



# 2012

**Management Board  
Report  
on Operations of  
ING Bank Śląski S.A.  
in 2012**



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## CHAIR'S STATEMENT

### Dear Shareholders,

In 2012, ING Bank Śląski S.A. consequently pursued its strategy of development and increasing scale of operations, while keeping the good quality assets as well as safe capital and liquidity position. Throughout this time, the Bank Supervisory Board watched Bank's operations attentively and participated in taking the key decisions. The Supervisory Board paid particular attention to the risk, balance sheet liquidity and capital adequacy management processes. Moreover, it supported the Bank Management Board in determining the development directions under the adopted strategy.

Taking into account the still volatile macroeconomic environment as observed in 2012, it should be stated that ING Bank Śląski S.A. met the challenges of the market and lived up to its clients' expectations. As at the end of December 2012, receivables of the Bank clients amounted to PLN 42.0 billion, up by 9.3% compared to the previous year. Funds accumulated in the clients' accounts totalled PLN 57.8 billion or up by 8.9% than as at the end of 2011. In majority they consisted of retail clients' stable deposits. Thereby, the Bank balance sheet total amounted to PLN 75.2 billion as at the end of 2012 (up by 7.9% over the previous year).

ING Bank Śląski S.A. managed to increase the lending portfolio without deteriorating its quality, and even managed to improve it slightly. As at the end of 2012, the share of impaired loans amounted to 4.0% and it was down from the year earlier (4.2%). Other measures indicating the level of Bank's safety remained very high or improved as well. The capital adequacy ratio went up to 14.00% from 11.58% a year earlier. The sustainable growth at the both sides of the Bank's balance sheet resulted in the fact that the LtD ratio was 72.7% and it was 0.3 p.p. higher than as at the end of 2011. This indicates that the Bank's liquidity position is still very secure regardless of the intensive increase in lending. This gives the grounds to state, that the Bank is prepared for further growth, and that it is resistant to potential unfavourable developments in the macroeconomic environment.

The net profit generated by the Bank in 2012 amounted to PLN 757.8 million and it was the second best result, volume-wise, in the Bank's track record. It was down by 16.2% compared to the record-breaking result observed in 2011; the drop was observed mainly due to the necessity to increase the lending provisions – in 2012 the impairment losses amounted to PLN 350.1 million against PLN 172.4 million of net provisions established in 2011. Lower financial result as well as significantly increased capital base and balance sheet total are reflected in the Bank's effectiveness ratios. ROE was 11.0% or down by 4.6 p.p from the previous year; whereas, ROA was 1.1% (or down by 0.2 p.p over the last year).

My heretoforth knowledge on the Company's functioning and long-standing co-operation with its Management Board confirm my opinion that ING Bank Śląski S.A. laid a solid foundation for further growth and is safe to survive the expected economy downturn using this time effectively to enhance its processes and services as well as to develop its relations with the clients and acquire new ones. I am absolutely positive that – in line with its strategy, thinking about shareholders, clients and employees – the Bank will continue to build long-term, stable goodwill of the Company.

Yours sincerely,

**Anna Fornalczyk**  
**Chair of the Supervisory Board**

## PRESIDENT'S REVIEW

### Ladies and Gentlemen,

2012 was a year full of challenges and interesting projects for ING Bank Śląski S.A. We pursued further our strategy providing for the client centricity rule and we took endeavours to confirm our preferred bank position. Focusing on our clients, we launched a variety of new products and services. Both retail and corporate clients were provided with the mobile banking functionality. We expanded our product offer with attractive cash loans for individual clients and deposit products targeted at corporates. We were active promoters of savings accounts and Direct accounts. Clients appreciated our efforts. In 2012, we established more than 347 thousand relations with clients and 3.3 million retail and corporate clients were using our Bank services towards the yearend.

In keeping with the Bank's strategy, at the beginning of the year, we welcomed the ING ABL Polska S.A. company – holding 100% of shares of ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. – in our Bank Capital Group. Hence, today our clients may take advantage of an entire array of easily accessible services to fund their operations, leasing and factoring products included.

ING Bank Śląski S.A. maintained its solid position in terms of both deposits and loans. As at the 2012 yearend, the funds accumulated in client accounts were close to PLN 58 billion, while a year earlier they were just above PLN 53 billion. A nearly PLN 5 billion worth of growth in funds confirms the efficacy of Bank's efforts to promote our savings products. Our lending portfolio grew equally well. At the yearend, client receivables totalled almost PLN 42 billion; they went up by almost PLN 3.5 billion (or 9.3%) over the year.

Business growth and consistent pursuit of our strategic objectives contributed to a considerable growth of income. In 2012, the income reported by the Bank totalled PLN 3,001 million and was more than 2% higher than the aggregated income of 2011. 2012 was a difficult year for some Polish industries. The problems of clients, notably from the construction sector, also had adverse consequences for ING Bank Śląski S.A. as one of the leading corporate banks. In 2012, the costs of retail and corporate exposure provisions were more than twice higher than a year ago and arrived at PLN 350 million. This was reflected in the Bank's net profit which over 2012 was almost slightly above PLN 758 million, and thus it was 16% lower than in 2011.

Nonetheless, thanks to our prudent lending policy, we are improving the quality of our lending portfolio. In December 2012, impaired loans accounted for 4.0% of the total credit exposure of the Bank, which was considerably lower than the average for the entire banking sector. Further, the major part of the said loans was provisioned for – the impaired portfolio provisioning ratio rose to almost 70% over the year (versus 61% at the 2011 yearend).

A high quality of credit receivables and a comprehensive financial risk management process, accounting for the capital held, translated into a safe capital adequacy level. In December 2012, the solvency ratio of ING Bank Śląski S.A. was 14.0%.

The Bank Management Board pays much attention to building fair and reliable relationships with all stakeholders. Efficacy of the said policy was confirmed not only by a considerable growth in the number of clients using our Bank services, but it was further validated during the debut of own bonds, a momentous event in the Bank's history. The pricing conditions on which investors decided to take up these securities are worth noting. This is the proof that investors trust our Bank, that they recognise our strong position in terms of capital and liquidity and that they assessed the risk of Bank bonds as relatively small.

Integrity, respect, openness and common sense are the fundamental values in effect at the ING Bank Śląski S.A. Capital Group. It is by dint of their observance, coupled with our unfaltering support for development of employees, that we obtained the Top Employer certificate for the third time in a row. Our employees also expressed their opinion about our Bank as the employer in the annual Winning Performance Culture Scan (WPC). Its results show their sustainable engagement and recognition for



actions we took last year, following their suggestions.

In 2012, ING Bank Śląski S.A. was once more included in the Respect Index, published by the Warsaw Stock Exchange for the most socially responsible companies. We also maintained our leader position in the Socially Responsible Companies ranking, in the category: Banking, Financial and Insurance Sector. Adoption by the Bank Management Board in May 2012 of the *Corporate Social Responsibility Strategy of ING Bank Śląski S.A.* was an important step, conforming our commitment to sustainable growth.

In 2013, we intend to further pursue the strategy of ING Bank Śląski S.A. as adopted in last years. We will focus on keeping our solid position of a savings bank, we will further expand our lending, first and foremost with leasing and factoring products in the corporate banking segment and cash loans in the retail banking one. We will be a state-of-the-art bank with a rich palette of products and service channels as convenient as possible for our clients. The client centricity rule will remain applicable at all times. We will be listening to our clients' opinions and will be enhancing our operational processes accordingly.

We are convinced that the engagement and responsible attitude of Bank employees, supported with know-how and expertise, will make us worthy of trust of clients and shareholders in the year 2013.

Yours respectfully,

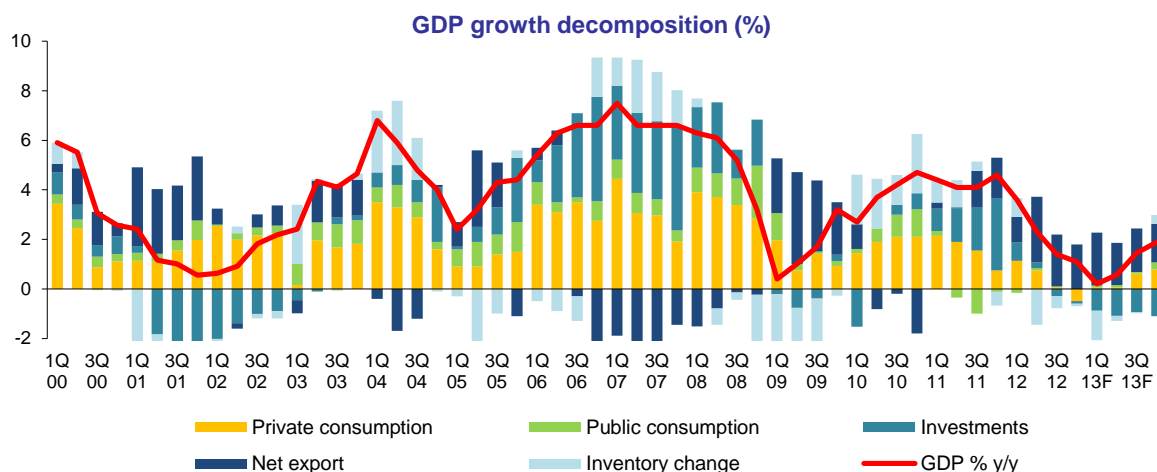
**Małgorzata Kołakowska**  
**President**

## I. MACROECONOMIC SITUATION OF THE POLISH BANKING SECTOR GROWTH IN 2012

### 1. Major Trends in the Polish Economy

#### Gross Domestic Product

In 2012, GDP for Poland grew at a slower pace of 2% over the year. This was the consequence of the domestic demand arriving at a standstill (0% growth y/y) and a slowdown in execution of investment projects, and public ones in particular after EURO 2012. GDP growth was accomplished owing to a positive contribution of net export, which followed import shrinkage nevertheless.



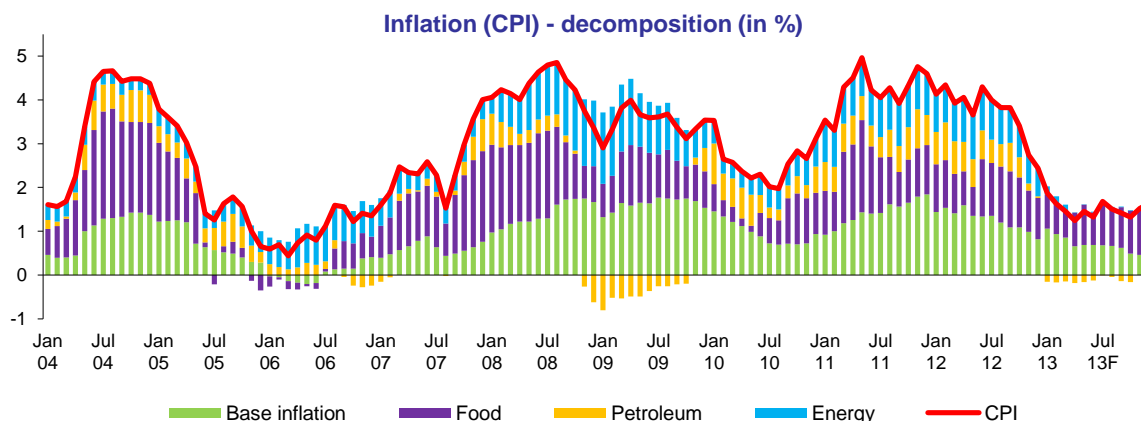
#### Labour Market and Payroll

Economic downturn translated into higher unemployment, which in December 2012 totalled 13.4% against 12.5% a year earlier and the employment in the corporate sector was lower by 0.5% y/y.

Gradual deterioration on the labour market caused wages to grow at a slower pace; their annual average growth rate in 2012 was 3.5% against 4.9% in 2011. What is important, in the majority of months in 2012 wages rose below the inflation rate, and thus the annual average growth rate of real wages was -1.8% y/y.

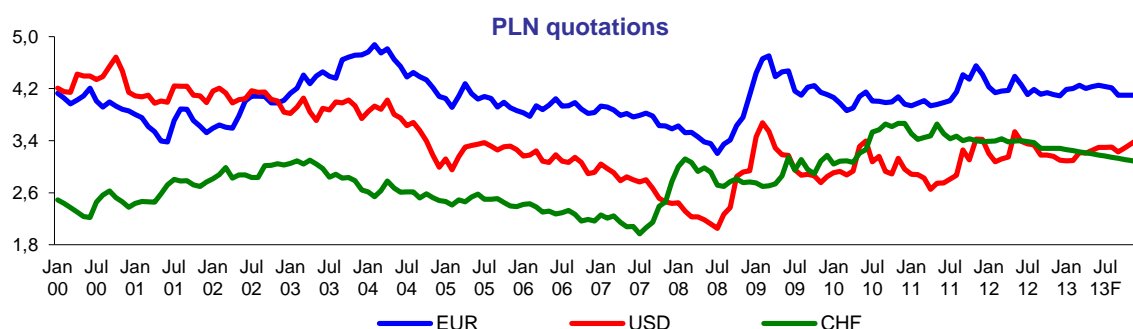
#### Inflation

In December 2012, the annual inflation went down to 2.4%, i.e., it was below the Monetary Policy Council (MPC) inflation target and lower by over 2 p.p. against the inflation recorded in December 2011, when it was 4.6% y/y. The annual average inflation in 2012 was at the level of 3.7% against 4.3% y/y in 2011.



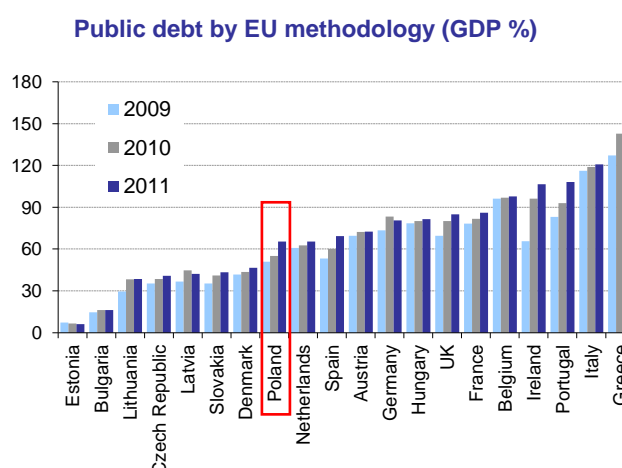
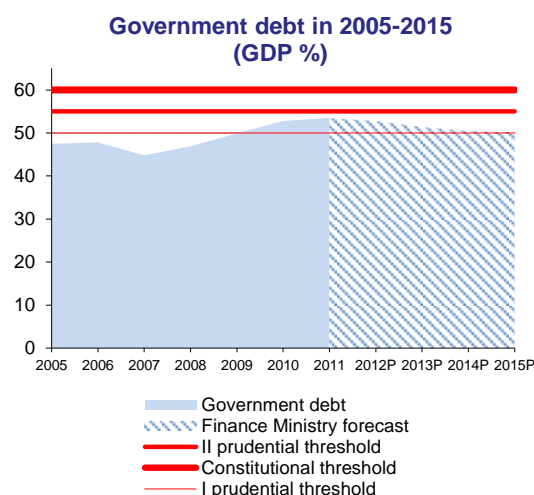
## Impact of the Global Financial Markets on the Polish Economy

Following a considerable increase of Eurozone liquidity due to the Long Term Refinancing Operations (LTRO) and purchase by ECB of papers of governments of states in difficult financial situation, from mid-2012 Polish Treasury securities started to be an alternative to secure low-yield bonds (German bonds). As a consequence of further intensive inflow of portfolio capital, the profitability of Polish bonds went down to unprecedented low levels, and the Polish zloty appreciated despite the beginning of the interest rate reduction cycle and sustained economic slowdown.



## State Budget

2012 saw further fiscal consolidation and as a consequence, the public sector deficit went down from 5% of GDP in 2011 to approximately 3.5% of GDP. Thanks to additional income from NBP earnings, and also pension premium rise in February 2012, the central budget deficit did not exceed the planned PLN 35 billion. There were also spending cuts made, including cuts in public investment that remained below the target. Some expenditures were moved outside the central sector. Worse results of the units outside the central budget were compensated with the expected low execution of local government deficit. Many of them reached the maximum debt level and were forced to reduce the deficit. Public debt remained below the second prudential threshold at the level of 55% of GDP.



## 2. Monetary Policy

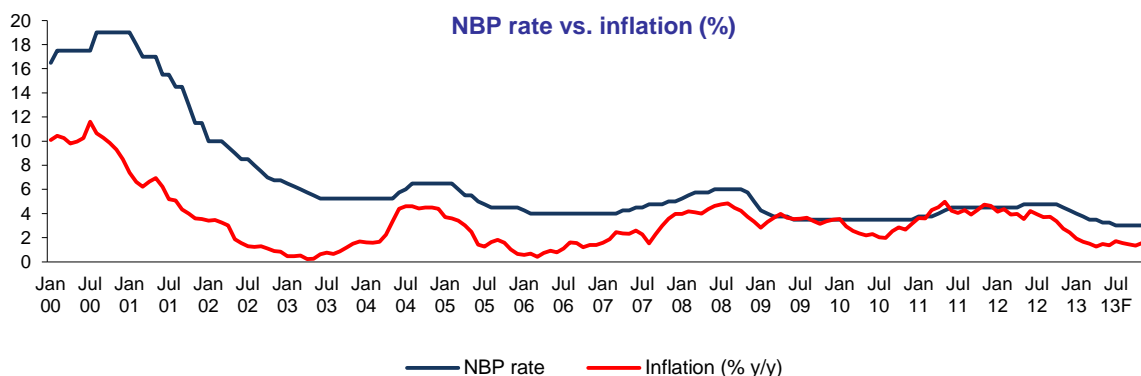
In H1 2012, the Monetary Policy Council upheld its restrictive approach and focused on watching high inflation. In May 2012, the MPC increased the interest rates by 25 bp despite market expectations to ease the monetary policy. The NBP reference rate was then at 4.75%.

In H2 2012, due to the observed GDP slowdown and inflationary projections, the MPC began to ease the monetary policy by lowering interest rates by 25 bp and announcing that it would further ease the policy only if the data confirmed protracted economic deceleration. In December 2012, the interest rates were lowered yet again by 25 bp and the statement on conditional further easing was upheld.



As a result, as at the end of 2012, the interest rates were as follows:

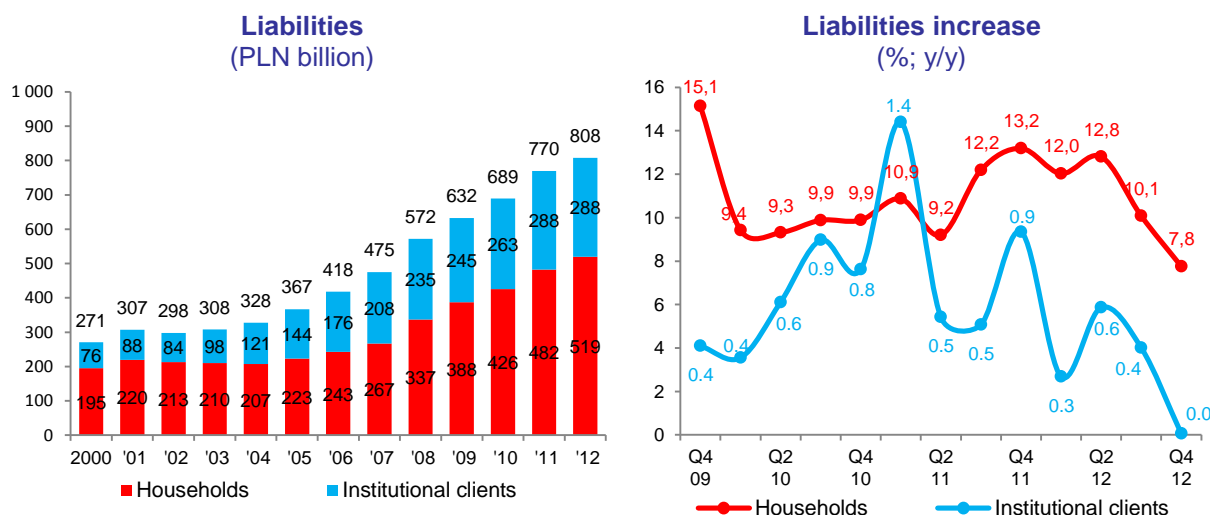
- reference rate – 4.25%,
- rediscount rate – 4.50%,
- lombard rate – 5.75%,
- deposit rate – 2.75%.



### 3. Banking Sector<sup>1</sup>

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

- Household liabilities reported a moderate growth and as at the end of December 2012 they amounted to PLN 519.5 billion, up by 7.8% from the end of 2011.
- In December 2012, liabilities towards institutional clients<sup>2</sup> amounted to PLN 288.2 billion, up by 0.1% from the 2011 yearend. The volume which in effect did not change year on year can be attributed to higher liabilities of non-monetary financial institutions which went up by 30.3% (to PLN 56.3 billion), which, in turn, compensated for a 7.5% drop in liabilities towards enterprises (arriving at PLN 189.8 billion).



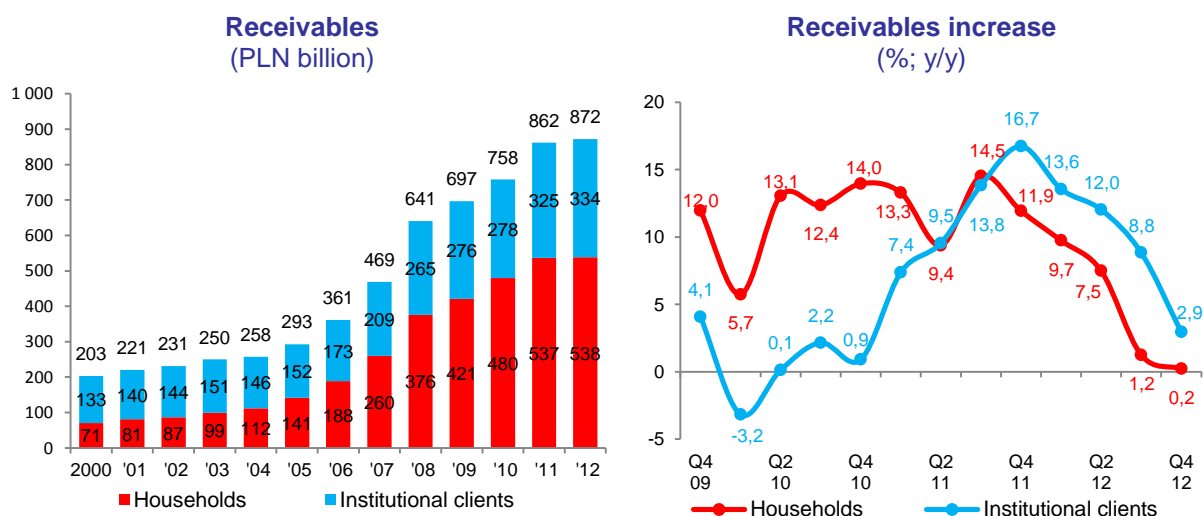
- In December 2012, household receivables amounted to PLN 538.1 billion, up by 0.2% from December 2011. The low growth rate was first and foremost the consequence of Polish zloty appreciation. Housing loans, which constituted the main part of the banks' credit exposure towards households, grew by 1.0%, arriving at PLN 323.6 billion, in nominal terms. Upon elimination of Polish zloty appreciation impact, the growth of housing loans portfolio can be

<sup>1</sup> The amounts discussed are for receivables and liabilities of monetary financial institutions from/towards other domestic industries. Source: NBP, NALEZ\_ZOBOW\_MIF.xls file – December 2012

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

estimated at 5.0%. According to the data of the Polish Bank Association, in 2012 banks extended housing loans totalling PLN 39.8 billion (PLN 51.0 billion in 2011); 92.4% of which were PLN loans. The volume of consumer loans dropped by 4.9% y/y, following the growing aversion of households to become indebted, tightening lending policies by banks and passing of T Recommendation.

- Institutional clients receivables went up by 2.9% in the past year, arriving at PLN 334.3 billion. Loans for entrepreneurs rose by 1.4%. The loans to fund daily operations which rose by 5.3% over the year were the main growth driver. In turn, the volume of investment loans dropped by 2.5% year on year. The said fact should be attributed to economic activity drop and deterioration of the outlook for economy growth in the coming periods as well as limitation of public investments' scale. Throughout 2012, the debt of non-monetary financial institutions went up by 26.6%, while the bank's receivables from local government institutions and social insurance funds went down by 4.8%.



Over 2012, banks generated net profit of PLN 16.1 billion (up by 3.9% from the last year)<sup>3</sup>. Sector results were impacted by the following factors:

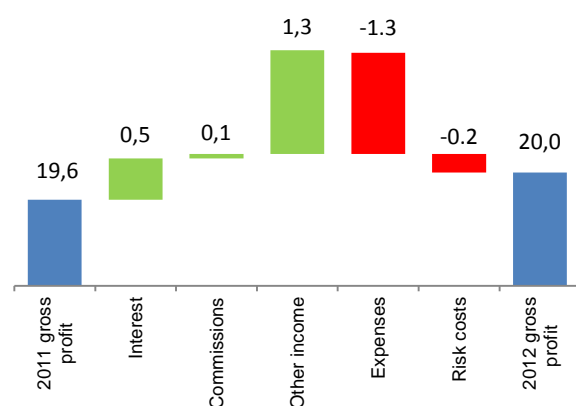
- Growth of net interest income recorded in consequence of 10.1% interest income rise following higher volumes and temporary increase of interest rate by the MPC.
- Low growth of net income on fees and commissions (+0.4% from 2011).
- High growth rate of other income (+15.7% y/y), net trading income included. The large growth of net securities income was driven by a steep rise in prices of Polish T-bonds which showed lower yields on the whole yield curve, reaching the lowest level ever. This state of affairs was the consequence of the so-called searching for yield phenomenon – a strong inflow of foreign investments onto the local market of Treasury debt instruments. The inflow was driven by lower credit risk perceived as reflected by CDS quotations and interest rates disparity, among other factors.
- Growth of operating expenses by 4.3%.
- Growth of negative balance of impairment losses and provisions by 2.9%, caused by deteriorated quality of receivables from enterprises, from the construction industry in particular.

