

# 2013

**Management Board Report on Operations of  
ING Bank Śląski S.A. Capital Group in 2013**

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## **CHAIR'S STATEMENT**

### **Dear Shareholders,**

In 2013, the Banking Sector operated under the conditions not yet seen in Poland, that is on the market of exceptionally low interest rates. Scarce demand for loans, both on the part of retail and corporate clients, acted as another brake on sector growth. Under these demanding circumstances, ING Bank Śląski S.A. Capital Group proved once more that its strategy of increasing the scale of operations through raising the number of clients and commercial volumes is the path worth following. The Group increased its lending and savings portfolios considerably, maintaining the good quality of assets and consolidating its capital and liquidity positions at the same time. Throughout this time, the Bank Supervisory Board watched Bank Management Board's operations attentively and took active part in taking the key decisions. The Supervisory Board analysed the market risk, liquidity and capital adequacy management domains particularly thoroughly. The Supervisory Board was also involved in the process of setting the strategic lines of Bank's development.

As at the end of December 2013, credit receivables of the Group clients amounted to PLN 48.6 billion, up by 7.5% compared to the previous year. Clients' deposits went up to PLN 67.3 billion or up by 16.2% when compared to the funds accumulated in the clients' accounts as at the end of 2012. Higher commercial balances contributed to growth of Group's assets and liabilities – as at the end of 2013, Group's balance sheet total was PLN 86.8 billion, or up by 10.9% from a year earlier. It should be however observed that this sizeable increase in loans and deposits can be entirely attributed to activities of purely business nature. It was not aided by any one-off factors like takeover of other entities.

At the same time, ING Bank Śląski S.A. Group upheld its prudent credit risk policy, whereby it was able to retain the high quality of assets. As at the end of 2013, the share of loans with impairment trigger was 4.6% and it was much below the market average. The capital adequacy ratio went up to 17.3% from 14.6% a year earlier, in consequence of capital base consolidation and also first-time adoption of the advanced internal rating-based approach (AIRB) for calculation of capital requirements for corporate clients. The faster pace of growth of deposits over loans resulted in the situation where at the end of 2013 the LtD ratio was 69.4% or 5.3 p.p. lower than as at the 2012 yearend. This allows to perceive ING Bank Śląski S.A. Capital Group as well prepared to dynamically develop lending in liquidity terms in the coming years.

In 2013, the Bank Capital Group recorded the highest net profit in its history amounting to PLN 961.5 million, up by 15.5% from a year ago, which confirms that the Bank Management Board's response to the changing market conditions was appropriate. We managed to recoup to a large degree the income decline caused by interest rate cutbacks and statutory constraints on card interchange fees charged by banks. At the same time, the cost effectiveness of the Group improved. Operating costs remained virtually unchanged when compared with the previous year and the C/I ratio dropped to 55.5% or by 1.4 p.p. versus 2012. The income effectiveness ratios were satisfactory as well. ROA improved by 0.1 p.p. from 2012 and settled at 1.2%, while ROE went slightly down from the past year and settled at 11.6% (down by 0.1 p.p.)

In view of the sound capital position, enabling the Group to dynamically grow further, the Supervisory Body shares the Bank Management Board's proposal concerning dividend payout to shareholders from the 2013 profit.

From the perspective of my experience and knowledge of the Company as well as many-year cooperation with the Bank Management Board, I am convinced that ING Bank Śląski S.A. Capital Group will be a crucial player in the approaching market revival and will leverage on the glimmering potential to permanently increase its goodwill for the shareholders, clients and employees.

Yours faithfully,

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

## PRESIDENT'S REVIEW

### Ladies and Gentlemen,

I am pleased to present to you the major achievements and undertakings of the ING Bank Śląski S.A. Capital Group in 2013. The success of strategy adopted a few years ago and unwaveringly pursued is confirmed by the Group's business and financial results. Its main pillars, that is customer centricity, operational excellence and engaged employees, last year translated into the expected results being a larger group of clients serviced by the Bank and growth of the basic business figures. In 2013, we won 352 thousand retail clients and we established new relationships with over 6 thousand corporate clients. As at the yearend, we were servicing 3.4 million retail clients and 32.5 thousand corporate clients.

Throughout 2013 we placed particular emphasis on development and popularisation of remote service channels, that is internet and mobile systems. As part of these actions, we added the ING BankMobile HD tablet application to the successful ING BankMobile one. By the end of the year, clients downloaded the mobile banking application nearly 400 thousand times; in December the monthly number of transactions (transfers and phone top-ups) was close to 500 thousand. At the beginning of the year, corporate clients were provided with the ING BusinessMobile application as well, allowing them to take advantage of mobile banking. By the yearend, the application was downloaded to mobile devices 22 thousand times. Another interesting and well-received initiative was installation of 66 internet benches in public places, such as airports, universities or shopping malls. Benches equipped with chargers for smartphones and tablets, as well as WiFi network were successfully promoting Bank mobile services.

We continued to improve our offer of deposit and lending products; we introduced, among others, Smart Saver – a systematic savings product, and Dream Saver – a product supporting saving for a specific goal. We also expanded the array of available cash loans (Superquick Cash Loan). Corporate clients were offered a collection of new products and innovative solutions streamlining their business: ING Accounting – HR and payroll service, *ING e-faktura* (ING e-Invoice) – electronic invoice payment and distribution system, ING CardsOnLine – internet application for managing company payment cards, and ING Auto Leasing – vehicle financing offer available for clients running their own business.

The innovative on the Polish market project – Aleo trading and auction platform for companies – is particularly noteworthy. It was launched in October 2013, and 10 thousand users registered on it by the end of December. The platform provides its users with a venue for free commercial exchange and is available for all businesses. It is an advanced tool for managing procurement and sales processes end-to-end, being an amalgamate of e-commerce, tools supporting procurement processes and a social platform.

Thanks to its efforts, the ING Bank Śląski S.A. Capital Group consolidated its market position in terms of both deposits and loans. As the end of 2013, the funds accumulated in client accounts exceeded PLN 67 billion, while a year earlier they were just under PLN 58 billion. The clients' confidence and Bank's efficiency in respect of its deposits offer are reflected by the deposits growth rate - within one year, the sum of funds deposited by clients rose by over PLN 9 billion, or 16% - that is two and a half times faster than the market growth rate. The lending portfolio also grew at a substantially faster pace than the market – as at the yearend, the balance of Group's credit receivables amounted to nearly PLN 49 billion, while in the previous year it was slightly over PLN 45 billion. This translates into an increase by 8%, almost threefold faster than the market. It should be emphasised that contrary to 2012, the growth of commercial balances was of solely organic nature and was not triggered by any exceptional events, such as acquisition of entities or portfolios (at the beginning of 2012, the composition of the ING Bank Śląski S.A. Capital Group was expanded by leasing and factoring companies which to some extent aided the increase of client receivables).

The larger scale of operation following the effective strategy allowed the ING Bank Śląski S.A. Capital Group to mitigate the external factors of 2013 having an adverse impact on the banking sector income, that is plummeting interest rates which at the yearend were on an exceptionally low level, for

Polish standards, as well as significant regulatory cutbacks in the card interchange fees charged by banks. In 2013, the Group revenue totalled PLN 3,283 million, up by PLN 82 million or 3%, from 2012. It should be noted that at the same time, operating expenses remained on practically the same level as in 2012 and amounted to PLN 1,823 million. In 2013, the loan loss provisioning costs totalled PLN 267 million and were PLN 96 million lower than in the previous year when the clients from the construction industry experienced liquidity problems. The Group closed the year with net profit of PLN 962 million, up by 16% from 2012.

The Group develops its lending operations without serious compromises regarding credit risk management, therefore good assets quality is maintained. In December 2013, impaired loans accounted for 4.6% of the total credit exposure of the Group, which was considerably lower than the average for the entire banking sector; they were provisioned in 61%. Simultaneously, Group's capital base was consolidated – at the end of 2013, the capital adequacy ratio was 17.3%.

The investors appreciated Bank's business achievements as well as reliable and open communication with the capital market participants. Throughout the year, the Bank's share price went up by 25%, considerably above the broad stock market index WIG, index of the largest companies listed on the Warsaw Stock Exchange WIG20, and sector sub-index WIG-Banking. Moreover, in August 2013, the Bank was included in the new index of the largest companies listed on the Warsaw Stock Exchange – WIG30. Ultimately, this index is to replace WIG20.

Along with the commercial activity development, the Bank Management Board attached great importance to corporate social responsibility and pursued the strategy adopted in this regard. ING Bank Śląski S.A. has been continuously present in the index of socially responsible companies listed on the Warsaw Stock Exchange (RESPECT Index) since its very beginning. Integrity, respect, openness, accountability and common sense are the universal 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 Employers certificate for the fourth time in a row. Bilateral communication with the employees is also vital to the Bank Management Board. Each year, a Winning Performance Culture survey (WPC) is conducted, providing them with an opportunity to voice their opinions on the working conditions at the Bank. The survey results, just as Bank commercial results, prove high employee engagement as well as appreciation of actions aimed at improving working conditions and atmosphere.

We are satisfied with the effects of the so far implemented strategy and we intend to pursue it in the next years. In 2014, we will focus on the growth of lending portfolio, while not neglecting the strong position of the savings bank. In both areas we aspire to grow faster than the market. We will continue to perfect our offer, so it could live up to the expectations of today's clients and respond to the opportunities the expected economic revival will bring about. We will continue to give priority to developing functionalities and making all the available client service channels even more convenient, with emphasis put on the internet and mobile channels. We are convinced that all these actions coupled with engagement of the Bank employees will contribute to further growth of client and shareholder satisfaction.

Yours respectfully,

**Małgorzata Kołakowska**  
**President**

## BRIEF CHARACTERISTICS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP

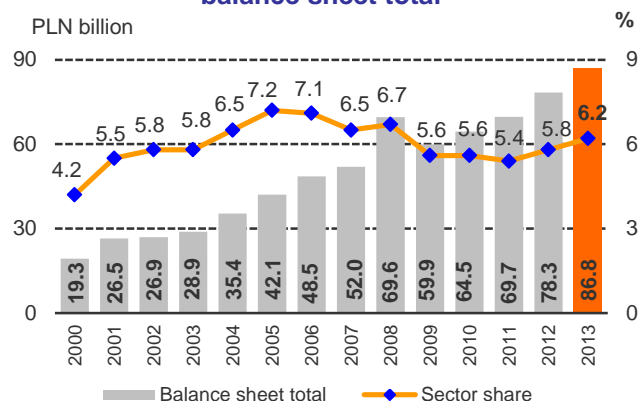
ING Bank Śląski S.A. has been present on the market since 1989. For almost twenty five years of its operations, it has reached the position of one of the largest universal banks in Poland. As at 31 December 2013, the Bank Capital Group balance sheet total amounted to PLN 86.8 billion, or 6.2% of the total assets of the Polish banking sector. Consequently, the Bank was ranked fifth on the Polish market as per balance sheet total. The Bank managed PLN 67.3 billion worth of funds in the Group's accounts, i.e. 7.8% of total deposits in the commercial banks sector, which made it the fourth largest deposit bank in Poland.

In 2013, ING Bank Śląski S.A. had a strong position on the core markets of banking services, notably:

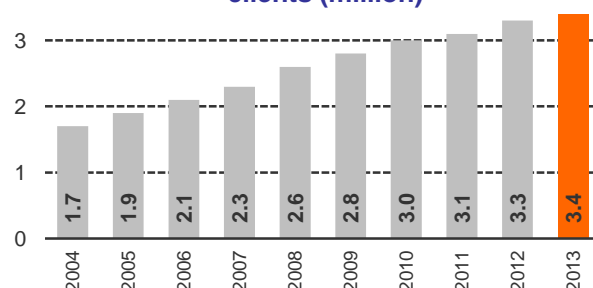
- Retail Banking**  
 Number four on the market of commercial banks in terms of worth of household deposits (with a share of 8.1%) and PLN mortgage sales (with a share of 7.3%). The Bank was ranked fifth in the number of personal accounts of individual clients (7.6% of personal accounts<sup>1</sup>).
- Corporate Banking**  
 20%<sup>2</sup> of companies with annual turnover of above PLN 2 million used Bank's services (second position on the market). The Bank was also the fourth largest lender and savings bank (with 8.3% share in the lending market and 7.4% in the savings market of commercial banks).
- Leasing and factoring operations**  
 As at the end of 2013, ING Lease (Polska) Sp. z o.o. – a Bank Capital Group member – had the first position on the leasing services market (8.1% share of the leased assets value). In turn, ING Commercial Finance Polska S.A. with the share of 13.4% in the factoring services market had the third position.
- Money markets and capital markets**  
 The second position on corporate debt securities market with the share of 16.2% in the total of outstanding securities and the first position on the short-term securities market (share of 34.1%).

In December 2013, 3,428.2 thousand clients used the services of ING Bank Śląski S.A., up by 163.4 thousand from a year earlier, including 3,395.8 thousand retail clients and 32.4 thousand corporate clients.

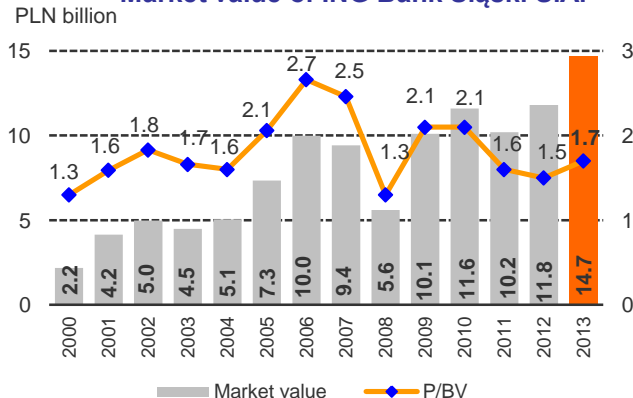
ING Bank Śląski S.A. Capital Group  
balance sheet total



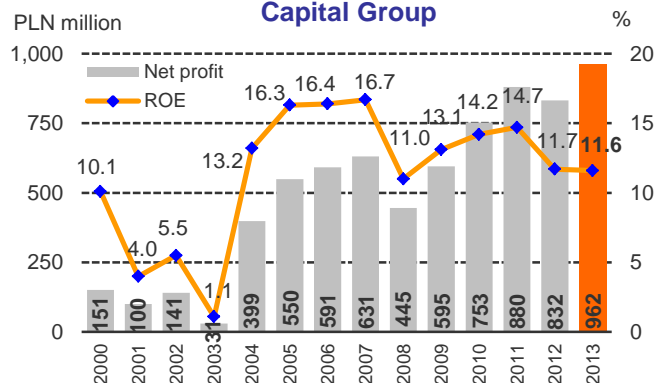
Number of ING Bank Śląski S.A.  
clients (million)



Market value of ING Bank Śląski S.A.



Net profit of ING Bank Śląski S.A.  
Capital Group



<sup>1</sup>As at 30 September 2013. Data based on the PRNews.pl Report: Market of personal accounts – Q3 2013 of 12 December 2013.

<sup>2</sup>Data based on GFK Polonia research, June 2013.

The Bank had a nationwide network of 417 bank outlets, which provided access to self-banking zones open 24 hours a day. ING Bank Śląski S.A. clients could use 792 Bank ATMs for free; Direct and VIP account holders as well as Entrepreneurs could use all the ATMs across Poland also for free. As regards cash service, the Bank offered a network of 725 CDMs to clients. The numbers of both ATMs and CDMs include 426 modern dual machines (facilitating both cash deposits and withdrawals). What is more, the Bank provides the clients with banking services via edge cutting electronic banking channels, such as: the Internet banking systems (ING BankOnLine, ING BusinessOnLine), mobile banking (ING BankMobile, ING BusinessMobile HD, ING BusinessMobile), a phone banking system (HaloŚląski), and a text messaging system (SMS system).

As at the end of 2013, the ING Bank Śląski S.A. Capital Group had 8,619 employees.

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

**Abridged information on financial results of ING Bank Śląski S.A. Capital Group for years 2007 to 2013**

	2013	2012	2011	2010	2009	2008	2007
<i>PLN million</i>							
Income <sup>3</sup>	3,283.2	3,201.1	2,953.6	2,731.6	2,532.3	2,127.7	2,072.9
Costs:	1,823.1	1,822.2	1,663.6	1,593.9	1,489.5	1,499.1	1,389.1
Risk costs	267.2	362.8	172.4	203.6	304.4	65.6	-103.2
Gross profit	1,192.9	1,016.1	1,117.6	934.1	738.3	563.0	787.0
Net profit <sup>4</sup>	961.5	832.3	880.1	753.1	595.1	445.4	630.7
<i>PLN million</i>							
Balance sheet total	86,751	78,267	69,723	64,518	59,883	69,611	52,011
Liabilities to customers	67,330	57,858	52,932	47,400	47,585	47,067	44,502
Net loans and other receivables to customers <sup>5</sup>	48,552	45,206	38,457	31,241	26,704	23,931	16,379
Off-balance sheet liabilities	271,183	188,623	209,041	163,221	145,667	292,132	234,247
Equity <sup>6</sup>	8,626	8,134	6,414	5,651	4,884	4,222	3,839
<i>%</i>							
Solvency ratio <sup>7</sup>	17.3	14.6	11.9	13.2	12.0	10.4	13.1
ROA	1.2	1.1	1.3	1.2	0.9	0.7	1.2
ROE	11.6	11.7	14.7	14.2	13.1	11.0	16.7
Costs/Income	55.5	56.9	56.3	58.4	58.8	70.5	67.0
<i>PLN</i>							
Earnings per share <sup>8</sup>	7.39	6.40	6.76	5.79	4.57	3.42	4.85
Dividend per share	4.40 <sup>9</sup>	0.00	0.00	1.50	0.00	0.00	1.17

<sup>3</sup> Including net profit of affiliated entities recognised on an equity basis.

<sup>4</sup> Attributable to shareholders of ING Bank Śląski S.A.

<sup>5</sup> Eurobonds excluded.

<sup>6</sup> Attributable to ING Bank Śląski S.A. shareholders.

<sup>7</sup> Starting from the annual report for 2013, ING Bank Śląski S.A. reports capital requirement for the corporate credit risk as per the AIRB approach.

<sup>8</sup> Upon making data comparable (split of the face value of shares 1:10 in November 2011).

<sup>9</sup> Following the information provided in the current report no. 4/2014 of 12 February 2014, the Management Board of ING Bank Śląski S.A. intend to recommend the General Meeting to adopt a resolution on earmarking for dividend payout approx. PLN 572.44 million, or 59.5% of net profit of the ING Bank Śląski S.A. Capital Group for 2013 (PLN 4.40 per share).

**Abridged information on financial results of ING Bank Śląski S.A. Capital Group for years 2007 to 2013 (converted in to EUR)**

	2013	2012	2011	2010	2009	2008	2007
<i>EUR million</i>							
Income	779.7	767.0	713.4	682.1	583.4	602.4	548.9
Costs:	432.9	436.6	401.8	398.0	343.2	424.4	367.8
Risk costs	63.5	86.9	41.6	50.8	70.1	18.6	-27.3
Gross profit	283.3	243.5	269.9	233.3	170.1	159.4	208.4
Net profit	228.3	199.4	212.6	188.1	137.1	126.1	167.0
<i>EUR million</i>							
Balance sheet total	20,918	19,145	15,786	16,291	14,576	16,684	14,520
Liabilities to customers	16,235	14,152	11,984	11,969	11,583	11,281	12,424
Net loans and other receivables to customers	11,707	11,058	8,707	7,889	6,500	5,736	4,573
Off-balance sheet liabilities	65,389	46,138	47,329	41,214	35,458	70,015	65,396
Equity	2,080	1,990	1,452	1,427	1,189	1,012	1,072
<i>%</i>							
Solvency ratio	17.3	14.6	11.9	13.2	12.0	10.4	13.1
ROA	1.2	1.1	1.3	1.2	0.9	0.7	1.2
ROE	11.6	11.7	14.7	14.2	13.1	11.0	16.7
Costs/Income	55.5	56.9	56.3	58.4	58.8	70.5	67.0
<i>EUR</i>							
Earnings per share	1.75	1.53	1.63	1.45	1.05	0.97	1.28
Dividend per share	1.04	0.00	0.00	0.37	0.00	0.00	0.31

The following exchange rates are used by the Bank to convert the above data into EUR:

- for the income statement items – the exchange rate is calculated as the average of the National Bank of Poland's rates effective as at the last day of each month in the year:
  - 2013: PLN 4.2110
  - 2012: PLN 4.1736
  - 2011: PLN 4.1401
  - 2010: PLN 4.0044
  - 2009: PLN 4.3406
  - 2008: PLN 3.5321
  - 2007: PLN 3.7768
- for the statement of financial position items – the exchange rate of the National Bank of Poland as at 31 December of the year:
  - 2013: PLN 4.1472
  - 2012: PLN 4.0882
  - 2011: PLN 4.4168
  - 2010: PLN 3.9603
  - 2009: PLN 4.1082
  - 2008: PLN 4.1724
  - 2007: PLN 3.5820

As at the publication date hereof, ING Bank Śląski S.A. had the following ratings assigned by rating agencies:

**Fitch Ratings Ltd.**

Long-term IDR	A
Outlook for keeping the abovementioned rating	Negative
Short-term IDR	F1
Viability rating	bbb+
Support rating	1

**Moody's Investors Service Ltd.**

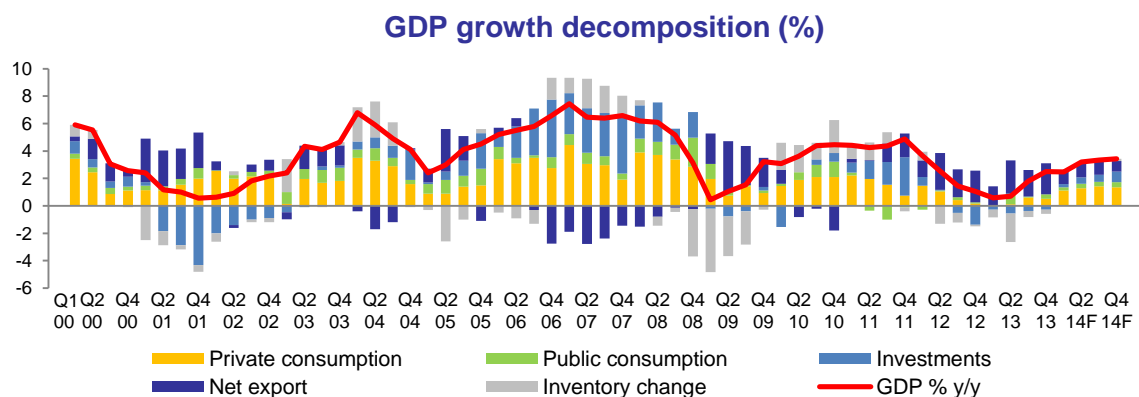
LT rating	Baa1
ST rating	P-2
Bank Financial Strength Rating (BFSR) / Baseline Credit Assessment (BCA)	D+/baa3
LT rating outlook	Negative
Financial strength outlook	Stable

## I. MACROECONOMIC SITUATION OF POLISH BANKING SECTOR GROWTH IN 2013

### 1. Major trends in Polish economy

#### Gross Domestic Product

2013 saw the lowest point of the current economic cycle (0.5% of GDP growth y/y in Q1). Throughout the remaining three quarters there was a relatively dynamic recovery in the economy, taking into account mixed signals as to the Eurozone standing. As a result, the economic growth in 2013 was 1.6% versus 1.9% in 2012. 2013 also brought an end to drops in real domestic demand, which led to the GDP growth being no longer dependent on positive contribution of net export only.



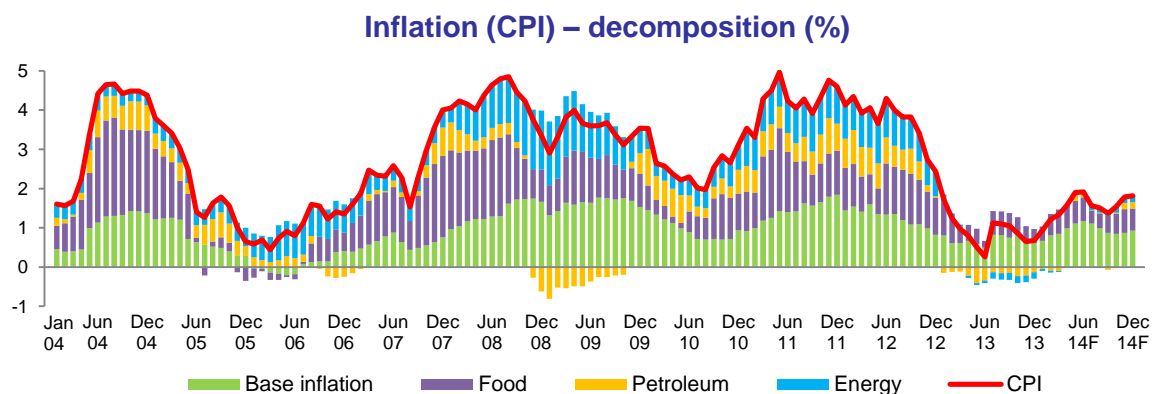
#### Labour market and payroll

Average unemployment rate in 2013 was 13.5% versus 12.8% in the previous year. However, its level as at the yearend was the same in 2013 as in 2012 (13.4%) due to the improving market labour situation in H2. At the same time, corporate employment drop came to a halt y/y.

Wage growth rate in the corporate sector slowed down from 3.5% y/y on average in 2012 to 2.6% in 2013. Still, following a significant inflation deceleration, it means that the real wage growth rate went up from -0.1% in 2012 to 1.6% on average.

#### Inflation

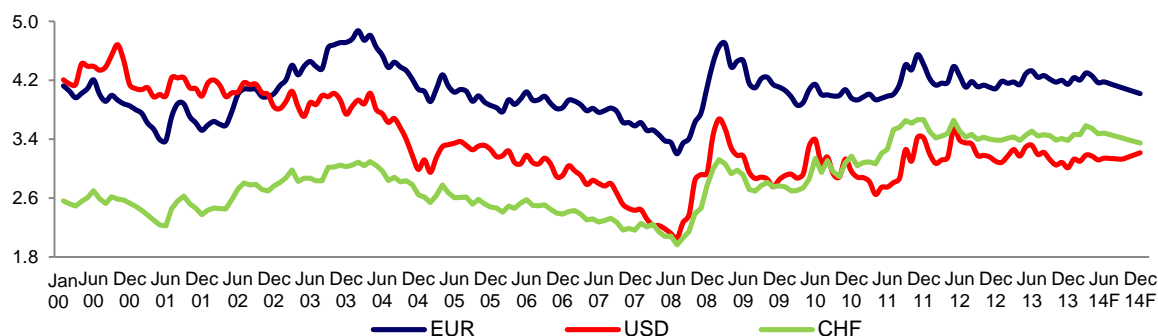
2013 was the year of very low inflation. The annual average inflation settled at 0.9% versus 3.7% in 2012. According to the estimates by economists, in 2014 it may rise to only 1.5% y/y, i.e. much below the inflation target of 2.5% y/y. The lowest inflation level was recorded in mid-2013 (0.2% y/y) and, at the same time, it is the lowest level in the last 24 years, at least (i.e. since the systemic transformation). At the end of the year, the inflation slightly rose to 0.7% y/y as at the end of December, which was largely triggered by administrative decisions (e.g. new principles of waste disposal settlement).



### Impact of the global financial markets on Polish economy

The Japan's announcement of the aggressive economy stimulus plan by additional printing of money revived the demand for Polish bonds at the beginning of Q2 2013. Still, in December 2013, the US Federal Reserve, after many months of preparing the markets, started tapering the quantitative easing programme. This process may take the entire 2014, potentially leading to nervous reactions of the emerging markets' public debt, weakening their currencies, including the zloty, if the data about the US economic activity intensify, and thus lead to growing expectations that Fed will raise interest rates.

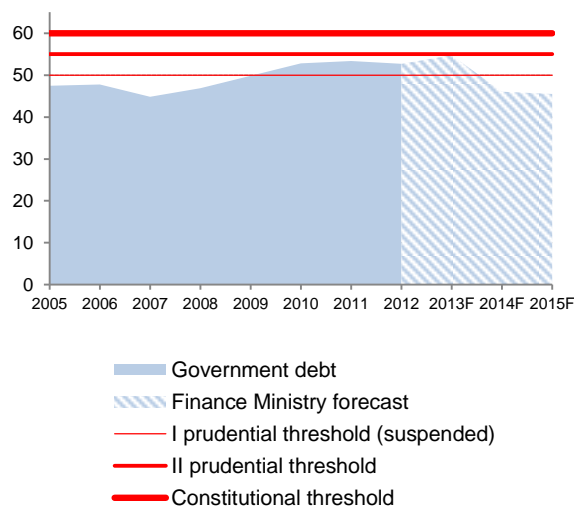
### PLN exchange rates



### State budget

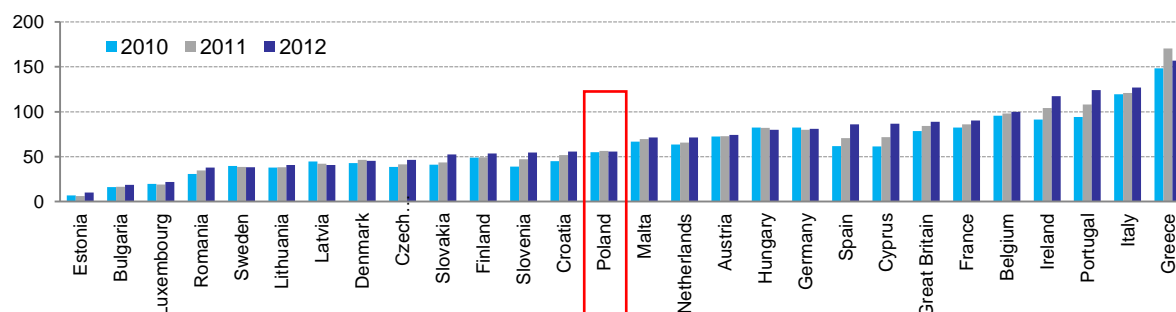
From the very beginning, the central budget for 2013 required immediate revision. Throughout the year, the Social Insurance Fund was partly funded with loans from the central budget instead with subsidies, which lowered the deficit recorded and deferred the date of revision, which finally took place in August. The deficit was increased by PLN 16 billion to PLN 51.6 billion but the economic upturn, which was faster than expected, resulted in its partial execution. The Chief Economist of the Ministry of Finance, Ludwik Kotecki, announced at the end of 2013 the deficit execution being approx. PLN 8 billion lower than budgeted, which was to translate into the public finance sector deficit of 4.3% of GDP instead of 4.8%, as forecasted by the Ministry of Finance and the European Commission.

### National government debt in 2005-2015 (% of GDP)



In 2014, the fiscal policy will follow the need of high absorption of the EU funds. Additionally, in consequence of the changes to the pension system, lower debt service costs and lower need of subsidising the Social Insurance Institution will be favourable for the budget.

### Public debt as per EU methodology (% of GDP)



## 2. Monetary policy

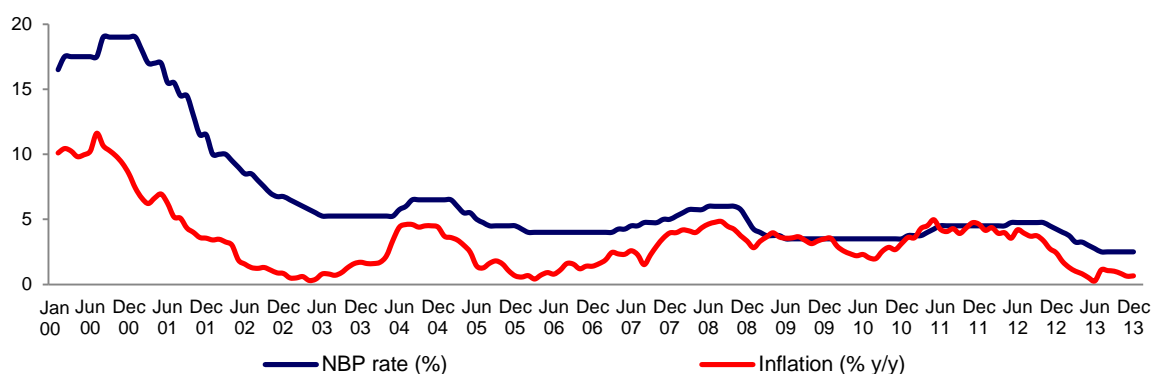
From the beginning of 2013, the Monetary Policy Council continued monetary policy easing by cutting interest rates throughout the year by 175 bp. The July interest rate cut terminated the monetary policy easing phase in Poland and the then communicated forecast of conditional keeping the interest rates unchanged by the end of 2014 was later extended to H1 2014.

The comments of the Monetary Policy Council members suggest that interest rates will rise at the end of 2014 first. Zyta Gilowska resigned from her function in the Monetary Policy Council and as of the beginning of 2014 she was replaced by Jerzy Osiatyński. The Ministry of Finance announced it would strive for introducing rotation to the MPC composition and that it expected a relevant amendment to the Act on the National Bank of Poland by the end of 2014.

