ING

2012

Report of the Management Board on Operations of the ING Bank Śląski S.A. Capital Group in H1 2012

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RESULTS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN H1 2012 – SUMMARY

CUSTOMER BASE GROWTH	**71.6 thousand new clients**. **3.2 million** clients at the end of June 2012, including: • 2,910.4 thousand individual clients (up by 67.7 thousand from the end of 2011), • 233.7 thousand entrepreneurs (up by 3.2 thousand throughout H1 2012) • 28.2 thousand corporate clients
CAPITAL GROUP EXPANSION	**New members** of the ING Bank Śląski S.A. Capital Group: • **ING Lease (Polska) Sp. z o. o.** - ninth position in the ranking of largest leasing providers and number two in real estate leasing market • **ING Commercial Finance Polska S.A.** (third largest factoring company) Benefits for the Group: more efficient use of its resources (including capital), higher cross-selling ratio and, higher income
NEW ATTRACTIVE FINANCIAL SOLUTIONS UNDER SIMPLE AND FAIR PRODUCT OFFER	1. **New offer** dedicated to retail clients: • ***5000 Cash Loan*** Special Offer • ***Bonus for Extra Payment*** campaign • **Finansometr** – a tool for managing finance 2. Modifications to product offer for corporate clients: • **Open Savings Account (OKO) for mid-sized and mid-corporate companies** • **Leasing and factoring integrated with the Bank's lending processes**
MAINTAINING HIGH QUALITY OF CUSTOMER SERVICE	• **437 branches**, 436 self-banking areas • **84 retail new standard branches** • **1,137 machines for cash self-service**, including 626 CDMs • **Mobile banking** – 52 thousand of application downloads in H1 2012 • **62% of credit applications of corporate clients via Internet**
EFFICIENT EXECUTION OF ORGANIC GROWTH STRATEGY AND MARKET POSITION IMPROVEMENT	1. **Better position of the Bank Group on the lending market**: • **PLN 45.7 billion of loans** → increase by PLN 6.3 billion in H1 2012 → **market share increased by 0.4 p.p.** • **PLN 15.8 billion of retail lending** → up by PLN 0.8 billion (including PLN mortgage loans → up by PLN 0.6 billion). **Number four** in **PLN mortgage loans sale** • **PLN 29.9 billion of corporate credit receivables** → up by PLN 5.6 billion (including receivables of PLN 3.0 billion resulting from the Capital Group expansion). 2. **Improved position on the retail deposits market → PLN 41.0 billion of retail funds entrusted** → retail deposits up by PLN 1.5 billion → **Market share increased by 0.2 p.p.** in comparison with the end of 2011
TRANSLATION OF BUSINESS PERFORMANCE INTO FINANCIAL FIGURES	• **Net profit of PLN 439.1 million** • **Net interest income – up 15%** (the share of loans in total assets went up to 53.4% at the cost of a shrinking share of low-yielding debt securities) • Other income higher by 44.0% due to good results on proprietary operations • **Result on basic activity – up by 11%** • ROE – 13.5% (- 1.2 p.p.) • Cost/ Income ratio - 56.0% • **Solvency ratio – 12.98%** • **Loan to Deposit ratio - 79.7%**

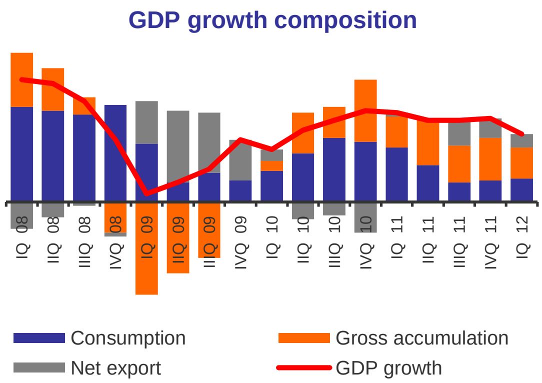
I. MACROECONOMIC SITUATION OF POLISH BANKING SECTOR GROWTH IN H1 2012

1. Major Trends in the Polish Economy

Gross Domestic Product

In H1 2012, under continuously unstable situation on the financial markets and economic stagnation within the European Union, the economic growth in Poland slowed down significantly. In Q1 2012, the Gross Domestic Product went up by 3.5% compared to 4.2% in Q4 2011. It is estimated that in Q2 2012, thanks to increased consumption during the UEFA Euro 2012 European Football Championship, Polish economy grew at 3.0%[1].

Lower GDP growth in H1 2012 was first and foremost the consequence of a lower consumption growth. The consumer confidence index that dropped due to a fall in headcount and a slow real salary growth occurring yet since H1 2011 put private consumption growth to a halt while fiscal tightening contributed to slower public consumption growth. GDP growth was materially - though not as much as in the previous year - affected by investments. The primary reason behind slower investment growth was lower investment activity in the public sector while the size of private investments remained stable. In addition, in H1 2012, net export rate was still the contributor to economic growth in Poland.



Labour Market and Payroll

In H1 2012, the labour market remained in stagnation. In June 2012, employment in the entrepreneurial sector totalled 5,531.4 thousand employees, in other words: it went up by 28.2 thousand employees compared to December 2011.

In H1 2012, one of the biggest problems of the Polish economy was high unemployment, which resulted from poor labour demand. In June 2012, the number of the unemployed totalled 1,964 thousand down by some 18 thousand from December 2011. The unemployed accounted for 12.4% of the professionally active people against 12.5% in December 2011.

The non-stop high employment accompanying weakening economic growth rate was cooling down both employees' pressure for higher salaries and employers' inclination for rising the pays. In June 2012, the average salary in the entrepreneurial sector was 4.3% higher than a year ago. Under the increased inflation, the purchasing power of the average salary remained unchanged.

Inflation

Throughout H1 2012 – despite a gradual fall – the inflation rate continued to exceed the ceiling of acceptable fluctuations as adopted by the Monetary Policy Council, notably 3.5% per annum. In May, the Consumer Price Index dropped to 3.6%. In June, however, the inflation rate went up to 4.3% and that was primarily due to growing food prices. In H1 2012, a rapid growth in the centrally-regulated prices triggered the "domino effect" with respect to the prices of housing fees and energy carriers (up by 6.5%), transport (up by 8.2%) and educational services (up by 4.9%) in the first place. Only apparel and footwear became cheaper (by 5.0%).

In June 2012, the core inflation rate (excluding food and energy prices) reached 2.3% proving thereby the absence of inflation pressure within the entire economy.

Impact of the Global Financial Markets on the Polish Economy

In Q1 2012, the financial markets stayed relatively calm and that was owing to, among others, the offer of the European Central Bank of low-cost loans totalling USD 1.2 billion under the Long-Term Refinancing Operations (or LTRO) addressed to the European banks. In addition, the mood in financial markets was under a positive influence of the American economy data as well as of the postponement by FED of the perspective to abandon the Zero Interest Rate Policy (or ZIRP) from mid-2013 to autumn 2014 and the suggestion of sustained Twist Operation (conversion of short term

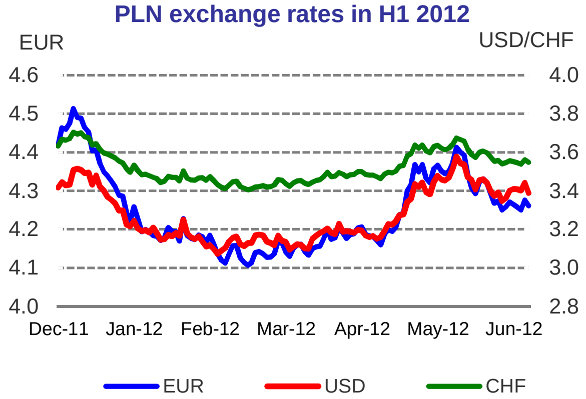
[11]As estimated by the Chief Economist of ING Bank Śląski S.A.

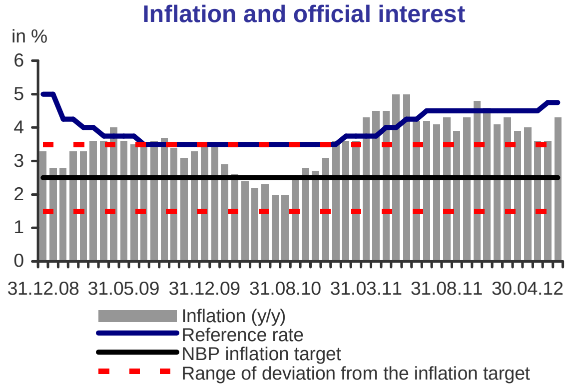
assets into long-term bonds). Lower risk aversion among investors was induced, among others, by the declaration of the International Monetary Fund to significantly increase the emergency fund to rescue the states at risk of insolvency.

In April 2012, the moods in the world markets were upset again as the markets saw the signals of economic growth outlooks deterioration throughtout the world and observed re-appearance of uncertainties raised by debt crisis in South Europe countries. In addition, there were political concerns about the winners of parliamentary elections in Greece and presidential elections in France. Winning elections in Greece by the parties declaring satisfaction of obligations towards lenders in exchange for the support package, government formation by those very parties, subsidy for Spanish banks in the form of a credit line totalling EUR 100 billion and the expectations of the outcomes of the European Unit summit on the Eurozone reforms – all these facts aroused certain hopes among the financial markets players for the possible improvement in the economic situation at the end of June 2012.

PLN Exchange Rates

H1 2012 was characterised with sharp fluctuations of the Polish Zloty exchange rate, namely: after its temporary depreciation at the beginning of January, the Polish Zloty comforted step by step appreciation and through the whole Q1 2012 went up by 5.8% against Euro and 8.7% against the American dollar. However, in the mid-April it became clear that the Polish zloty was not that resilient to the information from the Eurozone and the Polish currency started to depreciate sharply. As late as in June, the situation on the FX market somewhat eased and the Polish zloty started to recover. In the end, in H1 2012, the Polish zloty appreciated against the major currencies, that is by 4.5% against Euro, by 3.2% against Swiss franc and by 1.7% against American dollar.





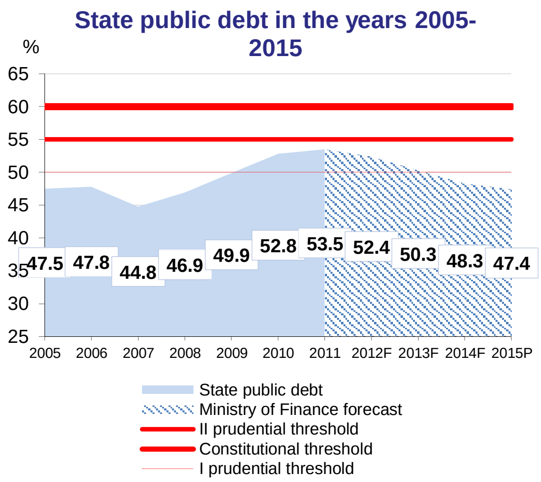
State Budget

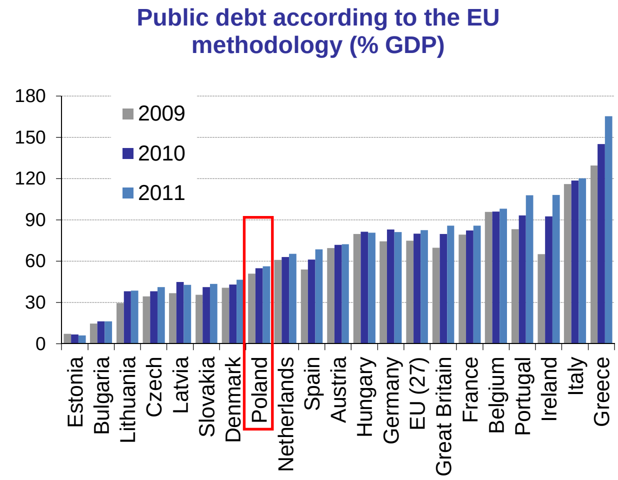
The Polish government continued its undertakings to reduce budget deficit that would be effective both in a short-tem (abolishing certain tax reliefs and levying certain minerals excavation tax) and in a few-year perspective (decision to raise the retirement age).

Executing the Convergence Programme which provides for trim of budget deficit to the level equalling 2.9% of GDP in 2012, the Budget Act set its amount at PLN 35 billion. After H1 2012, owing to the National Bank of Poland profit contribution, the government budget deficit was PLN 20.9 billion (versus projected PLN 30.8 billion). In H1 2012 however, the budget income was already affected by the economic slowdown – VAT proceeds growth decelerated month by month, among others.

In H1 2012, Polish debt assets proved relatively resilient to the adverse information coming in from peripheral states and the prices of the Polish Treasury-bonds surged. Poland had no problems with acquisition of monies for budget expenditure financing – in June approx. 80% of budget lending needs for the whole 2012 were satisfied.

The Public Debt Management Strategy for the Years 2012 - 2015 projects that in 2012 public debt to GDP ratio will drop to 52.4%.





2. Monetary Policy

In the early months of 2012, the Monetary Policy Council upheld the previous interest rates despite higher inflation. In April, the Monetary Policy Council announced that it would ponder over tightening of the monetary policy due to incremental risk of long-term persistence of the inflation rate above the target assumed. The Council took the said decision in May and at the same time raised interest rates by 0.25 p.p. As a result, in June 2012, the interest rates were as follows:

- reference rate – 4.75%,
- rediscount rate – 5.00%,
- lombard rate – 6.25%,
- deposit rate – 3.25%.

The Monetary Policy Council is of the opinion, as presented in a brief following its meeting in May, that in the incoming months the inflation rate is likely to remain above the upper limit of deviations from the inflation target due to prior Polish zloty depreciation, high prices of raw materials and high growth rate of the centrally-controlled prices. The Monetary Policy Council anticipates that in the mid term the expected economic slowdown will contribute to the fall of inflation. However, due to the sustained material adverse impact on inflation rate of the factors beyond the control of the local Monetary Policy Council, the projected scope of slowdown may be apparently insufficient to restore it to the mid-term target.

3. Banking Sector

In H1 2012, the condition of the Polish banking sector was good. The scale of operations grew, banks had more capital, the quality of lending portfolio remained high and the banks' performance improved.

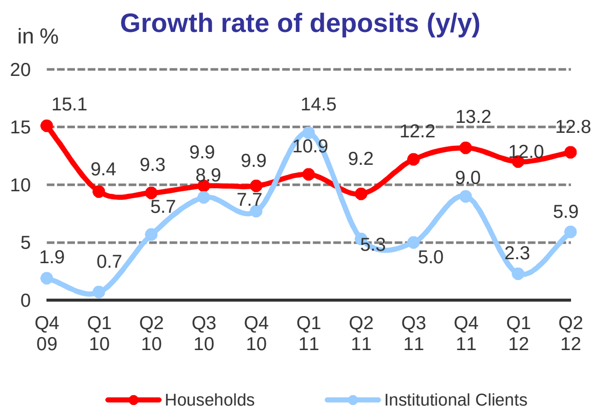
In June 2012, the main monetary categories looked as follows:

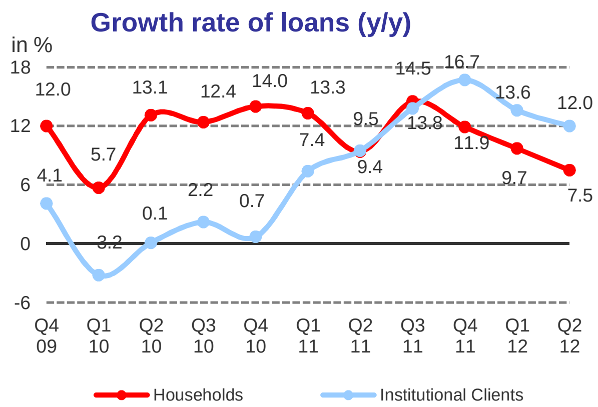
- Household deposits. Uncertain economic outlooks accompanied by attractive deposits when compared with capital market investments encouraged to deposit funds with banks. Household deposits amounted to PLN 497.1 billion, up by 3.1% from the end of 2011.
- Deposits of institutional clients[2]. Poorer economic situation and unstable prospects for further growth caused business entities to make every effort to manage their financial processes responsibly and finance the investment projects underway using mainly their own funds. The institutional clients had bank deposits totalling PLN 277.5 billion, down by 4.0% from the end of 2011.
- Credit receivables from households. They amounted to PLN 540.3 billion, up by 0.6% as compared to December 2011 (taking account of the Polish zloty appreciation, they grew by

[2]Total for the following classes of entities: non-monetary financial institutions, enterprises, non-commercial institutions for households, local government institutions and social insurance funds.

1.8%). The growth of lending was being sustained by PLN housing loans and overdrafts for farmers and individual entrepreneurs. According to the data of the Polish Bank Association, in H1 2012 banks extended housing loans for the amount of PLN 21 billion (87% of which were PLN loans). Nonetheless, Bank receivables from households under consumer loans went down (due to T-Recommendation coming into effect in 2010).

- Credit receivables from institutional clients. The credit exposure of the banking sector towards institutional clients amounted to PLN 331.7 billion, up by 2.1% as compared to December 2011 (by 2.8% – minus the impact of the Polish zloty appreciation).



