



# 2014

**Management Board Report on Operations  
of ING Bank Śląski S.A. Capital Group in 2014**

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## **CHAIRMAN'S STATEMENT**

### **Dear Shareholders,**

In 2014, the banking sector operated under conditions of historically low but compared with the previous year relatively stable market interest rates. The sector was challenged by other regulatory factors such as the reduction of the interchange fee that had an adverse impact on the banks' income.

Irrespective of the changing conditions, the ING Bank Śląski S.A. Capital Group consistently pursued its strategy aimed at increasing the scale of operations through acquisition of new clients and increased business volumes. For another consecutive year, the Group increased its lending and deposit portfolios considerably, while maintaining good quality assets and sustaining solid capital and liquidity positions. The Bank Supervisory Board actively assisted the Management Board in all their efforts through close analysis of their actions and also participated in the making of key decisions. The Supervisory Board monitored market risk, liquidity and capital adequacy management areas with particular care. The Supervisory Board were also involved in the setting of the Group's priority development directions.

As at the end of 2014, loan receivables from customers amounted to PLN 57.1 billion, up by 17.5% from the previous year. Concurrently, the value of funds deposited by clients grew by 12.0% and totalled PLN 75.7 billion as at the yearend. The increase in commercial balances translated into a higher balance sheet total of the Group, which at the yearend amounted to 99.9 billion, up by 15% from the prior year. It is worth emphasising that these impressive increases in business volumes were achieved through the efforts of the Bank, without any one-off factors such as acquisitions.

It should be recognised that the Group employs the highest standards of credit risk assessment and this contributed an improvement in the quality of assets. As at the end of 2014, impaired receivables fell to 4.1%, compared with 4.6% in the previous year. Consistently, the quality of loans granted by the Bank is significantly better than the market average. As at the yearend, the share of impaired receivables for the sector reached 7.0%.

A solid capital base is crucial for continuing the Group's strategy of dynamic growth. As at the yearend, the total capital ratio, calculated under the CRD IV/CRR (Basel III) guidelines, was at a prudentially comfortable level of 14.2%. The balanced growth on both sides of the balance sheet led to an LTD ratio of 73% as at the yearend. This means that the Group's liquidity will support the further development of the loan portfolio.

In 2014, the Bank Capital Group reported net profit of PLN 1,041, which is over 8% higher than the previous highest result, that of 2013. Considering the relatively difficult market conditions for banks, the result demonstrates that the Management Board of the ING Bank Śląski S.A. Capital Group not only fully achieved their strategic goals, but also managed to counteract the external conditions that adversely impacted the Bank's profitability.

In view of the Group's sound capital position, which will enable further dynamic growth, the Supervisory Board endorse the Management Board's proposal concerning the dividend payout to shareholders from the 2014 profit.

I have every reason to believe that the ING Bank Śląski S.A. Group will continue to pursue its strategy with success, particularly as many factors suggest that the Polish economy will further expand in the future.

Yours faithfully,

**Antoni Reczek**  
**Chairman of the Supervisory Board**

## PRESIDENT'S REVIEW

### Ladies and Gentlemen,

In 2014, the ING Bank Śląski S.A. Capital Group continued its organic growth strategy by further improvement of its offer and customer service quality. Achievement of the set objectives is demonstrated by further increase in business volumes and the number of clients using the services provided by the Group. Last year, over 380 thousand clients decided to start relationship with the Bank and as at the yearend their total number exceeded 3.7 million. At the same time, the scale of Group's operations also rose – the balance sheet total went up by over PLN 13 billion y/y, or up by 15%, from the previous year. It resulted from the dynamic growth of both the lending and deposit portfolios. Credit receivables from customers exceeded PLN 57 billion and grew by 17.5%, while the funds deposited on accounts reached almost PLN 76 billion, which means that they went up by over PLN 10 billion, or by 12%. The Group solidified its market position as its volumes were growing faster than the market – its share in deposits exceeded 8% (versus 7.8% as at the end of 2013) and in loans arrived at 5.7% (versus 5.2% the year before).

We attach great importance to service standards and in particular we appreciate opinions of clients. We perform customer satisfaction surveys on an ongoing basis. Clients' voices and opinions are taken into account when modifying and developing our offer. It was the case for example in the design stage and during initial works on the new internet banking system My ING. We are hoping that the system will be exceptional and will fully respond to the needs of users.

We were developing service channels and access tools for banking services to ensure clients' convenience. As many as 450 ATMs have been equipped with readers for NFC transactions, the number which represents more than half of those machines in the Bank's network. New functionalities were added to the mobile applications for smartphones (ING BankMobile) and tablets (ING BankMobile HD) to make daily operations and personal finance management easier for clients (Receipts and Split your expenses features). Here, it should be noted that the mobile application has been very popular and until the end of 2014 it was downloaded almost 800 thousand times. In December 2014, clients made 1.3 million transactions through this application (transfers and mobile phone top-ups). The Bank also offered a convenient tool to make online payments – V.me Digital Wallet and launched contactless payments for NFC-enabled smartphones. Furthermore, thanks to a fully integrated brokerage account, brokerage services were added to the internet banking functionality of ING Bank Online.

Last year, the Group also intensified its actions as regards corporate clients service. Functionalities of the internet and mobile systems were further developed. The Bank introduced, among other things, an electronic sign-off of credit agreements and an option of sending documents through ING BusinessOnLine. Online credit applications also enjoy continuing popularity – as at the yearend they represented 83% of all applications filed by businesses. Clients also use the internet channel for trade finance products intensely. In December 2014, that channel was used to submit 97% of instructions to open a letter of credit, 91% of receivables purchase applications and 86% of guarantee applications. Furthermore, in 2014 the Bank implemented more machines to facilitate cash management for entrepreneurs: mini CDMs, electronic depositories, light depositories and fee collection machines. Until the end of 2014, the ING BusinessMobile application was downloaded 35 thousand times.

The Bank's actions in the area of service quality, new solutions and technologies were recognised in key rankings and competitions. In the ranking *Przyjazny Bank Newsweeka* (Newsweek Friendly Bank), the Bank was ranked first in the Mobile Banking category and third in the Internet Bank category. ING Bank Śląski was named the Most Innovative Bank in Poland at the Financial & Banking Awards competition. The Aleo platform for businesses was named the Product of the Year in the IT@Bank 2014 ranking. The Bank received the title of the Best Bank in Poland in the Euromoney Awards for Excellence 2014.

The Group's companies running leasing and factoring operations also recorded a dynamic growth. ING Commercial Finance S.A., providing factoring services, should be appreciated in particular. In 2014, its volume of transactions reached PLN 16.9 billion, which represents an increase of PLN 4 billion (or 31%) from the previous year. Thus, ING Commercial Finance S.A. positioned itself as the top factoring company in Poland. Over the year, ING Lease (Polska) Sp. z o.o. increased its portfolio by almost 8%, focusing on lease of machinery and equipment.

The strong organic growth of the Group was achieved while keeping a prudent approach to risk assessment, which is reflected in a very good quality of the lending portfolio. As at the yearend, the share of receivables with impairment triggers settled at 4.1%, which stands for an improvement on the previous year by 0.5 p.p.

Thanks to higher income, triggered by a bigger scale of operations, optimal management of operating expenses and stable loan loss provisions, for the first time in history the net financial result of the ING Bank Śląski S.A. Group exceeded PLN 1 billion and amounted to PLN 1,041 million. Concurrently, the total capital ratio, calculated under the CRD IV/CRR (Basel III) guidelines, was 14.2%. Those two factors were taken into account in the decision of the Management Board to recommend that the General Meeting pass a resolution on allocating approximately 50% of the Group's net profit for the dividend for shareholders.

Consistent delivery of the Bank's strategy and open communication with the market were appreciated by stock exchange investors, which is best reflected in the shares quotations benchmarked against the sector index. Throughout 2014, the share price of ING Bank Śląski S.A. went up by 23.4%, while the WIG-Banking sub-index went down by 0.7%.

Apart from delivery of business goals, the Group attaches importance to the initiatives rooted in the key values applicable in internal and external relations – integrity, respect, openness, accountability and common sense. All these actions as well as the fact that employees have a chance of continuous development made the Bank receive the Top Employers Certificate for the fifth time. A corporate culture scan, carried out on a yearly basis, is an important action for the Management Board to foster bilateral communication with employees. Like in previous years, the results of the 2014 scan confirmed high employee engagement and good assessment of conditions and relations at work. Compliance of the Bank's actions with the ethical values, respect for environment, community and other stakeholders were confirmed by including the Bank for the eighth time in the composition of the stock exchange RESPECT Index. The Bank has been continuously present in the RESPECT Index since its very beginning.

Business and financial results posted prove the proper direction of development adopted by the ING Bank Śląski S.A. Group. Therefore, we are planning to continue the growth strategy in the following years. We do want to build long-term relationships with our clients, we want to be part of their daily lives and support them in their daily routine and, if possible, in taking life-time decision. We aspire to grow faster than the market, both in the category of granted loans and accepted deposits. We are still going to stand out in the market in terms of service quality and the modern touch of solutions we offer.

Yours respectfully,

**Małgorzata Kołakowska**  
**President**

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

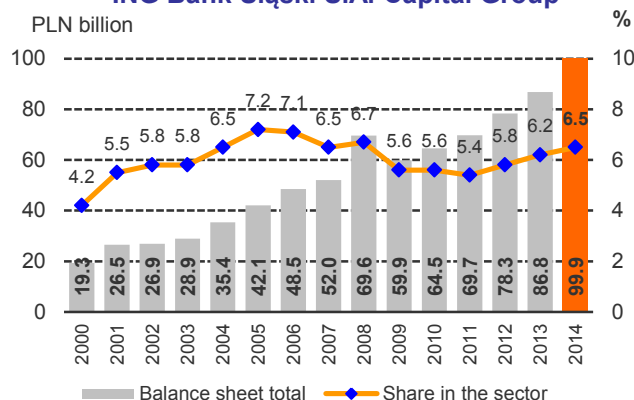
ING Bank Śląski S.A. has been present on the market since 1989. For almost twenty six years of its operations, it has reached the position of one of the largest universal banks in Poland. As at 31 December 2014, the Bank Capital Group (Group) balance sheet total was PLN 99.9 billion, or 6.5% of the total assets of the Polish banking sector. Consequently, the Bank was ranked fifth on the Polish market as per balance sheet total. The Bank managed PLN 75.7 billion worth of funds in the accounts, i.e. 8.0% of total deposits in the commercial banks sector, which made it the fourth largest deposit bank in Poland.

In 2014, ING Bank Śląski S.A. had a strong position on the core markets of banking services, notably:

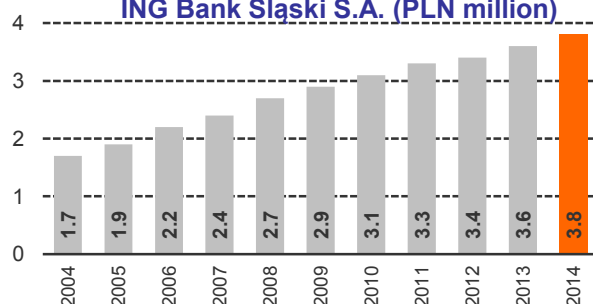
- Retail banking**  
 Number four on the market in terms of worth of household deposits (with a share of 8.4%) and number three in mortgage sales (with a share of 11.2%). The Bank was ranked fifth in the number of personal accounts of individual clients (7.8% of personal accounts<sup>1</sup>).
- Corporate banking**  
 16% of companies<sup>2</sup> with annual turnover of above PLN 2 million used Bank's services (second position on the market). The Bank was also the fourth largest lender and fifth largest savings bank (with 9.0% share in the lending market and 7.4% in the savings market of commercial banks).
- Leasing and factoring operations**  
 As at the end of 2014, ING Commercial Finance Polska S.A. – a Bank Capital Group member – had the first position on the factoring services market (14.8% of the market). ING Lease (Polska) Sp. z o.o., with a 6.9% share of the leased assets value, had the third position on the leasing services market.
- Money markets and capital markets**  
 The third position on corporate debt securities market with the share of 14.5% in the total of outstanding securities and the first position on the short-term securities market (share of 35.2%).

In December 2014, 3,765.2 thousand clients used the services of ING Bank Śląski S.A., up by 190.5 thousand from a year earlier, including 3,728.6 thousand retail clients and 36.6 thousand corporate clients.

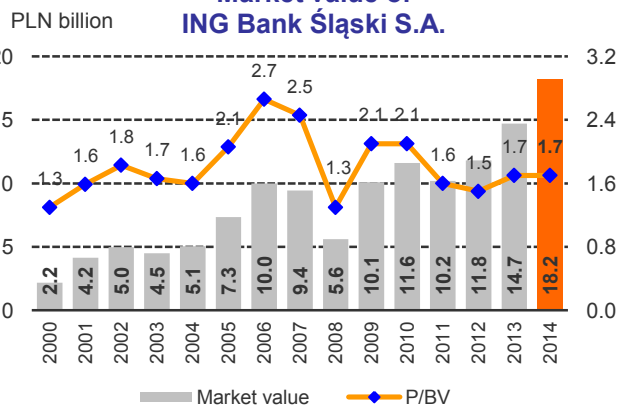
Balance sheet total of  
ING Bank Śląski S.A. Capital Group



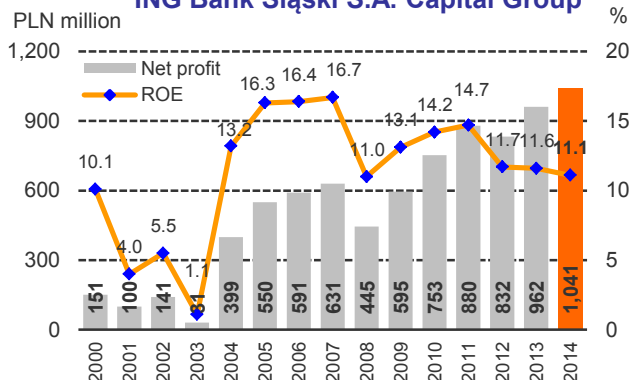
Number of clients of  
ING Bank Śląski S.A. (PLN million)



Market value of  
ING Bank Śląski S.A.



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



<sup>1</sup>As at 30 September 2014. Data based on the "Raport PRNews.pl: Market of personal accounts – Q3 2014" of 21 November 2014

<sup>2</sup>Based on the GFK Polonia survey, June 2014.





The Bank had a nationwide network of 401 bank branches, which provided access to self-banking zones open 24 hours a day. Moreover, as at the end of 2014 the Bank had 55 ING Express sales points located in the biggest shopping malls across Poland. ING Bank Śląski S.A. clients could use 892 Bank ATMs for free; Direct and VIP account holders as well as Entrepreneurs could use all the ATMs across Poland also for free. As regards cash service, the Bank offered a network of 772 CDMs to clients. The numbers of both ATMs and CDMs include 598 modern dual machines (supporting cash deposits and withdrawals). What is more, the Bank provides the clients with banking services via edge cutting electronic banking channels, such as: the Internet banking systems (ING BankOnLine, ING BusinessOnLine), mobile banking (ING BankMobile, ING BankMobile HD, ING BusinessMobile), a phone banking system (HaloŚląski), and a text messaging system (SMS system).

As at the end of 2014, the ING Bank Śląski S.A. Capital Group had 8,157 employees.

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

### Abridged information on financial results of the ING Bank Śląski S.A. Capital Group for the years 2007 to 2014

	2014	2013	2012	2011	2010	2009	2008	2007
<i>PLN million</i>								
Income <sup>3</sup>	3,544.8	3,328.5	3,245.1	2,990.0	2,747.2	2,548.6	2,132.5	2,076.9
Costs	1,929.7	1,868.4	1,866.2	1,700.0	1,609.5	1,505.9	1,503.9	1,393.1
Risk costs	267.7	267.2	362.8	172.4	203.6	304.4	65.6	-103.2
Gross profit	1,347.4	1,192.9	1,016.1	1,117.6	934.1	738.3	563.0	787.0
Net profit <sup>4</sup>	1,040.7	961.5	832.3	880.1	753.1	595.1	445.4	630.7
<i>PLN million</i>								
Balance sheet total	99,861	86,751	78,267	69,723	64,518	59,883	69,611	52,011
Liabilities to customers	75,659	67,548	57,898	52,861	47,448	47,319	46,910	43,647
Net loans and other receivables to customers <sup>5</sup>	57,131	48,552	45,206	38,457	31,241	26,704	23,931	16,379
Off-balance sheet liabilities	364,714	271,183	188,623	209,041	163,221	145,667	292,132	234,247
Equity <sup>6</sup>	10,454	8,626	8,134	6,414	5,651	4,884	4,222	3,839
<i>%</i>								
Total Capital Ratio <sup>7</sup>	14.2	17.3	14.6	11.9	13.2	12.0	10.4	13.1
Net profit/Balance sheet total (ROA)	1.1	1.2	1.1	1.3	1.2	0.9	0.7	1.2
Net profit/Equity (ROE)	11.1	11.6	11.7	14.7	14.2	13.1	11.0	16.7
Costs/Income	54.4	56.1	57.5	56.9	58.6	59.1	70.5	67.1
<i>PLN</i>								
Earnings per share <sup>8</sup>	8.00	7.39	6.40	6.76	5.79	4.57	3.42	4.85
Dividend per share	4.00 <sup>9</sup>	4.40	0.00	0.00	1.50	0.00	0.00	1.17

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

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

<sup>5</sup> Eurobonds excluded.

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

<sup>7</sup> Since 2014 the total capital ratio (previously solvency ratio) has been calculated under the CRD IV/CRR (Basel III) regulations.

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

<sup>9</sup> Following the information provided in the current report no. 2/2015 of 11 February 2015, the Management Board of ING Bank Śląski S.A. intend to recommend the General Meeting to adopt a resolution on earmarking for dividend payout approx. 50% of net profit of the ING Bank Śląski S.A. Capital Group for 2014. Assuming that the General Meeting will approve the proposal of the Bank Management Board, the amount earmarked for the dividend will be approximately PLN 520.4 million (PLN 4.00 per share).

**Abridged information on financial results of the ING Bank Śląski S.A. Capital Group for the years 2007 to 2014 (converted into EUR)**

	2014	2013	2012	2011	2010	2009	2008	2007
<i>EUR million</i>								
Income	846.2	790.4	777.5	722.2	686.0	587.2	603.7	549.9
Costs	460.6	443.7	447.1	410.6	401.9	346.9	425.8	368.9
Risk costs	63.9	63.5	86.9	41.6	50.8	70.1	18.6	-27.3
Gross profit	321.6	283.3	243.5	269.9	233.3	170.1	159.4	208.4
Net profit	248.4	228.3	199.4	212.6	188.1	137.1	126.1	167.0
<i>EUR million</i>								
Balance sheet total	23,429	20,918	19,145	15,786	16,291	14,576	16,684	14,520
Liabilities to customers	17,751	16,288	14,162	11,968	11,981	11,518	11,243	12,185
Net loans and other receivables to customers	13,404	11,707	11,058	8,707	7,889	6,500	5,736	4,573
Off-balance sheet liabilities	85,567	65,389	46,138	47,329	41,214	35,458	70,015	65,396
Equity	2,453	2,080	1,990	1,452	1,427	1,189	1,012	1,072
<i>%</i>								
Total Capital Ratio	14.2	17.3	14.6	11.9	13.2	12.0	10.4	13.1
Net profit/Balance sheet total (ROA)	1.1	1.2	1.1	1.3	1.2	0.9	0.7	1.2
Net profit/Equity (ROE)	11.1	11.6	11.7	14.7	14.2	13.1	11.0	16.7
Costs/Income	54.4	56.1	57.5	56.9	58.6	59.1	70.5	67.1
<i>EUR</i>								
Earnings per share	1.91	1.75	1.53	1.63	1.45	1.05	0.97	1.28
Dividend per share	0.95	1.04	0.00	0.00	0.37	0.00	0.00	0.31

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

- for the income statement items – the exchange rate is calculated as the average of the National Bank of Poland's rates effective as at the last day of each month in the year:
  - 2014: PLN 4.1893
  - 2013: PLN 4.2110
  - 2012: PLN 4.1736
  - 2011: PLN 4.1401
  - 2010: PLN 4.0044
  - 2009: PLN 4.3406
  - 2008: PLN 3.5321
  - 2007: PLN 3.7768
- for the statement of financial position items – the exchange rate of the National Bank of Poland as at 31 December of the year:
  - 2014: PLN 4.2623
  - 2013: PLN 4.1472
  - 2012: PLN 4.0882
  - 2011: PLN 4.4168
  - 2010: PLN 3.9603
  - 2009: PLN 4.1082
  - 2008: PLN 4.1724
  - 2007: PLN 3.5820.

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

**Fitch Ratings Ltd.**

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

**Moody's Investors Service Ltd.**

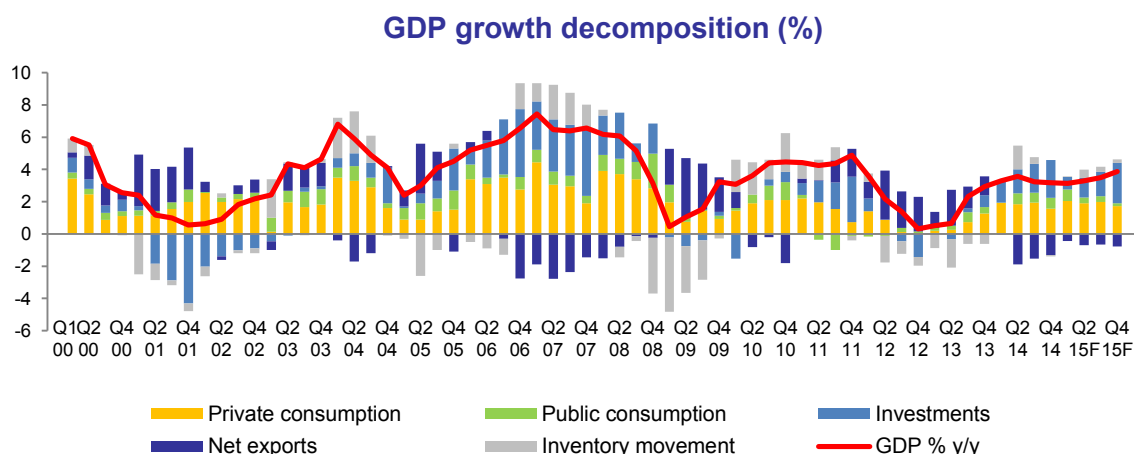
LT Rating	Baa1
ST Rating	P-2
Bank Financial Strength (BFSR)/ Baseline Credit Assessment (BCA)	D+ / baa3
LT Rating Outlook	Negative
BFSR Outlook	Stable

## I. MACROECONOMIC SITUATION OF THE POLISH BANKING SECTOR GROWTH IN 2014

### 1. Major trends in the Polish economy

#### Gross Domestic Product

The year 2014 has shown where there are boundaries for the Polish growth in the situation when the Eurozone is wrestling with stagnation. In the first quarter, there was a relatively dynamic recovery in the economy (3.4% y/y), taking into account mixed signals as to the Eurozone standing. What helped was warm winter and changes in VAT for company cars. In the second and third quarters, the growth stayed at that fairly high level despite the burden stemming from the Russia-Ukraine conflict. The economic growth for the whole year was probably 3.3% versus 1.7% in 2013. The end of 2014 brought also a positive supply shock due to the rapid and significant fall in the crude oil prices worldwide, whereby the achieved level seems maintainable in 2015.



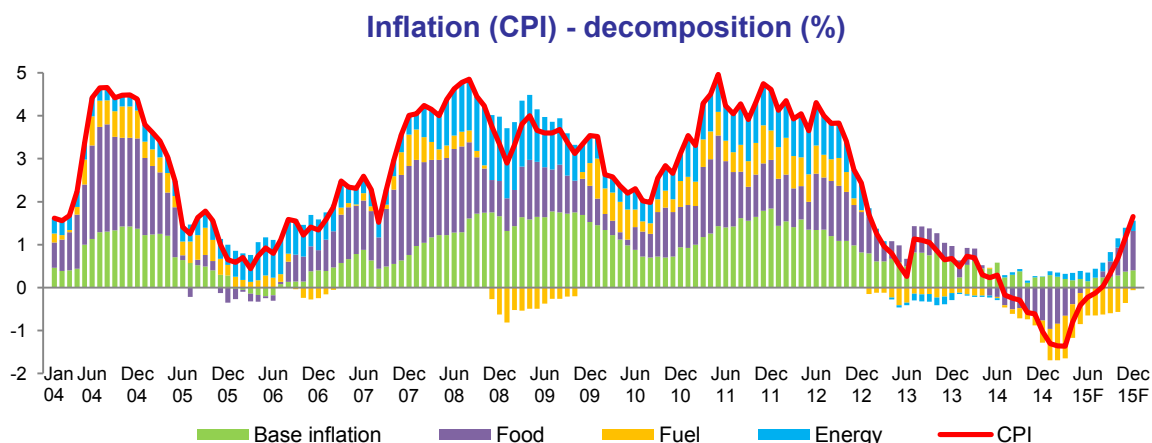
#### Labour market and payroll

Average unemployment rate in 2014 was 12.3% versus 13.5% in the previous year. What is characteristic is the improvement regularity for the data describing the labour market, though the very pace of employment improvement in the sector of enterprises is not among the fastest (for most part of the year it was 0.7-0.8% y/y). It is noteworthy that already in mid-2014 the unemployment rate made up for the whole increase caused by the slowdown of the years 2012-2013 and despite this it is still not losing its impetus in the downward movement.

The wage growth rate in the corporate sector rose from 2.6% y/y on average in 2013 to 3.9% in 2014. The annual average real salaries went up to 3.9% from 1.6% in the previous year owing to the deceleration of inflation trends. It is worth noting, however, that towards the end of 2014 the growth in salaries started to slow down which could reflect the worse condition of the mining industry and the falling pay pressure vis-à-vis the surprising scale of price growth decline during the year (from 0.7% y/y in December 2013 to -1% y/y in the following year).

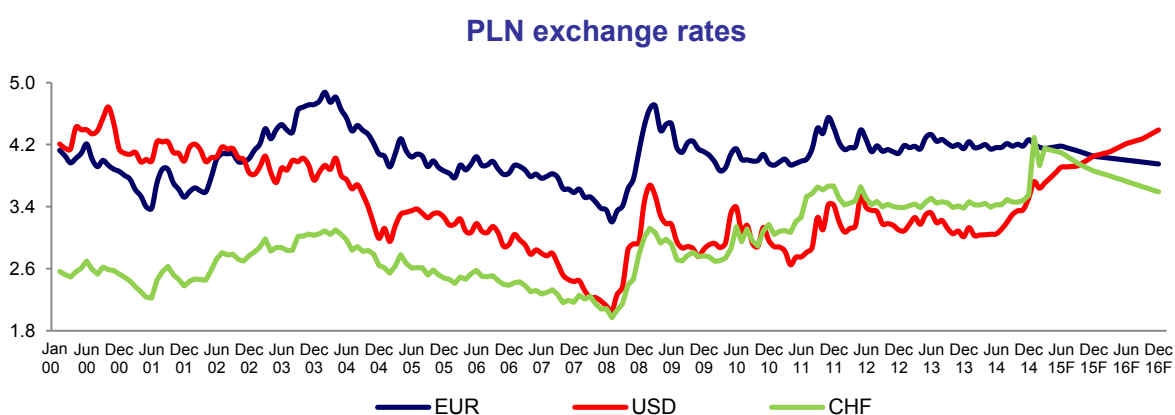
#### Inflation

Despite optimistic expectations as regards the overall economic situation, 2014 was marked by the first since before several decades deflation period. The annual average inflation settled at 0.0% versus 0.9% in 2013, although yet in December 2013 the median of expectations as to its average level in 2014 was 2%. The deflation period has been lasting continually since July 2014. The reason for such a low growth in prices is the long-term season of very low inflation in the Eurozone on account of weak market conditions, but also global falls in the prices of raw materials, including energy resources. The pressure on declining food prices resulted from the co-occurrence of good harvest in Poland and Russia's placing an embargo on food imports from the EU (while some restrictions and difficulties concerning the exports to Russia affected Poland nearly from the beginning of the previous year; the embargo on food from the EU came into force in August).



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

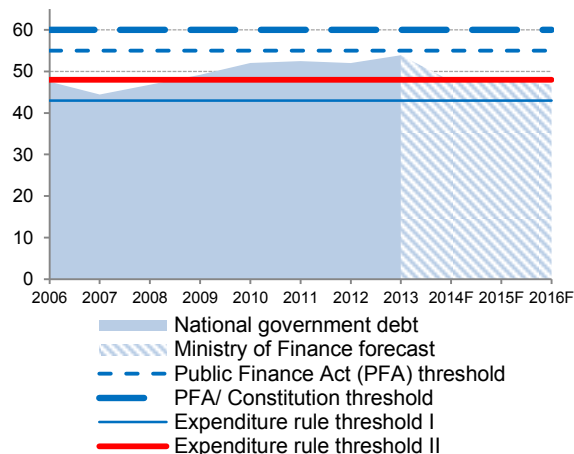
2014 was characterised, on the one hand, by the tapering of the quantitative easing programme by the American Federal Reserve Bank and preparing for the interest rates rise, and on the other hand, by the European Central Bank gradually taking to next unconventional measures aimed at loosening the monetary policy. Apart from that, Japan intensified the stimulation scale. In the environment of low and falling inflation and economic stagnation in the Eurozone, this led to the drop in profitability of bonds, both in base markets, developed markets and among emerging markets, Poland included. Prudent withdrawal from the policy of cheap money by the USA and expectations that the ECB balance sheet would augment shored up the climate of “searching for profitability”. The investors’ behaviour was also influenced by Russia’s taking over Crimea as well as by the continued conflict between Russia and Ukraine. The sanctions imposed on Russia by, among others, the EU and USA led it to the verge of liquidity crisis and combined with Russia’s retaliatory actions resulted in worsening of the European business sentiment. The Polish zloty showed considerable resistance to much turbulence in emerging markets in 2014 but because of it could not appreciate to such a degree as the sound condition of the economy when juxtaposed with other emerging markets and relatively high interest rates would suggest.



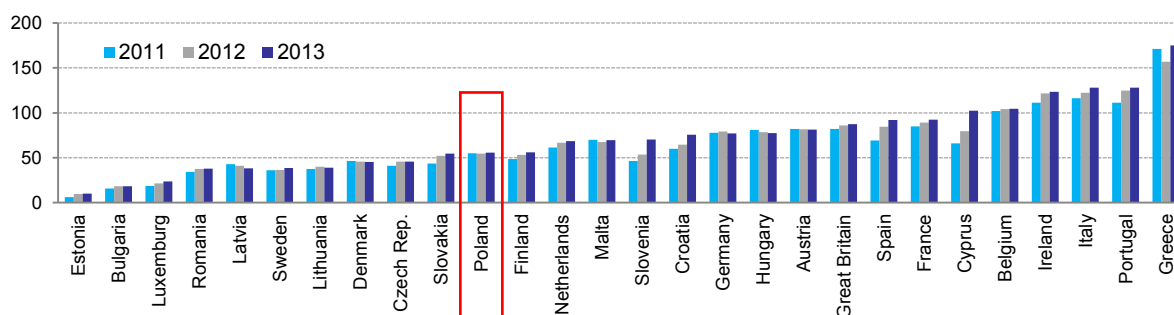
### State budget

The execution of the central budget for 2014 was surprisingly positive, considering that inflation was markedly lower than planned and the economy had to face up to the economic impact of the conflict between Russia and Ukraine. The actual deficit after November turned out to be more than PLN 20 billion below the plan, which was the effect of relatively high income (including over-10% higher VAT y/y) and lower actual expenditures (inter alia, as regards debt service costs). The public finance sector deficit at 3.3% of GDP as estimated by the Ministry of Finance is low enough to make it possible to simultaneously fulfil the obligations under the EU fiscal framework and arrange for some support of the economy from the fiscal policy in 2015.

National government debt in years 2006-2016 (% of GDP)



Government debt as per EU methodology (% of GDP)



## 2. Monetary policy

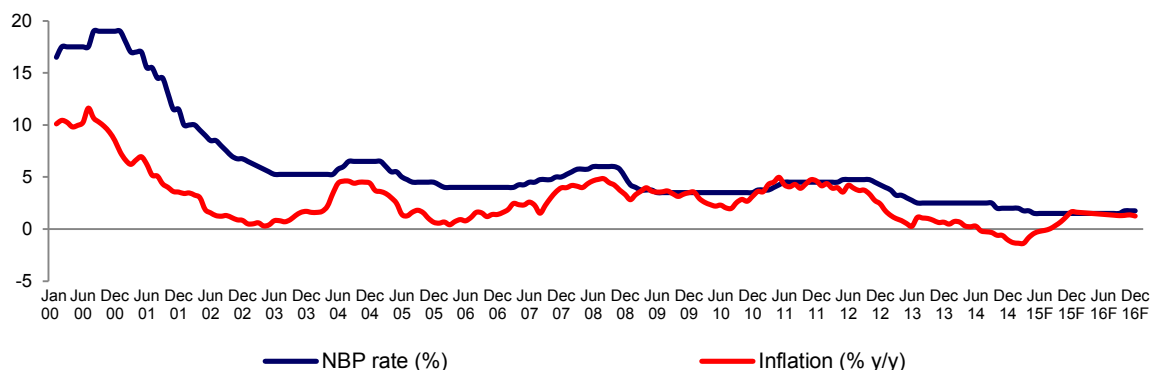
The Monetary Policy Council kept the interest rates unchanged until the end of the third quarter, even though the nose-diving inflation and its descent below zero created pressure towards further reductions. On 08 October, the key interest rate was reduced by 50 bps and at the same time the lombard rate was reduced by 100 bps as a result of which the corridor set by the lombard and deposit rates narrowed from 300 bps to 200 bps. The persisting relatively good results of the economy in real terms as well as concerns that further reductions will be ineffective prevented the Council from additional cuts contrary to the market expectations. In consequence, Poland still stood out among emerging economies, due to its relatively high level of real interest rates.

