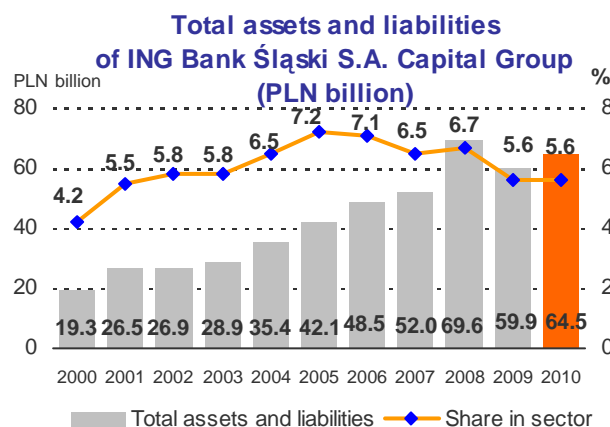
- **Retail Banking.** Number three on the household deposit market (with a share of 7.2%) and number six in terms of mortgage sales (with a share of 7.1%).
- **Corporate Banking.** The lead bank for 9% of the Polish companies (number three on the market) and the third largest lender (7.1% of market share).
- **Money markets and capital markets.** In 2010, the share of ING Securities S.A., a brokerage owned by the Bank, in the trading on the Warsaw Stock Exchange totalled 10.4% (number two on the market). Bank was number one in terms of debt due to the issue of short-term debt securities (a share of 25.9%).

In December 2010, more than 2.74 million individual clients used the services of ING Bank Śląski S.A., up by 181,800 from a year earlier. The customer base also included 228,700 small businesses and 14,600 mid-sized and large institutional entities.

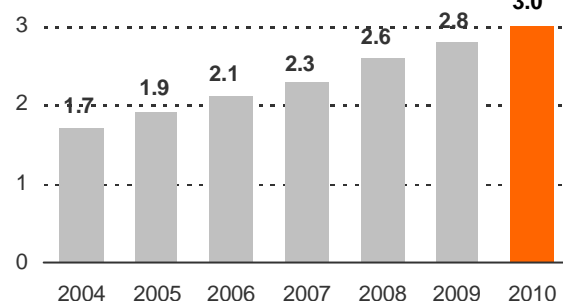
The Bank had a nationwide network of 443 bank outlets, which provided access to 416 self-banking zones open 24 hours a day. ING Bank Śląski clients could use 775 Bank own ATMs free of charge, and the Direct Account and VIP clients could also use all ATMs in Poland free of charge. The Bank provides the clients with banking services via modern electronic banking systems, such as: the Internet banking systems (ING BankOnLine, ING BusinessOnLine), a phone banking system (HaloŚląski), and a text messaging system (SMS system).

As at the end of 2010, the Capital Group of ING Bank Śląski S.A. had 8,472 employees.

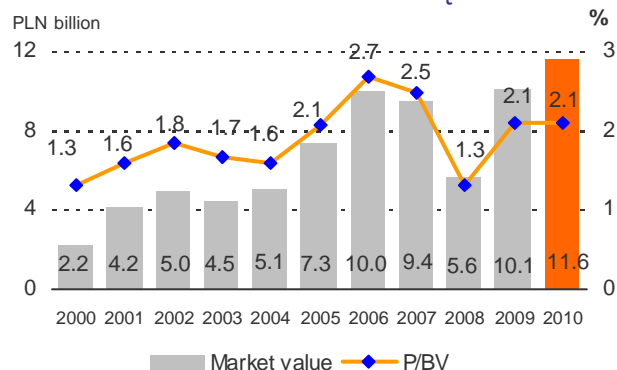
ING Bank N.V., which holds a 75 per cent share in the Bank's equity, is the strategic investor of ING Bank Śląski S.A. ING Bank N.V. is a member of ING Group, a global financial institution offering services in the area of banking, insurance and assets management.



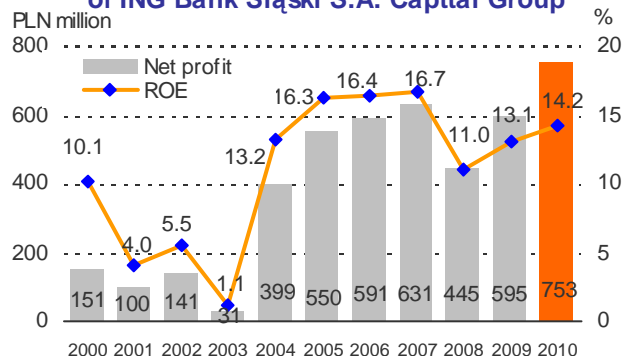
### Number of clients of ING Bank Śląski S.A. (million)



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



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





**Abridged Information on Financial Results of the Capital Group of ING Bank Śląski S.A. for the years 2006 to 2010**

	2010	2009	2008	2007	2006
Result on core activity in PLN million <sup>1</sup>	2,731.7	2,532.3	2,127.7	2,072.9	1,781.4
Overheads in PLN million <sup>2</sup>	-1,593.9	-1,489.5	-1,499.0	-1,389.1	-1,223.3
Risk costs in PLN million	-203.6	-304.5	-65.6	103.2	165.9
Gross profit in PLN million	934.1	738.3	563.1	787.0	753.3
Income tax in PLN million	-181.0	-143.3	-117.6	-150.2	-155.4
Net profit attributable to the equity holders of the parent in PLN million	753.1	595.1	445.4	630.7	591.4
Total assets and liabilities in PLN million	64,518	59,883	69,610	52,011	48,476
Liabilities to customers in PLN million	47,400	47,584	47,067	44,502	38,561
Loans and advances to customers in PLN million	34,509	30,593	25,743	16,379	12,868
Off-balance sheet liabilities in PLN million	163,221	145,667	292,132	234,247	181,492
Equity <sup>3</sup> in PLN million	4,898	4,289	3,777	3,208	3,164
Solvency ratio as %	13.2	12.0	10.4	13.1	15.7
Gross profit/ Total costs as %	28.7	20.5	14.3	26.7	31.5
Net profit/ Total assets (ROA) as %	1.2	0.9	0.7	1.2	1.3
Net profit/ Equity (ROE) as %	14.2	13.1	11.0	16.7	16.4
Cost /Income ratio (C/I) as%	58.3	58.8	70.5	67.0	68.7
Earnings per 1 share in PLN	57.9	45.7	34.2	48.5	45.5
Dividend per 1 share in PLN	15.0 <sup>4</sup>	0.0	0.0	11.7	27.9

ING Bank Śląski S.A. had the following ratings from rating agencies:

**Fitch Ratings Ltd.**

Long-term IDR	A
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Individual rating	C
Support rating	1

**Moody's Investors Service Ltd.**

Long-term deposits in foreign currencies	A2
Long-term deposits in home currency	A2
Short-term deposits	P-1
Financial strength	D+
Long-term and short-term deposits rating outlook	Stable

<sup>1</sup> Including net profit of entities recognized on an equity basis.

<sup>2</sup> Operating expenses with amortization/depreciation and result on other business activity.

<sup>3</sup> Equity of the parent less current year result.

<sup>4</sup> Management Board recommendation.

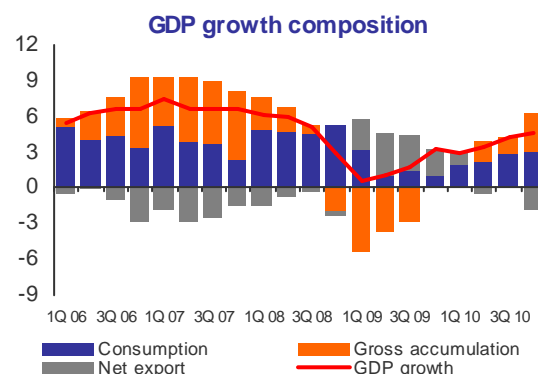
## I. MACROECONOMIC SITUATION OF BANKING SECTOR DEVELOPMENT IN 2010

### 1. Major Economic Trends

#### Gross Domestic Product

In 2010, Poland became one of the leaders in the European Union within the scope of economic growth rate. Under many fears and anxieties related to the sustainability of the economic revival of the major Polish economic partners, as well as the adverse impact of one-off phenomena on the economy (such as harsh winter impacting negatively production output in the construction industry or the spring flood that impacted 30% of Polish municipalities), in 2010 the GDP surged by 3.8%. The GDP systematically increased from 3.0% in the 1Q to 4.6%<sup>5</sup> in the 4Q.

At the same time, the structure of the factors contributing to economic growth changed. The ever growing domestic consumption rate was the main driving force behind development. The consumption upturn was above all the result of improvements in the labour market, better consumers' and entrepreneurs' moods as well as the bigger foreign investments. One-off factors such as: recovery on the territories that suffered from flood as well as transfer of some purchases from 2011 due to the announced increase of the VAT rate could also have certain influence on its level. In 1Q 2010 the positive influence of the foreign demand (mainly on part of the quickly reviving German economy) on economic activity continued, however, its scale was clearly lower than in the previous periods. Beginning with 2Q, accumulation had a positive influence on GDP, as part of which the inventory was rebuilt, whereas the investment activity of enterprises remained low. The first indications of recovery in the investment zone appeared in the second half of the year, when the utilization of productive capacity in the industry increased (to the level of 76%) and exceeded the multi-annual average level. However, the fears and anxieties related to the economic revival in Poland held back some entrepreneurs from taking decision on commencing investments.



#### Labour Market and Payroll

Slowly the situation on the labour market was improving. Throughout 2010 entrepreneurial sector gained 125,000 employees and at the end of December employment in that sector reached the level of 5,379,400. Thereby, the employment level approached the 2008 pre-crisis level.

On account of the increase in the number of persons at the economically productive age (another group of the baby boomers entered the labour market) and return of some Poles from abroad, the number of the unemployed remained at a high level. In December, the number of unemployed totalled 1,955,000, up by some 62,000 from the end of 2009. The unemployed accounted for 12.3% of the professionally active people against 12.1% at the end of December 2009.

The relatively high unemployment level, as well as the uncertainty as to the stability of the economic revival supported the maintenance of payroll discipline. In 2010, average salary in the entrepreneurial sector was 3.3% higher than a year ago. However, in real terms, the average salary increased by 0.8%.

#### Inflation

The first half of 2010 was characterized by systematic inflation drop and its lowest level was recorded in July and August when prices were increasing by 2.0% per annum. Beginning from September the prices began to grow rapidly due to the increase of prices of food caused by adverse weather conditions, higher prices of agricultural commodities, and the governmental announcement about the increase of VAT rate. In December 2010, the inflation rate reached 3.1% per annum.

<sup>5</sup> Estimate of the ING Bank Śląski S.A. Chief Economist.

December 2010 saw an increase especially in terms of fuel prices, housing fees, prices of alcohol and tobacco products, which were much higher than a year ago. By contrast, apparel and footwear became cheaper as did the fees on communication services.

### **FX Market**

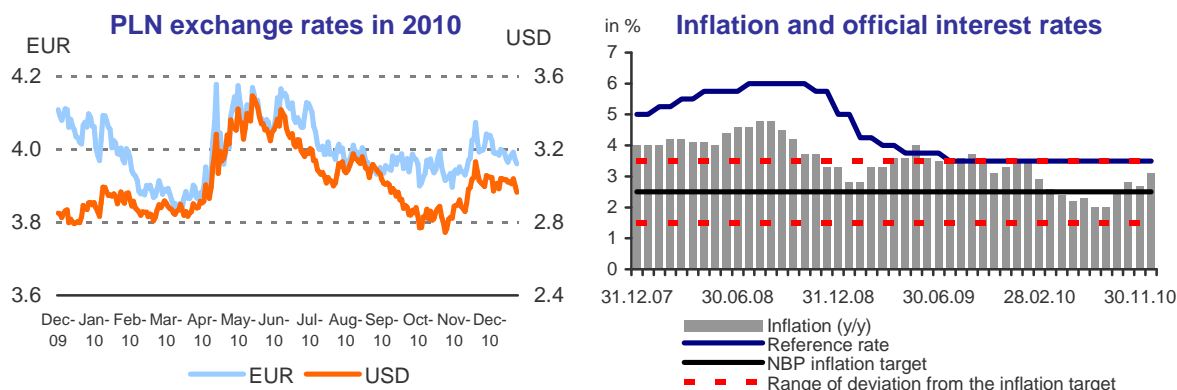
In 2010, the FX market was unstable and the Polish currency exchange rate was under strong impact of events on the global financial markets, notably:

- Public finance standing in some European Union countries (mainly PIIGS countries i.e. Portugal, Italy, Ireland, Greece and Spain). At the end of April and the beginning of May, fiscal crisis appeared in Greece and resulted in a decrease in the global investors' propensity to accept investment risk, periodic sale of Polish assets and depreciation of the Polish currency. In May, the UE, IMF and ECB agreed on a bail-out package totalling EUR 750 billion (from which Greece was granted EUR 110 billion). The decision prevented the Greek problems from being significantly spread over other countries, caused that sentiments cooled down and limited the volatility on FX markets. The next significant turmoil on the markets arose in November with sovereign debt crisis in Ireland. Situation on the market stabilised partially at the end of the year and was caused by the decision on granting aid to the Emerald Isle amounting to EUR 85 billion from the European Financial Stability Facility, as well as the declaration on the possibility to extend the aid on other debt-laden European Union countries.
- FED continued easy monetary policy stance to stimulate the American economy. Results of the said policy were as follows: lower interest rates that were supposed to fuel consumption and depreciation of the dollar, which was to increase the attractiveness of the American exports. In November 2010, the second stage of FED's quantitative loosening was commenced, which resulted in consolidation of interest rates at a record low in the USA as well as further reallocation of capital portfolio towards the developing countries. In order to counteract further macroeconomic imbalance, inflation growth, as well as excessive appreciation of own currencies limiting competitiveness of export, some of the developing countries (mainly China) undertook actions aiming to weaken their own currencies and maintain the dollar exchange rate at an appropriately high level (e.g. China, that has 1/3 of the global FX reserves, invested in the American bonds). Some analysts were of the opinion that the economic relations between USA and China marked the beginnings of another FX war.

The phenomena presented above determined the exchange rate for the EUR/USD currency pair and resulted in appreciation of the American currency in relation to EUR in the year 2010.

For the first time since many years, the National Bank of Poland decided to intervene on the FX market in 2010. The decision was taken in response to the strengthening Polish currency that was recorded in 1Q 2010 (which threatened profitability of Polish export) and resulted in periodic adjustment of the PLN exchange rate. In the final months of the year there were some reports that the Polish government was ready to intervene in the field of currencies to defend the value of the Polish currency, and Bank Gospodarstwa Krajowego that manages funds and governmental programmes sold approx. EUR 2 billion on the market during the December operations.

In the end, Polish zloty strengthened against euro by 3.4% and depreciated against American dollar by 4.0% in 2010. The effects of the growing trust to Swiss franc were acutely felt by holders of CHF mortgage loans (during the year 2010 zloty lost 14.4% to CHF).



### The State Budget

In 2010, the Polish economy had to tackle the state budget deficit as well as the public debt. With moderate economic revival, the tax revenues to the budget were lower than expected. On the other hand, the need for fiscal stimulation (e.g. in the form of EU projects co-funded by the budget) lowered the possibility to decrease some budget expenditures. The threat of exceeding next cautionary thresholds and the risk of capital portfolio outflow due to the fiscal crisis in some EU countries provided impetus to increase works on the public finance reform. The government proposals within the said scope were put down among others in the Long-term State Finance Plan.

Ultimately, in 2010 the budget deficit amounted to minus PLN 45.0 billion (against PLN 52.2 billion adopted by the Budget Act). According to the data of the Ministry of Finance, the public debt in 2010 represented 53.5% of the GDP.

In December 2010, the Sejm adopted the Budget Act for the year 2011, wherein the state budget deficit was set at the level of PLN 40.2 billion. The Act assumed among others:

- conditional VAT increase to the level of 25% in the case the public debt exceeds 55% of GDP (including VAT rate increase by 1 percentage point from the beginning of 2011),
- expense rule on flexible expenses in the form of limiting their growth up to 1% plus inflation level,
- public finance consolidation by enabling the Finance Minister to manage cash surplus of the agencies and selected public institutions,
- freezing pay in administration,
- maintaining the precipitated privatization process.

## 2. The Monetary Policy

The third term of office of the Monetary Policy Council began early 2010. For more than six months the Council in the new composition maintained the current easy monetary policy.

In the summer, along with the improving standing of the Polish economy, which was accompanied by an improvement on the labour market and inflation rebound, expectations for tightening the monetary policy appeared. Starting from August, during every meeting the Council was putting to vote motions regarding an increase of the base interest rates. The proposals were not approved and the following interest rates of the National Bank of Poland were binding throughout 2010:

- reference rate – 3.50%,
- rediscount rate – 3.75%,
- lombard rate – 5.00%,
- deposit rate – 2.00%.

The Monetary Policy Council started to tighten the monetary policy in January 2011 by increasing the core interest rates by 0.25 p.p. In the opinion of the Council as presented in the release after its meeting in January 2011 "acceleration of economic growth in Poland supporting the improvement of the situation on the market may result in gradual increase in payment and inflation pressure in the mid-term. At the same time, the strong growth of commodities prices on the global markets gives rise to a risk that the increased inflation expectations will be reinforced in view of economic revival."

On account of the slow improvement on the interbank market, in 2010 offering of instruments as part of the *Pakiet zaufania (Trust package)* (FX swap operations or repo operations) was gradually limited and in September suspended. During the October meeting the Monetary Policy Council took decision on increasing the cash reserve ratio by 0.5 p.p. to the level of 3.5% as of 31 December 2010. It is estimated that the decision will lower the banks' lending possibilities by approx. PLN 3-3.5 billion.

Unlike previous years, in 2010 the Monetary Policy Council drew much attention to actions supporting economic growth. The Council agreed to conduct FX intervention by the National Bank of Poland in order to weaken the zloty appreciation rate. It adopted also resolution supporting the decision of the Ministry of Finance on prolonging the Flexible Credit Line from the International Monetary Fund.

After the tragic death of Sławomir Skrzypek, the Governor of the National Bank of Poland, in the plane crash near Smoleńsk, in June the Sejm appointed Marek Belka as the new Governor of the National Bank of Poland. Upon assuming his position, the new Governor of the National Bank of Poland declared that he would continue the current monetary policy and conduct actions to reinforce the autonomy of the National Bank of Poland. He also announced that the Central Bank would co-operate with the government and other bodies in order to support Polish economy, unless it would pose a threat to the execution of the primary goal of the National Bank of Poland, which is to ensure the stability of prices.

### 3. Banking Sector

In 2010, the standing of the banking sector in Poland was stable; however, banking institutions still felt the consequences of the global financial crisis that occurred at the end of 2008. Similarly to the previous year, banks limited their activity in certain market segments and they were aiming at keeping the financial leverage at a safe level. Such an approach was reflected in the growth of the balance sheet total, which was lower than in times of good economic situation. At the end of 2010, the balance sheet total amounted to PLN 1,158 billion, up by 9.5% from December 2009.

The situation as regards the development of the main monetary categories in the year 2010 was as follows:

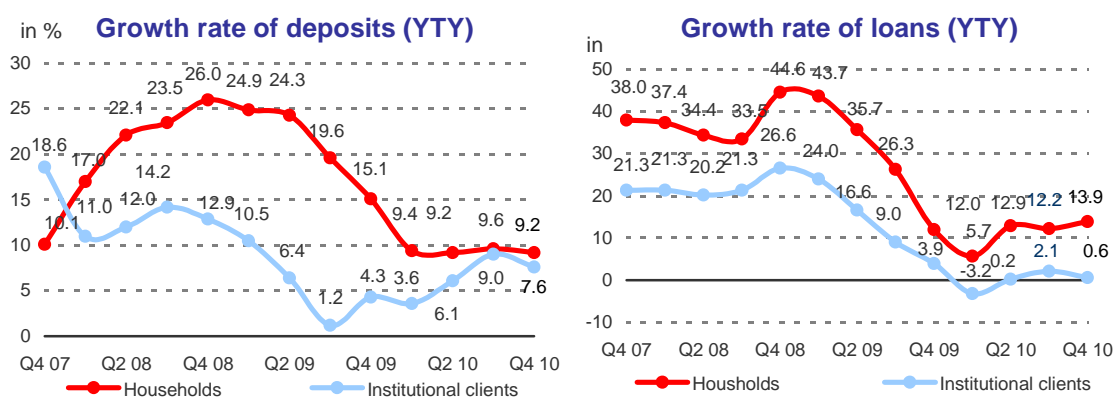
- *Household deposits.* The growth rate of household deposits in bank accounts was similar to the one observed in 2009. In December 2010, household deposits amounted to PLN 416.3 billion, up by 9.2% from the end of 2009. As a consequence of improved situation on the stock exchange, certain households renewed their interest in depositing savings in the shares of public companies and in participation units of investment funds, especially in view of attractive privatization offerings of the State Treasury (PZU S.A., Tauron, Warsaw Stock Exchange), which appeared on the market.
- *Deposits of institutional clients*<sup>6</sup>. The improvement of financial standing, which was not accompanied by an increase of investment activity, translated into a significant augmentation of available funds being at disposal of business entities. In December 2010, deposits of institutional clients amounted to PLN 264.1 billion, up 7.6% from the end of 2009. In particular there was a material increment of funding of the banking sector by non-bank financial entities (up by 10.1% in terms of deposits) and enterprises (up by 9.8%).
- *Credit receivables from households.* In December 2010, they amounted to PLN 475.7 billion, up by 13.9% throughout the year. The growth of lending was being sustained by housing

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<sup>6</sup> Total for the following classes of entities: non-monetary financial institutions, enterprises, noncommercial institutions for households, local government institutions and social insurance funds.

loans, which constituted a significant part of the banks' credit exposure towards households. During the year the housing loans augmented by 22.7% (yet, due to significant share of CHF loans in this portfolio, a material part of the said increase covered the depreciation of PLN). The growth rate of housing loans, which was lower when compared to the previous year, was caused mainly by a tightening of the banks' credit policies and enforcement of new supervisory requirements. Unlike in previous years, in 2010 loans denominated in PLN were dominant among newly extended loans for housing purposes. The governmental programme "Family on its own" ("Rodzina na swoim") supported banks' lending activity. In 2010, more than 43,100 families took advantage of this programme by taking loans which totalled PLN 8.1 billion.

- **Credit receivables from institutional clients.** Regardless of the banks' easing of the credit policy and improvement in terms of financial standing of business entities, a low investment activity of companies restrained the increase of this portfolio. In December 2010, the credit exposure of banking sector towards institutional clients amounted to PLN 278.5 billion, up by 0.6% on an annual basis. However, the receivables from local government institutions rose by 36% while the exposure towards entrepreneurs declined by 0.8% throughout the year.



In 2010 the banking sector earned net profit amounting to PLN 11.7 billion (more than 40% from the previous year)<sup>7</sup>. The improvement of banking sector's profitability took place in the following conditions:

- Increase of income on traditional banking activity. There was a significant increase of interest income. Partial normalization of situation on inter-banking market enabled banks to reduce interest cost, on the other hand banks increased their margins on newly extended loans.
- Keeping greater cost discipline. Some augmentation of operating expenses across the entire sector resulted mainly from development of branch network and headcount increase.
- Decrease of impairment charges following an improvement in the quality of the corporate credit portfolios in the second half of the year.

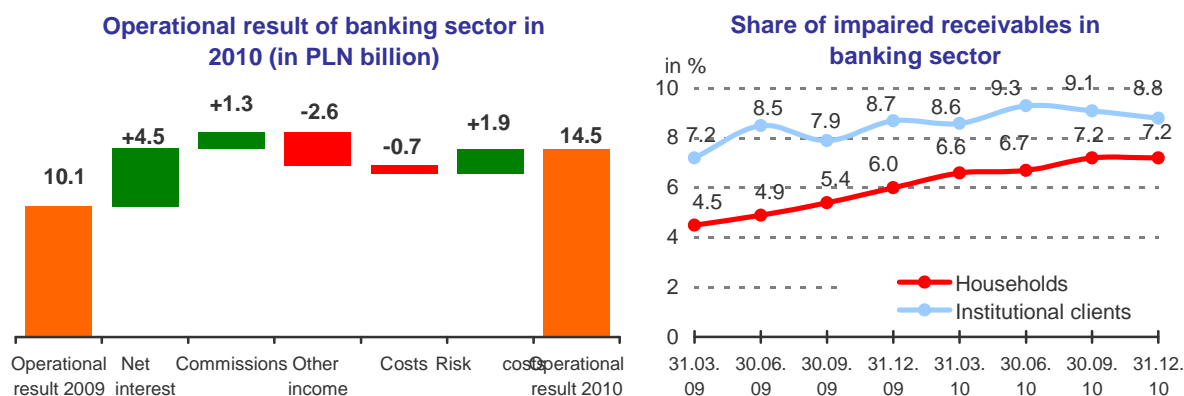
In 2010, the gap between banks in terms of financial standing widened. The part of financial result allocated to the largest bank institutions grew, while the share of banks specializing in extending consumer loans decreased.

Some part of borrowers still felt the consequences of economic slowdown, which had an adverse impact on the quality of banks' credit portfolios. The share of impaired receivables in total receivables went up from 7.1% in December 2009 to 7.8% in December 2010<sup>8</sup>. In 2010, deterioration was most visibly seen in the quality of consumer loans.

<sup>7</sup> Source: KNF Financial Data for Banking Sector.

<sup>8</sup> Source: NBP, File: Financial Data for the Banking Sector





In 2010, banks continued operations related to raising the security level and ensuring adequate capital base for stable conduct of business. Only some banks decided to pay the dividend from the profit earned in 2009, and two out of the top ten banks in Poland carried out new share issue.

The Polish Financial Supervision Authority participated in the project concerning stress tests conducted at the European Union level. Its purpose was to assess the overall resistance of the banking sector and the banks' capacity to absorb potential shocks causing the increase of credit and market risk. PKO BP, which was the only bank in Poland to take direct part in the test, successfully passed the stress tests (the remaining part of the Polish banking sector was embraced by the tests via the parent banks).

In February 2010, the Polish Financial Supervision Authority issued Recommendation T on best practices within the area of managing the credit risk related to retail exposures. Some of its provisions, including those reducing the value of the extended FX loan to 100% of the real estate value and those introducing the requirement of providing collateral for at least 20% of mortgage loans value, became effective in August. The remaining provisions of the said recommendation became effective in December; pursuant to them banks are not allowed to extend loans to individuals whose total financial liabilities exceed 50% of their monthly income<sup>9</sup>. In 2010, Recommendation A concerning the management of risk related to derivative transactions executed by banks as well as Recommendation I concerning the management of FX risk at banks and principles of executing transactions bearing FX risk by the banks were amended. Also works were conducted to develop solutions leading towards limiting the demand for FX loans for households.

In order to increase the stability of the Polish banking sector, the Sejm amended the Bank Guarantee Fund Act and doubled the amount of guaranteed deposits (up to EUR 100,000), effective January 2011. As a consequence of the said amendment, the banks' annual fees for the Bank Guarantee Fund were increased.

In November, the Moody's Agency upgraded the outlook on Polish banking sector from Negative to Stable. The Agency indicated the resilience and resistance of the Polish banking sector to the global financial crisis. According to the Agency, the banking environment stabilized, and the deterioration of equity quality slowed down.

#### 4. Capital Market

2010 was a good year for the Polish capital market; yet the situation on that market was heavily affected by phenomena emerging on the global financial markets. The economic situation was dominated by the following factors, which had been discussed earlier in this Report: Fiscal problems of certain European countries and the contagion risk; quantitative easing in the USA; tightening of financial policy in China; as well as uncertainty as to sustainability of the economic upturn. Those

<sup>9</sup> The threshold of 50% pertains to individuals with an average income; as regards individuals with incomes above the average the threshold is 65%

phenomena had an adverse impact on investors' decisions and resulted in market mood swings and periodic intensification of risk aversion.