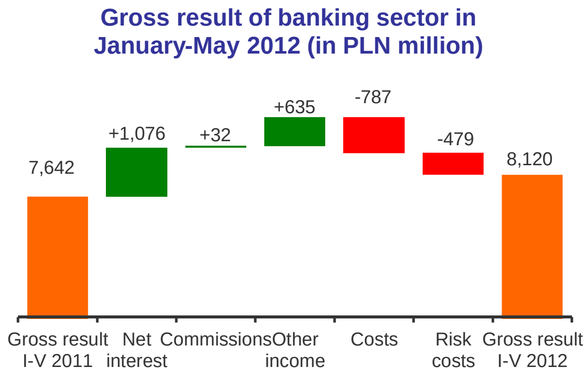


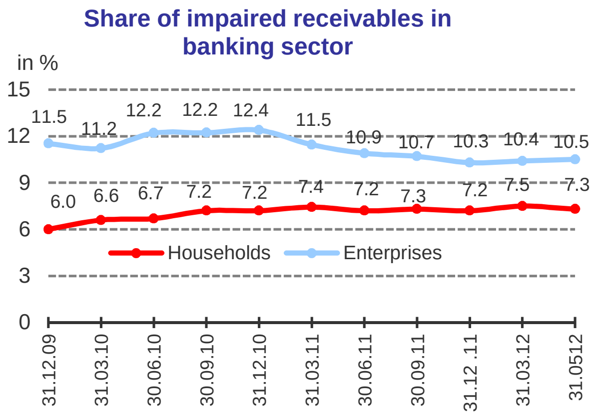
Between January and May 2012, banks generated net profit of PLN 6.6 billion (up by 5.7% when compared to the analogical period last year)[3]. The banking sector's profitability improved as a result of:

- Higher net interest income due to more extensive lending, raised base interest rates and further normalisation of situation on the interbank market.
- Stabilisation of fee and commission income accompanied by growth in other income.
- Increase in operating expenses. Due to higher centrally-regulated prices and implementation of new legal solutions, the costs of premises and real property maintenance as well as salaries primarily went up.
- Growth in write-offs on the impaired portfolio as a result of a slight deterioration of credit receivables quality.

The share of impaired receivables in total receivables from the non-financial sector went up from 8.2% in December 2011 to 8.4% in May 2012[4]. During the first five months in 2012, the quality of banks' credit exposures towards both enterprises and households was down slightly (though the quality of consumer loans portfolio improved while the share of impaired loans in the housing loans portfolio, despite remaining low, went up systematically).

[3] Source: PFSA, File: Monthly Data for the Banking Sector – May 2012.
[4] Source: NBP, Bookmark: Financial Data for the Banking Sector. File - Account receivables





Due to earmarking most profits from 2011 for the capital increase as well as moderate lending growth rate, the solvency ratio of the Polish banking sector went up from 13.1% in December 2011 to 14.4% in May 2012. In May 2012, Tier 1 ratio reached 12.6% (compared with 11.7% as at the end of 2011).

The operations of the banking sector in H1 2012 were also affected by new regulatory solutions, including:

- New quantitative requirements laid down by the amended S-Recommendation on mortgage backed exposures (applying the maximum period of 25-year tenor when establishing credit worthiness, among other things) that came into effect on 31 December 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 is to be gradually terminated.
- Amendment to the Tax Ordinance Act eliminating as of 01 April 2012 benefits of making savings through "anti-capital gains tax" term deposits.
- PFSA Resolution No. 324/2011 amending as of 31 December 2011 the scope and detailed procedures for determining capital requirements for particular risks and amending the procedure for determining liquidity standards binding on banks. To implement CRD III Directive, the Resolution amended the rules for separation of trading portfolio and determination of capital requirements, among others.

4. Capital Market

In H1 2012, the situation on the Warsaw Stock Exchange was under the influence of the financial markets developments quoted hereinbefore.

Q1 2012 was successful for stock exchanges worldwide, including WSE. WIG – its main index – went up by almost 10%. In April though, the market moods became decidedly gloomy and at the turn of May and June the basic WSE indexes dropped below the level from end 2011. In June, mood swings were slightly alleviated and indexes grew; as a result, on 29 June 2012, the main WIG index was 8.6% higher than on the last day of quotations in 2011.

At the end of June 2012, the value of domestic companies listed on the Warsaw Stock Exchange amounted to PLN 472.7 billion, up by 5.9% from December 2011. The complex market situation caused companies – in the fear of failure of their offers – to be unenthusiastic about searching for expansion funds on the capital market. H1 2012 saw 10 companies IPOing and 2 leaving the floor.

The ongoing market uncertainty was not the incentive for investors to become more active. The value of shares traded on the main floor totalled PLN 97.1 billion, down by 23.9% from a year earlier. Trading volumes on the alternative market – operating under WSE (*NewConnect*) – for companies with a high growth potential went down significantly as well.

In the first six months of 2012, mainly owing to large payments to non-public funds – the balance of cash flows to the investment funds companies was positive and totalled PLN 5.6 billion. The complex stock market situation resulted in modest performance of investment funds. In H1 2012, the average return rate for funds investing into the domestic market varied from 2.4% for money and cash funds in PLN to 6.4% for universal Polish equity funds. As a result of the trends presented above, the investment funds' net assets in June 2012 totalled PLN 128.3 billion (compared with PLN 114.7 billion as at the end of December 2011)[5].

5. Macroeconomic Factors to Impact the Operations of ING Bank Śląski S.A. in H2 2012

According to the forecasts developed at ING Bank Śląski S.A., the Polish economy will experience a regular slowdown in the oncoming quarters. The projected economic growth will be: 2.4% in Q3 and 2.0% in Q4 2012. It is expected that in 2012 the Gross Domestic Product will augment by 2.7%.

The economic growth rate in Poland will be weakened by lower consumption rate, among other factors. Private consumption rate will be impaired by worsening situation on the labour market accompanied by stabilisation of real salaries, potential tightening of lending policy by banks and increased inflation. In turn, public consumption will grow at a weaker pace on account of execution of the convergence programme as well as actions taken as part of public finance consolidation.

In H2 2012, public investment growth rate is expected to weaken and this will be the consequence of smaller transfers of the European Union funds to the public sector and fiscal rules in effect determining the investment layouts to be made by local governments. The need to carry out replacement investments, a relatively good financial standing of companies and inflow of European Union subsidies into the private sector will help keep the same growth rate in private investments as today, on the other hand. Despite the expected economic stagnation in the Eurozone, the Polish zloty remaining above the export break-even point (that is, above PLN 3.80 per EUR 1) accompanied by relatively low labour costs will stimulate Polish export which should create conditions for positive contribution of the international trade to the development of Polish economy.

In addition, Polish economy is likely to benefit from Euro depreciation. Such an instrument for crisis consequences mitigation may be applied by the European Central Bank, following FED and the Bank of England. Such a procedure would be gainful for German economy in particular but at the same time would support attempts to halt economic slowdown in Poland.

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 translate into a higher number of the unemployed. It is expected that 12.8% of Poles at working age will remain unemployed at the end of 2012.

H2 2012 will probably face uncertain and volatile situation on the FX market. Forecasts assume that the Polish zloty exchange rate will appreciate owing to a relatively good fiscal situation and the foreign funds coming into the Polish bonds market. Still, the unstable 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.

Spring PLN depreciation, unfavourable supply conditions, still elevated food and energy prices and regulatory changes (growth of pension rate and decisions of the Energy Regulatory Office - Pol: Urząd Regulacji Energetyki) will continue to keep inflation rate in H2 2012 high. The prices are expected to go up on average by 3.9% during the entire 2012. Despite a decline in economic activity, the weak Polish currency coupled with the inflation above the target will restrain the Monetary Policy Council from relaxing monetary policy. According to forecasts, base interest rates will remain the same by the end of 2012.

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

- Slow deposit growth. Under deteriorated condition of the labour market and stabilisation of real salaries, it is expected that the household deposits will slightly grow mainly due to higher propensity for saving (uncertain economic situation as well as unfavourable and volatile stock

[5] Source: Chamber of Fund and Asset Management (Pol: Izba Zarządzających Funduszami i Aktywami)

exchange climate will induce households to deposit funds in bank accounts). A lower increase in deposits of institutional clients will result above all from the deteriorated financial standing of some companies and state budget consolidation.

- Regular deterioration of lending growth. The lending growth rate will be determined by: a slightly 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 fall on account of deteriorated financial standing of households, tightened regulatory requirements as to the clients' credit worthiness assessment and *Rodzina na swoim (Family on its own)* programme exit).
- Increasing to 100% the risk weight for retail FX exposures, restricting the capacity to extend lending in banks whose balance sheets include numerous FX mortgage loans.
- The necessity for the banks to slowly accommodate to future regulatory requirements regarding capital adequacy and liquidity levels. The need to ensure a stable deposit base may result in another intensification of competition for household deposits.
- Changes to strategies of certain banks and related restructuring processes announced at the beginning of 2012. These will result in higher costs as well as in headcount and branches reduction across the entire banking sector.
- Deterioration in quality of mortgage loans and the loans extended towards construction sector companies leading to growth in risk costs.

Solid financial standing of the Polish banking sector may be threatened by the condition of the Eurozone, that is, in particular:

- Failure of fiscal and structural reforms calling for restoration of stability of certain Euroland members. Should this scenario become realistic, under high risk aversion, it might be difficult for the Polish banks to acquire funds for FX-loans portfolio or renew other funds acquired from financial markets.
- Occurrence of strong recession in the Eurozone, which would decelerate economic growth in Poland and weaken the financial standing of Polish borrowers.

Among the domestic factors, the following may adversely affect the banking sector:

- Delay in or incomplete accomplishment of budget deficit reduction objectives. It will effect a 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 worthiness of the banks operating in Poland and therefore limit economic growth rate.
- Substantial depreciation of the Polish zloty. It may result in overrunning the second 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 have an adverse impact on the quality of banks' credit portfolios. Significant depreciation of the Polish zloty poses a serious threat to capacity to timely repay credit liabilities by some of over 0.7 million persons with FX-mortgage loans.
- Collapse in the construction sector translating into the performance of suppliers and co-operators including banks.

Polish Economy in the years 2005 – 2012[6]

	2005	2006	2007	2008	2009	2010	2011	2012F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.8	4.3	2.7
General government debt according to the EU methodology (% of GDP)	47.1	47.7	45.0	47.1	50.9	54.9	56.3	55.8
M3 money supply (in PLN billion)	427.1	495.3	561.6	666.2	720.3	783.6	881.1	918.6
Increase in industrial output (%)	4.1	12.0	9.4	3.0	-3.6	11.1	7.0	2.2
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	4.3	3.9
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	3.6500
PLN/EUR exchange rate (year-end)	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	4.4168	4.2000
WIBOR 3M (year-end)	4.60	4.20	5.68	5.88	4.27	3.95	4.99	5.08

[6] 2012 Forecast updated in July 2012.

II. MAJOR ACCOMPLISHMENTS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN H1 2012

1. *Customer Base Growth*

As at the end of June 2012, nearly 3,172.3 thousand clients used the services of ING Bank Śląski S.A., including:

- 2,910.4 thousand individual clients (up by 67.7 thousand clients throughout H1 2012),
- 233.7 thousand entrepreneurs (small businesses) and
- 28,247 corporate clients (mid-sized companies and mid-corporates and capital groups).

The constantly growing number of private individuals and businesses using the services of ING Bank Śląski S.A. proves that the activities pursued by the Bank to consolidate long-term relationships with the clients are effective. These relationships are based on the trusted brand of the Bank, a transparent client-tailored product offer and continuously developed multi-channel distribution system.

2. *ING Bank Śląski S.A. Capital Group Expansion*

As at the beginning of 2012, the ING Bank Śląski S.A. Capital Group expanded significantly, notably:

On 29 December 2011, ING Bank Śląski S.A. concluded with ING Lease Holding N.V. with the registered office in Amsterdam an agreement on purchase of ING ABL Polska S.A. whereunder the rights and duties under the shares held were assigned to the Bank which took thereby control over ING ABL as at 01 January 2012. The final purchase price for ING ABL Polska of PLN 206.1 million was set after the final valuation of net assets of the acquired company, based on the audited financial statements developed as at 31 December 2011. The transaction was settled on 31 March 2012.

The key financial data of the ING ABL Polska S.A. company as at the acquisition date, that is 01 January 2012, were as follows:

- Balance sheet total – PLN 6,068.8 million,
- Customer receivables – PLN 5,940.2 million,
- Customer exposures – PLN 5,424.8 million,
- Equity - PLN 202.2 million.

ING ABL Polska S.A. holds 100% of shares of ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. Expansion of the Bank Capital Group enabled ING Bank Śląski S.A. to ensure its corporate clients a full range of business financing services. The Bank will have thereby the opportunity to use its distribution and customer service network more effectively, cement relationships with corporate clients and increase its revenues.

ING Lease (Polska) Sp. z o.o. is one of the largest leasing companies on the Polish market. In H1 2012, the Company leased the assets of PLN 614,4 million, or 4.1% of the entire market share (ninth position in the ranking by the Polish Leasing Association). Still, the Company was number two in real property leasing (with 20.6% market share).

ING Commercial Finance Polska Sp. z o.o. is the oldest factoring company in Poland. In H1 2012, the Company purchased receivables totalling PLN 5,469.2 million, or 14.3% of the turnover generated by members of the Polish Factor Association (third position in the ranking).

Moreover, while executing the project to build a new corporate banking business model, on 05 January 2012 ING Bank Śląski S.A. established a subsidiary ING Usługi dla Biznesu S.A. However, the company is still inoperative.

3. _Better Position on Credit Market_

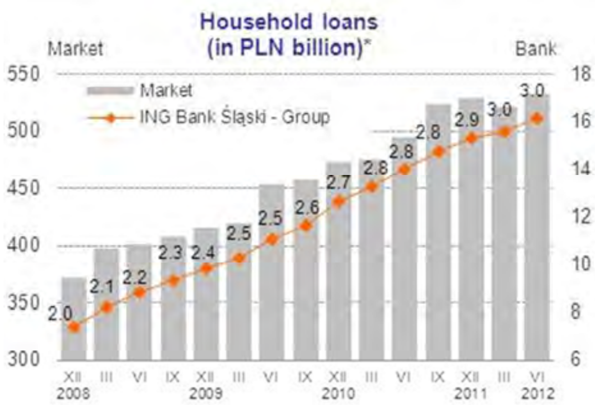
As at the end of June 2012, total customer credit receivables of the ING Bank Śląski S.A. Capital Group was PLN 45,676.9 million, up by PLN 6,345.7 million (i.e. by 16.1%) from the end of 2011. The Capital Group was estimated to have a 4.9%-share in total credit receivables of the entire banking sector (up by 0.4 p.p. from the end of 2011).

The Bank's Capital Group position was consolidated on the credit market as a result of:

- Dynamic growth in credit receivables from retail clients. In June 2012, credit receivables from retail clients totalled PLN 15,806.2 million, up by PLN 842.4 million (i.e. by 5.6%) from the end of 2011. Like in previous periods, retail loans went up mainly due to PLN mortgage loans campaign intensification. The Group receivables thereunder totalled PLN 9,997.7 million, up by 7.1% over H1 2012. In addition, the Group exposure in cash loans went up materially to PLN 1,589.3 million or by 8.0%.
- A higher-than-sector-average growth rate of credit exposures towards corporate clients. The respective Group's credit receivables amounted to PLN 29,870.7 million, up by 22.6% from the end of 2011. However, this growth was first and foremost the result of acquisition of ING ABL Polska companies by the ING Bank Śląski S.A. Capital Group. As at 30 June 2012, credit receivables of ING Lease and ING Commercial Finance totalled PLN 6,005.1 million. The impact of the Group's expansion on the size of its credit exposure less financing provided by ING Bank Śląski S.A. to the aforesaid companies amounted to PLN 3,038.9 million. ING Bank Śląski S.A. credit receivables, on the other hand, totalled PLN 26,831.8 million, up by 10.1% over H1 2012.

Credit Receivables from the ING Bank Śląski S.A. Capital Group Clients[7]

	30.06.2012 _PLN million_	31.12.2011 _PLN million_	30.06.2011 _PLN million_	30.06.2012/ 31.12.2011	30.06.2012/ 30.06.2011
Total receivables including:	**45,676.9**	**39,331.2**	**34,975.2**	**116.1%**	**130.6%**
Retail receivables	15,806.2	14,963.8	13,754.3	105.6%	114.9%
Corporate receivables	29,870.7	24,367.4	21,220.9	122.6%	140.8%
Including:					
ING Bank Śląski S.A. receivables	26,831.8	24,367.4	21,220.9	110.1%	126.4%
ABL companies net receivables	3,038.9	X	X	X	X
ING ABL companies gross receivables	_6,005.1_	_X_	_X_	_X_	_X_



*The figures denote ING Bank Śląski Group market share.

[7]Based on management information.

4. *High Liquidity Level Owing To Strong Deposit Base*

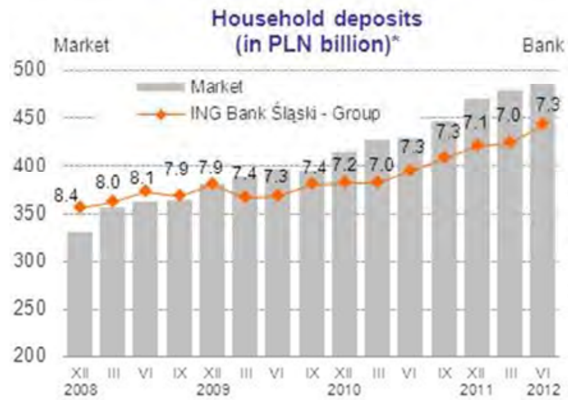
Deposit base accumulated over the last years, one of the largest in the Polish banking sector and ensuring high liquidity of the balance sheet and facilitating further lending development, impacted ING Bank Śląski S.A. policy on the deposits market. Therefore, the Bank in its pricing policy with regard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

As at the end of June 2012, funds in the accounts of the ING Bank Śląski S.A. Capital Group totalled PLN 54,427.5 million versus PLN 53,792.3 million as at the end of 2011 (up by 1.2%). The Bank Capital Group held 7.0% of the total funds accumulated in the banking sector (up by 0.1 p.p. from December 2011).

Over H1 2012, retail loans which were the major component of the Group deposit base grew significantly, up to the amount of PLN 36,742.5 million, up by 4.3% from the end of 2011. However, corporate deposits amounted to PLN 17,685.0 million versus PLN 18,557.6 million in December 2011 (down by 4.7%).

Deposits of the ING Bank Śląski S.A. Capital Group Clients[8]

	30.06.2012 *PLN million*	31.12.2011 *PLN million*	30.06.2011 *PLN million*	30.06.2012/ 31.12.2011	30.06.2012/ 30.06.2011
Total deposits including:	**54,427.5**	**53,792.3**	**49,151.1**	**101.2%**	**110.7%**
Retail deposits	36,742.5	35,234.7	32,751.1	104.3%	112.2%
Corporate deposits	17,685.0	18,557.6	16,400.0	95.3%	107.8%



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

5. *Stable Financial Results*

In H1 2012, net profit of the ING Bank Śląski S.A. Capital Group attributable to the shareholders of the parent entity totalled PLN 439.1 million, down by 1.6% from the same period last year.