The Monetary Policy Council is confronted with the continued good market conditions and further deepening of deflation. Besides, it is aware of the fact that the policy of cheap money of the main central banks led to a difficult situation in financial markets where huge capital flows are not rare. Hence, the financial markets stability and predicting of investors' reactions constitute important factors for shaping the monetary policy. The uncertainty engendered by the conflict between Russia and Ukraine which impacts significantly on the dynamics of prices in Poland and, to some extent, influences also the economic growth is an additional impediment here. The Monetary Policy Council may decide to further reduce the interest rates by 25-50 bps in total in March or in the following months under the pressure from very low price dynamics figures. PLN depreciation from December 2014 and January 2015 plus large nervousness of its movements in that period were named by the Monetary Policy Council the factor necessitating interest rate stabilization. Nonetheless, during the press conference in February, Marek Belka, the President of the National Bank of Poland, declared to see sufficient arguments and support from the Council to reduce rates in March.

Since 08 October 2014, the interest rates have been as follows:

- reference rate – 2.00%,
- rediscount rate – 2.25%,
- lombard rate – 3.00%,
- deposit rate – 1.00%.

### NBP rate vs. inflation (%)



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

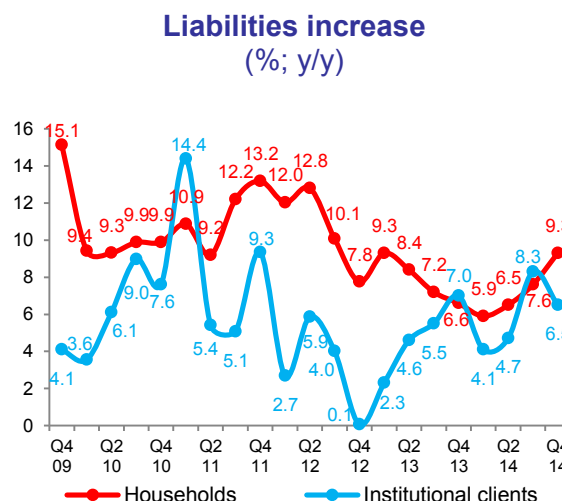
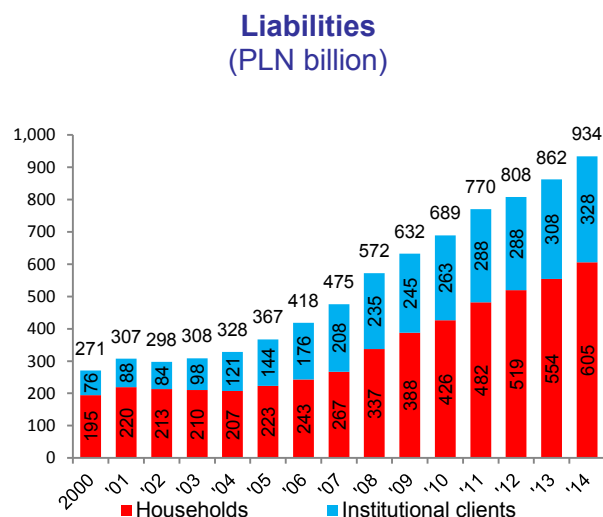
In 2014, the situation of the banking sector was impacted by accelerated economic growth and stable financial market (record low interest rates, record low yields of T-securities and relatively stable Polish zloty). Good financial standing of companies and improved condition of the labour market brought lending revival. Higher lending volumes were positively impacted by low interest rates and the government programme of De Minimis Portfolio Guarantee Line. Despite record low interest rates, the term deposit base grew faster than a year ago. Absence of attractive alternatives caused by the bear market experienced by the Warsaw Stock Exchange translated into higher term deposit volumes, in particular on the part of households.

The main monetary categories were as follows:

- Liabilities to households went up during the year by PLN 51.6 billion and as at the end of December 2014 they amounted to PLN 605.3 billion, up by 9.3% from the end of 2013.
- In December 2014, liabilities to institutional clients<sup>11</sup> amounted to PLN 328.5 billion, up by 6.5% from the 2013 yearend. The volume increase by PLN 20.1 billion can be mainly attributed to higher liabilities to enterprises (up by 9.0%, or by PLN 18.7 billion). Liabilities towards other sectors grew slower, while liabilities towards local government institutions and social insurance funds even dropped slightly.

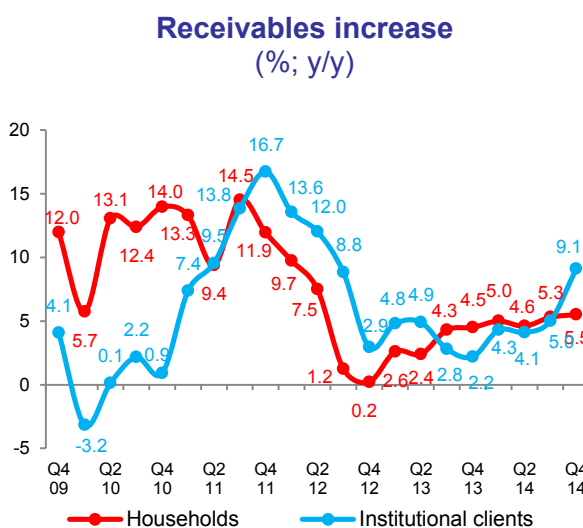
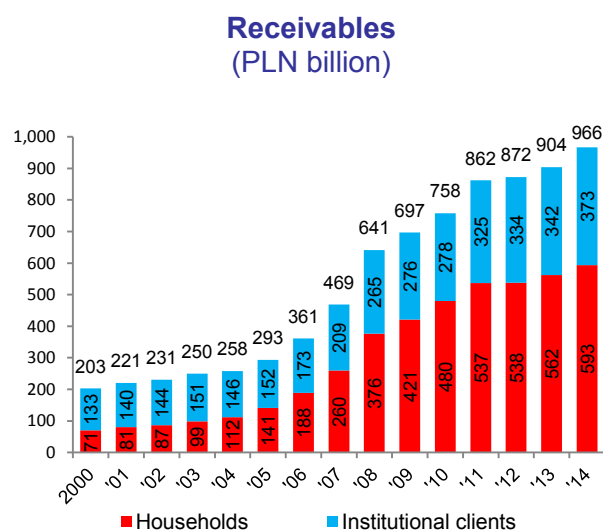
<sup>10</sup>The amounts discussed are for receivables and liabilities of monetary financial institutions from/ to other domestic industries. Source: NBP, NALEZ\_ZOBOW\_MIF.xls file – December 2014.

<sup>11</sup>Total for the following classes of entities: non-monetary financial institutions, enterprises, non-commercial institutions for households, local government institutions and social insurance funds.



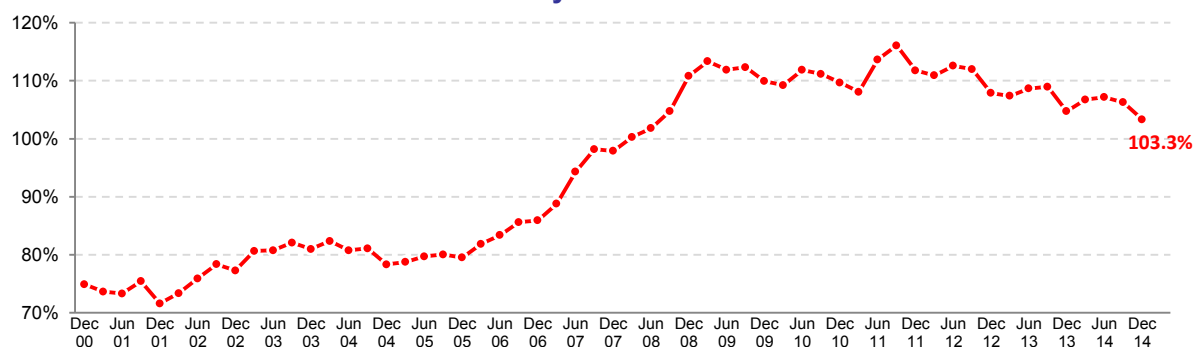
- In December 2014, receivables from households amounted to PLN 593.2 billion, up by 5.5% from the end of last year. Housing loans, which formed the main part of the banks' credit exposure towards households, grew in nominal terms by 5.1%, arriving at PLN 352.8 billion. Their rise would have been higher if it had not been for the first – of such scale – transaction of sale of non-performing housing loans by one of the banks. Upon excluding the exchange rate effect, the housing loans portfolio went up by approximately 3% throughout the year. According to the preliminary data of the Polish Bank Association, in 2014, banks granted mortgage loans totalling PLN 38.0 billion (PLN 37.5 billion in 2013); 99.2% of which were PLN loans. The volume of consumer credits went up a second year in a row. It rose by 4.01% from December 2013 to arrive at PLN 144.1 billion.
- Receivables from institutional clients went up by 9.1% (PLN +31.2 billion) in the past year, arriving at PLN 372.9 billion, including corporate loans which rose by PLN 15.4 billion (or 6.3%) during the year. The investment loans which went up by 9.9% from the 2013 yearend were the main growth driver. Working capital loans rose by 5.4% year on year, while loans for real property by 1.9%. Receivables from other sectors grew at the following pace:

  - receivables from non-monetary financial institutions: +24.0% (or up by PLN 10.3 billion),
  - receivables from local government institutions and social insurance funds: PLN +4.0 billion (PLN 1.4 billion),
  - receivables from non-commercial institutions for households: +7.1% (PLN 0.4 billion).





### L/D ratio for monetary financial institutions sector



In 2014, the financial results of the banking sector were primarily driven by the low interest rate landscape. The result on core activity went up by 4.0% from the past year. It was triggered by significantly higher net interest income (up by 7.1 y/y), slightly better net income on fees and commissions (up by 0.7%) and lower net income on other banking operations (down by 11.5%). Net interest income accelerated as an effect of completion by the banks of their adaptation to working in the low interest rate landscape. Banks managed to significantly reduce the cost of interest liabilities and obtain a lower drop in assets profitability at the same time. Interest income in the said period went down by 4.9% while interest costs dropped by 20.3%. Low dynamics of net income on fees and commissions was impacted by changes to the accounting policy as regards recognition of commission for selling insurance products. Lower net income on other banking operations resulted mainly from decreased trading activity following the drop in the profit on sales of the debt instruments portfolios from 2013.

Banks managed to keep the cost discipline (both the number of client outlets and the headcount went down) and as a result the operating expenses along with amortisation/depreciation went up only by 0.2% when compared with the same period last year. Costs were adversely affected by higher contributions to BGF due to the prudential fee. Costs rose slower than income which made C/I ratio go down by 1.4 p.p. (or from 53.6% to 52.2%).

Stable quality of lending portfolios caused the costs of impairment losses for assets remain unchanged when compared with 2013.

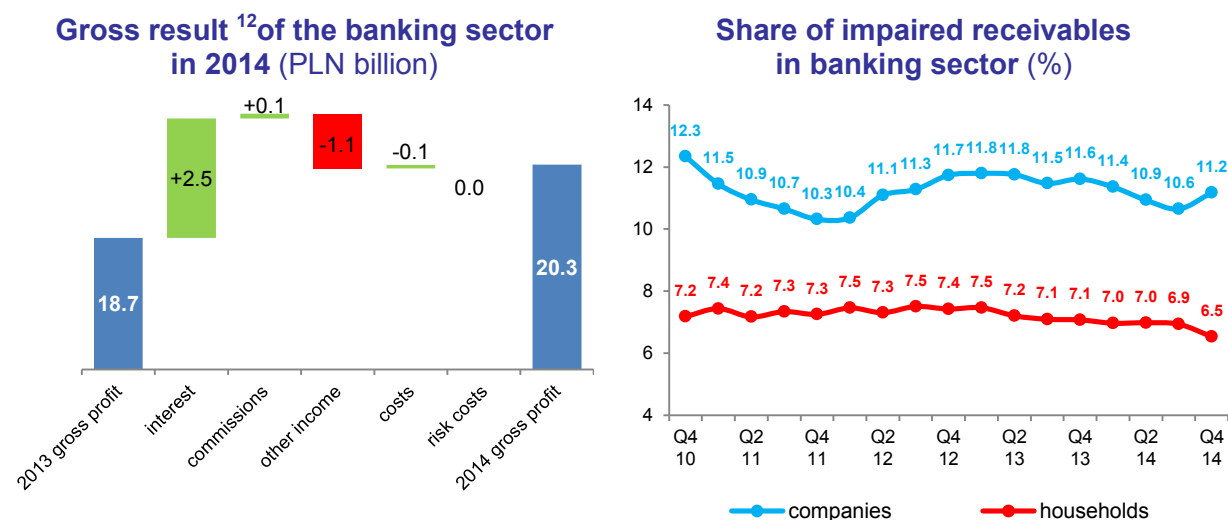
As a result of the above-discussed phenomena, going-concern net profit went up by 7.0% (or +PLN 1.1 billion) from 2013.

The key banking sector effectiveness ratios looked as follows: ROA was 1.1% and it did not change from 2013, whereas ROE rose slightly from 10.1% to 10.2%.

The share of impaired receivables in total receivables from the non-financial sector went down from 8.5% in December 2013 to 8.1% as at the 2014 yearend. It was triggered by economic revival accompanied by improving standing of companies and households as well as by lower costs of debt service following easing of the monetary policy by the Monetary Policy Council.

In the corporate sector the improvement was seen in large corporates (decrease in impaired loans from 9.6% as at the 2013 yearend to 9.0% in December 2014) and in SME (drop from 13.0% to 12.7%).

The share of impaired receivables from households went down from 7.1% to 6.5% in the analysed period. The share of impaired housing loans did not change (3.1%), while the share of non-performing consumer credits fell noticeably (down from 14.7% to 12.8%). Stable quality of housing loans was undoubtedly impacted by a large transaction of sale of non-performing housing loans by one of the banks.



The main changes introduced in 2014 by the Polish Financial Supervision Authority as regards regulatory requirements are as follows:

- Recommendation F on basic criteria used by PFSA when approving bylaws for determining the bank and mortgage value of the real property made by mortgage banks,
- Recommendation K on the principles of maintaining registers and accounts securing mortgage bonds by mortgage banks,
- Polish Financial Supervision Authority Resolution No. 218/2014 concerning publication of Principles of Corporate Governance for Supervised Institutions,
- Recommendation U on good practices on the bancassurance market, to take effect until 31 March 2015.

#### 4. Asset-backed funding market

##### Leasing

In 2014, the leasing industry financed transactions totalling PLN 42,8 billion<sup>13</sup>, i.e. up by 21.3% from the past year. It should be emphasized that it is at the same time the best result in the Polish leasing industry track-record. Such a good result was due to the economic upturn: high utilisation of corporate output capacity, increased demand for means of transport, acquisition of extra EU funds for farming as well as one-off factors of legislative nature (“cargo partition window”, derogation list for heavy goods vehicles complying with the Euro 5 emission standard).

The largest market segment (35.1%) – commercial vehicles –<sup>14</sup> was boosted by the terminating sale of vehicles meeting the Euro 5 emission standard and increased demand for transport services stemming from economic upswing. As a result, this segment grew by 30.8% from 2013. Leasing of passenger cars also saw a high growth (up by 24.5%; y/y) and represented 25.9% of the market. It was a result of the “cargo partition window” effective in Q1 2014, making it possible to fully deduct VAT from the purchase price of passenger cars with approval for registration as goods vehicles. Favourable laws on lease of vehicles from premium segment supported maintenance of high growth rate of those vehicles lease in subsequent quarters.

In 2014, machinery and equipment accounted for 31.7% of all assets funded by leasing companies. This segment grew – by 17.7% from the past year, *inter alia*, in consequence of a dynamic growth of the value of funded construction machinery (up by 51.8% y/y).

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

<sup>13</sup> Source: Polish Leasing Association, ZPL file -finansowanie rynku – rok 2014 – tabela wartość i ilość wg firm.xls

<sup>14</sup> Commercial vehicles comprise heavy goods vehicles of gross vehicle weight rating over 3.5 tonnes, tractor units, trailers and buses

The value of leased IT hardware and software went up by 8.8% from 2013. In turn, the value of means of railway, water and air transport funded by leasing companies fell by 3.6% y/y.

2014 saw a further drop in the real estate lease worth. This segment, whose market share (2.9%) is significantly lower than in Western Europe, shrank by 23.5%. It should be however underlined that the last quarter of 2014 brought some upturn (52.4% of the total production).

It is a standing trend on the market that loans in funding by lease companies gain in significance - already 15.6% of all movables were funded in that way in 2014. This phenomenon was primarily fuelled by extra funding for farming investment projects obtained from the closing EU Financial Perspective 2007-2013 (farming machinery is the the main category of assets funded with cash loans) and the growing popularity of cash loans in funding of passenger cars.

### **Factoring**

2014 was yet another good year for Polish factoring companies. The turnover of the factoring companies being members of the Polish Factors Association arrived at PLN 114.4 billion, or went up by 17.3% from 2013. The growing popularity of factoring services is driven by the fact that they allow for both improving the company's liquidity and hedging against the counterparty risk. Traditionally, domestic factoring (both full and limited) was the most popular form of factoring services in 2014 - its share in turnover of the companies grouped in the Polish Factors Association was 78.8%.

## **5. Capital market**

### **Warsaw Stock Exchange**

In 2014, the Warsaw Stock Exchange saw bear market which was driven by both internal factors (change of the open-end pension funds functioning among other things) and external factors (conflict between Russia and Ukraine). The broad market index - WIG closed 2014 with a slight gain of 0.3%.<sup>15</sup> Blue-chip index - WIG20 lost 3.5%, while WIG30 being a gauge for the most liquid companies closed the year 2.0% below the return seen by the last trading day in 2013. As far as the local stock market is concerned, medium-sized companies brought most gains for investors - mWIG40 picked up 4.1%. Among the main indices, sWIG80 saw the deepest drop, as it fell by 15.5% in the discussed period. The indices of the NewConnect market also performed poorly - NCIndex went down by 20.7%, and NCIndex30 grouping the most liquid companies of this market dropped by 25.5%.

As far as sector indices are concerned, WIG-Energy picked up most in 2014 (+23.6%), followed by WIG-Media (+10.5%) and WIG-Fuels (+5.2%). The biggest drops were recorded by WIG-Telecom (-8.0%), WIG-Developers (-9.8%), WIG-Basic Materials (-15.5%) and WIG-Food (-24.0%). The political situation in Ukraine made indices of companies coming from that country and listed on the WSE plummet. WIG-Ukraine lost 50.5% from the 2013 yearend.

As at the end of December 2014, there were 471 companies listed on the WSE main floor, including 51 foreign ones. Domestic companies were worth PLN 591.2 billion, down by 0.4% from December 2013. Domestic and foreign companies were worth PLN 1,253.0 billion in total, the number representing a 49% growth from 2013. This boom can be attributed to initial public offering of Banco Santander and German insurance company, Talanx on WSE. 2014 saw 28 IPOs and delisting of 7 companies.

In 2014, NewConnect saw 22 companies listed for the first time while 10 moved their quotations to the WSE main floor - the biggest number in that market history. As at the 2014 yearend, there were 431 companies quoted on the alternative market (445 as at the 2013 yearend). Domestic and foreign companies were worth PLN 9.1 billion in total (down by 17.3% from the 2013 yearend).

2014 saw fewer main floor trades. Trading volumes went down by 6.7% from 2013 and settled at PLN 205.3 billion. Total trading (block trades included) went down by 9.1%, arriving at PLN 232.9 billion. Trading in shares of high-potential companies on the alternative market - NewConnect went up from the previous year by 17.1%, reaching PLN 1.4 billion.

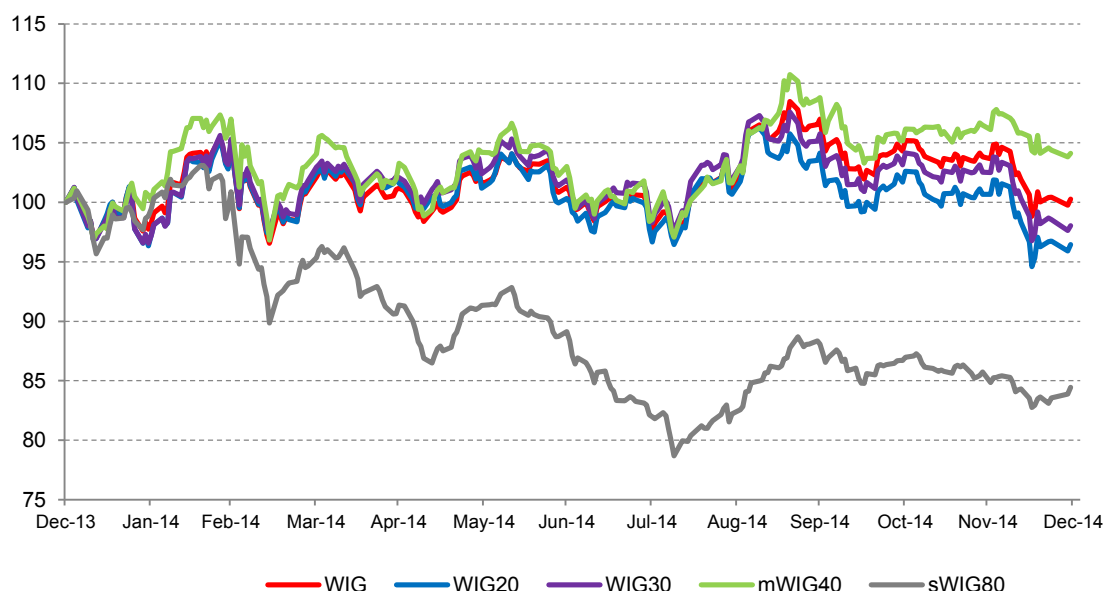
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<sup>15</sup> Source: Key WSE statistics ([http://www.gpw.pl/analizy\\_i\\_statystyki\\_pelna\\_wersja](http://www.gpw.pl/analizy_i_statystyki_pelna_wersja))

The issues of non-government bonds on the Catalyst market totalled PLN 64.1 billion versus PLN 59.0 billion as at the 2013 yearend. On the contrary, the value of trading fell and in 2014 was PLN 3.1 billion, or down by 28% from a year ago.

In 2014, the volume of stock indices contracts went up by 6.0% from 2013 and closed with 4.5 million deals.<sup>16</sup>

#### Main WSE indices in 2014 (30 December 2013 = 100)



#### Open-end pension funds

As at the end of December 2014, the funds accumulated in pension accounts totalled PLN 149.1 billion, as compared with PLN 299.3 billion as at the 2013 yearend. Such a big drop of assets is a result of forwarding bond holdings of open-end pension funds to the Social Insurance Institution on 03 February 2014. As a consequence of transferring PLN 153 billion, being 51.5% of assets, the funds accumulated in the open-end pension funds shrank from PLN 298.6 billion to PLN 145.6 billion over one day. Following this operation, open-end pension funds became aggressive funds with equity holdings prevailing in their portfolios (82.2% as the 2014 yearend).

#### Mutual funds

Despite WSE bear market, last year proved positive for mutual funds, although not all its segments brought adequate return. The interest rates remaining at low levels did not favour accumulation of savings in bank accounts and made investors look for alternative ways of saving. In 2014, the market of Mutual Funds Associations welcomed almost PLN 11.5 billion worth of new funds<sup>17</sup>, which is a drop from 2013 (PLN 21.5 billion). In no month a negative balance of payments and redemptions was posted nonetheless. As at the end of 2014, the mutual funds' assets totalled PLN 209.0 billion,<sup>18</sup> up by PLN 20.0 billion or 10.6% year on year. Last year the assets of capital and money market funds were more dynamic than those of private market funds<sup>19</sup> (11.0% versus 9.7%).

In 2014, cash and money market funds boasted very high returns. Their assets rose by PLN 7.2 billion (+30.6% y/y) over the past 12 months. Individual clients seeking attractive alternatives to low-interest

<sup>16</sup> With historical volumes of WIG20 contracts adjusted with the multiplier of PLN 10.

<sup>17</sup> Source: [http://www.izfa.pl/files\\_user/xls/Raport\\_flowy\\_31.12.2014.xls](http://www.izfa.pl/files_user/xls/Raport_flowy_31.12.2014.xls)

<sup>18</sup> Source: [http://www.izfa.pl/files\\_user/xls/Raport\\_aktywa\\_31.12.2014.xls](http://www.izfa.pl/files_user/xls/Raport_aktywa_31.12.2014.xls)

<sup>19</sup> Private equity, real property and securitisation funds

bank deposits prevailed among their investors. Cash and money market funds reported both a positive sales balance and management result; their market share went up by 2.2 p.p. to 14.6%.

Low interest rates and expected further interest cutbacks rendered investors eager to buy Polish bonds, notably long-term ones of fixed interest rate. In consequence, yields on Polish T-securities dwindled to the lowest levels ever. Under these conditions, the assets of debt funds proved very dynamic going up by 26.4% y/y (PLN +8.3 billion) and the entire segment solidified its market position by 2.4 p.p. (market share of 19.1%). Commodity market funds were very dynamic in 2014. They are the smallest market segment. Their assets augmented by 27.8%, but by PLN 73 million only in amount.

With the downturn experienced especially by the domestic stock market, equity funds posted both negative management result and trading balance. Their accumulated assets declined by PLN 1.3 billion to PLN 29.7 billion and their share in the market total fell from 2.2 p.p. to 14.2%). In the group of equity funds, those investing in medium-sized companies (mWIG40 gained 4.1% in 2014) and in foreign shares from the markets of India, Turkey and United States coped relatively well.

Mixed funds did not manage to safeguard themselves against a decline either (down by PLN 0.6 billion). Towards the end of December 2014, their volume was PLN 34.9 billion or 16.7% of the market (-2.1 p.p. over the year).

The segment of private funds grew primarily thanks to private equity funds and securitisation funds which built up their assets by PLN 5.2 billion (+9.2% y/y) and PLN 1.2 billion (+42.6% y/y) respectively. In 2014, the latter proved an absolute leader of growth among all funds groups, still they remain among the smallest segments on the Polish market with the share of 1.9%. Real property funds experienced a slump in managed funds last year (-15.56% y/y). It was driven by the fact that some products activated a few years ago entered their closing stage, entailing return of funds invested to clients.

As at the end of 2014, the share of private asset funds in the entire market was 32.4% versus 32.6% a year earlier.

## **6. Macroeconomic factors to affect ING Bank Śląski S.A. operations in 2015**

One of the global factors that may adversely affect the Polish economic situation is the pace of normalisation of the monetary policy in the USA. Should the expectations about increasing the US interest rates intensify, the risk of large outflow of capital from Poland and other emerging economies will become higher. Falling crude oil prices are another factor that because of its size can be seen as a positive supply shock that may prove favourable to the economy through freeing household funds by reducing fuel expenses and that through decreasing costs of enterprises protects their profitability in the period of falling consumer prices.

The key question is whether the Eurozone will manage to overcome the many-year economic stagnation in 2015. The European Central Bank intends to keep interest rates practically at the 0% level in the long time perspective. Further, it launched other non-conventional monetary policy instruments, including a large programme of purchase of sovereign bonds expected in 2014. All this in the environment of lasting works on the European investment programme that can be seen as an equivalent of Polish EU-funds-based programmes. Still, the fruits of the Juncker investment plan being the economic upturn will be visible first in 2016 only. Because of high debt and fiscal deficit, many Eurozone economies have limited capacity to support growth with fiscal policy. 2015 may see political risks persist (potential questioning of the Eurozone's fiscal framework by Greece and Spain generating for the former the risk of zone exit), whereby business sentiments can get sapped in the Eurozone.

Decelerating euro (by 16% y/y versus USD) and lower crude oil will aid the Eurozone in 2015. A relatively better condition of the German economy (when compared to the situation in the Eurozone) will enable keeping of the growth rate of the Polish export. In 2014, depletion of the Polish export caused by the Russian and Ukrainian conflict and Russian embargo was offset by higher volumes of goods exported in other directions, such as the Netherlands, Italy, Germany and also more exotic

ones. Even a slight economic rebound in the Western Europe ought to suffice to continue to balance out the impact of the conflict.

Internationally, Poland still has one of the highest real interest rates which will attract portfolio capital to the debt and FX markets. On the other hand, nominal interest rates are currently at the lowest level since the beginning of transformation. At some point in time this may discourage retail clients from keeping term deposits and make them look for other forms of saving and storing their values. Still, 2014 saw undistorted accumulation of term deposits, although a strong growth in the amount of cash held outside of the banks was noted.

Macroeconomic conditions for banks' functioning will be defined by sustainable economic recovery in Poland. ING economists' forecasts show that in 2015 economy will grow at the pace of 3.2-3.6% y/y. Labour market occurs to be more vibrant than suggested by the economic growth rate only, while the ratios of the economic situation formed on the basis of the survey-based researches indicate that enterprises are prone to continue to raise employment after pretty cautious steps taken in mid-2014, the situation which was probably impacted by the geopolitical risk and uncertainty of the Eurozone. The 2014 yearend data showed a sustained trend of declining unemployment rate (after seasonal adjustment) and accelerated employment dynamics after a long period of stable, but low growth. The average unemployment rate projected for 2015 is 10.7% or 1.6 p.p. down from 2014. That the pay dynamics did not follow inflation in 2014 is worth noting as it made household income rise considerable in real terms.

2015 should see further closing of the gap between private consumption and income growth. One can have an impression that after the slowdown experienced in 2012 and 2013, consumers became more prudent in spending, and thus the projected growth rate of private consumption of over 3% y/y can be accompanied by moderate increase in household loans only.

After a strong growth of investments in 2014 (over 9%), we may see a slight decline, below 8%. The high level of own funds held by enterprises and alternative forms of funding can lead to the situation where launch of investment project will not translate in a two-digit growth in corporate lending.

Deflation may last up until Q3 2015, but it will be driven by fluctuations of crude oil prices and Polish zloty. We expect that the Monetary Policy Council will cut down interest rates between March and May 2015 by 25-50 bps in total. Thus, the final cutback can take place shortly before or concurrently with the turning point of inflation and economic situation (business activity should pick up in H2 2015). CPI rebound in H2 2015 can reach over 1.5% y/y because of a very low base of food prices, weak PLN and a potential rise in crude oil prices over that time.

As regards foreign exchange rate, the appreciation trend may be noted for the major part of the year. However, the fact that we are approximating rises in interest rates in the USA and the geopolitical risk of Russia can move EUR/PLN rate over 4.20. The CHF exposure of some Polish households and banks also receives negative perception of investors. Assuming that upon intensive actions of ECB to weaken their own currency, the EUR/CHF rate will find it hard to come back over 1 this year, the issue of Swiss franc impact on the condition of households and consequently on the results of economy and quality of lending portfolios may come back, which will prove detrimental to Polish zloty. Economic revival and overcoming of deflation should trigger a more visible appreciation trend of PLN in H2 2015.

The geopolitical situation and the possible comeback of the Russian currency and liquidity crisis throughout 2015 is another uncertainty driver due to high maturities of FX corporate debt under the circumstances where following the sanctions Russia is cut off from funding in USD and EUR. This in turn can weaken the Polish currency and export potential on that market. On the other hand, Polish bonds market benefited from the Ukraine crisis as it became a "safe haven" for funds withdrawing from other, more risky countries of the region. It is assumed that only a dramatic exacerbation of the crisis in the Eastern Europe posing risk of violation of NATO borders could degrade the status of the Polish bonds market.

Polish economy in years 2006-2016 <sup>20</sup>											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015F	2016F
GDP growth (%)	6.2	7.2	3.9	2.6	3.7	4.8	1.8	1.7	3.3	3.5	3.8
General government debt as per the EU methodology (% of GDP)	47.7	45.0	47.1	50.9	54.9	56.2	54.9	57.1	48.5	48.6	47.2
M3 money supply (PLN billion)	495.3	561.6	666.2	720.3	783.6	881.5	921.4	978.9	1,059.2	1,170.4	1,246.1
Producer Price Index growth (%)	12.0	9.4	3.0	-3.6	11.1	6.8	1.4	2.4	3.4	5.2	6.5
Average annual inflation (CPI) (%)	1.0	2.5	4.2	3.5	2.6	4.3	3.7	0.9	0.0	-0.1	1.4
Unemployment rate (%)	14.8	11.2	9.5	12.1	12.4	12.5	13.4	13.4	11.5	10.5	10.2
PLN/USD (yearend)	2.91	2.76	2.94	2.85	2.96	3.42	3.10	3.01	3.51	4.05	4.39
PLN/EUR (yearend)	3.83	3.58	4.11	4.11	3.96	4.42	4.09	4.15	4.26	4.05	3.95
WIBOR 3M (average)	4.20	4.80	6.34	4.31	3.93	4.58	4.87	2.97	2.49	1.79	1.82

<sup>20</sup> 2015-2016 Forecast updated in February 2015.

## II. MAJOR ACHIEVEMENTS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2014

### 1. Increase in number of clients

In 2014, ING Bank Śląski S.A. accelerated the growth rate of the number of clients serviced by the Bank. Throughout the year, the Bank's client base went up by 191 thousand entities versus 164 thousand the year before. As at the end of December 2014, the number of Bank clients amounted to 3,765 thousand and it was broken down into the following segments:

- 3,728 thousand retail clients, including:
  - 3,451 thousand individual clients (up by 162 thousand clients throughout the year),
  - 277 thousand entrepreneurs
- 37 thousand corporate clients (mid-sized and mid-corporates and capital groups)

The constantly growing number of ING Bank Śląski S.A. clients (both individuals and businesses) is the result of the activities pursued by the Bank to reinforce long-term relationships with clients. These relationships are based on the trusted brand of the Bank, transparent product offer tailored to the ever-changing preferences of clients and a continuously developed modern distribution and customer service system.

### 2. Better position on credit market

As at the end of December 2014, total net loans and other receivables to customers of the ING Bank Śląski S.A. Capital Group amounted to PLN 57,130.9 million, up by PLN 8,578.8 million (or by 17.7%) from the end of 2013.<sup>21</sup>

The Capital Group was estimated to have a 5.7%-share in the total amount of loans extended to clients as part of the commercial banks sector<sup>22</sup> (up by 0.5 p.p. from the end of 2013).

