



# **2006 Annual Report of ING Bank Śląski S.A.**

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## **BANK MANAGEMENT BOARD**

### **Status as of 31 December 2006**

Brunon Bartkiewicz	– Chief Executive Officer
Mirosław Boda	– Executive Vice-President (as of 1 August 2006)
Ian Clyne	– Executive Vice-President
Marlies van Elst	– Executive Vice-President (as of 1 August 2006)
Michał Szczurek	– Executive Vice-President
Benjamin van de Vrie	– Executive Vice-President
Maciej Węgrzyński	– Executive Vice-President

## **SUPERVISORY BOARD**

### **Status as of 31 December 2006**

Anna Fornalczyk	– Chairwoman
Cornelis Leenaars	– Deputy Chairman
Wojciech Popiołek	– Member (as of 27 April 2006)
Ralph Hamers	– Member (as of 27 April 2006)
Jerzy Hausner	– Member (as of 27 April 2006)
Mirosław Kośmider	– Member (as of 27 April 2006)
Marcus van der Ploeg	– Member
Igno van Waesberghe	– Member

## Chairwoman's Statement

Ladies and Gentlemen,

It is with great pleasure that I present you with the results of ING Bank Śląski for the first time as chairwoman of its Supervisory Board.

The attached report presents conclusions from the on-going assessment of the business operations of ING Bank Śląski S.A. throughout the year, both in terms of its commercial and financial performance, as well as strategic measures taken to restructure the organisation and their progress. Apart from participating in the Supervisory Board sessions, most of us were also involved in the activities of the Audit Committee and the Compliance and Remuneration Committee, which support the Supervisory Board.

With independent members among our number, we are able to make objective assessments and decisions concerning the operations of ING Bank Śląski S.A. Currently, our Supervisory Board is composed of eight members; there are four independent members, including the Chairwoman, who are free of any relations with the Bank, its shareholders or employees, that could have material impact on their ability to take unbiased decisions.

In the opinion of the Supervisory Board, ING Bank Śląski S.A. took full advantage of the favourable conditions in the Polish economy in 2006. Dynamic growth of deposits acquired from the clients, increase of credit exposure that has not been reported by the Bank in years, as well as considerable improvement of financial results all bear testimony thereto.

It is encouraging to report activation of lending and an over 30 per cent increase in the Bank's lending throughout 2006. The increased credit exposure enabled ING Bank Śląski S.A. to keep its position on the credit market, and the growth rate of the credit portfolio, that was going up from month to month, indicated that the Bank's role in the financing of the Polish economy would grow considerably in the nearest future.

In 2006, for another consecutive year, ING Bank Śląski S.A. generated very good results in deposit acquisition, both from individuals and businesses. The value of funds accumulated in the accounts at the Bank grew by PLN 5.6 billion over the year, which means that for every new zloty deposited in bank accounts every tenth was acquired by ING Bank Śląski S.A.

Among the Bank's other achievements, one should also list the initiatives undertaken as part of strategic projects and their results. Thanks to these projects, the Bank was able to improve the efficiency of credit processes, open the first partner outlets, put in place a new payroll system, and propose a system of up-scale client service that matches the top standards, among other things. All these changes mark yet another milestone in the construction of an effective institution able to compete in an increasingly challenging environment.

ING Bank Śląski S.A. capital group closed 2006 with net profit of PLN 591.4 million, up by 7.6% from a year earlier. It is worth to note the 6.1 per cent increase in the result on core operations, which proves the increasing capacity of the Bank in terms of profit generation.

ING Bank Śląski S.A. is well-equipped with equity capital and has in place effective and high-quality procedures for risk management, which will enable its further safe expansion on the market. Therefore, at the request of the Management Board, the Supervisory Board will recommend the General Shareholders Meeting to pass a resolution approving the dividend payout at nearly PLN 28 per share. We are convinced that the proposed dividend payout will guarantee our Shareholders a satisfactory return on their investment.

Thanking the Clients for their trust and confidence, and the Management Board and the Staff of the Bank for their devotion to the expansion of the organisation, on behalf of all the Supervisory Board members I hereby declare our unwavering commitment to implementing the adopted strategy of ING Bank Śląski S.A.