Since July 2013, the interest rates have been as follows:

- reference rate – 2.50%,
- rediscount rate – 2.75%,
- lombard rate – 4.00%,
- deposit rate – 1.00%.

### NBP rate vs. inflation (%)



## 3. Banking sector<sup>10</sup>

Low economic growth rate and the situation on the financial markets (interest rates' slump - record low levels after the last cut in July 2013 and major T-securities yield fluctuations) impacted the banking sector standing in 2013. Starting from Q3, the first symptoms of recovery appeared which led to increased sales of household loans, among other things.

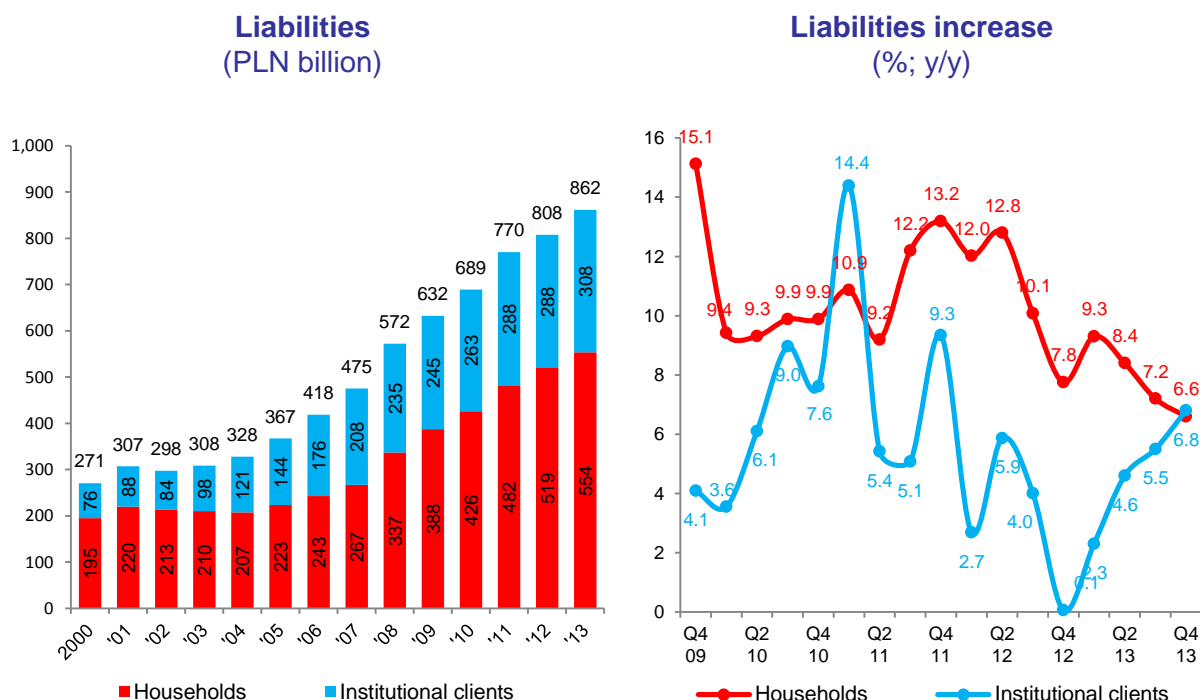
2013 saw a moderate growth of the sector's scale of operations, measured by both the balance sheet total and the core financial ratios: The latter were as follows:

- Liabilities to households reported a minor growth and as at the end of December 2013 they amounted to PLN 553.7 billion, up by 6.6% from the end of 2012.
- In December 2013, liabilities to institutional clients<sup>11</sup> amounted to PLN 307.8 billion, up by 6.8% from the 2012 yearend. The volume increase by PLN 19.7 billion can be mainly attributed to higher liabilities to enterprises (up by 9.6%, or by PLN 18.2 billion). Liabilities towards other sectors grew slower:

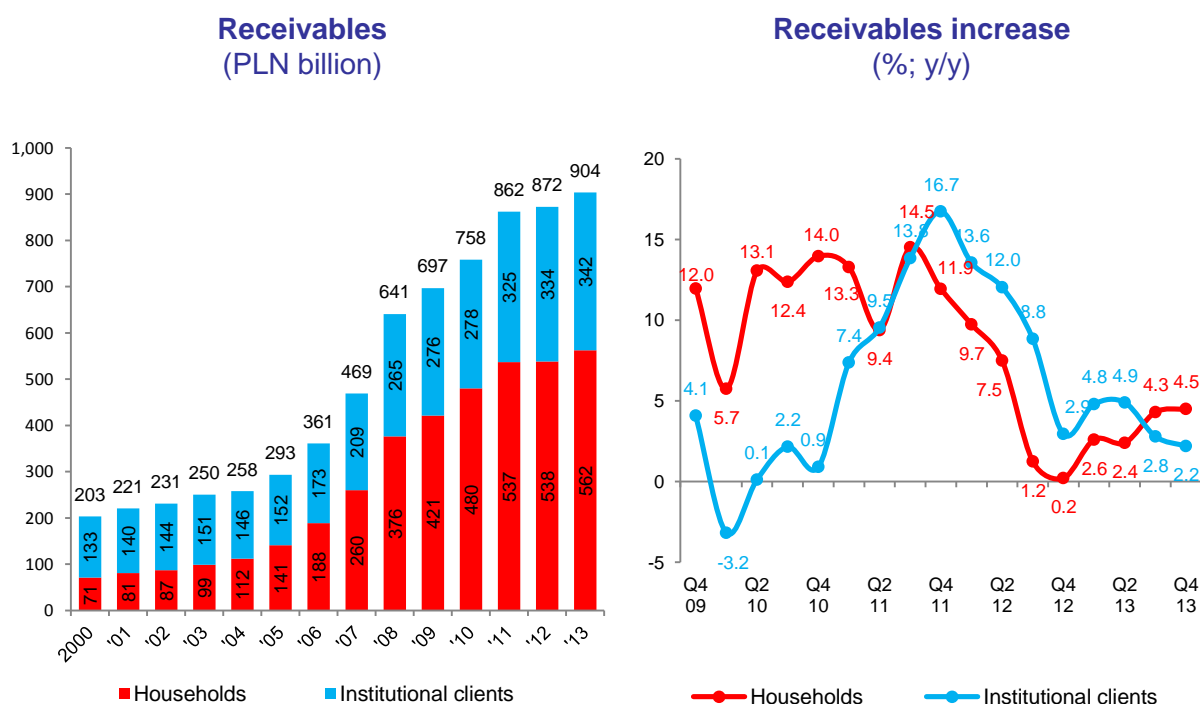
<sup>10</sup> The amounts discussed are for receivables and liabilities of monetary financial institutions from/ to other domestic industries. Source: NBP, NALEZ\_ZOBOW\_MIF.xls file – December 2013.

<sup>11</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.

- liabilities to non-commercial institutions for households: PLN +0.8 billion y/y (4.6%),
- liabilities to local government institutions and social insurance funds: PLN +0.6 billion y/y (2.2%),
- liabilities to non-monetary financial institutions: PLN +0.2 billion y/y (0.3%).



- In December 2013, receivables from households amounted to PLN 562.4 billion, up by 4.5% from the end of 2012. Housing loans, which constituted the main part of the banks' credit exposure towards households, grew in nominal terms by 3.7%, arriving at PLN 335.7 billion. The impact of FX rate fluctuations on the size of the housing loans portfolio was low since as at the end of 2013, the CHF/PLN exchange rate was at the level similar to the one from the end of the previous year. According to the preliminary data of the Polish Bank Association, in 2013, banks extended mortgage loans totalling PLN 37.5 billion (PLN 39.8 billion in 2012); 99.1% of which were PLN loans. Starting from H2 2013, the sale of consumer credits visibly bettered - the figure increased for the first time in the last two years. The volume of consumer credits grew by 4.8% from December 2012 to arrive at PLN 138.4 billion. The increase would be much higher, had it not been for large sale transactions of the non-performing loans portfolio.
- Receivables from institutional clients went up by 2.2% in the past year, arriving at PLN 341.5 billion. Loans to enterprises rose by 0.8%. The investment loans which went up by 8.5% from the 2012 yearend were the main growth driver. The working capital loans volume dropped by 4.2% year on year, while the volume of loans for real estate dropped in the analysed period by 3.3%. The receivables from non-monetary financial institutions went up by 24.3%, while the receivables from local government institutions and social insurance funds went down by 9.8%.

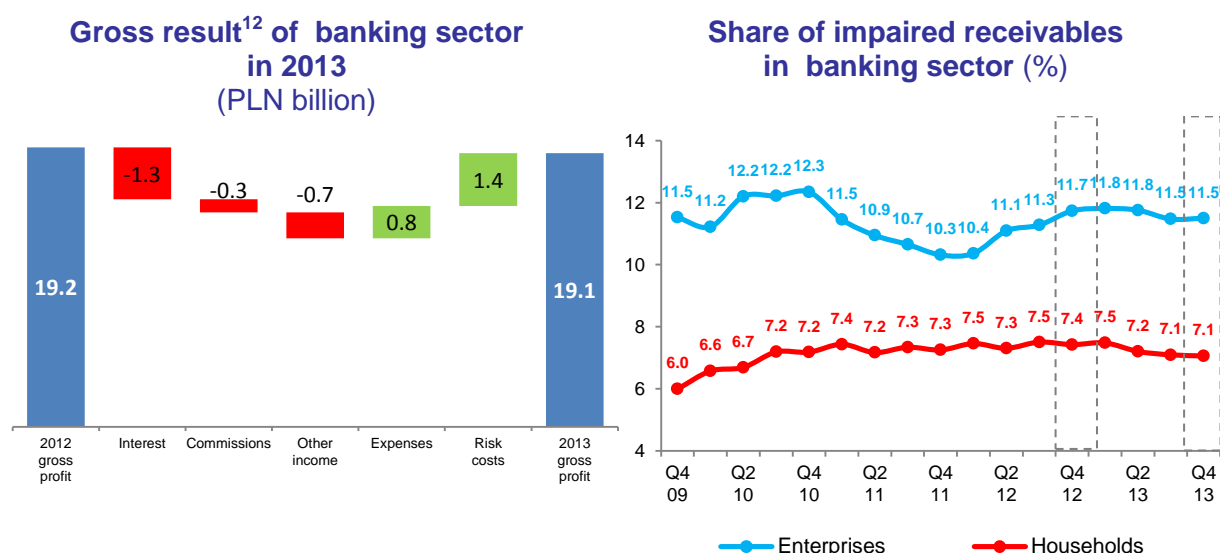


2013 brought a slight deterioration in banks' financial results due to a drop in banking activity, in particular the net interest income following a strong reduction in interest rates. Over 2013, banks generated net profit of PLN 15.4 billion (down by 0.3% from the same period last year). Sector results were impacted by the following factors:

- Net interest income drop due to a decrease in interest income by 14.0% which was not offset by a decline in interest expenses by 24.0%.
- Decrease by 2.3% of net income on fees and commissions.
- Drop in other income by 6.8%. The drop was partly due to the high base in 2012 when in the conditions of a strong growth of prices of the Polish bonds, banks earned profits on portfolios of T-securities.
- Reduction in operating expenses by 2.7%.
- A decrease in negative balance of impairment losses and provisions by 15.2%.

The share of impaired receivables in the banking sector went down from 7.7% in December 2012 to 7.4% in December 2013. The lending portfolio quality slightly improved despite economic downturn and labour market stagnation. This phenomenon results from big sales transactions of the non-performing loans portfolio (mainly consumer credits) and strong cutbacks in interest rates which significantly reduced the credit service costs. In the period discussed, the share of impaired housing loans went up from 2.8% to 3.1%, while the share of non-performing consumer loans fell from 17.3% to 14.7%.

As regards the receivables from corporates, the improvement in the quality of loans for large corporates (the share of impaired loans went down from 9.8% to 9.3%) and unchanged quality of loans to SMEs should be noted (the share of irregular loans was 13.0% both at the end of 2013 and 2012).



Capital base of the Polish banking sector saw further consolidation (equity went up from PLN 129.0 billion as at the 2012 yearend to PLN 139.4 billion as at the end of 2013). In the period discussed, the solvency ratio rose from 14.7% to 15.8% and the Tier 1 ratio from 13.1% to 14.2%. The main capital adequacy ratios improved partly due to the change by some large banks of the capital requirement calculation principles (change from the basic/ standard approach to advanced approach), whereby the total capital requirement was reduced.

The main changes introduced in 2013 by the Polish Financial Supervision Authority as regards regulatory requirements are as follows:

- Recommendation D regarding the management of IT technology and security of ICT environment at banks.
- Recommendation M concerning operational risk management at banks.
- Amendment to Recommendation T on best practices in retail credit exposures risk management whereunder the rules of granting consumer credits were eased. The amended Recommendation T provides for the possibility of taking a credit decision based on simplified principles of credit capacity assessment, among others.
- Change of the Recommendation S concerning best practices related to mortgage-secured credit exposures management, following the solutions adopted in the Recommendation T. The most important modifications of the Recommendation S include: further restriction of FX lending, liberalised approach to Dtl ratio and changed approach to Ltv ratio which should be determined by bank internal bodies.

#### 4. Asset-backed funding market

##### Leasing

2013 was a record year for the leasing industry – the value of assets funded by the leasing companies went up from the previous year by 13.0%, arriving at PLN 35.3 billion<sup>13</sup>. It was the highest amount in history, higher than the result of the record-breaking 2008 when the leasing market totalled PLN 32.9 billion.

Year on year, the real estate market rose by 13.1% to PLN 33.7 billion. Vehicles – both passenger cars and trucks – were the main growth driver in this segment. The worth of passenger car purchase funded went up by 19.1% year on year, the fact that can be attributed to fleet modernization - replacement of cars equipped with a cargo partition, purchased on a mass scale by companies in 2009-2010. In turn, leasing of trucks went up due to the coming into force of the Euro 6 exhaust fumes standard. Since the new, more stringent, exhaust fumes standard will translate into higher prices of

<sup>12</sup> Going concern gross profit.

<sup>13</sup> Source: Polish Leasing Association, ZPL file – finansowanie rynku w roku 2013 - tabela wartość i ilość wg firm.xls.

trucks, companies sped up their fleet exchange. The economic upturn in the Western Europe (and the expected increase in demand for transportation services) are of importance here. In consequence, the worth of trucks funded rose by 24.5% year on year. The second largest movables leasing segment being machines and equipment went up by 4.3% year on year. Construction investment drop caused the worth of leased construction machinery to fall by 14.7% in 2013. Further, tapering of agricultural funds from the 2007-2013 perspective translated into a lower growth rate of agricultural machinery funding (+4.0% y/y versus 45.4% in 2012). Leasing of machines for plastic production and metal processing went down by 5.4% y/y.

Among smaller segments, the lease of IT hardware and software remained unchanged (+0.4% y/y) while the leasing of other means of transport dropped by 38.2%.

The value of the real properties leased in 2013 went up by 11.1% arriving at PLN 1.6 billion. After a very good first half of the year with the growth rate of 115.2% y/y, in Q3 and Q4 2013 the real property lease recorded negative growth rate year on year: by -39.0% and -25.3%, respectively. 2013 was balanced in terms of the types of leased objects. Among the leased real properties, office buildings had the biggest share (29%), followed by industrial buildings (28%) and commercial and service buildings (25%) which lost their dominant position of 2012 due to a strong drop in the value of the assets financed with lease (-54% y/y). In turn, the value of leased office buildings recorded the highest growth rate year on year (+1,201.9%).

### **Factoring**

2013 was yet another good year for Polish factoring companies. According to the estimates of the Polish Factors Association (PZF), the turnover of the factoring companies settled at PLN 131.0 billion, or went up by 15.8% from 2012. Factoring remained the fastest growing financial services sector in Poland. The growing popularity of factoring services is driven by the fact that they allow for both improving the company's liquidity and hedging against the counterparty risk. The latter characteristic of factoring is particularly important in the economic slowdown environment. Traditionally, domestic factoring (both full and limited) was the most popular form of factoring services in 2013 – its share in turnover of the companies grouped in the Polish Factors Association was 79.0%.

## **5. Capital market**

The WIG broad market index closed 2013 with a moderate growth by 8.1%<sup>14</sup>; the situation in different market segments varied nonetheless. The SME segment saw bull market. sWIG80 and mWIG40 indices gained 37.3% and 31.1%, respectively. The emerging economic recovery effected high return on investment in SMEs. In turn, uncertainty as to further developments regarding the open-end pension funds system impacted the index of the largest companies. The portent of deep changes in their operation turned into a concern about the supply of blue chips' securities. Their prices did not rise and the WIG20 return rate as at the end of November 2013 fluctuated around zero. Severe reduction in share prices of the largest companies that occurred in December made WIG20 drop by 7.0% from the end of December 2012. Poor end of 2013 which brought the biggest drops since December 1994 (WIG lost 6.3% in December) was quickly named by the media "red December".

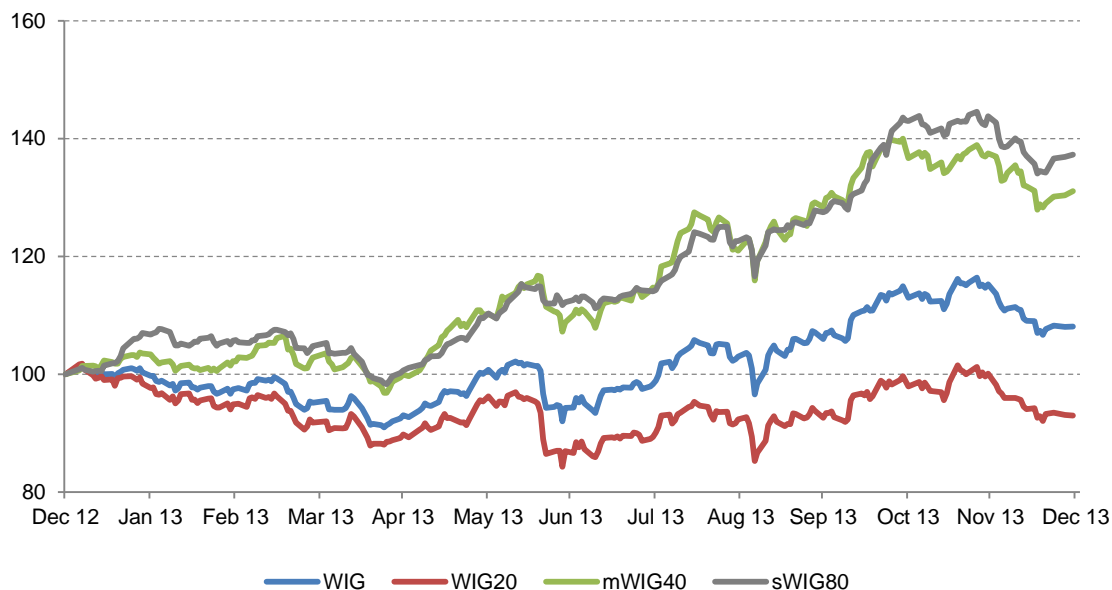
*WIG-Budownictwo* (WIG-Construction) (+33.5%), *WIG-Media* (WIG-Media) (+31.0%), *WIG-Informatyka* (WIG-IT) (+21.9%), *WIG-Chemia* (WIG-Chemicals) (+20.6%) and *WIG-Banki* (WIG-Banking) (+20.5%) were the indices with highest increases in 2013. In turn, *WIG-Surowce* (WIG-Basic Materials) (-32.1%), *WIG-Spożywczy* (WIG-Food) (-11.4%) and *WIG-Paliwa* (WIG-Fuels) (-10.0%) recorded the biggest drops.

The NewConnect market index - NCIndex recorded a growth of 10.0%, while the NCIndex30 grouping the most liquid companies of this market went up by 43.9%.

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<sup>14</sup> Source: Key WSE statistics ([http://www.gpw.pl/analizy\\_i\\_statystyki\\_pelna\\_wersja](http://www.gpw.pl/analizy_i_statystyki_pelna_wersja)).

### Main WSE indices in 2013 (28 December 2012 =100)



As at the end of December 2013, the domestic companies listed on the Warsaw Stock Exchange were worth PLN 593.5 billion, up by 13.4% from December 2012. The investors were more enticed by new public offerings. In 2013, there were 65 IPOs on WSE (108 in 2012) with their worth exceeding EUR 1.1 billion (EUR 0.7 billion in 2012). In terms of IPOs, WSE was ranked second in Europe (after the London Stock Exchange); thanks to their total worth, the Polish stock exchange managed to become fifth among the stock markets operative on the fully-fledged European capital markets. There were 23 debuts on the Main Market and 42 on NewConnect.

2013 saw increased trading on WSE. The value of share trading on the Main Market went up by 26.2 % arriving at PLN 256.2 billion. In turn, trading in equities of high-potential companies on the alternative market – NewConnect – went down by 6%. Throughout 2013, the value of trading on the NewConnect market totalled PLN 1.2 billion (PLN 1.3 billion in 2012).

Also the Catalyst debt instruments market growth was solid in 2013. As at the end of December 2013, the issues (corporate bonds, municipal bonds and mortgage bonds) totalled PLN 59.0 billion versus PLN 52.4 billion in December 2012 (up by 12.6%). Throughout 2013, the value of bonds trading went up by 43.3% arriving at PLN 4.3 billion (PLN 3.0 billion in 2012). As at the end of December, there were 175 issuers of instruments quoted on the Catalyst market (155 a year earlier).

In 2013, the derivatives trading volume was 12.6 million trades or went up by 11.4% as compared to the previous year (11.3 million trades).

In September 2013, a new main WSE index – WIG30 was launched. It includes the thirty largest and most liquid WSE companies. It helps better reflect the Polish economic growth, sector structure and dynamic development of the Polish capital market over the recent years.

2013 was the last year of open-end pension funds' operation in the form as provided for in the pension system reform of 1999. As at the end of December, the funds accumulated in pension accounts totalling PLN 299.3 billion were the highest ever (as compared to PLN 269.6 billion as at the 2012 yearend). Throughout 2013, the assets of open-end pension funds went up by PLN 29.7 billion, or 11.0%, out of which PLN 19.2 billion is the result generated by funds asset management while the contributions of the open-end pension funds' members transferred to the Social Insurance Institution totalled PLN 10.5 billion.

Last year proved positive for mutual funds market. The interest rates remaining at low levels did not favour accumulation of savings in bank accounts and made investors look for alternative ways of saving. As at the end of 2013, the mutual funds' assets totalled PLN 188.9 billion<sup>15</sup>, up by PLN 43.2 billion or 29.6% year on year. Private asset funds recorded the most dynamic growth<sup>16</sup> (by 61.0% y/y), mainly owing to private equity funds which increased their assets by 70.9%. The share of private asset funds in the entire market as at the 2013 yearend was 32.6%, or went up by 6.5 p.p. throughout the year.

The absolute-return funds' growth rate was high (78.4%), but still they remain a small market segment (2.9% of total assets). Also the products with the lowest risk profile – cash and money funds – increased their market share. Their assets grew by 49.6% over 12 months and their share in the structure went up from 10.7% to 12.4%. Also mixed funds, whose assets as at the end of 2012 had a 18.8% share in the market, gained popularity (+45.1% and +2 p.p. y/y) Equity funds recorded a positive growth, even though lower than the market (+26.9% y/y). As at the 2013 yearend, their share in total mutual funds' assets was 16.4%. The commodity, bond and real property funds, in the private asset funds category, recorded biggest drops in the assets value (by 50.5%, 20.2% and 14.6% y/y, respectively).

2013 was particularly successful for those investing in funds of SMEs (average rate of return of 31.1%) or in funds investing on developed markets (e.g. the rate of return for US equity funds was 25.5%).

## **6. Macroeconomic factors to affect operations of ING Bank Śląski S.A. in 2014**

One of the global factors that may adversely affect the Polish economic situation is the pace of normalisation of the monetary policy in the US impacting expectations that the US interest rates would rise. Moreover, economic slowdown in China has not reached its bottom yet, while there are doubts whether the recovery in the Eurozone will sustain due to the continuing credit crunch in this area despite numerous anti-crisis measures. A relatively better condition of the German economy (when compared to the situation in the Eurozone) will enable further acceleration of the Polish export. The German GDP is expected to grow by 1.6% y/y in 2014 versus 0.6% y/y in 2013.

In its search for the way to trigger growth, avert EUR depreciation and prevent the deflation risk, ECB changed the monetary policy parameters already in November 2013. There is also the option of launching another LTRO programme or of another interest rate cut, should these concerns continue.

The response of financial markets of individual emerging economies to the US withdrawal from the quantitative easing programme will be an important determinant of the banking environment in 2014. Already much capital flew into emerging markets when the primary markets were offering very low yields, thus the withdrawal may have major impact on currencies and bond prices. It is expected that they will become very volatile, as was the case in June 2013. The Polish debt and currency seem to stand good in this context. At the end of 2013, the Polish zloty was highly stable when compared to the emerging markets' currencies and after January 2014, the Ministry of Finance covered already over a half of the borrowing needs for this year. Moreover, in 2014, Poland will have the lowest borrowing needs among the seven biggest issuers/emerging markets.

Following the signals by the Monetary Policy Council, interest rates in Poland are most likely to remain stable. Despite the economic upturn, it is unlikely that imbalances in the form of inflationary and wage pressures, which are unfavourable in terms of the monetary policy, will appear soon. Moreover, ECB will continue its dovish policy long-term, which will discourage the MPC from accelerating their actions. As a result, interest rates may rise for the first time in Q4 2014 by 25 bp and by another 75 bp in 2015.

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<sup>15</sup> Source: Chamber of Fund and Asset Management, [http://www.izfa.pl/files\\_user/xls/Raport\\_Aktywa\\_31.12.2013.xls](http://www.izfa.pl/files_user/xls/Raport_Aktywa_31.12.2013.xls)

<sup>16</sup> Private equity, real property and securitisation funds.

The low interest rates in Poland may contribute to depositing household savings outside the banking system. Throughout 2013 also the cash in circulation recorded a significant growth.

Further course of economic revival in Poland will determine the macroeconomic conditions for banks – GDP growth rate should in Q4 2013 settle at 2.7% y/y which can suggest the GDP growth of 3.4% in 2014. The signals of the labour market stabilising and the already observed employment rise in the corporate sector will allow for further improvement of consumer moods. The unwillingness to use the external funding, as revealed by the ING Financial Barometer international ING Group survey may be a hindrance in this respect (74% of Polish respondents admitted feeling greater aversion to borrowing money since the global financial crisis). In the context of low interest rates coupled with low inflation leading to real income growth, even against low wage growth rate, it should be only a question of time when the private consumption visibly rises. Nevertheless, the propensity to save may remain elevated due to uncertainty of recovery in the Eurozone and lessons-learned by households after the economic slowdown.

The Q4 2013-dedicated survey on economic situation, conducted by the National Bank of Poland among enterprises, showed some signs of improvement of demand, expected output and employment plans. All these ratios exceeded the levels from 2010-2011 when the economy recovered from the global financial crisis and started to grow dynamically. The investment ratios showed continuing caution, still the same report mentioned growing investment activity of the largest entities.

As at the 2013 yearend, the unemployment rate was 13.4% due to the intervention of the Ministry of Labour and Social Policy in the labour market, favourable yearend weather conditions and recovering labour demand. As at the end of 2014, it may drop to 13.0%.

Moreover, gradual strengthening of PLN to EUR is expected, with the proviso that it may temporarily weaken throughout H1 2014. In December, the process of withdrawing the 'easy money' policy from the US was initiated, but it will be slow – most probably the money-printing programme will be tapered off, but it will be long before we see the interest rates rise. The said policy was favourable to bonds and currencies of the emerging markets, Poland included, so its termination may lead to their weakening; still it should be remembered that Fed has been preparing the financial markets for this change since May 2013. The fact of the QE programme tapering itself did not cause drastic movements in the Polish bonds' prices. Moreover, a lot will depend on the pace of the monetary policy normalisation. ING economists believe that the potential zloty weakening would be moderate, taking into account the fact that the Polish revival seems to be long-lasting. A relatively low deficit in the current account of the balance of payments, making the economy less sensitive to the potential outflow of portfolio capital and inflows of European funds, should additionally strengthen the zloty. The pace of the economic recovery was a positive surprise in 2013. The outlook for Poland in terms of growth is good, both versus the Central and Easter Europe and all the developing countries.

Despite optimistic economic expectations, it is thought that inflation in 2014 will be low (annual average inflation of 1.5% y/y) and CPI will not reach the MPC target of 2.5% y/y throughout 2014. Contrary to the last 5-6 years, now it is the time of low inflation. In terms of the local factors, core inflation is impacted by the now ending period of weak domestic demand, which was the longest in the last twenty years. The domestic demand translates into the inflation with a delay of several quarters, thus the effects of the material slowdown experienced by the Polish economy at the turn of 2012 and 2013 will be still visible in 2014. It should be also taken into account that the commodity markets fluctuate in cycles lasting many years (as many as 30) and now we have probably just passed the midpoint of such a long cycle. Everything suggests that the phase of constant rises in commodity prices which to such a big extent inflated the inflation rate in 2007-2013 is over and now we are going the other way round.

Polish economy in years 2005-2014 <sup>17</sup>										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.9	4.5	1.9	1.6	3.4
General government debt according to the EU methodology (% of GDP)	47.1	47.7	45.0	47.1	50.9	54.8	56.2	55.6	59.2	51.7
M3 money supply (PLN billion)	427.1	495.3	561.6	666.2	720.3	783.6	881.5	921.4	977.3	1024.0
Producer Price Index growth (%)	4.1	12.0	9.4	3.0	-3.6	11.1	6.8	1.4	2.3	12.1
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	4.3	3.7	0.9	1.5
Unemployment rate (%)	17.6	14.8	11.2	9.5	12.1	12.4	12.5	13.4	13.4	13.0
PLN/USD (yearend)	3.2613	2.9105	2.7554	2.9379	2.8503	2.9641	3.4174	3.0996	3.0120	3.2200
PLN/EUR (yearend)	3.8598	3.8312	3.5820	4.1050	4.1082	3.9603	4.4168	4.0882	4.1472	4.0200
WIBOR 3M (yearend)	4.60	4.20	5.70	5.80	4.00	3.95	4.99	4.11	2.65	3.13

<sup>17</sup>2014 Forecast updated in January 2014.

## II. MAJOR ACHIEVEMENTS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2013

### 1. Increase in number of clients

In 2013, ING Bank Śląski S.A. maintained the growth rate of the clients serviced by the Bank. Throughout the year, the Bank's client base went up by 163.4 thousand entities versus 164.0 thousand the year before. As at the end of December 2013, the number of Bank clients amounted to 3,428.2 thousand and it was broken down into the following segments:

- 3,395.8 thousand retail clients, including:
  - 3,137.2 thousand individual clients (up by 141.2 thousand clients throughout the year),
  - 258.6 thousand entrepreneurs,
- 32.4 thousand corporate clients (mid-sized and mid-corporates and capital groups).

Throughout the year, the Bank acquired 352 thousand of new clients in the retail segment and started 6.4 thousand of new relationships in the corporate segment. 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 product offer tailored to the ever-changing preferences of clients and a continuously developed modern distribution and customer service system.

### 2. Better position on credit market

As at the end of December 2013, total net loans and other receivables to customers of the ING Bank Śląski S.A. Capital Group amounted to PLN 48,552.1 million, up by PLN 3,346.5 million (or by 7.4%) from the end of 2012.<sup>18</sup>

As at the end of 2013, the Bank was estimated to have a 5.2% share in the total amount of loans extended to customers in the commercial banks sector<sup>19</sup> (up by 0.2 p.p. from the end of 2012).

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

- Dynamic growth of credit receivables from households. In December 2013, credit receivables from households totalled PLN 18,520.4 million, up by PLN 1,967.7 million (or by 11.9%) from the end of 2012. In 2013, it was still the PLN mortgage loan that was the dominant product in the retail segment decisive for the growth of credit receivables. As at the end of December 2013, the PLN mortgage loans amounted to PLN 12,247.1 million (up by 13.8% when compared to the 2012 yearend); however, the relevance of cash loans is growing, as they went up by 17.3% throughout the year, and their volume amounted to PLN 3,021.7 million.
- Increased corporate (institutional<sup>20</sup>) clients exposure – the respective Group's credit receivables amounted to PLN 30,031.7 million, up by 4.8% from the end of 2012.