After a period of rising share prices, which was observed in the second half of 2009, the first two months of 2010 brought stabilization as regards level of the major indexes on the Warsaw Stock Exchange. There was a strong correction between February and March (the Warsaw index decreased by approx. 10%), however, in March and in the first half of April the indexes made up their losses immediately (the value of the Warsaw index increased by 18%). As a consequence of the crisis in Greece, decreases reappeared on the Warsaw Stock Exchange at the end of April and they continued until the end of June 2010. Despite concerns related to the financial standing of other European countries and forecasts of cooling economy in China, in the second half of 2010 the indexes slowly climbed up in conditions of significant volatility (in the second half of the year the WIG index increased by 20.6%) courtesy of relatively good economic data coming from USA and Germany.

As a result of the trends discussed above, in 2010 the core index on the Warsaw Stock Exchange increased by 18.8%. 2010 ended with on a positive side, especially for those investors who held shares of companies operating in the chemical sector (rate of return 60.3%), food industry (48.5%), fuel industry (26.4%) and media companies (25.8%). However, the industry indexes for IT companies and development industry fell by 5.0% and 6.7% respectively.

At the end of December 2010 the value of domestic companies listed on the Warsaw Stock Exchange amounted to PLN 542.6 billion, up by 28.8% from December 2009. In 2010, there were 34 companies that went public on the main floor, while there were 13 which were delisted. The highlights on the primary market included the privatisation offers made by the State Treasury, such as:

- The May IPO of the largest Polish insurer – PZU S.A. The value of shares of PZU S.A. amounted to nearly PLN 8.1 billion and it has been the largest public offering in the history of Polish capital market and the second in terms of size in Europe this year.
- The June IPO of Tauron Polska Energia S.A. (the value of offer amounted to PLN 4.2 billion).
- First listing of shares of the Warsaw Stock Exchange S.A.

In 2010, the Warsaw Stock Exchange was ranked second in Europe (after the London Stock Exchange) both in terms of the number and total value of the IPOs<sup>10</sup>.

Due to privatization offerings, there was further socialization of the capital market in Poland – the number of individual investors increased by nearly 350,000 throughout the year.

The value of shares traded on the stock exchange in 2010 totalled PLN 413.7 billion, up by 17.5% from a year earlier. The futures market also developed. The total volume of turnover of all derivatives totalled 14.7 million, up by 6.0% from a year earlier.

2010 was a good year for other markets operating as part of WSE, i.e. for alternative market for companies with a high growth potential (*NewConnect*) and the debt securities market (*Catalyst*).

In 2010, the assets of investment funds were being gradually rebuilt. The said process was mainly affected by the recovery on the stock exchange and increase of value of investment funds participation units. For example, in 2010 the average rate of return on universal Polish equity funds totalled 19.0%, and in the case of active allocation mixed funds it totalled 11.9%. The activity of investors had slightly lower impact on the growth of the funds' assets as the total balance of capital flow to investment funds amounted to PLN 9.4 billion in 2010. New funds of clients were coming mainly to the so-called safe funds i.e. money market and Polish and foreign bonds. As a result of the tendencies presented above, the value of the investment funds' net assets in December 2010 totalled PLN 115.6 billion (against PLN 93.4 billion as at the end of December 2009)<sup>11</sup>.

2010 was a difficult year for the open pension funds and the pension funds societies, which are their managers. At the beginning of 2010, a new legal regulation became effective, which decreased the revenues of pension funds societies by reducing the amount of collected fees for premium and setting

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<sup>10</sup> On the basis of IPO Watch Europe drafted by PriceWaterhouseCoopers.

<sup>11</sup> Source: Anality.pl

the limit as to the amount of a fee for managing the fund with assets net exceeding PLN 45 billion. Simultaneously, the rising deficit of public finance intensified the discussion on the Polish pension system. Next to suggestions aiming at lowering the cost of functioning of the second pillar, the following ideas were pondered over: decrease of the level of premiums transferred to open pension funds, temporary suspension of paying premiums into accounts of open pension funds or transfer of the premiums in the form of long-term pension bonds. Finally, the government adopted the bill to lower the premium transferred to open pension funds from 7.2% to 2.3% as of April 2011. This change will decrease the investment capacity of open pension funds significantly and it will have an impact on the situation of the entire capital market.

## **5. Macroeconomic Factors to Affect the Operations of ING Bank Śląski S.A. in 2011**

The economic activeness, which grew with each quarter in 2010, increased the likelihood of economic upturn in Poland to continue during the subsequent periods. According to the forecasts drafted at ING Bank Śląski S.A. the GDP in 2011 will rise by 4.4%.

It is expected that consumption will remain the main factor stimulating the economic growth this year, which will be additionally facilitated by slow improvement of the situation on the labour market and further increase of pay. Simultaneously, the high rate of capacity utilisation should translate into clear increase of investment activity. It is expected that there will be, above all, significant acceleration within the area of private investments, including the scope of enlargement of subcontracting capacity for the German economy. The scale of investments made by local self-governments will depend on the binding debt limits.

The unemployment rate will continue to be a problem for the Polish economy. It is forecast that despite opening of the German labour market for Polish employees, 11.3% of Poles at working age will remain unemployed at the end of 2011 due to delayed response of the labour market to the economic revival in Poland.

It is assumed that in 2011 Polish zloty will embark on an appreciation trend due to: strong fundamentals of the Polish economy, yet another round of quantitative ease in USA, the relocation of capital towards emerging markets as well as the already started tightening of the monetary policy in Poland. Situation of the public finance in some countries in the eurozone may lead to temporary significant adjustment in the PLN exchange rate.

Strengthening of PLN along with low pressure on payroll rise should partially balance the increase in controlled prices and increase in global commodities prices. The prices are expected to go up by 3.0% from a year earlier. The increase of pay and inflationary pressure will make the Monetary Policy Council conduct a tightened monetary policy. It is expected that apart from an increase of interest rates that occurred in January, in 2011 the Monetary Policy Council will take the decision on increasing the interest rate by 0.25 p.p. yet another 3 times. Nonetheless, monetary policy will be conducted with concerns about the consequences of restructuring processes in developed countries upon insufficient cooling down of economic upturn in developing countries (mainly in the form of excessive PLN appreciation) for the Polish economy.

The presented macro-economic scenario will not pose a threat to stability of the banking sector, but it may reduce the improvement of its profitability. The financial situation of banks operating in Poland is expected to be characterised by the following phenomena:

- Moderate increase of funds in clients' bank accounts. As regards household savings, investments on the capital market will be competition to the deposits. However, in terms of institutional clients, the increase of funds' value on the bank account will restrain the increasing investment expenses of entrepreneurs and consolidation of the central budget.
- The pace of lending growth will be set by: an increase of exposure in lending to business entities due to the acceleration of investment processes, lower demand for money on the part of local governments as well as lower than in previous years increase of lending for households (sustained by the increase of housing loans portfolio with simultaneous slowdown on the consumer loans market).
- Increase of revenues, and above all the interest result in relation to the expected rise of interest rates.

- Reduced possibility of further reduction of operating expenses.
- Stabilization of risk costs. With the improvement of the financial standing of companies, further improvement of the quality of corporate credit portfolios is expected; it is possible that the quality of household loans will deteriorate once the credit risk accumulated in the banks' balance sheet during the period of good economic situation materialises.

The standing of the Polish banking sector may be adversely affected by the following factors:

- Deepening of the fiscal imbalance in Poland and public debt exceeding the prudential threshold of 55% of the GDP. The increase of public debt may diminish the trust of foreign investors in the Polish market and it may endanger the bond market, and the stability of the Polish currency. In the long run, the necessity of launching an austerity programme to balance the level of budgetary receipts and expenditures would be dangerous for the economic growth rate in Poland.
- Fiscal hardships of some eurozone countries and concerns related to their long term solvency affecting the financial situation of global financial institutions (the largest holders of government bonds).
- Slowdown of economic growth of main trade partners (including in particular but not limited to: introduction of austerity packages), having an adverse impact on financial standing of exporters and the pace of economic growth in Poland.
- Changes in legal regulations, including introduction of the banking sector tax, short term prospect of introducing Basel III (impacting the capital needs of parent companies) as well as the adoption by the European Commission of provisions concerning the management of cross-border banking groups.

#### Polish economy in the years 2005 – 2011<sup>12</sup>

	2005	2006	2007	2008	2009	2010	2011F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.8	4.4
Budgetary deficit according to ESA 95 (% of GDP)	-4.3	-3.6	-1.9	-3.7	-7.2	-8.3	-6.5
M3 money supply (in PLN billion)	427.1	495.3	561.6	666.2	720.3	782.3	855.0
Industrial output growth (%)	4.1	12.0	9.4	3.0	-4.5	9.8	7.3
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	3.0
Unemployment rate (%)	17.6	14.8	11.2	9.5	12.1	12.3	11.3
PLN/USD rate (year end)	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	2.5714
PLN/EUR rate(year end)	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	3.6000
WIBOR 3M (year end)	4.60	4.20	5.68	5.88	4.27	3.95	4.82

<sup>12</sup> Forecast for 2011 prepared in January 2011.

## II. MAJOR ACHIEVEMENTS OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 2010

### 1. Growth of Customer Base

As at the end of December 2010, ING Bank Śląski S.A. provided services to:

- 2,740,400 individual clients (up by 181,800 clients throughout 2010, compared with 138,500 a year earlier),
- 228,700 small businesses, up by 26,400 in 2010, and
- 14,624 corporate clients compared with 12,713 in December 2009.

Dynamic growth in the number of individuals and businesses using the services of ING Bank Śląski S.A. proves that the activities pursued by the Bank to reinforce long-term relationships with the clients are right and effective. The relationship is based on the strong brand of the Bank, transparent product offer, which is adjusted to take account of the client preferences as they change over time, and the continuously developed multi-channel distribution system.

### 2. Better Position on Lending Market

As at the end of December 2010, total gross credit receivables of the Capital Group of ING Bank Śląski S.A. from the clients amounted to PLN 31,000.2 million, up by PLN 4,284.4 million (or, 16.0%) from the end of 2009. It is estimated that the Capital Group had a share of 4.2% in the value of total credit receivables of the entire banking sector (up by 0.3 p.p. from the end of 2009).

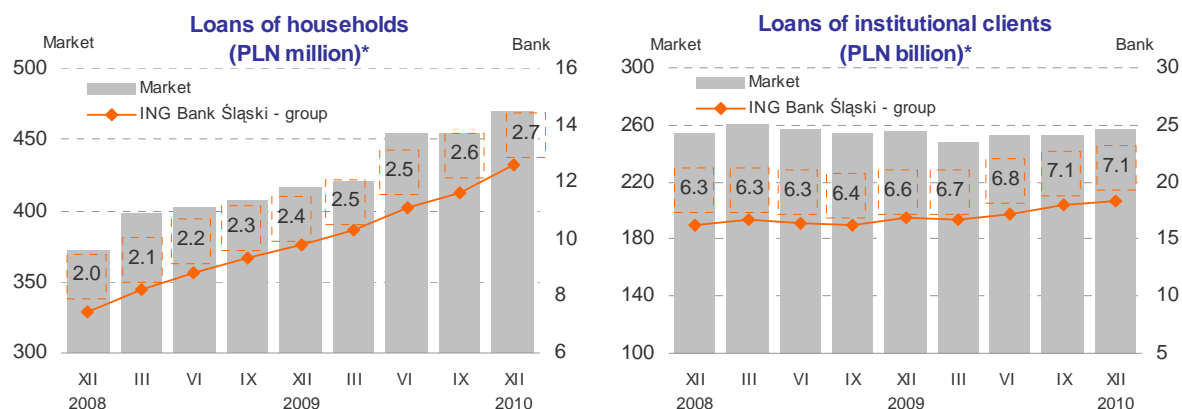
The improvement in the position of the Bank's Group on the credit market resulted from:

- Dynamic growth of credit receivables from households. In December 2010, credit receivables from households totalled PLN 12,630.8 million, up by PLN 2,808.1 million (or 28.6%) from the end of 2009. The growth rate was influenced by the development of mortgage lending in PLN. The value of the PLN-denominated mortgage loans totalled PLN 6,954.7 million, up by 51.6% over the year.
- A higher-than-sector-average rate of growth of the credit exposure towards institutional clients<sup>13</sup>. The respective Group's credit receivables amounted to PLN 18,369.4 million, up by 8.7% from the end of 2009. The result was largely achieved thanks to the development of lending to mid-sized and large corporates, as well as local government units.

#### Receivables from the clients of the ING Bank Śląski S.A. Capital Group (PLN million)

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
<b>Total gross loans, including:</b>	<b>31,000.2</b>	<b>26,715.9</b>	<b>23,657.6</b>	<b>16,773.4</b>	<b>13,359.2</b>
Households	12,630.8	9,822.8	7,446.5	4,937.9	3,615.4
Business entities	12,963.9	12,042.3	12,312.0	8,905.6	7,064.7
Financial entities (other than banks)	2,585.0	2,545.6	2,925.1	2,232.6	2,010.5
Entities of the sector of central and local government units	2,820.5	2,305.2	973.9	697.2	668.6
<b>Debt securities and other receivables</b>	<b>4,594.2</b>	<b>4,758.2</b>	<b>2,587.5</b>	<b>167.2</b>	<b>332.0</b>
<i>Impairment write-offs</i>	<i>-1,085.4</i>	<i>-881.3</i>	<i>-502.3</i>	<i>-561.4</i>	<i>-702.9</i>
<b>Total net receivables from the clients</b>	<b>34,509.0</b>	<b>30,592.8</b>	<b>25,742.8</b>	<b>16,379.1</b>	<b>12,988.2</b>

<sup>13</sup> In total for the business entities, non-monetary financial institutions, central and local government institutions.



\*The figures denote the market shares of ING Bank Śląski Group.

### 3. High Liquidity Level Courtesy of Strong Deposit Base

One of the strengths of the ING Bank Śląski S.A. Group is its deposit base, which had been accumulated over the years and is one of the largest in the Polish banking sector. The strong deposit base remained a major advantage in 2010 as the banks still displayed increased caution when it came to concluding transactions on the inter-banking market (especially in terms of longer-term contracts), even though the situation on the market became more or less normal.

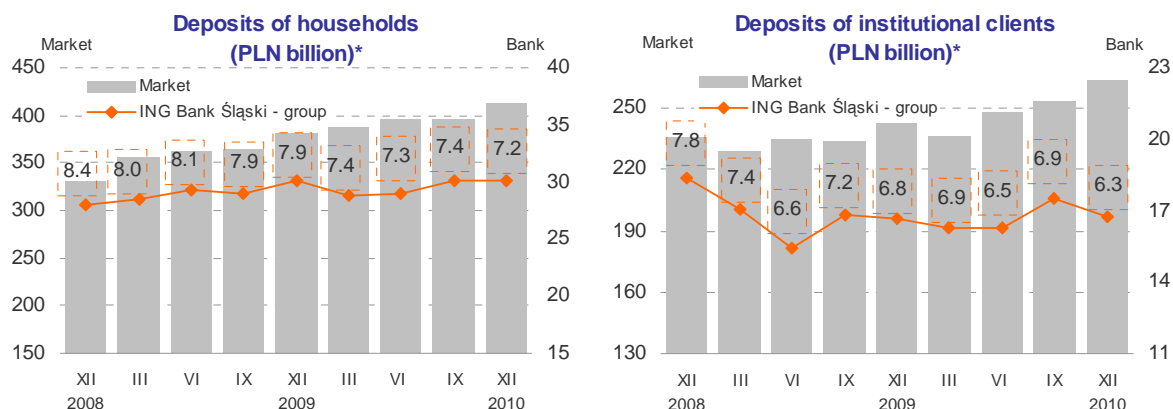
Thanks to high liquidity of the balance sheet, which allowed for further development of lending from the Bank's own deposit base, ING Bank Śląski S.A. was not actively involved in the fierce and costly competition for the limited savings of the clients. As at the end of December 2010, funds in the accounts of the Capital Group of ING Bank Śląski S.A. totalled PLN 46,836.8 million against PLN 46,716.2 million as at the end of 2009. The Capital Group of the Bank held 6.9% of the total value of funds deposited in the banking sector.

In 2010, Capital Group of ING Bank Śląski S.A. retained the funds accumulated in household accounts and institutional accounts. In December 2010, household deposits totalled PLN 30,117.7 million against PLN 30,039.7 million as at the end of 2009 (up by 0.3% year-on-year). Funds in institutional accounts amounted to PLN 16,719.1 million (against PLN 16,676.5 million in December 2009).

#### Deposits of the clients of the ING Bank Śląski S.A. Capital Group (PLN million)

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Households	30,117.7	30,039.7	27,945.7	25,392.6	21,472.4
Business entities	12,483.6	11,861.7	11,173.6	12,760.8	10,375.3
Financial entities (other than banks)	2,540.6	3,306.6	4,267.5	2,226.7	2,881.6
Entities of the sector of central and local government agencies	1,694.9	1,508.2	2,886.2	2,572.4	1,528.1
<b>Total deposits</b>	<b>46,836.8</b>	<b>46,716.2</b>	<b>46,273.0</b>	<b>42,952.4</b>	<b>36,257.3</b>





\*The figures denote the market shares of ING Bank Śląski Group.

#### 4. Enhanced Operational Effectiveness

In 2010, net profit of ING Bank Śląski S.A. Capital Group attributable to owners of the parent was PLN 753.1 million, up by 26.6% from a year earlier. At the same time, it was the highest net result in the Bank's history.

The key drivers determining the financial result of the Bank's Capital Group in 2010 included<sup>14</sup>:

- **Better result on core activity.** It amounted to PLN 2,731.7 million, up by 7.9% from 2009. It was achieved thanks to:
  - Better interest result (up by 16.0%),<sup>15</sup> owing to higher lending and a higher interest margin (up to 2.78% against 2.25% in 2009).
  - Better commission result (up by 2.4%) in view of higher transactional margin on foreign exchange, cards commissions and commission related to the distribution of the participation units of investment fund corporations.
  - Lower other income (down by 29.4% from a year earlier). In particular, the following types of income were lower than a year earlier: the result on IR derivatives, the result on hedge accounting and the result on investments in controlled entities. Other income of 2009 also included a charge on account of counterparty risk related to FX-option transactions concluded with the clients to the amount of PLN 185.9 million.
- **Further cost discipline.** With higher scale of operations in the key areas (including the mortgage area), the operating expenses totalled PLN 1,593.9 million, up by 7.0% from a year earlier. In particular, staff costs, as well as property rental and maintenance costs were higher than a year earlier. By contrast, expenditure on communication services and renovation services went down.
- **Considerably lower risk costs.** In 2010, the balance of assets impairment charges was PLN 203.6 million in minus (compared with minus PLN 304.5 million a year earlier). The Bank retained high quality credit portfolio, and in 2010 there was no deterioration in the credit capacity of the clients due to the situation on the FX-options market (in 2009, the charges on that account totalled PLN 115.2 million, whereas in 2010 they amounted to PLN 25.3 million).

The profit increase recorded in 2010 translated into the effectiveness ratios, such as return on assets (ROA) or return on equity (ROE), which were higher than a year earlier. For example, in 2010, each PLN 100 worth of invested equity generated PLN 14.2 of net profit, up by PLN 1.1 from a year earlier. Cost effectiveness of the Group also recorded a slight improvement. In 2010, the Cost/Income ratio (C/I) totalled 58.3%, down by 0.5 p.p. from 2009.

<sup>14</sup> Based on analytical income statement. The result on core activity also includes the share in net profit of affiliated entities recognised on an equity basis. Total costs include the result on other revenues and operating expenses.

<sup>15</sup> In 2010, there was a change in the presentation of the interest result, whereby the interest result on derivatives is now included as part of the interest result.

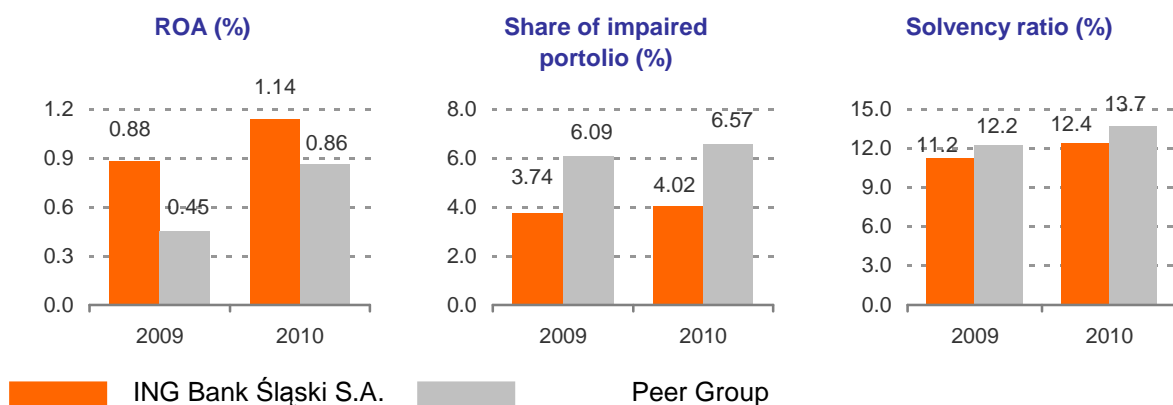
## Financial Results of the ING Bank Śląski S.A. Capital Group

	2010 PLN million	2009 PLN million	Change 2010/2009
Operating income*	2 731.7	2 532.3	7.9%
Total costs **	-1 593.9	-1 489.5	7.0%
Result before risk costs	1 137.8	1 042.8	9.1%
Risk costs	-203.6	-304.5	-33.1%
Gross profit (loss)	934.1	738.3	26.5%
Net profit (loss)	753.1	595.1	26.6%
Profit (loss) per 1 ordinary share (PLN)	57.89	45.74	26.6%
Profitability ratio (%)	28.7	20.5	+8.2 p.p.
Return on assets (%)	1.2	0.9	+0.3 p.p.
Return on equity (%)	14.2	13.1	+1.1 p.p.
C/I (%)	58.3	58.8	-0.5 p.p.
Solvency ratio (%)	13.2	12.0	+1.2 p.p.

\* Including the share in net profits of affiliated entities recognised on an equity basis.

\*\* Including the result on other revenue and operating expenses.

## Results of ING Bank Śląski S.A. compared with Peer Group<sup>16</sup>



## 5. Awards and Distinctions

As was the case in the previous years, 2010 brought numerous awards and distinctions for ING Bank Śląski S.A.

The awards and distinctions, which the Bank received for the attractiveness of its product offer and for the quality of customer service, are of particular value. Those include:

- **TOP RATED** rating, a distinction for custody services awarded by a prestigious American sector quarterly *Global Custodian* for the custody operations conducted in Poland in 2009,
- Number three in the *2010 Service Quality* rating organised by the portal [www.jakoscobslugi.pl](http://www.jakoscobslugi.pl),
- Second place in the ranking by the *Newsweek* weekly, *Friendly Bank*, in the category of *Bank for the Disabled* and the second place in the category of *Bank for Internet Users*,
- Third place in the *Bank Closest to the Client* ranking prepared by the *Gazeta Prawna* daily.

<sup>16</sup> Based on the report of the Polish Financial Supervision Authority for the Bank on a stand-alone basis. In 2010, ING Bank Śląski S.A. was ranked in the peer group of universal institutions, which comprised 25 entities. Status as of 3Q 2010.

It was yet another year in which the market also highly appraised the efficiency of marketing actions run by ING Bank Śląski S.A. to reinforce its brand and support the sales of key products. The awards received by the Bank in that area included:

- Golden EFFIE 2010 in the *Long Term* category for the campaign under the theme “Taki duży, a taki internetowy” (“So Large, and So Internet-Based”) and two Silver EFFIE Awards in the *Financial Services* category for the campaigns run under the theme “Jestem internetowy” (“I am an Internet User”) and “Zmiana” (“The Change”),
- Super Brand Poland, a distinction awarded to the strongest consumer brands by the international organisation called Superbrands,
- Second place in the *Finance* category in the ranking of the strongest brands organised by *Rzeczpospolita* daily.

The market also highly regarded the financial results of ING Bank Śląski S.A. in 2009, which was a very difficult year for the banking sector. In the ranking of *Top Financial Institutions in Poland in 2009* by *Rzeczpospolita* daily, ING Bank Śląski S.A. was ranked on the first place in the category *Banks*. The following criteria were assessed, among other things: change in the value of credit portfolio, deposit value, net profit, effectiveness ratios (ROA, ROE, C/I) and share of non-performing loans in the portfolio.

The following distinctions are testament to the high value of intangible assets of ING Bank Śląski S.A., which also determine the company's value (such as: transparent information policy, expertise and engagement of the employees):

- Following the 2010 verification in terms of corporate social responsibility and adherence to corporate governance rules, the Bank was again included as part of the RESPECT Index, which groups socially responsible corporate citizens.
- The Bank also won a distinction for the best *Management Board Report on Company's Activity* among *Banks and Financial Institutions* for the third consecutive year; the distinction was awarded as part of The Best Annual Report 2009 competition organized by Instytut Rachunkowości i Podatków (the Accounting and Tax Institute).
- Top Employers label awarded by the Corporate Research Foundation.
- Second place for the accuracy of forecasts in the first half of 2010 and third place in the category of inflation forecasts between 2009/2010 awarded to a team of the Bank's Economics, including: Mateusz Szczurek, Rafał Benecki and Grzegorz Ogonek – the distinctions were awarded as part of the *Best Macroeconomic Analyst Competition* organised by National Bank of Poland in collaboration with *Rzeczpospolita* daily.

Furthermore, ING Securities S.A., which is a member of the Bank's Capital Group, received the following distinctions:

- First place in the category *Brokerage Firms* in the ranking of *Book of Lists* annual, the largest and the oldest Polish and English publication on the Polish market that keeps track of the changes taking place in Polish business environment.
- Second place for the analysts of the Brokerage House in the 8<sup>th</sup> ranking of stock exchange analysts conducted by *Parkiet* daily.

### III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2010

#### 1. Retail Banking

##### **Changes to Product Offer and Customer Service Rules**

The actions initiated by ING Bank Śląski S.A. to improve the product offer and customer service were aligned with the overall business strategy based on a simple and fair offer, easy and automated processes and more focus on the Internet banking in the customer service processes. With the existing situation on the market where the 2008 crisis and uncertainty as to the development outlook made the clients return to traditional values, such as security of the transactions, as well as trusted and well-recognised brands, the strategy proved more adequate than ever.

In 2010, the Bank focused primarily on ensuring high attractiveness of its core deposit product, the OKO Open Savings Accounts, and notably the Bank:

- Implemented the Direct Open Savings Account for individual clients. The new account is addressed to the existing and new holders of the *Direct Account* or *Comfort Lion Account* who have regular inflows of salary to their accounts at the Bank and who are active users of the ING BankOnLine system. Every quarter, the OKO Direct Account holders receive extra interest according to an increased interest rate.
- Proposed a promotional offer under the theme *Przyśpieszacz oprocentowania* ("Interest Rate Accelerator"), addressed to both the existing and new OKO holders, which offers higher interest rate on new deposits (the offer was binding from 15 June to 15 September 2010).

The savings product offer was also expanded and the following products were added:

- New deposits – a nine-month PLN deposit with daily capitalisation of interest and twelve-month deposits in PLN and EUR called *Ekstra Premia* (*Extra Bonus*).
- Other structured products with various legal formulas, investment horizons and target groups. In total, there were 9 subscriptions for structured products as part of the *Inwestycyjny Plan Ubezpieczeniowy* [*Unit-Linked Insurance Plan*].
- New investment funds (HSBC and UniSicav) for clients from the Personal and Private Banking segments. Furthermore, the Bank applied on a temporary basis zero-distribution fee when purchasing units of all investment funds.
- A new endowment product called *Bezpieczna Przyszłość* [*Safe Future*].

