ING

2011

Management Board Report on Operations of ING Bank Śląski S.A. Capital Group for H1 2011

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I. MACROECONOMIC SITUATION OF BANKING SECTOR DEVELOPMENT IN H1 2011

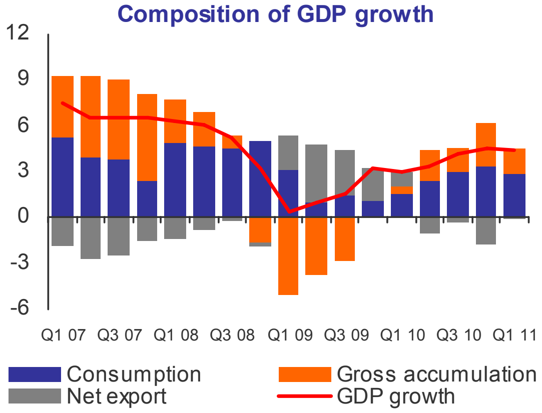
1. Major Economic Trends

Gross Domestic Product

In H1 2011, Poland sustained a relatively high economic growth rate. In Q1, the Gross Domestic Product rose by 4.4%, whereas in Q2, it went up by 4.5%, according to the current estimations.

Consumption was the main driving force behind the development just as in 2010. The consumption upturn was the result of improvements in the labour market (payroll increase and the growing number of the employed) as well as the bigger foreign investments. Accumulation, and above all inventory increase also contributed to the economy growth. On the contrary, investments grew at a relatively low pace. Investment outlays grew mainly in the public sphere, while the private sector noted the first signs of upturn; these concerned mainly the exchange of the used property, plant and equipment.

Composition of GDP growth



Foreign trade, however, inhibited the economic growth, but its negative impact on the GDP growth rate was lower than in 2010.

Labour Market and Payroll

Slowly the situation on the labour market was improving. Throughout H1 2011, enterprise sector gained 147,000 employees and at the end of June employment in that sector reached the level of 5,526,500.

In June 2011, the number of the unemployed totalled 1,883,000, down by some 72,000 from the end of 2010. The unemployed accounted for 11.8% of the professionally active people against 12.3% at the end of December 2010.

The relatively high unemployment rate as well as the sustained uncertainty as to the stability of the economic revival supported the maintenance of payroll discipline. In June 2011, the average salary in the enterprise sector was 5.7% higher than a year ago. However, in real terms, the average salary rose by 1.5%.

Inflation

In H1 2011, inflation intensified and prices were growing rapidly and exceeded the upper limit of the acceptable fluctuation brackets adopted by the Monetary Policy Council. In May, prices went up to 5.0% per annum, and in June, inflation clearly curbed and prices were higher by 4.2% than a year ago.

External factors, such as a visible increase of prices of raw materials and food in the world (caused mainly due to the situation in North Africa and Middle East as well as high demand for raw materials spurred by dynamically developing emerging markets) as well as domestic ones (due to increase of the base VAT rate, a series of increases in controlled prices and the lasting economic revival) were the drivers of inflation rise.

In June 2011, the prices of food and energy carriers were significantly higher than a year ago (by 6.7% and 6.6%, respectively). Whereas, the fees for communications services went down (by 3,6%).

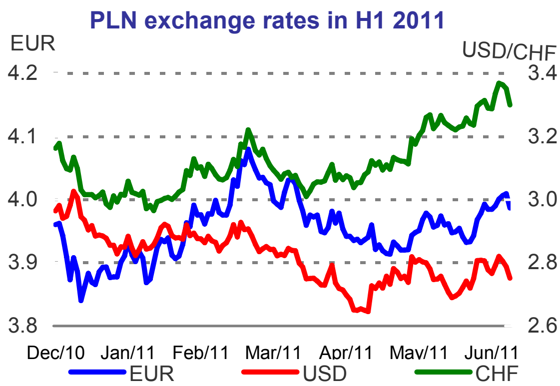
FX Market

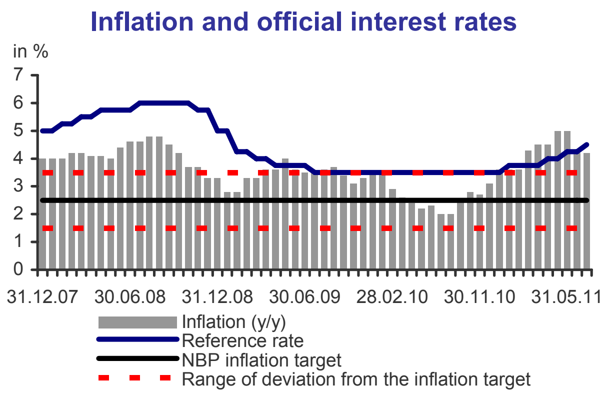
In H1 2011, the FX market was still unstable and the Polish currency exchange rate was determined by the global financial markets developments, notably:

- Anxiety for public finance of certain peripheral eurozone countries (Greece, Portugal and Ireland). Investors reacted nervously, in particular to the information about the lack of radical fiscal reforms in Greece and about the Portugal's growing debt. At the end of May, the agreed fiscal consolidation programme for Portugal with the EUR 78 billion bailout caused that sentiments temporarily cooled down. Further, the fact that the last days of June saw the Greek parliament adopt a savings reform programme, whereby the next amount from the EUR 110 billion bailout could be paid to Athens also contributed to better financial markets climate.

- FED continued dovish monetary policy, consisting in continuation of the programme initiated in November 2010 (worth USD 600 billion), of bonds' purchase and maintenance of interest rates at record low. However, financial markets were troubled with the effects of the said policy and lower than expected pace of economic growth in the USA, as well as lack of clear communication of FED's actions following the EQ2 programme conclusion.
- Dynamic economic growth of the emerging markets (mainly China, India, Brazil, and Argentina). Unlike in 2010 (during which the developing countries were weakening their own currencies and were buying assets of the industrialised countries, among others), the developing countries changed their policies as a result of inflation growth by starting to cool down economic upturn and a series of increases to interest rates at the beginning of 2011.
- Increase of interest rates by the European Central Bank on account of inflation growth. This decision was taken at the time when the growth rate of particular members of the eurozone was unequal.

In the end, during H1 2011 – at the time of a favourable fundamental situation of the Polish economy – the Polish zloty strengthened against American dollar by 7.2% and depreciated against euro by 0.4%. As a result of great trust to Swiss franc, the Polish zloty lost 4.3% to Swiss franc.





The State Budget

In H1 2011, execution of the public finance consolidation programme and reduction of the state budget deficit constituted a challenge for the Polish economy. In the Budget Act, for the year 2011 the state budget deficit was set at the level of PLN 40.2 billion. The Act assumed among others:

- VAT rate increase by 1 percentage point from the beginning of 2011,
- expense rule on flexible expenses in the form of limiting their growth up to 1% plus inflation level,
- public finance consolidation by enabling the Finance Minister to manage cash surplus of the agencies and selected public institutions,
- freezing payroll in administration,
- lowering – in order to decrease the level of contributions to the Social Insurance Fund – the premium transferred to open pension funds from 7.2% to 2.3%,
- maintaining the accelerated privatization process.

After H1 2011, the deficit reached PLN 20.4 billion against the planned one of PLN 32.1 billion. The lower than expected deficit was, above all, the result of: higher tax revenues on account of faster than assumed economic revival and higher inflation, the National Bank of Poland profit payment which was not presented in the state budget and limiting budget expenses.

2. *The Monetary Policy*

Following the inflation above the target and in view of the growing expectations that the improving standing of the Polish economy will be maintained, the Monetary Policy Council already in January 2011 started the cycle of tightening the monetary policy by raising the base interest rates by 0.25 percentage points. In H1 2011, the Monetary Policy Council increased the interest rates by 0.25 percentage points three times (in April, May and June). As a result, in June 2011 the interest rates were at the level of:

- reference rate – 4.50%,
- bill rediscount rate – 4.75%,
- lombard rate – 6.00%, and
- deposit rate – 3.00%.

According to the Monetary Policy Council, the position presented in the release after its meeting in June 2011, "the significant tightening of the monetary policy since the beginning of the year should allow the inflation go down to the inflation target in the mid-term". However, the press release also read that the Monetary Policy Council "did not exclude the option that the monetary policy would have to be adjusted, should it become less probable that the inflation would reach the inflation target".

Pursuant to the decision of the Monetary Policy Council made in October 2010, the mandatory cash reserves had to be increased by 0.5 percentage points to the level of 3.5% as of 31 December 2010, as well.

In 2011, the Monetary Policy Council has been drawing much attention to the impact of PLN exchange rate on price increase. During the meeting with the President of the National Bank of Poland held in April, the Finance Minister undertook to exchange some EU subsidies the Poland is granted on the market and not in the central bank as it was done previously. The action is to limit the banks' overliquidity and facilitate fight with inflation for the National Bank of Poland.

3. *Banking Sector*

In H1 2011, the standing of the banking sector in Poland was better than a year ago. Banks took the financial risk more willingly and operated on the markets more actively (which was reflected in increased balance sheet total), the quality of credit receivables improved a little, and the financial results came closer the levels recorded in the year 2008, which was a very good year for the banking sector.

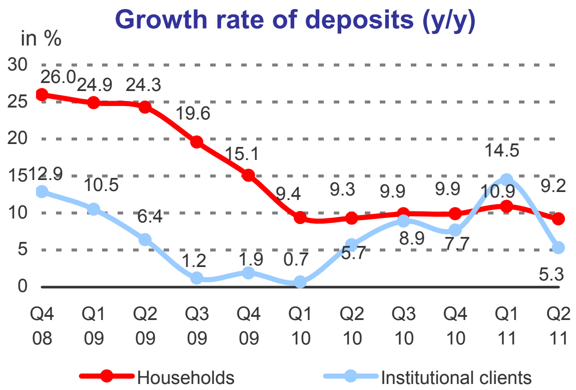
The main monetary categories looked as follows:

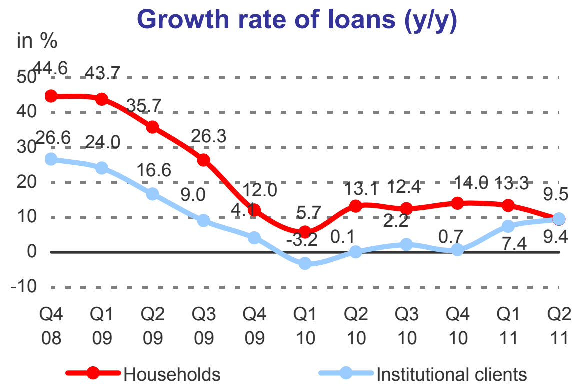
- *Household deposits*. In June 2011, household deposits amounted to PLN 440.6 billion, up by 3.4% from the end of 2010 (up by 9.2% y/y). The growth of savings in bank accounts was weakened, among others, by inflation growth which was not accompanied by an appropriately high increase of deposit' interest in accounts, despite the increase of the base interest rates. Moreover, the growing inflation encouraged the Polish people to spend more on consumption.
- *Deposits of institutional clients*[1]. The growing investment and financial activity – funded in large from own funds – caused a slight decrease in the value of funds accumulated in accounts of institutional clients, despite improvement of companies' financial standing. In June 2011, these deposits amounted to PLN 261.6 billion, down by 1.2% from the end of 2010 (increase by 5.5% on the yearly basis). The balance of deposits in accounts of local government institutions and non-bank financial institutions increased, and at the same time the value of funds accumulated in accounts of enterprises and social insurance funds fell.
- *Credit receivables form households*. In June, credit receivables form households amounted to PLN 502.6 billion, up by 4.8% from December 2010. The growth of lending, lower than compared to the previous years, was sustained by housing loans, which constituted a

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

significant part of the banks' credit exposure towards households (increase by 7.8%). Yet, due to a significant share of CHF loans in this portfolio, a part of the said increase covered the depreciation of PLN. After elimination of PLN depreciation impact housing loans grew by 5.0%. However, the banks' receivables from households due to cash loans went down mainly as a consequence of their limited availability at banks as a result of tightening credit policies.

- *Credit receivables from institutional clients.* The signs of revival of companies' investment activity caused that after the stabilization of the value of credit portfolio within the year 2010, in the H1 2011 a small growth was recorded in the portfolio value. In June 2011, the credit exposure of the banking sector towards institutional clients amounted to PLN 296.1 billion, up by 6.6% in H1 2011. Loans granted to enterprises had the main impact on the said increment (increase by 7.8% year-to-year). On account of the change to the rules on setting debt limits, the banks' credit exposure towards local government augmented by 0.8%.



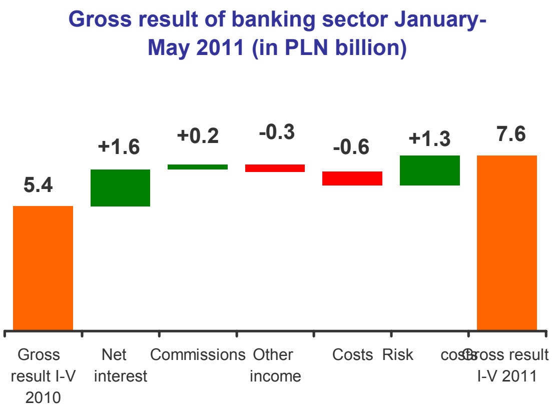


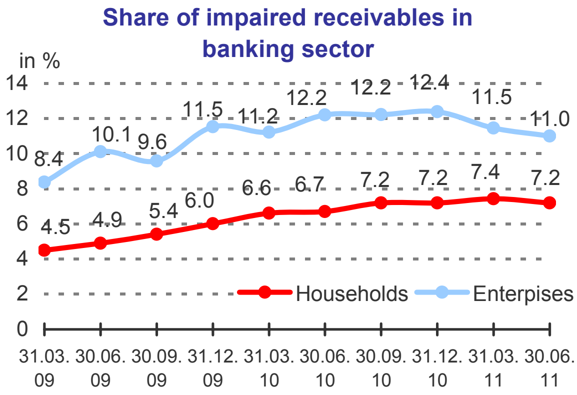
Within the first five months of 2011, the banking sector earned net profit amounting to PLN 6.2 billion (almost 48% more year-to-year)[2]. The improvement of banking sector's profitability took place in the following conditions:

- Higher interest income due to increment in base interest rates, liquidity improvement and further normalization of the situation on the interbank market.
- Maintaining cost discipline. Some augmentation of operating expenses across the entire sector resulted mainly from intensification of inflation-related phenomena, headcount and payroll increase.
- Substantial decrease of impairment charges for the credit portfolio following some improvement in the quality of the credit receivables.

The share of impaired receivables in total receivables of the non-financial sector went down from 8.8% in December 2010 to 8.4% in June 2011[3]. Within the first six months of 2011, the quality of banks' credit exposure towards enterprises improved in particular, and in April the first signs of improvement of the quality of loans to households were noticed.

[2] Source: Polish Financial Supervision Authority, File Monthly Data for the Banking Sector – May 2011.
[3] Source: National Bank of Poland, File Financial Data for the Banking Sector.





Allocating the dominant part of the earned profit to increase capital as well as the relatively low lending growth rate contributed to maintenance of the national banking sector's solvency ratio on a high level. In May 2011, the solvency ratio was 13.8%, that is on the same level as at the end of 2010.

In H1 2011, the ownership structure in the Polish banking sector changed as a result of financial problems of foreign investors.

In order to cause the Polish banking sector to become more stable, the Sejm amended the Bank Guarantee Fund Act and doubled the amount of guaranteed deposits (up to EUR 100,000), as of January 2011[4]. As a consequence of the said amendment, the bank's annual fees for the Bank Guarantee Fund were increased.

In H1 2011, the Polish Financial Supervision Authority introduced amendments to the supervisory requirements and at the same time: amended Recommendation R on rules for identification of impaired balance sheet credit exposures, determining impairment charges of balance sheet credit exposures and provisions on off-balance sheet credit exposures (the amendments shall be binding as of 1 December 2011) and amended Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular risks (increasing risk weight from the preferential level of 75% to the base level of 100% for FX retail credit exposures as of 30 June 2012).

In June 2011, the Moody's Agency upgraded the outlook on the Polish banking sector from Negative to Positive. The Polish market was recognized among those that do better when compared with the region.

4. Capital Market

In H1 2011, the situation on the Polish capital market was shaped by the following factors, which had been discussed earlier herein: fiscal problems of certain peripheral eurozone countries, the geopolitical situation in North Africa and the Middle East, maintenance of dovish monetary policy in the USA and its tightening in developing emerging economies as well as the uncertainty as to the sustainability of the economic upturn on account of the incoming, disappointing macroeconomic data from the biggest economies of the world. The said phenomena had an adverse impact on investors' decisions and resulted in periodic intensification of risk aversion. Whereas, the index volatility (amplitude) was lower than in 2010.

On 30 June 2011, the value of the core index on the Warsaw Stock Exchange was 2.0% higher than on 31 December 2010. H1 2011, ended on a positive side, especially for those investors who held shares of companies operating in the chemical sector (rate of return 47.2%), fuel industry (15.4%) and raw material industry (11.4%). However, the biggest decreases of the industry indexes were recorded for sector of construction companies (-21.1%) and development industry (-14.3%). For comparison, WIG-Banking index fell by 1.7%.