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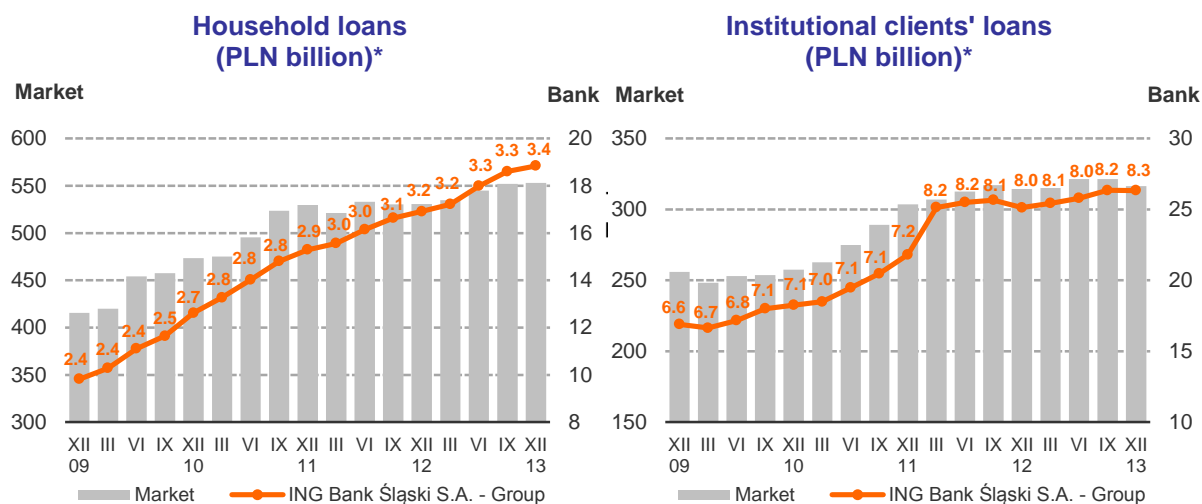
<sup>18</sup> This amount covers net loans and other receivables, except for Eurobonds and receivables from customers under repo transactions.

<sup>19</sup> Banking sector meaning commercial banks sector in line with data published by NBP in the file *Assets and liabilities of banks*.

<sup>20</sup> In total for the business entities, non-monetary financial institutions, central and local government institutions.

## Loans and other receivables to customers of ING Bank Śląski S.A. Capital Group (PLN million)

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Credit receivables from households, including:	18,520.4	16,552.7	14,938.3	12,311.4	9,566.5	7,260.8	4,712.4
Loans and advances	18,348.0	16,444.3	14,921.4	12,304.8	9,562.2	7,256.5	4,706.6
Leasing receivables	140.0	87.6	0.0	0.0	0.0	0.0	0.0
Factoring receivables	32.4	20.0	16.9	6.6	4.3	4.3	5.8
Other receivables	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Credit receivables from institutional clients <sup>21</sup> , including:	30,031.7	28,652.9	23,518.8	18,929.1	17,137.7	16,669.9	11,666.7
Loans and advances	21,859.5	21,166.6	21,076.6	17,492.8	16,110.0	15,742.8	11,398.9
- Business entities	17,775.1	16,543.8	14,986.0	12,095.1	11,266.3	11,866.7	8,505.8
- Financial entities (other than banks)	1,457.1	1,533.2	2,821.5	2,583.1	2,543.8	2,923.1	2,226.8
- Entities of the sector of central and local government agencies	2,627.3	3,089.6	3,269.1	2,814.6	2,299.9	953.0	666.3
Debt securities <sup>22</sup>	2,175.7	2,107.6	2,086.8	1,177.7	643.4	640.5	0.0
Leasing receivables	3,450.8	3,076.9	0.0	0.0	0.0	0.0	0.0
Factoring receivables	2,421.4	2,182.7	255.5	116.1	168.8	160.3	122.8
Other receivables	124.3	119.1	99.9	142.5	215.5	126.3	145.0
<b>Total net credit receivables</b>	<b>48,552.1</b>	<b>45,205.6</b>	<b>38,457.1</b>	<b>31,240.5</b>	<b>26,704.2</b>	<b>23,930.7</b>	<b>16,379.1</b>
- Eurobonds	3,685.8	3,779.7	3,872.6	3,268.5	3,261.9	1,654.0	0.0
<b>Total net loans and other receivables to customers</b>	<b>52,237.9</b>	<b>48,985.3</b>	<b>42,329.7</b>	<b>34,509.0</b>	<b>29,966.1</b>	<b>25,584.7</b>	<b>16,379.1</b>



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

### 3. Strengthening position on deposits market

The deposit base held by the Bank is one of the largest in the Polish banking sector, which ensures high liquidity of the balance sheet and comfort as regards shaping the lending policy. Actions undertaken in 2013 led to further expanding the 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.

<sup>21</sup> Excluding receivables from customers under repo transactions.

<sup>22</sup> Eurobonds excluded.

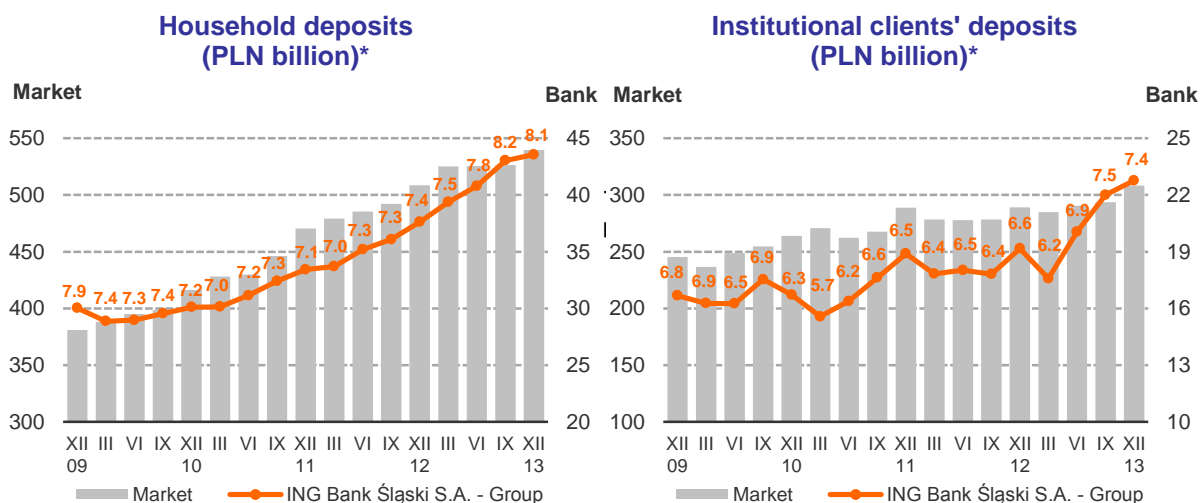
As at the end of December 2013, total funds accumulated in the accounts of the ING Bank Śląski S.A. Capital Group amounted to PLN 67,330.4 million<sup>23</sup> as compared to PLN 57,857.5 million as at the end of 2012 (up by 16.4%).

As at the end of 2013, the Bank held 7.8% of the total value of funds deposited in the commercial banks sector<sup>24</sup> as compared with 7.1% as at the end of 2012, which indicates that the Bank was the fourth largest deposit bank in Poland.

Throughout 2013, total funds deposited in household accounts went up by PLN 5,945.2 million, or by 15.8% and as at the end of December amounted to PLN 43,628.9 million. The liabilities to institutional clients also went up; in December 2013, they totalled PLN 23,701.5 million versus PLN 20,173.8 million as at the end of 2012 (increase of 17.5%). Throughout 2013 there was an increase not only in the value of funds deposited by mid-sized and mid-corporates (of 18.3%) but also in deposits of big corporates (of 22.8%).

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

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Liabilities to households, including:	43,628.9	37,683.7	33,481.8	30,167.2	30,103.9	28,011.3	25,639.5
Deposits	43,563.8	37,627.7	33,434.7	30,117.7	30,039.7	27,945.7	25,392.6
Other liabilities	65.1	56.0	47.1	49.5	64.2	65.6	246.9
Liabilities to institutional clients <sup>25</sup> , including:	23,701.5	20,173.8	19,334.2	17,232.9	17,169.2	18,853.6	18,007.0
Deposits	22,762.8	19,166.1	18,899.9	16,719.2	16,676.5	18,327.2	17,559.9
- Business entities	17,746.3	13,739.9	13,887.3	12,483.6	11,861.7	11,173.5	12,760.8
- Financial entities (other than banks)	2,925.7	3,327.2	2,910.0	2,540.6	3,306.6	4,267.5	2,226.7
- Entities of the sector of central and local government agencies	2,090.8	2,099.0	2,102.6	1,695.0	1,508.2	2,886.2	2,572.4
Other liabilities	938.7	1,007.7	434.3	513.7	492.7	526.4	447.1
<b>Total liabilities to customers</b>	<b>67,330.4</b>	<b>57,857.5</b>	<b>52,816.0</b>	<b>47,400.1</b>	<b>47,273.1</b>	<b>46,864.9</b>	<b>43,646.5</b>



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

<sup>23</sup> The amount includes the deposits and other liabilities except for liabilities to clients under repo transactions.

<sup>24</sup> Banking sector meaning commercial banks sector in line with data published by NBP in the file *Assets and liabilities of banks*.

<sup>25</sup> Excluding liabilities to customers under repo transactions.

#### 4. Best net financial result in Group track record

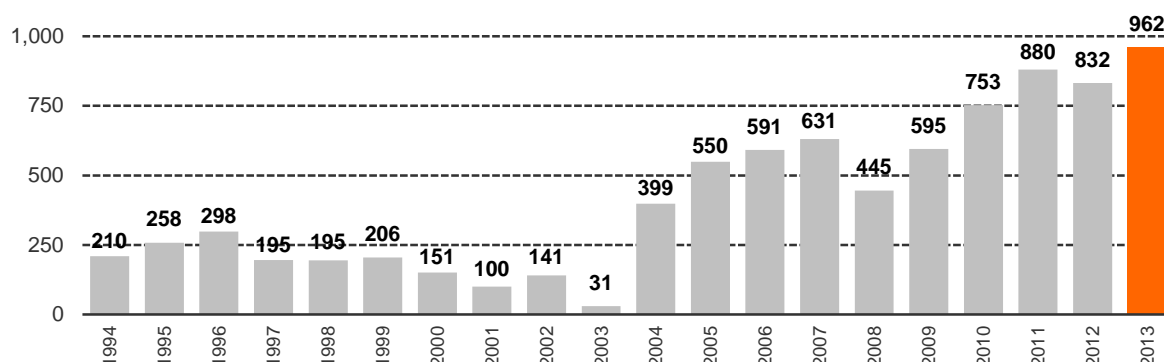
In 2013, net profit of the ING Bank Śląski S.A. Capital Group totalled PLN 961.5 million, up by 15.5% versus a year earlier. Thus, it was the best net financial result in Group track record.

As a result, Return on Assets (ROA) improved by 0.1. p.p. from 2012 and settled at 1.2%, while Return on Equity (ROE) remained alike and settled at 11.6% (versus 11.7% a year earlier). At the same time, the cost effectiveness of the Group improved – the cost to income ratio (C/I) dropped to 55.5% or by 1.4 p.p. versus 2012.

The individual components of the result were described in Chapter “Financial standing of ING Bank Śląski S.A. Capital Group in 2013”.

#### Net profit of ING Bank Śląski S.A. Capital Group

PLN million



#### 5. Awards and distinctions

2013 brought numerous awards and distinctions for ING Bank Śląski S.A.

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

- The award in the category *Najlepszy program / system / urządzenie IT w Polsce w 2013 roku do obsługi systemów kartowych* (The Best IT Program/ System/ Device in Poland in 2013 for Handling Card Systems) for the launch of the NFC-enabled ATM granted at the Central European Electronic Card conference held in Warsaw;
- 1st place in the *Konta dla firm rozpoczynających działalność* (Accounts for Start-Ups) ranking compiled by the Totalmoney.pl portal;
- 1st place in the *Najwygodniejsze konto osobiste* (The Most Convenient Personal Account) ranking made by Comperia.pl for the Forbes.pl portal;
- 2nd place in the ranking of the Newsweek weekly magazine *Przyjazny Bank Newsweeka* (Newsweek Friendly Bank) in the *Bankowość mobilna* (Mobile Banking) category and 3rd place in the *Banki w internecie* (Internet Bank) category;
- 2nd place in the *Najlepsze konto z dostępem przez Internet* (The Best Account with Internet access) ranking made by the TotalMoney.pl portal;
- 2nd place in the rankings “The Best Student Account” and the “Best Youth Account” prepared by the Money.pl portal;
- 2nd place in the *Bank najbliższy klientowi* (The Client’s Most Friendly Bank) ranking, prepared by *Dziennik Gazeta Prawna*;
- 2nd place for the helpline in the survey of quality of banks help-lines, conducted by an independent research institute *ARC Rynek i Opinia*;
- 3rd place in the ranking of loans and cash loans compiled by the Totalmoney.pl portal;

- *Gwiazda Jakości Obsługi 2013* (2013 Service Quality Star) in the ranking organised by the [www.jakoscobslugi.pl](http://www.jakoscobslugi.pl) portal;
- TOP RATED status awarded by the prestigious opinion-making American publishing house GLOBAL CUSTODIAN for Bank's custody operations in Poland in 2012;
- *Złoty Bell* (Golden Bell) statuette in the *Mobilny Bank – Najlepsza Oferta roku 2013* (*Mobile Bank – Best Offer of 2013*) category based on internet users' opinions organised by the *Mobility* magazine.

Marketing undertakings carried out by ING Bank Śląski S.A. were also awarded:

- Gold Effie statuette for the "It's easier to borrow money from the bank than family" cash loan campaign and a bronze statuette for the Open Savings Account-dedicated campaign "What you actually saved is what your account tells";
- Title of *Reklamodawca Roku* (Advertiser of the Year) in an advertising contest of KTR (Ad Creators Club) as well as a silver mention for the best campaign and two golden mentions for commercial spots in the *Usługi finansowe* (Financial Services) category;
- *Złoty Bankier 2012* (2012 Golden Banker) in the *Najlepszy spot reklamowy banku* (Best Banking Commercial Spot) category for a commercial broadcast as part of the "It is easier to borrow money from the bank than family" campaign;
- 3rd place in the *Lamparty 2013* (2013 Leopards) contest, awarding the best bank brands creations.

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

- RESPECT Index – the Bank was included in the index of socially responsible companies (for the sixth and seventh consecutive time);
- Special award for client data protection and model implementation of Recommendation D of the Polish Financial Supervision Authority granted in the IT@Bank 2013 ranking;
- 2nd place for ING Bank Śląski S.A. in "The Best Annual Report 2012" competition, in the *Banki i instytucje finansowe* (Banks and financial institutions) category;
- Award in the nationwide competition *Raporty Społeczne* (Social Reports) for the ING Bank Śląski 2011-2012 Corporate Social Responsibility Report in the *Najlepszy Debiut* (Best Debut) category organised by *Forum Odpowiedzialnego Biznesu* (Responsible Business Forum) in cooperation with PwC and SGS;
- *Przedsiębiorstwo przyjazne środowisku* (Environment-Friendly Enterprise) certificate in the *Przyjaźni środowisku* (Environment-Friendly) contest;
- Victory in the November edition of the *Odpowiedzialna Inicjatywa Miesiąca* (Responsible Initiative of the Month) competition organised by the CSR.pl portal for organising the honorary blood donation action;
- *Złoty Listek CSR* (Golden CSR Leaf) awarded by the *POLITYKA* weekly magazine as part of its "500 List";
- 3rd place in the *Ranking Odpowiedzialnych Firm 2013* (2013 Socially Responsible Companies Ranking) in the *Bankowość, sektor finansowy i ubezpieczeniowy* (Banking, Financial and Insurance Sector) category;
- 3rd place for *Marka Godna Zaufania* (Trusted Brand) in the "Bank" category in the European Trusted Brands 2013 survey organized by Reader's Digest;
- 1st place for ING Bank Śląski in the *Bankowość, Ubezpieczenia, Instytucje Finansowe* (Banking, Insurance and Financial Institutions) category in the *Najbardziej pożądanymi pracodawcami 2013 w opinii specjalistów i menedżerów* (2013 Most Desired Employers in the Opinion of Specialists and Managers) survey conducted by Antal International;
- Title of *Solidny Pracodawca Roku* (Solid Employer of the Year) granted to ING Bank Śląski S.A. for its effective and innovative HR policy;

- International Top Employers title awarded by the Corporate Research Foundation for the fourth time.

The condition of ING Bank Śląski S.A. also received high praise:

- 1st place in the *Banki Duże* (Large Banks) category in *Najlepszy Bank 2013* (2013 Best Bank) competition organised by Gazeta Bankowa and a special mention for the best portfolio structure;
- A special mention in the *Najdynamiczniej rozwijające się spółki giełdowe* (Most Dynamically Developing Listed Companies) ranking in the Bank category, according to the Forbes monthly magazine.

Additionally, the team of economists from ING Bank Śląski consisting of Rafał Banecki and Grzegorz Ogonek won 3rd place in the forecasts contest organised by the National Bank of Poland and Rzeczpospolita in the *Prognozy PKB* (GDP forecasts) category.

### III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2013

#### 1. Retail Banking

##### *Changes to product offer and customer service rules*

##### *Savings, investments, accounts*

The year 2013 was for ING Bank Śląski S.A. another year of strengthening its market position in the retail client segment. The Bank promoted its brand of a solid, trustworthy institution with a fair, transparent product offer as well as by having internet and mobile banking appreciated by clients. The Bank also simplified and automated its processes for the benefit of clients as customer service became more efficient and quicker.

Despite plummeting market interest rates, the Bank's main savings product – Open Savings Account – is still attractive for clients, which is reflected in higher deposits year to year. It was achieved by offering relatively attractive interest rates to clients and launching new rounds of promotions and special offers such as Bonus for Start and Bonus Open Savings Account. They consisted in offering periodically higher interest to new clients or for new funds.

In May 2013, a new mechanism designed to facilitate saving, called Smart Saver, was added to the Bank's offer. When paying by card issued for the account or making money transfers through ING BankOnLine, small amounts of money are automatically posted from the personal account into the Smart Saver account. Clients decide how they want to save by choosing one of the two options:

- rounding-up of the source transaction amount to PLN 5 or PLN 10, or
- percentage of the source transaction amount (from 1% to 10%).

Moreover, in 2013, as regards its offer of equity- and insurance-linked savings products, the Bank, among others:

- periodically held special offers that consisted in charging zero distribution fee when Bank clients purchased participation units of all funds present in the Bank offer,
- added 4 sub-funds available under Altus Fundusz Inwestycyjny Otwarty Parasolowy (open-end umbrella fund) managed by Altus TFI S.A. to the offer dedicated to Personal Banking and Private Banking clients,
- offered two new sub-funds available under the Union Investment TFI S.A. offer – UniAkcje Turcja and UniAkcje Dywidendowy to a wide group of individual clients,
- held 22 subscriptions for the Investment Term Deposit for the total amount of PLN 495 million. The majority of products available under the said subscriptions were currency-linked (EUR, USD, CHF).
- The Bank provided clients with the option of concluding agreements at the Bank outlet to use the services of ING Securities brokerage house through the internet.

In H1 2013, a new vortal process was launched, enabling individual clients to open an account fully on-line. A new client is validated through a transfer sent from the account held at another bank. The information included in the transfer is enough to identify the client, who has already been verified by another bank. Besides the new process, the going process of opening an account with the courier's involvement is still available – the client chooses the agreement conclusion mode.

In order to acquire new, active clients, the Bank launched the PLN 100 for Account Opening promotion in November 2013. The promotion involved granting an award of PLN 100 to the clients opening the Direct and Comfort accounts via the vortal (provided that a card payment of at least PLN 500 was made). The promotion was also partly available on the [groupon.pl](http://groupon.pl) portal.

### *Lending products*

In 2013, the Bank continued refining its offer of lending products. The Bank continued to be successful in pursuing its strategy providing for permanent growth of mortgage-backed exposures despite unfavourable market conditions (clients were less interested in the offer due to an unstable economic situation and waiting for the Apartment of the Young governmental programme). The Get yourself three mortgage loan-linked benefits sales initiative launched in April 2013 and supported by the campaign run at the Bank branches and on the internet was one of mortgage loan sales boosters. The mortgage loans offer was adapted to the changing competitive environment, among other things, additional options to lower the pricing parameters of the loan by purchasing attractive insurance packages were added to the offer; also, the fees for real property value verification were standardised and additionally the principles for making appraisals were simplified. The Bank enabled clients to confirm the legally binding entry into the Land and Mortgage Register in favour of the Bank on the basis of the electronic system of the Land and Mortgage Registers. Sale of mortgage loans was supported by marketing; the Bank offer was actively present on the internet for the whole year.

The year 2013 was also a year of intensive product and sales activities as regards consumer loans, including, first and foremost, a cash loan. The Bank's offer was further extended by adding new cash loan-linked insurance programmes – Silver Safe Cash Loan and Gold Safe Cash Loan.

From June to October 2013, the promotional offer of overdraft for individual clients was valid: "Start with the overdraft for 9.9%" – for persons using this product for the first time and "Increase your overdraft for free" – for overdraft holders. The commission for granting or increasing the overdraft was PLN 0.

As of 01 July 2013, the cash loan offer was changed – the maximum amount available under the Standard Cash Loan was reduced, the Superquick Cash Loan was permanently added to the offer and its maximum amount was increased. Furthermore, the interest rate for the cash loan available through ING BankOnLine and MEGACash Loan was reduced.

With the multichannel approach to the products and services distribution in mind, in August 2013, the Bank provided clients who had access to ING BankOnLine with the option of submitting the Overdraft and Credit Card applications (applying for a cash loan through ING BankOnLine was made possible as of October 2012). Once the application is submitted and a positive credit decision is taken, depending on the application assessment and analysis, it is possible to conclude an agreement through ING BankOnLine or at the Bank Branch.

As of November 2013, clients applying for a cash loan, overdraft or VISA/ MasterCard credit card of up to PLN 3,500, once certain conditions are met, may obtain the requested product on the basis of the submitted declaration; the income does not need to be documented.

For Entrepreneurs – a subsegment of the retail client segment – the Bank prepared attractive new offers and changes to the existing offer. As of March 2013, as part of cooperation with ING Lease, a new product – ING Auto – was launched. The sales process was made more attractive and pricing preferences were introduced for clients holding other Bank products. Entrepreneurs were also provided with the option of concluding credit, credit card or credit line agreements through ING BankOnLine. The sale of products was supported by a number of promotions and special offers.

### *Insurance products*

The Bank's aim is to provide clients with a possibly wide offer of investment products, including insurance products if complementary to the offer of clean banking products. As of the beginning of 2013, clients may purchase insurance with the Silver or Gold "Safe Cash Loan". Furthermore, stand-alone motor vehicle insurance (with Liberty Direct) as well as bridging and real property insurances (with PZU) are available at the Bank as of H2 2013.

## Deposits<sup>26</sup>

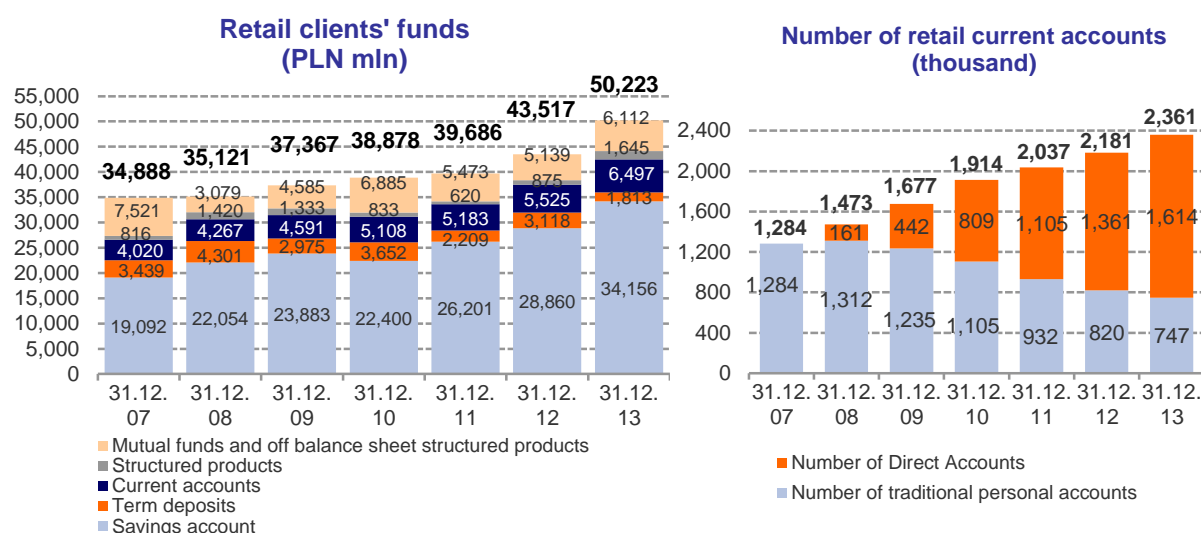
As at 31 December 2013, funds<sup>27</sup> entrusted to ING Bank Śląski S.A. by retail clients totalled PLN 50,222.7 million, compared with PLN 43,516.6 million in December 2012 (that is up by 15.4%). Banking deposits constituted their main part.

In 2013, the Bank still 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 2013, retail deposits settled at PLN 44 110.8 million, or went up by 14.9% when compared with the 2012 yearend. The result translated into a 8.1% share of the Bank in the household deposit market (versus 7.4% share as at the end of 2012).

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 18.4%. The value of savings invested in mutual funds and off-balance sheet structured products also went up (by 18.9% when compared to the 2012 yearend).

Throughout 2013, the array of settlement services rendered by the Bank to its retail clients grew significantly. As at the end of December 2013, ING Bank Śląski S.A. maintained 2,360.9 thousand personal accounts of retail clients (2,105.6 thousand individual clients and 255.3 thousand entrepreneurs) versus 2,181.0 thousand as at the end of 2012 (1,949.1 thousand individual clients and 231.9 thousand entrepreneurs). It means that throughout 2013 the Bank acquired in net terms 179.9 thousand retail current accounts, while in 2012 the growth in the number of personal accounts totalled 144.6 thousand (growth rate acceleration by 24.4% year to year). As a result of a higher number of personal accounts opened, the volume of funds deposited in these accounts grew by 17.6% over the year.

This was accompanied by the trend to change the structure of current accounts. Sales of accounts, mostly Direct Accounts, together with the conversion of some traditional personal accounts into internet accounts by clients made the number of Direct Accounts go up to 1,614.0 thousand as at the 2013 yearend (including 1,412.0 thousand accounts of individual clients and 202 thousand accounts of entrepreneurs) from 1,361 thousand in 2012 (including respectively: 1,189 thousand and 172 thousand). The share of Direct Accounts in the total number of retail personal accounts thus went up from 62% as at the 2012 yearend to 68% in December 2013.

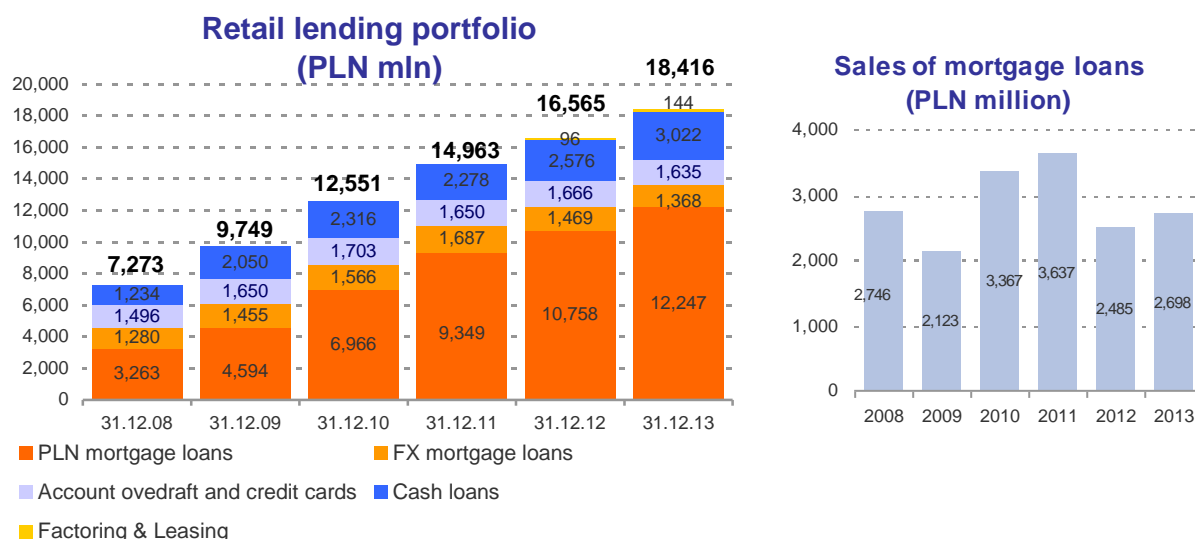


<sup>26</sup> Due to availability of more detailed product-related information, the description is made based on the data from the management information system.

<sup>27</sup> Total value of deposits, structured products and mutual funds distributed by the Bank.

## Lending<sup>28</sup>

At the end of December 2013, retail credit receivables totalled PLN 18,415.6 million. In 2012, the Bank's credit exposure towards retail clients went up by PLN 1,850.1 million, or 11.2%. The Bank increased its share in the household credit receivables market to 3.4% (versus 3.2% in December 2012).



Mortgage loans constituted the main part in the Bank's retail credit portfolio. As at the end of December 2013, total Bank's receivables under mortgage loans were PLN 13,614.9 million compared with PLN 12,227.0 million as at the 2012 yearend (up by 11.4%).

According to the data published by the Polish Bank Association, in 2013 ING Bank Śląski S.A. was fifth on the market with a 7.2% share in the sales of housing loans for private individuals. In the mortgage loan sales in PLN, the Bank was fourth with a 7.3% market share.

Moreover, similarly like the previous year, 2013 was marked by increasing significance of unsecured lending in the Bank portfolio. Since the end of 2012, the first effects of the conducted marketing campaigns and intensified sales have been visible. Throughout 2013, cash loans extended totalled PLN 2,039.7 million, up by 35.8% from 2012. In December 2013, the value of loans and advances in the Bank portfolio was PLN 3,021.7 million and grew by 17.3% as compared with the 2012 yearend.

The value of retail lease and factoring receivables has been also growing gradually – as at the end of 2013 it settled at PLN 144.4 million and it was 50.0% higher than as at the end of the previous year.

## Bank cards

For many years now, ING Bank Śląski S.A. has been one of the main payment card issuers in Poland, including contactless cards. We were the first Bank in Poland to introduce ATM withdrawals with the use of a contactless card in November 2012. At present, the Bank is in the process of replacing ATMs with new contactless machines and installing a new type of dual devices at branches (including dual devices with the recycling functionality).

Starting from 2013, the Bank has been working on simplifying the offer addressed to individual clients. As a result, the cards to PLN Lion Accounts (i.e. Maestro, Maestro contactless and Debit MasterCard contactless cards) are being replaced with a modern contactless Visa payment card. Responding to signals made by clients, in November 2013 the Bank implemented the enable and disable options for contactless payments. The process is also available for individual clients at Bank Branches, through the helpline and ING BankOnline.

<sup>28</sup> Due to availability of more detailed product-related information, the description is made based on the data from the management information system.

In 2013, the pilot programme of the Digital Wallet V.me by Visa was implemented – a digital wallet service designed for making secure and convenient online payments. This service allows clients to register all their payment cards issued also by other banks (not only Visa cards) in the ING Digital Wallet, where details of all client's cards are stored. There is no need to re-enter card details for each payment if the online payment is done with V.me by Visa.

Additionally, actions intended to increase the number of transactions made with payment cards linked to the accounts as well as boost the sales of *My ING Card* are being conducted all the time. The Bank runs educational campaigns to raise clients awareness as regards using payment cards on the internet. In Q3 2013, the Bank organised the "Pay with your card and win – Your card will reward you" lottery, targeted at both new and existing clients.

By the end of 2013, ING Bank Śląski S.A. issued 2.49 million payment cards to retail clients (increase of 5.5% y/y), where 1.88 million were contactless cards (*Zbliżak* included) – whereas in December 2012 Bank retail clients held 1.52 million cards of this type. The number of virtual cards went up as well – in December 2013, clients had 36.7 thousand such cards in their wallets.

## 2. Corporate Banking

### Number of clients

In December 2013, 32.4 thousand corporate clients used the services of ING Bank Śląski S.A., including:

- 28.6 thousand mid-sized companies,
- 3.1 thousand mid-corporates, and
- 663 strategic clients (capital groups).

In 2013, the Bank's corporate clients portfolio went up by 3.1 thousand entities. The increase was possible thanks to active acquisition of new clients – over 6.4 thousand corporate clients started relationship with the Bank in 2013.

Number of institutional clients



### Product offer and modifications introduced

Offer quality and diversity are the main determinants when corporate clients choose their bank. Its availability is also very essential as well as the fact that clients may use banking services through the most convenient service channel. ING Bank Śląski S.A. continuously modifies its offer so as to meet clients' needs in the most adequate manner as well as upgrades its customer service model by introducing cutting edge solutions.