Considering the importance of an attractive personal account for attracting new clients, the Bank introduced favourable modifications to the fees and commissions for account maintenance and operations on selected current and personal accounts, including: free ATM transactions, lower maintenance fees and lower fees for outgoing electronic transfers. Furthermore, in order to streamline the personal accounts offer, the Bank decided to withdraw certain types of Lion Accounts from the market.

From May until the end of August 2010, the Bank conducted a nation-wide marketing campaign employing a broad array of instruments (including TV spots) under the theme *Internetowi nie płacą, bo wszystko robią sami* (*Internet Users Do Not Pay Because They Do Everything by Themselves*). The campaign was to attract new users for the *Direct Accounts* by reminding the audience of three main advantages of the account (no account maintenance fees, free Internet transfers and free withdrawals from all ATMs all over Poland).

As regards the credit offer, ING Bank Śląski S.A. focused on ensuring highly competitive mortgage products. The Bank introduced modifications favourable for the clients, such as modifications to the fees and commissions for granting a mortgage loan, lowering the margin, or introducing uniform fee for simplified real property valuation. The Bank also proposed additional special options of fees and commissions for holders of personal accounts at the Bank and special pricing offer on mortgages addressed to the employees of the banking sector (the offer included lower margin and commission). A new insurance product combined with mortgage loans was also launched on the market (*Opcja*

Życie/ Life Option).

The marketing campaign of the mortgage loan run under the theme *Dojeżdżamy. Załatwiamy. Prowizji nie pobieramy.* (We go to the clients. We deal with the formalities. We do not charge any fee.) was a major event in the autumn. The campaign promoted comprehensive assistance offered by the Bank to the clients so that they obtain a mortgage loan.

Changes to the other credit products of the Bank included:

- Implementation of new solutions regarding credit service of Private Banking clients. A new product called *Pożyczka Pieniężna Private Banking (Private Banking Cash Loan)* was offered to that segment. The new product allows for applying flexible forms of collateral with the client's assets (deposited both in ING Group and other financial institutions); also, new solutions were introduced to facilitate financing of non-standard needs of the clients.
- Adding leasing services (offered within ING Group) to the small business offer concerning sources of business funding.
- Withdrawing products for individual clients that were not very popular (niche products).

In 2010, the Bank serviced Private Banking clients in accordance with the organisational model developed in 2009. At the same time, the Bank started strategic co-operation between the Private Banking segment and the Corporate Network (which provides service to large and mid-sized companies). According to analyses conducted by the Bank, there was a synergy in that area that had not been used by the Bank to date. Upscale customers of the Bank are frequently the owners of large and mid-sized companies that do not take advantage of the Bank's services; on the other hand, companies serviced by ING Bank Śląski S.A. have affluent shareholders who may become clients of ING Private Banking. Through co-operation between the segments, the Bank is able to offer comprehensive integrated services in the area of asset management (such as corporate ownership structuring, mergers and acquisitions, taxes and dividend payout). At the end of 2010, the Bank recorded the first results of that co-operation as it acquired new upscale customers and new business entities.

The Bank also decided to add to its offer services in the area of financial instrument portfolio management. Those services represent an important element of market standard of customer service in the Private Banking segment. The Bank filed a request to the Polish Financial Supervision Authority for permission to run brokerage business and was working to prepare technical and organisational infrastructure required to provide that service. The Bank also started works on a project aimed at adding investment advising to the product offer for the Private Banking segment.

### Deposit Activity

As at 31 December 2010, total value of funds<sup>17</sup> entrusted with ING Bank Śląski S.A. by households amounted to PLN 37,648.0 million, compared with PLN 35,601.5 million in December 2009.

Banking deposits formed the major part of the deposit activity. In view of good liquidity situation, ING Bank Śląski S.A. was not actively involved in the fierce competition among banks for the limited savings of retail clients. As at the end of December 2010, household deposits totalled PLN 29,954.7 million, slightly higher than at the end of December 2009 (up by 0.2%). The result translated into a market share of 7.2% on the household deposit market (compared with 7.9% as at the end of 2009).

The clients of the household segment deposit their excess funds with ING Bank Śląski S.A. mainly in the Open Savings Accounts (OKO). As at the end of December 2010, the value of funds deposited in OKO accounts by households totalled PLN 20,496.9 million, up by 19.2% from December 2009. In 2010, the Bank was the leader among the banks, both in terms of the number of savings accounts, as well as the value of savings. Some of the funds deposited in the OKO Open Savings Accounts throughout 2010 were transferred from the term deposits. As at the end of December 2010, funds in

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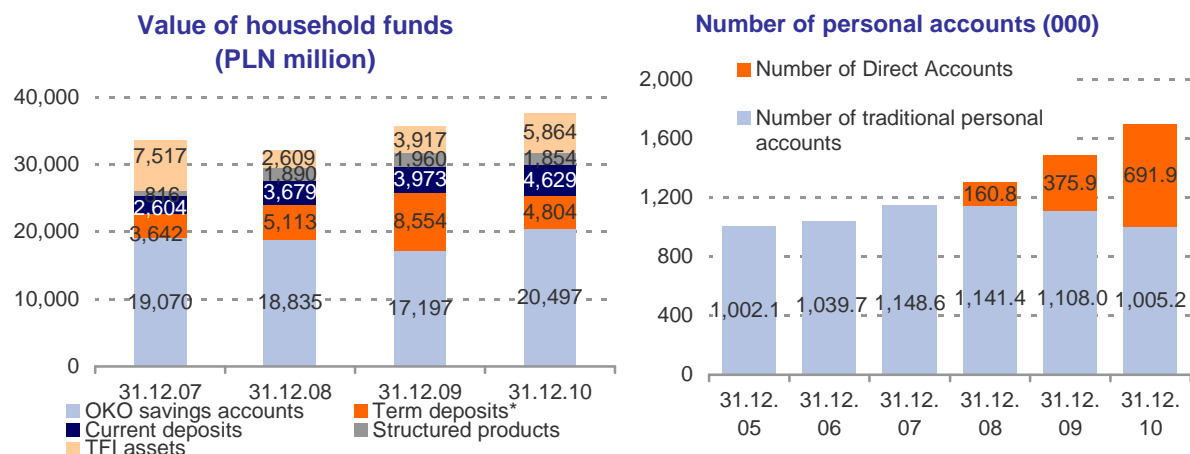
<sup>17</sup> Total value of deposits, structured deposits and mutual funds. All data in this chapter for ING Bank Śląski only.



term deposits totalled PLN 4,803.7<sup>18</sup> million compared with PLN 8,554.0 million in December 2009 (down by 43.8%). Value of funds invested in structured products recorded a slight decrease as well. As at the end of December 2010, structured products represented PLN 1,854.1 million (vs. PLN 1,960.1 million in December 2009).

The scope of settlement services offered by the Bank to retail clients saw a considerable increase. As at the end of December 2010, ING Bank Śląski S.A. maintained 1,697,100 personal (ROR) accounts, which mean that in 2010 the Bank acquired 213,200 accounts of that type in net terms. *Direct Accounts* played the main role in that respect. As at the end of December 2010, the Bank had 691,900 accounts of that type (up by 316,000 from December 2009).

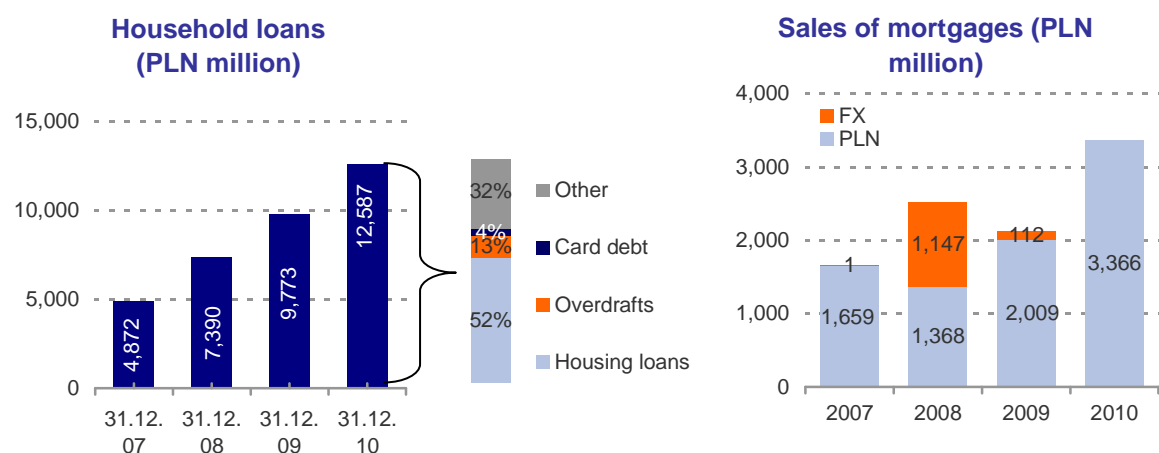
Small businesses had 217,000 current accounts at the Bank, including 117,200 *Direct Accounts*. As at the end of 2009, the figures totalled: 192,800 current accounts and 66,200 *Direct Accounts*.



The stock exchange's rebound positively affected the value of net assets obtained by the investment funds acquired through intermediation of ING Bank Śląski S.A. In December 2010, those assets amounted to PLN 5,864.0 million (vs. PLN 3,916.8 million as at the end of 2009). The balance of sales and redemptions of TFI units was positive at PLN 1,619.6 million.

### Lending

As at the end of December 2010, household credit receivables of ING Bank Śląski S.A. totalled PLN 12,586.6 million. In 2010, the Bank's credit exposure towards households went up by PLN 2,814.1 million, or 28.8%. The Bank increased its share in the household credit receivables market to 2.7% (vs. 2.4% in December 2009).



<sup>18</sup> Value of term deposits less value of funds deposited in the form of investment products, which were recognised as part of structured products. In December 2010, the amount totalled PLN 24.7 million compared with PLN 166.1 million a year earlier.



Housing loans represented the main part of the Bank's credit portfolio for households. As at the end of December 2010, the total value of the Bank's receivables due to housing loans amounted to PLN 7,060.6 million compared with PLN 5,147.6 million as at the end of 2009 (up by 37.2%).

Offering only mortgages in PLN, throughout 2010 the Bank extended PLN 3,366.1 million worth of mortgages (vs. PLN 2,121.0 million a year earlier). According to the data of the Polish Banks Association, in 2010 ING Bank Śląski S.A. was ranked on the sixth place on the market with a 7.1% share in the sales of housing loans for private individuals. As regards PLN-housing loans, the Bank was classified on the fourth position with a 9.9% share of total sales. The Bank was able to visibly reinforce its position thanks to, among other things, record sales in the final quarter of 2010. The value of PLN-mortgages extended by the Bank in that quarter represented 13% of the total value of PLN mortgages.

By contrast, the Bank's receivables due to cash loans recorded slightly lower growth than a year earlier. Their value went up from PLN 1,193.7 million in December 2009 to PLN 1,378.3 million as at the end of December 2010 (up by 15.5%). The Bank's exposure towards small businesses totalled PLN 1,649.7 million, up by 7.0%, from the end of 2009.

### **Bank Cards**

With a wide array of bank cards addressed to both individual clients and small businesses, ING Bank Śląski S.A. is one of the main issuers of bank cards in Poland.

In 2010, the Bank introduced insurance programmes for the debit cards and pre-paid cards offered in co-operation with PZU (*PZU – ochrona karty ING/ PZU – Protection for ING Cards*).

In December 2010, nearly 99% of cards issued by the Bank had a microchip. The use of the microchip technology significantly increased the security of transactions made by means of the cards issued by the Bank.

By the end of December 2010, ING Bank Śląski S.A. issued 2,211,800 payment cards to retail clients (up by 7.2% from the end of 2009), including 231,200 credit cards and charge cards. New types of cards were also popular among the clients. By the end of December 2010, the Bank issued PLN 203,900 contactless cards and 19,000 virtual c@rds.

## **2. Corporate Banking**

### **Changes to the Customer Service Rules and Customer Resegmentation**

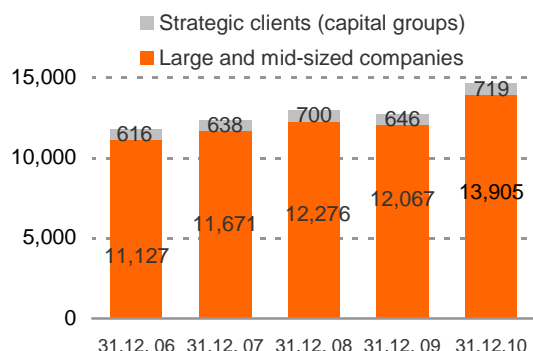
Throughout 2010, ING Bank Śląski S.A. worked on new rules of customer service for the mid-sized and large companies. The Bank adopted new segmentation criteria and developed a new customer service model, which takes account of different financial needs of the clients, their preferences regarding distribution channels, as well as profitability of the co-operation for the Bank. As part of the new model, corporate clients will be serviced within three portfolios (green, yellow and red). Also, the following rule was introduced at the Bank – the stronger the relations with clients, the more individualised is the provided service and the more sophisticated product offer is at client's disposal. Together with the development of new segmentation criteria, it was also decided that the service of certain small businesses (around 12,500 businesses) should be transferred from the Retail Network to the Corporate Sales Network. As part of soft migration, 1,500 businesses were transferred from the Retail to the Corporate in 2010.

In December 2010, more than 14,600 corporate clients used the services of ING Bank Śląski S.A. According to a poll, ING Bank Śląski S.A. was the lead bank for 9% of Polish companies (number three on the market)<sup>19</sup>.

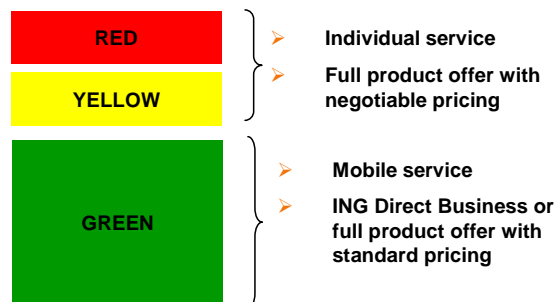
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<sup>19</sup> Source: GFK Polonia Monitor Finansowy 2010.

### Number of institutional clients



### New model of corporate clients service



### Product Offer and Modifications

The quality of product offer is one of the basic determinants taken into account by corporate clients when choosing a bank. In 2010, the Bank continued efforts to make the product offer more attractive, by making major modifications both in the area of deposit and clearing products and business financing.

In 2010, the changes within the area of deposit and clearing services rendered by the Bank for the benefit of corporate clients included:

- Offering a new account – ING Direct Business for mid-sized companies which embraces: one bank account in PLN, one savings account in PLN (OKO), ING BusinessOnLine system and a debit card as part of the bank account in PLN.
- Introducing a term-deposit for local government units, enabling the communes to locate their funds without setting up a current account at the Bank.
- Simplifying the process of setting up a bank account and activating the remaining products offered under the framework agreement. Due to the said simplification, the period needed for the client to gain access to all products offered as part of the account agreement was significantly reduced.
- Introducing free transfers for the benefit of the Social Insurance Institution (ZUS) and tax offices submitted by corporate clients in the electronic format.
- Launching new functionalities in ING BusinessOnLine, which facilitate the optimization of processing the application forms sent from the system and within the area of cash handling via the Internet banking system
- Extending the payment card offer by introducing new solutions (e.g. ordering and personalizing cards via the Internet banking system, additional insurance package with a debit card and corporate prepaid card in the Internet banking system).

The works on improving credit service focused on:

- Increasing the efficiency of credit processes and accelerating them by means of applying credit risk assessment tools and methods tailored to the kind and size of client's exposures. Both Normal Track credit processes and Fast Track credit processes were modified. As regards the Normal Track the service of the entire credit process was implemented for the regular portfolio as part of one platform with a full electronic workflow. As for Fast Track, changes in the credit process consisted in increasing the limit of total credit exposure for short-term exposures and changes in the algorithm of the credit capacity assessment, among other things. Also, the Fast Track for financing commercial real estates for individual exposures which do not exceed PLN 10 million was developed. A project aiming at making selling credit products via Bank webpage possible was also being executed. The implementation of the new solutions is scheduled for the first quarter of 2011.
- Preparing the changes to the product offer due to the clients' resegmentation that is currently

under preparation. New products such as: Corporate Cash Loan (as part of Fast Track) and Simplified Investment Loan were drafted and implemented.

- Optimizing the credit process for trade finance products. Also, the process of migrating clients using letters of credit and guarantees as part of product lines to electronic forms available at ING BusinessOnLine was started.

The Bank also cooperated with many institutions as regards the development of special credit offer for Polish companies, namely:

- With the Agency for the Restructuring and Modernization of Agriculture within the scope of servicing preferential loans granted for the agricultural sector. At the end of the year, the Bank launched a new preferential loan for the purchase of shares of companies conducting business activity within the area of farm products processing.<sup>20</sup> Also the Bank took part in the works of the Polish Bank Association on development of rules and it concluded an agreement with the Agency on offering the investment loan for executing investments in agricultural holding with partial repayment of the principal (to be included in the Bank offer in the first quarter of 2011). The preferential loan offer for the agricultural sector is supplemented by the commercial loan of the Bank for purchasing the arable land – which is very popular among the Bank's clients and which is addressed to those borrowers who cannot take advantage of preferential loans.
- With Bank Gospodarstwa Krajowego in the scope of offering the loans with subsidies from the Technology Credit Fund and Thermo-modernization and Redecoration Fund. In particular, the Bank has a strong position in terms of number of submitted credit applications for a loan with a technological bonus.
- With guarantee funds, which have recently become an important partner and provider of collaterals. Upon the entry into force – as of the beginning of 2011 – of the modified recommendation of the Polish Bank Association, which concerns banks' cooperation with guarantee funds (subject to corporate governance of BGK), the Bank's agreements with the guarantee funds were adjusted to the language the recommendation. Also talks aiming at the conclusion of agreements with guarantee funds were conducted.
- Took part in meetings held in the Ministry of Agriculture and Rural Development aiming at drafting solutions favourable for clients, who suffered during natural disasters in 2010.

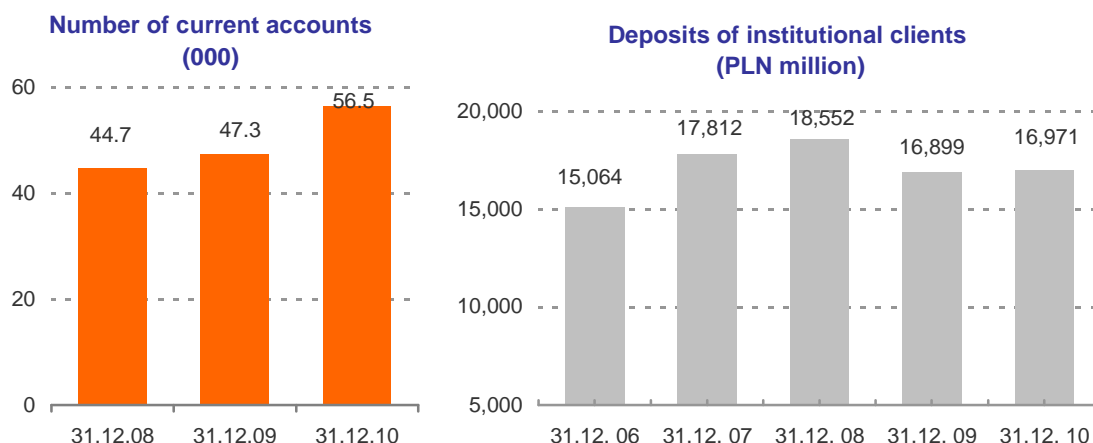
In 2010, managing institutions collected the applications for subsidies as part of both domestic and regional programmes. The Bank was active in advising companies on selecting aid programmes and financial engineering for projects. At the same time, the Bank intensively promoted EU programmes during individual meetings with entrepreneurs and representatives of the local government units.

### **Deposit and Settlement Activity**

As at 31 December 2010, the value of institutional clients' deposits at the Bank was PLN 16,971.3 million, up by 0.4% from December 2009. In December 2010, ING Bank Śląski S.A. had a share of 6.3% in the market of institutional clients' deposits.

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<sup>20</sup> The loan may be also used for the purchase of shares in companies wholly owned by the State Treasury that conduct business activity in the area of artificial insemination.



In December 2010, ING Bank Śląski S.A. maintained 56,500 (PLN and FX) current accounts for corporate clients. The highly attractive deposit and clearing offer of ING Bank Śląski S.A. brought a 19.5% increase in the number of accounts over 2010.

Solutions proposed to the local government units attracted other cities that decided to use banking services of ING Bank Śląski S.A. Consequently, the Bank was able to cement its position in that segment. In 2010, the Bank signed, among others, an agreement on comprehensive banking service of the budget of Poznań City Hall, which will be in effect until the end of 2014, general agreement on comprehensive banking service of the budget of Katowice City Hall for another 5-year period, and an agreement on banking service of Kielce City Hall between 2011 and 2015. In total, as at the end of 2010 ING Bank Śląski S.A. co-operated with 50 local government units and provided them with comprehensive service. Servicing the budgets of eleven out of the 50 largest cities in Poland (population above 50 thousand), the Bank became one of the leaders on the market of banking services for the largest cities in Poland.

With the end of 2009, the Bank ended the process of migrating the users of the MultiCash and ING BankOnLine systems to the new Internet banking system called ING BusinessOnLine. In December 2010, there were 15,500 companies that used the system.

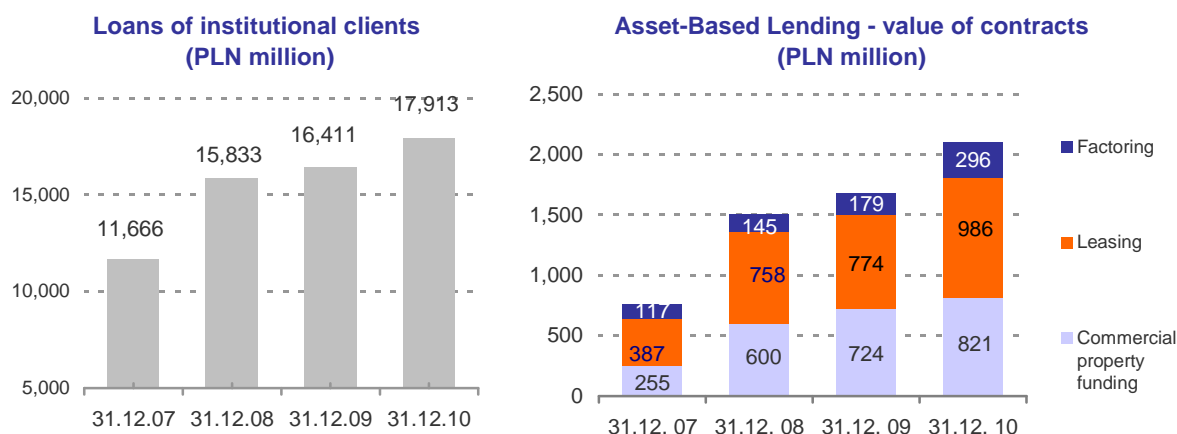
### Lending

As at the end of December 2010, credit receivables of ING Bank Śląski S.A. from institutional clients totalled PLN 17,913.4 million versus PLN 16,411.0 million in December 2009 (up by 9.2%). It is estimated that at the end of 2010 the Bank held 7.1% of the institutional credit market (vs. 6.6% as at the end of 2009).

Throughout 2010 the Bank increased its credit exposure mostly towards mid-sized and large companies. As part of the credit risk mitigation programme, the Bank established a closer credit co-operation with the local government units. In 2010, the Bank won 244 tenders for the financing of local government units totalling nearly PLN 1.4 billion (compared with 209 won in 2009 to the amount of PLN 1.7 billion). Those actions helped cement the Bank's share in the area of lending to local government units – in December 2010, the Bank's share in that market reached 8.3%.

Lower growth rate of the Bank's lending to the strategic clients was primarily the result of limited activeness on the market of large credit transactions and the underwriting market due to material deceleration in investments by the largest companies.

Far-reaching efforts to promote knowledge of EU aid programmes resulted in an increase of the Bank's credit exposure due to the service of those programmes. As at the end of December 2010, the total value of EU loans and promises for EU loans amounted to PLN 3,401.0 million (vs. PLN 3,009.5 million as at the end of 2009).



After a period of stagnation due to a difficult situation on the market, in 2010 ING Bank Śląski S.A. recorded visible tightening in co-operation with other ING members in the area of assets-based lending, i.e. in the area of leasing and factoring services sales, as well as commercial property funding. In December 2010, total value of ABL-agreements concluded in co-operation with other ING members amounted to PLN 2,103.4 million, up by 25.4% from December 2009. Notable increase was recorded in the value of agreements on factoring services (up by 65.4%) and leasing services (up by 27.4%).

### 3. Money and Capital Markets

A slow normalization of situation on financial markets that took place in 2010 facilitated rebuilding the bank's relations with clients as regards the sales of financial instruments.

Activities of ING Bank Śląski S.A. on financial markets as regards transactions with the clients focused mainly on widening the product offer with new instruments, developing distribution channels, continuous optimizing of process concerning FM products, as well as implementation of MiFID requirements, which were introduced to the Polish law by the amended Trading in Financial Instruments Act and the applicable implementing regulations. The Bank's actions in that area included in particular:

- **Products.** Apart from the implemented new standard for FM documentation, the Bank also introduced mono-product agreements dedicated to IRS and Cap transactions, which should increase the clients' interest in the said transactions and simplify the process of offering such transactions to clients. Moreover, at the end of the year the Bank commenced the works leading to introduction of mono-product agreements in terms of other financial instruments, which mainly resulted from needs expressed by clients as well as necessity to create more flexible terms of offering FM products. The Bank also responded to increasing clients' interest in commodity derivatives by offering satisfactory solutions within that area. Also, the Bank worked on the implementation of structured deposits (that would combine features of a deposit instrument and a derivative), expanding the functionality of repo transactions by adding cross-currency repo instrument, as well as extending the range of currencies available for clients in order to ensure greater possibility of securing clients' trading operations.
- **Distribution channel.** At the end of 2010, the Bank launched a modern on-line platform which enables the clients to effect currency conversion. The platform was built with the use of the state-of-the art technology solutions, and the platform itself as a module was located in the ING BusinessOnLine application, which is the basic element of the electronic banking for corporate clients.

In 2010, ING Bank Śląski S.A. retained its strong market position in the arranging and handling the issue and sales of non-Treasury debt securities acting as the arranger or co-arranger of the following programmes:

- PGE Polska Grupa Energetyczna S.A. The Bank acted as Lead Arranger, Documentation Agent, Issue Agent, Paying Agent, and Depository in the Bond Issue Programme amounting to PLN 10 billion, organized by a banking syndicate. It has been the largest issue programme in the history of Polish market of non-Treasury debt instruments and, at the same time, it has been the largest financing organized for a Polish company to date.
- Polskie Górnictwo Naftowe i Gazownictwo S.A. The Bank acted as Arranger, Underwriter, Issue Agent, Paying Agent, Dealer and Depository in the Bond Issue Programme amounting to PLN 3 billion, organized by a banking syndicate. It has been one of the largest programmes on Polish market.
- TAURON Polska Energia S.A. The Bank acted as a Lead Arranger, Underwriter, Sub-agent for Payments, Dealer and Depository in the Bond Issue Programme amounting for PLN 1 billion organized by a banking syndicate.
- POLKOMTEL S.A. The Bank acted as Arranger, Issue Agent, Paying Agent, Depository and Dealer in the Bond Issue Programme up to PLN 1 billion, organized by a banking syndicate.
- Europejski Fundusz Leasingowy S.A. The Bank joined the Bond Issue Programme of EFL S.A. up to the amount of PLN 1 billion as a Dealer, Sub-agent for payments, Sub-depositary. The Bank was able to join the programme as a Dealer due to former active sales of the issuer's securities as the Dealer of the Day.
- PBG S.A. The Bank conducted yet another bond issue of mid-term securities for the amount of PLN 450 million as part of the Programme totalling PLN 1 billion.
- LOTOS Asfalt Sp. z o.o. The Bank acts as Sub-agent and Dealer in the Bond Issue Programme and Dealer in the Bond Issue Programme for PLN 300 million organized by a banking syndicate.
- Bond Issue Programmes for local government units. The Bank acted as Arranger, Underwriter, Issue Agent, Paying Agent, Depository and Dealer in bond issue programmes for the following communes: Sosnowiec (in the amount of PLN 50 million), Legionowo (PLN 50 million), Zabrze (PLN 40 million), Ciechanów (PLN 23 million), Warka (PLN 20 million), Krotoszyn (PLN 12 million) and Lesznowola (PLN 9 million).