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

- Dynamic growth of credit receivables from households. In December 2014, credit receivables from households totalled PLN 22,318.5 million, up by PLN 3,798.1 million (or by 20.5%) from the end of 2013. In 2014, it was still the PLN mortgage loan that was the dominant product in the retail segment decisive for the growth of credit receivables. As at the end of December 2014, the PLN mortgage loans amounted to PLN 14,841.9 million (up by 21.2% when compared with the 2013 yearend); however, the relevance of cash loans is growing, as they went up by 24.7% throughout the year, and their volume amounted to PLN 3,766.6 million.
- A dynamic increase in corporate (institutional<sup>23</sup>) clients exposure – the Group's respective credit receivables amounted to PLN 34,812.4 million as at the end of December 2014, up by 15.9% from the end of 2013.

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<sup>21</sup>This amount covers net loans and other receivables, except for Eurobonds and receivables from customers under repo transactions.

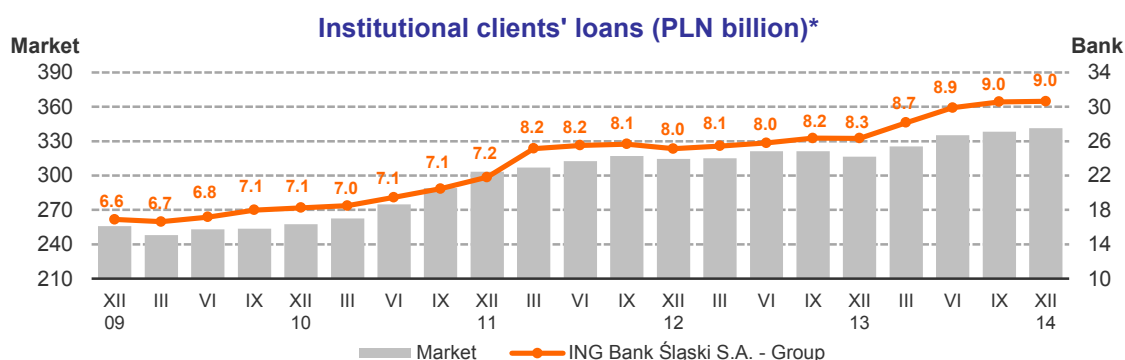
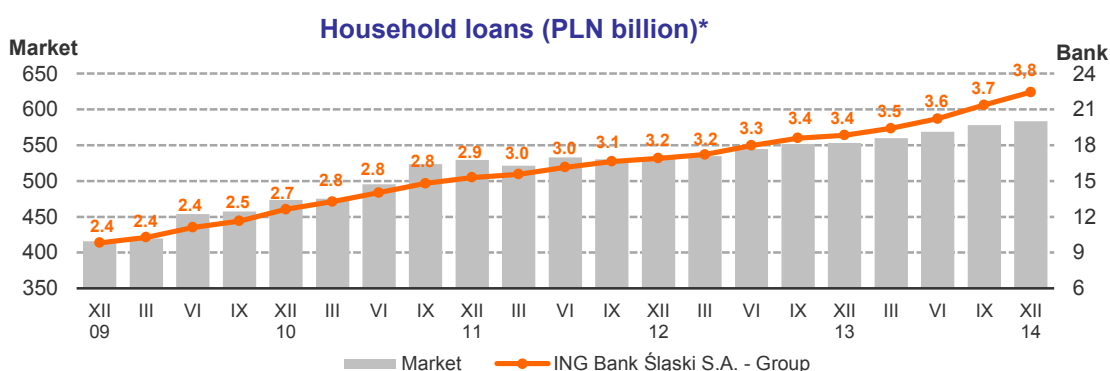
<sup>22</sup>The banking sector meaning the commercial banks sector in line with data published by NBP in the *Assets and liabilities of banks* file

<sup>23</sup>In total for the business entities, non-monetary financial institutions, central and local government agencies.



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

	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Credit receivables from households, including:	22,318.5	18,520.4	16,551.9	14,938.3	12,311.4	9,566.5	7,260.8	4,712.4
Loans and advances	21,844.7	18,348.0	16,444.3	14,921.4	12,304.8	9,562.2	7,256.5	4,706.6
Leasing receivables	423.3	140.0	87.6	0.0	0.0	0.0	0.0	0.0
Factoring receivables	50.5	32.4	20.0	16.9	6.6	4.3	4.3	5.8
Credit receivables from institutional clients <sup>24</sup> , including:	34,812.4	30,031.7	28,653.7	23,518.8	18,929.1	17,137.7	16,669.9	11,666.7
Loans and advances	25,267.2	21,860.3	21,166.6	21,076.6	17,492.8	16,110.0	15,742.8	11,398.9
- Business entities	20,830.5	17,775.9	16,543.8	14,986.0	12,095.1	11,266.3	11,866.7	8,505.8
- Financial entities (other than banks)	1,777.5	1,457.1	1,533.2	2,821.5	2,583.1	2,543.8	2,923.1	2,226.8
- Entities of the sector of central and local government agencies	2,659.2	2,627.3	3,089.6	3,269.1	2,814.6	2,299.9	953.0	666.3
Debt securities <sup>25</sup>	2,766.1	2,174.9	2,107.6	2,086.8	1,177.7	643.4	640.5	0.0
Leasing receivables	3,912.3	3,450.8	3,076.9	0.0	0.0	0.0	0.0	0.0
Factoring receivables	2,766.0	2,421.4	2,182.7	255.5	116.1	168.8	160.3	122.8
Other receivables	100.8	124.3	119.9	99.9	142.5	215.5	126.3	145.0
<b>Total net credit receivables</b>	<b>57,130.9</b>	<b>48,552.1</b>	<b>45,205.6</b>	<b>38,457.1</b>	<b>31,240.5</b>	<b>26,704.2</b>	<b>23,930.7</b>	<b>16,379.1</b>
- Eurobonds	3,923.9	3,685.8	3,779.7	3,872.6	3,268.5	3,261.9	1,654.0	0.0
<b>Total net loans and other receivables to customers</b>	<b>61,054.8</b>	<b>52,237.9</b>	<b>48,985.3</b>	<b>42,329.7</b>	<b>34,509.0</b>	<b>29,966.1</b>	<b>25,584.7</b>	<b>16,379.1</b>



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

<sup>24</sup>Excluding receivables from customers under repo transactions.

<sup>25</sup>Eurobonds excluded.

### 3. Strengthening position on deposits market

The deposit base held by ING Bank Śląski S.A. is one of the largest in the Polish banking sector, which ensures high liquidity of the balance sheet and comfort as regards shaping the lending policy. Actions undertaken in 2014 led to further expanding the deposit base mainly as regards stable funds. It meant that the Bank actively acquired funds mainly from retail clients, but also from small and medium enterprises.

As at the end of December 2014, total funds accumulated in the accounts of the ING Bank Śląski S.A. Capital Group amounted to PLN 75,658.9 million<sup>26</sup> as compared with PLN 67,547.9 million as at the end of 2013 (up by 12.1%).

As at the end of 2014, the Bank held 8.0% of the total value of funds deposited in the commercial banks sector<sup>27</sup> as compared with 7.8% as at the end of 2013, which indicates that the Bank was the fourth largest deposit bank in Poland.

Throughout 2014, total funds deposited in household accounts went up by PLN 6,649.9 million, or by 15.2% and as at the end of December amounted to PLN 50,278.8 million.

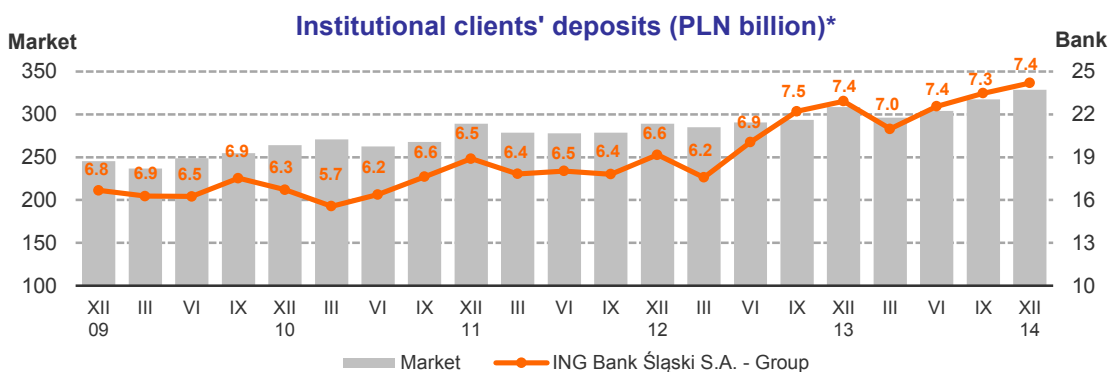
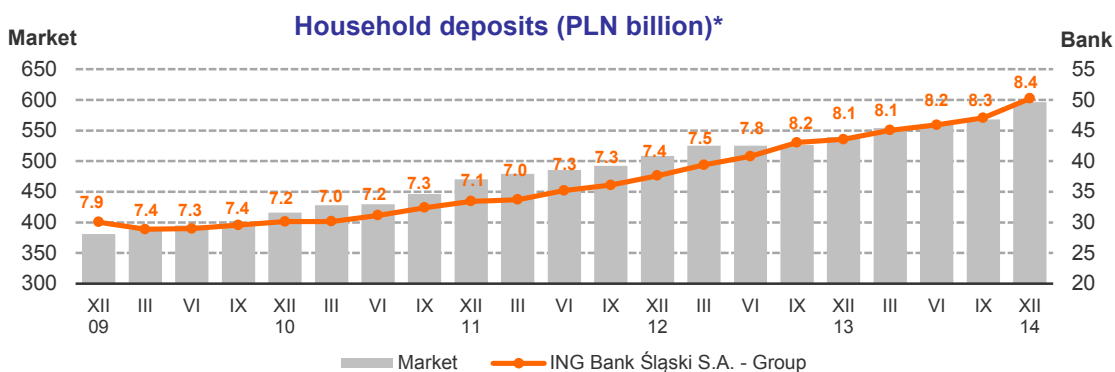
The liabilities to institutional clients also went up; in December 2014, they totalled PLN 25,380.1 million versus PLN 23,919.0 million as at the end of 2013 (increase of 6.1%). Throughout 2014, there was an increase in the value of funds deposited by mid-sized and mid-corporate companies (up by 16.1%), while the value of funds deposited by the biggest corporates remained at a similar level (down by 0.8%).

Liabilities to customers of ING Bank Śląski S.A. Capital Group (PLN million)								
	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Liabilities to households, including:	50,278.8	43,628.9	37,683.7	33,481.8	30,167.2	30,103.9	28,011.3	25,639.5
Term deposits	50,217.1	43,563.8	37,627.7	33,434.7	30,117.7	30,039.7	27,945.7	25,392.6
Other liabilities	61.7	65.1	56.0	47.1	49.5	64.2	65.6	246.9
Liabilities to institutional clients <sup>28</sup> , including:	25,380.1	23,919.0	20,214.7	19,378.8	17,281.0	17,215.2	18,898.6	18,007.0
Term deposits	24,188.6	22,980.2	19,206.9	18,944.4	16,767.2	16,722.3	18,372.0	17,559.9
- Business entities	20,177.3	17,746.3	13,739.9	13,887.3	12,483.6	11,861.7	11,173.5	12,760.8
- Financial entities (other than banks)	2,142.8	3,143.1	3,368.0	2,954.5	2,588.6	3,352.4	4,312.3	2,226.7
- Entities of the sector of central and local government agencies	1,868.5	2,090.8	2,099.0	2,102.6	1,695.0	1,508.2	2,886.2	2,572.4
Other liabilities	1,191.5	938.8	1,007.8	434.4	513.8	492.9	526.6	447.1
<b>Total liabilities to customers</b>	<b>75,658.9</b>	<b>67,547.9</b>	<b>57,898.4</b>	<b>52,860.6</b>	<b>47,448.2</b>	<b>47,319.1</b>	<b>46,909.9</b>	<b>43,646.5</b>

<sup>26</sup>The amount includes the deposits and other liabilities except for liabilities to customers under repo transactions.

<sup>27</sup>The banking sector meaning the commercial banks sector in line with data published by NBP in the file *Assets and liabilities of banks*.

<sup>28</sup>Excluding liabilities to customers under repo transactions.



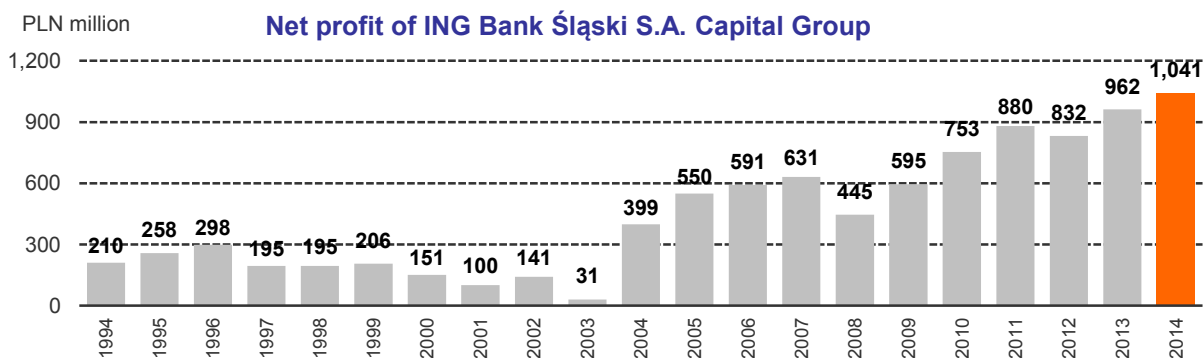
\*The figures denote the ING Bank Śląski S.A. Group's share in the commercial banks market.

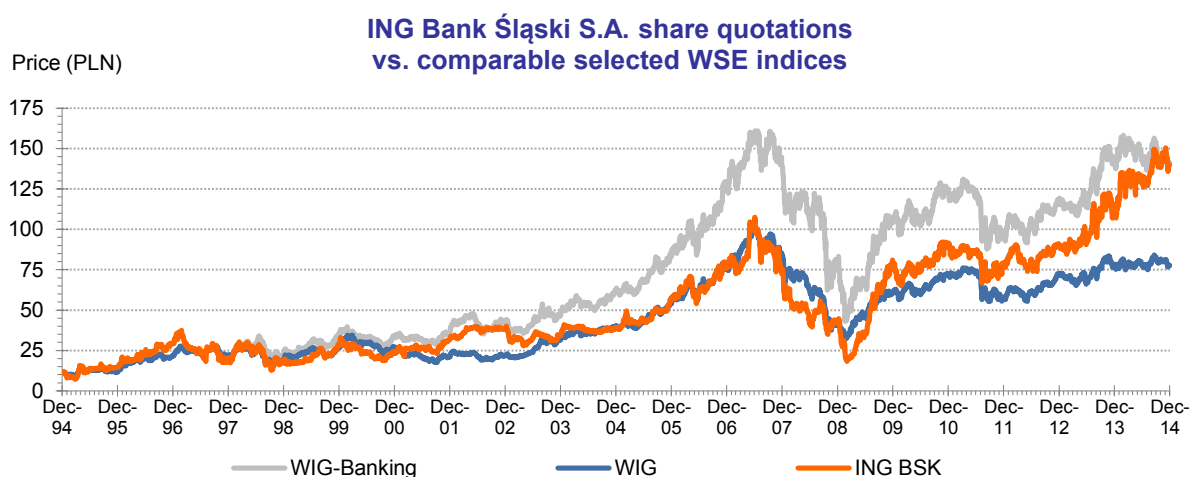
#### 4. The best net financial result in Group track record

In 2014, the net profit of the ING Bank Śląski S.A. Capital Group totalled PLN 1,040.7 million, up by 8.2% from a year earlier. It was the best net financial result in the Group track record.

As at the end of December 2014, Return on Assets (ROA) was 1.1% (down by 0.1 p.p. versus 2013), while Return on Equity (ROE) settled at 11.1% (versus 11.6% a year earlier). At the same time, cost effectiveness of the Group improved – the cost/income ratio (C/I) was 54.4%, down by 1.7 p.p. than a year before.

The individual components of the result were described in Chapter *Financial Standing of ING Bank Śląski S.A. Capital Group in 2014*.





## 5. Awards and distinctions

2014 brought numerous awards and distinctions for ING Bank Śląski S.A, for example:

For its product offer attractiveness and customer service quality:

- 1st place in the Mobile Banking category and 3rd in the Internet Bank category in the ranking *Przyjazny Bank Newsweeka* (Newsweek Friendly Bank);
- the award *Najlepszy program/ system/ urządzenie IT w Polsce w 2014 roku do obsługi systemów kartowych* (Best IT Programme/ System/ Device in Poland in 2014 supporting card payments) for the ING V.me by Visa Digital Wallet received during the international conference Central European Electronic Card Warsaw 2014;
- 1st place in the ranking of personal accounts in the Best Customer Service category and 2nd place in the Best Personal Account 2014 category, compiled by the Money.pl portal editorial team;
- 1st place in the ranking of the best cash loan offers (according to the loan total cost) developed on the basis of the Comperia calculator;
- 1st place in the ranking by *Gazeta Finansowa* for the ING Bank Śląski S.A. Private Banking offer in the Best Private Banking Offers category;
- 1st place in the Cash Loan, Online Loan and Account for Entrepreneur categories in the ranking compiled by the TotalMoney.pl portal;
- 1st place in the 2014 Best Business Account and the Best Business Client Service categories in the ranking compiled by the Money.pl portal;
- *Produkt Roku* (Product of the Year) award for the Aleo trading and auction platform presented by the IT@BANK contest judging panel;
- *Lider* (Leader) title in the Biggest sale of de minimis guarantees against equity category.

For marketing undertakings:

- 2nd place in Lamparty 2014 (Leopards 2014) contest, rewarding the best bank brands creations;
- 2 silver Effie statuettes for the Open Savings Account campaign: “What you actually saved is what your account tells”, and the Aleo platform campaign: “The boss of all the bosses”.

For the manner in which ING Bank Śląski S.A. functions in the community and its ability to effectively combine social responsibility with business values:

- RESPECT Index – the Bank was included in the index of socially responsible companies (for the eighth consecutive time);
- 2nd place in the Banks and Financial Institutions category and 1st for the online annual report in the same category of The Best Annual Report 2013 competition;
- a nomination for *Nagroda Gospodarcza Prezydenta RP* (Economic Award of the President of the Republic of Poland) in the Corporate Governance and Corporate Social Responsibility category;
- Top Employers Poland (for the fifth time) and Top Employers Europe international certifications, granted by the Top Employers Institute.

ING Bank Śląski S.A. position and management also received high praise:

- 1st place and the title of *Najlepszy Bank w Polsce* (Best Bank in Poland) received in the Euromoney Awards for Excellence contest;
- Most Innovative Bank in Poland 2014 award presented by the International Finance Magazine;
- Małgorzata Kołakowska, ING Bank Śląski S.A. Management Board President, was awarded the title of *Bankowiec Roku* (Banker of the Year) by the Forbes magazine;
- Małgorzata Kołakowska, ING Bank Śląski S.A. Management Board President, was awarded the title of *Najlepszy Menedżer 2014* (Best Manager of 2014) by the Bloomberg Businessweek weekly editorial team;
- Michał Bolesławski, ING Bank Śląski S.A. Management Board Vice-President, was honoured by the IT@BANK competition judging panel with the title of *Wizjoner rynku* (Market Visionary).

For more information on awards and distinctions, see the Bank's website tab: *About the Bank*.

### III. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2014

#### 1. Retail banking

The aim of ING Bank Śląski S.A. is to maintain a strong position in the retail banking market. The key thing to accomplish this aim is an extensive and clear product offer with fair value for money, wide and innovative multichannel distribution network. Moreover, constant simplification and automation of processes as well as increasing the importance of internet and mobile banking play a vital role here.

In 2014 the main actions made to accomplish the strategic priorities were:

- fully leveraging on distribution capabilities,
- extending the functionalities of remote channels,
- implementing new payment solutions,
- providing customer with convenient on-line processes,
- moving branches to an advisory role.

Such a strategy brought better sales results and higher deposit and lending balances. It was also reflected in cross-sell of additional products and also ensured better and more diversified income. Further, enhanced efficiency of face channels, the growing role of remote channels and operations automation led to cost effectiveness improvement.

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

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

In March 2014, a PLN Individual Pension Security Account (IPSA) – a long-term savings product – was added to the Bank's product offer. Within specified limits, amounts earned on the interest on the funds accumulated in an Individual Pension Security Account are exempt from tax on capital gains.

With a view to upholding the attractiveness of its core deposit product, the Open Savings Account, in 2014 the Bank continued offering periodical, special terms and conditions for new funds under the special offer, i.e. *Bonus for Start* and *Bonus Open Savings Account* in successive rounds. They consisted in offering periodically higher interest to new clients or on new funds.

As regards investment products, to facilitate for clients management of their resources, the features of simplified navigation and mutual funds service in the ING BankOnLine system were implemented. The Bank also promoted investment in mutual funds, among other ways, by a special temporary offer that consisted in charging a zero distribution fee when Bank clients purchased participation units of all funds present in the Bank offer.

Moreover, three new subfunds available under Altus Fundusz Inwestycyjny Otwarty Parasolowy (open-end umbrella fund) managed by Altus TFI S.A. were added to the offer dedicated to Personal Banking, Private Banking and Wealth Management clients. In turn, individual clients were offered new open-end mutual funds managed by Towarzystwo Funduszy Inwestycyjnych PZU S.A. – PZU Parasol FIO (open-end umbrella fund) and PZU Globalnych Możliwości SFIO (specialist open-end umbrella fund).

As of October 2014, clients may use the ING Securities brokerage account via internet banking. The Bank fully integrated the brokerage account with the current account online. It is a modern, intuitive and simple solution. In the internet banking system of ING Bank Śląski S.A., the *Makler* (Broker) module is now available 24/7 with all its functionalities.

In 2014, the Bank also held 40 subscriptions for the Investment Term Deposit structured product for the total amount of approx. PLN 800 million.

The Bank also standardised the offer of current accounts for Entrepreneurs by introducing a Direct Account for Businesses. This account replaced the previous four different accounts, offered to clients based on the legal form of their business (sole trader, civil law partnership, registered partnership or professional partnership with simplified accounting).

### Lending products

In 2014, also the lending offer of the Bank was strongly developed as part of pursuing the strategy of constant growth of lending products exposure. It was supported with loan media campaign *“Either we realise or we drift. Take out a loan and come out on top!”* ran in May and June 2014, targeting individual clients and entrepreneurs.

Fast track for cash loans available in the internet banking system was also introduced (preapproved offer). The offer is developed for a selected group of clients and it is presented once such client has logged into the ING BankOnLine system. The entire process is completed via ING BankOnLine in several brief steps. Analogical offer is also available in mobile banking. Furthermore, individual clients were offered more options to apply for lending products under the short-track procedure..

The Bank also introduced new lending products for the entrepreneurs segment, namely: Credit Line for START and PREMIUM Offer. The Credit Line for START supports the process of opening company accounts at ING Bank Śląski S.A. while the PREMIUM Offer features higher unsecured cash loan amounts. The product supports the relationships with prestigious clients.

Moreover, in June 2014, as part of the offer tailoring to entrepreneurs' needs, a new product – ING Auto – was launched in ING BankOnLine in cooperation with ING Lease. Subsequently, in September 2014, the ING Professional programme was activated consisting in the lease of medical, IT/office equipment, passenger cars and heavy goods vehicles up to 3.5 tonnes for Professionals.

The Bank also continued offering attractive pricing conditions in the mortgage loan offer. In June 2014, the Live without Compromise special offer of mortgage loans for young people was introduced. As part of this offer clients take advantage of attractive pricing conditions – 0% commission for loan provision and a fixed margin of 1.65 p.p. In order to use the promotion a client has to hold or open a personal account with regular monthly inflows and buy a whole life insurance. The offer targets individual clients applying for at least PLN 100 thousand who will submit a mortgage loan application either on their own or with another person. Moreover, at least one of the borrowers must be no more than 35 years old (per year of birth) as at the application submission date.

Moreover, in December 2014 there was a New Year's Mortgage Loan Sale campaign. It consisted in selling mortgage loans with parameters similar to those under the Live without Compromise offer, without the client's age restriction. The campaign was highly popular among clients.

### Insurance products

The Bank's aim is to provide clients with as wide as possible offer of financial products, including insurance products if complementary to the offer of clean banking products. Clients may purchase insurance with the Silver or Gold “Safe Cash Loan”. In H2 2014, the More for Less campaign was launched where insurance fees were reduced for higher-amount cash loans.

The Bank also made the offer of insurance linked to personal accounts more attractive (liability insurance in private life, accident insurance) and of the insurance not linked to bank products (option for clients to buy travel insurance).

Moreover, the Bank started preparations for implementing Recommendation U of the Polish Financial Supervision Authority by holding a cycle of training courses for employees, making it possible to obtain a license to offer individual insurance.

### Deposits<sup>29</sup>

As at 31 December 2014, funds<sup>30</sup> entrusted to ING Bank Śląski S.A. by retail clients totalled PLN 57,309.3 million, compared with PLN 50,222.7 million in December 2013 (up by 14.1%). Banking deposits constituted their main part.

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

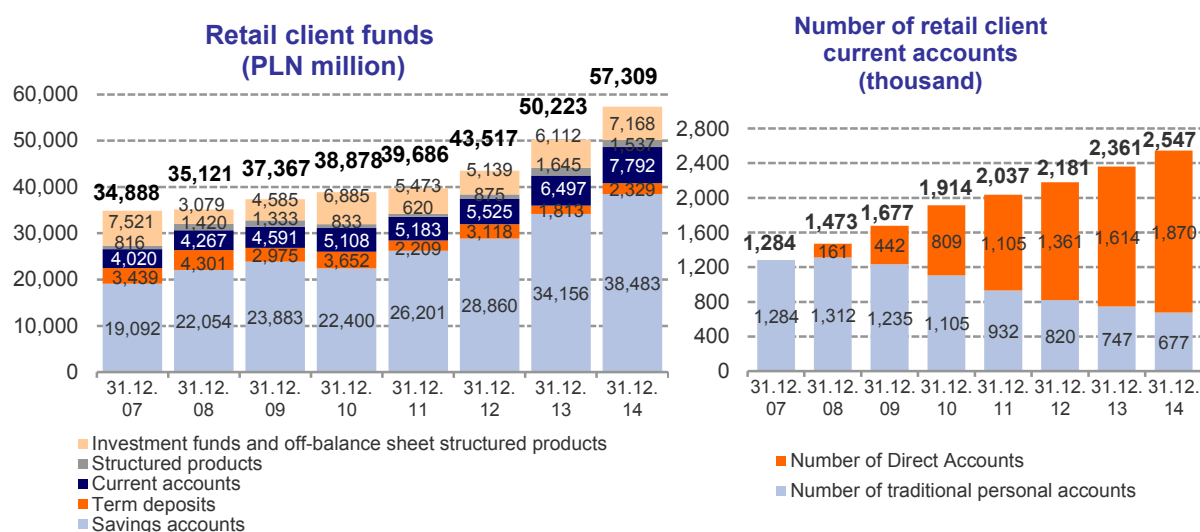
<sup>30</sup> Total value of deposits, structured products and mutual funds distributed by the Bank.

In 2014, the Bank continued to build solid foundations for further growth, i.e. acquire stable deposits, especially of retail clients. As at the end of December 2014, retail deposits settled at PLN 50,140.9 million, or went up by 13.7% from the 2013 yearend. The result was reflected in an 8.4% share of the Bank in the household deposit market (versus 8.1% share as at the end of 2013).

The Open Savings Account is the main product where the retail clients deposit their funds. Over 2014, the value of funds accumulated in the Open Savings Account went up by 12.7% and totalled PLN 38,482.9 million. The amount of savings invested in mutual funds and off-balance sheet structured products also went up dynamically (by 17.3% from the 2013 yearend).

Throughout 2014, the array of settlement services rendered by the Bank to its retail clients grew significantly. As at the end of December 2014, ING Bank Śląski S.A. maintained 2,547 thousand personal accounts of retail clients (2,265 thousand individual clients and 282 thousand entrepreneurs) versus 2,361 thousand as at the end of 2013 (2,106 thousand individual clients and 255 thousand entrepreneurs). That means that throughout 2014, the Bank acquired in net terms 186 thousand personal accounts of retail clients. As a result of a higher number of personal accounts opened, the volume of funds deposited in these accounts grew significantly. In December 2014, PLN 7,792.1 million of funds were deposited therein, up by 19.9% from the end of 2013.

This was accompanied by the trend to change the structure of current accounts. Sales of the accounts, mostly Direct Accounts, together with the conversion by some clients from traditional personal accounts to internet accounts, made the number of Direct Accounts go up to 1,870 thousand in December 2014 (including 1,632 thousand accounts of individual clients and 238 thousand entrepreneurs' accounts) from 1,614 thousand in December 2013 (1,412 thousand and 202 thousand, respectively). Thus, the share of Direct Accounts in the total number of retail personal accounts went up from 68.3% in December 2013 to 73.4% in December 2014.

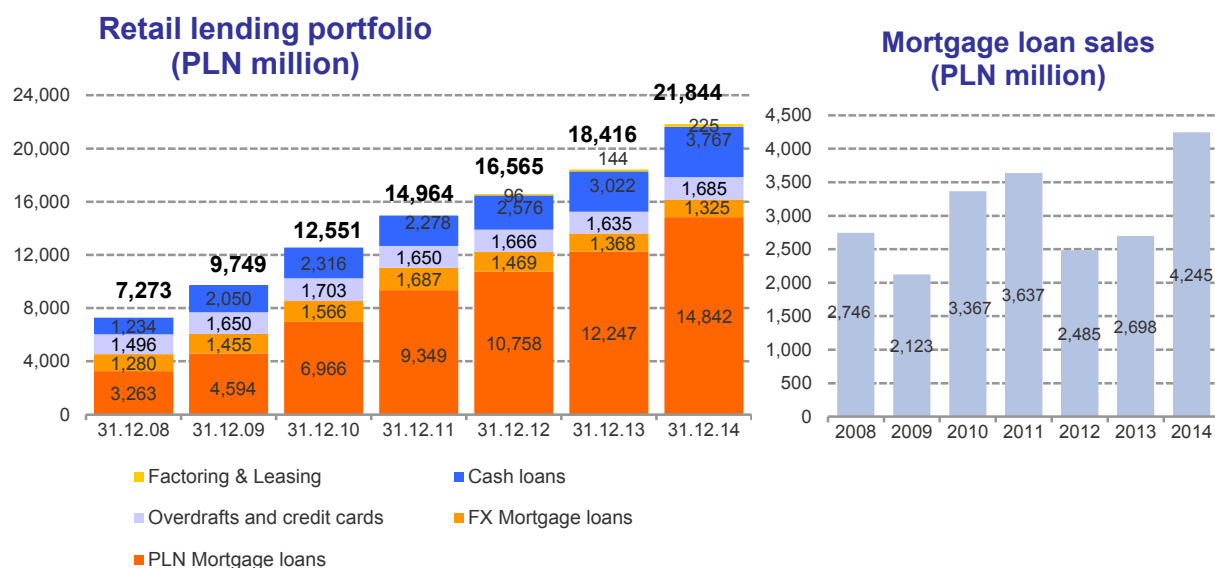


### Lending<sup>31</sup>

As at the end of 2014, retail credit receivables totalled PLN 21,843.7 million. In 2014, the Bank's credit exposure towards retail clients went up by PLN 3,428.1 million, or 18.6%. The Bank increased its share in the household credit receivables market to 3.8% (versus 3.4% in December 2013).

<sup>31</sup>Due to availability of more detailed product-related information, the description is made based on the data from the management information system.





Mortgage loans prevailed in the Bank's retail credit portfolio. As at the end of December 2014, total Bank's receivables under mortgage loans were PLN 16,167.5 million compared with PLN 13,614.9 million as at the 2013 yearend (up by PLN 2,552.5 million, or 18.7%).

According to the data published by the Polish Bank Association, in 2014 ING Bank Śląski S.A. was third on the market with a 11.2% share in the sales of housing loans for private individuals.

Furthermore, in 2014 the weight of unsecured cash loans became even more relevant in the Bank's portfolio .. Through their intensified sales and active promotion in 2014, the cash loans extended totalled over PLN 2.7 billion, up by 32% when compared with the same period in the previous year. In December 2014, the value of loans and cash loans in the Bank portfolio was PLN 3,766.6 million and grew by 24.7% as compared with the 2013 yearend.

The value of retail leasing and factoring receivables has been also growing gradually – as at the end of 2014 it settled at PLN 225.1 million and it was 56.3% higher than as at the end of the previous year.

### Bank cards

For many years now, ING Bank Śląski S.A. has been one of the main payment card issuers in Poland, the same goes for contactless cards. We were the first bank in Poland and one of the first banks in the world to introduce withdrawals from ATM with the use of contactless card. By the end of 2014, there were over 400 machines with this functionality and approx. 416 had the cash recycling service.

In H1 2014, one of the most important changes in the payment area was commercial implementation of ING V.me by Visa digital wallet. This new method provides for making fast, easy and convenient card payments on the internet.

In December 2014, the Bank offered a Visa NFC payment card. It is installed on SIM card in a mobile phone and allows contactless payments in shops and cash withdrawal in ING NFC-enabled ATMs. At the end of the year also a pilot programme of a new type of payments was introduced – BLIK – Polish Payment Standard. It is a convenient way of effecting payments, withdrawing cash from ATM and making internet payments via mobile phone.

By the end of December 2014, ING Bank Śląski S.A. issued nearly 2.7 million payment cards to its retail clients, where 2.1 million accounted for contactless cards (Zbliżak paypass sticker included). To compare, in December 2013 Bank retail clients held 1.9 million cards of this type.