Sincerely,

## Chief Executive's Review

Dear Shareholders,

I am pleased to announce that 2006 saw a considerable increase in the value of ING Bank Śląski S.A. In December 2006, the market capitalisation of our Bank totalled nearly PLN 10 billion, up by 36% over the year.

The value of our company grew both as a result of the market expansion, that helped reinforce the position of ING Bank Śląski S.A. on a number of major markets, such as: household deposits, PLN-mortgages, loans to institutional clients; as well as improved efficiency of our operations, which was evident in the higher return per each PLN invested, among other things.

I consider visible reactivation of lending as one of the key achievements of ING Bank Śląski S.A. in 2006. In December 2006, the Bank's credit receivables totalled PLN 13.0 billion, up by nearly 1/3 from a year earlier. We were able to consolidate considerably our position in terms of lending to institutional clients. Retail lending also recorded significant growth at the Bank, thanks to higher credit receivables due to PLN-mortgages.

At the same time, we recorded further improvement of our credit portfolio quality. For the second year straight, the quality of client receivables at ING Bank Śląski S.A. was one of the best among large universal banks. In December 2006, the share of impaired receivables in the Bank's credit portfolio totalled 5.0% compared with 7.4% for the entire banking sector.

In 2006, we were also very successful in our expansion on the deposit market. In December, the overall value of funds deposited at the Bank totalled PLN 36.3 billion, nearly 1/5 higher than in December 2005. Consequently, we were able to reinforce our position both on the retail and corporate deposit markets. Actions aimed at ensuring continuous attractiveness of the Open Savings Account, which is the key deposit product of the Bank, played a major role in that process. In 2006, the number of OKO holders exceeded the 1 million mark.

In 2006, we made yet another major step to put the idea of a "*Customer-Friendly Bank*" into practice. We have considerably enhanced our offer, by launching new forms of business financing, modifying our mortgage products, as well as implementing new types of credit cards and services related to payment cards. The availability of the Bank's products and services also improved on launching the first partner outlets, developing a network of Private Banking Centres and expanding the functionality of our electronic banking systems. Keeping our promises was of paramount importance for us, as we strived for service excellence. To excel, we modified our credit processes and procedures, put in place a process-based approach to the Bank's management, as well as a new payroll system; we also closed works on a new complaint management system and streamlined our corporate governance principles.

In keeping with our philosophy, whereunder creation of long-term value means responsibility not only towards our shareholders but towards our clients, employees, business partners and society at large, we were active to promote social development. As in the previous years, it was particularly important for us to help ill children and create equal chances for children from the poorest areas of our country. We also encouraged our employees to be socially responsible, e.g. by doing voluntary work.

In 2006, ING Bank Śląski S.A. generated very good financial results. Net profit of the Bank's capital group totalled PLN 591.4 million compared with PLN 549.5 million a year earlier. Return on equity (ROE) reached 18.6% versus 18.2% in 2005.

We do not intend to rest on our laurels, though. In 2007, we will continue our expansion strategy with special emphasis on further activation of our operations on the credit market. To achieve that objective, we are going to introduce new technologies, such as marketing data warehouses, a new Front-End application, or new solutions for bank cards service. While doing so, we are not going to neglect initiatives aimed at improving our efficiency because only sustainable growth of ING Bank Śląski S.A. will help us ensure further systematic increase of the value of our institution.

Concluding, I would like to thank all employees of the capital group of ING Bank Śląski S.A. for their day-to-day efforts to build up the value of our institution. Let me also thank the Supervisory Board for their trust in and support to the Management Board in the implementation of the corporate strategy.

Sincerely,



## I. POLISH ECONOMY IN 2006

### Major Economic Trends

#### *Gross Domestic Product*

In 2006, Polish economy was on the path of dynamic and sustainable growth. With the growth rate going up from quarter to quarter, the Gross Domestic Product in 2006 was 5.8% higher than a year earlier. Consequently, Poland's development rate in 2006 hit the highest level since mid-2004 and was one of the highest among other EU member states.

The structure of economic drivers proved favourable as well. Investments turned out to be the key growth engine for the Polish economy. High utilisation of production capacity, growing labour cost and availability of EU funds made the entrepreneurs more willing to undertake wide-scale investment projects. Preliminary estimates show that the gross outlays on non-current assets in 2006 were 16.7% higher than a year earlier. Considerable contribution of investments to the economic growth bode well for the future, with a stable and upward outlook for the Polish economy for the coming months.