Providing services to 70 issuers, who issued debt securities with face value of PLN 7.6 billion with the Banks agency, in December 2010, ING Bank Śląski S.A. was able to retain its strong position on domestic market of non-Treasury debt securities. In terms of:

- Debt due to issuing short-term debt securities – the Bank was ranked first with a share amounting to 25.9%.
- Debt due to issuing medium-term bonds – the Bank's market share equalled 16.5% (number three in the ranking).

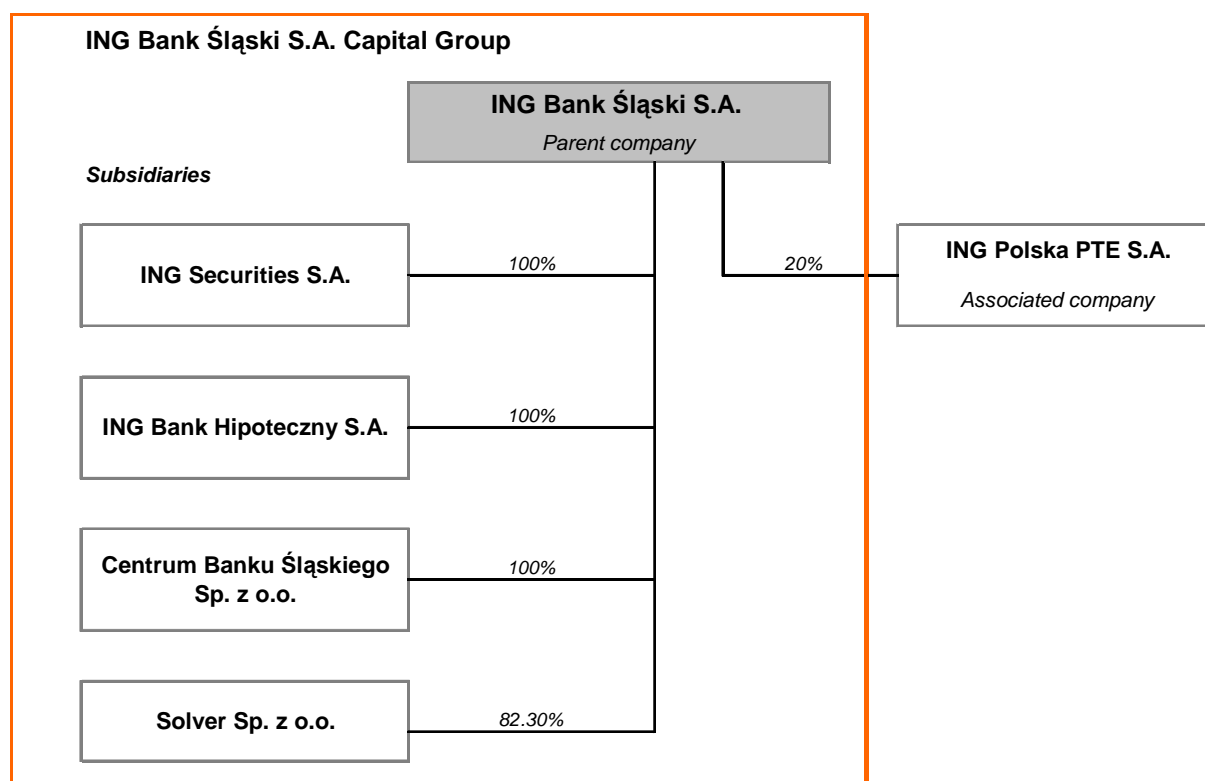
From early November 2009 until the late October 2010, ING Bank Śląski S.A. was classified in the fourth position in terms of the Dealer Activity Index among eighteen banks applying for the function of the 2010 Money Market Dealer. The Bank also held the status of the Treasury Securities Dealer (TSD) in 2010. In the competition of the Ministry of Finance for the 2011 TSD, which was carried out from early October 2009 until late September 2010, the Bank was number eight among 20 banks that were taken into consideration.



## IV. BUSINESS OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP COMPANIES

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

ING Bank Śląski S.A. Capital Group is formed by companies operating in various segments of the financial market or in the market's infrastructural sphere. By exercising control functions in the companies' supervisory authorities, ING Bank Śląski S.A. – as the parent company – takes key decisions concerning both the scope of activity and the finances of entities being the Group's members. The capital relations of the Bank with its subsidiaries are supported by the commercial ties. The companies belonging to the Capital Group have their current accounts and deposit their funds in term deposits with ING Bank Śląski S.A. The Bank also credits the business operations of some companies (e.g. ING Bank Hipoteczny). Transactions of ING Bank Śląski S.A. with its subsidiaries are performed on an arm's length basis.



In 2010, no changes occurred in the ING Bank Śląski S.A. Capital Group.

### 2. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 2010, its shares in the Warsaw Stock Exchange transactions were as follows:

- equity market – 10.4% (second position),
- forwards market – 4.9% (fifth position).

At the end of December 2010, ING Securities S.A. maintained 57,900 investment accounts. Those included 37,200 Internet accounts. Throughout 2010, the number of brokerage accounts went up by 21,500.

ING Securities S.A. handles investors' operations, both on the Warsaw Stock Exchange and on the world's largest financial markets, including but not limited to New York, Chicago, London, Paris and Frankfurt. The offer of the Brokerage House covers all capital market products available for individual investors in Poland, notably: brokerage in stock exchange transactions, OTC and in foreign markets, investment loans, securities lending, analytical services, investment recommendations, asset management, and sales of participation units of investment funds. In order to maintain a high level of customer service, in 2010 the Brokerage House modified its product offer, transaction systems and distribution channels. Notably, the Brokerage House:

- Offered new products, such as:
  - OTP Trader, a unique product addressed to the most active clients preferring short-term investments in shares with the use of a high financial leverage,
  - three types of special orders that are processed in ING Securities in line with the condition defined by the client; after the condition is met the orders are automatically sent to the stock exchange,
  - sales of IDEA TFI investment funds' units.
- Introduced a new client service formula for the most active clients and a new model of the brokers' cooperation with clients within the *Individual Broker* service. The *Individual Broker* service consists in a more active role of a broker, focused on comprehensive satisfaction of the client's investment needs. The service is provided in two investment centres in Warsaw and Katowice.
- Completed the migration of clients to the upgraded version of the transaction system, simplified the procedure for opening accounts via ING BankOnLine and ING Securities Agents and extended the transaction system functionality to analytical service and FIFO instruction, enabling the clients to check the approximate value of tax obligations arising from profits on shares.
- In the Internet service, it extended the application functionality to technical analysis by adding a new group of securities and indices, introduced changes to the account opening declaration form (e.g. implemented a new evaluation standard for appropriateness of the brokerage service to the client's knowledge and experience).
- Cooperated with ING Bank Śląski S.A., i.e. carried out the promotion of offers of PZU S.A., Tauron S.A. and WSE by bank channels of marketing communication and prepared a bookmark to the Bank's Intranet on investments.

In the area of capital acquisition, the Company provides a broad array of services, including the issue of shares on the public and private market, keeping the deposits of non-public companies, playing the role of the Issue Sponsor and comprehensive financial and legal advisory services connected with capital acquisition.

In 2010, ING Securities S.A. carried out the following projects and transactions:

- Played the role of one of underwriters (Joint Bookrunner) of the offer of Tauron S.A. (worth PLN 4.2 billion).
- Participated in carrying out the biggest IPOs in 2010, i.e. PZU S.A. (with share in the retail tranche at the level of 4.85%), Tauron S.A. (a 6.09% share in the retail tranche) and WSE (share in the retail tranche – 5.67%).
- Intermediated in the public call to sell shares: WSiP for the benefit of Advent International private equity fund, TETA company for the benefit of Dutch company Unit4 and ZEG company.
- Conducted compulsory buyout of minority shareholders of WSiP for the benefit of Advent International fund.
- Carried out the sale by accelerated book-building (AGT) of the following:
  - Kernel Holding stake of shares (worth PLN 241 million),

- stakes of shares owned by the State Treasury: KGHM (PLN 2.1 billion), Bogdanka (PLN 1.1 billion) and Lotos (PLN 0.4 billion).
- Conducted the sale of CCI shares for the majority shareholder (worth PLN 200 million) and NG2 for majority shareholders (in the amount of PLN 161 million).
- Established a retail consortium with nine other brokerage offices in order to conduct own issue of AFI Europe N.V. shares (deferred offer).

In 2010, ING Securities S.A. earned net profit of PLN 22.4 million vis-à-vis PLN 27.1 million in 2009.

### 3. ING Bank Hipoteczny S.A.

In 2010, ING Bank Hipoteczny S.A. (ING BH S.A.) was consistently pursuing its long-term development strategy as a bank specialised in commercial real estate financing. Despite the continuing uncertain economic situation and lack of any visible signs of improvement on the real estate market, ING BH S.A. took measures (more proactive than in 2009) aimed at winning new clients at the same time keeping tight risk control and high quality of credit portfolio, which remained important goals of the Bank.

The consequences of actions taken by ING Bank Hipoteczny S.A. in 2010 included the following among other things:

- Increase of the total value of the portfolio of loans granted in consortium with ING Bank Śląski S.A., for which ING BH S.A. is a bank-agent up to the level of PLN 1.5 billion. The books of ING Bank Hipoteczny S.A. included loans worth nearly PLN 500 million.
- Maintaining high quality of the credit portfolio on a constant basis. At the end of December 2010, the value of provisions established for the credit portfolio was approximately PLN 0.3 million.
- Achieving good financial results. In 2010, net profit was PLN 7.5 million (against PLN 7.0 million a year earlier).

### 4. Centrum Banku Śląskiego Sp. z o.o.

The core activity of Centrum Banku Śląskiego Sp. z o.o. is leasing and management of office buildings, both own ones and for the benefit of ING Bank Śląski S.A.

On 8 April 2010, the General Meeting of ING Bank Śląski S.A. gave its consent to make in-kind contribution to Centrum Banku Śląskiego Sp. z o.o. in the form of the organised part of the company covering, among other things, ownership rights to the office buildings located in Katowice at ul. Chorzowska 50 and in Warsaw at ul. Powsińska 64A in return for its newly established shares (including rights of perpetual usufruct to plots of land, on which the buildings are situated).

On 30 June 2010, the Extraordinary General Meeting of Centrum Banku Śląskiego Sp. z o.o. passed resolution on increasing the Company's share capital by PLN 138,552.0 thousand. The newly issued shares were acquired by ING Bank Śląski S.A. as of 1 July 2010 in return for the in-kind contribution in the form of organised part of the enterprise.

The Company not only managed the real properties (that became its property in 2010) but also the building of the Head Office of ING Bank Śląski S.A. in Katowice at ul. Sokolska 34 and played the administrator's role with regard to the building in Warsaw at ul. Malczewskiego 45.

Throughout the year 2010 a high level of the buildings' occupancy was retained, which proves effectiveness of actions taken by CBŚ Sp. z o. o. to increase recognisability of the building and CH50 brand and also to create the image of a financial and business centre for the complex of office buildings in Katowice. The said actions were also confirmed by numerous awards granted to the Chorzowska 50 office building, such as: Certificate with the highest rating – Triple A (received from the Katowice Special Economic Zone), title: *Entrepreneur-friendly Place* and *Golden Laurel of Skills and*

*Competencies in the category Successful Investment.*

In 2010, following a re-appraisal of the real properties held, Centrum Banku Śląskiego Sp. z o.o. generated net loss of PLN 1.2 million, compared with net profit of PLN 3.0 million in 2009.

## **5. ING Powszechne Towarzystwo Emerytalne S.A.**

ING Otwarty Fundusz Emerytalny, the open pension fund managed by ING Powszechne Towarzystwo Emerytalne S.A., from the onset of its existence has been one of the leaders on the pension funds market in Poland. As at 31 December 2010, it held the following market shares:

- *Number of members.* The Fund had 2,929,800 members, or 19.6% of all participants of open pension funds. Throughout 2010 the Fund retained the first position in that ranking.
- *Net assets.* In December 2010, their level reached PLN 53,202.0 million, or 24.1% of the total value of assets of open pension funds operating in Poland (against 24.2% at the end of 2009). In the second half of 2010, ING OFE occupied the first position in terms of the value of assets under management.

ING Powszechne Towarzystwo Emerytalne S.A. provides professional and state-of-the-art service to the Fund's clients. The Fund's potential and existing clients may take advantage of services of nearly 3,000 Insurance and Financial Representatives, network of branches and franchise outlets of ING Usługi Finansowe S.A., outlets of ING Bank Śląski S.A. and branch network and brokers' network cooperating with ING all over Poland. Clients may contact the Fund by phone (infoline, SMS and WAP) and the Internet.

The increase of ING OFE assets in 2010 resulted among others from accurate and consistent investment policy. The value of ING OFE accounting unit went up by 11.88% during 2010, which was the best investment result among all funds. The very good result in terms of management allowed ING OFE to return to the leader's position in the ranking related to long-term investments. In the comparison made by *Analizy Online* portal [*Online Analyses*], published at the beginning of January 2011, ING OFE took the first position in terms of the value of a hypothetical account maintained from the end of August 1999 to the end of 2010.

The financial results of ING PTE S.A. were affected by amendments introduced as of 1 January 2010 to the Act on organisation and functioning of the pension funds involving e.g. reduction of the distribution fee and freezing of the maximum monthly management fee in case the fund's net assets exceed the value of PLN 45 billion. In its income statement for 2010, ING Bank Śląski S.A. included its share in the profits of ING PTE S.A. totalling PLN 41.2 million (against PLN 52.1 million in 2009).

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

Solver Sp. z o.o. runs business activity on behalf of *ING for Children Foundation*. The Company not only organises education and recreation- as well as rehabilitation stays for children covered by the Foundation's aid but it also arranges recreation for the Bank employees and their families and training programmes for the Bank employees.

Solver Sp. z o.o. is the owner of recreation centres in Krynica, Wisła and Głębinów as well as of the residential and hotel building in Katowice. Apart from that, it rents the training centre in Bielsko-Biała and the recreation centre in Sarbinowo. The Company also functions as administrator of accommodation in the Bank's guest rooms (in Wisła and Warsaw).

In 2010, the Company – in consultation with its shareholders – took actions aimed at selling the residential and hotel building in Katowice and the centre in Głębinów.

In 2010, net profit of Solver Sp. z o.o. totalled PLN 218,000 (PLN 63,000 in the last year).

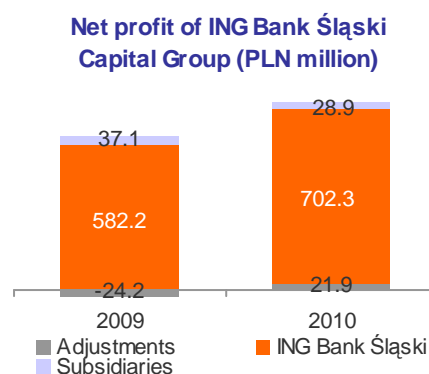
## V. FINANCIAL STANDING OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 2010

### 1. Gross Profit and Net Profit

In 2010, the Capital Group of ING Bank Śląski S.A. generated gross financial result of PLN 934.1 million compared with PLN 738.3 million in 2009. Net profit attributable to equity holders of the parent totalled PLN 753.1 million versus PLN 595.1 million a year earlier (up by 26.6%).

The main factors to affect the financial results of the Capital Group of ING Bank Śląski S.A. in 2010 included<sup>21</sup>:

- Increase in income on operations, which amounted to PLN 2,731.7 million, up by 7.9% from 2009.
- Increase in operating expenses, which totalled PLN 1,593.9 million, up by 7.0% from a year earlier.
- Considerable decrease of risk costs. In 2010, the balance of impairment provisions totalled PLN 203.6 million in minus, whereas in 2009 the Group recognised minus PLN 304.5 million worth of provisions.



In 2010, the result before risk costs for the Capital Group of the Bank totalled PLN 1,137.8 million, up by 9.1% from 2009.

### Basic Values of Consolidated Income Statement (Analytical)

	2010	2009	Change 2010/2009	
	in PLN million	in PLN million	in PLN million	%
Interest result	1,627.6	1,402.5	225.1	16.0
Commission result	987.3	964.4	22.9	2.4
Other income	116.8	165.4	-36.7	-29.4
<b>Result on operations*</b>	<b>2,731.7</b>	<b>2,532.3</b>	<b>199.4</b>	<b>7.9</b>
Operating expenses**	-1 593.9	-1 489.5	-104.4	7.0
<b>Results before risk costs</b>	<b>1,137.8</b>	<b>1,042.8</b>	<b>95.0</b>	<b>9.1</b>
Impairment charges and provisions	-203.6	-304.5	100.9	-33.1
<b>Gross financial result</b>	<b>934.1</b>	<b>738.3</b>	<b>195.8</b>	<b>26.5</b>
Income tax	-181.0	-143.3	-37.7	26.3
Net result of minority shareholders	0.0	0.0	0.0	0.0
<b>Net financial result</b>	<b>753.1</b>	<b>595.1</b>	<b>162.0</b>	<b>26.6</b>

\*Income together with share in profits of subsidiaries recognised on an equity basis.

\*\*Including the result on other operations.

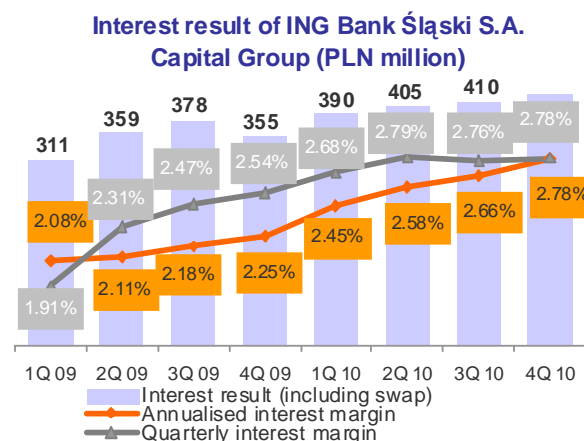
<sup>21</sup> The characteristics discussed in this document apply to analytical income statement. The category "Result on operations" includes the result on core operations plus the share in net profits of entities recognised on an equity basis. Operating expenses include result on other income and on operating expenses.



## 2. Interest result

In 2010, net interest income generated by the Capital Group of ING Bank Śląski S.A. amounted to PLN 1,627.6 million versus PLN 1,402.5 million a year earlier (up by 16.0%)<sup>22</sup>. This increase was most of all the result of the increase of business volumes accompanied by a favourable change in the balance-sheet structure. The share of loans in assets went up from 44.6% in December 2009 to 46.6% as at the end of 2010. The interest margin went up as well. In 2010, the Capital Group of the Bank earned the interest margin of 2.78% against 2.25% a year earlier.

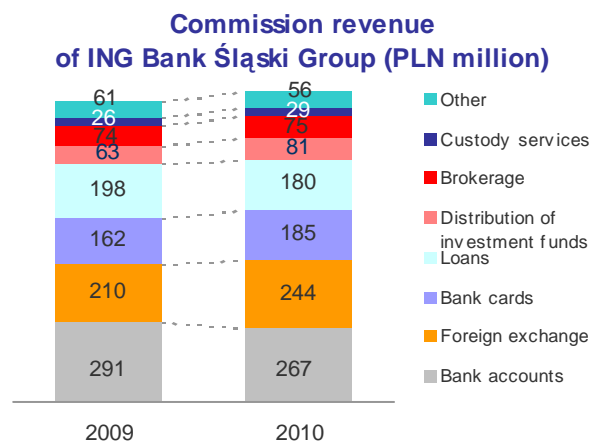
Average base interest rate			
	Segment		Bank Total
	Retail	Wholesale	
<b>Deposits</b>			
PLN	3.03%	1.75%	2.75%
FX	0.52%	0.09%	0.35%
<b>Loans</b>			
PLN	8.11%	4.95%	6.15%
FX	3.40%	1.86%	2.45%
Including: mortgages			
PLN	5.75%	-	5.75%
FX	3.39%	-	3.39%



## 3. Non-Interest Income

Income on fees and commissions represented the major part of non-interest income of the Capital Group of ING Bank Śląski S.A. In 2010, it totalled PLN 987.3 million as compared with PLN 964.4 million in 2009 (up by 2.4%).

The Group recorded an increase in the value of commission on distribution of participation units of investment funds (up by 28.9%), increase in commission related to bank cards (up by 14.2%), transactional margin on foreign exchange operations (up by 15.9%) and custody services (up by 10.6%). The decrease (by 7.9%) of commission revenue related to account maintenance



<sup>22</sup> Interest result as presented in the financial statements for 2010 includes all interest elements on derivatives. Comparability of the 2009 data was ensured.



was mainly due to changes in the Fees and Commissions Table, which were favourable for the clients (such as: lowering the commission for outgoing transfers, electronic transfers and own deposits for corporate clients) and due to conversion of the *Profit Account* to *Direct Lion Account*. Furthermore, the commission revenue related to loans also decreased (by 9.2%) as a result of a decrease – by more than a half – of commission revenue related to loan insurance.

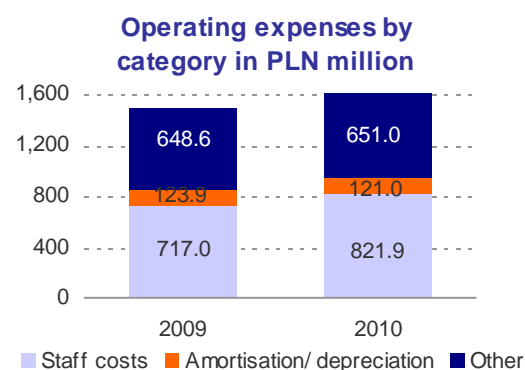
In 2010, other income of the Capital Group of ING Bank Śląski S.A. amounted to PLN 116.8 million, down by 29.4% from 2009. The Group recorded lower-than- a year earlier result on interest rate derivatives, hedge transactions and investments in controlled entities. On the other hand, the 2009 other income included negative adjustment related to counterparty risk of the FX-option contracts worth PLN 185.9 million that were concluded with the clients.

#### 4. Operating Expenses

In 2010, expenses of the ING Bank Śląski S.A. Capital Group amounted to PLN 1,593.9 million against PLN 1,489.5 million a year earlier (up by 7.0%).

The increase of operating expenses was primarily the result of higher staff costs, which totalled PLN 821.9 million, up by 14.6% from a year earlier. The staff costs increased together with an increase in the number of employees, an increase in base salaries and the bonus fund (there was no rise in base salaries in 2009, and the bonus fund was decreased in comparison with the 2008 level).

Other costs (general/administrative costs and other costs) totalled PLN 651.0 million compared with PLN 648.6 million a year earlier (up by 0.4%). The Group recorded an increase mostly in the area of maintenance and rental costs. By contrast, the costs of communication services, renovation services and other services went down.



#### 5. Impairment Charges and Provisions

In 2010, the risk costs recognised in the income statement of ING Bank Śląski S.A. Capital Group amounted to PLN 203.6 million (vs. PLN 304.5 million in 2009). They were affected by the following factors:

- Deterioration of the financial standing of the borrowers and establishment of additional provisions to the amount of PLN 178.4 million (vs. PLN 189.3 million in 2009).
- Establishment of additional provisions totalling PLN 25.3 million (vs. PLN 115.2 million a year earlier) against the risk related to FX-option transactions.

#### 6. Share of Individual Business Segments in the Financial Result

In 2010, the share of individual business segments in the financial result of the Capital Group of ING Bank Śląski S.A. changed from 2009.

In 2010, the Retail Banking Division generated PLN 242.9 million worth of gross profit against PLN 186.9 million a year earlier (up by 29.9%). The following factors contributed to that result:

- Higher net revenue, which totalled PLN 1,345.1 million, up by 10.8% from 2009. The Division earned higher income on interest (up by 32.3%), mainly due to a considerable increase in lending and higher margin. Commission revenue was close to the result recorded a year ago.
- Higher costs. Total costs of the Division amounted to PLN 1,021.1 million, up by 6.0% from a year earlier. Staff costs, which went up by 14.8% from a year earlier, represented nearly half of the costs.

- Higher risk costs. In 2010, the risk costs totalled PLN 81.1 million compared with PLN 63.9 million a year earlier.

In 2010, the Corporate Banking Division made gross net profit of PLN 222.2 million compared with net loss of PLN 118.0 million recorded in 2009. The following factors contributed to the result of the Corporate Division in 2010:

- Income of the Division totalled PLN 852.2 million, up by 41.9% from a year earlier. It has to be noted that the 2009 revenue included PLN 185.9 million of negative adjustment on valuation of FX-options concluded with the Bank's clients. The Division's income went up on an increase in the interest revenue (up by 20.3%) and fees and commission revenue (up by 26.5%).
- The segment's costs totalled PLN 507.5 million, up by 6.2% from 2009.
- The risk costs of the Division amounted to PLN 122.5 million. By contrast, in 2009 they totalled PLN 240.6 million upon including PLN 115.1 million worth of provisions for matured option transactions.

In 2010, gross results on proprietary operations totalled PLN 469.1 million (vs. PLN 669.4 million in 2009). The Group's revenue on proprietary operations amounted to PLN 534.4 million, and comprised the following items in particular:

- Revenue on equity totalling PLN 257.8 million,
- Trading result of PLN 182.9 million,
- ALM result totalling PLN 94.4 million.

## 7. Key Effectiveness Ratios

In 2010, the operational effectiveness of the Capital Group of ING Bank Śląski S.A. was higher than a year earlier, and all core effectiveness measures were better than in 2009. Notably, return on equity (ROE) totalled 14.2%, up by 1.1 p.p. from 2009.

### Core Effectiveness Ratios (%)

	2010	2009
Profitability ratio	28.7	20.5
C/I ratio	58.4	58.8
ROA	1.2	0.9
ROE	14.2	13.1
Interest margin ratio	2.78	2.25
Loans/ Deposits ratio	63.9	54.3
Solvency ratio	13.15	12.01

**Profitability ratio** – gross profit to total costs.

**Cost to Income ratio (C/I)** – total operating expenses to operating income in analytic terms.

**Return on assets (ROA)** – net profit per shareholders of the dominant entity to mean assets<sup>23</sup>.

**Return on equity (ROE)** – relation between the net profits attributable to equity holders of the parent to average equity.

**Interest margin ratio** – relation between the net interest income and mean yield assets of the Bank (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).

**Solvency ratio** – net equity and funds to off-balance sheet assets and liabilities including risk weights.

<sup>23</sup> Average assets and average equity calculated based on the data for five periods: 31.12.2009, 31.03.2010, 30.06.2010, 30.09.2010 and 31.12.2010.

## 8. Balance-Sheet Structure

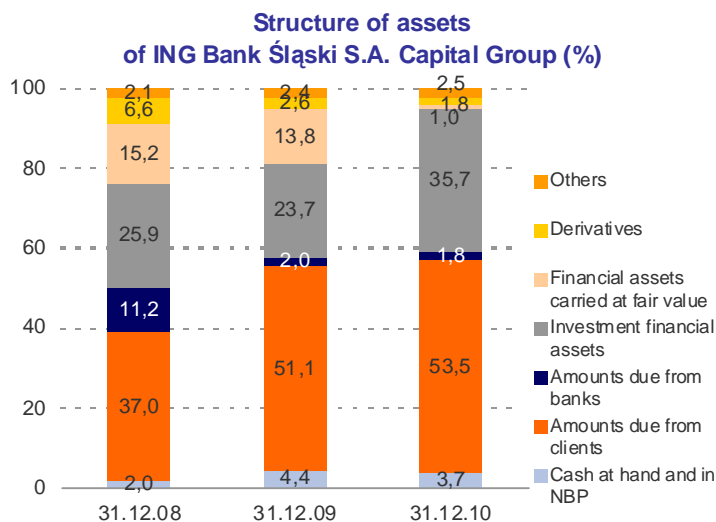
As at 31 December 2010, total assets and liabilities of the Capital Group of ING Bank Śląski S.A. amounted to PLN 64,517.5 million, up by PLN 4,634.1 million, or 7.7%, from the end of 2009.