The share of impaired receivables in total receivables from the non-financial sector went up from 8.2% in December 2011 to 8.8% in December 2012.<sup>4</sup>

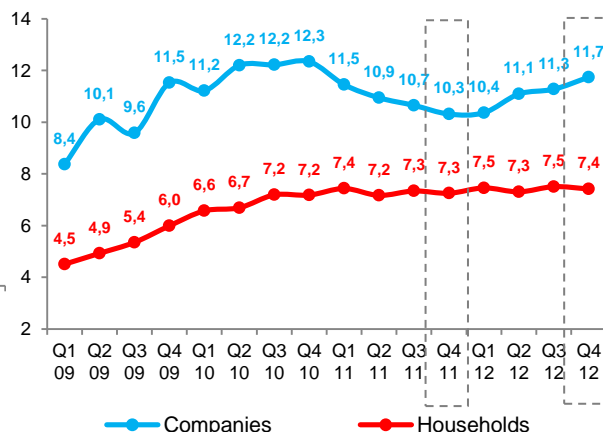
<sup>3</sup> Source: PFSA, banking sector data file – December 2012

<sup>4</sup> Source: NBP, Financial Data for the Banking Sector, naleznosci.xls file – December 2012

**Gross result of banking sector in 2012**  
(PLN billion)



**Share of impaired receivables in banking sector (%)**



In 2012, the quality of banks' credit exposures towards enterprises deteriorated first and foremost. As at the end of December 2012, the share of impaired receivables was 11.7% versus 10.3% in December 2011. The quality of household loans remained relatively stable. As at the end of December 2012, the share of impaired receivables was 7.4% (+0.1 p.p. from 31 December 2011). In the period discussed, the share of impaired housing loans went up from 2.4% to 2.8%, while the share of non-performing consumer loans fell from 17.9% to 17.3%.

Due to earmarking most profits from 2011 for the capital increase as well as record-breaking net profit earned for 2012 coupled with moderate lending growth rate, as at the 2012 yearend, the solvency ratio of the Polish banking sector was 14.74% (up by 1.65 p.p. from the 2011 yearend). The economic downturn as expected in Poland in 2013 can effect deterioration of the financial standing of some borrowers, higher impairment losses on credit facilities and cash loans and general reduction in demand for banking products. Under the adverse macroeconomic conditions, the Polish Financial Supervision Authority recommends further capital base consolidation. According to the PFSA position on the dividend policy of financial institutions of 27 November 2012, only some banks will be capable of paying out the 2012 profit dividend. The Banks which will not satisfy one or more from the seven criteria listed in the Resolution (solvency ratios and Tier 1 levels as well as their forecast in stress tests scenarios or Supervisory Review and Assessment (BION) score, among others) have to retain the entire 2012 profit.

Additionally, the Polish Financial Supervision Authority changed the regulatory requirements in the following aspects:

- Revised J Recommendation concerning the principles for gathering and processing by banks real property data of September 2012. The Recommendation requires banks and agencies of foreign credit institutions (with the share of mortgage-backed credit exposures in their own lending portfolios higher than 10%) to manage the risk inherent to real properties accepted as mortgage collateral using viable estate market databases. Its provisions will become effective as of 01 October 2013, save for recommendations 11 and 12 to come into effect as of 01 April 2014.
- Changed twice Resolution No. 76/2010 on the Scope and Detailed Procedures for Determining Capital Requirements for Particular Risks (Resolution No. 172/2012 and Resolution No. 307/2012).
- Changed Resolution No. 208/2011 on Detailed Rules and Conditions for Considering Exposure when Determining the Observance of the Exposure Concentration Limit and the Large Exposure Limit (Resolution No. 173/2012).
- Resolution No. 312/2012 of 27 November 2012 on the Mode of Exercising Supervision over Banking Operations.

#### 4. Asset-Based Lending Market

##### Leasing

In 2012, the leasing market sustained stagnation. The assets funded by leasing companies rose by 0.3% only, totalling PLN 31.2 billion<sup>5</sup>. 2012 brought an end to the upturn on the movables lease market, as visible since March 2010. The assets funded by leasing companies went up by 0.8% (from +14.9% in 2011) year on year. Despite building investment downturn, machinery and equipment remained the key market growth boosters. This segment recorded 3.1% growth, first and foremost, by dint of a dynamic development in the area of farming machinery as well as metal treatment and plastic production machines purchase funding (+45.4% and +34.8% respectively). In the vehicle segment, personal cars were the only not to sustain a decline (+3.5%). In turn, poor economic situation in the European Union and declining moods in Poland effected a lower demand for transport and freight forwarding services. As a result, the worth of lorries<sup>6</sup> funded dropped by 5.0% during the year. The vehicle segment fell by 0.1% in total during the year. Smaller movables leasing segments: IT hardware and software as well as other transportation means saw drops by 8.4% and 0.6% respectively.

The real properties leased in 2012 totalled PLN 1,468 million (down by 9.9% year on year). H2 2012 brought a considerable improvement on the real property leasing market, the fact which was demonstrated by an above twofold rise in the funded real property worth (PLN 1,055 million) versus H1 2012 (PLN 413 million). Funding of merchants and service providers' facilities was the real property leasing segment developing at the fastest pace, while the segment of office buildings recorded the biggest decline.

In 2013, the leasing market will be most influenced by deteriorating investment growth rate in the economy which will translate into lower sale and higher risk costs. Further, the pending legislative changes as regards the so-called thin capitalisation can also be of negative impact, as may be reflected by the sector results already towards the 2013 yearend.

##### Factoring

2012 was yet another good year for Polish factoring companies. The preliminary estimates read that the turnover of factoring companies went up by 26% year on year and exceeded the threshold of PLN 100 billion for the first time<sup>7</sup>. The ratio of turnover of factoring companies to GDP exceeded 5%, which is still below the European market average of 9.45%. In other words: this sector still enjoys good growth outlooks and expects that turnover will retain its two-figure growth rate in 2013 as well. Under the conditions of economic downturn, besides liquidity improvement, the other factoring aspect – hedging against risk of non-payment on the part of counterparties – gains on particular significance.

#### 5. Capital Market

Despite the persisting for many months unfavourable conditions on the international financial markets, 2012 proved advantageous for the Warsaw Stock Exchange (WSE) investors. Still 2012 onset on the WSE was relatively calm and ended with the increase of basic indices. In turn, Q2 2012, and the period of April and May in particular, saw share prices plummet. Equities enjoyed a bull market again at the beginning of June. In consequence, the main indices closed 2012 with the highest percentage increases since 2009.

On 28 December 2012, the value of the main WIG index was by 26.2%<sup>8</sup> higher than on the last day of quotations in 2011. The top return on investment earned the investors having in their portfolios the shares of companies from the primary sector (with yield of 78.9%), the chemical sector (+57.9%) and the petroleum one (+39.1%). In turn, the sectors which were first affected by the economic downturn that is building and power companies sustained the biggest declines in sector indices (-30.9% and -2.7% respectively). The telecommunications sector also saw poor results. Its index fell down by 21.2% over the year. The banking sector index – WIG-Banks – rose by 22.6% over the year, being thus just behind the broad market (WIG); still it was better than the yield on the largest WIG20 companies (+20.4%).

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<sup>5</sup> Source: Polish Leasing Association

<sup>6</sup> Lorries including tractor units and semitrailers/trailers.

<sup>7</sup> Source: Polish Factors Association

<sup>8</sup> Source: Key WSE statistics ([http://www.gpw.pl/analizy\\_i\\_statystyki\\_pelna\\_wersja](http://www.gpw.pl/analizy_i_statystyki_pelna_wersja))

At the end of December 2012, the domestic companies listed on the Warsaw Stock Exchange were worth PLN 523.4 billion, up by 17.3% from December 2011. The bull market made investors more enticed by new public offerings. In 2012, the Warsaw Stock Exchange recorded the largest number of IPOs in Europe – 108. Warsaw IPOs accounted for 40% of all stock exchange debuts in Europe last year. With their total worth of EUR 731 million, the Polish stock exchange managed to become fifth among the stock markets operative on the fully-fledged European capital markets<sup>9</sup>. The majority of IPOs took place on the NewConnect market – 89; the main floor saw 19 companies debut.

2012 brought a decline in Warsaw Stock Exchange turnover. The value of shares traded on the main floor totalled PLN 187.6 billion, down by 25.2% from a year earlier. Trading volumes on the alternative market for companies with a high growth potential (NewConnect) went down as well, by 38.7%. In turn, the Catalyst market saw a considerable growth of key market parameters in 2012. The number of issuers went up to 155 with their issue worth being record-breaking: PLN 52.4 billion, or up by 30.9%<sup>10</sup>. The total turnover on that market rose by 21.1% reaching PLN 3.0 billion.

With the subsequent IPOs of foreign companies, the Warsaw Stock Exchange became more and more renowned on the international level. As at the yearend, there were 51 foreign companies listed on the Warsaw Stock Exchange in total (43 on the Main Floor and 8 on the NewConnect market). At the same time, in 2012, the Warsaw Stock Exchange continued to increase their share in the turnover of CEE stock markets. In 2012, the shares traded on the Warsaw Stock Exchange accounted for 53.7% of turnover in the region, compared with 50.0% a year before.

As regards trading in forwards & futures and options, WSE recorded turnover falls of 27.5% and 0.3% respectively.

2012 proved a very good year for open-end pension funds. At the end of December, the funds accumulated in pension accounts totalling PLN 269.6 billion were the highest ever. Throughout 2012, the assets of open-end pension funds went up by PLN 44.9 billion, or 20.0%. These outstanding results of open-end pension funds were driven by prosperous stock and debt markets. As said above, WIG broad-market index rose by 26.2% and Treasury Bond Index [IROS] by 12.6% over 12 months. With the favourable market conditions throughout 2012, open-end pension funds were able to earn over PLN 37 billion. At the same time, the Social Insurance Institution [ZUS] transferred to accounts of open-end pension funds PLN 8 billion, the smallest amount in 10 years. Smaller transfers from the Social Insurance Institution to open-end pension funds result from lower contributions being made to the second pillar of the insurance system; these were reduced from 7.3% to 2.3% since May 2011. In 2012, participation units in open-end pension funds went up by 16.2% in terms of value on the average. For comparison, in 2011, the savings of open-end pension funds participants dwindled by 4.7%.

Last year proved positive for mutual funds pickers as well. In 2012, all funds groups investing on the Polish market earned profit for their investors – the median annual return oscillated from 5.10% for absolute return and active allocation funds to 20.25% for Polish companies stock funds. The rate of return on the most popular Polish debt funds was 10.55%.

As at the end of December 2012, the net assets accumulated in Polish Mutual Funds Associations [TFI] funds arrived at the record-breaking level of PLN 145.8 billion. Hence, TFI net assets climbed above the current cap of PLN 144.3 billion, reached in October 2007. Both the positive balance of funding inflow and redemptions as well as management results contributed to higher net assets of mutual funds.

Private assets funds (private equity, securitisation and real property funds) grew particularly fast; they went up by PLN 11.2 billion. The net assets managed by those funds went up by 42.1% from December 2011. During the year, capital and money market funds increased their net assets by PLN 19.8 billion (or 22.6%). Among the capital market funds, bond funds were most popular among investors; stock funds came second. Nonetheless, the assets of the latter grew slower than the entire market. Money market and mixed funds were less and less favoured, in turn. As a result, the asset structure per market segment changed. The share of debt funds went up by almost 10 p.p. (to 27.1%), while the share of stock funds went down by 1.6 p.p. (to 16.8%). The shares of money market and

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<sup>9</sup> Source: PwC, IPO Watch Europe, Q4 2012 Report

<sup>10</sup> Applicable to corporate and municipal bonds as well as pledge bonds



mixed funds dropped by slightly more than 5 p.p. to 10.7% and 16.8% respectively. In turn, private asset funds saw a market share rise of 2.8 p.p. and arrived at 26.1% at the end of December 2012.

## **6. Macroeconomic Factors to Affect the Operations of ING Bank Śląski S.A. in 2013**

German economy is to benefit from the revival in Asia and a slight improvement in the USA in H2 2013; this is where the impulse for Polish export and industry is sought, whereby Poland should also see economic upturn.

Eurozone debt markets saw relative stabilisation owing to ECB endeavours; still the bank demonstrates limited propensity to stimulate the European economy any further. The President Mario Draghi stated that although combatting fragmentation of financial markets was a success, revival of individual economies rested with governments and the private sector. The current ECB interest rates (the primary one of 0.75%) do not leave much field for economic upturn, all the more that subsequent cuts would lead to a negative deposit rate. The Italian elections, in February 2013, will be yet another development possible to distort the relative calmness of the Eurozone markets. There is a risk that missing economic revival in Spain will play a part in poorer deficit execution for 2012. Then the rating agencies may resolve to cut that country's rating to junk, which could cause the world turn their back on that debt market after the few-month recovery. Nonetheless, Spain may apply for aid and subject itself to oversight of the so-called Trio, whereby unlimited intervention by ECB would be activated to stabilise short instruments prices on the Spanish debt market.

"Currency wars" between major central banks worldwide will be the primary factor shaping the banking environment in 2013. These are monetary actions taken to depreciate one's currency in order to render export of a given country more competitive. The US Federal Reserve Bank carries on its assets acquisition programme (the so-called Quantitative Easing/QE) of USD 85 billion. The operations will continue until unemployment falls below 6.5%. After government change (for the one more prone to depreciate yen), the Bank of Japan intends to expand its assets acquisition programme in a similar, open manner. A modest response from the Eurozone as well as repayment of LTRO loans by some banks signifies shrinking of ECB's balance sheet, and thus a reverse trend to the USA and Japan, whereby perilously strong euro is upheld. This may prove detrimental to the economic revival of Germany and other exporters outside the European currency zone.

ING Group economists believe that the Eurozone will overcome the recession only slowly. In 2013, Eurozone GDP may grow by 0%; the ECB projections and International Monetary Fund forecasts read that it may even fall slightly.

Extensive global liquidity being the consequence of the measures taken by major central banks (QE programmes) as well as economic growth symptoms in Asia and both Americas support stock markets. This may be instrumental in depositing household savings outside the banking system, should the National Bank of Poland cut down interest rates any further.

There is still a risk that automatic budget rules enforcing fiscal cuts (fiscal cliff) in the USA will be activated. By the end of February 2013, American politicians are to reach an agreement on expenditure cutdowns; later, in May, they are to decide on raising the acceptable debt of the USA. Lack of compromise in that regard can adversely impact the financial markets and development of both the American and world economies, as it will stand for activation of automatic expenditure cutdowns regardless of the economic consequences. Only in anticipation of such an event, the investment plans of companies and expectations of households are negatively affected. The negotiations in December 2012 showed that one should rather hope for last-minute solution with much tension involved.

The macroeconomic conditions for banks will be determined by continued economic slowdown in Poland – in Q4 2012, GDP growth rate fell to 1.1% y/y, while in 2013 according to the forecasts made by ING Bank Śląski S.A. economists it can be 1.1% only versus 2% growth initially projected for 2012 by the Central Statistical Office. ING economists are of the opinion that the process of resignation from the consumption to-date by households and higher propensity to save which intensified since mid-2012 can arouse some fear. In consequence, private consumption contribution to economic upturn will be almost null in H1 2013 and will go up slightly in H2 2013 only. The Polish economy recovery should



be aided by finalisation of inventory reduction process; the phenomenon will be partly dictated by the need to replenish imported goods; put differently: it will take place at the cost of net export contribution. Besides, investment result will be far from the desired throughout the year.

ING economists assume that the end of 2013 will be the first period to see the conviction that the revival is sustained, sufficient to activate the labour market stabilisation process and boost consumption. Redevelopment of private investment projects will lag behind consumption awakening and the "Polish Investments" programme will bring about the first visible increase of outlays at the turn of the year only.

Due to economic downturn, the banking sector may welcome the slight easing of regulations concerning household loans, aimed at making them more accessible, with caution.

Labour market changes are usually longstanding. Considering the assumed low economic growth in 2013, the negative trends which emerged in H2 2012 will most probably sustain or even deepen. ING economists are of the opinion that the said trends are the consequence of discontinuance of the previous "labour hoarding" practice by enterprises (that is: retaining staff despite lack of new requisitions so as to outlast the slowdown and not have to bear new recruitment costs later). As at the end of 2012, the unemployment rate was 13.4% against 12.5% as at the 2011 yearend; in 2013 it can clearly surpass 14%. The Ministry of Labour obtained from the public budget approximately one-third funds more than a year ago to combat unemployment and is working on the proposal of amendments to law to make the labour market more flexible and reduce "labour hoarding" costs. Nonetheless, in view of the projected lack of new labour demand, the efficacy of job agencies in curbing the unemployment rate can be limited and the objective set out in the Budget Act (13% at the 2013 yearend) can prove not feasible.

Further, in 2013 banks will have to face the sustained process of the monetary policy easing by the National Bank of Poland. As for the main interest rates in Poland, on account of economic slowdown and fast inflation decline (in December 2012 it was 2.4% y/y; in other words: it was below the official inflation target of NBP for the first time in more than two years), it is expected that the monetary policy will be further eased. The forecasts by ING economists read that the Monetary Policy Council will cut down interest rates by 100bp in total to the level of 3.00% (reference rate) in 2013.

The average annual PLN exchange rate is assumed to stay at the level close to 2012 (PLN/EUR 4.1700), however it may sustain some depreciation waves as the positive moods on the debt market will cool down. The potential PLN depreciation will be limited by further deficit reduction for the current account and through the option to exchange the Euro funds accumulated in the Ministry of Finance's accounts, should stronger turbulences occur.

Despite upturn visible in some world regions, poor domestic demand and probable less disturbed behaviour of crude oil prices (owing to shale gas exploitation in the USA) will cause the inflation to plunge to 1.5% y/y still in H1 2013, the level which is the inflation target deviation floor accepted by the MPC. ING economists believe that afterwards, until 2013 yearend, inflation will remain below the official target of 2.5% y/y.

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

- Deterioration in quality of lending portfolios following economic downturn and unemployment growth. Deterioration in quality of lending portfolios will cause banks' financial results to become more encumbered with credit risk provisions.
- Slow deposit growth. Under worse labour market conditions and real wages decline, a slight household deposits growth is projected. Although, on the one hand, the increased propensity to save as observed in some H2 2012 data will still apply, interest rate cutbacks may incline households to seek other ways of saving with returns higher than offered by bank accounts. In turn, the negative data published about the condition of the Polish economy can favour keeping funds in bank accounts, limiting the willingness to take risk related to investing in stock. Institutional clients will be impacted by worse economic conditions on the one hand and reluctance to invest on the other hand, both of which may translate into the one-figure total result of deposits growth for that segment.
- Sustained low lending growth rate. In response to further deterioration of the financial

conditions of households (mitigated by inflation declines), persisting job loss-related fears and rising unemployment, mortgage loans can grow even more slowly than a year ago. The expectations that 2013 will be a year of a considerable overhang of apartments and of drops in real property prices can also be a negative factor. Besides, the terminated "Rodzina na swoim" (Family on Its Own) programme was not smoothly replaced with another one. With the economic downturn and unclear growth outlooks for the Eurozone, it can be expected that private companies will not prove very active investors.

- The necessity for the banks to slowly accommodate to future regulatory requirements regarding capital adequacy and liquidity levels. It should be underlined that at the beginning of January 2013 it was announced that the requirements would be changed with the Basel III programme (acceptance of additional, non-standard assets to calculate the liquidity ratio, like mortgage-backed securities, for example) and that their full implementation date would be postponed (from 2015 to gradual implementation until 2019).

### Polish economy in the years 2005–2013<sup>11</sup>

	2005	2006	2007	2008	2009	2010	2011	2012	2013F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.9	4.3	2.0	1.1
General government debt according to the EU methodology (% of GDP)	47.1	47.7	45.0	47.1	50.9	54.9	56.4	55.7	57.2
M3 money supply (PLN billion)	427.1	495.3	561.6	666.2	720.3	783.6	881.5	921.8	923.1
Producer Price Index growth (%)	4.1	12.0	9.4	3.0	-3.6	11.1	7.0	1.5	-2.6
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	4.3	3.7	1.5
Unemployment rate (%)	17.6	14.8	11.2	9.5	12.1	12.4	12.5	13.4	14.7
PLN/USD exchange rate (yearend)	3.2613	2.9105	2.7554	2.9379	2.8503	2.9641	3.4174	3.0996	3.4167
PLN/EUR exchange rate (yearend)	3.8598	3.8312	3.5820	4.1050	4.1082	3.9603	4.4168	4.0882	4.1000
WIBOR 3M (yearend)	4.60	4.20	5.70	5.80	4.00	3.95	4.99	4.27	3.27

<sup>11</sup> Forecast for 2013 developed in January 2013

## II. MAJOR ACHIEVEMENTS OF ING BANK ŚLĄSKI S.A. IN 2012

### 1. Customer Base Growth

In 2012, the number of ING Bank Śląski S.A. clients went up by 164.0 thousand over an increase by 117.0 thousand observed last year (the increase is higher by 40.2%). As at the end of December 2012, the number of Bank clients amounted to 3,264.8 thousand and it was broken down into the following segments:

- 3,235.5 thousand retail clients, including:
  - 2,996.0 thousand individual clients (up by 153.3 thousand clients throughout the year)
  - 239.5 thousand entrepreneurs
- 29.3 thousand corporate clients (mid-sized and mid-corporates and capital groups)

The constantly growing number of ING Bank Śląski S.A. clients (both individuals and businesses) proves that the activities pursued by the Bank to reinforce 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. Incorporation of the leasing and factoring companies to the Group's structure provide the Group with the potential to reach more clients and to use the sales forces effectively.

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

As at the beginning of 2012, the ING Bank Śląski S.A. Capital Group expanded, 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 of 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,
- Liabilities – PLN 5,868.6 million, including loans granted by banks – PLN 5,424.8 million,
- Equity – PLN 200.2 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 provide mainly its corporate clients, but also entrepreneurs from the retail segment with a full range of business financing services. The Bank will have thereby the opportunity to use its distribution and customer service network more effectively as well as tighten relationships with clients.

ING Lease (Polska) Sp. z o.o. is one of the largest leasing companies on the Polish market. In 2012, the Company leased the assets worth PLN 1,497.2 million, or 4.8% of the entire market share (eight position in the ranking by the Polish Leasing Association). Still, the Company secured itself second position in real property leasing (with 21% market share).

ING Commercial Finance Polska Sp. z o.o. is the oldest factoring company in Poland. In 2012, the Company purchased debt claims in the amount of PLN 11.4 billion, which accounted for 13.9% of the turnover generated by entities belonging to the Polish Factors Association (third position in the ranking).

On 05 January 2012, when executing the project to build a new corporate banking business model, ING Bank Śląski S.A. established a subsidiary ING Usługi dla Biznesu S.A.

### 3. Better Position on Credit Market

As at the end of December 2012, total gross loans and other receivables from customers of ING Bank Śląski S.A. amounted to PLN 43,323.3 million<sup>12</sup>, up by PLN 3,783.2 million (or by 9.6%) from the end of 2011. The Bank was estimated to have a 5.0%-share in total amount of loans extended to customers as part of the commercial banks sector<sup>13</sup> (up by 0.5 p.p. from the end of 2011).

The improvement in the position of the Bank on the credit market was due to:

- Dynamic growth of household credit receivables. In December 2012, gross household credit receivables totalled PLN 16,927.7 million, up by PLN 1,612.5 million (or by 10.5%) over the end of 2011. It is true that in 2012 it was still the PLN mortgage loan that was the dominant product in the retail segment that decided about the growth of credit receivables. As at the year end the mortgage loans amounted to PLN 11,070.6 million (up by 14.8%); however, the relevance of cash loans is growing, as they went up by 13.2% during the year, and their volume amounted to PLN 2,345.4 million.
- A higher-than-sector-average growth rate of exposures towards corporate clients (institutional clients<sup>14</sup>). The respective Bank's gross credit receivables amounted to PLN 26,395.6 million, up by 9.0% over the end of 2011.