The key drivers determining the financial result of the Bank Capital Group in H1 2012 included:[9]

- Higher income. Income totalled PLN 1,638.3 million, up by 10.5% from H1 2011 and was earned owing to:
  - Significant growth of net interest income (by 14.9%). It was the consequence of the growth of clients receivables portfolio. At the same time, the change to the structure of the Group assets consisting in a higher share of loans at the cost of a shrinking share of debt securities had a positive impact on interest margin; namely, it went up from 2.83% in

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

H1 2011 to 2.94% in H1 2012. Interest income equalled PLN 52.1 million worth of interest income generated by ING ABL Polska companies.

  - Lower fee and commission income (by 2.4%). As part thereof, the FX exchange transactional margin and other commissions (factoring-related primarily) went up. On the other hand, commission income on capital market operations (for brokerage services, distribution of investment funds participation units and custody services) went down.
  - Higher other income (up by 44.0% from a year earlier). Apart from releasing a counterparty risk provision for derivative transactions (in the amount of PLN 28.2 million versus PLN 8.5 million a year earlier), improved FX exchange and hedge transactions results were yet another key driver of that income growth.

- Further cost discipline. Operating expenses amounted to PLN 917.9 million, i.e. up by 10.5% versus H1 2011. The material trigger of this growth was the expansion of the Bank Capital Group (impact of PLN 34.5 million).
- Credit risk costs increase. In H1 2012, the negative balance of impairment losses was PLN 195.5 million compared with PLN 94.8 million in the same period last year. In Q2 2012, the Group established additional provisions (of PLN 80 million) for impairment losses for one of the largest Polish companies from the construction sector.
- Positive tax effects, evoked by change of methodology for calculation of FX differences for tax purposes in one of the subsidiaries (positive impact in the amount of PLN 16.5 million).

Total impact of incorporation of ING ABL Polska S.A. into the Capital Group on H1 2012 result was PLN 40.2 million.

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

	H1 2012 in PLN million	H1 2011 in PLN million	Change H1 2012/ H1 2011
Operating income*	1,638.3	1,482.9	10.5%
Total expenses**	-917.9	-831.0	10.5%
Result before risk costs	720.4	651.9	10.5%
Risk Costs	-195.5	-94.8	106.2%
Gross profit (loss)	524.9	557.1	-5.8%
Net profit (loss)	439.1	446.4	-1.6%
Profit (loss) per 1 ordinary share (PLN)	3.38	3.43	-1.6%
Return on assets (%)	1.2	1.3	-0.1 p.p.
Return on equity (%)	13.5	14.7	-1.2 p.p.
C/I ratio (%)	56.0	56.0	0.0 p.p.
Solvency ratio (%)	12.98	12.61	+0.37 p.p.

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

As a result of further cost discipline, the Cost/ Income (C/I) ratio was 56.0%, that is it remained unchanged when compared with H1 2011.

In H1 2012, every PLN 100 of capital invested earned PLN 13.5 net profit, that is down by PLN 1.2 versus the same period last year. Slightly lower capital yields were in the first place caused by higher risk costs.

The capital adequacy of the Bank Capital Group still remained high. On 30 June 2012, the solvency ratio was 12.98%.

6. *Debt Securities Issue Programme*

To ensure funding for further growth of long-term assets value and diversification of sources of the Bank's funding, on 19 April 2012 the Supervisory Board of ING Bank Śląski S.A. gave their consent to establishing the Programme for Issue of Debt Securities of ING Bank Śląski S.A. with the following key parameters:

- Programme amount – max PLN 5 billion,
- maximum maturity for debt securities issued under the Programme – 10 years,
- interest rate for debt securities issued under the Programme – fixed or floating, and
- debt securities issued under the Programme will not be hedged.

At the same time, the Supervisory Board of ING Bank Śląski S.A. empowered the Management Board of ING Bank Śląski S.A. to determine any and all other Issue Programme parameters.

7. *Awards and Distinctions*

The financial results together with risk management actions undertaken by ING Bank Śląski S.A. in the period when financial markets suffered distress was again appreciated by the market. In June 2012, ING Bank Śląski S.A. became the winner of the "Best Bank 2012" competition, *Large Banks* category, organised by Gazeta Bankowa [banking sector magazine]. The Bank was also rewarded for the best portfolio structure.

In the surrounding unstable macroeconomic environment, those distinctions which prove great trust of the markets and clients to the institution or confirm observance of Corporate Governance rules by the Bank or appreciate its initiatives in favour of the society, such as:

- Uninterrupted membership in the RESPECT Index comprising socially responsible companies, are exceptionally valuable for the Bank.
- Fourth position on the list of the safest banks in the Central-Eastern Europe developed by Global Finance magazine.
- *Top Employers* label awarded for the third time by the Corporate Research Foundation.
- First place in *Ranking Odpowiedzialnych Firm 2012* (Socially Responsible Companies 2011 ranking) in the category *Banking, Financial and Insurance Sector*.
- Silver CSR Leaf awarded by Polityka weekly magazine as part of its "List of 500".
- The *Most Active Company* award during 7th edition of the "Day of the Entrepreneur" promoting actions supporting formation of entrepreneurial spirit among youths.
- Winning laurels of the Federio Jubileo *2012* Children and Youths Expressiveness Festival for many-year support and engagement.
- Third place of the Bank's Economists Team - with Rafał Benecki and Grzegorz Ogonek - for the accuracy of macroeconomic and market forecasts in Q2 2012 in the competition organised by *Parkiet* business daily.

Attractiveness of key products offered by ING Bank Śląski S.A. was proven by:

- First place in the mortgage loans for entrepreneurs with 20% and 50% downpayment in the ranking developed by the Bankier.pl portal.
- First place in the Money.pl ranking in the categories: *Students Account* and *Youth Account*
- Third place of the Contact Centre in *Mystery Caller and Mystery Mailing* service quality surveys carried out by Instytut ARC Rynek i Opinia [opinion research institute].
- First place in the *Best Selling Products* ranking for IPU-DILT 041 Profit Guarantee (9) product in the sector rating *Structured Retail Products*.

In H1 2012, the market traditionally highly appreciated the quality of marketing undertakings carried out by ING Bank Śląski S.A. In the Polski Konkurs Reklamy competition [Polish Advertising Competition], three campaigns of the Bank were honoured, namely:

- Golden award in the category *Kampania za Kampanię [Campaign for the Campaign]* for the campaign *Stan Ducha* [*the State of Mind*] promoting the savings account,
- Golden award in the category *Reklama Film Internetowy [Internet Film Commercial]* for the spot *Paw* [*Peacock*] being part of *Stan Ducha* campaign,
- Bronze award in the category *Reklama Film TV [TV Commercial]* for the spot *Buty [Shoes]* being part of *Zawsze coś [Always something interrupting]* mortgage loan campaign.

III. OPERATIONS OF ING BANK ŚLĄSKI S.A IN H1 2012

1. *Retail Banking*

Changes to Product Offer and Customer Service Rules

As ING Bank Śląski S.A. strived to maintain its strong position on the retail banking market, in H1 2012 it promoted its brand of a reliable and trustworthy institution, offered stable and transparent products, including long-term saving-oriented ones, simplified and automated processes and attached more significance to Internet banking in client service processes.

With a view to uphold the attractiveness of its core deposit product, that is the Open Savings Account, in May 2012 the Bank re-addressed a special offer *Bonus for Extra Payment* to its clients. The offer was dedicated to holders (individual clients and entrepreneurs) of PLN Open Savings Account or Direct Open Savings Account. The clients who accessed it by 13 July 2012 and deposited extra funds with the Bank will have interest higher by 2.0 p.p. for the newly deposited funds accrued as of 14 September 2012. At the same time, holders of PLN Premium Open Savings Account or PLN Systematic Savings Account were offered 4M Bonus Plus Deposit. In addition, throughout H1 2012, the Bank had a unique *Start Bonus* offer for its clients which was introduced in May 2011 and will be effective until cancellation. This offer is addressed to clients who do not hold any savings account at the Bank and will decide to open an Open Savings Account or Direct Open Savings Account.

In H1 2012, the Bank remodelled its offer for equity- and insurance-linked savings products, namely:

- Extended the range of investment funds offered to Private Banking clients with Aviva TFI funds.
- Offered new funds (such as Amplico, Investors, Union Investment, Aviva and HSBC) previously dedicated exclusively to Private Banking clients to a wide group of individual clients,
- Put new Life Cycle-like ING funds on its offer. They are a new option of saving for future pension as their investment mechanism changes the portfolio structure as the retirement age approaches.
- In cooperation with ING TUnŻ, the Bank extended its offer by the following: "Safe 65+ Investment Scheme" (Pol: "Plan Inwestycyjny Bezpieczne 65+") and "Safe 65+ Regular Savings Scheme" (Pol: Plan Regularnego Oszczędzania Bezpieczne 65+"). These are insurance and investment products with option of the Individual Pension Insurance Account ensuring life protection with unit-linked investment. They operate under the Life Cycle investment mechanism.
- Conducted 9 subscriptions for structured products, namely: Inwestycyjna Lokata Terminowa (Investment Term Deposit) and Inwestycyjny Plan Ubezpieczeniowy (Unit-Linked Insurance Plan).
- Conducted two subscriptions for investment certificates issued by close-end investment funds for Private Banking clients. For its affluent clients, the Bank continued to develop the offer for Investment Portfolio Management services rendered by the Brokerage Office operating within its structure and introduce the option to purchase or sell treasury securities on the primary and secondary markets.

The Bank's offer for lending products was modified as follows:

- Mortgage Loans. To adapt the offer to the market demands and to the 2012 strategy adapted by the Bank (assuming growth in exposures while keeping the portfolio profitability at the same level), credit margins (by 0.15 p.p. on average) and annex fees were raised. Additionally, the Bank's internal regulations were amended to take account of the updated Act on the Protection of Rights of the Apartment or Detached House Buyer.
- Cash Loans. As part of the actions aiming at making these products more competitive, the Bank in particular: increased the amount of uncollateralised cash loan for regular clients to 20-times net income, reduced the parameter determining the size of maintenance expenses against income when assessing client's credit capacity and modified the "regular client" definition shortening the requisite account maintenance period. Moreover, promotional offers being the response to diverse clients' needs were introduced, namely: *5 000 Cash Loan*

Package and *5 000 Cash Loan* in various options. The Bank shall not collect any fee for extending the said loans. As part of the *5 000 Cash Loan* offer effective as of 01 June 2012, the cash loan can be extended for 1 or 7 years in two options: with no insurance or with insurance including insurance contribution under Safe Cash Loan Scheme added to the loan principal and with loan interest rate lower by 1 p.p. at the same time.

- Loans for Entrepreneurs. The entrepreneurs who are regular clients but who did not use any loans so far were offered the Global Credit Limit comprising a cash loan, an account overdraft facility and a credit card. Under this limit, the maximum loan can amount to PLN 200 thousand for 10 years. Moreover, loans of up to PLN 50 thousand had tenor extended from 3 to 5 years.
- Loans for Housing Cooperatives and civil law and registered partnerships. The entities in question were subject to pre-scoring procedure which substantially shortens the lending process; additionally, clients are not obliged to satisfy any additional formal requirements.

Deposit Activity

As at 30 June 2012, the total value of funds[10] entrusted with ING Bank Śląski S.A. by retail clients amounted to PLN 40,970.8 million compared with PLN 39,685.9 million in December 2011 (that is up by 3.2%).

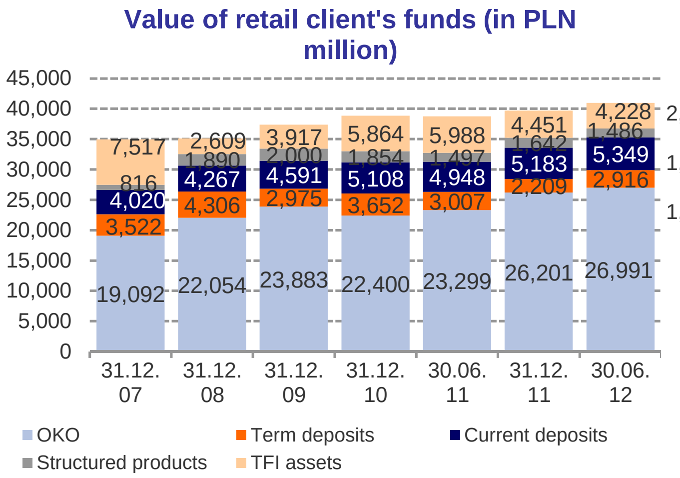
Banking deposits formed their major part. Having good liquidity ratio, ING Bank Śląski S.A. pursued a balanced policy as to the interest on retail deposits. The policy took into account the objectives related to both ensuring stable sources of long-term business funding and reasonable interest margins. As at the end of June 2012, retail deposits were PLN 36,742.5 million, or up by PLN 4.3% when compared with the end of 2011. The result translated into a 7.3%-share of the Bank in the household deposit market (versus 7.1% as at the end of 2011).

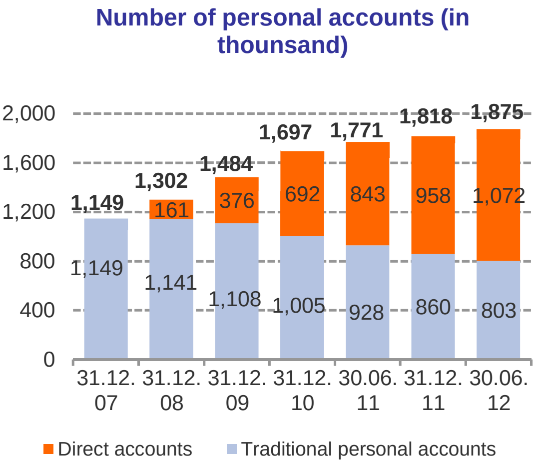
In most cases, retail clients choose Open Savings Accounts (or *OKO)* to deposit their spare funds at ING Bank Śląski S.A. As at the end of June 2012, the funds deposited in Open Savings Accounts totalled PLN 26,991.1 million, up by 3.0% versus December 2011. Additionally, more funds were entrusted as term deposits which in June 2012 totalled PLN 2,916.1 million compared with PLN 2,208.6 million in December 2011 (up by 32.0%). At the same time, fewer funds were invested in structured products. They amounted to PLN 1,486.4 million compared with PLN 1,641.6 million in December 2011.

Throughout H1 2012, the array of settlement services rendered by the Bank to its retail clients grew significantly. At the end of June 2012, ING Bank Śląski S.A. maintained 1,875.3 thousand personal accounts for individual clients. That is, in H1 2012, the Bank obtained net 57.7 thousand personal accounts. This was accompanied by the trend to change the structure of individual clients' personal accounts. Sales of the accounts, mostly *Direct Account*, together with the conversion from traditional personal accounts to Internet accounts among some clients made the share of *Direct Accounts* in the total of personal accounts go up from 52.7% in December 2011 to 57.2% in June 2012. As a result of a higher number of personal accounts opened, the volume of funds deposited on current accounts grew. In June 2012, it totalled PLN 5,348.9 million, up by 3.2% from the end of 2011.

Entrepreneurs had 226.2 thousand current accounts at the Bank, including 162.0 thousand *Direct Accounts*. As at the end of 2011, the figures were: 224.6 thousand current accounts and 152.4 thousand *Direct Accounts.*

[10] Total value of deposits, structured deposits and mutual funds.

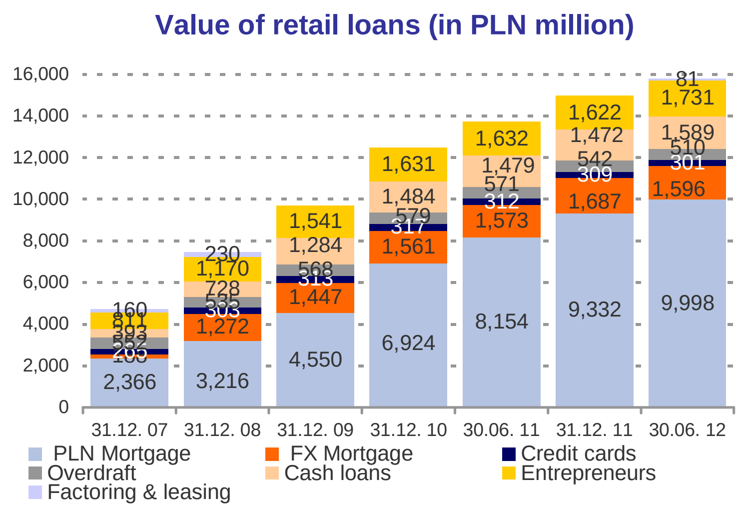


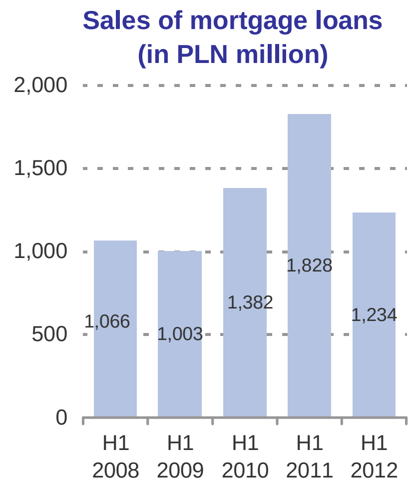


The capital market was not conducive for investors to entrusting funds into investment funds units. In June 2012, net assets of investment funds acquired through agency of ING Bank Śląski S.A. amounted to PLN 4,228.4 million (against PLN 4,451.1 million as at the end of 2011).

Lending

At the end of June 2012, retail receivables of ING Bank Śląski S.A. totalled PLN 15,806.2 million. In H1 2012, the Bank's credit exposure towards retail clients went up by PLN 842.4 million, or 5.6%. The Bank increased its share in the household credit receivables market to 3.0% (versus 2.9% in December 2011).