### Deposit and settlement activity

Extension of the deposit offer and settlement services offer for the corporate client segment – selected changes:

- Providing new mobile banking application for companies: ING BusinessMobile which allows corporate clients to manage their funds in bank accounts via their mobile phones in a convenient and intuitive manner.
- Extending the ING BusinessOnLine internet banking system functionality. The most important of them include:
  - Implementation of an electronic application for opening further accounts, allowing clients to do so quickly and in a modern manner, without having to contact the relationship manager,
  - Implementation of a series of modifications to the ING BusinessOnLine system, providing for automatic verification of rights of the persons empowered to make declarations of will on behalf of the company. Owing to these changes, the users taking decisions on behalf of companies can flexibly define rights in the electronic banking system,

- Enhanced handling of closed withdrawals and the Electronic Withdrawal System,
  - Enabling new functions on the currency exchange FX Trader platform,
  - Implementing an option in ING BusinessOnLine allowing a user to unblock himself/herself on his/her own,
  - Providing the SIMP Trust service, dedicated to handling developers' investment projects. The new functionality allows to identify an investment project (developer venture), record deposits and withdrawals of individual apartment buyers and disburse the funds automatically as per the construction schedule, following receipt of relevant documents from the companies authorised to exercise construction supervision.
- Providing attractive terms and conditions for special offers of "More than a Term Deposit" for Open Savings Account and Business Open Savings Account. Under the promotion, the Bank offered increased (higher than standard) interest for new funds. The offer was targeted at clients who did not hold an Open Savings Account and at companies whose accounts were not fed with funds before.
  - Mounting fee collection machines being automatic cash desks enabling clients to effect some administration fees in a fast and convenient manner. This machine enables clients to make payments on their own by selecting a payment type with the use of a touch screen and scanning the multi-dimensional bar code (2D). In 2013, the Bank rolled out fee collection machines in 7 Municipalities: in Chorzów, Częstochowa, Katowice, Kielce, Poznań, Siedlce, and Mysłowice. Moreover, ING Bank Śląski was the first bank to install an automatic fee collection machine in a housing co-operative.
  - Modernising the network of night vaults. In 2013, 33 mechanic depositories were replaced with electronic depositories and the network was extended with 6 sites. As at the yearend, the Bank held 70 modern depositories. Electronic depositories are a trailblazing solution on the Polish market. They provide for a safe transfer of cash to the bank 24/7, including holidays. New devices reduce to the minimum the time needed to make the transaction. Funds are available directly on the business account in the on-line mode or on the following business day. Transactions in electronic depositories are made in observance of the highest security standards; dedicated applications let bank employees to constantly and remotely monitor all devices and optimally manage the cash deposited in them.
  - A new ING service called ING e-invoice – Electronic Invoice Payment and Distribution System. The system enables invoice issuers to send bills and invoices along with a predefined transfer directly to the internet banking systems of payers – not only those provided by ING Bank Śląski S.A., but also those rendered available by the majority of banks operating on the Polish market. The new solution allows invoice recipients to make their payments with one click only, without the need to fill in additional forms.
  - Launching ING CardsOnLine – the online application designed to assist companies in managing business payment cards issued by ING Bank Śląski S.A. The service enables card users to monitor the incurred expenditures regularly and immediately after a card transaction has been effected; moreover, it provides permanent access to the transaction history. The tool does not require access to the ING BankOnLine internet banking system.
  - Implementing the AleoPay transfer – a new product to assist settlements of clients being the Aleo platform users. The AleoPay transfer is a new formula of payments to increase security of both the buyer (Bank client) and the counterparty in terms of the fulfilment of the terms and conditions of the transaction. Cash funds being the value of the transaction are temporarily blocked on the ING Bank account until they are released by the person submitting the transaction. Notice of making an AleoPay transfer is delivered to both parties to the transaction on their profiles on the Aleo platform in real time.
  - Implementing the new process of opening Bank accounts under the ING Direct Business offer. In this mode, the entire process of drafting and activating the agreement takes place without participation of a relationship manager and the agreement is signed at the client's premises with the use of courier service.
  - Providing special pricing conditions for the Aleo platform users as of 25 November 2013. New clients who apply for account opening by filling in a form on the Aleo platform are temporarily, for 12 months, exempt from the account maintenance fee under the ING Direct Business offer.

At the beginning of 2013, ING Bank Śląski S.A. was the first bank on the market to offer accountancy services for mid-sized and mid-corporate companies. *ING Księgowość* [ING Accounting] provides clients with accounting, staff and payroll administration and analytical services. It offers a system assisting settlements with vendors and consumers along with payment services. The *ING KsięgowośćOnLine* portal is fully integrated with the Bank internet banking system – ING BusinessOnLine. Services are rendered remotely – mainly over the internet, but it is also possible to contact the dedicated team via phone (lead accountant, staff and payroll specialist, assistant accountant). Clients are serviced with the use of electronic documents only. Integration with invoicing and warehousing systems as well as with work time sheets is also essential so that clients' cooperation with *ING Księgowość* is facilitated as much as possible. In H2 2013, a fully-fledged staff and payroll module in *ING KsięgowośćOnLine*, a mobile application – *ING Księgowość Mobile* [ING Mobile Accounting] (iOS and Android versions) and integration with popular invoicing and warehousing systems, were all made available to clients. Furthermore, the Bank implements new system functionalities based on the ideas submitted by clients on an ongoing basis. Another planned modification provides for the rollout of the online business trips module. As at the end of 2013, 105 clients were using the *ING Księgowość* service. At the end of the year, a promotional campaign was carried out in the press and on the internet.

In November 2013, ING Bank Śląski S.A. won a tender to service the budget of the Town of Ruda Śląska between 2014 and 2017. Ruda Śląska has over 140 thousand residents, i.e. it is the 24th biggest city in Poland and has an annual budget of PLN 450 million. Thus, the Bank confirmed its leader position among the banks providing services for the biggest municipalities in Poland as it services 13 out of 50 such entities.

### **Lending**

Striving to improve the lending processes and enhance client service even further, in 2013, the Bank made the following changes, among others:

- Expanded the scope of ING BusinessOnLine system functionalities, among others, a new application form titled Power of Attorney was made available; the client may use it to authorise any person to undertake specific activities. Moreover, the Loans module was modified in order to make loans' presentation more legible and the module itself more intuitive for the client.
- Implemented new solutions for lending processes in the ING Credit Management System (or ING CMS) application. Among other things, it introduced an automatic collateral register, provided comprehensive case processing for Capital Groups – starting from drafting a credit application through adding collaterals, documents and registering as well as increasing the acceptable exposure for the Bank and Companies in order to make the limits calculated in the lending process more available.

The Bank's endeavours to automate and streamline lending processes are bearing fruit now. The share of electronic credit applications placed via the ING Direct Business Credit and ING BusinessOnLine platforms in the overall number of credit applications placed keeps growing and as at the end of 2013 it was 79%.

In March 2013, together with ING Lease the Bank launched the ING Auto programme. A simplified product application procedure is an advantage of that offer. The only thing the client interested in lease needs to do is to place a lease application and a pro-forma invoice with the basic specifications of the selected car. The chief assets of ING Auto also include short decision turnaround time (24 hours at most) and low downpayment (starting from 10% and even 5% for ING Bank Śląski S.A. clients undergoing periodical monitoring).

Expanding the lending offer for corporates, ING Bank Śląski S.A. signed with Bank Gospodarstwa Krajowego (aka BGK) an agreement inaugurating the governmental programme supporting SMEs. Hence, we are among the first banks granting loans with de minimis guarantees. Starting from 15 March 2013, when the Bank started to grant these loans, they have been enjoying unwavering interest amongst our clients especially given the fact that the guarantee is free of charge in the first year, and in the second year the commission is 0.5% p.a. In November 2013, the Bank signed an annex to the Portfolio Guarantee Line Agreement, whereby investment loans can also be guaranteed. In December 2013, the Bank signed an annex to the Portfolio Guarantee Line Agreement with BGK, whereby the guarantee period was extended until the end of February 2014 – the Bank expects it to be further prolonged. As at the end of December 2013, the Bank granted 1,072 guarantees for the

amount of PLN 678 million and loans covered therewith for the amount of PLN 1,217 million. ING Bank Śląski S.A. holds the fourth place (in quantitative terms) on the de minimis guarantee market (despite offering this product to corporates; i.e. the entities with full accounting records only); at the same time, the Bank is ranked first on the market in terms of volumes of guarantees over PLN 600 thousand. Most guarantees are extended to the SME sector as per the EU definition, and also to the companies from the commerce, industry and services sectors – as per the criterion of the Polish Classification of Business Activities. The average amount of the guarantee extended by the Bank is PLN 600 thousand.

To make loans more accessible to clients and the lending process more flexible, the decision-taking powers concerning the possible preferential pricing conditions for clients were decentralised in that they were moved to the level of Regional Directors.

Like in previous years, also in 2013 ING Bank Śląski S.A. was actively supporting clients in acquisition of funds from EU programmes. Moreover, it promoted the available programmes whereunder subsidies from the EU could be obtained as well as the Bank's offer in that regard. Towards the end of 2013, the Polish Agency for Enterprise Development announced the results of the first selection of subsidy applications under the Action 4.4. New investments of high innovative potential. Subsidies worth over PLN 1 billion were awarded. The Bank's share in financing of the projects that received subsidies is over 10%. At the same time, in mid-October 2013, The Polish Agency for Enterprise Development announced the second round of subsidy applications for innovative investment projects. The Bank was actively assisting its clients to obtain them. In consequence, commitment letters totalling over PLN 320 million were issued as at the end of December 2013. Furthermore, the Bank also supported clients in the area of research and development projects following the selection of applications by the National Centre for Research and Development Towards the yearend, a round of meetings and consultations was also initiated with clients planning to use the grants under the new EU's multiannual financial framework for 2014-20.

In collaboration with Bank Gospodarstwa Krajowego, the Bank also took part in the "Technological Loan" initiative. In H1 2013, technological loan agreements were concluded following 60 subsidy applications submitted with ING Bank Śląski S.A. assistance. The Bank's share in acquiring a subsidy as part of this action exceeded 15% of all granted subsidies. In H2 2013, project execution gained momentum. BGK transferred subsidy funds to redeem the loans extended earlier to clients, whereby the debt balance under technological loans fell below PLN 100 million as at 31 December 2013. 63 projects are still under way, wherefor the loans worth approximately PLN 250 million were extended.

In 2013, the Bank was also funding the farming sector. In collaboration with the Agency for Restructuring and Modernisation of Agriculture, it extended almost PLN 50 million-worth loans on preferential terms (with the Agency's interest- or principal-related subsidies). Furthermore, as part of the standard offer, the Bank was extending commercial loans used mainly to purchase land. In 2013, the Bank earmarked the funding amount of PLN 212 million for the farming sector in total.



#### **Aleo: Trading and auction platform for companies**

In October 2013, the Bank launched a new trading and auction platform for companies – Aleo. The platform provides its users with a venue for free commercial exchange and is available for all business. Aleo is the first on the Polish market end-to-end and fully-fledged tool to manage the procurement and sale processes for companies. It is an amalgamate of e-commerce, tools supporting procurement processes and a business social platform. The platform can be used by companies pursuing business in various domains – service providers, manufacturers and sellers.

Aleo enables its users to, among others:

- conduct an electronic procurement procedure (bid procedure);
- hold purchase and sale auctions;
- present a catalogue of products and services;
- negotiate prices;
- provide concrete invoices for funding;
- acquire reliable counterparties; and
- confirm one's viability.

Using the Aleo platform is free and very simple. After accessing the platform, the user fills in a short registration form for their company. Later, he or she verifies him/herself through transferring PLN 1 from the company's account. When the company is a client of ING Bank Śląski S.A., it can use the platform via the ING BusinessOnLine system directly. By the end of 2013, 10 thousand users were registered on the platform, 1,700 bid inquiries were published and 1,000 auctions were held.

The platform is being developed all the time. In November 2013, the option of funding vendors through invoice financing was launched. The off-taker may enhance the commercial terms, by postponing the term of payment or reducing the price, inter alia. The amounts due under sale of commodities and services using the so-called trade loan can be funded before the payment date, whereby sales get higher and the vendor's financial liquidity improves.

Since December 2013 users may also take advantage of the AleoPay transfer, a dedicated payment form for making purchases and settling transactions between Aleo platform users. In contrast to standard transfers, thanks to AleoPay the buyer (a Bank client) can eliminate the risk of prepayment to the seller's account, while the seller becomes certain that the buyer is solvent still before commodities are sent or services performance is settled.

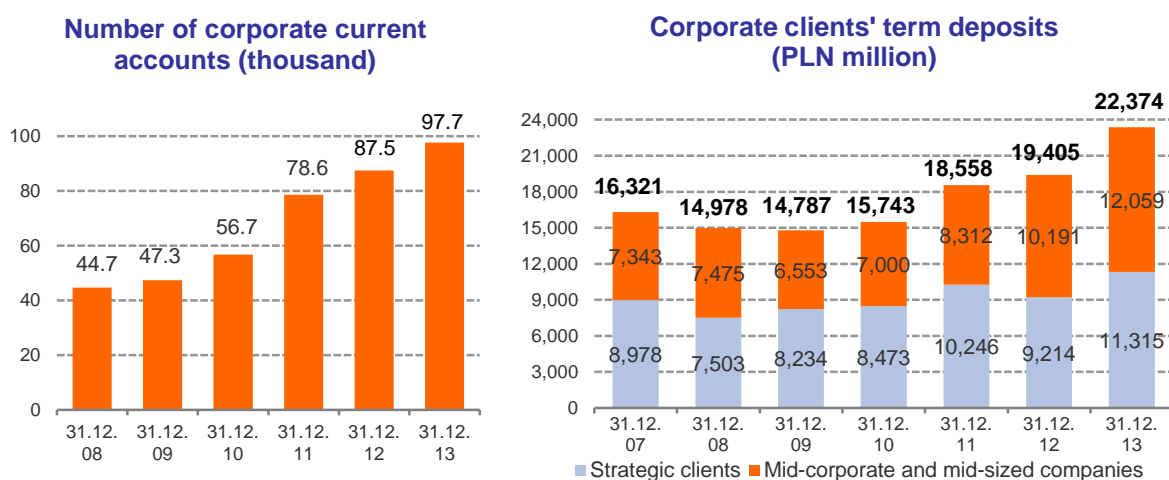
The Bank is working on new platform functionalities and language versions.

### Deposits and settlements<sup>29</sup>

As at 31 December 2013, corporate deposits totalled PLN 23,373.7 million, up by 20.4% from December 2012. In December 2013, ING Bank Śląski S.A. had a 7.4% share in the market of institutional clients' deposits (up by 0.8 p.p. from the end of 2012).

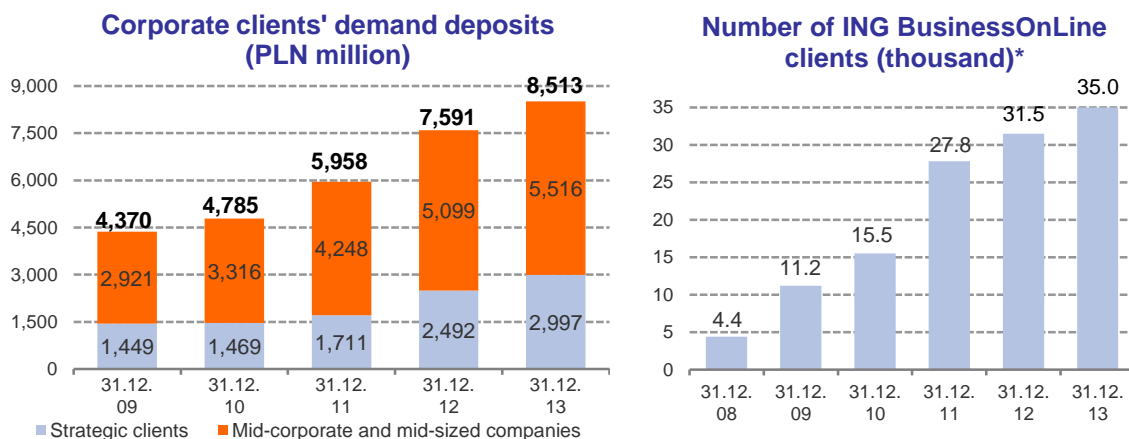
In 2013, the value of the funds deposited both by clients from the mid-corporate and mid-sized companies sub-segment and by the biggest corporate clients rose (up by PLN 1,867.4 million or 18.3% and PLN 2,100.6 million or 22.8%, respectively). As in previous years, the Bank focused on expanding the stable deposit base whereto – in line with the draft New Capital Accord (Basel 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 conducted numerous promotional campaigns of deposit products for corporate clients (described in the "Product offer and modifications introduced" section of this Chapter).

What is more, the volume of funds in current accounts went up. As at the yearend, the funds of the Bank corporate clients accumulated in those accounts totalled PLN 8,512.7 billion, up by 12.1% from the end of 2012. The value of funds deposited both by clients from the mid-corporate and mid-sized companies sub-segment and by the biggest corporate clients rose (up by PLN 417.0 million or 8.2% and PLN 504.4 million or 20.3%, respectively).



<sup>29</sup> Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

In December 2013, ING Bank Śląski S.A. maintained 97.7 thousand corporate (PLN and FX) current accounts, up by 11.7% from December 2012. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the ING BusinessOnLine electronic banking system to interact with the Bank. In December 2013, the system was used by 35.0 thousand companies (versus 31.5 thousand in December 2012).

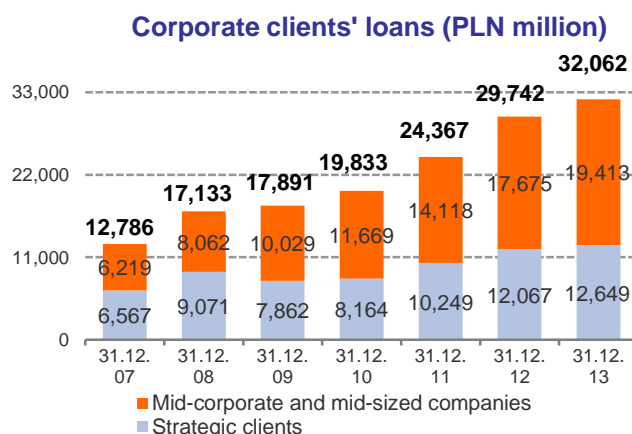


\* In the case of capital groups, individual companies belonging to the group are recognised separately. Additionally, it covers some part of retail clients (housing communities), as the corporate segment provides them with operational service.

### Lending<sup>30</sup>

As at the end of December 2013, corporate client funding by the ING Bank Śląski S.A. Group totalled PLN 32,061.9 million versus PLN 29,742.2 million in December 2012 (up by 7.8%). The Bank is estimated to have held 8.3% of the institutional credit market share in December 2013.

Throughout 2013, the Bank and its subsidiaries increased their credit exposure, primarily towards the sub-segment of mid-corporate and mid-sized companies. In December 2013, it amounted to PLN 19,412.8 million and was up by 9.8% versus December 2012.



Also in the case of mid-corporate and mid-sized companies the amount of granted funds increased during the year. In December 2013, it was PLN 12,649.0 million versus PLN 12,067.0 million as at the end of 2012 (increase of 4.8%).

In 2013, the Bank won 94 tenders for funding local government units, worth approximately PLN 874 million. This result enabled the Bank to maintain its 6.9% share in financing local government units in December 2013.

<sup>30</sup> Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

### 3. Money markets and capital markets

The operations of ING Bank Śląski S.A. in the area of financial markets in 2013 covered adaptation to the changes in the market and in the regulatory environment, process optimisation and organisational changes.

Moreover, there are intense works in progress intended to launch the option to clear transactions through Central Clearing Counterparty. These works are a step towards meeting the requirements provided for in the Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories (EMIR for short) by the Bank. The Bank completed the tasks intended to bring the conducted business activity into line with the requirements set forth in the EMIR Regulation, which took effect as of 15 September 2013, inter alia. The requirements in question covered reconciliation and compression of transaction portfolios of Bank counterparties and implementation of a relevant dispute handling procedure. The works aimed at preparing the Bank to satisfy the subsequent requirements set out in the EMIR regulations, taking effect as of 12 February 2014, (covering transaction reporting to trade repositories) are continued. What is worth emphasizing here is the fact that the Bank introduced an additional service being free-of-charge reporting of transactions made therewith to trade repositories on behalf of clients, the latter appreciated the service.

As far as organisational changes are concerned, on 01 January 2013, the Treasury Department was singled out from the Treasury & Financial Markets Division. It is responsible for centralised liquidity risk management. The department was formed in response to the trend recently observed in the financial sector, i.e. establishing in financial institutions central units in charge of liquidity management. The integrated liquidity management facilitates meeting the increasing regulatory requirements and current market conditions to a larger extent.

While expanding the Bank's offer in electronic distribution and service channels, the FX Trader platform in the ING BusinessOnLine system has been enlarged with new products and functions since 18 November 2013. New functionalities were made available so as to face up to clients' expectations and the offer of competitors. They are also another step towards our goal of being "the best internet bank on the market".

The most important changes include:

- immediate purchase/ sale of foreign currencies through the mobile version of the *ING BusinessMobile* platform,
- launch of the option to make FX Forward and NDF (Non-Deliverable Forward) transactions along with the option to terminate them early or negotiate the NDF transaction closing price,
- launch of the option for clients to place FX bids providing for their preferred FX sell/buy rate,
- launch of the option to make FX transactions with the spot value date using the transactional limit and the value date 1D/ 2D both using the funds in the account and the limit,
- provision of a list of FX transactions and offers made on the platform, and
- launch of the option to analyse selected periods and currency pairs with charts.

In 2013, almost 100,000 FX transactions were made through the FX Trader platform. The platform is used by over 2,000 clients a month on the average. As per platform development, works were commenced on subsequent functionalities facilitating FX Trader use; these are personalised settings or text message alerts, for example. As far as launch of new products onto the platform is concerned, the plan is to enable clients to make FX SWAP deals. From the moment of the platform rollout (that is at the 2010 yearend), the number of users rose by 65% in 2013. The number of transactions went up by 60% accordingly.

While expanding the Bank's offer with new currencies, works were conducted to add the Chinese Yuan to the offer of negotiated term deposits and FX spot and forward transactions for corporate clients. The following currency pairs will be available for FX transactions: CNY/PLN, EUR/CNY and USD/CNY. Clients will be able to set up a CNY clearing account at the Bank, and later order and receive FX transfers and make Trade Finance payments. Clients will be also able to order CNY transfers without having an account in that currency.

Throughout 2013, ING Bank Śląski S.A. 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 three corporate bond issue programmes in total for PKP Energetyka S.A. company, two on its own, to the amount of PLN 20 million and PLN 50 million, respectively (the Bank acted as Issue Arranger, Underwriter, Issue Agent, Payment Agent and Depositary in those programmes) and one in collaboration with another bank, to the amount of PLN 500 million, (where the Bank acted as: Issue Arranger, Issue Agent, Payment Agent, Depositary, Pledge Administrator and Underwriter),
- Co-arranged the debt securities issue programme for Bank Gospodarki Żywnościowej S.A., to the amount of PLN 3.5 billion. In this programme, the Bank acted as: Issue Co-Arranger, Agent, Dealer and Depositary.
- Co-arranged the bond issue programme for Tauron Polska Energia S.A., to the amount of PLN 5 billion. In this programme, the Bank acted as: Payment Agent, Depositary, Dealer, Calculation Agent and Technical Agent),
- Arranged on its own six municipal bond issue programmes for:
  - the province of Wielkopolska (in the amount of PLN 228.0 million),
  - the town of Nowy Sącz (PLN 67.8 million)
  - the town of Chorzów (PLN 26.6 million)
  - the district of Tczew (PLN 16.5 million)
  - the commune of Sianów (PLN 8.4 million) and
  - the commune of Kolbuda (PLN 2.0 million)

As part of the programmes under way, in June 2013, ING Bank Śląski S.A. arranged together with another bank the first 5Y bond issue programme for Polska Grupa Energetyczna S.A. amounting to PLN 1 billion. The programme co-arranged by the Bank is worth PLN 5 billion.

As at 31 December 2013, ING Bank Śląski S.A. serviced securities trading of 86 issuers being corporates, banks and municipalities. The face value of debt securities of corporate issuers (banks and local government units excluded) issued through the agency of the Bank totalled approximately PLN 9.3 billion, including PLN 6.5 billion due to short-term securities issue. This enabled the Bank to have the second position on corporate debt securities market in December 2013 (with the share of 16.2%) and the first position on the short-term securities market (with the share of 34.1%).

Moreover, ING Bank Śląski S.A. was ranked forth (among 17 banks applying for the function) and was granted the 2014 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 2014 Dealer of Treasury Securities status. ING Bank Śląski was ranked fourth among 16 assessed banks.

Further, the Bank's team of economists – composed of Rafał Benecki and Grzegorz Ogonek – won the fifth place in the forecasting contest held by the WSE Paper *Parkiet* among 24 participating financial institutions in the category of monthly macroeconomic outlooks for the entire 2013 and the fourth place for the macroeconomic forecasts in Q4 2013 only.

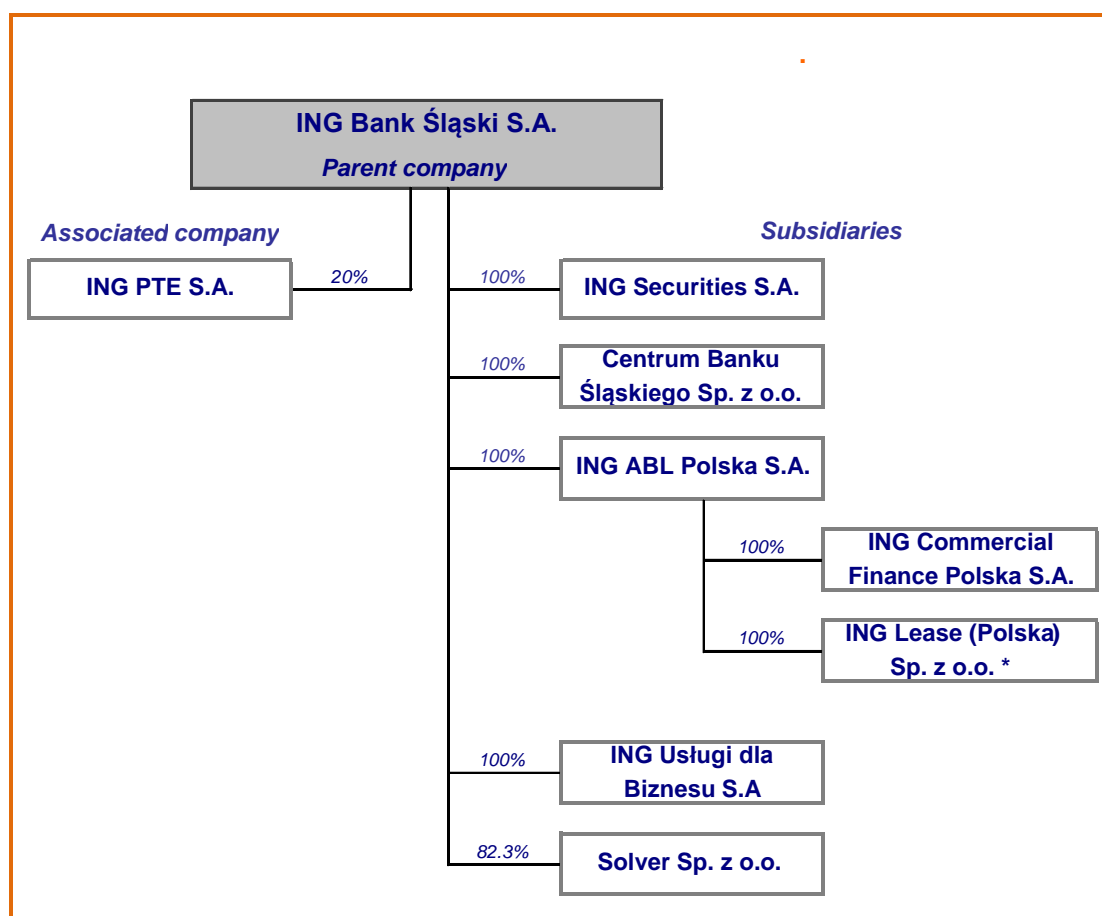
As regards sales of structured products on the Polish market, the Bank kept its strong position and received an honourable mention in the Structured Retail Products sectorial ranking, winning the seventh place in the category: Best Selling Products for the Investment Term Deposit Secure Interest 12 product. In 2013, the share in structured products sale was 10%, which stands for the fourth place.

#### 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 market or within its 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 other companies are supported by the commercial ties. The Capital Group members have their current accounts and deposit their free funds in term deposits at ING Bank Śląski S.A. The Bank also credits 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.

As at 31 December 2013, the composition of ING Bank Śląski S.A. Capital Group was the following:



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

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

ING Securities S.A. is one of the largest brokerage houses in Poland. In December 2013, ING Securities S.A. maintained 53.8 thousand investment accounts, including 37.8 thousand internet ones.

In 2013, ING Securities S.A. carried out the following projects:

- Took part in public offerings of the following companies:
  - BZ WBK S.A. – ING Securities S.A. as a co-lead manager in the secondary offering of BZ WBK shares by KBC and Santander – the transaction value amounted to PLN 4.9 billion,

- Grupa Azoty S.A. – sale of Grupa Azoty shares conducted through the accelerated book-building method – the transaction value amounted to PLN 626 million, and
- AviaAM Leasing AB – Initial Public Offering of a Lithuanian company engaged in aircraft lease, worth USD 35 million – ING Securities S.A. as the sole manager and the bookrunner – the transaction value amounted to PLN 112 million.
- Participated in a consortium offering shares for individual investors of the following companies:
  - PKP Cargo S.A.
  - Energa S.A.
  - Newag S.A.
  - Mercator Medical S.A.
  - Betomax Polska S.A. and
  - Polski Holding Nieruchomości S.A.
- In the consortium (together with ING Bank N.V. and ING Bank Śląski S.A.), acted as an advisor for the Tauron Group in developing its financing strategy for the years 2012–2015.

ING Securities S.A. is constantly developing its product base. In 2013, the following solutions were implemented:

- ING Turbo

On 12 June 2013, ING Turbo made its debut on the Warsaw Stock Exchange, in cooperation with ING Securities S.A. It is a structured investment product, for the first time issued on the Polish market by ING Bank N.V. ING Turbo certificates are available based on a vast array of underlying instruments: e.g. shares of selected companies (Apple, Google, Nokia), gold, silver, crude oil or indices of the biggest world stock markets.

Since the ING certificates debut on the stock exchange, there has been a systematic growth of the market and investors' interest in new instruments. Monthly turnover of the ING product exceeded PLN 5 million, by dint of which ING Turbo became the most traded knock-out certificates in Poland.

- Our Brokers' Pick

Our Brokers' Pick is a new analytical product, launched in May 2013, dedicated to investors looking for support in taking investment decisions. Thanks to cooperation of a team of experienced analysts and brokers who keep track of market events, clients may take advantage of a list of thoroughly analysed and selected companies which display a substantial growth potential from the technical and fundamental analysis perspective, in the short and medium-term future. This service was greatly appreciated by the ING Securities S.A. clients. Only in H2 2013, nearly 4 thousand of prepared analyses were downloaded.

- New on-line service

The ING Securities S.A. channel was launched on the YouTube service, featuring videos and training courses for investors. ING Securities S.A. clients have free access to educational materials about ING Turbo certificates and instructional videos concerning the usage of an advanced chart analysis application that were uploaded on the channel.

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

ING Lease (Polska) Sp. z o.o. has been operating on the market since 1996. It offers all basic types of lease (operating, financial and sale-and-leaseback) and a cash loan which can be used to finance movables (being passenger cars and light-duty vehicles up to 3.5 tonnes, machinery and equipment, technological lines, commercial vehicles, medical and IT equipment) and real properties. However, following the adopted strategy, as of the beginning of 2012 less stress is placed on leasing of real properties (office buildings, commercial buildings, logistical centres). Company services are targeted

at all market segments: large, medium and small enterprises as well as clients from the retail segment (entrepreneurs).

As at 31 December 2013, receivables of ING Lease amounted to PLN 4,932.6 million<sup>31</sup> (an increase of 7.3% from the 2012 yearend). The data of the Polish Leasing Association show that ING Lease, with its 5.2% market share in terms of worth of lease agreements concluded and assets provided, was the seventh largest leasing company in Poland. At the same time, the Company was first in the market considering its lease portfolio volume after 2013 (enjoying the market share of 8.1%).

In 2013, ING Lease introduced on the market an attractive lease for passenger cars and light-duty vehicles up to 3.5 ton – ING Auto Leasing, as well as Agro Leasing programme for financing purchase of agricultural machinery and equipment for agricultural entrepreneurs and individual farmers. The company introduced significant changes to the processes, allowing for even more efficient transaction handling.

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

The company provides factoring services and was included into the ING Bank Śląski S.A. Capital Group structure at the beginning of 2012. Since then, it has been gradually expanding the scale of its business and the number of serviced clients. In 2013, the services provided by the company enjoyed a growing interest from clients. It was particularly noticeable at the end of the year. Consequently, the company turnover under factoring services increased to PLN 12.9 billion year on year, and went up by PLN 1.5 billion as compared to 2012 (+13%), which translated into maintaining a third position on the market with the share of 13.4%<sup>32</sup>. In the Q4 2013 only, the company recorded a historically highest quarterly turnover of PLN 3.7 billion, being the second result among the companies belonging to the Polish Factors Association.

