

## SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF THE ING BANK ŚLĄSKI S.A. 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 ING Bank Śląski S.A. generated net profit of PLN 702.3 million compared with PLN 582.2 million in 2009 (up by 20.6%). The following factors contributed to the result:

- *Higher income.* In 2010, the Bank's income totalled PLN 2,622.7 million against PLN 2,468.9 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 totalled PLN 1,544.0 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 304.9 million in 2009 to PLN 201.7 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 ING Bank Śląski S.A. totalled 12.2%. 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 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.