2011

Report of the Management Board on Operations of the ING Bank Śląski S.A. Capital Group in 2011

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CHAIR'S STATEMENT

Dear Shareholders,

In 2011, ING Bank Śląski S.A. had to meet a lot of challenges that troubled the financial market. Throught this time, the Bank Supervisory Board analysed thoroughly the market risk management policy, the balance sheet liquidity, accumulated capital as well as the Bank's development plans for subsequent years.

I am fully convinved that the year 2011 was particularly good for ING Bank Śląski S.A. both in terms of achieved development dynamics in the key areas of operations and the generated financial results.

As at the end of December 2011, total assets and liabilities of the Capital Group of ING Bank Śląski S.A. amounted to PLN 69.7 billion, up by 8% compared to the previous year. Thus, the Bank with a 5.4% share in assets of the Polish banking sector was the fourth largest bank in Poland. The dynamic growth of lending as well as augmentation of Clients' funds value resulted in the increase in the Bank's scale of operations. The total value of deposits in the accounts maintained by the Bank Capital Group exceeded the level of PLN 52.3 billion, up by almost PLN 5.5 billion versus last year. Household deposits, amounting to PLN 33.4 billion, constituted the main part of the said deposits.

A clear growing trend in credit receivables portfolio was also maintained. As at the end of 2011, the Bank Capital Group credit exposure totalled PLN 37.4 billion, up by 21% throughout the year for both retail and corporate Clients as a result of harmonious lending development. Thus, the Bank's balance-sheet structure improved in terms of its ability to generate income.

ING Bank Śląski S.A. maintained a healthy credit portfolio throughout 2011. Owing to the continued prudent credit policy, in December 2011 impaired loans represented 4.2% of the total credit exposure of the Group, i.e. almost two times less than the average for the whole market.

Other ratios determining the institution's secure operations were also kept at a high level. Thus, in December 2011, the solvency ratio of the Bank Capital Group totalled 12.28%. The stress tests carried out by the Polish Financial Supervision Authority Office confirmed high resistance of ING Bank Śląski S.A. to potential, considerable macroeconomic deterioration.

The Bank Capital Group closed 2011 with the highest net profit in the Bank's history amounting to PLN 880.1 million, up by 17% in comparison with the last year. This result ensured improvement of the key effectiveness ratios. The return on assets rate was 1.3%, i.e. 0.1 p.p. higher than in 2010. Cost effectiveness was also substantially better, which is reflected in the Cost/ Income ratio decrease from 58.3% in 2010 to 56.3% in 2011.

In 2011,the strategic decisions were taken on the composition of the Capital Group of ING Bank Śląski S.A. The consolidation of ING Bank Śląski S.A. and ING Bank Hipoteczny S.A. that took place on 1 November should result in increasing the scale of funding commercial real properties as well as better use of the held capital resources. The purchase of ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A., on the other hand, will strengthen the Bank's relationships with corporate clients by extending the scope of products offered to business entities with ABL services.

Thinking about benefits for shareholders as well as potential investors, the Company's shares were split. We believe that a lower price per share should help individual investors take decision to invest their savings in the shares of ING Bank Śląski S.A. and thereby improve shares listings and liquidity on the WSE.

ING Bank Śląski S.A. holds appropriate capitals that enable further secure development of the institution. Nevertheless, taking into consideration extension of the Bank Capital Group composition as well as the future higher capital requirements, the Supervisory Board hereby concur with the Management Board request for suspension of dividend payout from 2011 profit. The Supervisory Board agree with the opinion that the allocation of the entire profit for strengthening the capital base will increase the Bank's resistance to possible market turbulence and will create a favourable environment to execute the Company's strategy effeciently in the years to come.

Taking into account the knowledge on the Company's operations in the last years, in my opinion ING Bank Śląski S.A. will pass the test of resistance to unexpected unfavourable events that may occur in the external environment and its results in 2012 will be satisfactory to all Company's stakeholders - shareholders, clients and employees of the Capital Group of ING Bank Śląski S.A.

Yours sincerely,

Anna Fornalczyk
Chair of the Supervisory Board

CHIEF EXECUTIVE'S REVIEW

Ladies and Gentlemen,

Enclosed you find the financial statements of the ING Bank Śląski S.A. Capital Group for 2011. 2011 was a year full of business and financial success. We earned a record result. Our net profit was PLN 880.1 million, i.e. 17 per cent above the last-year net profit. That the Company was effectively managed was proven by generating higher than the average of peer banks return on capital invested, among other things. It was 14.7% or 0.5 p.p. higher than in 2010. The market recognised our financial results growing year by year and in 2011 ING Bank Śląski S.A. was considered, yet a second year in the row, one of the best financial institutions in Poland.

Bank's results are the consequence of our consistent strategy execution. Similarly to the previous years, also this year, building value for clients, shareholders and employees was the primary objective of the Bank. In every our activity, we focused on clients' needs and provision of high quality tailored products and services thereto. The *Preferred Bank* strategy adopted by us brought expected results. In March 2011, we welcomed the 3-million client and in December 2011 our services were used by 120 thousand clients more than a year ago.

We thoroughly analyse our clients' needs and we provide them with new products and solutions. We adapt to the changing environment and changing clients' needs. We rendered available an internet channel for sale of corporate loans and we redeveloped the Internet banking system for retail clients. Better and better client satisfaction survey results confirm full approval of launched solutions by our clients.

In December 2011, credit receivables of the ING Bank Śląski S.A. Capital Group totalled PLN 37.4 billion, up by almost PLN 6.4 billion from a year earlier. In 2011 – with loans granted worth above PLN 3.6 billion – we remained among the top banks as to sale of mortgage loans, earning almost a 10%-share in sale of PLN mortgage loans. We also participated in large transactions to fund projects of the largest Polish companies and signed new agreements concerning provision of local government units with credit facilities.

We expanded our deposit base as well. In December 2011, clients held PLN 52.3 billion worth of funds in the accounts of the ING Bank Śląski S.A. Capital Group. With that result, we were able to retain our position as the third largest deposit bank in Poland, with the market share of 6.9%. We are pleased with a considerable growth of funds deposited in household accounts. They amounted to PLN 33.4 billion and were PLN 3.3 billion higher than in December 2010.

Dynamic business growth and consistent pursuit of our objectives contributed to a considerable growth of income. In 2011, income of the ING Bank Śląski S.A. Capital Group totalled PLN 2,953.6 million, up by 8% versus 2010. This growth was largely possible thanks to a 14%-rise in the net interest result, which derived, among others, from further structure improvement of the balance-sheet and intensified use of the deposit base for lending purposes. In December 2011, the Loan to Deposit ratio was 71%, up by 5 p.p. versus December last year.

Courtesy of the long-term and well-thought-out credit policy, we were able to improve the quality of our credit portfolio. In December 2011, impaired loans accounted for 4.2% of the total credit exposure of the Group, which is considerably lower than the average for the entire banking sector. Thanks to a good quality of assets, we managed to reduce the risk costs encumbering the Bank Capital Group's financial result from PLN 203.6 million in 2010 to PLN 172.4 million in 2011.

A high quality of credit receivables and a comprehensive financial risk management process accounting for the capital held, translated into a safe capital adequacy level. In December 2011, the solvency ratio of the ING Bank Śląski S.A. Capital Group totalled 12.28%.

So as to better employ the capital held and make the credit risk management process more effective, we finalised the project of incorporation of ING Bank Hipoteczny S.A. into the structures of ING Bank Śląski S.A. Just before the end of the year, we concluded an agreement to purchase the ABL Polska S.A. company being the owner of the ING Lease (Polska), a leasing company, and ING Commercial Finance Polska, a factoring company. By doing so, we were able to expand our offer for clients with asset-based lending products. We made a split of Bank's shares, whereby they became more liquid and available for a larger group of potential shareholders.

As part of the activities aimed at ensuring the title of the top employer for our institution, in 2011 we conducted yet new projects focused on establishing strong leadership, supporting professional development of our employees and implementing transparent and cutting-edge internal communication. Efficacy of our activities as to building relationships with employees was verified as part of the annual organisational culture survey. Its results indicate the sustained high employee engagement. A substantial majority of employees consider ING Bank Śląski S.A. a sound and reliable employer. The Employee Pension Programme of ING Bank Śląski S.A. registered at the end of 2011 will be an important component in building secure financial future of employees.

ING Bank Śląski S.A. was once more included in the Respect Index – the index published by the Warsaw Stock Exchange for the most socially responsible companies. In 2011, we won the first place in the Ranking of Socially Responsible Companies in the banking and financial sector.

In 2012, we will continue to pursue our strategy which proved successful over the recent years. The main objective of the Bank will remain to create value for clients, employees and shareholders. We will focus on sustaining the strong position of the deposit bank, continuing optimisation of the balance sheet structure and growing capital as a result of accumulation of the profit earned. In 2012 budget, we also provided for the funds to run projects of significance for accomplishment of the key Bank's objectives. These are: continuation of retail and corporate branch modernisation, making the lending process for retail clients more effective, expansion of the Internet banking functionality for corporate and retail clients and development of mobile banking.

We believe that with the use of solid foundations, considerable experience, engaged employees and sustained partnership relationships with clients 2012 will prove yet another good year for us.

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 2011, the Bank's Capital Group balance sheet total amounted to PLN 69,723.4 million, or 5.4% of the total assets of the Polish banking sector. Consequently, the Bank was ranked fourth on the Polish market by balance sheet total. The Bank managed PLN 52.3 billion worth of funds in the Group's accounts, which made it the third largest deposit bank in Poland. In December 2011, ING Bank Śląski S.A. had a strong position on the core markets of banking services, notably:

- Retail Banking. Number four on the market in terms of: the value of household deposits (with a share of 7.1%), the number of personal accounts and PLN mortgage sales (with a share of 9.2%).
- Corporate Banking. 16% of mid-sized companies and mid-corporates used Bank's services (third position on the market). The Bank was the third largest lender (with a market share of 7.3%).
- Money markets and capital markets. In 2011, the share of ING Securities S.A., brokerage house owned by the Bank, in the trading on the Warsaw Stock Exchange totalled 9.1% (number three on the market). The Bank's third position on the short-term debt securities market (18.3% share) and fourth position in the Dealer Activity Index and in the competition for Treasury Securities Dealer.

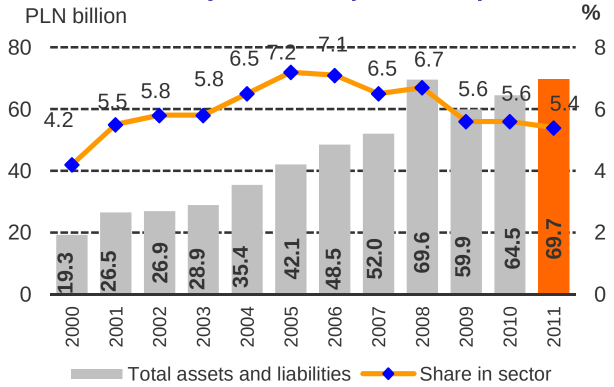
In December 2011, 2,842.7 thousand individual clients used the services of ING Bank Śląski S.A., up by 102.3 thousand compared to a year earlier. The customer base also included: 230.5 thousand small businesses and 27.6 thousand mid-sized and large corporate institutional entities.

The Bank had a nationwide network of 439 bank outlets, which provided access to 425 self-banking zones open 24 hours a day. The clients of ING Bank Śląski S.A. are guaranteed free access to a network of 773 ING ATMs. The clients of Direct and VIP Accounts as well as entrepreneurs can also use all ATMs in Poland. The Bank provides the clients with banking services via modern electronic banking channels, such as: the Internet banking systems (*ING BankOnLine, ING BusinessOnLine*), a phone banking system (*HaloŚląski*), mobile banking and a text messaging system (SMS system).

As at the end of 2011, the ING Bank Śląski S.A. Capital Group had 8,409 employees.

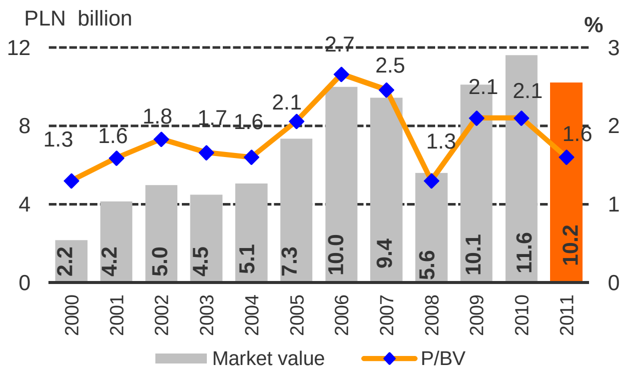
ING Bank N.V., which holds a 75% share in the Bank's equity, is the strategic investor of ING Bank Śląski S.A.

Total assets and liabilities of ING Bank Śląski S.A. Capital Group

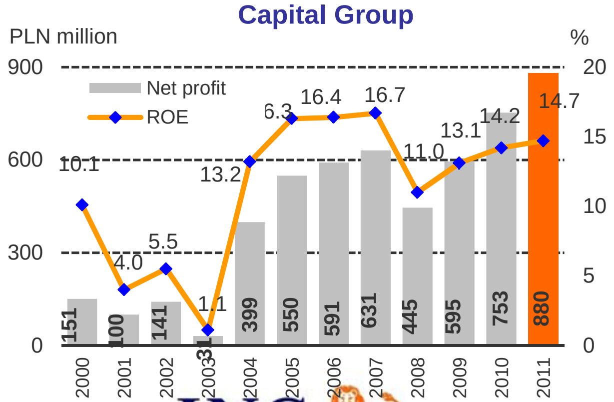


Number of clients of ING Bank Śląski S.A. (in million)

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 ING Bank Śląski S.A. Capital Group for the years 2006 to 2011

	2011	2010	2009	2008	2007	2006
Result on core activity in PLN million[1]	2,953.6	2,731.6	2,532.3	2,127.7	2,072.9	1,821.3
Overheads in PLN million[2]	-1,663.6	-1,593.9	-1,489.5	-1,499.0	-1,389.1	-1,233.9
Risk costs in PLN million	-172.4	-203.6	-304.5	-65.6	103.2	165.9
Gross profit in PLN million	1,117.6	934.1	738.3	563.1	787.0	753.3
Income tax in PLN million	-237.5	-181.0	-143.3	-117.6	-150.2	-155.4
Net profit attributable to the shareholders of the parent entity in PLN million	880.1	753.1	595.1	445.4	630.7	591.4
Balance sheet total in PLN million	69,723	64,518	59,883	69,610	52,011	48,476
Liabilities due to customers in PLN million	52,932	47,400	47,584	47,067	44,502	38,561
Loans and cash loans extended to clients in PLN million	42,329	34,509	30,593	25,743	16,379	12,868
Off-balance sheet liabilities in PLN million	182,355	150,379	145,667	292,132	234,247	181,492
Equity[3] in PLN million	5,534	4,898	4,289	3,777	3,208	3,164
Solvency ratio as %	12.3	13.2	12.0	10.4	13.1	15.7
Gross profit/ Total expenses as %	31.5	28.7	20.5	14.3	26.7	31.5
Net profit/ Balance sheet total (ROA) as %	1.3	1.2	0.9	0.7	1.2	1.3
Net profit/ Equity (ROE) as %	14.7	14.2	13.1	11.0	16.7	16.4
Cost /Income ratio (C/I) as %	56.3	58.3	58.8	70.5	67.0	68.7
Earnings per 1 share in PLN	6.76	5.79	4.57	3.42	4.85	4.55
Dividend per 1 share in PLN	0[4]	15.0	0.0	0.0	11.7	27.9

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

Fitch Ratings Ltd.	
Long-term IDR	A
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Viability 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+
Financial strength outlook	Stable

[1] Including net profit of affiliated entities recognised on an equity basis.
[2] Operating expenses with amortization/depreciation and result on other operating activities.
[3] Equity of the parent entity less current year result.
[4] Bank Management Board recommendation.

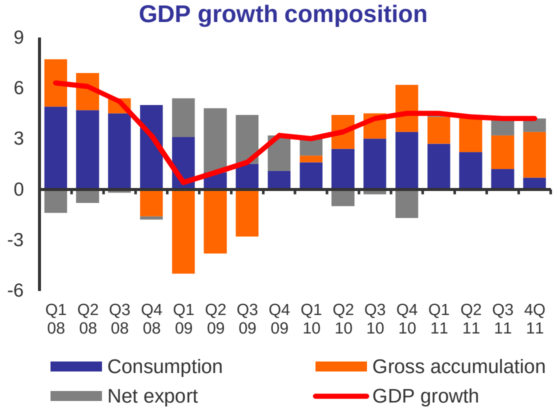
I. MACROECONOMIC SITUATION OF BANKING SECTOR GROWTH IN 2011

1. Major Trends in the Polish Economy

Gross Domestic Product

In 2011, Poland maintained a relatively high economic growth rate under severely unstable situation on the financial markets and weakened economic condition in many European countries. At the same time, the GDP growth rate steadily contracted from 4.5% in Q1 to 4.2% in Q4 2011. Initially, it is estimated that throughout 2011 the economic growth rate totalled 4.3%.

In 2011, the Polish economy developed mainly under the influence of internal factors. However, the impact of the said internal factors on the GDP growth differed a little when compared to the previous years. The consumption share decreased gradually from quarter to quarter on account of the sustained difficult situation on the labour market as well as worsening consumers moods resulting in the stronger propensity to save. Accumulation and investments constituting its part had bigger impact on the economic growth. Moreover, in H2 2011, the Polish export revived to the extent that guaranteed positive contribution to the GDP growth on account of improvement in the competitiveness of Polish companies (due to Polish zloty depreciation).



Labour Market and Remuneration

In H1 2011, employment in the Polish economy grew slowly. However, in the summer, companies started to fear economic slowdown and limit recruitment of new employees. As a result of the said trend, in December 2011, employment in the enterprise sector totalled 5,503.2 thousand employees. In other words, it went up by 123.8 thousand employees (2.3%) at year-end 2010.

In 2011, one of the biggest problems of the Polish economy was high unemployment, which resulted from the declining labour demand. In December 2011, the number of unemployed totalled 1,983 thousand up by approx. 28 thousand compared to the end of 2010. The unemployed accounted for 12.5% of the professionally active people against 12.4% at the end of December 2010.

The relatively high unemployment rate as well as the uncertainty as to the economic growth perspectives decreased the companies' propensity to raise pay. In December 2011, average monthly gross pay in the enterprise sector was 4.4% higher than a year ago. Under the increased inflation, the purchasing power of average pay decreased by 0.2%.

Inflation

In the first months of 2011, the inflation trends in Poland escalated and the prices grew at a pace exceeding the upper level of acceptable fluctuations as adopted by the Monetary Policy Council. Inflation escalated as a result of external factors such as a significant increase in prices of raw materials and food worldwide (caused mainly by the situation in North Africa and in the Middle East as well as high demand of the dynamically developing emerging markets for raw materials) as well as domestic factors (related to the VAT base rate increase, series of increases in controlled prices and maintained economic revival). In May, consumer prices were higher by 5.0% than a year ago. Since June inflation has been curbed a little. However, in the autumn, prices started to grow quickly and in December 2011 were 4.6% higher than a year ago. At the same time, the Polish zloty considerably depreciated.

The year 2011 saw an increase especially in prices of housing fees and energy carriers (by 6.0%), healthcare services (by 8.0%) and transport (9.0%). However, clothing and footwear became cheaper (by 2.1%).

Impact of the Global Financial Markets Situation on the Polish Economy

The financial markets entered the year 2011 with fears related to the condition of public finances of peripheral Eurozone countries resulting above all from lack of radical fiscal reforms in Greece and the Portugal's growing debt. Investors were also worried by the effects of the FED's expansive monetary policy as well as lower than expected American economy recovery pace and lack of clear declarations as to the further actions at the end of the QE2 programme. In H1 2011, decisions of the European Commission on the financial stability facilities; i.e. agreeing on 78-billion-euro bailout for Portugal and granting Athens another pool of funds from the EUR 110 billion bailout package, temporarily calmed down investors' moods.

Disturbing trends in the developed countries were accompanied by dynamic economic growth of the emerging markets (especially in China, India, Brazil and Argentina). Unlike in 2010 (during which the developing countries weakened their currencies by purchasing assets of the developed countries, among others) the developing countries changed their policies and at the beginning of 2011 started to cool down their economies and introduced a series of interest rates increases to curb rising inflation.

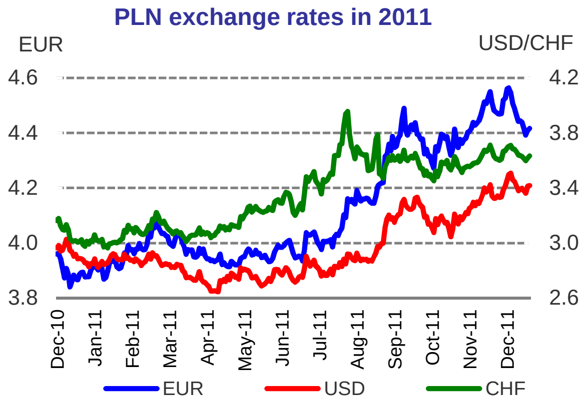
The gloom and doom on the financial markets deepened at the end of summer 2011 which coincided with the announcement of the Standard&Poor's decision on downgrading the USA credit rating from the top rate of AAA to AA+. Markets reacted especially nervously to the prevailing opinions on the inevitability of Greek default as well as to the data on the escalating economic crisis in Italy and the fears of possible Eurozone breakup. In the autumn, it became clear that some Eurozone countries would not avoid recession and that many global banking institutions would need substantial recapitalisation in anticipation of possible losses on their exposure to government bonds of countries affected by the European sovereign debt crisis. Escalation of the crisis in the Eurozone provoked the rating agencies to downgrade rating for other countries (Spain, Slovenia, Italy and Portugal). FED's operation twist, another economy stimulating programme, did not win total approval. Under the programme, the Federal Reserve will buy USD 400 billion of bonds with maturity of at least 6 years through June 2012 while selling an equal amount of debt maturing in three years or less. The abovementioned developments resulted in substantially stronger aversion to risk and investors' outflow from emerging markets, including Poland.

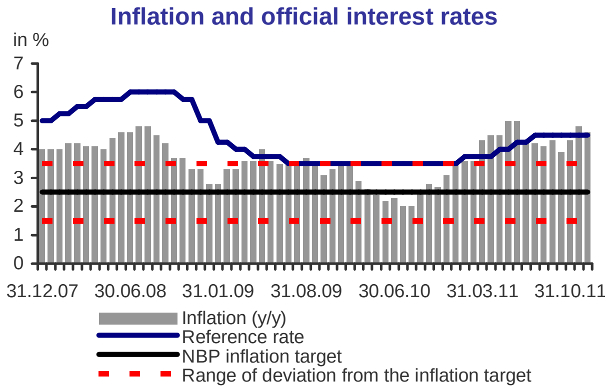
At the end of October, the financial world welcomed the anti-crisis package, the European Financial Stability Facility reform as well as the second bailout package for Greece (inclusive of reduction of Greece's liabilities due to private investors by 50%). It was accompanied by establishment of expert governments in the Eurozone countries affected by debt-crisis and adoption of austerity measures by them. The EU summit in December did not provide precise solutions; however, it did announce introduction of the fiscal union and provision of loans for the International Monetary Fund by the EU members. Moreover, slightly better data on the American economy, interest rates cuts in the Eurozone and ECB's extension of the first loan to commercial banks resulted in a slight calming mood the fact that investors' moods on the financial market calmed down slightly in the last days of 2011.

PLN Exchange Rates

In 2011, the PLN exchange rate was to a large degree driven by the events on the global financial markets. In particular, in Q3, the Polish zloty was not that resilient to information from the Eurozone. Significant weakening of the Polish zloty jeopardizing the II prudential threshold as regards state debt caused the National Bank of Poland, similarly as many other central banks in developing countries, to enter the FX market. The foreign currencies intervention sales actions initiated at the beginning of September 2011 by the Central Bank and BGK only temporarily eased the downward trend of the Polish currency.

In the end, Polish zloty weakened against American dollar by 15.3% and against euro by 11.5% in 2011, in the context of euro depreciation against American dollar. After significant depreciation of Polish zloty against Swiss franc recorded in H1 2011 and as a result of the decision of the Swiss Central Bank taken in September on freezing Swiss franc exchange rate against euro, the Polish zloty exchange rate against CHF stabilized a little. Nevertheless, Polish zloty lost against Swiss franc 14.8% of its value over the year 2011.

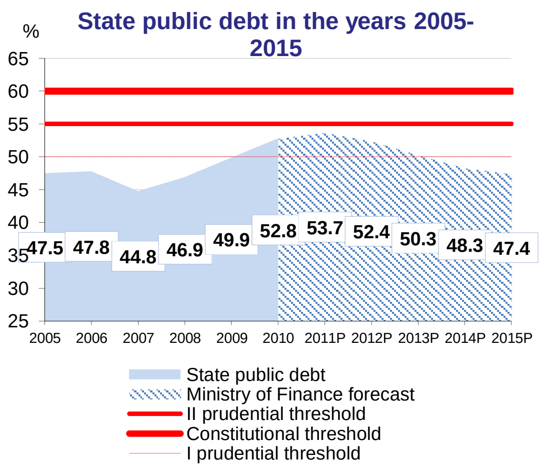


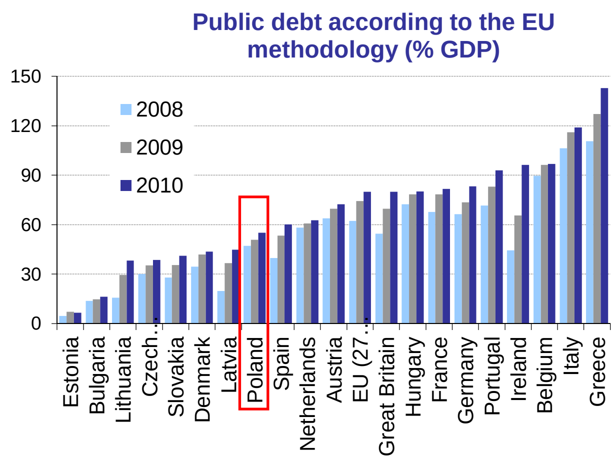


State Budget

The condition of state finances and reduction of the budget deficit level constituted a challenge for the Polish economy. The Budget Act for the year 2011 set the state budget deficit at the level of PLN 40.2 billion. The said Act accounted for the decisions taken as regards budget deficit limitation such as: VAT rate increase by 1 p.p., expense rule on flexible expenses in the form of limiting their growth up to 1% plus inflation level, consolidation of state finances and decreasing the premium transferred to the open-end pension funds from 7.2% to 2.3%.

Significant depreciation of the Polish zloty observed in 2011 as well as the approaching economic slowdown considerably increased the risk of the state public debt exceeding the II prudential threshold (i.e. 55% of GDP). Ultimately, in 2011, the budget deficit amounted to PLN 25.0 billion. Lower than planned deficit resulted above all from: higher (especially in H1 2011) tax proceeds related to faster than expected economic growth and higher inflation, not included in the budget plan profit of the National Bank of Poland as well as limitations to some budget expenses. Preliminary estimates indicate that public debt to GDP ratio in 2011 approximated the level of 54%. It is worth mentioning that the budget deficit was positively influenced by the interventions on the FX market made to defend Polish zloty exchange rate as well as the redemption of T-bills worth PLN 4.7 billion by the Ministry of Finance.