In 2013, ING Commercial Finance acquired 323 new clients and at the year-end the number of serviced clients amounted to 885, i.e. increased by 158 clients (+22%) as against 2012 year-end. The Company turnover is dominated by clients from the following sectors: food and beverages (15.9%), metallurgy (10.2%), house and horticulture (9.6%), packaging (9.4%), construction (7%), and steel distribution (5%).

The number of invoices purchased by ING CF in 2013 amounted to 864 thousand and was higher by 117 thousand than in 2012 (+16%).

In 2013, ING Commercial Finance was awarded by the Factors Chain International for excellent and fast handling of import transactions.

#### **5. ING Usługi dla Biznesu S.A.**

ING Usługi dla Biznesu S.A. established in January 2012 offers a variety of business assistance services dedicated to corporate clients, financial and booking services as well as HR and payroll services in particular.

The Company offered its services to a larger group of clients in 2013. Services are rendered remotely – mainly over the internet, but it is also possible to contact the dedicated team via phone (lead accountant, staff and payroll specialist, assistant accountant). The *ING KsięgowośćOnLine* (ING Mobile Accounting) portal dedicated to client service was launched and integrated with ING BusinessOnLine. Clients are serviced with the use of electronic documents only.

In H2 2013, the company provided a fully-fledged staff and payroll module in *ING KsięgowośćOnLine*, a mobile application – *ING Księgowość Mobile* [ING Mobile Accounting] (iOS and Android versions) and integration with popular invoicing and warehousing systems. Whilst in October 2013, under the company's operations, a new trading and auction platform for companies – Aleo – was launched.

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<sup>31</sup> The description is made based on the data from the management information system. It covers corporate clients (in the amount of PLN 4,788.2 million) and retail clients receivables (in the amount of PLN 144.4 million).

<sup>32</sup> Market data based on the Polish Factor Association report.

## 6. Centrum Banku Śląskiego Sp. z o.o.

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

The Company owns the Chorzowska 50 building in Katowice and the building at ul. Powsińska 64a in Warsaw. In the area of own real properties, the Company focuses mainly on lease of office and commercial spaces as well as rationalisation of maintenance costs and execution of an active policy on management of the value of properties held.

It also acts as the Manager of the ING Bank Śląski S.A. Head Office building located at ul. Sokolska 34 in Katowice and Administrator of the building at ul. Malczewskiego 45 in Warsaw.

On 17 February 2014, that is after the balance sheet date of this report, the Management Board of ING Bank Śląski S.A. gave notice that they intended to divide the Centrum Banku Śląskiego Sp. z o.o. company by acquisition; the Bank holds 100% stake in the said company. The division will be effected by transferring all assets of CBŚ Spółka z o.o. to ING Bank Śląski Spółka Akcyjna and Solver Sp. z o.o. wherein the Bank holds 82.3% shares. The division plan of CBŚ Spółka z o.o. was agreed by the Management Boards of ING Bank Śląski S.A., Solver Sp. z o.o. and CBŚ Sp. z o.o. on 11 February 2014. The aim of the CBŚ Spółka z o.o. restructuring operation is to optimise real property management costs in the ING Bank Śląski S.A. Capital Group.

## 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 2013, ING OFE (ING Open-End Pension Fund) maintained its position of the leader on the market whereon 13 pension funds currently operate, both in terms of the value of assets under management as well as the number of members:

- Number of members. The Fund had 3,060.3 thousand members, or 18.7% of all participants of the open-end pension funds.
- Net assets. They totalled PLN 72,157.6 million or 24.1% of the total worth of assets of open-end pension funds operating in Poland (compared with 23.8% as at the end of 2012).

An important objective of ING PTE S.A. is to provide professional and modern service for the clients of ING OFE and ING DFE (ING Voluntary Pension Fund). Account access via the internet channel and the option to conclude an agreement using web forms are company priorities in this area. It is worth to emphasise that ING OFE charges clients the lowest fees on the market for their funds management.

As at 31 December 2013, the value of an ING OFE settlement unit amounted to PLN 39.65 (increase of 8.4% as compared with the 2012 year-end) which meant that ING OFE is the best at multiplying funds entrusted to it by the clients. In the fourteen-year long history of open-end pension funds, ING OFE four times ranked first for the annual investment results (in 2002, 2005, 2010, and 2013). Furthermore, ING OFE has been earning top return on investments since the beginning of open-end pension funds. While ING DFE took first place after the first year of business activity, posting return on investments of 59.1%.

## 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. CAPITAL GROUP IN 2013

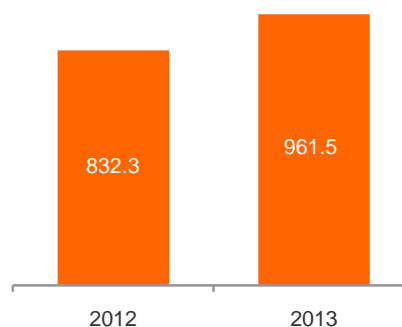
### 1. Gross profit and net profit

In 2013, the ING Bank Śląski S.A. Capital Group generated the gross financial result totalling PLN 1,192.9 million versus PLN 1,016.1 million last year. Whereas net profit attributable to the shareholders of the parent entity totalled PLN 961.5 million compared with PLN 832.3 million in 2012 (up by 15.5%).

The main factors to affect the financial results of the ING Bank Śląski S.A. Capital Group in 2013 included<sup>33</sup>:

- The income on operations grew by 2.6% from the past year. As at the 2013 yearend, the Group's income totalled PLN 3,283.2 million. It was the rise in other income (result on investments, first and foremost) which impacted the increase in income most, accompanied by insignificant decrease in net interest income and net commission income.
- The operating expenses remain at the same level. In 2013, they amounted to PLN 1,823.1 million versus PLN 1,822.2 million year earlier.
- Considerable decrease in risk costs. The balance of impairment provisions totalled PLN 267.2 million, whereas in 2012 the Group recognised provisions of PLN 362.8 million.

Net profit of ING Bank Śląski S.A. Capital Group (PLN million)



In 2013, the result before risk costs for the ING Bank Śląski S.A. Capital Group totalled PLN 1,460.1 million, up by 5.9% from 2012.

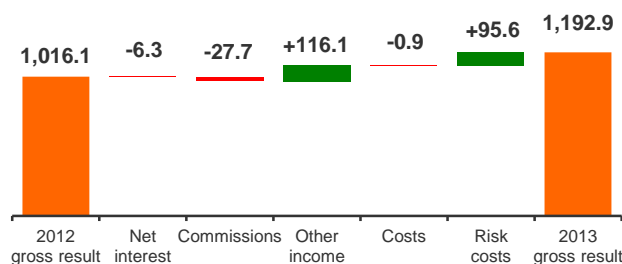
#### Basic consolidated income statement figures in analytical terms

	2013	2012	Change 2013/2012	
	PLN million	PLN million	PLN million	%
Net interest income	2,042.6	2,048.9	-6.3	-0.3
Net commission income	976.6	1,004.3	-27.7	-2.8
Other income*	264.0	147.9	116.1	78.5
<b>Operating income*</b>	<b>3,283.2</b>	<b>3,201.1</b>	<b>82.1</b>	<b>2.6</b>
Operating expenses	1,823.1	1,822.2	0.9	0.0
<b>Result before risk costs</b>	<b>1,460.1</b>	<b>1,378.9</b>	<b>81.2</b>	<b>5.9</b>
Impairment losses and provisions	267.2	362.8	-95.6	-26.4
<b>Gross financial result</b>	<b>1,192.9</b>	<b>1,016.1</b>	<b>176.8</b>	<b>17.4</b>
Income tax	231.4	183.8	47.6	25.9
Net result attributable to non-controlling shareholders	0.0	0.0	0.0	0.0
<b>Net financial result</b>	<b>961.5</b>	<b>832.3</b>	<b>129.2</b>	<b>15.5</b>

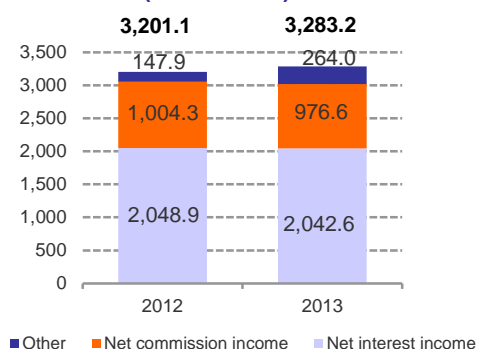
\*Income together with the share in profits of companies recognised on an equity basis.

<sup>33</sup> The characteristics discussed in this document apply to the income statement in analytical terms. The operating income category includes the net income on core operations plus the share in net profits of entities recognised on an equity basis.

### Gross result of ING Bank Śląski S.A. Capital Group in 2013 (PLN million)



### Operating income by category (PLN million)



Total income of the ING Bank Śląski S.A. Capital Group (including, apart from net profit, other items of income and expenses nature recognized in equity) amounted to PLN 487.7 million versus PLN 1,715.4 million in 2012.

## 2. Net interest income

In 2013, net interest income of the ING Bank Śląski S.A. Capital Group totalled PLN 2,042.6 million versus PLN 2,048.9 million in 2012 (down by 0.3%).

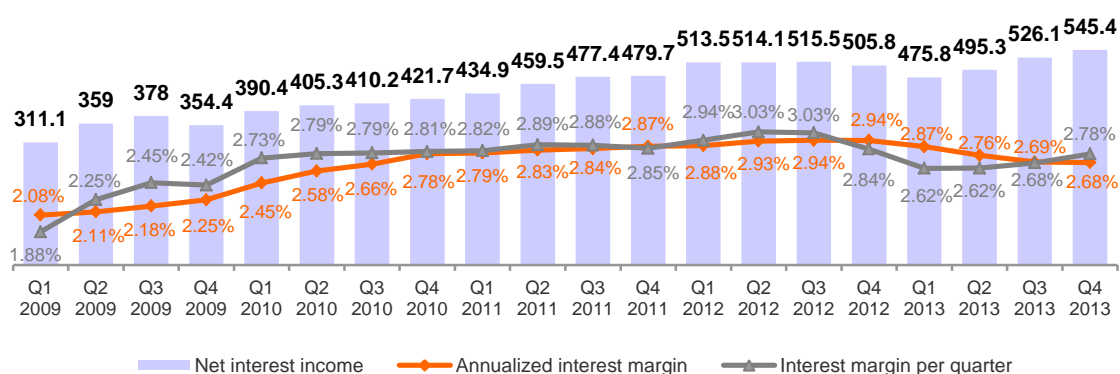
The similar value of interest income is attributable mainly to the increase in the business volumes accompanied by a significant decrease in the market interest rates. The National Bank of Poland reference rate fell from 4.25% as at the end of December 2012 to 2.50% as at the end of December 2013 (the last change was made in July 2013), i.e. down by 175 basis points. In consequence, interest income on loans and other receivables to customers went down by 7.7% versus last year. However, it was partly compensated by a drop in cost of interest on liabilities to customers by 12.3%.

### Average base interest rate

	Segment		Bank total
	Retail	Corporate	
<b>Deposits</b>			
PLN	2.51%	2.08%	2.40%
FX	0.42%	0.03%	0.26%
<b>Loans</b>			
PLN	6.70%	4.44%	5.42%
FX	1.41%	2.21%	1.98%
Including: mortgage loans			
PLN	5.11%	-	5.11%
FX	1.35%	-	1.35%

The share of loans and other receivables to customers net (Eurobonds excluded) in assets went down from 57.8% in December 2012 to 56.0% as at the end of 2013. The interest margin also went down. In 2013, the Bank Capital Group earned the interest margin of 2.68% compared with 2.94% as at the end of December 2012 i.e. down by 0.26 p.p.

### Net interest income of ING Bank Śląski S.A. Capital Group (PLN million)



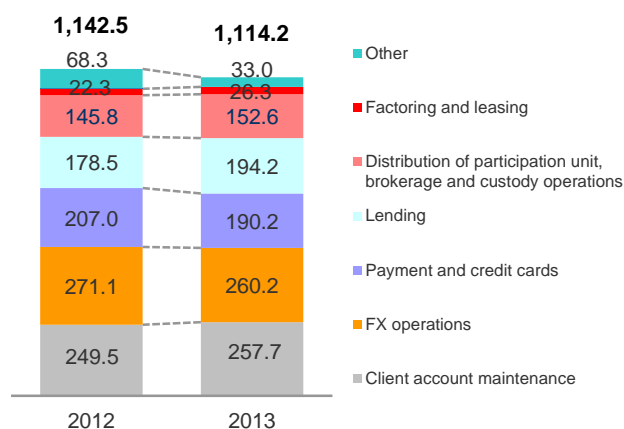
### 3. Non-interest income

Fee and commission income represented the major part of non-interest income of the ING Bank Śląski S.A. Capital Group. In 2013, it totalled PLN 976.6 million compared with PLN 1,004.3 million in 2012 (down by 2.8%).

The Group recorded an increase in commissions under:

- account maintenance (by 3.3%),
- lending (8.8%),
- distribution of participation units in mutual funds, brokerage and custody operations (by 4.7%) and
- factoring and leasing services (by 17.9%).

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



The following were lower compared with previous year:

- commissions for bank cards (down by 8.1%) – mainly in the aftermath of cutting the interchange fee by payment organisations as of January 2012, by 0.5 p.p. on average (from 1.6%-1.7% to 1.1%-1.2%), and also due to higher costs connected with clients withdrawing cash from third-party ATMs,
- transactional margin on foreign exchange operations (down by 4.0%), and
- other commissions (down by 51.7%) - the drop is visible mainly on the part of the commissions on insurance in the aftermath of the changed cash loan insurance product offer since the beginning of 2013 and adjustment of sales income on old interest products earned before 01 January 2013 (with the distribution fee recognised in the result upfront (made for Q3 2013 result (- PLN 14 million)).

In 2013, other income of the Bank Capital Group amounted to PLN 264.0 million versus PLN 147.9 million in 2012 (up by 78.5%). The increase mainly stemmed from the sale of the portfolio of available-for-sale debt instruments, which, considering the effect of termination of a hedging item as regards part of sold securities, had a positive impact on the Bank gross result of PLN 100 million, and on the net result of PLN 80.5 million.

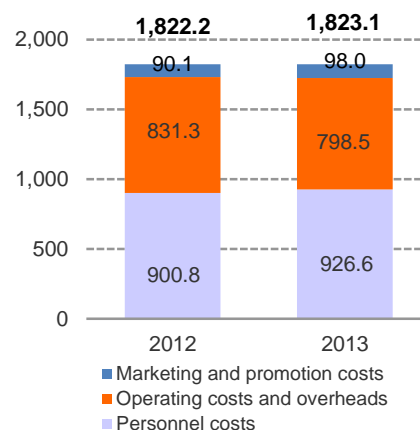
### 4. Operating expenses

In 2013, the operating expenses of the ING Bank Śląski S.A. Capital Group remained alike. They settled at PLN 1,823.1 million versus PLN 1,822.2 million a year earlier.

Personnel costs constituted a major part of the operating expenses. In 2013, they came to PLN 926.6 million compared with PLN 900.8 million in 2012 (up by 2.9%). Further, intensified marketing activities effected higher marketing and promotion costs, up by 8.8% (they settled at PLN 98.0 million).

On the other hand, other expenses (marketing and promotion costs excluded) dropped significantly. As at the end of 2013, they totalled PLN 798.5 million versus PLN 831.3 million a year earlier (down by 3.9%).

Group expenses by category (PLN million)

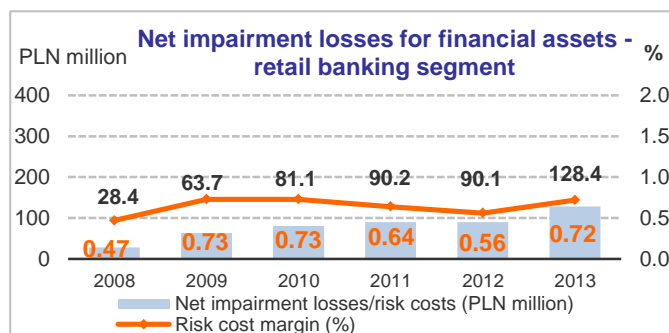
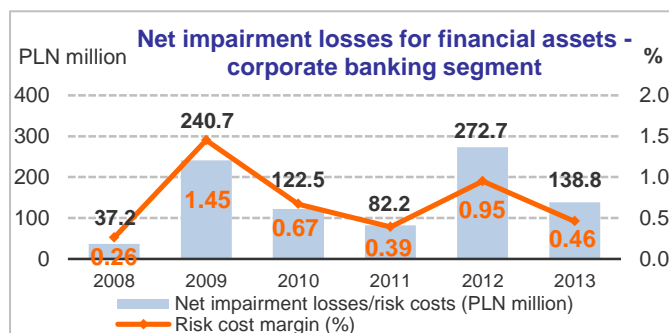
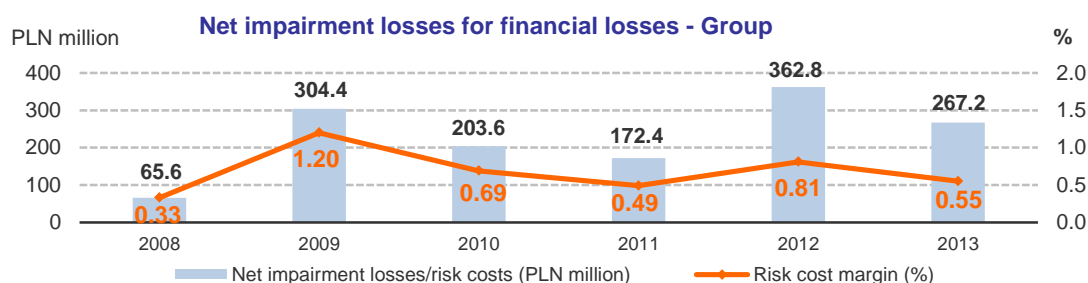


## 5. Impairment losses and provisions

Risk costs recognised in the 2013 income statement of the ING Bank Śląski S.A. Capital Group amounted to PLN 267.2 million versus 362.8 million (drop by 26.4%).

The above was mainly caused by a high level of losses formed in 2012 for corporate receivables having impairment trigger, in response to the serious liquidity problems affecting the construction sector companies. In 2013, the risk costs for the corporate segment settled at a relatively low level of PLN 138.8 million versus PLN 272.7 million in 2012 (drop by 49.1%).

Whereas the loan loss provisions for the retail segment were higher in 2013 when compared with 2012: PLN 128.4 million versus PLN 90.1 million (up by 42.5%). The Bank is in the phase of use tests for the Basel model and updates the parameters of the retail exposure risk assessment on an ongoing basis. Risk costs in the retail area were positively impacted by the sale of some part of the impaired receivables fully provisioned or written off the balance sheet (PLN 24 million-worth provision released). The transaction was described in Chapter "Credit risk", in the part devoted to portfolio quality.

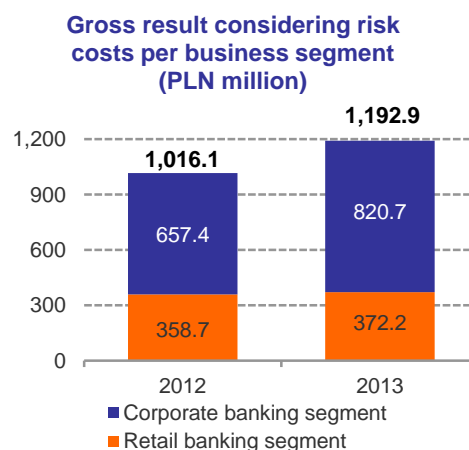


## 6. Share of individual business segments in the financial result

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 2013, the retail banking segment generated PLN 372.2 million worth of gross profit versus PLN 358.7 million in the previous year (up by 3.8%). The retail banking segment had 31.2% share in the gross profit of the ING Bank Śląski S.A. Capital Group (versus 35.3% share in 2012).



The retail banking segment result was made up by:

- Higher income. It totalled PLN 1,615.8 million, up by 4.3% from a year earlier. The segment generated higher interest income (up by 2.8%), but lower net fee and commission income (down by 7.6) – mainly due to interchange fee cuts and changes to the structure of commission income on sale of insurance products. Additionally, other income almost doubled (up by 82.3%); including share in ING PTE profit.
- Slightly higher operating expenses. The segment's total expenses amounted to PLN 1,115.2 million (up by 1.3% from 2012). They were mainly driven by higher marketing and promotion costs due to support for sale of cash loans and savings accounts, first and foremost.
- Higher risk costs. In 2013, the balance of loan loss provisions equalled PLN 128.4 million versus PLN 90.1 million last year. Higher loss provisions were due to retail risk model and parameters changes made in 2013 and increase in loan losses formed for the entrepreneurs subsegment. Net loan losses in the retail area were mitigated by the sale of some part of the impaired receivables fully provisioned or written off the balance sheet (PLN 24 million-worth provision released). The transaction was described in Chapter "Credit risk", in the part devoted to portfolio quality.

In 2013, the corporate banking segment generated gross profit of PLN 820.7 million compared with PLN 657.4 million in 2012 (up by 24.8%). The segment's result represented 68.8% of the Group's gross result (64.7% in 2012). The corporate banking segment result was made up by:

- The income totalled PLN 1,667.4 million, up by 1.0% from 2012. At the same time, the net interest income went down (by 3.3%), whereas the net commission income and other income went up (by 1.3% and 72.8%, respectively).
- The segment's expenses totalled PLN 707.9 million, down by 1.8% from 2012.
- Almost twofold decrease in risk costs. The net balance of impaired receivables losses was PLN 138.8 million versus PLN 272.7 million a year earlier. Such a significant decrease followed the events which occurred in 2012, when the financial standing of certain clients deteriorated, particularly of the companies from the construction sector.

## 7. Core effectiveness ratios

In 2013, the operating efficiency of the ING Bank Śląski S.A. Capital Group was higher than a year earlier, regardless of challenging market environment, which is proved by core effectiveness ratios. In 2013, the Group recorded an increase in Return on Assets (ROA) by 0.1 p.p. The cost to income ratio (C/I) also improved, i.e. it dropped from 56.9% in 2012 to 55.5% at the end of 2013. The solvency ratio (calculated under AIRB), on the other hand, settled at 17.28% versus 14.55% a year earlier (calculated under mixed method, in line with the then stance of PFSA). Return on Equity (ROE) remained alike (11.6% versus 11.7% a year earlier).

Core effectiveness ratios (%)		
	2013	2012
C/I ratio	55.5	56.9
ROA	1.2	1.1
ROE	11.6	11.7
Interest margin ratio	2.68	2.94
LtD	69.4	74.7
Solvency ratio	17.28	14.55

**Cost to Income ratio (C/I)** – operating expenses / income together with net profit of associated entities recognised on an equity basis.

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

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

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

**Loans/ Deposits ratio (LtD)** – net loans and other receivables to customers, Eurobonds excluded, in relation to liabilities to customers, leasing-matched funding included. The value of Eurobonds was PLN 3,685.8 million in 2013 and PLN 3,779 million in 2012. The value of leasing-matched funding was PLN 2,580.8 million in 2013 and PLN 2,664.0 million in 2012.

**Solvency ratio** – under AIRB for corporate exposures in 2013; in 2012 considering the so-called supervisory floor, in other words the capital requirement for credit risk replenishment to the amount of the requirement as calculated under Standard Approach (SA).

## 8. Consolidated statement of financial position

As at 31 December 2013, the balance sheet total of the ING Bank Śląski S.A. Capital Group was PLN 86,750.6 million, up by PLN 8,483.8 million, or 10.8%, from the end of 2012.

The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of December 2013, the balance sheet total of ING Bank Śląski S.A. was PLN 83,670.5 million (96.4% of the Group's balance sheet total) versus PLN 75,159.2 million in December last year (up by 11.3%).

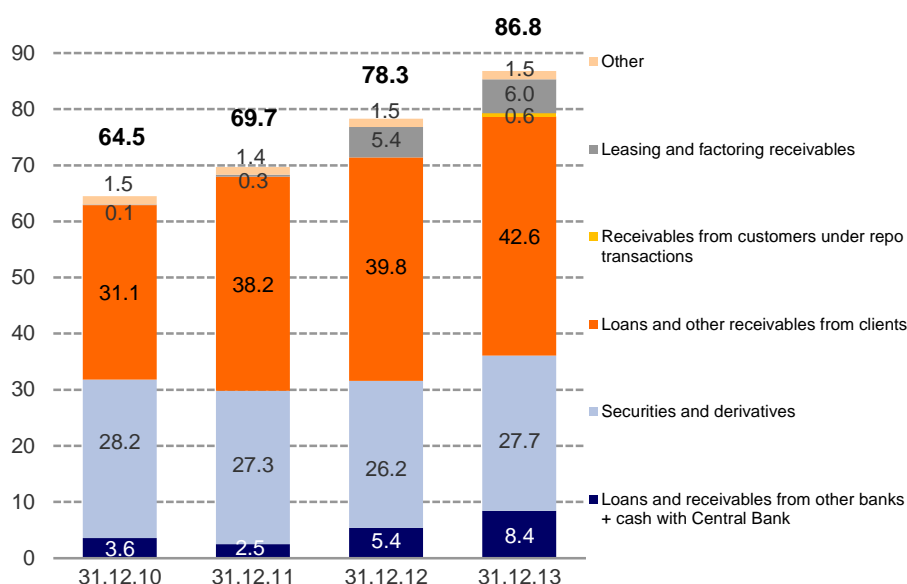
### Assets

2013 saw a continuation of the growing trend in terms of the share of customer receivables in the assets of the ING Bank Śląski S.A. Capital Group. As at 31 December 2013, net loans and other receivables to customers (Eurobonds excluded) totalled PLN 48,552.1 million or accounted for 56.0% of the total assets of the Bank Capital Group.

The "Loans and other receivables to customers" category in the financial statements also includes receivables under Polish government bonds in EUR, i.e. Eurobonds. As at the end of December 2013, they amounted to PLN 3,685.8 million versus PLN 3,779.7 million a year earlier.

T-bonds (Eurobonds included) and other derivatives represented a major item in the balance sheet of the Bank Capital Group. As at the end of December 2013, the value of this portfolio totalled PLN 27,654.1 million (or 31.9% of assets) compared with PLN 26,150.1 million (or 33.4% of assets) in December 2012. Debt securities predominated in those assets, including investment assets (available-for-sale assets) the value whereof is PLN 19,493.6 million, or 70.5% of the entire financial instruments portfolio.

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

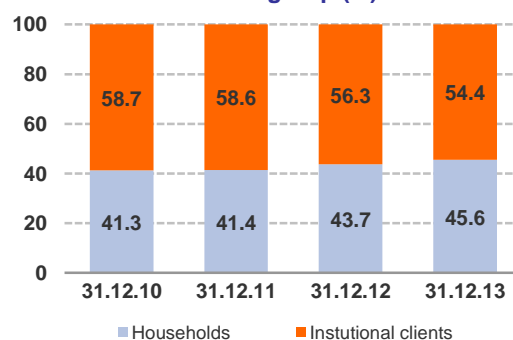


Group's receivables from other banks totalled PLN 1,399.8 million (or 1.6% of assets) compared with PLN 1,377.1 million (or 1.8% of assets) in December 2012.

### Currency structure of customer receivables

	31.12.2013		31.12.2012	
	PLN million	%	PLN million	%
PLN	40,823.8	78.1	37,850.7	77.3
Foreign currencies	11,414.1	21.9	11,134.6	22.7
<b>Total</b>	<b>52,237.9</b>	<b>100.0</b>	<b>48,985.3</b>	<b>100.0</b>

Structure of net loans by client group (%)



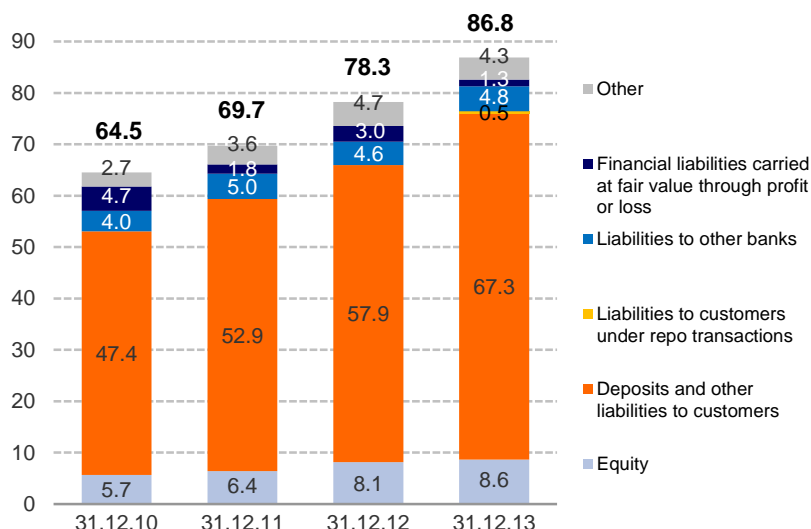
## Liabilities

The funds deposited with the Bank by customers constituted the dominant source of funding for the operations of the ING Bank Śląski S.A. Capital Group. In December 2013, liabilities to customers totalled PLN 67,330.4 million compared with PLN 57,857.5 million as the 2012 yearend.<sup>34</sup> As at the end of 2013, liabilities to customers accounted for 77.6% of total liabilities, up by 3.7 p.p. from the 2012 yearend.

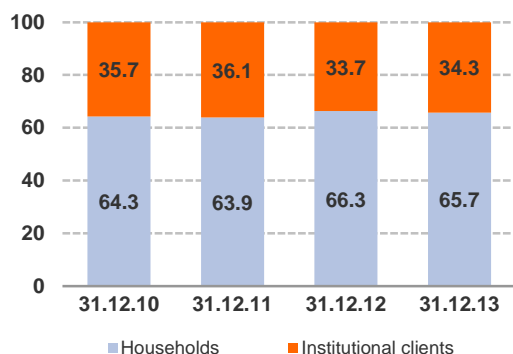
The Group's liabilities to other banks totalled PLN 4,827.3 million compared with PLN 4,554.6 million as at the 2012 yearend. Funds from monetary financial institutions represented 5.6% of liabilities, while in December 2012 their share was 5.8%.

As at the end of 2013, the equity attributable to Bank shareholders was PLN 8,626.3 million versus PLN 8,133.8 million in December 2012 (up by 6.1%). Despite the increase in value, the equity share in funding the Bank Capital Group operations dropped slightly to 9.9%, compared with 10.4% as at the 2012 yearend.

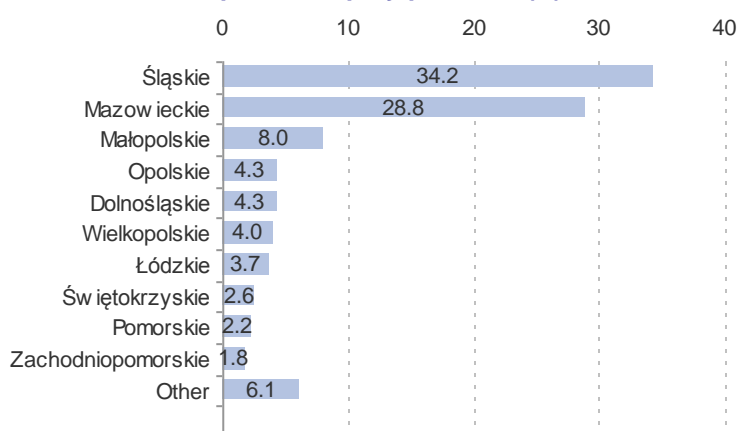
Structure of liabilities of ING Bank Śląski S.A. Capital Group (PLN billion)



Structure of deposits by client group (%)



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



<sup>34</sup> Excluding liabilities to customers under repo transactions.

## 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 that established 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 under granted credit products which may result in failure to generate income and/or a financial loss.