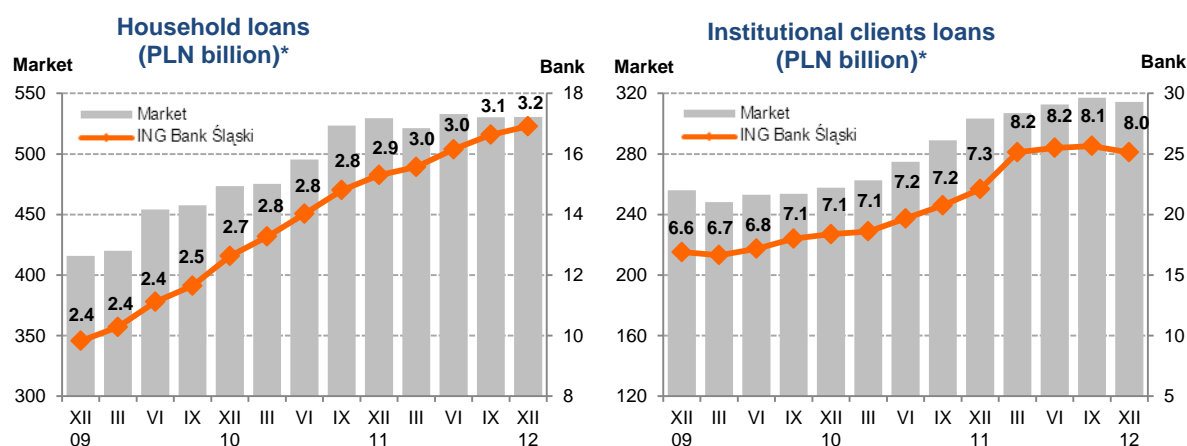
Receivables from ING Bank Śląski S.A. customers (PLN million)						
	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Total gross loans, including:	41,087.5	37,379.0	30,500.0	26,183.5	23,222.8	16,537.2
Households	16,927.7	15,315.2	12,586.6	9,772.5	7,390.1	4,871.6
Institutional clients	24,159.8	22,063.8	17,913.4	16,410.9	15,832.7	11,665.5
- Business entities	16,661.0	15,969.2	12,507.9	11,560.1	11,933.7	8,735.7
- Financial entities (other than banks)	4,387.5	2,821.8	2,585.0	2,545.6	2,925.1	2,232.6
- Entities of the sector of central and local government agencies	3,111.3	3,272.8	2,820.5	2,305.2	973.9	697.2
Debt securities and other receivables <sup>15</sup>	2,235.8	2,161.1	1,273.1	1,411.4	901.8	71.7
Total institutional clients credit receivables	26,395.6	24,224.9	19,186.5	17,822.3	16,734.5	11,737.3
<b>Total gross credit receivables</b>	<b>43,323.3</b>	<b>39,540.1</b>	<b>31,773.1</b>	<b>27,594.8</b>	<b>24,124.6</b>	<b>16,608.9</b>
Impairment loss	1,339.0	1,114.0	1,082.3	880.1	500.8	559.2
<b>Total net credit receivables</b>	<b>41,984.3</b>	<b>38,426.1</b>	<b>30,690.8</b>	<b>26,714.7</b>	<b>23,623.8</b>	<b>16,049.7</b>
Eurobonds	3,779.7	3,872.6	3,268.5	3,261.9	1,654.0	0.0
<b>Total net loans and other receivables from customers</b>	<b>45,764.0</b>	<b>42,298.7</b>	<b>33,959.3</b>	<b>29,976.6</b>	<b>25,277.8</b>	<b>16,049.7</b>

<sup>12</sup> This amount covers gross loans and other receivables, Eurobonds excluded.

<sup>13</sup> Banking sector meaning commercial banks sector in line with data published by NBP in file *Assets and liabilities of banks*

<sup>14</sup> In total for the business entities, non-monetary financial institutions, central and local government institutions.

<sup>15</sup> Eurobonds excluded.



\*The figures denote ING Bank Śląski share in commercial banks market.

#### 4. High Liquidity Level Owing to Strong Deposit Base

The deposit base held by the Bank is one of the largest in the banking sector, which ensures high liquidity of the balance sheet and comfort as regards shaping the lending policy. Actions undertaken in 2012 led to expanding deposit base mainly as regards stable funds – in line with the expected regulations of the New Capital Accord (Basel III). It meant that the Bank actively acquired funds mainly from retail clients, but also from small and medium enterprises.

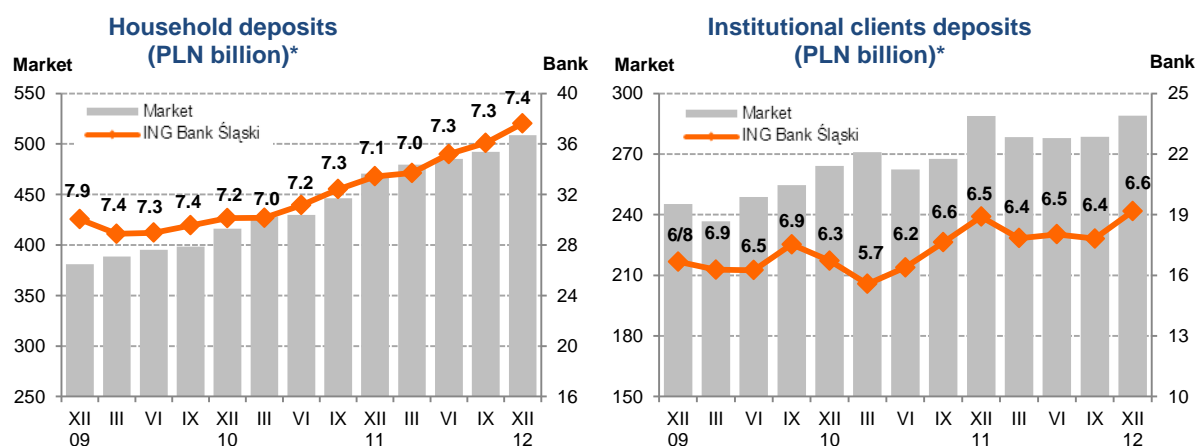
As at the end of December 2012, total funds accumulated in the accounts of ING Bank Śląski S.A. amounted to PLN 57,782.6 million over PLN 53,044.3 million as at the end of 2011 (up by 8.9%). The Bank held 7.1% of the total value of funds deposited in the commercial banks sector<sup>16</sup>, which indicates that the Bank was the third largest deposit bank in Poland.

Throughout 2012, total funds deposited in household accounts went up by PLN 4,173.9 billion, or by 12.5% and as at the end of December it amounted to PLN 37,477.7 million. As at the year end, the level of the institutional clients deposits did not diverge significantly from the one reported last year – PLN 19,681.3 million over PLN 19,152.7 million (up by 2.8%). However, the structure of the corporate clients deposits changed – throughout the year the value of funds deposited by mid-sized and mid-corporates (by 22.6%) which was coupled with drop in deposits of big corporates (-10.1%). It is worth mentioning that the core deposit in current accounts of both retail (+6.6%) and corporate (+27.4%) clients was invariably going up.

#### Liabilities due to customers of ING Bank Śląski S.A. (PLN million)

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Households	37,477.7	33,303.8	29,954.6	29,890.7	27,828.8	25,392.6
Institutional clients	19,681.3	19,152.7	16,971.4	16,899.1	18,551.7	17,812.2
Business entities	13,850.5	13,969.6	12,554.4	11,906.2	11,230.5	12,816.1
Financial entities (other than banks)	3,731.8	3,080.5	2,722.0	3,484.7	4,435.0	2,423.7
Entities of the sector of central and local government agencies	2,099.0	2,102.6	1,695.0	1,508.2	2,886.2	2,572.4
<b>Total deposits</b>	<b>57,159.0</b>	<b>52,456.5</b>	<b>46,926.0</b>	<b>46,789.9</b>	<b>46,380.5</b>	<b>43,204.8</b>
Other liabilities	623.6	587.8	504.8	867.2	785.1	1,297.4
<b>Total liabilities due to customers</b>	<b>57,782.6</b>	<b>53,044.3</b>	<b>47,430.8</b>	<b>47,657.1</b>	<b>47,165.6</b>	<b>44,502.2</b>

<sup>16</sup>Banking sector meaning commercial banks sector in line with data published by NBP in file *Assets and liabilities of banks*



\*The figures denote ING Bank Śląski share in commercial banks market.

## 5. Second the Best Net Financial Result in Bank Track Record

The individual components of the result were described in detail in Chapter *Financial Standing of ING Bank Śląski S.A. in 2012*.

### Financial results of ING Bank Śląski S.A.

	2012 PLN million	2011 PLN million	Change 2012/2011
Operating income	3,000.8	2,933.7	2.3%
Total expenses*	1,710.1	1,629.6	4.9%
Result before risk costs	1,290.7	1,304.1	-1.0%
Risk costs	350.1	172.4	103.1%
Gross profit (loss)	940.6	1,131.7	-16.9%
Net profit (loss)	757.8	903.8	-16.2%
Profit (loss) per 1 ordinary share (PLN)	5.82	6.95	-16.3%
ROA (%)	1.1	1.3	-0.2 p.p.
ROE (%)	11.0	15.6	-4.6 p.p.
C/I ratio (%)	57.0	55.5	+1.5 p.p.
Solvency ratio (%)	14.0	11.6	+2.4 p.p.

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

## 6. Own Bonds Issue Programme

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

- Programme amount – 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 secured.



On 06 December 2012, the Bank issued the first bonds under the Programme. The five-year maturity bonds with a unit nominal value in the amount of PLN 100 were offered to investors under a private issue. Aggregated nominal value of taken up bonds amounted to PLN 565.0 million. Securities bear floating interest, paid every 6 months. Interest is determined using 6M WIBOR plus margin of 0.9% AER. The first interest payout falls on 06 June 2013. The bonds issued at the end of 2012 will be redeemed through payment of the amount of cash equal to the bonds' nominal value on 06 December 2017.

On 08 February 2013, the Management Board of BondSpot S.A. passed a resolution to admit bonds of ING Bank Śląski S.A. to trading in the alternative trading market on Catalyst. The Bank's bonds were listed on the Catalyst market for the first time on 22 February 2013.

## 7. Awards and Distinctions

2012 brought numerous awards and distinctions for ING Bank Śląski S.A.

The Bank was granted the following awards for the attractiveness of its product offer and quality of the customer service:

- The award in the category *Najlepszy program/system IT w Polsce w 2012 roku do obsługi systemów kartowych* (The Best IT Program/System in Poland in 2012 for Handling Card Systems) for the pilot of NFC-enabled payments granted at the Central European Electronic Card Conference;
- Distinction for the ING BankMobile application for iPhone, in the Generation Mobile 2012 contest;
- First place in the ranking *Kredyt hipoteczny z wkładem własnym na poziomie 20%* (The Mortgage Loan with 20% Downpayment) developed by the Bankier.pl portal – July 2012;
- First place in the Money.pl rankings *Konto dla studenta* (Student Account) and *Konto dla młodzieży* (Youth Account);
- Distinction in the ranking *Bank dla Firm* (Bank for Businesses), organised by monthly magazine Forbes;
- First place for consultants and third place for help line, in the survey of quality of banks help-lines, conducted by independent research institute ARC Rynek i Opinia;
- Third place in the ranking *Jakość Obsługi 2012* (2012 Service Quality) organised by [www.jakoscobslugi.pl](http://www.jakoscobslugi.pl) portal in the category *Banki* (Banks).

Marketing undertakings carried out by ING Bank Śląski S.A. were also awarded. In *Polski Konkurs Reklamy* (Polish Advertisement Contest) the Bank received golden award in the following categories *Kampania* (Campaign) and *Reklama – film internetowy* (Commercial – Internet Spot) and brown award in the *Reklama – film TV* (Commercial – TV Spot) category.

Also the manner in which ING Bank Śląski S.A. functions in the community and its ability to effectively combine social responsibility with the business values, was appreciated by granting it the following distinctions:

- Award for *Najlepszy raport roczny w Internecie* (The Best Annual Report on the Internet) and for the fourth time in track record – a distinction for *Najlepsze sprawozdanie z działalności* (The Best Report on Operations) in the category *Banki i instytucje finansowe* (Banks and Financial Institutions) of the Best Annual Report 2011 contest;
- Including the Bank in the composition of the index of socially responsible companies – RESPECT Index for the fourth and fifth time in a row.
- *Srebrny Listek CSR* (Silver CSR Leaf) awarded by POLITYKA weekly magazine as part of its *Lista 500* (List of 500);
- First place in the *Ranking Odpowiedzialnych Firm 2012* (Socially Responsible Companies 2012 Ranking) in the category *Bankowość, sektor finansowy i ubezpieczeniowy* (Banking, Financial and Insurance Sector);

- Laurel of the Federio Jubileo 2012 *Festiwal Ekspresji Dziecięcej i Młodzieżowej* (Children and Youths Expressiveness Festival) for many-year support for and involvement in the Festival;
- Award for one of *Najaktywniejszych Firm* (the Most Active Companies) during the 7th edition of *Dnia Przedsiębiorczości* (Junior Achievement Day) promoting actions supporting formation of entrepreneurial spirit among youths.
- Green IT special award granted in the Lider Informatyki 2012 (IT Leader 2012) competition held by the Computerworld monthly magazine;
- International Top Employers label awarded for the third time by the Corporate Research Foundation.

The condition of ING Bank Śląski S.A. was highly assessed both in the country and in the region:

- First place in the category *Banki Duże* (Big Banks), in the contest *Najlepszy Bank 2012* (The Best Bank of 2012) organised by Gazeta Bankowa and distinction for the best portfolio structure.
- Second place in the ranking of the most valuable Polish brands, developed by Rzeczpospolita daily in the category *Instytucje Finansowe* (Financial Institutions).
- We were also ranked fourth and fifth in the breakdowns of the Safest Banks in the Central and Eastern Europe developed by Global Finance magazine two times in 2012.

Additionally, the Bank Economists team consisting of Rafał Benecki and Grzegorz Ogonek were ranked first in the prestigious Bloomberg ranking the Best Forecasters of EMEA Currencies 4Q2012 for the forecast of EUR/PLN (accuracy of the forecast in six subsequent quarters was assessed). Moreover, the Bank Economists team was ranked third for the accuracy of the macroeconomic and market forecasts in Q2 2012 and fourth in Q4 2012. The contest is organised by Parkiet magazine.

Moreover, ING Securities S.A. a member of the Bank Capital Group was fourth in the ranking of retail brokerage houses developed on the basis of research conducted by the Individual Investors Association and published in October issue of Forbes magazine. ING Securities had a high, second position in the category *Dostęp do informacji i notowań* (Access to Information and Quotes). Moreover, the investors highly assessed the quality of analyses and recommendations as well as educational activity by placing ING Securities on third place in both categories.

### III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 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 2012 it promoted its brand of a reliable and trustworthy institution, offered stable and transparent products, simplified and automated processes and attached more and more significance to the internet and mobile banking in client service processes.

With a view to uphold the attractiveness of its core deposit product, that is the Open Savings Account, in 2012 a number of promotions and special offers were introduced such as *Bonus for Start*, *Bonus for Extra Payment* and *Bonus Savings Account*. They consisted in offering periodically higher interest to new clients or for new funds.

Moreover, in its offer for equity- and insurance-linked savings products, the Bank, among others:

- offered new funds (such as Amplico, Investors, Union Investment, Aviva and HSBC) to a wide group of individual clients,
- conducted 15 subscriptions for structured products, namely: Inwestycyjna Lokata Terminowa (Investment Term Deposit) and Inwestycyjny Plan Ubezpieczeniowy (Unit-Linked Insurance Plan).

The lending products offer was modified as follows:

- **Mortgage Loans.** To adapt the offer to the market demands and to the 2012 strategy adopted by the Bank (assuming growth in exposures while keeping the portfolio profitable), the Bank twice revised the margin levels (against 2011 offer by 0.35-0.45 p.p. on average) and some commissions. 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. The process of the post-sale service (issuing certificates, annexing agreements, monitoring premiums under real estate insurance policies) was streamlined and simplified.
- **Cash Loans.** As part of the actions aimed at enhancing competitiveness of those products, the Bank mainly:
  - verified some risk management parameters, by increasing the maximum available amount of unsecured cash loan for regular clients to twentyfold net income, among other things;
  - introduced promotional offers such as PLN 5,000 Cash Loan Package and 5,000 Cash Loan, whose sale was supported with the marketing campaign;
  - added new products to its regular offer (in August 2012): *PLN 5,000 Supershort Cash Loan* and *PLN 5,000 Supershort with Insurance Cash Loan*;
  - enabled regular clients to draw a cash loan via ING BankOnLine without the need to visit a Bank branch.

##### **Deposit Activity<sup>17</sup>**

As at 31 December 2012, retail deposits<sup>18</sup> at ING Bank Śląski S.A. totalled PLN 43,516.6 million, compared with PLN 39,685.9 million in December 2011 (that is up by 9.7%). Banking deposits formed their major part.

In 2012, the Bank focused on building solid foundations for further growth, i.e., extending the stable deposit base whereto, according to the draft provisions of the New Capital Accord (Basel III) the majority of retail clients' deposits can be classified. As at the end of December 2012, retail deposits amounted to PLN 38,377.6 million, or went up by 12.2% when compared with the end of 2011. The result translated into a 7.4% share of the Bank in the household deposit market (versus 7.1% share as at the end of 2011).

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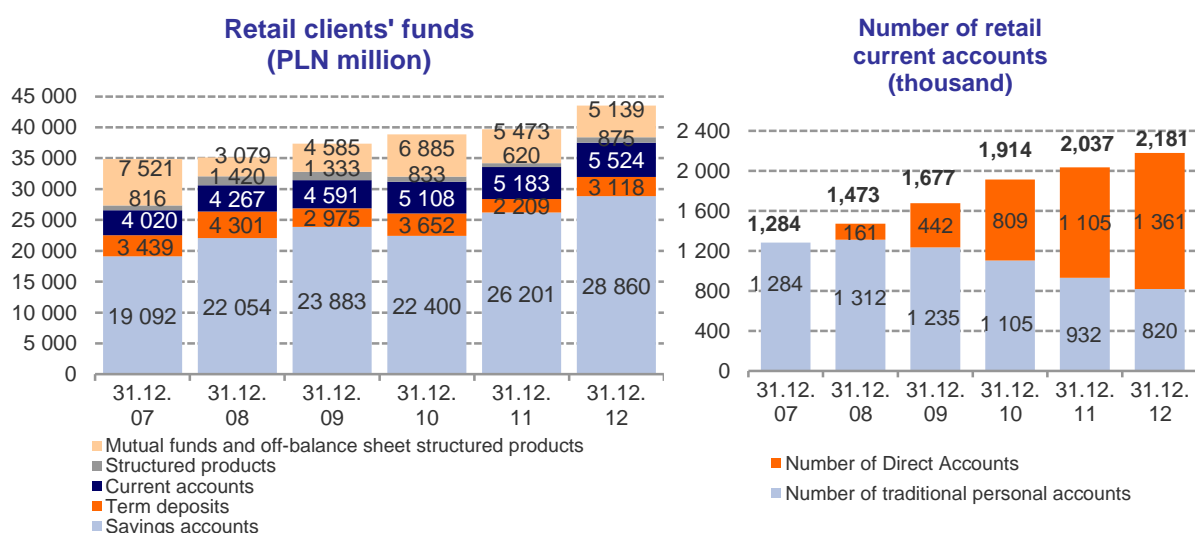
<sup>17</sup> Due to availability of more detailed product-related information, the **description is made based on the data from the management information system.**

<sup>18</sup> Total value of deposits, structured products and mutual funds distributed by the Bank.

The Open Savings Account is the main product where the retail clients deposit their funds. Over the year, the value of funds accumulated in the Open Savings Account went up by 10.1%. In turn, the value of savings invested in mutual funds and off-balance sheet structured products went down (by 6.1% y/y). It should be indicated here that it was primarily due to a drop in off-balance sheet structured products (by PLN 374 million), while the funds themselves recorded a small growth.

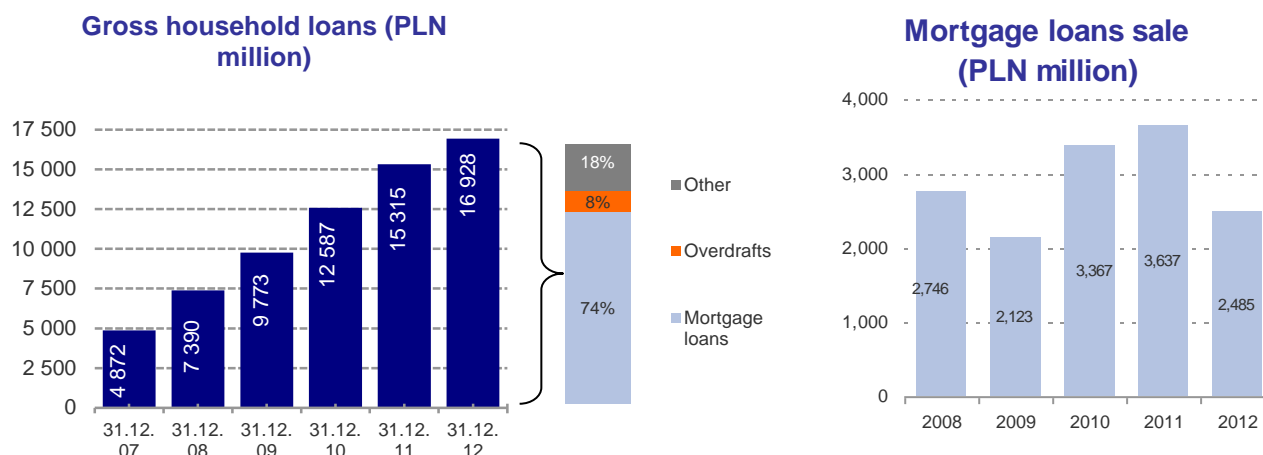
Throughout 2012, the array of settlement services rendered by the Bank to its retail clients grew significantly. At the end of December 2012, ING Bank Śląski S.A. maintained 2,181.0 thousand personal accounts of retail clients (1,949.1 thousand individual clients and 231.9 thousand entrepreneurs) against 2,036.4 thousand as at the end of 2011 (1,811.8 thousand individual clients and 224.6 thousand entrepreneurs). It means that throughout 2012 the Bank acquired in net terms 144.6 thousand retail current accounts, while in 2011 the growth in the number of personal accounts totalled 122.3 thousand (growth rate acceleration by 18.2% y/y). As a result of a higher number of personal accounts opened, the volume of funds deposited in these accounts grew by 6.6% over the year.

This was accompanied by the trend to change the structure of current accounts. Sales of the accounts, mostly *Direct Account*, together with the conversion from traditional personal accounts to internet accounts among some clients made the number of *Direct Accounts* go up to 1,360.9 thousand as at the 2012 yearend (including 1,188.6 thousand accounts of individual clients and 172.3 thousand entrepreneurs' accounts) from 1,104.5 thousand in 2011 (including respectively: 952.1 thousand and 152.4 thousand). The share of *Direct Accounts* in the total number of retail personal accounts thus went up from 54.2% in December 2011 to 62.4% as at the end of 2012.



## Lending

At the end of December 2012, gross retail (household) credit receivables of totalled PLN 16,927.7 million. In 2012, the Bank's credit exposure towards households went up by PLN 1,612.5 million, or 10.5%. The Bank increased its share in the household credit receivables market to 3.2% (versus 2.9% in December 2011).



Mortgage loans and cash loans constituted the main part in the Bank's retail portfolio and their value went up by 11.8% y/y. As at the end of December 2012, they accounted for 74% of total credit exposure to households.

As at the end of 2012, ING Bank Śląski S.A. was fifth on the market with a 6.2% share in the sales of housing loans for private individuals. As regards PLN housing loans, the Bank was classified on the fourth position with a 6.8% share in the total sales volume.

Moreover, 2012, especially H2 2012, was marked by increasing significance of unsecured cash loans in the Bank portfolio. At the end of the year, the first effects of the conducted marketing campaigns and intensified sales were visible. Throughout 2012, the cash loans extended totalled PLN 1,502.4 million, up by 25.0% from 2011. In December 2012, the Bank's credit receivables thereunder totalled PLN 2,345.4 million, or went up by 13.2% from the end of 2011.

As part of the portfolio of receivables from retail clients, the amount of loans and cash loans extended to entrepreneurs (covering mainly cash loans, overdrafts, mortgage-backed cash loans and credit card balances) totalled PLN 1,742.9 million at the yearend, up by 7.5% against 2011. Unsecured cash loans grew at the fastest rate of 8.4%.

### Bank Cards

For many years now, ING Bank Śląski S.A. has been one of the leading card issuers in Poland. In August 2012, the Bank extended its offer of payment cards with a new product – Paywave Visa Business. It is an innovative debit card with a paywave functionality issued with the accounts for entrepreneurs.

In 2012, the Bank introduced the 3DSecure service for debit cards (only for individual clients), for Visa prepaid cards and all credit cards. 3DSecure is a new standard of secure payments on the internet. It offers additional confirmation of all online transactions made with the use of cards in the ING BankOnLine internet banking system. Some transactions need to be additionally authorised with a one-off code. By dint of the 3DSecure implementation, clients may pay in all the internet shops around the world in a fast and secure manner.

Simultaneously, the Bank continued the pilot of NFC mobile payments together with MasterCard payment organisation. In July 2012 together with VISA payment organisation the Bank started a pilot programme of an alternative technology – a secure element was mounted on microSD card instead of SIM card.

By the end of 2012, ING Bank Śląski S.A. issued 2.44 million payment cards to clients. As a result, the number of contactless cards held by clients grew. By the end of 2012, the Bank issued 1.52 million of such cards including "Zbliżaki" (contactless cards), against 0.84 million of such cards the year before. The number of virtual cards went up as well. In December 2012, clients held in their wallets 34.2 thousand such cards, up by 22% from the end of 2011. Moreover, starting from Q3 2012, the Visa debit cards functionality was extended with the option of making contactless payments for amounts exceeding PLN 50.

## 2. Corporate Banking

### Number of Clients

In December 2012, 29.3 thousand corporate clients used the services of ING Bank Śląski S.A., including:

- 25.8 thousand mid-sized companies,
- 2.8 thousand mid-corporates and
- 623 strategic clients (holdings).