Mortgage loans constituted the main part in the Bank's retail portfolio. At the end of June 2012, total Bank's receivables due to mortgage loans were PLN 11,593.3 million compared with PLN 11,019.8 million as at the end of 2011 (up by 5.2%).

Offering only PLN loans, throughout H1 2012, the Bank extended mortgage loans worth PLN 1,233.5 million (compared with PLN 1,827.6 million in the same period a year earlier). According to the data of the Polish Bank Association, in the first six months of 2012, ING Bank Śląski S.A. was fifth on the market with a 5.9%-share in the sales of housing loans to private individuals. As regards PLN housing loans, the Bank was classified on the fourth position with a 6.7%-share in the total sales volume.

The Bank recorded the first results of the marketing campaign of cash loans launched at the beginning of 2012. In June 2012, the Bank's credit receivables thereunder totalled PLN 1,589.3 million, or went up by 8.0% from the end of 2011.

In addition, the Bank's credit exposure towards entrepreneurs rose. In June 2012, it totalled PLN 1,730.8 million, up by 6.7% from the end of 2011.

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 H1 2012, to tighten up security of Internet transactions, ING Bank Śląski S.A. implemented additional method for card authorisation, namely 3D Secure for debit cards for individual clients and virtual cards. Works to apply this method to other types of cards, credit cards included, were underway.

All payment cards offered by the Bank are equipped with a micro-chip, whereby the security of transactions made therewith improved considerably.

By the end of June 2012, ING Bank Śląski S.A. issued 2,412.9 thousand payment cards to its clients (up by 1.1% from the end of 2011), including 211.5 thousand credit cards. As a result of the process of replacing cards issued with personal account started in 2011, the number of contactless cards held by clients grew significantly. By the end of June 2012, the Bank issued 1,200.6 thousand of such cards including "Zbliżaki" (contactless cards), versus 844.1 thousand the year before. The number of virtual cards went up as well. In June 2012, clients held 31.9 thousand of such cards, up by 13.9% from December 2011.

2. *Corporate Banking*

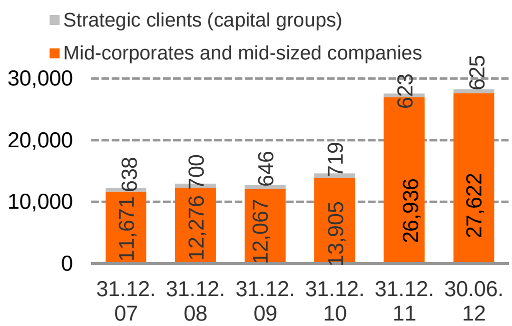
Number of Clients

In June 2012, more than 28.2 thousand corporate clients used the services of ING Bank Śląski S.A., including:

- 24,885 mid-sized companies,
- 2,737 mid-corporates and
- 625 strategic clients (capital groups).

In H1 2012, the Bank's corporate clients portfolio boosted by 0.7 thousand entities.

Number of institutional clients



Product Offer and Modifications Introduced

Offer quality is one of the main determinants of choice of the bank by corporate clients. Accordingly, in H1 2012, ING Bank Śląski S.A. continued its efforts to make the product offer more attractive by remodelling both the deposit and settlement products and business funding solutions.

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

- Extending the promotional offer for holders of PLN Business Open Savings Account and Direct Open Savings Account to mid-sized and mid-corporate clients. The campaign launched in May 2012 is dedicated to companies which hold or will open a PLN Business Open Savings Account or a Direct Open Savings Account under the ING DirectBusiness offer and will deposit new funds thereon. The interest rate for the newly deposited funds is higher by 1.75 p.p. but the maximum amount whereto it applies cannot exceed PLN 5 million. For the companies holding Open Savings Accounts, the offer shall be in effect until 30 November 2012 whereas the companies which open new Open Savings Accounts may take advantage of the offer from the day of account opening until the last day of the full sixth calendar month.
- Implementation of SIMP Trust facility – service for developers. It is the offer of escrow accounts which satisfy the requirements laid down in the Act on the Protection of Rights of the Apartment or Detached House Buyer which includes: open escrow accounts (funds are disbursed following the completion and confirmation of each building stage defined by a

developer in the agreement) and closed escrow accounts (funds are withdrawn after construction completion and transfer of title to the premises to buyers under a notary deed.)

- Changes to settlement services including ING BusinessOnLine application (for transfers and bank cards handling), Cash Collection (for secure envelopes) and Mass Payment Identification System (the option to close virtual accounts).

In 2011, the Bank implemented the ING Direct Business Credit system, 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 a credit product, calculate their credit capacity and file a credit application via the Internet on their own. Encouraging the clients to use the new application, the Bank proposes more favourable conditions for financing (it waived the handling fee and charges a lower facility fee). Following the ING Direct Business Credit platform implementation, the existing clients were provided with an option to file credit applications by means of the ING BusinessOnLine system. In H1 2012, the Bank further modified the lending process, whereby the time of credit application review should be made even shorter and paper documents eliminated, notably the Bank:

- Implemented new solutions for lending processes in the *ING Credit Management System (or ING CMS)* application. In the Normal Track, the said changes comprised evolving automation of credit agreements generation process, implementation of electronic review of collaterals and withdrawal of process-related documents (developed at the Bank to meet lending process requirements), among others. The new version of ING CMS for the Fast Track was updated by the new rules of products recording.
- Modified the scope of documents required in the credit application. As a result of providing electronic databases, clients are not required to deliver paper documents certifying the Tax Identification Number (NIP) or the Statistical Identification Number (REGON) or the business registration certificate.
- Extended the binding message functionality in ING BusinessOnLine delivered to the Bank for active loans (such as powers of attorney to perform acts in law).

In H1 2012, the project to integrate the sales process at ING Lease (Polska) and ING Commercial Finance Polska with the Bank's lending processes was completed. Corporate clients were given easier and faster access to the full array of business-financing products by means of:

- Option to apply for leasing and factoring via the ING Direct Business Credit credit application.
- Access to the full offer for financing business in ING BusinessOnLine system for the existing Bank clients.
- Shared lending process for standardised transactions under the Fast Track.

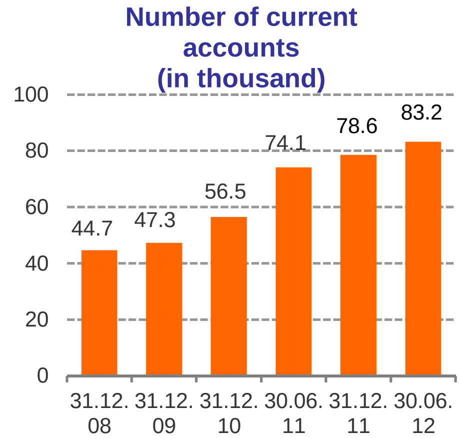
Lending automation- and streamlining-oriented changes made by the Bank won clients' full approval. In H1 2012, the share of electronic applications (filed via ING BusinessOnLine and ING Direct Business Credit) in the overall number of credit applications filed was 62%. The share of limits calculated under the Fast Track in the overall number of credit decisions equalled 41%.

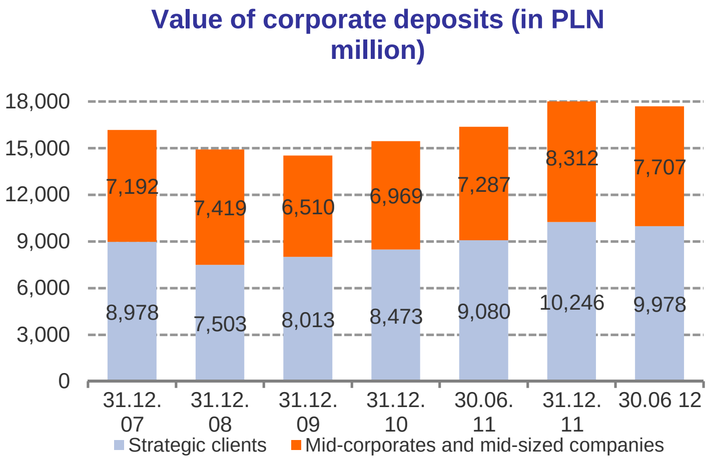
Like in previous years, in 2012 ING Bank Śląski S.A. will be actively supporting its clients in acquisition of funds from EU programmes. With another autumn round of tenders for EU grants applications in view, in H1 2012 the Bank organised a few dozens of regular meetings with its clients titled *Let's Have Coffee and Talk About EU Grants.* The Bank also held face-to-face meetings with entrepreneurs from Silesia in particular due to the deadline of call for EU grants applications under regional programmes falling at the beginning of July.

Deposit and Settlement Activity

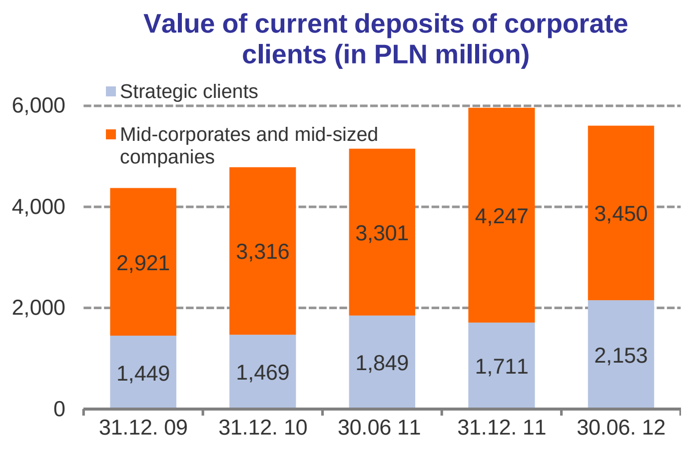
As at 30 June 2012, corporate deposits at the Bank were PLN 17,685.0 million, down by 4.7% compared with December 2011. In June 2012, ING Bank Śląski S.A. had a 6.5%-share in the institutional clients deposits market (which was the same as at the end of 2011).

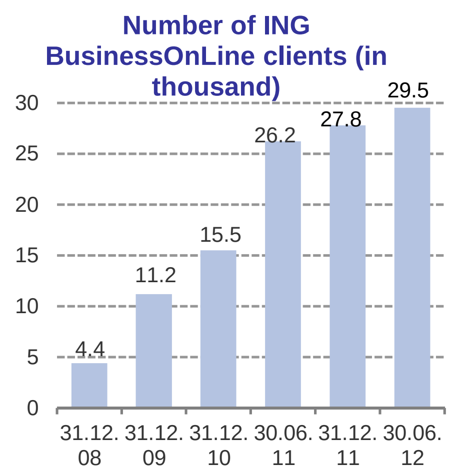
The value of deposit of Corporate Sales Network clients and strategic clients went down (by 7.3% throughout H1 2012 and 2.6%, respectively).





In June 2012, ING Bank Śląski S.A. maintained 83.2 thousand corporate (PLN and FX) current accounts, up by 5.9% from December 2011. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the ING BankOnLine electronic banking system to contact the Bank. In June 2012, the system was utilised by 29.5 thousand companies (versus 27.8 thousand in December 2011).

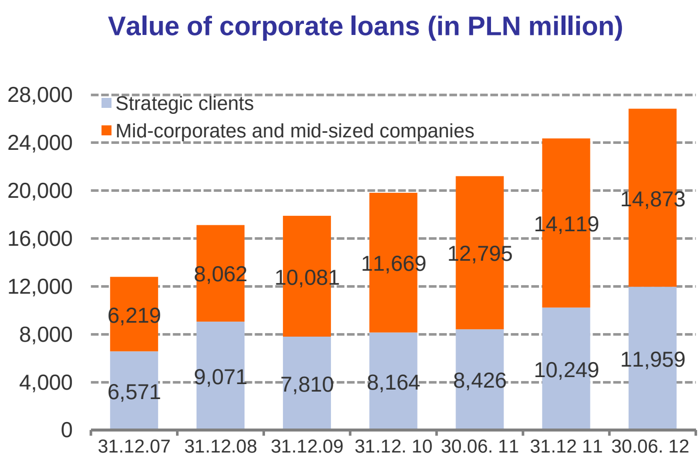




Lending

As at the end of June 2012, corporate credit receivables of ING Bank Śląski S.A. totalled PLN 26,831.8 million versus PLN 24,367.4 million in December 2011 (up by 10.1%). The Bank is estimated to have held 7.6% of the institutional credit market share in June 2012.

Throughout H1 2012, the Bank increased its credit exposure primarily towards strategic clients which amounted to PLN 11,959.0 million in June 2012, or up by 16.7% versus December 2011. One its reasons was more extensive financing of new Bank Group members. In June 2012, it totalled PLN 2,966.2 million whereas at the end of 2011 it was PLN 1,972.2 million.



The Bank's credit receivables from mid-sized and mid-corporate companies totalled PLN 14,872.8 million, up by 5.3% over H1 2012.

Facing even more severe competition, in

H1 2012, the Bank won 28 tenders for financing local government units, valued at PLN 244 million (compared with 52 tenders totalling PLN 260 million throughout H1 2011). This result enabled the Bank to maintain its 7.7%-share in financing local government units in June 2012.

The Bank was successful in the spring tender for EU grants applications as part of action 4.3 Technology Loan. Among 181 projects positively recommended by the National Economy Bank (Pol: Bank Gospodarstwa Krajowego - BGK), 17 were filed by the beneficiaries applying for the said grants through ING Bank Śląski S.A.

3. _Money Markets and Capital Markets_

In H1 2012, ING Bank Śląski S.A. recorded satisfactory financial results on financial markets both in terms of clients and proprietary transactions.

For the clients using financial markets products, the Bank had the following innovations:

- Clients - using FX Trader facility at ING BusinessOnLine electronic channel more and more frequently - were given the opportunity to conclude transactions also based on non-base currency. Additionally, the option of FX Forward transaction rollback on the same day was provided.
- Requirements for commercial papers transactions were changed, namely financial institutions - as clients with special requirements - were allowed to make transactions without having to open a current account.
- The solutions providing for concluding _Non Deliverable Forward_ transactions in the Ukrainian Hryvnia (UAH) and FX Spot transactions to order a transfer in Indian Rupee (INR) were developed. The Bank launched the said services at the beginning of July 2012. Until today those two currencies were available only at two our competitors.

At the Bank, there were also works conducted on making financial markets products available to Private Banking clients and clients handled by the Brokerage Office operating within the structures of ING Bank Śląski S.A.

Throughout H1 2012, the Bank retained its strong market position in the issue arrangement and service for non-government debt securities for corporate entities. The Bank, among other things,:

- Arranged - together with another bank - a bond issue programme for PKN ORLEN S.A. [a leading Polish refinery company] amounting to PLN 1 billion under the programme totalling PLN 2 billion. The Bank acts as the Co-Arranger, Dealer and Paying and Issue Sub-Agent in the programme.
- Concluded - together with another bank - an agreement on issue arrangement and service for the bond programme for PGNiG [a leading Polish oil and gas exploration and production company] amounting to PLN 4.5 billion. In the programme, the Bank acts as the Issue Co-arranger, Paying Agent and Dealer. PGNiG bonds totalling PLN 2.5 billion were issued under the programme.
- Concluded - together with 8 other banks an agreement with TAURON Polska Energia S.A. [a leading Polish power sector company] on increasing the company's bond issue programme up to PLN 7,050 million. The Bank acts as the Leading Arranger, Underwriter, Paying Sub-Agent and Sub-Depository in the programme.

Moreover, in H1 2012, ING Bank Śląski S.A. was the arranger of the following bond issue programmes for the local government units and related entities:

- Niepołomice Commune for the amount of PLN 8 million,
- Łódź province worth PLN 30 million,
- Końskie Commune totalling PLN 24 million,
- Koszalin City for the amount of PLN 33 million,
- Strzeleckie Wodociągi i Kanalizacja Sp. z o.o. [a water and sanitation company in Strzelce Opolskie] worth PLN 15 million,

- Zarząd Budownictwa Mieszkaniowego – Towarzystwa Budownictwa Społecznego Sp. z o.o. [housing association] for the amount of PLN 11 million.

In the aforesaid programmes, the Bank acts as the Issue Arranger, Underwriter, Depository, Dealer and Issue and Paying Agent.

As at 30 June 2012, ING Bank Śląski S.A. serviced securities trading of 75 issuers for the total nominal value of PLN 8.6 billion, including:

- PLN 4.2 billion due to short-term securities issue - which gave the Bank the third position on the market with the share of 19.0%.
- PLN 3.7 billion due to corporate bonds issue with maturity above one year (the Bank with its share of 12.3% was classified on the fourth position on this market).

From early November 2011 until late April 2012, ING Bank Śląski S.A. was classified by the National Bank of Poland on the fourth position in terms of the Dealer Activity Index among seventeen banks applying for the function of the 2013 Money Market Dealer. The Bank was also the Dealer of Treasury Securities for 2012. In the competition of the Ministry of Finance for the 2013 TSD, which was carried out from early October 2011 until late March 2012, the Bank was ranked fourth among 20 banks that were taken into consideration.