Lending-related losses are a consequence of risk and Bank's mitigation actions in that regard. 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 loss mitigation measures. The Credit and Market Risk Management Division calculates and presents for Bank governing bodies' approval in line with the guidelines of the Polish Financial Supervision Authority Office the following:

- risk appetite criteria and requirements along with stress tests,
- drafts of internal regulations resulting from, among other things, best practices published by the PFSA 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

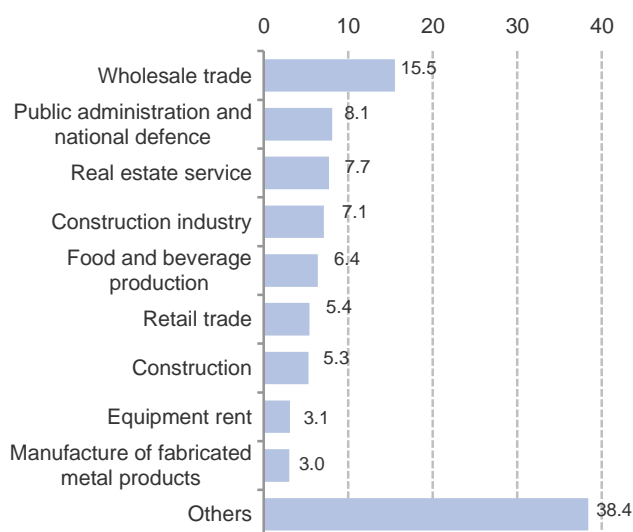
The modifications to the ING Bank Śląski S.A. lending policy regarding corporate credit exposures introduced in 2013 took account of Poland's economic situation as well as the financial standing of individual groups of borrowers. The said modifications were oriented at the following in particular:

- making the lending process more effective while ensuring adequate credit risk identification, measurement and control 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 rules of supervision over credit risk management in subsidiaries belonging to the Bank Capital Group,
- updating requirements and criteria regarding credit risk in relation to management of credit exposures used to finance real estate and mortgage backed exposures to clients,
- adapting Bank's lending policy to the specific situation of selected groups of clients,

**Concentration of exposures  
(on-balance sheet and off-balance  
sheet) to corporate clients (%)<sup>35</sup>**



<sup>35</sup> The breakdown includes exposure to corporate clients excluding banks but embracing gross credit receivables (loans, leasing and factoring receivables and corporate bonds) as well as off-balance sheet exposure.

- specifying more precisely impairment triggers to ensure their full compliance with the International Accounting Standards and Advanced Internal Rating-Based Approach (AIRB),
- specifying more precisely the credit analysis principles as regards assessing financial standing of commercial banks,
- modifying the credit risk monitoring process ensuring tighter control over largest exposures and making the principles of ongoing monitoring more precise, in particular recognising credit exposure impairment and making impairment losses.

The main amendments to the Bank's lending policy for retail clients were as follows:

- aligning the policy with the provisions of new Recommendations S and T by, among other things, establishing maximum DTI and LTV ratios which enable the Bank to conduct safe lending policy, implementing new solutions for variable interest rate buffers and FX risk buffers as well as by shortening the tenor for mortgage loans to 35 years and implementing the pilot programme of simplified credit capacity assessment principles for consumer credit,
- aligning regulations with the Recommendation J by, among other things, regulating the issue of keeping and using internal and external real property market databases,
- making credit offer more attractive and competitive as regards unsecured credit exposures by, among other actions, prolonging the tenors, increasing the amounts of granted loans and changing the principles for creditworthiness assessment plus increasing sales opportunities under cross-sell offers, with increased focus on consolidating exposures from third-party banks,
- implementing new solutions as regards assessing employment stability,
- making the principles for considering income on money capitals in credit capacity assessment more objective,
- implementing the rules whereunder the risk assessment statistical models' results are taken into consideration when determining the credit margin and monitoring of the standard risk costs for granted loans versus applied margins,
- working on expanding the scope of the preferential risk weight of 35% application for mortgage loans, including the expansion of real-estate market databases and cooperation under the AMRON Interbank Database System,
- diversifying the risk by introducing a new insurer for mortgage products' bridging insurance,
- revising the methodology on forming impairment losses due to impaired credit exposures under IFRS and Recommendation R, in particular as regards application of "point-in-time" calibration of PD/LGD risk parameters.

The retail portfolio monitoring and restructuring saw changes leading to enhancing the effectiveness of the said processes, both at the monitoring and debt recovery stages. They concerned in particular:

- new tools for communicating with the client when repayment promptness is being monitored,
- new strategies as regards prepaid cards monitoring,
- new rules for monitoring and managing the external enforcement seizures concerning the credit collaterals held,
- new methodology as regards quality control of phone-calls made and the new way of knowledge sharing,
- new system solutions optimising the process of reviewing the accounts after restructuring,
- increase in external companies engagement in servicing the clients when the repayment process is being monitored, as well as improving the management quality as regards cooperation with external companies,
- optimisation of debt recovery portfolio by selling the accounts receivable bundle,
- implementation of possibility to apply parallel strategies for amicable and court actions when recovering the debt.

### **Credit risk measurement and monitoring tools**

In 2013, ING Bank Śląski S.A. remained unwaveringly compliant with requirements of the Advanced Internal Rating-Based Approach (AIRB) under PFSA Resolution 76/2010 on the Scope and Detailed Principles of Capital Requirement Determination for Individual Risk Types of 10 March 2010. As part of those actions, among other things:

- the model management process was regulated by introduction of the comprehensive Risk Model and Valuation Models Management Policy at ING Bank Śląski S.A.,
- the Validation Team was established, the task whereof is a cyclical, independent review of all risk models used at ING Bank Śląski S.A.,
- the internal policy of changes and monitoring of internal rating method was updated pursuant to banking supervision requirements,
- in cooperation with ING Group, new versions of risk models for, among others, small and medium enterprises, for commercial properties financing and for non-bank financial institutions were implemented and parameters of selected LGD models were revised (for example: LGD model for local government units and corporates were revised),
- as regards the methodology of forming impairment losses (provisions) for impairment exposures for corporate IBNR and INFSA portfolios an approach based on risk parameters considering historical loss adjustments based on data available for current period was implemented,
- the manner of corporate portfolio's credit risk reporting was modified with special focus placed on changes to risk-weighted assets (RWA) and identification of risk parameters impacting the said changes,
- the scenarios concerning macroeconomic situation changes used in stress testing for credit risk were modified,
- the scope of Fast Track was expanded for corporates,
- the list of contractual clauses applied in credit agreements was updated.

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

- the scope of information published on the sector portal where all expertise available at the Bank on selected industries, their trends and macroeconomic environment is collected was expanded,
- a tool intended to support the client's situation analysis in relation to the main trends in the sector and Bank's portfolio was developed,
- the scope and number of reports supporting the ongoing monitoring process were verified and optimised, including the monitoring of repayment promptness,
- the general sector guidelines regarding lending directions were updated,
- the general sector guidelines regarding agriculture, agricultural produce processing, infrastructure construction and steel sector were updated,
- sector guidelines for: power and retail and wholesale trade of fast-moving consumer goods (FMCG) sectors were updated,
- selected rating models considering results of their monitoring and validation were updated.

### **Quality of lending portfolio and provisioning**

As at the end of December 2013, the loans and cash loans extended to the ING Bank Śląski S.A. Capital Group clients (including leasing and factoring receivables, corporate bonds and municipal bonds) totalled PLN 49,982.2 million in gross terms.

Impaired loans were worth PLN 2,314.6 million versus PLN 1,895.0 million as at the end of 2012. Thus, the share of the impaired portfolio in the entire lending portfolio of the Bank Capital Group went up from 4.1% in December 2012 to 4.6% as at the end of December 2013. The major part of the increase in the impaired portfolio when compared to the end of 2012 results from reclassification of some historical real property leasing exposures following the real property value decrease.

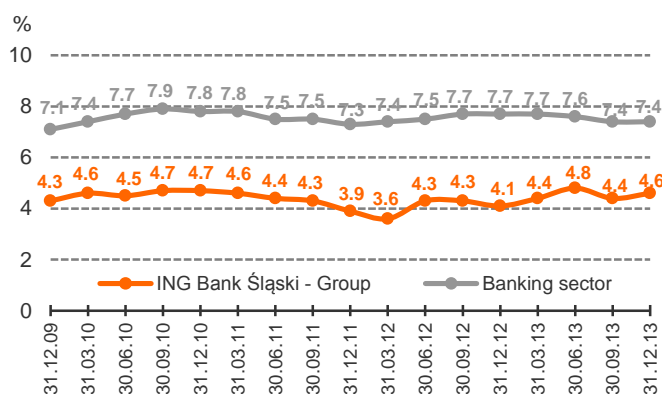
The share of impaired receivables in the portfolio tends to increase and yet the quality of lending portfolios of the ING Bank Śląski S.A. Capital Group (both retail and corporate) was still significantly better than the average in the entire banking sector. The share of impaired receivables as at the end of December 2013 amounted to 7.4% in the sector.

As at the end of December 2013, the ING Bank Śląski S.A. Capital Group had PLN 1,403.0 million worth of provisions for the lending portfolio. The impaired portfolio provisioning ratio was 60.6%.

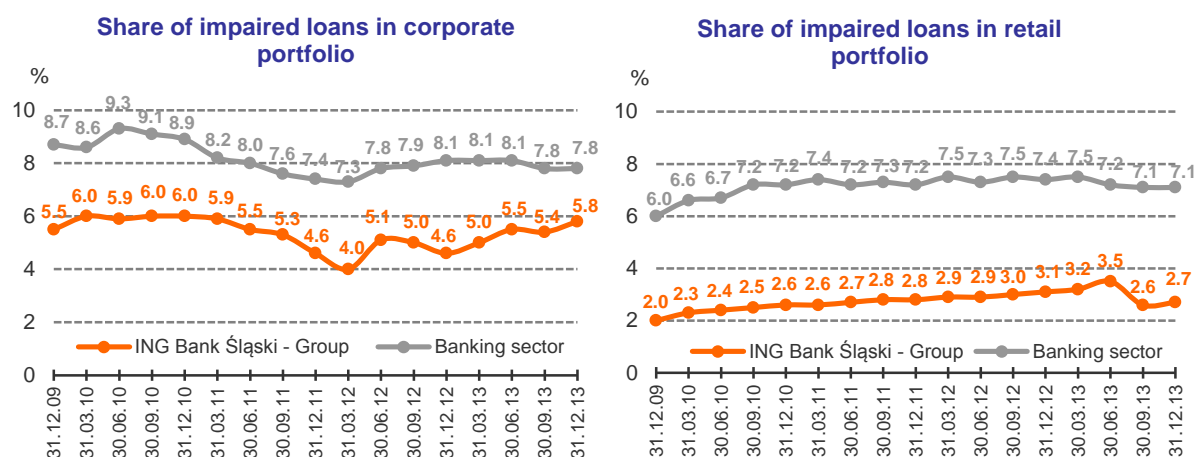
### Quality of portfolio of loans and cash loans extended to ING Bank Śląski S.A. Capital Group clients (PLN million)<sup>36</sup>

	31.12.2013	31.12.2012	31.12.2011
<b>Total exposure</b>	<b>49,982.2</b>	<b>46,509.7</b>	<b>39,466.0</b>
Non-impaired portfolio	47,667.6	44,614.7	37,913.0
Impaired portfolio	2,314.6	1,895.0	1,553.0
Impairment loss and provisions	1,567.9	1,446.3	1,119.4
Non-impaired portfolio loss	151.4	128.4	159.9
Impaired portfolio loss	1,403.0	1,295.6	948.9
Provisions for off-balance sheet liabilities	13.5	22.3	10.6
<b>Share of impaired portfolio</b>	<b>4.6%</b>	<b>4.1%</b>	<b>3.9%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>60.6%</b>	<b>68.4%</b>	<b>61.1%</b>
<b>Exposure – Corporate Banking</b>	<b>31,476.7</b>	<b>29,877.7</b>	<b>24,457.1</b>
Non-impaired portfolio	29,663.1	28,500.4	23,323.9
Impaired portfolio	1,813.6	1,377.3	1,133.2
Impairment loss and provisions	1,081.0	975.8	736.6
Non-impaired portfolio loss	47.9	58.0	63.0
Impaired portfolio loss	1,019.6	895.5	663.0
Provisions for off-balance sheet liabilities	13.5	22.3	10.6
<b>Share of impaired portfolio</b>	<b>5.8%</b>	<b>4.6%</b>	<b>4.6%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>56.2%</b>	<b>65.0%</b>	<b>58.5%</b>
<b>Exposure – Retail Banking</b>	<b>18,505.5</b>	<b>16,632.0</b>	<b>15,008.9</b>
Non-impaired portfolio	18,004.5	16,114.3	14,589.1
Impaired portfolio	501.0	517.7	419.8
Impairment loss	486.9	470.5	382.8
Non-impaired portfolio loss	103.5	70.4	96.9
Impaired portfolio loss	383.4	400.1	285.9
<b>Share of impaired portfolio</b>	<b>2.7%</b>	<b>3.1%</b>	<b>2.8%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>76.5%</b>	<b>77.3%</b>	<b>68.1%</b>

Share of impaired loans - Group



<sup>36</sup> Including leasing and factoring receivables as well as corporate and municipal bonds.



### Sale of retail clients receivables having impairment trigger

On 19 July 2013, ING Bank Śląski S.A. concluded with Kredyt Inkaso I Niestandardowy Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty (Loan Collection 1 Non-Standard Closed-End Securitization Investment Fund) with its registered office in Warsaw an agreement on the sale of portfolio of retail receivables recognized as loans having impairment trigger or written off the balance sheet in full. The total amount of receivables sold under the agreement equalled PLN 295.4 million (principal and interest), which are fully covered with impairment losses, or written off the Bank balance sheet in full. The contractual price of the portfolio sale was established at PLN 34.9 million. Positive impact of the transaction on the Group income amounted to PLN 10.9 million (PLN 9.4 million on net interest income, PLN 1.5 million on net income on fees and commissions) whereas on change of the impairment losses for financial assets and provisions for off-balance sheet liabilities (risk costs) it was PLN 24.0 million. As a consequence of the agreement described herein, the Bank decreased its non-performing loans portfolio by PLN 155.1 million.

## 2. Off-balance sheet items (including contingent liabilities)

As at 31 December 2013, the ING Bank Śląski S.A. Capital Group 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 19,046.8 million (up by 15.0% from the end of 2012),
- received contingent liabilities in the amount of PLN 36,631.9 million (down by 4.9% from a year earlier),
- off-balance sheet financial instruments (derivative transactions) totalling PLN 215,504.3 million (up by 61.4% from the end of 2012).

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

	31.12.2013	31.12.2012
<b>Contingent liabilities granted and received</b>	<b>55,678.7</b>	<b>55,076.0</b>
Liabilities granted:		
Financial	19,046.8	16,559.9
Guarantee	16,001.6	13,785.5
Liabilities received:		
Financial	3,045.2	2,774.4
Guarantee	36,631.9	38,516.1
Off-balance sheet financial instruments	<b>215,504.3</b>	<b>133,546.7</b>
Interest rate derivatives	182,990.9	104,457.4
FX derivatives	25,545.9	21,733.4
Stock market derivatives	1,270.2	1,268.9
Other	5,697.3	6,087.0
<b>Total off-balance sheet items</b>	<b>271,183.0</b>	<b>188,622.7</b>

### 3. Market risk management

#### General information

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

Market risk management process 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 Members, the ALCO Committee, the Financial Markets Divisions Management and the Treasury Department 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.

Risk Management function is responsible for proposing limits within the risk appetite determined by the Bank Supervisory Board. Moreover, it advises business units on risk management-related issues within the said limits.

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

The Bank books structure is based on intentions/purpose of concluded transactions and it reflects the types and areas of market risk existing at the Bank, which should be internally transferred/hedged. Notably, the structure of books includes the following intentions/purpose of Bank activity:

- Trading Book. Comprises FM books (interest rate trading positions, FX transactions and FX options), where open positions are generated to earn short-term profit on market fluctuations and arbitrage operations.
- Banking Book. Internal transactions are used to transfer the commercial deposits and loans risk to the Treasury Department in order to centralise the risk (mainly liquidity and interest rate risks) at place specialised to manage such risks. 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 measurement tools

Value at Risk (VaR) is the main methodology used to measure market risk in FM books, both trading and banking. It is also used for periodic reviews of market risk in commercial books (non-FM books). VaR specifies a potential loss, which in line with expectations should not be exceeded with a given confidence level assumed (probability). The Bank calculates VaR separately for individual interest rate, FX and FX options portfolios. The Market Risk Management Department applies the method of historical simulation for trading books and variance and covariance method for interest rate risk of the Treasury Department and commercial books. The Market Risk Management Department is going to launch the historical simulation method also for the banking book portfolios. VaR does not present a full picture of the risk as it fails to show potential loss under stressed circumstances. In order to cover the abovementioned risk, the Market Risk Management Department calculates a Stressed VaR and conducts stress tests for market risk.

Earnings at Risk (EAR) concept is applied to measure interest rate risk for banking book positions. 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 rather 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 the Treasury Department 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).

### **VaR exposures and limits in 2013**

In 2013, the Bank maintained its trading exposure at low levels compared to the effective limits. Average limits utilisation for majority of commercial activity types was below 35%. There were three instances where the VaR limits were exceeded in the long-term interest rate trading portfolio (maximum limit utilisation was 118%). All identified cases of overrunning limits were immediately removed.

During annual review of limits, the VaR limit was increased for the long-term interest rate trade risk from EUR 600 thousand to EUR 900 thousand. Increasing the limit is justified as the T-securities transactions went up significantly in 2013, which resulted from increased client database and activity of ING Bank Śląski S.A. acting as a T-securities dealer.

### **Liquidity risk management**

Liquidity Risk is a potential risk that the Bank will not be able to meet its liabilities due to limitations related to:

- cashing the assets or obtaining adequate funding (*funding liquidity risk*), or
- easy unwinding of transactions or offsetting specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (*market liquidity risk*).

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

- developing and analysing liquidity ratios, as well as monitoring liquidity limits,
- developing liquidity procedures/policies (the said Policy considers, among other things, new liquidity risk regulations issued by the PFSA and liquidity regulations binding at ING Bank N.V.),
- liquidity-wise contingency planning and stress tests.

In 2013, the Bank expanded its approach to liquidity risk management process. The currently binding Internal Liquidity Adequacy Assessment Process – ILAAP originates from the Basel Committee on Banking Supervision. Meeting ILAAP principles by the Bank may be perceived as “compliance with industry’s best practices, which is not directly required under regulations of the Polish regulator”. It needs to be highlighted that ILAAP and Polish regulations do not clash, on the contrary they do overlap in many areas. Meeting ILAAP requirements is compliant with ING Bank N.V. policy.

One of the most important aspects of the liquidity risk management process at the Bank is contingency funding plan which provides guidance as regards active identification of the liquidity crisis and actions to be taken to survive it.

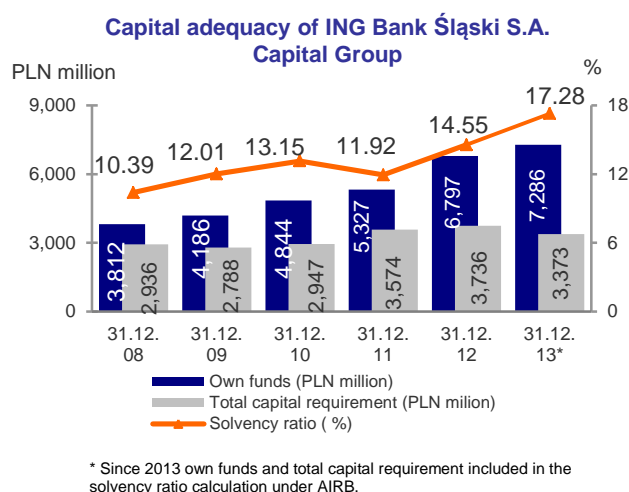
In 2013, no cases of liquidity risk regulatory limits overrunning were found:

### **Replicating portfolios**

The Bank’s demand deposits are a sizeable Bank’s balance sheet item. In order to use acquired liabilities more effectively the concept of the *replicating portfolio* is being used at the Bank. It consists of “replicating”, i.e. reproducing the actual period during which clients keep demand deposits at the Bank. In order to do so the statistical analysis of historical demand deposits portfolio is conducted and its “stable” part is computed. This concept makes it possible to convert demand deposits into interest rate futures items. The manner of reinvesting the funds acquired from the “unstable” and “stable” part differ. Replication dates and liquidity profiles are based on client behaviour and are reviewed at least every six months.

#### 4. Capital adequacy

Starting from the report as at 30 June 2013, ING Bank Śląski S.A. reports capital requirement for credit risk using the AIRB approach excluding the so-called supervisory floor, in other words supplementing the capital requirement for credit risk to the amount of the requirement as calculated under Standard Approach (SA). The Bank applies such presentation method pursuant to the decision of De Nederlandsche Bank (DNB) of 04 July 2013, wherein DNB together with the Polish Financial Supervision Authority granted the Bank consent to apply the full AIRB approach for the *institutions* and *entrepreneurs* exposure classes.



Irrespective of the above-mentioned consent, pursuant to PFSA Resolution No. 76/2010, when determining the total capital requirement the Bank takes account of the so-called regulatory floor which amounts to 80% of the total capital requirement benchmark (it is the sum of capital requirements for individual risk types calculated by means of the Standard Approach). Should the total capital requirement be lower than 80% of the total capital requirement benchmark, the Bank will include the difference as “a replenishment to the overall level of capital requirements”.

Solvency ratio calculated with the Advanced Internal Rating-Based Approach (AIRB) for the corporate segment was 17.28% as at the end of 2013. When calculating the ratio, the proposal of the Bank Management Board concerning the dividend payout in the amount of PLN 572.44 million from 2013 profit was taken into account.<sup>37</sup>

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

	31.12.2013 <sup>*/</sup>	31.12.2012 <sup>**/</sup>	31.12.2011 <sup>**/</sup>
Solvency ratio (%)	17.28	14.55	11.92
Own funds (PLN million)	7,286.0	6,797.2	5,326.5
Total capital requirement (PLN million)	3,372.5	3,736.1	3,573.9

<sup>\*/</sup> Own funds under AIRB; total capital requirement calculated under AIRB in the corporate segment.

<sup>\*\*/</sup> Own funds under AIRB; total capital requirement calculated taking into account the so-called regulatory floor of 100% of the requirement calculated under Standard Approach (SA).

#### 5. Operational risk management

ING Bank Śląski S.A. manages operational, and anti-fraud risk pursuant to the laws, recommendations and resolutions of the Polish Financial Supervision Authority and other regulators as well as abiding by 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.

Having obtained the Supervisory Board's approval, the Bank Management Board outlined the strategy for managing operational and antifraud risks by implementing a coherent set of internal prescriptive documents governing the scope, principles and duties of Bank employees related to mitigation of effects and probability of incidents occurrence in that area.

<sup>37</sup> In line with the current report no. 4/2014 of 04 March 2014.

The Bank applies the Three Lines of Defence Model, based on the division of tasks and duties. Under the model, business units which identify and mitigate the risk embedded in business process constitute the first line of defence. Risk and support units constitute the second line of defence; they are responsible for organising the processes of risk identification, monitoring and risk level control. Whereas internal audit performing the function of an independent auditor constitutes the third line of defence.

The role of the Bank Non-Financial Risk Committee and Non-Financial Risk Committees within individual business lines which support the former in performing supervisory and decision-taking functions is crucial for ensuring continuity and consistency of risk management.

In 2013, caring about the safety of funds entrusted by clients and maintenance of acceptable operational risk level, the Bank continued its efforts to fully implement new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- introducing to Bank's practice the requirements arising from amended PFSA Recommendation M concerning operational risk management,
- conducting a full analysis of new tasks of the Bank arising from D Recommendation concerning management of risk inherent to IT and telecommunications systems used by the Bank and implementation of a detailed plan of actions ensuring compliance with the said regulation within the deadline established by PFSA being 31 December 2014,
- defining by the Management Board, upon consultation with the Bank Supervisory Board, in the non-financial risk appetite statement in 2013 the amount thresholds for the losses that may arise should the risk in the given area materialise; the limit utilisation level was monitored and presented to the Bank Management Board and Supervisory Board on a quarterly basis,
- ensuring effective forms of counteracting crimes related to payment transactions and identity theft or funds theft with the use of electronic tools,
- a more in-depth analysis of IT systems vulnerability (in particular e-banking systems), penetration tests and increased monitoring of the electronic banking systems, which ensured successful fraud prevention and safety of the transactions effected by the Clients,
- performing dozen or so scenario analyses covering all key processes at the Bank,
- testing controls mitigating key risks at the Bank,
- enhancing the mechanisms ensuring business continuity of key processes taking into account the activities commissioned to third parties, back-up sites and environment for IT systems and crisis management system,
- renewing local insurance programme of the ING Bank Śląski S.A. Capital Group as regards civil liability and property insurance adjusted to the current market situation,
- monitoring and testing of mechanisms ensuring physical security of individuals and Bank's property, and
- raising employees awareness as regards effective operational and antifraud risks management by introducing new training courses mandatory for all Bank employees.

## **6. Compliance risk management**

ING Bank Śląski S.A. defines compliance risk as the consequences of the Bank's failure to comply with applicable laws, internal regulations or standards of conduct adopted by the Bank. The said consequences include, among others: reputation damage, Bank's exposure to losses following legal claims, or fines or any other sanction imposed by the regulators or other control bodies.

Bank's basic objectives in terms of compliance risk management are: protection of the clients' and stakeholders' trust and protection of the Bank's reputation. The Bank Management Board ensure effective compliance risk management, whereas the Bank Supervisory Board oversee that risk management. Based on periodic management information the latter assess the effectiveness of the said actions at least once a year.

The Bank manages compliance risk in line with applicable laws, regulatory requirements, as well as standards specified in that regard in the ING Group's regulations. Tasks related to the compliance risk management are executed as part of the Three Lines of Defence Model determined by the Bank Management Board and aimed at protection against threats.

In 2013, the Bank Management Board approved for implementation the updated Compliance Risk Management Policy and the Employee Business Ethics Standards. Regulations were adjusted to updated requirements of the Banking Law Act, PFSA's resolutions and recommendations, including requirement of Recommendation M, concerning operational risk management at banks. The said Policy also incorporates the European Securities and Markets Authority (ESMA) standards outlined in the Guidelines on Certain Aspects of the MiFID Compliance Function Requirements.

Implementing the requirements specified in the Compliance Risk Management Policy, in H2 2013 the Bank conducted a comprehensive review and verification of controls designed to ensure Bank's compliance with legal requirements and regulator's recommendations.

In 2013, the Bank continued execution of the training courses intended to increase employees knowledge and awareness in the province of abiding by business ethics standards as well as conduct standards. The said training courses regarded preventing bribery, protecting confidential information, counteracting money laundering and terrorist financing as well as abiding by requirements under international sanctions.

## VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2013

### 1. IT and Operations

In 2013, the IT area of ING Bank Śląski S.A. continued its works on:

- corporate architecture development,
- implementation of Agile techniques for software development, and
- implementation of the COBIT 5.0. standard-compliant management model.

Owing to the above actions, the strategy of information and communication technology environment development compatible with the Bank's strategic objectives could be pursued in an effective manner. Software productivity was improved and key applications assisting *inter alia* electronic banking, ATM and CDM transactions as well as payment processes were made more available. The quality of IT services, the services of third-party providers included, was enhanced.

The following can be listed from among the key tasks performed in 2013:

- mobile banking systems development (ING BankMobile, ING BankMobile HD and ING BusinessMobile),
- implementation of a unique solution ensuring availability of the basic Bank services during the planned maintenance works,
- development of electronic banking functionality for retail and corporate clients, including:
  - new, pro-sale functionalities in the ING BankOnLine application,
  - extension of the ING BusinessOnLine application functionalities (among others, implementation of a module to make FX transactions – FX Trader – and the E-invoice module wherewith invoice issuers may send their e-invoices to payers directly),
- rollout of new marketing research tools (NPS, Honeymoon),
- provision of an option to new clients to apply for lending products (cash loan, overdraft, credit card) through the Contact Centre, and
- virtualisation of the working environment of corporate branches network.

Also in the Operations area, ING Bank Śląski S.A. implemented many changes promoting continuous development and enhancement of processes. The following projects were continued in 2013:

- Centralised cash processing whereunder:
  - cash processing was further optimised (*eBojtlík*),
  - over 100 new devices – electronic depositories – were installed,
  - ATM applications were unified by implementing the Multivendor application in CDMs and dual machines, and
  - recycling was launched – a new functionality of the cash processing machines.
- SORBNET2 – service process was improved and automated. The process of liquidity monitoring for the accounts with the National Bank of Poland was modified, and thus improved. Service was moved to a state-of-the-art SWIFT system.
- Trade Finance – implementation of the Back-Office platform, facilitating handling of letters of credit, guarantees, collections and documentary discounts as well as the tool in ING BusinessOnLine to handle these products.

2013 saw the onset of the process of space consolidation under two projects:

- Tower – relocation and consolidation of Warsaw head office premises in the new edifice at Plac Unii Lubelskiej (redeployment finished in December 2013),
- Reunion – consolidation of Katowice head office premises covering relocation of units to the Chorzowska 50 building neighbouring the Bank head office at ul. Sokolska 34 (the first redeployment round took place towards the end of 2013, the other units are to move in the coming years).

Both projects aim at attaining savings through consolidation of central office functions under one roof in each of the two cities: Warsaw and Katowice.

## 2. Development of electronic distribution channels

In 2013, ING Bank Śląski S.A. completed a number of changes to the ING BankOnLine internet banking system. First and foremost, the following tools were made available:

- Offer upon click – it is a new sales module in the ING BankOnLine application. It allows to check personalised sales offers of banking products for a given user. The offers are more accessible and clear for the client, as they are presented in defined groups of needs.
- Framework Agreement on Using the Internet Banking System for Individual Clients - this new solution provides an option of concluding agreements for ING Bank Śląski S.A. products and services remotely, and in the future concluding also agreements for ING Securities products and services. The client signs one agreement at a Bank branch to be able to use all the ING BankOnLine system options. The client may manage, for example, mutual funds investments through the internet - with no need to submit declarations of will and knowledge at a Bank branch.
- Remote unblocking through a text message – simplifies the process of unblocking an ING BankOnLine user. It is possible to unblock the user with the use of a mobile phone number defined for authorisation in the ING BankOnLine system. Such a solution shortens the unblocking time and provides clients with an option of carrying the process through on their own with no need for additional interaction with the Bank.
- Dream Saver – another, besides Smart Saver, savings programme that is acceded to and fully parameterised via the ING BankOnLine system.
- The option to apply for access to the Aleo platform through the ING BankOnLine system. Logging takes place when the user logs into the ING BankOnLine system – a cutting edge Single Sign On method is used here. For the entrepreneurs using Bank services this solution proved a noticeable convenience.

Additionally, since April 2013, all clients of ING Bank Śląski S.A. may use the new version of the homepage of the news service [www.ingbank.pl](http://www.ingbank.pl). The upgraded website was created bearing in mind the growing demands and changing expectations of internet users. The layout of the website was designed on the basis of current trends and detailed research, conducted with the participation of Bank clients, among others.

Further, 2013 saw an array of initiatives expanding the functionality of ING Bank Śląski S.A.'s mobile applications.

- ING BankMobile. For the smartphone application, rendered available to individual clients at the onset of 2012:
  - the option to repay the credit card and make transfer to a predefined beneficiary as well as currency exchange rates were added,
  - account history details were broadened with the presentation of funds frozen in the account and pending transactions,
  - to improve safety, the option to block the function of making external transfers from the mobile banking application from the ING BankOnLine system was added, and
  - the application was made available for the phones hosting the Windows Phone 8 system.
- ING BankMobile HD. In Q3 2013, the Bank provided clients with the mobile banking application for tablets. When compared to its smartphone version, the tablet-dedicated platform was enriched with, *inter alia*:
  - product breakdown,
  - Financemeter in the form of a chart summarising expenditures,
  - agenda-like history,
  - product details,

- option to make transactions such as credit repayment/overpayment or transfers from the credit card, and
- card service as regards card stop-listing and activation as well as generation of the CVV code for the virtual card.

The ING BankMobile HD application was designed from scratch. In other words, it is not a copy of the smartphone-dedicated one. Many clients appreciate the user-friendly interface due to considerations given in the early development stage to such aspects as the size of the screen and habits of tablet users.

- **ING BusinessMobile.** The mobile application for corporate clients was launched in January 2013. During the first 10 days, it was downloaded 1,000 times (to phones hosting iOS and Android systems). With ING BusinessMobile one may:
  - check the account balance and view the operation history,
  - manage transfers, both internal ones and the ones made to predefined beneficiaries,
  - sign off orders earlier set in the ING BusinessOnLine system,
  - check current exchange rates and localise branches and ATMs on the map.

As at 31 December 2013, the electronic banking systems of ING Bank Śląski S.A. were used by 2.5 million clients, up by 9.6% from the end of 2012. Also the number of clients who use the HaloŚląski system increased considerably, up by 12.0% from December 2012. Until 31 December 2013, the ING BankMobile and ING BankMobile HD applications were downloaded 365 thousand times and over 240 thousand clients were using this tool.

#### Clients<sup>38</sup> of electronic banking systems at ING Bank Śląski S.A.

	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
ING BankOnLine, ING OnLine, ING BusinessOnLine	2,575,708	2,350,269	2,115,325	1,879,525	1,559,504
HaloŚląski	1,605,063	1,433,433	1,285,261	1,072,099	786,008
ING BankMobile, ING Bank Mobile HD	243,627	88,421			
ING BusinessMobile	3,712				

As at the end of December 2013, ING Bank Śląski S.A. had 1,091 machines for cash self-service in total, including: 366 standard ATMs, 299 standard CDMs and 426 dual machines.