[4] According to the adopted in March 2009 amendment to Directive 94/19/EC the level of guarantees should be EUR 100,000 starting from 31 December 2010 in all countries belonging to the European Union.

As at the end of June 2011, the value of domestic companies listed on the Warsaw Stock Exchange amounted to PLN 556.2 billion, up by 2.5% from December 2010. In H1 2011, 25 companies went public on the main floor and 9 were delisted.

The value of shares traded on the stock exchange in H1 2011 totalled PLN 127.6 billion, up by 28.4% from a year earlier. The Treasury bonds and bills market also developed dynamically. The total volume of turnover on the said market totalled PLN 135.9 billion, up by 133.3% from a year earlier.

In H1 2011, the Warsaw Stock Exchange maintained the position of the leader in Europe within the scope of IPOs (total on the regulated and alternative market). Owing to numerous IPOs of foreign companies, the Warsaw Stock Exchange saw another phase of establishing its international renown.

In H1 2011, the assets of investment funds continued to rebuild at a gradual pace. The difficult situation on the financial markets impacted investment funds' results. The highest six-month rate of return was on debt funds – 2.8%. Whereas, the majority of more risky funds brought losses to investors. For example, in H1 2011, the average rate of return on universal Polish equity funds was -0.5% and for global emerging markets equity funds -3.9%. Moreover, the situation on the capital markets did not encourage investors to allocate funds to the investment funds units; as a consequence, in H1 2011, the total balance of capital flow to investment funds amounted to PLN 0.6 billion approximately. As a result of the tendencies presented above, the value of investment funds' net assets totalled PLN 119.1 billion (against PLN 116.5 billion as at the end of December)[5]. Clients' new funds fed mainly money market funds and non-public assets funds.

The beginning of 2011 was edgy for open-end pension funds and the pension fund societies, which are their managers. After many-month discussions concerning the shape of the Polish pension system, the Sejm adopted the Act on the Amendment of Certain Acts on the Functioning of the Social Insurance System in March. It determines, above all, that the premium transferred to open-end pension funds will be lowered from 7.2% to 2.3% as of May 2011. In order to limit its negative impact on open-end pension funds investment capacity and the development of the entire capital market, the Act provides for a gradual increase in the limit of investing open-end pension funds assets in shares at the same time. For the year 2011, it has been raised to 42.5% (from 40% effective previously).

5. Macroeconomic Factors to Affect the Operations of ING Bank Śląski S.A. within the Coming Six Months

According to the forecasts developed by ING Bank Śląski S.A., the economic growth rate will slightly slow down in H2 2011 in Poland and in 2011 the GDP will rise by 4.3%.

The Polish economy will grow under the influence of the phenomena present on the internal market. Apart from the private consumption growing at a moderate pace, investment outlays which are higher than in H1 2011 will contribute to the economic growth. Increment in investments will cover mainly the biggest companies and exporters. At the same time, in the next quarters of 2011 we should expect that the share in inventory changes will decrease and the net export contribution to the GDP growth will be negative.

The unemployment rate will continue to be a problem for the Polish economy. Despite opening of the German labour market for Polish employees, still 12.1% of Poles at working age will remain unemployed as at the end of 2011 due to increase in the number of people at working age and smaller possibilities to obtain subsidized employment. Whereas, some improvement of the situation on the labour market and the raised inflation will result in accelerated payroll increase in H2 2011.

It is forecasted that prices will go up a little bit slower in H2 2011 on account of suppressing the effects of price shock on the food and fuel markets and that the average inflation will amount to 4.3% in 2011. It is expected that the Monetary Policy Council will yet again rise interest rates by 0.25 percentage points in autumn 2011.

It is assumed that in H2 2011 the Polish zloty will strengthen a little bit due to solid fundaments and

[5] Source: Analizy.pl

positive perception of the stability of the Polish economy as well as the already started tightening of the monetary policy in Poland. Situation of the public finance in some countries of the eurozone (especially in Greece) may lead to temporary significant adjustments in the PLN exchange rate.

The financial situation of the banking sector in H2 2011 is expected to be driven by the following factors:

- Moderate increase of funds in clients' bank accounts. As regards household savings, investments on the capital market (inclusive of State Treasury privatisation offers) will compete with the deposits. However, in the case of institutional clients, the increase of funds' value in the bank accounts will restrain the increasing investment expenses of enterprises and consolidation of the central budget.
- The pace of lending growth will be set by: an increase of exposure in lending to business entities due to the acceleration of investment processes, lower demand for money on the part of local governments as well as lower than in previous years increase of lending for households (sustained by the rise of housing loans portfolio accompanied by a slowdown on the consumer loans market).
- Increase of revenues, and above all the interest result on account of interest rates higher than in previous year.
- Limited possibility of further reduction of operating expenses.
- Decrease in risk costs as a result of slow enhancement in loans quality.

The standing of the Polish banking sector may be adversely affected by the following factors:

- Debt crises in certain eurozone countries, inclusive of the risk that Greece will declare insolvency which will adversely impact the financial standing of the global financial institutions (the biggest holders of T-bonds). It may result in problems in obtaining external funding from foreign parent companies of banking institutions operating in Poland.
- Further appreciation of the Swiss Franc and the related increase of servicing costs of housing loans denominated in foreign currencies triggered decline in the purchasing power of households.
- Changes to legal regulations, such as: adoption of legal regulations concerning the level of FX spreads for FX loans.

Polish economy in the years 2005-2011[6]

	2005	2006	2007	2008	2009	2010	2011F
GDP growth (%)	3.6	6.2	6.8	5.1	1.7	3.8	4.3
Budgetray deficit according to ESA 95 (% of GDP)	-4.3	-3.6	-1.9	-3.7	-7.1	-7.9	-5.6
M3 money supply (in PLN billion)	427.1	495.3	561.6	666.2	720.3	782.3	855.0
Industrial output growth (%)	4.1	12.0	9.4	3.0	-4.5	9.8	7.4
Average annual inflation (CPI) (%)	2.1	1.0	2.5	4.2	3.5	2.6	4.3
Unemployment rate (%)	17.6	14.8	11.2	9.5	12.1	12.3	12.1
PLN/USD rate (year end)	3.2613	2.9105	2.4350	2.9618	2.8503	2.9641	2.5338
PLN/EUR rate (year end)	3.8598	3.8312	3.5820	4.1724	4.1082	3.9603	3.7500
WIBOR 3M (year end)	4.60	4.20	5.68	5.88	4.27	3.95	4.60

[6] 2011 Forecast prepared in July 2011.

II. MAIN ACHIEVEMENTS OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN H1 2011

1. Increase of client base

In March 2011, the number of clients of ING Bank Śląski S.A. exceeded 3 million while as at the end of June 3,055,100 clients used its services, including:

- 2,798,800 individual clients (up by 58,400 over H1 2011),
- 229,900 entrepreneurs (small entities) and
- 26,430 corporate clients (mid-corporate and mid-sized companies and capital groups)[7].

The constantly growing number of private individuals and economic entities using the services of ING Bank Śląski S.A. reflects effectiveness of actions taken in order to strengthen long-term relations with clients. These relations base on strong brand of the Bank, transparent product offer adjusted to clients' preferences changing over time and on constantly developed multichannel distribution system.

2. Enhancement of position on the credit market

As at the end of June 2011, gross credit receivables of the Capital Group of ING Bank Śląski S.A. totalled PLN 34,943.3 million, up by PLN 2,595.2 million (or 8.0%) from the end of 2010. It is estimated that the Capital Group had a 4.4%-share in credit receivables value of the entire banking sector (or up by 0.2 p.p. from the end of 2010).

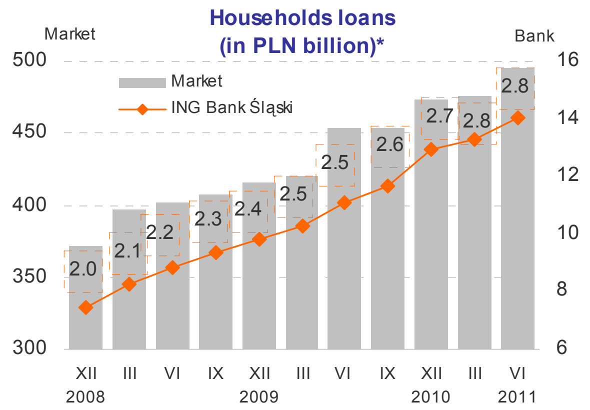
While the Capital Group of the Bank enhanced its position on the credit market, the following phenomena occurred:

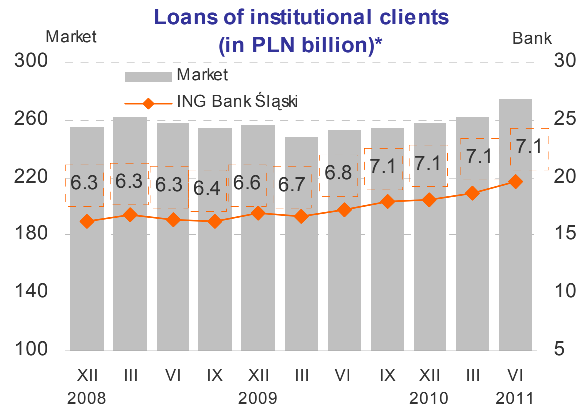
- A dynamic growth of credit receivables from retail clients. In June 2011, the value of loans for this segment totalled PLN 13,722.4 million, up by PLN 1,207.4 million (or 9.6%) from the end of 2010. The result was made thanks to the extended PLN-mortgage growth totalling PLN 8,154.2 million, up by 17.8% over the H1 2011.
- Credit exposure growth rate for corporate clients above the banking sector average. Credit receivables of the Group thereunder totalled PLN 21,220.9 million, up by 7.0% from the end of 2010. However, lending for mid-corporate and mid-sized clients was extended significantly (up by 9.6%).

Value of loans for clients of the Capital Group of ING Bank Śląski S.A.[8]

	30.06.2011 *PLN million*	31.12.2010 *PLN million*	30.06.2010 *PLN million*	30.06.2011/ 31.12.2010	30.06.2011/ 30.06.2010
Total loans, including:	**34,943.3**	**32,348.1**	**29,102.5**	**108.0%**	**120.1%**
Retail clients	13,722.4	12,515.0	11,034.9	109.6%	124.4%
Corporate clients	21,220.9	19,833.1	18,067.8	107.0%	117.5%

[7] In H1 2011, the Bank finalised corporate clients re-segmentation. As part thereof, 11,500 small entities were moved from the Retail to the Corporate segment. The process entailed changing the *Small Business* retail segment name into *Entrepreneurs.*
[8] Based on the management information data.





**Numbers indicate ING Bank Śląski S.A. market share.*

3. *Sustained high liquidity level owing to strong deposit base*

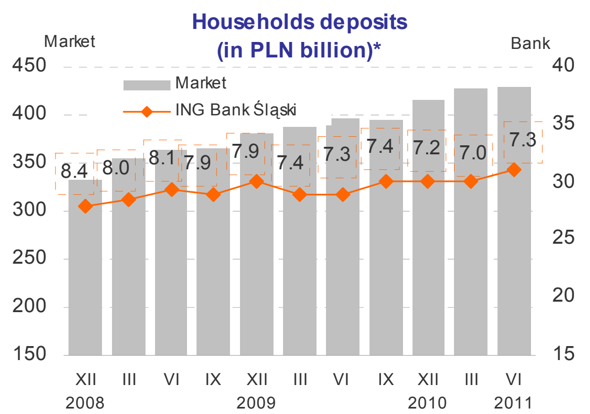
One of the biggest in the Polish banking sector stable deposit base enables high liquidity of the balance sheet and makes possible further lending growth. The Bank in its price policy as regard deposits strives to reach the balance between ensuring stable sources of its long-term activity funding and reasonable margin.

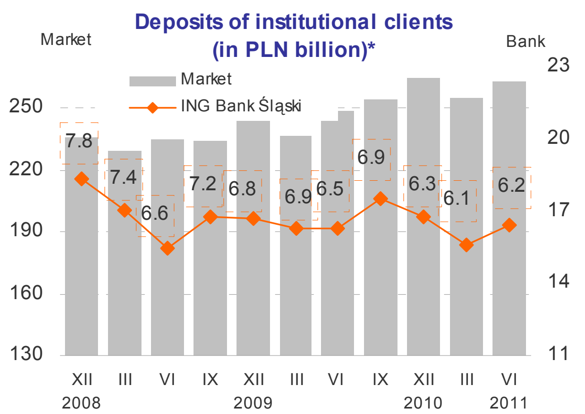
As at the end of June 2010, value of funds in the accounts of the Capital Group of ING Bank Śląski S.A. totalled PLN 49,118.8 million, compared to PLN 48,455.0 million as at the end of 2010 (or up by 1.4%). The Capital Group of ING Bank Śląski S.A. had a 6.9%-share in all funds deposited in the banking sector.

In H1 2011, the value of deposits on corporate client accounts went up significantly, totalling PLN 16,367.7 million in June 2011, compared to PLN 15,441.1 million in December 2010 (up by 6.0%). The value of retail deposits totalled PLN 32,751.1 million compared with PLN 33,013.9 million at the end of 2010 (down by 0.8%).

Value of deposits of clients of the Capital Group of ING Bank Śląski S.A.[9]

	30.06.2011 *PLN million*	31.12.2010 *PLN million*	30.06.2010 *PLN million*	30.06.2011/ 31.12.2010	30.06.2011/ 30.06.2010
Total deposits, including:	**49,118.8**	**48,455.0**	**46,679.0**	**101.4%**	**105.2%**
Retail clients	32,751.1	33,013.9	31,974.9	99.2%	102.4%
Corporate clients	16,367.7	15,441.1	14,704.1	106.0%	111.3%





** Numbers indicate ING Bank Śląski S.A. market share.*

[9] Based on the management information data.

4. Higher effectiveness of operations

In H1 2011, the net profit of ING Bank Śląski S.A. Capital Group attributable to owners of the parent company totalled PLN 446.4 million, up by 20.9% from the same period last year.

The main factors shaping the financial result of the Capital Group of the Bank in H1 2011[10] were as follows:

- Higher result on core activity, which totalled PLN 1,483.0 million, up by 10.9% from H1 2011. It was generated due to:
  - Interest income increase (by 12.4%) due to the extended lending growth rate and a higher interest margin (at the level of 2.83% compared with 2.58% in H1 2010).
  - Higher commission income (up by 7.2%) earned under the conditions of incremental commissions for loans, distribution of investment funds units, payment cards as well as rising foreign currency exchange margin, all of which were accompanied by lower account maintenance income.
  - Higher (up by 19.9% from the same period last year) other income. Last year, the following were higher in particular: investment income, hedge accounting income and share in net profit of associated companies.
- Cost discipline maintenance. While the key areas of activity (including mortgages) developed and the inflation rate was higher, the costs totalled PLN 831.1 million, up by 4.7% from the same period last year. The Group observed higher personnel costs, while the general and administrative costs dropped.
- Higher credit risk costs. In H1 2010, the balance of impairment charges totalled PLN 94.8 million, compared to PLN 87.4 million from the same period last year. However, in H1 2010, risk costs included PLN 8.1 million of impairment charges due to matured options transactions.

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

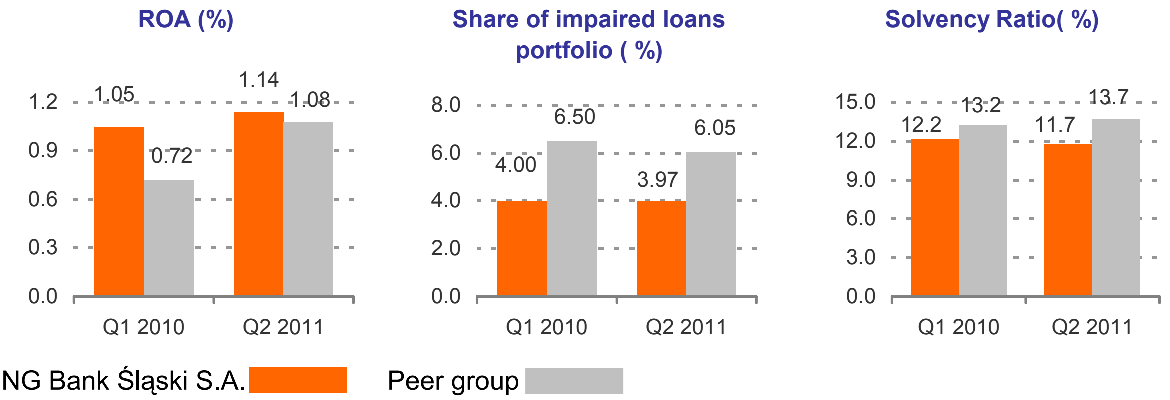
	H1 2011 PLN million	H1 2010 PLN million	Change H1 2011/ H1 2010
Operating income*	1,483.0	1,336.8	10.9%
Total costs**	-831.1	-793.7	4.7%
Result before risk costs	651.9	543.1	20.0%
Risk costs	-94.8	-87.4	8.5%
Profit (loss) gross	557.1	455.7	22.3%
Profit (loss) net	446.4	369.1	20.9%
Profit (loss) per 1 ordinary share (PLN)	34.31	28.37	20.9%
Profitability ratio (%)	32.2	28.0	+4.2 p.p.
ROA (%)	1.3	1.1	+0.2 p.p.
ROE (%)	14.7	14.3	+0.4 p.p.
Income/ Cost Ratio (%)	56.0	59.4	-3.4 p.p.
Solvency Ratio (%)	12.61	12.56	+0.05 p.p.