The size of the Group's total assets and liabilities, as well as the structure of assets and liabilities are determined by the business operations of ING Bank Śląski S.A. As at the end of 2010, the total assets and liabilities of ING Bank Śląski S.A. amounted to PLN 64,428.4 million from PLN 59,751.5 million in December 2009 (up by 7.8%).

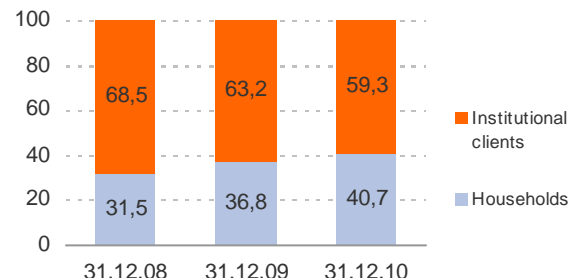
### Assets

2010 saw a continuation of the growing trend in terms of the share of amounts due from clients in the assets of the Capital Group of ING Bank Śląski S.A. As at 31 December 2010, loans and other amounts due from clients totalled PLN 34,509.0 million, or 53.5% of the total assets of the Capital Group of the Bank. Their share in assets went up by 2.4 p.p. from the end of 2009.

Amounts due from clients included PLN 4,446.4 million worth of debt securities. In December 2010, net loans and cash advances granted to clients represented PLN 30,062.6 million (or, 46.6% of assets) in total amounts due from clients compared with PLN 26,685.5 million (or, 44.6% of assets) in December 2009<sup>24</sup>.



### Structure of loans by client groups (%)



### Currency structure of amounts due from clients

	31.12.2010		31.12.2009	
	PLN million	%	PLN million	%
PLN	26,956.8	78.1	23,363.1	76.4
Foreign currencies	7,552.2	21.9	7,229.7	23.6
<b>Total</b>	<b>34,509.0</b>	<b>100.0</b>	<b>30,592.8</b>	<b>100.0</b>

Investment financial assets also represented a major item in the balance sheet of the Bank's Capital Group. Debt securities dominated in the investment financial assets' group. As at the end of December 2010, they totalled PLN 23,006.8 million (or, 35.7% of assets) compared with PLN 14,166.3 million (or, 23.7% of assets) in December 2009. Available-for-sale assets represented nearly 73% of all investment financial assets. An increase in the value of investment financial assets was the result, among other things, of the wash trade transactions for the Treasury bonds worth PLN 3.556 million, which was effected in the first half of 2010. As a result of that transactions, the bonds were moved from financial assets carried at fair value through profit or loss to the item "Investment Financial Assets". The transaction was made upon the analysis of the intention to maintain securities in the portfolio held for liquidity management purposes.

The increase in the share of the above items in the structure of the Group's assets resulted in a decrease in the share of financial assets carried at fair value through profit or loss (i.e. assets held for trading in short term). As at the end of 2010, their value totalled PLN 659.6 million compared with PLN 8,267.7 million in December 2009. Their share in assets was, respectively: 1.0% and 13.8%. The share of amounts due from other banks in assets went down as well. In December 2010, amounts due

<sup>24</sup> Loans and other receivables excluding debt securities.

from other banks amounted to PLN 1,181.1 million, or 1.8% of assets of the Capital Group of ING Bank Śląski S.A.

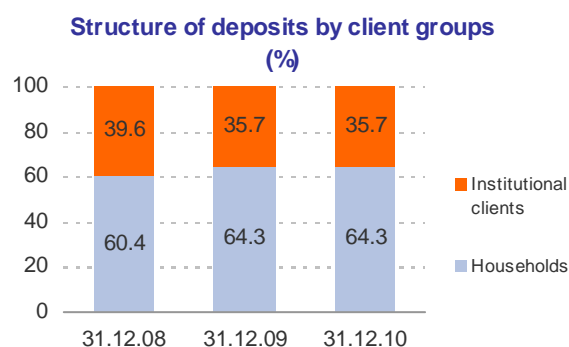
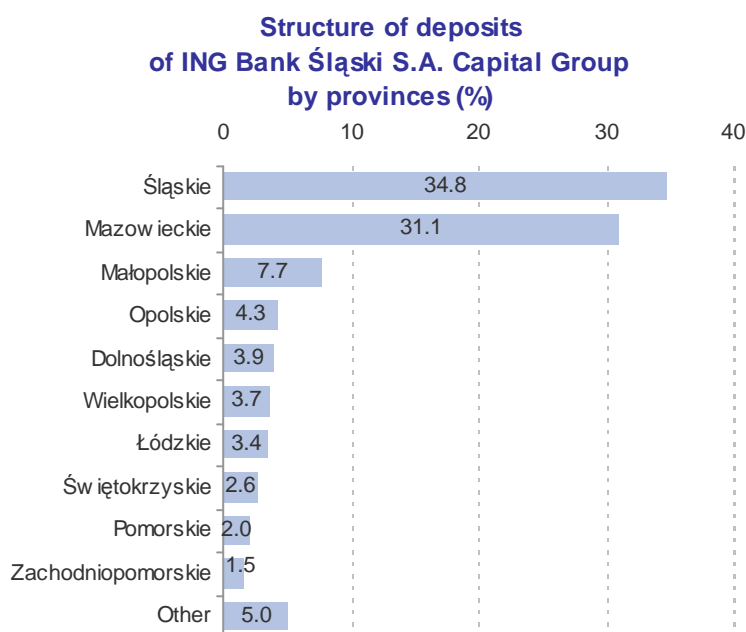
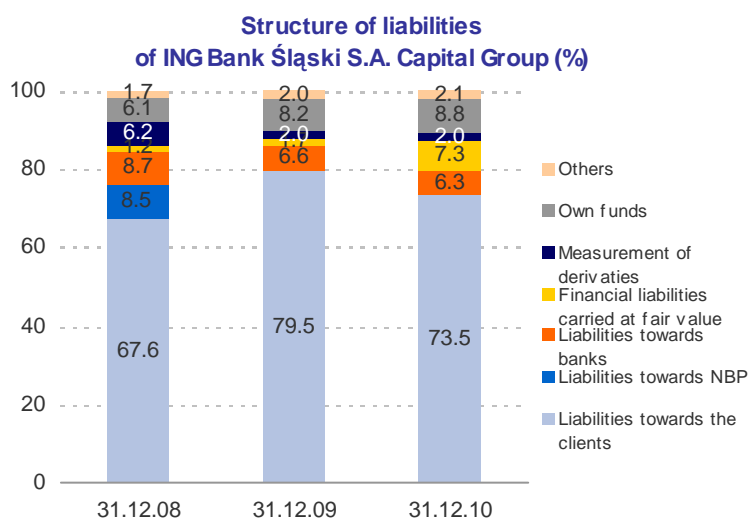
### Liabilities

The funds deposited with the Bank by clients were the dominant source of funding for the operations of ING Bank Śląski S.A. Capital Group. In December 2010, they amounted to PLN 47,400.1 million compared with PLN 47,584.7 million as at the end of 2009. As at the end of 2010, amounts due to clients represented 73.5% of total liabilities, down by 6.0 p.p. from the end of 2009.

The Group's liabilities towards other banks totalled PLN 4,039.1 million compared with PLN 3,973.8 million a year earlier. Funds from monetary financial institutions represented 6.3% of the liabilities, while in December 2009 their share was 6.6%.

In 2010, the value of financial liabilities carried at fair value through profit or loss went up considerably – nearly all of them were related to repo transactions. In December 2010, financial liabilities carried at fair value through profit or loss totalled PLN 4,681.4 million compared with PLN 998.1 million a year earlier. Their share totalled, respectively: 7.3% and 1.7%.

In 2010, the Group relied more heavily on own funds in funding its business operations than a year earlier. As at 31.12.2010, own funds totalled PLN 5,653.1 million (vs. PLN 4,886.7 million in December 2009). They represented 8.8% of the balance-sheet total (vs. 8.2% in December 2009).



## VI. MANAGEMENT OF KEY RISKS

### 1. Credit Risk

#### Credit Policy

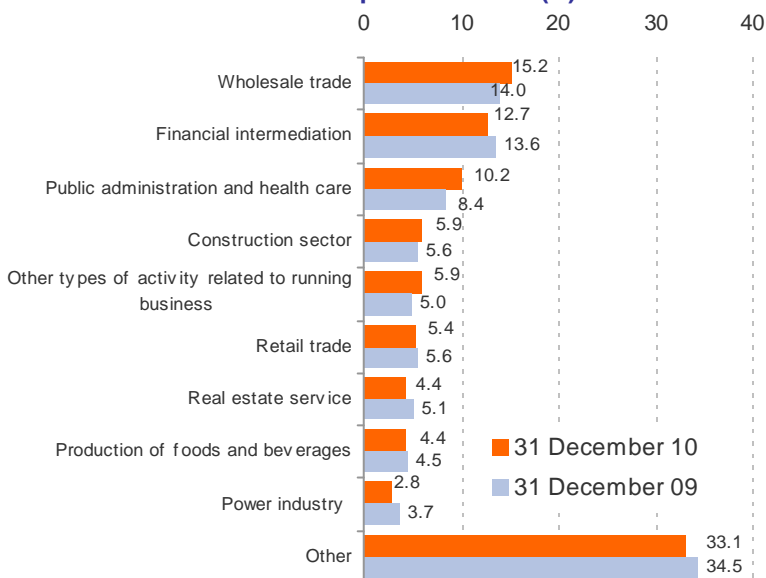
The Policy conducted at ING Bank Śląski S.A. in 2010 with regard to corporate credit exposures took account of developments in the macroeconomic environment, weakening of the economic growth rate and difficult financial standing of some groups of borrowers. It aimed at the following in particular:

- increasing the credit process efficiency upon ensuring adequate mechanisms for the credit risk identification and measurement in line with the requirements under Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope and detailed principles of setting capital requirements due to individual risk types,
- maintaining the Bank's credit risk at an acceptable level.

The key changes in the Bank's credit policy with regard to corporate clients concerned the following in particular:

- Update of the requirements and criteria regarding the credit risk appetite.
- Update of the Environmental and Social Risk Policy at ING Bank Śląski S.A.
- Providing details to the Bank's Collaterals Policy and adjusting it to the practical solutions applied at ING Group.
- Modification of the Collateral Policy for the settlement and pre-settlement limits.
- Update of the provisions of the Policy on (income-generating) real estate financing to allow for the current situation on the real estate market in general, and the housing market in particular.

**Concentration of exposures  
(balance sheet and off-balance sheet ones)  
towards corporate clients (%)**



Additionally, certain changes were introduced to the principles of the Credit Policy Committee functioning due to the automated support of the document flow.

ING Bank Śląski S.A. also acted in favour of the credit risk control strengthening in the retail portfolio due to the complex situation on the labour market, FX market and residential properties market. For example, the Bank:

- Developed changes to internal regulations adjusting them to the requirements of Recommendation T of the Polish Financial Supervision Authority.
- Prepared assumptions for simplifications for selected developers and restored the preferential list of developers as part of actions taken during the first stage of works.
- Decided not to participate in the *Family on its own* programme, guided by the principle of ensuring simplicity and transparency of the Bank's offer.

### **Credit Process and Credit Risk Assessment**

In 2010, the Bank was simultaneously adjusting the tools and instruments for measuring and monitoring corporate client risk to the credit policy changes, notably:

- Updated solutions applied with regard to the counterparty risk management.
- Updated recommendations concerning the sectors considered by the Bank as high-risk sectors.
- Made a review of the document templates and operational processes related to the FM instruments and adjusted them to the requirements introduced with Ordinance of the Minister of Finance of 20 November 2009 on the mode and terms of conduct of investment companies, banks, referred to in Article 70 section 2 of the Financial Instrument Act, and custodian banks.
- Made a review of the document templates and operational processes related to the financial liquidity management products in case of large companies and standard credit agreements and collaterals to adjust them to the needs of the credit process.
- Implemented additional control mechanisms in terms of reviewing contractual terms with regard to corporate clients.
- Introduced new methodology for global stress tests and sensitivity tests for credit- and market risk, encompassing retail and corporate exposures.
- Specified the scope of applying LGD models pursuant to the requirements of Resolution no. 76/2010 of the Polish Financial Supervision Authority on the credit risk management process, in particular in terms of approach to guarantees and sureties.

Additionally, to streamline the credit process and facilitate financing of the client's needs the Bank undertook the following actions:

- Developed the principles of crediting the client's specialist working capital needs while using the available borrowing base founded on the level of receivables and/ or stock.
- Increased the scope of using and updated central rating models pursuant to the requirements of Resolution no. 76/2010 of the Polish Financial Supervision Authority.

On the other hand, the following changes were made in the retail credit processes:

- The models and parameters of the credit capacity assessment for individual clients were adjusted to the current market standing.
- The automatic decision process was tightened by using a broader scope of information from the Credit Information Bureau and Business Information Bureau.
- Verification process was implemented to prevent frauds in the credit application processing system for mortgage loans, cash loans and loans for Small Business (e.g. automatic verification of dishonest employers).
- The general conditions for overdrafts and cash loans were adjusted to current legal conditions.
- The following actions were taken in the area of mortgage loans: new scoring rules were introduced, a third person in the credit decision process was eliminated, the pilot programme for simplified verification of valuations was initiated and competencies in terms of considering product waivers were transferred to the Credit Platform.
- Changes were introduced to the procedures for granting consolidation loans that at the beginning of considering the application allow for taking a negative decision due to too high a credit risk.

### **Quality of Credit Portfolio and Status of Specific Provisions**

As at the end of December 2010, the total gross value of loans and other receivables extended to clients by the Capital Group of ING Bank Śląski S.A. was PLN 31,000.2 million.

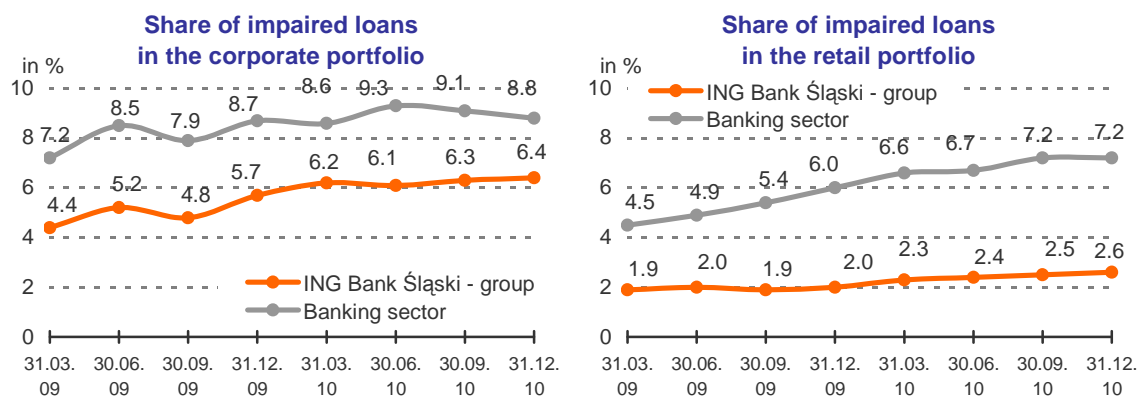


Impaired loans totalled PLN 1,507.6 million against PLN 1,164.6 million as at the end of 2009. Thus, the share of impaired loans portfolio in the total credit portfolio of the Capital Group increased from 4.4% in December 2009 to 4.9% as at the end of 2010.

As at the end of December 2010, the ING Bank Śląski S.A. Capital Group had PLN 928.0 million worth of provisions for the credit portfolio. Impaired portfolio provisioning ratio was 61.6%.

### Quality of Credit Portfolio of the Capital Group of ING Bank Śląski S.A.

	31 December 2010	31 December 2009
<b>Total exposure (PLN million)</b>	<b>31,000.2</b>	<b>26,715.9</b>
Non-impaired portfolio (PLN million)	29,492.6	25,551.3
Impaired portfolio (PLN million)	1,507.6	1,164.6
Impairment charges and provisions (PLN million)	1,091.4	892.8
Charge for non-impaired portfolio (PLN million)	152.2	153.1
Charge for impaired portfolio (PLN million)	928.0	719.6
Provisions for off-balance-sheet liabilities (PLN million)	11.1	20.1
<b>Share of the impaired portfolio (%)</b>	<b>4.9</b>	<b>4.4</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>61.6</b>	<b>61.8</b>
<b>Exposure - Corporate Banking (PLN million)</b>	<b>18,405.4</b>	<b>16,959.1</b>
Non-impaired portfolio (PLN million)	17,227.8	15,987.2
Impaired portfolio (PLN million)	1,177.6	972.0
<i>Including amounts due from derivative transactions</i>	359.3	346.1
Impairment charges and provisions (PLN million)	785.9	668.7
Charge for non-impaired portfolio (PLN million)	62.1	77.2
Charge for impaired portfolio (PLN million)	712.7	571.4
<i>including amounts due from derivative transactions</i>	288.2	263.2
Provisions for off-balance-sheet liabilities (PLN million)	11.1	20.1
<b>Share of the impaired portfolio (%)</b>	<b>6.4</b>	<b>5.7</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>60.5</b>	<b>58.8</b>
<b>Exposure - Retail Banking (PLN million)</b>	<b>12,594.8</b>	<b>9,756.7</b>
Non-impaired portfolio (PLN million)	12,264.8	9,564.1
Impaired portfolio (PLN million)	330.0	192.6
Impairment charges and provisions (PLN million)	305.5	224.1
Charge for non-impaired portfolio (PLN million)	90.1	75.9
Charge for impaired portfolio (PLN million)	215.4	148.2
Provisions for off-balance-sheet liabilities (PLN million)	0.1	0.0
<b>Share of the impaired portfolio (%)</b>	<b>2.6</b>	<b>2.0</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>65.3</b>	<b>76.9</b>



## 2. Off-Balance Sheet Items

As at 31 December 2010, the Capital Group of ING Bank Śląski S.A. had:

- Commitments to grant loans (such as overdraft limits in current account and card limits) and commitments under issued guarantees and letters of credit for the total amount of PLN 14,545.9 million (close to the level recorded as at the end of 2009).
- Received contingent liabilities in the amount of PLN 17,153.6 million (up by 37.4% from a year earlier).
- Off-balance sheet financial instruments with the face value of PLN 131,521.6 million. Their value went up by 10.4% during the year. At the same time, the value of IR-derivatives increased (by 67.8%) and the value of FX derivatives decreased (by 46.3%).

### Off-balance Sheet Items of ING Bank Śląski Capital Group (PLN million)

	31 December 2010	31 December 2009
<b>Contingent liabilities granted and received</b>	<b>31,699.5</b>	<b>26,580.0</b>
Liabilities granted::	14,545.9	14,096.7
Financing	11,463.8	11,720.1
Guarantee	3,082.1	2,376.6
Liabilities received::	17,153.6	12,483.3
Financing	30.3	195.0
Guarantee	17,123.2	12,288.3
<b>Off-balance sheet financial instruments</b>	<b>131,521.2</b>	<b>119,086.6</b>
Interest rate derivatives	94,353.1	56,244.0
FX derivatives	26,035.1	48,459.8
Stock market derivatives	996.6	2,142.1
Other	10,136.5	12,240.7
<b>Off-balance sheet items total</b>	<b>163,220.6</b>	<b>145,666.5</b>

## 3. Market Risk Management

### General Information

Market risk is defined in ING Bank Śląski S.A. as a potential loss due to unfavourable changes in market prices (e.g. interest rates, FX rates, share prices, etc.) and/or market parameters (e.g. volatility of equity prices and correlation between movements in market prices) and/or customer behaviour (e.g. early loan repayments).

Market risk management within ING Bank Śląski S.A. covers market risk identification, measurement, monitoring, and reporting, both within the Bank itself and in its subsidiaries. Independent from the

Bank business units generating market risk, Market Risk Management Department provides FM Management, Management Board and ALCO Committee members with market risk updates. An important consultative role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V.

The Market Risk Management Department is sub-divided into three sections: the Trading Risk Management Section for proprietary trading, the Banking Risk Management Section focussing on the balance sheet management, and the Product Control Section, which assures correctness of products valuation and P&L reporting in the FM area.

The intention-based book structure reflects the types of market risk and areas where market risk should be internally transferred/hedged within the Bank. Specifically, books are categorised based on intention as:

- *Trading.* Those are FM books (FX, FX Options and Interest Rate Trading) and ING Securities books – equity market-making and arbitrage activities (reported under FM structure). Those positions are taken in expectation of short-term financial gain from market movements or arbitrage activities.
- *Banking.* The risks of those commercial deposits and loans are transferred to the Financial Markets via internal transactions to centralise all market risks within the specialised treasury function. The primary purpose of the Banking books (Liquidity Management & Funding and ALM book) is to ensure the management of liquidity and interest rate of the Bank's overall positions.

#### **Risk measurement tools**

Value at Risk (VaR) is the main methodology used to calculate market risk in FM books, both Trading and Banking. It is also used for periodic check of market risk in Commercial books (non-FM books). The VaR ratio gives the potential loss that is not to be exceeded assuming certain confidence (probability) level. The Bank calculates VaR separately for individual interest rate, FX and FX options portfolios. As VaR does not present a full picture of market risk under extreme conditions – event risk calculation (stress testing) is performed additionally.

Earnings at Risk (EAR) concept is applied for (parts of) banking book positions. Calculations cover a 1-year time horizon and provide for the possible changes in accrual results given shock changes of +/- 1% and +/- 2%. Two approaches are used: a simple approach for positions comprised of term transactions and/or small volumes of demand positions and an advanced approach for material volumes of demand positions (at present: the Bank's PLN demand deposit base and its internal contracts into FM banking books). The positions in Commercial Banking books are also subject to measurements of non-linear interest rate risk. Specifically, the Bank measures optionality risk (the potential losses on those positions given early-withdrawal of deposits and/or early re-payment of loans) and basis risk (the potential losses on those positions arising from non-standard rate-setting mechanisms).

#### **VaR exposures and limits in 2010**

In 2010, the Financial Markets kept their trading exposures at low levels compared to the limits. The average usage of limits in 2010 was respectively: 22% for interest rate trading, 23% for FX spot and 32% for FX options. Ongoing the exotic options portfolio of the Bank decreased during the year as a result of maturing options and limited demand from customers.

In 2010 the Bank did not have any limit VaR breaches and limit changes. However, on the sub FX spot risk limit there were two excesses on the HUF. These positions were immediately reduced.

#### **Liquidity risk management**

Liquidity risk is the potential risk that the Bank will be unable to meet its obligations because it will be unable to:

- Cash assets or obtain adequate funding ("funding liquidity risk"); or
- Easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk").

The process of liquidity management at ING Bank Śląski S.A. covers:

- Developing and analysing liquidity ratios, as well as monitoring liquidity limits on behalf of ALCO;
- Preparation of liquidity procedures/policies (The policy took into account the following, among other things: the new liquidity risk regulations from the Polish Financial Supervision Authority and ING Bank N.V. liquidity regulations);
- Harmonisation of contingency planning in regard to liquidity with the changes in the Bank's organisational structure and the changes in definition of warning signals.

One of the most important aspects of the liquidity risk management process in the Bank is contingency funding plan which provides guidance as regards pro-active identification of the liquidity crisis and actions to be taken to survive it.

In 2010 the Bank started strengthening the liquidity management by re-establishing the liquidity reporting and monitoring more frequently and more detailed. This process started after the setup of the liquidity crisis team in 2008, by which new initiatives were raised.

During the entire 2010, the liquidity of the Bank stayed within all regulatory and internal limits.

#### **Replicating Portfolios**

The Bank's demand deposits are a sizeable balance sheet position. Replication of interest duration and liquidity profiles is based on client behaviour and is reviewed at least every six months.

### **4. Capital Adequacy**

At the turn of 2008/2009, as a result of the growing Bank's lending and a higher level of credit risk (being the effect of the economic decline and deteriorating standing of borrowers), the demand for capital of ING Bank Śląski S.A. Capital Group rose. In order to ensure that the solvency ratio will remain above the level recommended by the Polish Financial Supervision Authority (10%), ING Bank Śląski S.A. took the following steps:

- Pursuant to the General Meeting, the Bank allocated the entire 2009 profit for equity.
- Undertook actions aimed at eliminating the volatility of the capital base (especially as regards the effects of the valuation of assets classified as available for sale).
- Further improved the Internal Capital Adequacy Assessment Process (ICAAP). Special emphasis was put on improving the forecasts of capital adequacy and related measures and improving the accuracy and scope of stress tests.

At the end of December 2010, the solvency ratio of ING Bank Śląski S.A. Capital Group was 13.2% versus 12.0% in December 2009.

### **5. Operational Risk and Compliance Risk**

ING Bank Śląski S.A. executes the rules of operational risk management pursuant to provisions of the Banking Law Act, Recommendation M of the National Bank of Poland, which is based on the guidelines of the Basel Committee, the Polish Financial Supervision Authority Resolution no. 383/2008 and the standards developed by ING Group.

The *Operational Risk Management Policy*, stipulating a uniform methodology and practice within the said scope, was acknowledged and implemented at the Bank in 2004. The Policy and the detailed regulations thereto are updated on a regular basis if required and in compliance with the requirements of supervisory authorities. The last update of the Policy was conducted in November 2010.

Pursuant to the provisions of the Policy, operational risk management constitutes an integrated, area

of banking activity, which is regulated by norms and conducted in order to lower the risk level and secure the Bank against potential losses by appropriate control mechanisms and adequate capital level. The rules specified in the Policy aim to improve security of the Bank and its clients as well as facilitate effectiveness of its actions.

Operational risk is understood in the Bank as the risk of suffering direct or indirect material loss or loss of reputation resulting from inadequate or failing internal processes, people or technical systems or external events. This definition also covers the litigation risk.

To obtain maximum efficiency of the processes, the Bank implemented the operational risk management model based on the division of tasks and obligations along the three lines of defence, notably:

- business units,
- ORM units that support business units in their actions aimed at identifying and mitigating operational risk events,
- internal audit.

The scope of actions taken by ING Bank Śląski S.A. with regard to operational risk management includes:

- maintaining control environment for operational risk management,
- planning operational risk tasks,
- identifying operational risk events,
- assessing risk level,
- co-ordinating recovery actions,
- control actions,
- operational risk monitoring,
- operational risk communication and reporting.

In 2010, ING Bank Śląski S.A. implemented the *Antifraud Policy* adjusted to the internal organisational structure as well as Polish legal regulations. The Policy contains antifraud standard uniform for all ING Group entities and determines the units and their echelon at the Bank and ING Group responsible for taking relevant actions. The Policy also indicates the methods and organisational solutions applied in the entire antifraud process i.e. risk assessment, preventing and counteracting, monitoring and detecting, reporting and responding to frauds, as well as testing control mechanisms.

As part of counteracting electronic frauds, the Bank facilitated the system of detecting suspicious electronic transactions. The way of delivering PIN codes to clients was also changed from traditional mail to modern electronic channels, which effectively eliminates the risk of card theft while being delivered to the clients. Moreover, the Bank conducts audits of the business applications security, including penetration tests of the applications and source code reviews.

Compliance risk management is conducted at ING Bank Śląski S.A. pursuant to requirements of the Polish Financial Supervision Authority Resolution no. 383/2008 of 17 December 2008 regarding rules on risk management system and internal control system functioning as well as detailed conditions for estimating internal capital by the banks and conducting reviews of the estimation process and maintenance of internal capital.