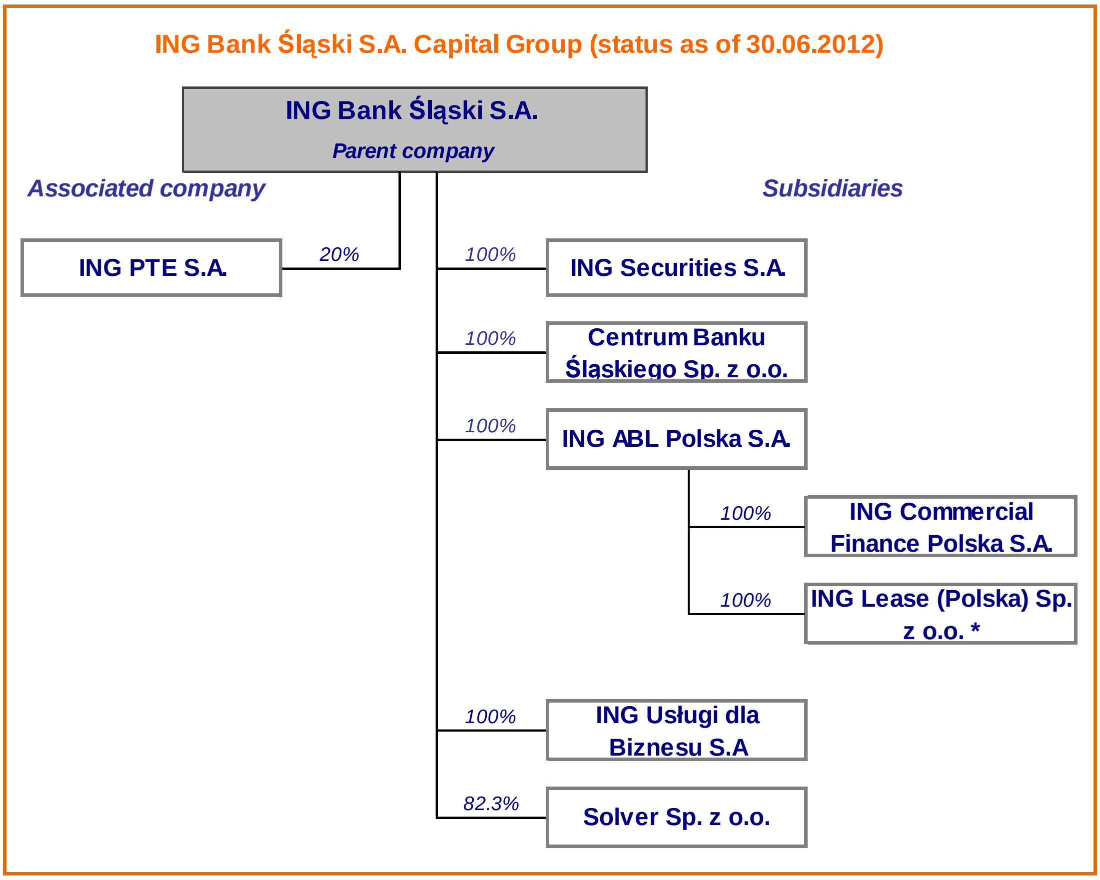
IV. BUSINESS OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP COMPANIES

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

In H2 2011, ING Bank Śląski S.A. took important decisions, which significantly impacted business operations across the entire ING Bank Śląski S.A. Capital Group in H1 2012; i.e.:

- On 01 November 2011, ING Bank Śląski S.A. consolidated with ING Bank Hipoteczny S.A., where it owned 100% of assets. The consolidation was effected by transferring all assets of ING Bank Hipoteczny S.A. to ING Bank Śląski S.A.
- On 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 Polska S.A. The ownership rights to ING ABL Polska were transferred to the Bank on 01 January 2012.

Moreover, in January 2012, as part of executing the project to build a new business model of corporate banking, ING Bank Śląski S.A. created a subsidiary ING Usługi dla Biznesu S.A.



** The ING Lease (Polska) Sp. z o.o. Capital Group consists in 10 special-purpose vehicles, where ING Lease holds 100% shares.*

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

2. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In H1 2012, its shares in the Warsaw Stock Exchange transactions were as follows:

- equity market – 6.4% (sixth position), and
- futures and forwards market – 3.8% (ninth position).

At the end of June 2012, ING Securities S.A. maintained 56.8 thousand investment accounts, including 39.9 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 H1 2012, the Brokerage House undertook the following:

- Enabled active investors to conclude "cross orders" that were launched on the Warsaw Stock Exchange in April 2012.
- Modified www.ingsecurities.pl website in respect of the account opening declaration (changes concerned identity card validity date and information on source of funds and investment goals)
- Commenced a new cycle of the training courses in the form of webseminars on investment products, as well as issues related to market analysis, investment principles and handling Sidoma – a transaction platform.
- Concluded marketing campaigns aimed at increasing clients' interest in special orders and *Deferred Payment 500%* service.

Due to the consolidation of the trend in clients preferences to use brokerage service by means of electronic distribution channels, in mid-2011, ING Securities S.A. decided to liquidate its Client Service Points network. Simultaneously, by becoming a fully internet-based brokerage house, it enabled investors to make some operations at 42 branches of ING Bank Śląski S.A. (acting as the agent of ING Securities S.A.). In H1 2012, – caring for the quality of the House's services provided by the employees of ING Bank Śląski S.A. – a number of training courses in the form of webseminars on investment products and customer service procedure were organised.

In June 2012, when effecting some of brokerage activities, the House cooperated with eight other Brokers besides ING Bank Śląski S.A.

In the area of capital acquisition, the Company provides a broad array of services, including issue of shares on public or private markets, 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.

Difficult situation in the stock exchange market impacted the scale of the business operations conducted by ING Securities S.A. as regards acquiring capital from the market. In H1 2012, the House carried out the following projects and transactions:

- Participated in the public offer of 7% of shares of Polska Grupa Energetyczna S.A. belonging to the Treasury conducted using the accelerated book-building method.
- Conducted – together with ING Bank N.V. London Branch – a public offer of a new issue of Bank Ochrony Środowiska's shares – offer's value amounted PLN 227 million.
- Acted as advisor of:
  - Innova Capital when selling 100% shares of a Romanian company La Fantana,
  - Bridgepoint and Innova Capital when acquiring a company listed on the Warsaw Stock Exchange – the transaction failed due to an increase in the market value of the company,

  - The Ministry of Treasury when protecting Azoty Tarnów S.A. from hostile acquisition by Acron and when consolidating Azoty Tarnów with Zakłady Azotowymi Puławy,
  - Polimex-Mostostal S.A. when analysing possible actions relating to debt restructuring.
- Responded, on behalf of OFE Aviva, to invitation to sell shares of the Mondi Świecie company announced by the Mondi International Holdings – transaction's value amounted PLN 256 million.
- Organised roadshows of Azoty Tarnów S.A. in Warsaw, London and Frankfurt.
- It was selected as one of global coordinators in the Initial Public Offering of Zespół Elektrowni Pątnów-Adamów-Konin S.A. (ZE PAK) – the offer was scheduled for Autumn 2012.

Since the beginning of February 2012, ING Securities S.A. discontinued to make proprietary investments.

Moreover, just as in previous years, also in 2012 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 30-31 May 2012, attended by 450 representatives of issuers, investors and capital market experts. The issues under discussion included: Polish capital market and its positioning in Europe as well as opportunities and threats faced by countries of Central and Eastern Europe.
- The roadshow of Mikołaj Budzanowski, the Minister of State Treasury in London and Paweł Tamborski, the Under-Secretary of State at the Ministry of Treasury in the Netherlands.

In H1 2012, ING Securities S.A. earned net profit of PLN 8.0 million versus PLN 15.7 million in the analogous period of the previous year.

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

ING Lease (Polska) Sp. z o.o. has been operating in the market since 1996. Its offer comprises: all key types of leasing (financial, operational, sale-and-leaseback, off-balance sheet leasing) for financing both real properties (office buildings, commercial buildings, logistical centres) as well as movables (being machinery and equipment, technological lines and commercial vehicles). However, the Company addresses its services mainly to mid-sized companies and mid-corporates.

As at 30 June 2012, the receivables of the Company due to leasing and cash loans amounted PLN 4,471.7 million. In H1 2012, the Company concluded leasing agreements worth PLN 614.4 million. Data of the Polish Leasing Association show that with its 4.1% market share the Company was ninth largest leasing company in Poland. The Company, however, was number two in real property leasing (with 20.6% market share).

As a result of the ABL One Face project, in H1 2012 ING Lease products were offered for the first time at all corporate branches of ING Bank Śląski S.A. Further, the products offered by the Company were provided via the Bank's electronic channels, namely ING DirectBusiness Credit and INGBusinessOnLine. In H1 2012, the share of Bank's distribution channels in total sales of the Company increased to 69%.

ING Lease (Polska) Sp. z o.o. finished the first six months of 2012 with the net profit amounting to PLN 31.6 million.

4. ING Commercial Finance Polska S.A.

ING Commercial Finance Polska S.A. (earlier Handlowy-Heller S.A.) was established in 1994 and is the oldest factoring company in Poland. It offers its clients fast invoice (receivables) financing with insurance and collection option as well end-to-end receivables portfolio management services.

As at the end of June, credit receivables of ING Commercial Finance amounted to PLN 1,544.4 million. In H1 2012, the turnover of the Company was PLN 5,469.2 million, up by 23.9% year on year. The sales results generated by ING Commercial Finance Company in June 2012 were particularly good, in this month the Company bought invoices of the total value exceeding PLN 1 billion.

Commercial results achieved by the Company in H1 2012 allowed it to keep the third position in the market with the 14.3% market share of total turnover of factors belonging to the Polish Factors Association.

In June 2012, ING Commercial Finance Company serviced 668 clients, or 9% more than a year ago. Its clients were operating mainly within the following industries: food and beverages (23% of total clients), metallurgy (16%), house and horticulture (10%), steel distribution (9%) and packaging (6%).

The company held 10 own outlets: in Warsaw, Katowice, Krakow, Wrocław, Gdańsk, Poznań, Łódź, Bydgoszcz, Rzeszów and Olsztyn. Upon company's incorporation into the structures of the ING Bank Śląski S.A. Capital Group, its sales capacity increased significantly as factoring products were being offered at corporate branches and by electronic distribution channels of the Bank. Moreover, the fast-track option in the decision-taking process for factoring product was launched.

At the beginning of 2012, ING Commercial Finance was granted the title of the best factoring company in the ranking organised by the *Warsaw Business Journal.*

In H1 2012, the net profit generated by the Company amounted to PLN 8.7 million.

5. ING Usługi dla Biznesu S.A.

The business objects of ING Usługi dla Biznesu S.A. – a company established in January 2012 – will be provision of Bank clients with the services such as handling their business operations and account, book-keeping and tax advisory services in the first place.

ING Usługi dla Biznesu S.A. plans to commence its operations in September 2012 by taking over book-keeping of some ING Bank Śląski S.A. Capital Group members and ING foundations in Poland. The Company will offer its services to larger group of corporate clients at the end of 2012.

6. 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 building 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.

Additionally, in H1 2012, the Company was entrusted with selling real properties from the ING Bank Śląski S.A. portfolio as part of its optimization.

In H1 2012, Centrum Banku Śląskiego Sp. z o.o. generated net profit of PLN 6.0 million versus PLN 7.1 million in the analogous period of the previous year.

7. 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 30 June 2012, 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 2,983.4 thousand members, or 19.0% of all participants of open-end pension funds.
- Net assets. They totalled PLN 57,374.2 million or 23.8% of the total value of assets of open-end pension funds operating in Poland (compared with 23.7% at the end of 2011).

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 H1 2012, the value of the accounting unit of ING OFE increased by 6.02% and it was the third best investment result among all open-end pension funds operating in the market.

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 July 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 H1 2012 income statement, ING Bank Śląski S.A. recognised its share in the profits of ING PTE S.A. of PLN 18.0 million versus PLN 22.9 million in H1 2011.

8. 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 as well as training programmes therefor.

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 Warsaw and seasonally rents two recreation centres in Sarbinowo.

In H1 2012, Solver Sp. z o.o. suffered a net loss of PLN 100 thousand (versus PLN 165 thousand-worth net loss in the analogous period of the previous year) [11].

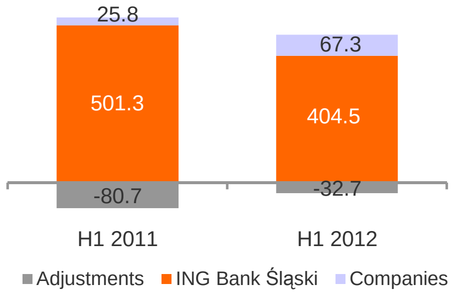
[11] The result falling to the majority shareholder.

V. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN H1 2012

1. *Gross Profit and Net Profit*

In H1 2012, the ING Bank Śląski S.A. Capital Group generated the gross financial result totalling PLN 524.9 million versus PLN 557.1 million in the same period last year. Net profit attributable to the shareholders of the parent entity totalled PLN 439.1 million compared to PLN 446.4 million in H1 2011 (down by 1.6%).

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



The main factors to affect the financial results of the ING Bank Śląski S.A. Capital Group in H1 2012 included[12]:

- Expansion of the ING Bank Śląski S.A. Capital Group S.A. The consolidation of ING Commercial Finance Polska S.A. and ING Lease (Polska) Sp. z o.o had a positive impact on the results of Capital Group in H1 2012 totalling PLN 40.2 million.
- Further change to the Group's balance sheet structure i.e. increase of share of loans in assets at the expense of treasury securities of lower yield. This change impacted the interest margin positively.
- Unchanged cost/income ratio.
- The need to establish additional provisions for an exposure of one client from the construction sector while keeping the good quality of lending portfolio.
- A decrease in effective tax rate resulting from the change of methodology whereunder FX differences are calculated for tax purposes in ING Lease (Polska) Sp. z o.o. (positive impact of PLN 16.5 million).

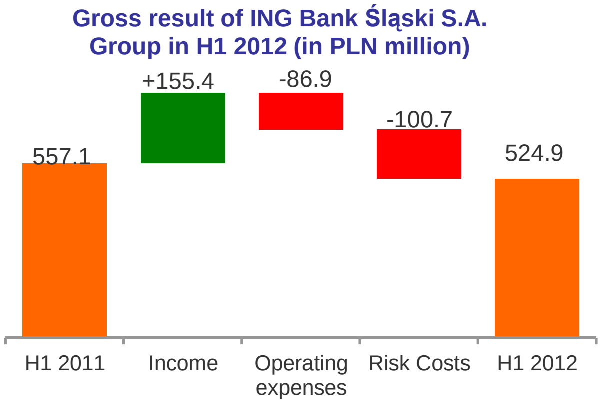
In H1 2012, the result before risk costs for the Bank Capital Group totalled PLN 720.4 million, up by 10.5% in the same period of 2011.

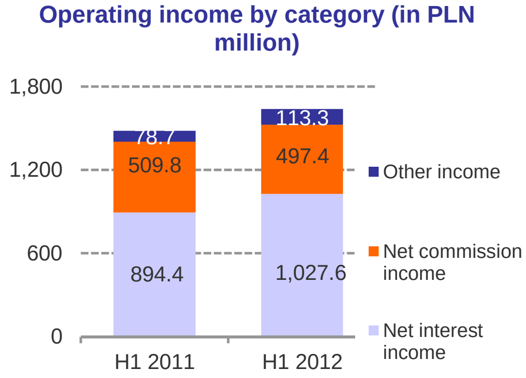
Basic Values of Consolidated Income Statement in Analytical Terms

	H1 2012	H1 2011	Change H1 2012/ H1 2011	
	in PLN million	in PLN million	in PLN million	%
Net interest income	1,027.6	894.4	133.2	14.9
Net commission income	497.4	509.8	-12.4	-2.4
Other income*	113.3	78.7	34.6	44.0
Operating income*	**1,638.3**	**1,482.9**	**155.4**	**10.5**
Operating expenses**	-917.9	-831.0	-86.9	10.5
Result before risk costs	**720.4**	**651.9**	**68.5**	**10.5**
Impairment losses and provisions	-195.5	-94.8	-100.7	106.2
Gross financial result	**524.9**	**557.1**	**-32.2**	**-5.8**
Income tax	-85.8	-110.7	24.9	-22.4
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	X
Net financial result	**439.1**	**446.4**	**-7.3**	**-1.6**

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

[12]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 operating expenses.

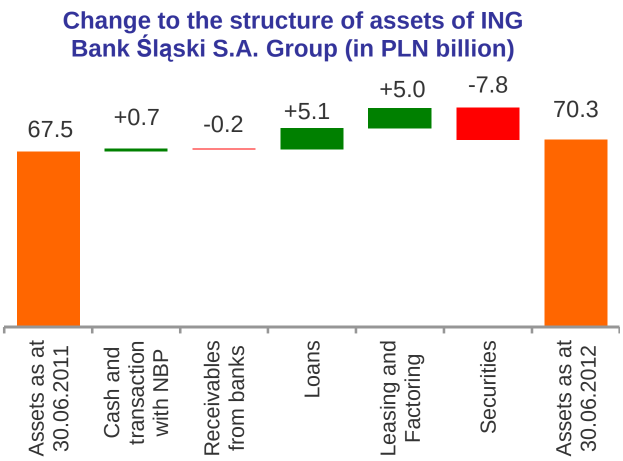


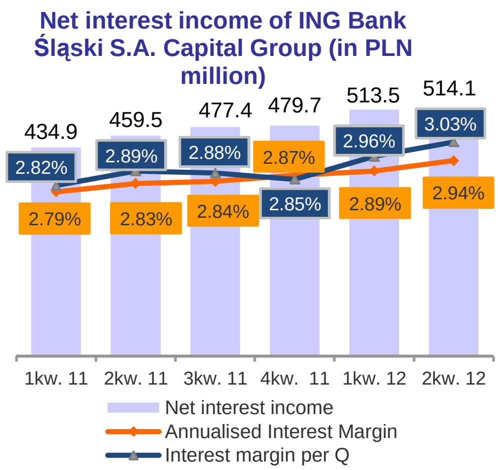


The comprehensive income of the ING Bank Śląski S.A. Capital Group (including, apart from net profit, other items of income and expenses recognized in equity, including a positive valuation of assets available for sale) was PLN 566.2 million versus PLN 491.9 million in the same period last year.

2. *Net Interest Income*

In H1 2012, the ING Bank Śląski S.A. Capital Group generated net interest income of PLN 1,027.6 million versus PLN 894.4 million in the same period last year (up by 14.9%). However, PLN 52.1 million of the interest income was generated by the new companies of the Group. The interest income increase resulted mainly from the growth of the Group's credit receivables accompanied by a favourable change in the balance sheet structure. The share of loans in assets went up from 51.6% in December 2011 to 53.4% as at the end of June 2012, which, among others, made the interest margin increase. In H1 2012, the Bank Capital Group earned the interest margin of 2.94% whereas a year earlier the interest margin equalled 2.83%.