** Including the share in net profit of associated entities reported according to the equity method.*
*** Including the result on other operating activity.*

[10] The data discussed herein apply to analytical income statement. The result on core operations also includes the share in net profits of associated entities recognised on an equity basis. The item Total costs includes the result on other operating activity.

The profit growth in H1 2011 translated into effectiveness ratios that were higher than a year earlier, including ROA and ROE. For example, in H1 2011, there was PLN 14.7 net profit on every PLN 100 of invested capital, up by PLN 0.4 from the same period last year. The cost effectiveness of the Group significantly improved as well. In H1 2011, the cost to income ratio (C/I) totalled 56.0%, down by 3.4 p.p. from the same period last year.

Financial results of ING Bank Śląski S.A. compared with the peer group[11]



5. Awards and distinctions

Like in previous years, in 2011 ING Bank Śląski S.A. won numerous awards and distinctions.

The awards and distinctions honouring the Bank for its product offer and client's service quality, such as those listed hereinbelow, are of especial value:

- two *Zloty Bankier* awards for the Best Mortgage Loan and Best Mobile Banking in the *Zloty Bankier 2010* contest for best banking products and services in 2010.
- Crystal Trusted Brand Statuette for ING Bank Śląski in the "Bank" category in the European Trusted Brands survey held by Reader's Digest.
- 1st place in the Crystal Symmetry ranking – the first edition of a ranking verifying the usability of banks' web sites.
- *Lider Wsparcia 2010*, the main award in the *Enterprise of the Year* contest for the implementation of the automatic rights management model granted at the 7th IT Support Forum 2011.

The high quality of intangible assets of ING Bank Śląski S.A. involved in building the Company's goodwill (such as: transparency of informational policy, adherence to standards, employees' knowledge and commitment) was proven by the following distinctions:

- Membership in the index of the socially responsible companies – RESPECT Index – for the third time in a row.
- 1st place in the Responsible Companies Ranking 2011 in the Banking, Financial and Insurance Sector category organised by *Dziennik Gazeta Prawna* daily, under the auspices of *Forum Odpowiedzialnego Biznesu.*
- International brand *Top Employers* for ING Bank Śląski granted by the Corporate Research Foundation.
- 1st place for the accuracy of investment forecasts for the Economists Team – composed by Mateusz Szczurek, Rafał Benecki and Grzegorz Ogonek – in the contest for the Best Macroecomonic Analyst organised by the National Bank of Poland and *Rzeczpospolita* daily.

[11] Based on the Financial Supervision Authority report for the Bank, solo version. In 2011, ING Bank Śląski was in the 15-member group of universal banks. Status after the end of Q1 2011.

- Distinction in the ING Group contest ”Compliance Awards 2010” in the Most Improved Compliance Risk Management Team category.

The 2010 financial results of ING Bank Śląski S.A. were also highly rated. ING Bank Śląski S.A. was at the third place in the ranking *the Best Financial Institutions in Poland* in the *Banks* category held by *”Rzeczpospolita” daily*. The jury, among other criteria, took the following into account: Loans-to-Deposits – based liquidity ratio, accounts increase, solvency ratio and the share of non-performing loans in the lending portfolio.[12]

Moreover, Ms. Milena Olszewska-Miszuris in the capacity of Analyst at ING Securities S.A. which is ING Bank Śląski S.A. Capital Group member, was on the first place in the stock exchange analysts ranking in IT and Retail sectors held by *Parkiet* daily.

[12] Results published in ”Rzeczpospolita” daily no. 144 of 22-23 June 2011

III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN H1 2011

1. Retail Banking

Changes to Product Offer and Client Service Rules

The actions taken by ING Bank Śląski S.A. in an effort to improve the offer and client service rules fitted into the overall business strategy of the institution, which is: to have a clear and fair offer, to simplify and automate processes, and to increase the importance of Internet banking in the client service processes. In view of the current uncertain market, the strategy adopted appeared correct which made clients come back to the traditional values such as investment security, trust and brand recognition.

In H1 2010 - besides increasing several times the selected deposit products interest rate in response to the market changes – the Bank modified its saving products offer as follows:

- Offered new types of deposits such as: 6M eLokata with daily capitalisation of interests (for ING BankOnLine electronic banking users) and 6M Ekstra Premia and 3M Ekstra Premia Plus (for holders of Open Savings Accounts – OKO).
- Extended its offer by the new savings product – Systematically Savings Account (Systematycznie Oszczędzające Konto). The holders of this account, apart from the base interest rate, additionally receive bonus interest for regular payments into the account.
- Carried out 6 subscriptions for the *Investment Insurance Plan* product *(Inwestycyjny Plan Ubezpieczeniowy),* 4 subscriptions were offered as *Profit Guarantee (Gwarancja Zysku*); i.e. with a guarantee to earn income at a predefined level along with extra profit conditional on the accuracy of investment strategy.
- Added a new investment funds from Idea TFI S.A. offer to the product portfolio for Private Banking clients.
- Conducted two campaigns promoting the Open Savings Account (OKO):
  - *Start Bonus (Bonus na start)* addressed to new holders of OKO or OKO Direct (the offer is valid from 28 May until cancelled),
  - *Extra Payment Bonus (Bonus za dopłaty)* for the existing holders of OKO or OKO Direct (the offer was valid from 28 May 2010 till the end of July 2011).

In H1 2011, the Bank completed the works on the new savings account – Premium Open Savings Account in EUR (available from 01 July 2011).

Moreover, the Bank significantly extended both investment possibilities and access to services for Private Banking clients. i.e.:

- Introduced investment advisory service consisting in developing and providing clients with a written Investment Recommendation regarding investment funds. Recommendations are developed based on the *Client Investment Profile Survey*.
- Obtained the consent of the Polish Financial Supervision Authority to conduct brokerage activity comprising the following:
  - managing the portfolio composed of at least one financial instrument,
  - foreign currency exchange, if related to the brokerage activity set forth in Article 69 of the Financial Instruments Trading Act.

  Under the consent of the Polish Financial Supervision Authority, the Bank may offer its affluent clients the Investment Portfolio Management Service, which will ensure for them access to the global investment knowledge fitted by the local experts to the clients' individual needs.
- Launched the Private Banking Investment Centre in Wrocław which is the third unit of this type (other two being located in Warsaw and Katowice).

Moreover, on 30 May 2011 the Bank obtained the consent of the Polish Financial Supervision Authority to be entered in the Register of Investment Companies Agents. This consent paved the way for the Bank to enter into intermediation agreement on performing certain brokerage activities in favour of the investment company ING Securities S.A.

In the area of credit products, the Bank modified its offer as follows:

- Ensured high competitiveness of mortgage products. Both credit margins and commissions for granting facilities were reduced respectively by approximately 0.2 p.p. and 0.10 p.p. Moreover, the offer was extended by the multiannual insurance of the real estate being mortgage collateral.
- Offered its clients *MEGAPożyczka*, i.e. a cash loan of up to PLN 100 thousand dedicated to regular individual clients earning at least PLN 2 thousand monthly and holding or co-holding residential real estate at the same time.
- Introduced *ING Flexible Loan for Entrepreneurs (*Elastyczna Pożyczka dla Przedsiębiorców) whereunder clients were offered two price options: with no commission but higher margin or with commission but lower margin.
- Individual clients were proposed to consolidate credit exposure in other banks by means of a cash loan.

In H1 2011, ING Bank Śląski S.A. extended the options of funding for small enterprises. In cooperation with ING Lease Polska, the Bank introduced leasing for entrepreneurs. The new offer provides for funding new and used assets in the form of operational and financial leasing.

A new Pricing Policy for the Entrepreneurs Segment (coming into effect as at 4 July 2011) was developed. The Policy introduces two margin rates: a lower one (for collateralised facilities) and a higher one (for uncollateralised facilities), competitive margins for credit facilities and loans for housing cooperatives and variable margins depending on the loan amount (applicable to collateralised facilities), for example.

Deposit activity

As at 30 June 2010, the total value of funds[13] entrusted with ING Bank Ślaski S.A. by retail clients amounted to PLN 38,738.6 milion compared with PLN 38,877.9 million in December 2010.

Banking deposits formed the main part of the entrusted funds. Owing to good liquidity, ING Bank Śląski S.A. pursued a balanced policy as to the interest rates offered for retail deposits. The policy took into account the objectives related to both ensuring stable sources of business funding and guaranteeing reasonable interest margins. As at the end of June 2011, retail deposits totalled 32,751.1 million, slightly down from the end of December 2010 (by 0.8%). The result translated into a 7.3%-share of the Bank on the household deposit market (7.2 per cent – as at the end of 2010).

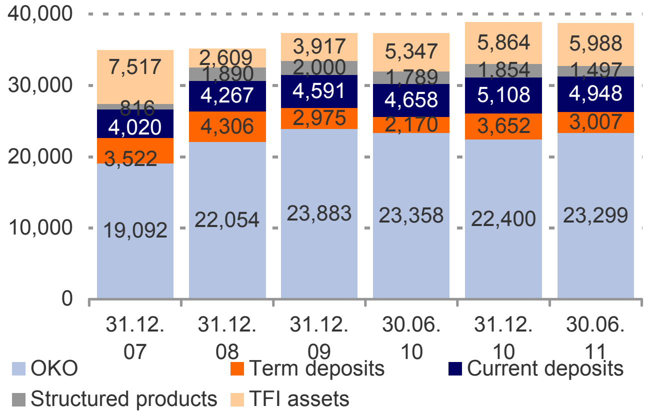
Retail clients invest their surplus funds with ING Bank Śląski S.A. mainly in the Open Savings Accounts (OKO). As at the end of June 2011, the value of funds deposited in OKO accounts totalled PLN 23,298.6 million, up by 4.0% from December 2010. Part of funds deposited in Open Savings Accounts in the H1 2011 originated from term deposits. As at the end of 2011, the value of term deposits was PLN 3,000.7 million compared to PLN 3,651.6 million in December 2010 (down by 17.6%). The value of funds invested in structured products also went down and was PLN 1,497.5 million as at the end of June 2011 (PLN 1,854.1 million in December 2010).

The scope of payment services for retail clients increased at the Bank. As at the end of June 2011, ING Bank Śląski S.A. maintained PLN 1,771,200 personal accounts, a net gain of 74,100 over the first half of the year 2011. This was accompanied by the change of individual clients' personal accounts structure. As a result of *Direct Account* sales mainly as well as the conversion of certain part of traditional accounts into Internet accounts, the share of Direct Accounts in the overall number of personal accounts went up from 40.8% in December 2010 to 47.6% in June 2011.

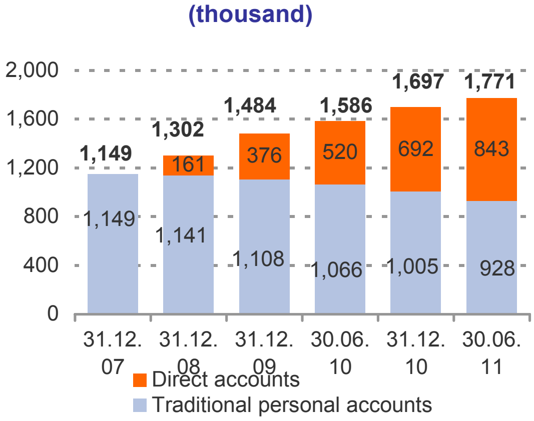
Entrepreneurs held 218,400 current accounts including 139,400 *Direct Accounts*. As at the end of 2010, the corresponding figures were, respectively: 217,000 current accounts and 117,200 *Direct Accounts*.

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

Value of retail clients' funds (in PLN million)



Number of personal accounts (thousand)

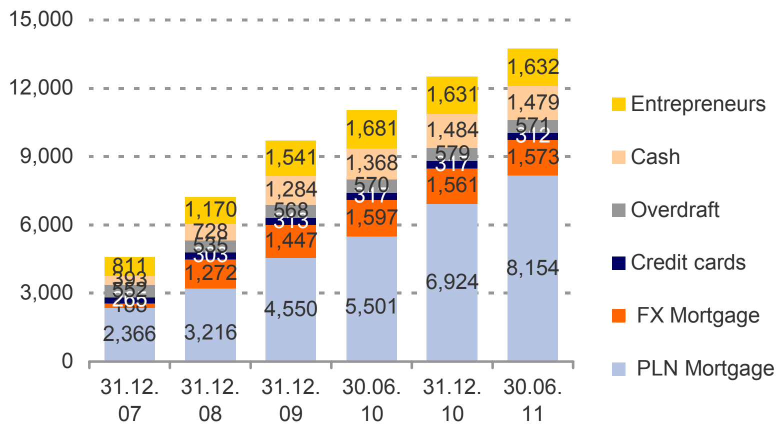


The capital market condition did not encourage investors to invest into mutual funds units. In June 2011, the value of net assets of investment funds acquired through intermediation of ING Bank Śląski S.A. amounted to PLN 5,987.5 million (PLN 5,864.0 million as at the end of 2010). The balance of sales and redemptions of mutual fund units was positive and totalled PLN 72.3 million.

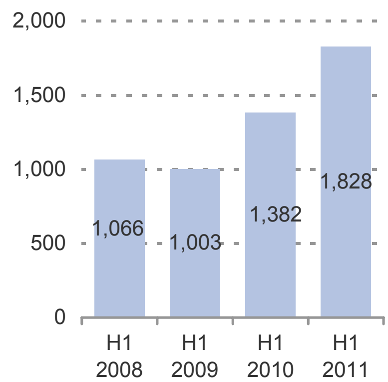
Lending

As at the end of June 2011, credit receivables from retail clients of ING Bank Śląski S.A. totalled PLN 13,722.4 million. Over the first half of 2011, the Bank's credit exposure towards retail clients went up by PLN 1,207.4 million or by 9.6%. The Bank increased its share in the market of credit receivables from households to 2.8% (2.7% December 2010).

Value of retail loans (in PLN million)



Sales of mortgage loans (in PLN million)



Mortgages formed the main part of the Bank's credit portfolio for retail clients. As at the end of June 2011, the value of the Bank's receivables due to retail mortgages totalled PLN 9,727.6 million compared to PLN 8,484.7 million as at the end of 2010 (up by 14.6%).

Offering only mortgages in PLN, over H1 2011, the Bank granted mortgage loans worth PLN 1,827.6 million (compared to PLN 1,381.8 million in the same period last year). According to the data of the Polish Banks Association, as at the end of the first half of 2011, ING Bank Śląski S.A. was number five on the market with a 6.9%-share in the sales of housing loans to private individuals and number four in terms of sales of PLN-mortgages with an 8.8%-share in total sales.

Other retail loan portfolios were similar to the end of 2010, namely:

- The Bank's receivables on cash loans totalled PLN 1,479.2 million (down by 0.3% from the end of 2010).

- The Bank's credit exposure towards entrepreneurs amounted to PLN 1,632.3 million, or down by 1.1% from the end of 2010, which was affected by migration of certain small enterprises to the Corporate Sales Network.

Bank cards

With a wide range of bank cards issued to both individual clients and small enterprises, ING Bank Śląski S.A. is one of the leading card issuers in Poland.

In H1 2011, ING Bank Śląski S.A. introduced two new proximity debit cards (VISA PayWave and Debit MasterCard), issued with the personal account and enabling small (up to PLN 50) payments. Paralelly, the Bank started to replace the personal account cards currently in use with the cards mentioned hereinabove and withdrew the Maestro PayPass one from its offer. In addition, in May 2011, clients were offered to use payment cards issued with PLN and EUR personal accounts on the Internet.

All cards offered by the Bank are equipped with a micro-chip, whereby the security of transactions performed by means of them was increased considerably.

By the end of June 2011, ING Bank Śląski S.A. issued 2,350,100 payment cards (up by 6.3% compared to the end of 2010), which comprised 229,300 credit and charge cards. By the end of June 2011, the Bank issued 420,900 contactless cards (including "Zbliżaki") which were extremely popular among its clients.

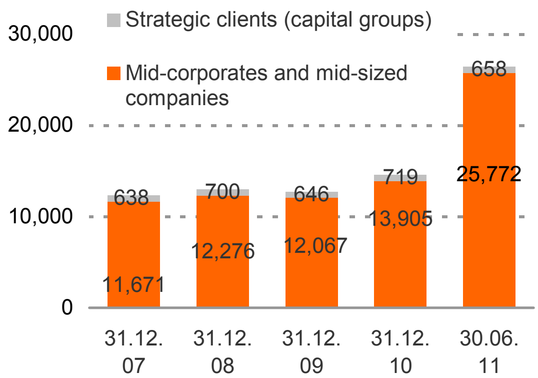
2. Corporate banking

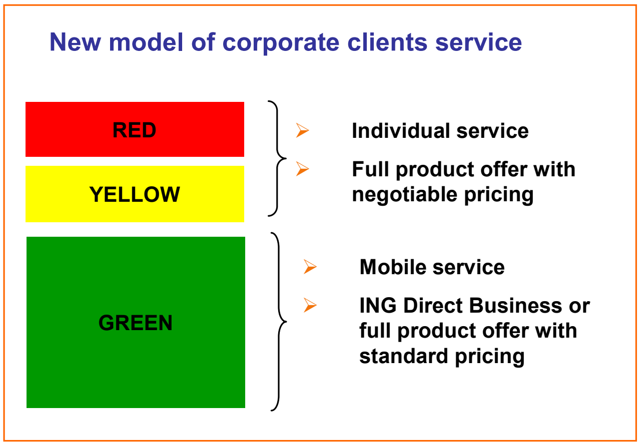
Client service and resegmentation modifications

Since the beginning of 2011, the new criteria of segmentation and service of mid-sized and mid-corporate clients came into effect at ING Bank Śląski S.A. The new regulations take account of various clients' financial needs, preferences as to distribution channels as well as the cooperation profitability for the Bank. The new model assumes servicing corporate clients within the three portfolios (green, yellow, red). In keeping with the new rule, the stronger relationship with the client, the more customised servicing and the more sophisticated product offer. Introduction of the new segmentation criteria resulted in moving some small companies (approximately 12,500 entities) from the Retail Sales Network to the Corporate Sales Network. Already during 2010, 1,500 of small companies accepted the Bank's proposal to shift from the Retail Division to Corporate Sales Network.