In 2013, the Bank developed the following initiatives in the cash management area:

- **NFC-enabled ATMs.** In November 2012, the Bank launched the first NFC-enabled ATM in Poland. This innovative solution is one of the first in the world. By the end of 2013, the Bank installed 38 machines of that kind.
- **Fee collection machines at selected municipal offices.** ING Bank Śląski S.A. installed the first fee collection machine in Poland at the Chorzów Town Hall. By the end of 2013, clients could make use of eight machines mounted at seven municipal offices and one at the housing cooperative. Fee collection machines being automated tellers are an innovative solution facilitating service of residents and reducing the workload of municipal employees.

<sup>38</sup> The number of clients does not correspond to the number of users, one client can have a few users in a given system.

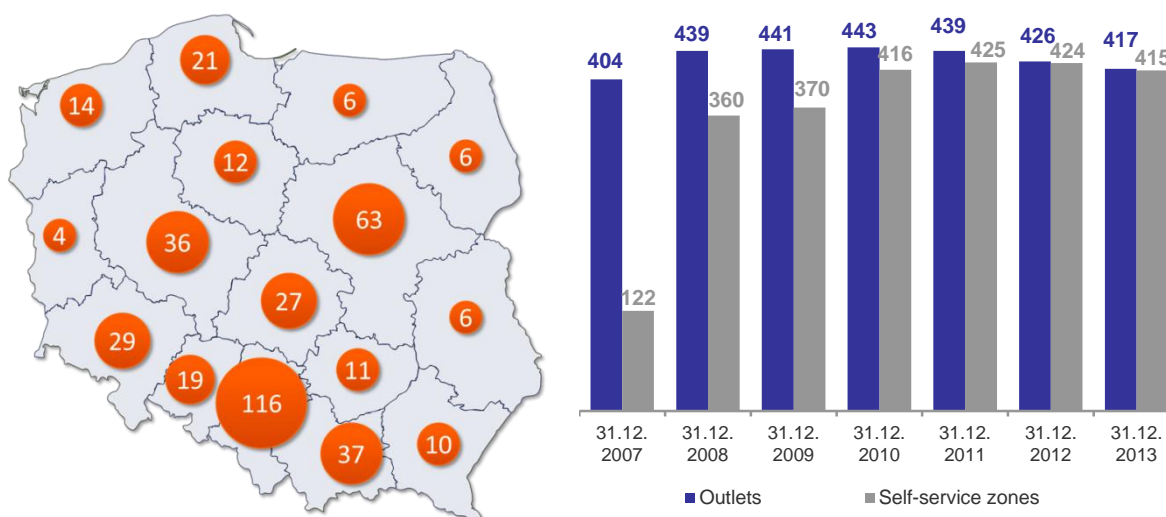
### 3. Network of Bank outlets

As at 31 December 2013, ING Bank Śląski S.A. had 417 retail branches (including 123 cashless branches), that is 9 less than as at the 2012 yearend. Almost every Bank branch has a self-banking zone operating 24/7 where the clients may deposit and withdraw cash.

When managing the number and location of outlets, the Bank Management Board takes into account the actual needs of clients and the effective use of individual branches. The Bank regularly analyses the business and environment of outlets, which for some units can result in relocation or closing of the branch. The Bank intends to uphold this policy. Further relocations of some branches to the venues more attractive in business terms and further modernisation of retail branches can be expected. As at the end of 2013, the Bank had 125 branches in the new standard.

Corporate clients from mid-sized and mid-corporates segment were serviced at the Bank by 33 corporate branches and 15 corporate banking centres. Almost all of them were operating in the same locations as retail branches. The largest corporate clients were serviced by the Strategic Clients Department located in Warsaw and by its regional office in Katowice.

Network of ING Bank Śląski S.A. retail outlets (as at 30 December 2013)



#### 4. Human resources management

##### Headcount

As at 31 December 2013, the ING Bank Śląski S.A. Capital Group employed 8,619 persons. When compared to December last year, the number of employees declined by 68 persons. Lower headcount was mainly caused by the completion of projects launched to optimise and automate processes at ING Bank Śląski S.A.

In December 2013, ING Bank Śląski S.A. had 8,148 employees, down by 96 persons (or 1.2%) from December 2012.

##### Employment in ING Bank Śląski S.A. Capital Group

	31.12.2013		31.12.2012	
	number of persons	%	number of persons	%
Retail Banking	4,232	51.9	4,143	50.2
Corporate Banking	1,117	13.7	1,143	13.9
Operations/IT/Services	1,886	23.2	2,035	24.7
Risk/Organisation/Finance/HR	913	11.2	923	11.2
<b>Bank Total</b>	<b>8,148</b>	<b>100.0</b>	<b>8,244</b>	<b>100.0</b>
ING Securities S.A.	120	25.5	127	28.7
Centrum Banku Śląskiego Sp. z o.o.	14	3.0	16	3.6
ING Lease (Polska) Sp. z o.o.	149	31.7	146	33.0
ING Commercial Finance Polska S.A.	92	19.5	89	20.1
Solver Sp. z o.o.	51	10.8	52	11.7
ING ABL Polska S.A.	1	0.2	-	0.0
ING Usługi dla Biznesu S.A.	44	9.3	13	2.9
<b>Subsidiaries</b>	<b>471</b>	<b>100.0</b>	<b>443</b>	<b>100.0</b>
<b>ING Bank Śląski S.A. Group</b>	<b>8,619</b>		<b>8,687</b>	

##### Remuneration policy

In 2013, ING Bank Śląski S.A. kept the remuneration policy to date, the aim whereof is to effectively support the strategic goals. The assumptions of the policy are based on competitive, marked-to-market and transparent remuneration offered to employees.

For the first time, the Bank settled the bonuses of employees covered by the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A. In compliance with the Policy, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to cash funds dependent on the value of ING Bank Śląski S.A. shares.

##### Recruitment and employer branding (Preferred Employer)

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

- took part in job fairs, cooperated with universities and student organisations,
- commenced the third round of the ING Ambassadors Programme addressed to all students regardless of their education stage,
- conducted campaigns promoting employment in the IT area,
- conducted a promotion campaign and recruitment for *Praktyka z Lwem* (Internship with Lion) programme addressed to second and subsequent year students who plan to work in banking in the future; in 2013, 54 students participated in the Programme, and



- completed the third round of Challenging IT programme addressed to students interested in development within IT area.

In February 2013, ING Bank Śląski S.A. was honoured with the Top Employers certificate for the fourth time. Among 29 best ranked employers, the Bank won the first place by attaining the highest possible rating of the external auditor in the areas of training courses and development, professional career opportunities and corporate culture management as well as very high ratings in the areas of basic and fringe benefits along with working conditions.

In 2013, the Bank ranked first in the Banking, Insurance and Financial Institutions category in the Most Desired Employers 2013 in the Opinion of Specialists and Managers survey conducted by Antal International. Over 3,000 respondents from Poland took part in the survey. Further, for the second time the Bank was awarded the Solid Employer of the Year title. The award is granted for effective and innovative human resources policy.

The HR strategy setting out the top priorities and key processes in the HR domain for the coming years was formulated. All the actions included in the strategy are to serve consolidation of the ING's position as the employer with the keynote being: "I think employer, I choose ING" and support Bank's divisions in pursuing business objectives.

The area of internships and recruitment procedure at the Bank was formally regulated through institution of the Traineeship and Internship (for School and University/ College Students and Graduates) Manual, the Selection and Recruitment Manual and the Pre-employment Screening Manual. Further, selection tools were updated and managers were given a training on the recruitment procedure.

Throughout 2013, ING Bank Śląski S.A. recruited, above all, employees for IT specialist jobs, employees providing services to clients as well as Contact Centre employees.

### **Employee development and training courses**

As part of the employee development policy, ING Bank Śląski S.A. conducted extensive actions in line with the strategy adopted for the year 2013. The Bank focused on actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC), conducted in 2012 in the areas related to leadership, accountability (performance management) and recognition.

In 2013, more than 1,500 participants received training in this area. They participated in the following undertakings:

- Training programmes for managers.
  - The Bank completed a 2-year Bank-Oriented Development project – a comprehensive training and development programme co-funded with the European Union funds under the Operational Programme Human Capital Development. Each programme participant could attend 5 traditional training courses and one e-learning training. Over 1,000 managers have participated in the programme since 2011.
  - As part of other development-oriented actions for managers, aimed at broadening their knowledge on people management and sharing managerial experience (including the training courses for new managers, Skills Academy and others).
- Actions for employees with high potential and for talented university graduates.
- Training courses directed at effective personal and employees development management.

The following development programmes were continued in 2013:

- ING International Talent Programme. The Programme aims at acquiring talented graduates with the professional experience of no more than 2 years, having potential to take up key managerial positions within the next 5-7 years. It fosters their development based on diversified experiences and individual development programme consistent with the needs of the organisation and the participant's profile.

- The Managerial Competences Compass programme, aimed at preparing the sales employees to take up managerial positions in the Retail Network in the future.
- Orange Meetings for employees with distinctive large potential and commitment. During meetings employees may share their ideas with the Bank top management. 20 meetings with the Bank Management Board Members were held during the year; 164 employees attended them.

Additionally, the Bank carried out programmes supporting execution of organisational units' business goals. An essential part constituted training courses for the Retail Sales Network employees. They concerned changes in IT systems, new and modified products, service quality and development of sales skills as well as ability to manage a sales team. Approx. 4,660 training days were conducted for over 20,200 participants.

The Bank conducted also individual development and training actions for employees. In 2013, the offer of training courses was updated. It included the training courses within the area of corporate and specialist competences, but also the ones dedicated to processes, products and professional knowledge. The training courses were organised in both the traditional and e-learning form.

One of the activities boosting the corporate culture was building the skill of providing and receiving feedback delivered through a series of articles published in the *Baśka* employee magazine and on the intranet web site, among others.

Further, topical lectures were held for Bank employees during which the aspects of acting in other roles were discussed; lectures for parents are an example here. Additionally, the Bank promotes: mentoring, coaching, tutoring, self-service forms of sharing knowledge with the use of multimedia tools (like chats, webinars and knowledge sharing fora, for example).

### **HR processes digitalisation**

In 2013, the implementing works regarding the SAP HR system were continued. Its implementation should bring about faster and more efficient execution of HR management processes and facilitate active participation of employees and managers in HR processes.

The internal and external e-recruiting system designed for handling the recruitment and selection processes was implemented, along with a work time scheduling and registration module. Works started on implementation of the SAP module to handle the variable remuneration process for the persons holding managerial positions having material impact on the risk profile of ING Bank Śląski S.A. (under Polish Financial Supervision Authority Resolution No. 258/2011 of 04 October 2011).

## 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 products 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 employee 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.

### **Retail banking**

In 2014, ING Bank Śląski S.A. will strive to strengthen its position in the consolidating market environment and aim at becoming the preferred bank. As in 2013, customer experience improvement and sustainable growth of both savings and loans volumes will remain the main areas of focus.

The key principles fostering achievement of strategic objectives proved effective and thus remain unchanged: clear and transparent product offer with good value for money, and broad and innovative multichannel distribution network (over 420 branches, network of IFAs, contact centre, electronic and mobile banking), efficient and user-friendly internet processes, strong brand recognition and high performing team.

Strategic priorities for 2014 cover:

- increasing the number of acquired clients,
- strengthening the position of the main Bank for clients through multichannel approach in order to ensure for clients the form of service which they find most convenient at a given moment,
- further improvement of the customer experience, and
- sustainable growth in all the categories:
  - maintenance of a strong position in the household deposits market with greater focus on sales of investment and structured products in the low-interest environment, and
  - further growth of unsecured loans and mortgage loans volumes.

In order to achieve the abovementioned priorities, ING Bank Śląski S.A. will strive to fully leverage on the potential of multichannel distribution system and top customer service quality. The Bank will aim at increasing the cross-sell ratio through extending the functionality of remote channels, implementing new payment solutions, providing clients with convenient on-line processes and shifting branch role to advisory services.

The expected strategy deliverables cover better sales results and increased deposits and loans volumes. A higher cross-sell ratio (sales of insurance and investment products) will effect income increase and diversification. Growing branches' efficiency, increased importance of remote distribution and service channels and operations automation will favour cost effectiveness improvement.

### Corporate banking

In 2014, the operations of ING Bank Śląski S.A. in the corporate banking area will be mainly focused on:

- strengthening and fostering long-term partnership with strategic clients coupled with in-depth knowledge of the client's business,
- obtaining growth of the funds accumulated in clients' current accounts above market average,
- 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 new Direct offer for small exposures,
- increasing the portfolio of companies with Polish initial capital,
- supporting Polish companies operating on international markets in the banking services area,
- extending relationship with international entities acting as business process outsourcees,
- retaining market position in the area of non-government debt securities issue for corporate entities,
- strengthening co-operation with Group companies from the asset-backed funding area (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,
- extending the offer with products and services being outside the traditional scope of banking activity, and
- maintaining the leader position within customer satisfaction with the offer quality and service level.

The basic instruments for accomplishment of the objectives adopted on the corporate banking market and financial markets will be 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.
- Transaction Banking 3.0 – a cover-all platform for development of products and channels as well as modification of processes supporting continuous development and innovativeness of the solutions offered to clients. The project has over 100 initiatives in scope; they stem from the areas of products/channels development and streamlining of the following processes:
  - innovations in the area of payments/settlements (mobile payments, e-commerce settlements, card development, e-invoicing, advanced cash solutions, dedicated procurement/settlement platforms),
  - further development of channels: web services, payment factory, SWIFT Net, e-Custody, mobile banking, new standards in SWIFT communication,
  - settlement solutions for commodity exchange, and
  - development of securities lending.
- Financial Markets 3.0 – providing clients with automated, 24/7 e-FM internet platform where they may purchase FM instruments such as FX forwards or FX options and to check economic commentaries and market outlooks.
- Smart Lending – the project grouping a number of initiatives in the lending area, aimed at streamlining the decision-making process, and thus enhancing competitiveness of the Bank's offer.
- Easy Lending – a new approach to funding corporate clients. The Bank intends to provide the option of electronic conclusion of credit agreements and tracking the status of applications lodged by clients in the ING BusinessOnLine system.

- Development of remote distribution channels – launch of a new functionality in the ING BusinessMobile system which will facilitate provision of documents used in the lending process.
- Redevelopment of the clients' monitoring process for better identification of signals of potential default on repayment of Bank's receivables.
- CRM System – follow-up of a project aimed at development and implementation of an IT tool dedicated to relationship managers and other employees attending to mid-corporate and mid-sized companies. Subsequent stages of works are planned for 2014; as a result, the information gathered will be used to boost sales and manage relationships with clients better.
- 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 2016.

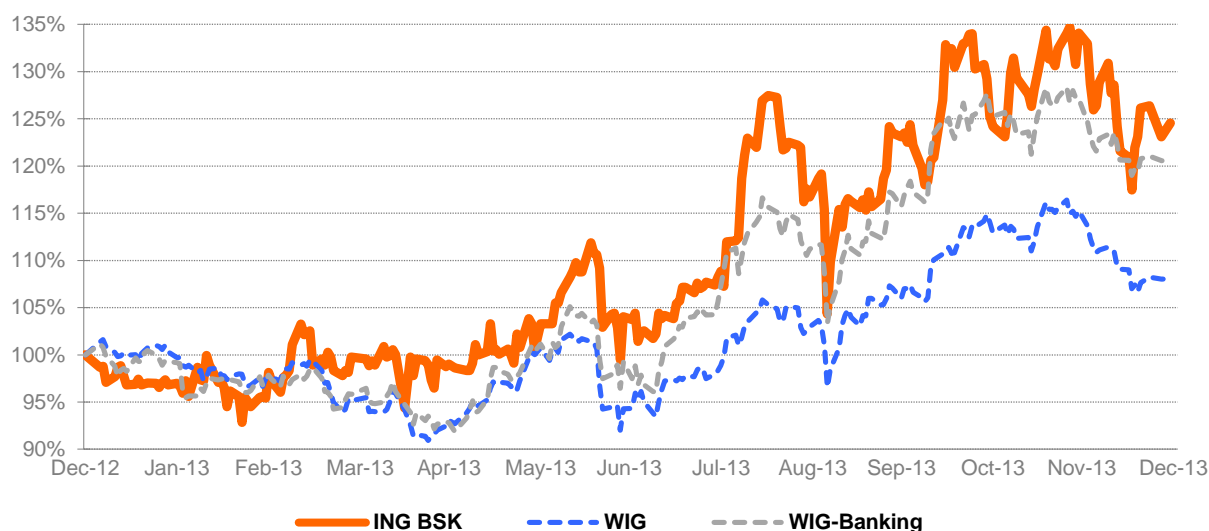
## IX. INVESTOR INFORMATION

### 1. ING Bank Śląski S.A. share price

In 2013, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 84.50 (on 19 February) to PLN 122.6 (at the session on 26 November). On 30 December 2013, the price of ING Bank Śląski S.A. share equalled PLN 113.35, up by 24.6% from the last quotation day in 2012 (to compare: Banks sub-index went up by 20.5%).

As at the end of 2013, the Bank's market value was PLN 14.7 billion, while its book value amounted to PLN 8.6 billion.

#### ING Bank Śląski S.A. trading share price in 2013 (28 December 2012 = 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 the agreement between the Bank and the Agency. At the turn of 2012 and 2013, Fitch Agency carried out the annual rating review of the Bank. As a result, all the ratings to date 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 an analogical rating outlook change for ING Bank Śląski S.A. Lowering 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. As a justification, the Agency referred to the deteriorating, in its opinion, macroeconomic situation of the Netherlands.

At the beginning of 2014, Fitch Agency carried out another annual rating review at the Bank. Also, as a result of this review, all the ratings were affirmed (Fitch Agency's press release of 24 January 2014 and full report on the Bank's rating of 05 February 2014).

The full rating assigned to the Bank by 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

Long-term IDR and Short-term IDR specify the entity's capacity to promptly pay its financial liabilities. A-rating (Long-term IDR) of the entity reflects high capacity of the Bank to promptly pay its long-term financial liabilities. F1-rating (Short-term IDR) stands for the highest appraisal of the capacity to promptly 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 promptly pay one's liabilities) is high. The Agency is of the opinion that the Bank has strong capital and liquidity position.

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

#### Moody's Investors Service Ltd.

LT Rating	Baa1
ST Rating	P-2
Bank Financial Strength (BFSR) / Baseline Credit Assessment (BCA)	D+ / baa3
LT rating outlook	Negative
BFSR Outlook	Stable

In H2 2013, the Moody's Agency confirmed all the ratings of the Bank to date (*Credit Opinion* of 30 October 2013).

### 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 (Investor Relations Bureau) is to ensure effective cooperation 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 Bank Management Board 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 Head Office. In 2013, the representatives of the Bank Management Board or the Investor Relations Bureau attended two domestic and two foreign investor conferences where they met approximately 50 investors. Additionally, Bank representatives held approx. 60 face-to-face meetings or teleconferences with investors and analysts. Moreover, employees of the Investor Relations Bureau communicate on an ongoing basis with investors, analysts and representatives of rating agencies by phone or via e-mail.

In 2013, as in the previous years, four conferences (and teleconferences) were held at the Bank 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 2013, the Bank continued to develop the channels of communication with stakeholders, including the basic tool being a webpage: <http://en.ingbank.pl/company-profile/investor-relations>. The webpage

contains vital information concerning, among other things, share quotations, company shareholding structure, General Meetings or ratings. Also the current, interim and annual reports, results presentations, Excel 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 2013, analysts representing in total twelve domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

#### **4. WIG 30 and RESPECT index**

On 08 August 2013, the Warsaw Stock Exchange (WSE) announced the composition of the new main index – WIG 30. ING Bank Śląski S.A. was included in the group of thirty biggest and most liquid companies. As communicated by the WSE, the new index was introduced to better reflect the size and diversity of the Warsaw market. In line with the index structure, it cannot be composed by more than 7 companies from the same industry and the share of one company in the entire index capitalisation is limited to 10%. At present the index comprises the companies representing 12 economic sectors (there are 10 sectors in WIG 20). The index calculation and publication was launched on 23 September 2013. Ultimately, WIG 30 is to replace WIG 20, which according to the schedule is to be published by the end of 2015.

On 07 December 2013, WSE published the results of the already seventh edition of the RESPECT Index project. For the seventh time in a row, ING Bank Śląski S.A. was included in the index of socially responsible companies. RESPECT Index is composed of the companies from the WSE Main Market, operating in conformity with the top management standards of corporate governance, information governance and investors relations, taking account of ecological, social and employee-related aspects. The first index composition was announced by the Warsaw Stock Exchange in 2009 and it included 16 companies. Currently, there are 23 companies in the index. According to the new formula, companies are audited and the index composition is reviewed annually, in the second half of the year, and the companies for the index are selected from the biggest listed companies included in WIG30, mWIG40 and sWIG80 indices. Also foreign companies listed on WSE may form part of the index.

#### **5. Online annual report**

In August 2013, we rendered available the Online Annual Report of the ING Bank Śląski S.A. Capital Group for the Year 2012. It is the second online report. The web service available at <http://www.raportroczny.ingbank.pl/en-home-2012>, interactively presents the English version of the content of all the 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 six years (2007-2012).

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.

## **6. Remunerations of the Members of Management Board and Supervisory Board of ING Bank Śląski S.A.**

In line with the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A. which follows the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A., the remuneration of a Bank Management Board Member is composed of:

- fixed remuneration composed of base remuneration as well as fringe benefits, and
- 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 Bank 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,
- payments towards mutual fund in the amount equivalent to 15% of the monthly base salary of a Bank Management Board Member, and
- 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 Bank 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 Bank Management Board Member membership in clubs and associations in Poland and abroad, provided it is in the interest of the Bank.

A Bank 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 Bank 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 Bank Management Board Member's responsibility,
- non-financial,

except for the Bank 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 Bank 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 fund upon satisfying a predetermined condition.

40% of bonus is deferred and in case of exceeding the threshold as defined by the Bylaw – 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 into two parts (rounding up to a financial instrument integral number):

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

No bonus shall be due should the employment contract be terminated under Article 52 of the Polish Labour Code. The Bank 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.

**Emoluments due to members of ING Bank Śląski S.A. Management Board for 2013 (PLN thousand)**

Name and surname	From – to	Remuneration	Other benefits*	Total
Małgorzata Kołakowska	01.01.2013 - 31.12.2013	1,752.0	296.4	2,048.4
Miroslaw Boda	01.01.2013 - 31.12.2013	1,200.0	217.9	1,417.9
Michał Bolesławski	01.01.2013 - 31.12.2013	1,224.0	210.4	1,434.4
Joanna Erdman	01.04.2013 - 31.12.2013	720.0	125.5	845.5
Ignacio Juliá Vilar	01.01.2013 - 31.12.2013	955.8	857.8	1,813.6
Justyna Kesler	01.01.2013 - 31.12.2013	1,152.0	215.4	1,367.4
Oscar Swan	01.01.2013 - 31.12.2013	1,140.0	200.7	1,340.7
<b>Total</b>		<b>8,143.8</b>	<b>2,124.1</b>	<b>10,267.9</b>

\*/ Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care and other benefits awarded by the Supervisory Board.

Emoluments of Members of ING Bank Śląski S.A. Management Board for 2013 under the Variable Remuneration Programme have not been awarded yet.

Following the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2013 bonus to be paid out in 2014. Accordingly, a reserve was formed for the 2013 bonus for the Bank Management Board Members, which as at 31 December 2013 was PLN 7.0 million. The Bank Supervisory Body will take the final decision on the bonus amount.

**Emoluments paid out to members of ING Bank Śląski S.A. Management Board in 2013 (PLN thousand)**

Name and surname	From – to	Remuneration	Bonuses*	Other benefits**	Total
Małgorzata Kołakowska	01.01.2013 - 31.12.2013	1,752.0	885.2	603.4	3,240.6
Miroslaw Boda	01.01.2013 - 31.12.2013	1,200.0	563.4	306.6	2,070.0
Michał Bolesławski	01.01.2013 - 31.12.2013	1,224.0	623.8	455.7	2,303.5
Joanna Erdman	01.04.2013 - 31.12.2013	720.0	0.0	136.9	856.9
Ignacio Juliá Vilar	01.01.2013 - 31.12.2013	955.8	226.1	904.6	2,086.5
Justyna Kesler	01.01.2013 - 31.12.2013	1,152.0	598.2	394.5	2,144.7
Oscar Swan	01.01.2013 - 31.12.2013	1,140.0	573.2	463.7	2,176.9
<b>Total</b>		<b>8,143.8</b>	<b>3,469.9</b>	<b>3,265.4</b>	<b>14,879.1</b>

\*/ Bonus under the Variable Remuneration Programme for 2012 – non-deferred cash and deferred bonus for the years 2009, 2010 and 2011.

\*\*/ Other benefits cover, among other things: insurance, payments towards the mutual fund, medical care and other benefits awarded by the Supervisory Board and financial instruments exercised under the Long-term Incentive Schemes.

**Emoluments due to members of ING Bank Śląski S.A. Management Board for 2012 (PLN thousand)**

Name and surname	From – to	Remuneration	Bonuses*	Other benefits	Total
Małgorzata Kołakowska	01.01.2012 - 31.12.2012	1,696.5	1,477.4	285.5	3,459.4
Miroslaw Boda	01.01.2012 - 31.12.2012	1,187.1	1,032.8	216.3	2,436.2
Michał Bolesławski	01.01.2012 - 31.12.2012	1,209.8	1,064.6	208.6	2,483.0
Ignacio Juliá Vilar	01.01.2012 - 31.12.2012	856.8	767.3	580.2	2,204.3
Justyna Kesler	01.01.2012 - 31.12.2012	1,140.7	992.5	203.0	2,336.2
Oscar Swan	01.01.2012 - 31.12.2012	1,131.8	871.4	199.3	2,202.5
<b>Total</b>		<b>7,222.7</b>	<b>6,206.0</b>	<b>1,692.9</b>	<b>15,121.6</b>

\*/ The amount of awards covers the emoluments to the Members of the Bank Management Board under the Variable Remuneration Programme awarded for 2012 (cash + phantom stock) recognised at the value approved by the Supervisory Board. As at 31 December 2012, the reserve for the cash payment under the bonus for the Bank Management Board Members for the amount of PLN 7.3 million was recorded in Bank books.

**Emoluments paid out to members of ING Bank Śląski S.A. Management Board in 2012 (PLN thousand)**

Name and surname	From – to	Remuneration	Bonuses*	Other benefits	Total
Małgorzata Kołakowska	01.01.2012 - 31.12.2012	1,696.5	617.1	354.7	2,668.3
Mirosław Boda	01.01.2012 - 31.12.2012	1,187.1	547.2	216.3	1,950.6
Michał Bolesławski	01.01.2012 - 31.12.2012	1,209.8	574.5	259.8	2,044.1
Ignacio Juliá Vilar	01.01.2012 - 31.12.2012	856.8	0.0	580.2	1,437.0
Justyna Kesler	01.01.2012 - 31.12.2012	1,140.7	487.5	255.2	1,883.4
Oscar Swan	01.01.2012 - 31.12.2012	1,131.8	437.9	248.8	1,818.5
<b>Total</b>		<b>7,222.7</b>	<b>2,664.2</b>	<b>1,915.0</b>	<b>11,801.9</b>

\*/ The amount of the awards paid out covers the bonus amount for 2011.

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 governing bodies of subsidiaries or affiliates of the ING Bank Śląski S.A. Capital Group.

In 2013 as in 2012, the total amount of compensation (defined as above) due and paid out by ING Bank Śląski S.A. to the Bank Supervisory Board Members totalled PLN 498.0 thousand.

**Compensation of members of ING Bank Śląski S.A. Supervisory Board in 2013 ( PLN thousand)**

Name and surname	From – to	Compensation and bonuses	Other benefits	Total
Brunon Bartkiewicz	01.01.2013 - 31.12.2013	0.0	0.0	0.0
Roland Boekhout	01.01.2013 - 31.12.2013	0.0	0.0	0.0
Anna Fornalczyk	01.01.2013 - 31.12.2013	210.0	0.0	210.0
Ralph Hamers	01.01.2013 - 19.04.2013	0.0	0.0	0.0
Nicolaas Cornelius Jue	01.01.2013 - 31.12.2013	0.0	0.0	0.0
Ad Kas	19.04.2013 - 31.12.2013	0.0	0.0	0.0
Mirosław Kośmider	01.01.2013 - 31.12.2013	156.0	0.0	156.0
Wojciech Popiołek	01.01.2013 - 31.12.2013	132.0	0.0	132.0
<b>Total</b>		<b>498.0</b>	<b>0.0</b>	<b>498.0</b>

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

Name and surname	From – to	Compensation and bonuses	Other benefits	Total
Brunon Bartkiewicz	01.01.2012 - 31.12.2012	0.0	0.0	0.0
Roland Boekhout	01.01.2012 - 31.12.2012	0.0	0.0	0.0
Anna Fornalczyk	01.01.2012 - 31.12.2012	210.0	0.0	210.0
Ralph Hamers	01.01.2012 - 31.12.2012	0.0	0.0	0.0
Nicolaas Cornelius Jue	01.01.2012 - 31.12.2012	0.0	0.0	0.0
Mirosław Kośmider	01.01.2012 - 31.12.2012	156.0	0.0	156.0
Wojciech Popiołek	01.01.2012 - 31.12.2012	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 2013.

## 7. Dividend

Under the decision of the General Meeting held on 19 April 2013, the Bank's net profit for 2012 was earmarked in full for replenishing own funds.

Following the information provided in the current report no. 4/2014 of 04 March 2014, the Management Board of ING Bank Śląski S.A. intend to recommend the General Meeting to adopt a resolution on earmarking for dividend payout PLN 572.44 million, or 59.5% of net profit of the ING Bank Śląski S.A. Capital Group for 2013 (PLN 4.40 per share).

## X. CORPORATE SOCIAL RESPONSIBILITY (CSR) AT ING BANK ŚLĄSKI S.A. IN 2013

ING Bank Śląski S.A. achieves business goals considering the needs of its stakeholders – it consequently builds transparent and ethical relations with clients, investors, business partners, vendors and employees. It pays attention to social welfare and environmental protection requirements. It openly communicates non-financial data.

ING Bank Śląski S.A. employees are its best ambassadors. They act in compliance with ING Business Principles and on a daily basis they are guided by integrity, respect, openness, responsibility and common sense. Such conduct fosters long-lasting relations based on trust, building competitive advantage and taking right decisions.

ING Bank Śląski S.A. in its operations relies on international standards, set out by the Universal Declaration of Human Rights and principles of Global Compact drafted by the United Nations. The Bank applies the Good Banking Practice Principles and, as a company listed on the Warsaw Stock Exchange, it ensures that all shareholders are treated equally, as well as it pays attention to wide information access and effective communication with the participants of the capital market. As of 2009, ING Bank Śląski S.A. is invariably present in the Respect Index, the index of socially responsible companies listed at the Warsaw Stock Exchange.

In 2013, the very First Corporate Social Responsibility Report of ING Bank Śląski S.A. was published. It is entitled “ING The Art of Responsibility” and it wraps up the key initiatives undertaken by the Bank in years 2011-2012. The Bank uses the report to share, among other things, information on progress in executing the CSR Strategy, best practices and interesting statistics concerning business and social activities. The report contains chapters devoted to relations with key stakeholders - clients and vendors, employees, local communities, as well as actions for the benefit of the environment. The publication was prepared according to the GRI guidelines. The ING Bank Śląski S.A. CSR Report was awarded in the “Best Debut” category in the “Social Reports” competition organized by the Responsible Business Forum.

Last year, ING Bank Śląski S.A. was the only financial institution to be awarded with CSR Golden Leaf by the POLITYKA weekly for implementing responsible business. Moreover, the Bank was listed in the seventh Socially Responsible Companies Ranking, published by *Dziennik Gazeta Prawna* daily, ranked third in the Banking, financial and insurance sector category.

### 1. Relations with clients and vendors

ING Bank Śląski S.A. is open to the dialogue with clients. The Bank applies customer centricity approach, provides various communication channels and regularly conducts opinion surveys.

The Bank systematically develops tools for communication with the clients and adjusts them to their needs:

- Communication with clients. In 2013, Bank contacted individual clients using both traditional service channels such as visiting the branch, e-mail or phone, as well as modern channels such as social media.

New retail clients and entrepreneurs benefited from the Honeymoon programme which facilitates fully and adequately leverage potential arising from cooperation with ING Bank Śląski S.A. To begin with, the new clients received a welcome package consisting of - apart from contact details - a gift being a free 90-day version of an antivirus software. Entrepreneurs who logged into the electronic banking system could also order 100 business cards, free of charge.

In the previous year, the Bank widely used social media for communication purposes:

- ING Bank Śląski S.A. forum at [www.forum.ingbank.pl](http://www.forum.ingbank.pl) (in December 2013, it was visited by more than 55 thousand people);
- instant messenger Skype (the number of connections in 2013 was nearly 8 thousand);
- Facebook profile <http://www.facebook.com/INGBankSlaski> (there were 107 thousand fans at the end of the year);
- video channel on YouTube <http://www.youtube.com/ingbsk> (3.3 million views in 2013);
- account on Twitter <http://twitter.com/INGBankSlaski> (set up in April 2013, 250 followers).