## 2. Corporate banking

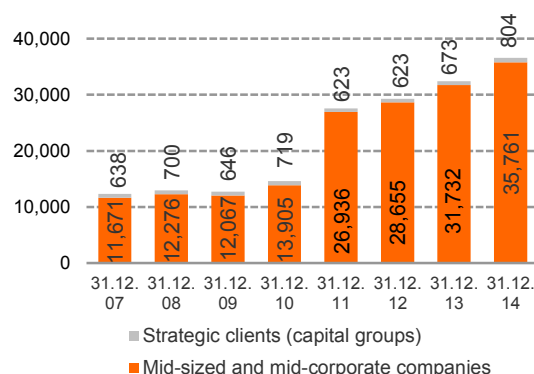
### Number of clients

In December 2014, 36.6 thousand corporate clients used the services of ING Bank Śląski S.A., including:

- 32.3 thousand mid-sized companies,
- 3.5 thousand mid-corporates, and
- 804 strategic clients (capital groups).

Throughout 2014, the Bank's corporate clients portfolio went up by 4.2 thousand entities.

### Number of institutional clients



### Product offer and modifications introduced

When corporate clients choose their bank, they take into account not only reputation of a stable and trustworthy institution but also high quality of the offer. Service quality and customer satisfaction have been the Bank's priority for years now. Customer satisfaction surveys are regularly held and their results confirm the right direction in which the Bank's products and services evolve. Constant enhancements to the offer, process streamlining and distribution channels' improvement are an inherent part of the Bank's operations.

The Bank continued to increase the number of available fee collection machines. These include special automatic tills thanks to which clients can pay some of administration fees conveniently, efficiently and quickly. ING Bank Śląski S.A. has the biggest network of such devices in Poland – by the end of 2014 there were already 14 fee collection machines. Moreover, the Bank offer its clients 108 electronic depositories. More and more clients also use the new cash solution – light depository. The device is installed in the client's premises which makes transactions more convenient and safe. The deposits can be made 24/7 and are booked into the selected accounts as soon as they are deposited (on-line mode).

The service of remote account management called SMART was also made available. It lets clients manage their accounts open at other banks thanks to presentation of these accounts' statements in the ING BusinessOnLine system. This solution significantly facilitates corporate clients to manage their funds deposited in many accounts, with many banks.

The Bank actively supports its clients in their business transactions by offering them an easy and modern access to trade finance products. The clients enjoy fast access to those products via internet channel. In December 2014, over 97% of documentary credit applications were filed via ING BusinessOnLine system. For guarantees the index was 86%, while for applications for receivables purchase – 91%. At the same time the Bank recorded increased demand for trade finance products. In 2014, when compared to 2013, there were 15% more import documentary credits and 22% more guarantees issued and 50% more receivables were purchased.

Moreover, in 2014 ING Bank Śląski S.A. continued to automate its lending processes. These actions bring notable benefits visible in the systematic increase in the share of electronic applications filed through the ING Direct Business Credit and ING BusinessOnLine in the total number of credit applications filed by companies. As at the end of 2014, the share totalled 83%.

At the beginning of the year the Bank introduced a new ING Monitoring credit application making it possible for the clients to monitor and repay on an ongoing basis liabilities towards the bank under active credit facility agreements via ING BusinessOnLine. As at the end of the year already 78% of clients could use the new solution.

The ING Credit Management System (ING CMS) was also enhanced. In 2014, the new process for electronic conclusion of credit facility agreements was implemented in the Fast Track and Normal Track processes. In the ING CMS system, Bank representatives may put their electronic signatures. For this purpose, representatives of the client use the new functionality of the ING BusinessOnLine system.



The ING BusinessOnLine system was enriched with new functionalities; among other solutions, the clients were offered electronic archives with scanned images of credit facility agreements concluded in the paper form and of other documents.

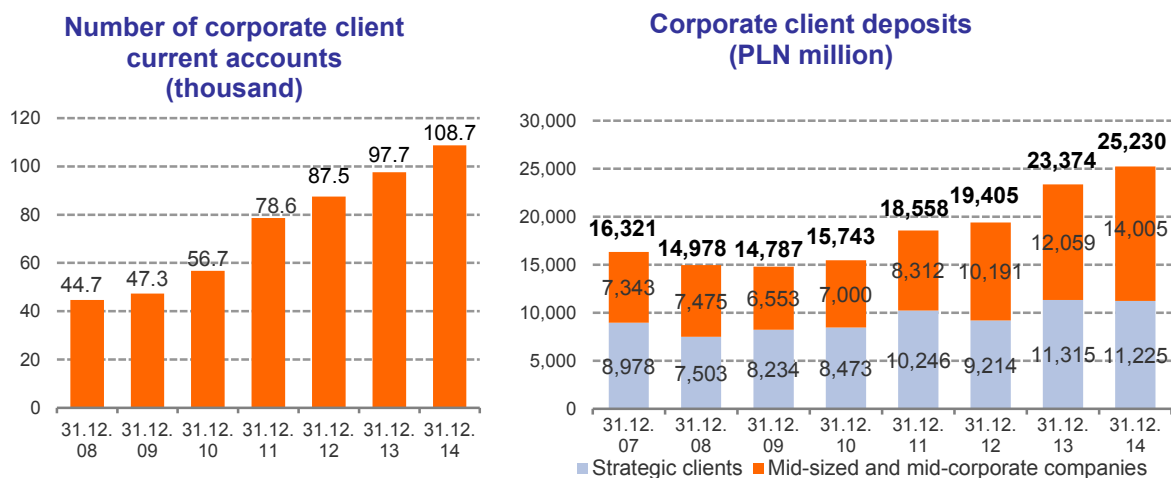
De minimis guarantees as part of the De Minimis Portfolio Guarantee Line as a form of support for SMEs and sureties as part of the Portfolio Surety Line, introduced at the Bank on 15 March 2013 under the agreement with Bank Gospodarstwa Krajowego (BGK), are still popular among clients, despite a commission for guarantee for BGK introduced at the beginning of the year. ING Bank Śląski S.A. maintains its fourth position on the guarantee market with a 9% share of the issued guarantees' amounts. As at the end of December 2014, the Bank granted 1,301 guarantees for the amount of PLN 823 million and loans for the amount of PLN 1,566 million.

### Deposits and settlements<sup>32</sup>

As at the yearend, the funds of the Bank corporate clients accumulated in those accounts totalled PLN 25,230.2 million, up by 7.9% from a year ago. Thus, the Bank had a 7.4% share in the institutional clients' deposits market (the same as at the end of 2013).

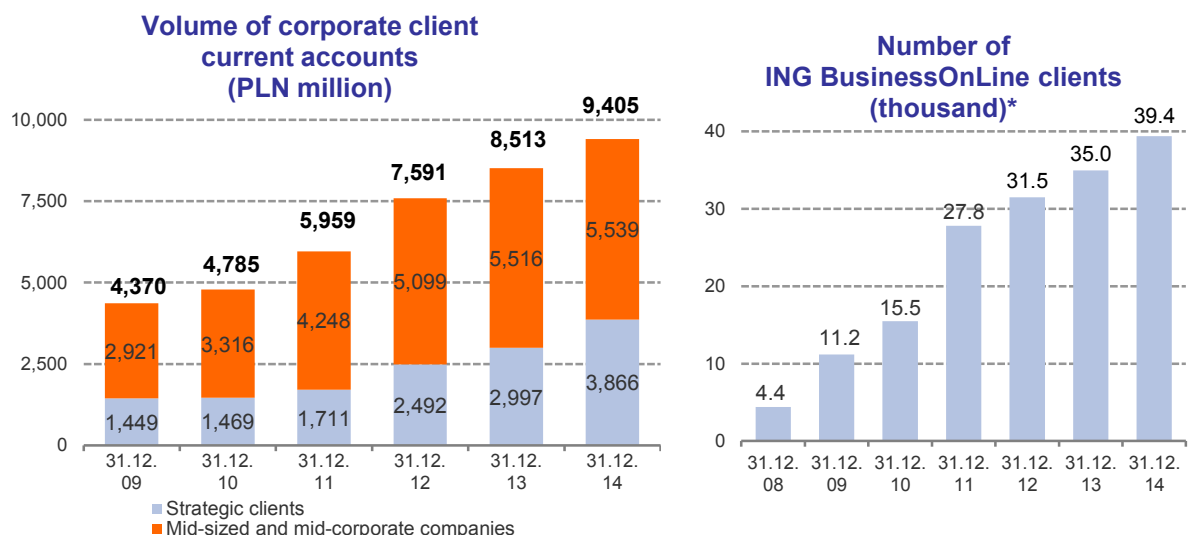
Throughout 2014, the value of funds deposited by clients from the sub-segment of mid-corporate and mid-sized companies increased by 16.1%, whereas the value of funds deposited by the biggest corporate clients went down slightly by 0.8%.

The volume of funds in current accounts went up by 10.5%, mainly owing to the deposits of the biggest corporates, which grew by 29.0%. The value of funds in current accounts of mid-sized and mid-corporate companies did not change as compared to 2013 yearend.



As at the end of 2014, ING Bank Śląski S.A. maintained 109 thousand corporate (PLN and FX) current accounts, up by 11.3% from December 2013. The vast majority of clients with current accounts at ING Bank Śląski S.A. use the ING BusinessOnLine internet banking system to interact with the Bank. In December 2014, the system was used by 39 thousand companies (versus 35 thousand in December 2013).

<sup>32</sup> Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

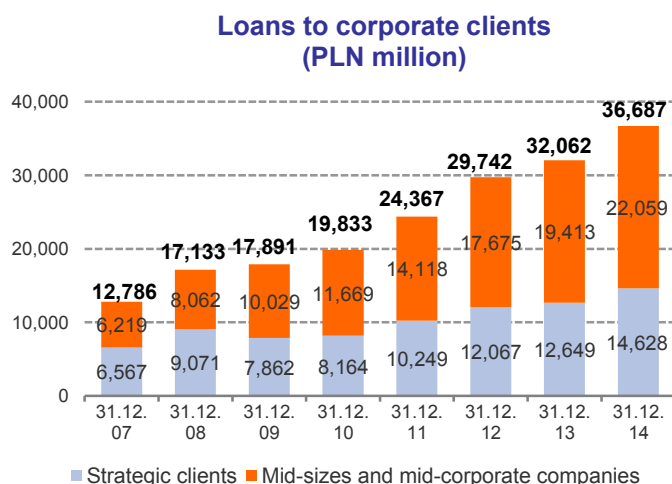


\* In the case of capital groups, individual companies belonging to the group are recognised separately. Additionally, it covers some part of retail clients (housing communities), as the corporate segment provides them with operational service.

### Lending<sup>33</sup>

Throughout 2014, corporate client funding by the ING Bank Śląski S.A. Group grew by PLN 4,625.5 million (up by 14.4%). The Bank is estimated to have held 9.0% of the institutional credit market share in December 2014.

In the corporate segment, the volume of loans granted to the biggest companies, i.e. from the strategic client subsegment, was growing fast – increase of 15.6%, whereas funding for clients from the mid-sized and mid-corporate subsegment grew by 13.6%.



In 2014, the Bank won 97 tenders for funding local government units, worth approximately PLN 900 million. This result enabled the Bank to maintain its 7.5% share in financing local government institutions as at the end of December 2014.

### 3. Money markets and capital markets

The operations of ING Bank Śląski S.A. in the area of financial markets in 2014 covered adaptation to the changes in the market and in the regulatory environment, process optimisation and organisational changes.

In 2014, the Bank continued intense works on launching the option to clear transactions through Central Clearing Counterparty. These works are a step towards meeting by the Bank the requirements provided for in the Regulation of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories (EMIR for short). As part of those works, the Bank completed the tasks aimed at preparing its activity to satisfy the subsequent requirements set out in the EMIR regulations, taking effect as of 11 August 2014, (covering: reporting on transaction valuation and collateral to trade repositories). The Bank continued preparations to fulfil the requirements of

<sup>33</sup> Due to availability of more detailed product- and client-related information, the description is made based on the data from the management information system.

clearing specified transactions through the Clearing House (the effective date of the clearing obligation in the EU is scheduled for Q1 2015).

The fact that in 2014 ING Bank Śląski S.A. signed a cooperation agreement with the London Clearing House (LCH) being the leader on the world markets and that it is the only Polish member bank is worth highlighting. Owing to the LCH membership, it is possible to settle derivative transactions directly.

While expanding the Bank's offer in electronic distribution and service channels, in 2014 the FX Trader platform in the ING BusinessOnLine system was enlarged with new features. New functionalities were made available so as to face up to clients' expectations and the offer of competitors. They are also another step towards our goal of being "the best internet bank on the market".

The most important changes include:

- introduction of the option of partial rollback for FX Forward and NDF,
- provision of an ongoing preview of the offered rate at the FX Trader platform,
- introduction of the FX Alert service (text message/e-mail) with the option to set the alert regarding appearance of an expected FX rate on the FX Trader platform, and
- addition of a tool allowing clients to independently perform an informative valuation of plain vanilla options and simple option strategies online (European options/ American options and Risk reversal/ Participating Forward strategies). The functionality also supports printout of the valuation made with its basic parameters, priced instrument payment profile and its brief description.

In 2014, the volume of transactions effected using the settlement limit on the FX Trader platform in ING BusinessOnLine went up, which confirms growing interest of corporate clients in electronic distribution channels for financial markets products.

As part of extending the offer with new currencies, at the beginning of February 2014, the Bank offered to corporate clients the option of concluding FX Spots, FX Forwards and negotiable deposits in CNY. The following currency pairs are available for FX transactions: CNY/PLN, EUR/CNY and USD/CNY. Clients may set up a CNY clearing account at the Bank, and later order and receive FX transfers and make Trade Finance payments. Clients may also order CNY transfers without having an account in that currency.

Additionally, in 2014 the Bank extended its offer for corporate clients with a new product – Business Structured Deposit. It combines the features of a traditional deposit and an investment product in the FX market. It is an alternative for negotiable deposits with the option to obtain higher interest. The product is addressed to clients with financial surpluses and specific expectations as regards FX rates during the deposit term. The return of all the capital entrusted is guaranteed at the maturity date, while the interest is paid according to the payment formula as agreed on with the client.

Throughout 2014, ING Bank Śląski S.A. retained its strong market position in the issue arrangement and service for non-government debt securities for corporate entities. The Bank, among other things:

- Co-arranged the bond issue programme for Enea S.A. company, for the amount of PLN 5 billion (the Bank acted as: Issue Arranger, Payment Agent, Depositary, Dealer and Calculation Agent),
- Being a consortium leader, in cooperation with two banks, the Bank arranged the issue programme of corporate bonds of Zarządca Rozliczeń S.A. for PLN 1.65 billion. In this programme, the Bank acted as: Issue Arranger, Issue Agent, Payment Agent, Depositary and Underwriter,
- Co-arranged the bond issue programme for Jastrzębska Spółka Węglowa S.A. for the amount of PLN 1.2 billion (the Bank acted as: Issue Arranger, Sub-Paying Agent, Sub-Depositary, Security Agent and Underwriter),
- Arranged the issue programme for short-term Eurocash S.A. bonds for the amount of PLN 500 million, which three other banks joined. In this programme, the Bank acted as: Issue Arranger, Issue Agent, Payment Agent, Depositary and Dealer,

- Arranged the bond issue programme for ABC Data S.A. for the amount of PLN 100 million (the Bank acted as: Issue Arranger, Payment Agent, Depositary and Dealer), and
- Arranged independently 10 municipal bonds issue programmes for the total amount of PLN 232 million.

As part of the programmes under way, in November 2014, ING Bank Śląski S.A. arranged the 5Y bond issue programme for TAURON Polska Energia S.A. amounting to PLN 1.75 billion. It was the biggest corporate bonds issue in 2014 and the second biggest in the history of the domestic debt securities market – the investors' demand exceeded the total of PLN 2 billion. ING Bank Śląski S.A. was the leader of the consortium offering securities.

As at 31 December 2014, ING Bank Śląski S.A. serviced securities trading of 97 issuers being corporates, banks and municipalities. The face value of debt securities of corporate issuers (banks and local government units excluded) issued through the agency of the Bank totalled PLN 10.4 billion, including PLN 6.7 billion due to short-term securities issue. This enabled the Bank to win the third place on the corporate debt securities market in December 2014 (with the share of 14.5%) and the first place on the short-term securities market (with the share of 35.2%).

In recognition of the trading on the corporate bonds market, ING Bank Śląski S.A. was honoured as a leader of the Treasury BondSpot Poland market and was awarded two prizes during the Warsaw Stock Exchange gala event summing up the 2014 trading year:

- for the biggest turnover on the cash market, and
- for the biggest turnover on the market of conditional trades.

Moreover, in 2014 ING Bank Śląski S.A. was ranked fifth (among 17 banks applying for the function) and was granted the 2015 Money Market Dealer status in the ranking by the National Bank of Poland assessing the banks' activity in the money and FX markets. The Ministry of Finance also granted the Bank the 2015 Dealer of Treasury Securities status. ING Bank Śląski was ranked third among 16 aspiring banks.

As regards sales of structured products on the Polish market, the Bank kept its strong position and received an honourable mention in the Structured Retail Products sectorial ranking, winning the fourth place in the Best Selling Products category for the Investment Term Deposit Secure Interest 18 product and eight place in the Investment Term Deposit Secure Interest 21 product. In 2014, the market share in structured products sale was 10%, which stands for the third place.

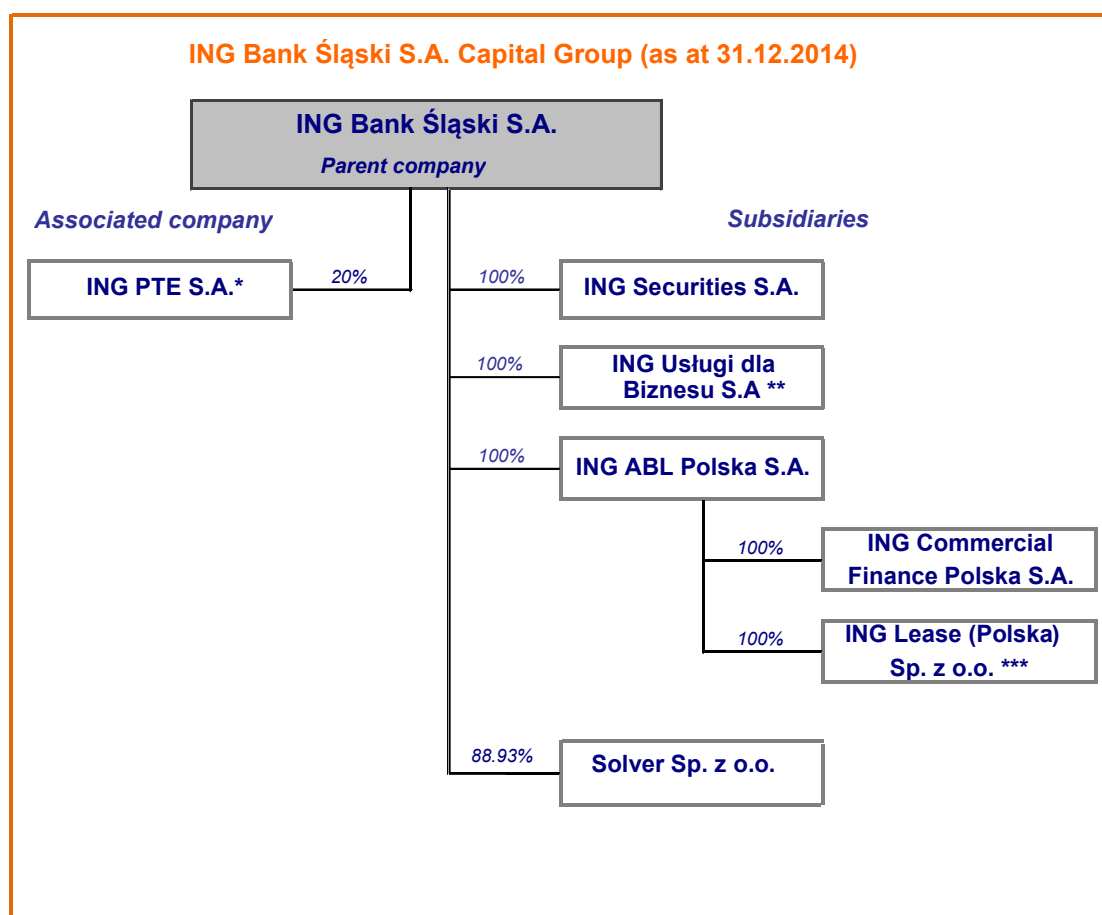
#### IV. BUSINESS OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP COMPANIES

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

The ING Bank Śląski S.A. Capital Group comprises companies operating predominantly on the financial market. ING Bank Śląski S.A. – as the parent company – takes key decisions concerning both the scope of operations and the finances of the Group members. It has strong commercial ties with other companies. The Capital Group members have their current accounts and deposit their free funds in term deposits at ING Bank Śląski S.A. The Bank also credits business operations of some of its subsidiaries. Transactions of ING Bank Śląski S.A. with its subsidiaries are performed on an arm's length basis.

In 2014, there was a change in the Group structure. On 30 June 2014, Centrum Banku Śląskiego Sp. z o.o. was deleted from the Entrepreneurs Register of the National Court Register. The company was taken over by ING Bank Śląski S.A. and Solver Sp. z o.o.

As at 31 December 2014, the composition of the ING Bank Śląski S.A. Capital Group was the following:



\* In Q2 2014, the Group reclassified shares in the associated entity to the category of assets held for sale.

\*\* UdB S.A. holds 100% of shares of Nowe Usługi S.A. company incorporated in H1 2014 (the company is not fully operative yet).

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

## 2. ING Securities S.A.

ING Securities S.A. (Brokerage Office) provides brokerage services both for retail and corporate clients. At the end of June 2014, ING Securities S.A. maintained almost 51.1 thousand investment accounts, including almost 37 thousand internet ones.

In February 2014, ING Securities expanded its offer with the Forex service and thus provided clients with the option of investing on the OTC currency market. Through a modern ING ProTrader transactional and analytical platform, available also on mobile devices, retail investors have access to the most liquid financial market in the world whose global daily trading is a hundred times bigger than trading in equities from all stock exchanges.

ING Securities S.A. conducts also a number of educational activities for its clients such as Real time analyses, among others. Those are online meetings that clients hold with the Office analyst during which an ongoing analysis of the FX market is performed. Clients can ask questions and actively participate in the discussion.

Furthermore, in cooperation with ING Bank N.V. a virtual investment game was launched in April 2014. It is aimed at educating and promoting quoted ING Turbo Certificates.

On 27 October 2014, the brokerage service application was integrated with the ING BankOnLine internet banking system. Thus, the Bank and Brokerage Office clients have access to the comprehensive range of services with the use of one platform. Moreover, clients who have concluded a framework agreement with the Bank can quickly and easily open a brokerage account electronically.

In 2014, ING Securities S.A. participated in the key transactions in the market:

- Enea S.A. – sale of bundle of shares, transaction amount PLN 1 billion, Brokerage Office role: Joint Bookrunner,
- LOTOS S.A. – issue of shares with pre-emptive rights, transaction amount PLN 966 million, Brokerage Office role: Co-Lead Manager.

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

ING Lease (Polska) Sp. z o.o. has been operating on the market since 1996. It offers all basic types of leasing (operating, financial, and sale-and-leaseback leasing) as well as a cash loan. They can be used to finance both movables (being passenger cars, delivery trucks up to 3.5 tonnes, machinery and equipment, technological lines, commercial vehicles medical and IT equipment) as well as real properties (office buildings, commercial buildings and logistics centres). Company's services are targeted at all market segments: large, medium and small enterprises as well as retail clients (entrepreneurs).

As at 31 December 2014, receivables of ING Lease amounted to PLN 5,387.4 million<sup>34</sup> (an increase of 9.2% from the 2013 yearend). The data of the Polish Leasing Association show that ING Lease, with its 5.9% market share in terms of worth of lease agreements concluded and assets provided, was the eighth largest leasing company in Poland. At the same time, the Company was third considering its lease portfolio volume after 2014 (enjoying the market share of 6.9%).

At the beginning of 2014, ING Lease introduced changes to its offer of financing passenger cars and delivery trucks up to 3.5 tonnes, including, among others, offer availability for clients conducting business activity for less than 12 months. In May 2014, ING Auto Leasing was awarded by *Gazeta Finansowa* as the best product for SMEs in the Leasing category for the second consecutive year. Furthermore, in 2014 the company opened external sales network responsible for sale of ING Agro Leasing for agricultural entrepreneurs and individual farmers.

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<sup>34</sup> The description is made based on the data from the management information system. It covers corporate clients (in the amount of PLN 5,162.2 million) and retail clients receivables (in the amount of PLN 225.2 million).



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

ING Commercial Finance Polska S.A. provides factoring services and was included into the ING Bank Śląski S.A. Capital Group structure at the beginning of 2012. Since then, it has been gradually expanding the scale of its business and the number of serviced clients.

In 2014, ING Commercial Finance Polska S.A. grew almost twice as fast as the market and recorded the turnover of PLN 16.9 billion. It is an increase of 31% versus 2013. On account of sustained stable growth over 2014, the Company, already after Q3 2014, became the leader of the factoring market in Poland. What is more, the record Q4 (turnover of PLN 4.8 billion) enabled ING CF to strengthen its position as at the 2014 yearend with 14.8% share in market turnover.

In 2014, ING Commercial Finance acquired 337 new clients and at the yearend the number of serviced clients amounted to 1,069 i.e. increased by 184 clients (+21%) versus the 2013 yearend. The Company's turnover is dominated by clients from the following sectors: food and beverages (23%), power and fuels (10%), house and horticulture (9%), construction (8%), metallurgy (7.2%), and packaging (6.2%).

ING Commercial Finance also leads in terms of the number of financed invoices. As as the 2014 yearend, their number totalled 1,157 thousand, i.e. up by 241 thousand (+26%) on a year earlier.

In 2014, ING Commercial Finance Polska S.A. continued to pursue the strategy of full cooperation with ING Bank Śląski S.A. as regards sale processes. All Bank clients have easy access to factoring products offered by ING Commercial Finance via the ING BusinessOnLine banking system. Factoring products are also sold via fast track.

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

2014 was the first year, during which ING Usługi dla Biznesu S.A. conducted full operations in two business areas, that is:

- accountancy and payroll services rendered via ING Accounting,
- Aleo internet trading and auction platform for enterprises.

The Company's main priority was to pursue the strategy on implementing and developing Aleo.com targeted at building the popularity and brand of the portal. Therefore, in H1 2014, a marketing campaign The Boss of all the bosses was launched in cooperation with ING Bank Śląski S.A. As a result, more than 39 thousand users have registered on Aleo and the portal was among the most recognisable internet websites for companies. The fact that Aleo was well perceived by the market enabled the Company to take on an additional, international development direction. The service has been translated into English and prepared to be launched in other countries in the future. At the same time, Aleo portal is being constantly developed in order to provide its clients on the Polish market with the best business value.

Furthermore, in 2014 ING Accounting was offered all over Poland. Accountancy and payroll services are invariably targeted at the companies obliged to keep full accounting, the segment in which ING Accounting specialises. The service model uses the synergy between the accounting and banking services with the use of the modern internet tools that facilitate client cooperation with the accounting office. At present, ING Accounting provides its services to more than 150 clients.

## 6. ING Powszechne Towarzystwo Emerytalne S.A

From the very beginning, ING Otwarty Fundusz Emerytalny, the open-end pension fund managed by ING Powszechne Towarzystwo Emerytalne S.A., has been among the leaders on the pension funds market in Poland. As at 31 December 2014, ING OFE (ING Open-End Pension Fund) maintained its position of the leader on the market whereon 12 pension funds currently operate, both in terms of the value of assets under management as well as the number of members:

- Number of members. The Fund had 3,081.5 thousand members, or 18.5% of all participants in the open-end pension funds.
- Net assets. They totalled PLN 35.9 billion or 24.1% of the total worth of assets of open-end pension funds operating in Poland (the share remained unchanged versus 2013 yearend).

It should be noted that at the beginning of 2014, new provisions on the operations of pension funds came into effect. On 03 February 2014, open-end pension funds redeemed 51.5% of settlement units from an account of each fund participant and transferred the assets corresponding to the value of the redeemed units to the Social Insurance Institution. It mainly concerned assets in the form of bonds and bills issued by the State Treasury or Bank Gospodarstwa Krajowego. As a result, the value of assets managed by OFE contracted by more than half.

As at 31 December 2014, the value of an ING OFE settlement unit amounted to PLN 39.30 (down by 0.8% as compared with the 2013 yearend). The value of ING DFE settlement unit also decreased slightly and as at the end of 2014 amounted to PLN 16.35 versus PLN 16.47 a year earlier (-0.7%).

On 06 May 2014, ING Bank Śląski S.A. concluded with ING Continental Europe Holdings B.V. (NN CEH) a Letter of Intent regarding the sale of 20% of the shares in ING Powszechne Towarzystwo Emerytalne S.A. held by the Bank to NN CEH (current report no. 15/2014 of 07 May 2014). On 10 February 2015, the parties concluded the Share Purchase Agreement (current report no. 03/2015 of 11 February 2015).

## 7. Solver Sp. z o.o.

Solver Sp. z o.o. runs business activity on behalf of ING for Children Foundation. The Company not only organises education and recreation as well as rehabilitation stays for children aided by the Foundation, but it also arranges recreation for Bank employees and their families as well as training programmes therefor. Moreover, space and parking lots lease as well as hotel rooms administration constitute Company's additional business activity.

## V. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2014

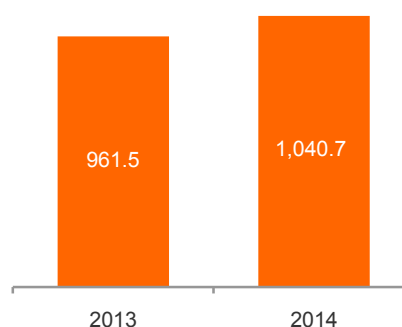
### 1. Gross profit and net profit

In 2014, the ING Bank Śląski S.A. Capital Group generated the gross financial result totalling PLN 1,347.4 million versus PLN 1,192.9 million last year. Thus, for the first time in the Group's history, the net profit attributable to shareholders of the dominant entity exceeded PLN 1 billion and totalled PLN 1,040.7 million as compared with PLN 961.5 million of the net profit for 2013 (up by 8.2%).

The main factors to affect the financial results of the ING Bank Śląski S.A. Capital Group in 2014 included<sup>35</sup>:

- The income on operating activities grew by 6.5% from the past year. As at the 2014 yearend, the Group's income totalled PLN 3,544.8 million. Higher net interest income contributed to income growth most (up by PLN 287.6 million, or 14.1%). The net income on fees and commissions also positively contributed (up by PLN 41.0 million, or 4.0%). The remaining income items showed negative dynamics, mainly the net income on investment (down by PLN 93.2 million, or 85.7%).
- Slight increase in operating expenses: PLN 1,929.7 million in 2014 versus PLN 1,868.4 million a year earlier (up by 3.3%).
- Stable level of risk costs. The balance of impairment provisions totalled PLN 267.7 million, up by only 0.2% as compared with the previous year.

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



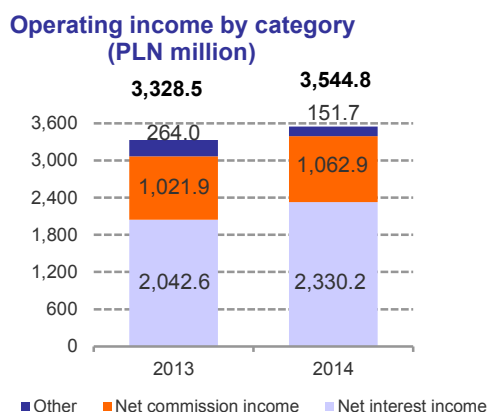
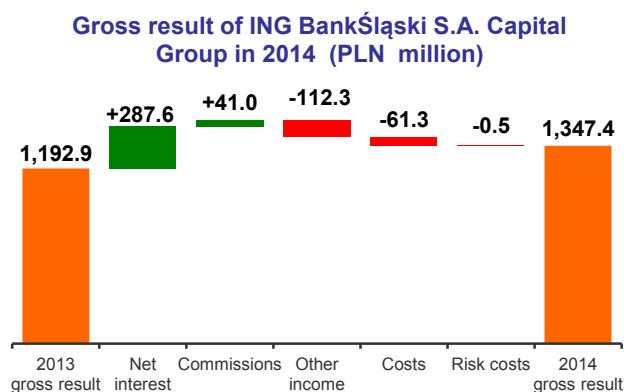
In 2014, the result before risk costs for the ING Bank Śląski S.A. Capital Group totalled PLN 1,615.1 million, up by 10.6% from 2013.

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

	2014	2013	Change 2014/2013	
	PLN million	PLN million	PLN million	%
Net interest income	2,330.2	2,042.6	287.6	14.1
Net commission income	1,062.9	1,021.9	41.0	4.0
Other income*	151.7	264.0	-112.3	-42.5
<b>Operating income*</b>	<b>3,544.8</b>	<b>3,328.5</b>	<b>216.3</b>	<b>6.5</b>
Operating expenses	1,929.7	1,868.4	61.3	3.3
<b>Result before risk costs</b>	<b>1,615.1</b>	<b>1,460.1</b>	<b>155.0</b>	<b>10.6</b>
Impairment losses and provisions	267.7	267.2	0.5	0.2
<b>Gross financial result</b>	<b>1,347.4</b>	<b>1,192.9</b>	<b>154.5</b>	<b>13.0</b>
Income tax	306.6	231.4	75.2	32.5
<i>Net result attributable to non-controlling shareholders</i>	<i>0.1</i>	<i>0.0</i>	<i>0.1</i>	-
<b>Net financial result</b>	<b>1,040.7</b>	<b>961.5</b>	<b>79.2</b>	<b>8.2</b>

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

<sup>35</sup>The characteristics discussed in this document apply to the income statement in analytical terms. The operating income category includes the net income on core operations plus the share in net profits of entities recognised on an equity basis.