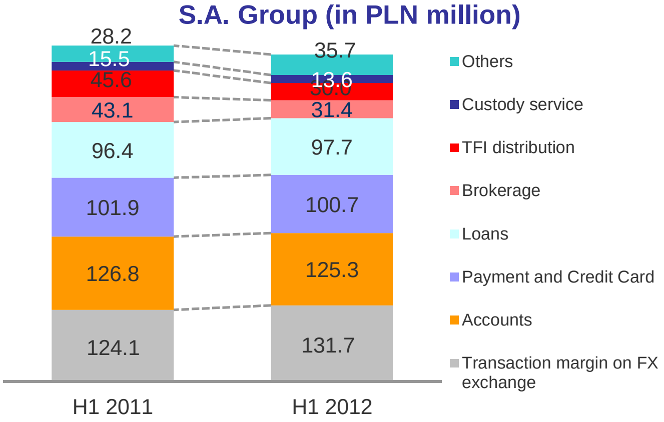
3. *Non-Interest Income*

Fees and commissions income represented the major part of non-interest income of the ING Bank Śląski S.A. Capital Group. In H1 2012, it totalled PLN 497.4 million as compared to PLN 509.8 million in H1 2011 (down by 2.4%).

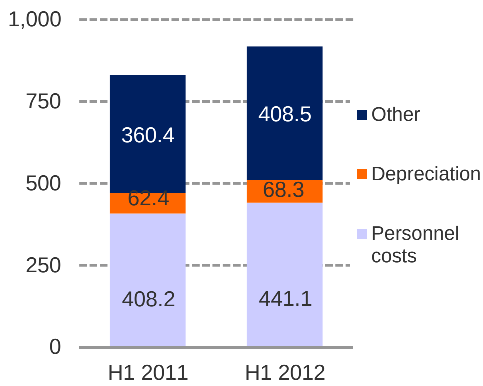
The Group recorded an increase in the transactional margin on foreign exchange operations (up by 6.1%), loans-related commissions (by 1.3%) and other commission income (up by 26.6% due to increase in commission on factoring services). Commission income for account maintenance and payment cards was at a similar level to the one recorded in H1 2011. However, commissions for capital-related services were lower than a year earlier, namely: brokerage services (down by 27.1%), distribution of investment funds' participation units (down by 34.2%) and custody services (down by 12.3%).

In H1 2012, other income of the Bank Capital Group amounted to PLN 113.3 million, i.e. up by 44.0% from H1 2011. Apart from releasing a counterparty risk provision for a derivative transaction (in the amount of PLN 28.2 million versus PLN 8.5 million a year earlier), the Group recorded an FX result and net income on hedge accounting better than a year earlier.

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



Group expenses by category in PLN million



4. *Operating Expenses*

In H1 2012, operating expenses of the ING Bank Śląski S.A. Capital Group amounted to PLN 917.9 million versus PLN 831.0 million in the same period of 2011 (up by 10.5%). A significant part of expenses increase - amounting to PLN 34.5 million resulted from incorporation of the new companies into the structure of the Bank Capital Group.

The personnel costs constituted the main component of the Group expenses, which amounted to 441.1 million, or went up by 8.1% when compared to the same period last year. The personnel costs grew due to the increase in: headcount, disability pension contribution and base salaries.

Other expenses (general and administrative expenses and other expenses) totalled PLN 408.5 million compared to PLN 360.4 million in H1 2011 (up by 13.3%). As far as these expenses are concerned, it were mainly marketing costs, IT-related expenses, telecommunication fees and expenses related to third-party services that rose.

5. *Impairment Losses and Provisions*

The risk costs recognised in H1 2011 income statement of the ING Bank Śląski S.A. Capital Group amounted to PLN 195.5 million (versus PLN 94.8 million in H1 2011). They were affected, among others, by the following factors:

- Additional provisions – in the amount of PLN 194.3 million – for the lending portfolio were made due to the deterioration of the borrowers' financial standing.
- Provisions of PLN 7.1 million were released as the clients repaid their amounts due.
- Write-offs for risk related to financial market transactions were increased by PLN 8.3 million.

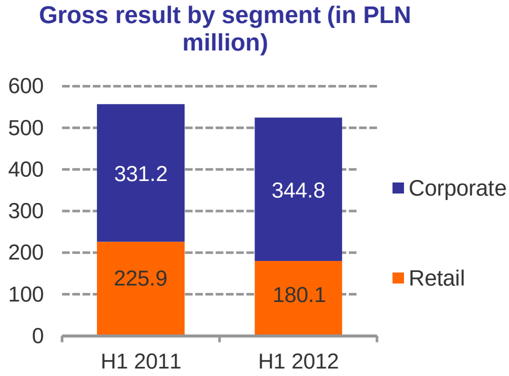
6. *Share of Individual Business Segments in the Financial Result*

The ING Bank Śląski S.A. business model was divided into two primary 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.

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 Clients and Corporate Banking segments by the economic capital requirement structure.

In H1 2012, the Retail Banking Division generated PLN 180.1 million worth of gross profit versus PLN 225.9 million in the same period last year (down by 20.3%). The Retail Banking segment had a 34.3% share in the gross profit of the ING Bank Śląski S.A. Capital Group (versus 40.5% share in H1 2011).



The Retail Segment result was made up by:

- Stable net revenue. It totalled PLN 784.5 million and it was close to the one generated in H1 2011. This Division generated higher net interest income (up by 3.1%) and better result in terms of other revenue and expenses (by 60%). However, there was a decrease in net commissions (by 10.3%) and in share in net profit of associated entities (by 21.4%).
- Higher operating expenses. The expenses of this Segment totalled PLN 559.9 million, up by 11.1% versus H1 2011. Due to the execution of the retail network lifting project, general and administrative expenses as well as depreciation increased by 14.7% when compared to H1 2011. This segment also incurred higher personnel costs – up by 7.1% when compared to the same period last year.
- Lower risk costs. In H1 2012, the balance of provisions for the lending portfolio was negative and it equalled PLN 44.5 million versus PLN 55.1 million in the same period last year.

During first six months of 2011, the Corporate Banking Segment earned gross profit of PLN 344.8 million as compared to PLN 331.2 million in H1 2011 (up by 4.1%). The Division's result represented 65.7% of the Group's gross result (59.5% in H1 2011). The following factors contributed to the result of the Corporate Division:

- The Division's revenue totalled PLN 853.8 million and went up by 22.3% when compared to the same period of 2011. This growth was to a large degree triggered by incorporation of ING Lease and ING Commercial Finance into the structure of the Bank Capital Group (positive impact of PLN 64.5 million). Net interest income grew first and foremost (28.8%), while net income on fees and commissions rose by 5.3% for that Segment.
- The segment's costs totalled PLN 358.0 million, up by 9.4% versus H1 2011. They included all personnel costs amounting to PLN 186.0 million, up by 9.4% when compared to H1 2011.
- The risk costs of the Segment amounted to PLN 151.0 million. The provisions established for the exposure (credit and debt securities issue exposure) of one client from the construction industry determined the risk cost. For comparison, in H1 2011, risk costs amounted to PLN 39.7 million.

7. *Core Effectiveness Ratios*

Due to the proportional growth of income and costs, in H1 2012, the C/I ratio of the ING Bank Śląski S.A. Capital Group was the same as in H1 2011, i.e. it was 56%.

The increase in share of loans in the Group's assets had a positive impact on the interest margin. However, the ING Bank Śląski S.A. Capital Group was still able to further expand its lending portfolio using its own deposits. In June 2012, the Loan to Deposit ratio was 79.7%.

Core Effectiveness Ratios (%)	H1 2012	H1 2011
C/I ratio	56.0	56.0
ROA	1.2	1.3
ROE	13.5	14.7
Interest margin ratio	2.94	2.83
Loans/ Deposits ratio	79.7	70.7
Solvency ratio	12.98	12.61

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[13].
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).
Loans-to-deposits ratio – loans and advances to customers (net) including leasing and factoring receivables and corporate bonds to customers deposits including matched funding for leasing portfolio.
Solvency ratio – relation between net equity and own funds to off-balance sheet assets and liabilities including risk weights.

8. *Balance Sheet Structure*

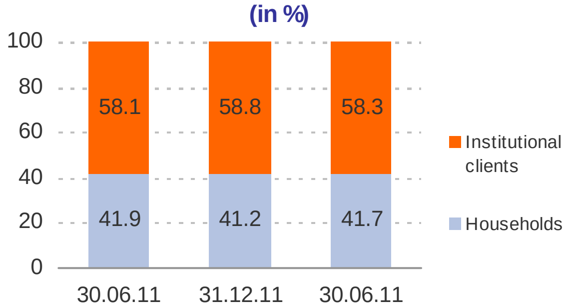
As at 30 June 2012, the balance sheet total of the ING Bank Śląski S.A. Capital Group amounted to PLN 70,260.1 million, up by PLN 536.7 million, or 0.8%, when compared to the balance sheet total as at the end of 2011.

The size of the Group's balance sheet total as well as the structure of assets and liabilities were determined by the operations of ING Bank Śląski S.A. As at the end of June 2012, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 67,056.1 million versus PLN 69,624.3 million in December previous year (down by 3.7%).

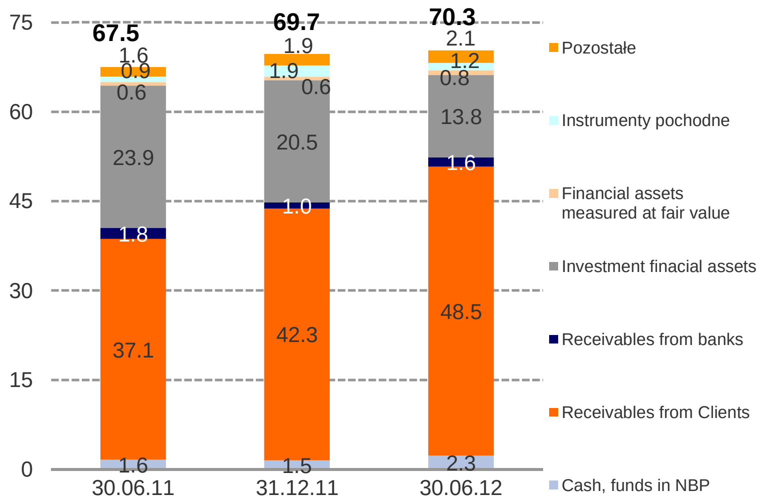
Assets

In H1 2012, the growth of share of customer receivables in the assets of the ING Bank Śląski S.A. Capital Group was still observed. As at 30 June 2012, loans and other receivables from customers were PLN 48,490.6 million, or 69.0% of the total assets of the Bank Capital Group. Their share in assets went up by 8.3 p.p. from the end of 2011.

Structure of loans by client groups (in %)



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



[13] Average assets and average equity calculated based on the data for five periods: 30 June 2011, 30 September 2011, 31 December 2011, 31 March 2012 and 30 June 2012,

Customer receivables consisted of, among others,: PLN 5,706.6 million debt securities, PLN 3,084.4 million leasing-related receivables and PLN 2,094.2 million factoring-related receivables. Net loans and cash loans granted to clients represented PLN 37,493.3 million (53.4% of assets) versus PLN 35,998.0 million (51.6% assets) in December 2011.

The share of credit receivables from clients in the Group's assets rose mainly at the expense of decrease in the share of financial investment assets in the balance sheet. These were almost entirely debt securities, in line with the Bank's investment policy. As at the end of June 2012, they totalled PLN 13,817.5 million (or 19.7% of assets) compared to PLN 20,450.7 million (or 29.3% of assets) in December 2011. Available-for-sale assets represented nearly 75% of all financial investment assets.

Group's receivables from other banks totalled PLN 1,605.3 million (or 2.3% of assets) compared to PLN 1,018.1 million (or 1.5% of assets) in December 2011.

Liabilities

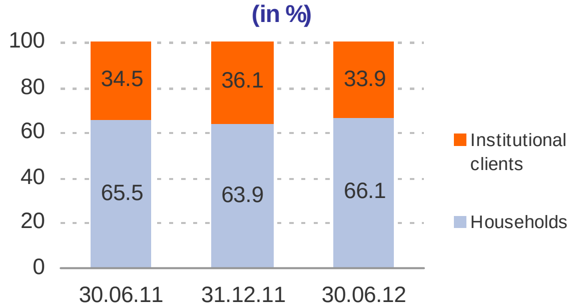
The funds deposited with the Bank by clients constituted the dominant source of funding for the operations of the ING Bank Śląski S.A. Capital Group. In June 2012, they totalled PLN 54,157.0 million compared to PLN 52,932.1 million as at the end of 2011. As at the end of H1 2012, liabilities towards customers represented 77.1% of total liabilities, up by 1.2 p.p. from the end of 2011. The funds acquired from households became more significant in the total value of deposits (up to 66.1%).

The Group's liabilities towards other banks totalled PLN 4,108.3 million compared to PLN 4,961.9 million as at the end of 2011. Funds from monetary financial institutions represented 5.8% of liabilities, while in December 2011 their share was 7.1%.

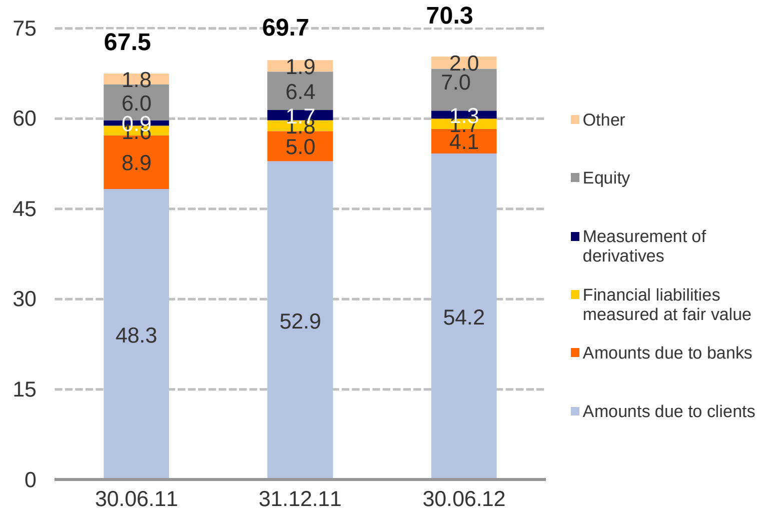
In H1 2012, the value of financial liabilities carried at fair value through profit or loss remained at a similar level – the majority of them were related to sell-buy-back transactions. In June 2012, those liabilities amounted to PLN 1,679.0 million versus PLN 1,814.7 million recorded 6 months earlier. Their share totalled, respectively: 2.4% and 2.6%.

In H1 2012, the share of equity in funding of operations grew. As at 30 June 2012, equity totalled PLN 6,981.1 million, i.e. 9.9% of the Group's balance sheet total, whereas at the end of 2011 it totalled PLN 6,416.0 million, which represented 9.2% of Group's liabilities.

Structure of deposits by client groups (in %)



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



VI. MANAGEMENT OF KEY RISKS

1. Credit Risk

General Information

The Lending Policy pursued by ING Bank Śląski S.A. is based on principles of secure and prudent credit risk management. The Lending Policy is conducted by the Bank Management Board which appointed the Credit Policy Committee to take decisions as regards the credit risk management area on a daily basis.

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

Losses resulting from lending activity are a consequence of risk and 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 and 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 for and implementation to the credit process of credit risk management components such as risk identification, assessment, measurement, monitoring and 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.

Lending Policy

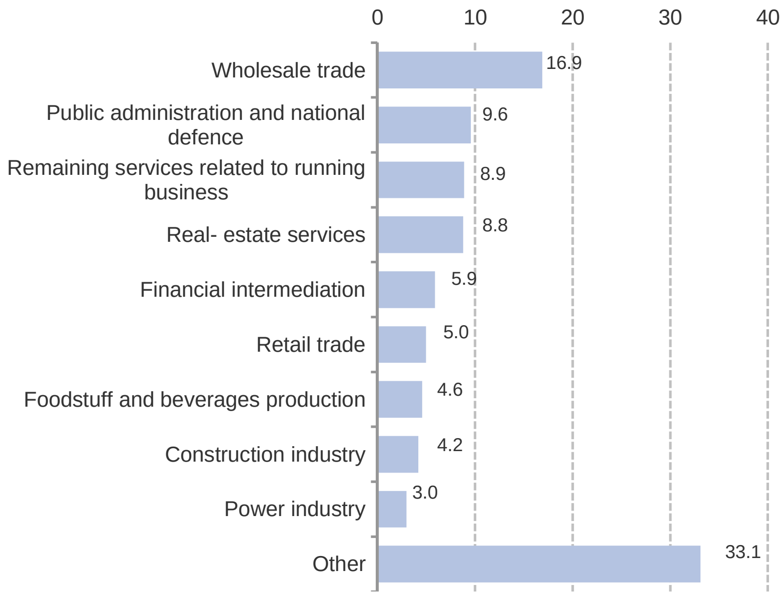
The modifications to the ING Bank Śląski S.A. Lending Policy regarding corporate credit exposures introduced in H1 2012 took account of Poland's economic situation as well as the financial standing of individual groups of borrowers. The said modifications were oriented at the following in particular:

- making the lending process more effective while ensuring adequate credit risk identification and measurement mechanisms, and
- maintaining the Bank's credit risk at an acceptable level.

The main modifications of the Bank's Lending Policy for corporate clients were as follows:

- 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 increased risk sectors. Additional data regarding construction sector condition were published (as *Credit Risk Alert*) as well. These provided for the guidelines for financing the construction sector companies and profitability of contracts in the infrastructure construction area.

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



- Updating the policy on funding income-generating real properties so as to take account of the organisational changes resulting from the acquisition of ING Bank Hipoteczny S.A. (mortgage bank).

- Introducing general governance for credit risk management in subsidiaries incorporated into the Bank Capital Group at the beginning of 2012 (that is ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.).

The current Lending Policy, taking into consideration the complex situation on the labour market, FX market and residential properties market, was maintained in the retail credit risk management area.

Models and Tools for Credit Risk Management

In H1 2012, the Bank took a number of actions as regards credit risk management in order to ensure compliance thereof with PFSA Resolution No. 76/2010 and in particular with the provisions regarding the Advanced Internal Rating-Based Method (or AIRB) for using which with respect to the corporate portfolio the Bank obtained the consent from De Nederlandsche Bank (or DNB) and the Polish Financial Supervision Authority (or KNF) on 06 October 2011.