Individual consumption was also growing much faster than in the previous years. Following the growth in the employed number in the economy, the increase of mean pay, considerable money transfers from individuals working abroad, and also as a result of relaxing requirements concerning access to bank loans, the funds spent on individual consumption in 2006 were 5.2% higher than a year earlier.

Export and import also grew at a fast pace. In 2006, the PLN value of export was 16.1% higher than in 2005. Growing internal demand resulted in fast increase of import (up by 17.7% year over year). Consequently, current-account deficit went up to PLN 21.7 billion, despite the high surplus in current transfers due to the inflow of EU funds and cash transfers made to Poland by Poles working abroad.

#### *Labour Market and Salaries*

The economic revival and good financial standing of companies translated into a noticeable improvement on the labour market. Employment in the enterprise sector over 2006 went up by 4.1%. In December 2006, the number of unemployed totalled 2,309,400; down by 16.7% from the end of 2005. Apart from the overall improvement on the labour market, the jobless rate also went down as a result of Poles leaving the country in search of work abroad. In consequence, the jobless rate went down to the lowest levels over the past six years and totalled 14.9% at the end of 2006.

The dwindling supply of skilled labour triggered increase of mean pay. In 2006, the mean pay in the enterprise sector was 5.1% higher than in 2005. The increase of pay did not, however, result in inflation pressures as it was accompanied by a high rate of productivity in the economy. By example, in 2006 industrial output was 9.4% higher than a year earlier.

## Inflation

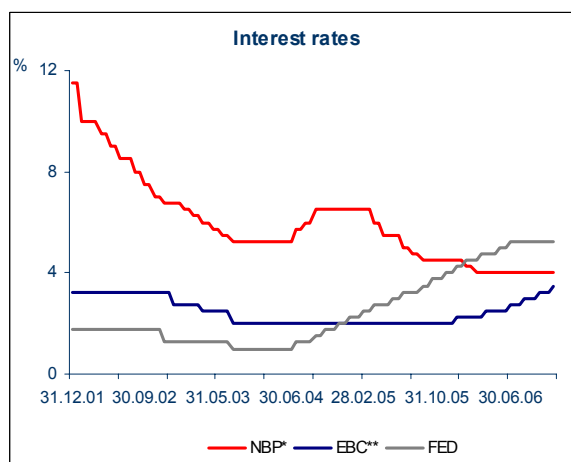
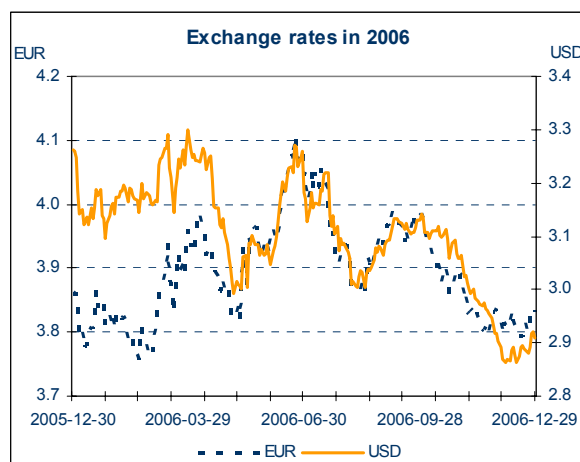
After a number of months of a record low inflation accompanying the good economic results, spring 2006 started a period of a higher growth of prices, along with the rise of energy- and fuel prices. In August and September, prices were 1.6% higher than a year earlier. In October, inflation again was below the floor limit of the permitted deviation from the target set by the central bank, that is below 1.5%. Eventually, Poland closed 2006 with inflation at 1.4% per annum (one of the lowest levels in Europe). The level of base inflation ratios observed in December showed that the fundamental inflationary pressure on prices continued to be weak.

## FX market

The year 2006 was characterised by considerable volatility on the foreign exchange market. Early in the year, the zloty exchange rates were relatively stable. June, however, saw depreciation of the Polish currency, primarily as a result of lower exposure of the investors to higher-risk assets in view of the high interest rates in the US, the growing expectations of fast interest rate hikes in the eurozone and the revaluation of other currencies in the Region. Following the developments on the global markets, and as a result of the overall good condition of the Polish economy and a faster inflow of EU funds, the situation on the F/X market stabilised and the Polish currency became stronger again. Overall, the PLN gained 10.8% to the US dollar and 0.7% to euro over 2006.