In June 2011, more than 26,400 entities were corporate clients of ING Bank Śląski S.A. Regardless of the impact of Retail – to – Corporate migration, in H1 2011 the Bank's corporate clients base rose by 800 entities.

Number of institutional clients





Business Offer and Modifications Introduced

Offer quality is one of the main factors determining the choice of bank by corporate clients. Thus, in H1 2011, ING Bank Śląski S.A. continued efforts to make the product offer more attractive by introducing material changes both in terms of deposit and clearing products as well as lending solutions.

In H1 2011, changes to the Bank's deposit and clearing activity for corporate clients comprised:

- Offering WebService as part of ING BusinessOnLine. The new functionality enables clients to make the connection between the their internal (Financial-Booking/ HR) systems and the Internet banking system.
- Introducing new options into the ING Direct Business offer which is targeted at mid-sized companies in major part. New clients may open subsequent accounts, such as: current PLN and FX account, EUR Open Savings Account (OKO), salary account and special purpose account.
- Launching a new payment card – VISA Corporate Charge for corporate clients. The companies may fit the card's parameters to their specific needs (such as maximum grace period, form of utilised limit repayment) thanks to the possibility to determine the product's crucial attributes.

The works to improve credit services at ING Bank Śląski S.A. focused on:

- Implementing ING Direct Business Credit, which is the new Internet credit platform for corporate clients. The Bank was first on the Polish market to enable corporate clients to choose credit product, calculate credit capacity and file a credit application via Internet on their own. As part of the campaign promoting the new application, which lasted until the end of June 2011, the Bank waived the fee for processing the credit application filed via ING Direct Business Credit and lowered the front-up fee.
- Offering new products as part of the Fast Track such as: PLN corporate loan, PLN or FX simple investment loan.
- Enhancing the offer of working capital loans granted using the Normal Track. The various types of the working capital loan offered so far were replaced with the Standard Working Capital Loan, whose various options are available.
- Adjusting the Minimum Margin Policy to the increasing competitiveness on the market.

Among the Bank's activities was promoting more intensive Fast Track usage in granting credit facilities to corporate clients. The Fast Track share in the lending process went up from 15% in December 2010 to 40% in June 2011.

ING Bank Śląski S.A. also co-operated with a number of institutions to develop a special credit offer for Polish companies, notably:

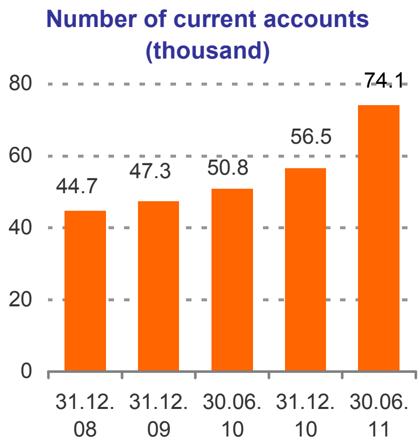
- The Agency for Restructuring and Modernisation of Agriculture (ARiMR), as regards servicing preferential loans for agricultural industry. In Q1 2011, the Bank's offer was extended with a new product for agricultural clients, namely the loan for making investment projects in farms with partial principal repayment by ARiMR – CSK. In Q2 2011, the Agency transferred the first part of funds designated for partial loan repayment for clients using the new product.
- Bank Gospodarstwa Krajowego (BGK). In June, the Bank concluded a modified agreement with BGK on loan repayment sureties and guarantees. In keeping with the new agreement, the cost of BGK security for a standard risk transaction may be lowered and the scope of the Bank's reporting may be reduced. Moreover, the Bank developed modified regulations permitting more extensive usage of electronic documents related to loans with the termal efficiency improvement - and renovation-bonus, which are highly popular among clients. They came into force as of the day of concluding the new co-operation agreement with BGK, i.e. in July 2011.

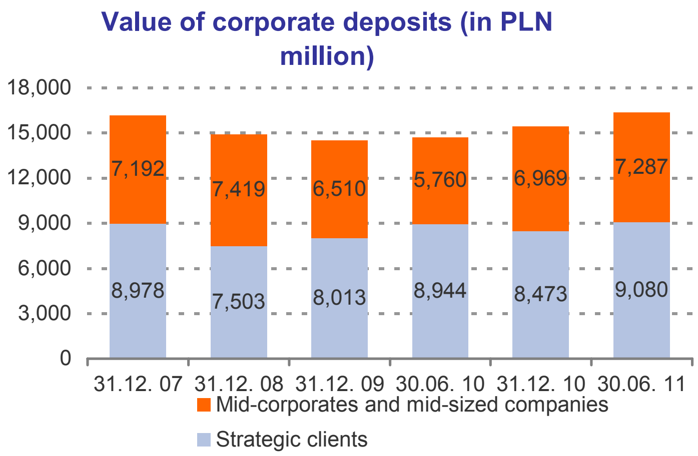
In the H1 2011, the Bank was active in providing advice to companies on the choice of aid programmes and financial engineering of the projects, and intensively promoted EU programmes during individual meetings with entrepreneurs or during the round of meetings called *Breakfast with the EU.*

Deposit and Clearing Activity

As at 30 June 2010, the value of corporate clients' deposits totalled PLN 16,367.7 million or up by 6.0% from December 2010. In June 2011, ING Bank Śląski S.A. held a 6.2%-share in the market of institutional clients' deposits.

The value of both strategic clients and corporate clients deposits' went up (respectively by 7.2% and by 4.6% in H1 2011).





In June 2011, the Bank maintained 74,100 corporate PLN and FX current accounts, up by 30.8% from December 2010. The increase was primarily the result of much attractiveness of the Bank's deposit and clearing offer, but finalising migration of some small businesses from the Retail into the Corporate in Q1 2011 made its contribution thereto, as well. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the electronic banking system ING BankOnLine to contact the Bank. In June 2011, the functionality was used by 26,200 companies (15,500 in December 2010).

The solutions offered to the local government units convinced other municipalities to become the Bank's clients and cemented the position of ING Bank Śląski S.A. in that segment. In H1 2011, the Bank concluded an agreement on comprehensive banking service of the municipalities of Nowy Sącz, Kielce and Zabrze. In June 2011, the Bank provided comprehensive banking services to 52 local government units. Servicing the budgets of 12 out of the 50 largest cities in Poland (with population above 50 thousand), the Bank retained the leader-position on the market of banking service for largest municipalities in Poland.

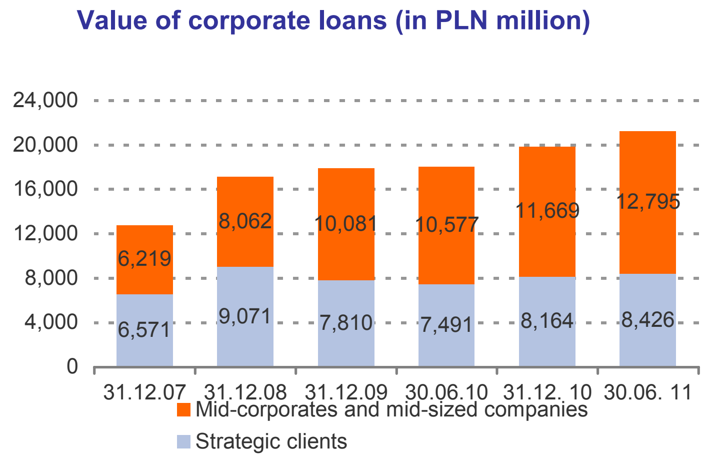
Lending

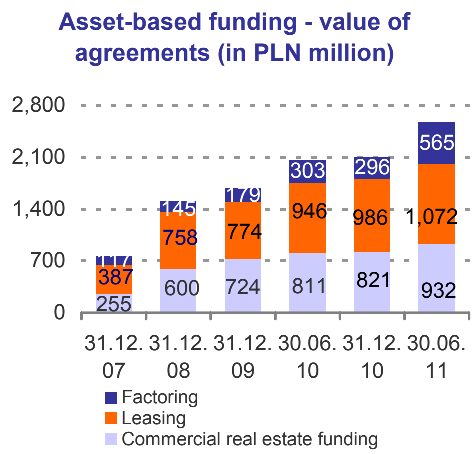
As at the end of June 2011, credit receivables of ING Bank Śląski S.A. from corporate clients totalled PLN 21,220.9 compared to PLN 19,833.1 million in December 2010 (up by 7.0%). It is estimated that in June 2011 the Bank's share in the market of loans to institutional clients totalled 7.1%.

Over the first half of 2010, the Bank increased its credit exposure towards mid-sized and mid-corporate companies (up by 9.6%). As part of the strategy to build a strong position in providing banking services to the local government units and customised approach to business funding, the Bank managed to win further credit clients. In the H1 2011, facing increasing competition, the Bank won 52 tender procedures (out of 106) for funding local government units for the total amount of PLN 260.4 million. This result enabled the Bank to keep its 7.8% share in funding local government units in June 2011.

The Bank's lending dynamics to strategic clients was lower (at the level of 3.2%) mainly due to lower activity on the market of large credit transactions and transaction underwriting as a result of the decision taken by the largest companies to suspend investment projects considerably.

Far-reaching efforts to promote knowledge of EU aid programmes resulted in an increase of the Bank's credit exposure due to the service of those programmes. As at the end of June 2011, the total value of EU loans and promises of credit for EU loans amounted to PLN 3,537.9 million (PLN 3,401.0 million as at the end of 2010).





In H1 2011, ING Bank Śląski S.A. considerably tightened the co-operation with other ING Group members in terms of asset-based lending, i.e. sales of leasing services, factoring services and commercial estate finance. In June 2011, the total value of ABL-agreements concluded in co-operation with other ING Group members amounted to PLN 2,569.2 million, up by 22.1% from December 2010. The highest increase was observed in terms of agreements on factoring services – from PLN 296 million in December 2010 to PLN 565 million in June 2011 (up by 90.9%).

3. Money Markets and Capital Markets

In H1 2011, ING Bank Śląski S.A. recorded satisfactory results on financial markets both in terms of transactions for the clients' account and in terms of proprietary transactions.

The Bank's activities related to Financial Market products offered to corporate and strategic clients were focused in the first place on further extension of electronic distribution channels functionalities, implementation of the subsequent mono-product agreement, regular optimisation of processes and retaining the client-cooperation-based profitability to-date.

As part of the efforts to extend electronic distribution channels functionality, in May 2011 the Bank via ING BusinessOnLine provided its clients with current access to the information regarding MiFID classification already granted by the Bank and all related documents as well as to the up-to-date economic news and comments on the present economic standing of Poland and in the world. At the same time, works were carried out to implement in the system other functionalities like passing transaction confirmation via that application.

In H1 2011, the Bank finalised its works aiming at implementation of a mono-product agreement dedicated to Repo transactions concluded with the strategic and corporate clients. The agreement was implemented in the first half of July 2011. By means of that, the Bank completed the process of shaping the new standard of FM documentation which started with the implementation of multi-product agreements dedicated to financial instruments in Q4 2009.

As regards Financial Market products offer extension, the Bank commenced works to implement other currencies to be used in clearing and hedging transactions.

In the H1 2011 the Bank retained its strong market position in the issue arrangement and service as well as sales of non-government debt securities. The Bank acted as the Arranger of the following issue programmes, notably:

- On 09 March 2011, the Bank concluded agreements on the Bond Issue Programme for the company Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. amounting to PLN 1.7

billion. The Bank acts as the Arranger, Underwriter, Paying Sub-Agent and Sub-Depository in the programme. It was the largest bond issue programme on the market in H1 2011.

- On 08 June 2011, the Bank concluded an agreement on arrangement and service of Bond Issue Programme amounting to PLN 29,330,000 for the Community of Legionowo. ING Bank Śląski S.A. acts as Arranger, Underwriter, Paying Agent, Depository and Dealer.

As at 30 June 2011, ING Bank Śląski S.A. serviced trading securities of 65 issuers with the total face value exceeding PLN 6 billion, including:

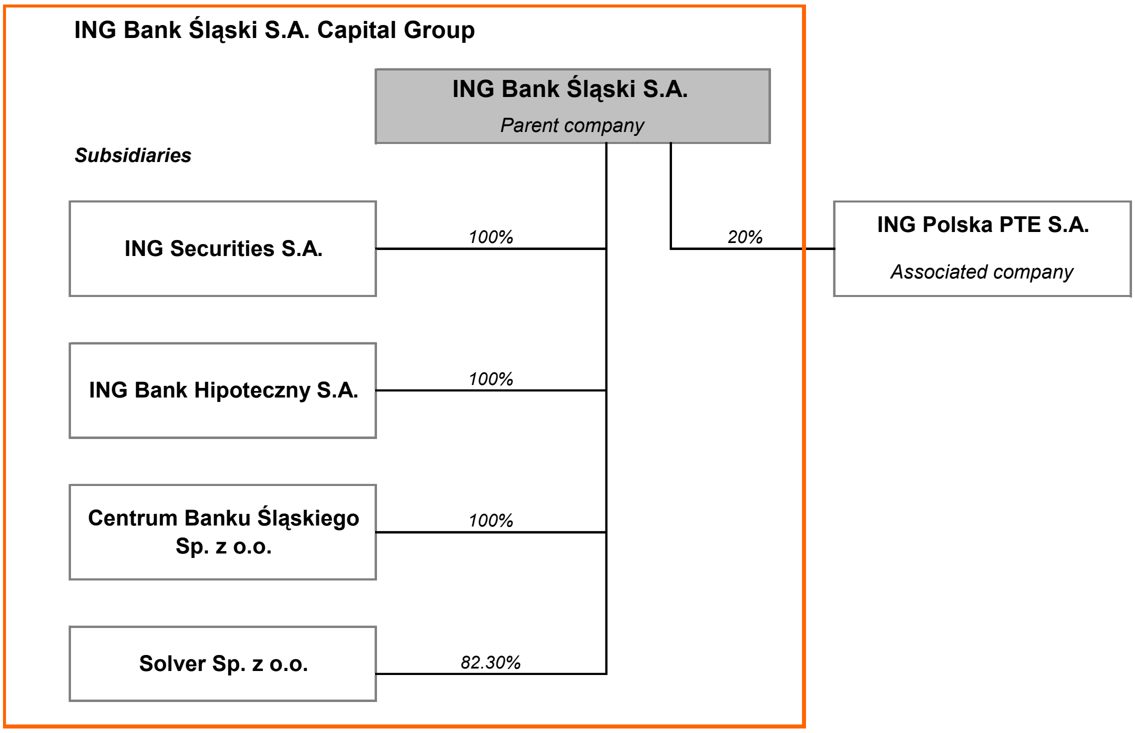
- PLN 3,443 million due to short-term securities issue – which translated into the first position of ING Bank Śląski S.A. in the Fitch Rating&Rynek ranking, with the share of 21.9%,
- PLN 1,558 million corporate bond issue with redemption period above 1 year (the 8.2%- share gave the Bank the fifth position on that market),
- PLN 558 million due to local government units bond issue and
- PLN 470 million due to bank's debt securities issue.

From the beginning of November 2010 until the end of April 2011, ING Bank Śląski S.A was ranked on the fifth position by NBP in terms of the Dealer Activity Index from among the nineteen banks applying for the function of the Money Market Dealer in 2012. The Bank also had the status of Securities Dealer for 2011. As part of the Ministry of Finance's contest for the Money Market Dealer 2012, from the beginning of October 2010 until the end of March 2011, the Bank was classified on the third position among 20 participants.

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

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

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



In H1 2011, no changes occurred in the ING Bank Śląski S.A. Capital Group.

2. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In H1 2011, its shares in the Warsaw Stock Exchange transactions were as follows:

- equity market – 10.0% (second position),
- forwards and futures market – 4.4% (fifth position).

As at the end of June 2011, ING Securities S.A. maintained 59,800 investment accounts. Those included 38,600 internet accounts. Throughout H1 2011, the number of brokerage accounts went up by 1,900.

ING Securities S.A. handles investors' operations, both on the Warsaw Stock Exchange and on the world's largest financial markets. The offer of the Brokerage House covers all capital market products available for individual investors in Poland, and notably: brokerage in stock exchange transactions, OTC and in foreign markets, investment loans, securities lending, analytical services, investment recommendations, asset management, and sales of participation units of investment funds.