The said actions comprised, first and foremost, the re-modelling of local risk parameters (such as PD, LGD, EAD) for the portfolio of exposures for small and medium enterprises, but also monitoring and validating other models material for the Bank in the context of the size of risk- weighted assets.

Following the consent to apply the AIRB method, the set of management reports for the corporate credit risk area was modified at the Bank to ensure the conditions for in-depth analysis and control of changes to the risk-weighted assets by client, business segment and geographical region within the Corporate Sales Network. The new reports will be supportive in preparing the Bank for implementation of the so-called CRD IV, that is a new European Union Directive which puts the rules of Basel III into practice.

Stress testing and sensitivity testing methodology was also improved by adapting it to business requirements, changes in the macroeconomic environment and expectations of the banking supervision authorities. Test reports are regularly discussed at the Bank Management Board meetings.

Quality of Lending Portfolio and Provisioning

As at the end of June 2012, the total gross value of loans and cash loans extended to clients by the ING Bank Śląski S.A. Capital Group was PLN 43,926.8 million.

The value of impaired loans was at the level of PLN 1,920.5 million versus PLN 1,553.1 million as at the end of 2011. Thus, the share of the impaired portfolio in the entire lending portfolio of the Bank Capital Group went up from 4.2% in December 2011 to 4.4% as at the end of June 2012.

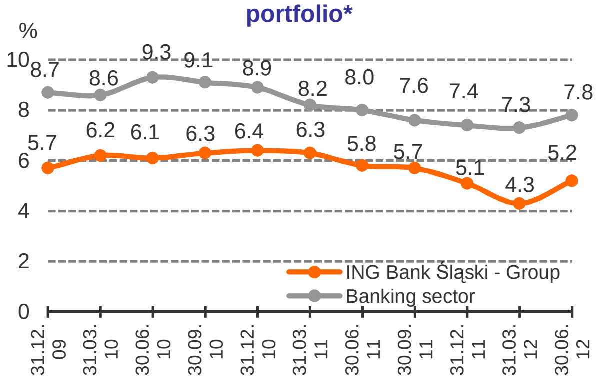
In June 2012, the quality of lending portfolios of the ING Bank Śląski S.A. Capital Group (both retail and corporate) was better than the average in the entire banking sector.

As at the end of June 2012, the ING Bank Śląski S.A. Capital Group had PLN 1,071.0 million worth of provisions for the lending portfolio. The impaired portfolio provisioning ratio was 55.8%.

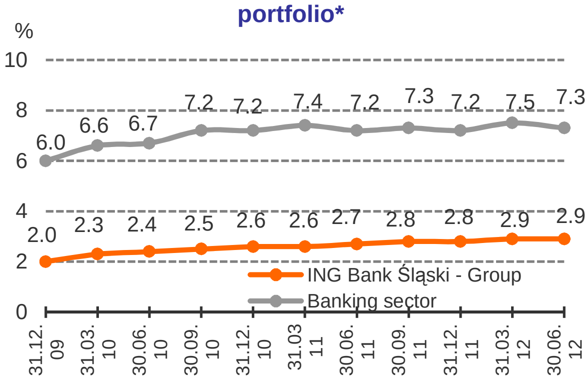
ING Bank Śląski S.A. Capital Group Lending Portfolio Quality

	30.06.2012	31.12.2011	30.06.2011
Total exposure (PLN million)	**43,926.8**	**37,379.0**	**33,686.5**
Non-impaired portfolio (PLN million)	42,006.3	35,826.0	32,168.3
Impaired portfolio (PLN million)	1,920.5	1,553.1	1,518.2
Impairment losses and provisions (PLN million)	1,271.9	1,119.2	1,147.4
Charge for non-impaired portfolio (PLN million)	183.3	159.7	157.9
Charge for impaired portfolio (PLN million)	1,071.0	948.9	978.8
Provisions for off-balance sheet liabilities (PLN million)	17.6	10.6	10.6
Share of the impaired portfolio (%)	**4.4**	**4.2**	**4.5**
Impaired portfolio provisioning ratio (%)	**55.8**	**61.1**	**64.5**
Exposure – Corporate Banking (PLN million)	**28,091.8**	**22,370.1**	**19,882.2**
Non-impaired portfolio (PLN million)	26,636.1	21,236.9	18,735.9
Impaired portfolio (PLN million)	1,455.5	1,133.3	1,146.3
Impairment losses and provisions (PLN million)	845.2	736.4	798.7
Charge for non-impaired portfolio (PLN million)	86.4	62.8	60.1
Charge for impaired portfolio (PLN million)	741.2	663.0	728.0
Provisions for off-balance sheet liabilities (PLN million)	17.6	10.6	10.6
Share of the impaired portfolio (%)	**5.2**	**5.1**	**5.8**
Impaired portfolio provisioning ratio (%)	**50.9**	**58.5**	**63.5**
Exposure – Retail Banking (PLN million)	**15,835.2**	**15,008.9**	**13,804.3**
Non-impaired portfolio (PLN million)	15,370.2	14,589.1	13,432.4
Impaired portfolio (PLN million)	465.0	419.8	371.9
Impairment loss (PLN million)	426.7	382.8	348.7
Charge for non-impaired portfolio (PLN million)	96.9	96.9	97.8
Charge for impaired portfolio (PLN million)	329.8	285.9	250.9
Provisions for off-balance sheet liabilities (PLN million)	0.0	0.0	0.0
Share of the impaired portfolio (%)	**2.9**	**2.8**	**2.7**
Impaired portfolio provisioning ratio (%)	**70.9**	**68.1**	**67.5**

Share of impaired loans in the credit portfolio*



Share of impaired loans in the retail portfolio*



** For the banking sector data for May 2012.*

2. Market Risk Management

General Information

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

Market risk management within ING Bank Śląski S.A. covers market risk identification, measurement, monitoring, and reporting, both within the Bank itself and in its subsidiaries. Independent from the Bank business units generating market risk, Market Risk Management Department provides FM Management, Management Board and ALCO Committee members with market risk updates. An important consultative role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V. Market risk management is responsible for limit setting within the risk appetite as defined by the Management Board. It advices business units on risk related issues within these limits.

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

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

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

Risk measurement tools

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

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

VaR exposures and limits during the first half of 2012

The VaR exposures of the bank remained well below limits during the first half of 2012. The average limits utilisation for most of the trading desk was around 25%. The majority of the P&L is driven by sales activities rather then proprietary position taking for the banks own account. No limit breaches where reported during the period.

No VaR or position limits were changed during the year.

Liquidity risk management

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

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

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

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

One of the most important aspects of the liquidity risk management process in the Bank is contingency funding plan which provides guidance as regards pro-active identification of the liquidity crisis and actions to be taken to survive it. No regulatory limit was breached during the first half of 2012.

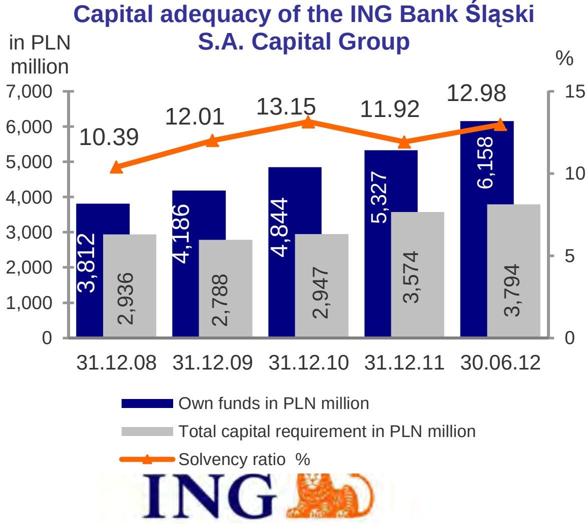
Replicating Portfolios

Demand deposits are a sizeable item of the Bank's balance sheet. In order to increase the effectiveness of usage of the liabilities acquired and maximize income on business activity, ING Bank Śląski applies the concept of the replicating portfolio. It consists in "replicating", or reproducing of the actual period during which demand deposits are made /maintained by customers at the Bank. For that purpose, statistical analysis of the historic portfolio of demand deposits and its "stable" part is calculated. That concept allows converting interest rates of demand items into term items. The method of reinvesting obtained funds is different for the "variable" part and for the "stable" part. Duration of replications and liquidity profiles are based on client behaviour and are reviewed at least every six months.

3. Capital Adequacy

In line with the decision of the De Nederlandsche Bank (DNB) and the Polish Financial Supervision Authority (or PFSA) obtained in Q4 2011 and further explanations, ING Bank Śląski S.A. may apply the Advanced Internal Rating-Based (AIRB) approach to calculate the capital requirements for credit risk for some exposure classes (enterprises and lending institutions) when calculating solvency ratio.

Capital adequacy of the ING Bank Śląski S.A. Capital Group



In order to apply the AIRB for capital requirements calculation, the Bank must ensure that its own funds remain on the level not lower than the level sufficient to cover capital requirements for individual risks, including credit risk calculated with the use of standard approach – in 100% by the end of 2012 and in 90% by the 30 June 2013.

In May 2012, ING Bank Śląski S.A. received the interpretation of the Polish Financial Supervision Authority indicating that until the 12 conditions laid down in the decision of DNB have been satisified (and the fact has been approved by the PFSA), the Bank should compute its solvency ratio considering capital requirements determined under the standard approach and own funds under *AIRB* method. Considering on all three methods of the solvency ratio computation, the ratio would be as follows:

Calculation of solvency ratio for the ING Bank Śląski S.A. Capital Group

	30.06.2012	31.12.2011	30.06.2011
According to explanations of Polish Financial Supervision			
Own funds (in PLN million)	6,157.5	5,326.5	5,089.9
Total capital requirement (in PLN million)	3,761.7	3,573.9	3,228.5
Solvency ratio (in %)	12.98	11.92	12.61
Apply the Advanced Internal Rating-Based approach (AIRB)			
Own funds (in PLN million)	6,157.5	5,326.5	X
Total capital requirement (in PLN million)	3,652.9	3,244.9	X
Solvency ratio (in %)	13.49	13.13	X
Apply the standard approach (SA)			
Own funds (in PLN million)	6,298.9	5,481.2	5,089.9
Total capital requirement (in PLN million)	3,793.7	3,573.9	3,228.5
Solvency ratio (in %)	13.28	12.27	12.61

Apart from introduction of the AIRB method, in H1 2012 the Bank Capital Group's capital adequacy was also impacted 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 100% of the Bank's 2011 net profit for equity.
- Inclusion into the ING Bank Śląski S.A. Capital Group structure new companies, i.e. ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A.

As of the beginning of 2012, the Bank launched a project which one main objective is risk-weighted assets optimisation. Among project tasks, accepted collaterals are reviewed in the context of their possible recognition in the capital requirements calculation process.

4. Operational Risk and Compliance

ING Bank Śląski S.A. executes the rules of operational, compliance and anti-fraud risk management pursuant to provisions of the Banking Law Act, recommendations and resolutions of the Polish Financial Supervision Authority and the standards developed by 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 H1 2012, the Bank continued actions aimed at perfecting the forms and methods of risk management, considering the threats arising on account of changes in the business environment.

The non-financial risk management process was focused on:

- providing the managers with valuable management information on the incident level per risk category and determining the “risk appetite” secure for the Bank,
- improving risk identification, assessment and mitigation mechanisms in Bank operations while taking into account scenario analyses and key control testing,
- analysing information on risk incidents and taking preventive measures with the use of the integrated system of control and supervision over execution of post-audit recommendations,
- ensuring that compliance norms are abided by, including the requirements for counteracting money laundering and terrorism financing, preventing conflicts of interest, overseeing employees’ private investments as well as limiting corruption threats,
- assessing risk and strengthening security system related to information resources, projects and products as well as outsourced processes,
- testing the security level of applications used in banking transactions,
- verifying the criticality level of business processes as regards business continuity and updating regulations concerning business continuity and crisis management,
- testing business continuity plans for key business processes and improving crisis management system and physical security system in all locations,
- organizing awareness programmes and training courses facilitating risk management processes for all Bank employees,
- strengthening the control system over transfer of sensitive information protected by the law as well as other data essential to the Bank’s operations,
- ensuring adequate insurance levels for the banking operations in the form of global and local insurance,
- ensuring effective forms of counteracting crimes related to payment transactions, identity theft or funds theft with the use of electronic and traditional tools used by criminals.

VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT THE ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN H1 2012

1. IT and Operations

In H1 2012, essential changes occurred in the IT area functioning at ING Bank Śląski S.A. The said changes resulted first of all from:

- Implementation of the Lean IT project assumptions. The goal of the Project was to increase efficiency as regards internal clients' needs handling with the optimum use of the resources as well as improving the quality and enhancing satisfaction level as regards IT services.
- Rendering available the new Intranet portal *One Help Desk,* i.e. self-service electronic channel allowing employees to report any defects and problems related to the IT functioning.
- Facilitation of the process service model. As a result of the said actions, the executed catalogue-based services became more efficient and the operational processes automation level was raised to 59%.
- Development of the Orion monitoring comprising 97 applications, inclusive of all business applications under the SLA.

In the operations area, ING Bank Śląski S.A. executed, among others, the following projects:

- Centralised cash handling process. Process of implementation of the application supporting the cash management process at the Outsourcers' cash centres was finalised. Modernization of the network of night vaults was commenced and 5 electronic depositories (on-line) were installed at the Bank outlets and 44 in the Bank's clients locations, among others. Standardization of the software of ATMs provided by various vendors was initiated by implementing the Multivendor Application.
- Trade Finance. Works on back-office platform implementation, facilitating handling of letters of credit, guarantees and collections along with tools enabling the said transactions service via ING BusinessOnLine were carried out.
- New application for handling FM products. The project's first production phase was completed by transferring the deposit products and currency exchange to the new application.
- SORBNET2. The Bank conducts works as regards construction of infrastructure providing access to the new settlement system SORBNET2. As part of the said project, implementation of a new application for balance monitoring in the Bank's nostro accounts is also planned.

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 H1 2012, many initiatives were taken aiming at further improvement of the Division functioning effectiveness, under one name of Lean Office 2012, including, among others: complaint handling process review and Operations Division flexibility enhancement project. The *Lean Pack Ahead Tomorrow* project was also initiated. One of the project objectives was process approach implementation in the Operations Division.

In June 2012, the share of automatic transactions in the total number of transactions of the Operations Division accounted for 97.9% (97.2% a year earlier).

2. Development of Electronic Distribution Channels

In H1 2012, ING Bank Śląski S.A. provided its clients with two new innovative tools as part of the internet banking systems:

- Financemeter in the ING BankOnLine internet application. It facilitates managing household budget in a simple and intuitive way on the basis of the analysis of transactions effected with payment cards and in personal and savings accounts maintained at ING Bank Śląski S.A. The users can compare the structure of their expenses with the ones of an average ING BankOnLine user of similar age, with similar income or education.

- ING BankMobile – mobile banking application for devices with the iOS or Android operating system. It facilitates, among others, to make internal transfers and transfers to defined beneficiaries, check the history of transactions effected in current and savings accounts as well as with credit card. This application enables clients to acquaint themselves with the Bank's offer, find an ATM, CDM or Bank's Branch, call the Bank or write to the Bank. In H1 2012, clients downloaded 52 thousand ING BankMobile applications.

As at the end of June 2012, the electronic banking systems of ING Bank Śląski S.A. were used by 2,237.4 thousand clients, up by 5.8% from the end of 2012. On business days there were on average 400 thousand log-ins to ING BankOnLine per day registered by the Bank. The number of clients who use the HaloŚląski system also increased considerably, up by 8.3% from December 2011.

Clients of Electronic Banking Systems at ING Bank Śląski S.A.

	30.06.12	31.12.11	31.12.10	31.12.09
ING BankOnLine, ING OnLine, ING BusinessOnLine	2,237,399	2,115,325	1,879,525	1,559,504
HaloŚląski	1,391,331	1,285,261	1,072,099	786,008
Text message (SMS)	990,598	918,954	782,079	619,664

In H1 2012, the Bank significantly activated the operations as regards stimulation of the sale of banking products via the Internet (in the e-commerce area) i.e.

- Extended it with cash loans (previously the said actions were conducted for personal accounts and mortgage loans).
- Introduced new forms of products promotion, including a new, standardized form of presenting the Bank's offer on financial products' comparison engines on big portals.
- Concluded a co-operation agreement with another integrator as regards the *Pay with ING* form.

In H1 2012, the Bank obtained through the Internet the following number of filled-in forms: 71 thousand for a cash loan, 37 thousand for a mortgage loan and 14 thousand for current account opening.

As at the end of June 2012, ING Bank Śląski S.A. had 1,137 devices for cash self-service in total, including: 511 standard ATMs, 357 standard CDMs and 269 dual machines. As at the end of 2011, the figures were respectively – in total 1,137 devices, including: 554 standard ATMs, 364 standard CDMs and 219 dual machines.

The Bank also provided holders of Direct and VIP Accounts as well as clients of the Entrepreneurs segment with free access to all ATMs in Poland.

3. Network of Bank Outlets

As at 30 June 2012, ING Bank Śląski S.A. had 437 retail branches (including 20 franchise outlets and 111 cashless branches). 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.

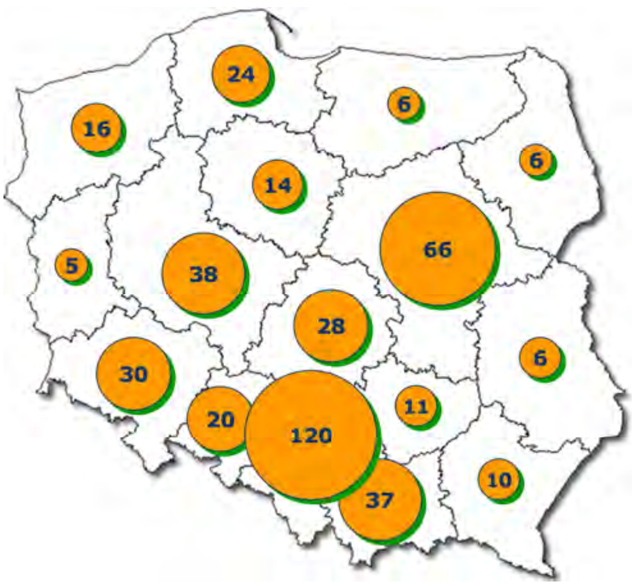
Corporate clients from mid-sized and mid-corporates segment were serviced at the Bank by 32 corporate branches and 13 Corporate Banking Centres. Almost all of them were operating in the same locations as retail branches. The largest clients were handled by the Strategic Clients Department and its two regional offices (in Katowice and Gdańsk).