Total income of the ING Bank Śląski S.A. Capital Group attributable to shareholders of the dominant entity (covering apart from the net profit also other income or cost items recognised in equity) amounted to PLN 2,398.4 million as compared to PLN 487.7 million in 2013.

## 2. Net interest income

In 2014, net interest income of the ING Bank Śląski S.A. Capital Group totalled PLN 2,330.2 million versus PLN 2,042.6 million (up by 14.1%).

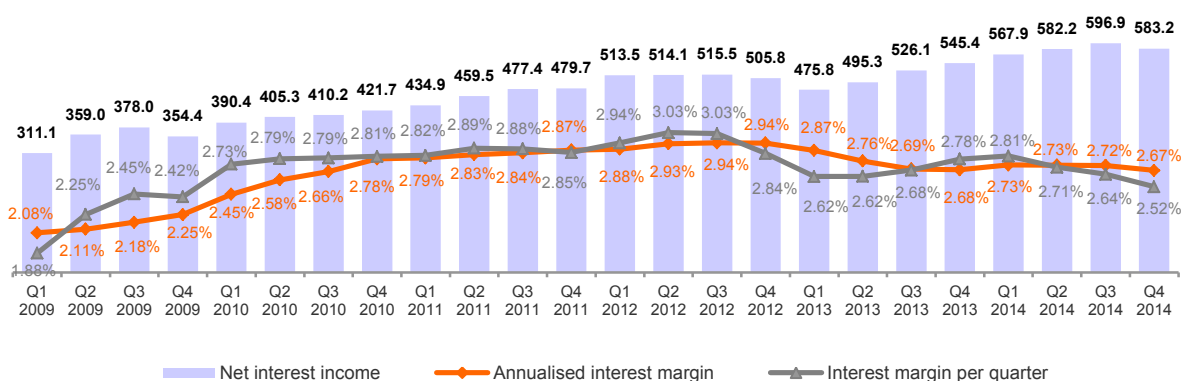
Higher interest income is mainly due to the volumes growth. Furthermore, the net interest income recorded in 2013 was under pressure of a number of market interest rate cuts, which in the context of a temporary mismatch of the deposit pricing policy led to relatively higher interest costs versus interest income. In 2014, the reference rate of the National Bank of Poland was lowered only once – by 0.5 p.p. – on 08 October 2014.

The share of loans and other receivables to customers net (Eurobonds excluded) in assets went up from 56.0% as at the 2013 yearend to 57.2% in December 2014. The interest margin in 2014 was at the level similar to 2013 – 2.67% versus 2.68%, respectively.

### Average base interest rate

	Segment		Bank total
	Retail	Corporate	
<b>Deposits</b>			
PLN	1.71%	1.70%	1.71%
FX	0.23%	0.03%	0.15%
<b>Loans</b>			
PLN	5.90%	3.78%	4.73%
FX	1.37%	2.28%	2.08%
Including: mortgage loans			
PLN	4.35%	–	4.35%
FX	1.37%	–	1.37%

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



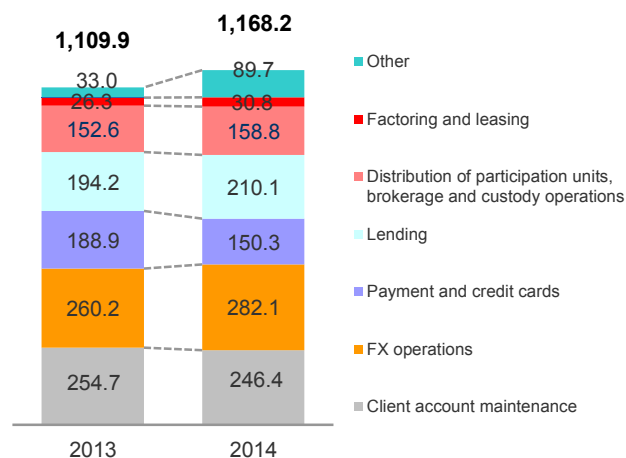
### 3. Non-interest income

Income on fees and commissions represented the major part of non-interest income of the ING Bank Śląski S.A. Capital Group. In 2014, it totalled PLN 1,062.9 million as compared with PLN 1,021.9 million in 2013 (up by 4.0%).

The Group recorded an increase in commissions under:

- insurance products (by PLN 43.9 million),
- transactional margin on currency conversion transactions (by PLN 21.9 million, or 8.4%),
- lending activity (by PLN 15.9 million, or 8.2%),
- distribution of participation units in mutual funds, brokerage and custody operations (by 4.1%) and
- factoring and leasing services (by 17.1%).

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



The following were lower compared with the previous year:

- fees and commissions for bank cards (down by PLN 38.6 million, or 20.4%) – the drop was mainly due to the entry into force as of 01 July 2014 of the laws reducing interchange fees by approx. 0.7 p.p. (from 1.2%-1.3% to 0.5%-0.6%),
- fees and commissions for clients' account maintenance (down by PLN 8.3 million, or 3.3%) – it reflects an ongoing growth of the share of Direct current accounts in total accounts. As at the 2014 yearend, Direct accounts accounted for 73% of all accounts while as at the end of 2013 this share was 68%.

In 2014, other income of the ING Bank Śląski S.A. Capital Group amounted to PLN 151.7 million and was significantly lower than in 2013 (PLN 264.0 million) – down by 42.5%. Such other income dynamics is due to the so-called base effect. In 2013, other income included the net income on the sale of the portfolio of available-for-sale debt instruments, which, considering the effect of termination of a hedging item as regards part of sold securities, had a positive impact on the Bank gross result of PLN 100 million, and on the net result of PLN 80.5 million. The second important factor that caused a drop of other income was lower income on stake in associates – down by PLN 25.8 million or 67.7%. Due to the conclusion on 06 May 2014 of the letter of intent regarding the sale of 20% of ING PTE shares, those shares were reclassified to the held-for-sale assets portfolio. Thus, since H2 2014 this portfolio has no longer been carried through assets and ING PTE results have no longer been consolidated.

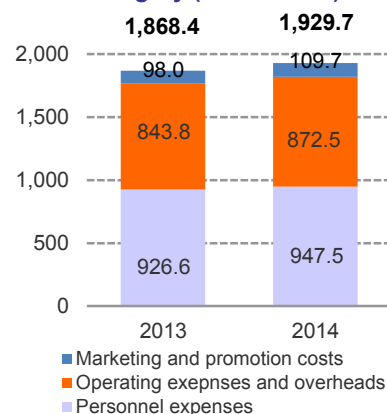
### 4. Operating expenses

In 2014, operating expenses of the ING Bank Śląski S.A. Capital Group slightly grew and totalled PLN 1,929.7 million versus PLN 1,868.4 million a year earlier.

Their major part were the personnel expenses which in 2014 totalled PLN 947.5 million compared with PLN 926.6 million in 2013 (up by 2.2%). Further, intensified marketing activities effected higher marketing and promotion costs, up by 12.7% (they settled at PLN 109.7 million).

Total operating expenses and overheads (except for marketing and promotion costs) did not materially change. As at the end of 2014, they totalled PLN 697.4 million versus PLN 679.9 million a year earlier (up by 2.5%).

Group expenses by category (PLN million)

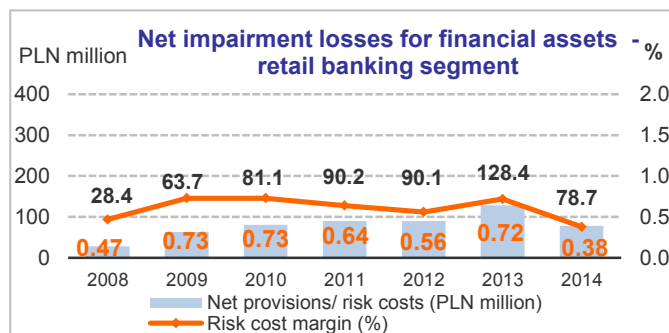
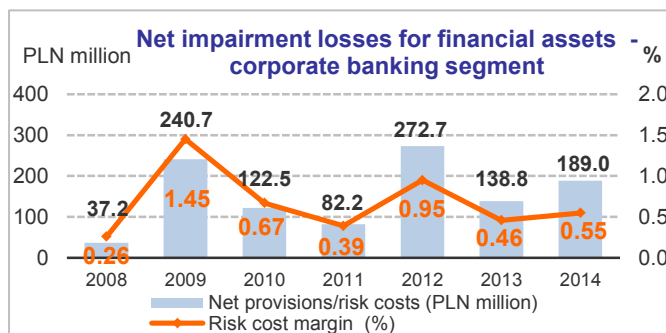
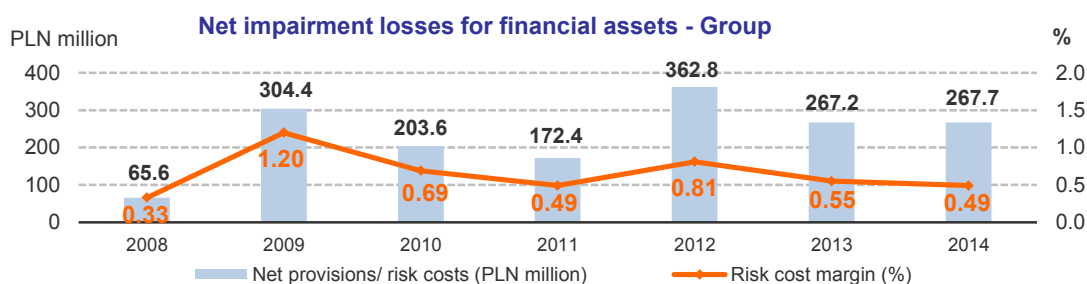


## 5. Impairment losses and provisions

In 2014, the value of impairment losses for financial assets and provisions for off-balance sheet liabilities accounted for in the result was at the same level as in the previous year (PLN 267.7 million compared with PLN 267.2 million).

Provisions for receivables having impairment trigger in the corporate clients segment accounted for the majority of impairment losses; they totalled PLN 189.0 million compared with PLN 138.8 million in 2013 (up by 36.2%).

In the retail segment, the loan loss provisions established in 2014 were lower than in 2013 – PLN 78.7 million versus PLN 128.4 million, respectively (drop by 38.7%).



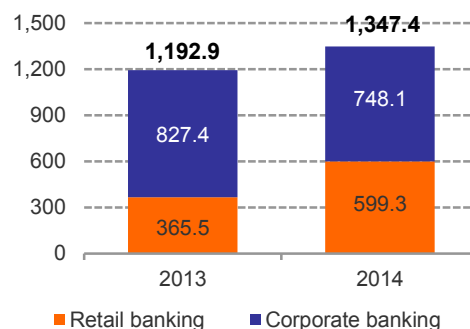
## 6. Share of individual business segments in financial result

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

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

In 2014, the retail banking segment generated PLN 599.3 million worth of gross profit versus PLN 365.5 million in the previous year (up by 64.0%). Thus, the share of the retail segment in the total Group result gross went up to 44.5% versus 30.6% in 2013.

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



The retail banking segment result was made up by:

- Higher income. It totalled PLN 1,839.3 million, up by 12.3% from a year earlier. The segment earned higher interest income (up by 26.2%) and slightly lower net income on fees and commissions (down by 0.4%). Increase in the net interest income is due to the volume increase and a slightly more stable in 2014 (than in 2013) market interest rates environment. In the net commission income, positive and negative factors impacting its level balanced out. The negative factors include a drop in commissions on card transactions following further reduction as of 01 July 2014 of the interchange fee, while the positive factors cover a growth of commission income on sales of insurance products.
- Slightly higher operating expenses. The segment's total expenses amounted to PLN 1,161.3 million (up by 1.4% from 2013). They were mainly driven by higher marketing and promotion costs due to support for sale of cash loans and savings accounts, first and foremost.
- Lower risk costs. In 2014, the net balance of loan loss provisions equalled PLN 78.7 million versus PLN 128.4 million last year. Lower loan loss provisions reflected a very good quality of the retail loans portfolio.

In 2014, the corporate banking segment earned gross profit of PLN 748.1 million compared with PLN 827.4 million in 2013 (down by 9.6%). The segment's result represented 55.5% of the Group's gross result (69.4% in 2013). The corporate banking segment result was made up by:

- The income totalled PLN 1,705.5 million, up by 0.9% from 2013. The net interest income as well as net income on fees and commissions went up by 1.6% and 7.3%, respectively. Other income dropped by 41.3%.
- The segment's expenses totalled PLN 768.4 million, up by 6.2% from 2013.
- Risk costs. In 2014, the net balance of impaired receivables losses was PLN 189.0 million versus PLN 138.8 million a year earlier – up by 36.2%.

## 7. Core effectiveness ratios

In 2014, the operations of the ING Bank Śląski S.A. Capital Group led to increased effectiveness in many areas. It is particularly visible in the cost effectiveness area. In 2014, C/I ratio was 54.4%, improved by 1.7 p.p. from 2013. Also the extent of the deposit base utilisation for granting loans improved – LtD was 73.1%, up by 3.8 p.p. from 2013. Despite significantly lower market interest rates, the Group managed to maintain interest margin at an almost unchanged level – 2.67% in 2014 versus 2.68% in 2013. ROA and ROE slightly dropped but in the case of ROE, it was mainly due to a strong increase in valuation of the cash flow hedging instruments portfolio, being an equity item (PLN 1.3 billion as at the end of 2014 versus PLN 0.2 billion as at the 2013 yearend). Excluding valuation of hedging instruments from equity, ROE would drop year on year by only 0.1 p.p. (in 2014 it would have been 11.9% and 12.0% in 2013). The Total Capital Ratio in 2014 settled at 14.2% versus 17.3% in 2013. It should be emphasized that in 2014 it was calculated according to Basel III requirements, while in 2013 pursuant to Basel II regulations. The estimated TCR as at the 2013 yearend according to Basel III would have been 14.9%.

### Core Effectiveness Ratios (%)

	2014	2013
C/I ratio	54.4	56.1
ROA	1.1	1.2
ROE	11.1	11.6
Interest margin ratio	2.67	2.68
LtD	73.1	69.3
Total capital ratio	14.2	17.3

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

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

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

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

**Loans/ Deposits ratio** – net loans and other receivables to customers, Eurobonds excluded, in relation to liabilities to customers, leasing-matched funding included. The value of Eurobonds was PLN 3,923.9 million in 2014 and PLN 3,685.8 million in 2013. The value of leasing-matched funding was PLN 2,467.1 million in 2014 and PLN 2,580.8 million in 2013.

**Total capital ratio** – in 2014 calculated in accordance with Basel III regulations, in 2013 in accordance with Basel II regulations.

## 8. Consolidated statement of financial position

Increased scale of the Group operations in 2014 is mainly visible in its higher total assets and liabilities. As at 31 December 2014, the balance sheet total of the ING Bank Śląski S.A. Capital Group amounted to PLN 99,860.7 million, up by PLN 13,110.1 million, or 15.1% when compared with the balance sheet total as at the end of 2013.

The size of the Group's balance sheet total as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As at the end of December 2014, the balance sheet total of ING Bank Śląski S.A. was PLN 96,742.4 million (96.8% of the Group's balance sheet total) versus PLN 83,670.5 million in 2013 (up by 15.6%).

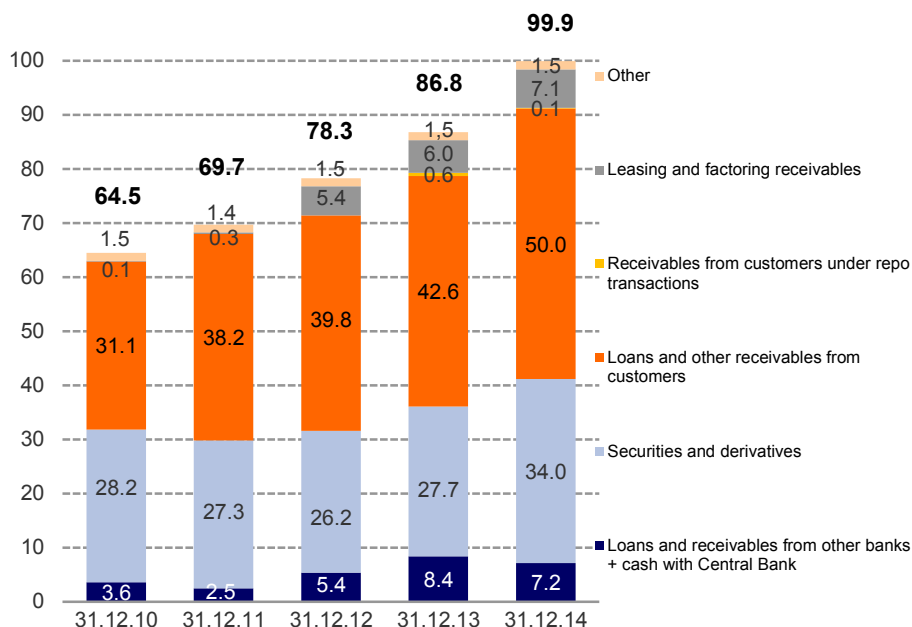
### Assets

2014 saw a continuation of the growing trend in terms of the share of customer receivables in the assets of the ING Bank Śląski S.A. Capital Group. Throughout the year, total net receivables to customers (Eurobonds excluded) grew by PLN 8,578.8 million, or 17.7% and as at 31 December 2014 totalled PLN 57,130.9 million (57.2% of the total assets of the Bank Capital Group). In 2013, total credit receivables from clients accounted for 56.0% of all assets.

The "Loans and other receivables to customers" category in the financial statements also includes receivables under Polish government bonds in EUR, i.e. Eurobonds. As at the end of December 2014, they amounted to PLN 3,923.9 million versus PLN 3,685.8 million a year earlier.

T-bonds (Eurobonds included) and other derivatives represented a major item in the balance sheet of the Bank Capital Group. As at the end of December 2014, this portfolio totalled PLN 34,006.1 million (or 34.1% of assets) compared with PLN 27,654.1 million (or 31.9% of assets) in December 2013. Debt securities predominated in those assets, including investment assets (available-for-sale assets) the value whereof was PLN 22,829.3 million, or 67.1% of the entire financial instruments portfolio.

**Assets of ING Bank Śląski S.A. Capital Group (PLN billion)**



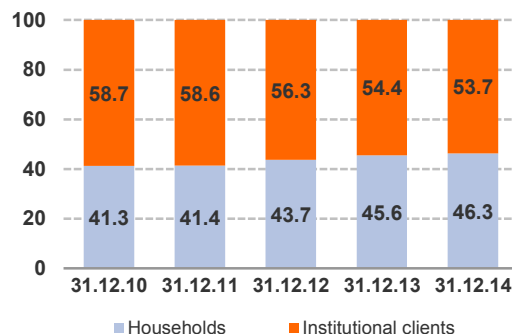
Group's receivables from other banks totalled PLN 1,838.3 million (or 1.8% of assets) compared with PLN 1,399.8 million (or 1.6% of assets) in December 2013.



### Currency structure of receivables from customers

	31.12.2014		31.12.2013	
	PLN million	%	PLN million	%
PLN	47,244.4	77.4	40,823.8	78.1
FX	13,810.4	22.6	11,414.1	21.9
<b>Total</b>	<b>61,054.8</b>	<b>100.0</b>	<b>52,237.9</b>	<b>100.0</b>

### Net loans by customer group (%)

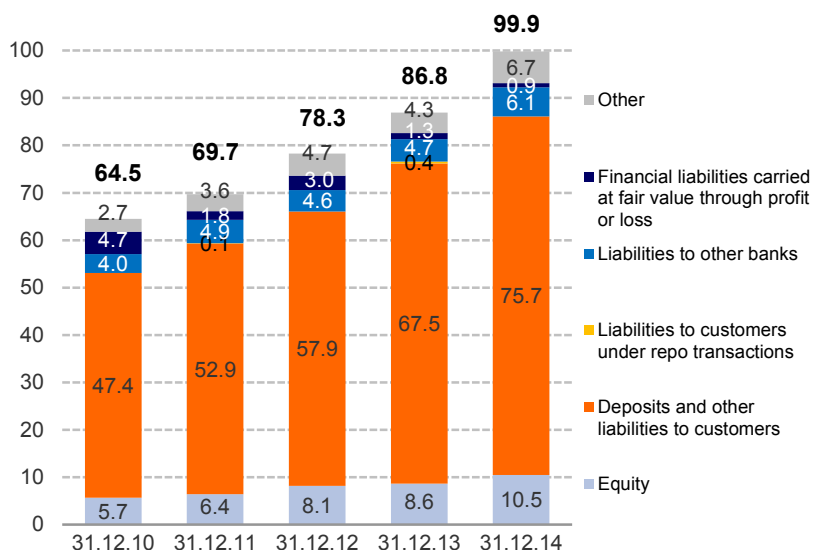


### Liabilities

The funds deposited with the Bank by customers constituted the dominant source of funding for the operations of the ING Bank Śląski S.A. Capital Group. In December 2014, liabilities to customers totalled PLN 75,658.9 million compared with PLN 67,547.9 million as at the 2013 yearend.<sup>36</sup> As at the end of 2014, liabilities to customers represented 75.8% of total liabilities, down by 2.1 p.p. from the 2013 yearend.

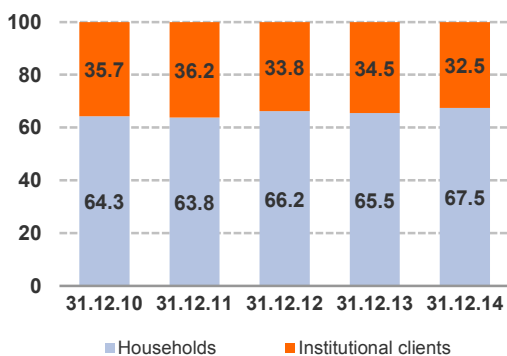
Also total Group liabilities to other banks grew. As at the end of 2014, they were PLN 6,123.4 million compared with PLN 4,609.8 million as at the 2013 yearend. The share of funds acquired from other banks in total liabilities went up to 6.1% as at the 2014 yearend compared with 5.3% as at the 2013 yearend.

### Liabilities of ING Bank Śląski S.A. Capital Group (PLN billion)

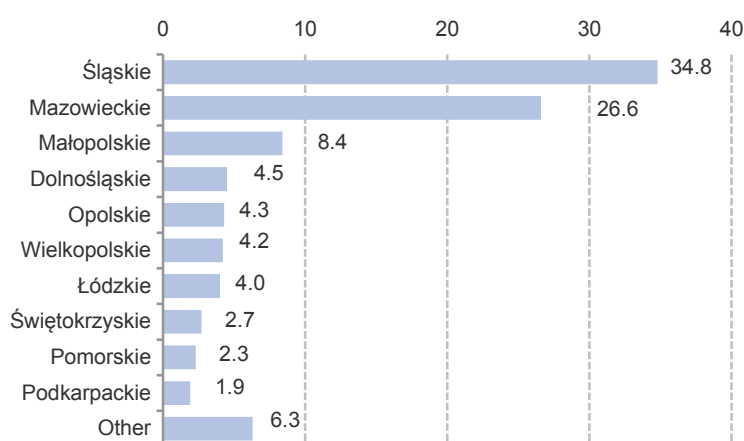


As at the end of 2014, the equity attributable to Bank shareholders was PLN 10,454.0 million versus PLN 8,626.3 million in December 2013 (up by PLN 1,827.7 million, or 21.2%). Equity share in funding the Bank Capital Group operations rose to 10.5% compared with 9.9% as at the 2013 yearend. It was mainly due to the increase in valuation of the available-for-sale (AFS) financial assets' portfolio by PLN 287.5 million and in revaluation reserve for cash flow hedges (MCFH) by PLN 1,072.8 million.

### Deposits by customer group (%)



### Deposits of ING Bank Śląski S.A. Capital Group by province (%)



<sup>36</sup>Excluding liabilities to customers under repo transactions

## VI. MANAGEMENT OF KEY RISKS

### 1. Credit risk

#### General information

ING Bank Śląski S.A. manages credit risk end-to-end, based on strategic planning and a consistent system of policies and procedures as well as the risk management tools, including risk identification, measurement and control.

The lending policy pursued by ING Bank Śląski S.A. is based on principles of secure and prudent credit risk management. The lending policy is put into practice by the Bank Management Board that established the Credit Policy Committee to take decisions as regards credit risk management on a daily basis.

Risk management strategy sets out short-, mid- and long-term goals for the credit risk management area as well as their accomplishment manner. Risk appetite which translates the Bank's strategy into a consistent set of portfolio measures, defined as maximum thresholds for the lending portfolio, along with defined early warning brackets, is an element of that strategy. The credit risk management strategy is approved by the Supervisory Board. The Supervisory Board also periodically assesses the degree of accomplishment of strategic goals by the Bank Management Board.

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

Lending-related losses are a consequence of risk and the Bank's mitigation actions in that regard. In order to keep the losses at or below the level set in the planning documents, the Bank impacts their level using accepted risk limits, risk exposure amounts plus risk hedging instruments and in case the risk materializes by direct actions reducing the losses.

The credit risk management system used by ING Bank Śląski S.A., including the organisational structure, the lending process framework, the system of internal regulations and the applied tools and models, is verified on an ongoing basis and adapted as needed to ensure that the Bank's strategy, the risk appetite included, is accomplished. The aim is to ensure that the identification, assessment, measurement, monitoring and management actions taken for the business bearing credit risk are adequate and, at the same time, consistent and compliant with the regulatory requirements.

ING Bank Śląski S.A. manages its credit risk with the use of advanced credit risk assessment models. For the corporate credit portfolio, capital requirements are computed using the Advanced Internal Rating-Based Approach (AIRB). For the retail portfolio, this method is undergoing a use test now. The models applied by the Bank to manage risk are systematically validated and developed.

The Bank actively uses stress tests to manage credit risk on an ongoing basis.

ING Bank Śląski S.A. maintains the credit risk management model based on three lines of defence:

- 1st line of defence: business units – performing commercial operations on a day-to-day basis in line with the approved internal regulations and risk limits while demonstrating adequate awareness and ownership of the risks taken,
- 2nd line of defence: credit risk function – ensuring that actions of business units remain within the approved principles and limits,
- 3rd line of defence: internal audit function – verifying periodically and thoroughly that the actions taken by the 1st and 2nd lines of defence comply with the regulatory requirements and best banking standards.

Credit decisions are taken following a comprehensive transaction risk analysis – in the proper credit approval track, determined by the transaction complexity and amount, including for more automated paths on the basis of clearly defined criteria, including behavioural ones, and based on the credit limit computed automatically using the algorithm approved by the Credit Policy Committee. All transactions

are accepted in line with the explicitly defined credit mandate. The persons taking credit decisions are personally liable for them.

The decision-taking powers exercised in respect of sale and risk acceptance for individual credit transactions by business units and transactional credit risk units are separated (also in functional terms) from the activities of the risk policy, modelling and reporting area that shapes the credit policy as well as builds and validates the tools assisting the risk management process.

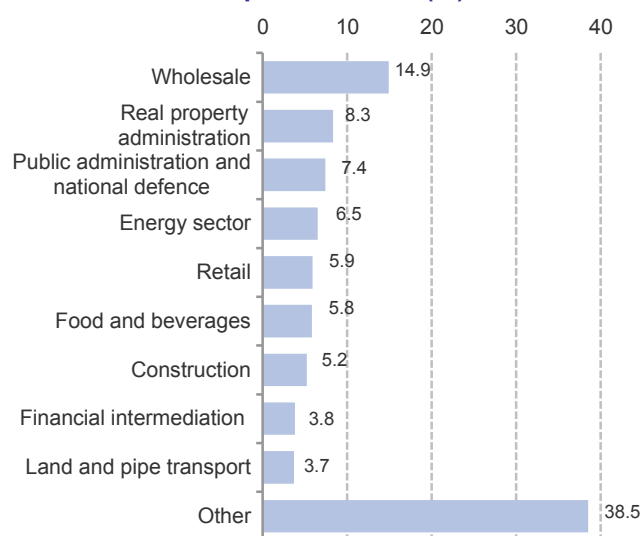
### Lending policy

In 2014, the lending policy of ING Bank Śląski S.A. was modified so as to ensure proper and stable functioning of the credit risk management system in the changing legal, economic and business landscape. The modifications took account of *inter alia* Poland's overall economic situation as well as the financial standing of individual groups of borrowers.

The said modifications were oriented at the following in particular:

- making the lending process more effective while ensuring adequate credit risk identification, measurement and control mechanisms,
- making the lending offer of the Bank more attractive for clients on the assumption that the Bank's credit risk is maintained at an acceptable level,
- adapting the internal regulations of the Bank to, among others:
  - the recommendations issued by PFSA,
  - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and
  - EBA Technical Standards on supervisory reporting on forbearance and non-performing exposures,
- continuing development of credit risk reporting and monitoring systems to support fast and effective risk identification and measurement in the corporate credit portfolio,
- strengthening active sectorial policy management through appropriate diversification of lending policy principles in correspondence with the risk-based industry categorisation: preferred, under watch, and non-preferred industries, and
- enhancing independence of actions on the part of risk control and monitoring for corporate credit exposures from those taken by the sales and risk acceptance functions.

Concentration of (balance sheet and off-balance sheet) exposures towards corporate clients (%)<sup>37</sup>



The main modifications of the Bank's lending policy for corporate clients were as follows:

- updating the general principles for management and mitigation of the credit and market risks at the Bank as well as the rules of supervision over credit risk in subsidiaries belonging to the Bank Capital Group,
- updating management requirements and criteria for the credit exposures used to finance real estate and mortgage-backed exposures, as set out in the PFSA recommendation on the best practices regarding management of mortgage-backed credit exposures,

<sup>37</sup>The breakdown includes exposure to corporate clients excluding banks but embracing gross credit receivables (loans, leasing and factoring receivables and corporate bonds) as well as off-balance sheet exposure.

- implementing the principles of identification and reporting of credit exposures with forbearance in the situation of client experiencing financial problems and reporting of non-performing exposures,
- updating the counterparty risk management principles,
- adapting the Bank's lending policy to the specific situation of selected groups of clients through modifying general guidelines for the Bank's lending directions and selected sector guidelines,
- specifying in more detail and extending the list of impairment triggers to ensure their full compliance with the International Accounting Standards and banking supervision requirements,
- particularizing the principles of computation of impairment losses for credit exposures and provisions for off-balance sheet credit liabilities using the discounted cash flow method (ISFA) and introducing the back-testing rules for estimated cash flows used for the ISFA portfolio,
- specifying in more detail the rules for loss reversal, that is client's exit from the ISFA or INSFA portfolios,
- introducing the obligation to record exceptions from the established rules for identifying credit exposures impairment,
- implementing automated ongoing monitoring for corporate credit exposures in the ING Monitoring application based on the list of warning signals verified using the information available in the Bank's systems,
- enhancing the quality of credit risk monitoring through modification of the criteria determining the frequency of financial standing monitoring for selected groups of entities,
- implementing modified rules and new tools for assessing social and environmental risks in the lending process,
- implementing updated rules for verifying real property value and collecting data in the real property database, in line with the requirements of Recommendation J on the principles for gathering and processing by banks real property data and on the best practices regarding management of mortgage-backed credit exposures,
- updating the procedures for undertaking fast remedial measures in the event of unpredicted events effecting lower real property value, reviewing and updating the Credit Policy Committee Bylaw,
- reviewing end-to-end and updating the standards of credit analysis, the specimens of full and simplified credit applications included, and
- optimising the rules for approving credit transactions under the fast track procedure, including making limits more available and conditioning their amounts on the internal classification of the client's sector.

Furthermore, the Bank started to test automated credit risk assessment paths (easy lending process) – within the precisely set limits – for low amounts of transactions made with corporate clients in order to make the lending process more efficient while optimising the risk/reward ratio per transaction or a transaction portfolio.

The main modifications of the Bank's lending policy for retail clients were as follows:

- extending the pilot programme for simplified assessment of credit capacity under the Recommendation T requirements,
- making the lending offer more appealing to and competitive for the segment of unsecured products for the exposures consolidated from other banks, introducing new offers and making the credit facilities more available as regards the credit amounts attainable for upper segments of clients, expanding the access to the lending offers in the ING BankOnline system, introducing the option to request a loan via the vortal application on the Bank's website or e-commerce portal, providing a lending offer in the mobile banking application, launching new solutions for preapproved and prescored offers and loosening the document-related requirements for selected income sources,

- changing the approach to the definition of total credit exposure whereby the said notion also includes the ING Bank Śląski S.A. Group members (ING Lease and ING Commercial Finance) other than the Bank,
- updating (raising) the minimum subsistence costs and verifying the ratio accounting for those costs in the credit capacity calculation,
- implementing the principles of identification and reporting of credit exposures with forbearance in the situation of client experiencing lasting financial problems and reporting of non-performing exposures,
- introducing new solutions for the lending policy parameters and modifying the criteria for automated decisions made in the credit application for unsecured products,
- making the lending offer more appealing to and competitive for the segment of entrepreneurs by introducing the option of requesting a credit line by start-ups, introducing new offers and making the credit facilities more available as regards the credit amounts attainable for the selected group of clients, adding to the Bank's offer the option of increasing the loan amount for credit lines under prescoring, increasing the exposures granted without the spouse's consent,
- adding a new income criterion to determine the maximum limit amount for unsecured exposures in the segment of entrepreneurs,
- running a pilot study of selling loans to entrepreneurs through the new sales channels of nationwide IFAs and Bank representatives,
- synchronising the monitoring of the financial standing of entrepreneurs with the monitoring of credit line renewals,
- changing the mortgage process by launching a new system for credit application processing for mortgage loans (higher process automation and diversification of the lending policy parameters for mortgage loans) and introducing one-person decision pilot programme,
- suspending the use of bridge insurance for credit facilities/ cash loans and considering bridge collateral being a higher margin in creditworthiness computation,
- incorporating into the mortgage regulations those parts of Recommendation J and Recommendation S provisions that are effective as of 2014,
- providing an option to apply for a mortgage loan through the ING BankOnLine internet banking system,
- introducing rules and running stress tests to verify the value of DTI and LTV parameters for mortgage loans,
- starting using the internal model of real property price change risk assessment as well as the reports showing that risk assessment for housing properties as developed by the AMRON Centre,
- as regards monitoring of short-term repayment arrears, the Bank implemented a new model of cooperation with external entities, launched new tools of communication with clients in the event of acceptance of the declaration to repay and confirmation of repayment made, introduced new handling procedure for higher-risk clients and Personal and Private Banking clients and modified the principles of monitoring instances of balance overdrawn for current accounts,
- as regards the restructuring process – the main change was its adaptation to the EBA Directive defining the types of forbearance available to clients in the event of lasting financial problems.