In order to ensure compliance with law and regulators' requirements, as well as obey ethical standards binding at ING Group, in 2009 the Bank implemented the *Compliance Risk Management Policy at ING Bank Śląski S.A.*

In the first half of 2010 – pursuant to the requirements of the amended Anti-Money Laundering Act – the Bank updated internal regulations concerning the said area, including the *Financial Economic Crime Policy* and the *Rules on Counteracting Money Laundering and Terrorist Financing*.

The tasks monitoring and mitigating compliance risk are executed according to the division of duties, which takes account of the three lines of defence. The Compliance Monitoring Plan determines the detailed description of scope and methods of the executed controls. The monitoring results are presented as part of the management information from the non-financial risk management area.

The Bank conducts training and awareness programmes to raise the employees' awareness of compliance standards and obligations connected with mitigating compliance risk.



## VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 2010

### 1. IT and Operations

In 2010, the actions of IT and Operations aimed at ensuring appropriate support for the commercial activity of ING Bank Śląski S.A. concerned among all:

- Extending the Front End system functionality. Other functionalities (such as: credit cards' process handling at branches, offer presentation at branch, currency converter, batch payments were made available as part of the new branch application that has been implemented since 2007. Modifications to the processes connected with the MiFID directive were introduced as well as withdrawal/transfer processes from accounts subject to enforcement title were facilitated.
- Implementing new version of the Financial Markets application. As part of the said project functionalities required by the MiFID directive were implemented pursuant to the Polish legislation.
- Expansion of the Contact Centre, among others by implementing the possibility to execute processes such as: client verification, data change process, PIN granting and card activation in the new Front End application.
- Adding new functionalities to the application supporting payment cards area: enabling clients to set up their own PIN number (the risk connected with the process of sending the PIN code by mail was reduced) and adding cards in the form of a key ring or sticker to the card offer.
- Easy OPS Project. In order to improve effectiveness and quality of the corporate clients' service processes, the electronic archive of permanent records was rendered available for the Front and Back Office units and the processes connected with Cash Management as well as some credit processes were centralized.
- Implementation of a new application for servicing FX payments. The following functionalities: TARGET 2 payments, ELIXIR payment service were rendered available in the new system, which was implemented in 2009.
- Ensuring support for the project on new service model for corporate clients.

A new application was implemented for the purpose of obligatory reporting, which is based on data from the new warehouse and from application used for monitoring the concentration limits within risk area.

In order to improve the quality of IT services, the Bank continued to implement the model of the IT infrastructure process management. Emphasis was placed on increasing the service availability level, costs optimization, automation of operations, raising system security as well as infrastructure and applications' monitoring.

All units belonging to Operations Division apply the uniform production management system under Lean Pack methodology. By extension, they are subject to a uniform methodology of: resource planning, determining the time necessary to process the required volumes, and monitoring the level of team work efficiency.

### 2. Development of Electronic Distribution Channels

ING Bank Śląski S.A. introduced the following modifications to the electronic distribution channels:

- ING BankOnLine – the Bank implemented debit card insurance, Fund with Term Deposit package handling, made it possible to unblock debit and prepaid card and developed the possibilities of the 24/7 Transfer service.
- ING Business OnLine – the introduced the possibility of insuring corporate prepaid card, new

module of Safe Envelope and Banking Slip of Deposit to facilitate the execution of cash transactions.

As at the end of December 2010, the electronic banking systems of ING Bank Śląski S.A. were used by 1,879,500 clients, up by 20.5% from the end of 2009. The number of clients who use the HaloŚląski system also increased considerably, up by 36.4% from December 2009.

### Clients of electronic banking systems at ING Bank Śląski S.A.

	31.12.10	31.12.09	31.12.08
ING BankOnLine, ING OnLine, ING BusinessOnLine and MultiCash	1,879,525	1,559,504	1,167,054
HaloŚląski	1,072,099	786,008	617,422
Text message (SMS)	782,079	619,664	387,456

In 2010, the process of exchanging ATMs was initiated at the Bank and 70 malfunctioning, overloaded devices were replaced with the new ones. As part of the project, the Bank installed first dual machines constituting a combination of ATM and CDM.

At the end of 2010, ING Bank Śląski S.A. had 775 ATMs (inclusive of dual machines), whereas at the end of 2009, the Bank had 737 ATMs. Moreover, 442 CDMs (together with dual machines) were installed at the Bank. In total, the Bank had 1,148 self-service devices, including 706 standard ATMs, 373 standard CDMs and 69 dual machines.

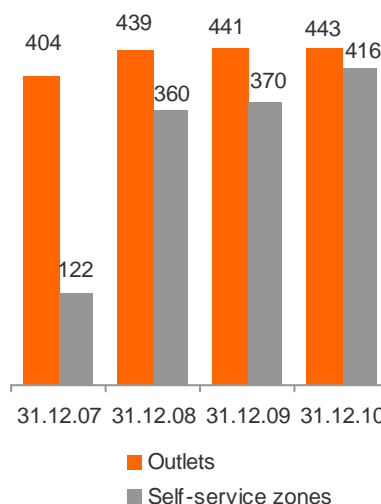
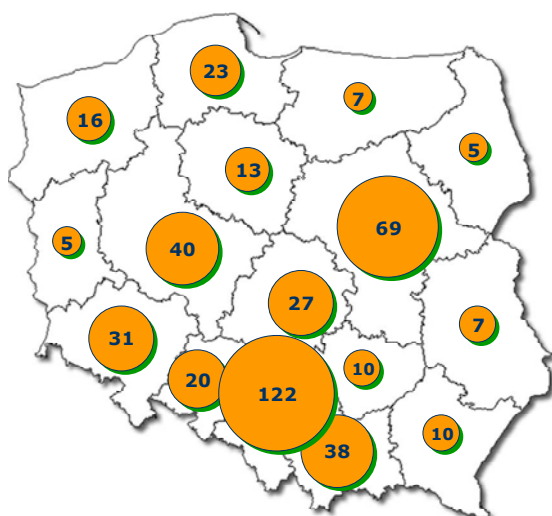
In December 2010, 13.1 million transactions were executed at the Bank via electronic banking systems, compared to 10.3 million a year earlier.

### 3. Network of Bank Outlets

As at 31 December 2010, ING Bank Śląski S.A. had 443 branches (including 63 Franchise Outlets). Throughout 2010, the Bank opened 3 new branches and closed 1.

At the Bank branches, there were 416 self-banking zones (compared with 370 such zones as at the end of 2009). After a period of dynamic increase in the number of self-service zones, in 2010 the Bank focused on improving their operations and availability.

#### Outlets Network of ING Bank Śląski (as at 31.12.2010)



#### 4. Human Resources Management

##### Headcount level

As at 31 December 2010, ING Bank Śląski S.A. Capital Group had 8,472 employees. Throughout 2010 the number of employees in the companies forming the Bank's Group went up by 181 persons.

In December 2010, ING Bank Śląski S.A. had 8,224 employees, up by 171 persons (or, 2.1%) from a year earlier.

##### Headcount structure at ING Bank Śląski S.A.

	31 December 2010		31 December 2009	
	FTEs	in %	FTE s	in %
Retail Banking	4,313	52.4	4,398	54.6
Corporate Banking and Financial Markets	1,070	13.0	968	12.1
Operations/IT/Services	1,971	24.0	1,836	22.8
Risk/Organisation/Finance/HR	870	10.6	851	10.5
<b>Total</b>	<b>8,224</b>	<b>100.0</b>	<b>8,053</b>	<b>100.0</b>

The changes in the headcount structure reported in 2010 were mainly related to an increase of the number of employees involved in the credit process and to new solutions introduced in the Small Business service area.

##### Remuneration policy

As in the past years, in 2010 ING Bank Śląski S.A. also took actions to guarantee competitiveness of its offer addressed to the employees and ensure that the Bank's strategic goals are effectively supported by its remuneration system. The Bank retained the existing assumptions of the payroll policy, rules of awarding bonuses at the same time focusing on ensuring coherence, fairness and competitiveness of salaries as compared with the labour market. They were supported by current monitoring of the structure of jobs and their valuation in the aspects of internal coherence as well as adjustment to the market.

##### Recruitment and employer branding

In 2010, some steps were taken at ING Bank Śląski S.A. in the direction of the employer branding. As part of those actions the Bank undertook the following:

- Conducted the promotional campaign and recruitment to the ChallengING IT programme addressed to talented students and graduates interested in the IT career (from the viewpoint of the situation on the labour market, recruitment for specialised IT jobs in the Financial Markets and Strategic Clients areas is the most difficult one).
- Carried out recruitment for 49 projects of internships in the Bank's Head Office departments as part of the *Internship with the Lion* programme.
- Developed a new version of the *Career* bookmark on its webpage at [www.ingbank.pl](http://www.ingbank.pl).
- Implemented standardised process for recruitment and selection of candidates for Bank Representatives in the mobile network.

In the second half of 2010 the recruitment process effective at the Bank, including pre-employment screening was subject to audit and verification. As a result of that review, some areas for improvement as well as the relevant solutions were pointed out.

##### Employee development

As part of the employee development policy, the Bank focused on the execution of actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC) conducted in 2009 (in terms of Development and Recognition).

The said actions were related to the following:

- Ensuring conditions for professional development. In 2010, the Bank provided its employees with a state-of-the-art application for development planning – the Development Navigator

programme. It is supposed to support employees and managers in managing their professional development and streamlining skills essential to implement the planned development path. Within that project, workshops were held that were attended by 2,219 employees and 917 managers. Also a chat was carried out with a psychologist, coach and management consultant; a competition with awards was held as well. In 2010, the first issues of the monthly electronic bulletin – *Development Navigator Magazine* – were prepared. Also the application presenting development paths, which is to support employees in their professional development, was updated.

- Expressing recognition. Employees with the highest ratings had an opportunity to attend another meeting from the *Conference with an authority* series. Brian Tracy, the world-known expert in the area of goal achievement psychology was the special guest of that event. Approximately 500 Bank employees were present at that meeting. For the employees with high potential and engagement the Bank organised the so-called Orange Meetings, at which they had a chance to exchange ideas and concepts with ING top management. In 2010, 12 such meetings took place and they were attended by 79 persons. In 2010, the first edition of the *Skills Academy* was held as well. The two-day meetings attended by 220 Bank managers from all around Poland covered both lectures delivered by experts and trainers from the HR area and discussion panels that dealt with sharing best practices in terms of management. Additionally, the Bank dedicated a special training programme to managerial staff regarding appreciation of employees.
- Talent Management – Management Development Programme. It aims at identifying and fostering development of employees who have the potential to take up key positions in the organisation in the future. The programme consists of three stages: identification, diagnosis and development actions. Apart from continuing development activities for the participants of the previous editions, a new recruitment was started and a programme for 40 persons was launched in 2010. Furthermore, some changes in the approach to talent management were developed, to be implemented in 2011.
- Programme for talented graduates. Also in 2010, a new approach to the programme for talented graduates was developed. The new edition of the programme called *Graduate Leadership Programme* was launched at the end of 2010. The Programme aims at acquiring talented graduates with the professional experience of no more than 2 years, having potential to take up key managerial positions within the next 5-7 years and fostering their development based on diversified experiences and individual development programme consistent with the needs of the organisation and the user's profile.
- Managerial path for newly appointed managers. In 2010, the said path was created and implemented.

In 2010, actions were continued at the Bank in terms of diagnosing the employees' potential. They were carried out within the Development Centre, 360-degree qualitative assessment and 360-degree quantitative assessment.

The health prophylaxis activity for the Bank employees has a great impact on creating a friendly workplace and keeping balance between professional and personal life. All the Bank employees have guaranteed medical care offered in cooperation with one of the largest medical companies on the Polish market offering a full spectrum of medical services. In 2010, as part of the prophylactic campaign the employees used free influenza vaccines. The employees could take advantage of Multisport programme, guaranteeing access to nearly 2,300 sports- and recreation facilities all over Poland.

### **Training activity**

In 2010, ING Bank Śląski S.A. carried out mainly internal training programmes. Key directions of training programmes at the Bank in 2010 included:

- Employees' competencies. The Catalogue of Competence Training Programmes was updated based on the results of annual performance reviews. It comprises training programmes in terms of the company's general competencies, as well as specialist and managerial competencies. The said catalogue is a set of training programmes delivered by internal and external training units. In 2010, more than 9,000 training man-days were covered as part of the Catalogue training programmes.

- Managerial training programmes. The training programmes conducted by internal trainers encompassed the following modules: Recruitment and Selection, Motivation and Leadership, Change Management, Delegating Tasks and Expressing Recognition.
- Development programmes. In 2010, 134 employees participated in development programmes enabling the managers and specialists to manage their development in a systematic manner.
- Specialist training programmes for the employees of the Corporate Banking Division. Approximately 40 training programmes were carried out that were attended by 1,690 employees. Apart from the standard training offer adequate for the Division employees the training sessions were related to the re-segmentation of corporate clients and changed principles of their service, and also credit processes (as part of the standard- and fast track). Apart from that, seven training blocks of the *Master of Corporate Lending* programme were covered.
- For the employees of the retail sales network. The training programmes conducted as part of the Best Service Programme concerned changes in IT systems, newly introduced and modified products, service quality and development of sales skills as well as sales team management skills. In 2010, the said training programmes covered 21,000 man-days.
- Language courses. In the school year 2009/2010, nearly 270 employees attended the English language classes. In autumn 2010, the Bank's policy in terms of language courses changed and now the Bank reimburses the costs of obtaining a language certificate.
- For newly hired employees. New employees participate in the Bank's training programme that encompasses both stationary and e-learning training sessions.

e-Learning is a separate current of training programmes at ING Bank Śląski S.A. The catalogue offer comprised approximately 150 items. Key training categories are: products, applications, security and operational risk as well as specialist and competence training programmes. In 2010, the process of updating and producing more than 20 training programmes was started or completed. 278,000 training hours were covered as part of e-learning.

### **Performance culture**

In October 2010, the annual Winning Performance Culture (WPC) survey was carried out at ING Bank Śląski S.A. Some 85% of employees shared their opinions on the Bank, up by 6 p.p. from a year earlier. The survey results for the whole Bank were published on the Intranet, whereas specific results for individual Bank units were communicated to the managers so that they present them to their employees, analyse them and formulate proposals of actions aimed at consolidation of the performance culture. In those actions managers are supported by WPC Ambassadors.

In 2010, the packages of key information from the HR area were also prepared and provided to employees in a simple and friendly manner; the information included: *INGformator pracownika* [the Employee's INGformation Source] (which included the Bank's offer addressed to all employees) and *INGformator menedżera* [the Manager's INGformation Source] (being a tool supporting them in everyday work). The documents include, among other things, information related to ING values and performance culture, development opportunities at the Bank, employment conditions and how to ensure balance between professional and personal life.

Continuation of actions in terms of promoting employment of the disabled resulted in an increase in the number of disabled employees in 2011 by 11 persons to 53 at the end of December 2010.

### **Use of information technologies in HR processes**

In 2010, works were pending at the Bank with the aim of implementing the SAP system in the HR area, whose main goals are: increase of the employees' engagement and satisfaction of work at the Bank, faster and more efficient execution of HR management processes and facilitating active participation of employees and managers in HR processes.

Within the first stage of the integrated system implementation, in December 2010, all employees were given access to the modern e-Learning Platform. Employees could not only book their attendance in training programmes on their own but also monitor their learning progress, time and results of the training programmes covered until then.



## VIII. ACTIVITY OF ING BANK ŚLĄSKI IN 2011

The mission of ING Bank Śląski S.A. is to assist clients in managing their financial future. Two elements of the mission are crucial for the operation of the institution, namely assistance in satisfying financial needs and focus on the future. It means that the Bank must establish long-lasting relations with clients by such actions as presenting them with a product offer adjusted to their changing preferences (both from the perspective of functionality and price) and developing a multi-channel distribution system.

The main strategic objective of ING Bank Śląski S.A. is sustainable growth to improve and maintain a leading position in the Polish banking sector by harmonious development of the core business areas, such as Retail Banking, Corporate Banking and Financial Markets. The principle that should guide the operations of ING Bank Śląski S.A. in 2011 will be: *You think of a bank, you choose ING.*

A considerable growth of the scale of operations of ING Bank Śląski S.A. represents also an important factor for the stable growth of the company's value and assuring that the shareholders will gain above-average return on investment in a long term. The shareholders' expectations are fulfilled while maintaining the strategic balance at all times, namely the needs of other stakeholders (clients and employees) must be also taken into consideration in the Bank's business activity.

### Retail Banking

Bank development within the retail banking area in 2011 will be largely continuation of actions initiated in previous years. The Bank will focus on maintaining the strong position of a savings bank and promoting the direct offer. In terms of lending, great emphasis will be put on further strengthening of the Bank's position on the market of PLN-mortgages.

The Bank will also focus on tightening relations with the existing clients, which will be visible in the improvement of the cross-selling rate. The product offer, simplified in 2010, will be offered in a clear and transparent way and at attractive price through integrated distribution channels such as: network of Bank branches, modern Contact Centre, the Internet as well as external distribution channels (mainly within the scope of mortgage loans).

In 2011, the Retail Banking Division will focus on execution of the following projects:

- Modernizing branches. Within the next few years, all Bank branches will have a new visualization and will be reconstructed so that they constitute modern clients' service centres. Apart from the possibility to execute transactions in the modern self-banking zones, the client will be able to consult a highly-qualified Account Manager on more sophisticated financial products in comfortable conditions. As part of the pilot, the Bank has already launched the first modernized branches (in Katowice and in Warszawa).
- The most Internet-based Bank. As part of the project conducted for several years, a modern transactional ING BankOnLine website will be implemented in 2011.
- Redevelopment of credit processes. In order to shorten, as well as adjust the process to the needs of particular groups of clients, credit processes will be optimized and automated in all available sales channels. What is more, the complete redevelopment of the IT architecture supporting the said processes will be conducted.
- Limiting cash trade. The project assumes increasing the number of CDMs and replacing a number of old ATMs with modern dual machines.
- Net Promoter Score. From the beginning of 2011 – on the basis of short questionnaire distributed by e-mail – the Bank analyzes clients' opinions and comments on products and service quality.

### Corporate Banking and Financial Markets

In 2011, the actions of ING Bank Śląski S.A. on the corporate banking market will aim at:

- Maintaining a high level of clients' acquisition. The aim of the Bank is above all to increase base of clients in the segment of mid-sized companies and local government units. In the case



of the largest corporations, the Bank will strive to deepen co-operation with existing clients first of all, as well as to increase the number of strategic clients in the target segments, e.g., from the group of smaller companies – subsidiaries of global corporations that are clients of ING Group entities' worldwide.

- Increasing the share in loans' market while paying attention to the portfolio quality. The Bank will concentrate on tightening credit co-operation with companies from the energy sector, retail sale and services sale with a little bit more cautious approach to the real estate sector.
- Obtaining higher than market average increase of the funds gathered in current accounts of institutional clients.
- Maintaining the leader position within clients' satisfaction from the offer quality and service level.

The basic instruments for execution of the aims adopted on the corporate banking and financial markets are as follows:

- New service model for clients from the mid-sized companies and large corporates segments. The new service model introduced at the beginning of 2011 takes into consideration the diversified clients' needs, their preferences as to the scope of distribution channels, co-operation profitability level for the Bank and its development perspectives. The Bank adopted the rule on continuous re-segmentation of clients that would follow development of the company and its changing needs.
- Offer development and credit process facilitation. In 2011, the Bank will complete the implementation of the new credit process as part of the Fast Track as well as Normal Track. The offer within the scope of export funding, assets based lending (among others in co-operation with other ING Group members) and co-financing from EU funds will be modified.
- Development of transactional banking. The Bank will mainly focus on introducing innovations for groups of international character, first of all solutions on the cross-border level within ING Group. Offer development will include liquidity management products, cash service and receivables management (reconciliation, consolidation structure). For the local government units the Bank will offer modern Cash Management products (such as: eInvoice, and City Pass), which shall provide the Bank with a competitive advantage over the remaining market participants.
- Improving the Internet banking system. The Bank's aim is to create the possibility of selling all products for corporate clients through ING BusinessOnLine system. The modifications cover among others possibility to use the Internet banking system through GSM phones, implementation of the functionality for servicing investment funds, factoring and leasing products, custody accounts management and securities portfolio management. The Internet banking system together with the Contact Centre shall become the basic channel for servicing mid-sized companies segment.
- Extension of the Financial Markets products offer. The Bank intends to offer instruments that allow hedging the risk of commodities prices volatility constituting the object of the main business activity of clients. It is also planned to popularize handling simple FM transactions through the MF Trader platform, integrated with ING BusinessOnLine.

The wider scale of operations with simultaneous improvement of the balance-sheet structure will constitute the main driving force of the ING Bank Śląski S.A. profitability growth in 2011. The Bank will develop if the cost discipline, supported with automation and optimization of the operational area and the increase of the importance of electronic distribution channels in clients' handling processes, is sustained. Prudent financial risk management, including maintenance of high quality of the credit portfolio, will also have a significant impact on result creation.

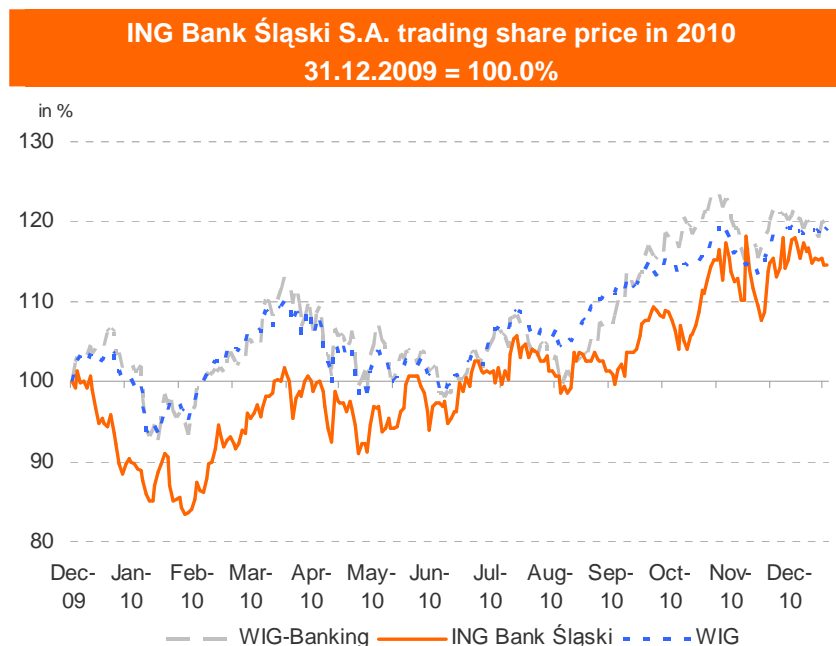
At the same time, ING Bank Śląski S.A. plans for 2011 to assume development of the institution on the basis of own, strong capital base.

## IX. INVESTOR INFORMATION

### 1. Price per share of ING Bank Śląski S.A.

In 2010, the price of the shares of ING Bank Śląski S.A. at the close of session at WSE was within the range from PLN 650 (on 24 February) to PLN 922 (on 23 November). On 31 December 2010, the share of ING Bank Śląski S.A. was worth PLN 894, up by 14.6% from the last trading day in 2009 (by contrast, the Banks sub-index went up by 17.9%).

On 31 December 2010, the market value of the Bank was PLN 11,631 million, while its book value amounted to PLN 5,651 million.



### 2. Dividend Payout History and Proposal for Dividend Payout from 2010 Profit

Up until 2002, ING Bank Śląski S.A. had paid dividend amounting to around 20% of the earned net profit. As of 2003, with the growth of equity accompanied by relatively low level of risk weighted assets, the Bank allocated larger part of the earned financial result for dividend, namely:

- for the year ending 31 December 2003, the Bank allocated 34.1% of net profit for dividend payout,
- from profits earned in the years 2004-2006, the Bank also paid 40-50% of the base profit of the Bank Capital Group to the shareholders in the form of dividend, apart from the positive balance of credit portfolio value impairment presented in net terms.

After the New Capital Accord Basel II became effective in early 2008, as well as plans concerning dynamic development of lending, which resulted in an increase of the capital needs of the Bank, 25% of the Bank net profit was allocated for dividend from the 2007 profit. The crisis from the end of the year 2008 and the need to ensure appropriate capital reserves for any unexpected turbulences on the financial markets, as well as recommendations of the regulator were the reasons for refraining from dividend payout in the years 2008 and 2009.

On account of the forecast continued economic revival in Poland as well as high capital adequacy level of ING Bank Śląski S.A. (both on the consolidated and stand-alone basis), the Bank Management Board will recommend the General Meeting to pay dividend amounting to PLN 195,150,000 from the profit for the year 2010, or PLN 15 per 1 share.

**Dividend for the years 2002-2009 and the proposal for dividend from profit for the year 2010**

	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Net profit of the Bank Capital Group in PLN million</b>	<b>753.1</b>	<b>595.1</b>	<b>445.7</b>	<b>630.7</b>	<b>591.4</b>	<b>549.5</b>	<b>366.3</b>	<b>30.6</b>	<b>141.1</b>
<b>Bank net profit in PLN million</b>	<b>702.3</b>	<b>582.2</b>	<b>455.6</b>	<b>610.2</b>	<b>540.6</b>	<b>506.8</b>	<b>366.3</b>	<b>30.6</b>	<b>141.1</b>
<b>Total dividend in PLN million</b>	<b>195.2</b>	<b>0.0</b>	<b>0.0</b>	<b>152.2</b>	<b>363.0</b>	<b>357.8</b>	<b>266.7</b>	<b>10.4</b>	<b>31.2</b>
<b>Total dividend rate</b>									
% of Bank Capital Group profit	25.9	0.0	0.0	24.1	61.4	65.1	72.8	34.1	22.1
% of Bank profit	27.8	0.0	0.0	24.9	67.1	70.6	72.8	34.1	22.1
<b>Total dividend per 1 share in PLN</b>	<b>15.0</b>	<b>0.0</b>	<b>0.0</b>	<b>11.7</b>	<b>27.9</b>	<b>27.5</b>	<b>20.5</b>	<b>0.8</b>	<b>2.4</b>

### 3. Ratings

ING Bank Śląski S.A. co-operates with the following rating agencies: Fitch Ratings and Moody's Investors Service. The Fitch Ratings agency issues full ratings for the Bank, whereas Moody's Investors Service makes the Bank's assessment based only on the information available in the public.

As per the release date hereof, Fitch Agency issued the following ratings for ING Bank Śląski S.A.:

**Fitch Ratings Ltd.**

Long-term IDR	A
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Individual rating	C
Support rating	1

Long-term IDR and short-term rating specify the entity's capacity to meet its financial liabilities on time. A-Rating of the entity reflects high capacity of the Bank to meet its long-term financial liabilities on time, whereas the F1 short-term rating stands for the highest appraisal of the capacity to timely payment of the short-term financial liabilities (up to 13 months). In case of both ratings of the Bank Fitch took into account high probability of getting potential support from the controlling shareholder of the Bank – ING Bank N.V. (the highest rating of the support).

Individual rating of ING Bank Śląski S.A. at C reflects: high liquidity of the Bank, stable sources of funding using the deposits of retail clients, strong sales network, low risk appetite and good quality of credit portfolio despite relatively difficult conditions in the business environment. The Bank's individual rating also takes into account the adequate capital position, which may however require strengthening in the future due to growing lending.

On 2 February 2010, the Moody's Investors Service Ltd. Agency completed the review of ratings of ING Group that was started on 21 September 2009, including the deposit ratings of ING Bank Śląski S.A. As a result of the review, Moody's affirmed the ratings for long-term deposits (both in foreign and home currencies) and short-term ones, however the outlook for long-term deposits was given as Negative. The outlook for the other ratings remained Stable. The change of the outlook for long-term deposits resulted from analogous activity of the Agency as regards ratings of other entities of the ING Group, including the parent company - ING Bank N.V.

