I. 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.