The expected slower economic growth in 2012 and the unstable situation on the financial markets caused that Donald Tusk, reappointed as the Prime Minister, announced in the delivered policy statement adoption of a series of reforms to improve state finances. The introduced reforms will be of short-term (higher pension contributions, elimination of some tax reliefs, introduction of tax on some ore extraction) as well as long-term nature (raising the retirement age, agricultural insurance scheme reform). In December 2011, the Sejm adopted the Budget Act for the year 2012, wherein the state budget deficit was set at the level of PLN 35.0 billion assuming that the GDP in Poland would rise by 2.5%. According to the Ministry of Finance forecasts the state debt relation to GDP in 2012 will be 52.4%[5].

[5] Source: Ministry of Finance, 2012-2015 State Debt Management Strategy.

2. Monetary Policy

As a result of inflation increase above the inflation target as well as a relatively high economic growth rate in Poland within the last few months of 2010, the Monetary Policy Council started to tighten the monetary policy already in January 2011 by increasing the base interest rates by 0.25 p.p. In H1 2011, the Monetary Policy Council raised the interest rates by 0.25 p.p. three more times (in April, May and June). As a result from June 2011 the interest rates were as follows:

- reference rate – 4.50%,
- rediscount rate – 4.75%,
- lombard rate – 6.00%,
- deposit rate – 3.00%.

From 31 December 2010, reserve requirement ratio increased by 0.5 p.p. started to be binding pursuant to the decision taken by the Monetary Policy Council in October 2010.

In 2011, the Monetary Policy Council paid more attention to the impact of the Polish exchange rate on inflation than in the previous years. During the April meeting with the President of the National Bank of Poland the Finance Minister undertook to exchange some EU-funds granted to Poland on the market and not in the central bank as was the case in the past. Its aim was to limit the banks' ample liquidity growth and facilitate the National Bank of Poland's fight with inflation.

In H2 2011, as a result of the financial crisis escalation in the Eurozone and Polish zloty depreciation stimulating prices increase, the Monetary Policy Council maintained the base interest rates on the same level (despite the substantial forecasts downgrade for economic growth in Poland).

In the opinion of the Council presented after its last decision-making meeting in 2011, *in the medium term inflation will be curbed by gradually decelerating domestic demand amidst fiscal tightening, including reduced public investment spending, and NBP interest rate increases implemented in H1 2011 as well as the expected global economic slowdown. The impact of the situation in the global financial markets on zloty exchange rate continues to be an upside risk to domestic price developments.* However, it was emphasised in the press release that the Council *does not rule out the possibility of further monetary policy adjustments in the future, should the outlook for inflation returning to the target deteriorate.*

3. Banking Sector

In 2011, the financial situation of the banking sector in Poland was better than a year earlier. Nevertheless, the lessons learned by the banks after the 2008 crisis and severe imbalance on the global financial markets made banks strive to maintain secure structure of their balance sheets which are based on clients' deposits; they also limited their investments in risky assets, more thoroughly examined clients' creditworthiness, increased capitals and put attention to the maintenance of secure liquidity ratios.

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

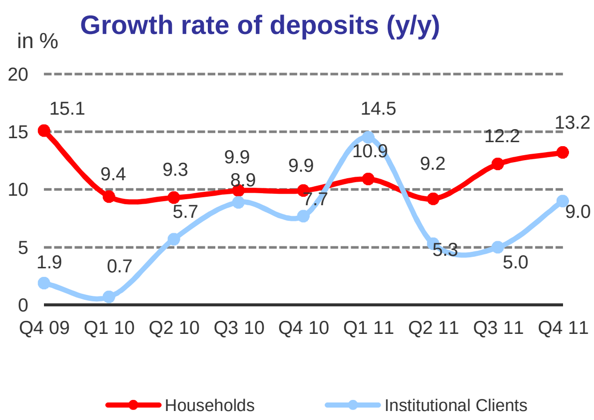
- *Household deposits.* As a result of the growing propensity to save coupled with the growing attractiveness of deposits as compared to investments on the capital market, in December 2011, household deposits amounted to PLN 482.1 billion, up by 13.2% compared to the end of 2010. The so-called "Anti-tax"[6] term deposits with almost 20% share of total clients' deposits were particularly popular.
- *Deposits of institutional clients*[7]. In December 2011, deposits of institutional clients amounted to PLN 288.9 billion, up by 9.0% versus the end of 2010. Mainly the deposit balance in

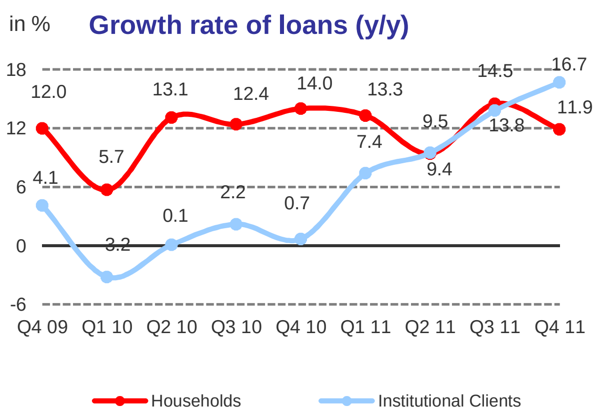
[6] Term deposits with daily interest compounding making it possible to avoid paying 19% tax on capital gains.
[7] Total for the following classes of entities: non-monetary financial institutions, enterprises, non-profit institutions serving households, local government institutions and social insurance funds.

corporate accounts and accounts of non-bank financial institutions went up by 12.2% and 10.7% respectively.

- *Credit receivables from households.* In December, they amounted to PLN 537.0 billion, up by 11.9% as compared to December 2010 (it is estimated that a half of this increase is due to the weakening of the Polish zloty). The growth of lending was being sustained by housing loans, which constituted the main part of the banks' credit exposure towards households. Their value went up by 19.4% during the year (once we eliminate the impact of the weakening of the Polish zloty, the growth of the housing loans portfolio totalled 9.3%). According to the data of the Polish Bank Association, in 2011 banks extended housing loans for the amount of PLN 51.0 billion, 77% of which account for PLN loans. Loans granted as part of the *Family on its own* programme *(Rodzina na swoim*) were very popular; in 2011, the said loans were extended for the total amount of PLN 10.2 billion. Banks receivables from households under cash loans went down mainly due to new supervisory regulations and limitation of these loans' availability at banks.

- *Credit receivables from institutional clients.* After the period of stability for the credit portfolio value, enhanced investment activity of some companies led to its significant increase in 2011. In December 2011, the credit exposure of banking sector towards institutional clients amounted to PLN 324.8 billion, up by 16.7% as compared to December 2010 (out of which 4 p.p. were the result of the Polish zloty depreciation). Loans to enterprises had the main share in that growth (increase by 18.1% or by 14.1% excluding effect of Polish zloty depreciation).



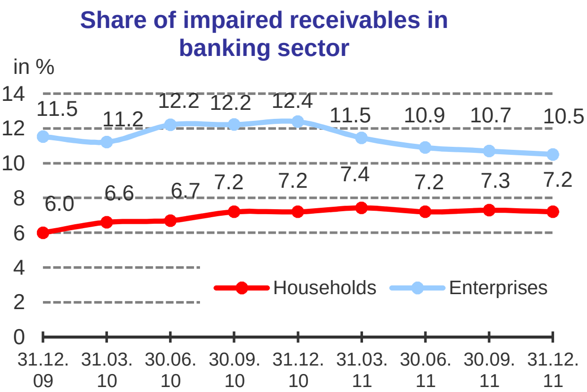


In 2011, banks generated net profit of PLN 15.7 billion (up by almost 38% when compared to the last year)[8]. The improvement of banking sector's profitability was the result of:

- Higher net interest income due to base interest rates increase, improved liquidity and partial normalisation of situation on the interbank market.

- Keeping cost discipline. Augmentation of operating expenses across the entire sector resulted mainly from: intensification of inflation trends and Polish zloty weakening as well as the headcount and remuneration increase.

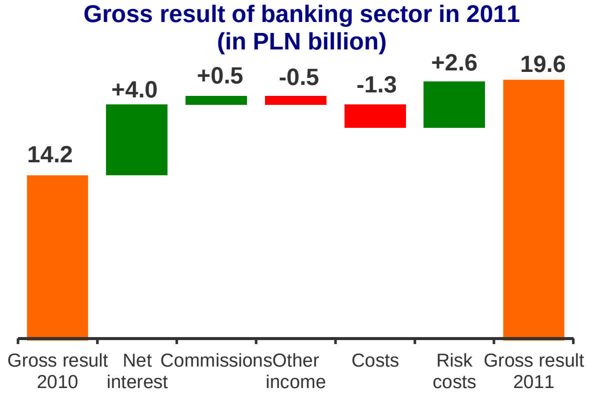
- Significant decrease of write-offs on the impaired portfolio as a result of credit receivables quality improvement.

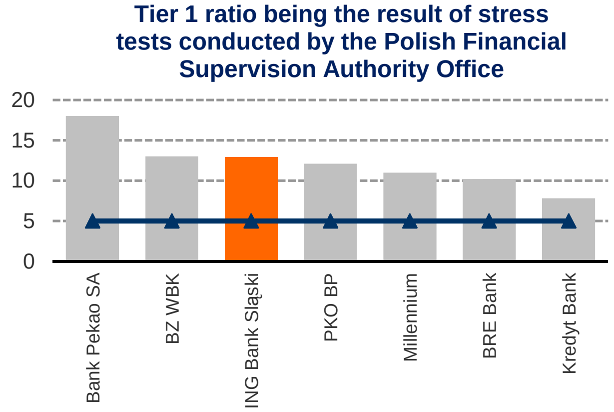


The share of impaired receivables in total receivables from the non-financial sector went down from 8.8% in December 2010 to 8.3% in December 2011[9]. Throughout 2011, mainly the quality of banks'

[8] Source: PFSA, File: Monthly Data for the Banking Sector – December 2011.
[9] Source: NBP, File: Financial Data for the Banking Sector.

credit exposure towards enterprises improved while the quality of loans to households remained relatively stable.





Due to earmarking most profits from 2010 for the capital increase as well as due to moderate lending dynamics, the solvency ratio of the Polish banking sector remained relatively high in 2011 and in December totalled 13.1%.

The Polish Financial Supervision Authority Office together with the Financial Stability Committee developed and conducted stress tests for domestic subsidiaries being part of banking groups participating in the European tests. The results of tests carried out by the Polish Financial Supervision Authority Office were positive for all the banks - subsidiaries of entities covered by EBA stress tests - and they confirmed stable capital position of banks operating in Poland. However, the volatile and uncertain situation on financial markets caused the banking supervision to recommend the banks not to pay out the dividend from the profit from 2011; it also presented a set of criteria enabling banks to take a decision about potential dividend payout.

The financial crisis from the end of 2008 and financial problems of foreign investors of some banks impacted the shift in ownership control in the Polish banking sector in 2011. At the same time, due to the growing capital needs and the need to satisfy new tightened supervisory requirements, strategic investors, one after another, attempted in vain to sell their Polish assets.

In 2011, the Polish Financial Supervision Authority introduced numerous changes in supervisory requirements, inclusive of:

- Modification of the S Recommendation on concerning best practices in managing credit exposures financing real estate and mortgage-backed credit exposures tightening the requirements for assessing the creditworthiness of customers. Under the Resolution, the Banks are obliged to observe from 25 July 2011 the qualitative requirements and to introduce by 31 December 2011 the quantitative requirements concerning mortgage backed exposures (applying the maximum period of 25-year tenor when establishing creditworthiness, among other things).
- Amendments to the R Recommendation concerning the rules for identification of impaired balance sheet credit exposures, calculation of impairment losses on balance sheet credit exposures and provisions for off-balance sheet credit exposures (the amendment is effective as of 01 December 2011).
- Amendments to the Resolution No. 76/2010 on the scope and detailed procedures for determining capital requirements for particular risks (increasing from 30 June 2012 risk weights for retail credit exposures in foreign currencies from the preferential level of 75% to the base level of 100%),
- Implementation of the EU Directives – CRD II and CRD III, by passing:
  - Resolution no. 258/2011 on detailed on detailed principles of operation of the risk management system and the internal control system, and detailed conditions for estimation of internal capital by banks and for reviews of the internal capital retention and estimation process and the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks,

- Resolution no. 259/2011 on detailed rules and mode of announcing by the banks the information of qualitative and quantitative nature concerning capital adequacy and the scope of information subject to announcement.

Moreover, adoption of the following acts had a significant impact on the operations of some banks:

- The Act of 29 July 2011, referred to as anti-spread one, obliging the banks to accept, in case of FX mortgage loans, repayment of the principal and interest in the credit currency and prohibiting limitation of consumers' right to obtain this currency from any source (effective as of 26 August 2011).
- The Act of 15 July 2011 amending the Act on financial support for families in buying their own flat whereunder the *Family on its own* programme (*Rodzina na* swoim) is to be gradually terminated.
- Amendment to the Tax Ordinance Act eliminating with the end of March 2012 benefits of making savings through "anti-tax" term deposits.

In order to increase the stability of the Polish banking sector, as of January 2011 the amount of guaranteed deposits was doubled (up to EUR 100 thousand)[10]. As a consequence of the said amendment, the banks' annual fees for the Bank Guarantee Fund were increased.

In June 2011, the Moody's Agency upgraded the outlook on the Polish banking sector from Negative to Stable. The Polish market was at that time classified as one of the best performing in the region. Subsequently, in November, this agency downgraded the outlook on Poland's banking system from Stable to Negative indicating that the weaker economic growth would trigger asset-quality deterioration and increase competition, limiting banks' capacity to expand lending and therefore negatively impact revenues.

4. Capital Market

2011 was unfavourable for those investing on the Warsaw Stock Exchange. The situation on WSE was influenced by previously presented turmoil in global economy and global financial markets. It was also under the impact of the reduced investment capacity of open-end pension funds as of May 2011. Still, H1 2011 on WSE was relatively calm and ended with the increase of basic indices. Significant drops in share prices took place on WSE only in H2 2011.

On 30 December 2011, the value of the main WIG index was by 20.8% lower than on the last day of quotations in 2010. The investors holding shares of companies from the telecommunications, power and IT sectors suffered the least significant losses (rate of return -10.3%, - 10.8% and -11.7% respectively). The biggest drops in sector indices took place in relation to the construction and property developer sector (-54.7% and -51.3% respectively). To compare, WIG-Banki dropped by 21.7% per annum.

At the end of December 2011, the value of domestic companies listed on the Warsaw Stock Exchange amounted to PLN 446.2 billion, down by 17.8% versus a year earlier. A significant drop in WSE indices in summer 2011 lowered investors' interest in IPOs and made some companies postpone their IPO on WSE or even suspend their work on issue prospectus. As a result, throughout the entire 2011, there were 38 companies that went public on the main floor, while 12 were delisted.

Nevertheless, 2011 was record-breaking in terms of WSE trading. The value of shares traded on the main floor totalled PLN 250.6 billion, up by 21.1% compared to a year earlier. Trading on other markets operating as part of WSE also went up significantly; i.e., on the alternative market for companies with a high growth potential (NewConnect) and the debt securities market (Catalyst).

In the context of turmoil on the financial markets in Europe, in 2011, WSE – owing to high issuer's activity on alternative equity market – maintained the position of the European leader in terms of numerous IPOs. Additionally, it took the third position in terms of IPO value behind only two stock exchanges in London and Madrid. Numerous IPOs of foreign companies further strengthened WSE

[10] In line with the amendment to the Directive 94/19/EC, adopted in March 2009, starting from 31 December 2010 the level of guarantees in all EU Member States should be EUR 100,000.

international reputation.

After the period of slow recovery of the asset value in H1 2011, the market of investment funds collapsed in the summer. Severe drops on the stock exchange had an adverse effect on funds' investment results. In 2011, two thirds of the funds available in Poland exposed their investors to risk of loss and the average annual rate of return of the funds investing on the Polish market was between -27.1% for equity funds of small and mid-sized companies and 5.1% for the funds of the Polish Treasury debt securities. Poor investment results discouraged from saving via funds and only due to significant inflow of non-public assets to funds, the balance of cash flow to investment fund companies in 2011 was close to zero. As a result of the tendencies presented above, the value of the investment funds' net assets in December 2011 totalled PLN 114.4 billion (against PLN 120.1 billion as at the end of December 2010)[11].

At the beginning of 2011, there was some turbulence on the market of open-end pension funds and the pension funds companies, which are their managers. After many months of discussions concerning the shape of the Polish pension system, in March the Sejm adopted the Act amending some acts related to the functioning of the social security system. It mainly introduced the reduction as of May 2011 of the premium transferred to open-end pension funds from 7.2% to 2.3%. In order to mitigate its adverse impact on investment capacity of open-end pension funds and development of the entire capital market, it also provides for gradual increase in the limit for investing assets of open-end pension funds in shares. It was raised to 42.5% (from 40% for 2011). Members of open-end pension funds also suffered the results of the unfavourable economic situation on capital markets. Throughout 2011, their assets went down on average by 4.7%.

5. Macroeconomic Factors to Affect the Operations of ING Bank Śląski S.A. in 2012

Poland has strong economic ties with the Eurozone. Therefore the situation of both the Polish economy and the banking sector will greatly depend on solving the financial problems of some EU member states. Forecasting conditions in which the banks will operate in the coming year have become difficult and marked by higher than a year earlier uncertainty as many decisions that will impact the European market are taken by the politicians.

According to the forecasts developed at ING Bank Śląski S.A. the Polish economy will also experience economic slowdown. It is expected that in 2012 the Gross Domestic Product will augment by 2.3%. However, in H1 the economic growth may be a little higher and amount to 2.7% as a result of European Football Championship hold in Poland in 2012.

The economic growth rate in Poland will be weakened above all by lower consumption dynamics. Private consumption dynamics will be deteriorated by worsening situation on the labour market and uncertainty as to the Polish economy perspectives (resulting in savings rate increase) already noticeable in H2 2011 as well as the forecasted increased inflation. However, the growth of public consumption will be weaker on account of execution of the convergence plan as well as actions taken as part of public finance consolidation.

The progressing depreciation of production property, considerable investment needs of the power industry sector, further inflow of EU funds as well as delays in execution of some public investments (mainly road investments) indicate that investments in 2012 will positively impact GDP growth, however it will be lower than a year earlier. Despite the expected economic stagnation in Eurozone, weakened Polish zloty will stimulate Polish export which should create conditions for positive contribution of the international trade into the development of Polish economy.

Under slower growth rate the Polish economy will not create new workplaces. Stagnation on the labour market and increase in the number of professionally active people as well as fiscal policy tightening (limiting employment in public sector and maintenance of low expenses on active measures to counteract unemployment) will result in rise in the number of the unemployed. It is expected that 12.8% of Poles at working age will remain unemployed at the end of 2012.

[11] Source: Analizy.pl

Despite the Polish zloty depreciation at the beginning of the year, it is expected that it will strengthen slightly over the year 2012. It will be supported above all by reduction of the negative current account balance and improvement of sentiment on the Polish market (additionally reinforced by the fact that the government has no problem in providing funding for the budget). Still, the unstabilised condition of the public finance in some Eurozone countries may lead to temporary significant adjustments to the PLN exchange rate. The pressure to depreciate Polish currency may be limited by actions taken by the National Bank of Poland as well as the possibility to disburse short-term liquidity facility from the International Monetary Fund.

The expected Polish zloty weakening as well as substantial increase in controlled prices in the first months of 2012 will cause the inflation to remain on an elevated level, despite lower pressure on consumer price growth. The prices are expected to go up on average by 3.7% during the entire 2012. Despite decline in economic activity, the weak Polish currency coupled with the inflation above target will restrain the Monetary Policy Council from relaxing monetary policy. It is expected that the Monetary Policy Council will decide to decrease interest rates by 0.25 p.p. only once and that it will happen only in H2 2012.

The condition of the Polish banking sector will be determined by the following phenomena:

- Slow deposit growth. Under deteriorated condition of the labour market and minor pay rise, it is expected that the household deposits will increase insignificantly mainly due to propensity for saving (uncertain market situation, as well as unfavourable and volatile economic situation on stock exchange will induce households to deposit funds in bank accounts). The one-digit increase in the level of funds in institutional clients' bank accounts will result above all from the deteriorated financial situation of some companies and state budget consolidation.
- Substantial lending growth rate decrease. The lending growth rate will be determined by: a little lower than in 2011 investment activity of business entities, lower demand for money on the part of local governments as well as significantly lower than in previous years increase of lending to households (it is expected above all that sale of mortgage loans will diminish on account of deteriorated financial situation of households, tightened regulatory requirements as to the clients' creditworthiness assessment and *Rodzina na swoim (Family on its own)* programme expiry).
- The necessity for the banks to slowly accommodate to future regulatory requirements regarding capital adequacy and liquidity levels. The need to ensure stable deposit base may result in another intensification of competition for household deposits.
- Risk costs increase related mainly to the expected deterioration in mortgage loans quality.

Solid financial situation of the Polish banking sector may be adversely affected by:

- Failure of fiscal and structural reforms calling for restoration of Eurozone's macroeconomic stability. One of its expected effects will be unsatisfactory financial condition of global banking institutions, largest holders of T-bonds. Should this scenario become realistic, under high risk aversion, it might be difficult for the Polish banks to acquire funds for FX-loans portfolio as well as renew funds acquired from financial markets in a different form. The said problems will limit credit capacity of the banks operating in Poland.
- Recession in Eurozone states, which will have adverse impact on financial situation of Polish exporters and result in deterioration of Polish banking sector credit portfolio quality.
- Group of owners from states with different regulatory systems entering Polish banking sector and creating risk for the stable functioning of the entire sector. One of the effects of the recommendations of the European Securities and Markets Authority imposing on the banks the obligation to have solvency ratio amounting to at least 9% as of 30 June 2012 will be deleveraging activity and changing global financial institutions assets structure consisting in lowering exposure in subsidiaries operating in other countries, inclusive of Poland, among others. Decision to sell Polish assets may be also forced by the home country regulator or by the European Commission (in the case of investing public funds in institutions' restructuring).
- Lack of radical fiscal reforms and high budget deficit in Poland. It will result in the negative perception of Poland by foreign investors and rating agencies as well as trigger Polish debt service costs increase. The potential outflow of foreign capital from the Polish market may

adversely impact credit capacity of the banks operating in Poland and therefore limit economic growth rate.

- Substantial Polish zloty depreciation. It may result in exceeding the II prudential threshold provided for in the Public Finance Act. Necessity to drastically limit public expenses would pose a threat to development of the Polish economy and had an adverse impact on the quality of banks' credit portfolios. Significant Polish zloty depreciation poses a serious threat to capacity to timely repay credit liabilities by some out of 0.5 million FX-mortgage loans' borrowers.

Polish economy in the years 2005 – 2012[12]

	2005	2006	2007	2008	2009	2010	2011	2012F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.8	4.3	2.3
General government debt according to the EU methodology (% of GDP)	47.1	47.7	45.0	47.1	50.9	54.9	56.7	56.7
M3 money supply (in PLN billion)	427.1	495.3	561.6	666.2	720.3	783.6	881.1	903.5
Increase in industrial output (%)	4.1	12.0	9.4	3.0	-3.6	11.1	7.0	3.8
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	4.3	3.7
Unemployment rate (%)	17.6	14.8	11.2	9.5	12.1	12.4	12.5	12.8
PLN/USD exchange rate (year-end)	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	3.4174	3.3077
PLN/EUR exchange rate (year-end)	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	4.4168	4.3000
WIBOR 3M (year-end)	4.60	4.20	5.68	5.88	4.27	3.95	4.99	4.64

[12]Forecast for 2012 developed in January 2012.

II. MAJOR ACHIEVEMENTS OF THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2011

1. Customer Base Growth

In March 2011, the number of ING Bank Śląski S.A. clients exceeded 3 million and at the end of December 3 100.8 thousand clients used the Bank services, inclusive of:

- 2,842.7 thousand individual clients (up by 102.3 thousand clients throughout 2011),
- 230.5 thousand entrepreneurs (small businesses) and
- 27,559 corporate clients (mid-sized companies and mid-corporates and capital groups)[13].

The constantly growing 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 effective. The relationship is based on the trusted brand of the Bank, transparent product offer, which is adjusted to client preferences changing over time and the continuously developed multi-channel distribution system.

2. Better Position on Credit Market

As at the end of December 2011, total gross customer credit receivables of the ING Bank Śląski S.A. Capital Group amounted to PLN 37,379.0 million, up by PLN 6,378.7 million (i.e. by 20.6%) versus end of year 2010. It is estimated that the Capital Group had a share of 4.5% in the value of credit receivables of the entire banking sector (up by 0.3 p.p. at year-end 2010).

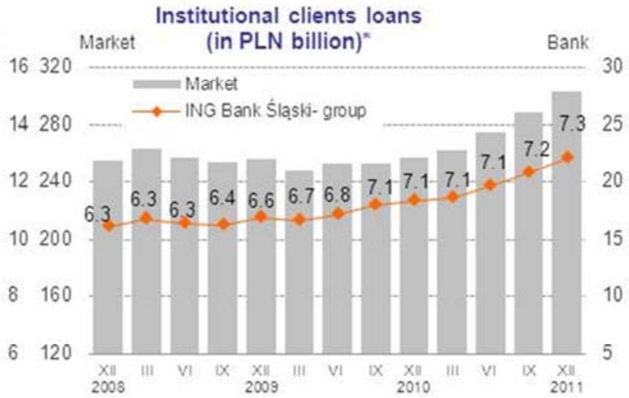
The improvement in the position of the Bank's Capital Group on the credit market was due to:

- Dynamic growth of credit receivables from households. In December 2011, credit receivables from households totalled PLN 15,315.2 million, up by PLN 2,684.4 million (i.e. by 21.3%) when compared to the end of 2010. The growth rate was influenced by the growth of PLN mortgage lending. The value of the PLN-denominated mortgage loans totalled PLN 9,332.8 million, up by 34.2% over the year 2011.
- A higher-than-sector-average growth rate of credit exposures towards institutional clients[14]. The respective Group's credit receivables amounted to PLN 22,063.8 million, up by 20.1% against the end of 2010. The lending activity grew considerably as regards all corporate clients' segments.

Receivables from the ING Bank Śląski S.A. Capital Group customers (PLN million)

	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Total gross loans, including:	**37,379.0**	**31,000.3**	**26,715.9**	**23,657.6**	**16,773.4**	**13,359.2**
Households	15,315.2	12,630.8	9,822.8	7,446.5	4,937.9	3,615.4
Business entities	15,969.2	12,964.0	12,042.3	12,312.0	8,905.6	7,064.7
Financial entities (other than banks)	2,821.8	2,585.0	2,545.6	2,925.1	2,232.6	2,010.5
Entities of the sector of central and local government agencies	3,272.8	2,820.5	2,305.2	973.9	697.2	668.6
Debt securities and other receivables	**6,064.7**	**4,594.1**	**4,758.2**	**2,587.5**	**167.2**	**332.0**
Impairment loss	*-1,114.0*	*-1,085.4*	*-881.3*	*-502.3*	*-561.4*	*-702.9*
Total net customer receivables	**42,329.7**	**34,509.0**	**30,592.8**	**25,742.8**	**16,379.1**	**12,988.2**

[13]In Q1 2011, the Bank finalised corporate clients resegmentation process. As part of the said process 12.5 thousand Small Businesses were moved from Retail to Corporate. Under the said process the name of the Small Business segment, functioning within the Retail, was changed into Entrepreneurs.
[14] In total for the business entities, non-monetary financial institutions, central and local government institutions.



