

SUPERVISORY BOARD ASSESSMENT OF OPERATIONS OF ING BANK ŚLĄSKI S.A. 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 ING Bank Śląski S.A. amounted to PLN 903.8 million against PLN 702.3 million in 2010 (up by 28.7%). 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 Bank's income totalled PLN 2,933.7 million against PLN 2,622.7 million a year earlier (up by 11.9%). 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 totalled PLN 1,629.6 million in 2011, up by 5.5% versus a year earlier. The Cost to Income ratio (C/I) decreased from 58.9% in 2010 to 55.5% 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 201.7 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, 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 71.3%. 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 ING Bank Śląski S.A. totalled 11.94%. 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.