Throughout 2012, the Bank's corporate clients portfolio went up by 1.7 thousand entities.

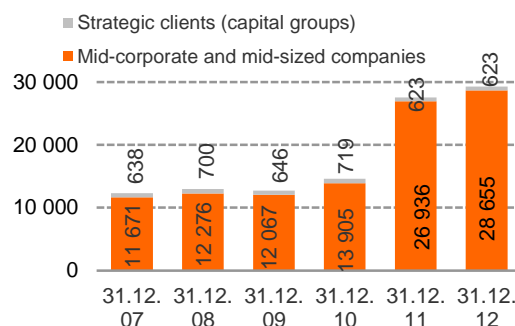
### Product Offer and Modifications Introduced

Offer quality is one of the main determinants of choice of the bank by corporate clients. Thus, in 2012, ING Bank Śląski S.A. continued its efforts to make the product offer more attractive by introducing material changes both in terms of deposit and settlement products as well as business activity financing solutions.

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

- Providing corporate clients with the product analogous to the retail offer - OKO Business Open Savings Account. It combines a high interest-bearing deposit product with a bank account. The interest rate per annum is 3.75% for the entire balance. The funds can be deposited in the account at any time and from the first day and first PLN 1 the interest is computed. The funds withdrawal does not lead to the loss of the interest accrued. Open Savings Account opening and maintenance are free of charge. At the end of the year, the clients were also offered FX OKO Business accounts (EUR and USD).
- Offering promotional interest (+1.75%) for new funds in PLN OKO Business and OKO Business Direct. The promotional offer was valid until 31 December 2012.
- Implementing SIMP Trust – a service for developers covering the custody account meeting the requirements laid down in the Act on the Protection of Rights of the Apartment or Detached House Buyer.
- Changing 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).
- Enabling clients to make cash deposits to the account in over 8,000 post offices on preferential conditions.
- Developing the network of electronic night depositories – an innovative solution on the Polish market facilitating automatic booking of closed deposits in corporate clients' accounts. As at the 2012 yearend, there were 28 such devices in bank outlets.
- Developing a modern solution for town/city halls and commune offices as regards accepting official fees, i.e. the so-called fee collection machines. At first, the fee collection machines will service the two most popular transport-related fees and soon also other fees based on matrix codes. The first pilot device was mounted in the Town Hall of Chorzów.
- Implementing the Electronic Invoice Payment and Distribution System that brings in new quality on the Polish market. The system provides for sending bills or invoices directly to ING BankOnLine, ING BusinessOnLine and other internet banking systems of the majority of banks operating in Poland. The clients may pay their dues with one click only, without the need to fill in additional forms. The solutions applied in the Electronic Invoice Payment and Distribution System also ensure its compatibility with other banking products: Mass Payment Identification System (SIMP), direct debit and transfers. The clients enjoy special conveniences when both the provider and the recipient are the clients of ING Bank Śląski S.A.
- Providing the users of ING BusinessOnLine with the option of effecting PLN instant transfers (in real time) – *Express Elixir*.

### Number of institutional clients





In 2012, the Bank popularised the ING DirectBusinessCredit credit platform for corporate clients implemented in mid-2011. On the platform the companies may select on their own the best suited form of funding as well have their credit capacity assessed for free and submit a credit application via the internet. There are notable benefits for the client - shorter waiting time for a credit decision and no commission for considering the application as well as lower credit facility fee. Moreover, the existing clients were provided with an option to file credit applications by means of the ING BusinessOnLine system. The share of electronic credit applications filed through both platforms is growing systematically and in individual months of 2012 it was between 57% and 89% (the highest share of electronic applications was recorded in December 2012).

In 2012, the Bank further modified the lending processes, whereby the time of credit application review should be made even shorter and paper documents eliminated, notably the Bank:

- Further automated the process of generating credit agreements (implemented the electronic review of collaterals, for example).
- 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. The obligation to provide a copy of entry to the National Court Register in a paper form was eliminated – the Bank downloads the current data about the client using electronic access to the National Court Register provided by the Ministry of Justice. What is more, a printout from the central database of electronic Land and Mortgage Registers is now sufficient to confirm the fact of entering the mortgage as collateral for bank's debt claims.
- Extended the functionality of the binding message delivered in ING BusinessOnLine to the Bank for active loans (such as powers of attorney to perform acts in law).

In 2012, the project to integrate the sales processes 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.

In Q4 2012, ING Lease Polska signed a credit agreement with the European Investment Bank (EIB). Thus, ING Lease Polska gained access to funds worth EUR 20 million. The agreement is the beginning of long-term co-operation of ING Lease Polska and EIB for support of the Polish entrepreneurship development. Thanks to the funds received, ING Lease Polska will finance new lease agreements in euro with the selected corporate clients.

Like in previous years, in 2012 ING Bank Śląski S.A. was actively supporting its clients in acquisition of funds from EU programmes. Technological loans were particularly popular among clients. Some of the credit principal may be repaid by Bank Gospodarstwa Krajowego in the form of subsidies from the Technological Loan Fund. At the end of 2012, the call for applications for subsidy in the form of technological bonus was announced. For the total of 533 submitted applications for subsidy, ING Bank Śląski SA, issued 55 commitment letters and technological loan agreements. The forecasted investment outlays for projects submitted through the Bank's agency totalled PLN 330 million. Thus, as in the case of the previous call for applications, the Bank was among top three banks in terms of the number and value of the applications filed by clients. The total value of the subsidies granted was approximately PLN 1 billion and the share of ING Bank Śląski S.A. in those loans and received subsidies is 13% which makes the Bank one of the market leaders. The role of ING Bank Śląski S.A. in granting loans for funding investment projects of the applicants under Regional Programmes was as significant. In 2012, the call for Action 1.2.3 for the Silesia Province was announced. The applications will have been evaluated by the end of Q1 2013. It is expected that the projects which will be subsidized in Silesia to a large extent will be co-funded with the Bank's funds.

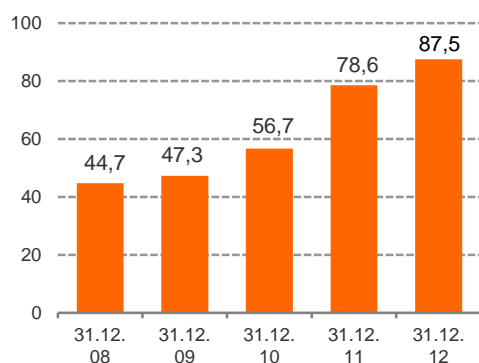
### Deposit and Settlement Activity

As at 31 December 2012, the value of corporate clients (institutional clients) deposits was PLN 19,681.3 million, up by 2.8% from December 2011. In December 2012, ING Bank Śląski S.A. had a 6.6% share in the market of institutional clients deposits (up by 0.1 p.p. from the end of 2011).

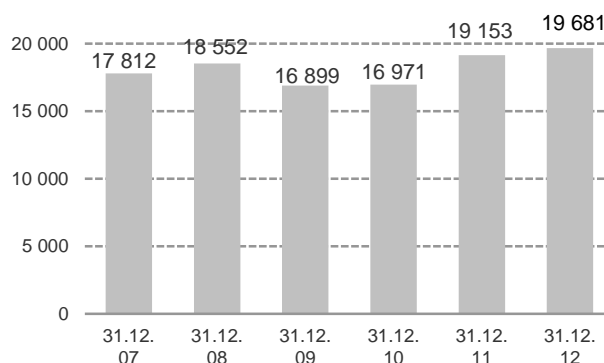
Dynamic growth in value of the funds deposited by clients from the sub-segment of mid-corporate and mid-sized companies (by over 20%) and a fall in the volume of funds of the biggest corporate clients (by approximately 10%) seriously contributed to maintaining stable growth of institutional clients deposits. It was the result of the Bank's strategic assumptions for 2012. The Bank focused on expanding stable deposit base whereto - in line with the draft New Capital Accord (Basle III) - a large part of deposits of clients from the mid-corporate and mid-sized companies sub-segment of ING Bank Śląski S.A. is categorised. In order to acquire deposits from this group of clients, the Bank provided new deposit products to corporate clients (Open Savings Account) and conducted numerous promotional campaigns (described in the *Product Offer and Modifications Introduced* section of this Chapter).

What is more, the growing volume of funds in current accounts is a favourable phenomenon. In 2012, core deposits in current accounts went up by 16.9%. It shows that the scope of co-operation with clients in terms of settlement products is expanded and new clients are being acquired.

**Number of corporate accounts  
(thousand)**

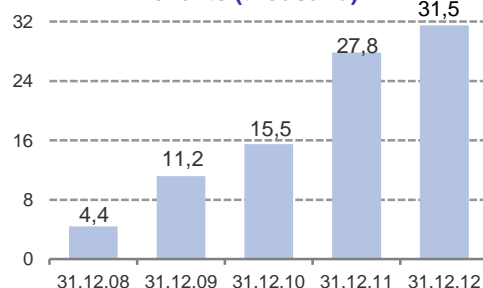


**Institutional clients deposits  
(PLN million)**

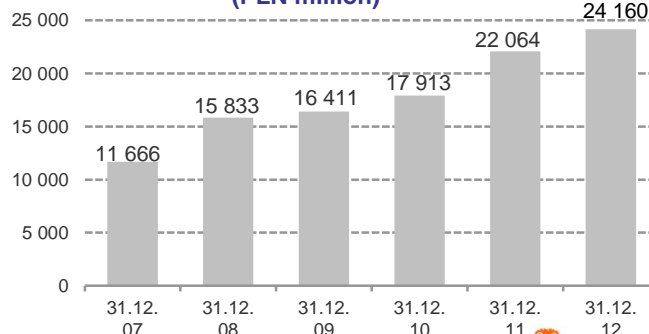


In December 2012, ING Bank Śląski S.A. maintained 87.5 thousand corporate (PLN and FX) current accounts, up by 11.3% from December 2011. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the ING BankOnLine electronic banking system to contact the Bank. In December 2012, the system was used by 31.5 thousand companies (against 27.8 thousand in December 2011).

**Number of ING BusinessOnLine  
clients (thousand)**



**Gross institutional clients loans  
(PLN million)**



### Lending

As at the end of December 2012, the gross loans extended by ING Bank Śląski S.A. to corporate clients (institutional clients) totalled PLN 24,159.8 million (up by 9.5%). The Bank is estimated to have held 8.0% of the institutional credit market share in December 2012.

Throughout the year, it was mainly the credit exposure to non-banking financial sector entities that rose – by PLN 1,565.7 million, or 55.5%. The increase in funding extended by the Bank to its subsidiaries, namely ING Lease (Polska) Sp. z o.o. and ING Commercial Finance Polska S.A. was the main factor impacting the increase in lending to those entities.

Also the value of corporate credit volumes went up – by PLN 691.8 million (4.3%) per annum. The mid-sized and mid-corporate companies generated the said growth by and large.

In 2012, the Bank won 77 tenders for funding local government units, worth approximately PLN 634 million. This result enabled the Bank to maintain its 7.5% share in financing local government units in December 2012.

### **3. Money Markets and Capital Markets**

The operations of ING Bank Śląski S.A. in the area of financial markets products in 2012 covered streamlining transactional processes, enhancing the offer and adjusting them to changes in the regulatory environment.

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.

In the area of FM documentation, new entities such as mutual and pension funds, insurance companies and state-owned companies were provided with an option to conclude with the Bank, apart from ISDA MA (International Swaps and Derivatives Association Master Agreement) also the Credit Support Annexes according to an international standard. Conclusion by the Bank of CSA with a client will allow for mitigating client's credit risk related with the transactions in derivatives.

Additionally, there are works in progress at the Bank aimed at adjusting operations in the area of FM products to the requirements and solutions provided for in the *Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories* (EMIR for short). The Regulation introduces a new framework for the OTC financial instruments in the European Union.

Throughout 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 Issue 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] up to the amount of PLN 4.5 billion. In the programme, the Bank acts as the Issue Co-arranger, Issue and Paying Agent, Depository, Dealer and Documentation Agent. PGNiG bonds totalling PLN 2.5 billion were issued under the programme – it was a debut issue of PGNiG S.A. on the domestic market and the biggest corporate issue in the history of this market at the same time.

- Co-arranged and concluded an agreement on bond issue programme for PGNiG TERMIKA S.A. up to the amount of PLN 1.5 billion. In the programme, the Bank acts as the Issue Arranger, Issue and Paying Agent and Depository (syndicated transaction).
- 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 billion. The Bank acts as the Lead Arranger, Underwriter, Paying Sub-Agent and Sub-Depository in the programme.

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

- Sosnowiec Commune, programme amount – PLN 55 million,
- Koszalin City, programme amount – PLN 33 million,
- Łódź Province, programme amount – PLN 30 million,
- Końskie Commune, programme amount – PLN 24 million,
- Chorzów Commune, programme amount – PLN 16.5 million.
- Wołomin Commune, programme amount – PLN 16 million,
- Strzeleckie Wodociągi i Kanalizacja Sp. z o.o. [a water and sanitation company in Strzelce Opolskie], programme amount – PLN 15 million,
- Zarząd Budownictwa Mieszkaniowego – Towarzystwo Budownictwa Mieszkaniowego Sp. z o.o. [residential construction company], programme amount – PLN 11 million,
- Komunikacja Miejska - Płock Sp. z o.o. [public transport company in Płock], programme amount – PLN 10.6 million,
- Niepołomice Commune, programme amount – PLN 8 million,
- Nowogrodziec Commune, programme amount – PLN 5 million,
- Kolbudy Commune, programme amount – PLN 2 million,

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

Moreover, in November 2012 an open-end issue programme of own bonds of ING Bank Śląski S.A. to the amount of PLN 5 billion was established. Under the programme, in December 2012, the Bank independently held the first issue of 5Y bonds to the amount of PLN 565 million. The bonds will be quoted in an alternative trading system on the Catalyst bond market.

As at 31 December 2012, ING Bank Śląski S.A. serviced securities trading of issuers to the total nominal value of almost PLN 11.4 billion, including:

- PLN 7.2 billion due to short-term securities issue,
- PLN 2.4 billion due to corporate bonds issue with maturity above one year,
- PLN 0.8 billion due to local government units' securities issue,
- PLN 1.0 billion due to bank debt securities issue.

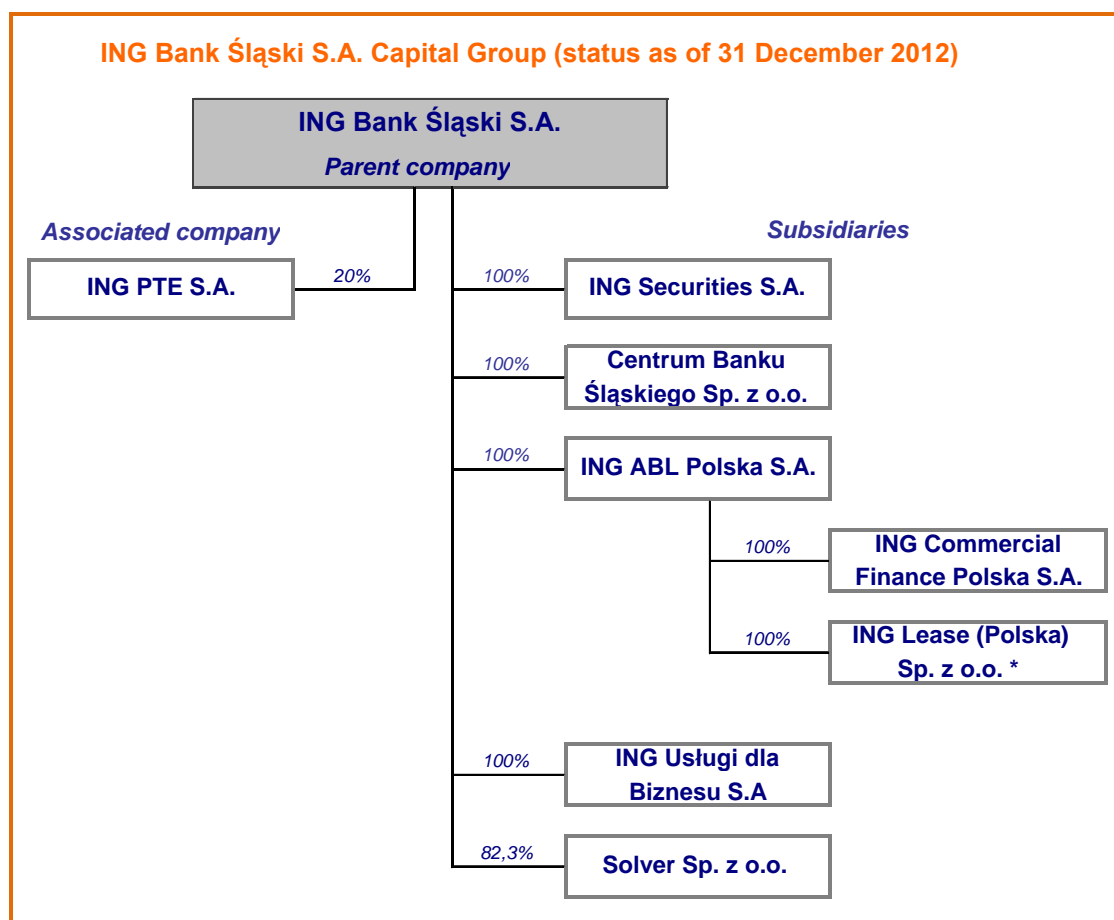
In 2012, the Bank had the second position on corporate debt securities market (with the share of 16.2% in the total of outstanding short-term securities and corporate bonds with maturity above one year), and the first position on the short-term securities market (share of 27.1%).

Moreover, ING Bank Śląski S.A. was the fourth (among 17 banks applying for the function) and was granted the 2013 Money Market Dealer status in the ranking by the National Bank of Poland assessing the banks' activity in the money and FX markets. The Ministry of Finance also granted the Bank the 2013 Dealer of Treasury Securities status - the Bank was ranked fourth among 20 assessed banks.

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

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

The ING Bank Śląski S.A. Capital Group is formed by the companies operating on the financial markets or within their 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.



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

2012 was a year of significant structural changes within the ING Bank Śląski S.A. Capital Group:

- 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 (Polska) 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. established a subsidiary ING Usługi dla Biznesu S.A.

## **2. ING Securities S.A.**

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

- equity market – 5.8% (sixth position), and
- forwards and futures market – 3.4% (ninth position).

At the end of December 2012, ING Securities S.A. maintained 56.1 thousand investment accounts, including 39.9 thousand internet ones.

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

ING Lease (Polska) Sp. z o.o. has been operating in the market since 1996. It offers all basic types of leasing (operational, financial and sale-and-leaseback) which can be used to finance both movables (being machinery and equipment, technological lines and commercial vehicles) as well as real properties (office buildings, commercial buildings, logistical centres). Company services are targeted at all market segments: large, medium and small enterprises.

As at 31 December 2012, client receivables of ING Lease were PLN 4,519.5 million. The data of the Polish Leasing Association show that with its 4.8% market share in terms of worth of lease agreements concluded and assets provided, the Company was the 8th largest leasing company in Poland. At the same time, the Company was second considering its lease portfolio volume in 2012 (enjoying the market share of 7.3%).

## **4. ING Commercial Finance Polska S.A.**

As at 31 December 2012, credit receivables of ING Commercial Finance amounted to PLN 1,785.3 million. In 2012, its turnover was PLN 11.4 billion, up by 16% from 2011. On account of sustained stable growth over 2012 and record-breaking fourth quarter, ING Commercial Finance managed to remain third in the market with the share of 13.9%<sup>19</sup>.

As at the end of 2012, ING Commercial Finance company serviced 727 clients (vendors to the largest companies using reverse factoring services), or 17% more than a year ago. Its clients were companies operating mainly within the following industries: food and beverages (22% of total clients), metallurgy (16%), house and horticulture (10%), steel distribution (9%) and packaging (6%).

The number of invoices purchased by the Company in 2012 was 747 thousand, similar to the year before.

## **5. ING Usługi dla Biznesu S.A.**

ING Usługi dla Biznesu S.A. established in January 2012 offers a variety of business assistance services, financial and booking services in particular, dedicated to corporate clients. The Company will offer its services to a larger group of the Bank corporate clients in 2013.

## **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 64a 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 as Administrator for the facility at ul. Malczewskiego 45 in Warsaw.

In 2012, the Company continued its activities and upheld the management model developed in previous years for the real property portfolio in management.

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<sup>19</sup> Data based on the Polish Factor Association report.



## 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 31 December 2012, ING OFE maintained its position of 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 3,010.2 thousand members, or 18.9% of all participants of open-end pension funds.
- Net assets. They totalled PLN 64,169.7 million or 23.8% of the total worth 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 (help line, SMS and WAP) and the internet.

## 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.

## V. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. IN 2012

### 1. Gross Profit and Net Profit

In 2012, ING Bank Śląski S.A. generated the gross financial result totalling PLN 940.6 million against PLN 1,131.7 million last year. Net profit totalled PLN 757.8 million compared to PLN 903.8 million in 2011 (down by 16.2%).

The main factors to affect the financial results of ING Bank Śląski S.A. in 2012 included<sup>20</sup>:

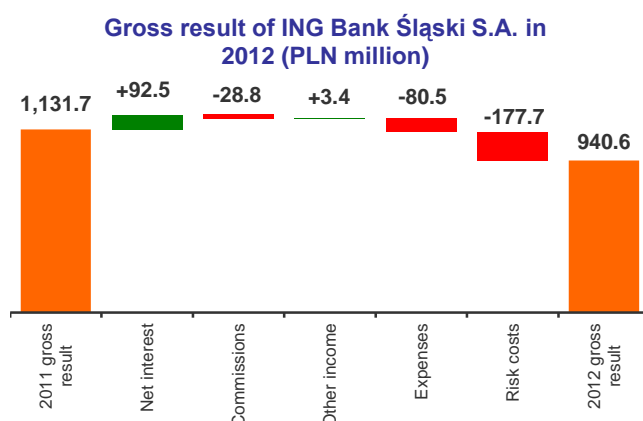
- The income on operations grew by 2.3% from the past year. As at the 2012 yearend, the Bank's income totalled PLN 3,000.8 million. Higher net interest income contributed to income growth most.
- Increase in operating expenses. They totalled PLN 1,710.1 million, up by 4.9% from a year earlier.
- Risk costs more than twice higher. The balance of impairment provisions totalled PLN 350.1 million, whereas in 2011 the Bank recognised provisions of PLN 172.4 million.

In 2012, the result before risk costs for the Bank totalled PLN 1,290.7 million, up by 1.0% from 2011.

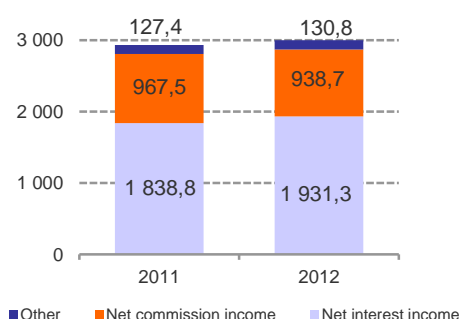
#### Basic income statement figures in analytical terms

	2012	2011	Change 2012/2011	
	PLN million	PLN million	PLN million	%
Net interest income	1,931.3	1,838.8	92.5	5.0
Net commission income	938.7	967.5	-28.8	-3.0
Other income	130.8	127.4	3.4	2.7
<b>Operating income</b>	<b>3,000.8</b>	<b>2,933.7</b>	<b>67.1</b>	<b>2.3</b>
Operating expenses*	1,710.1	1,629.6	80.5	4.9
<b>Result before risk costs</b>	<b>1,290.7</b>	<b>1,304.1</b>	<b>-13.4</b>	<b>-1.0</b>
Impairment losses and provisions	350.1	172.4	177.7	103.1
<b>Gross financial result</b>	<b>940.6</b>	<b>1,131.7</b>	<b>-191.1</b>	<b>-16.9</b>
Income tax	182.8	227.9	-45.1	-19.8
<b>Net financial result</b>	<b>757.8</b>	<b>903.8</b>	<b>-146.0</b>	<b>-16.2</b>

\*Including net income on other operating activities.



#### Operating income by category (PLN million)



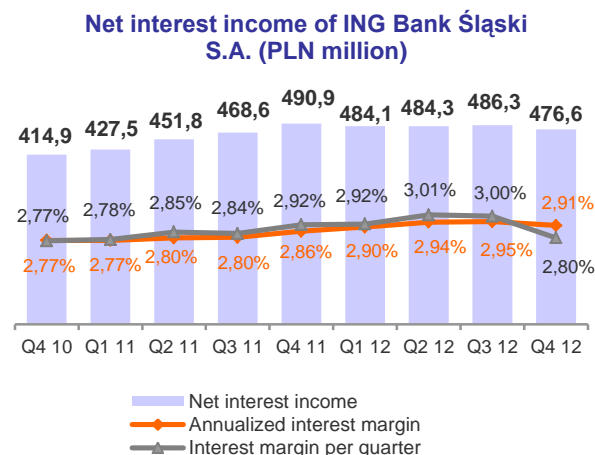
Total income of ING Bank Śląski S.A. (including, apart from net profit, other items of income and expenses recognized in equity) was PLN 1,636.8 million against PLN 978.9 million in 2011.

<sup>20</sup>The characteristics discussed in this document apply to income statement in analytical terms. Operating expenses include result on other operating income and expenses.