In order to retain the top quality of client service, in H1 2011, the Brokerage House modified its product offer, transaction systems and distribution channels. Notably, the Brokerage House:

- extended the option of placing special orders for all the instruments listed on the Warsaw Stock Exchange;
- expanded the internet service with new functionalities like: new Reuters system, free access to the news service of the Polish Press Agency for clients and broadened the e-learning section for the clients by adding stock market topics thereto; and
- commenced cooperation with another Agent of the Investment Company in Warsaw. In June 2011, the Brokerage House cooperated with 19 Agents at 16 Agency Outlets.

In June 2011, ING Securities S.A. resolved to close seven out of nine brokerage offices. The decision was the consequence of stabilisation of clients' preferences for using brokerage services via electronic distribution channels (according to the estimates of the Brokerage House, approximately 90% of all clients' orders are placed remotely). Since 1 August 2011, the broker's account of ING Securities S.A. could be opened at ING Bank Śląski S.A. branches as well. Additionally, the Bank acts as the agent of ING Securities. In 42 Bank's branches investors may perform standard operations (opening accounts and concluding agreements) as well as non-standard ones, like handling calls, verifying certificates, changing the bank account and setting passwords for phone. Launch of investor service in a larger number of Bank branches is an ultimate objective in that connection.

In the area of capital acquisition, the Company provides a broad array of services, including the issue of shares on the public and private market, keeping the deposits of non-public companies, playing the role of the Issue Sponsor and offering comprehensive financial and legal advisory services connected with capital acquisition.

Throughout H1 2011, ING Securities S.A. carried out the following projects and transactions:

- Played the role of adviser to the Polish Energy Group (PGE) – along with the TMT ING team in London – in the sale of 21.85% of Polkomtel S.A.'s stock. The company value was PLN 18.1 billion; PGE will receive PLN 3.3 billion for its block of shares.
- Participated in carrying out IPOs by accelerated bookbuilding (ABB) for the following companies:
  - PZU – offering value of PLN 3.2 billion,
  - Turon – offering value of USD 500 million, and
  - Kernel – offering value of USD 137 million.
- Participated in public offerings: Bank Gospodarki Żywnościowej (with share in the retail tranche of 5.67%) and Jastrzębska Spółka Węglowa (with share in the retail tranche of 6.05%).
- Acted as advisor to:
  - Slovenian bank Nova Kreditna Banka Maribor (NKBM) in accumulating capital via the secondary issue of shares (EUR 104 million) accompanied by the initial public offering of shares on the Warsaw Stock Exchange, and
  - Ukrainian company Industrial Milk Company in IPO and introducing its shares on the Warsaw Stock Exchange. The offering worth approximately USD 50 million was made by the company incorporated in Luxembourg.

Further, ING Securities S.A. was active in developing the Polish capital market, for example:

- Arranged the CEE IPO Summit held in Warsaw on 25-26 May 2011. Its objective was to establish a platform for cooperation between the companies from Central and Eastern Europe and the representatives of global capital funds.
- Initiated a new round of 20 web seminars for clients during which the topics related to the

transactional system as well as technical and fundamental analyses for products were discussed; and

- Together with ING Bank Śląski S.A. held a conference _2011 Polish Market Outlook_. It was attended by the Bank clients from Private and Personal Banking segments and the clients of ING Securities S.A.

In H1 2011, ING Securities S.A. earned net profit of PLN 15.7 million (PLN 11.5 million in the same period last year).

3. ING Bank Hipoteczny S.A.

ING Bank Hipoteczny S.A. (ING BH S.A.) acted as the Centre of Excellence for Funding Commercial Estates for the other ING Group members in Poland.

ING BH S.A. ran its operations in close cooperation with ING Bank Śląski S.A. The said cooperation was visible above all in establishing banking consortia together with the parent company, in which the former played the role of the agent bank.

In H1 2011, ING Bank Śląski S.A. initiated actions to consolidate with ING Bank Hipoteczny S.A. The consolidation of the said companies will take place by transfer of the entire property of the Acquired Company (ING Bank Hipoteczny S.A.) to the Acquiring Company (ING Bank Śląski S.A.). The Bank is waiting for the PFSA's approval to perform this operation.

The decision on consolidation was based on the following factors:

- ensuring optimum usage of resources as a result of generated synergy effect and improved efficiency of the commercial estate funding process by ING Bank Śląski S.A. Group,
- using the capital held in a more effective manner,
- providing for further growth of commercial estates funding within the Capital Group of ING Bank Śląski S.A.,
- limiting both the possible financial and non-financial risks in the business environment of ING Bank Hipoteczny S.A.

As at 30 June 2011, the balance sheet total of ING Bank Hipoteczny S.A. was PLN 630.6 million and included client receivables worth PLN 545.3 million.

In H1 2011, ING Bank Hipoteczny S.A. earned net profit of PLN 3.2 million (PLN 3.8 million in the same period last year).

4. Centrum Banku Śląskiego Sp. z o.o.

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

Besides management of the estates owned by the Company (office buildings in Katowice at ul. Chorzowska 50 and in Warsaw at ul. Powsińska 64A), the Company also played the role of the Administrator for the Head Office of ING Bank Śląski S.A. in Katowice at ul. Sokolska 34 and the Warsaw edifice at ul. Malczewskiego 45.

In H1 2011, Centrum Banku Śląskiego Sp. z o.o. earned net profit of PLN 7.1 million (PLN 1.5 million in H1 2010).

5. ING Powszechne Towarzystwo Emerytalne S.A

ING Otwarty Fundusz Emerytalny, the open-end pension fund managed by ING Powszechne Towarzystwo Emerytalne S.A., from the onset of its existence has been one of the leaders on the pension funds market in Poland. As at 30 June 2011, ING OFE was the leader on the pension funds market both in terms of the value of assets under management and the number of members; i.e.:

- Number of members. The Fund had 2,939,600 members, or 19.2% of all participants of open pension funds.
- Net assets. Their level reached PLN 56,662.4 million, or 23.9% of the total assets of open-end pension funds operating in Poland (24.1% as at the end of 2010).

ING Powszechne Towarzystwo Emerytalne S.A. provides professional and state-of-the-art service to the Fund's clients. The Fund's potential and existing clients may take advantage of services of not only ING PTE representatives, but also of the network of branches and franchise outlets of ING Usługi Finansowe S.A., outlets of ING Bank Śląski S.A. and a network of brokers cooperating with ING all over Poland. Clients may contact the Fund by phone (infoline, text messages and WAP) and the Internet.

In H1 2011, clients were provided with the option of account self-service via the e-serwisING portal. Clients were enabled to remotely check the actual balance and OFE member account history, fill in the data and address change application, provide beneficiaries and activate the service of electronic dispatch of information when their OFE account has been credited with a new premium.

Under the circumstances of the bear stock market, during H1 2011, the value of a settlement unit of ING OFE rose by 2.7%, which was the second top investment result among pension funds. In turn, in the ranking of Analizy Online portal published at the beginning of July 2011, ING OFE was on the first place in terms of the value of the hypothetical account maintained from the end of August 1999 to the end of June 2011.

In the H1 2011 Income Statement, ING Bank Śląski S.A. recognized its share in the profits of ING PTE S.A. totalling PLN 22.9 million (PLN 18.2 million in H1 2010).

6. Solver Sp. z o.o.

Solver Sp. z o.o. runs business activity on behalf of *ING Children Foundation.* The Company not only organises education and recreation- as well as rehabilitation stays for children covered by the Foundation's aid, but also arranges recreation for Bank employees and their families, and training programmes for the former.

Solver Sp. z o.o. is the owner of recreation centres in Krynica, Wisła and Głębinów as well as of the residential and hotel building in Katowice. Apart from that, it rents the training centre in Bielsko-Biała and the recreation centre in Sarbinowo. The Company also functions as administrator of accommodation in the Bank's guest rooms (in Wisła and Warsaw).

The Company – in consultation with its shareholders – took actions aimed at selling the residential and hotel building in Katowice and the centre in Głębinów.

In H1 2011, Solver Sp. z o.o. generated a net loss of PLN 165,000 (against the net profit of PLN 34,000 a year ago).

V. FINANCIAL STANDING OF ING BANK ŚLĄSKI CAPITAL GROUP IN H1 2011

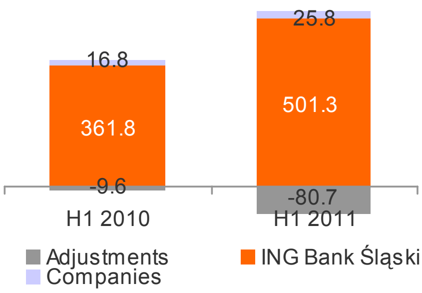
1. Gross and net profit

In H1 2011, the gross financial profit of the Capital Group of ING Bank Śląski S.A. was PLN 557.1 million compared to PLN 455.7 million in H1 2010. The net profit attributable to owners of the parent company totalled PLN 446.4 million compared to PLN 369.1 million in the same period last year (up by 20.9%).

The main factors influencing the financial results of the Capital Group of ING Bank Śląski S.A. in H1 2011 were the following[14]:

- An increase of income on operating activity. Due to a considerable increase in both the interest- and commission results, they totalled PLN 1,483.0 million, up by 10.9% as compared to H1 2010.
- A slow increase of operating costs, which totalled PLN 831.1 million, up by 4.7% from the same period last year.
- Slightly higher risk costs. In H1 2011, the balance of impairment provisions totalled minus PLN 94.8 million compared to minus PLN 87.4 million in H1 2010.

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



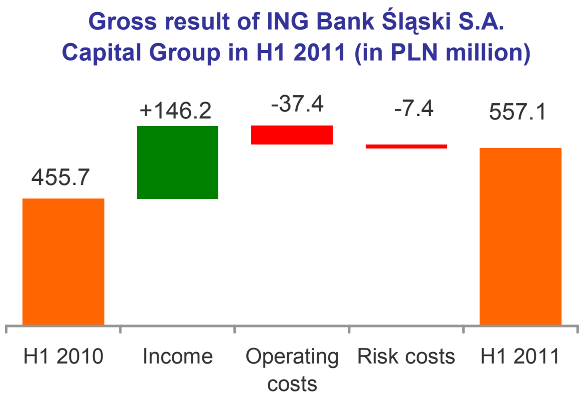
In H1 2011, the result before risk costs for the Capital Group of the Bank was PLN 651.9 million, up by 20.0% from the same period last year.

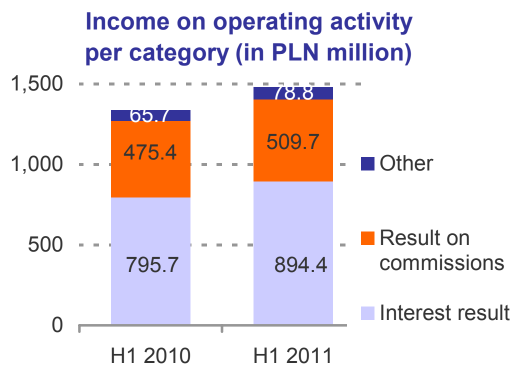
Basic Values of the Consolidated Income Statement – analytical

	H1 2011	H1 2010	Change H1 2011/ H1 2010	
	in PLN million	in PLN million	in PLN million	in %
Interest result	894.4	795.7	98.7	12.4
Result on commission	509.7	475.4	34.3	7.2
Other income*	78.8	65.7	13.1	19.9
Income on operating activity ***	**1,483.0**	**1,336.8**	**146.2**	**10.9**
Operating costs**	-831.1	-793.7	-37.4	4.7
Result before risk costs	**651.9**	**543,1**	**108.8**	**20.0**
Impairment losses and provisions	-94.8	-87.4	-7.4	8.5
Gross financial result	**557,1**	**455.7**	**101.4**	**22.3**
Income tax	-110.8	-86.7	-24.1	27.8
Net result of minority shareholders	0,0	0,0	X	X
Net financial result	**446.4**	**369.1**	**77.3**	**20.9**

* Income including the share in net profit of entities recognised on an equity basis.
**Including the result on other operating activity.

[14] The data discussed herein apply to analytical income statement. The category income on operating activity includes the result on core operations plus the share in net profits of entities recognised on an equity basis. The costs of operations include the result on other income and operating costs.

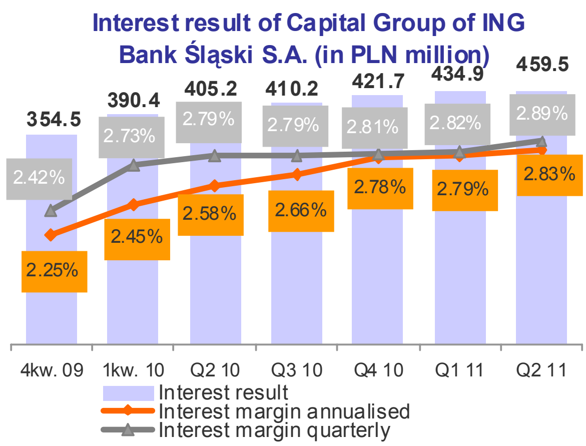


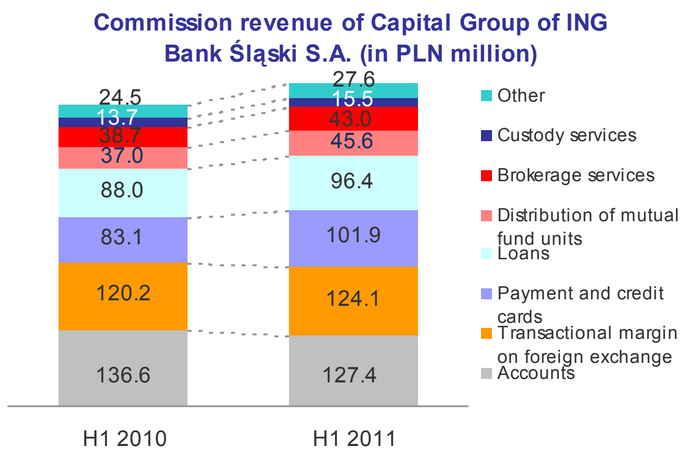


Total income of ING Bank Śląski S.A. Capital Group (including apart from net profit also other items of costs and revenue recognised in equity, including the positive measurement of assets available for sale) amounted to PLN 491.9 million as compared to PLN 393.8 million in the same period last year.

2. Interest result

In H1 2011, net interest income generated by ING Bank Śląski S.A. Capital Group amounted to PLN 894.4 million compared to PLN 795.7 million in the same period last year (up by 12.4%). The increase of that income resulted primarily from the increase of business volumes accompanied by favourable change in the balance sheet structure. The share of loans in assets went up from 46.6% in December 2010 to 48.6% as at the end of June 2011. Also the interest margin increased. In H1 2011, the Capital Group of the Bank had interest margin of 2.83% compared to 2.58% a year earlier.





3. Non-interest income

Net fee and commission income constituted the major part of non-interest income of ING Bank Śląski S.A. Capital Group. In H1 2011, it totalled PLN 509.7 million compared to PLN 475.4 million a year earlier (up by 7.2%).

The Group recorded an increase in the value of commissions related to the distribution of mutual fund units (up by 23.3%), card-related commissions (up by 22.6%), brokerage commissions (up by 11.2%), custody commissions (up by 13.3%), loan fees (up by 9.6%) and transactional margin on foreign exchange (up by 3.3%). The decrease (by 6.7%) in commissions due to account maintenance – being the main element of commission revenue – was primarily related to a larger significance of electronic distribution channels in the client service processes.

In H1 2011, other income of ING Bank Śląski S.A. Capital Group totalled PLN 78.8 million, up by 19.9% compared to H1 2010. The Group recorded a result better than a year earlier on investments, on securing transactions and on investments in subsidiaries.

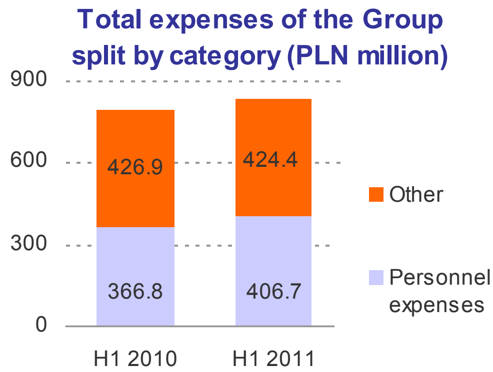
In H1 2011, the result on derivatives took account of the release of provisions of PLN 5.7 million due to counterparty risk related to FX options. On the other hand, the result on FX derivative transactions in H1 2010 included the negative adjustment of an unsettled transaction from past years concluded with a client from the financial sector (minus PLN 19.7 million).

4. Operating expenses

In H1 2011, the operating expenses of ING Bank Śląski S.A. Capital Group amounted to PLN 831.1 million compared to PLN 793.7 million in the same period in 2010 (up by 4.7%).