As in the previous years, to live up to the corporate clients' needs, 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, such professor Grzegorz Kołodko or professor Witold Orłowski. In 2013, a few dozen of meetings devoted to products were held, offering a great opportunity to expand knowledge on lease, factoring, trade finance (with special emphasis on aspects of trading with China) and European funds.

- Customer Satisfaction Surveys. In 2013, ING Bank Śląski S.A. introduced new customer satisfaction survey for individual and personal banking clients. The ECSI method applies to virtually all areas of Bank activity: products, channels, service quality and company's image.

Over the year, the Net Promoter Score (NPS) survey was also continued on a weekly basis, measuring the number of individual clients references. The survey was conducted via email and it covered persons using, among other things, personal account, savings account, mobile and internet banking, as well as cash loan.

In 2013, also the other customer contact channels were monitored: mobile banking, Contact Centre and banking forum. Moreover, an array of innovative research was done, e.g. processes or client needs and expectations surveys.

In the retail client area, the Mystery Shopper survey, monitoring the customer service quality, was being carried out. Moreover, the Mystery Caller streamlining the customer service in ING Bank Śląski S.A. Help-Line was held on a regular basis. Also, a new model of customer service was introduced, based on the examined needs, expectations and preferences of clients using bank services.

In 2013, the corporate clients also participated in the service satisfactions surveys. Hence, clients opinion about the offer and service quality, as well as other aspects of cooperation Bank, was regularly monitored.

The customer satisfaction survey under the NPS methodology in the strategic client segment was implemented at 2013 year-end. First batches of e-mail surveys with questions on the whole scope of cooperation with the Bank were sent to CFO of 100 strategic clients. Such approach will be continued in 2014.

- Complaint Analysis. ING Bank Śląski S.A. clients increasingly use the electronic channels of complaint handling. By dint of it they have the possibility of lodging their complaint and having it resolved throughout 7 days a week, 24 hours a day. In 2013, communication with our clients was streamlined through including a text message notification to the complaint handling process. The reasons behind complaints were thoroughly analysed, and the process itself was included in NPS, customer satisfaction survey. More frequently, the complaints were also investigated during the first contact with the client. At the end of 2013, nearly half of the complaints were resolved within 24 hours.

In 2013, ING Bank Śląski S.A. continued actions as regards vendors self-registering and qualifications. Due to these efforts, 260 vendors registered themselves in the system dedicated to those processes via the Bank website.

In the course of the last year, ING Bank Śląski S.A. Vendors Code of Conduct became part and parcel of agreements concluded with the vendors. Thereby, each Bank vendor declares to abide by the norms set out by the Code. These are: observing the applicable laws in relations with the employees, including employees' rights, as well as respecting personal dignity, privacy and rights of an individual. Vendors should also 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 Bank vendors actively used the Aleo trading and auction platform for companies, launched in 2013. Following registration, they could participate in auctions organized under the Bank tender proceedings. Nearly 60 auctions were organised via the platform. ING Bank Śląski S.A. vendors and Bank clients could also use the platform to support their own procurement processes.

## **2. Relations with employees**

One of ING Bank Śląski S.A. strategic objectives is to become top employer through building a culture based on trust and responsibility. The Bank creates a workplace where employees at all career levels can develop and keep the balance between professional and personal life. Pursue of this goal is constantly monitored and constitutes an important aspect of the dialogue with employees.

Every year, ING Bank Śląski S.A. provides employees with the opportunity to anonymously express their opinion on work at ING. In 2013, 89% of Bank employees took part in the WPC corporate culture survey. It offered an opportunity to voice opinions on professional development, recognition and remuneration, values or Bank strategy and leadership. The participants of the last year's survey highly assessed the Bank activity in the scope of client orientation, there was also an increase in the level of satisfaction with such working aspects as recognition and remuneration as well as teamwork and communication, at all organisational levels. It is worth noting that there was a high engagement index (82%) and significant increase in the survey results in the majority of investigated areas. The survey results of the Bank employees opinion are basis for setting action priorities for the next year.

In 2013, ING Bank Śląski S.A. received two awards: the Top Employers certificate which is granted to those companies who are the best in pursuing HR policy, as well as the Solid Employer of the Year title for efficient and innovative activity in this area. Moreover, the Bank was mentioned in the Responsible Business in Poland report, developed by the Responsible Business Forum, under the Labour-Related Practices category, which presented ING Voluntary Services Programme run by ING Bank Śląski S.A employees.

Other aspects of Bank operations pursued for employees development were outlined in the "Human resources management" item.

## **3. Activities for community**

Pursuant to CSR Strategy, ING Bank Śląski S.A. undertakes actions supporting education and entrepreneurial spirit among pupils. In 2013, the Bank, for tenth time, engaged itself in execution of nation-wide Junior Achievement Day organized by the Junior Achievement Foundation. 100 workplaces were prepared for a one day traineeship for junior high school pupils.

Following provisions of the Labour By-Law of ING Bank Śląski S.A., Bank employees are entitled to devote 8 hours from their annual working time for employee voluntary activities. In 2013, along with the ING for Children Foundation we carried out the long-standing ING Voluntary Services Programme which consists in supporting employees' social activity in the local environment. In 2013, the employees devoted almost 5.3 thousand working hours to the voluntary activities.

In 2013, approx. 1,700 employees engaged themselves in various voluntary actions:

- Projects for local communities – as part of the Good Idea contest, employees conducted 45 initiatives in hospitals, schools, kindergartens and community youth centres across Poland;

- Projects for selected community partner – under 29 group initiatives employees worked for the benefit of, among others, children's homes and therapeutic centres. The largest initiative of this kind was attended by almost 100 employees.

In 2013, employees of ING Bank Śląski S.A. joined the Global Challenge, ING Group-wide initiative under the auspices of President of the Management Board Małgorzata Kołakowska. It was undertaken by 1,000 Bank volunteers who engaged themselves in the following:

- Meetings with children coupled with reading the therapeutic book *Lucjan, the Lion One of Its Kind*. On this occasion, 4,000 copies of the book published by the Bank were furnished to local libraries, community youth centres, hospitals, schools, kindergartens, and children themselves.
- Collection of new books for children and teenagers, as well as fund for their purchase. As a result, 146 books were delivered to chosen institutions.
- Charity sales and intranet auctions of handicraft products made by the charges of the organisations cooperating with the ING for Children Foundation and Bank employees, which enabled the Foundation to collect donations in the amount of PLN 3,802.

Also, the ING for Children Foundation was supported by ING Bank Śląski S.A. employees who joined the sport event Run Warsaw. The Bank paid PLN 18 thousand to the Foundation's account – PLN 100 per every person who took part in the 10 km run.

The Bank employees engaged themselves in charity collections for the young charges of the ING for Children Foundation. As at the beginning of the school year, a collection of school supplies was organised, while in December 690 Christmas gifts were prepared by the employees.

In 2013, blood donation initiatives were organised, as usual, among ING Bank Śląski S.A. employees. 240 Bank employees attended 10 such initiatives, giving 107 litres of blood in total.

#### **Activity of ING for Children Foundation**

In 2013, the ING for Children Foundation continued programmes to provide equal chances for the children from poorest areas and ill children by organising educational and therapeutic initiatives and rehabilitation.

- ING Internet Clubs – in 2013 one club was opened (in Kuźnica), while 7 others were modernised. In total, there are 32 internet clubs across Poland.
- Smile Stays – nearly 1,100 children participated in 24 such stays. These were profile stays: educational and rehabilitation (therapeutic) ones as well as summer and winter camps for the 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 cooperate with. It allotted PLN 412,1 for this purpose.

Bank employees provided financial support for the activity of the Foundation in the form of 1% tax deductions – PLN 31.7 thousand and monthly remuneration-related deductions – PLN 20.7 thousand.

#### **ING Polish Art Foundation activity**

ING Polish Art Foundation promotes Polish contemporary art by systematically expanding the art collection and carrying out artistic projects. In 2013, works of 9 artists joined the collection. Dorota Buczkowska, Christian Tomaszewski, Karol Radziszewski and Olaf Brzeski.

In 2013, altogether with the Arts Museum in Łódź, the Foundation held the first edition of the Common Project contest. The assumption of this initiative is to support, on a yearly basis, one, young artist, through joint realisation of the project submitted by him or her. Contest organisers do not focus solely on the final effect planned by the artist, but also on the conscious work on the project development. The last year winner was Katarzyna Baług who run a weekly initiative entitled Urban Factory, in the public space in Łódź.

The Foundation changed the [www.ingart.pl](http://www.ingart.pl) website layout where it presents, among others, its collection. In 2013, by the decision of the Foundation Board, majority of works from the collection were made available on Creative Commons licenses. In this way, the Foundation joined a relatively small group of Polish institutions who share their resources.

Images of works from the collection are used in the communication materials and payment cards of ING Bank Śląski S.A. contribute to contemporary art popularisation. The collection itself is displayed in the buildings of the sponsors and lent to other exhibitions.

#### **4. Activities for natural environment**

In September 2013, TÜV Nord auditors conducted re-certifying audit applicable to the Environmental Management System under the international standard ISO 14001 (EMS). They met with the employees of the Services Division, Management Board Bureau, Centre for Management of Employees Development, Press Office and Operational Risk Management Department. Once again, high standard of environmental footprint management and environmental awareness of Bank employees were confirmed.

In 2013, the Bank successfully continued the implementation of energy saving solutions. Elements of outdoor advertising were lit with LED technology in the next 42 branches. Furthermore, 11 branches were equipped with reactive power compensators. By installing these devices, monthly savings amount to PLN 11 thousand. Currently, outdoor advertisements lit with LED technology function in 102 branches, and 20 branches have the energy compensators.

Last year, under the Ecosphere 2015 project, ING Bank Śląski S.A. successively disassembled air conditioners containing freon, replacing them with modern, ecological ones. Additionally, the firm cooperating with the Bank declared that it would plant a tree for each device replaced.

In the previous year, the Bank followed the obligatory waste segregation in all its branches. Moreover, all waste produced in the new building of ING Bank Śląski S.A. Head Office in Warsaw and in the revitalised building in Katowice was segregated into four groups: paper, glass, plastics and metal.

As of November 2013, nearly 900 employees of the Bank Head Office in Warsaw use the follow-me printing system which is meant to, among others, foster environmental awareness of the employees and change habits related to printing. During the very first month there was a decrease in the negative environmental footprint – the amount of the saved up paper, toners and energy can be compared to saving one tree, reduction of carbon dioxide emission by 120 kg and reduction of clean water usage by over 44 m<sup>3</sup>.

As part of the “Orange Bike” initiative, bicycle racks for the employees are successively mounted at our facilities, depending on the terrain conditions. In 2013, 19 racks were installed in 5 locations in Katowice, Siedlce and Warsaw.

Furthermore, caring about stakeholders and employees’ health, the Bank bought and installed 7 defibrillators (AED) in locations in Gdańsk, Katowice, Łódź, Warsaw and Wrocław.

The pro-environment educational activities of ING Bank Śląski S.A. 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 Offices in Katowice and Warsaw, as well as in a dozen of branches all over Poland. The initiative was supported by 419 individuals who visited the dedicated intranet service Earth Hour. On the Bank Facebook profile there were 204 “likes”, and 47 Facebook users shared the content related to the WWF’s Earth Hour initiative. There were 50 comments of internet users;
- **Earth Week** – on the occasion of the international Earth Day, the Bank directed to the employees a week-long initiative under the name Electrowaste. Its aim was to educate on proper disposal of electronic waste removed from households;

- Clean Up the World – under a world-wide initiative held in Poland under the banner of I am therefore I don't litter, the Bank organised for the employees a quiz about the environmental awareness related to the subject of waste and segregation and the new system of waste management. 395 persons took part in it;
- Ecological Voluntary Activity
  - In September, 100 Bank volunteers organised in the Kobiór forest division an action entitled Time to enter the forest. Its goal was to clean up the forest and renovate notice boards in the bison sanctuary in Jankowice. 400 kg of litter and waste were collected, 15 boards were repainted;
  - The Bank employees from Łódź, Radomsko, Radom, Kielce and Starachowice planted 1,000 trees seedlings in Budziszewice near Ujazd.

In 2013, ING Bank Śląski S.A. was awarded with the Green Company certificate presented by the judging panel of Environment-Friendly contest. The contest has been organised for 14 years now by the Non-Government Initiatives Support Centre under the Honorary Patronage of the President of the Republic of Poland.

## **5. Additional information**

Information about corporate social responsibility at ING Bank Śląski S.A. is available at [www.en.ingbank.pl](http://www.en.ingbank.pl) in the Corporate Social Responsibility of ING Bank Śląski S.A. tab.

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 2013

Pursuant to §91 section 5 item 4 of the Minister of Finance Ordinance of 19 February 2009 on Current and Periodic Information Published by Issuers of Securities and the Conditions for Regarding Information Required by the Law of a Non-Member State as Equivalent (Journal of Laws in 2014, item 133) 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 at ING Bank Śląski S.A. in 2013.

### 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>.

On 18 March 2013, the Bank in its current report no. 08/2013 gave notice on non-observance of the principle IV.10 of the Best Practices of WSE Listed Companies.

Nevertheless, the Bank gives notice that as regards Recommendation No. 12, in 2013 it transmitted the Ordinary 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 406<sup>5</sup> of the Commercial Companies and Partnerships Code though. Taking into account the abovementioned explanations, the Bank Management Board hereby submit the following declaration on observance of corporate governance rules:

**The Management Board of ING Bank Śląski S.A. hereby declare that in 2013 the Bank and its authorities observed the corporate governance rules they adopted as set out in 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 the process of financial statements development

#### Internal control

Financial statements are developed by the Finance Division; the process is among the key elements of compliance. 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 used to develop the 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 covers the workflow, its 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 exercised 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.

The accounting principles have been detailed 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 18 January 2013, the ING Bank Śląski S.A. Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw as the entity authorised to audit the financial statements of ING Bank Śląski S.A. and the ING Bank Śląski S.A. Capital Group for the period of 2013-2015.

Between 2008 and 2012, Ernst & Young Audit Spółka z o.o. with registered office in Warsaw was the entity authorised to audit the financial statements of ING Bank Śląski S.A. and the ING Bank Śląski S.A. Capital Group.

### Auditor's net fee

	Accounting year ended 31 December 2013 <sup>39</sup>	Accounting year ended 31 December 2012 <sup>40</sup>
Audit of the consolidated annual financial statements	1\ PLN 608.0 thousand + reimbursement of documented direct expenses (max PLN 68 thousand) 2\ PLN 125.0 thousand + reimbursement of documented direct expenses (max PLN 2 thousand) 3\ PLN 24.5 thousand	1\ EUR 146.5 thousand + reimbursement of documented direct expenses (max 8%) 2\ PLN 225.5 thousand 3\ PLN 28.0 thousand
Other attestation services	Due to review of the financial statements PLN 202.0 thousand Other – PLN 115 thousand	Due to review of the financial statements EUR 125.75 thousand + reimbursement of documented direct expenses (max 8%) Other – PLN 61 thousand
Tax advisory services	-	PLN 10 thousand
Other related services	Other – PLN 72 thousand	Due to audit and review of the reporting packages EUR 186.5 thousand + reimbursement of documented direct expenses (max 8%) and PLN 41.6 thousand Other – PLN 389.45 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 as at 31 December 2013 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.

Throughout 2013, 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.

<sup>39</sup> Line "Audit of the consolidated annual financial statements".  
item 1/ Audit of the annual financial statements of ING Bank Śląski S.A., ING Securities S.A. and ING Lease Polska Sp. z o.o., ING ABL Polska S.A.

item 2/ Audit of the annual financial statements of ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o. subsidiaries.  
item 3/ The auditors' fee under the audit of the annual financial statements of the subsidiaries: Centrum Banku Śląskiego Sp. z o.o. and ING Usługi dla Biznesu S.A. (KPMG did not audit the financial statements of those companies).

<sup>40</sup> Line "Audit of the consolidated annual financial statements".  
item 1/ Audit of the annual financial statements of ING Bank Śląski S.A., ING Securities S.A. and ING Lease Polska Sp. z o.o.  
item 2/ Audit of the annual financial statements of ING Commercial Finance S.A. and ING Lease Polska Sp. z o.o. subsidiaries.  
item 3/ The auditors' fee under the audit of the annual financial statements of the subsidiaries: Centrum Banku Śląskiego Sp. z o.o., ING Usługi dla Biznesu S.A. and ING ABL Polska S.A. (Ernst & Young did not audit the financial statements of those companies).

## 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 2013			31 December 2012	
ING Bank N.V.	97,575,000	75.000%	ING Bank N.V.	97,575,000	75.000%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	6,548,964	5.034%	Funds managed by PTE PZU S.A.	6,631,428	5.097%
			including:		
			OFE PZU "Złota Jesień"	6,631,258	5.097%
			Dobrowolny Fundusz Emerytalny PZU	170	0.000%
Other	25,976,036	19.966%	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 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 Bank 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 General Meeting of ING Bank Śląski S.A.

### Rules of amending the charter

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

An amendment to the Bank Charter as for change of the business objects of the Bank does not require buyout of shares from those shareholders who do not approve such amendment, provided that the resolution of the General Meeting concerning such 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 Bank Management Board for consideration by the General Meeting, the Bank 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 and Partnerships Code, and are presented to the Supervisory Board together with the advice of the Bank Management Board.

In 2013, following the amendments to the universally effective laws, §45 section 2 of the Bank's Charter providing for publication of the Bank's financial statements in the Republic of Poland Official Gazette *Monitor Polski - B* was deleted.

### **Operation of 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 and Partnerships Code and the Bank Charter as either an Ordinary or Extraordinary General Meeting.

The Ordinary General Meeting should be held once a year; however, no later than in June. The Ordinary General Meeting is convened by the Bank Management Board. If the Bank 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 Bank 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 Ordinary General Meetings are convened 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 Bank 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 draft 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 Bank 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 Bank Management Board upon advice of the Bank Supervisory Board. The requirement does not apply to draft resolutions submitted by eligible shareholders, except for those which should be obligatorily passed by the Ordinary General Meeting. Draft resolutions are presented to the General Meeting along with the rationale.

The General Meeting shall be valid regardless of the number of shares represented. In principle, the resolutions of the General Meeting are passed with the absolute majority of votes. Exceptions to that rule are set out in the regulations of the Commercial Companies and Partnerships Code and the Charter. Apart from the Commercial Companies and Partnerships 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.

The General Meeting should be attended by Members of the Bank Management Board and the Supervisory Board in the composition allowing them to provide answers to the content-related questions submitted during the debate. 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 Bank 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 and Partnerships 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 Bank 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 Bank 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 and Partnerships Code, and
- other matters provided for by the laws or the Charter, or raised by the Supervisory Board, the Bank 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 2013, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- on 10 April 2013, Mr Ralph Hamers tendered his resignation as the Member of the Supervisory Board effective as of 19 April 2013. The resignation was due to the appointment of Mr Ralph Hamers as CEO of ING Group, and
- on 19 April 2013, the Ordinary General Meeting of ING Bank Śląski S.A. appointed Mr Adrianus Johannes Antonius Kas (using the abridged first name Ad Kas) a Member of the Supervisory Board of ING Bank Śląski S.A.

Taking into account the abovementioned changes, as at the end of December 2013, 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 Nicolaas Cornelis Jue                Member,
- Mr Ad Kas                                  Member, and
- Mr Mirosław Kośmider                    Member, Independent Member.

The powers of the ING Bank Śląski S.A. Supervisory Board Members 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).

#### ***Rights and duties of Supervisory Board***

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 Bank 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 Bank 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 Bank 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 the Bank Management Board Members,
- approval of the Bylaw of the Bank Management Board, 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 Ordinary 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,
- suspending a Bank Management Board Member for material reasons and delegating Supervisory Board Members to perform on a temporary basis the activities of the Bank Management Board Member who is unable to perform his/ her functions for no longer than three months, and
- approving 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 Bylaw of the Supervisory Board, 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 Bylaw of the Supervisory Board approved by the Supervisory Board.

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

### **Audit Committee**

The Audit Committee supports the Supervisory Board in the process of financial reporting monitoring, monitoring and supervision over internal and external audits and management system at the Bank and its subsidiaries. In particular, this covers the adequacy and effectiveness 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 Bylaw of the Audit Committee 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 2013, the Audit Committee worked in the following composition:

- Mr Mirosław Kośmider – Chair,
- Mr Brunon Bartkiewicz – Member,
- Mr Ralph Hamers – Member until 19 April 2013,
- Mr Nicolaas Cornelis Jue – Member, and
- Mr Ad Kas – Member as of 21 June 2013.

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, inclusive of the variable remuneration policy.

The operations of the Remuneration and Nomination Committee have been detailed in the Bylaw of the Remuneration and Nomination Committee 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 2013, the Remuneration and Nomination Committee worked in the following composition:

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

#### **Bank Management Board composition**

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

The Bank Management Board Members are appointed for a 5-year term of office. In the event of changes to the Bank Management Board composition during the term of office, the mandate of the Bank Management Board Member appointed during the term of office expires upon the termination of the Bank Management Board's term of office.

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

On 07 March 2013, the Supervisory Board of ING Bank Śląski S.A. appointed Ms Joanna Erdman as Vice-President of the Bank Management Board as of 01 April 2013.

The powers of the individual Bank 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 Bank Management Board**

The Bank 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 Bank Management Board. The Bank Management Board act collectively with reservation of those matters which in line with the Bank's internal regulations have been entrusted to individual Bank 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 cooperation, 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 Bank 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 Bank Management Board to another decision-taking level.

In accordance with the Bank Organisational Bylaw, the following matters fall within the exclusive powers of the Bank 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 Bank 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 Bank Management Board in that respect may not be delegated to others. The Bank Management Board act collectively with reservation of those matters which in line with the stipulations of the Bylaw of the Bank Management Board or the Organisational Bylaw, may be entrusted to individual Bank Management Board Members.

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

Bank Management Board meetings are convened and chaired by the Bank 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 Bank Management Board President, and bear responsibility for implementation of their missions and core tasks. Where a Member of the Bank Management Board is unable to perform his/her powers temporarily, the Bank Management Board President defines the rules of deputation.

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

### Scope of responsibilities of Bank Management Board members

As at 31 December 2013		As at report's publication date	
● Ms Małgorzata Kołakowska	<b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, non-financial risk management units and HR units)	● Ms Małgorzata Kołakowska	<b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, non-financial risk management units and HR units)
● Mr Mirosław Boda	<b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department	● Mr Mirosław Boda	<b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department
● Mr Michał Bolesławski	<b>Vice-President of the Bank Management Board</b> in charge of the Corporate Sales Network Division	● Mr Michał Bolesławski	<b>Vice-President of the Bank Management Board</b> in charge of the Corporate Sales Network Division
● Ms Joanna Erdman	<b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division	● Ms Joanna Erdman	<b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division
● Mr Ignacio Juliá Vilar	<b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division	● Mr Ignacio Juliá Vilar	<b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division
● Ms Justyna Kesler	<b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as well as units of projects, processes and quality management and the position of the Bank Management Board Representative for the Environmental Management System	● Ms Justyna Kesler	<b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as well as units of projects, processes and quality management and the position of the Bank Management Board Representative for the Environmental Management System
● Mr Oscar Swan	<b>Vice-President of the Bank Management Board</b> in charge of the Credit and Market Risk Management Division	● Mr Oscar Swan	<b>Vice-President of the Bank Management Board</b> in charge of the Credit and Market Risk Management Division

## **XII. SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2013**

The Polish economy continued to slow down in 2013. It is estimated that the dynamics of the gross domestic product fell to 1.6% as compared with 1.9% recorded in 2012. However, the said dynamics for individual quarters leave some room for optimism for upcoming years. Whilst in 2012 the GDP dynamics plummeted quarter after quarter, in 2013 the trend reversed – the lowest GDP dynamics was reported in Q1 (0.5% y/y), and later during the year, Q2 in particular, an evident revival could be noticed – according to the preliminary estimates by the Central Statistical Office, Q4 reported a GDP growth of 2.7% y/y. It should be emphasised that the downward trend for the actual domestic demand was stopped in 2013. Last year was also remarkable due to exceptionally low and unprecedented, in Poland, inflation. The annual average inflation settled at 0.9% versus 3.7% in 2012. From the banking activity perspective, the dynamic scenario of interest rates trends was also very essential – throughout the year, the Monetary Policy Council decided to reduce the reference rate six times – by 175 basis points in total. In 2013, the Polish banking sector was still challenged by the low credit demand, from enterprises in particular. What is more, the Banks had to face up to the statutory interchange fee reduction.

In these volatile market conditions, the ING Bank Śląski S.A. Capital Group posted a net profit of PLN 961.5 million in 2013 versus PLN 832.3 million in 2012 (up by 15.5%). The increase was possible due to:

- higher income. In 2013, the Group's income totalled PLN 3,283.2 million versus PLN 3,201.1 million a year earlier (up by 2.6%). Even though the net interest income remained unchanged as compared with the previous year (despite difficult conditions in the interest rate area) and the net commission and fee income fell down slightly, the Bank managed to take full advantage of the favourable situation on the market as regards T-bonds valuation and executed part of the positively assessed bonds portfolio by selling selected securities at the beginning of the year,
- effective cost management. In 2013, operating expenses of the ING Bank Śląski S.A. Capital Group amounted to PLN 1,823.1 million being almost at the same level as in 2012 (up by PLN 0.9 million, or 0.0%). There were some shifts in the structure of costs by the nature throughout 2013 – personnel costs grew by 2.9%, marketing costs (i.e. costs supporting sales and business development) grew by 8.8%, also the depreciation amount was higher by 10.8% (due to commissioning of the previous investments, mainly in the IT infrastructure). Significant savings were achieved within the operating and overheads (down by 8.0% y/y). Cost effectiveness in the Group also improved and the C/I ratio in 2013 was 55.5% versus 56.9% in 2012 (down by 1.4 p.p.),
- a smaller balance of the loan loss provisions. In 2013, the Group reported risk costs of PLN 267.2 million, i.e. down by PLN 95.6 million (or 26.4%) than a year before. It should be also noted that the liquidity issues in the construction enterprises sector affected the banking sector in 2012, which is reflected in the level of the credit risk provisions. The level of provisions for credit exposures is proportionate – as at the end of 2013 the impaired receivables coverage ratio settled at 60.6%.

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. on a stand-alone basis, as well as in the entire Bank Group.

As part of monitoring of the efficiency of internal control systems and internal audit, throughout 2013 the Audit Committee recommended that the Supervisory Board approve the following documents: Semi-Annual Report of the Internal Audit Department, 2013 Internal 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 2014-2018 and 2014 Internal Audit Plan. The Audit Committee recommended that the Supervisory Board approve the outcomes of the Internal Audit Competence Profile Review. Furthermore, the Committee recommended that the Supervisory Board acknowledge the outcomes of the external review as to the compliance of the Internal Audit Department's activities

with Recommendation H issued by PFSA as well as acknowledge the Internal Quality Review Report drafted by IAD for 2012.

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

At each of its meetings, the Audit Committee acquaint themselves with the periodic management information on the operational risk and compliance risk – Non-Financial Risk Dashboard (NFRD). This information is also a fixed item on the agenda of the Supervisory Board meeting.

Furthermore, the Audit Committee recommended that the Supervisory Board approve new documents: Compliance Risk Management Policy of ING Bank Śląski S.A. and Operational Risk Management Policy at ING Bank Śląski S.A.

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 periodic Risk Dashboard presenting the retail and corporate credit risk management as well as market risk management areas. The Committee also supervise the internal capital assessment processes, capital management and capital planning. In 2013, the Committee recommended that the Supervisory Board approve the following updated documents: Risk Materiality Assessment Policy at ING Bank Śląski S.A., Stress-Testing Policy in ING Bank Śląski S.A., ICAAP and Capital Management Policy at ING Bank Śląski S.A., Planning Policy at ING Bank Śląski S.A., Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A. Moreover, to fulfil the requirement arising from the Polish Financial Supervision Authority Resolution No. 258/2011, the Audit Committee recommended that the Supervisory Board approve the newly drafted Difficult-to-Measure Risks Management Policy at ING Bank Śląski S.A.

Moreover, to fulfil the requirement arising from the Polish Financial Supervision Authority Resolution No. 385/2008, the Audit Committee recommended that the Supervisory Board approve the updated 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.

In the opinion of the Supervisory Board, the risk management system at ING Bank Śląski S.A. covers all material risk types. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2013, ING Bank Śląski S.A. fulfilled all requirements of sound business operations and capital adequacy, and in particular:

- pursued prudent lending policy. The lending processes and procedures applied by the Bank were compliant with the regulatory requirements and best practices on the market. In 2013, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors generating an increased risk level. The Bank's lending portfolio was diversified with a significant share of high-quality loans extended to business entities. Within the Bank Capital Group, impaired receivables represented 4.6% of the total exposure, which is significantly less than the average for the entire banking sector,
- has systems and procedures in the market risk management area (related to interest rate or currency, among others) that meet the top market standards. Throughout 2013, individual risk categories were managed actively so that their levels were within the limits effective at the Bank. The balance sheet structure is balanced from the currency perspective; its distinctive feature is the low share of FX receivables in the total mortgage receivables, among other things,
- maintained good liquidity. As at the end of 2013, the LtD ratio settled at 69.4%. Such a good situation is attributable to a stable household deposits base, which is one of the biggest among Polish banks (and still growing),
- had a high level of equity. In December 2013, the solvency ratio of the ING Bank Śląski S.A. Capital Group totalled 17.28%. At the same time, the Company's own funds were almost fully high-quality capital; i.e. Tier 1 capital.

The expected economic revival and stabilisation of interest rates at a relatively low level and ensuing increased loan demand, will most likely bring about higher volumes in the banking sector in 2014. Thus, the Supervisory Board notices the need to concentrate Bank's efforts on actions essential for its development and competitiveness in activities such as:

- leveraging on a good economic situation and increasing lending, but maintaining a high quality portfolio at the same time. It will let the Bank to post a net interest income to set off the impact of low interest rates on the Bank's results,
- maintaining a high level of stable deposits. It will ensure liquidity indispensable to develop lending,
- further development of a product offer and electronic distribution channels. In stiff competition, it is possible to increase revenues by expanding a customer base; this includes acquisition of new customers and increasing loyalty of existing customers. Such a policy generates higher customer balances and higher volumes of transactions, which to some extent may together set off revenue decline due to a low level of interest rates and next interchange fee reduction,
- optimal use of available resources. The C/I ratio improvement will be an essential matter for the Bank. Increasing cost effectiveness by higher scale of operations based on available resources and maintaining high quality of the processes,
- adequate capital management in order to ensure a safe increase in lending as well as fulfilment of all present and future regulatory requirements.

According to the Supervisory Board, the strategy pursued so far by the Bank on increasing the scale of its operations and executed over the last few years proved to be successful which is reflected in the achieved financial and commercial results. Therefore the opinion that in 2014 the Bank will also leverage on the opportunities in the first phase of the economic revival and will be an active participant in this growth for the benefit of its clients, shareholders, and employees is well justified.

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

#### **1. Truthfulness and fairness of statements**

To the best knowledge of the Bank Management Board, the annual financial data for 2013 and the comparable data presented in the consolidated annual financial statements of the ING Bank Śląski S.A. Capital Group were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank Capital Group and its financial result. The 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 Capital Group in 2013.

#### **2. Selection of entity authorised to audit financial statements**

The entity authorised to review the interim financial statements and auditing the annual financial statements of the Bank Capital Group 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 review, as required by the applicable Polish laws.

#### **3. Additional information**

##### **Agreements concluded**

The Bank Management Board declare that as at 31 December 2013 ING Bank Śląski S.A. did not have any:

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

As at 31 December 2013, the Bank had PLN 566.4 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 2013, the number of writs of execution issued by the Bank with regard to loans for business activity was 334 and covered total debt of PLN 418,960.7 thousand.

As regards retail clients, during 2013 the Bank issued 4,915 banking writs of execution totalling PLN 91,010.7 thousand and filed 4,068 claims totalling PLN 37,506.4 thousand.

Value of the Bank's and subsidiaries' liabilities and debt claims under the respective proceedings pending in 2013 did not exceed 10% of the Bank's equity.

The Bank is of the opinion that neither the individual proceedings that were pending in 2013 and that were heard before any court of justice or arbitration, or before any public administration authority, nor all the proceedings in total pose any 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)*

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**Mirosław Boda**

Vice-President

*(signed on the Polish original)*

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**Michał Bolesławski**

Vice-President

*(signed on the Polish original)*

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**Joanna Erdman**

Vice-President

*(signed on the Polish original)*

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**Justyna Kesler**

Vice-President

*(signed on the Polish original)*

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**Oscar Edward Swan**

Vice-President

*(signed on the Polish original)*

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**Ignacio Juliá Vilar**

Vice-President

*(signed on the Polish original)*

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04 March 2014