## 2. Net Interest Income

In 2012, net interest income of ING Bank Śląski S.A. totalled PLN 1,931.3 million against PLN 1,838.8 million in 2011 (up by 5.0%). This increase was most of all the result of the business volumes growth accompanied by a favourable change in the balance sheet structure. The share of receivables (Eurobonds excluded) in assets went up from 55.2% in December 2011 to 55.9% as at the end of 2012. The interest margin went up from the 2011 yearend as well.

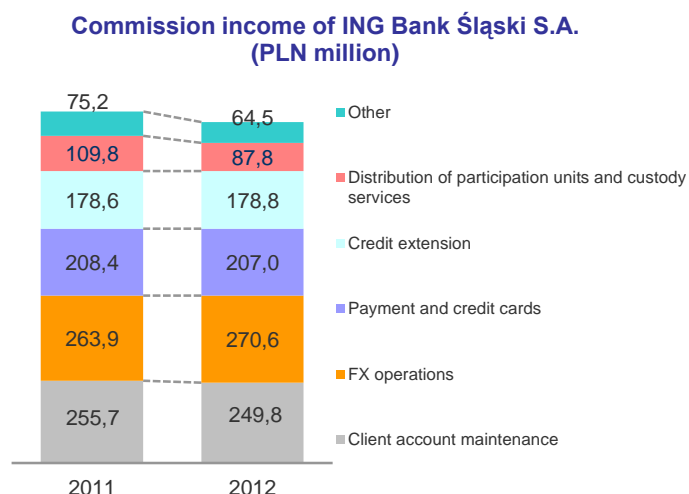
Average base interest rate			
	Segment		Bank Total
	Retail	Corporate	
<b>Deposits</b>			
PLN	3.42%	2.87%	3.29%
FX	0.53%	0.05%	0.33%
<b>Loans</b>			
PLN	8.13%	6.86%	7.38%
FX	1.52%	2.34%	2.08%
Including:			
mortgage loans			
PLN	6.66%	-	6.66%
FX	1.46%	-	1.46%



## 3. Non-Interest Income

Fees and commissions income represented the major part of non-interest income of ING Bank Śląski S.A. In 2012, it totalled PLN 938.7 million compared with PLN 967.5 million in 2011 (down by 3.0%).

The lower net income on fees and commissions recorded in 2012 was the consequence of market trends observed during the year, in particular in the areas tied to the capital market (following a slump in WSE trading) as well as intensified competition. Accordingly, the total of commission income on distribution of mutual funds participation units and custody services went down by 20.0% from the year earlier. The commission income related to bank account maintenance was also lower (down by 2.3%), due to conversion from traditional personal accounts to free of charge Direct Accounts.



The Bank recorded an increase in commissions under transactional margin on foreign exchange operations (up by 2.5%).

Commission income on lending and due to bank cards remained on the level similar to 2011 (the former went up by 0.1% while the latter went down by 0.7%).

In 2012, other income of the Bank amounted to PLN 130.8 million against PLN 127.4 million in 2011 (up by 2.7%). On the one hand, other income was driven by credit risk valuation for financial instruments which was negative (- PLN 25.9 million) in 2011; in 2012, it had a positive impact on the financial result of PLN 23.3 million. On the other hand, it was impacted by the twice lower than in 2011 result on investments, mainly due to dividends received (PLN 41.3 million in 2012 against PLN 109.0 million in 2011).

## 4. Operating Expenses

In 2012, operating expenses of ING Bank Śląski S.A. amounted to PLN 1,710.1 million against PLN 1,629.6 million a year earlier (up by 4.9%).

Personnel costs constituted a major part of the operating expenses. In 2012, they came to

PLN 834.2 million compared with PLN 805.5 million in 2011 (up by 3.6%).

Further, intensified marketing activities accompanying promotion of cash loans, first and foremost, resulted in marketing and promotion costs of the Bank being higher by 20.6% (they arrived at PLN 89.1 million).

Other expenses (marketing and promotion costs excluded) totalled PLN 786.8 million compared with PLN 750.2 million in 2011 (up by 4.9%)<sup>21</sup>. In 2012, higher costs of cash handling were recorded in consequence of more extensive operations and costs of amortization/depreciation mainly following execution of new projects in the sales and IT areas.

## 5. Impairment Losses and Provisions

Risk costs recognised in the 2012 income statement of ING Bank Śląski S.A. amounted to PLN 350.1 million. They were twice higher than a year ago (PLN 172.4 million in 2011). Their level was shaped by the impairment losses made for corporate customer receivables, which were higher than a year ago, in response to the serious liquidity problems affecting the construction sector companies.

Further, 2011 saw the sale of impaired credit receivables portfolio for which substantial provisions were established (positive impact of PLN 12.4 million on the risk costs).

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

The Bank's business model is divided into two major segments:

- Retail Banking segment, which encompasses private individuals (mass clients sub-segment and affluent clients sub-segment) and entrepreneurs (small businesses).
- Corporate Banking segment, which comprises institutional clients and FM products operations.

In 2012, the retail banking segment generated PLN 318.1 million worth of gross profit against PLN 441.8 million in the previous year (down by 28.0%). The retail banking segment had 33.8% share in the gross profit of ING Bank Śląski S.A. (against 39.0% share in 2011).

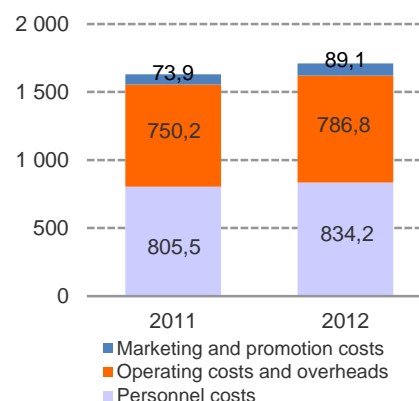
The retail banking segment result was made up by:

- Lower revenue. It totalled PLN 1,433.4 million, down by 6.0% from a year earlier. The net interest income and net income on fees and commissions also went down by 3.0% and 5.6%, respectively.
- Higher operating expenses. The segment's total expenses amounted to PLN 1,070.8 million (up by 4.1% from 2011). They were mainly driven by higher marketing and promotion costs arising under support for sale of cash loans and savings accounts first and foremost.
- Lower net lending provisions (by 19.2%) amounting to PLN 44.5 million in 2012 compared with PLN 55.1 million in 2011.

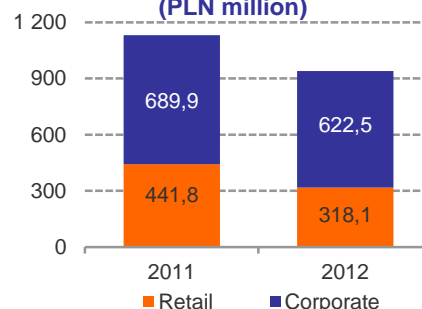
In 2012, the corporate banking segment earned gross profit of PLN 622.5 million compared with PLN 689.9 million in 2011 (down by 9.8%). The segment's result represented 66.2% of the Bank's gross result (61.0% in 2011). Corporate banking segment result was made up by:

- The revenue totalled PLN 1,567.4 million, up by 11.3% from 2011. The net interest income went up by 13.2%, while the net commission income dropped slightly (by 0.6%). Other income

Bank expenses by category  
(PLN million)



Gross result considering risk costs per business segment  
(PLN million)



<sup>21</sup>Other expenses also include result on other income and operating expenses.

also grew substantially; in 2012, it was PLN 32.9 million compared with PLN -9.3 million year earlier.

- The segment's expenses totalled PLN 639.3 million, up by 6.4% from 2011. Personnel costs, amounting to PLN 336.9 million, constituted their major part; they went up by 6.3% from 2011.
- Risk costs totalled PLN 305.6 million against PLN 117.3 million a year earlier. A considerable increase in net lending provisions resulted from deterioration of the financial standing of certain clients, and the construction sector companies in particular (one large entity for the most part). In turn, the sale of impaired receivables portfolio impacted positively the level of the segment risk costs in 2011.

## 7. Core Effectiveness Ratios

In 2012, the Bank recorded effectiveness growth for net interest margin, the fact which could be further attributed to the balance sheet structure change which proved favourable for the margin (the share of customer receivables in the balance sheet total went up at the cost of T-bonds). On the contrary, ROE dropped by 4.6 p.p., primarily following the considerably increased capital base and substantially higher risk costs on the profit side. During the year, Bank's equity went up by PLN 1,647.3 million, or 26.4%, due to the positive measurement of the portfolio of available-for-sale assets and cash flow hedging instruments. The C/I ratio fell by 1.5 p.p. from 2011, mainly because of income on fees and commissions.

### Core Effectiveness Ratios (%)

	2012	2011
C/I ratio	57.0	55.5
ROA	1.1	1.3
ROE	11.0	15.6
Interest margin ratio	2.91	2.86
Loans/ Deposits ratio	72.7	72.4
Solvency ratio	14.0	11.6

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

**Return on Assets (ROA)** – Total net profit for 4 consecutive quarters/average assets for 5 consecutive quarters.

**Return on Equity (ROE)** – Total net profit for 4 consecutive quarters/average equity for 5 consecutive quarters.

**Interest margin ratio** – Total net interest income for 4 consecutive quarters/average interest assets for 5 consecutive quarters.

**Loans/ Deposits ratio** – Total net loans and other customer receivables without Eurobonds/liabilities towards customers

**Solvency ratio** – as defined by the Polish Financial Supervision Authority.

## 8. Statement of Financial Position

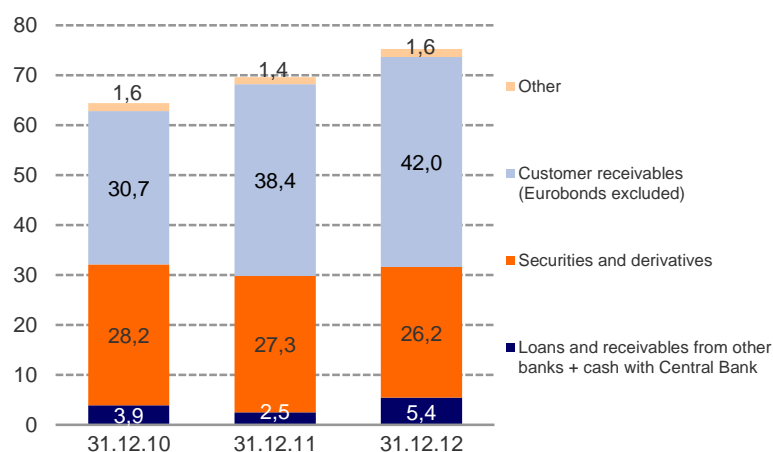
As at 31 December 2012, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 75,159.2 million, up by PLN 5,534.9 million, or 7.9%, from the end of 2011.

### Assets

2012 saw a continuation of the growing trend in terms of the share of customer receivables in the assets of ING Bank Śląski S.A. As at 31 December 2011, customer receivables without Eurobonds totalled PLN 41,984.3 million, or 55.9% of the total assets of the Bank. Their share in assets went up by 0.7 p.p. from the end of 2011.

The category "Loans and other receivables from customers" in the financial statements also includes receivables due to Polish government bonds in EUR, i.e. Eurobonds. As at the end of December 2012, they amounted to PLN 3,779.7 million against

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





PLN 3,872.6 million year earlier.

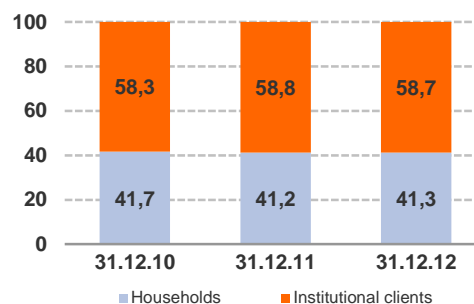
T-bonds (Eurobonds included) and derivatives represented a major, even though smaller than in the previous year, item in the balance sheet of the Bank. As at the end of December 2012, this portfolio totalled PLN 26,150.1 million (or 34.8% of assets) compared with PLN 27,254.7 million (or 39.1% of assets) in December 2011. Debt securities predominated in those assets, including available-for-sale investments which accounted for PLN 17,881.1 million (i.e. 68.4% of the portfolio of all financial instruments).

Bank's receivables from other banks totalled PLN 1,365.3 million (or 1.8% of assets) compared to PLN 967.1 million (or 1.4% of assets) in December 2011.

### Currency structure of customer receivables

	31.12.2012		31.12.2011	
	PLN million	%	PLN million	%
PLN	37,227.2	81.3	33,325.6	78.8
Foreign currencies	8,536.8	18.7	8,973.1	21.2
<b>Total</b>	<b>45,764.0</b>	<b>100.0</b>	<b>42,298.7</b>	<b>100.0</b>

### Structure of net loans by client group (%)

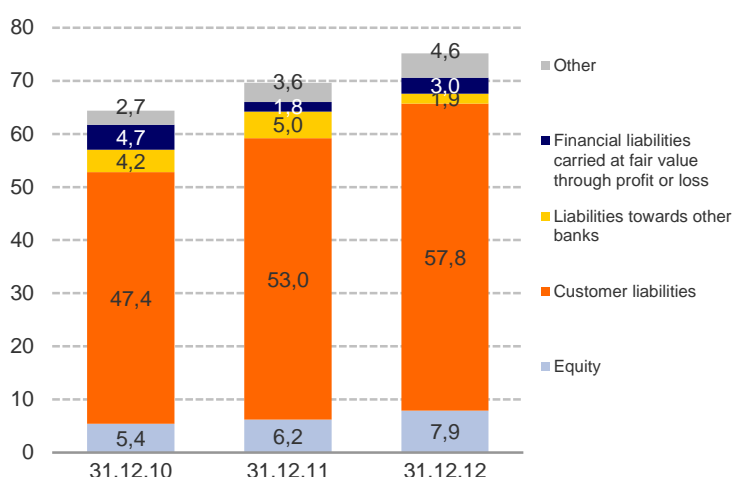


### Liabilities

The funds deposited with the Bank by customers constituted the dominant source of funding for the operations of ING Bank Śląski S.A. In December 2012, liabilities towards customers totalled PLN 57,782.6 million compared with PLN 53,044.3 million as the 2011 yearend. As at the end of 2012, liabilities towards customers represented 76.9% of total liabilities, up by 0.7 p.p. from the 2011 yearend.

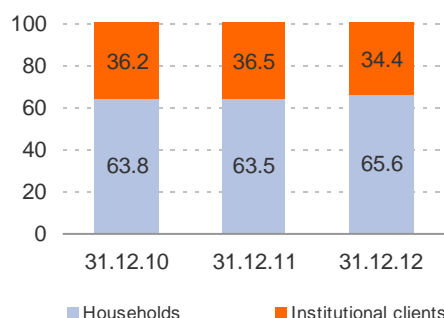
The Bank's liabilities towards other banks totalled PLN 1,870.0 million compared to PLN 4,951.8 million as the 2011 yearend. Funds from monetary financial institutions represented 2.5% of liabilities, while in December 2011 their share was 7.1%.

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

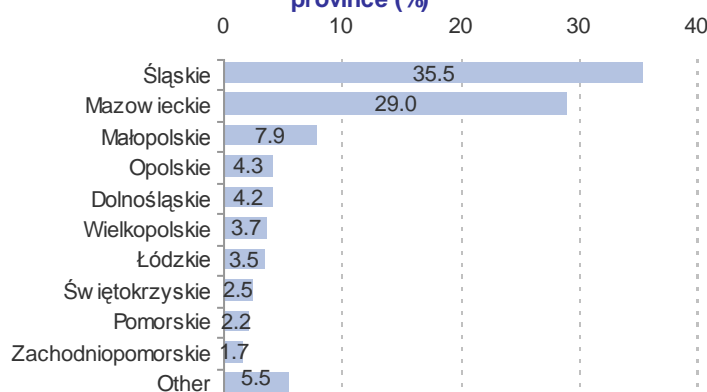


Throughout 2012, equity went up substantially. As at the end of 2012, the Bank's equity was PLN 7,878.8 million (against PLN 6,231.50 million in December 2011). Hence, equity share in funding the Bank operations rose to 10.5% compared with 9.0% as at the 2011 yearend.

### Structure of deposits by client group (%)



### Structure of deposits of ING Bank Śląski S.A. by province (%)



## 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 credit risk management 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 develops and presents for Bank bodies' approval the risk appetite criteria and requirements along with stress tests, under the guidelines of the Polish Financial Supervision Authority Office.

ING Bank Śląski S.A. manages its credit risk with the use of advanced credit risk assessment models. The credit risk management area ensures: development and implementation to the credit process of credit risk management components such as risk identification and assessment, measurement and monitoring, 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

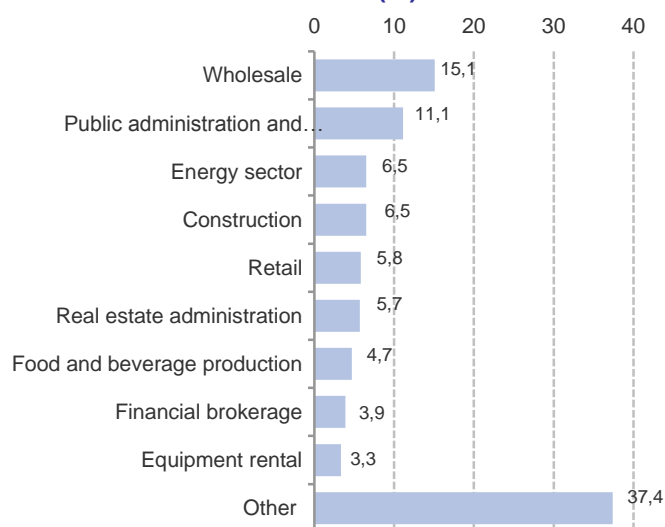
The modifications to the ING Bank Śląski S.A. lending policy regarding corporate credit exposures introduced in 2012 took account of Poland's economic situation as well as the financial standing of individual groups of borrowers. The said modifications were oriented at the following in particular:

- 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 for credit risk appetite for the client credit exposures portfolio,
- bringing the collateral policy for Bank's debt claims into line with the effective legal requirements,
- modifying the risk management policy for mortgage-backed credit exposures extended on income-producing real estate in accordance with the Polish Financial Supervision Authority recommendation and organisational changes in place at the Bank,
- revising the methodology on forming impairment losses (provisions) on account of impaired credit exposures under IFRS,

**Concentration of the Bank's (balance and off-balance) exposures to corporate clients (%)<sup>22</sup>**



<sup>22</sup> The list presents exposure to corporate clients except banks, including gross credit receivables (loans and corporate bonds) and off-balance sheet exposure

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

ING Bank Śląski S.A. also took efforts to reinforce credit risk control for the retail portfolio due to the complex situation on the labour market, FX market and residential real estate market. The Bank, among other things:

- implemented a new model to process credit applications from individual clients; in the new system, a large part of risk assessment rules was systemised and automated;
- revised the rules for retail credit powers for the consumer loans segment: for automatic and one-person decisions, among others;
- for electronic banking, ING Bank On-line, the Bank launched a new internet channel for sale of credit facilities;
- changed the lending policy for consumer loans as regards application of disparate tenors, thresholds for automatic decisions, the maximum total debt ratio as well as the limits for the total unsecured amount based on the synthetic assessment of the client viability as shown by risk groups;
- brought the lending process and regulations into line with the new Act on the Protection of Rights of the Apartment or Detached House Buyer;
- brought the Lending Policy for mortgage loans into line with the current macroeconomic situation (the loans with LTV of above 80% were withdrawn from the offer and the criteria for consolidation loans were tightened);
- reorganised the process for monitoring and update of worth of residential real estate as far as the use of mass-produced real estate assessments based on the Internal Real Estate Database is concerned;
- thoroughly reviewed IT systems on account of key risk data, notably for mortgage collaterals;
- modified the rules and organisation of the annual review of economic standing of clients from the Entrepreneurs sub-segment;
- substantially changed the risk measurement and monitoring tools, adapting the management information system to the revised lending policy and the new system for processing credit applications; and
- as an element of satisfaction of the Polish Financial Supervision Authority's condition concerning application of advanced approach for regulatory capital calculation in the corporate segment, the Bank built PD/LGD/EAD statistical models for the retail mortgage portfolio. The Bank uses the above models to take decisions, calculate impairment losses and estimate economic capital.

### **Credit Risk Measurement and Monitoring Tools**

In 2012, ING Bank Śląski S.A. satisfied the conditions imposed thereon by the regulators in the permission issued for the Bank to use advanced internal rating-based approach (AIRB) to calculate credit risk capital requirements. As part of those actions, the Bank undertook the following:

- introduced an array of new and modified internal policies, procedures and manuals for risk modelling, risk model monitoring and validation as well as change management for internal rating-based approach, under the Polish Financial Supervision Authority Resolution No. 76/2010,
- developed new risk models for exposures towards small and medium entrepreneurs,
- devised monitoring for changes to the risk-weighted assets along with identification of their causes for corporate exposures under AIRB,
- modified the scope of scenarios used in stress testing for the segment of corporate clients and small businesses.

The Bank adjusted the tools and instruments used to measure and monitor corporate client credit risk to the revised lending policy:

- revised the guidelines for the industries to be credited,
- revised recommendations concerning sectors, which the Bank considers as increased risk sectors,
- developed internal reporting (the so-called Credit Risk Alerts) on profitability of infrastructural projects, funding of construction sector entities and risk factors for steel industry, road transport and car dealers,
- revised selected rating models considering results of their monitoring and validation.

In turn, the retail portfolio monitoring and restructuring saw changes to improve effectiveness of the said processes, both at the monitoring and debt collection stages. They concerned in particular:

- new Customer Centric rule-based monitoring strategies,
- introduction of new tools of communication with clients at the pre-monitoring stage (text-messages advising of the coming payment date),
- improvement of management quality as regards co-operation with external companies, more extensive use of external companies at the “credit pre-termination” stage,
- extension of field debt recovery structures, blanket country coverage,
- improvement of quality and efficiency of restructuring processes (introduction of scoring, more extensive use of the restructuring process),
- placement of all debt recovery processes within one Debt Recovery Section and centralisation of supporting processes.

### **Quality of Lending Portfolio and Provisioning**

As at the end of December 2012, the total gross value of loans and cash loans extended to clients of ING Bank Śląski S.A. was PLN 41,087.5 million.

Impaired loans were worth PLN 1,649.6 million versus PLN 1,553.1 million as at the end of 2011. Thus, the share of the impaired loans portfolio in the entire lending portfolio of the Bank dropped from 4.2% in December 2011 to 4.0% as at the end of 2012.

As in previous years, in 2012, the quality of lending portfolios of ING Bank Śląski S.A. (both retail and corporate) was better than the average in the entire banking sector.

As at the end of December 2012, ING Bank Śląski S.A. had PLN 1,152.5 million worth of provisions for the lending portfolio. The impaired portfolio provisioning ratio was 69.9%.

## Quality of portfolio of loans and cash loans extended to ING Bank Śląski clients<sup>23</sup>

	31.12.2012	31.12.2011	31.12.2010
<b>Total exposure (PLN million)</b>	<b>41,087.5</b>	<b>37,379.0</b>	<b>30,500.0</b>
Non-impaired portfolio (PLN million)	39,437.9	35,825.9	28,994.1
Impaired portfolio (PLN million)	1,649.6	1,553.1	1,505.9
Impairment losses and provisions (PLN million)	1,298.3	1,119.2	1,088.2
Charge for non-impaired portfolio (PLN million)	123.5	159.7	149.7
Charge for impaired portfolio (PLN million)	1,152.5	948.9	927.4
Provisions for off-balance sheet liabilities (PLN million)	22.3	10.6	11.1
<b>Share of the impaired portfolio (%)</b>	<b>4.0</b>	<b>4.2</b>	<b>4.9</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>69.9</b>	<b>61.1</b>	<b>61.6</b>
<b>Exposure – Corporate Banking (PLN million)</b>	<b>24,546.4</b>	<b>22,370.1</b>	<b>17,949.4</b>
Non-impaired portfolio (PLN million)	23,413.5	21,236.8	16,771.8
Impaired portfolio (PLN million)	1,132.9	1,133.3	1,177.6
Impairment losses and provisions (PLN million)	828.1	736.4	783.8
Charge for non-impaired portfolio (PLN million)	53.4	62.8	60.0
Charge for impaired portfolio (PLN million)	752.4	663.0	712.7
Provisions for off-balance sheet liabilities (PLN million)	22.3	10.6	11.1
<b>Share of the impaired portfolio (%)</b>	<b>4.6</b>	<b>5.1</b>	<b>6.6</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>66.4</b>	<b>58.5</b>	<b>60.5</b>
<b>Exposure – Retail Banking (PLN million)</b>	<b>16,541.1</b>	<b>15,008.9</b>	<b>12,550.6</b>
Non-impaired portfolio (PLN million)	16,024.4	14,589.1	12,222.3
Impaired portfolio (PLN million)	516.7	419.8	328.3
Impairment loss (PLN million)	470.2	382.8	304.4
Charge for non-impaired portfolio (PLN million)	70.1	96.9	89.7
Charge for impaired portfolio (PLN million)	400.1	285.9	214.7
<b>Share of the impaired portfolio (%)</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>
<b>Impaired portfolio provisioning ratio (%)</b>	<b>77.4</b>	<b>68.1</b>	<b>65.4</b>

## 2. Off-Balance Sheet Items (including Contingent Liabilities)

As at 31 December 2012, ING Bank Śląski S.A. had:

- committed but non-utilised credit lines, commitments to extend loans (such as overdrafts and card limits) and commitments under issued guarantees and letters of credit totalling PLN 15,803.1 million (down by 5.9% from the end of 2011),
- received contingent liabilities in the amount of PLN 37,324.3 million (up by 8.7% from a year earlier),
- off-balance sheet financial instruments (derivative transactions) totalling PLN 133,610.6 million (down by 15.4% from the end of 2011).