**The figures denote the ING Bank Śląski Group market share.*

3. High Liquidity Level Thanks to Strong Deposit Base

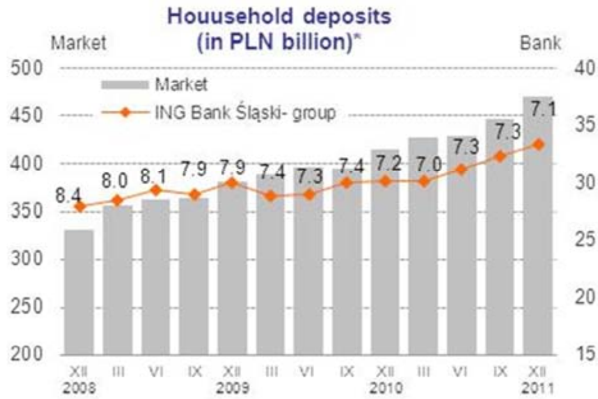
Deposit base accumulated over the years, one of the largest in the Polish banking sector, ensuring high liquidity of the balance sheet and facilitating further lending development, impacted ING Bank Śląski S.A. policy on the deposit market. Therefore, the Bank in its pricing policy with regard to deposits strived to achieve balance between ensuring stable sources of own business funding over long term and achieving rational margin level.

As at the end of December 2011, funds in the accounts of the ING Bank Śląski S.A. Capital Group totalled PLN 52,334.6 million against PLN 46,836.9 million as at the end of 2010 (up by 11.7%). The Bank held 6.9% of the total value of funds deposited in the banking sector, which indicates that the Bank was the third largest deposit bank in Poland.

Throughout 2011, funds deposited into household accounts increased significantly. In December 2011, household deposits totalled PLN 33,434.7 million versus PLN 30,117.7 million in December 2010 (up by 11.0%). While the institutional clients deposits totalled PLN 18,899.9 million against PLN 16,719.2 million as at the end of 2010 (up by 13.0%).

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

	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006
Households	33,434.7	30,117.7	30,039.7	27,945.7	25,392.6	21,472.4
Business entities	13,887.3	12,483.6	11,861.7	11,173.6	12,760.8	10,375.3
Financial entities (other than banks)	2,910.0	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	2,102.6	1,695.0	1,508.2	2,886.2	2,572.4	1,528.1
Total deposits	**52,334.6**	**46,836.9**	**46,716.2**	**46,273.0**	**42,952.4**	**36,257.3**



**The figures denote the ING Bank Śląski Group market share.*

4. Enhanced Operational Effectiveness

In 2011, net profit of the ING Bank Śląski S.A. Capital Group attributable to the shareholders of the parent entity totalled PLN 880.1 million, up by 16.9% versus a year earlier.

The key drivers determining the financial result of the Bank Capital Group in 2011 included[15]:

- Higher income. Income totalled PLN 2,953.6 million, up by 8.1% against 2010. It was achieved thanks to:
  - Better net interest income (up by 13.8%), owing to 20.6% lending growth and a higher interest margin (up to 2.87% against 2.78% in 2010).
  - Better net commission and fee income (increase by 3.4%) generated by higher commission on extended loans, payment cards, transactional margin on foreign exchange coupled with concurrent decrease in account maintenance fees and investment funds distribution fees.
  - Lower other income (down by 30.7% compared to a year earlier). Level of the said income was impacted among others by debt securities portfolio value reduction and their valuation drop as a result of interest rates circumstances.
- Further cost discipline. With higher scale of Group operations in the key areas (including the mortgage area), zloty depreciation and higher inflation, the costs totalled PLN 1,663.6 million, up by 4.4% versus a year earlier. The consulting, advisory, marketing costs as well as costs related to real property rental and maintenance were higher than a year earlier. The personnel costs increased slightly, while the other operating and administrative expenses went down.
- Credit risk costs decrease. In 2011, the balance of impairment losses was PLN 172.4 million against PLN 203.6 million a year earlier. Apart from the credit receivables quality improvement, the sale of impaired credit portfolio (PLN 12.4 million positive inflow) also contributed to risk costs decrease. Risk costs covered PLN 13.9 million additional charges for matured option transactions (compared with PLN 25.3 million a year earlier).

[15]Income statement was discussed in analytical terms. Net income on core operations includes the share in net profits of affiliated entities recognised on an equity basis. Total expenses include net income on other operating revenue and expenses.

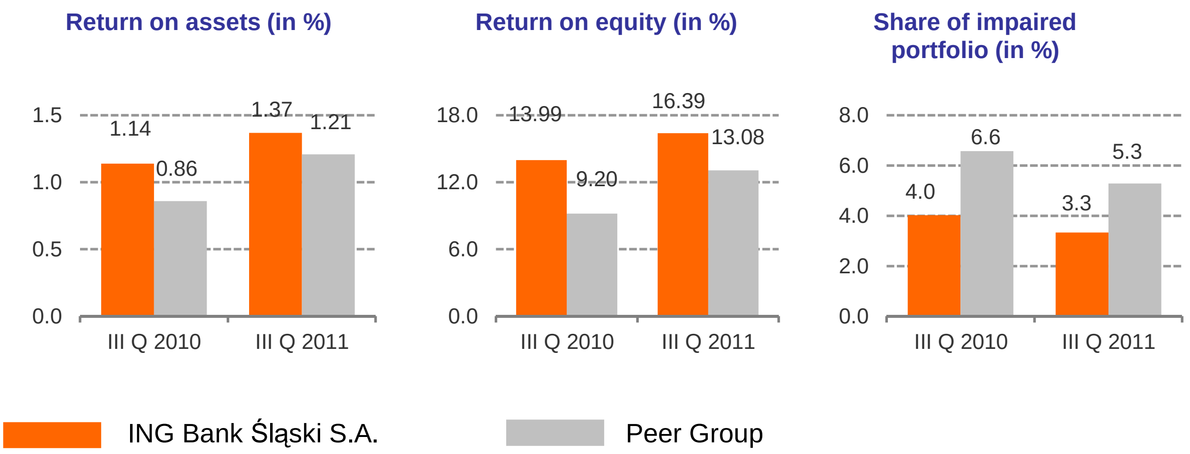
Financial Results of the ING Bank Śląski S.A. Capital Group

	2011 in PLN million	2010 in PLN million	Change 2011/2010
Operating income*	2,953.6	2,731.6	8.1%
Total Expenses**	-1,663.6	-1,593.9	4.4%
Result before risk costs	1,290.0	1,137.7	13.4%
Risk Costs	-172.4	-203.6	-15.3
Gross profit (loss)	1,117.6	934.1	19.6%
Net profit (loss)	880.1	753.1	16,9%
Profit (loss) per 1 ordinary share (PLN)	6.76	5.79	16.9%
Profitability ratio (%)	31.5	28.7	+2.8 p.p.
Return on assets (%)	1.3	1.2	+0.1 p.p.
Return on equity (%)	14.7	14.2	+0.5 p.p.
C/I ratio (%)	56.3	58.3	-2.0 p.p.
Solvency ratio (%)	12.28	13.15	-0.87 p.p.

** Including the share in net profits of affiliated entities recognised on an equity basis.*
*** Including the result on other operating revenue and expenses.*

The profit increase recorded in 2011 translated into the effectiveness ratios, such as Return on Assets (ROA) and Return on Equity (ROE), which were higher than a year earlier. For example, in 2011, each PLN 100 worth of invested equity generated PLN 14.7 of net profit, up by PLN 0.5 compared to a year earlier. Cost effectiveness of the Group also recorded a significant improvement – the Cost/ Income ratio (C/I) totalled 56.3%, down by 2.0 p.p. than a year before.

Basic Financial Ratios of ING Bank Śląski S.A. compared with Peer Group[16]



5. The ING Bank Śląski S.A. Capital Group Structural Changes

In 2011, the structure of the ING Bank Śląski S.A. Capital Group changed. The said changes should facilitate more efficient use of available resources (including the capital), diversification of the ING Group income sources and increase of the said income in the long-run.

Consolidation of ING Bank Śląski S.A. with ING Bank Hipoteczny S.A.
At the beginning of 2011, ING Bank Śląski S.A. decided to consolidate with ING Bank Hipoteczny S.A. The reasons behind the decision were as follows:

[16]Based on the report of the Polish Financial Supervision Authority for the Bank on a stand-alone basis. In 2011, ING Bank Śląski S.A. was classified as belonging to the group of universal banks, which comprises 15 entities. After Q3 2011.

- opportunity to use the held capital more efficiently,
- creating conditions for better use of available resources due to synergy,
- striving for enhancing the effectiveness of the commercial real properties financing process by the ING Bank Śląski S.A. Group,
- creating conditions for further development of commercial real properties financing within the ING Bank Śląski S.A. Capital Group, and in that regard lending to the largest property developers and investors on the commercial real properties in Poland,
- streamlining the financial risk management process (by mitigating the credit portfolio concentration risk, among other things) and liquidity on the Group level.

ING Bank Hipoteczny S.A. started its operation in autumn 2001. At the beginning of its business activity, it specialised in providing funding for residential real properties of individual clients. At the beginning of 2005, it changed its strategy and started to act in ING as the Commercial Real Properties Funding Competency Centre. This activity was conducted in close cooperation with ING Bank Śląski S.A, which consisted in setting up banking syndicates with its parent company whereunder ING BH S.A. acted as Agent bank.

ING Bank Śląski S.A. consolidated with ING Bank Hipoteczny S.A. on 1 November 2011 by transferring all assets of ING Bank Hipoteczny S.A. to ING Bank Śląski S.A.

As at consolidation date, i.e. on 31 October 2011 basic financial data of ING Bank Hipoteczny S.A. were as follows:

- balance sheet total – PLN 683.7 million,
- customer receivables – PLN 588.3 million,
- net profit of 10 months of 2011 – PLN 5.9 million.

Purchase of ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

On 29 December 2011, ING Bank Śląski S.A. concluded with ING Lease Holding N.V. with the registered office in Amsterdam an agreement for purchase of ING ABL Polska S.A. (ING ABL). ING ABL holds 100% of shares of ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

Under the agreement, the purchase price was determined as the net value of ING ABL assets as at the end of 2011. At the beginning of 2012, the Bank remitted to the Seller a prepayment of PLN 213.9 million which was the value of net assets of the ING Lease (Polska) and ING Commercial Finance Polska companies as at 31 October 2011. The transaction will have been settled by 31 March 2012 at the latest, after the final valuation of the net assets of the acquired company, based on the audited financial statements developed as at 31 December 2011. The ownership rights to ING ABL were transferred to ING Bank Śląski S.A. on 01 January 2012.

Deciding to purchase the companies, ING Bank Śląski S.A. considered the benefits that will arise from the said transaction. Apart from providing the corporate clients with a full range of services within financing business activity, the Bank will have the opportunity to use the held distribution and customer service network more effectively and increase its revenues.

ING Lease (Polska) Sp. z o.o. is one of the largest leasing companies on the Polish market. In 2011, the Company leased the assets of PLN 1,376.5 million, i.e. 4.4% of the entire market share (eight position in the rank by the Polish Leasing Association). Still, the Company was indisputable leader in real property leasing (with 28.1% market share). As at the end of 2010 the basic figures for ING Lease (Polska) were as follows:

- balance sheet total – PLN 4,347.4 million,
- customer receivables – PLN 4,222.3 million,
- net result – PLN 33.8 million.

ING Commercial Finance Polska S.A. is the oldest factoring company in Poland. In 2011, the Company purchased receivables in the amount of PLN 9 851.1 million, i.e. 14.7% of the turnover generated by entities belonging to the Polish Factor Association (third position in the ranking). As at the end of 2010 the basic figures for ING CF were as follows:

- balance sheet total – PLN 749.5 million
- customer receivables – PLN 747.6 million
- net result – PLN 14.2 million.

6. Awards and Distinctions

As was the case in the previous years, also 2011 brought numerous awards and distinctions for ING Bank Śląski S.A.

The Bank draws special attention to these awards that are granted for attractiveness of its product offer and quality of the customer service. In 2011, mortgage loans offered by the Bank were highly appreciated; notably they were granted the following awards and distinctions:

- *Złoty Bankier* (Golden Banker) award in Złoty Bankier 2010 for the best banking products and services in 2010.
- 1st place in the following rankings:
  - mortgage loans for enterprises with 20% down payment in the ranking developed by the Bankier.pl portal.
  - PLN mortgage loans with a package of additional products in the ranking developed by Money.pl,
  - for the most favourable terms of PLN financing for purchase of a detached house with down payment in the ranking developed by Bankier.pl
  - for the most interesting PLN mortgage loan for a house or a flat on the primary market in the ranking available at Comperia.pl
  - mortgage loans offering the most favourable conditions of PLN financing in rankings developed by Open Finance and TotalMoney.pl

The distinctions granted in 2011 for other Bank products included:

- *Złoty Bankier* (Golden Banker) award for the best mobile banking in Złoty Bankier 2010 contest for the best banking products and services in 2010.
- First place in *Kryształy Symetrii* (Symmetry Crystals) ranking assessing the usefulness of banks websites.
- Second place in the ranking of customer service quality provided via Infoline and developed by ARC Opinia Rynek.
- *Lider Wsparcia 2010* (Support Leader), the main prize in the "Undertaking of the Year" for implementing automatic model of rights management, received during 7th IT Support Forum 2011.
- Distinction *Godło Jakości Obsługi 2011* (Service Quality Emblem 2011) awarded on the basis of customer opinion survey.

It was yet another year in which the market also highly appraised the efficiency of marketing actions run by ING Bank Śląski S.A. The Bank received silver Effie, among other awards, for the "Fairy Tales" Internet account campaign.

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

- Including the Bank in the composition of the index of socially responsible companies – RESPECT Index for the third time in a row.
- First place in *Ranking Odpowiedzialnych Firm 2011* (Socially Responsible Companies 2011 ranking) in the category Banking, financial and insurance sector, published by *Dziennik Gazeta Prawna* under the auspices of Responsible Business Forum.

- Cristal *Marka Godna Zaufania* (Trusted Brand) statuette in the Bank category in the European Trusted Brands survey organized by Reader's Digest.
- Title *Panteon Polskiej Ekologii* (*Polish Ecology Pantheon)* for activities within the ecological education area.
- International Top Employers label awarded by the Corporate Research Foundation.
- Third place in the ranking of the most valuable Polish brands, developed by *Rzeczpospolita* daily in the Financial Institution category.
- Second place in the contest The Best Annual Report for 2010 according to IFRS/IAS in the Banks and Financial Institutions category, organized by the Accounting and Tax Institute.
- 1st place for the accuracy of investment forecasts for the Economists Team – composed by Mateusz Szczurek, Rafał Benecki and Grzegorz Ogonek – in the contest for the Best Macroeconomic Analyst organised by the National Bank of Poland and *Rzeczpospolita* daily, the results whereof were published in May 2011.
- Distinction in the "Compliance Awards 2010" contest organized by ING Group in the "Most Improved Compliance Risk Management Team" category.

Financial results generated by the Bank in 2010 were also highly appreciated. In the *Najlepsze instytucje finansowe w Polsce* (Top Financial Institutions in Poland) ranking developed by *Rzeczpospolita* daily, ING Bank Śląski S.A. was ranked third in the Banks category. The following criteria were assessed: liquidity measured by L-t-D ratio, increase in the number of accounts, solvency ratio and share of impaired loans in the portfolio[17].

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

- Third place in the ranking of retail brokerage offices developed on the basis of research conducted by the Individual Investors Association and published in September issue of Forbes magazine.
- First place for Milena Olszewska-Miszuris, in the ranking of stock exchange analysts conducted by Parkiet daily in IT and Retail areas.

[17] Results were published in *Rzeczpospolita* daily no. 144 of 22-23 June 2011.

III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2011

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 volatile situation on the market which 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 2011, apart from a few increases of interest on selected deposit products along with the market change, the Bank modified its savings product offer in the following manner:

- It offered new types of deposits such as: *eLokat*a (eDeposit) for 6 months (for the users of electronic banking system ING BankOnLine) and *Ekstra Premia 6M* (Extra Bonus deposit for 6 months) and *Ekstra Premia 3M Plus* (Extra Bonus Deposit for 3 months Plus) (for holders of *Otwarte Konto Oszczędnościowe* [Open Savings Account]).
- Launched a new savings product – *Systematycznie Oszczędzające Konto* (Systematically Saving Account). Apart from basis interest, the holder of this account receives a bonus interest for regular inflows to the account.
- Conducted 9 subscriptions for *Inwestycyjny Plan Ubezpieczeniowy* (Unit-Linked Insurance Plan) structured product.
- Offered new savings account – *Otwarte Konto Oszczędnościowe Premium* in EUR (EUR Open Savings Account Premium).
- Conducted two promotional campaigns for the Open Savings Account:
  - *Bonus na start* (Start Bonus) addressed to new holders of Open Savings Account or Direct Open Savings Account (the offer has been valid from 28 May 2011 until further notice),
  - *Bonus za dopłaty* (Bonus for Extra Deposit) for the existing holders of Open Savings Account or Direct Open Savings Account (the offer was valid from 28 May 2011 to the end of July 2011).
- Introduced changes to handling FX transfer in relation to entry into force of the Payment Services Act, which made shortening of EUR transfer execution time by 1 business day possible.

Moreover, investment possibilities and Private Banking clients access to Bank's services have been expanded significantly. Notably, the Bank:

- Expanded the range of investment funds offered to Private Banking clients with a fund included in Idea TFI S.A. offer and a subfund Union Investment TFI S.A.
- Expanded its offer with investment advisory services consisting in development and provision to the client of a written Investment Recommendation on Investment Funds Participation Units. Recommendation is developed based on the Client Investment Profile Survey. Next, this service was offered to Personal Banking clients.
- Obtained the licence of the Polish Financial Supervision Authority to conduct brokerage activity comprising the following:
  - managing the portfolio composed of at least one financial instrument,
  - foreign currency exchange, if related to the brokerage activity set forth in Article 69 section 2 of the Act on Financial Instrument Trading.

  Under the licence of the Polish Financial Supervision Authority, the Bank may offer its affluent clients the Investment Portfolio Management Service, which will provide them with access to the global investment knowledge tailored by the local experts to the clients' individual needs.
- Launched the Private Banking Investment Centre in Wrocław, which is the third unit of this type (other two being located in Warsaw and Katowice).

On 1 August 2011, ING Bank Śląski S.A. started its operational activities as the agent of ING Securities S.A. investment company. The said activity is conducted under permission granted by the Polish Financial Supervision Authority to enter to the Investment Companies Register the Bank and the agreement concluded with ING Securities S.A. on agency regarding execution of certain brokerage activities by the Bank for an investment company.

In the area of credit products, the main changes to the Bank offer consisted in:

- adjusting attributes of offered products to changing legal regulations, including requirements under T Recommendation (among others: introducing the maximum loan amount and buffer in relation to variable interest rate risk), SII Recommendation (limiting the calculation of creditworthiness to 25 years for long-term loans), amendment to the Act on Land and Mortgage Register, Anti-Spread Act and Consumer Loan Act.
- Ensuring high competitiveness of mortgage products. At the beginning of 2011, both credit margins and commissions for granting credit facilities were reduced by approximately 0.2 p.p. and 1.0 p.p. respectively, whereas in December amendments to pricing policy as regards mortgage loans were introduced. Moreover, the offer was expanded with the long-term insurance of the real properties being mortgage collateral.
- The individual clients were offered the following:
  - _MEGAPożyczka_ (MEGALoan), i.e. a cash loan up to PLN 100 thousand addressed to regular Bank individual clients with monthly income no lower than PLN 2 thousand who own or co-own residential real property at the same time.
  - Possibility to use the cash loan to consolidate credit exposures at third party banks.
  - “0% commission” cash loan.
- Introducing _Elastyczna pożyczka ING_ (ING Flexible loan) for entrepreneurs. Under this product, clients were proposed two pricing options: without commission with higher margin or with commission with lower margin.
- Adopting new pricing policy for the Entrepreneurs sector. The Policy introduced two margin rates: a lower one (for collateralised facilities) and a higher one (for uncollateralised facilities), competitive margins for loans and cash loans for housing communities and variable margins depending on the loan amount (applicable to collateralised facilities).

In 2011, the Bank provided the entrepreneurs (small businesses) with a form of financing business activity that previously had not been offered by the Bank, namely the Bank together with ING Lease (Polska) introduced leasing for entrepreneurs. The new offer makes financing new and used fixed assets in the form of operational and financial leasing possible.

Deposit Activity

As at 31 December 2011, household deposits at[18] ING Bank Śląski S.A. totalled PLN 39,396.5 million, compared with PLN 37,648.0 million in December 2010.

Banking deposits formed the major part of the deposit activity. Having good liquidity ratio, ING Bank Śląski S.A. pursued a balanced policy as to the interest on retail deposits. The policy took into account the objectives related to both ensuring stable sources of business funding and guaranteeing reasonable interest margins. As at the end of 2011, household deposits totalled PLN 33,303.8 million, up by PLN 3,349.2 million when compared to the end of December 2010 (increase by 11.2%). The result translated into a 7.1% share of the Bank on the household deposit market (against 7.2% – as at the end of 2010).

Households deposit their disposable funds with ING Bank Śląski S.A. mainly in the Open Savings Accounts. As at the end of December 2011, the value of funds deposited in Open Savings Accounts totalled PLN 22,766.6 million, up by 11.1% against December 2010.The Bank kept its leading position among the banks, both in terms of the number and value of savings deposited in the savings accounts.

[18]Total value of deposits, structured products and investment funds.

There was also an increase in volume of household funds deposited in:

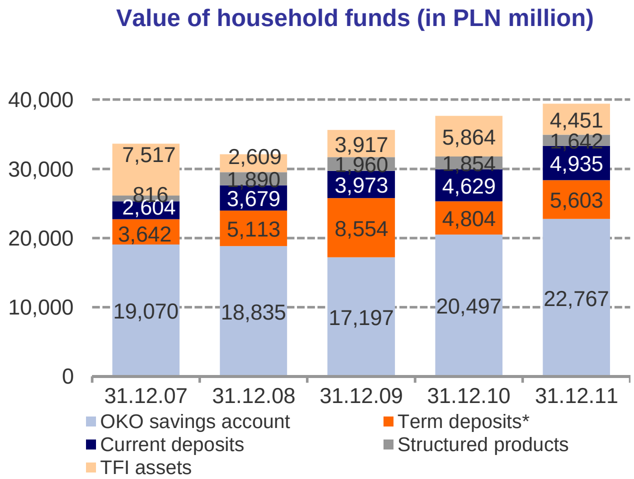
- Term deposits – as at the end of 2011 they totalled PLN 5,602.6 million against PLN 4,803.7 million[19] in December 2010 (up by 16.6%).
- Current accounts – as a result of expanding the scope of customer settlement service, they went up to PLN 4,934.6 million in December 2011, up by 6.6% throughout the year.

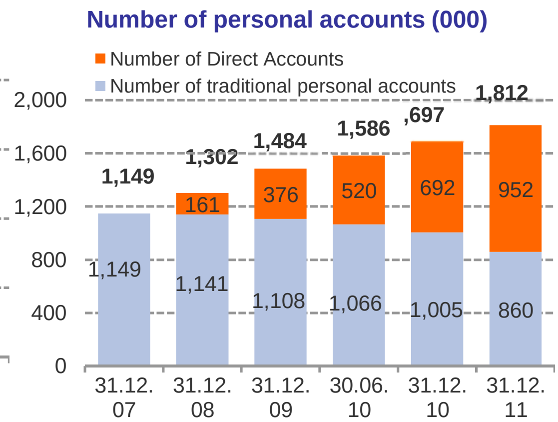
In turn, the value of funds invested in structured products recorded a decrease. As at the end of 2011, structured products represented PLN 1,641.6 million (against PLN 1,854.1 million in December 2010).

The capital market situation did not encourage investors to invest into investment funds units. In December 2011, the value of net assets of investment funds acquired through the agency of ING Bank Śląski S.A. amounted to PLN 4,451.1 million (against PLN 5,864.0 million as at the end of 2010).

At the end of December 2011, ING Bank Śląski S.A. maintained 1,811.8 thousand personal accounts of individual clients. It means that in 2011, the Bank acquired 114.7 thousand accounts of that type in net terms. Consequently, the Bank kept its fourth position on the market as regards the number of maintained personal accounts. This was accompanied by the change of individual clients' personal accounts structure. Sales of the accounts, mostly Direct Account, and clients conversion from traditional personal accounts to Internet accounts, made the share of Direct Accounts in the total number of personal accounts go up from 40.8% in December 2010 to 52.5% as at the end of 2011.

Entrepreneurs had 224.6 thousand current accounts with the Bank, including 152.4 thousand Direct Accounts. As at the end of 2010, the figures totalled: 217.0 thousand current accounts and 117.2 thousand *Direct Accounts.*

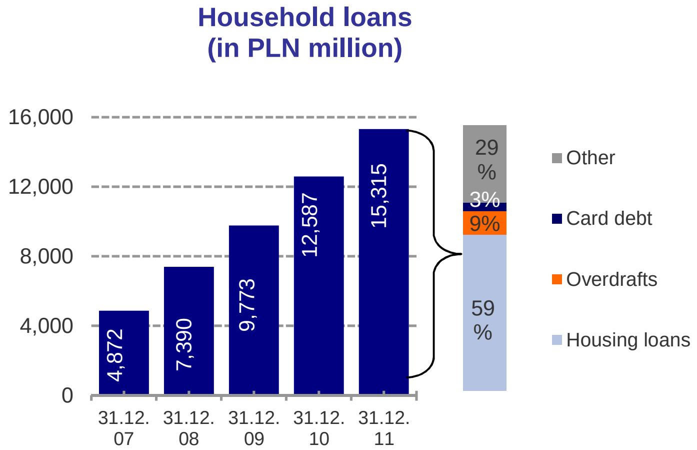


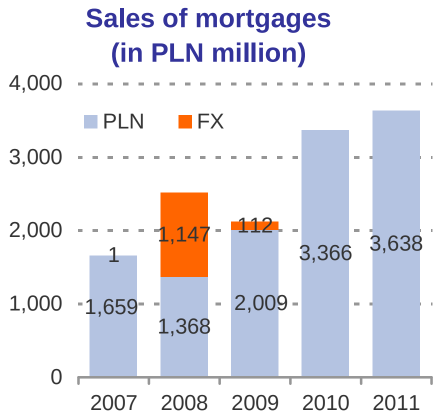


Lending

As at the end of 2011, household credit receivables of ING Bank Śląski S.A. totalled PLN 15,315.2 million. In 2011, the Bank's credit exposure towards households went up by PLN 2,728.6 million, or 21.7%. The Bank increased its share in the household credit receivables market to 2.9% in December 2011 (against 2.7% in December 2010).

[19]In 2010, the value of term deposits was diminished by the value of funds deposited in the form of investment products, i.e. by PLN 24.7 million, which were recognised as part of structured products.





In 2011, it was mainly housing loans representing the main part of household credit portfolio that increased at the Bank. In December 2011, the total value of the Bank's receivables due to housing loans amounted to PLN 8,977.0 million compared with PLN 7,060.6 million as at the end of 2010 (up by 27.1%).

Offering only PLN loans throughout 2011 the Bank granted mortgage loans in the amount of PLN 3,637.5 million (against PLN 3,366.1 million a year earlier). According to the data of the Polish Bank Association, in 2011 ING Bank Śląski S.A. was fifth 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 9.2% share of total sales.

Likewise the entire banking sector, ING Bank Śląski S.A. recorded a decrease in receivables due to cash loans throughout 2011. In December 2011, they totalled PLN 1,357.8 million, down by 1.5% against the previous year. Certain small businesses were migrated from Retail to the Corporate Sales Network, which resulted in increasing the Bank credit exposure as regards the Entrepreneurs sector. It totalled PLN 1,621.6 million, up by 5.9% at year-end 2010.