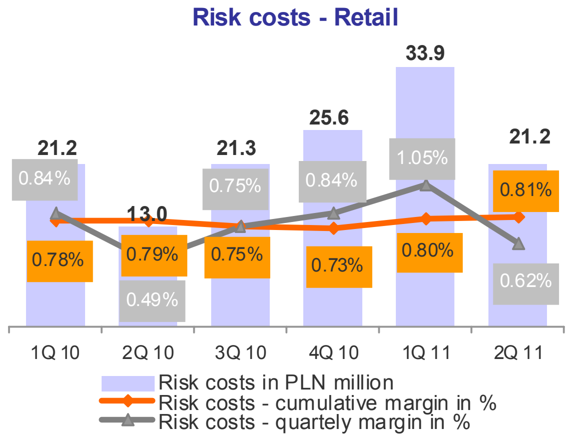
The increase of operating expenses resulted primarily from higher personnel costs, which totalled PLN 406.7 million and was 10.9% higher than in the same period last year. The staff costs increased as a result of growth in headcount and an increased level of base salaries and increase of bonus fund.

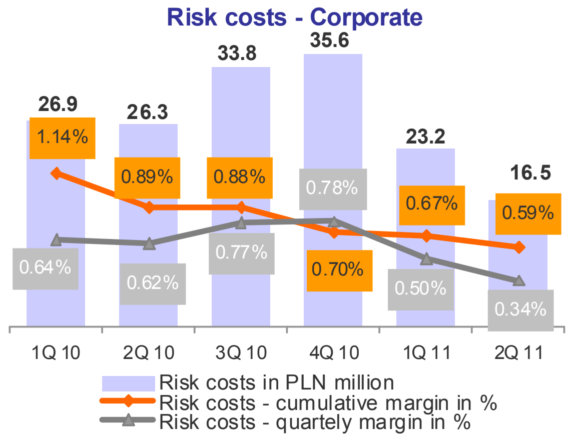
Other costs (amortization/depreciation, general administration costs and other costs) totalled PLN 424.4 million compared to PLN 426.9 million in H1 2010 (down by 0.6%). Within these costs, spending on maintenance and rental of buildings, costs of lease of computer resources raised above all, subsequently the following categories fell: expenditures for communication services, refurbishment services and consulting – related costs.



5. Impairment charges and provisions

In H1 2011, the risk costs recognised in the income statement of the Capital Group of ING Bank Śląski S.A. totalled PLN 94.8 million (compared to PLN 87.4 million in H1 2010).





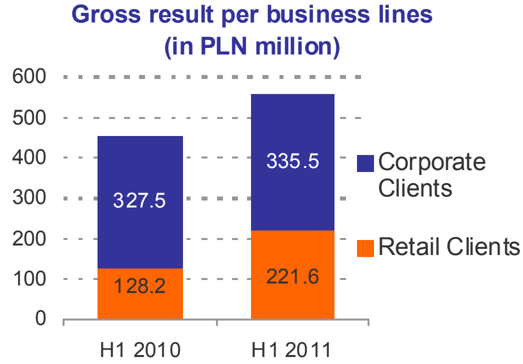
6. Share of individual business lines in creation of financial result

At the beginning of 2011, ING Bank Śląski S.A. reanalysed its business model and verified its approach to segment-based reporting.

The Bank's business model, mainly for the management reporting purposes, was divided in two major segments:

- Retail Clients Segment. It comprises individuals (segment of mass clients and affluent clients) and entrepreneurs (small companies).
- Corporate Banking Segment. It presents the results on the service of institutional clients and sale of financial market products.

From 2011 the result on proprietary operations – representing a separate segment to date – generated by Financial Markets and the Assets and Liabilities Management Committee – will be allocated to the Retail Clients Segment and Corporate Banking Segment based on the economic capital requirement structure.



In H1 2011, Retail Banking Division recorded PLN 221.6 million worth of gross profit, compared to PLN 128.2 million in the same period last year (up by 72.8%). The Retail Banking Segment had a 39.8%-share in the gross profit of ING Bank Śląski S.A. Capital Group (vs. 28.1% in H1 2010).The result was related to:

- Higher net income, which totalled PLN 794.2 million, up by 19.0% from the same period a year earlier. The Division recorded higher interest income (up by 27.0%), mainly due to considerable growth of lending and higher deposits margin. During the first half of 2011 the following profit and loss positions rose: share in net profit of associated companies (by 25.9%) and other operating income net, whereas net fee and commission income was in line with the value achieved one year earlier.
- Slightly higher operating costs. The Division's costs totalled PLN 517.5 million, up by 2.4% from a year earlier. Nearly a half of them covered staff costs which went up by 10.2% compared to the same period last year.
- Higher risk costs. In H1 2011, they amounted to PLN 55.1 million against PLN 34.2 million in the same period last year.

During the first six months of 2011, the Corporate Banking Division generated gross profit of PLN 335.5 million compared to PLN 327.5 million recorded in H1 2010 (up by 2.4%). The Division's result represented 60.2% of the Group's gross result (71.9% in H1 2010). The following factors contributed to the result of the Corporate Division in H1 2011:

- Division's income totalled PLN 688.7 million, up by 2.9% from a year earlier. At the same time, net commission income increased (by 16.9%) with a subsequent drop in net interest income (by 0.9%) and other income (by 20.0%).
- Segment's costs totalled PLN 313.6 million, up by 8.7% from H1 2010. They included PLN 158.9 million personnel costs that went up by 12.0% compared to H1 2010.
- Division's risk costs totalled PLN 39.7 million. By contrast, in H1 2010, the risk costs totalled PLN 53.1 million and included PLN 8.1 million worth of provisions for matured options.

7. Core efficiency ratios

In H1 2010, the efficiency of the Capital Group of ING Bank Śląski S.A. was higher than in the same period last year, which is proven by all core efficiency measures being better than last year. Return on equity (ROE) totalled 14.7% and was 0.4 p.p. higher than in H1 2010.

Cost to income ratio (C/I) also improved significantly and went down from 59.4% in H1 2010 to 56.0% in H1 2011.

Core efficiency ratios (%)

	H1 2011	H1 2010
Profitability ratio	32.2	28.0
C/I ratio	56.0	59.4
Return on assets (ROA)	1.3	1.1
Return on equity (ROE)	14.7	14.3
Interest margin ratio	2.83	2.58
Loans/Deposits ratio	70.9	62.5
Solvency ratio	12.61	12.56

Profitability ratio – gross profit to total costs.
Cost to Income ratio (C/I) – total costs of operations to the result on banking activity in analytic terms.
Return on assets (ROA) – net profit per shareholders of the dominant entity to average assets[15].
Return on equity (ROE) – net profit per shareholders of the dominant entity to average equity and own funds.
Interest margin ratio – the net interest income to average earning assets of the Bank (including receivables from financial and non-financial entities, fixed and floating yield securities and shares).
Solvency ratio – net equity and own funds to off-balance sheet assets and liabilities including risk weights.

8. Balance Sheet structure

On 30 June 2011, balance sheet total of the Capital Group of ING Bank Śląski S.A. was PLN 67,500.9 million, up by PLN 2,983.3 million, or 4.6% from the end of 2010.

The balance sheet total of the Group and the structure of assets and liabilities have been determined by the operations of ING Bank Śląski S.A. As at the end of June 2011, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 67,468.5 million compared to PLN 64,428.4 million in December last year (up by 4.7%).

Assets

In H1 2011, the upward trend related to the share of receivables from clients in the assets of the Capital Group of ING Bank Śląski S.A. was sustained. As at 30 June 2011, loans and other receivables from the clients totalled PLN 37,094.8 million and represented 55.0% of total assets of the Bank's Capital Group. Their share in assets went up by 1.5 p.p. from the end of 2010.

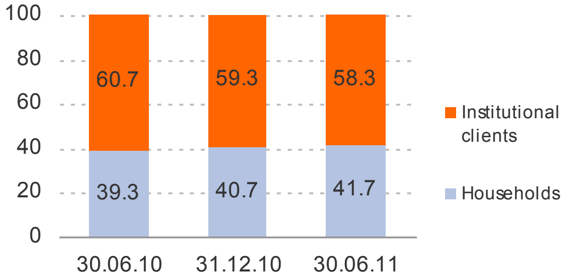
Amounts due from clients included PLN 4,256.6 million worth of debt securities, whereas net loans and cash loans extended to clients amounted to PLN 32,837.9 million (or 48.6% of assets) compared to PLN 30,062.6 million (or 46.6% of assets) in December 2010[16].

Investment financial assets were another major item in the balance sheet of the Bank's Capital Group. Pursuant to the Bank's investment policy, nearly all of them were debt securities. As at the end of June 2011, they totalled PLN 23,947.5 million (or 35.5% of assets) compared to PLN 23,006.8 million (or 35.7% of assets) in December 2010. More than 79% of the total investment financial assets represented assets classified as available for sale.

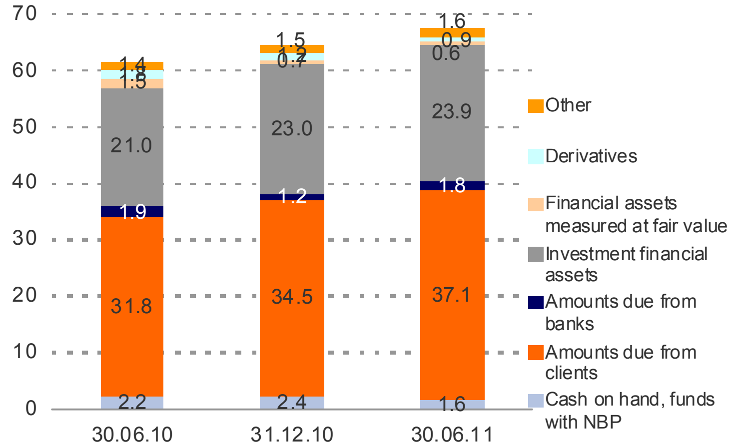
The Group's receivables from other banks amounted to PLN 1,758.3 million (2.6% assets) compared to PLN 1,181.1 million (1.8% assets) in December 2010.

[15] Average assets are calculated based on the data from five periods: 30 June 2010, 30 September 2010, 31 December 2010, 31 March 2011 and 30 June 2011.
[16] Loans and other amounts due excluding debt securities.

Structure of loans by client groups (%)



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



Liabilities

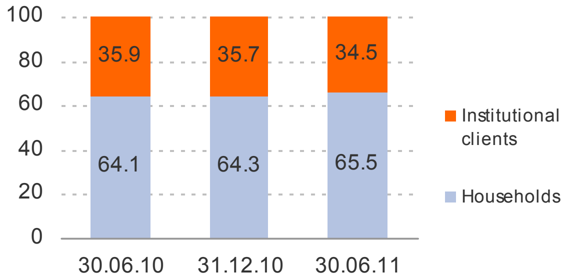
The funds deposited with the Bank by clients predominated in the sources of funding of the ING Bank Śląski S.A. Capital Group operations. In June 2011, they totalled PLN 48,286.1 million compared to PLN 47,400.1 million at the end of 2010. As at the end of H1 2011, amounts due to clients represented 71.5% of total liabilities, down by 2.0 p.p. from the end of 2010.

The Group's amounts due to other banks totalled PLN 8,938.1 million compared to PLN 4,039.1 million a year earlier. Funds obtained from monetary financial institutions represented 13.2% of liabilities, whereas in December 2010 their share was 6.3%.

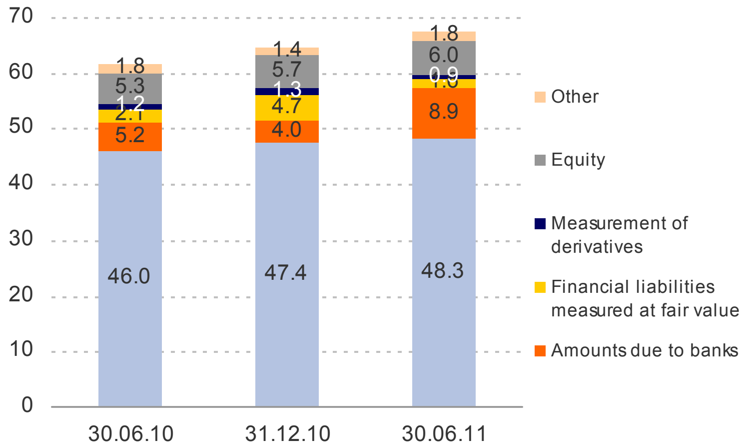
Throughout H1 2011, the value of financial liabilities carried at fair value through the income statement (nearly all of them were related to reverse repo transactions) fell considerably. In June 2011, they amounted to PLN 1,643.6 million compared to PLN 4,681.4 million six months earlier. Their share was: 2.4% and 7.3%, respectively.

As at 30 June 2011, equity totalled PLN 5,953.7 million (vs. PLN 5,653.1 million in December 2010). In June 2011, the share of equity in financing operations of the Bank's Capital Group was 8.8%; i.e., the same result as at the end of 2010.

Structure of deposits by client group (%)



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



VI. MANAGEMENT OF KEY RISKS

1. Credit risk

Credit Policy

The modifications to the corporate credit exposures policy pursued by the ING Bank Śląski S.A. as made in H1 2011 took account of Poland's economic situation as well as the financial standing of certain groups of borrowers. Their were oriented at the following in particular:

- Increasing effectiveness of the lending process while ensuring adequate credit risk identification and measurement mechanisms compliant with the requirements set forth in the Resolution no. 76/2010 ofthe Polish Financial Supervision Authority of 10 March 2010 concerning the scope and detailed principles for setting the capital requirements for individual risk types.
- Maintaining the Bank's credit risk at an acceptable level.

The main modifications of the Bank's credit policy for corporate clients were the following:

- Updating the requirements and criteria concerning the risk appetite for the credit exposures portfolio of mid-corporate, mid-sized clients and strategic clients.
- Modifications to the risk policy dedicated to the local government units in terms of fulfilment of the new regulatory requirements on calculating individual expenditures coverage limit related to debt-servicing.
- Modifying the policy on collaterals, credit documents and collateral documents used in mortgage- establishing process in keeping with the requirements of the amended Act on Land and Mortgage Register and on Mortgage which came into effect as of 20 February 2011.
- Creating the environment for reporting Large Credit Exposures with respect to the amended *Capital Requirements Directive II* in terms of *Large Exposure Reporting*.
- Updating the policy on funding commercial real estates so as to take account of the current situation on the real estate market and the policy of ING Group.
- Bringing the documents- related requirements into line with the Act on Freedom of Economic Activity and the Act on Reducing Administrative Barriers for Citizens and Enterprises.
- Extending the group of products for corporate clients as part of service comprising simplified documentation requirements.

ING Bank Śląski S.A. also took efforts to reinforce credit risk control for the retail portfolio due to the complex situation on the job market, FX market and residential real estate market. The Bank's actions in that respect included, among other things:

- Update of the Collateral Policy, the Central Register of Collaterals and mortgage products regulations with respect to the Act on Land and Mortgage Register and on Mortgage and some other acts.
- Implementation of the policy of business partner risk management.
- Bringing the Credit Risk Management Policy and Collateral Policy into line with the amended S-Recommendation.
- Introduction of variable interest rate buffor in calculating retail creditworthiness.
- Implementation of the Internal Real Estate Database as the basic tool in verification of the real estate value as part of lending process.
- Modification of the principles and organisation of the annual review of economic standing of clients from the Entrepreneurs segment.
- Extension of stress-tests analyses by additional crisis scenarios.

- Expansion of risk reports and analyses related to higher-risk clients and key risk management areas.

Lending Process and Credit Risk Assessment

In H1 2011, the Bank was simultaneously adjusting tools and instruments of corporate risk measurement and monitoring to the credit policy modifications, notably the Bank:

- Updated recommendations concerning sectors, which the Bank considers as increased risk sectors.
- Customised client service process as regards credit risk, depending on the level of credit exposure.
- Introduced template documents for clients who purchase options on the financial markets.
- Extended stress-test methodology by the so-called reverse tests in the Corporate segment and Entrepreneurs.
- Specified the scope of application for the loss-given default models (LGD) as required by the PFSA Resolution no. 76/2010 in the process of credit risk management.
- Updated the selected rating models by taking their validation results into account.

At the Bank, there was also the organisational solutions pilot program conducted the purpose whereof was to centralise credit risk management-related service for corporate entities with lower credit exposures by means of automated workflow.

The retail portfolio monitoring and restructuring was subject to numerous changes related to current performance of processes. Their main purpose was to increase efficiency, especially at the stage of debt collection.

Credit Portfolio Quality and Provisioning

At the end of June 2011, the total gross value of loans and advances extended to clients by the Capital Group of ING Bank Śląski S.A. was PLN 33,686.5 million.

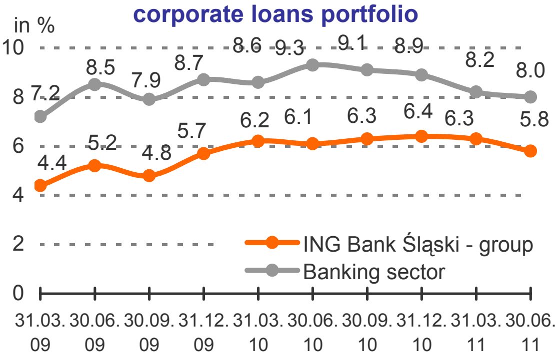
The value of impaired loans was at the level of PLN 1,518.2 million versus PLN 1,507.6 million as at the end of 2010. Thus, the share of the impaired portfolio in the entire credit portfolio of the Capital Group dropped from 4.9% in December 2010 to 4.5% as at the end of June 2011. The Group observed improvement of corporate credit receivables quality, accompanied by a slight increase of impaired loans in the retail exposures portfolio.