<sup>23</sup>Leasing and factoring receivables included.

## Off-balance sheet items of ING Bank Śląski S.A. (PLN million)

	31.12.2012	31.12.2011
<b>Contingent liabilities granted and received</b>	<b>53,127.4</b>	<b>51,127.6</b>
Liabilities granted:	15,803.1	16,792.8
Financial	13,368.7	13,336.0
Guarantee	2,434.4	3,456.8
Liabilities received:	37,324.3	34,334.8
Financial	0.0	199.0
Guarantee	37,324.3	34,135.8
<b>Off-balance sheet financial instruments</b>	<b>133,610.6</b>	<b>157,928.2</b>
Interest rate derivatives	104,521.3	95,158.5
FX derivatives	21,733.4	47,752.3
Stock market derivatives	1,268.9	1,135.6
Other	6,087.0	13,881.8
<b>Off-balance sheet items total</b>	<b>186,738.0</b>	<b>209,055.8</b>

### 3. Market Risk Management

#### General Information

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

Market risk is managed using top-down approach. The ING Bank Śląski S.A. Supervisory Board defined the overall acceptable risk level, the so-called High Level Risk Appetite Statement concerning regulatory and economic solvency of the Bank, liquidity risk, and also diversification of funding risk and market risk on the consolidated level. These general risk levels were implemented into sub-risk appetite levels (the Acceptable Risk Appetite Report) for individual risk areas; risk limits were set as well.

#### Market Risk Processes

Market risk management within ING Bank Śląski S.A. covers market risk identification, measurement, monitoring and reporting, both within the Bank itself and in its subsidiaries. Being independent from the Bank units generating market risk, the Market Risk Management Department provides the Bank Management Board, the ALCO Committee and the FM Management with market risk updates. An important advisory role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V.

The Market Risk Management Department is sub-divided into two sections: the Trading Risk Management & FM Product Control Section (deals with risk of the business activity conducted on one's own account) and the ALCO Management Section (concentrated on balance sheet and liquidity risk management).

The purpose-based Bank books structure reflects the types of market risk and areas where market risk should be internally transferred/hedged within the Bank. Hence, the Bank keeps the following books:

- **Trading Book.** Comprises FM books (FX transactions, FX options and interest rate options), where open positions are generated to earn short-term profit on market fluctuations and arbitrage operations. Additionally, the positions stemming from the operations of the Sales Department are also hedged in the Bank's trading books.
- **Banking Book.** The risk of commercial deposits and loans is transferred to the Financial Markets via internal transactions to centralise all market risks within the specialised management function. The primary objective of banking books like the Funding and Liquidity Management Book and ALM is to ensure that all liquidity and interest rate risk positions are managed at the Bank.



### **Risk Identification**

Being a universal bank, ING Bank Śląski S.A. has numerous market risk categories. The following ones can be enumerated in particular:

- interest rate risk,
- FX risk,
- funding risk,
- cash liquidity risk and liquidity price risk,
- optionality risk.

### **Market Risk Measures**

The Market Risk Management Department applies various measures to control the identified risk categories and adjust them to high level and specific acceptable market risk appetite defined by the Bank Supervisory Board and Management Board.

Value at Risk (VaR) is the main methodology used to calculate market risk in FM books, both in Trading and Banking. It is also used for periodic review of market risk in commercial books (non-FM books). The VaR ratio gives the maximum potential loss, assuming certain confidence (probability) level. The Bank calculates VaR separately for individual interest rate (IR), FX and FX options portfolios. VaR for IR and FX risks is calculated using variance-covariance method. For FX options, which are an instrument with a non-linear risk characteristic, ING Bank Śląski S.A. applies VaR historical method. This method is more precise in measuring FX options portfolio risk. Since VaR method does not offer a full picture of market risk under conditions of extended stress, the Bank also calculates incident risk (applies stress testing). For each type of activity, there has been set VaR limit that is not to be exceeded.

To value the derivatives portfolio, ING Bank Śląski S.A. applies all risk parameters so as to arrive at zero-risk valuation. The Bank implemented the OIS curve for valuation of derivatives as well as credit risk valuation adjustment (CVA/DVA adjustment) for the portfolio of non-hedged derivatives and added both elements to the valuation process.

The Earnings at Risk (EaR) and Net Present Value (NPV) at Risk concept is used to measure the IR risk for interest-bearing positions in the banking book. The calculation covers the period of one year and shows the scale how incremental interest can change at the set shocks of +/-1% and +/-2%. The Bank applied two approaches: a simple approach for positions comprising forwards/futures and/or small volumes of demand positions and an advanced approach for material demand positions (at present: the Bank's PLN demand deposit base and internal investments thereof in FM banking books). For the positions in commercial banking books, non-linear interest rate risk is also measured. Specifically, the Bank measures optionality risk (the potential losses on those positions given early withdrawal of term deposits and/or early repayment of loans) and underlying risk (the potential losses on those positions arising from non-standard interest rate-setting mechanisms).

For liquidity risk management, the Bank introduced the notion of the minimum survival period (by currency) for stress scenario to make sure that it would safely outlive any market disturbances. The minimum survival period for individual currencies was set as 3 months. In order to satisfy the said minimum requirements, the Bank made special transactions to hedge funding of CHF-denominated mortgage portfolio. In consequence, the CHF lending portfolio received a dynamic funding structure which can be adjusted as needed in response to early repayments of loans.

ING Bank Śląski S.A. implemented numerous controls to manage exposure funding effectively. The Bank set concentration limits for its funding positions and the consolidated limit for liquidity mismatch gaps. It is this approach that ensures that the way in which the Bank's balance sheet develops remains under control in terms of liquidity risk. So as to diversify the funding risk, the Bank issued 5Y own bonds.

To make sure that each risk measure is set on an adequate level, the Bank tests market scenarios from various perspectives. In addition to employing the scenarios defined by the Polish regulator (Polish Financial Supervision Authority) and the Dutch regulator (Dutch Central Bank), the Bank performs stress tests both per portfolio and for the entire Bank with the use of in-house test scenarios.

The aforementioned scenarios include back-testing elements as well as elements of probable future events; they are developed in co-operation with the Bank Chief Economist. Liquidity testing results are considered in establishing the liquidity contingency plan for the Bank.

### VaR Exposures and Limits in 2012

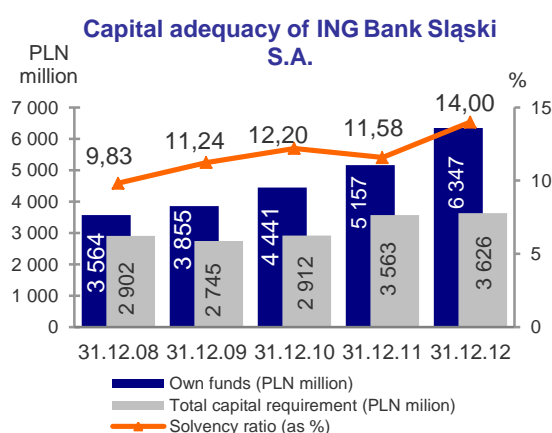
In 2012, the Bank maintained its trading exposures at low levels compared to the effective limits. The average limits utilisation was respectively: 20% for interest rate risk, 27% for FX risk and 12% for FX options. In 2012, the Bank did not report any VaR limits overrun.

## 4. 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.

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%.

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 satisfied (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 all three methods of the solvency ratio computation, the ratio would be as follows:



### Solvency ratio calculation for ING Bank Śląski S.A.

	31.12.2012	31.12.2011	31.12.2010
<b>According to the interpretation of the Polish Financial Supervision Authority</b>			
Own funds (PLN million)	6,347.0	5,157.3	4,441.1
Total capital requirement (PLN million)	3,626.4	3,563.3	2,911.7
Solvency ratio as %	14.00	11.58	12.20
<b>Upon applying Advanced Internal Rating-Based Approach (AIRB)</b>			
Own funds (PLN million)	6,347.0	5,157.3	x
Total capital requirement (PLN million)	3,185.4	3,234.0	x
Solvency ratio as %	15.94	12.76	x
<b>Upon applying Standard Approach (SA)</b>			
Own funds (PLN million)	6,488.7	5,312.1	4,441.1
Total capital requirement (PLN million)	3,626.4	3,563.3	2,911.7
Solvency ratio as %	14.31	11.93	12.20

In addition to introduced Advanced Internal Rating-Based Approach, in 2012, the capital adequacy of the Bank Capital Group was impacted by the following factors:

- Lending growth. Capital requirements under credit risk, depending on the month, accounted for approximately 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.

## 5. Operational Risk and Compliance

ING Bank Śląski S.A. executes the rules of operational compliance and anti-fraud risk management pursuant to the provisions of the Banking Law Act, recommendations and resolutions of the Polish Financial Supervision Authority and the standards developed by 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 2012, caring about the safety of funds entrusted by clients and maintenance of acceptable operational risk, the Bank continued its efforts to perfect operational risk management forms and methods, among others, through:

- ensuring adequate operational, compliance and anti-fraud risk management framework,
- defining the risk appetite (the risk the Bank is ready to accept), considering the threats stemming from changes to business environment,
- providing managers with valuable management reports showing risks embedded in individual processes and business areas of the Bank,
- ensuring that compliance is abided by, including requirements for counteracting money laundering and terrorism financing, preventing conflicts of interest as well as limiting corruption threats,
- ensuring effective forms of counteracting crimes related to payment transactions and identity theft or funds theft with the use of electronic tools,
- assessing risk and controls for the processes, projects, applications and products, considering the threats stemming from changes to business environment,
- conducting scenario analyses,
- monitoring risk through Key Risk Indicators,
- monitoring actions mitigating risk,
- gathering and analysing information on operational risk events and taking preventive measures in all areas of Bank operations,
- testing business continuity plans for key business processes and perfecting the crisis management system and physical and personnel security system in all locations,
- ensuring adequate insurance levels for the banking operations in the form of global and local insurance, and
- raising awareness of effective operational, compliance and anti-fraud risk management by organising awareness raising programmes and training courses for all Bank employees.

## VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT ING BANK ŚLĄSKI S.A. IN 2012

### 1. IT and Operations

The functioning of the IT area in ING Bank Śląski S.A. underwent material changes in 2012, which took place due to, among others, the implementation of the Lean IT project. Its goal is to increase efficiency as regards internal clients' needs handling with the optimum use of resources and enhanced quality and level of satisfaction from IT services.

Also in the Operations area, ING Bank Śląski S.A. executed many initiatives.

It continued the settlement-related projects:

- SORBNET2 – The main objective is to implement the application compatible with 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.
- Trade Finance – Implementation of the Back-Office platform, facilitating handling of letters of credit, guarantees, collections and documentary discount as well as the tool as part of ING BusinessOnLine to handle these products.

The following initiatives took place in the cash management area:

- Implementation of touchless readers in ATM (the first such implementation in Poland and one of the first worldwide).
- Implementation of NFC-enabled mobile payments.
- Launch of the bank on-line depositories and for Grupa Żywiec client.
- Development of the fee collection machine for local government units.

As at the end of December 2012, the share of automatic transactions in the total number of transactions of the Operations Division accounted for 98.1% (against 97.3% a year earlier).

### 2. Development of Electronic Distribution Channels

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

ING BankMobile – a modern platform to use banking services via mobile phones. Application for iPhone debuted on 08 January, and on 08 May the version for Android platform was made available. ING BankMobile enables the Bank client to, among others,:

- make transfers (the daily limit for not predefined transfers and transfer to defined users for the total amount of PLN 500),
- check the history of current and personal accounts transactions and credit card transactions, as well as blockades and pending transactions,
- check the loan and cash loan details,
- repay the credit card,
- top up the mobile phone,
- send the account number and transaction confirmation in the PDF file easily.

The graphic indicator enables the clients to check their account balance without logging in – this solution is innovative in the market and thus constitutes the application's competitive advantage.

Financemeter – a Personal Finance Management tool. Introduced to the wide offer in July 2012, it is one of the first solutions of this type in the market. It facilitates managing household budget in a simple and intuitive way based on the analysis of transactions effected with payment cards and in personal and savings accounts. An intelligent adaptation engine, which automatically allocates expenses to

specified categories is one of advantages of the solution. The reports and charts generated by the Financemeter enable the clients to control their expenses and to compare them with the average structure of expenses of other ING BankOnLine users with similar features (age, education, income). As at 31 December 2012, the electronic banking systems of ING Bank Śląski S.A. were used by 2.4 million clients, up by 13.5% from the end of 2011. Only to the ING BankOnLine system on average there are 22 million logins per month. Also the number of clients who use the HaloŚląski system increased considerably, up by 11.6% from December 2011. Throughout 2012 the ING BankMobile application has already been downloaded more than 123 thousand times, and as at 31 December 2012 there were already over 91 thousand clients using this tool.

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

	<b>31.12.12</b>	<b>31.12.11</b>	<b>31.12.10</b>	<b>31.12.09</b>
ING BankOnLine, ING OnLine, ING BusinessOnLine	2,350,269	2,115,325	1,879,525	1,559,504
HaloŚląski	1,433,433	1,285,261	1,072,099	786,008
ING BankMobile	88,421			

In 2012, the Bank introduced the following modifications:

- It introduced the standard of secure credit card payments in the internet. By dint of the 3D Secure security measure, the internet transactions effected with the use of a credit card may be confirmed in the ING BankOnLine internet banking system.
- It made the Express Elixir instant payment settlement system available; the system enables the clients to effect instant transfers a few seconds after they were placed.
- It implemented the My Invoice module which instead of hardcopy of bills and invoices provides the clients with the soft copy counterparts thereof and enables them to pay them easily.
- It made available an on-line cash loan application form with the automatic decision option.

As at the end of December 2012, ING Bank Śląski S.A. had 1,123 devices for cash self-service in total, including: 427 standard ATMs, 351 standard CDMs and 345 dual machines. Currently the Bank has the largest network of CDMs in Poland.

In November 2012, ING Bank Śląski launched the first NFC-enabled ATM in Poland. This innovative solution is one of the first in the world. It is also the very first implementation conducted in liaison with VISA and MasterCard payment organisations.

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

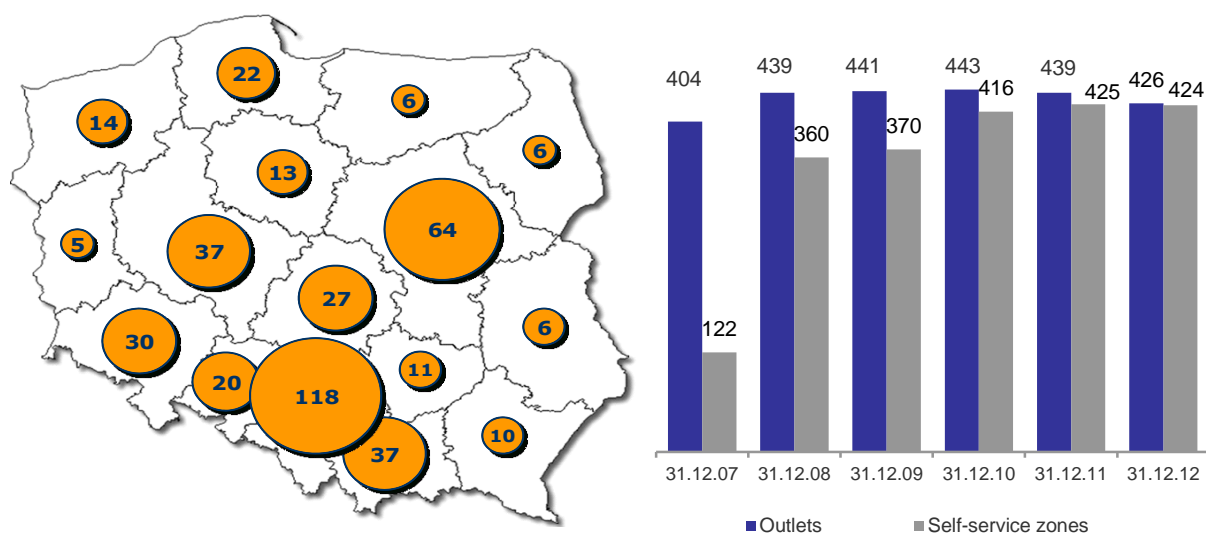
### **3. Network of Bank Outlets**

As at 31 December 2012, ING Bank Śląski had 426 retail branches (including 1 franchise outlet taken over by the Bank on 02 January 2013 and 127 non-cash 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 a Call Centre consultant.

Corporate clients from mid-sized and mid-corporates segment were serviced at the Bank by 32 corporate branches (additionally, a new corporate branch was opened on 01 January 2013 in Cieszyn) and 13 Corporate Banking Centres. Almost all of them were operating in the same locations as retail branches. The largest corporate clients were handled by the Strategic Clients Department and its two regional offices (in Katowice and Gdańsk).

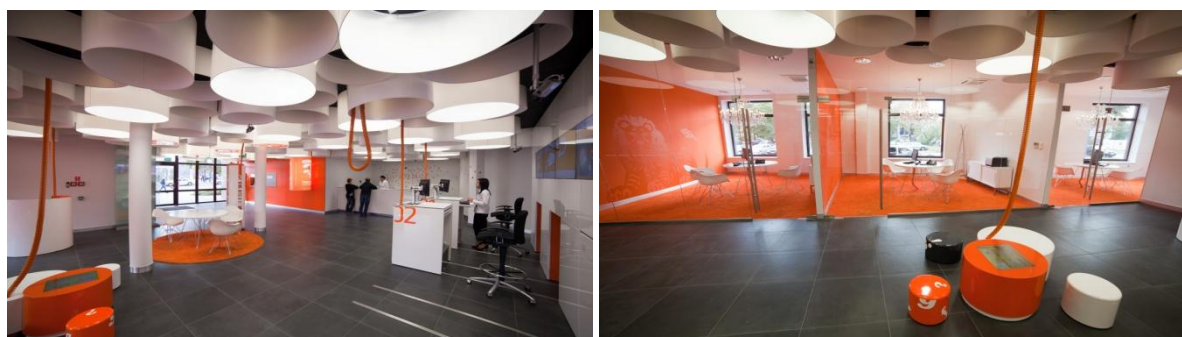


### Network of ING Bank Śląski Outlets (as at 31 December 2012)



Clients appreciated new visualisation of branches, which was proved by the fact that the retail branch of ING Bank Śląski in Toruń located at ul. Szosa Chełmińska 26 won the 2012 Prettiest Bank Branch contest organised by the Banking-Magazine portal. The votes for the nominated outlets were cast by the internet users. Moreover, the Bank corporate branch located at ul. Kopcińskiego 73/75 in Łódź received a special mention.

What is more, the Bank developed a dedicated website where the revamped branches may be looked at. The most important functionality of the [www.nowyoddzial.ingbank.pl](http://www.nowyoddzial.ingbank.pl) website is the virtual walk around the new outlet. The users may see how the revamped branches look like and learn more about the implemented changes through the pop-up windows.



## 4. Human Resources Management

### Headcount

As at 31 December 2012, ING Bank Śląski S.A. had 8,244 employees, up by 33 persons (or 0.4%) from December 2011.

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

	31.12.2012		31.12.2011	
	number of persons	%	number of persons	%
Retail Banking	4,143	50.2	4,150	50.6
Corporate Banking	1,143	13.9	1,103	13.4
Operations/IT/Services	2,035	24.7	2,039	24.8
Risk/Organisation/Finance/HR	923	11.2	919	11.2
<b>Total</b>	<b>8,244</b>	<b>100.0</b>	<b>8,211</b>	<b>100.0</b>



The recorded changes in the headcount structure were, above all, related to the development of the Corporate Sales Network and direct sales channels in the retail area.

### Remuneration Policy

In 2012, ING Bank Śląski kept the existing remuneration policy, the aim whereof is to support the strategic goals effectively. The assumptions of the policy are based on competitive, marked-to-market remuneration and they focus on transparency and coherence of remuneration employees are offered with. In April a Bank-wide pay rise campaign was conducted. The pay rise amount was related to the employee's annual appraisal grade.

In 2012 the bonus system was changed considering the specificity of operations of individual areas. The bonus award period in certain areas and principles whereunder bonus tasks are settled changed among other things. By dint of these changes the bonus system reflects the nature of tasks in individual Bank areas better.

Following Resolution No. 258 of 04 October 2011 of the Polish Financial Supervision Authority, the Bank implemented new solutions. Firstly, the list of positions having material impact on the risk profile of ING Bank Śląski S.A. was developed. The *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* was adopted with the resolution of the Supervisory Board. Following the implementation of a new regulation the content of the new *Executive Remuneration Regulations for Members of the Management Board of ING Bank Śląski S.A.* and *General Conditions of Bonus Award to Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.* was approved.

The maximum relation of the fixed remuneration to the variable remuneration was established. The variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to a cash benefit dependent on the value of ING Bank Śląski S.A. shares. At the same time, the decision that ING Bank Śląski S.A. would abandon the ING Group long-term incentive programme was taken.

The compensation awarded as phantom stock shall be subject to one-year retention period.

### Recruitment and Employer Branding

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

- It took part in job fairs, co-operated with universities and student organisations.
- It conducted the second edition of the Ambassador Programme addressed to all students regardless of their education stage.
- It conducted recruitment for the Internship with Lion programme addressed to second year students who plan to work in banking in the future. In 2012, the Programme was participated by 55 students.
- It completed the second edition of "ChallengING IT" addressed to students interested in development within IT area.

In April 2012, the Bank was granted the Top Employers certificate for the third time. We were highly assessed by our external auditor in all the assessed areas: basic benefits, fringe benefits and work conditions, training courses and development, career development and company corporate culture.

### Employee Development and Training Courses

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

The Bank focused on actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC), conducted in 2011 in the areas related to leadership, accountability, career opportunities and recognition. In 2012, there were 3,500 employees trained in that area, among others, 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*. Moreover, there were numerous training courses for high-potential employees and talented university graduates.

The Bank also conducted training programmes supporting execution of business goals, such as training courses for the Retail Network Employees concerning products, customer service, sales skills and IT tools modification. Approx. 1,700 training days were held for the total number of almost 20,000 participants.

The Bank 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-wide and specialist competences, but also process, product and professional knowledge training courses. The training courses are organised in the traditional and e-learning forms.

Yet another priority set for 2012 was strengthening the culture of feedback. This theme was supported by numerous initiatives such as workshops and theme panels for managers and training materials made available to all Bank employees via the intranet.

Additionally, the Bank promotes: monitoring, coaching, tutoring, self-service forms of sharing knowledge with the use of multimedia tools.

### ***Use of Information Technologies in HR Processes***

In 2012, as part of the further SAP HR system implementation at the Bank, the following SAP HR functionalities were introduced: the Employee Pension Programme, the In-House Social Benefits Fund, personnel expenses planning, HR application forms, remuneration management. The tool enables employees to perform some basic HR-related activities on their own; the said activities comprise: annual performance appraisal interview, KPI settlement, access to HR data, change of personal data (address, Tax Office), leave requests forms, certificates generation.

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

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 the 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.

The motto *I think Bank, I choose ING* reflecting the vision of ING Bank Śląski S.A. to become the preferred bank will still be valid in 2013.

### Retail Banking

In 2013, on the retail market ING Bank Śląski S.A. will focus on strong, sustainable growth of both deposit and lending activity. In the consolidating market environment, the Bank will strive to strengthen its position via actions aimed at becoming the preferred bank.

In execution of its strategic objectives, the Bank will use its competitive characteristics: clear and transparent product offer with good value for money, very good brand recognition, well-developed distribution channels (over 420 branches, remote channels: contact centre, internet and mobile banking) as well as strong and engaged staff.

Strategic priorities for 2013:

- Accelerating new clients' acquisition rate. The basic execution tool for this priority will be the attractive offer of current and savings accounts.
- Strengthening relationship with the existing clients by concentrating on their financial needs and using a multichannel distribution model. Changes in client preferences – the growing propensity to use remote channels leads to enhanced clients' interest in the offer of ING Bank Śląski S.A. In 2013, Bank's actions will aim at an even better use of the growing customer traffic to increase sale.
- Consolidating solid position on the market of household deposits by enhancing the offer of savings accounts while the interest rates will go down.
- Increasing the number of active personal accounts which are among the most important products providing the grounds to build a long-term relationship with clients.
- Increasing cash loan sale.

To execute the abovementioned priorities, ING Bank Śląski S.A. will aim at ensuring uniform service of high quality (customer experience) in all distribution channels. The growing loyalty and propensity to recommend Bank services to friends and family is an expected deliverable of positive customer experience. Wider use of remote distribution channels will be achieved by extending functionalities of internet and mobile banking applications, among others. Moreover the Bank will automate the low added-value operations to focus on sale and advisory functions.

Those actions should translate into better sales and financial results of retail banking. The increased cross-sell is not treated as a source of increased income only, but also as a tool of income diversification. Wider use of remote distribution channels and operations automation will favour cost effectiveness improvement.

Further expected interest rate cuts and the reduction of card-related fees may in the short-term have an adverse impact on financial results of the retail banking segment, but in the long term should contribute to a rise in volumes and thus higher results.