Bank Cards

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

In 2011, ING Bank Śląski S.A. introduced two new contactless cards (VISA payWave and Debit MasterCard). Those are debit cards issued with personal account, and their validity period is extended to 5 years. Additionally, for small payments they enable clients to make contactless payments. Simultaneously, the Bank started to replace the personal account cards currently in use with the cards mentioned hereinabove and withdrew the Maestro PayPass one from its offer. In addition, in May 2011, Bank clients were given the possibility to use payment cards issued with PLN and EUR personal accounts on the Internet.

All payment cards offered by the Bank are equipped with a micro-chip, whereby the security of transactions performed by means of them increased considerably.

By the end of 2011, ING Bank Śląski S.A. issued 2,386.2 thousand payment cards to clients (up by 5.2% at year-end 2010), including 211.5 thousand credit cards. As a result of the process of replacing cards issued with personal account started in 2011, there was a significant increase in the number of contactless cards held by clients. By the end of 2011, the Bank issued 844.1 thousand of such cards including "*Zbliżaki*" (contactless cards), against 203.9 thousand of such cards the year before. The number of virtual cards also increased. In December 2011, clients held 28.0 thousand of such cards, up by 46.6% against December 2010.

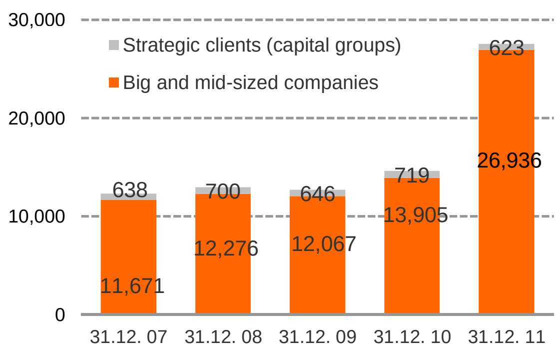
2. Corporate Banking

Client Service and Resegmentation Modifications

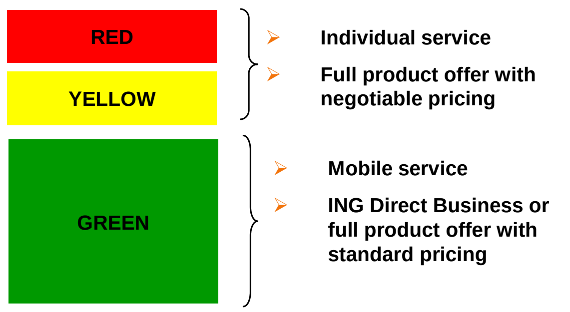
Since the beginning of 2011, the new criteria of segmentation and service of mid-sized and mid-corporate clients came into effect at ING Bank Śląski S.A. The new regulations take account of diversified clients' financial needs, preferences as to distribution channels as well as the cooperation profitability for the Bank. The new model assumes servicing corporate clients within the three portfolios (green, yellow, red). A rule was introduced stating that the stronger Bank relations with the client, the more customised servicing and the more sophisticated product offer. Introduction of the new segmentation criteria resulted in moving some small businesses (approximately 12.5 thousand entities) from the Retail Sales Network to the Corporate Sales Network. Already in 2010, 1.5 thousand business entities took up Bank's suggestion of moving from the Retail into the Corporate.

In December 2011, nearly 27.6 thousand corporate clients used the services of ING Bank Śląski S.A. Due to coordinated actions conducted by new acquisition channels (Call Centre, Mobile Network, Retail Sales Network), in 2011 the number of Bank's corporate clients (dismissing the impact of Clients migration from Retail to Corporate) increased by 0.9 thousand companies.

Number of institutional clients



New model of corporate clients service



Product Offer and Modifications Introduced

Offer quality is one of the main factors determining the choice of bank by corporate clients. Thus, in 2011, ING Bank Śląski S.A. continued its efforts to make the product offer more attractive by introducing material changes both in terms of deposit and settlement products as well as financing business activity solutions.

In 2011, the changes within the area of deposit and settlement services rendered by the Bank for corporate clients included:

- Offering WebService as part of the ING BusinessOnLine application, which enables clients to make the connection between their internal (Financial-Booking/ HR) systems and the Internet banking system.
- Expanding the ING Direct Business offer addressed mainly to mid-sized companies. New clients were offered the possibility to open subsequent accounts, such as: PLN and FX current account, EUR Open Savings Account, salary account and special purpose account. Moreover, the clients using this package were provided with new functionalities as part of the ING BusinessOnLine system.
- Introducing to ING BankOnLine the functionality designed for handling electronic consent to direct debit. It enables the creditors (corporate clients) to generate cost savings as regards handling such transactions.
- Offering a new payment card – VISA Corporate Charge. The companies may fit the card's parameters to their specific needs (such as maximum interest-free repayment period, form of utilised limit repayment) thanks to the possibility to determine the product's crucial attributes.

The works to enhance credit services at ING Bank Śląski S.A. focused on:

- Implementing the ING Direct Business Credit, a new Internet credit platform for corporate clients. In order to shorten the credit decision waiting period, the Bank, as the first on the Polish market, enabled corporate clients to choose credit product, calculate creditworthiness and file a credit application via Internet on their own. Encouraging the clients to use the new application, the Bank waived the commission for processing the credit application filed via ING Direct Business Credit and charges lower commission for granting the loan.

- Following the ING Direct Business Credit platform implementation, the existing clients were given possibility to file credit applications by means of the ING BusinessOnLine system.
- Offering new products as part of the Fast Track such as: PLN corporate loan, or simplified investment loan in PLN or other convertible currency or loans offered as part of a specialised offer (e.g. EU Working Capital Facility, EU Investment Loan, Investment Loan with bonus from Thermo-Modernization and Refurbishment Fund) and Cards Global Limit under short-term exposure limit.
- Enhancing the offer of working capital facilities granted under the Normal Track. It consisted in replacing types of facilities offered at that time with Standard Working Capital Facility, available in different options.
- Adjusting the Minimum Margin Policy to the increasing competitiveness on the market and lowering some commissions on credit products e.g. for considering credit applications, for early loan repayment and for changes to the product line agreement.
- Introducing changes to offer as regards real properties financing as a consequence of ING Bank Śląski S.A. consolidation with ING Bank Hipoteczny S.A.
- Starting works on modifying investment credit offer. It is planned to expand available product options and to introduce several lending purposes (both investment financing and refinancing) as part of one product.

In 2011, also works aiming at improving cooperation of ING Bank Śląski S.A. with ING Lease (Polska) and ING Commercial Finance Polska as regards selling leasing and factoring products were started. It is assumed that while offering the said products tools and applications used by the Bank for traditional credit products (including ING Direct Business Credit and ING BusinessOnLine) should be used.

In 2011, ING Bank Śląski S.A. continued its cooperation with a number of institutions to develop a special credit offer for Polish companies, notably:

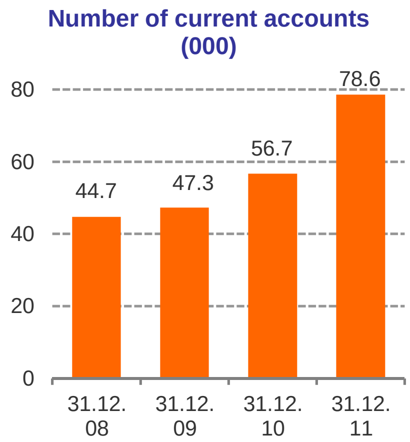
- With the Agency for the Restructuring and Modernization of Agriculture (ARMA) within the scope of servicing preferential loans granted to the agricultural sector. This cooperation resulted in implementing at the Bank two new products, namely a loan for making investment projects in farmlands with partial principal repayment by ARMA – CSK and loan for purchase of land for agricultural purposes – G6. Moreover, negotiations aimed at offering clients a unique on the Polish market insurance product for agricultural sector being insurance of agricultural activity disruption costs were being finalised.
- With Bank Gospodarstwa Krajowego. In June, the Bank concluded a modified agreement with BGK on loan repayment sureties and guarantees. In keeping with the new agreement, the cost of the BGK security for a standard risk transaction may be lowered and the scope of the Bank's reporting may be reduced. In July, on the other hand, the Bank concluded cooperation agreement with BGK as regards loans with thermomodernization and refurbishment bonus. Modified regulations started to be effective as soon as the agreement has been concluded; they enable more extensive usage of electronic documents in the process of handling these products.

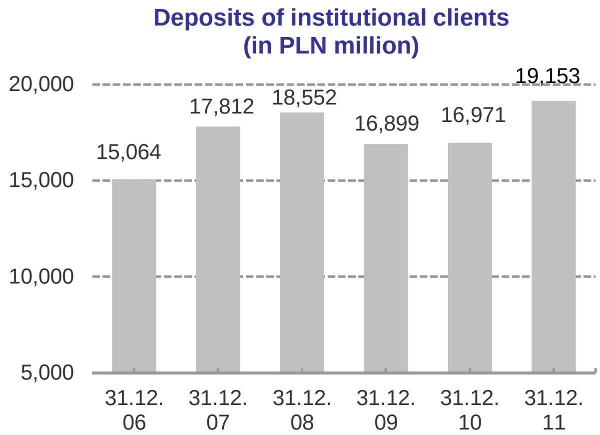
In 2011, the Bank was active in providing advice to companies on the choice of aid programmes and financial engineering of the projects, and intensively promoted EU programmes and Bank's EU offer during individual meetings with entrepreneurs or during the series of meetings called *Breakfast with the EU.*

Deposit and Settlement Activity

As at 31 December 2011, the value of institutional clients' deposits at the Bank was PLN 19,152.7 million, up by 12.9% against December 2010. As at the end of 2011, ING Bank Śląski S.A. had a share of 6.5% in the market of institutional clients' deposits (up by 0.2 p.p. compared to December 2010).

The value of both strategic clients and Corporate Sales Network' clients deposits went up.





In December 2011, ING Bank Śląski S.A. maintained 78.6 thousand corporate (PLN and FX) current accounts, up by 38.7% versus December 2010. The increase was primarily the result of high attractiveness of the Bank's deposit and settlement offer, but finalising migration of some small businesses from the Retail into the Corporate in Q1 2011 made its contribution thereto, as well. The vast majority of clients with current accounts with ING Bank Śląski S.A. use the ING BusinessOnLine electronic banking system to contact the Bank. In December 2011, the system was used by 27.8 thousand companies (against 15.5 thousand in December 2010).

The solutions offered to the local government units convinced other entities to become the Bank's clients and enabled the Bank to keep its strong position in that segment. In 2011, the Bank concluded agreements on servicing four new local government units (towns: Mysłowice and Wadowice, Nowy Sącz county and Bełchatów commune) and it kept its four clients to-that-date within this sector (towns: Gliwice, Żory, Legionowo and Mińsk county). In total, in December 2011 ING Bank Śląski S.A. co-operated with 52 local government units and provided them with comprehensive service as regards their finance. Servicing the budgets of twelve out of the 50 largest cities/towns in Poland (population above 75 thousand), the Bank became one of the leaders on the market of banking services for the largest cities in Poland.

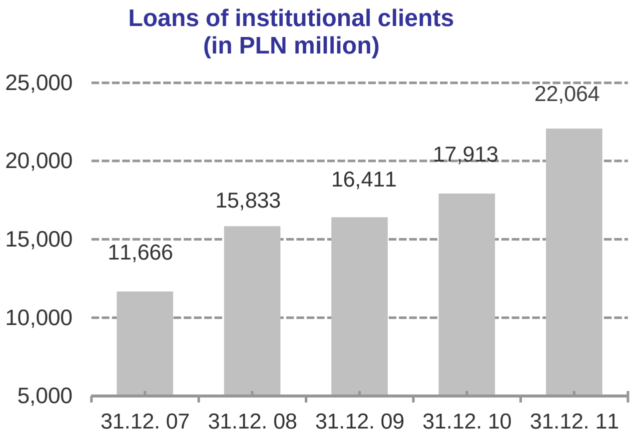
Lending

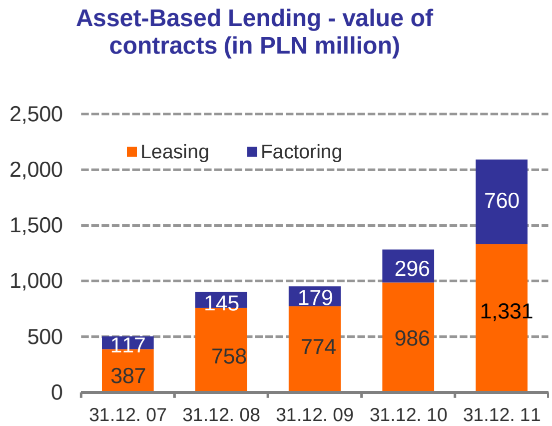
In December 2011, credit receivables of ING Bank Śląski S.A. from institutional clients totalled PLN 22,063.8 million, up by PLN 4,150.4 million when compared to the previous year. It is estimated that at the end of 2011, the Bank held 7.3% of the institutional credit market share, up by 0.2 p.p. against December 2010.

Throughout 2011, the Bank significantly increased its credit exposure towards all corporate clients segments i.e. towards Corporate Sales Network' clients (by 21.2%) and strategic clients (by 25.6%).

As part of the strategy to build a strong position in providing banking services to the local government units and customised approach to business funding, the Bank managed to win further units to be provided with credit-related services. In 2011, facing increasing competition pressurising to lower the margin, the Bank won 177 tender procedures for funding local government units for the total amount of PLN 1,111 million (compared to 244 tender procedures won in 2010 totalling PLN 1,399 million). This result enabled the ING Bank Śląski S.A. to keep its 8.3% share in funding local government units – the same as in December 2010.

The widespread promotion of EU aid programmes led to a notable growth of the credit exposure of ING Bank Śląski S.A. linked with servicing these programmes. As at the end of December 2011, the total value of active Bank's exposures under credit agreements and commitments for EU loans amounted to PLN 989 million. In 2011, collection of applications for subsidies for implementing technology as part of Measure 4.3 of the Operational Programme *Innovative Economy* were particularly popular among our clients. In both applications' collections (held in June and December), the Bank came in second place in terms of loan commitments and concluded loan agreements (with 12.5% share).





Redevelopment of credit process by its simplification and automation played important role in the significant expansion of ING Bank Śląski S.A. in corporate lending market. In 2011, the Bank recorded significant progress within this scope, as confirmed by the following data:

- In December 2011, the share of limits calculated under Fast Track in the overall number of credit decisions equalled 28% against 15% in December 2010.
- The share of electronic applications (filed via ING BusinessOnLine and the ING Direct Business Credit) in the total number of filed credit applications equalled 52% in December 2011 (while last year this option was unavailable for clients).

In 2011, ING Bank Śląski S.A. considerably tightened the cooperation with other ING companies in terms of asset-based lending, i.e. sales of leasing and factoring services. In December 2011, total value of ABL-agreements concluded in cooperation with other ING companies amounted to PLN 2,091.0 million, up by 63.1% when compared to December 2010. Inclusion of ING Lease (Polska) and ING Commercial Finance Polska into the structure of ING Bank Śląski Capital Group as of 1 January 2012, should tighten this cooperation even more.

3. Money Markets and Capital Markets

In 2011, ING Bank Śląski S.A. recorded satisfactory financial results on financial markets both in terms of transactions with the clients and in terms of proprietary transactions.

With a view to enhance cooperation with clients using financial markets products, the Bank in particular: expanded functionality of electronic distribution channels, implemented subsequent agreement standards, optimized processes and enriched the offer with new products and services.

In 2011, a new module – Financial Markets – was created in the ING BankOnLine internet banking system. It provided the clients with access to new functionalities, including: information regarding MiFID classification already granted by the Bank and all related documents, updated information and economic comments on the current economic situation in Poland and in the world. Also functionalities enabling the clients to approve financial markets transactions were provided.

As regards documents, the Bank introduced two types of monoproduct agreements, i.e. Framework Agreement on Concluding and Executing FX Options and Framework Agreement on Concluding and Executing Repo Transactions. Moreover, a new standard as regards Framework Agreements on financial markets products was adopted for investment funds, open pension funds and insurance companies. ING Bank Śląski S.A. actively participated in works of a working team at the Polish Bank Association, developing Recommendation concerning selected transactions concluded on the Polish interbank market (effective starting from August 2011).

As regards expanding the offer of Financial Markets' products, the Bank introduced changes to documents and processes, which will make it possible to use the deposit and clearing system of the National Depositary for Securities to handle debt securities issues. In addition, there were works on:

- Introducing yet another currencies for the purpose of handling clearing and hedging transactions (Indian rupee, Ukrainian hryvnia and Chinese Yuan).
- Making financial markets products available to the clients of Private Banking segment and serviced by the Brokerage Office operating within ING Bank Śląski S.A. structures.

In 2011, the Bank retained its strong market position in the issue arrangement and service of non-government debt securities. In 2011, the Bank acted as the Arranger or Co-arranger of many issue programmes on domestic market for corporate issuers, banks and local government units, notably:

- Polskie Górnictwo Naftowe i Gazownictwo S.A. The issue programme was concluded in 2010 for PLN 3 billion. In 2011, the amount under the programme was increased twice and now it equals PLN 7 billion. It has been one of the largest programmes in the history of the Polish market. The Bank acted as Arranger, Underwriter, Issue Agent, Paying Agent and Depositary.
- PGE Polska Grupa Energetyczna S.A. The bond issue programme for PLN 5 billion was arranged by the Bank in a syndicate with another banking institution. The Bank acts as the Arranger, Dealer, Paying and Issue Sub-Agent and Sub-Depository in the programme.
- TAURON Polska Energia S.A. The issue programme was concluded in 2010 for PLN 1.3 billion and it was increased in 2011 to PLN 4.3 billion. The Bank acted as Leading Arranger, Underwriter, Issue Agent, Paying Sub-Agent and Sub-Depositary.
- Credit Agricole Bank Polska S.A. The Bank participated in 3-bank syndicate, which arranged programme for PLN 2 billion. The Bank acted as Arranger, Dealer, Issue Agent, Paying Agent and Depositary.
- Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. The Bank, as part of syndicate with three other banks, concluded the bond issue programme for PLN 1.7 billion. The Bank acts as the Arranger, Underwriter, Paying Sub-Agent and Sub-Depository in the programme.
- Santander Consumer Bank S.A. In 2011, the Bank conducted yet another issue of mid-term bonds for PLN 150 million as part of the Programme concluded in 2008 for PLN 2 billion.
- Local government units. In 2011, the Bank conducted seven municipal bond issue programmes, acting as Arranger, Issue Agent, Paying Agent, Depositary and Dealer in each of them. Those were programmes for: Łódź province (for PLN 27 million), Nieporęt commune (for PLN 10 million), Kolbudy commune (for PLN 5 million), Sosnowiec commune (for PLN 42 million), Chorzów municipal commune (for PLN 30 million), Jabłonna commune (PLN 18.5 million) and Legionowo commune (for PLN 29.3 million).

As at 31 December 2011, the face value of non-government debt securities issued with the agency of ING Bank Śląski S.A. totalled approximately PLN 8.9 billion, including:

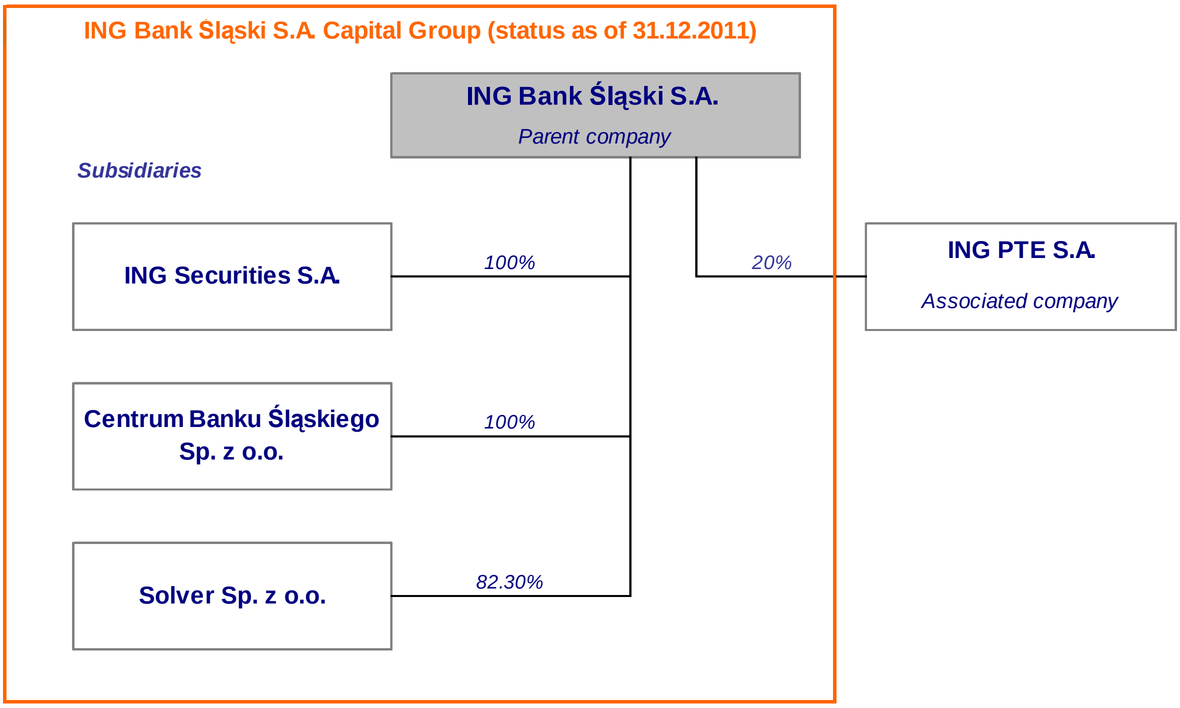
- PLN 4 074.0 million due to short-term securities issue – which secured Bank's third position on the market with share of 18.3%.
- PLN 3 804.6 million due to the issue of corporate bonds with maturity greater than one year (the Bank with its share of 15.3% classified on third position on this market).

From early November 2010 until the late October 2011, ING Bank Śląski S.A. was classified by the National Bank of Poland in the fourth position in terms of the Dealer Activity Index among nineteen banks applying for the function of the 2012 Money Market Dealer. The bank also had the status of Treasury Securities Dealer for 2011. In the competition of the Ministry of Finance for the 2012 TSD, which was carried out from early October 2010 until late September 2011, the Bank was ranked fourth 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 on the capital market or in the financial 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 operations and the finances of the Group 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 may also finance the business operations of some subsidiaries if necessary. Transactions of ING Bank Śląski S.A. with its subsidiaries are performed on an arm's length basis.



On 01 November 2011, ING Bank Śląski S.A. consolidated with its subsidiary ING Bank Hipoteczny S.A., wherein the former held 100% of shares. The consolidation was executed by transferring the entire property of ING Bank Hipoteczny S.A. to ING Bank Śląski S.A.

0n 29 December 2011, ING Bank Śląski S.A. concluded with ING Lease Holding N.V. the agreement of purchase of ING ABL Polska S.A. being the owner of ING Lease (Poland) Sp. z o.o. and ING Commercial Finance S.A. The ownership rights to ING ABL Polska were transferred to the Bank on 01 January 2012. The operation had no impact on results of ING Bank Śląski S.A. in 2011. Moreover, on January 2012, as part of executing the project aiming at building new business model of corporate banking, ING Bank Śląski S.A. created a subsidiary ING Usługi dla Biznesu S.A.

2. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 2011, its shares in the Warsaw Stock Exchange transactions were as follows:

- equity market – 9.1% (third position),
- futures market – 4.1% (sixth position).

At the end of December 2011, ING Securities S.A. maintained 56.6 thousand investment accounts, including 39.3 thousand Internet ones.

ING Securities S.A. offers the investors complex services covering: 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 2011, the Brokerage House modified its product offer, transaction systems and electronic distribution channels. Notably, the Brokerage House:

- Expanded the service of submitting special orders to all instruments listed on the Warsaw Stock Exchange.
- Extended the internet service with new functionalities, such as: new Reuters system, free access to information of the Polish Press Agency for clients, it also expanded e-learning section for clients with issues related with equity market.
- Finalised works on new ING Securities website. Its functionality was tailored to the latest market trends, and its graphic layout to the standard binding at ING Bank Śląski S.A.

In June 2011, ING Securities S.A. decided to liquidate their network of Customer Service Points. This decision was taken due to consolidation of the trend in clients preferences to use brokerage service by means of electronic distribution channels (Brokerage House estimates indicate that approximately 90% of all orders are submitted remotely). Starting from 01 August 2011, in 42 branches of ING Bank Śląski S.A. (operating as ING Securities S.A. Agent), apart from opening accounts and concluding agreements, investors are able to perform nonstandard activities such as: handling notices or calls, verifying share certificates, changing bank account and setting up a password for orders placed by phone.

In the area of capital acquisition, the Company provides a broad array of services, including issue of shares on public or 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 2011, ING Securities S.A. carried out the following projects and transactions:

- Acted – coupled with the TMT ING team in London – as advisor of Polska Grupa Energetyczna S.A. during the sales process of 21.85% of Polkomtel S.A. shares. The value of the company was assessed at the level of PLN 18.1 billion, and PGE received PLN 3.3 billion for its stake.
- Participated in public offers executed with the use of accelerated book-building method of the following companies:
  - PZU S.A. – offer value equalled PLN 3.2 billion,
  - TAURON Polska Energia S.A. - offer value equalled USD 500 billion,
  - Kernel Holding S.A. - offer value equalled USD 137 million
- Took part in public offers: Bank Gospodarki Żywnościowej S.A.(share in retail tranche 5.67%) and Jastrzębska Spółka Węglowa S.A. (share in retail tranche 6.05%).
- Acted as middleman in the sale of pre-emptive right to the shares of Azoty Tarnów S.A. (with value of PLN 62 million) by the State Treasury.
- Acted as middleman as commissioned by TAURON Polska Energia S.A. in the transaction of purchase of Górnośląski Zakład Energetyczny from Vattenfall.
- Acted as advisor:
  - for Slovenian Bank Nova Kreditina Banka Maribor (NKBM) in the process of acquiring capital by means of secondary issue of shares (of the value of EUR 104 million) accompanied by introduction of shares to trading on WSE.
  - for Ukrainian company Industrial Milk Company in the IPO process and during the introduction of shares to trading on WSE. The offer of USD 50 million value was executed by the company registered in Luxemburg.

- for Vattenfall company in the process of sales of its Polish assets being: Górnośląski Zakład Energetyczny to TAURON Polska Energia S.A. and Vattenfall Heat to PGNiG S.A. (transaction value of PLN 7.2 billion).
- for Bank Ochrony Środowiska S.A. in the process of secondary issue of shares scheduled for H1 2012.

Moreover, ING Securities S.A. was very active in developing the Polish capital market and it was co-organizer of:

- CEE IPO Summit conference that was held in Warsaw on 25-26 May 2011, attended by 600 representatives of issuers, investors and the media. The aim of the CEE IPO Summit was to create a platform to facilitate cooperation of representatives of CEE companies with global capital funds ones.
- Visits of the State Treasury Minister (the so-called CEE IPO Roadshow forum) in Slovenia, Ukraine, Hungary, Lithuania and in Israel.
- ING 14th Annual EMEA CEO/CFO Forum Warsaw, a conference attended by approx. 500 individuals. Just as in previous years, it comprised a cycle of meetings devoted to the economy and macro economy; the most interesting companies within the region were presented during such meetings.
- Together with ING Bank Śląski, it organized a conference titled: *"2011 Polish Market Outlook"* Bank Clients from Private and Personal Banking segments and Clients of ING Securities S.A. participated in the said event.

In 2011, ING Securities S.A. earned net profit of PLN 21.7 million versus PLN 22.4 million in 2010.