**Moody's Investors Service Ltd.**

Long-term deposits in foreign currencies	A2
Long-term deposits in home currency	A2
Short-term deposits	P-1
Financial strength	D+
Long-term and short-term deposits rating outlook	Stable

#### 4. Compensation of the Members of the Management Board and the Supervisory Board of ING Bank Śląski S.A.

Amendments to the *Best Practices of the WSE Listed Companies* and the new ING Group regulations concerning compensation of the top management resulted in the fact that the Supervisory Board adopted the resolution on introducing the *Executive Compensation Policy for Members of the Management Board of ING Bank Śląski S.A.*, which sets out the structure, form and level of compensation for the Members of the Management Board.

The compensation of the Member of the Bank Management Board consists in three basic components:

- Base salary, determined according to Hay Methodology, which is set on the basis of a specific job description in terms of knowledge, challenges, problems and responsibilities in a given position.
- Annual bonus. A Management Board Member may be awarded a discretionary annual bonus up to 45% of the annual base salary for the performance of the annual bonus tasks set by the Supervisory Board. The bonus tasks are to help create long-term value of the company and include the following targets:
  - financial, i.e. measurable ones, which are related to the results of a given business unit or the entrusted area of responsibility,
  - non-financial, i.e. qualitative ones, which may be oriented towards the process quality, risk management, among other things.
- Long-term incentive system.

The fixed and variable compensation components should remain at an adequate proportion. The variable component (annual bonus and long-term incentive system) should not exceed 100% of the fixed component.

Should the bonus of the Management Board Member exceed the equivalent of EUR 100,000 in gross terms the bonus is subject to deferral in accordance with the determined algorithm. The annual bonus, including the deferred part, shall not be due if the employment relationship is terminated pursuant to Article 52 of the Labour Code or if the Management Board Member or the entire Bank Management Board have been suspended by the Polish Financial Supervision Authority pursuant to the Banking Law.

The Members of the Management Board of ING Bank Śląski S.A. are covered neither with an incentive programme nor a bonus one based on the issuer's equity. However, the Capital Group of ING Bank Śląski S.A. participates in the long-term incentive system (Long-term Equity Ownership, or LEO) of ING Group. As part of the programme the following are granted:

- Phantom options. The option strike price equals the ING Group share price as of the day of granting the option. At the time of exercising the option, three years after the option had been granted, the Management Board Member is entitled to receive the equivalent of the profit accrued on each option exercised.
- Performance Share Unit. After three years from the unit grant date, ING Group's performance is measured by means of the Total Shareholder Return (or, TSR) ranking and compared to a group of 19 competitors to see how well ING has performed. ING's ranking among the competitor group determines the actual number of units that a member of the Management Board receives when the award vests.

The plan will vest three years from the award date of the performance shares.

Moreover, ING Bank Śląski S.A. provides the Management Board Members with the following fringe benefits:

- life insurance and accident insurance with the guaranteed insured sum totalling the gross annual base salary, another type of unit-linked insurance or a mutual fund as part of the same

premium,

- deposit on investment fund managed by an entity that is member of ING Group in the amount equivalent to 15% of the monthly base salary of a Management Board Member as part of retirement benefits,
- medical care (Golden Card Family Package).

Furthermore, the Supervisory Board may decide on granting other benefits, e.g. cover the costs of educating the children of a Management Board Member in a private school, rent and outfit an apartment or a house or pay a rent allowance, cover membership fees due to Management Board Member membership in clubs and associations in Poland and abroad, provided it is in the interest of the Bank.

Should the Bank terminate the employment contract for reasons other than the ones entitling the Bank to terminate the contract without a notice period, or should the employment contract be terminated by mutual agreement of the parties, the Management Board Member shall receive a severance pay. The amount of the severance pay shall be equal to a base salary for the last three months preceding the termination of the employment contract. Should the employment relationship be terminated pursuant to Article 52 of the Labour Code or should the Management Board Member or the entire Bank Management Board have been suspended by the Polish Financial Supervision Authority pursuant to the provisions of the Banking Law, the severance pay shall not be due.

Should the employment relationship be terminated pursuant to Article 52 of the Labour Code or should the Management Board Member or the entire Bank Management Board have been suspended by the Polish Financial Supervision Authority pursuant to the provisions of the Banking Law, the Bank shall pay out the Management Board Member compensation that equals 25% of the gross annual base salary for the last year preceding the termination of the employment contract.

Non-competition agreement is concluded with each Member of the Management Board. The Employment Policy of Members of the Management Board authorizes the Bank to demand reimbursement of the variable compensation component, which was paid out on the basis of data that proved patently untrue.

The Remuneration and Nomination Committee acting as part of the Supervisory Board reviews once a year the compensation package of the Members of the Management Board.

#### Compensation of Members of the Management Board of ING Bank Śląski S.A. in 2010 (PLN 000)

Name	From – To	Compensation and bonuses	Exercised LEO options	Other benefits	Total
Małgorzata Kołakowska	01.01.10-31.12.10	1,639.9	1.1	641.9	2,282.9
Mirosław Boda	01.01.10-31.12.10	1,201.5	11.4	413.6	1,626.5
Michał Bolesławski	01.01.10-31.12.10	1,202.4	3.0	443.9	1,649.3
Evert Derks Drok	01.06.10-31.12.10	1,041.5	0.0	1,239.8	2,281.3
Justyna Kesler	01.01.10-31.12.10	1,166.1	3.1	452.5	1,621.7
Oscar Swan	01.01.10-31.12.10	1,172.8	1.8	464.1	1,638.7
Brunon Bartkiewicz	On the Management Board until the end of 2009. Bonus for 2009	270.7	21.2	0.0	292.0
Michał Szczurek	On the Management Board until 16 March 2009. Bonus for 2009	30.4	14.4	60.8	105.6
<b>Total</b>		<b>7,725.3</b>	<b>56.0</b>	<b>3,716.7</b>	<b>11,498.0</b>

In 2010, the total amount of compensation (understood as the value of compensation, bonuses, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board Members amounted to PLN 11,498,000. The total amount of compensation and bonuses paid out or due for 2010 given here is the gross amount of compensation paid out or due and

payable for the period from January until December 2010.

The Bank Management Board Members and other individuals employed by ING Bank Śląski S.A. receive neither compensation nor bonus for holding any functions in the authorities of subsidiaries and affiliates of the ING Bank Śląski Capital Group.

In 2010, the compensation (defined as above) paid by ING Bank Śląski S.A. to the Supervisory Board members totalled PLN 500,400.

#### Compensation of Members of the Supervisory Board of ING Bank Śląski S.A. in 2010 (PLN 000)

Name	From - to	Compensation and Bonuses	Benefits	Total
Brunon Bartkiewicz	08.04.10-31.12.10	0.0	0.0	0.0
Anna Fornalczyk	01.01.10-31.12.10	210.0	0.0	210.0
César González-Bueno	08.04.10-31.12.10	0.0	0.0	0.0
Ralph Hamers	01.01.10-31.12.10	0.0	0.0	0.0
Jerzy Hausner	01.01.10-13.01.10	26.4	0.0	26.4
Nicolaas Cornelius Jue	01.01.10-31.12.10	0.0	0.0	0.0
Tom Kliphuis	01.01.10-05.02.10	0.0	0.0	0.0
Mirosław Kośmider	01.01.10-31.12.10	132.0	0.0	132.0
Cornelis Leenaars	01.01.10-31.12.10	0.0	0.0	0.0
Wojciech Popiołek	01.01.10-31.12.10	132.0	0.0	132.0
<b>Total</b>		<b>500.4</b>	<b>0.0</b>	<b>504.0</b>

No member of the Bank's Management Board held any shares of ING Bank Śląski S.A. As regards members of the Supervisory Board, Mr. Wojciech Popiołek held 6 shares of the Bank.

#### 5. Auditor

In keeping with the Resolution of the Supervisory Board, starting 2008, Ernst & Young Audit Spółka z o.o. whose registered office is in Warsaw, Rondo ONZ 1 (licensed by the National Chamber of Certified Auditors under no.130) is the external audit firm to examine the financial statements of ING Bank Śląski S.A. for the period of the next 3 years.

ING Bank Śląski S.A. has not used the services of Ernst & Young Spółka z o.o. previously.

Ernst & Young is also the sole external auditor for the consolidated statements of ING Group.

#### Auditor's net fee

	Accounting year ended 31 December 2010	Accounting year ended 31 December 2009
Audit of the consolidated annual financial statements	EUR 194,600 + reimbursement of documented direct expenses (max 5%)	EUR 194,600 + reimbursement of documented direct expenses (max 5%)
Review of the financial statements	EUR 112,400 + reimbursement of documented direct expenses (max 5%)	EUR 112,400 + reimbursement of documented direct expenses (max 5%)
Tax advising	Not covered with the agreement	Not covered with the agreement
Other related services	PLN 435,900	PLN 239,700



## X. CORPORATE SOCIAL RESPONSIBILITY AT ING BANK ŚLĄSKI S.A. IN 2010

Being a socially responsible financial institution, ING Bank Śląski S.A. applies corporate responsibility rules in its business activities by taking into account numerous ethical, social and environmental issues. International standards underpin the Bank's vision of CSR and its strategy is executed within four areas: Business/Client Relations, Workplace/Relations with Employees, Environment and Relations with the Community.

### 1. Business – Client Relations

ING Bank Śląski S.A. provides high quality products and services for its clients, with no detriment to people or environment. It is a partner that keeps its promises, who is easy to co-operate and make business with. Thus, a responsible business stands for a tailored, transparent and easy to understand offer, ethical marketing and communication, fair principles of making complaints and financial education of the clients.

In 2010, ING Bank Śląski S.A. used various tools to improve quality of services provided to clients, such as:

- Net Promoter Score. In 2010, a new individual customer satisfaction survey, *Net Promoter Score (NPS)*, was implemented at the Bank. Using a short questionnaire distributed by e-mail, this survey allows monitoring client opinions on the Bank on a daily basis. Owing to the electronic form of the survey, client is contacted immediately upon receipt of the service. Moreover, processes connected with account opening and mortgage loan disbursement were assessed at the Bank retail outlets with the use of the Mystery Shopping method. The aim of the said surveys was to diagnose and eliminate weaknesses in the client service process. The annual Corporate Customer Satisfaction Survey was also carried out. It allowed assessing the changes introduced to the particular groups of products, service model and communication channels with the Bank (e.g. Internet banking) in terms of their adjustment to clients' expectations.
- Communication with clients. The Bank attaches great importance to dialogue with clients. Each day clients' questions are answered by the Contact Centre Department consultants. In 2010, a new version of the Bank Internet service was launched. The service graphic design was changed, its scope was extended and the way of presenting information and education materials was amended. The Internet-users (clients but not only) can contact the Bank with the use of the following channels:
  - ING Bank Śląski forum at [www.forum.ingbank.pl](http://www.forum.ingbank.pl),
  - Skype instant messenger,
  - Facebook profile (<http://www.facebook.com/INGBankSlaski>),
  - blip.pl accounts (<http://ingbankslaski.blip.pl/>),
  - YouTube video channel (<http://www.youtube.com/ingbsk>).
- Improving employees' qualifications within the scope of customer service. As part of an internal survey, the Bank assessed the teams' preparation for execution of tasks connected with client service and determined their training needs. The Bank also recapitulated the effects of the Skills Maps implementation (grading employee in accordance with the competence level) as well as the impact of internal training programmes on execution of sales tasks and the new employees' preparation level. Improvement of the customer service quality was also supported by the process of rotation of Branch Managers. The aim of the process was to develop and implement the best practices within customer service.

## 2. Environment

In January 2010, an amendment was introduced to the ING Bank Śląski Labour Bylaw, whereby each employee is among others obliged to execute own tasks and take decisions pursuant to the *ING Bank Śląski S.A. Environmental Policy*.

In 2010, the main actions taken by the Bank to protect environment consisted in:

- Implementation of the ISO 14001 Environmental Management System (EMS). This system allows identifying all environmental aspects arising from the Bank activity that have or may have a negative effect on the environment. The Bank was awarded the ISO 14001 Environmental Management System (EMS) Certificate on the basis of audit conducted by TÜV NORD. ING Bank Śląski S.A. was the second Bank in Poland to submit its activity to certification.
- Reduction of paper consumption. In 2010, the Bank continued execution of projects and implemented subsequent processes that reduce paper consumption. Paper consumption is lower as a result of constantly growing share of electronic transactions, executed through ING BankOnLine, in customer service processes. It also contributes to the fall in the number of manual transactions at branches as well as optimization and automation of the operational area. In 2010, as part of the new functionalities individual clients were given the ability, able among others, to individually set and grant themselves PIN code for payment cards while using electronic banking or telephone channels (which reduced the number of generated PIN codes in the paper version). Implementation of the IWA internal electronic circulation of documents that replaced the paper form of documents with electronic records in the system limited the number of paper corporate clients' bank statements by 87%. In the case of Small Business segment, the number of paper bank statements went down by 60%.
- Earth Hour. ING Bank Śląski S.A. joined the WWF's worldwide initiative – Earth Hour. As part of the initiative, lights were turned off for an hour in the buildings of the Head Office in Warsaw and Katowice. The OKO Miasta (City Eye) illumination light was also turned off in four locations: Bielsko-Biała, Gdańsk, Wrocław and Częstochowa.
- Earth Day. While participating in this campaign, the Bank organized a collection of used batteries among its employees. More than 200 kilograms of batteries were collected, which were handed over to the recycling company.

## 3. Relations with employees

ING Bank Śląski S.A. honours and respects human rights. The Bank strives to improve employee satisfaction by expressing recognition for their successes and engagement as well as ensuring opportunities for development. It is also the Bank's goal to ensure friendly and secure workplaces that promote employees' development. The Bank facilitates disabled integration by increasing the number of disabled people employed at the Bank.

ING Bank Śląski S.A. activity for employees' development is presented in the Report of the Management Board on Operations of ING Bank Śląski S.A. Capital Group in 2010 in item *Human Resources Management*.

## 4. Relations with the community

ING Bank Śląski S.A. employees are entitled to devote 8 hours of their annual working time to voluntary service. At the same time the Bank, in co-operation with the ING Children Foundation, promotes social activity among employees with the employee voluntary programme *ING Volunteerism*.

In 2010, the Bank conducted subsequent editions of the *Good Idea* contest for the best volunteer initiatives. 560 volunteers, Bank employees from all over Poland, were involved in the action. They executed 48 projects as part of which youth clubs, rehabilitation rooms and playgrounds were renovated. The value of the works was estimated for PLN 340,000. Moreover, the Bank employees conducted 23 emergency aid actions.

At the end of 2010, 680 employees of ING Bank Śląski S.A. joined the common ING Group initiative under the theme *Global Challenge*. While participating in the initiative, volunteers organized meetings with children staying in hospital wards and community youth clubs during which they read books and provided books for libraries at the ING youth clubs.

As part of the bibliotherapeutic programme *In the Company of the Lion*, the Bank published 10,000 free copies of *Lucjan, the Lion One of its Kind* (for children with oncological diseases) and *The Alien* (for parents and families of autistic children). The books were given to paediatric wards, community youth clubs charges', persons, organizations and associations of autistic children families and guardians. In January 2010, a premiere of *The Alien* based on the book published by the Bank took place in the Zagłębie Children's Theatre in Będzin.

Two fundraising campaigns were organized to raise money for the educational activity for disabled children. On the other hand, the ING volunteers organized a fundraiser for the furnishing of a new hospital youth club for children with oncological diseases.

Blood donation campaigns constitute an integral part of Bank employees' social activities. In 2010, Bank employees from Katowice, Warsaw and Szczecin organized independently four blood donation campaigns.

## 5. ING Children Foundation

The *ING Children Foundation* has nearly 20 years of experience in bringing help to those in need. It is a legal successor of the *Bank Śląski Foundation* established in 1991. Thanks to the knowledge and commitment of the Foundation personnel and ING employees-volunteers, the Foundation has already helped several thousand children all over Poland.

The mission of *ING Children Foundation* is to educate, and thus provide equal opportunities, to children from poor areas and children suffering from chronic illnesses, to promote entrepreneurship among young people, and to support young people from poor families to gain university education.

The Foundation carries out its statutory targets under the following programmes:

- ING Internet Youth Clubs. In 2010, another five youth clubs were opened. In total, there are 24 ING youth clubs all over Poland, where nearly 1,250 children can use the Internet for free in safe and comfortable conditions.
- Smile Stays. Educational and rehabilitation stays in the Bank's recreational centre in Wisła organised for sick children (mostly suffering from cancer and autism), for talented children from primary schools and community youth clubs. In 2010, almost 1,000 kids participated in the Smile Stay programme.

ING employees provide financial support for the Foundation activity as part of the payroll giving scheme where donations are made directly from salaries. In 2010, the Foundation raised PLN 26 800 in such a way. On the other hand, the Bank clients' transferred PLN 20,300 to the Foundation account with the use of the electronic banking system ING BankOnLine additional functionality, namely the *Charity Transfer*.

## 6. ING Polish Art Foundation

ING Bank Śląski S.A. is an active member of the *ING Polish Art Foundation* that celebrated its tenth anniversary in September 2010. The main purpose of the Foundation's activities is to promote Polish contemporary art, especially by supporting young artists. The Foundation collects the works of art created after 1990 that represent various trends of the contemporary art and different artistic techniques (painting, drawing, graphics or photography), abstract and figurative art.

The art collection of the Foundation includes pieces of art of such renowned artists as: Edward Dwurnik, Stefan Gierowski, Jerzy Nowosielski, Leon Tarasiewicz, or Wilhelm Sasnal. In 2010, new works of art by young, top artists of the prestigious Polish galleries rankings were added

to the collection.

In 2010, the *ING Polish Art Foundation* co-operated with the Zachęta National Gallery on organization of the monographic exhibition of Jakub Julian Ziolkowski *Kokaina (Cocaine)*. On the Foundation anniversary, ING employees had opportunity to take part in an educational campaign and *Alé sztuka!* contest popularizing the contemporary Polish art.

## **XI. REPORT ON OBSERVANCE OF CORPORATE GOVERNANCE RULES AT ING BANK ŚLĄSKI SA**

Pursuant to §91 section 5 item 4 of the *Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws No. 33, item 259 as amended)* and §29 section 5 of the *Warsaw Stock Exchange Bylaw and Resolution no. 1013/2007 of the Management Board of the Warsaw Stock Exchange dated 11 December 2007*, the Management Board of ING Bank Śląski S.A. presents the *Report on Observance of Corporate Governance Rules at ING Bank Śląski S.A. in 2010*.

### **1. Specification of the set of Corporate Governance Rules binding for the Issuer and of the place where such rules are published**

The Corporate Governance Rules, which are binding for ING Bank Śląski S.A. (hereinafter referred to as: the "Bank"), are set out in the *Code of Best Practice for WSE Listed Companies* as enclosed with Resolution no. 17/1249/2010 as of 19 May 2010 of WSE Supervisory Board. The content of the above mentioned set of rules has been published at the Warsaw Stock Exchange Website S.A. at: <http://corp-gov.gpw.pl>.

### **2. Specification of Corporate Governance Rules from which the Issuer departed and explanation of the reasons**

ING Bank Śląski S.A. adopted all Corporate Governance Rules included in the *Code of Best Practice for WSE Listed Companies* ("Best Practice") in the language resulting from the amendments of the said rules introduced by the Warsaw Stock Exchange Supervisory Board by way of Resolution no. 17/1249/2010 dated 19 May 2010 concerning adoption of amendments to the *Code of Best Practice for WSE Listed Companies*.

Best Practice in the new language was adopted to be used at the Bank by the Management Board and the Supervisory Board with resolution passed by the said authorities on 15 June 2010 and 16 September 2010, respectively.

As part of the amendments introduced to the "Best Practice", the Bank in particular:

- Adjusted the content of its website, so that it is in line with the recommendations specified in the "Best Practice"; simultaneously the Bank implemented the design of the webpage, which resembles the standard recommended by the WSE.
- Adopted by way of relevant Resolution of Supervisory Board the *Executive Compensation Policy for Members of the Management Board of ING Bank Śląski S.A.* The said Policy will be submitted to the Ordinary General Meeting, in line with recommendation provided by European Commission.
- Publishes on its website the documents comprising the rules whereunder the selection of the entity conducting the audit of Banks' financial statements was made. This selection is made by the Bank Supervisory Board on the basis of the recommendation provided by the Audit Committee, and taking into consideration the requirement to consolidate the financial statements and the related unified approach of ING Group as regards the change of the auditor, which is in line with applicable EU regulations. The Bank's declaration regarding this matter made in current report no. 2 January 2008 remains unchanged.

**The Management Board of ING Bank Śląski S.A. herewith declare that the Bank and its authorities observed the corporate governance rules it adopted as set out in the "Best Practice for WSE Listed Companies".**

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

### **3. Base features of internal control and risk management systems applied by the Bank in the process of development of financial statements and consolidated financial statements.**

Financial reports are developed by the Finance Division; the process is one of the key elements of compliance. The basic elements enabling the execution of the process comprise: the accounting policy adopted by the Bank Management Board and the accounting structure within the Bank, which defines the main principles of recording business events at the Bank. Recording of events leads to formation of the Bank books, which, in turn, are the basis for the development of financial statements.

The following risks were identified in the process of financial statements development:

- risk of incorrect input data,
- risk of inappropriate presentation of data in financial reports,
- risk of use of incorrect estimates,
- risk of lack of integration of IT systems and operating and reporting applications.

To mitigate the aforementioned risks, the process of financial statements development was structured in two layers: application- and content-related.

The application part of the process comprises the flow of data from the core operating systems of the Bank via various interfaces to the reporting database, which hosts reporting applications. The application layer is controlled in line with the IT systems security policy adopted by the Bank. The following elements are controlled in particular: user management, developing environment management and integrity of data transmission systems (including correct operation of interfaces with particular attention to completeness of data transfer from operating systems to the reporting environment).

To ensure adequate management of the process of financial statements development, it was described in line with the principles binding at the Bank. The description lists all activities included in the process, determines their performers and the "what if" situations. It also indicates the key controls embedded in the process of financial statements development which include but are not limited to:

- quality control of input data for the financial statements, supported by the data control applications; a variety of principles concerning data correctness, error correction track and close monitoring of data quality were defined in the applications,
- control of data mapping from source systems to the financial statements, ensuring correct data presentation,
- analytic review based on the experts' knowledge, the main objective of which is to confront business know-how with financial data and identify indications of incorrect data presentation or incorrect input data, if any.

The estimates adopted by the Bank and compliant with IAS/ IFRS were detailed in the Accounting Policy. To avoid the risk of incorrect estimates, the following solutions were adopted, among others:

- to estimate loan impairment – specific models and applications as well as internal regulations for credit risk assessment were implemented,
- to measure financial instruments quoted in active markets or in case of which the measurement is based on those quotations – the required functionality of core systems was implemented; furthermore, the control executed by the market risk management units was instituted,
- to measure financial instruments not quoted in active markets – pricing models were implemented, which had been subject to an independent verification before they were applied,
- to estimate the reserve for retirement packages – an independent actuary was commissioned to make an estimate,
- to estimate the reserves for bonuses for employees and executive staff – the calculations



used are in line with both: the *General Terms and Conditions of Bonus Award* adopted at the Bank with the application of the forecasts regarding Bank's results,

- to value investment properties and own properties – the following rule was adopted: the appraisal is obtained from independent experts on a semi-annual basis for investment properties of significant value, and at least every three years for other properties.

A detailed description of accounting principles has been published in the Consolidated Annual Financial Statements in the section called "Accounting Policies and Additional Explanatory Notes" of "Major Accounting Principles".

The organizational structure introduced at the Bank makes it possible to retain the segregation of duties between the Front Office, Back Office, Risk and Finance. In addition, the institution of an adequate internal control system enforces the implementation of control of transactions and financial data in the Back Office and support units. The area is subject to independent and objective assessment performed by the Internal Audit Department in terms of adequacy of the internal audit system and risk management, as well as in terms of corporate governance.

#### **4. Specification of shareholders being directly or indirectly in possession of major block of shares including specification of number of shares owned by such entities, their percentage share in share capital, number of votes attached to the said shares, and the percentage share in the overall number of votes at the General Meeting.**

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which on 31 December 2010 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 General Meeting. ING Bank N.V. belongs to ING Group, a global financial institution, conducting its business activity on banking market, insurance market as well as within the area of asset management.

#### **Shareholder structure of ING Bank Śląski S.A.**

Shareholder name	Number of shares and votes at GM	Share in share capital and in the total votes at GM	Shareholder name	Number of shares and votes at GM	Share in share capital and in the total votes at GM
	31 Dec 2010			31 Dec 2009	
ING Bank N.V.	9,757,500	75.00%	ING Bank N.V.	9,757,500	75.00%
Other	3,252,500	25.00%	Aviva OFE Aviva BZ WBK	665,500	5.12%
			Other	2,587,000	19.88%
Total	13,010,000	100.00%	Total	13 010 000	100.00%

On 20 April 2010, the Bank Management Board acquired the information that as a result of the transaction of sale of shares of ING Bank Śląski S.A. concluded on 13 April 2010, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK [Aviva Open-Ended Investment Fund Aviva BZ WBK] ("Aviva OFE") decreased its share in the total number of votes in the Company to less than 5%.

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 owned by existing shareholders in future.

#### **5. Specification of holders of any securities entitling them to special control rights, including description of the said rights**

The shares of the Bank are ordinary bearer shares. No additional controlling rights are attached to these shares.

**6. Specification of any restrictions related to the exercising of voting right such as restriction of exercising voting right by holders of a specific part or number of votes, time restrictions on exercising voting right or entries according to which equity rights attached to shares are separated from shares ownership.**

The Bank Charter does not impose any restrictions on voting right execution or any stipulations according to which equity rights attached to shares are separated from shares ownership.

**7. Specification of any restrictions regarding transfer of ownership rights to the issuer's shares**

The Bank Charter does not impose any restrictions regarding transfer of ownership rights to the shares issued by the Bank.

**8. Specification of principles of appointing and recalling managing bodies and their scope of authorization, in particular authorization to make decision on share issue or redemption**

The Management Board is composed of 3 to 8 members appointed by the Supervisory Board. The number of Management Board in a given term of office is determined by the Supervisory Board.

The Management Board members are appointed for a 5-year term of office. In the event of changes in the composition of the Management Board during the term of office, the mandate of the Management Board member appointed during the term of office expires upon the termination of the term of office.

At least a half of the Management Board members have to be Polish citizens. Two Management Board members, including the Chief Executive Officer and Executive Vice-President in charge of credit risk management, are appointed with the consent of the Polish Financial Supervision Authority. Other Management Board members are appointed by the Supervisory Board upon consultation with the CEO. The Management Board members may be dismissed at any time by the Supervisory Board. Executive Vice-President of the Management Board may be dismissed the Supervisory Board upon consultation with the coo.

The Management Board manage the Bank and represent it with external matters. Any matters not restricted to the authorities of other Bank's bodies pursuant to legal regulations and the Bank Charter shall fall within the scope of the Management Board's activity. The Management Board act collectively with reservation of those matters, which have been entrusted to particular Management Board members.

Arrangement of the Management Board plan of work, scope of matters which require Management Board resolution and the way of their functioning is stipulated in the Management Board Bylaw passed by the Management Board and approved by the Supervisory Board.

Pursuant to the stipulations of the Bank Charter, the Management Board do not have any special rights concerning share issue or redemption. Item 11 contains a detailed description of the Management Board operations, including rights of Management Board Members.

**9. Rules of amending the Issuer's Charter**

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the register of entrepreneurs of the National Court Register (KRS). Any amendment to the Charter within the scope stipulated in Article 34 section 2 of the Banking Law Act of 29 August 1997 (consolidated text in Journal of Laws of 2002, no. 72, item 665 as amended) requires approval of the Polish Financial Supervision Authority.