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

In 2014, ING Bank Śląski S.A. remained unwaveringly compliant with the requirements of the Advanced Internal Rating-Based Approach (AIRB) under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and – as far as applicable – under PFSA Resolution 76/2010 of 10 March 2010 on the Scope and Detailed Principles of Capital Requirement Determination for Individual Risk Types. As part of those actions, among other things:

- the model management process was systematized by introduction of the comprehensive “Risk Model and Valuation Models Management Policy” and “Risk Model Validation Policy at ING Bank Śląski S.A.”,
- updated credit risk models, PD and LGD models for SME assets included, were gradually rolled out together with ING Group,
- the methodology for developing credit risk models was supplemented with the aspects of diversification of the approach to point-in-time (PIT) and through-the-cycle (TTC) modelling,
- the process of periodical analysis of adequacy of the loss identification period used to calculate provisions for corporate and retail IBNR portfolios was regulated,
- the methodology of economic (internal) capital estimation for credit risk was expanded at ING Bank Śląski S.A. with the economic capital requirement for credit risk due to the credit valuation adjustment (CVA), due to central counterparty exposures and due to other non-credit assets,
- the methodology of economic (internal) capital estimation was updated by introducing the downturn LGD parameter to replace the LGD parameter estimated using average losses sustained by the Bank during the full economic cycle,
- as regards the methodology of forming impairment losses (provisions) for impaired exposures for IBNR and INFSA portfolios, an approach based on the LGD parameter being dependent on the period of exposure default using the data available for current period was implemented, and
- the manner of corporate portfolio’s credit risk reporting was modified with special focus placed on changes to risk-weighted assets (RWA) and identification of risk parameters impacting the said changes.

**Organisational changes in the Risk Management area:**

In 2014, there were two areas separated within the Credit and Market Risk Management Division:

- corporate clients’ transactional risk area – performing the functions:
  - acceptance of risk rating and acceptance of credit risk as well as risk management for individual credit exposures and supervised portfolios, and
  - credit risk management for irregular portfolio, including restructuring and debt recovery of problem loans,
- the area of credit risk policy, modelling and reporting – performing the functions:
  - determination of the credit risk management policy as well as supervision and control of its performance, implementation of credit risk management policies and procedures as well as guidelines on lending directions,
  - implementation, development and management of regulatory credit risk models compliant with the regulators’ requirements and internal standards of the Bank, development of prognostic and predictive models used to support risk assessment and boost bank products sales, and
  - credit risk measurement and reporting.

Furthermore, the functions of credit risk policy, modelling and reporting that were earlier performed by separate organisational units for retail and corporate lending portfolios were merged within competent departments to enhance consistency and obtain synergy of actions taken to manage credit risk in both areas.

### Quality of lending portfolio and provisioning

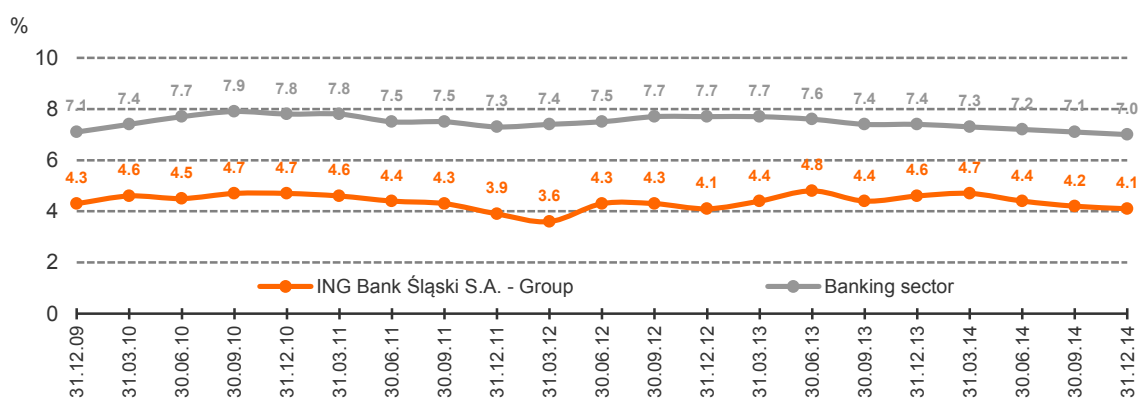
As at the end of December 2014, the loans and cash advances granted to the ING Bank Śląski S.A. Capital Group clients (including leasing and factoring receivables, corporate bonds and municipal bonds) totalled PLN 58,750.4 million gross.

Impaired loans were worth PLN 2,379.4 million versus PLN 2,314.6 million as at the end of 2013. Thus, the share of the impaired portfolio in the entire lending portfolio of the Bank Capital Group went down from 4.6% in December 2013 to 4.1% as at the end of December 2014.

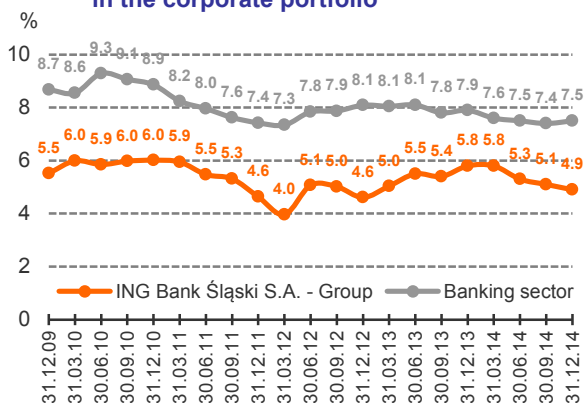
It should be noted that the quality of lending portfolios of the ING Bank Śląski S.A. Capital Group (both retail and corporate) is still significantly better than the average in the entire banking sector. The share of impaired receivables as at the end of December 2014 was 7.0% in the sector.

As at the end of December 2014, the ING Bank Śląski S.A. Capital Group had PLN 1,553.0 million worth of provisions for the lending portfolio. The impaired portfolio provisioning ratio was 65.3%.

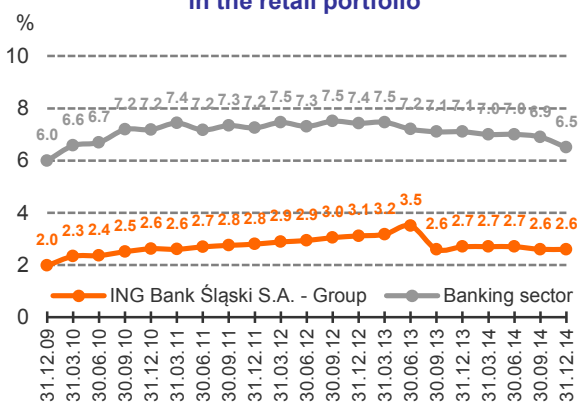
Share of impaired loans - Group



Share of impaired loans in the corporate portfolio



Share of impaired loans in the retail portfolio



Market ratios – estimate based on the data published by NBP

**Quality of portfolio of loans and cash advances granted to the ING Bank Śląski S.A. Capital Group clients (PLN million)<sup>38</sup>**

	31.12.2014	31.12.2013	31.12.2012
<b>Total exposure</b>	<b>58,750.4</b>	<b>49,982.2</b>	<b>46,509.7</b>
Non-impaired portfolio	56,371.0	47,667.6	44,614.7
Impaired portfolio	2,379.4	2,314.6	1,895.0
Impairment loss and provisions	1,738.5	1,567.9	1,446.3
Non-impaired portfolio loss	167.3	151.4	128.4
Impaired portfolio loss	1,553.0	1,403.0	1,295.6
Provisions for off-balance sheet liabilities	18.2	13.5	22.3
<b>Share of impaired portfolio</b>	<b>4.1%</b>	<b>4.6%</b>	<b>4.1%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>65.3%</b>	<b>60.6%</b>	<b>68.4%</b>
<b>Exposure – Corporate Banking</b>	<b>36,781.0</b>	<b>31,476.7</b>	<b>29,877.7</b>
Non-impaired portfolio	34,981.4	29,663.1	28,500.4
Impaired portfolio	1,799.6	1,813.6	1,377.3
Impairment loss and provisions	1,171.9	1,081.0	975.8
Non-impaired portfolio loss	79.5	47.9	58.0
Impaired portfolio loss	1,074.2	1,019.6	895.5
Provisions for off-balance sheet liabilities	18.2	13.5	22.3
<b>Share of impaired portfolio</b>	<b>4.9%</b>	<b>5.8%</b>	<b>4.6%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>59.7%</b>	<b>56.2%</b>	<b>65.0%</b>
<b>Exposure – Retail Banking</b>	<b>21,969.4</b>	<b>18,505.5</b>	<b>16,632.0</b>
Non-impaired portfolio	21,389.6	18,004.5	16,114.3
Impaired portfolio	579.8	501.0	517.7
Impairment loss	566.6	486.9	470.5
Non-impaired portfolio loss	87.8	103.5	70.4
Impaired portfolio loss	478.8	383.4	400.1
<b>Share of impaired portfolio</b>	<b>2.6%</b>	<b>2.7%</b>	<b>3.1%</b>
<b>Impaired portfolio provisioning ratio</b>	<b>82.6%</b>	<b>76.5%</b>	<b>77.3%</b>

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

As at 31 December 2014, the ING Bank Śląski S.A. Capital Group had:

- committed but non-utilised credit lines, commitments to grant loans (such as overdrafts and card limits) and commitments under issued guarantees and letters of credit totalling PLN 23,802.6 million (up by 25.0% from the end of 2013),
- received contingent liabilities in the amount of PLN 43,228.2 million (up by 18.0% from a year earlier),
- off-balance sheet financial instruments (derivative transactions) totalling PLN 297,683.6 million (up by 38.1% from the end of 2013).

<sup>38</sup>Including leasing and factoring receivables as well as corporate and municipal bonds.



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

	31.12.2014	31.12.2013
Contingent liabilities granted	23,802.6	19,046.8
Contingent liabilities received	43,228.2	36,631.9
Off-balance sheet financial instruments	297,683.6	215,504.3
<b>Total off-balance sheet items</b>	<b>364,714.4</b>	<b>271,183.0</b>

### 3. Market risk management

#### General information

At ING Bank Śląski S.A. we apply a broad definition of market risk which takes into account (both at solo and consolidated level) sensitivity to changes to the market parameters and liquidity-related behaviours of clients, where:

- Sensitivity encompasses both changes to the economic results and presentation in the relevant reports of financial results, changes to the extent where to the statutory and economic capital requirements are covered, as well as Bank's capacity to cover liabilities once they become due and payable,
- Market rates cover FX rates, interest rates, real estate and securities prices, implied variability of FX rates and interest rates. The market parameters derive from market rates and they include elements such as variability and correlation,
- Liquidity-related behaviour of clients covers the profile of Bank's depositaries in terms of renewal and premature termination and profile of Bank's debtors in terms of prepayments, past due repayments and default.

#### General approach to market risk management

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

The Market Risk Management Department is sub-divided into two sections:

- The Trading Risk Management & FM Product Control Section which deals with risk generated by the Bank's trading operations,
- and the ALCO Management Section, concentrated on the Bank's balance sheet and liquidity risk management.

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

- Trading Book. In includes books of the Financial Markets Division area (FX, FX options and interest rate books). These books include items kept for short-term in order to sell them back or to obtain financial benefits due to current or expected in short-term changes to prices or items included for arbitrary purposes. Examples are own trading items, items resulting from servicing the client and/or market making.
- Banking Book. In includes Commercial Banking Books and Treasury Department Banking Books. Commercial Banking Books are banking books of the retail and corporate divisions, including commercial deposits and loans. The risk embedded in these items is transferred to Treasury Department banking books by means of internal transactions, where it is further managed within the market risk limits adopted by the Bank.

### **Risk models**

Risk models are adjusted to the profile, scale and complexity of market risk at ING Bank Śląski S.A. The models take into account both the current and planned scope of Bank's activity. All models are periodically (at least once a year) reviewed (models' assumptions in particular). The review includes back-testing.

Risk models cover:

- VaR models – are applied to manage interest rate risk, FX risk and FX options risk,
- ALM models including:
  - Liquidity models – regulatory and internal models applied in liquidity risk management (covering assets and liabilities),
  - Interest rate models – applied in interest rate risk management, including demand deposits replication.
  - Internal capital adequacy models – applied to the capital requirements calculation.

Detailed approach regarding models' life cycle consist of the following elements:

- Model development or change initiation,
- Model development and testing,
- Model prevalidation preceding its acceptance,
- Model acceptance,
- Model implementation,
- Model implementation validation,
- Model functioning and its monitoring,
- Periodical validation.

## **4. Interest rate risk and FX risk management**

### **General information**

Interest rate risk may be defined as a risk of loss due to changes to the specified features of interest rates. Interest rate risk management applies to all balance and off-balance sheet items of the Bank sensitive to interest rate changes.

FX risk is a risk of loss due to FX rates changes.

### **General approach to interest rate risk and FX risk management**

The methods of interest rate risk management are adjusted to the structure of books at the Bank. The risk transfer system plays a key role in the banking books. The risk transfer process is intended to transfer the interest rate risk (including the underlying risk) and the liquidity risk (understood as the revaluation risk of the liquidity premium) of products registered in the commercial books (loans and deposits) to the Treasury Department books, where this risk is further managed as part of the risk appetite adopted at the Bank. Risk transfer encompasses the risk modelling process (optionality risk in particular) and allocation of the internal prices to the products registered in the commercial books.

The acceptable level of interest rate risk (risk appetite) is expressed as a set of limits used for managing the interest rate risk level. The limits system is adjusted to the general level of risk as approved by the Supervisory Board.

The Bank manages the FX risk by transferring it internally to the Financial Markets Division where it is further managed as part of the system of internal limits for FX risk as accepted by the Bank Management Board reflecting the general risk level approved by the Supervisory Board.

For subsidiaries, the Bank's intent is to keep the market risk at low level, which is reflected in the limits for FX risk and interest rate risk accepted by the Bank Management Board. If necessary, subsidiaries close their FX positions and interest rate exposures with the Bank.

### **Main methods of interest rate risk and FX rate risk measurement**

Value at Risk (VaR) is the main methodology used to measure market risk both in FM books (trading) and Treasury Department books (banking). The VaR index specifies a potential loss, which in line with expectations should not be exceeded with a given confidence (probability) level assumed. The Bank calculates VaR separately for individual interest rate, FX transactions and FX options portfolios. The Market Risk Management Department applies the method of historical simulation for trading books and banking books of the Treasury Department. The VaR measurement does not present a full picture of the risk as it fails to show potential loss under stressed circumstances. In order to cover the abovementioned risk, the Market Risk Management Department calculates a Stressed VaR and runs stress tests for market risk. The interest rate market risk for trading books is measured through the NPV Gap of modelled business volumes against the volumes transferred to the Treasury Department books.

Additionally, to measure interest rate risk for banking book items (both for the Treasury Department and for trading books) the Bank applies:

- Measurement of value of the earnings at risk (with the use of simple and advance method: Earnings at Risk – EaR, Advanced Earnings at Risk) with the use of stress tests,
- Measurement of the NPV of the discounted future cash flows at risk (NPV at Risk), which is a measurement of the economic sensitivity of the interest rate position to sudden changes to the interest rates,
- Measurement of residual risk, which was transferred to the books of the Treasury Department.

In H1 2014, the Bank streamlined the process of market risk (including underlying risk) transfer and centralisation by implementing the Risk Transfer System (RTS) application. The underlying risk is valued and then transferred to the Treasury Department books, where it is actively managed. Earnings at Risk (EaR) concept is applied to measure that risk which is part of interest rate risk. The Bank applies the measurement of the revaluation reserve change risk. The level of the revaluation reserve resulting from keeping the AFS portfolio is sensitive to changes to the profitability curve following the changes to the interest rates and asset swap levels.

The Bank introduces the following risk measures of the revaluation reserve:

- IR RRaR (Interest Rate Revaluation Reserve at Risk) shows potential impact of the interest rate changes on the revaluation reserve level,
- CS RRaR (Credit Spread Revaluation Reserve at Risk) shows potential impact of the credit spread change on the revaluation reserve.

### **VaR Exposures and Limits in 2014**

In 2014, the Bank maintained its trading exposure at low levels compared with the binding limits. Average limits utilisation for the majority of trading activity types was at 30%. Average utilization of VaR limits for interest rate risk of the banking book was below 23%.

There were three cases where the VaR limits were exceeded in the interest rate trading portfolio (limit utilisations were 117%, 118% and 119%) and one case where the banking book VaR limit was exceeded (limit utilisation arrived at 104%).

The following VaR limits were changed in 2014:

- for the FX transactions portfolio – the limit was moved up from EUR 800 thousand to EUR 1 million,
- for the banking book – following the implementation of the historical simulation for the banking book interest rate risk, the VaR limit was established at EUR 20 million.

## 5. Liquidity risk management

### General information

Liquidity and funding risk is understood by ING Bank Śląski S.A. as a risk consisting in inability to fulfil, at a reasonable price, cash liabilities under balance sheet and off-balance sheet items. The Bank maintains liquidity so that the Bank's cash liabilities could be met at all times with the use of available funds and inflows from maturing transactions.

The liquidity risk management can be broken down as follows depending on the timeframe:

- Operational liquidity management – focused on current funding of Bank's positions and management of nostro positions,
- Strategic liquidity management – focused on ensuring that structural (all maturity dates) liquidity items of the Bank were at acceptable levels.

### General approach to liquidity risk management

General approach to funding and liquidity risk management consists of the cycle of five repetitive actions: risk identification, assessment, control, monitoring and reporting.

The currently binding Internal Liquidity Adequacy Assessment Process (ILAAP) originates from the Basel Committee on Banking Supervision. Meeting ILAAP principles by the Bank may be perceived as "compliance with industry's best practices, which is not directly required under Polish supervisory regulations". It needs to be highlighted that ILAAP and Polish regulations do not clash, on the contrary, they do overlap in many areas. Meeting ILAAP requirements is compliant with the ING Bank N.V. policy.

The liquidity and funding risk management related to the stress understood as risk of Bank's inability to satisfy its own financial liabilities once they mature due to insufficient funds available or due to failure to generate such funds at any price consists a specific element of the process.

The contingency funding plan which provides guidance as regards active identification of the liquidity crisis and actions to be taken to survive it.

The acceptable level of liquidity risk is defined by a two-element system:

- general level of Bank's acceptable risk, which is approved by the Supervisory Board (following the Bank Management Board's recommendation). The Supervisory Board are updated on compliance with the said measurements at least on a quarterly basis,
- a set of limits based on Bank's strategic objectives, identified liquidity risks and principles specified by regulatory bodies. The limits are taken into consideration in the planning processes (i.e. execution of the adopted plans may not lead to limit overrun). In majority of cases the limits have a warning level defined above (or below) the limits. The acceptable level of liquidity risk is determined and updated at least once a year.

Regular stress tests are an additional and material element of the process. The Bank launched the stress tests programme, which ensures that stress tests are planned, developed, run and analysed in order to indicate the sources of potentially limited liquidity and to specify how such situations can be prevented, so that the current exposures remain near the set limits.

### Main methods of liquidity risk measurement and replicating portfolios

ING Bank Śląski S.A. applies the following liquidity risk measures:

- NBP, EBA and DNB liquidity ratios,
- daytime liquidity norms,
- funding concentration per client and client segment,
- structural liquidity gap,
- Cash&Collateral gap for major currencies (PLN, EUR, USD, CHF).

A basic model as regards liquidity risk management is a model used for establishing a stable and volatile deposit base. We use the internal statistical model to that purpose.

Considering the balance sheet structure, and the Bank's deposit base in particular, the Bank applies the advanced approach to modelling the risks related to demand deposits – the replicating portfolio concept. It consists in “replicating”, i.e. reproducing the actual period during which clients keep demand deposits at the Bank as well as the Bank's pricing policy. This concept makes it possible to convert demand deposits into interest rate forwards. The reinvestment mode of the acquired funds is different for the “volatile” and “stable” part.

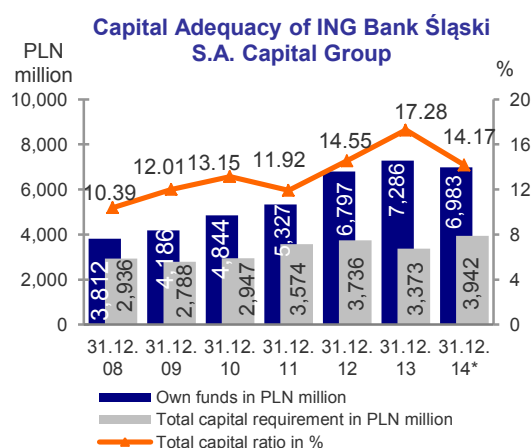
In H1 2014, the Bank streamlined the process of market risk (including liquidity risk) transfer and centralisation by implementing the Risk Transfer System (RTS) application. In particular, the change covered the full transfer of the (modelled) liquidity risk to the Treasury Department books.

### Liquidity limits in 2014

In 2014, no cases of liquidity risk regulatory limits overrunning were found.

## 6. Capital adequacy

The Total Capital Ratio as at the end of 2014 settled at 14.17% which translates into a safe position of the Group as regards capitals and opportunity of further development in lending. The ratio's drop by 3.11 p.p. versus the 2013 yearend results from the change in methodology for calculating the capital ratio. Since 01 January 2014, new provisions of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR for short) have been applicable to own funds and capital adequacy. The Total Capital Ratio (solvency ratio previously) as at 31 December 2014 was calculated under the CRR guidelines.



\* Since 2014 the Total Capital Ratio has been calculated under the Basel III guidelines.

## 7. Operational risk management

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

Operational risk is recognised at ING Bank Śląski S.A. as the risk of suffering direct or indirect material loss or loss of reputation resulting from inadequate or failing internal processes, people, technical systems or external events.

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

The Bank Management Board, in agreement with the Supervisory Board, adopted the Non-Financial Risk Appetite Statement in 2014, wherein they specified the maximum acceptable limits of losses and

scope of risk that the Bank would be willing to undertake when executing planned business goals abiding by law and regulatory requirements in full. The level of limits utilisation was monitored and presented to the Bank Management Board, Audit Committee and Bank Supervisory Board.

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

In 2014, caring about the safety of funds entrusted by clients and maintenance of the acceptable operational risk level, the Bank continued its efforts to fully implement new regulatory requirements and enhance the risk management system. The most important activities in that regard are as follows:

- introducing an integrated system supporting the operational risk management process;
- testing controls mitigating key risks at the Bank,
- undertaking preparations to counteract direct attacks (APTs) on the Bank's IT structure, the aim whereof is to damage or steal the data,
- introducing to the Bank's practice requirements under Recommendation M of the Polish Financial Supervision Authority concerning Bank's disclosures regarding annual operational risk loss in gross terms,
- implementing requirements under amended Recommendation D regarding the management of IT technology and security of ICT environment at banks (main works focused on data management, information technology network management and introduction of the follow-me printing system),
- improving the efficiency of counteracting cybercrimes related to payment transactions and identity theft or funds theft,
- renewing the local insurance programme of the ING Bank Śląski S.A. Capital Group as regards civil liability and property insurance adjusted to the current market situation,
- conducting preparatory works aiming at implementation of the advanced methods of operational risk measurement (AMA) for the purpose of capital requirements calculation,
- continued analysing of business applications source codes security and penetration tests for the business and IT applications,
- increasing IT infrastructure safety barriers counteracting distributed denial of service (DDoS) attacks,
- conducting a number of risk analyses of critical and key business applications and IT systems used at the Bank,
- conducting an in-depth analysis of IT systems security vulnerability (in particular e-banking systems), penetration tests and increased monitoring of the electronic banking systems, which ensured successful fraud prevention and safety of the transactions effected by the clients,
- updating the scope of scenario analyses and adapting them to the current Bank's business strategy,
- enhancing the mechanisms ensuring business continuity of key processes and crisis management system,
- monitoring and testing of mechanisms ensuring physical security of individuals and the Bank's property,
- raising employees' awareness as regards effective operational and anti-fraud risks management by introducing new training courses mandatory for all Bank employees.

## **8. Compliance risk management**

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

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

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

Basic principles of the Bank's compliance risk management are provided for in the Compliance Risk Management Policy accepted by the Bank Management Board and approved by the Supervisory Board. The said Policy incorporates requirements of the Banking Law Act, resolutions and recommendations of the Polish Financial Supervision Authority as well as the European Securities and Markets Authority (ESMA) standards outlined in the Guidelines on Certain Aspects of the MiFID Compliance Function Requirements.

Following the issuance of the Principles of Corporate Governance for Supervised Institutions by the Polish Financial Supervision Authority, a review of the organisational solutions and internal regulations regarding compliance risk management was conducted at the Bank and required adaptation changes were drafted with requirements specified by the Polish Financial Supervision Authority taken into account.

In 2014, the Bank continued execution of the training courses intended to increase employees knowledge and awareness about compliance risk and observance of the business ethics standards.

## VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2014

### 1. IT and Operations

In 2014, the main focus of IT actions at ING Bank Śląski S.A. was on developing innovative solutions with keeping high reliability and security of banking systems. The following can be listed from among the key tasks performed in that period:

- implementation of V.me Digital Wallet by Visa facilitating fast and convenient online payments,
- development of versions of electronic banking mobile systems for all segments of clients,
- implementation of a new PhotoDoc ING application to enable advisors and bank clients to scan documents and forward them directly to banking systems,
- implementation of a new solution for monitoring of lending processes for corporate clients (the ING Monitoring application),
- implementation of real-time marketing,
- launch of works on the modern electronic banking system (NextGen) for retail clients. At the end of the year, the application prototype was tested by a selected group of clients.

Innovative solutions also include the pilot launch of the sign language translator at selected Bank branches.

There were also many changes implemented in the Operations area to ensure relentless development and streamlining of processes. The following projects were continued in 2014:

- centralised CashProcessing, whereunder more recyclers for the closed-loop cash management were introduced (415 machines as at the end of 2014), and there were over 405 proximity readers added to ATMs and CDMs.
- centralisation of the complaint handling process which boosted its efficiency and shortened complaint resolution time,
- centralisation of insurance products processing,
- centralisation of the accounts control process,
- consolidation of the head office locations in Katowice under the Reunion project.

As at the beginning of 2014, the Monitoring & Restructuring Department was added to the structure of the Operations Division to ensure a good quality of the retail credit portfolio, while maintaining a high customer service standard, great flexibility and effectiveness of process, required control standard and to mitigate the operational risk. Operational processing of retail loans, i.e. credit decisions, credit administration, monitoring and debt collection, was consolidated in the Operations Division.

In H2 2014, the Operations Division took over the responsibility for regulations and credit procedures as well as for regulations concerning accounts, savings and cards. The shift of those operations from the Retail Banking Division to the Operations Divisions will allow the Bank to optimally use the competence and resources, to standardise the tasks as well as unify agreements and forms. Following the change, the Operations Division will have wider possibilities to streamline the processes and to respond faster to the needs of clients, while the Bank will improve service quality and effectiveness.



## 2. Development of electronic distribution channels

### Internet banking

In 2014, the Bank made a number of changes to raise the usability of the ING BankOnLine internet banking system, to add new products and ways to buy them as well as to personalise communication with clients even further. The most important ones include:

- presenting and selling personalised lending offers,
- implementing an online mortgage loan application for individual clients,
- implementing an online leasing application for entrepreneurs, and
- introducing an enable/disable option for NFC payments with the use of a payment card.

In 2014, also the ING BusinessOnLine system designed for corporate clients was being developed. Providing the SMART service is the landmark improvement in this area. This solution enables clients to manage their accounts open at various banks in the ING BusinessOnLine system. The tool facilitates and enhances management of accounts and balances available therein. Furthermore, the Bank introduced an option of an electronic sign-off for credit agreements and the ING Monitoring service.

As at the end of 2014, ING BankOnLine had 2.9 million users that logged into the application 24.2 million times per month on average.

### Mobile banking

There was also a number of initiatives to enhance mobile app functionalities available for smartphones ING BankMobile and for tablets ING BankMobile HD, such as:

- providing the option of making a return transfer from the account history and the option of making a transfer to the Social Insurance Institution and the Tax Office. Moreover, the ING BankMobile application enables clients to search for transactions in the account history,
- implementing a new function in the application for smartphones: Receipts. Clients can take a photo of a receipt in a simple and fast way and then store it safely at the Bank,
- providing a new function in the application for smartphones: Split your expenses. It offers clients a simple and convenient way to square a shared expense by a group of people,
- enabling clients using the application for the smartphone with the Android system to make NFC mobile payments,
- extending the offer, thanks to which selected Bank clients have the opportunity to file a fast-track request for a cash loan,
- streamlining the ING BankMobile application for smartphones hosting the Windows Phone 8 system – provision of the transaction confirmation in the PDF file and percentage indicator of the account on the Live-Tile available before logging in, and
- providing the mobile banking application for telephones hosting the BlackBerry 10 system.

Until the end of 2014, ING BankMobile for smartphones and ING BankMobile HD for tablets had been downloaded 785 thousand times. They were actively used by 480 thousand clients.

Bank's efforts to deliver top-notch mobile banking service were appreciated both by clients and independent circles. The customer satisfaction survey results show that over 90% of clients declare that they would recommend the ING BankMobile application to their friends and family. Mobile banking of ING Bank Śląski S.A. was ranked first in the ranking *Przyjazny Bank Newsweeka 2014* (Newsweek Friendly Bank). The application was recognised mainly for its user-friendly navigation and interface.

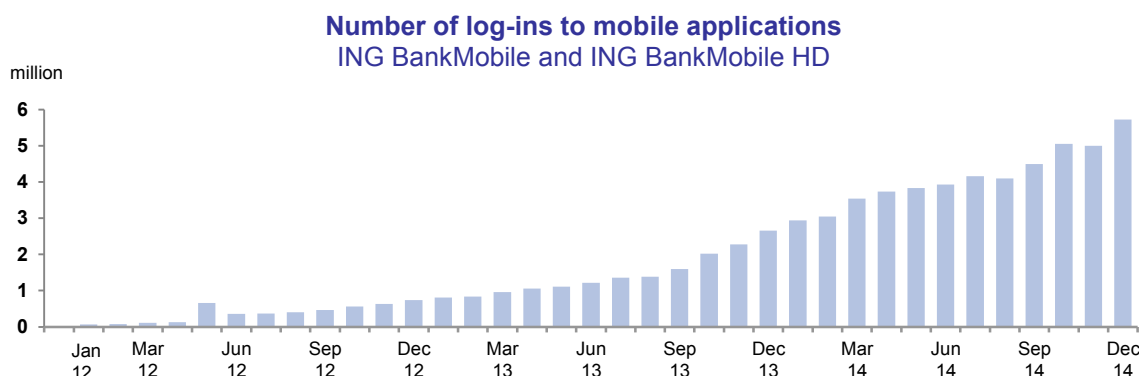
In the opinion poll of *Komputer Świat* (Computer World), the mobile application of ING Bank Śląski S.A. came second in the Internet category and thus became the best banking application in the competition. The opinion poll rewarded solutions that were appreciated the most by consumers in 2014.

## Number of clients<sup>39</sup> of electronic banking systems at ING Bank Śląski S.A.

	31.12.14	31.12.13	31.12.12	31.12.11	31.12.10	31.12.09
ING BankOnLine, ING BusinessOnLine	2,846,079	2,575,708	2,350,269	2,115,325	1,879,525	1,559,504
HaloŚląski	1,819,028	1,605,063	1,433,433	1,285,261	1,072,099	786,008
ING BankMobile, ING Bank Mobile HD*	764,457	364,867	123,269			
ING BusinessMobile	6,703	3,712				

\* / Number of app downloads

Clients increasingly use the Bank mobile applications – ING BankMobile and ING BankMobile HD – to make daily transactions. In December 2014 only, there were 5.7 million log-ins (2 times more than in December 2013).



As at the end of December 2014, ING Bank Śląski S.A. had 1,066 machines for cash self-service in total, including: 294 standard ATMs, 174 standard CDMs and 598 dual machines. That network is being constantly developed. As at the end of 2014, the Bank had 416 recyclers and 403 NFC-enabled machines (the feature which is unique on the Polish market).

### 3. Network of Bank outlets

As at 31 December 2014, ING Bank Śląski S.A. had 401 retail branches (including 114 cashless branches), that is 16 less than as at the 2013 yearend. There is a 24/7 self-banking zone in almost every Bank branch, where clients may deposit or withdraw funds on their own.