3. Centrum Banku Śląskiego Sp. z o.o.

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

The Company owns the Chorzowska 50 edifice in Katowice and the building at ul. Powsińska 54a in Warsaw. It also acts as Manager of the ING Bank Śląski S.A. Head Office building located at ul. Sokolska 34 in Katowice and Administrator of the building at ul. Malczewskiego 45 in Warsaw.

The Chorzowska 50 edifice has a special position in the real estate portfolio managed by the Company. Together with the neighbouring building of the ING Bank Śląski S.A. Head Office, it creates a financial and business centre in Katowice. In 2011, CBŚ continued actions aimed at its promotion as the centre of business cooperation, place of important economic events in the region and the place providing for the lessees good business climate, stability and opportunity for long-term development. To that effect, the Company cooperated actively with local Authorities, conducted face-to-face meetings and lectures for business and participated in business meetings organised by local authorities of Katowice City. The jubilee celebrations of 10 anniversary of commissioning the Chorzowska 50 edifice for use were an important event in 2011, which contributed to promotion of the said centre.

These initiatives resulted in prolonging lease agreements with many key lessees and maintaining a high occupancy rate of the Chorzowska 50 edifice - being 95%.

In 2011, the Company was awarded with the title of Przedsiębiorstwo Fair Play (Fair Play Enterprise).

In 2011, Centrum Banku Śląskiego Sp. z o.o. generated net profit of PLN 10.6 million. While in 2010 the Company closed the year with the net loss of PLN 1.2 million due to real property revaluation.

4. ING Powszechne Towarzystwo Emerytalne S.A

From the very beginning, ING Otwarty Fundusz Emerytalny, the open-end pension fund managed by ING Powszechne Towarzystwo Emerytalne S.A., has been among the leaders on the pension funds market in Poland. As at 31 December 2011, ING OFE was the leader on the pension funds market both in terms of the value of assets under management as well as the number of members:

- Number of members. The Fund had 2 954.1 thousand members, or 19.1% of all participants of open-end pension funds.
- Net assets. They totalled PLN 53,297.0 million or 23.7% of the total value of assets of open-end pension funds operating in Poland (against 24.1% at the end of 2010).

ING Powszechne Towarzystwo Emerytalne S.A. provides professional and state-of-the-art service to the Fund's clients. Apart from ING PTE representatives, the Fund's potential and existing clients may take advantage of the network of branches and franchise outlets of ING Usługi Finansowe S.A., outlets of ING Bank Śląski S.A. and brokers' network cooperating with ING all over Poland. Clients may also contact the Fund by phone (info line, SMS and WAP) and the Internet.

In 2011, the option of the account self-service via e-serwisING portal was introduced for clients. Now clients are able to remotely check the current account balance and history of the open-end pension fund member; they may also request changing data, address or beneficiaries and activate the service of sending via electronic mail the information about the new premium in the open-end pension fund account.

In the ranking of open-end pension funds in terms of long-term investment results made by Analizy Online portal [Online Analyses portal] and published at the beginning of January 2012, ING OFE maintained its first position (held for many years now) in terms of the value of a hypothetical account maintained from the end of August 1999.

In 2011 income statement, ING Bank Śląski S.A. recognised its share in ING PTE S.A. in the amount of PLN 41.2 million, i.e. in the same amount as in 2010.

5. 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 aided by the Foundation, but it also arranges recreation for Bank employees and their families and training programmes for the former.

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. The Company also functions as administrator of accommodation in the Bank's guest rooms (in Wisła and Warsaw) and seasonally rents the recreation centre in Sarbinowo.

In 2011, the Company took actions aimed at selling residential premises in housing and hotel building in Katowice.

In 2011, Solver Sp. z o.o. incurred net loss of PLN 72 thousand, compared with net profit of PLN 218 thousand in the same period last year[20].

[20]Result attributable to owners of the parent entity.

V. FINANCIAL SITUATION OF THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2011

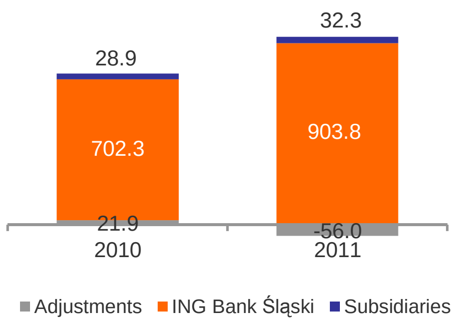
1. Gross Profit and Net Profit

In 2011, the ING Bank Śląski S.A. Capital Group generated the gross financial result totalling PLN 1,117.6 million against PLN 934.1 million last year. Net profit attributable to the shareholders of the parent entity totalled PLN 880.1 million compared to PLN 753.1 million in 2010 (up by 16.9%).

The main factors to affect the financial results of the ING Bank Śląski S.A. Capital Group in 2011 included[21]:

- Increase in operating income. With significant increase in net interest income accompanied by decrease in other income, operating income totalled PLN 2,953.6 million, i.e. up by 8.1% compared to 2010.
- Slight increase in operating expenses. They totalled PLN 1,663,6 million, up by 4.4% versus a year earlier.
- Considerable decrease of risk costs. The balance of impairment provisions totalled PLN -172.4 million, whereas in 2010 the Group recognised provisions of PLN -203.6 million.

Net profit of ING Bank Śląski Capital Group (in PLN million)



In 2011, the result before risk costs for the Bank Capital Group totalled PLN 1,290.0 million, up by 13.4% compared to 2010.

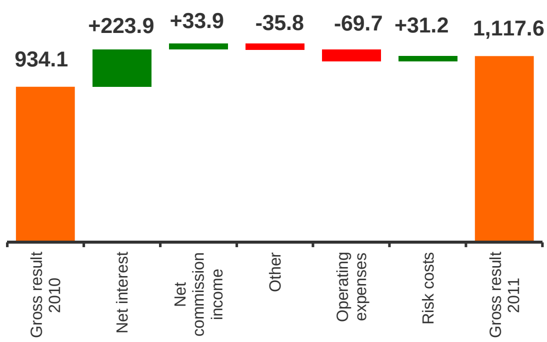
Basic Values of Consolidated Income Statement in Analytical Terms

	2011	2010	Change 2011/2010	
	in PLN million	in PLN million	in PLN million	as %
Net interest income	1,851.5	1,627.6	223.9	13.8
Net commission income	1,021.2	987.3	33.9	3.4
Other income*	80.9	116.7	-35.8	-30.7
Operating income*	**2,953.6**	**2,731.6**	**222.0**	**8.1**
Operating expenses**	-1,663.6	-1,593.9	-69.7	4.4
Result before risk costs	**1,290.0**	**1,137.7**	**152.3**	**13.4**
Impairment losses and provisions	-172.4	-203.6	31.2	-15.3
Gross financial result	**1,117.6**	**934.1**	**183.5**	**19.6**
Income tax	-237.5	-181.0	-56.5	31.2
Net result attributable to non-controlling shareholders	*0.0*	*0.0*	*X*	*X*
Net financial result	**880.1**	**753.1**	**127.0**	**16.9**

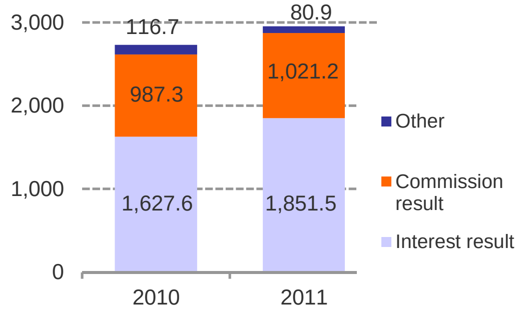
**Income together with share in profits of companies recognised on an equity basis.*
***Including the result on other operating activities.*

[21]The characteristics discussed in this document apply to income statement in analytical terms. The category "Operating income" 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.

Gross result of ING Bank Śląski S.A. Capital Group in 2011 (in PLN million)



Income on operations split by category (in PLN million)



Income of the ING Bank Śląski S.A. Capital Group (including, apart from net profit, other items of income and expenses recognized in equity) totalled PLN 948.5 million against PLN 761.2 million in 2010.

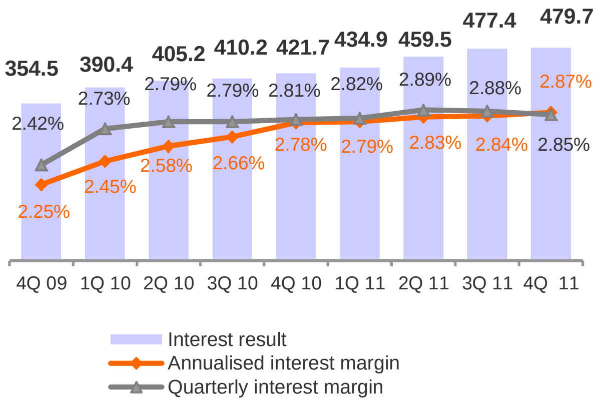
2. Net Interest Income

Net interest income of the ING Bank Śląski S.A. Capital Group increased systematically quarter on quarter and in the entire 2011 totalled PLN 1,851.5 million against PLN 1,627.6 million in 2010 (up by 13.8%). This increase was most of all the result of the business volumes growth accompanied by a favourable change in the balance sheet structure. The share of loans in assets went up from 46.6% in December 2010 to 52.2% as at the end of 2011. The interest margin went up as well. In 2011, the Capital Group of the Bank earned the interest margin of 2.87% against 2.78% a year earlier.

Average base interest rate

	Segment		Bank
	Retail	Corporate	Total
Deposits			
PLN	3.14%	2.34%	2.94%
FX	0.52%	0.20%	0.39%
Loans			
PLN	7.96%	5.63%	6.56%
FX	1.62%	2.39%	2.09%
Including: mortgages			
PLN	6.17%	-	6.17%
FX	1.61%	-	1.61%

Interest result of ING Bank Śląski S.A. Capital Group (in PLN million)

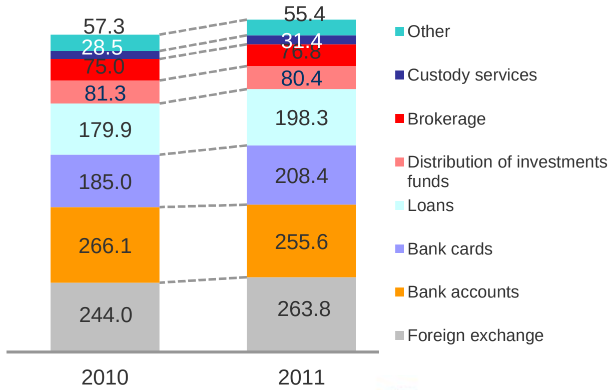


3. Non-Interest Income

Income on fees and commissions represented the major part of non-interest income of the ING Bank Śląski S.A. Capital Group. In 2011, it totalled PLN 1,021.2 million as compared with PLN 987.3 million in 2010 (up by 3.4%).

The Group recorded an increase in the value of commission on: card fees (up by 12.7%), granting loans (up by 10.2%), custody services (up by 10.1%), transactional margin on foreign exchange operations (up by 8.1%) and brokerage activity (up by 2.4%). The decrease (by 3.9%) of commission related to account maintenance, being one of the basic components of

Commission revenue of ING Bank Śląski S.A. Capital Group (in PLN million)



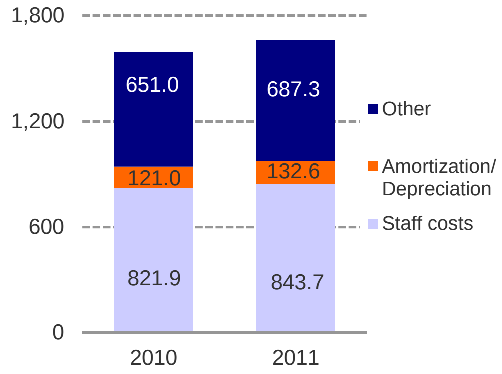
commission income, resulted mainly from conversion from traditional personal accounts to free-of-charge Direct Accounts. Commission on distribution of investment funds' participation units went down as well (by 1.2%) due to lower clients' interest in depositing savings in investment funds.

In 2011, other income of the ING Bank Śląski S.A. Capital Group amounted to PLN 80.9 million, down by 30.7% compared to 2010. Level of the said income was impacted among others by debt securities portfolio reduction and their valuation drop as a result of situation in the area of interest rates on the market. Moreover, the 2011 other income included negative adjustment related to counterparty risk of derivatives worth PLN 25.9 million that were concluded with the clients (while in 2010 provisions amounting to PLN 0.8 million were released) and PLN 14.1 million provision was established on account of the planned change to IRS transactions valuation approach.

4. Operating Expenses

In 2011, operating expenses of the ING Bank Śląski S.A. Capital Group amounted to PLN 1,663.6 million against PLN 1,593.9 million a year earlier (up by 4.4%).

Operating expenses by category in PLN million



Personnel costs constituted a major part of the operating expenses. In 2011, the personnel costs amounted to PLN 843.7 million, up by 2.7% compared to 2010. The level of the said costs was impacted by certain decrease in the number of people employed in the Group, which occurred under base salaries and bonus fund increase.

Wide scope of replacement investments as well as execution of projects in the electronic distribution channels and IT areas contributed to amortisation level growth. It amounted to PLN 132.6 million, up by 9.6% compared to 2010.

Other expenses (general and administrative expenses) totalled PLN 687.3 million compared with PLN 651.0 million in 2010 (up by 5.6%)[22]. As part of the said expenses, the marketing, consulting and advisory costs as well as costs related to real property rental and maintenance increased. At the same time, the telecommunication services costs went down.

5. Impairment Losses and Provisions

Risk costs recognised in the 2011 income statement of the ING Bank Śląski S.A. Capital Group amounted to PLN 172.4 million (against PLN 203.6 million in 2010). They were affected among others by the following factors:

- Sale of impaired credit receivables portfolio for which substantial provisions were established (positive impact on the risk costs amounting to PLN 12.4 million).
- Establishment of additional provisions totalling PLN 13.9 million (vs. PLN 25.3 million a year earlier) against the risk related to FX-options.

6. Share of Individual Business Segments in the Financial Result

At the beginning of 2011, ING Bank Śląski S.A. analysed its business model and verified approach to reporting according to segments.

Bank's business model was divided into two segments, mainly for the management reporting needs:

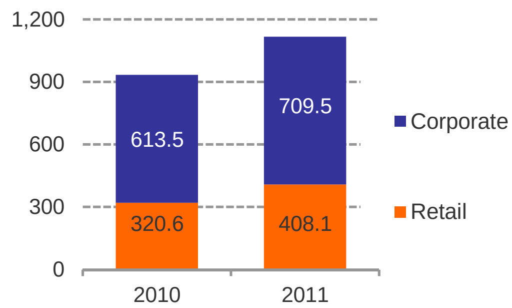
- Retail Clients Segment. It encompasses private individuals (mass clients segment and affluent clients segment) and entrepreneurs (small businesses).
- Corporate Banking Segment. Presents results generated on providing service to institutional clients and selling financial markets products.

[22] Other expenses include result on other income and on operating expenses.

From 2011, the result on proprietary operations, previously constituting a separate segment, executed by Financial Markets and the Assets and Liabilities Committee, is allocated to Retail Banking and Corporate Banking segments by the economic capital requirement structure.

From the beginning of 2011, a new service model for corporate clients started to be effective at the Bank. New segmentation criteria were adopted and the service provided to 12.5 thousand Small Businesses was transferred from the Retail Network to the Corporate Sales Network along with the new model. It impacted the results generated by individual business segments.

Gross result split by business segments (in PLN million)



In 2011, the Retail Banking Division generated PLN 408.1 million worth of gross profit against PLN 320.6 million a year earlier (up by 27.3%). The Retail Banking segment had 36.5% share in the gross profit of the ING Bank Śląski S.A. Capital Group (against 34.3% share in 2010).

The Retail segment result was impacted by:

- Higher net revenue. The net revenue totalled PLN 1,538.3 million, up by 8.1% versus a year earlier. The Retail Banking earned higher interest income (up by 17.2%), mainly due to a considerable increase in lending and higher deposit margin. However, the Division's net commission income was lower (by 7.0%).
- Slightly higher operating expenses. The segment's total expenses amounted to PLN 1,040.0 million (up by 1.9% compared to 2010). Their level was mainly impacted by migration of some clients to the Corporate Sales Network as well as changes introduced to the organisational structure of the Retail Network. Personnel costs, which under decrease in the number of employees in the Division were similar when compared to the year 2010, constituted more than half of expenses.
- Higher risk costs. In 2011, the risk costs totalled PLN 90.2 million compared to PLN 81.1 million in 2010.

In 2011, the Corporate Banking segment earned gross profit amounting to PLN 709.5 million as compared with PLN 613.5 million in 2010 (up by 15.6%). The segment's result represented 63.5% of the Group's gross result (65.7% in 2010). The following factors contributed to the result of the Corporate segment:

- The revenue totalled PLN 1,415.3 million, up by 8.1% compared to 2010. At the same time, the net interest income as well as net commission income went up by 10.3% and 15.5%, respectively. On the other hand, other income which included, among others, the negative adjustment related to counterparty risk of derivatives (worth PLN 25.9 million) and whose major part was attributed to treasury activities decreased.
- The segment's costs totalled PLN 623.6 million, up by 8.8% versus 2010. They included above all personnel costs amounting to PLN 338.0 million, up by 6.2% against previous year, due to increase in the number of employees in the Division, among others.
- The risk costs amounted to PLN 82.2 million as compared with PLN 122.5 million a year earlier. Sale of impaired liabilities portfolio impacted positively the level of risk costs.

7. Core Effectiveness Ratios

In 2011, the operational effectiveness of the ING Bank Śląski S.A. Capital Group was higher than a year earlier, and all core effectiveness measures were better than in 2010. Notably, return on equity (ROE) totalled 14.7%, up by 0.5 p.p. compared to 2010. The cost to income ratio (C/I) improved significantly, i.e. a decrease was recorded from 58.3% in 2010 to 56.3% in 2011.

Core Effectiveness Ratios (%)

	2011	2010
Profitability ratio	31.5	28.7
C/I ratio	56.3	58.3
ROA	1.3	1.2
ROE	14.7	14.2
Interest margin ratio	2.87	2.78
Loans/ Deposits ratio	71.4	66.2
Solvency ratio	12.28	13.15

Profitability ratio – gross profit to total expenses.
Cost to Income ratio (C/I) – total operating expenses to operating income in analytical terms.
Return on assets (ROA) – net profit attributable to the shareholders of the parent entity to average assets[23].
Return on equity (ROE) – relation between the net profit attributable to the shareholders of the parent entity to average equity and own funds.
Interest margin ratio – relation between the net interest income to average yield assets (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).
Solvency ratio – relation between net equity and own funds to off-balance sheet assets and liabilities including risk weights.

8. Consolidated Statement of Financial Position

As at 31 December 2011, balance sheet total of the ING Bank Śląski S.A. Capital Group amounted to PLN 69,723.4 million, up by PLN 5,205.9 million, or 8.1%, at year-end 2010.

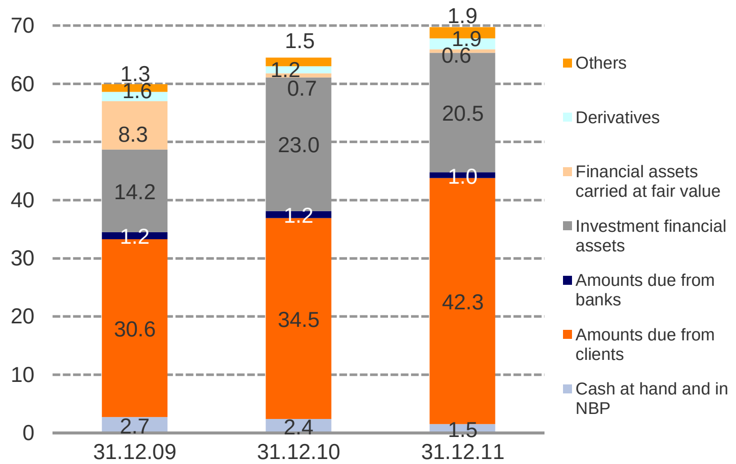
The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of 2011, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 69,624.3 million against PLN 64,428.4 million in December previous year (up by 8.1%).

Assets

2011 saw a continuation of the growing trend in terms of the share of customer receivables in the assets of the ING Bank Śląski S.A. Capital Group. As at 31 December 2011, loans and other receivables from customers totalled PLN 42,329.7 million, or 60.7% of the total assets of the Bank Capital Group. Their share in assets went up by 7.2 p.p. when compared to the end of 2010.

Clients' debt securities represented PLN 5,959.6 million while net loans and cash loans granted to clients represented PLN 36,370.1 million (or 52.2% of assets) in customers receivables against PLN 30,062.6 million (or 46.6% of assets) in December 2010[24].

Structure of assets of ING Bank Śląski S.A. Capital Group (in PLN billion)



Investment financial assets also represented a major, even though smaller than in the previous year, item in the balance sheet of the Bank's Capital Group. These were almost entirely debt securities, in line with the Bank's investment policy. As at the end of December 2011, they totalled PLN 20,450.7 million (or 29.3% of assets) compared with PLN 23,006.8 million (or 35.7% of assets) in December 2010. Available-for-sale assets represented nearly 76% of all investment financial assets.

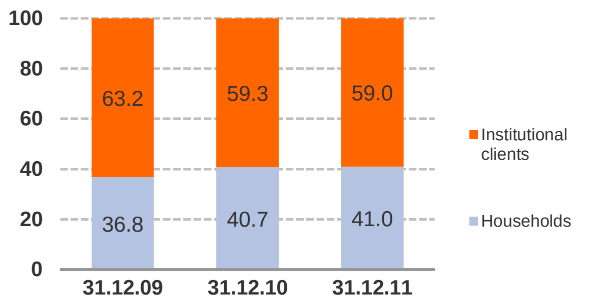
[23] Average assets and average equity calculated based on the data for five periods: 31 December 2010, 31 March 2011, 30 June 2011, 30 September 2011 and 31 December 2011.
[24] Loans and other receivables excluding debt securities.

Group's receivables from other banks totalled PLN 1,018.1 million (or 1.5% of assets) compared with PLN 1,181.1 million (or 1.8% of assets) in December 2010.

Currency structure of client receivables

	31 Dec. 2011		31 Dec. 2010	
	in PLN million	as %	in PLN million	as %
PLN	33,356.6	78.8	26,956.9	78.1
Foreign currencies	8,973.1	21.2	7,552.1	21.9
Total	**42,329.7**	**100.0**	**34,509.0**	**100.0**

Structure of loans by client groups (in %)



Liabilities

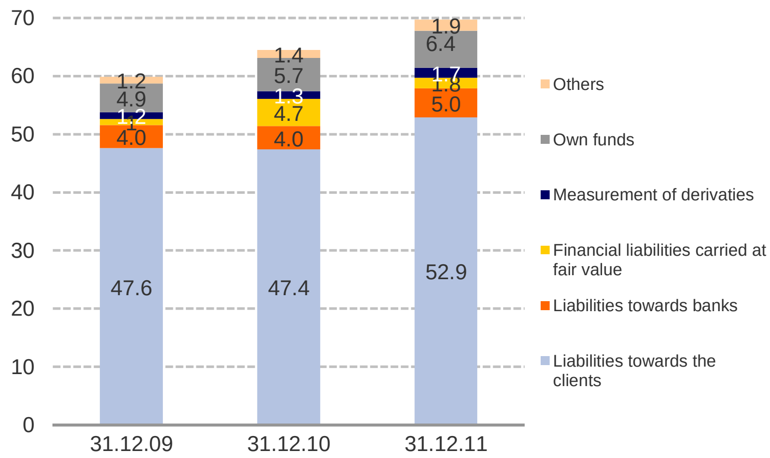
The funds deposited with the Bank by clients constituted the dominant source of funding for the operations of the ING Bank Śląski S.A. Capital Group. In December 2011, they totalled PLN 52,932.1 million compared with PLN 47,400.1 million as at the end of 2010. As at the end of 2011, liabilities due to customers represented 75.9% of total liabilities, up by 2.4 p.p. versus the end of 2010.

The Group's liabilities due to other banks totalled PLN 4,961.9 million compared with PLN 4,039.1 million as at the end of 2010. Funds from monetary financial institutions represented 7.1% of the liabilities, while in December 2010 their share was 6.3%.

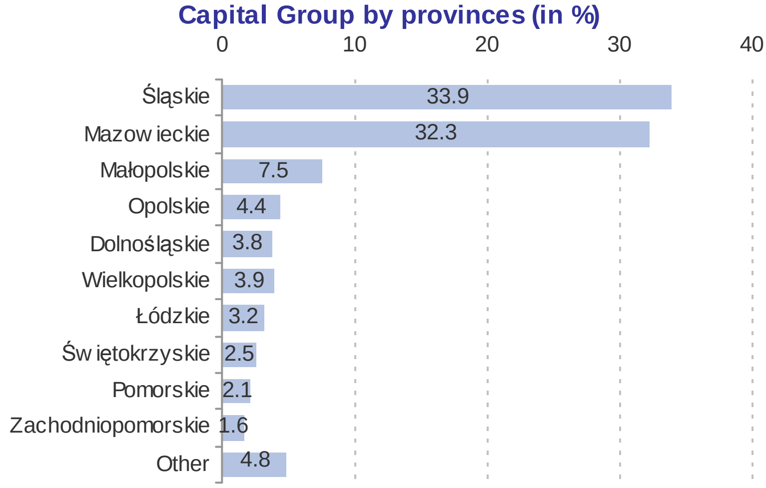
In 2011, the value of financial liabilities carried at fair value through profit or loss went down considerably – nearly all of them were related to sell-buy-back transactions. In December 2011, those liabilities amounted to PLN 1,814.7 million against PLN 4,681.4 million a year earlier. Their share totalled, respectively: 2.6% and 7.3%.

As at 31 December 2011, equity amounted to PLN 6,416.0 million (vs. PLN 5,653.1 million in December 2010). In December 2011, equity share in funding the Bank Capital Group operations totalled 9.2% compared with 8.8% as at the end of 2010.

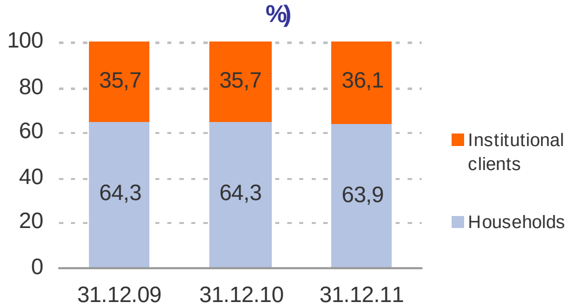
Structure of liabilities of ING Bank Śląski S.A. Capital Group (in PLN billion)



Structure of deposits of ING Bank Śląski S.A. Capital Group by provinces (in %)



Structure of deposits by client group (in %)



VI. MANAGEMENT OF KEY RISKS

1. Credit Risk

General Information

The credit policy pursued by ING Bank Śląski S.A. is based on principles of secure and prudent credit risk management. The credit policy is conducted by the Bank Management Board, which appointed the Credit Policy Committee for the purpose of taking decisions falling within the credit risk management area on a daily basis.

At ING Bank Śląski S.A. the credit risk is defined as possibility of failure to recover the Bank's receivables due to granted credit products which may result in failing to generate income and/ or suffer financial loss.

Losses resulting from conducting lending activity are a consequence of risk and the Bank's actions leading to reduction of the said losses. The Bank impacts the level of losses by the level of the accepted risk, risk exposure amounts, risk hedging and in case the risk materializes by direct actions reducing the losses. The Credit Risk Management & Market Risk Management Division calculates and presents for Bank bodies' approval the risk appetite along with stress tests, under the guidelines of the Polish Financial Supervision Authority Office.