## State Budget

Courtesy of better-than-expected macroeconomic conditions, the State Budget deficit in 2006 totalled PLN 25.1 billion, down by 17.9% from the plan. In 2006, the State revenue totalled PLN 195.3 billion, which represented 101.2% of the total amount provided for in the budget. The revenue budget was exceeded thanks to much higher revenue from personal income taxes (especially from entrepreneurs who pay taxes according to the linear tax rate at 19%), higher revenue from VAT and non-taxable revenue items (including dividend). Expenses totalled PLN 222.8 billion, or 98.6% of the amount provided for in the budget.



\* Reference rate

\*\* Minimum interest rate offered on basic refinancing operations.

## Monetary Policy

Following two cuts in January and February, the interest rates of NBP hit their historic lows in 2006 and totalled, respectively:

- the reference rate – 4.00%,
- the rediscount rate – 4.25%,
- the lombard rate – 5.50%,
- the deposit rate – 2.50%.

In summer 2006, following the developments on the domestic market (with fast-growing domestic demand and a higher inflation rate), as well as the situation on the global markets (interest rate hikes in many countries and increased aversion to risk on financial markets), analysts started to voice opinions of possible increases of the official interest rates. Based on an assessment of the Polish economy, the Monetary Policy Council left the interest rates unchanged until the end of 2006. At the same time, in the update after its final meeting in 2006, the Council concluded that the “analysis of inflation perspectives signals that keeping the inflation close to the inflation target of 2.5% may require tightening of the monetary policy in the mid-term perspective.”

## Capital Market

Despite the spring correction primarily caused by lower interest among the investors in the emerging markets, 2006 turned out to be a very good year for the capital market in Poland.

Low interest rate on deposits with considerable improvement of the financial standing of the society at large and of the businesses, as well as the sentiment the international investors had for the emerging markets, all helped the dynamic increase of the prices of shares of companies listed on the Warsaw Stock Exchange. Throughout 2006, the return rate on investments into shares of the companies listed on the Warsaw Stock Exchange totalled 41.6%. Investors putting their funds into the shares of small and mid-sized companies earned the most. The MIDWIG and WIRR gained, respectively: 69 and 132 per cent.

At the end of 2006, the value of the domestic companies listed on the Warsaw Stock Exchange was close to PLN 438 billion, and capitalisation of foreign campaign exceeded PLN 198 billion. With these results, the Warsaw Stock Exchange became the second largest stock exchange in Central and Eastern Europe, after the Vienna Stock Exchange.

Over the year, 38 companies debuted on the Warsaw stock exchange, and the total value of 88 initial public offerings totalled PLN 9.2 billion. What is particularly noteworthy is the fact that, unlike in the previous years, in 2006 a considerable portion of IPOs were those of small and mid-sized companies. Consequently, the stock exchange was gradually becoming a natural means of financing for a large number of Polish companies.

With higher indices and a higher number of companies listed, the stock turnovers continued to grow as well. During the stock trading in 2006, PLN 320.3 billion worth of shares changed hands, up by 83% from a year earlier. Dynamic development was also observed on other markets, notably: the turnovers on the futures market gained 59%, and the option market grew by 68%.

The favourable conditions on the stock market were also related to the growing interest among Poles in depositing their savings in investment funds. In December 2006, net assets of investment funds approached the PLN 100 billion mark, and totalled PLN 98.8 billion. In 2006, the growth rate of investment fund assets exceeded 61%, which was slightly lower from the record high in 2005.

The bull market, and the ever-growing offer of investment fund corporations both proved an incentive for the clients to invest their savings in investment funds. At the end of 2006, the number of funds and sub-funds on the record exceeded 260, up by 35% over the year.

The assets of funds investing in shares of foreign and domestic companies (including small and mid-sized ones), as well as mixed funds (i.e. balanced funds and active allocation funds) grew at a particularly dynamic pace. As a result of these trends, the structure of investment funds assets changed over 2006. The importance of mixed funds and Polish shares grew larger at the expense of the Polish debt papers funds, as well as the money market funds and cash investment funds.