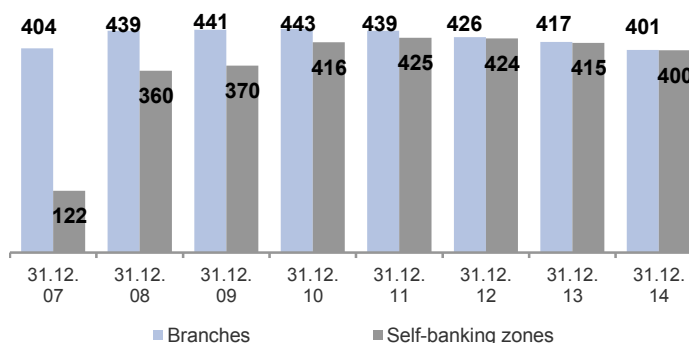
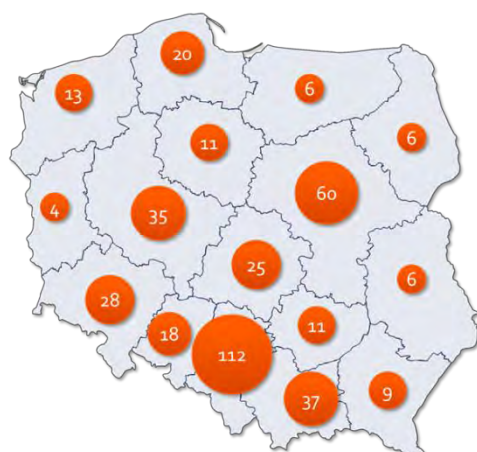
The Bank is still redesigning its retail branches by making them look more modern and implementing new functional solutions supporting the current model of customer service. As at the end of 2014, the Bank had 173 branches with the new layout. Moreover, the actions designed to relocate branches to the most attractive locations in business terms in given cities, towns and regions were continued. The Bank maintains the number of branches at a stable level and continues its efforts to modernise the traditional branches successively.

The Bank wants to be present where the client is, thus in 2014, the ING Express new distribution channel was being developed. These are sales points located in popular shopping malls and their main task is to acquire new, active clients. As at the end of 2014, the ING Express network had 55 sales points.

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

<sup>39</sup>The number of clients does not correspond to the number of users, one client can have a few users in a given system.

### Network of ING Bank Śląski S.A. branches (as at 31 December 2014)



## 4. Human resources management

### Headcount

As at 31 December 2014, the ING Bank Śląski S.A. Capital Group had 8,157 employees. When compared to December 2013, the number of employees declined by 109 persons (or 1.3%). The decrease in the number of staff was associated mainly with the performance of optimisation processes at ING Bank Śląski S.A. in the Risk Management, Operations and Retail Network areas.

In December 2014, ING Bank Śląski S.A. had 7,687 employees, down by 112 persons (or 1.4%) from December 2013.

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

	31.12.2014		31.12.2013	
	number of persons	%	number of persons	%
Retail Banking	3,877	50.4	3,946	50.6
Corporate Banking and Financial Markets	1,107	14.4	1,085	13.9
Operations/IT/Services	1,961	25.5	1,883	24.1
Risk Management/Organisation/Finance/HR	742	9.7	885	11.4
<b>Bank Total</b>	<b>7,687</b>	<b>100.0</b>	<b>7,799</b>	<b>100.0</b>
ING Securities S.A.	124	26.4	120	25.7
Centrum Banku Śląskiego Sp. z o.o.	–	0.0	14	3.0
ING Lease (Polska) Sp. z o.o.	160	34.0	154	33.0
ING Commercial Finance Polska S.A.	91	19.4	88	18.8
Solver Sp. z o.o.	38	8.1	48	10.3
ING ABL Polska S.A.	1	0.2	1	0.2
ING Usługi dla Biznesu S.A.	56	11.9	42	9.0
<b>Subsidiaries</b>	<b>470</b>	<b>100.0</b>	<b>467</b>	<b>100.0</b>
<b>ING Bank Śląski S.A. Group</b>	<b>8,157</b>		<b>8,266</b>	

### Remuneration policy

In 2014, ING Bank Śląski S.A. kept its remuneration policy, the aim whereof is to effectively support the strategic goals. The assumptions of the policy are based on competitive and marked-to-market as well as transparent and coherent remuneration offered to employees.

On 01 April 2014, the pay rise process was conducted at the Bank, it was designed to adjust the remuneration to the market level. The pay rise amount depended on employee's current remuneration and on their annual performance appraisal grade.

Once again, the Bank settled the bonuses for employees covered by the Variable Remuneration Policy of Persons Holding Managerial Positions Having Material Impact on the Risk Profile of ING Bank Śląski S.A. In compliance with the Policy, the variable remuneration is deferred and at least 50% thereof is paid in phantom stock entitling to cash dependent on the value of ING Bank Śląski S.A. shares. In H1 2014, the first part of the deferred bonus was paid to the persons holding managerial positions.

The Bank finalised the works aimed at implementing into internal regulations the provisions of the Commission Delegated Regulation (EU) No. 604/2014 with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile. The outcome of the works is development of an extended list of persons having material impact on the risk profile of the Bank. They will be subject to the variable remuneration principles as of 01 January 2015.

### Recruitment and Employer Branding (Preferred Employer)

In 2014, ING Bank Śląski S.A. continued its employer branding activities geared towards professionals and students. As part of recruitment process addressed to people with experience, communication with the market of candidates was expanded by, inter alia, the social media: Goldenline and, for the first time, LinkedIn. Additionally, at the end of 2014 a new external recruitment system – *eRecruiter* – was implemented.

Actions dedicated to people entering the labour market (students and graduates) carried out by the Bank in 2014 included, among others:

- Joining job fairs for students,
- ING Ambassadors Programme (for students representing the Bank at universities),
- Internship programme – “Internship with the Lion” – addressed to second and subsequent year students who plan to work in banking in the future. In 2014, 56 students participated in the Programme, and
- Fourth edition of the “ChallengING IT” placement programme addressed to students interested in development within IT area,
- *Corporate Readiness Certificate* – cooperation with ING Services and IBM as part of the educational IT programme at two universities in Silesia,
- Cooperating with career offices and student organisations (AIESEC, Wiggor, BEST, CEMS and Paneuropa),

Vast offer and quality of internship within the HR area conducted at ING Bank Śląski S.A. were appreciated by external research and ranking institutions. In February 2014, ING Bank Śląski S.A. was honoured for the fifth time with the Top Employers Poland (2014) certificate; it also received the Top Employers Europe certificate. The Bank was awarded the latter for the first time thanks to other units of ING Group being certified in France, Spain, Belgium and Italy at the same time. The award granted by the Top Employers Institute – an independent international organisation – confirms that ING Bank Śląski S.A. belongs to the group of top employers worldwide. It was yet another time when the Bank was among top 3 companies certified on the Polish market.

Once again, students listed ING Bank Śląski S.A. as one of the top ten most desired employers. The Bank came 7th in the survey conducted by the AIESEC international student organisation. Students from 39 universities across Poland indicated companies which in their opinion are the most desired

employers in the country. The clue of the survey is a comprehensive analysis of students insights concerning the labour market.

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

Pursuant to the adopted strategy, in 2014 ING Bank Śląski S.A. continued educational activities for its employees.

The defined development needs were addressed using a wide variety of tools: training courses, workshops, seminars, lectures, qualification-upgrading sessions, coaching and mentoring processes, development assignments as well as participation in projects and self-education. Employees could improve their knowledge and qualifications primarily during training courses and workshops. In 2014, emphasis was put mainly on specialist, sales and product training courses, run in the form of stationary and e-learning courses and as blended-learning. Employees of the Retail and Corporate Sales Networks and of the Head Office units, including managers and new employees, participated in those actions.

Apart from the catalogue of activities available to each employee, the Bank carried out the actions that were dedicated to specific organisational units (development programmes). What is more, the Bank continued training courses in the security and compliance area; they were conducted regularly for all employees.

The Bank supports also self-enhancement of skills by employees, performed in the form of certification, post-graduate studies or the Polish Bank Association standards.

Besides, with regard to the development programmes run in 2014:

- The Managerial Competences Compass programme, aimed at preparing the sales employees to take up managerial positions in the Retail Network in the future, was completed and summarised. By the end of the programme, 8 participants were promoted to Area Directors in the Retail Network.
- *ING International Talent Programme* was continued. The Programme aims at acquiring talented graduates with the professional experience of no more than 2 years, having potential to take up key managerial positions within the next 5-7 years. It fosters participants' development based on diversified experiences and individual development programme consistent with the needs of the organisation and the participant's profile.
- *Orange Meetings* were organised for employees with distinctive large potential and commitment. During the meetings, employees may share their ideas with the Bank top management. 13 meetings with the Bank Management Board Members were held during the year; 100 employees attended them.

Employee development was supported by on-line tools, for example the Development Navigator (an application containing, among others, transfer offers for the employees of the Bank and Subsidiaries).

### **HR processes digitalisation**

In 2014, the Bank continued to further develop the SAP HR system, among others, to handle the variable remuneration process for the persons holding managerial positions having material impact on the risk profile of the Bank. Between March and May 2014, variable remuneration was paid to eligible persons via the implemented Variable Remuneration Components Module.

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

The Preferred Bank strategy is based on three pillars:

- Client centricity – all operations of the company focus on tailoring products and service model to needs of clients from individual segments.
- Operational excellence – keeping the position of the best internet and mobile bank and relentless improvement of processes.
- Top Employer - acquiring and retaining the best personnel by supporting employee professional development and using modern communication tools.

In order to ensure long-term growth of the goodwill, the Bank undertakes actions aimed at reinforcing and then keeping the top position in the Polish banking sector by harmonious development of core business activities; i.e., retail and corporate banking. The multichannel and integrated sales and customer service model, with special focus put on enhancing the electronic banking systems, is further developed.

### **Retail Banking**

In 2015, ING Bank Śląski S.A. will strive to strengthen its position in the consolidating market environment and will take actions aimed at becoming the preferred bank for the largest possible group of its clients. As in previous years, customer experience improvement and sustainable growth of both savings and loans volumes will remain the main areas of focus. Furthermore, 2015 will see more emphasis placed on using digitalisation and banking innovations to even better satisfy the ever-changing needs of clients.

Accomplishment of strategic goals will be supported by a clear and transparent product offer with good value for money as well as a broad and innovative multichannel distribution network, effective processes and strong brand recognition.

Strategic goals for 2015 cover:

- increasing the number of acquired clients,
- becoming the main bank for the largest possible group of existing clients by leveraging the diversified distribution channels to provide them with the services in the manner they find most convenient,
- continuing improvement of the customer experience, and
- obtaining sustainable growth in key product categories:
  - maintenance of a strong position in the household deposits market with greater focus on sales of investment and structured products as alternatives in the low-interest environment, and
  - further growth of unsecured loans and mortgage loans volumes.

In order to accomplish the above-listed priority goals, the Bank will expand the functionality of remote distribution channels, improve online processes and implement new products (in the domain of payment solutions in particular). Branches will be more focusing on their advisory role.

Pursuit of the Bank's strategy will translate into higher volumes and improved cross-selling ratio (notably, higher sale of insurance and investment products) followed by increased and more diversified income. Growing branches' efficiency, increased importance of remote distribution and service channels and operations automation will favour cost effectiveness improvement.

### Corporate Banking

In 2015, the operations of ING Bank Śląski S.A. in the corporate banking area will be focused first and foremost on:

- Strengthening and fostering long-term partnership with strategic clients supported by in-depth knowledge of the client's business,
- Deep-selling of: lending, cash management and financial markets products and complementary products such as factoring, leasing and Corporate Finance services,
- Obtaining growth of the funds accumulated in clients' current accounts above market average,
- Increasing the share in credit market while paying attention to the portfolio quality. The Bank will be actively monitoring the market and individual sectors so as to identify the symptoms of slowdown or liquidity threats in individual industries,
- Improving the competitive position in lending by tailoring the margins and structured products offered to market conditions,
- Strengthening co-operation with Group companies from the asset-backed funding area (leasing and factoring),
- Increasing the share in the leasing market through a dynamic growth of transactions concluded via banking distribution channels in leasing of vehicles, machines and equipment while remaining the key player on the real estate and train fleet funding market,
- Supporting Polish companies operating on international markets in the banking services area,
- Extending relationship with international entities acting as business process outsourcees,
- Retaining a solid market position in the area of non-government debt securities issue for corporate entities,
- Extending the offer with products and services being outside the traditional scope of banking activity, and
- Maintaining the leader position within customer satisfaction with the offer quality and service level.

The basic instruments for accomplishment of the objectives adopted on the corporate banking market and financial markets products will be as follows:

- Transaction Banking 3.0 – a cover-all platform for development of products and channels as well as modification of processes supporting continuous development and innovativeness of the solutions offered to clients. The project includes over 100 initiatives concerning development of products and channels plus process improvement. The most important include:
  - Innovations in the area of payments/settlements (mobile payments, e-commerce settlements, card development, e-invoicing, advanced cash solutions, dedicated procurement/settlement platforms),
  - Further development of channels: web services, payment factory, SWIFT Net, e-Custody, mobile banking, new standards in SWIFT communication,
  - Settlement solutions for commodity exchange, and
  - Development of securities lending.
- Financial Markets 3.0 – providing clients with automated, 24/7 e-FM internet platform where they may purchase FM instruments such as FX forwards or FX options and check economic commentaries and market outlooks.
- Development of the product offer – launch of new credit facilities and modification of existing ones, including the offer addressed to the agricultural sector.
- Smart Lending – the project grouping a number of initiatives in the lending area, aimed at streamlining the decision-making process, and thus enhancing competitiveness of the Bank's offer.

- Development and automation of lending processes:
  - Introduction of Easy Lending procedure for small credit exposures (H2 2015) and remodelling of Fast Track and Normal Track brackets so as to make Fast Track available to as many clients as possible clients.
  - Automation of prescoring process planned for H2 2015, preceded by a pilot prescoring campaign that started at the turn of 2014 and 2015.
  - Introduction of mobile banking loans.
  - Automation of disbursement of loans of up to PLN 1 million based on the client's status in the ING Monitoring application; further automation and standardisation of response paths to the events occurring during the loan lifetime.



## IX. INVESTOR INFORMATION

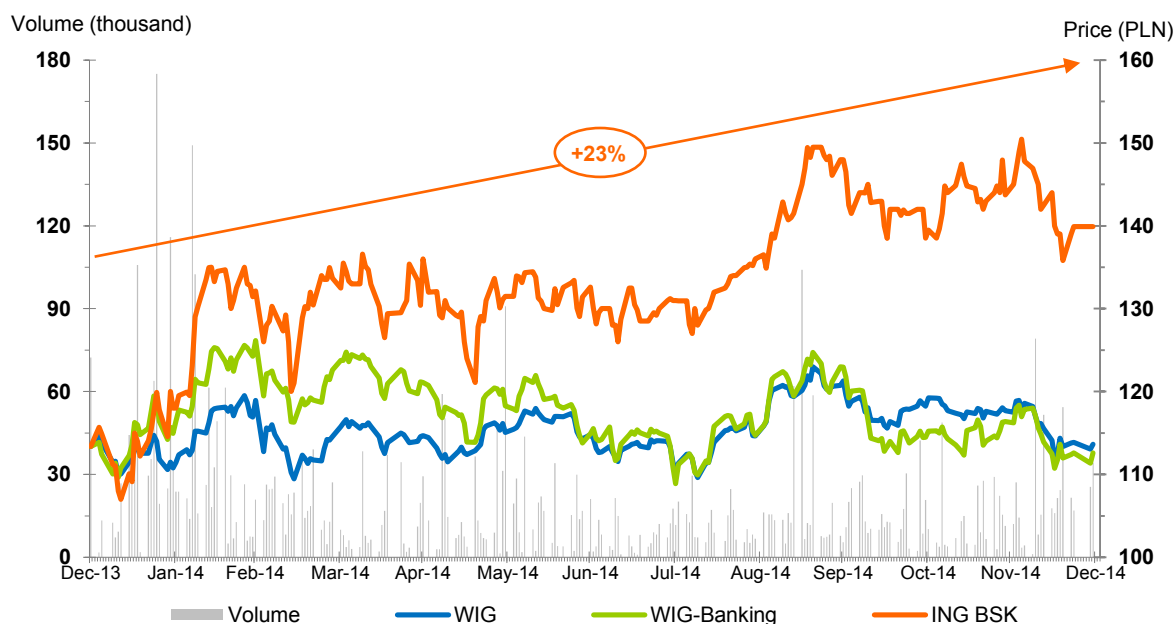
### 1. ING Bank Śląski S.A. share price

In 2014, the price of ING Bank Śląski S.A. shares at the close of the WSE session fluctuated from PLN 107.00 (on 10 January) to PLN 150.45 (at the session on 04 December). On 30 December 2014, the price of ING Bank Śląski S.A. share equalled PLN 139.90, up by 23.4% from the last quotation day in 2013 (to compare: WIG-Banking sub-index went down by 0.7% at that time).

As at the end of 2014, the Bank's market value was PLN 18.2 billion, while its book value amounted to PLN 10.5 billion.

ING Bank Śląski S.A. has been listed in the WIG30, mWig40 and RESPECT Index since their beginning.

### ING Bank Śląski S.A. share quotations in 2014 vs. comparable selected WSE indices



### 2. Ratings

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

Fitch Ratings Ltd. assigns full rating to ING Bank Śląski S.A. under agreement between the Bank and the Agency. As at the end of 2014, Fitch carried out the annual rating review of the Bank. As a result, all the ratings to date were affirmed (Fitch Agency's press release of 26 November 2014 and full rating report for the Bank of 13 January 2015).

The full rating assigned to the Bank by Fitch as at the date of the Financial Statements publication was as follows:

#### Fitch Ratings Ltd.

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

Long-term IDR and Short-term IDR specify the entity's capacity to promptly pay its financial liabilities. "A" Long-term IDR of the entity reflects high capacity of the Bank to promptly pay its long-term financial liabilities. F1-rating (Short-term IDR) stands for the highest appraisal of the capacity to promptly pay the short-term financial liabilities (up to 13 months). In the case of both ratings, Fitch took into account high probability of obtaining potential support from the Bank's controlling shareholder – ING Bank N.V. (ING Bank Śląski S.A. has the highest support rating – level 1). Viability rating of bbb+ means that according to the Agency, the intrinsic creditworthiness of the Bank; i.e., without any support (understood as the capacity to promptly pay one's liabilities) is high. The Agency is of the opinion that the Bank has a strong capital and liquidity position.

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

<b>Moody's Investors Service Ltd.</b>	
LT Rating	Baa1
ST Rating	P-2
Bank Financial Strength (BFSR)/ Baseline Credit Assessment (BCA)	D+ / baa3
LT Rating Outlook	Negative
BFSR Outlook	Stable

The above ratings were affirmed by Moody's in November 2014 (Credit Opinion of 21 November 2014).

### **3. Investor relations**

ING Bank Śląski S.A. strives after the best standards of communication with the capital market. The Bank focuses its attention on reliable and transparent information and on equal treatment of all stakeholders as well as observes all the laws regarding disclosure duties of listed companies. Important financial and business information in the form of financial reports, current reports, investor presentations and editable files with key company data are at the same time presented to the broad capital market. Communication with investors and stock analysts rests with a dedicated unit – Investor Relations Bureau within the Finance Division.

In 2014, the representatives of the Bank Management Board or the Investor Relations Bureau attended two domestic and three foreign investor conferences where they met approximately 40 investors. Additionally, Bank representatives held over 70 face-to-face meetings or teleconferences with investors, analysts and delegates of rating agencies.

In 2014, as in the previous years, four conferences (and teleconferences) were held at the Bank Head Office for analysts and investors to present the quarterly financial and business results. Each time, approximately 30 representatives of brokerage houses and investors attend such a conference.

In 2014, the Bank continued to develop the channels of communication with stakeholders, including the primary tool, that is its webpage: <http://en.ingbank.pl/company-profile/investor-relations>. Following the changes introduced, the Bank's website dedicated to investor relations was reorganised, which enhanced its legibility and facilitated navigation. Moreover, owing to the RWD technology used, it is now adjusted to mobile devices. Via the website, investors may easily access all key information and materials regarding ING Bank Śląski S.A.

ING Bank Śląski S.A. is one of the companies being observed and analysed by the market. As at the end of 2014, analysts representing in total 15 domestic and foreign financial institutions published reports and recommendations for the Bank's shares.

In August 2014, we rendered available the "Online Annual Report of the ING Bank Śląski S.A. Capital Group for the Year 2013". It was the third online report. The webservice available at <http://www.raportroczny.ingbank.pl/en>, interactively presents the English version of the content of the published annual reports. ING Bank Śląski S.A. was awarded the first prize for the annual report on the internet in The Best Annual Report 2013 competition held by the Accounting and Tax Institute in the Banks and Financial Institutions category.

#### **4. Issuance of the second series of own bonds**

On 19 December 2014, the Bank issued the second series of bonds under the Own Debt Securities Issuance Programme of ING Bank Śląski S.A. established in 2012. The bonds were issued as bearer bonds of 5Y maturity. The bonds are denominated in PLN and were issued in private placement. The total nominal value of the second series of bonds is PLN 300 million and the nominal value of one bond is PLN 100 thousand. The issue price equals the bonds' nominal value. Bonds will be bought back by paying the amount of cash equal to the bonds' nominal value. The bonds will mature on 19 December 2019.

Bonds bear floating interest, paid every 6 months and based on 6M WIBOR plus margin of 0.75% per annum. The first interest will be paid on 19 June 2015.

The funds from the issue were used to finance the Bank's ongoing operations and enabled the Bank to diversify sources as well as improve the Bank's funding structure.

The Bank issued the first bonds under the Programme on 06 December 2012. The aggregated nominal value of bonds taken up by investors at that time was PLN 565 million. This block of bonds is to be bought back on 06 December 2017.

Bonds of ING Bank Śląski S.A. are transacted in the alternative trading market on Catalyst. The Bank's bonds were listed for the first time on 22 February 2013.

#### **5. Remuneration of members of Management Board and Supervisory Board of ING Bank Śląski S.A.**

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

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

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

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

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

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

A Bank Management Board Member may be awarded a bonus of up to 100% of the annual base remuneration for performance of the bonus tasks set by the Bank Supervisory Board. Bonus tasks support creating long-term goodwill of the Bank and take account of care about the risk cost of the Bank, the capital cost and liquidity risk. Objectives have the following nature:

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

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

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

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

The bonus is divided into two parts (rounding up to the integer of a financial instrument):

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

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

**Emoluments due and paid out to Members of ING Bank Śląski S.A. Management Board in 2014 (PLN thousand)**

Name and surname	From – to	Remuneration	Awards*	Other benefits**	Total
Małgorzata Kołakowska	01.01.2014 - 31.12.2014	1,779.0	1,220.4	846.6	3,846.0
Miroslaw Boda	01.01.2014 - 31.12.2014	1,215.7	833.5	215.0	2,264.2
Michał Boleślawski	01.01.2014 - 31.12.2014	1,242.0	885.1	490.2	2,617.3
Joanna Erdman	01.01.2014 - 31.12.2014	1,032.0	200.9	217.6	1,450.5
Ignacio Juliá Vilar	01.01.2014 - 31.12.2014	1,007.5	683.5	790.1	2,481.1
Justyna Kesler	01.01.2014 - 31.12.2014	1,167.8	820.3	448.4	2,436.5
Oscar Swan	01.01.2014 - 31.12.2014	1,155.8	747.3	447.9	2,351.0
<b>Total</b>		<b>8,599.8</b>	<b>5,391.0</b>	<b>3,455.8</b>	<b>17,446.6</b>

\*/ Awards include the awards paid out in 2014, but due for the periods until 31.12.2013:

- Bonus under the Variable Remuneration Programme: for 2013 non-deferred cash and for 2012 1st tranche deferred cash,
- Phantom Stocks under the Variable Remuneration Programme for 2012 – retained,
- Deferred bonus for the years 2010 and 2011.

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

Emoluments of Members of ING Bank Śląski S.A. Management Board for 2014 under the Variable Remuneration Programme have not been awarded yet.

Under the remuneration system in place at the Bank, the Bank Management Board Members may be entitled to the 2014 bonus, some part of it will be paid out in 2015, and some part will be deferred for the upcoming years (2016-2019). The maximum amount of the bonus for 2014 that may materialise, for which a reserve was established, arrives at PLN 8.3 million, including cash pay-out in 2015 of PLN 2.5 million, and for the deferred part of the bonus PLN 5.8 million. The Bank Supervisory Board will take the final decision on the bonus amount.

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

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

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

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

As at the 2013 yearend, the reserve for cash payment of the 2014 bonus for the Bank Management Board Members amounted to PLN 3.5 million, also the reserve for granted phantom stock to be exercised in the upcoming years was PLN 3.5 million.

Employment contracts provide for emoluments for all Bank Management Board Members in the amount equal to the 3-fold of their respective monthly base remuneration for the last 3 months before the employment contract termination should the term of office elapse or should the member not be appointed for another term of office or recalled from his/her function, among other things.

The above shall not be applicable when a member is recalled due to reasons specified in Article 52 of the Labour Code or when the employment contract termination follows Management Board Member's resignation from the function or his/her suspension or suspension of the entire Bank Management Board by decision of the Polish Financial Supervision Authority under the Banking Law Act.

Additionally, the Bank Management Board Members concluded the Non-Competition Agreements with the Bank which provide for rights and obligations of parties to the agreement as regards competitive activity during the employment and within 12 months following the employment termination date with an option of paying out 12-month gross base remuneration that a Bank Management Board Member received in the final year of the employment contract.

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

In 2014, the total remuneration (as defined hereinabove) due and paid out by ING Bank Śląski S.A. to its Supervisory Board Members was PLN 508.6 thousand, while in 2013 it was PLN 498.0 thousand.

#### Remuneration of Members of ING Bank Śląski S.A. Supervisory Board in 2014 (PLN thousand)

Name and surname	From – to	Remuneration and awards	Other benefits	Total
Brunon Bartkiewicz	01.01.2014 - 31.12.2014	0.0	0.0	0.0
Roland Boekhout	01.01.2014 - 31.12.2014	0.0	0.0	0.0
Anna Fornalczyk	01.01.2014 - 10.04.2014	59.2	0.0	59.2
Aleksander Galos	10.04.2014 - 31.12.2014	108.3	0.0	108.3
Nicolaas Cornelius Jue	01.01.2014 - 31.12.2014	0.0	0.0	0.0
Ad Kas	01.01.2014 - 31.12.2014	0.0	0.0	0.0
Mirosław Kośmider	01.01.2014 - 10.04.2014	43.9	0.0	43.9
Aleksander Kutela	10.04.2014 - 31.12.2014	86.7	0.0	86.7
Wojciech Popiołek	01.01.2014 - 10.04.2014	37.2	0.0	37.2
Antoni Reczek	10.04.2014 - 31.12.2014	173.3	0.0	173.3
<b>Total</b>		<b>508.6</b>	<b>0.0</b>	<b>508.6</b>

#### Remuneration of Members of ING Bank Śląski S.A. Supervisory Board in 2013 (PLN thousand)

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

No Member of the Bank Management Board or Supervisory Board held any shares of ING Bank Śląski S.A. as at the end of 2014.

## 6. Dividend

Following the decision of the Ordinary General Meeting of 10 April 2014, on 03 June 2014 the Bank paid out the dividend for 2013 in the total amount of PLN 572.4 million, that is PLN 4.40 gross for one share. 14 May 2014 was the record date.

Following the information provided in the current report no. 2/2015 of 11 February 2015, the Management Board of ING Bank Śląski S.A. intend to recommend the General Meeting to adopt a resolution on earmarking for dividend payout approx. 50% of net profit of the ING Bank Śląski S.A. Capital Group for 2014. Assuming that the General Meeting will approve the proposal of the Bank Management Board, the amount earmarked for the dividend will be approximately PLN 520.4 million (PLN 4.00 per share).

## X. CORPORATE SOCIAL RESPONSIBILITY (CSR) AT ING BANK ŚLĄSKI S.A. IN 2014

In its day-to-day operations, ING Bank Śląski S.A. gives consideration to the needs of its stakeholders, social welfare and environmental protection requirements. The Bank has been consequently building transparent and ethical relations with clients, investors, business partners, vendors and employees for years.

In their daily routine, ING Bank Śląski S.A. employees follow ING Business Principles, that is integrity, respect, openness, responsibility and common sense. Such conduct fosters long-lasting relations based on trust, building competitive advantage and taking right decisions.

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

The process of drafting the Corporate Social Responsibility Report of ING Bank Śląski S.A. for the Years 2013 and 2014 exemplifies the dialogue between the Bank and its stakeholders. In keeping with GRI (Global Reporting Initiative) G4 recommendations, in H2 2014 a materiality research was conducted. It was oriented at determining the material aspects of Bank business. The research activities included a panel attended by the representatives of key stakeholders as well as questionnaires for employees, investors and stock analysts, among others. The materiality research was made using the AccountAbility Stakeholder Engagement Standard (AA 1000SES). The Corporate Social Responsibility Report of ING Bank Śląski S.A. for the Years 2011-2012 won recognition of external circles not only for its content but also brave graphical layout.

Last year, ING Bank Śląski S.A. was for the second time the only financial institution to be awarded with *Złoty listek CSR* (CSR Golden Leaf) by the *Polityka* weekly, whereby the contribution of winners to creation of adequate conditions for sustainable social and economic growth was accentuated. Further, the Bank won the first place in the *Ranking Odpowiedzialnych Firm* (Socially Responsible Companies) ranking in the Banking, Financial and Insurance Sector category, published by *Dziennik Gazeta Prawna* daily.

In 2014, ING Bank Śląski S.A. was nominated for *Nagroda Gospodarcza Prezydenta RP* (Economic Award of the President of the Republic of Poland) in the Corporate Governance and Corporate Social Responsibility category. The Bank was designated by the Marshal's Office in Katowice. The judging panel of the competition selected 15 best companies out of the 121 nominated.

Last year, our Bank was among 60 exhibitors of the CSR Fairs. The event was accompanied by presentation of the 2013 Responsible Business in Poland. Best Practices Report by *Forum Odpowiedzialnego Biznesu* (Responsible Business Forum). The report listed 13 practices of ING Bank Śląski S.A.

### 1. Relations with clients

ING Bank Śląski S.A. shapes relations with clients based on the dialogue that is tailored to their needs. The Bank focuses on providing and constantly improving convenient channels of contact. Polls are conducted and complaints are analysed in a regular manner and they form an important source of feedback.

#### Communication with clients

In 2014, ING Bank Śląski S.A. contacted individual clients using both traditional service channels such as branch, e-mail or phone, as well as diverse new media, social media for example.

In the past year, the Bank launched a new channel for contacting clients, the so-called mini-branches (ING Express) at shopping malls. Further, coming up to the needs of clients applying for a mortgage loan, the Bank rendered available the option of online communication with Retail Loans Account Managers. Clients may comfortably talk to specialists via the Lync internet communicator from any Bank branch in Poland.

In June 2014, ING Bank Śląski S.A. was the first bank in Poland to start the pilot programme of sign language-based service. Deaf clients could take advantage of this service in two branches: in Katowice and in Warsaw.

Last year, the Bank strongly focused on developing clients. Giving them birthday wishes and sending them words of gratitude on the fifth, tenth or fifteenth anniversary of ING Bank Śląski S.A.'s services use can be given as examples here.

Simplification of the messages and communications used by the Bank was a crucial change in the relation held with retail clients. The new standard which was developed with language experts was introduced across the Bank. Today clarity is at the heart of the information sent to clients – complaint responses and their layout, for example.

ING Bank Śląski S.A. modified its website: [www.ingbank.pl](http://www.ingbank.pl) using the Responsive Web Design (RWD) technology. Owing to this, the content of the portal gets automatically laid out matching the screen size used by clients (mobile phone, tablet, laptop or PC screens).

2014 saw social-media based communication with clients become even more significant:

- ING Bank Śląski S.A. forum ([www.forum.ingbank.pl](http://www.forum.ingbank.pl)) was visited by approx. 60 thousand people a month;
- Facebook profile ([www.facebook.com/INGBankSlaski](http://www.facebook.com/INGBankSlaski)) had 157 thousand fans at the end of the year;
- video channel on YouTube ([www.youtube.com/ingbsk](http://www.youtube.com/ingbsk)) had 6.4 million views;
- Twitter account ([www.twitter.com/INGBankSlaski](http://www.twitter.com/INGBankSlaski)) was observed by 800 users at the yearend.

ING Bank Śląski S.A. contacted corporate clients using both traditional service channels such as visit at a branch, e-mail or phone, as well as diverse new media. In 2014, clients were offered the option of drawing a loan in an automated manner, via the internet banking system. ING Bank Śląski S.A. is the only bank on the market to offer corporate clients light depositories and CDMs directly at their business offices.

As in previous years, also in 2014, corporate clients of the Bank participated in a round of educational meetings. Representatives of the agricultural sector attended sectorial conferences held in collaboration with *Centrum Adama Smitha* (Adam Smith Centre). For family businesses a conference on proper preparation and conduct of the succession process was prepared in turn. The conference was also attended by experts from *Instytut Biznesu Rodzinnego* (Family Business Institute) and law firms. The Aleo offer-dedicated meetings proved yet another excellent occasion to expand the procurement and sale knowledge.

### **Customer satisfaction surveys**

Clients judge ING Bank Śląski S.A. first and foremost based on their experience when contacting the Bank. This is why, the form of communication is continuously improved in all service channels. Further, the Bank checks whether clients are satisfied with services on a regular basis.

In 2014, ING Bank Śląski S.A. conducted a survey of needs and expectations of individual clients visiting branches. Its results were used to modify the customer service model. In turn, the process of establishing relationships with clients was monitored using the Mystery Shopper surveys.

The Bank continued to analyse processes with emphasis placed on the remote channel. These actions were supported by the innovative testing method: Customer Effort Score (CES), implemented



in 2014. It is a metric showing the effort taken by the client to set up an account via the internet, for example.

The Net Promoter Score survey continued to be a valuable source of retail customer satisfaction data. In 2014, numerous actions were taken to reduce the number of clients judging the Bank in the toughest manner (the so-called Detractors).

Corporate clients also undergo regular satisfaction surveys. Hence, clients' opinion about the offer and service quality, as well as other aspects of cooperation with the Bank can be continuously monitored. In 2014, the Bank focused on the mobile banking domain and contact centre service. The process of electronic application filing by clients was analysed as well.

For strategic clients, ING Bank Śląski S.A. continued to measure their satisfaction using the NPS methodology. 2014 saw two survey waves. 70 responses were received to almost 300 questionnaires sent.