ING Bank Śląski S.A. manages its credit risk with the use of advanced credit risk assessment models. The credit risk management area ensures: development and implementation to the credit process of credit risk management components such as identification and assessment, measurement and monitoring, risk control and preventive actions, as well as development of tools supporting risk identification and measurement, and manners of financial coverage of potential and actual credit risk losses.

Credit Policy

The modifications to the ING Bank Śląski S.A. Credit Policy regarding corporate credit exposures introduced in 2011 took account of Poland's economic situation as well as the financial situation of certain groups of borrowers. They were oriented at the following in particular:

- increasing effectiveness of the credit process while ensuring adequate credit risk identification and measurement mechanisms compliant with the requirements set forth in the Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 and Resolution no. 258/2011 of the Polish Financial Supervision Authority of 04 October 2011.
- maintaining the Bank's credit risk at an acceptable level.

The main modifications of the Bank's Credit Policy for corporate clients were the following:

- Updating the requirements and criteria concerning credit risk appetite for the credit exposures portfolio of mid-corporate, mid-sized and strategic clients. Updating recommendations concerning sectors, which the Bank considers as high risk sectors.
- Modifying the Policy as regards risk dedicated to the local government units in terms of fulfilment of the new regulatory requirements on calculating individual expenditure limit for debt-servicing.
- Adjusting the Collateral Policy, credit documents and collateral documents used in mortgage-establishing process in keeping with the requirements of the amended Act on Land and Mortgage Register and on Mortgage which came into effect on 20 February 2011.
- Introducing reporting of high credit exposures in line with the Resolution no. 207/2011 of the Polish Financial Supervision Authority of 22 August 2011.
- Updating the policy on funding income-generating real properties so as to take account of the current situation on the real estate market and the ING Group policy.
- Bringing the documents-related requirements into line with the Act on Freedom of Economic Activity and the Act on Reducing Administrative Barriers for Citizens and Enterprises.
- Extending the group of products for corporate clients as part of service comprising simplified documentation requirements.

ING Bank Śląski S.A. also took efforts to reinforce credit risk control for the retail portfolio due to the complex situation on the labour market, FX market and residential real property market. The Bank's actions in that respect included, among other things:

- introduction of amendments to the Credit Risk Management Policy and Collateral Policy bringing the said into line with the SII Recommendation,
- update of the Collateral Policy, the Central Register of Collaterals and mortgage products regulations with respect to the Act on Land and Mortgage Register and on Mortgage and some other acts,
- implementation of the Business Partners Risk Management Policy,
- introduction of variable interest rate buffer in calculating retail clients' credit capacity,
- implementation of the Internal Real Property Database as the basic tool in verification of the real estate value as part of the credit process,
- modification of the principles and organisation of the annual review of economic standing of clients from the Entrepreneurs segment,
- extension of stress-tests analyses with additional crisis scenarios and analysis of scenarios resulting in solvency ratio drop below 6% (the so-called reverse testing),
- expansion of details of risk reports and analyses related to higher-risk clients and key risk management areas,
- update of the principles of granting credit powers.

Credit Process and Credit Risk Assessment

In 2011, the Bank was simultaneously adjusting tools and instruments of corporate client risk measurement and monitoring to the Credit Policy modifications as well as binding regulatory requirements, that is the Bank:

- Continued the process of further credit risk models compliance with Basel II requirements (Resolution no. 76/2010 of the Polish Financial Supervision Authority) by regularly monitoring and validating local models' actions as well as implementing new versions of central (global) models developed on the level of ING Group.
- Facilitated customer service process as regards credit risk management, depending on the level of credit exposure.
- Implemented modified algorithms for Fast Track credit process for both short- and long-term limits as well as new credit products (leasing and factoring).
- Adjusted the scope of credit risk corporate reporting to the new/ amended recommendations of the Polish Financial Supervision Authority and business needs related to the new organisational structure of the Credit and Market Risk Management Division.
- Updated sensitivity and stress tests methodology for corporate credit risk and introduced procedure for reverse testing calculation.
- Adjusted the Collateral Policy to the requirements of the Resolution no. 76/2010 and amended recommendations of the Polish Financial Supervision Authority as well as to optimize the level of risk weighted assets.

The retail portfolio monitoring and restructuring was subject to changes related to effectiveness improvement of the said processes, especially during debt collection stage. They concerned in particular:

- improvement of the management quality in the monitoring area and cooperation with external debt collection companies,
- separation of a team dedicated to handle cases during the termination stage as well as to intensify contacts at the said stage,
- introduction of new tools for communication with clients at the monitoring stage (text message communication and via ING BankOnLine) and debt collection stage with the use of electronic proceedings by writ of payment.

Quality of Credit Portfolio and Provisioning

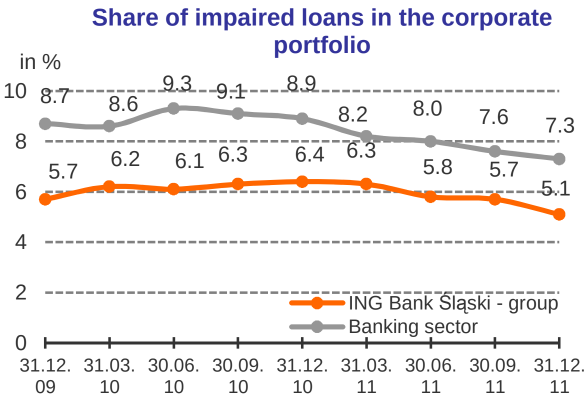
As at the end of December 2011, the total gross value of loans and cash loans extended to clients by the ING Bank Śląski S.A. Capital Group was PLN 37, 379.0 million.

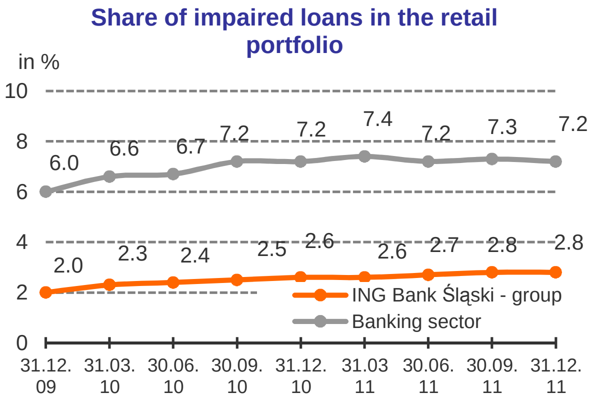
Quality of Credit Portfolio of the ING Bank Śląski S.A. Capital Group

	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009
Total exposure (PLN million)	**37,379.0**	**31,000.3**	**26,715.9**
Non-impaired portfolio (PLN million)	35,826.0	29,492.6	25,551.3
Impaired portfolio (PLN million)	1,553.1	1,507.6	1,164.6
Impairment losses and provisions (PLN million)	1,119.4	1,091.4	892.8
Charge for non-impaired portfolio (PLN million)	159.9	152.2	153.1
Charge for impaired portfolio (PLN million)	948.9	928.0	719.6
Provisions for off-balance sheet liabilities (PLN million)	10.6	11.1	20.1
Share of the impaired portfolio (%)	**4.2**	**4.9**	**4.4**
Impaired portfolio provisioning ratio (%)	**61.1**	**61.6**	**61.8**
Exposure - Corporate Banking (PLN million)	**22,370.1**	**18,405.4**	**16,959.1**
Non-impaired portfolio (PLN million)	21,236.9	17,227.8	15,987.2
Impaired portfolio (PLN million)	1,133.3	1,177.6	972.0
Impairment losses and provisions (PLN million)	736.6	785.9	
Charge for non-impaired portfolio (PLN million)	63.0	62.1	668.7
Charge for impaired portfolio (PLN million)	663.0	712.7	77.2
Provisions for off-balance sheet liabilities (PLN million)	10.6	11.1	571.4
Share of the impaired portfolio (%)	**5.1**	**6.4**	**5.7**
Impaired portfolio provisioning ratio (%)	**58.5**	**60.5**	**58.8**
Exposure - Retail Banking (PLN million)	**15,008.9**	**12,594.8**	**9,756.7**
Non-impaired portfolio (PLN million)	14,589.1	12,264.8	9,564.1
Impaired portfolio (PLN million)	419.8	330.0	192.6
Impairment loss (PLN million)	382.8	305.5	224.1
Charge for non-impaired portfolio (PLN million)	96.8	90.1	75.9
Charge for impaired portfolio (PLN million)	285.9	215.4	148.2
Provisions for off-balance sheet liabilities (PLN million)	0.0	0.1	0.0
Share of the impaired portfolio (%)	**2.8**	**2.6**	**2.0**
Impaired portfolio provisioning ratio (%)	**68.1**	**65.3**	**76.9**

The value of impaired loans was at the level of PLN 1,553.1 million versus PLN 1,507.6 million as at the end of 2010. Thus, the share of the impaired portfolio in the entire credit portfolio of the Bank Capital Group dropped from 4.9% in December 2010 to 4.2% as at the end of December 2011. Credit portfolio (in particular corporate one) quality improvement was also impacted by two sale transactions of liabilities portfolio classified as impaired loans or fully written-down from the balance sheet (retail balance sheet with the value of PLN 41.1 million and corporate one with the value of PLN 201.9 million).

In December 2011, the quality of credit portfolios of the ING Bank Śląski S.A. Capital Group (both retail and corporate) was better than the average in the entire banking sector.





As at the end of December 2011, the ING Bank Śląski S.A. Capital Group had PLN 948.9 million worth of provisions for the credit portfolio. The impaired portfolio provisioning ratio was 61.1%.

2. Contingent Liabilities

As at 31 December 2011, the ING Bank Śląski S.A. Capital Group had:

- Commitments to grant loans (such as overdrafts and card limits) and commitments under issued guarantees and letters of credit for the total amount of PLN 16,777.7 million (up by 15.3% versus the end of 2010).
- Received contingent liabilities in the amount of PLN 34,334.8 million (up by 100.2% when compared to the previous year).
- Off-balance sheet financial instruments with the face value of PLN 131,242.5 million. Their value went up by 10.6% during the year mainly on account of augmentation of the value of FX derivatives (up by 83.4%).

Contingent Liabilities of the ING Bank Śląski S.A. Capital Group (PLN million)

	31 Dec. 2011	31 Dec. 2010
Contingent liabilities granted and received	**51,112.5**	**31,699.5**
Liabilities granted:	16,777.7	14,545.9
Financial	13,325.9	11,503.6
Guarantee	3,451.8	3,042.3
Liabilities received:	34,334.8	17,153.6
Financial	199.0	30.4
Guarantee	34,135.8	17,123.2
Off-balance sheet financial instruments	**131,242.5**	**118,679.7**
Interest rate derivatives	68,472.9	81,511.7
FX derivatives	47,752.3	26,035.2
Stock market derivatives	1,135.6	996.5
Other	13,881.8	10,136.3
Off-balance sheet items total	**182,355.0**	**150,379.2**

3. Market Risk Management

General Information

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

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

The Market Risk Management Department is sub-divided into two sections: The Trading Risk Management & FM Product Control Section (deals with risk of the business activity conducted on one's own account) and the Bank Risk Management Section (concentrated on balance sheet management). At the beginning of 2011, the Trading Risk Management Section and the Product Control Section were combined into one Section in order to better reconcile risk with financial reporting.

The purpose-based Bank books 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 their purpose as:

- <u>Trading.</u> 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 gains from market movements or arbitrage activities.
- <u>Banking.</u> 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 review of market risk in commercial books (non-FM books). The VaR ratio gives the maximum potential loss, assuming certain confidence (probability) level. The Bank calculates VaR separately for individual interest rate, FX and FX options portfolios. VaR for interest rate portfolios and FX transactions is calculated by means of variant and co-variant method. For FX options which are an instrument with a non-linear risk characteristics, ING Bank Śląski S.A. changed the VaR risk measurement method from "grid" method to the VaR historical method. The VaR historical method is more precise in measuring options portfolio risk. As VaR does not present a full picture of market risk under extreme conditions – risk incident calculation (stress testing) is performed additionally. VaR limit that is not to be exceeded has been set for each type of activity.

The Bank worked not only on improving the risk measurement methods, but also on the manner in which the instruments are valued, in particular derivatives so that the valuation takes into consideration not only the market but also other risk factors. At the end of the year, ING Bank Śląski S.A., following the market standards, changed its yield curves used in the derivative evaluation process to OIS curves. The Bank continued its efforts to develop a new methodology accounting for counterparty risk factor in derivative valuation (credit valuation adjustment) by including, among others, the risk of deterioration of the counterparty financial situation due to movement of the market parameters different to original assumptions (the so called wrong-way risk). In our opinion, ING Bank Śląski is a leader in using derivative credit valuation adjustment for counterparty risk.

Earnings at Risk (EAR) concept is applied for (part 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 comprising 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 internal investments thereof in 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 repayment of loans) and underlying risk (the potential losses on those positions arising from non-standard interest rate-setting mechanisms).

VaR Exposures and Limits in 2011

In 2011, the Bank maintained its trading exposures at low levels compared to the effective limits. The average limits utilisation was respectively: 16% for interest rate transactions, 27% for FX spot and 18% for FX options. In 2011, there were no cases of VaR limit excess at the Bank.

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 transactions 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:

- Working out and analysing liquidity ratios, as well as monitoring liquidity limits.
- Devising liquidity procedures/ policies.
- Developing, testing and managing liquidity contingency plans.

One of the most important aspects of the liquidity risk management process at 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 the liquidity risk management process, the Bank adopted a new system for reporting on and controlling the said risk. Currently the Bank monitors in particular the cash and collateral items while taking into consideration various stress scenarios and structural position liquidity. Such approach should result in enhancing the Bank's skills within the liquidity risk management in future.

Throughout 2011, the Bank met all regulatory liquidity limits.

Replicating Portfolios

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

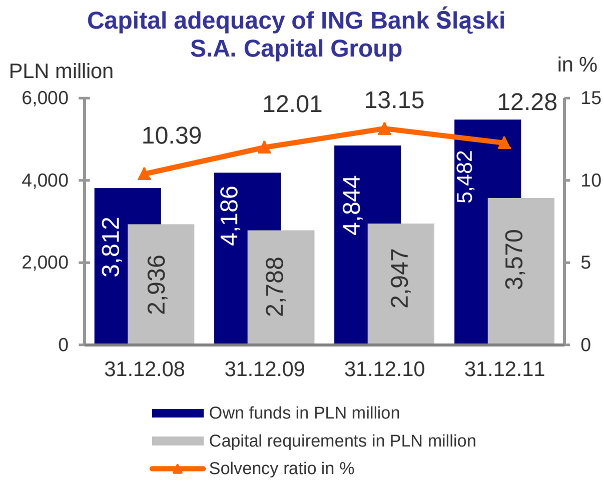
4. Capital Adequacy

At the end of December 2011, the solvency ratio of the ING Bank Śląski S.A. Capital Group was 12.28%. It was above the level recommended by the Polish Financial Supervision Authority (i.e. above 10%). The solvency ratio level was affected by the following factors:

- Lending growth. Capital requirements under credit risk depending on the month accounted for approx. 85-90% of the total capital requirement. They concerned above all lending to corporate clients and entrepreneurs (small businesses) as well as mortgage loans. The credit capital requirement under derivatives, interbank deposits and bond investments remained at a low level.
- Decision of the General Meeting on allocation of the 70% of the Bank's 2010 net profit for equity.
- Consolidation of ING Bank Śląski S.A. with ING Bank Hipoteczny S.A.

- Resolution no. 208/2011 of the Polish Financial Supervision Authority on exposure concentration risk, which allowed to exclude exposures within capital groups under the same consolidated supervision.

High quality capitals i.e. Tier 1 capitals (equity and retained earnings) accounted for 99% of ING Bank Śląski S.A. capital base. Such a capital structure is favourable from the point of view of future regulatory requirements related to the CRD IV Directive.



In October 2011, ING Bank Śląski S.A. obtained permit to use the Advanced Internal Rating-Based (AIRB) methodology to calculate regulatory capital requirement under credit risk for credit institutions and enterprises. The Bank started to apply the said methodology in reports as of December 2011. However, it did not influence the Bank Capital Group solvency ratio, as the decision of the Polish Financial Supervision Authority contains a clause whereunder the reported requirement cannot be lower than the one calculated using the standard method.

In 2011, the Bank further improved the Internal Capital Adequacy Assessment Process (ICAAP). Particular emphasis was placed on streamlining of the process and stress tests methodology.

In 2012, ING Bank Śląski S.A. capital adequacy measure will be mainly impacted by: extension of the composition of the Bank Capital Group with new companies ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A., assumed further lending growth, amendments to regulatory regulations, and in particular introduction of 100% weight for risk of FX retail credit exposures. Moreover, the Bank will take account of the necessity to meet requirements related to CRD IV in the capital management process.

5. Operational Risk and Compliance Risk

ING Bank Śląski S.A. executes the rules of operational, compliance and anti-fraud risk management pursuant to the provisions of the Banking Law Act, recommendations and resolutions of the Polish Financial Supervision Authority and the standards developed by the ING Group.

Operational risk is recognised at ING Bank Śląski S.A. as the risk of suffering direct or indirect material loss or loss of reputation resulting from inadequate or failing internal processes, people, technical systems or external events. This definition also covers the legal risk.

A coherent set of Policies, Minimum Standards and procedures determining requirements for operational, compliance, anti-fraud and legal risk management, considered as the non-financial risk area, is binding at the Bank.

For the purpose of risk management the Bank applies the model of three lines of defence, based on the division of tasks and duties:

- Business units – first line of defence responsible for development, implementation and execution of controls mitigating risk.
- Risk management units (second line of defence) that support business units in their actions aimed at identifying and mitigating risk.
- Internal audit performing the function of an independent auditor, being the third line of defence.

In 2011, the Bank conducted a complex review of the operational risk management system, as part of global programme of ING Group, and taking into consideration the threats arising from changes in business environment, concentrated its actions on improving forms and methods of risk management as regards:

- providing managers on various organisational levels with management information on all risk categories,
- improving risk identification, assessment and mitigation mechanisms in individual areas of the Bank operations while taking into account changes in offer and business environment,
- gathering and analysing information on risk incidents and taking preventive measures with the use of the Bank operations integrated control system,
- classifying and analysing risk related to information resources, projects and products as well as outsourced processes,
- ensuring that compliance is abided by, including requirements for counteracting money laundering and terrorism financing, preventing conflicts of interest as well as limiting corruption threats,
- strengthening control of confidential information, constituting professional secrecy and supervising employees' private investments,
- mitigating risk with the use of the integrated supervision system for follow-up recommendations,
- testing business continuity plans for key business processes and improving crisis management system and physical security system in all locations,
- ensuring adequate insurance levels in the banking operations in the form of global and local insurance,
- organizing awareness programmes and training courses facilitating risk management processes for all Bank employees,
- integrating security systems in order to managed risk more effectively,
- analysing scenarios,
- determining risk appetite,
- ensuring effective forms of counteracting crimes related to payment transactions and identity theft or funds theft with the use of electronic tools.

VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2011

1. IT and Operations

In 2011, actions regarding IT systems development at the Bank concerned mainly:

- Implementation of new Financial Markets application. The new system will enable optimisation of back-office processes for money markets and currency exchange products.
- Implementation of the IP telecommunications service Bank-wide. The new telephone service will significantly cut back on internal telephone communications. It will also serve in the nearby future as a basis for rendering available to the Bank employees modern, integrated electronic communications, combing into one voice and video communication as well as e-mail.
- Implementation of SAP system in the HR area. In H1 2011, works on module supporting annual appraisals process, access to basic HR functions for employees and managers via Intranet and module supporting bonus calculation were completed, among others.
- Pilot of new device (recycler) for servicing cash operations in the branches network.
- Standardizing the software of ATMs and dual machines provided by various vendors by implementing the Multivendor Application.
- Executing the on-line night depository project; the said depositories are designed for clients to make closed payments. Possibility to book the payment on-line makes this project innovative.

In April 2011, the Operations Division centralisation process, carried out for a couple of years, was finalised at the Bank. The implemented operational model facilitates rendering high-quality back-office service and enables flexible reacting to market changes and needs of individual business lines. The Operations Division services operations of the Bank's all business lines i.e. retail, corporate and strategic clients as well as the financial markets. The Division's individual units constitute competence centres as regards serviced processes. On account of introduced changes some operational processes were outsourced to specialized external companies (outsourcing of cash handling, payment cards issue and personalization, mass printing services and documents archiving).

Moreover, in 2011 the following projects related to operations area were carried out at the Bank:

- Trade Finance project, assuming back-office platform implementation, facilitating handling of letters of credit, guarantees and collections with tools enabling the said transactions service via ING BusinessOnLine.
- Outsourcing projects on cards issue, cash management and mass printing.

All units within the Operations Division apply the uniform production management system under Lean Pack methodology. Thus, 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. In 2011, many initiatives were taken aiming at further improvement of the Division functioning effectiveness, under one name of Lean Office 2011.

In 2011, the share of automatic transactions in the total number of transactions of the Operations Division accounted for 97.3% (against 96.4% a year earlier).

2. Development of Electronic Distribution Channels

In 2011, ING Bank Śląski S.A. introduced the following modifications to the electronic distribution channels:

- Launched a new version of the ING BankOnLine electronic banking service. The introduced changes were to enhance the ergonomics and simplify the use of the system. Clients, who filled in surveys published at the Bank website decided about certain design elements and functions descriptions of the new system layout. There were new functionalities added to the system such as: service of all investment funds offered with the agency of the Bank (in total there are 110 funds belonging to six Investment Funds Companies) along with a tool for presenting their valuation, return rate and direct debit module. Also the mobile version of the ING BankOnLine Internet banking was modified.

- Made the ING BusinessOnLine available to a new group of clients being companies covered by process of migration from Retail to Corporate Sales Network. As part of these actions the application's security mechanisms were expanded by enabling the users to log in to the system and confirm a given operation by text messages sent to the client's cell phone. Moreover, new functionalities that are extremely popular among our clients, were added to ING BusinessOnLine, i.e. filing applications for credit products and submitting instruction to disburse loan.

In November 2011, the Bank started the pilot of mobile payments executed by cell phone with payment application embedded directly in the SIM card. During the pilot it is possible to make such payments at points of sale accepting MasterCard Paypass proximity payments.

As at the end of December 2011, the electronic banking systems of ING Bank Śląski S.A. were used by 2 115.3 thousand clients, up by 12.5% when compared to the end of 2010. The number of clients who use the HaloŚląski system also increased considerably, up by 19.9% versus December 2010.

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

	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008
ING BankOnLine, ING OnLine, ING BusinessOnLine	2,115,325	1,879,525	1,559,504	1,167,054
HaloŚląski	1,285,261	1,072,099	786,008	617,422
Text message (SMS)	918,954	782,079	619,664	387,456

In 2011, the Bank to a much wider extent used the Internet to analyse clients' needs, improve communication with them and stimulate the banking product sales. The Internet surveys on client preferences were conducted, activity within social media area (ING Bank Śląski Facebook Fanpage) and Internet services partner network were developed, among other things.

As at the end of December 2011, ING Bank Śląski S.A. had a network of 773 ATMs (including dual machines) compared to 775 ATMs as at the end of 2010. Moreover, there were 583 CDMs (including dual machines) which means that in total there were 1,137 self-service cash machines, including: 554 standard ATMs, 364 standard CDMs and 219 dual machines.

The Bank also provided holders of Direct and VIP Account and clients of the Entrepreneurs segment with free access to all ATMs in Poland. In 2011, the Bank introduced the account balance checking service in its own ATMs (for VISA cards) as well as Card PIN change service (VISA and MasterCard) for clients of other banks.

In December 2011, 14.2 million transactions were executed at the Bank via electronic banking systems, compared to 13.1 million a year earlier.

3. Network of Bank Outlets

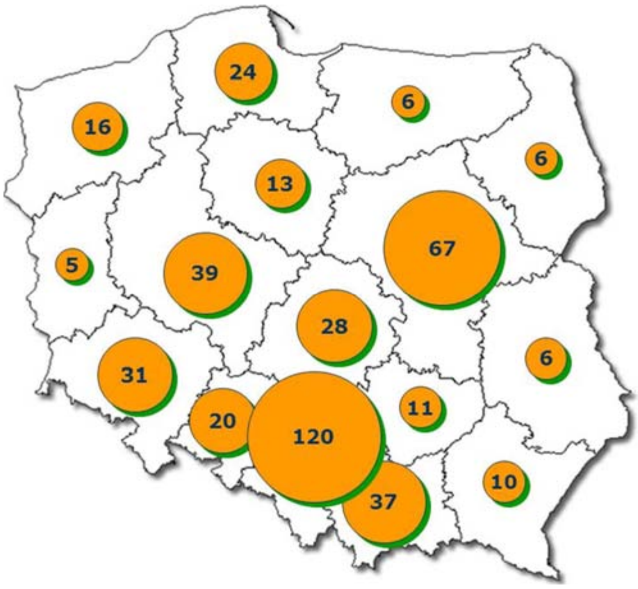
As at 31 December 2011, ING Bank Śląski S.A. had 439 retail branches (including 37 franchise outlets and 97 cashless branches). In 2011, the Bank opened two new branches and liquidated seven branches. Moreover, 24 franchise outlets were given a Bank branch status. Almost every Bank branch has a self-banking zone operating 24/7, where the clients may deposit and withdraw cash, execute transfers by *ING BankOnLine,* call *HaloŚląski* service or talk to Call Centre consultant.

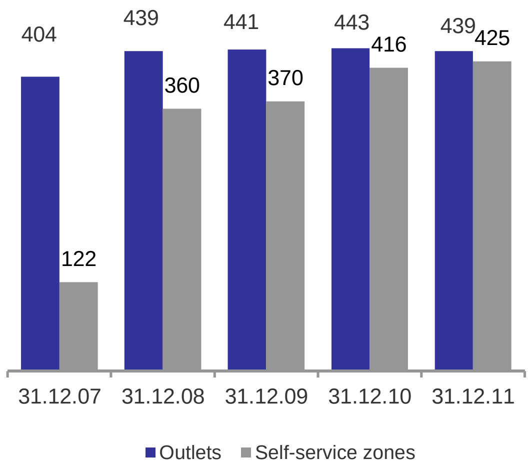
Corporate clients from mid-sized and mid-corporates segment were serviced at the Bank by 29 corporate branches and 11 Corporate Banking Centres. Almost all of them were operating in the same locations as retail branches. The largest clients were handled by the Strategic Clients Department and its two regional offices (in Katowice and Gdańsk).

In 2011, in case of some Bank branches there was a significant improvement in conditions wherein clients are serviced. This was possible as the following projects were executed:

- Project of adjusting retail network outlets to new market trends. This project aims not only to introduce new branding and service model to all retail branches, but also to optimise the network through branches' relocations and conversions. By the end of 2011, 67 retail branches were rebranded, 65 of them were rebranded in 2011.
- Corporate Sales Network Revitalisation Programme. By the end of 2011, the Bank converted 12 corporate branches. All of them where included in the ING Meeting Place initiative. As part of this initiative, clients are able to use free of charge modern conference rooms of the Bank with high quality equipment and wireless access points in order to hold their business meetings with counterparties.

Network of ING Bank Śląski Outlets (as at 31 December 2011)





4. Human Resources Management

Headcount

As at 31 December 2011, the ING Bank Śląski S.A. Capital Group had 8,409 employees. Throughout 2011 the number of employees in the companies forming the Bank Group went down by 63 persons.

In December 2011, ING Bank Śląski S.A. had 8,211 employees, down by 49 persons (or 0.6%) when compared to December 2010.

Headcount structure at ING Bank Śląski S.A.