## Corporate Banking

In 2013, the key actions of ING Bank Śląski S.A. in the corporate banking market will be aimed at:

- Maintaining high acquisition of corporate network clients (Mid-sized and Mid-corp clients) and strengthening relationship with strategic clients as well as extending their base (co-operation with international companies being ING Group clients worldwide).
- Increasing the core deposits in current accounts by both acquiring new clients, and tightening relationships with existing ones. Sale of 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. The Bank intends to focus on assets with the best risk profile by participating in the biggest lending tenders and developing commercial real estate finance. In this last area the Bank will address its offer to local clients with the best risk profile and intensify co-operation as part of the Real Estate Finance in ING Group.
- Retaining strong market position in the issue arrangement and service for non-government debt securities for corporate entities.
- Strengthening co-operation with Group ABL companies (leasing and factoring).
- Increasing share in the leasing market through a dynamic growth of transactions concluded via banking distribution channels in leasing of vehicles, machines and equipment while remaining the key player on the real estate and train fleet funding market.
- Maintaining high level of 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:

- Corporate 2020 Programme – a new corporate banking business model developed in response to global banking trends such as development of new technologies, changing client preferences or the fact of entry into the banking products market of entities from other sectors. The project deliverable is to develop a new, long-term strategy to become a corporate banking leader in the next decade. The leading position is to be achieved by dint of a qualitative change of the offer and setting new customer service standards.
- CRM System – follow-up of the project launched in 2011 aimed at development and implementation of an IT tool dedicated to relationship managers and other persons involved in providing services to Mid-corps. Four subsequent stages of works are planned for 2013; as a result: the information gathered will be used to support sales and manage relationships with clients better.
- Integrated and up-to-the-minute offer in the transactional banking area developed based on the suggestions of strategic clients given at meetings. The project concerns development of cash management products (focusing on state-of-the-art solutions in electronic customer service channels – Webservice, eInvoicing, eZgody [e-Consents] in the Direct Debit area) under the comprehensive offer comprising also trade finance and factoring products. The Bank will develop modern settlement products in NFC technology in close co-operation with clients.
- Enhancing the electronic banking system. It is the Bank's ambition to offer all the products in the Mid-sized and Mid-corp segment on the internet platform. The ING BusinessOnline application will be extended with the module addressed to custody clients and the option of effecting FX forward transactions. In H2 2013, an electronic tool for servicing all elements of the credit process for strategic clients (the biggest companies) will be introduced, eliminating the flow of paper documents.
- Modernizing the Branches. The branches redevelopment project, covering not only new branding and new office layout, but also a change of branch organization and adjustment of the branch network to the local potential of the market will continue. All corporate branches are planned to have been adjusted to the new standard by the end of 2015.

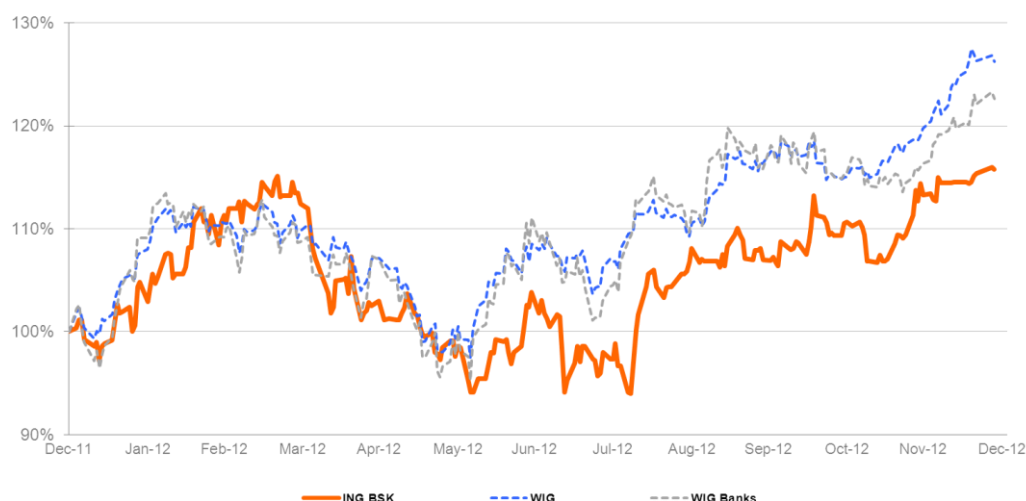
## IX. INVESTOR INFORMATION

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

In 2012, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 73.90 (on 07 August) to PLN 91.15 (on 27 December). On 28 December 2012, the price of ING Bank Śląski S.A. share equalled PLN 91.00, up by 15.8% from the last quotation day in 2011 (to compare: Banks sub-index went up by 22.6%).

As at the end of 2012, the Bank's market value was PLN 11,839 million, while its book value amounted to PLN 8,136 million.

#### ING Bank Śląski S.A. trading share price in 2012 (30 December 2011 = 100%)



### 2. Ratings

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

Fitch Ratings Ltd. assigns full rating to ING Bank Śląski S.A. under agreement between the Bank and the Agency. In H1 2012, the Agency reviewed ING Bank Śląski S.A. rating. As a result, the Agency affirmed all the Bank's ratings (Fitch's press release of 28 February 2012 as well as the 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	Negative
Short-term IDR	F1
Viability rating	bbb+
Support rating	1

In December 2012, Fitch Agency carried out the annual rating review at the Bank. As a result, all the to-date ratings were affirmed (Fitch Agency's press release of 29 January 2013). Nevertheless, on 06 February 2013, the Agency announced that it revised the ratings outlook for three big Dutch banks, ING Bank N.V. inclusive, from stable to negative. It led to analogical rating revision for ING Bank Śląski S.A. Change of the ratings outlook for the Dutch banks was related to the revision of the Netherlands rating of a day earlier – the country's rating was affirmed at 'AAA' level but the outlook was revised from stable to negative. In its justification, the Agency invoked the deteriorating, in its opinion, macroeconomic situation of the Netherlands.



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 Agency 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 of bbb+ means that according to the Agency, the intrinsic creditworthiness of the Bank; i.e., without any support (understood as the capacity to pay one's liabilities on time) is high. The Agency is of the opinion that the Bank has strong capital and liquidity position. 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 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:

<b>Moody's Investors Service Ltd.</b>	
LT rating	Baa1
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 has 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 previously announced 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 (analogically to the ING Group rating downgrade).
- Short-term deposits from P-1 to P-2.

Individual 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 public system support. Thanks to assessment of the capacity and probability of support provision by the parent company, the long-term 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.

### **3. Investor Relations**

At ING Bank Śląski S.A. the investor relations play a vital role. The main objective of the unit responsible for investor relations (Strategic & Investor Relations Bureau) is to ensure effective co-operation between the Bank and investors, analysts, rating agencies and other stakeholders.

The Bank pays special attention to the data reliability, transparency and equal treatment of all the stakeholders. The Bank observes all the provisions of law regarding disclosure duties of listed companies. The important financial and business information in the form of financial reports, current



reports, investor presentations and editable files with key data concerning the company are at the same time presented to the broad capital market.

The Bank holds open communication with investors and analysts. The representatives of the Management Board of ING Bank Śląski S.A. and the Bureau employees regularly take part in meetings with investors and analysts, both during domestic or international conferences and as part of roadshows and individual meetings at the Bank's Head Office. In 2012, the representatives of the Bank Management Board or the Strategic & Investor Relations Bureau attended seven domestic and foreign investor conferences where they met approximately 70 investors. In addition, approximately 50 meetings of the Management Board representatives with investors and analysts were held at the Bank's Head Office; a 2-day roadshow to selected Polish money market funds wherein the Management Board representatives participated was organised to announce the issue of the Bank's own bonds. Employees of the Strategic & Investor Relations Bureau communicate on an ongoing basis with investors, analysts and representatives of rating agencies by phone or via e-mail.

In 2012, as in the previous years, four conferences (and teleconferences) were held at the Bank's Head Office for analysts and investors to present the quarterly financial and business results. Each time approximately 30 representatives of brokerage houses and investors attend such a conference.

In 2012, the Bank developed the channels of communication with stakeholders, including the basic tool of our times, that is a webpage: <http://en.ingbank.pl/company-profile/investor-relations>. The webpage contains vital information concerning, among other things, quotations of ING BSK prices on the WSE, company shareholding structure, General Meetings or ratings. Also the current, interim and annual reports, results presentations, xls sheets with key financial and business information as well as recordings from teleconferences are published on the webpage.

ING Bank Śląski S.A. is one of the companies being observed and analysed by the market. As at the end of 2012, 15 analysts representing the domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

#### **4. Online Annual Report**

In July 2012 we rendered available the "Online Annual Report of the ING Bank Śląski S.A. Capital Group for the Year 2011". As regards the content, the webservice available at <http://www.raportroczny.ingbank.pl/en-home>, fully reflects the currently published pdf Annual Reports.

The portal not only gives the option to read the full version of the Annual Report but it also has many additional functionalities tailored to the type of publication. The online interface allows the users to independently create their own report, take notes while reading, download selected Excel files and print the excerpts that they find interesting. What is more, the most important financial data rendered available as part of the service cover the period of the last five years.

Such form of the report presentation aims at facilitating and enhancing comfort of data acquisition by the existing and prospective investors as well as all other persons interested in the Bank's activity. Moreover, it is in accordance with the best standards of communication with investors and enables expansion of the Annual Report readers' group.

In October 2012, the prize for "The Best Annual Report on the Internet" under the "Banks and Financial Institutions" category was awarded joint to ING Bank Śląski S.A. and BRE Bank S.A. in "The Best Annual Report 2011" competition held by the Accounting and Tax Institute.

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

In 2012, the *Executive Remuneration Regulations for Members of the Management Board of ING Bank Śląski S.A.* determining the structure, form and level of compensation of the Management Board members was introduced to execute the *Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A.*

In line with the new Regulations, the compensation of a Bank Management Board member consists of:

- fixed remuneration composed of base remuneration as well as fringe benefits,
- variable remuneration, i.e. annual bonus.

Base remuneration is determined by benchmarking to market, in accordance with the salary grade under the Hay job valuation methodology.

ING Bank Śląski S.A. provides the Management Board members with the following fringe benefits:

- life insurance and accident insurance with the guaranteed insured sum totalling the gross annual base salary, another type of protection and investment insurance or a mutual fund as part of the same premium,
- deposits into mutual fund in the amount equivalent to 15% of the monthly base salary of a Management Board member,
- medical care (Golden Card Family Package).

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

A Management Board member may be awarded a 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 goodwill of the Bank and account for taking care about the risk cost of the Bank, the capital cost and liquidity risk. Objectives shall have the following nature:

- financial, including bank's gross profit, financial risk cost and tasks within the Management Board member responsibility,
- non-financial,

except for the Management Board member responsible for control functions where the objectives are based in at least 75% on the function-based targets and comprise quality tasks. Moreover, the financial tasks cannot be linked to the results generated by the areas controlled by this particular Management Board member.

The Bank tests capital to ensure that the total bonus pool of all employees does not limit the ING Bank Śląski S.A.'s ability to maintain an adequate capital base and activates the bonus funds upon satisfying a predetermined condition.

40% of bonus is deferred and in case of exceeding the threshold as defined by the Regulations – 60%. The results of assessment of performance as to the objectives set are verified in the deferral period, i.e. for the subsequent three years so as to evaluate impact of employee's actions on the Bank's long-term results.

The bonus is divided in two parts (rounding up to a financial instrument whole figure):

- at least 50% as phantom stock making its beneficiaries eligible for cash in the amount conditional on ING Bank Śląski S.A. stock value,
- the rest in the form of cash.

No bonus shall be due should the employment contract be terminated under Article 52 of the Polish Labour Code. The Supervisory Board may also decide to reduce the annual bonus or not to pay it out in a given bonus award period based on verification of assessment of bonus tasks execution, taking ex post risk into account.

**Compensation of members of Management Board of ING Bank Śląski S.A. in 2012  
(PLN thousand)**

Name and surname	Period from – to	Compensation and bonuses	Exercised LEO options	Other benefits	Total
Małgorzata Kołakowska	01.01.12-31.12.12	2,313.6	69.1	285.6	2,668.3
Mirosław Boda	01.01.12-31.12.12	1,734.3	0.0	216.3	1,950.6
Michał Bolesławski	01.01.12-31.12.12	1,784.2	51.3	208.6	2,044.1
Ignacio Juliá Vilar	01.02.12-31.12.12	856.8	0.0	673.6	1,530.4
Justyna Kesler	01.01.12-31.12.12	1,628.3	52.2	203.0	1,883.5
Oscar Swan	01.01.12-31.12.12	1,569.7	49.5	199.3	1,818.5
<b>Total</b>		<b>9,886.9</b>	<b>222.1</b>	<b>1,786.4</b>	<b>11,895.4</b>

In 2012, the total amount of compensation (understood as the value of compensation, bonuses, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board members amounted to PLN 11,895.4 thousand. The total amount of compensation and bonuses paid out or due and payable for 2012 given here is the gross amount of compensation paid out or due and payable for the period from January until December 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.

In 2012, the total amount of compensation (defined as above) paid out by ING Bank Śląski S.A. to the Supervisory Board members totalled PLN 498.0 thousand.

**Compensation of members of Supervisory Board of ING Bank Śląski S.A. in 2012  
(PLN thousand)**

Name and surname	Period from – to	Compensation and bonuses	Benefits	Total
Brunon Bartkiewicz	01.01.12-31.12.12	0.0	0.0	0.0
Roland Boekhout	01.01.12-31.12.12	0.0	0.0	0.0
Anna Fornalczyk	01.01.12-31.12.12	210.0	0.0	210.0
Ralph Hamers	01.01.12-31.12.12	0.0	0.0	0.0
Nicolaas Cornelius Jue	01.01.12-31.12.12	0.0	0.0	0.0
Mirosław Kośmider	01.01.12-31.12.12	156.0	0.0	156.0
Wojciech Popiołek	01.01.12-31.12.12	132.0	0.0	132.0
<b>Total</b>		<b>498.0</b>	<b>0.0</b>	<b>498.0</b>

No member of the Bank Management Board or Supervisory Board held any shares of ING Bank Śląski S.A. as at the end of 2012. Mr Wojciech Popiołek, Supervisory Board member informed the bank on disposal of 90 shares in 2012.

## X. CORPORATE SOCIAL RESPONSIBILITY (CSR) AT ING BANK ŚLĄSKI S.A. IN 2012

ING Bank Śląski S.A. pursues its business strategy in a socially responsible manner, considering the needs of all stakeholders, inclusive of clients, employees, social and natural environment.

Acting in compliance with ING Business Principles being: openness, integrity, respect, responsibility and common sense are priority for ING Bank Śląski S.A. employees. Such attitude ensures that relations with clients, counterparties and among employees build up in the atmosphere underpinned with trust. This in turn, translates into long-term co-operation and fosters competitive advantage.

In its operations, ING Bank Śląski S.A. relies on international standards, set by the Universal Declaration of Human Rights and principles of Global Compact drafted by the United Nations. As a public trust institution, the Bank has been also applying the Good Banking Practice Principles. As a company listed on the WSE, ING Bank ensures that all shareholders are treated equally regardless of the number of held shares. Moreover, it pays attention to equal access to information for everybody and effective communication with the participants of the capital market.

Continued presence of ING Bank Śląski S.A. in the Respect Index, the index of socially responsible companies listed at the Warsaw Stock Exchange, proves how much attention the Bank attaches to CSR. Keeping the leader position in 2012 – second time in a row – in the ranking of Socially Responsible Companies in the category Banking, financial and insurance sectors proves the same. The Bank is a member of working group for Responsible Investment and as such took part in developing recommendation for the Ministry of Economy in the area of responsible investing which also confirms its involvement.

In 2012, the Bank's vision and development plans in the CSR area were put into the document Corporate Social Responsibility Strategy at ING Bank Śląski S.A. By adopting this document, the Bank Management Board confirmed the key role of CSR-related actions in achieving Bank's business goals. The strategy outlines objectives, actions and measures for the four key areas, i.e., relations with clients and employees, as well as activities for the community and the natural environment.

Last week, ING Bank Śląski S.A. was the only financial institution to be awarded with CSR Silver Leaf by the POLITYKA weekly for implementing responsible business and sustainable growth principles into its business strategy.

### 1. Relations with Clients

ING Bank Śląski S.A. applies the client centricity rule. The Bank offers products tailored to clients' needs, it communicates with the clients in a transparent way, but, above all – listens to clients' voice.

At ING Bank Śląski S.A. the dialogue with the client is continuously improved and it is held with the use of diverse tools:

- **Customer Satisfaction Surveys.** In 2012, ING Bank Śląski S.A. continued to survey individual clients' opinion applying the *Net Promoter Score* (NPS) method. The survey was made via email and it covered persons using, among other things, personal account, internet banking, cash loan and mortgage loan. Also the other customer contact channels were monitored: mobile banking, Contact Centre and banking forum. Moreover, the Mystery Shopper survey verifying the extent to which a set standard of customer service quality is realised, and the Mystery Caller streamlining the customer service on the help-line of ING Bank Śląski S.A. were organised on a regular basis. What is more, an annual corporate customer satisfaction survey was conducted in 2012. The survey provided an insight into clients' opinion on changes introduced to the offer and its financial terms as well as the new service model, among other things. The Bank is implementing the customer satisfaction survey under the NPS methodology in the strategic client segment.
- **Communication with Clients.** In 2012, apart from traditional service channels such as email or phone, the Bank offered certain retail clients individual meetings with the advisor at the Branch. The meetings were conducted in comfortable conditions upon observing the top-notch service standards. Their aim was to strengthen relations with the client, listen to their opinion on the co-operation to date, analyse the held products and services in terms of optimizing the benefits as well as recognise the current and future client needs. This form of contact was

highly appreciated by the Clients. Moreover, the clients and the persons not using Bank's services tend to use more and more often:

- ING Bank Śląski forum at [www.forum.ingbank.pl](http://www.forum.ingbank.pl) (in December 2012, it was visited by more than 51 thousand people);
- instant messenger Skype (the number of connections in 2012 was more than 10 thousand);
- Facebook profile <http://www.facebook.com/INGBankSlaski> (there were 60 thousand fans at the end of the year);
- video channel on YouTube <http://www.youtube.com/ingbsk> (4.8 million views in 2012).

Thinking about the corporate clients, the Bank organized a series of educational meetings attended by ING economists and authority figures on the Polish market in the field of economy and finance, professor Grzegorz Kołodko, among others. Also several dozen of product meetings provided the corporate clients with the opportunity to broaden their knowledge of leasing, factoring, trade finance and European funds.

- **Complaint Analysis.** The electronic form of contact enables the clients of ING Bank Śląski S.A. to lodge complaints 24/7. The reasons behind complaints, including the ones lodged in a traditional way – were thoroughly analysed, and the process itself was included in NPS, customer satisfaction survey. Clients, whose complaints were investigated in 2012, recommended ING Bank Śląski S.A. to their friends more frequently than in previous years. In 2012, the complaint handling process was shortened and 45% of cases were investigated within 3 days. More and more often complaints were investigated also during the first contact with the client.

In 2012, ING Bank Śląski S.A. undertook a number of actions in order to standardize the vendors' conduct. ING Bank Śląski S.A. Vendors Code of Conduct became effective whereunder vendor should comply with the provisions of the applicable law, respect employees' rights as well as personal dignity, privacy and rights of an individual in relations with its employees. Vendors should provide their employees with safe and harmless workplace in health terms and consider environment protection by striving for reducing environmental burden as part of their business and shall undertake actions leading to environment improvement. Moreover, vendors should observe prohibition of forced labour, child labour, corruption and discrimination.

The vendors who accept the abovementioned principles, take part in qualification process to the qualified vendors database. Both the Vendors Code of Conduct and the form necessary for this process are available at the bank website.

In 2012, qualification of strategic vendors, mutual assessment of co-operation with them and development of plans for the coming year were being continued at ING Bank Śląski S.A. Data on the development actions taken by our strategic vendors, including CSR policy and policy of abiding business ethics by employees were gathered.

## **2. Relations with Employees**

ING Bank Śląski S.A. creates friendly and safe workplace enabling employees to develop at any stage of their career path and to maintain work-life balance. The Bank strives to build corporate culture underpinned by trust, responsibility for entrusted tasks and skilfully provided feedback.

The Bank provides employees with the opportunity to anonymously express their opinion on work at ING. Once a year, the *Winning Performance Culture* (WPC) survey is held by the Bank. In 2012, 92% of Bank employees took part in the survey. Their opinions provided us with information on key issues such as: strategy execution, openness for development, attractiveness of the Bank on the labour market. In 2012, the respondents highly appreciated the fact that the Bank operates in line with compliance standards, its client orientation, people management and teamwork. High Sustainable Engagement Index (77%) and clear increase in the areas of recognition, reward as well as career opportunities were remarkable.

In 2012, ING Bank Śląski S.A. was awarded the Top Employers certificate, which is granted to those companies who are the best in pursuing HR policy and practice. Moreover, the Bank was mentioned in the report of the Responsible Business Forum the *Responsible Business in Poland*, under the



category *Internships/Employees aspects*, where banking workshop on first aid called *Life is a Gift. First aid.* were presented.

Other aspects of Bank operations pursued for employees development were outlined in the *Human Resources Management* item.

### 3. Activities for Community

In line with the *CSR Strategy of ING Bank Śląski S.A.*, the Bank undertakes actions supporting education and entrepreneurial spirit among pupils of upper-secondary schools. In March 2012, the Bank, for ninth time, engaged itself in execution of nation-wide Junior Achievement Day organized by the Junior Achievement Foundation. The Bank was granted a title of the "Most Active Company during Junior Achievement Day" for preparing almost 80 places for training and conducting one-day training courses.

In 2012, along with the ING for Children Foundation the Bank continued execution of the *ING Voluntary Services Programme*, which consists in supporting employees' social activity in the local environment. Employees are entitled to devote 8 hours from their annual working time for employee voluntary activities, which is formally regulated under Labour By-Law of ING Bank Śląski S.A. In 2012, the employees devoted almost 5 thousand working hours to the voluntary activities. Programme participants performed the following voluntary initiatives:

- Projects for local communities – as part of the *Good Idea* contest employees conducted 46 initiatives in hospitals, schools, kindergartens and community youth centres across Poland;
- Projects for selected community partner – under 27 group initiatives employees worked for the benefit of, among others, orphanages and therapeutic centres. The largest initiative of this kind was attended by almost 100 employees.

In November 2012, 850 employees of ING Bank Śląski S.A. joined the ING Group-wide initiative under the name *Global Challenge*. As part of this initiative, the volunteers organised meetings for children coupled with reading the therapeutical book *Lucjan, the Lion One of Its Kind*. On this occasion, 3 600 issues of a book issued by the Bank were furnished to local libraries, community youth centres, hospitals, schools and kindergartens.

Following the long-standing tradition of social initiatives, employees engaged themselves in charity collections for children – charges of the ING for Children Foundation. A collection of school supplies was organised in September, while in December 722 Christmas gifts were given away. Following our tradition, in 2012 blood donation initiatives were held in spring and autumn. 196 Bank employees took part in 10 such initiatives.

#### Activity of ING for Children Foundation

In 2012, the ING for Children Foundation continued programmes to provide equal chances by educating children from poor areas and chronically ill children:

- ING Internet Clubs – in 2012, another 3 internet clubs were opened and 15 already existing ones were modernised. In total, there are 31 internet clubs across Poland, in which 1 800 children uses the free and safe access to the internet;
- Smile Stays – nearly 1,000 children participated in 20 such stays. These were profile stays: educational and rehabilitation ones as well as summer and winter camps for Foundation charges from primary schools, community youth centres and therapeutic groups;
- ING Voluntary Services Programme – as part of the employee voluntary activities the Foundation supported public benefit institutions, urban and commune welfare centres that Bank volunteers co-operate with and provided more than PLN 464 thousand thereto.

Bank employees provided financial support for the activity of the Foundation in the form of 1% tax deductions (in 2012 – PLN 29.8 thousand) and monthly remuneration-related deductions (in 2012 – PLN 3 thousand).

In 2012, the ING for Children Foundation was equipped with a modern and dynamic wordmark referring directly to its activity for children. It was designed by Jacek Walesiak – a young, talented graphic artist, who has also created the logo of the ING Polish Art Foundation.





### ING Polish Art Foundation Activity

The ING Polish Art Foundation promotes Polish contemporary art by building an art collection and execution of artistic projects. In 2012, the collection was expanded by the works of Zbigniew Libera, Joanna Malinowska, Paweł Bownik, Adam Jastrzębski and Konrad Smoleński.

The Foundation joins more and more actively projects executed together with artists and art institutions. In 2012, it published an artbook called *Vis-à-vis en face (J'ai quinze ans)* by Honza Zamojski, which was presented, among others, in Printed Matter, New York, an institution specialising in artists book. The Foundation organised also the exhibition *1:1 – works from the ING Polish Art Foundation collection* in the National Art Gallery in Sopot. Half of the works from the collection was presented therein. There was also a catalogue developed for the exhibition.

In 2012, the Foundation together with the Museum of Art in Łódź announced an intake to the *Joint Project* – a contest addressed to artists under 30. The main assumption of this initiative was providing them with opportunity to execute an art project with involvement and support of professional art institutions. The first edition of this contest will be executed in the public space in Łódź.

The images of works from the collection are used in ING Bank Śląski S.A. materials and they help to popularise the contemporary art. The collection itself it exposed in the buildings of the sponsors.

### 4. Activities for Natural Environment

In 2012, the Bank continued execution of objectives set as part of the Environmental Management System under ISO 14001 (EMS). In September, the auditors of TÜV NORD verified the compliance of the launched system with the requirements of EN ISO 14001: 2009. Audit had a positive result.