### **Complaint analysis**

In their complaints clients indicate those aspects of Bank products and services which they find worth modifying. This is why, ING Bank Śląski S.A. pays attention to client receiving complaint response in the shortest time possible. In 2014, already 54% of complaints were handled within 24 hours (40% in 2013). This result warrants ING a position among leading European banks.

Using electronic complaint handling channels, clients can file their complaint and have it resolved 7 days a week, 24 hours a day. In the past year, the Bank responded to 56% of complaints via the internet banking system.

Client satisfaction with the complaint handling process improved in 2014. NPS result went up to +27% (from +15% in 2013).

The Bank is constantly improving the clarity of its complaint responses. The way of complaint filing via the internet banking system was made more client-friendly as well. At present, a complaint report can have of up to 3,200 characters (previously 640 characters).

As in previous years, complaint reasons were thoroughly analysed. Owing to the complaint-based information, the practice of retaining uncollected cash by ATMs after 30 seconds from cash disbursement was introduced, among other measures.

## **2. Relations with vendors**

In 2014, potential vendors could continue to use the self-registration form on the ING Bank Śląski S.A.'s website. 94 vendors successfully completed the qualification process and could later participate in the procurement processes at the Bank.

In the past year, the Bank proceeded with making the ING Bank Śląski S.A. Vendors Code of Conduct available to the public. The Bank organised an information campaign for its contracted vendors, whereby they were all sent the Code. By doing so, the Bank emphasized the significance of contracting vendors on equal opportunity basis and using objective criteria as well as of cooperating with them in an open and fair manner while abiding by contractual terms and conditions and the provisions of the ING Bank Śląski S.A. Vendors Code of Conduct.

The Code is part and parcel of the contracts signed by the Bank with vendors. By signing it, each Bank vendor declares to abide by the norms set out by the Code. These are: observing the applicable laws, employees' rights included, in relations with the employees as well as respecting personal dignity, privacy and rights of an individual. Vendors should also provide their employees with safe and harmless workplace in health terms and consider environment protection by striving for reducing environmental burden as part of their business and ought to undertake actions leading to environment improvement. Moreover, vendors should observe prohibition of forced labour, child labour, corruption and discrimination.

ING Bank Śląski S.A. vendors were also active users of Aleo – a trading and auction platform for businesses. The Bank enhanced the registration system by resigning from the mandatory validation transfer of PLN 1. It can be however still made when a company wants to hold the “verified” status from its very activation. Following registration on the [www.aleo.com/pl](http://www.aleo.com/pl) website, vendors could participate in auctions organized under the Bank tender proceedings. Last year saw over 100 auctions held via the platform. Bank vendors and clients could also use that vehicle to support their own procurement processes. Following the results of the survey conducted among Aleo users, a new main page was launched and portal functionalities were modified last year.

### 3. Relations with employees

All ING Bank Śląski S.A. employees are provided with the conditions enabling their development and enhancing their commitment in the daily routine. The most important aspects of Bank operations pursued for employees development were outlined in the *Human Resources Management* item.

Every year, ING Bank Śląski S.A. provides employees with the opportunity to anonymously express their opinion on work in the Winning Performance Culture scan. In 2014, 85% of Bank employees took part in the survey. Participants appreciated the Bank operations in the Client Orientation, Leadership and Strategy, Team Work and Efficiency as well as People Management domains. As in the previous year, the scan also shows a very high level of sustainable engagement (84%) Based on the Bank employees’ opinions gathered in that way, action priorities are set for the next year.

In 2014, ING Bank Śląski S.A. was awarded the Top Employer certificate for the fifth time; the certificate is granted to those companies that are the best in pursuing HR policy. Moreover, the Bank was mentioned in the Responsible Business in Poland report, developed by *Forum Odpowiedzialnego Biznesu* (Responsible Business Forum) under the *Labour-Related Practices* category, which presented in-house traineeships for employees and facilities for employees being parents and – as long-term practices – first aid training courses and *Dobry Pomysł* (Good Idea) voluntary initiative contest. Further, the Social Engagement and Local Community Development category listed the participation of employees in the blood donation initiatives and in the *Biegnij Warszawo* (Run Warsaw) sports event as well as in the *Globalne Wyzwanie* (Global Challenge) voluntary activity and also – as long-term practices – *Praktyka z Lwem* (Internship with the Lion) addressed to students.

### 4. Activities for community

In 2014, ING Bank Śląski S.A. continued actions supporting education and entrepreneurial spirit among students of high schools.

In April, the Bank, for the eleventh time, engaged itself in the nationwide Junior Achievement Day organized by *Fundacja Młodzieżowej Przedsiębiorczości* (Junior Achievement Foundation). 71 workplaces were prepared for one-day trainees from high schools.

Last year, together with the ING for Children Foundation, the Bank continued to pursue the ING Voluntary Services Programme:

- projects for local communities – as part of the Good Idea contest, employees conducted 47 initiatives at hospitals, schools, kindergartens and community youth centres across Poland;
- projects for selected community partner – under 19 group initiatives employees worked for the benefit of, among others, children's homes and therapeutic centres. The largest initiative of this kind gathered approximately 60 IT employees;
- meetings with children and fairs arranged under the Global Challenge initiative – approximately 520 persons took part in 42 different ventures combined with reading the therapeutic book *Lucjan, the Lion One of Its Kind*. On this occasion, 2,600 copies of the book issued by the Bank were distributed among the children participating in the meetings and furnished to local libraries, community youth centres, hospitals, schools and kindergartens.

Approximately 1,300 Bank employees took part in the ING Voluntary Services Programme in total.

Following the long-standing tradition of social initiatives, employees engaged themselves in charity collections for children – charges of the ING for Children Foundation. An Orange Schoolbag collection of school supplies was organised in September, while in December as part of the Santa's Helpers undertaking employees prepared approximately 700 parcels with Christmas gifts.

Following our tradition, in 2014 blood donation initiatives were held in spring and autumn. 180 Bank employees took part in 10 such initiatives. They donated 82 litres of blood in total.

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

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

- ING Internet Clubs – in 2014, 6 internet clubs were modernised. In total, there are 30 internet clubs across Poland.
- Smile Stays – nearly 1,100 children participated in 22 such stays. These were profiled stays: educational, therapy and rehabilitation ones as well as summer and winter camps for Foundation charges from primary schools, community youth centres and therapeutic groups.
- ING Voluntary Services Programme – as part of the employee voluntary activities, the Foundation supported public benefit institutions as well as urban and commune welfare centres that Bank volunteers cooperate with. It allotted over PLN 400,000 for this purpose.

ING Bank Śląski S.A. employees provided financial support for the activity of the Foundation in the form of 1% tax deductions – PLN 32.7 thousand and monthly remuneration-related deductions – PLN 19.0 thousand.

#### **Activity of ING Polish Art Foundation**

In 2014, ING Polish Art Foundation together with the Arts Museum in Łódź held once more the *Wspólny projekt* (Common Project) contest. It is a periodical event targeted at artists of under 30 years of age. From among 90 submissions, a five-member committee selected the sound project by Tomasz Koszewnik, a student of *Uniwersytet Artystyczny* (University of Arts) in Poznań.

The project was made in close cooperation with musicians. It consisted in giving concerts in non-standard locations (in a hotel room or private apartment, for example). Spectators did not have any contact with the musician but they were listening to the sounds through walls or open windows. This made them receive the concerts in a completely different, careful manner. Casual passers-by could hear it as well.

At the ING collection exhibition at the Cobra Museum in Amstelveen, Amsterdam, 3 video works, 2 photos and 2 paintings from the collection of the ING Polish Art Foundation were presented. On this occasion, a catalogue introducing a large number of works (more than 20) from the collection was published. It is distributed by a renowned publishing house, Frame.

In 2014, 13 new works were added to the collection. They include the works of Jakub Woynarowski, honoured with *Paszport Polityki* (Polityka's Passport) distinction among others.

The Foundation also conducted educational activity oriented at ING Bank Śląski S.A. employees. During the Amsterdam exhibition, artists Rafał Dominik and Tymek Borowski made an animation movie showing the activities of the Foundation. The movie can be seen on the ING Bank Śląski S.A. YouTube channel.

### **5. Activities for natural environment**

In October 2014, TÜV Nord auditors conducted an audit of the Environmental Management System supervision under the international standard ISO 14001 (EMS). The audit had a positive result.

The Bank continued implementation of electricity savings-oriented technical solutions and technologies. Power systems were modernised at 36 branches. Owing to new technical standards, in 2014 lighting power consumption dropped by 10%. At new branches, energy-efficient lighting fittings and light control systems were installed. Exterior advertisements were lit in LED technology in another 36 branches. It is now used by 138 branches.

As part of the Ecosphere 2015 project, the Bank disassembled the CFC air conditioning units and replaced them with those using the environment-friendly R22 refrigerant. Owing to the modern energy-, heating- and water-efficient technical solutions, in April 2014, the new Bank head office edifice in Warsaw, at Plac Unii Lubelskiej, was awarded the prestigious *Certyfikat Zielonego Biura* (Green Office Certificate).

Since 2014 all ING Bank Śląski S.A. head office employees in Warsaw and Katowice have been using the follow-me printing system. This solution allowed printing a document only upon tapping the employee's identification batch against the printer. In consequence, the volume of printouts was reduced by almost 650,000 sheets. Last year, the Bank launched other environment-friendly solutions as well, for example: e-papers and magazines, electronic railway tickets and the business trip settlement application.

As part of the Orange Bike initiative, the Bank continued to install bicycle racks for Bank employees and clients and made bicycles available to employees. In 2014, 150 new racks were mounted in 39 locations and employees were provided with 20 orange bikes, 5 for each of the following locations: Katowice, Warsaw, Szczecin and Łódź.

ING Bank Śląski S.A. continued the following educational activities in 2014:

- Earth Hour – the Bank turned off light in the buildings of the Head Offices in Katowice and Warsaw, as well as in a dozen or so of branches all over Poland in that initiative;
- Be eco and hand in your phone – 212 phones and 70 chargers were collected at the Bank. The funds obtained from the sale of phones were given to the ING for Children Foundation;
- Earth Week – as part of the nationwide campaign *Zmieniaj nawyki – nie klimat!* (Change you habits and not the climate), employees were prepared a special guide and could check their knowledge in the eco-quiz as well;
- We save paper – in this competition employees enrolled 149 ideas how to save paper.

## **6. Additional information**

Information about corporate social responsibility at ING Bank Śląski S.A. is available on the [www.ingbank.pl](http://www.ingbank.pl) site in the *Odpowiedzialny biznes* (Corporate Social Responsibility) tab: [www.en.ingbank.pl/company-profile/corporate-social-responsibility](http://www.en.ingbank.pl/company-profile/corporate-social-responsibility).

The Bank also launched a new contact channel/e-mail address: [csr@ingbank.pl](mailto:csr@ingbank.pl) dedicated to the said topic.

## XI. ING BANK ŚLĄSKI S.A. MANAGEMENT BOARD REPORT ON OBSERVANCE OF CORPORATE GOVERNANCE RULES IN 2014

Pursuant to §91 section 5 item 4 of the Minister of Finance Ordinance on Current and Periodic Information Published by Issuers of Securities and the Conditions for Regarding Information Required by the Law of a Non-Member State as Equivalent of 19 February 2009 (Journal of Laws of 2014, item 133) and §29 section 5 of the Warsaw Stock Exchange Bylaw and Resolution No. 1013/2007 of the Management Board of the Warsaw Stock Exchange of 11 December 2007, the Management Board of ING Bank Śląski S.A. present the Report on Observance of Principles of Corporate Governance in 2014.

### 1. Rules and scope of corporate governance

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

<http://corp-gov.gpw.pl>.

On 07 March 2014, the Bank in its report no. 01/2014 (Electronic Information Base) gave notice that it uphold decision taken in 2013 (current report no. 8/2013 of 18 March 2013) on non-observance of the principle IV.10. of The Best Practices of WSE Listed Companies whereunder shareholders may take the floor during a General Meeting from a location other than the venue of the meeting. The Bank Management Board took the said decision due to the risk of legal as well as organisational and technical nature related to providing shareholders not participating personally in the General Meeting with real time bilateral communication with the use of electronic communication means, which may negatively impact the course of the General Meeting. According to the Management Board the currently binding principles of participation in the Bank General Meetings properly secure the interests of shareholders by enabling them to exercise all the rights arising from the held shares.

Nevertheless, the Bank gives notice that as regards Recommendation no. 12, in 2014 it transmitted the Ordinary General Meeting making it possible for all interested parties to watch the meeting; it did not organise the General Meeting in a manner enabling shareholders to exercise voting rights outside the General Meeting venue with the use of electronic communication means (electronic-GM). Taking into account the abovementioned explanations, the Bank Management Board hereby submit the following report on observance of principles of corporate governance:

**The Management Board of ING Bank Śląski S.A. hereby declare that in 2014 the Bank observed the principles of corporate governance as set out in The Best Practices of WSE Listed Companies.**

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

At the same time the Bank gives notice that since 01 January 2015 the Principles of Corporate Governance for Supervised Financial Institutions introduced by the Polish Financial Supervision Authority have been applied at ING Bank Śląski S.A. in the scope as specified in Bank Management Board Report of 30 December 2014 published on ING Bank Śląski S.A. website.

### 2. Control and risk management systems in the process of financial statements development

#### Internal control

Financial statements are developed by the Finance Division; the process is one of the key elements of compliance. The basic elements enabling execution of the process comprise: the Accounting Policy adopted by the Bank Management Board and the accounting framework within the Bank, which

defines the main principles of recording business events at the Bank. Recording of events leads to formation of the banking books, which, in turn, are used to develop the financial statements.

The following risks were identified in financial statements development process:

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

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

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

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

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

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

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

The accounting principles have been detailed in the Annual Consolidated Financial Statements in the section called Accounting policies and additional explanatory notes and Material principles of accounting.

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

### 3. Entity authorised to audit financial statements

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

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

Auditor's net fee		
	Accounting year ending 31 December 2014	Accounting year ending 31 December 2013 <sup>40</sup>
Audit of the annual consolidated financial statements	1\ PLN 943.0 thousand + reimbursement of documented direct expenses (maximum PLN 72 thousand) 2\ PLN 76.5 thousand	1\ PLN 733.0 thousand + reimbursement of documented direct expenses (maximum PLN 70 thousand) 2\ PLN 24.5 thousand
Other attestation services	Due for review of the financial statements PLN 146.0 thousand  Other – PLN 115 thousand	Due for review of the financial statements PLN 202.0 thousand  Other – PLN 115 thousand
Tax advisory services	–	–
Other related services	PLN 135 thousand	PLN 72 thousand

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

ING Bank Śląski S.A. is a subsidiary of ING Bank N.V., which as at 31 December 2014 had a 75% share in the share capital of ING Bank Śląski S.A. and a 75% share in the overall number of votes at the General Meeting. ING Bank N.V. belongs to ING Group, a global financial institution, conducting its business activity on banking and insurance markets as well as within the area of asset management.

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

Throughout 2014, the value of ING Bank Śląski S.A. share capital as well as the majority shareholder's share in the share capital remained unchanged.

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

## Shareholding structure of ING Bank Śląski S.A.

Shareholder name	Number of shares and votes at GM	Share in share capital and in the total votes at GM	Shareholder name	31 December 2014	
				Number of shares and votes at GM	Share in share capital and in the total votes at GM
	31 December 2014			31 December 2013	
ING Bank N.V.	97,575,000	75.00%	ING Bank N.V.	97,575,000	75.00%
Aviva Otworthy Fundusz Emerytalny (Open-end Pension Fund) Aviva BZ WBK <sup>41</sup>	7,370,000	5.66%	Aviva Otworthy Fundusz Emerytalny (Open-end Pension Fund) Aviva BZ WBK <sup>42</sup>	6,548,964	5.03%
Other	25,155,000	19.34%	Other	25,976,036	19.97%
<b>Total</b>	<b>130,100,000</b>	<b>100.00%</b>		<b>130,100,000</b>	<b>100.00%</b>

Bank shares are ordinary bearer shares. No additional special controlling rights are attached thereto. The Bank Charter does not impose any restrictions on transferring ownership of shares issued by the Bank, voting right execution or any stipulations whereunder share-based equity rights are separated from share ownership.

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

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

### 5. Charter and mode of operation of General Meeting of ING Bank Śląski S.A.

#### Rules of amending the Charter

An amendment to the Bank Charter requires resolution of the General Meeting as well as registration in the entrepreneurs register of the National Court Register (KRS). Any amendment to the Charter within the scope stipulated in Article 34 section 2 of the Banking Law Act requires approval of the Polish Financial Supervision Authority.

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

In 2014, the Bank Charter was amended as regards Bank's business objects. The amendment of the wording of §8 section 2 item 11 reflected the changes to the terminology used to describe banking activities in the universally binding laws. The said amendment consisted in replacement of currently binding provision for issuance of payment cards by the Bank and making transactions with their usage with provision concerning rendered payment services. The amendment of the wording of §8 section 3 item 11 of the Bank Charter followed the introduction to the Bank's offer of an intermediation in granting and taking out securities lending, and in the remaining scope it concerned editorial changes and consisted in singling out other financial services rendered by the Bank.

#### Operation of General Meeting, its essential rights and shareholders' rights

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

The General Meetings are convened at the time enabling all eligible and interested shareholders to attend them.

<sup>41</sup>Based on the list of shareholders registered at the Ordinary General Meeting of ING Bank Śląski S.A. on 10 April 2014.

<sup>42</sup>Based on the notice received by the Management Board of ING Bank Śląski S.A. from Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A. on 03 July 2013. (Current report no. 17/2013 of 03 July 2013).



Bank shareholders representing at least 1/20 of the share capital are entitled to:

- Request putting particular items on the agenda of the nearest General Meeting.
- Submit draft resolutions concerning items put on the agenda of the General Meeting before the set date of the General Meeting.

Each shareholder is entitled to submit draft resolutions concerning items put on the agenda during the General Meeting.

When an Extraordinary General Meeting is convened, the Management Board present the rationale for convening such a meeting and for putting specific matters on the agenda or ask for presentation of the rationale, if the such a Meeting was convened upon the request of another eligible entity.

Draft resolutions are presented to the General Meeting by the Management Board upon advice of the Bank Supervisory Board.

The General Meeting is valid regardless of the number of shares represented. Each share represents one vote. In principle, the resolutions of the General Meeting are passed with the absolute majority of votes excluding cases specified in the Commercial Companies and Partnerships Code and the Charter. Apart from the Commercial Companies and Partnerships Code, the issues regarding the convening and functioning of the General Meeting are specified in the Bank Charter, the Bylaw of the General Meeting and the Notice of the General Meeting.

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

The principles concerning shareholders participation in the General Meeting and the mode of conduct during the General Meeting as well as the manner of shareholders' communication with the Bank are set forth in the Bylaw of the General Meeting. All adopted amendments become effective as of the subsequent General Meeting.

The powers of the General Meeting are specified in particular in the Commercial Companies and Partnerships Code, Banking Law Act and in stipulations of the Bank Charter.

## **6. Supervisory Board operations**

### **Supervisory Board composition**

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

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

Throughout 2014, there were the following changes to the composition of the Supervisory Board of ING Bank Śląski S.A.:

- on 28 March 2014, Ms Anna Fornalczyk, Mr Mirosław Kośmider and Mr Wojciech Popiołek tendered their respective resignations from standing as candidates for members of the Supervisory Board of the next term due to the loss of status of an Independent Supervisory Board Member during the Supervisory Board term of office, should they be selected for the next term.
- in consequence of expiry of the term of office of the Supervisory Board, on 10 April 2014 the General Meeting appointed the Supervisory Board for the next term for the years 2014-2019.

During its meeting on 10 April 2014, the Supervisory Board started operating in the following composition:

- Mr Antoni Reczek Chair, Independent Member,
- Mr Brunon Bartkiewicz Deputy Chair,
- Mr Aleksander Galos Secretary, Independent Member,
- Mr Roland Boekhout Member,
- Mr Nicolaas Cornelis Jue Member,
- Mr Ad Kas Member,
- Mr Aleksander Kutela Member, Independent Member.

Messrs Brunon Bartkiewicz, Roland Boekhout, Nicolaas Cornelis Jue and Ad Kas held functions in the Supervisory Board of the previous term.

The powers of the Supervisory Board members of ING Bank Śląski S.A. are presented at the Bank's website at [www.en.ingbank.pl/#management=2](http://www.en.ingbank.pl/#management=2).

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

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

Apart from the aforementioned powers and duties, the Supervisory Board pass resolutions on matters specified in the Bank Charter.

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

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

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

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

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

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

### ***Audit Committee***

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

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

The Audit Committee consists of at least 3 Members of the Supervisory Board, including at least one Independent Member. The Independent Member should have qualifications and experience in accounting or financial audit. In 2014, the Audit Committee worked in the following composition:

- Mr Mirosław Kośmider – Chair by 10 April 2014,
- Mr Antoni Reczek – Chair as of 10 April 2014,
- Mr Brunon Bartkiewicz – Member,
- Mr Aleksander Galos – Member as of 28 November 2014,
- Mr Nicolaas Cornelis Jue – Member, and
- Mr Ad Kas – Member.

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

#### **Remuneration and Nomination Committee**

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

The operations of the Remuneration and Nomination Committee have been detailed in the Bylaw of the Remuneration and Nomination Committee of ING Bank Śląski S.A. passed by the Supervisory Board.

The Remuneration and Nomination Committee consists of at least 3 Members of the Supervisory Board, including at least one Independent Member.

In 2014, the Remuneration and Nomination Committee worked in the following composition:

- Ms Anna Fornalczyk – Chair by 10 April 2014,
- Mr Aleksander Galos – Chair as of 10 April 2014,
- Mr Brunon Bartkiewicz – Member,
- Mr Roland Boekhout – Member as of 10 April 2014,
- Mr Nicolaas Cornelis Jue – Member by 10 April 2014,
- Mr Aleksander Kutela – Member as of 10 April 2014, and
- Mr Wojciech Popiołek – Member by 10 April 2014.

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

## **7. Bank Management Board operations**

### **Bank Management Board composition**

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

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

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

The powers of the individual Bank Management Board Members are presented on ING Bank Śląski S.A. website at [www.en.ingbank.pl/#management=1](http://www.en.ingbank.pl/#management=1).

### **Powers of Bank Management Board**

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

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

The Bank Management Board pass resolutions provided that the meeting is attended by more than a half of all Bank Management Board Members and all Members had been invited. Resolutions of the Bank Management Board are passed with the absolute majority of votes. In the case of a tie, the Bank Management Board President shall have the casting vote.

The Bank Management Board Members supervise individual divisions and organisational units in accordance with the segregation of duties defined by the Supervisory Board, at the request of the Bank Management Board President, and bear responsibility for implementation of their missions and core tasks.

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

## Scope of Responsibilities of Bank Management Board Members

As at 31 December 2014		As at the report's publication date	
<ul style="list-style-type: none"> <li>Ms Małgorzata Kołakowska</li> </ul>	<p><b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, non-financial risk management units and HR units)</p>	<ul style="list-style-type: none"> <li>Ms Małgorzata Kołakowska</li> </ul>	<p><b>President of the Bank Management Board</b> in charge of some units reporting directly to the Bank Management Board (including: Management Board Bureau, Press Office, Internal Audit Department, Legal Department, Compliance Department, non-financial risk management units and HR units)</p>
<ul style="list-style-type: none"> <li>Mr Mirosław Boda</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department</p>	<ul style="list-style-type: none"> <li>Mr Mirosław Boda</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Finance Division and Treasury Department</p>
<ul style="list-style-type: none"> <li>Mr Michał Bolesławski</li> </ul>	<p><b>Bank Management Board Vice-President</b> in charge of the Corporate Sales Network Division</p>	<ul style="list-style-type: none"> <li>Mr Michał Bolesławski</li> </ul>	<p><b>Bank Management Board Vice-President</b> in charge of the Corporate Sales Network Division</p>
<ul style="list-style-type: none"> <li>Ms Joanna Erdman</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division</p>	<ul style="list-style-type: none"> <li>Ms Joanna Erdman</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Strategic Customers Division and the Financial Markets Division</p>
<ul style="list-style-type: none"> <li>Mr Ignacio Juliá Vilar</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division</p>	<ul style="list-style-type: none"> <li>Mr Ignacio Juliá Vilar</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Retail Banking Division</p>
<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as a well as the Project Management Department and the position of the Bank Management Board Representative for the Environmental Management System</p>	<ul style="list-style-type: none"> <li>Ms Justyna Kesler</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of: the Operations Division, Services Division and IT Division as a well as the Project Management Department and the position of the Bank Management Board Representative for the Environmental Management System</p>
<ul style="list-style-type: none"> <li>Mr Oscar Swan</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Credit and Market Risk Management Division and the Model Validation Department</p>	<ul style="list-style-type: none"> <li>Mr Oscar Swan</li> </ul>	<p><b>Vice-President of the Bank Management Board</b> in charge of the Credit and Market Risk Management Division and the Model Validation Department</p>

## XII. SUPERVISORY BOARD'S ASSESSMENT OF OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 2014

After two years of poor as for the developing country economic growth, 2014 saw a revival of the Polish economy. The Central Statistical Office estimates that the dynamics of the gross domestic product went up to 3.3% from 1.7% recorded in 2013. The response of the labour market was positive – over the year the unemployment rate went down to 12.3% from 13.5% reported as at the 2013 yearend. It should be however noted that only during H1 2014 the labour market recovered the hiring levels preceding the 2012-2013 slowdown period. Real salaries augmented by 3.9% from 1.6% a year ago on the yearly average basis. Deflation was a new phenomenon for the Polish economy. It started yoy in July 2014 and continued uninterruptedly until the yearend. In consequence, the annual average change in prices was 0% versus the moderate growth of 0.9% recorded in 2013.

The condition of the banking sector was directly impacted by statutory changes and modifications of the Central Bank's monetary policy. On 01 July 2014 the laws limiting the fees on card transactions from 1.2-1.3% to 0.5-0.6% took effect. The beginning of October saw reduced base interest rates of the National Bank of Poland; yet for the lombard rate the cut was much deeper – down by 1 p.p. versus 0.5 p.p. for the other rates. As a result, the reference rate of the National Bank of Poland was 2% and the lombard rate stood at 3%.

In 2014, the ING Bank Śląski S.A. Capital Group posted the net profit of PLN 1,040.7 million versus PLN 961.5 million in 2013 (up by 8.2%). The increase was possible due to:

- higher income. In 2014, the Group's income totalled PLN 3,544.8 million versus PLN 3,328.5 million a year earlier (up by 6.5%). It was primarily triggered by higher net interest income (up by 14.1%) following a significant increase in business volumes. Net income on fees and commissions went up as well (by 4.0%),
- optimal cost management. In 2014, operating expenses of the ING Bank Śląski S.A. Capital Group amounted to PLN 1,929.7 million, while a year earlier they closed with the amount of PLN 1,868.4 million (up by 3.3%). This moderate growth was dictated first and foremost by higher business development-oriented expenditure.
- a stable balance of the loan loss provisions. In 2014, the Group reported risk costs of PLN 267.7 million, i.e. up by PLN 0.5 million only from the year before. At the same time, the provision coverage ratio for impaired receivables gained reaching 65.3% (60.6% as at the 2013 yearend).

As part of the operations of the Audit Committee, the Supervisory Board supervise on an ongoing basis the management of various types of risk at ING Bank Śląski S.A. on a stand-alone basis, as well as in the entire Bank Group.

As part of monitoring of the efficiency of internal control systems and internal audit, throughout 2014 the Audit Committee recommended that the Supervisory Board approve the following documents: Internal Audit Department's Report on the execution of the 2013 Annual Internal Audit Plan, Internal Audit Department's Semi-Annual Report on the assessment of the internal control system at ING Bank Śląski S.A. as at 31 December 2013, updated 2014 Internal Audit Plan, Audit Strategy Memorandum with long-term internal audit plan for the years 2015-2019 and the 2015 internal audit plan. The Audit Committee recommended that the Supervisory Board approve the outcomes of the Internal Audit Department Competence Profile Review.

The Audit Committee also recommended that the Supervisory Board acknowledge the results of the external review of the internal audit function's conformance to the IIA Standards. The evaluator, Deloitte, has concluded that the relevant structures, policies, and procedures of the audit activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. The operations of the Bank's Internal Audit Department generally conforms to the IIA Standards.

At each of their meetings, the Audit Committee acquaint themselves with the periodic management information on the operational risk and compliance risk – Non-Financial Risk Dashboard (NFRD). The Committee also received quarterly risk reports on utilisation of non-financial risk tolerance limits. Both documents are a fixed item on the agenda of the Supervisory Board meeting. Furthermore, the Audit Committee recommended that the Supervisory Board approve the Non-financial Risk Appetite Statement of the Bank for 2014.

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

The Committee also supervise the internal capital assessment processes, capital management and capital planning. In 2014, the Committee recommended that the Supervisory Board approve the following updated documents: ICAAP and Capital Management Policy at ING Bank Śląski S.A., Risk Materiality Assessment Policy at ING Bank Śląski S.A., Difficult-to-Measure Risks Management Policy at ING Bank Śląski S.A., Stress-Testing Policy in ING Bank Śląski S.A. and Funding and Liquidity Risk Management Policy at ING Bank Śląski S.A. The Audit Committee also familiarised themselves with the Report on ICAAP Process Review at ING Bank Śląski S.A. for 2014 and issued a relevant recommendation for the Supervisory Board. Furthermore, the Audit Committee accepted the Risk Appetite Statement (RAS) including the key credit- and market risk limits for 2014 and recommended that the Supervisory Board approve it. The Audit Committee recommended that the Supervisory Board approve the Corporate Credit Risk Strategy, including but not limited to the new limits for the maximum LtV and minimum downpayment, in line with the requirement under Recommendation S issued by the Polish Financial Supervision Authority.

To fulfil the requirement arising from PFSA Resolution No. 385/2008, the Audit Committee recommended that the Supervisory Board approve the updated Policy on Disclosing Information of Qualitative and Quantitative Nature Concerning Capital Adequacy and the Scope of Information Subject to Announcement at ING Bank Śląski S.A.

In the opinion of the Supervisory Board, the risk management system at the ING Bank Śląski S.A. Group covers all material risk types. Moreover, to identify, measure and manage risks the Bank applies instruments and techniques adequate for a given risk type. In 2014, ING Bank Śląski S.A. fulfilled all requirements of sound business operations and capital adequacy, and in particular:

- pursued prudent lending policy. The lending processes and procedures applied by the Bank were compliant with the regulatory requirements and best practices on the market. In 2014, the Bank took account of the economic situation in its lending policy and applied more restrictive procedures towards sectors characterised by increased risk. The Bank's lending portfolio was diversified with a significant share of high-quality loans granted to business entities. Within the Bank Capital Group, impaired credit receivables represented 4.1% of the total exposure, which is significantly less than the average for the entire banking sector,
- has systems and procedures in the market risk management area (for interest rate or currency risk, among others) that meet the top market standards. Throughout 2014, individual market risk categories were managed actively so that their levels were within the limits effective at the Bank. The balance sheet structure is balanced from the currency perspective; its distinctive feature is the low share of FX receivables in the total mortgage receivables, among other things,
- maintained good liquidity. As at the end of 2014, the LtD ratio settled at 73%. Such a good situation is attributable to a stable household deposits base, which is one of the biggest among Polish banks (and still growing),
- had a high level of equity. In December 2014, the solvency ratio of the ING Bank Śląski S.A. Capital Group was 14.2%. At the same time, the Company's own funds were fully high-quality capital; i.e. Tier 1 capital.

The expected sustainable economic revival and further drop followed by stabilisation of interest rates at a relatively low level should lead to increased loan demand and their higher volumes in the banking sector in 2015. This is why, the Supervisory Board are of the opinion that the Bank should continue to focus on the actions to raise its competitiveness and to stimulate further growth; these may include:

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

According to the Supervisory Board, the strategy pursued so far by the Bank on increasing the scale of its operations and executed over the last few years proved to be successful which is reflected in the achieved financial and commercial results. Hence, the opinion that in 2015 the Bank will continue to pursue its strategy and will leverage on the opportunities offered by the economic revival at the optimum, the actions which will translate into its sustained dynamic growth for the benefit of its clients, shareholders, and employees is well justified.



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

#### 1. Truthfulness and fairness of statements

To the best knowledge of the Bank Management Board, the annual financial data for 2014 and the comparable data presented in the consolidated annual financial statements of the ING Bank Śląski S.A. Capital Group were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial situation of the Bank Capital Group and its financial result. The Management Board Report being part of this document is a true presentation of the development, achievements and situation (including a description of key risks) of the Bank Capital Group in 2014.

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

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

#### 3. Additional information

##### **Agreements concluded**

The Bank Management Board declare that as at 31 December 2014 ING Bank Śląski S.A. did not have any:

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

As at 31 December 2014, the Bank had PLN 866.5 million worth of contractual liabilities under the issued own bonds.

##### **Number and value of writs of execution**

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

As at 31 December 2014, the number of writs of execution issued by the Bank with regard to loans for business activity was 548 and covered total debt of PLN 505.7 million.

As regards retail clients, in 2014 the Bank issued 4,352 banking writs of execution totalling PLN 92.8 million and filed 4,944 claims totalling PLN 30.9 million.

Value of liabilities or debt claims under the proceedings in progress in 2014 did not exceed 10% of the Bank's equity.

The Bank is of the opinion that neither the individual proceedings that were pending in 2014 and that were heard before any court of justice or arbitration, or before any public administration authority, nor all the proceedings in total pose any threat to the financial liquidity of the Bank.

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

**Małgorzata Kołakowska**

President

*(signed on the Polish original)*

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**Mirosław Boda**

Vice-President

*(signed on the Polish original)*

---

**Michał Bolesławski**

Vice-President

*(signed on the Polish original)*

---

**Joanna Erdman**

Vice-President

*(signed on the Polish original)*

---

**Justyna Kesler**

Vice-President

*(signed on the Polish original)*

---

**Oscar Edward Swan**

Vice-President

*(signed on the Polish original)*

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**Ignacio Juliá Vilar**

Vice-President

*(signed on the Polish original)*

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24 February 2015