	31 December 2011		31 December 2010 *(inclusive of ING Bank Hipoteczny S.A.)*	
	number of persons	as %	number of persons	as %
Retail Banking	4,150	50.6	4,313	52.2
Corporate Banking and Financial Markets	1,103	13.4	1,084	13.1
Operations/IT/Services	2,039	24.8	1,972	23.9
Risk/Organisation/Finance/HR	919	11.2	891	10.8
Total	**8,211**	**100.0**	**8,260**	**100.0**

The changes to headcount and its structure recorded in 2011 were caused, above all, by the decrease in the Retail Network headcount resulting from project on redevelopment and optimization of the distribution network as well as changes to headcount resulting from ING Bank Śląski S.A. consolidation with ING Bank Hipoteczny S.A.

Remuneration Policy

As in the past years, in 2011 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. Therefore, the remuneration policy of the Bank was developed with close reference to remuneration in the banking sector. At the same time the efforts to ensure consistency and fairness of offered remuneration were made.

Starting from 1 April 2011, the pay rise process was conducted at the Bank. The pay rise amount depended, above all, on employee annual appraisal result. In 2011, the Bank kept its existing incentive system model based on Key Performance Indicators that support execution of the Bank's development strategy. Moreover, the fringe benefits package – being a crucial element of remuneration system – was extended, too. In December 2011, the Polish Financial Supervision Authority registered the Employee Pension Fund of ING Bank Śląski S.A. This programme is an important component in building secure financial future of employees in relation to increasing need to amass additional funds for future pension.

Recruitment and Employer Branding

ING Bank Śląski continued its activities for employer branding. As part of those actions, the Bank undertook the following:

- Conducted promotion campaign and recruitment for *Praktyka z Lwem* (Internship with Lion) programme addressed to second year students who plan to work in banking in the future. In 2011, 44 students did internship at Bank's Head Office units.
- Arranged first edition of "ChallengING IT" placement programme addressed to students interested in development within IT area.
- Implemented *Program Ambasadorski* (Ambassador Programme), addressed to all students. As part of a new form of the Bank's cooperation with Universities in the biggest town/cities of Poland, there were 16 Ambassadors recruited to the Programme.

Throughout 2011, ING Bank Śląski recruited, above all, employees for specialized jobs within IT area, employees providing services to clients as well as Contact Centre employees.

Employee Development

In 2011, ING Bank Śląski S.A. programme looking for new talented people called *Graduate Leadership Programme* was included in the programme of the ING Group. It started to operate under the name that already functions in 21 countries, that is *ING International Talent Programme.* 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 participant's profile.

In 2011, there were changes to the *Management Development Programme.* This programme is to identify and develop people with potential, by engaging them in executing initiatives that are of strategic importance for the Bank. In the end of the day, they will be a group of individuals with identified high potential who are ready to take up new challenges.

Moreover, as part of the employee development policy, the Bank conducted extensive actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC) conducted in 2010. These areas included:

- Career Opportunities. The Bank continued to pursue the following initiatives:
  - The *Nawigator Rozwoju* (Development Navigator) Programme. Its aim is to build corporate culture focused on professional development and to support employees and managers in managing their professional development. There were 38 training courses for nearly 350 employees organized. Moreover, the application presenting development path was being updated on an ongoing basis. Also educational chats with HR employees and external experts (Joanna Heidtman and Wojciech Eichelberger, among others) were organized.
  - Placement programmes. Their aim is to expand career opportunities of the Bank employees and share knowledge and best practices across business lines. Sixteen employees took part in projects beyond their own teams, and 200 of them were on short-term placement enabling the employees to combine work in their parent unit with additional project tasks of other organizational units.
- Expressing Recognition. Employees with the highest ratings had an opportunity to attend another meeting from the *Conference with an Authority Figure* series. David Allen was the special guest of this meeting. He presented the method focusing on coping with stress, i.e. the art of stress-free productivity. This meeting was attended by approximately 500 employees holding non-managerial positions. For the employees with high potential and engagement, the Bank also organised the so-called Orange Meetings, where they had a chance to exchange ideas and concepts with ING top management. In 2011, 42 meetings of this kind for almost 300 employees were held. Also, so-called Recognition Workshops were organised; they were attended by almost 300 managers.
- Leadership and Accountability. The following programmes were executed at the Bank as part of developing competencies of managers:
  - *Bank-Oriented Development.* The Bank received funds for this comprehensive programme developing managerial competencies from the European Social Fund in the amount of PLN 5.5 million. More than 1,000 of managers attended 72 training courses, and nearly 700 participants of the said programme took the competency tests.
  - *Skills Academy.* In 2011, the second edition of the Skills Academy was held. The two-day meetings attended by 220 Bank managers from all around Poland covered both lectures delivered by experts and HR trainers and discussion panels on sharing best practices in terms of management.
  - *Manager Development Academy.* The Academy was brought to life for newly appointed managers. 29 training courses were held and 200 employees attended them.

Just as in previous years, actions in terms of diagnosing the employees' potential were conducted as part of the Development Centre, 360-degree Assessment and Ensize tests. Their results were, among others, basis for devising development programmes for individual Divisions whereunder systematic management of specialists' and managers' development is possible. In 2011, approx. 620 individuals took part in development programmes.

Training Programmes

ING Bank Śląski S.A. training-related activities were executed in line with the strategy adopted for 2011. They covered both traditional and e-learning training courses.

Key directions of training programmes at the Bank in 2011 included:

- Mandatory training courses. The Bank uses e-learning training courses for basic training courses or training courses consolidating knowledge within the security, operational risk and compliance area. Moreover, each new Bank employee is obliged to go through the training path, including both traditional and e-learning training courses.
- E-learning training courses. The catalogue offer comprised approximately 150 items. E-learning training courses cover in particular: product, application, specialist and competence courses. Throughout 2011, the employees did approximately 80,000 of e-learning training courses.
- Training courses for the employees of the Retail Sales Network. They concerned changes in IT systems, newly introduced and modified products, service quality and development of sales skills as well as preparation to manage sales team, including new employee initial induction. Moreover, in relation to implementation of new organizational structure of the Retail Network, a *Turbo Detal* (Turbo Retail) programme addressed to directors was organized. In 2011, there were 3,238 training days for the Retail Network employees; they were attended by 16,000 employees.
- Competency training courses for employees. The offer of the Bank's training courses was updated based on results of Annual Interviews. It includes the training courses within the area of bank and specialist competencies, but also those related to processes and products.. The said catalogue is a set of training programmes delivered by internal and external training units. In 2011, approximately 2,500 employees participated in the training courses offered in our catalogue.

Moreover, in 2011, ING Bank Śląski S.A. conducted activities for further diversification of employee development methods. Apart from the training courses, the Bank also promoted - as educational activities supporting development - knowledge sharing inside the organization in the form of mentoring and coaching, among other things. In 2011, the formula whereunder mentors, coaches and tutors operated was reorganized and the group of associated trainers (specialists and experts, who as part of their work, share their knowledge in training rooms) was extended. Mentoring and coaching are used on different organizational levels, both in training and development programmes, and for individual people. At the same time, the Bank introduced new, self-service forms of sharing knowledge with the use of multimedia tools, available to all employees via Intranet.

Use of Information Technologies in HR Processes

In 2011, the implementing works regarding the SAP HR system were continued. Its implementation should increase the employees engagement in and satisfaction from work, make execution of HR management processes faster and more efficient and facilitate active participation of employees and managers in HR processes.

In H1 2011, the first stage of implementing the SAP system within the HR area was finalised. Employees may access their own HR data stored in the SAP system whenever they want, and managers may access updated information as regards employment of their subordinates, which is indispensable in order to manage the team effectively.

At the same time, the works on the second stage of implementing the SAP HR within the following self-service functionalities were started: The Employee Pension Programme, the In-House Social Benefits Fund, personal expenses planning, HR application forms, pay rise and additional benefits management, working hours management and e-recruitment.

VIII. OUTLOOK ON ING BANK ŚLĄSKI S.A. OPERATIONS DEVELOPMENT

I think Bank, I choose ING – this will be the slogan for ING Bank Śląski S.A. operations in 2012; it reflects the Bank's vision of being the Preferred Bank.

The Preferred Bank strategy is based on three pillars:

- Client centricity – all operations of the company focus on tailoring products and service model to the needs of clients from individual segments.
- Operational excellence – keeping the position of the best Internet bank and streamlining the processes.
- Top Employer - acquiring and retaining the best personnel by supporting employees' professional development and using modern communication tools.

In order to ensure long-term growth of the goodwill, the Bank undertakes actions aimed at reinforcing and then keeping a top position in the Polish banking sector by harmonious development of core activities i.e. retail and corporate banking. The development of multichannel and integrated sales and clients service model with special focus on enhancing the electronic banking systems is continued.

Retail Banking

On the retail market, ING Bank Śląski S.A. focuses on both acquiring new clients and strengthening relations with existing ones. The Bank aspires to increase the number of active personal accounts, which are among the most important products as they are the basis for building a long-term relation with clients. New technologies, in particular in terms of payments and cards, proximity technology among other things, are an incentive for clients to use personal accounts at the Bank.

In the deposit activity, the Bank is going to keep its strong position in the household deposit market. To that effect, the Bank pursues the policy of long-term clients' deposits management through a stable offer and a flexible approach to interest. In the nearest future, the Bank is going to offer to a greater extent and promote more actively long-term savings products, also for pension purposes.

The Bank strives to strengthen its position in the retail loans market. In achieving the said goal, maintaining the strong position in PLN housing loans sales and gradual increasing receivables due to cash loans for individual customers and entrepreneurs play a key role.

The strategy adopted by the Bank is executed through offering the client in a clear and transparent manner products at attractive price through the highest customer service and integrated distribution channels. In 2012, the Bank will conduct the following projects:

- The most Internet-based Bank. The ING BankOnLine electronic banking service application will still be developed. Apart from providing the clients with new functionalities such as personal finance management tool among others, additional security measures making the application use even more secure will be introduced. The ING BankOnLine system in the version designed for mobile devices will be also developed.
- Business process optimization. The Bank started the project the aim whereof is to implement an automatic process of granting loans in all distribution channels with the use of new IT tool integrated with the decision engine. The project is expected to shorten the credit decision waiting period for the client; however, the credit applications for simple products for regular clients will be done offhand.
- Adjustment of the retail sales network to market trends. The Bank perceives its branches as showpieces promoting its image of a modern financial institution on a daily basis. In order to adjust the outlets to changing clients' expectations and increasing role of direct channels in service processes, a new concept and branding of retail branch was brought to life. It will be implemented in all the branches by the end of 2014.
- Development of the customer satisfaction survey based on Net Promoter Score methodology. In 2012, a bigger number of banking products and services will be covered by this survey which assesses the customer service in the so-called truth moments.

Corporate Banking

In 2012, the key actions of ING Bank Śląski S.A. in the corporate banking market will be aimed at:

- Keeping a high level of corporate network client acquisition in particular in the mid-sized companies sector.
- Increasing the core deposits in current accounts by both acquiring new clients, and strengthening relationships with the existing ones. Selling Payment and Cash Management (PCM) products will also play a key role in this process.
- Increasing the share in credit market while paying attention to the portfolio quality.
- Obtaining high growth of the funds accumulated in current accounts of institutional clients.
- Maintaining the leader position within customer satisfaction from the offer quality and service level.

The basic instruments for accomplishment of the objectives adopted on the corporate banking market and financial markets are as follows:

- Developing the offer and improving the credit process. Having finalised in 2011 the works on automating the process for smaller credit exposures (Fast Track implementation), the Bank will start the redevelopment of a standard credit process (Normal Track). Apart from implementing best practices applied in the Fast Track process, new products will be available in the modified standard credit process (such as investment limit of a framework agreement nature). Simultaneously, the niche products will be withdrawn from the offer. The Fast Track process whereunder new products are planned to be offered (such as discount products, ABL products) will be also developed.
- Strengthening cooperation with companies offering ABL products. The Bank strives for improving cooperation with new Group companies: ING Lease (Polska) and ING Commercial Finance Polska and increasing the sales of ABL products. It is to be achieved mainly through the automation of credit process for ABL products and modification of existing Bank's applications. These changes will result in offering ABL products to clients in a similar way and with the use of the same tools as credit banking products. Moreover, the profile of ING Lease (Polska) operations will be partially changed, that is it will offer leasing products to corporate clients and small businesses to a larger extent, in particular leasing of means of transport, machines and equipment.
- Enhancing the Internet banking system. The Bank's efforts to keep the image of the most Internet bank in the market resulted in the decision to start works on implementing the mobile banking application. The mobile banking system will provide the access to business account and will enable to execute various transactions in the account without the need to use a computer. The level of security of such operations will be the same as in the current version of the Internet banking system. The offer of products available via ING BusinessOnLine will be expanded by letters of credit, guarantees, collection and documentary collection discount transactions.
- Modernizing the Branches. The branches redevelopment project, covering not only new branding and new office layout, but also change of branch organization and adjusting the branch network to the local potential of the market. The Bank intends to redevelop all corporate branches in line with the new standard by the end of 2014.

Moreover, the Bank has already started the works on new business model of corporate banking (2020 Programme). These actions were undertaken as a response to new trends appearing in the global banking such as: entry of non-banking entities to the banking product market (for example: telecommunications service providers in the payment market) and reduction of banks' income due to fees and commissions as a result of a decrease in account maintenance and payment transaction fees and commissions. The aim of this project is to ensure alternative sources of revenue for the Bank, by changing the distribution model and introducing non-banking products to the Bank's offer, among others. New products are to be the source of the Bank's competitive advantage through increasing customer satisfaction and loyalty.

The 2012 plan of ING Bank Śląski S.A. takes into account the expected growth slowdown in the Polish economy, the possibility of severe turmoil in the global financial markets and necessity to meet new capital adequacy and liquidity requirements in the mid-term perspective. Operating in the unstable and volatile environment, the Bank, to execute its plans, will take advantage of its strengths such as: multimillion client base, strong and stable deposit base, balanced in terms of currency balance sheet structure and appropriate capital base, which is built almost entirely of high – quality capitals.

IX. INVESTOR NFORMATION

1. Price per ING Bank Śląski S.A. Share

In 2011, the ING Bank Śląski S.A. shares were split; it was a 1:10 share split without changing the company's share capital amount. 18 November 2011 was the first day of quotation of the Bank's shares after the split.

Increasing problems of the growing number of states belonging to the Eurozone as regards servicing their debt made investors from entire Europe express more and more mistrust towards financial sector companies. Similar situation took place in Poland, where regardless of strong financial result of the banking sector, the sub-index of WIG-Banki lost 21.7% of its value throughout 2011.

In 2011, the price per ING Bank Śląski S.A. share as at the close of the session at WSE was within the range from PLN 66.6 on 10 August (price adjusted for split of shares) to PLN 91.5 at the market session on 04 January.

On 30 December 2011, the price of the Bank's share equalled PLN 78.6, down by 12.1% versus the last day of quotation in 2010. Therefore, the Bank's share price quotation was positive when compared to the quotations of other banks listed on WSE. Analysts believe that ING Bank Śląski S.A. was rewarded by the market for its conservative business model which may be distinguished by secure situation within the financing area, LTD ratio lower than 100% and relatively low exposure in FX loans, which may cause a lot of trouble to the banks in 2012.

ING Bank Śląski S.A. trading share price in 2011 (31 December 2010 = 100%)

As at the end of 2011, the Bank's market value was PLN 10,226 million, while its book value amounted to PLN 6,414 million.

2. Ratings

ING Bank Śląski S.A. co-operates with the following rating agencies: Fitch Ratings and Moody's Investors Service.

Fitch Ratings Ltd. assigns full rating to ING Bank Śląski S.A. under agreement between the Bank and the Agency. In Q1 2011, the Agency revised ING Bank Śląski S.A. rating. As a result, the Agency affirmed all the Bank's ratings (Fitch's press release of 4 March 2011).

On 20 July 2011, Fitch Agency published a special report, which stated that Fitch introduces another rating, namely Viability Rating (VR) for global financial institutions. The Viability Rating is based on the same methodology as the Individual Rating. However, instead of a 9-point rating scale (as in the case of Individual Rating) a 19-point rating scale is applied for VR. It enables greater diversification of ratings and ensures better reflection of the institution's financial situation independent of external factors.

Fitch assigned ING Bank Śląski S.A. bbb+ rating for VR and it stands for the highest possible rating available for those institutions which were assigned C Individual Rating. Ratings from the bbb range mean good, fundamental creditworthiness of the institution. The Bank's fundamentals are adequate, which means that there is a low risk of need to rely on extraordinary support to avoid insolvency; this capacity might be however slightly impaired by extremely adverse business or economic conditions. The introduction of Viability rating did not affect the remaining ratings of ING Bank Śląski S.A. According to the previous press release, in January 2012 the Viability rating completely replaced the previous Individual Rating.

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

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

Long-term IDR and short-term IDR specify the entity's capacity to meet its financial liabilities on time. A-Rating (Long-term IDR) of the entity reflects high capacity of the Bank to meet its long-term financial liabilities on time. F1-Rating (Short-term IDR) stands for the highest appraisal of the capacity to timely pay 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. (ING Bank Śląski S.A. has the highest support rating - level 1). bbb+ Viability Rating denotes Bank's strong market position, high liquidity, stable sources of funding based on the retail clients' deposits base as well as adequate capital position and assets' quality, which is significantly higher than the market average.

The Moody's Investors Service Ltd. on the other hand, assigns ING Bank Śląski S.A. rating on the basis of public information. Throughout 2011, the Bank maintained the financial credibility ratings assigned by the Agency:

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+
Financial strength outlook	Stable

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

In 2011, as the last year, the _Executive Compensation Policy for Members of the Management Board of ING Bank Śląski S.A._ determining the structure, form and level of compensation of the Management Board Members was effective at the Bank.

The compensation of the Member of the Bank Management Board consists of 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 60% 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 or 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 compensation 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 Act.

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 protection and investment 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 fittings of 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 Act, 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 Act, 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 obviously 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.

Members of the Management Board of ING Bank Śląski S.A. were not covered by any equity-based incentive or bonus scheme in the year 2011. The ING Bank Śląski S.A. Group, on the other hand, participates in the Long-Term Equity Ownership Plan (LEO) adopted by ING Group.

Compensation of Members of the Management Board of ING Bank Śląski S.A. in 2011 (in PLN thousand)

Name and surname	Period from – to	Compensation and bonuses	Exercised LEO options	Other benefits	Total
Małgorzata Kołakowska	01 Jan. 2011 - 31 Dec. 2011	2,051.8	6.7	252.9	2,311.3
Mirosław Boda	01 Jan. 2011 - 31 Dec. 2011	1,540.2	33.6	208.5	1,782.4
Michał Bolesławski	01 Jan. 2011 - 31 Dec. 2011	1,555.0	6.7	199.4	1,761.1
Evert Derks Drok	01 Jan. 2011 - 31 Aug. 2011	1,013.4	0.0	499.4	1,512.8
Justyna Kesler	01 Jan. 2011 – 31 Dec. 2011	1,493.6	6.9	194.6	1,695.2
Oscar Swan	01 Jan. 2011 - 31 Dec. 2011	1,484.3	22.8	192.6	1,699.7
Total		**9,138.4**	**76.7**	**1,547.4**	**10,762.5**

In 2011, 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 10,762.5 thousand. The total amount of compensation and bonuses paid out or due and payable for 2011 given here is the gross amount of compensation paid out or due and payable for the period from January until December 2011.

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

In 2011, the total amount of compensation (defined as above) paid out by ING Bank Śląski S.A. to the Members of the Supervisory Board totalled PLN 490.0 thousand.

Compensation of Members of the Supervisory Board of ING Bank Śląski S.A. in 2011 (in PLN thousand)

Name and surname	Period from – to	Compensation and bonuses	Benefits	Total
Brunon Bartkiewicz	01 Jan. 2011 - 31 Dec. 2011	0.0	0.0	0.0
Roland Boekhout	24 Oct. 2011 - 31 Dec. 2011	0.0	0.0	0.0
Anna Fornalczyk	01 Jan. 2011 - 31 Dec. 2011	210.0	0.0	210.0
César González-Bueno	01 Jan. 2011 - 16 Sept. 2011	0.0	0.0	0.0
Ralph Hamers	01 Jan. 2011 - 31 Dec. 2011	0.0	0.0	0.0
Nicolaas Cornelius Jue	01 Jan. 2011 - 31 Dec. 2011	0.0	0.0	0.0
Mirosław Kośmider	01 Jan. 2011 - 31 Dec. 2011	148.0	0.0	148.0
Cornelis Leenaars	01 Jan. 2011 - 06 Apr. 2011	0.0	0.0	0.0
Wojciech Popiołek	01 Jan. 2011 - 31 Dec. 2011	132.0	0.0	132.0
Total		**490.0**	**0.0**	**490.0**

No member of the Bank Management Board held any shares of ING Bank Śląski S.A. As regards members of the Supervisory Board, Mr. Wojciech Popiołek held 60 shares of the Bank.

X. CORPORATE SOCIAL RESPONSIBILITY AT ING BANK ŚLASKI S.A. IN 2011

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.

The Bank attaches great importance to ensuring that its employees pursue ING Business Principles being: openness, integrity, respect, responsibility and common sense on a daily basis. These Principles fully embody the distinctive qualities ING Bank Śląski S.A. would like to possess when compared to the market and the way it wants to be perceived by the clients.

The vision of socially responsible business conducted by the Bank is based on international standards and it refers directly to the Universal Declaration of Human Rights and principles of Global Compact drafted by the United Nations. As a public trust institution, the Bank has been also applying the Code of Best Banking Practices since 1991. As a company listed on the WSE, ING Bank ensures that all shareholders are treated equally regardless of the number of held shares as well as it pays special attention to: equal access to information for everybody and effective communication between the Company and participants of the capital market. Moreover, the Bank adopted application of all principles of corporate governance arising from the *Best Practices of WSE Listed Companies.*

Adhering to highest standards and attaching special attention to CSR is confirmed by the Bank's permanent presence in the index of socially responsible companies "Respect Index" of WSE and its first place in the ranking of Socially Responsible Companies in the category Banking and Finance in 2011.

Actions undertaken within the CSR support achieving business goals of ING Bank Śląski S.A. and they focus above all on the four areas: relationships with clients, employees, activities for the community and natural environment.

1. *Relationships with Clients*

ING Bank Śląski S.A. perceives responsible relationships with clients as transparent and clear offer, ethical marketing and communication, the highest service standards, honest rules for complaint handling process and dialogue with the clients. Adopting the said rules of cooperation with clients is accompanied by permanent endeavours to enhance the quality of services and adjust the products to clients' everchanging needs and expectations.

In order to ensure right principles of cooperation with clients, ING Bank Śląski S.A. uses a variety of tools such as:

- Customer Satisfaction Surveys. They are carried out as part of the individual customer satisfaction survey - *Net Promoter Score (NPS)*, among others. Using a short questionnaire distributed by e-mail, this survey helps monitor 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. For the retail clients, client satisfaction studies are conducted by means of Walker Information approach designed for investigating clients satisfaction with provided services and their loyalty to the Bank. In 2011, an annual customer satisfaction survey of corporate and strategic clients was conducted. The survey provided an insight into clients' opinion on changes introduced to the offer and its financial terms and the new service model.
- Communication with Clients. The Bank attaches great importance to dialogue with clients, which is performed during individual meetings and via electronic channels. In 2011, the Bank organized for corporate clients a series of educational meetings attended by ING economists and authority figures on the Polish market in the field of economy and finance. The Internet-users on the other hand (clients but not only) can contact the Bank with the use of the following channels:
  - ING Bank Śląski forum at www.forum.ingbank.pl, (in 2011 it was visited on average by 30 thousand people per month),
  - Skype instant messenger,

- Facebook profile (http://www.facebook.com/INGBankSlaski),
- YouTube video channel (http://www.youtube.com/ingbsk).
- product communication channel - video call (www.ing.pl).

- Complaint Analysis. Clients may file a complaint with the Bank through diverse channels, including electronic ones, 24 hours a day, 7 days a week. Bank regularly analyses causes of complaints and it treats them as feedback on both offered products and quality of the service. The process of handling complaints was considered to be a moment of truth and it was included in the customer satisfaction survey Net Promoter Score (NPS). Clients' comments are analysed in depth and they constitute a starting point for undertaking actions aimed at enhancing the complaint process. As a result, in 2011 we shortened the complaint investigation time.

The Bank also attaches great attention to cooperation with vendors and expects them to adhere to any and all laws and legal regulations relevant for their business activity as well as to meet environmental standards. In 2011 the modified Vendors' Management Procedure at ING Bank Śląski S.A. became effective . This procedure defines processes and describes roles and tasks of participants; therefore, it serves as basis for developing common vision and strategy for cooperation with vendors. Covering all vendors with a new, standard management procedure resulted in creating conditions necessary to keep proper cooperation principles, enhance effectiveness, optimize costs and mitigate vendor risk. Vendors qualified to vendors' management process are given a regular feedback on quality of their services. At the same time, they are given opportunity to assess the cooperation with the Bank by means of counterparty card.

2. *Relationships with Employees*

ING Bank Śląski S.A. honours and respects human rights and strives to create working conditions facilitating proper balance between professional and private life. 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 and to integrate with the disabled.

The Bank provides employees with opportunity to express their opinion on working at ING anonymously by, among other things, conducting annually the Winning Performance Culture (WPC) survey. In 2011, 88% of Bank employees took part in the WPC survey. They provided us with valuable information on issues that are key to the organization such as: strategy execution, openness for development, attractiveness of the Bank on the labour market. Respondents of 2011 survey stressed that in their day-to-day work they adhere to ING Business Principles, they highly appreciated customer service, Bank business efficiency and adherence to compliance standards when running business activity.

Actions of ING Bank Śląski S.A. for employees development was depicted in this *Management Board Report on the Operations of the ING Bank Śląski S.A. Capital Group in 2011* in item *Human Resources Management.*

3. *Activities for the Community*

ING Bank Śląski S.A. together with ING for Children Foundation promotes social activity among employees by employee volunteer initiatives *ING Volunteerism.* ING Bank Śląski S.A. employees are entitled to devote 8 hours from their annual working time for employee volunteer initiatives, which is formally regulated under the Labour By-Law of ING Bank Śląski S.A.

As part of the ING Volunteerism programme the following voluntary initiatives are performed:

- Projects for local communities, conducted as part of the *Good Idea* contest for the best voluntary initiatives. In 2011, 560 employees conducted 39 initiatives for community centres, hospitals, schools and nursery schools.

- Projects for selected community partner. Majority of those actions gather a large number of employees working for selected units: orphanages and therapy centres, among others. In 2011, 16 initiatives of this kind were organized, and the largest one was attended by almost 100 employees.

ING Bank Śląski S.A. supports entrepreneurial spirit and education among pupils of upper-secondary schools. In March 2011, the Bank engaged itself in execution of nation-wide Achievement Day organized for pupils by the Junior Achievement Foundation. The Bank was granted a title of "Most Active Company during Achievement Day" for preparing almost 130 places for training and conducting one-day training courses for 82 pupils.

In November 2011, 849 employees of ING Bank Śląski S.A. joined the Group-wide initiative under the name *Global Challenge*. ING Volunteers organized meetings for children during which the therapeutic book "Lucjan lew, jakiego nie było (*"Lucian, the Lion One of its Kind")* published by ING Bank Śląski S.A. was read. Participants of this initiative provided the children from community centres, hospitals, schools and nursery schools with 3,500 copies of this book.

Collecting gifts for children - charges of *ING for Children Foundation* - has become an inherent part of social initiatives organized by employees of the Bank. The Bank organizes among employees collections of school supplies (in September) and St. Nicholas' Day gifts (in December).

Blood donation initiatives also enjoy continuous popularity among our employees. In 2011, 260 of the Bank employees took part in 12 such initiatives.