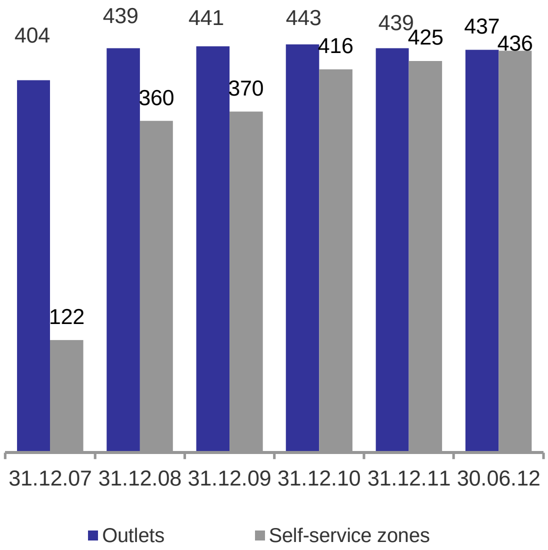
In H1 2012, the Bank continued projects, the aim whereof was to enhance conditions in which customers were attended to, i.e.:

- Project of adjusting retail network outlets to new market trends. This project aims not only at introducing new branding and service model at all retail branches, but also at optimising the network through branches' relocations and conversions. In H1 2012, 17 retail branches were provided in the new standard, inclusive of 1 new branch. In June 2012, 84 branches with the new design were functioning at the Bank.

- Corporate Sales Network Revitalisation Programme. It provides for reorganisation and modernisation of the outlets as well as network adjustment to the potential of local markets. In H1 2012, the Bank provided for use 1 newly established corporate branch and 5 outlets in new locations.

Network of ING Bank Śląski Outlets (as at 30 June 2012)





4. Human Resources Management

Headcount

As at 30 June 2012, the ING Bank Śląski S.A. Capital Group had 8,712 employees. When compared to December 2011, the number of employees grew by 303 persons. Headcount increase was, first and foremost, the result of inclusion of ING Commercial Finance Polska S.A. and ING Lease (Polska) Sp. z o.o. into the Bank Group. As at 30 June 2012, the total headcount in the said companies totalled 216 employees. What is more, the headcount increased at ING Bank Śląski S.A.

Headcount structure at ING Bank Śląski S.A.

	30.06.2012		31.12.2011	
	number of persons	%	number of persons	%
Retail Banking	4,179	50.4	4,150	50.5
Corporate Banking and Financial Markets	1,135	13.7	1,103	13.4
Operations/IT/Services	2,062	24.9	2,039	24.8
Risk/Organisation/Finance/HR	914	11.0	919	11.2
Total	**8,290**	**100.0**	**8,211**	**100.0**

In June 2012, ING Bank Śląski S.A. had 8,290 employees, up by 79 persons from December 2011. The changes in the headcount structure recorded in H1 2012 were, above all, related to the development of the Corporate Sales Network and direct sales channels in the retail area as well as headcount growth in the IT area.

Remuneration Policy

The task of the current remuneration system in ING Bank Śląski S.A. is to effectively support execution of strategic goals. Therefore, the Bank maintained the current assumptions of the Remuneration Policy developed with close reference to the remuneration market in the banking sector and concentrated on ensuring coherence, fairness and competitiveness of the remuneration offered.

The Bank continued works related to implementation of Polish Financial Supervision Authority Resolution No. 258 of 04 October 2011. As a result of the said works, a list of positions having material impact on the risk profile of ING Bank Śląski S.A. was developed. The main selection criterion was the scope of competences to take decisions of material impact on the financial result and related risk or supervision over Control Functions at the Bank.

Moreover, with the Supervisory Board Resolution _The Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A._ was adopted. The said document promotes the process of effective risk management in order to maintain and protect secure capital base and counteract accepting excessive risk that is beyond the Bank's Policy accepted by the Supervisory Board. The _Variable Remuneration Policy_ combines individual objectives of persons holding managerial positions with the long-term business strategy ensuring Bank's stable growth.

In April 2012, Bank-wide pay rise campaign was conducted. The pay rise amount was related to the employee's annual appraisal grade.

Recruitment and Employer Branding

In H1 2012, recruitment actions were focused on the following areas:

- Enhancing Bank's image as a desired employer by participating in job fairs, events at universities, conducting the Ambassadors Programme and media publications.
- Acquiring young talents from the market: execution of the sixth edition of the programme of summer _Internship with Lion_ (50 projects, 55 interns, more than 3,000 applications).

In H1 2012, recruitment process at the Bank concerned mostly positions in the IT and the sales network/call centre.

Employee Development

As part of the employee development policy, ING Bank Śląski S.A. conducted extensive actions in line with the strategy adopted for the year 2012.

In H1 2012, the Bank concentrated on actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC) in the areas related to leadership, accountability, career opportunities and recognition. More than 2,200 participants took training in the said area. They participated in the following undertakings:

- Training programmes for Managers. As part of the Bank-Oriented Development project – a comprehensive training and development programme co-funded with the European Union funds under the Operational Programme Human Capital Development. It comprises 5 traditional training courses and one e-learning training. Moreover, development programmes were also conducted for managers, the aim whereof was to enhance their knowledge on people management and share managerial experience.
- Actions for employees with high potential and for talented university graduates.
- Training courses directed at effective personal and employee development management

Additionally, the Bank carried out programmes supporting execution of organisational units' business goals. An essential part constituted training courses for the Retail Sales Network employees. They concerned changes in IT systems, new and modified products, service quality and development of sales skills as well as ability to manage a sales team. In H1 2012, approx. 1,300 training days were conducted for the total number of almost 12,000 participants.

ING Bank Śląski S.A. conducted also individual development and training actions for employees. In 2012, the offer of training courses was updated. It includes the training courses within the area of bank and specialist competences, but also process, product and professional knowledge training courses. The training courses are organised in the traditional and e-learning forms.

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

You think Bank, You choose ING - this is 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 product and service model to 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 multichannel and integrated sales and customer service model with special focus on enhancing the electronic banking systems is further developed.

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 providing the grounds to build 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 operations, the Bank is going to keep its strong position in the household deposit market. To that effect, the Bank pursues the policy of long-run clients' deposits management through a stable offer and a flexible approach to interest. In the nearest future, the Bank is going to be more active in offering 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 plays 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 H2 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, also 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 is going to continue 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 of regular clients as regards simple products 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 have been 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 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 relations with 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 with 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:

- <u>Developing the offer and improving the credit process.</u> Apart from introduction of new solutions to the application managing corporate client's lending process, the Bank will offer new products such as discount loans and investment limit in the form of a framework agreement.
- <u>Strengthening cooperation with companies offering ABL products.</u> 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. This is to be facilitated by the integration of sales processes of leasing and factoring with the Bank's lending process, which was completed in H1 2012. Moreover, the profile of ING Lease (Polska) operations will be partially changed, namely 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.
- <u>Enhancing the Internet banking system.</u> The offer of products available on ING BusinessOnLine will be expanded with letters of credit, guarantees and documentary discount and collection transactions.
- <u>Modernizing the Branches.</u> The branches redevelopment project, covering not only new branding and new office layout, but also a change of branch organization and adjusting the branch network to the local potential of the market will be continued. All corporate branches are planned to have been redeveloped in line with the new standard by the end of 2014.

Moreover, the Bank will be continuing the works on new business model of corporate banking (2020 Programme). This programme takes into account 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 fees and payment transaction costs. The aim of this project is to ensure alternative sources of revenue for the Bank, by changing the distribution model and launching non-banking products, among others. New products which will be offered to Clients at the end of 2012 are to be the source of the Bank's competitive edge through increasing customer satisfaction and loyalty.

The 2012 plan of ING Bank Śląski S.A. takes into account 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 top quality capitals.

IX. INVESTOR INFORMATION

1. Shareholding Structure

The share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is divided into 130,100,000 ordinary shares of PLN 1 face value each. There are no restrictions as to transferring rights to shares or exercising voting rights under the shares held. There are no controlling rights attached to the Bank's shares whereto the Bank as their issuer would be entitled.

The strategic investor to ING Bank Śląski S.A. is ING Bank N.V. holding a 75.0% share in the Company's equity. ING Bank N.V. belongs to ING Group, a global financial institution, conducting its business activity on banking and insurance markets, as well as within the area of asset management.

Shareholding Structure of ING Bank Śląski S.A.

Shareholder	Number of shares and votes at GM	Share in share capital and in the total votes at GM	Shareholder	Number of shares and votes at GM	Share in share capital and in the total votes at GM
	30 June 2012			31 December 2011	
ING Bank N.V.	97,575,000	75.000%	ING Bank N.V.	97,575,000	75.000%
Funds managed by PTE PZU S.A.	6,631,428	5.097%	Other	32,525,000	25.000%
including:					
OFE PZU "Złota Jesień"	*6,631,258*	*5.097%*			
Dobrowolny Fundusz Emerytalny PZU	*170*	*0.000%*			
Other	25,893,572	19.903%			
Total	**130,100,000**	**100.000%**	**Total**	**130,100,000**	**100.000%**

In H1 2012, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's share in the equity did not change.

As a consequence of ING Bank Śląski S.A. shares purchase transaction made on 11 June 2012, the number of the Company's shares held by the funds managed by Powszechne Towarzystwo Emerytalne PZU S.A. [Pension Fund Company] (namely Otwarty Fundusz Emerytalny PZU "Złota Jesień" [Open-end Pension Fund] and Dobrowolny Fundusz Emerytalny PZU [Voluntary Pension Fund] exceeded 5% of shares in the total pool of shares and votes at the General Meeting of ING Bank Śląski S.A.

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

2. ING Bank Śląski S.A. Share Price

In H1 2012, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 74.0 (on 05-06 June) to PLN 90.5 (on 21 March). On 29 June 2012, the price of ING Bank Śląski S.A. share equalled PLN 81.6, up by 3.8% from the last quotation day in 2011 (to compare: sub-index Banking went up by 11.1%).

Thus, on 30 June 2012, the Bank's market value was PLN 10,616 million, while its book value amounted to PLN 6,979 million.

ING Bank Śląski S.A. Trading Share Price in H1 2012
(30 December 2011 = 100.0%)

3. 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 H1 2012, the Agency revised rating of ING Bank Śląski S.A. and as a result affirmed all the Bank's ratings assigned before (Fitch press release of 28 February 2012 and full report on the Bank's rating of 16 March 2012).

The full rating assigned to the Bank by the Fitch Agency as at the date of the Financial Statements publication was 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 satisfy its financial liabilities on time. A-Rating (Long-term IDR) of the entity reflects high capacity of the Bank to satisfy 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, 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). Viability Rating was introduced to supersede individual rating which was withdrawn by the Agency on 25 January 2012. VR bbb+ was the highest rating to win by a financial institution with C individual rating (before individual rating withdrawal, ING Bank Śląski S.A. had such rating).

The Moody's Investors Service Ltd. on the other hand, assigns rating to ING Bank Śląski S.A. on the basis of public information. The Bank's ratings assigned by the Agency were as follows:

Moody's Investors Service Ltd.	
Long-term deposits (LT rating)	Baa1
Short-term deposits (ST rating)	P-2
Bank Financial Strength Rating (BFSR)/ Baseline Credit Assessment (BCA)	D+/baa3
Financial strength outlook	Stable

On 21 February 2012, the Moody's Agency placed on review for downgrade ING Bank Śląski S.A. deposit ratings. This was caused by the analogous rating action addressed at its parent company ING Bank N.V. as part of a mass rating review of 114 financial institutions from 16 countries (Moody's press release of 15 February 2012).

As a result of the then-announced mass review of financial institutions' ratings, on 15 June 2012, the Moody's Agency downgraded Dutch banks' ratings including ING Bank N.V. from Aa3 to A2 for long-term deposits and from C+/a2 to C-/baa1 for Bank Financial Strength Rating (BFSR). For both ratings the outlook remained Negative.

As a follow-up to downgrade of ING Bank N.V. financial strength, on 18 June 2012, the Agency downgraded ratings of ING Bank Śląski S.A., namely:

- Long-term deposits from A2 to Baa1 (according to ING Group rating).
- Short-term deposits from P-1 to P-2, according to ING Group rating.

Bank Financial Strength Rating (BFSR) of ING Bank Śląski S.A. was affirmed at D+ level which corresponds with Baseline Credit Assessment (BCA) of baa3.

Keeping the Baseline Credit Assessment (BCA) of ING Bank Śląski S.A. unchanged and at the same time downgrading the long-term rating parallel to the parent company's rating indicates that less significance was attached to the potential support provided to the Bank by its parent company and the local system. Thanks to assessment of the capacity and probability of support provision by the parent company, the long-tem rating of ING Bank Śląski S.A. was four notches above its BCA before 18 June 2012 and two notches above BCA thereafter.

On 28 June 2012, Moody's Agency published the report on ING Bank Śląski S.A. rating and rating action of 18 June 2012, the so-called Credit Opinion.

4. Changes to the Statutory Authorities of ING Bank Śląski S.A.

In H1 2012, 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.

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. Following the segregation of duties model adopted at the Bank, Mr Vilar heads the Retail Banking Division.

Scope of Responsibilities of Bank Management Board Members (as at 30 June 2012)	
Ms Małgorzata Kołakowska	**President of the Bank Management Board** 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 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
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

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

Following PFSA Resolution No. 258 of 04 October 2011, the Bank implemented *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* which specifies new rules of variable compensation.

As a consequence of this *Policy,* a Management Board Member may be awarded an annual bonus of up to 100% of the annual base salary for performance of the annual bonus tasks set by the Supervisory Board. Bonus tasks shall be conducive to creating long-term value of ING Bank Śląski S.A. and account for taking care about the risk cost of the Bank, the capital cost and liquidity risk.

Variable compensation, such as the annual bonus for the Management Board members, shall be deferred for a 3-year period and shall be paid under the following procedure:

- at least 50% thereof as phantom stock making its beneficiaries eligible for a pecuniary benefit, conditional on ING Bank Śląski S.A. stock value,
- pecuniary benefit for the remaining part.

The compensation awarded as phantom stock shall be subject to one-year retention period. At the same time, the decision that ING Bank Śląski S.A. would leave the long-term incentive programme of ING Group was taken.

In H1 2012, the total compensation (being compensation, bonus awards and pecuniary, in-kind or any other benefits) paid by ING Bank Śląski S.A. to its Management Board Members amounted to PLN 7,299 thousand. The total compensation and bonuses paid out or due and payable for H1 2012 given here is the gross amount of compensation paid out or due and payable for the period from January until June 2012.

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

Compensation of Members of the Management Board of ING Bank Śląski S.A. in H1 2012 (in PLN thousand)

Period	Compensation and bonuses	Benefits	Total
H1 2012	6,437	862	7,299
H1 2011	5,942	884	6,826

In H1 2012, the total compensation (as defined hereinabove) paid out by ING Bank Śląski S.A. to its Supervisory Board Members amounted to PLN 249 thousand.

Compensation of Members of the Supervisory Board of ING Bank Śląski S.A. in H1 2012 (in PLN thousand)

Period	Compensation and bonuses	Benefits	Total
H1 2012	249	0	249
H1 2011	241	0	241

In February 2012, Mr Wojciech Popiołek sold 60 shares of ING Bank Śląski S.A. he had held as at the end of 2011. As at 30 June 2012, other Supervisory Board members as well as Management Board members held no shares of ING Bank Śląski S.A.

6. Auditor

On 12 April 2012, 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 the report for Q1 2012 and ending with the audit of the financial statements for 2012.

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.

7. Annual Report on-line

Striving to assure high standards in Bank-with-the-market communication, in June 2012 ING Bank Śląski S.A. published on its website the Annual Report on-line. Apart from the full version of the Annual Report, there are numerous tables and charts presenting in detail the Company's operations within the last few years available. There is also a tool for managing the input of the Report there.

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

1. Truthfulness and Accuracy of Statements

To the best knowledge of the Management Board of the Bank, the financial data for H1 2012 and the comparable data presented in the semi-annual condensed 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 they present fairly, accurately and transparently all the information on the property and financial standing of the Bank's Capital Group and its financial result. The semi-annual report of the Management Board enclosed herewith contain a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's Capital Group in H1 2012.

2. Selection of Entity Authorized to Audit Financial Statements

The entity, which is authorized to audit the financial statements and which audited the semi-annual condensed financial statements of the Bank's Capital Group, was selected according to the effective laws and the 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. Notes

Agreements

The Bank Management Board declares that as at 30 June 2012 ING Bank Śląski S.A. does not have any:

- significant agreements for loans, sureties and guaranties not relating to operating activity,
- obligations towards the central bank,
- contractual obligations arising from the issued debt securities or financial instruments.

Number and value of writs of execution

In order to secure the risk connected with its lending activity, the Bank accepts legal personal and tangible collaterals in various forms, e.g. bank guarantee, surety under civil law, blank promissory note, surety in form of promissory note, transfer of debt claims, mortgage, registered pledge, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank account and blocking funds on bank account.

As at 30 June 2012, the number of banking writs of execution issued by the Bank with respect to loans for business operations totalled 176, and covered total debt of PLN 268,165.8 thousand.

As regards retail clients, during the first half of 2012 the Bank issued 4,556 banking writs of execution to the total amount of PLN 57,194.9 thousand and sent 3,126 lawsuits for the total amount of PLN 23,350.7 thousand.

Value of proceedings concerning obligations or debt claims in the first half of 2012 was under 10% of the Bank's own funds.

In the opinion of the Bank, the proceedings before the court, authority relevant for arbitration proceedings or public administration body in the first half of 2012 do not pose a threat to the Bank's financial liquidity, either individually or collectively.

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

Małgorzata Kołakowska 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)*

7 August 2012