In 2012, the Bank continued the implementation of energy saving solutions. Led lighting was installed in 60 branches. Moreover, energy saving light bulbs were mounted in Bank's premises. In 7 bank branches energy compensators were applied. In 90% of locations astronomical clocks were mounted, they turn on the outdoor lighting at the sunset and turn it off at the sunrise, which enables us to save energy consumption by 10%.

The pro-environment educational activities included:

- Earth Hour – The Bank actively joined the global initiative as part whereof lights were turned off for an hour in the buildings of the Head Office at Plac Trzech Krzyży in Warsaw, and at ul. Sokolska in Katowice and in a dozen or so branches all over Poland;
- Earth Week – was held under the banner of *Good Energy for All*. The aim of the initiative, addressed to employees on the international *Earth Day*, was to promote energy saving at home and at work and to draw attention to the climate changes;
- Clean Up the World – the global initiative under the banner of *Our Place, Our Planet, Our Responsibility* drew employees attention to the repercussions of environmental degradation. There were 600 employees who took part in the contest; they described how they take care of natural environment at home and at work;
- Ecological Voluntary Activity
  - in July 80 volunteers along with children from the orphanage in Sarnów organised an ecological voluntary activity titled *Forest is around us*. 5 feeding racks and 15 nest boxes were built and then mounted in the Brynek forest division;
  - in the early October the group of volunteers together with Forest Division Katowice prepared 15 mineral licks enabling the animals to counteract salt deficiencies.

### 5. Additional Information

Information about Corporate Social Responsibility executed at ING Bank Śląski S.A. is available at [www.ingbank.pl](http://www.ingbank.pl) in tab *O Banku/Odpowiedzialność społeczna i środowiskowa*.

Please send all your questions concerning corporate social responsibility to the following e-mail address: [csr@ingbank.pl](mailto:csr@ingbank.pl)

## XI. ING BANK ŚLĄSKI S.A. MANAGEMENT BOARD REPORT ON OBSERVANCE OF CORPORATE GOVERNANCE RULES IN 2012

*Pursuant to §91 section 5 item 4) of the Minister of Finance Ordinance on Current and Periodic Information Published by Issuers of Securities and the Conditions for Regarding Information Required by the Law of a Non-Member State as Equivalent of 19 February 2009 (Journal of Laws No. 33, item 259 as amended) and §29 section 5 of the Warsaw Stock Exchange Bylaw and Resolution No. 1013/2007 of the Management Board of the Warsaw Stock Exchange of 11 December 2007, the Management Board of ING Bank Śląski S.A. present the Report on Observance of Corporate Governance Rules in 2012.*

### 1. Rules and Scope of Corporate Governance

The Corporate Governance Rules, which are binding for ING Bank Śląski S.A. (hereinafter referred to as: the "Bank"), are set out in the "Code of Best Practice for WSE Listed Companies" as enclosed with WSE Supervisory Board Resolution No. 19/1307/2012 on Amendments to The Best Practices of WSE Listed Companies of 21 November 2012. The content of the aforementioned set of rules has been published on the Warsaw Stock Exchange website at: <http://corp-gov.gpw.pl>.

Please be notified that the Bank ensures women participation both in the Management Board and the Bank Supervisory Board in line with Recommendation No. 9., as communicated in detail on its website.

Moreover, as regards Recommendation No.12, the Bank provides information that in 2012 it transmitted the Annual General Meeting making it possible for all interested parties to watch the meeting; it did not organise the General Meeting in the mode provided for in Article 4065 of the Commercial Companies Code though.

**The Management Board of ING Bank Śląski S.A. hereby declare that in 2012 the Bank and its authorities observed the corporate governance rules they adopted as set out in the "The Best Practices of WSE Listed Companies".**

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

### 2. Control Systems in Financial Statements Development Process

#### Internal Control

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

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

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

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

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

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

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

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

- to estimate loan impairment – specific models and applications as well as internal regulations for credit risk assessment were implemented,
- to measure debt financial instruments quoted in active markets or in case of which the measurement is based on those quotations – the required functionality of core systems was implemented; furthermore, the control executed by the market risk management units was instituted,
- to measure financial instruments not quoted in active markets – pricing models were implemented, which had been subject to an independent validation before application,
- to estimate the reserve for retirement packages – an independent actuary was commissioned to make an estimate,
- to estimate the reserves for bonuses for employees and executive staff – the calculations used are in line with the General Terms and Conditions of Bonus Award adopted at the Bank, considering the forecasts regarding Bank’s results,
- to appraise investment properties and own properties – the following rule was adopted: the appraisal is obtained from independent experts on an annual basis for investment properties of significant value, and every three to five years for other properties.

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

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

### **3. Entity Authorised to Audit Financial Statements**

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

On 12 April 2012, the Bank Supervisory Board selected 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 ING Bank Śląski S.A. Capital Group for the period of 1 year starting from the review of the financial data for Q1 2012 and ending with the audit of the annual 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.

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

#### Auditor's net fee<sup>24</sup>

	Accounting year ended 31 December 2012	Accounting year ended 31 December 2011
Audit of the annual financial statements	EUR 94.8 thousand + reimbursement of documented direct expenses (max 8%)	1\ EUR 92.5 thousand + reimbursement of documented direct expenses (max 8%)
Other attestation services	Due to review of the financial statements EUR 125.75 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 29 thousand	Due to review of the financial statements EUR 49.9 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 58 thousand
Tax advisory services	Not covered with the agreement	Not covered with the agreement
Other related services	Due to audit and review of the reporting packages EUR 165.8 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 383.45 thousand	Due to audit and review of the reporting packages EUR 161.9 thousand + reimbursement of documented direct expenses (max 8%)  Other – PLN 298.3 thousand

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

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which on 31 December 2012 had a 75% share in the share capital of ING Bank Śląski and a 75% share in the overall number of votes at the General Meeting. ING Bank N.V. belongs to ING Group, a global financial institution, conducting its business activity on banking and insurance markets, as well as within the area of asset management.

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

In line with the Charter, the Bank's share capital is divided into 130,100,000 shares with the face value of PLN 1 each.

#### 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
	31 December 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" <sup>25</sup>	6,631,258	5.097%			
Dobrowolny Fundusz Emerytalny PZU <sup>26</sup>	170	0.000%			
Other	25,893,572	19.903%			
<b>Total</b>	<b>130,100,000</b>	<b>100.000%</b>	<b>Total</b>	<b>130,100,000</b>	<b>100.000%</b>

Bank shares are ordinary bearer shares. No additional special controlling rights are attached thereto. The Bank Charter does not impose any restrictions on transferring ownership of shares issued by the

<sup>24</sup>Ernst & Young does not audit the financial statements of the Bank's subsidiaries: Centrum Banku Śląskiego Sp. z o.o., ING Usługi dla Biznesu S.A. and ING ABL Polska S.A. The auditors' fee under the audit of the annual financial statements of the said companies was provided in item 3 of the line Audit of the consolidated annual financial statements.

<sup>25</sup> Open-end Pension Fund „Gold Autumn”

<sup>26</sup> Voluntary Pension Fund PZU

Bank, voting right execution or any stipulations whereunder share-based equity rights are separated from share ownership.

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

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

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

### **Rules of Amending the Charter**

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

An amendment to the Bank Charter as for change of the business objects of the Bank does not require buyout of shares from those shareholders who do not approve such amendment, provided that the resolution of the General Meeting concerning such an amendment was adopted by a two-third majority of votes in the presence of individuals representing at least a half of share capital.

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

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

In 2012, no amendments were introduced to the Bank Charter.

### **Operation of the General Meeting and its Essential Rights**

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

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

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

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

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

- Request putting particular items on the agenda of the nearest General Meeting. The request



should be submitted to the Management Board no later than twenty one days before the set date of the General Meeting. The request should include a rationale or draft resolution concerning the suggested item on the agenda. The request may be submitted via electronic mail.

- Submit draft resolutions concerning items put on the agenda of the General Meeting or items, which are to be put on the agenda, in writing or via electronic mail before the set date of the General Meeting. The Bank Management Board shall announce drafts of the resolutions on the Bank's website forthwith.

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

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

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

General Meetings are held at the Company's registered office in Katowice. The debate of the General Meeting is transmitted via the internet. The debate of the General Meeting may be also attended by interested media representatives acting as observers.

A General Meeting should be attended by members of the Management Board and the Supervisory Board in the composition allowing them to provide answers to the content-related questions submitted at the General Meeting. The chartered auditor is invited for the debate of the General Meeting, especially when an item pertaining to the financial matters of the Company is included in the agenda of the Meeting.

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

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

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

- consideration and approval of the Management Board report on the company's operations and the financial statements for the previous financial year,
- acknowledgement of the fulfilment of duties of the Management Board and Supervisory Board members for the previous financial year,
- distribution of the Bank's profit after tax,
- appointment and dismissal of the Supervisory Board members, determination of the number of the Supervisory Board members as well as determination of the principles of their



remuneration,

- making amendments to the Charter, including those on raising or lowering the share capital of the Bank,
- redemption of shares,
- taking decisions on the usage of the supplementary capital and reserve capital,
- disposal and lease of the Bank's enterprise or its organized part and establishment of limited right in rem on them,
- issue of convertible bonds or bonds with pre-emptive right,
- issue of bonds with right of conversion into Bank's shares (convertible bonds),
- decisions on claims for redress of damage inflicted upon establishing the company or management or supervision thereof,
- purchase of own shares as stipulated in Article 362 §1 item 2 and authorisation to their purchase as stipulated in Article 362 §1 item 8 of the Commercial Companies Code, and
- other matters provided for by the laws or the Charter, or raised by the Supervisory Board, the Management Board or eligible shareholders.

## **6. Supervisory Board Operations**

### **Supervisory Board Composition**

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

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

Throughout 2012, there were no changes to the ING Bank Śląski S.A. Supervisory Board composition.

As at the end of December 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.    |

The powers of the Supervisory Board members of ING Bank Śląski S.A. are presented on the Bank's website at [www.ingbank.pl/o-banku/wladze/rada-nadzorcza](http://www.ingbank.pl/o-banku/wladze/rada-nadzorcza).

### **Supervisory Board Rights and Duties**

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

Apart from the aforementioned powers and duties, the Supervisory Board also have the following decision-taking powers pursuant to the Bank's Charter:

- approval of rules of prudent and stable Bank management and Bank strategy prepared by the Management Board as well as periodical reviews and verification of their execution, approval of long-term plans of Bank development and annual financial plans of the Bank operations prepared by the Management Board,
- approval of acceptable risk levels in the individual areas of Bank operations,
- approval of motions of the Bank Management Board concerning the establishment and dissolution of Bank organisational units abroad,
- approval of purchase or disposal by the Bank of shares or share rights, shares of other legal entities, if the assets value exceeds the PLN equivalent of the amount of EUR 5,000,000 at one time, or the activity refers to the assets representing at least 20% of the share capital of another legal entity. Approval of the Supervisory Board is not required for the Bank's exposure resulting from conversion of claims, execution of collateral approved by the Bank or service of underwriting,
- appointment and dismissal of the Bank Management Board members,
- conclusion of agreements concerning execution of functions with the Bank Management Board members and setting remuneration thereunder as well as approval of receipt of other benefits from the Bank and related entities by Management Board members,
- approval of Management Board Bylaw, Organisational Bylaw and Bank's internal control system,
- selection of the entity authorised to audit the Bank's financial statements on the grounds of recommendation submitted by the Supervisory Board's Audit Committee,
- determination of the consolidated text of the Charter once the General Meeting pass a resolution on amendment thereto as well as introduction of other editorial amendments to the Charter,
- approval of concluding significant agreements by the Bank with related entities,
- approval of purchase of, sale of, or encumbrance on a non-current asset item, the value of which exceeds the PLN equivalent of EUR 5,000,000 by the Bank. The approval of the Supervisory Board is not required when purchase of the non-current asset item takes place by taking over such an asset item by the Bank as a creditor as a result of recovering a debt claim by the Bank,
- submitting to the Annual General Meeting a concise evaluation of the Bank's position, including the evaluation of internal control system and system of material risks management as well as report of the Supervisory Board and their Committees on their operations in the financial year, including the Supervisory Board's self-assessment in that period,
- suspension of a Bank Management Board member for material reasons and delegating Supervisory Board members to perform on a temporary basis the activities of the Management Board member who is unable to perform his/her functions for no longer than three months, and
- approval of the Bank's compliance policy, rules of internal capital quantification processes, capital management, and capital planning.

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

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

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

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

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

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

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

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

### **Audit Committee**

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

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

The Audit Committee consists of at least 3 members, including at least one independent member, of the Supervisory Board. The independent member should have qualifications and experience in accounting or financial audit. In 2012, the Audit Committee worked in the following composition:

- Mr Mirosław Kośmider – Chair,
- Mr Ralph Hamers – Member,
- Mr Nicolaas Cornelis Jue – Member,
- Mr Brunon Bartkiewicz – Member.

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

### **Remuneration and Nomination Committee**

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

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

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

In 2012, the Remuneration and Nomination Committee worked in the following composition:

- Ms Anna Fornalczyk – Chair,
- Mr Wojciech Popiołek – Member,
- Mr Nicolaas Cornelis Jue – Member,
- Mr Brunon Bartkiewicz – Member.

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

## **7. Bank Management Board Operations**

### **Management Board Composition**

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

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

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

On 09 January 2012, the Supervisory Board of ING Bank Śląski S.A. appointed Mr Ignacio Juliá Vilar as Vice-President of the Bank Management Board as of 01 February 2012.

The powers of the individual Management Board members are presented on ING Bank Śląski S.A. website at [www.ingbank.pl/o-banku/wladze/zarzad](http://www.ingbank.pl/o-banku/wladze/zarzad).

### **Powers of the Management Board**

The Management Board manage the Bank and represent it with external matters. Any matters not restricted to the powers of other Bank's bodies pursuant to the laws or the Bank Charter shall rest with the Management Board. The Management Board act collectively with reservation of those matters which in line with the Bank's internal regulations have been entrusted to individual Management Board members.

In particular, it is the task of the Bank Management Board to:

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

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

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

In accordance with the Bank Organisational Bylaw, the following matters fall within the exclusive powers of the Management Board:

- establishment of Committees, determination of their scope of activities and composition as well as issue of bylaws thereto, and

- establishment of Projects, determination of their objectives, rules of operations and requisite resources.

Apart from the matters covering the management of the Bank's business processes, the Management Board are empowered and obliged to take actions related to the Bank's operations as a joint-stock company (convening the General Meeting, for example). The tasks of the Management Board in that respect may not be delegated to others. The Management Board act collectively with the reservation of issues which, pursuant to the stipulations of the Management Board Bylaw or the Organisational Bylaw, may be entrusted to individual Management Board members.

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

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

The Bank Management Board members supervise individual divisions and organisational units in accordance with the segregation of duties defined by the Supervisory Board at the request of the Management Board President, and bear responsibility for implementation of their missions and core tasks. Where a member of the Management Board is unable to perform his/her powers temporarily, the Bank Management Board President defines the rules of deputation.

Organisation of the Management Board's work, the scope of matters requiring a resolution of the Management Board and the mode of their operations are defined in the Management Board Bylaw passed by the Management Board and approved by the Supervisory Board. Powers of individual Management Board members are defined in the Bank Organisational Bylaw and the regulations concerning functioning of their areas as enacted by the Management Board.

### Scope of responsibilities of Bank Management Board members

As at 31 December 2012		As at the report publication date	
● Ms Małgorzata Kołakowska	<b>Bank Management Board President</b> in charge of: Strategic Customers Division, Treasury & Financial Markets Division, and some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, non-financial risk management units and HR units)	● Ms Małgorzata Kołakowska	<b>Bank Management Board President</b> in charge of: Strategic Customers Division, Financial Markets Division, and some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Treasury Department, non-financial risk management units and HR units)
● Mr Mirosław Boda	<b>Bank Management Board Vice-President</b> in charge of the Finance Division	● Mr Mirosław Boda	<b>Bank Management Board Vice-President</b> in charge of the Finance Division
● Mr Michał Bolesławski	<b>Bank Management Board Vice-President</b> in charge of the Corporate Sales Network Division	● Mr Michał Bolesławski	<b>Bank Management Board Vice-President</b> in charge of the Corporate Sales Network Division
● Mr Ignacio Juliá Vilar	<b>Bank Management Board Vice-President</b> in charge of the Retail Banking Division	● Mr Ignacio Juliá Vilar	<b>Bank Management Board Vice-President</b> in charge of the Retail Banking Division

<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<b>Bank Management Board Vice-President</b> 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,	<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<b>Bank Management Board Vice-President</b> 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,
<ul style="list-style-type: none"> <li>Mr Oscar Swan</li> </ul>	<b>Bank Management Board Vice-President</b> in charge of the Credit and Market Risk Management Division	<ul style="list-style-type: none"> <li>Mr Oscar Swan</li> </ul>	<b>Bank Management Board Vice-President</b> in charge of the Credit and Market Risk Management Division



## XII. SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2012

2012 was a year of curbing the Polish economy. From quarter to quarter the gross domestic product's growth was lower and lower. It is estimated that throughout the year it totalled merely 2%, while in the last quarter it fell down to 1.1%. In 2012, a substantial inflow of foreign capital was recorded, which was invested mainly in Polish T-bonds. It resulted in rapid drop of the profitability of Polish securities, especially in H2. Moreover, the Monetary Policy Council changed the interest rates in Poland three times during the year, while the Eurozone countries still contended with the fiscal instability. Summing up, in 2012, the Polish banking sector had to face up many adverse phenomena, among others, a slump in demand for loans, financial problems of businesses operating in some economy sectors, as well as adequately manage all types of risks, especially the credit and market risks. Significant growth in securities valuation in the banks portfolios, mainly in H2, was a positive outcome of changing market conditions.

In 2012, in this volatile and difficult environment, net profit of ING Bank Śląski S.A. amounted to PLN 757.8 million against PLN 903.8 million in 2011 (down by 16.2%). The following factors contributed to the said profit:

- higher income. In 2012, the Bank's income totalled PLN 3,000.8 million against PLN 2,933.7 million a year earlier (up by 2.3%). Above all, it was the net interest income that improved, and it was mainly the higher share of credit receivables in assets and higher interest margin that contributed thereto.
- effective cost management. In 2012, the Bank's operating expenses totalled PLN 1,710.1 million, up by 4.9% from a year earlier. Important factor behind the expenses growth included higher outlays on promotion and marketing due to sales intensification, especially of cash loans, savings products and Direct accounts. The C/I ratio was 57.0% and it was a little bit higher than in 2011 (55.5%).
- higher risk costs burden. The balance of impairment losses augmented from PLN 172.4 million in 2011 to PLN 350.1 million in 2012. The difficult situation of some corporate clients, especially from the construction sector was the main reason behind the more than twofold higher risk costs. Despite the said fact and by dint of adequate credit risk management the Bank maintained good quality portfolio (both retail and corporate loans) and adequate lending provisions.

As part of the operations of the Audit Committee, the Supervisory Board supervise on an ongoing basis the management of various types of risk at ING Bank Śląski S.A.

As part of monitoring of the efficiency of internal control systems and internal audit, throughout 2012 the Audit Committee recommended approval of the following documents by the Supervisory Board: *Semi-Annual Report of the Internal Audit Department, 2012 Annual Audit Plan*, the updated *ING Bank Śląski S.A. Policy – Internal Control System, Audit Strategy Memorandum* together with the Long-Term Internal Audit Plan for the years 2013-2017 and 2013 Internal Audit Plan. Fulfilling the provisions of the Polish Financial Supervision Authority Resolution No. 258/2011, the Audit Committee recommended approval of the *Detailed Rules of Remuneration Level Control and Protection against Unjustified Employment Relationship Termination as regards Internal Audit Employees* by the Supervisory Board, whereunder the Committee monitors the independence of the Internal Audit Department employees. During each meeting, the Audit Committee acquainted themselves with the Non-Financial Risk Dashboard. Additionally, beginning with 2012 the said Dashboard constitutes a fixed item on the agenda of the Supervisory Board meetings.

The results of the said supervision allow us to conclude that ING Bank Śląski S.A. has an efficient internal control system and internal audit function, which are an important element of the process of adherence to the corporate governance rules.

The Audit Committee support the Supervisory Board in terms of monitoring and overseeing the financial risk management system (credit risk, liquidity risk and market risk). As part of the said actions, the Audit Committee during each of its meetings acquaint themselves with the Risk Dashboard presenting the retail and corporate credit risk management as well as market risk management areas. The Committee also supervise the internal capital quantification processes,

capital management and capital planning. In 2012, the Committee recommended approval of the following updated documents by the Supervisory Board: *ICAAP and Capital Management Policy at ING Bank Śląski S.A.* and *Capital Management Procedure at ING Bank Śląski S.A.* As part of the report *Internal Capital Adequacy Assessment Process (ICAAP) at ING Bank Śląski S.A.* submitted by the Management Board, the Audit Committee acknowledged the results of the stress tests.

Moreover, to execute the requirement arising from the Polish Financial Supervision Authority Resolution No. 385/2008, the Audit Committee recommended approval of amendments to the *Policy on Disclosing Information of Qualitative and Quantitative Nature Concerning Capital Adequacy and the Scope of Information Subject to Announcement at ING Bank Śląski S.A.* by the Supervisory Board.

In the opinion of the Supervisory Board, ING Bank Śląski S.A. risk management system covers all risk types material for the Bank. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2012, ING Bank Śląski S.A. fulfilled all requirements of sound business operations and capital adequacy, and notably the Bank:

- pursued prudent lending policy. The lending processes and procedures applied by the Bank were in line with the regulatory requirements and best practices on the market. In 2012, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors generating higher risk. The Bank's lending portfolio was diversified with a significant share of high-quality loans extended to business entities. Within the Bank, impaired loans represented 4.0% of the total exposure, which is significantly less than the average for the entire banking sector.
- has systems and procedures in the area of market risk management (related to interest rate or currency, among others) that meet the top market standards. Throughout 2012, the level of market risk in individual categories was within the limits binding at the Bank. In the current market conditions the balance sheet structure balanced in terms of currency is worth mentioning; its distinctive feature is the low share of FX receivables in total mortgage receivables.
- maintained good liquidity. As at the end of 2012, the LtD ratio was 72.7%. The main part of the deposit base was attributable to stable household deposits, which are one of the largest among Polish banks.
- had a high level of equity. In December 2012, the solvency ratio of ING Bank Śląski S.A. totalled 14.00%. At the same time, the Company's own funds, were almost fully attributable to the high-quality capital; i.e., Tier 1 capital.

The forecasted further economic slowdown, the continued interest rates decrease as well as expected regulatory changes will lead to the tightening of conditions whereunder the Polish banking sector will operate in 2013. Thus, the Supervisory Board notice the need to concentrate Bank's efforts on actions essential for its development such as:

- maintaining high level of stable deposits. The said will facilitate lending acceleration should the economy start to improve and thus facilitate Bank's further growth and interest income boost.
- looking for other income sources. When the competition is fierce, the growing number of relations with clients as well as extending and improving the Group product offer constitute opportunity to increase the income base.
- optimal use of available resources. The C/I ratio improvement will be an important matter for the Bank. Increasing the cost effectiveness should not limit the Bank's plans on further development of infrastructure, including in particular projects aimed at enhancing the quality and effectiveness of the Company's operations.
- prudent capital management and the appropriate capital buffer established in case macroeconomic environment deteriorates significantly. The efficient management of risk-weighted assets will play an important role in this respect.

According to the Supervisory Board the strategy pursued by the Bank within the last few years proved to be successful as may be visible in the achieved financial and commercial results. It gives grounds to believe that also in 2013 the Bank will find a suitable development path and face up market challenges.

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

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

To the best knowledge of the Bank Management Board, the annual financial data for 2012 and the comparable data presented in the annual financial statements of ING Bank Śląski S.A. were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank and its financial result. The Management Board report being part of this document is a true presentation of the development, achievements and situation (including a description of key risks) of the Bank in 2012.

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

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

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

##### **Agreements Concluded**

The Bank Management Board declare that as at 31 December 2012 ING Bank Śląski S.A. did not have any:

- significant cash loan agreements, sureties or guarantees not concerning operating activity,
- liabilities towards the Central Bank.

As at 31 December 2012, the Bank has PLN 567.1 million worth of contractual liabilities under the issued own bonds.

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

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

As at 31 December 2012, the number of writs of execution issued by the Bank in the case of loans for business activity was 271 and covered total debt of PLN 381,560.1 thousand.

As regards retail clients, in the year 2012 the Bank issued 7,798 banking writs of execution totalling PLN 113,650.8 thousand and filed 6,007 claims totalling PLN 43,017.8 thousand.

Value of liabilities or debt claims under the proceedings in progress in 2012 did not exceed 10% of the Bank's equity.

The Bank is of the opinion that individual proceedings that were in progress in 2012 and that were heard before any court of justice or arbitration, or before any public administration authority, as well as all proceedings in total do not pose a threat to the financial liquidity of the Bank.

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

**Małgorzata Kołakowska**

President

*(signed on the Polish original)*

**Mirosław Boda**

Vice-President

*(signed on the Polish original)*

**Michał Bolesławski**

Vice-President

*(signed on the Polish original)*

**Justyna Kesler**

Vice-President

*(signed on the Polish original)*

**Oscar Edward Swan**

Vice-President

*(signed on the Polish original)*

**Ignacio Juliá Vilar**

Vice-President

*(signed on the Polish original)*

5 March 2013