The quality of ING Bank Ślaski S.A. Capital Group credit portfolios (both retail and corporate) was higher than the average within the whole banking sector.

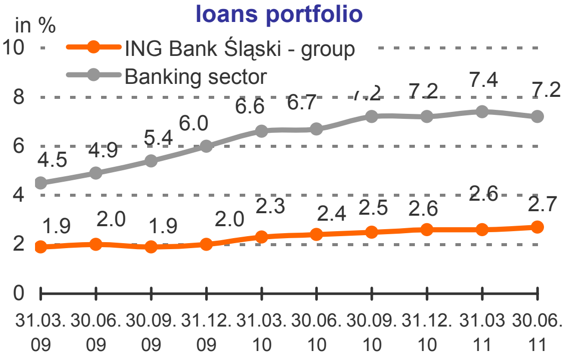
The quality of credit portfolio of the Capital Group of ING Bank Śląski S.A.

	30.06.2011	31.12.2010	30.06.2010
Total exposure (PLN million)	**33,686.5**	**31,000.2**	**28,282.5**
Non-impaired portfolio (PLN million)	32,168.3	29,492.6	26,973.7
Impaired portfolio (PLN million)	1,518.2	1,507.6	1,308.7
Impairment charges and provisions (PLN million)	1,147.6	1,091.4	985.6
Charge for non-impaired portfolio (PLN million)	158.1	152.2	160.8
Charge for impaired portfolio (PLN million)	978.8	928.0	807.2
Provisions for off-balance-sheet liabilities (PLN million)	10.6	11.1	17.6
Share of the impaired portfolio (%)	**4.5**	**4.9**	**4.6**
Impaired portfolio provisioning ratio (%)	**64.5**	**61.6**	**61.7**
Exposure – Wholesale Banking (PLN million)	**19,882.2**	**18,405.4**	**17,178.4**
Non-impaired portfolio (PLN million)	18,735.9	17,227.8	16,131.8
Impaired portfolio (PLN million)	1,146.3	1,177.6	1,046.6
Impairment charges and provisions (PLN million)	798.9	785.9	726.6
Charge for non-impaired portfolio (PLN million)	60.3	62.1	72.7
Charge for impaired portfolio (PLN million)	728.0	712.7	636.3
Provisions for off-balance-sheet liabilities (PLN million)	10.6	11.1	17.6
Share of the impaired portfolio (%)	**5.8**	**6.4**	**6.1**
Impaired portfolio provisioning ratio (%)	**63.5**	**60.5**	**60.8**
Exposure – Retail Banking (PLN million)	**13,804.3**	**12,594.8**	**11,104.1**
Non-impaired portfolio (PLN million)	13,432.4	12,264.8	10,841.9
Impaired portfolio (PLN million)	371.9	330.0	262.1
Impairment charges and provisions (PLN million)	348.7	305.5	259.0
Charge for non-impaired portfolio (PLN million)	97.8	90.1	88.1
Charge for impaired portfolio (PLN million)	250.9	215.4	170.9
Provisions for off-balance-sheet liabilities (PLN million)	*	0.1	*
Share of the impaired portfolio (%)	**2.7**	**2.6**	**2.4**
Impaired portfolio provisioning ratio (%)	**67.5**	**65.3**	**65.2**

Share of impaired loans in the corporate loans portfolio



Share of impaired loans in the retail loans portfolio



As at the end of June 2011, ING Bank Śląski S.A. Capital Group held credit portfolio provisions of PLN 978.8 million. The impaired portfolio provisioning ratio was 64.5%.

2. Market Risk Management

General Information

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

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

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

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

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

Risk measurement tools

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

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

VaR exposures and limits during the first half of 2011

The VaR exposures of the bank remained well below limits during the first quarter of 2011. In many cases the Bank did not use more then 25% of the allocated VaR limits. The majority of the P&L is driven by sales activities rather then proprietary position taking for the banks own account. During the first half year there were 2 issuer limit breaches. These breaches were immediately brought back within position once reported by MRM the following day.

No VaR or position limits were changed during the year.

Liquidity risk management

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

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

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

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

One of the most important aspects of the liquidity risk management process in the Bank is contingency funding plan which provides guidance as regards pro-active identification of the liquidity crisis and actions to be taken to survive it. No regulatory limit was breached during the first half of 2011.

Replicating Portfolios

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

3. Capital adequacy

As at the end of June 2011, the solvency ratio for the Capital Group of ING Bank Śląski S.A. totalled 12.61%; i.e., it exceeded the level recommended by the Polish Financial Supervision Authority (i.e. above 10%).
Its level was mainly affected by the following factors:

- Growth of lending upon maintaining high-quality portfolio at the same time,
- Decision of the General Shareholders Meeting to allocate 70% of net profit in 2010 to equity.

In H1 2011, the Bank continued works on streamlining the Internal Capital Adequacy Assessment Process (ICAAP). Special emphasis was laid on improvement of the workflow and stress tests methodology.

4. Operational Risk and Compliance

ING Bank Śląski S.A. follows the rules of operational risk, compliance and anti-fraud management pursuant to the provisions of the Banking Law Act, Recommendation M of the National Bank of Poland, the Polish Financial Supervision Authority Resolutions and the standards developed by ING Group.

At the Bank, there is a consistent set of Policies, Minimum Standards and procedures defining the requirements for operational risk, compliance, anti-fraud and legal risk management in place, all of which are considered the non-financial risk area.

Operational risk is understood by 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 or technical systems or external events. This definition also covers the legal risk.

In order to manage the risk, the Bank follows a three line of defence model, based on the segregation of duties and responsibilities among:

- business units (the first line of defence) – responsible for developing, implementing and performing risk mitigating controls;
- risk management units (the second line of defence) – supporting business units in their actions aimed at identifying and mitigating risk; and
- internal audit (the third line of defence) – being an independent auditor.

In 2011, the Bank – under the global programme of ING Group – conducted a comprehensive audit of the operational risk management process and focused on improving the risk management forms and methods by:

- providing managers at various organizational levels with management information about all risk categories,
- improving the mechanisms of risk identification, assessment and mitigation in various areas of Bank's operations, considering the changes in the offer and business environment,
- gathering and analysing information on risk events and taking preventive measures with the use of the integrated control system of the Bank's operations,
- classifying and analysing the risk related to IT resources, projects and outsourced processes,
- ensuring observance of compliance norms,
- reinforcing control over the flow of confidential information, information being trade secret and oversight over private investments made by employees,
- limiting the risk with the use of the integrated system of supervision over performance of post-audit recommendations,
- testing business continuity plans for key business processes and improving the crisis management system and physical securities in all locations,
- ensuring adequate insurance cover for the banking operations under global and local insurance policies, and
- organising awareness programmes and training courses facilitating risk management process.

Considering the changes in the external business environment, the Bank took the following additional preventive measures in the area of payment transactions:

- implemented yet another set of controls mitigating the risk of abuse, and also the system of risk assessment for payment transactions, and
- installed the tools preventing assembly of pads used to copy cards on ATMs.

VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT CAPITAL GROUP OF ING BANK ŚLĄSKI IN H1 2011

1. IT and Operations

In H1 2011, the Bank's actions oriented at developing its IT systems focused above all on the following:

- Implementation of a new application handling financial markets. The new system will make it possible to optimise back-office processes for money market and foreign exchange products.
- Roll-out of IP phone service throughout the Bank. The new phone system will lead to a considerable reduction of costs of internal calls. It will also be the basis for providing Bank employees with state-of-the-art integrated electronic communications in the near future, an umbrella service combining voice communications, video and electronic mail.
- Implementation of SAP system in HR area. In H1 2011, works were finished at the module supporting the annual appraisal process, access via the Intranet to the basic HR functions for employees and managers and the module supporting the bonus computation process.
- Pilot of a new tool (a recycler) to handle cash operations at the branch network.

In April 2011, the centralisation process of the Operations Division – pursued for a few years now – was completed. The implemented operational model offers the potential for providing high-quality back-office services and responding to market developments and the needs of individual business lines in a flexible manner. The Operations Division handles operations of all Bank's business lines; i.e., retail, corporate and strategic clients as well as financial markets. Individual units of the Operations Division are centres of excellence for the processes within their capacity. As a result of changes, some operating processes were transferred for service to specialist external companies (outsourcing of cash handling, of production and personalization of payment cards, and of mass printings and document retention).

In H1 2011, the share of automatic transactions in the total number of transactions of the Operations Division was 97.1% (96.1% a year ago).

All units of the Operations Division employ a Leanpack methodology-based standard production management system. Thus, they are covered by the standard methodology of planning resources, determination of the time needed to process the requisite volumes and monitoring of team performance. In H1 2011, numerous initiatives were taken to make the Operations Division even more efficient; these form the so-called Lean Office 2011 project.

2. Development of Electronic Distribution Channels

In H1 2011, ING Bank Śląski S.A. modified its electronic distribution channels in the following manner:

- Launched a new version of the internet banking service ING BankOnLine. Changes were aimed at making the system service more ergonomic and simpler. Certain graphical elements and designations of functionalities of the new system version were suggested by clients who participated in the surveys published on the Bank's website; and
- Provided a new group of clients with the ING BusinessOnLine system; these were the companies migrated from the Retail area to the Corporate Sales Network. As part of the programme, the application security mechanisms were expanded by adding thereto the option of system logging and operation confirmation with text messages sent to the client's cellular phone.

As at the end of June 2011, 2, 017,300 clients were using electronic banking systems of ING Bank Śląski S.A. (up by 7.3% from the end of 2010). The number of HaloŚląski users also multiplied (up by 10.7% from December 2010) .

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

	30.06.2011	31.12.10	31.12.09	31.12.08
ING BankOnLine,ING OnLine, ING BusinessOnLine	2,017,255	1,879,525	1,559,504	1,167,054
HaloŚląski	1,187,239	1,072,099	786,008	617,422
text messages (SMS)	853,978	782,079	619,664	387,456

The Bank was taking more and more advantage of the Internet to analyse clients' preferences, improve communications with them and promote the sale of banking products. The Bank:

- Launched surveys. Since 2011 an internet survey system has been launched on the Bank's website (www.ingbank.pl). Clients using ING BankOnLine are asked questions about their personal finances.
- Took actions to boost e-commerce:
  - started works to develop a tool making it possible to optimise the internet forms published on the website www.ingbank.pl and external portals, and
  - continued works to develop the partner network of internet services with clients.
- Was active in the domain of the social media. After six months of operation, the fan page of ING Bank Śląski launched in 2010 on the Facebook won the second place among banking profiles. In H1 2011, a competition was initiated to educate clients on saving money and use of banking products.

As at the end of June 2011, ING Bank Śląski S.A. had the network of 773 ATMs (including dual machines), while in 2010, the bank had 775 ATMs. Further, 448 cash deposit machines (CDMs) were installed at the Bank (including duals). In other words, the Bank had 1,143 machines in cash self-service in total, including 655 standard ATMs, 370 standard CDMs and 118 dual machines.

The Bank also provided free access to all ATMs in Poland for the *Direct Account* holders and clients from the entrepreneurial segment.

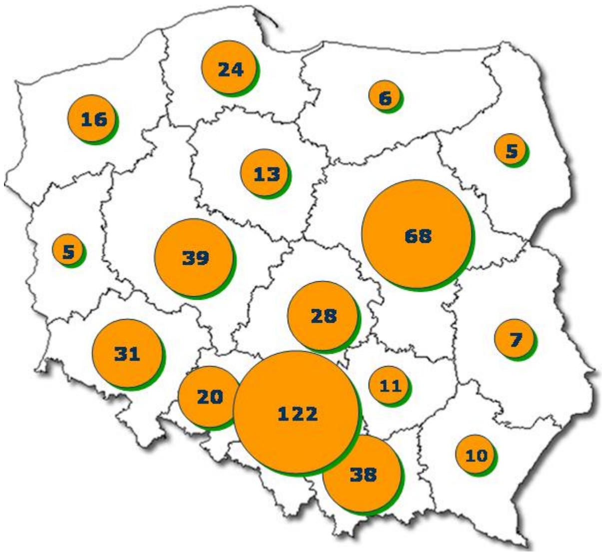
In June 2011, 13.1 million transactions were made with the use of electronic banking systems at the Bank (10.7 million a year ago).

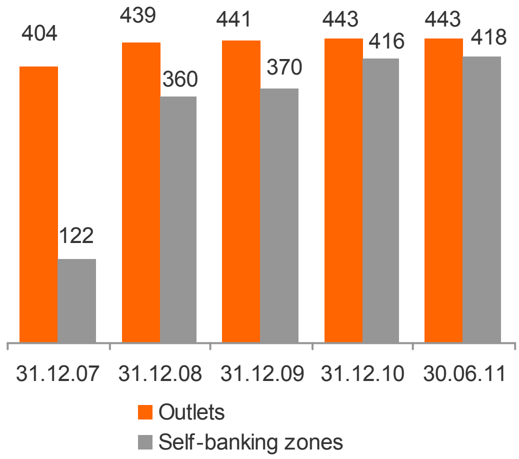
3. *Network of Bank Outlets*

As at 30 June 2011, ING Bank Śląski S.A. had 443 branches (including 52 franchise outlets and 65 modern branches with no cash handling). During H1 2011, the Bank opened 2 new branches and closed 2 branches.

Bank branches had 418 self-banking zones (416 zones as at the end of 2010).

Outlets Network of ING Bank Śląski (as at 30 June 2011)





4. Human Resources Management

Headcount level

As at 30 June 2011, ING Bank Śląski S.A. Capital Group had 8,502 employees. Throughout H1 2011, the number of employees in the companies forming the Bank's Group went up by 30 persons.

In June 2011, ING Bank Śląski S.A. had 8,257 employees, or 33 employees (or 0.4%) more than in December 2010 .

Headcount structure at ING Bank Śląski S.A.

	30 June 2010		31 December 2010	
	FTEs	%	FTEs	%
Retail Banking	4,296	52.1	4,313	52.4
Corporate Banking and Financial Markets	1,074	13.0	1,070	13.0
Operations/ IT/ Services	2,000	24.2	1,971	24.0
Risk/ Organisation/ Finance/ HR	887	10.7	870	10.6
Total	**8,257**	**100.0**	**8,224**	**100.0**

The changes in the headcount structure of the Bank observed in H1 2011 were, above all, an increase in the number of employees involved in the lending process, resegmentation of corporate clients and reorganisation of the retail sales network.

Remuneration policy

As in the past years, in H1 2011, ING Bank Śląski S.A. also took actions to guarantee a competitive offer for its employees and ensure that its remuneration system effectively contributed to the accomplishment of its strategic objectives. Accordingly, the remuneration policy was shaped in close correspondence with the salary market of the banking sector and considering the budget potential of the institution.

As of 1 April 2011, the salary increase process was conducted at the Bank. The increase was determined by the annual employee appraisal, above all. In 2011, the Bank retained the existing incentive system, based on bonus tasks (KPIs), conducive to accomplishment of the growth-oriented strategy of the Bank.

Recruitment and employer branding

ING Bank Śląski S.A. continued works in the direction of employer branding. The Bank:

- participated in job fairs (both stationary and virtual ones);
- published its profile in the guides and on the portals available for potential work candidates; and
- developed a new version of the *Career Path* bookmark on the website www.ingbank.pl.

Employee development

As part of the employee development policy, the Bank focused on actions defined as development priorities based on the analysis of results of the Winning Performance Culture Scan (WPC) conducted in 2010 (in terms of leadership, responsibility, professional development and recognition). The Bank focused, above all, on the following:

- Execution of the Development Navigator programme. Its objective was to support employees and managers in managing professional development and upgrading skills indispensable for pursuing the career path planned.
- Launch of the programme of development internships for employees. Its objective was to expand the development options for Bank employees and share knowledge and best practices by business lines, and
- Development of a new approach to the programme for talented graduates. The changes prepared followed the global ING International Talent Programme a part of which was the existing *Graduate Leadership Programme* at ING Bank Śląski S.A.

Trainings

The training activity of the Bank was pursued in line with the strategy adopted for 2011. Both traditional and e-learning courses were conducted.

In H1 2011, the offer of Bank's training courses was updated, following the deliverables of the Annual Interviews. It comprises training courses on overall corporate skills, specialist and managerial competencies, and also training schemes on processes, products and other banking-related topics. The above training courses are given by both internal and external training units. In H1 2011, almost 194 training days were provided for approximately 1,400 employees from the Catalogue's training programmes.

Training courses oriented at building corporate culture and supporting accomplishment of the strategic objectives of the Bank formed an important part of training activity. The *Expressing Recognition* project started in 2010 was continued. It comprised further training of managers and preparation of a group of internal coaches to give training to the middle management. The e-learning courses like product-, application-, specialist and competence-oriented ones were used therefor. In H1 2011, 10,000 man-days were arranged in that area.

Additionally, the Bank pursued development programmes in individual Divisions, whereby it was possible to manage individual development of managers and specialists in a systematic manner. Training for retail sales network employees formed a major part thereof; it was dedicated to changes in IT systems, new and modified products, quality of service, sales skills and team management skills. By the end of June 2011, approximately 1,700 man-days were arranged for almost 9,000 participants in that connection.