An amendment to the Bank Charter as for change of the business objects of the Bank does not require redemption of shares from those shareholders who do not approve such amendment, provided

that the resolution of the General Meeting concerning such a change was adopted by a two-thirds majority of votes in the presence of individuals representing at least a half of share capital.

As any other matters submitted by the Management Board for consideration by the General Meeting, the Management Board's motions concerning amendments to the Bank Charter should be first presented to the Supervisory Board for their advice.

Motions submitted to the Management Board by shareholders who have the right to demand that certain items be put on the agenda of the General Meeting, as well as motions for consideration of amendments to the Bank Charter by the General Meeting are placed by the Management Board on the agenda of the nearest General Meeting within the time limit set forth in the Commercial Companies Code, and are presented to the Supervisory Board together with the advice of the Management Board.

#### **10. Operations of the General Meeting, its essential rights as well as the rights of shareholders and mode of their exercise, including in particular the rules of General Meeting bylaw which do not result directly from legal regulations.**

The General Meeting is convened by way of an announcement at the Bank's website as well as in the way specified for publishing current information by public companies, and it functions according to the principles defined in the regulations of the Commercial Companies Code and the Charter as either an Ordinary or Extraordinary General Meeting.

General Meeting should be held once a year; however, no later than in June. The General Meeting is convened by the Management Board. If the Management Board fails to do this in the aforementioned time limit, the General Meeting is convened by the Supervisory Board.

If necessary, Extraordinary General Meeting is convened by the Management Board on their own initiative or when requested by the Supervisory Board or shareholders representing at least one twentieth of share capital; shareholders' request should be submitted to the Management Board in writing or via electronic mail. Extraordinary General Meeting may be convened at any time by the Supervisory Board should the need arise. Extraordinary General Meeting may be also convened by shareholders representing at least a half of the share capital of the Bank or at least a half of the overall number of votes in the Bank. The Chair of that Meeting is appointed by shareholders.

The Company adopted a rule, whereby General Meetings are held at the time enabling all eligible and interested shareholders to attend them.

Bank shareholders representing at least one twentieth of equity are entitled to:

- Request putting particular items on the agenda of the nearest General Meeting. This request should be submitted to the Management Board no later than twenty one days before the appointed date of the General Meeting. The request should include a rationale or draft resolution concerning the suggested item on the agenda. The request may be submitted via electronic mail.
- Submit draft resolutions concerning items put on the agenda of the General Meeting or items, which are to be put on the agenda in writing or via electronic mail before the appointed date of the Meeting; the Management Board announce drafts of the resolutions on the Bank's website immediately.

Each shareholder is entitled to submit drafts of resolutions concerning items put on the agenda during General Meeting. When an Extraordinary General Meeting is convened, the Management Board presents the rationale for convening such a Meeting and for including specific matters in the agenda or asks for presentation of the rationale if the General Meeting was convened upon the request of another eligible entity.

Draft resolutions are presented to the General Meeting by the Management Board upon advice of the Bank Supervisory Board. The requirement does not apply to draft resolutions submitted by eligible shareholders, except for the ones, which should be obligatorily passed by the General Meeting. Draft

resolutions are presented to the General Meeting along with the rationale.

The General Meeting shall be valid regardless of the number of shares represented. In principle, the resolutions of the General Meeting are passed by an absolute majority of votes. Exceptions to that rule are set out in the regulations of the Commercial Companies Code and the stipulations of the Charter. Apart from the Commercial Companies Code, the issues regarding the convening and functioning of the General Meeting are specified in the Bank Charter, *the Bylaw of the General Meeting of ING Bank Śląski Spółka Akcyjna* and the Notice of General Meeting.

General Meetings are held at the Company's registered office in Katowice.

Pursuant to the stipulations of the Bank Charter, it is possible to organize a General Meeting in a way enabling shareholders to participate in the General Meeting by means of electronic communication including in particular:

- real-time transmission of the General Meeting,
- real time two-way communication enabling shareholders to express their opinion during the debates of the General Meeting,
- exercising voting right in person or by proxy.

Notwithstanding the foregoing, the debate of the General Meeting may be watched by shareholders on the Internet. The debate of the General Meeting may be also attended by interested media representatives acting as observers; they may also use the Internet transmissions.

A General Meeting should be attended by members of the Management Board and the Supervisory Board who are able to answer questions submitted at the General Meeting. If a member of the Management Board or the Supervisory Board cannot attend the Meeting for material reasons, the participants of General Meeting are presented with the reasons of their absence. The chartered auditor is invited for the debate of the General Meeting, especially when an item pertaining to the financial matters of the Company is included in the agenda of the meeting.

The principles concerning shareholders participation in the General Meeting, the mode of conduct during General Meeting, as well as the manner of shareholders' communication with the Bank via electronic means of communication, including electronic notice of granting power of attorney, are set forth in the *Bylaw of the General Meeting*. *The Bylaw of the General Meeting* may authorize the Management Board to specify additional means of communication, other than the ones specified in the said Bylaw, as regards shareholders communication with the Bank via electronic means of communication.

The *Bylaw of the General Meeting* includes in particular provisions regarding elections, including the election of the Supervisory Board by voting in separate groups. The Bylaw is not subject to frequent amendments, and all adopted amendments become effective as of the subsequent General Meeting.

Pursuant to the regulations of the Commercial Companies Code, the Banking Law and the stipulations of the Bank Charter, the core competencies of the General Meeting are as follows:

- consideration and approval of the Management Board report on the company's operations and the financial statements for the previous financial year,
- acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board Members for the previous financial year,
- distribution of the Bank's profit after tax,
- appointment and dismissal of the Supervisory Board Members, determination of the number of the Supervisory Board Members as well as determination of the principles of their remuneration,
- making amendments to the Charter, including those on raising or lowering the share capital of the Bank,
- redemption of shares,
- taking decisions on the usage of the statutory provision and reserve capital,

- disposal and lease of the Bank's enterprise or its organized part and establishment of limited right in rem on them,
- issue of convertible bonds or bonds with pre-emptive right,
- issue of bonds with right for conversion into Bank's bonds (convertible bonds),
- resolutions of claims for repair of damage inflicted upon establishing the company or management or supervision thereof,
- purchase and disposal of real estate, usufruct rights or share in real estate unless the Charter stipulates otherwise,
- purchase of own shares in the situation stipulated in Article 362 §1 item 2 and authorization to their purchase in the situation stipulated in Article 362 §1 item 8 of the Commercial Companies Code
- other matters provided for by the legal regulations, the Charter or raised by the Supervisory Board, the Management Board or eligible shareholders.

#### **11. Composition and amendments introduced during last operating year as well as the rules of operation of the Bank's governing and supervisory bodies and their committees**

##### **Supervisory Board**

The Supervisory Board consists of 5 to 11 Members appointed by the General Shareholders Meeting for a 5-year term of office. The General Shareholders Meeting determine the number of the Supervisory Board Members for a given term. The members of the Supervisory Board may be recalled any time with the resolution of the General Shareholders Meeting.

Complying with the rules of Corporate Governance, the Bank introduced the institution of the independent members of the Supervisory Board. In line with the Charter, at least two members of the Supervisory Board should have no ties with the Bank, its shareholders or employees, if such relations could have a significant impact on the ability of such member to take impartial decisions (Independent Members). The minimal number of Independent Members as well as detailed criteria of independence result from "Best Practices for Companies Listed on WSE" adopted by the Bank.

Throughout 2010 there were the following changes in the composition of the Supervisory Board of ING Bank Śląski S.A.:

- On 13 January 2010, Mr. Jerzy Hausner tendered his resignation as member of the Supervisory Board to the Chair of the Supervisory Board of ING Bank Śląski S.A., effective 13 January 2010 due to his taking office in the Monetary Policy Council.
- On 5 February 2010, Mr. Tom Klijhuis handed in his resignation as Supervisory Board member to the Chair of the Supervisory Board. The resignation of Mr. Klijhuis (acting as the President of ING Insurance Central Europe within ING Group) was dictated by the organisational changes in ING Group (split between Banking and Insurance) and his duties related thereto.
- The General Meeting of ING Bank Śląski S.A. held on 8 April 2010 appointed the following individuals to the Supervisory Board:
  - Mr. Brunon Bartkiewicz – the Chief Executive Officer of ING Bank Śląski S.A. in the years 1995-2000 and 2004-2009, currently holding the position of CEO for ING Direct.
  - Mr. César González-Bueno – Regional Head of Europe, ING Retail Banking Direct & International, Amsterdam

As at the end of December 2010, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Ms. Anna Fornalczyk                      Chair, Independent Member,
- Mr. Cornelis Leenaars                      Vice-Chairman,



- Mr. Wojciech Popiołek Secretary, Independent Member,
- Mr. Brunon Bartkiewicz Member,
- Mr. César González-Bueno Member,
- Mr. Ralph Hamers Member,
- Mr. Mirosław Kośmider Member, Independent Member,
- Mr. Nicolaas Cornelis Jue Member.

The primary mission of the Supervisory Board is to perform the supervisory function – the Supervisory Board conducts ongoing oversight of the Bank's operations in all areas. Special rights and duties of the Supervisory Board include appraisal of the report on the Bank's operations and financial reporting for the previous financial year, motions of the Management Board regarding profit distribution or covering the losses, as well as submitting the annual written report on the results of the said appraisal to the General Shareholders Meeting.

Apart from the above mentioned rights and duties, the Supervisory Board also has the following decision-taking authorities pursuant to the Bank's Charter:

- approval of rules of prudent and stable Bank management and Bank strategy prepared by the Management Board as well as periodical reviews and verification of their execution, approval of long-term plans of Bank development and annual financial plans of the Bank's operations,
- approval of risk levels acceptable in the individual areas of Bank's activities,
- approval of motions of the Bank's Management Board concerning the establishing and dissolution of organisational units abroad,
- approval of purchase or disposal of shares or rights of share, shares of other legal entities if the assets value exceeds the PLN equivalent of the amount of EUR 5,000,000 at one time, or the activity refers to the assets representing at least 20% of the initial capital of another legal entity. Approval of the Supervisory Board is not required for the Bank's exposure resulting from conversion of claims, execution of collateral approved by the Bank or service of underwriting,
- appointing and dismissing members of the Bank Management Board,
- concluding agreements concerning execution of functions with the members of the Management Board and settling remuneration resulting from those agreements as well as approval of receipt of other benefits from the Bank and related entities by members of the Management Board,
- approval of Management Board Bylaw, Organizational Bylaw and Bank's internal control system,
- selection of the entity entitled to examine financial report of the Bank on the grounds of recommendation submitted by the Audit Committee,
- determining the uniform text of the Charter once the General Meeting takes a resolution on amendment thereto, as well as making other editorial amendments to the Charter,
- approval of concluding major agreements with related entity by the Bank,
- approval of purchase of, redemption of, or encumbrance on a non-current asset, the value of which exceeds the PLN equivalent of EUR 5,000,000 by the Bank; the approval of the Supervisory Board is not required when purchase of the non-current asset takes place by taking over of such asset by the Bank as a creditor as a result of recovering a debt claim by the Bank,
- submitting to the General Meeting concise evaluation of the Bank's position, including the evaluation of internal control system and system of material risks management as well as report of Supervisory Board and its Committees in the financial year, including the Supervisory Board's assessment of its work in that period,
- suspension of a Management Board member for material reasons and delegating members of the Supervisory Board to perform on a temporary basis the activities of the Management



Board member who is unable to perform his/ her functions for no longer than three months,

- approval of the Bank's compliance policy, approval of rules of internal capital evaluation processes, capital management, and capital planning.

The resolutions of the Supervisory Board are passed with the absolute majority of votes, whereas in case of a tie, the Chair of the Supervisory Board has the casting vote.

The resolutions of the Supervisory Board may be passed if more than a half of the Supervisory Board Members are present at the meeting, including its Chair or Deputy Chair, to which all Supervisory Board Members have been invited.

In principle, the meetings of the Supervisory Board are convened by its Chair, or by Deputy Chair or the Secretary of the Supervisory Board who acts based on the authorization granted by the Chair, in line with the annual plan or on an ad hoc basis.

The meetings of the Supervisory Board take place at least 5 times a year.

In cases stipulated in the Charter and the Supervisory Board Bylaw, the resolutions of the Supervisory Board may be passed without holding a meeting, using the written mode or by means of remote communication.

The office service of the Supervisory Board is provided by the Bank Management Board Bureau.

Detailed principles of the operations of the Supervisory Board are determined in the Bank Charter and the Supervisory Board Bylaw approved by the Supervisory Board.

The Supervisory Board shall appoint members of the Audit Committee and of the Remuneration and Nomination Committee out of their number to support the Supervisory Board in performing their duties.

#### **Audit Committee**

The Audit Committee supports the Supervisory Board in the process of financial reporting monitoring, monitoring and supervision over internal and external audits and management system at the Bank and its related entities. In particular, this covers the adequacy and efficiency of the internal and external audit system and the system of risk management, including compliance risk, and the relations between the Bank and its related entities, as well as between the Bank and the entity auditing the Bank's financial statements.

The activities of the Audit Committee are described in more detail in the Charter and the Audit Committee Bylaw.

The Audit Committee consists of at least three members, including at least one Independent Member of the Supervisory Board. The independent member should have qualifications and experience in accounting or financial audit. In 2010, the Audit Committee worked in the following composition:

- Mr. Mirosław Kośmider                      Chair,
- Mr. Ralph Hamers                          Member,
- Mr. Jerzy Hausner                          Member (until 13 January 2010),
- Mr. Tom Kliphuis                           Member (until 5 February 2010),
- Mr. Nicolaas Cornelius Jue               Member (as of 22 February 2010),
- Mr. César González-Bueno               Member (as of 8 April 2010).

The Audit Committee meets at least once per quarter. While performing their tasks, the Audit Committee may make use of experts' assistance.

#### **Remuneration and Nomination Committee**

The Remuneration and Nomination Committee supports the Supervisory Board in the area of monitoring and supervision over the Bank's HR and payroll area, including in particular plans of succession, the process of employees' turnover, measuring the Bank employees' satisfaction, and

policy of remuneration and rewarding system.

The Remuneration and Nomination Committee consists of at least 3 members of the Supervisory Board, including at least one Independent Member.

In the year 2010, the members of the Remuneration and Nomination Committee included:

- Ms. Anna Fornalczyk                      Chair,
- Mr. Cornelis Leenaars                      Member,
- Mr. Wojciech Popiołek                      Member,
- Mr. Nicolaas Cornelis Jue                      Member,
- Mr. Brunon Bartkiewicz                      Member (as of 8 April 2010).

The Remuneration and Nomination Committee meets at least once per quarter. While performing their tasks, the Committee may make use of experts' assistance.

### Management Board

The Management Board is composed of 3 to 8 members appointed by the Supervisory Board for a term of 5 years. At least one half of the Management Board members have to be Polish citizens. In principle, two Management Board members, including the Chief Executive Officer, are appointed with the consent of the Polish Financial Supervision Authority.

The Supervisory Board determines the number of Management Board members for a given term. Management Board members may be dismissed at any time with the resolution of the Supervisory Board.

At the beginning of 2010, there was a change at the position of the Chief Executive Officer of ING Bank Śląski S.A. On 26 October 2009, Mr. Brunon Bartkiewicz tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Chief Executive Officer of ING Bank Śląski S.A., effective 31 December 2009. The reason behind resignation was his taking up a new position in ING Group. On 8 December 2008, the Supervisory Board appointed the then Executive Vice-President of the Management Board Ms. Małgorzata Kołakowska to the position the Chief Executive Officer subject to obtaining the required consent of the Polish Financial Supervision Authority. With the decision of 23 February 2010, the Polish Financial Supervision Authority consented to appoint Ms. Małgorzata Kołakowska as the Chief Executive Officer.

As the term of office of the Management Board came to its end, on 8 April 2010 the Supervisory Board appointed Ms. Małgorzata Kołakowska the Chief Executive Officer of ING Bank Śląski S.A. for the next term of office beginning as of the day of holding the General Shareholders Meeting approving the financial statement for 2009, that is as of 8 April 2010.

Furthermore, the Supervisory Board – upon consultation with the Bank Chief Executive Officer – appointed the following individuals for the next term of office:

- Mr. Mirosław Boda to the position of the Executive Vice-President of the Management Board of ING Bank Śląski S.A.,
- Mr. Michał Bolesławski to the position of the Executive Vice-President of the Management Board of ING Bank Śląski S.A.,
- Mr. Evert Derks Drok to the position of the Executive Vice-President of the Management Board of ING Bank Śląski S.A.,
- Ms. Justyna Kesler to the position of the Executive Vice-President of the Management Board of ING Bank Śląski S.A.,
- Mr. Oscar Swan to the position of the Executive Vice-President of the Management Board of ING Bank Śląski S.A.,

### Scope of responsibilities of the Members of the Bank Management Board

● Ms. Małgorzata Kołakowska	<b>Chief Executive Officer</b> , in charge of: Strategic Clients Division, Treasury and FM Division, and units that report directly to the Management Board of the Bank, including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, units of non-financial risk management, HR units),
● Mr. Mirosław Boda	<b>Executive Vice-President</b> , in charge of the Finance Division,
● Mr. Michał Bolesławski	<b>Executive Vice-President</b> , in charge of the Corporate Sales Network Division,
● Mr. Evert Derks Drok	<b>Executive Vice-President</b> , in charge of the Retail Banking Division,
● Mr. Justyna Kesler	<b>Executive Vice-President</b> , in charge of the: the Operations Division, Services Division and IT Division as well as units of project, processes and quality management and the position of the Management Board Representative for the Environmental Management System,
● Mr. Oscar Swan	<b>Executive Vice-President</b> , in charge of the Credit Risk Management Division and Market Risk Management Division.

All matters that are not restricted to the authorities of other Bank's bodies fall within the scope of the Management Board's activity. In particular, it is the task of the Management Board to:

- fulfil commercial, operational and financial objectives through determining and monitoring their execution by the organizational units,
- organize and supervise the risk management process in the Bank,
- organize and supervise the efficiency and effectiveness of processes supporting the Bank's commercial activity,
- ensure efficient functioning of the Bank's organizational structure and adequate security level,
- create the Bank corporate culture, norms of co-operation, principles of ethics and a friendly work environment for employees,
- draw up rules and implement informational policy as regards the Bank and its operational strategy.

The Bank Management Board formulates the strategy of the Bank's operations as part of a three-year rolling action plan, to be approved by the Supervisory Board.

Furthermore, the authorities of the Management Board also include decisions on assuming obligations or managing assets, if their total value for one entity exceeds 5% of the Bank's equity, unless those decisions have been reserved for the Supervisory Board or a relevant Committee, or unless they have been referred by the Management Board to another decision-taking level.

In accordance with Bank Organizational Bylaw the following matters are within the exclusive authority of the Management Board:

- establishment of Committees, determination of their scope of activities and composition as well as issue of bylaws thereto,
- establishment of Projects, determination of their objectives, rules of operations and requisite resources.

Apart from the matters covering the management of the Bank's business processes, the Management Board is authorized and obligated to take actions related to the Bank's operations as a joint-stock company (e.g. convening the General Meeting). The tasks of the Management Board in that respect may not be delegated to others. The Management Board act collegially with the reservation of issues which, pursuant to the stipulations of the Management Board Bylaw or the Organizational Bylaw, may be entrusted to individual Management Board Members.

The matters requiring a resolution by the Management Board are set forth in the Management Board Bylaw. The Management Board pass resolutions, provided that the meeting is attended by more than a half of the members and all Management Board members were invited. Resolutions of the Management Board are passed with the absolute majority of votes, except for appointment of a holder of commercial power of attorney, which shall require consent of all Management Board members and revocation of the holder of commercial power of attorney, which may be done by each Management Board member. In the case of a tie, the Executive President shall have the casting vote.

Management Board meetings are convened and chaired by the Executive President. The meetings are held as necessary, but at least once every other week, in practice once a week.

Members of the Management Board supervise individual divisions and organizational units in accordance with the segregation of duties defined by the Supervisory Board at the request of the Chief Executive Officer, and bear responsibility for implementation of their missions and core tasks. Where a member of the Management Board is unable to perform his/her authority temporarily, the Chief Executive Officer defines the rules of deputation.

Organization of the Management Board' work, the scope of matters requiring a resolution of the Management Board and the mode of its performance are defined in the Management Board Bylaw passed by the Management Board and approved by the Supervisory Board. Authorities of individual Management Board members are defined in the Organizational Bylaw of the Bank and the regulations concerning functioning of their areas as enacted by the Management Board.

## **XII. SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2010**

Despite the overall improvement of the economy, in 2010 the banking sector had to operate in a business environment that was full of challenges, such as: the continued difficult financial situation of certain client groups, which had an adverse effect on their ability to repay their previous credit debt, limited liquidity of the interbanking market and turbulence on the global financial markets. Those phenomena put a damper on the growth rate of many areas in the banking industry and required increased caution in pursuing the banking business.

In such a complex environment, in 2010 the Capital Group of ING Bank Śląski S.A. generated net profit of PLN 753.1 million compared with PLN 595.1 million in 2009 (up by 26.6%). The following factors contributed to the result:

- *Higher income.* In 2010, the Group's income totalled PLN 2,731.7 million against PLN 2,532.3 million a year earlier. Marked improvement was seen in particular in terms of the interest result, which was achieved thanks to higher share of loans in assets and higher margin.
- *Effective cost management.* As a result of consistent actions aimed at further improvement of the efficiency of resource use, in 2010 the operating expenses of the Bank's Capital Group totalled PLN 1,593.9 million. The 7-per cent increase of costs was related to an increase in market pay, as well as a higher scale of operations in the key areas of the Company's business, including lending.
- *Lower burden of risk costs.* Thanks to maintaining good quality credit portfolio (both in terms of retail and corporate loans), the balance of impairment charges went down from PLN 304.5 million in 2009 to PLN 203.6 million in 2010. The issue of deteriorated financial standing of clients who operated on the derivative market in 2008 was also ultimately solved in 2010.

As part of the operations of the Audit Committee, the Supervisory Board exercises ongoing oversight of the management of various types of risk at ING Bank Śląski S.A. on a stand-alone basis, as well as in the entire Group of the Bank.

ING Bank Śląski S.A. provides the Audit Committee with reports concerning actions taken to improve the system of internal control, as well as result of process reviews, which are carried out by the Internal Audit Department who report directly to the Chief Executive Officer. Over 2010, the actions taken by the Audit Committee included in particular: approval and updating of the 2010 Audit Plan, approval of amendments to the ING Bank Śląski S.A. regulations concerning the Internal Audit System. During each meeting, the members of the Committee familiarised themselves with the status of works on the Audit Plan and the quarterly Non-Financial Risk Dashboard Reviews. The results of that oversight allow us to conclude that ING Bank Śląski S.A. has an efficient system of internal audit, which is an important element of the process of adherence to the corporate governance rules.

The Audit Committee also supports the Supervisory Board in terms of monitoring and overseeing the system of financial risk (credit risk, liquidity risk and market risk) management. In 2010, the Committee acknowledged, among other things, the report on the assessment of the internal capital adequacy and was updated on a regular basis on the Risk Reports, which contain, among others, the analysis of sensitivity to credit risk and market risk (stress testing).

In the opinion of the Supervisory Board, ING Bank Śląski S.A. applies adequate techniques to identify, measure and manage financial risks. In 2010, ING Bank Śląski S.A. fulfilled all requirements of sound business operations and capital adequacy, and notably the Bank:

- Pursued prudent credit policy. The credit processes and procedures applied by the Bank were in line with regulatory requirements and best practices on the market. In 2010, the Bank took account of the economic situation in its credit policy and applied more restrictive procedures towards sectors that generated higher risk. In December 2010, the share of impaired loans totalled 4.9% and was lower than the average for the entire banking sector.

- Has systems and procedures in the area of market risk management that meet the highest market standards. In 2010, the levels of individual risk categories were within the limits applied by the Bank.
- Maintained good liquidity. The Bank remained net lender on the interbanking market, with one of the largest bases of stable and diversified household deposits among the banks in Poland.
- Had a sufficient level of equity. In December 2010, the solvency ratio of the ING Bank Śląski S.A. Capital Group totalled 13.2%. Such level shows that the Company has capital reserves that will allow it to develop lending even further.

The economic growth rate, which goes up with every quarter, increases the probability of continued economic revival in Poland in 2011. Economic recovery may be accompanied, however, by many challenges, including but not limited to the following: increased sell-out of certain assets due to the fiscal situation of certain countries, possible deterioration of the financial standing of exporters as a result of PLN-appreciation or changes to legal regulations that set the conditions for the functioning of banking institutions. Hence, the Supervisory Board emphasise that all efforts must be taken at ING Bank Śląski S.A. to achieve the following goals:

- Continuous growth of income. That growth should rely on market expansion, including in particular further dynamic growth of lending, which will enable effective use of the strong deposit base held by the Bank.
- Optimum use of resources, which is absolutely indispensable and which will be measured by an improvement of the C/I ratio. At the same time, higher cost effectiveness should not pose a threat to expenditure on further development on the Bank's infrastructure, including in particular projects aimed at the improvement of the quality and effectiveness of the Company's operations.
- Prudent management of equity, which should be the basis for the Bank's expansion on the market. Lending development, which is indispensable for further improvement of the Bank's effectiveness, should be diversified and should take account of the credit risk level of the individual client groups.

The commercial and financial results achieved by the Capital Group of ING Bank Śląski S.A. in 2010 are the proof that it has great potential for further growth and that it may successfully face any challenges that may appear on the market.



### **XIII. STATEMENTS OF MANAGEMENT BOARD OF ING BANK ŚLĄSKI S.A.**

#### **1. Truthfulness and Accuracy of Statements**

To the best knowledge of the Management Board of the Bank, the annual financial data for 2010 and the comparable data presented in the annual consolidated financial statements of the Capital Group of ING Bank Śląski S.A. were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial standing of the Bank's Capital Group and its financial result. The annual report of the Management Board being part of this document is a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's Capital Group in 2010.

#### **2. Selection of Entity Authorised to Audit Financial Statements**

The entity authorised to audit the financial statements that audited the annual financial statements of the Bank's Capital Group was selected according to the effective laws and Bank's regulations. The entity and the certified auditors fulfilled the conditions required to make an impartial and independent report on their audit, as required by the applicable Polish laws.

#### **3. Additional Information**

##### **Agreements Concluded**

The Bank Management Board declare that as at 31.12.2010 ING Bank Śląski S.A. did not have any:

- significant cash loans agreements, sureties or guarantees not concerning operating activity,
- liabilities towards Central Bank,
- contractual obligations due to issued debt securities or financial instruments.

##### **Number and Value of Writs of Execution**

To safeguard the Bank against the lending-related risk, the Bank accepts various personal and tangible collaterals such as: bank guarantee, surety under the civil law, blank promissory note, draft guarantee, transfer of debt claims, mortgage, pledge register, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank's account and freezing of funds in the bank account.

As at 31 December 2010, the number of writs of execution issued by the Bank in the case of loans for business purposes was 223 and covered total debt of PLN 353.8 million.

As regards retail clients, in the year 2010 the Bank filed 11,334 banking writs of execution totalling PLN 93,610,600 and 9,854 claims totalling PLN 59,103,800.

Value of proceedings regarding liabilities or debt claims in progress in 2010 did not exceed 10% of the Bank's equity.

The Bank is of the opinion that individual proceedings that were in progress in 2010 and that were heard before any court of justice or arbitration, or before any public administration authority, as well as all proceedings in total do not pose a threat for the financial liquidity of the Bank.

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

**Małgorzata Kołakowska**

Chief Executive President

*(signed on the Polish original)*

**Mirosław Boda**

Executive Vice President

*(signed on the Polish original)*

**Michał Bolesławski**

Executive Vice President

*(signed on the Polish original)*

**Evert Derks Drok**

Executive Vice President

*(signed on the Polish original)*

**Justyna Kesler**

Executive Vice President

*(signed on the Polish original)*

**Oscar Edward Swan**

Executive Vice President

*(signed on the Polish original)*

1 March 2011