ING Bank Śląski S.A. as a member of working group for Responsible Investment, took part in developing recommendation for the Ministry of Economy of the Republic of Poland in the area of responsible investing.

Activity of ING for Children Foundation

In 2011, the *ING for Children Foundation* celebrated its 20 anniversary. The mission of our Foundation is to provide equal chances by educating children from poor areas, chronically ill children and educating children in the area of enterprise.

The foundation pursues its goals included in the Charter as part of the following programmes:

- <u>ING Internet Clubs.</u> In 2011, another four Internet clubs were opened. In total, there are 28 ING Internet clubs all over Poland, where nearly 1,350 children can use the Internet for free in safe and comfortable conditions.
- <u>Smile Stays.</u> In 2011, almost 1,200 kids participated in 24 stays in recreational centres of the Bank. These were educational and rehabilitation stays for children (the Foundation charges) from primary schools, community youth clubs and therapeutic groups.
- <u>ING Volunteerism.</u> In 2011, the Foundation supported public benefit institutions, urban and commune welfare centres that Bank volunteers cooperate with. In 2011, the Foundation donated PLN 391,291 for the support described above. The subject matter and financial assistance of *ING for Children Foundation* makes conducting the planned employee volunteer initiatives possible.

Activity of the Foundation is financially supported by ING employees by 1% tax deduction (in 2011 Foundation received PLN 36.7 thousand donations from this source), as well as by the employee contribution programme consisting in deducting the contribution from remuneration on a monthly basis (in 2011 Foundation received PLN 26.6 thousand in such a way).

ING Polish Art Foundation Activity

ING Bank Śląski S.A. is an active member of the *ING Polish Art Foundation* that for 11 years now has been promoting Polish contemporary art, in particular the works of 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. Its prestige is built-up on the names of the already well-known artists such as Stefan Gierowski or Zofia Kulik as well as on those of younger artists e.g.: Wilhelm Sasnal, Michał Budny or Jakub Julian Ziółkowski. The Foundation tries to respond actively to new interesting events emerging in new art and in 2011 it was the first Foundation in Poland to expand its collection with the work "Krajobrazy i Monochromy '09'" by Anna Ostroya. A few months later, the artist, born in 1978, was invited to execute a project in the Museum of Modern Art in New York.

Collection of the Foundation is exhibited in Sponsors' head offices. At the same time, it joins more and more actively projects executed together with artists and art institutions. In 2011 together with Galeria Starter, the Foundation organized the exhibition called *3 nad ranem (Three in the Morning).*

In September 2011, ING Polish Art Foundation received for its activity a special mention in the category Patron of Culture from the Minister of Culture and National Heritage for systematic support of the Polish modern art.

4. *Activities for the Natural Environment*

In 2011, ING Bank Śląski S.A. pursued goals adopted as part of the Environmental Management System under international standard ISO 14001 (EMS).

The following pro-ecological initiatives and employee environmental education receive special attention:

- I replace my wastepaper bin with a car park for a mouse. The aim of this initiative conducted in February 2011 was to reduce the number of wastepaper bins and bin bags that are thrown away. As part of the said initiative 500 wastepaper bins were collected and the number of used bin bags was reduced by 180 thousand.
- Clean office. By mid-February 2011, we conducted an initiative which enabled us to collect 150 tons of waste from 190 locations (waste paper, used office equipment, furniture and other equipment), which were utilized in environment-friendly manner.
- Spring cellCleaning. In spring 2011, we conducted a bank-wide collection of used cell phones. The initiative was designed for making employees aware that used cell phones that are thrown away to the rubbish bin become hazardous waste. During the initiative 370 devices and over 50 kg of chargers were collected and utilized in environment-friendly manner.
- Earth Hour. As part of the initiative, lights were turned off for an hour in the buildings of the Head Office at Plac Trzech Krzyży in Warsaw, at ul. Sokolska in Katowice and in 15 branches all over Poland.
- Earth Week. The Bank joined this initiative in order to increase employees ecological awareness, develop attitudes promoting good habits at work and at home as well as to draw attention to the influence each employee may have on environmental protection.

Moreover, the implementation of the Environmental Management System under ISO 14001 Standard at ING Bank Śląski S.A. was presented as an example of corporate best practice within CSR area in Poland in 2011 in the Report by Responsible Business Forum "Responsible Business in Poland" in the category Management and Reporting.

5. *Additional Information*

Information about Corporate Social Responsibility executed under ING Bank Śląski S.A. is available at www.ingbank.pl in tab "O Banku/Odpowiedzialność społeczna i środowiskowa".

Please send all your questions concerning corporate social responsibility to the following e-mail address: **csr@ingbank.pl**

XI. REPORT ON OBSERVANCE OF CORPORATE GOVERNANCE RULES AT ING BANK ŚLĄSKI S.A. IN 2011

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. present the *Report on Observance of Corporate Governance Rules at ING Bank Śląski S.A. in 2011*.

1. Rules and Scope of Corporate Governance

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 WSE Supervisory Board Resolution no. 17/1249/2010 of 19 May 2010 and in amendments to the abovementioned Code contained in the following WSE Supervisory Board resolutions: no. 15/1282/2011 of 31 August 2011 and no. 20/1287/2011 of 19 October 2011. The content of the above mentioned set of rules has been published at the Warsaw Stock Exchange website at: http://corp-gov.gpw.pl.

ING Bank Śląski S.A. adopted all Corporate Governance Rules included in the "Code of Best Practice for WSE Listed Companies" ("Best Practice") by way of Management Board and Supervisory Board resolutions in 2010; in 2011 both the Management Board and the Supervisory Board acknowledged the information about the scope of changes introduced in 2011.

In line with the abovementioned decisions, the Bank in particular: expanded the content of its website and adopted the Executive Compensation Policy for Members of the Management Board of ING Bank Śląski S.A. The detailed information on this Policy was presented to the Ordinary General Meeting in the annual report for 2010.

In 2011, the Bank transmitted both the Ordinary and the Extraordinary General Meeting making it possible for all interested parties to watch the meeting; it did not organise the General Meetings in the mode provided for in Article 406^5 of the Commercial Companies Code though.

The Management Board of ING Bank Śląski S.A. hereby declare that the Bank and its authorities observed the corporate governance rules they adopted as set out in the "Best Practice for WSE Listed Companies" in 2011.

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

2. Control Systems in the Process of Financial Statements Development

Internal control

Financial statements are developed by the Finance Division; the process is among the key elements of compliance with standards. The basic elements enabling 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 statements,

- risk of use of incorrect estimates, and
- risk of lack of integration of IT systems and operating and reporting applications.

To mitigate the aforementioned 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, development environment management and integrity of data transmission systems (including correct operation of interfaces in terms of completeness of data transfer from operating systems to the reporting environment).

To ensure 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 potential indications of incorrect data presentation or incorrect input data, if any.

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

- to estimate loan impairment – specific models and applications as well as internal regulations for credit risk assessment were implemented,
- to measure 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 application,
- to estimate the reserve for retirement and pension benefits – 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 the General Terms and Conditions of Bonus Award adopted at the Bank, considering 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 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" and "Major Accounting Principles".

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

3. Entity Entitled to Examine Financial Statements

The independent chartered auditor of financial statements is selected by the Bank Supervisory Board on the basis of the recommendation provided by the Audit Committee, and taking into consideration the requirement to consolidate the financial statements and the related unified approach of ING Group as regards the change of the auditor, which is in line with applicable EU regulations.

On 03 March 2011, the Bank Supervisory Board elected Ernst & Young Audit Spółka z o.o. with the registered office in Warsaw as the chartered auditor of financial statements of ING Bank Śląski S.A. and the Capital Group of ING Bank Śląski S.A. for the period of 1 year starting from the review of financial data for Q1 2011 and ending with the audit of the financial statements for 2011.

ING Bank Śląski S.A. has been using the services of Ernst & Young Audit Spółka z o.o. for auditing the Bank's financial statements since 2008.

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

Auditor's net fee[25]

	Accounting year ended 31 December 2011	Accounting year ended 31 December 2010
Audit of the consolidated annual financial statements	1\ EUR 107.1 thousand + reimbursement of documented direct expenses (max 8%) 2\ PLN 21.0 thousand	1\ EUR 107.2 thousand + reimbursement of documented direct expenses (max 5%) 2\ PLN 22.5 thousand
Other attestation services	Due to review of the financial statements EUR 49.9 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 125.0 thousand	Due to review of the financial statements EUR 47.1 thousand + reimbursement of documented direct expenses (max 5%)
Tax advising	Not covered with the agreement	Not covered with the agreement
Other related services	Due to auditing and review of the reporting packages EUR 161.9 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 298.3 thousand	Due to auditing and review of the reporting packages EUR 152,7 thousand + reimbursement of documented direct expenses (max 5%) Other – PLN 435.9 thousand

4. Shares and Shareholders of ING Bank Śląski S.A.

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which on 31 December 2011 had a 75% share in the share capital of ING Bank Śląski S.A. and a 75% share in the overall number of votes at the General Meeting. 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.

In 2011, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's share in the share capital did not change. However, in 2011, ING Bank Śląski S.A. executed a 10-for-1 split of the face value of the Bank shares.

The Bank provided the information on the share split in the current report of 26 May 2011. Taking into account the provisions of the Banking Law, the Management Board requested the Polish Financial Supervision Authority for granting permission to amend the Bank Charter accordingly. On 11 July 2011, the Polish Financial Supervision Authority approved the amendments to the Bank's Charter, which enabled share capital structure change.

[25] Ernst & Young does not audit the financial statements of the Bank subsidiaries: Centrum Banku Śląskiego Sp. z o.o. and Solver Sp. z o.o. The remuneration of auditors due to auditing the financial statements of the said entities was presented in item 2 of the line Auditing the annual consolidated financial statements. .

On 24 October 2011, the Extraordinary General Meeting adopted a resolution on amendments to the Charter of ING Bank Śląski S.A. In accordance with the amended Charter, the Bank's share capital shall remain unchanged, however it is divided into 130,100,000 shares with the face value of PLN 1 each in place of current 13,010,000 shares with the face value of PLN 10 each. On 31 October 2011, the District Court in Katowice made an entry to the National Court Register concerning the change to the structure of the Bank's share capital. Pursuant to the date arranged with the National Securities Depositary, 18 November 2011 was the first day on which ING Bank Śląski S.A. shares were listed after the 10-for-1 split of their face value.

When taking the decision on the share split, the Bank Management Board acted according to the following premises:

- increasing the availability of ING Bank Śląski S.A. shares for the larger share of investors, especially for individual investors, and
- increasing the liquidity of the Bank's shares on the Warsaw Stock Exchange.

Shareholding 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 2011			31 Dec 2010	
ING Bank N.V.	97,575,000	75.00%	ING Bank N.V.	97,575,000	75.00%
Other	32,525,000	25.00%	Other	32,525,000	25.00%
Total	**130,100,000**	**100.00%**	**Total**	**130,100,000**	**100.00%**

The Bank shares are ordinary bearer shares. No additional controlling rights are attached thereto. The Bank Charter does not impose any restrictions on transferring ownership of shares issued by the Bank, voting right execution or any stipulations whereunder share-based equity rights are separated from share ownership.

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

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

5. Charter and Mode of Operation of the General Meeting of ING Bank Śląski S.A.

Rules of amending the Charter

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the 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 buyout 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-third 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 Boards motions concerning amendments to the Bank Charter should be first presented to the Supervisory Board for 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.

Amendments introduced to the Charter in 2011

In 2011, there were registered the amendments to the Charter of ING Bank Śląski S.A. concerning:

- Adjusting the language of the provisions regarding Bank's activity to the requirements of the Act on Financial Instruments Trading, in particular by performing non-brokerage activities consisting in:
  - accepting and transmitting orders to purchase or sell financial instruments,
  - acquiring or selling financial instruments on own account,
  - investment advising,
  - offering financial instruments,
  - providing services in performance of previously concluded agreements on stand-by underwriting and firm commitment underwriting or in conclusion and performance of other agreements of similar nature concerning financial instruments.

  The relevant Resolution was adopted by the Extraordinary General Meeting on 23 December 2010, and the amendment was registered on 14 March 2011 with the decision of the District Court in Katowice, Commercial Division of the National Court Register.

- Changes to the structure of the share capital. On 31 October 2011, the District Court in Katowice 8 Commercial Division of the National Court Register issued decision on making an entry on the change of the Bank's share capital structure; i.e., 1-for-10 share split.

Operations of the General Meeting and its essential rights

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.

The Ordinary General Meeting should be held once a year; however, no later than in June. The General Meeting is convened by the Bank 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 Bank Management Board on their own initiative or when requested by the Supervisory Board or shareholders representing at least one twentieth of share capital. The shareholders' request should be submitted to the Management Board in writing or via electronic mail. The Extraordinary General Meeting may be convened at any time by the Supervisory Board, should the need arise. The 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.

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

- Request putting particular items on the agenda of the nearest General Meeting. This request should be submitted to the Management Board no later than twenty one days before the set 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 set date of the Meeting. The Bank Management Board announce drafts of the resolutions at the Bank's website immediately.

Each shareholder is entitled to submit drafts of resolutions concerning items put on the agenda during the General Meeting. When an Extraordinary General Meeting is convened, the Management Board present 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 Ordinary 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 and the Notice of the 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 it 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, and
- exercising voting right in person or by proxy.

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

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 for 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 the 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 set out therein as regards shareholders communication with the Bank via electronic means of communication.

The Bylaw of the General Meeting includes, in particular, the 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 Act 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 supplementary capital 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 of conversion into Bank's bonds (convertible bonds),
- decisions on claims for redress of damage inflicted upon establishing the company or management or supervision thereof,
- 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, and
- other matters provided for by the laws or the Charter, or raised by the Supervisory Board, the Management Board or eligible shareholders.

6. Supervisory Board Operations

Supervisory Board composition

The Supervisory Board consists of 5 to 11 Members appointed by the General Meeting for a 5-year term of office. The General Meeting determine the number of the Supervisory Board Members for a given term. The members of the Supervisory Board may be dismissed any time with the resolution of the General 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 of the Supervisory Boards as well as detailed criteria of independence result from "Best Practices of the WSE Listed Companies" adopted by the Bank.

Throughout 2011, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- On 01 April 2011, Mr. Cornelis Leenaars tendered his resignation to Ms. Anna Fornalczyk, Chair of the Supervisory Board of ING Bank Śląski S.A. as the Member of the Supervisory Board of ING Bank Śląski S.A., effective as of 06 April 2011. Mr. Cornelis Leenaars was Deputy Chair at the Bank Supervisory Board.
- On 26 May 2011, Mr. Brunon Bartkiewicz (Supervisory Board Member until then) was appointed by the Supervisory Board of ING Bank Śląski S.A. as Deputy Chair of the Supervisory Board of ING Bank Śląski S.A.
- On 16 September 2011, Mr. César González-Bueno tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Member of the Supervisory Board of ING Bank Śląski S.A. The resignation was due to the intention to continue his professional career outside ING.
- The Extraordinary General Meeting of ING Bank Śląski S.A. held on 24 October 2011 appointed Mr. Roland Boekhout as the Member of the Bank Supervisory Board.

As at the end of December 2011, the Supervisory Board of ING Bank Śląski S.A. worked in the following composition:

- Ms. Anna Fornalczyk Chair, Independent Member,

- Mr. Brunon Bartkiewicz Deputy Chair,
- Mr. Wojciech Popiołek Secretary, Independent Member,
- Mr. Roland Boekhout Member,
- Mr. Ralph Hamers Member,
- Mr. Nicolaas Cornelis Jue Member, and
- Mr. Mirosław Kośmider Member, Independent Member.

The authorities of the Supervisory Board members of ING Bank Śląski S.A. are presented at the Bank's website at www.ingbank.pl/o-banku/wladze/rada-nadzorcza.

Rights and duties of the Supervisory Board

The primary mission of the Supervisory Board is to perform the supervisory function – the Supervisory Board conduct ongoing oversight of the Bank'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 statements for the previous financial year, motions of the Management Board regarding profit distribution or loss coverage, as well as submitting the annual written report on the results of the said appraisal to the General Meeting.

Apart from the above mentioned rights and duties, the Supervisory Board also have the following decision-taking authorities pursuant to the Bank 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 prepared by the Management Board and annual financial plans of the Bank's operations,
- approval of acceptable risk levels in the individual areas of Bank's activities,
- approval of motions of the Bank Management Board concerning the establishment and dissolution of Bank organisational units abroad,
- approval of purchase or disposal by the Bank of shares or rights under shares, 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 share 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 setting remuneration thereunder 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 statements of the Bank on the grounds of recommendation submitted by the Supervisory Board Audit Committee,
- determining the consolidated text of the Charter once the General Meeting take a resolution on amendment thereto, as well as making other editorial amendments to the Charter,
- approval of concluding major agreements by the Bank with a related entity,
- approval of purchase of, sale 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 such asset by the Bank as a creditor as a result of recovering a debt claim by the Bank,
- submitting to the General Meeting a concise evaluation of the Bank's situation, including the evaluation of internal control system and system of material risks management as well as report of the Supervisory Board and their Committees on their operations in the financial year, including the Supervisory Board self-assessment 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, and

- approval of the Bank's compliance policy, approval of rules of internal capital quantification 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 their Chair or Deputy Chair, to which all Supervisory Board Members have been invited.

In principle, the meetings of the Supervisory Board are convened by their 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 members 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 subsidiaries. In particular, this covers the adequacy and efficiency of the internal control 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 Audit Committee Bylaw of ING Bank Śląski S.A. passed by the Supervisory Board.

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 2011, the Audit Committee worked in the following composition:

- Mr. Mirosław Kośmider - Chair,
- Mr. Ralph Hamers - Member,
- Mr. Nicolaas Cornelis Jue - Member,
- Mr. César González-Bueno - Member (until 16 September 2011), and
- Mr. Brunon Bartkiewicz - Member (as of 01 December 2011).

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 employee turnover, measuring the Bank employees' satisfaction, and policy of remuneration and bonus award system.

The operations of the Remuneration and Nomination Committee are described in detail in the Remuneration and Nomination Committee Bylaw of ING Bank Śląski S.A. passed by the Supervisory Board.

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

In 2011, the Remuneration and Nomination Committee worked in the following composition:

- Ms. Anna Fornalczyk - Chair,
- Mr. Cornelis Leenaars - Member (until 06 April 2011),
- Mr. Wojciech Popiołek - Member,
- Mr. Nicolaas Cornelis Jue - Member, and
- Mr. Brunon Bartkiewicz - Member.

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

7. Management Board Operations

Management Board composition

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

The Management Board members are appointed for a 5-year term of office. In the event of changes 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 Management Board term of office.

At least a half of the Management Board members have to be Polish citizens. Two Management Board members, including the Management Board President 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 Management Board President. The Management Board members may be dismissed at any time by the Supervisory Board. Executive Vice-President of the Management Board may be dismissed by the Supervisory Board upon consultation with the Management Board President.

On 27 June 2011, Mr. Evert Derks Drok tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. as the Vice-President of ING Bank Śląski S.A., for personal reasons.

Right after the end of 2011, i.e. on 09 January 2012, the Supervisory Board of ING Bank Śląski S.A. appointed Mr. Ignacio Juliá Vilar as Vice-President of the Bank Management Board as of 01 February 2012.

The authorities of the individual Management Board members are presented at ING Bank Śląski S.A. website at www.ingbank.pl/o-banku/wladze/zarzad.

Authorities of the Management Board

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 the laws or the Bank Charter shall rest with the Management Board. The Management Board act collectively with reservation of those matters which in line with the Bank's internal regulations have been entrusted to individual Management Board members.

In particular, it is the task of the Bank 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 at the Bank,
- organize and supervise the efficiency and effectiveness of processes supporting the Bank's commercial activity,
- ensure efficient functioning of the Bank organizational structure and adequate security level,
- create the Bank corporate culture, norms of cooperation, principles of ethics and a friendly work environment for employees, and
- draw up rules and implement informational policy as regards the Bank and its operational strategy.

The Bank Management Board formulate 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 the Bank Organizational Bylaw, the following matters fall 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, and
- 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 are authorized and obliged to take actions related to the Bank's operations as a joint-stock company (convening the General Meeting, for example). 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 President of the Management Board shall have the casting vote.

Management Board meetings are convened and chaired by the Management Board 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 Management Board President, 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 Management Board President 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.

Scope of responsibilities of Bank Management Board Members

As at 31 December 2011		As at the report publication date	
Ms. Małgorzata Kołakowska	**Chief Executive Officer,** in charge of: Retail Banking Division, Strategic Clients Division, Treasury and FM Division, and some units that report directly to the Management Board of the Bank, including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, non-financial risk management units and HR units,	Ms. Małgorzata Kołakowska	**Management Board President,** in charge of: Strategic Clients Division, Treasury and FM Division, and some units that report directly to the Management Board of the Bank, including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, non-financial risk management units and HR units,
Mr. Mirosław Boda	**Executive Vice-President,** in charge of the Finance Division	Mr. Mirosław Boda	**Executive Vice-President,** in charge of the Finance Division
Mr. Michał Bolesławski	**Executive Vice-President,** in charge of the Corporate Sales Network Division,	Mr. Michał Bolesławski	**Executive Vice-President,** in charge of the Corporate Sales Network Division,
Ms. Justyna Kesler	**Executive Vice-President,** in charge of: 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,	Ms. Justyna Kesler	**Executive Vice-President,** in charge of: 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	**Executive Vice-President,** in charge of the Credit and Market Risk Management Division.	Mr. Oscar Swan	**Executive Vice-President,** in charge of the Credit and Market Risk Management Division.
		Mr. Ignacio Juliá Vilar	**Executive Vice-President,** in charge of the Retail Banking Division,

XII. SUPERVISORY BOARD ASSESSMENT OF OPERATIONS OF THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2011

In 2011, the Polish banking sector operated under highly uncertain and higher risk conditions arising from deepening fiscal imbalance in the Eurozone. In its operations the sector was affected in particular with the consequences of: assets sale and material PLN exchange rate fluctuations, huge drops on stock exchanges and the signs of economic slowdown that started to appear in the second half of the year. The said trends were limiting the growth rate of many banking areas and required increased caution in financial risk management.

In 2011, in this unstable and complicated environment, net profit of the ING Bank Śląski S.A. Capital Group amounted to PLN 880.1 million against PLN 753.1 million in 2010 (up by 16.9%). The result achieved in 2011 was the highest one in the Bank's history. The following factors contributed to the net profit:

- Higher income. In 2011, the Group's income totalled PLN 2,953.6 million against PLN 2,731.6 million a year earlier (up by 8.1%). Above all, it was the interest result that improved, and it was mainly the higher share of loans in assets and a higher margin that contributed thereto.
- Effective cost management. As a result of consistent actions aimed at further improvement of efficiency as regards using the available resources, the operating expenses of the Bank Capital Group totalled PLN 1,663.6 million in 2011, up by 4.4% versus a year earlier. The Cost to Income ratio (C/I) decreased from 58.3% in 2010 to 56.3% in 2011.
- Lower risk costs burden. Maintaining good quality portfolio (both retail and corporate loans) resulted in decreasing the balance of impairment losses from PLN 203.6 million in 2010 to PLN 172.4 million in 2011.

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

ING Bank Śląski S.A. provides the Audit Committee with reports concerning actions taken to improve the internal control system, as well as results of process reviews, which were carried out by the Internal Audit Department reporting directly to the President of the Bank Management Board. In 2011 the Audit Committee of the Supervisory Board reviewed, among others, the following documents presented later on Supervisory Board Meetings: the Report on the Execution of the Annual Audit Plan in 2010, the Annual Audit Plan in 2011, the Report of the Internal Audit on the Standard of Internal Control of ING Bank Śląski, Risk Management and Adoption of Audit Recommendations as well as the Policy of ING Bank Śląski – Internal Control System. Moreover, 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 the said supervision allow us to conclude that ING Bank Śląski S.A. has an efficient systems of both the internal control and the internal audit, which are important elements of the process of adherence to the corporate governance rules.

The Audit Committee supports the Supervisory Board in terms of monitoring and overseeing the financial risk management system (credit risk, liquidity risk and market risk). In 2011, the Committee acknowledged and approved, among other things, changes to the Capital and ICAAP Management Policy and the Capital Management Procedure and it was familiarising themselves on a regular basis with the Risk Reports, covering the sensitivity analysis of credit risk and market risk (stress tests).

In the opinion of the Supervisory Board, ING Bank Śląski S.A. risk management system covers all types of risks material for the Bank. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2011, ING Bank Śląski S.A. fulfilled all requirements of sound business operations and capital adequacy, that is the Bank:

- Pursued prudent credit policy. Credit processes and procedures applied by the Bank were in line with regulatory requirements and best practices on the market. In 2011, the Bank took account of the economic situation in its credit policy and applied more restrictive procedures towards sectors generating higher risk. The Bank's credit portfolio was diversified with a significant share of high-quality loans extended to business entities. Within the

Bank Capital Group, loans at risk of impairment represented 4.2% of the total exposure, which is significantly less than the average for the entire banking sector.

- It has systems and procedures in the area of market risk management (related to interest rate or currency, among others) that meet the highest market standards. Throughout 2011, the levels of individual risk categories were within the limits binding at the Bank. In the current market conditions the balanced in terms of currency balance sheet structure is worth mentioning; its distinctive feature is the low share of FX receivables in total mortgage receivables.
- Maintained good liquidity. As at the end of 2011, Loan to Deposit ratio was 71.4%. The main part of deposit base was attributable to stable household deposits, which are one of the largest among Polish banks.
- It had a sufficient level of equity. In December 2011, the solvency ratio of the ING Bank Śląski S.A. Capital Group totalled 12.28%. At the same time, the Company's own funds, were almost fully attributable to the high-quality capital, i.e. Tier 1 capital.

The forecasted economic slowdown as well as unsolved fiscal issues in the Eurozone will lead to the deterioration of conditions whereunder the Polish banking sector will operate in 2012. Therefore, in the opinion of the Supervisory Board, the following elements will be crucial for the Bank's development:

- Prudent equity management and the appropriate capital buffer established for the purpose of possible deterioration in the macroeconomic environment. Apart from the capital growth, the efficient management of risk-weighted assets will play an important role in this respect.
- Keeping the high level of stable deposits. In case the market liquidity decreases, they will assure further development of lending activity and they will be the basis for further growth of interest income.
- Optimal use of available resources. Higher C/I ratio will prove the Bank's efficiency within this area. Increasing the cost effectiveness should not pose a threat to the Bank's plans on further development of infrastructure, including in particular projects aimed at enhancing the quality and effectiveness of the Company's operations.

According to the Supervisory Board, the business model applied at the Bank proved to be successful in the last years and thus it ensures that also in 2012 ING Bank Śląski S.A. will meet the challenges occurring in the market.

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

1. *Truthfulness and Fairness of Statements*

To the best knowledge of the Management Board of the Bank, the annual financial data for 2011 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 situation of the Bank 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 situation (including a description of key risks) of the Bank Capital Group in 2011.

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 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 loan agreements, sureties or guarantees not concerning operating activity,
- liabilities towards the 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 account and freezing of funds in the bank account.

As at 31 December 2011, the number of writs of execution issued by the Bank in the case of loans for business purposes was 170 and covered total debt of PLN 324,179.7 thousand.

As regards retail clients, in the year 2011 the Bank filed 10,042 banking writs of execution totaling PLN 103,387.6 thousand and 8,338 claims totaling PLN 55,221.1 thousand.

Value of liabilities or debt claims under the proceedings 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 to 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)

Justyna Kesler
Executive Vice President
(signed on the Polish original)

Oscar Edward Swan
Executive Vice President
(signed on the Polish original)

Ignacio Juliá Vilar
Executive Vice President
(signed on the Polish original)

28 February 2012

ING