Use of information technologies in HR processes

In H1 2011, the Bank completed the first stage of the SAP system rollout process in the HR area. The system functionalities rendered available in 2011 support the bonus award process, training and annual appraisals. Further, employees were provided with a self-service portal, which is a breakthrough in the communications between HR officers and the organization. Works on implementing the SAP system in other areas like remuneration system management, personnel cost budgeting and recruitment continued.

VIII. STRATEGIC DIRECTIONS OF ING BANK ŚLĄSKI S.A.

The key strategic goal of ING Bank Śląski S.A. is to build goodwill on a long-term basis. _I think Bank – I choose ING_ – is the motto which reflects the Bank's vision of being the preferred bank.

The strategy of the preferred Bank is based on three pillars:

- Client centricity – all activities are focused on tailoring the products and service model to the needs of clients from individual segments.
- Operational excellence – maintaining the position of the best internet bank and streamlining the processes.
- Top Employer – acquiring and keeping the best staff by supporting professional development of employees and using modern communication tools.

Strategic directions of ING Bank Śląski S.A. include actions aimed at strengthening, and then keeping the leading position in the Polish banking sector by harmonious development of both basic spheres of activity – retail and corporate banking. Development of multi-channel, integrated sales model and client service is continued with particular focus on electronic banking.

The Bank continuously optimises and automates processes to obtain low costs of operations and operational excellence. Another, no less important, purpose of those activities is to ensure the top-quality service to clients.

Acquiring and maintaining the best staff remains the Bank's priority as well.

Retail Banking

On the retail market, ING Bank Śląski S.A. puts emphasis on both constant winning new clients and fostering the relationship with the existing ones.

The Bank strives to reinforce its position on the market of retail loans. Retaining a sound position in the area of sales of PLN housing loans and a gradual increase of sales of cash loans to individual clients and entrepreneurs are the key drivers on the path to accomplish that objective.

As regards deposits, the Bank endeavours to retain a sound position on the household deposit market and to augment the number of active personal accounts, since the latter is the primary product the client uses to build its relations with the bank.

The Bank pursues its strategy on the retail market by offering clients the products attractive in price terms; this is done in a clear and transparent manner and with the use of top quality distribution channels.

As part of actions oriented at integration of all distribution channels, in H2 2011, the Bank will continue the following projects, for example:

- The most internet bank. Besides the new, more ergonomic and intuitive version of the ING BankOnLine launched in 2011, the internet banking system will be expanded with additional functionalities. A new client communication channel, the so-called mobile banking – independent of ING BankOnLine – will be rolled out as well.
- Bringing the retail sales network into line with market trends. A new retail branch model was designed and a pilot of new solutions was completed in nine retail branches in order to adapt the outlets to the changing client expectations and constantly growing importance of direct channels in client service processes. The project provides for standardisation of branch visualisation throughout the retail network until the end of 2014. Further, works are under way to make the retail network operations more effective, by flattening the organisational structure, improving communications and standardising processes, among other actions. At the beginning of 2011, the Bank launched a new organisational structure for the retail network. The plan is to have a new reporting system and new Key Performance Indicators instituted by the end of the year.

Corporate Banking

In 2011, the main activities of ING Bank Śląski S.A. on the corporate banking market will be oriented at:

- Retaining the high level of new clients' acquisition in the corporate network, notably in the mid-sized companies.
- Raising the share in the credit market, while taking care of the quality of portfolio.
- Obtaining higher than the market average growth rate of funds accumulated in current accounts of institutional clients, and
- Sustaining the leader position in terms of the client satisfaction with the offer quality and service level.

The primary instruments to accomplish the objectives on the corporate banking and financial markets are the following:

- Offer expansion and lending process improvement. In H1 2011, the Bank completed implementation of a new lending process, both in terms of Fast Track and Normal Track (simplified and standard credit procedures, respectively). The Bank aims to have 80% of credit applications (up to EUR 1 million) processed in the Fast Track application.
- Transactional banking growth. Offer expansion will cover liquidity management products, cash handling and receivable management (reconciliation, consolidation structures) as well as special products for local government (like eInvoice and City Card).
- Internet banking system enhancement. The Bank aims to offer corporate clients the internet applications featuring top market standards, while reducing its maintenance costs considerably. Works on expanding the internet banking will comprise, among others: provision of all products for mid-sized and mid-corporate companies on the internet platform, adding to the array of products the foreign trade finance ones, payment cards and popularisation of the credit module for strategic clients.
- Wide range of FM products. Instruments for hedging against the risk of commodity prices volatility, among others.

Further, the Bank started works on a new business model of corporate banking (2020 Programme). The works were initiated in response to the new trends visible in the global banking market, like: the fact that non-banking companies entered the banking market (e.g., communications operators) and shrinking of banks' income from fees and commissions for account maintenance and payment transaction execution. The project is oriented at creating conditions for finding alternative income sources by the Bank, by changing the distribution model and expanding the current offer with new products, for example.

The market expansion of ING Bank Śląski S.A. accompanied by its more effective operations should guarantee a stable growth of the company value and ensure for the Bank shareholders a higher than average return on investment over a long term. Still, the Bank's plans for 2011 assume that the institution will grow using its own sound capital base.

IX. INVESTOR NFORMATION

1. Shareholding Structure

The share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is sub-divided into 13,010,000 ordinary shares of the face value of PLN 10 each. There are no constraints as to transferring ownership rights and exercising the right to vote on account of held shares. The Bank's shares do not grant any special control powers towards the issuer either.

ING Bank N.V. is the strategic investor of ING Bank Śląski S.A. ING Bank N.V. holds a 75.0% share in the Company's share capital. ING Bank N.V. is member of ING Group, a global financial institution operating on the market of banking, insurance and asset management.

ING Bank Śląski S.A. Shareholding Structure (as at 30 June 2011)

Shareholder	Number of shares and votes at GM	Interest in share capital and total votes at GM
ING Bank N.V.	9,757,500	75.00%
Other	3,252,500	25.00%
Total	**13,010,000**	**100.00%**

In H1 2011, neither the value of ING Bank Sląski S.A.'s share capital nor the interest of the majority shareholder in the capital changed. As at the date of report publication, the Bank was not aware of any agreements as a result of which the proportion of shares held by the current shareholders could change in the future.

On 26 May 2011, ING Bank Śląski S.A. Management Board informed that they intend to carry out the procedure to execute a 10-for-1 split of ING Bank Śląski S.A. shares.

Bearing in mind the provisions of the Banking Law, the Management Board decided to approach the Polish Financial Supervision Authority and request its consent to amend the Bank's Charter accordingly. Upon receiving it, the Management Board intend to request that the General Meeting pass a resolution concerning amendments to the Bank's Charter related to the share capital. The Bank's share capital will remain unchanged following the split; however, it will be sub-divided into 130,100,000 shares worth PLN 1 each instead of the existing 13,010,000 shares worth PLN 10 each.

The decision of the Management Board is dictated by the following premises:

- increasing the availability of ING Bank Śląski S.A. shares and making it available to a larger investor pool, especially individual investors,
- increasing the liquidity of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange.

The proposal of the Management Board received positive advice of the Supervisory Board of ING Bank Śląski S.A.

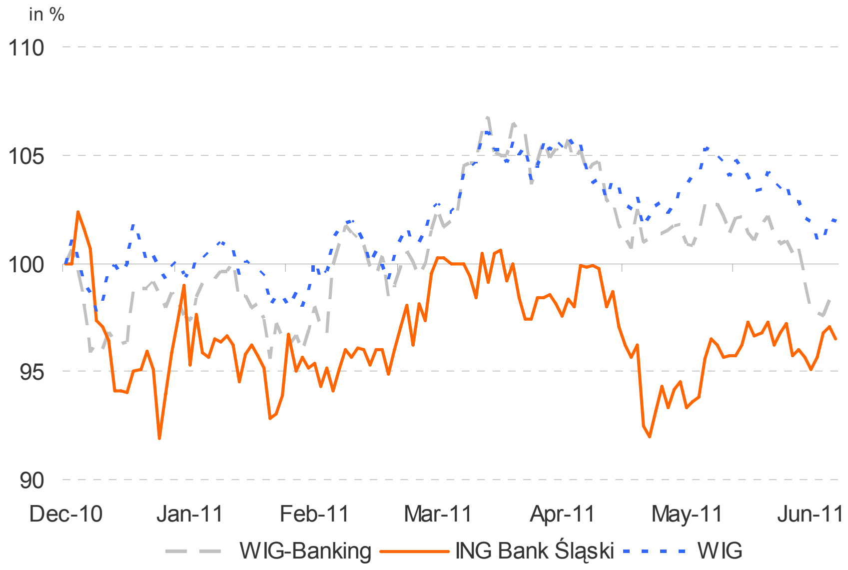
On 11 July 2011 the Polish Financial Supervision Authority approved the changes in the Bank's Charter allowing the split of ING Bank Śląski S.A. shares.

2. Price per share of ING Bank Śląski S.A.

In H1 2001, the price of the shares of ING Bank Śląski S.A. at the close of the session at the Warsaw Stock Exchange was within the range from PLN 821.5 (recorded on 24 January) to PLN 915.0 (of 4 January). On 30 June 2011, the share of ING Bank Śląski S.A. was worth PLN 863.0 down by 3.5% from the last trading day in 2010 (by contrast, the sub-index WIG Banking went down by 1.7%).

On 30 June 2011, the Bank's market value was PLN 11,228 million, while its book value amounted to PLN 5 951 million.

ING Bank Śląski S.A. trading share price in H1 2011 (31.12.2010 = 100.0%)



3. Ratings

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

The Fitch Ratings agency issues full ratings for the Bank based on the agreement between the Bank anf the Agency. As a result of the review of ING Bank Śląski S.A. ratings made by the Fitch Ratings in Q1 2011, the Agency sustained all the Bank's ratings (Fitch press release of 4 March 2011).

On 20 July 2011, Fitch Agency issued a special report, introducing subsequent rating for financial institutions, the so-called *Viability rating* (VR). That rating is based on the same methodology as the individual rating. However, instead of 9-grade scale (as it is with individual rating), 19-grade scale is applied in VR. That change enables to differentiate ratings more and reflect them better, regardless of external factors having impact on an institution's financial standing.

Fitch Agency assigned bbb+ rating for VR to ING Bank Śląski S.A. This is the highest possible grade available for an institution with individual rating at C level. Bbb ratings stand for good, fundamental creditworthiness of the Bank. The Bank's core ratios are adequate, which means that the risk of using additional support to avoid insolvency is low; that capacity could be slightly weakened by extraordinarily unfavourable business or economic conditions. As a target, *Viability rating* will replace the existing individual rating. However, in the transition period, i.e. by the end of 2011, Fitch will be publishing the two ratings in parallel.

Introduction of *Viability rating* had no impact on other ratings of ING Bank Śląski S.A. Complete rating of the Bank given by Fitch Agency as at the Report issue date was as follows:

Fitch Ratings Ltd.	
Long-term IDR	A
Outlook for sustaining the above rating	Stable
Short-term IDR	F1
Viability rating	bbb+
Individual rating	C
Support rating	1

Long-term IDR and short-term rating specify the entity's capacity to meet its financial liabilities on time. A-Rating of the entity reflects high capacity of the Bank to meet its long-term financial liabilities on time, whereas the F1 short-term rating stands for the highest appraisal of the capacity to timely payment of the short-term financial liabilities (up to 13 months). In case of both ratings of the Bank Fitch took into account high probability of getting potential support from the controlling shareholder of the Bank – ING Bank N.V. (the highest rating of the support).

According to the Agency, the individual rating at the level C corresponding to the viability rating bbb+ reflects the strong market position of the Bank, high liquidity, stable funding sources based on ample retail deposit base as well as favourable capital adequacy and asset quality, which is substantially higher than the average market one.

In turn, Moody's Investors Service Ltd. assigns the rating to ING Bank Śląski S.A. based on publicly available information. During the first half of 2011 the Bank maintained ratings previously assigned by the Agency:

Moody's Investors Service Ltd.	
Long-term deposits in foreign currencies	A2
Long-term deposits in home currency	A2
Short-term deposits	P-1
Financial strength	D+
Long-term and short-term deposits rating outlook	Stable

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

On 01 April 2011, Mr. Cornelis Leenaars tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. Ms. Anna Fornalczyk from his function of the Supervisory Board Member of ING Bank Śląski S.A.. As at 06 April 2011. Mr. Cornelis Leenaars held the position of the Deputy Chair of the Supervisory Board of ING Bank Śląski S.A.

On 26 May 2011, the Supervisory Board of ING Bank Śląski S.A. appointed Mr. Brunon Bartkiewicz (a former Supervisory Board Member) the Deputy Chair of the Supervisory Board of ING Bank Śląski S.A.

As at the end of June 2011, the Supervisory Board of ING Bank Śląski S.A. comprised:

- Ms. Anna Fornalczyk — Chair, Independent Member,
- Mr. Brunon Bartkiewicz — Deputy Chair,
- Mr. Wojciech Popiołek — Secretary, Independent Member,
- Mr. César González-Bueno — Member,
- Mr. Ralph Hamers — Member,
- Mr. Nicolaas Cornelis Jue — Member.
- Mr. Mirosław Kośmider — Member, Independent Member.

On 27 June 2011, Mr. Evert Derks Drok tendered his resignation to the Chair of the Supervisory Board of ING Bank Śląski S.A. from his function as the Vice-President of the Management Board of ING Bank Śląski S.A., citing personal reasons.

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

In H1 2011, the total amount of remuneration (understood as the value of remuneration, bonuses, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board Members amounted to PLN 6,826,000. The total amount of remuneration and bonuses paid out or due for H1 2011 given here is the gross amount of remuneration paid out or due and payable for the period from January until June 2011.

Members of the Management Board of ING Bank Śląski S.A. are not covered by any equity-based incentive or bonus scheme. The Group of ING Bank Śląski S.A., on the other hand, participates in the Long-term Equity Ownership Plan (LEO) maintained by ING Group. The principles of that programme have been presented in Report of the Management Board on Operations of the ING Bank Śląski S.A Capital Group in 2010.

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

Remuneration of Members of the Management Board of ING Bank Śląski S.A. in H1 2011 (PLN 000)

Period	Remuneration and bonuses	Benefits	Total
H1 2011	5,942	884	6,826
H1 2010	4,359	1,100	5,459

In H1 2011, the remuneration (defined as above) paid out by ING Bank Śląski S.A. to the Members of the Supervisory Board totalled PLN 241,000.

Remuneration of Members of the Supervisory Board of ING Bank Śląski S.A. in H1 2011 (PLN 000)

Period	Remuneration and bonuses	Benefits	Total
H1 2011	241	0	241
H1 2010	263	0	263

None of the Management Board members held any shares of ING Bank Śląski S.A. As regards members of the Supervisory Board, Mr. Wojciech Popiołek has held 6 shares of the Bank.

6. Information on the Auditor

On 3 March 2011, the Bank's Supervisory Board selected Ernst & Young Audit Spółka z o.o. with the registered office in Warsaw as its chartered auditor examining the financial statements of ING Bank Śląski S.A. and the Capital Group of ING Bank Śląski S.A. for the period of one year, starting with the Q1 2011 financial statements to 2011 annual financial statements.

ING Bank Śląski S.A. uses the services of Ernst & Young Audit Spółka z o.o. within the scope of auditing the Bank financial statements since 2008.

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

1. *Truthfulness and Accuracy of Statements*

To the best knowledge of the Management Board of the Bank, the financial data for H1 2011 and the comparable data presented in the semi-annual condensed consolidated financial statements of the Capital Group of ING Bank Śląski S.A. were prepared, in all material aspects, in accordance with the effective accounting principles and they present fairly, accurately and transparently all the information on the property and financial standing of the Bank's Capital Group and its financial result. The semi-annual report of the Management Board enclosed herewith contain a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's Capital Group in H1 2011.

2. *Selection of Entity Authorized to Audit Financial Statements*

The entity, which is authorized to audit the financial statements and which audited the semi-annual condensed financial statements of the Bank's Capital Group, was selected according to the effective laws and the Bank's regulations. The entity and the certified auditors fulfilled the conditions required to make an impartial and independent report on their audit, as required by the applicable Polish laws.

3. *Notes*

Agreements

The Bank Management Board declares that as at 30 June 2011 ING Bank Śląski S.A. does not have any:

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

Number and value of writs of execution

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

As at 30 June 2011, the number of banking writs of execution issued by the Bank with respect to loans for business operations totalled 246, and covered total debt of PLN 407.7 million.

As regards retail clients, during the first half of 2011 the Bank issued 5,728 banking writs of execution to the total amount of PLN 53,475,800 and sent 4,099 lawsuits for the total amount of PLN 20,507,100.

Value of proceedings concerning obligations or debt claims in the first half of 2011 was under 10% of the Bank's own funds.

In the opinion of the Bank, the proceedings before the court, authority relevant for arbitration proceedings or public administration body in the first half of 2011 do not pose a threat to the Bank's financial liquidity, either individually or collectively.

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

Małgorzata Kołakowska
Executive President
(signed on the Polish original)

Mirosław Boda
Executive Vice President
(signed on the Polish original)

Michał Bolesławski
Executive Vice President
(signed on the Polish original)

Justyna Kesler
Executive Vice President
(signed on the Polish original)

Oscar Edward Swan
Executive Vice President
(signed on the Polish original)

2 August 2011

ING