2006 was particularly good for investment fund corporations belonging to capital groups, whose members also include large retail banks. It is because bank deposits constituted a considerable source of new funds deposited in the investment funds units.

Favourable conditions on the stock exchange market were also accompanied by qualitative changes on the capital market. There appeared new instruments, among other things, such as: bundle transactions with derivatives and structured products.

It is expected that 2007 will also be favourable for the Polish capital market. Sixty companies announced their debut on the stock exchange. The principles of stock exchange indices construction were changed in March 2007 to make them more transparent and adapt them to the increased scale of operations on the stock exchange market. In 2007, a new market will be created for high-potential small companies, and a new Internet website will be launched to provide investors with updates and analyses.

## **Banking Sector**

### ***Main Trends***

The banking sector took full advantage of the revival in the Polish economy. The demand for banking services kept growing, which was reflected in the increase of core money aggregates, and specifically:

- Following an improvement in the financial standing of clients, lower interest rates, and the continuing trend to relax the lending conditions, in December 2006 credit receivables of the banking sector from households went up to PLN 188.5 billion (up 33.4% from December 2005). The increase could mainly be attributed to the dynamic growth of mortgages. It has to be noted, however, that clients preferred housing loans in foreign currencies as they bore a lower interest rate. Even though, as of 1 July 2006, the Banking Supervision Commission implemented Recommendation S concerning best practices in credit exposures secured with mortgages, which slightly lowered the growth rate of that market, the FX-housing loans still gained about 55% throughout 2006.

- After years of decreases, the market of loans for corporate clients also revived. At the end of 2006, credit exposure of the banking sector towards institutional clients<sup>1</sup> totalled PLN 178.8 billion, up by 14.4% from the end of 2005. The increase resulted from visibly higher activity in terms of investments and changes to the credit policies of banks, which relaxed the criteria for small- and mid-sized companies.
- Household deposits grew at a moderate pace for a larger part of the year. Eventually, at the end of December 2006, the value of the banking sector's liabilities towards households totalled PLN 242.8 billion<sup>2</sup>, up by 10.0% from December 2005.
- The continuing good financial standing of businesses was reflected in the growing funds in the bank accounts of institutional clients. At the end of 2006, they went up to PLN 175.3 billion (up by 22.1% from the end of December 2005).

### ***Financial Results of Banking Sector***

At the end of December 2006, the assets of commercial banks in Poland reached PLN 683.9 billion, up by 16.1% over the year.

According to the preliminary data, net profit of the banking sector in 2006 totalled PLN 10.7 billion, up by 17% from 2005. Unlike the previous years when reductions of operating costs and risk costs were the main growth engine, in 2006 the financial results went up as a consequence of revenue growth. Revenue was growing along with the increase of commercial volumes, which were accompanied by movements in the balance-sheet structure (towards higher-rate credit receivables from private individuals on the assets side; and towards the increase of current deposits on the liabilities side), as well as an increase in the sales of investment and insurance products. The banks' revenue from dividend paid out by subsidiaries also increased considerably.

The growth rate of the banks' profits in 2006 was slowed by rise of operating costs. In particular, increase was observed in terms of staff costs mainly as a result of the growing number of employees; increase of mean salaries (in view of growing competition to win high-class specialists, among other things) and growing costs of incentive systems. Banks also made considerable outlays to adapt the IT- and reporting systems to the requirements of the CRD directive.

The quality of credit portfolios of banks significantly improved over 2006. In December 2006, irregular loans represented 7.4% of the banks' credit receivables (vs. 11.0% at the end of 2005). Apart from the dynamic increase of credit exposure, the credit portfolio quality was also helped by better economic and financial standing of the clients, changes to the receivables structure, whereby the share of less risky real estate loans increased in the total exposure; actions taken by certain banks to streamline their balance-sheets, including: writing-off of loss loans to off-balance sheet records or sales of debt claims portfolio to securitisation funds.

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<sup>1</sup> Total deposits for the following subsectors: enterprises, non-monetary financial institutions, non-commercial institutions operating for households, local government institutions, social securities funds.

<sup>2</sup> Including deposits above 2 years.

### Development of Bank Outlets

With considerable growth potential of retail banking, the upward trends in terms of the number of employees and of bank branches, which started in 2005, continued over 2006. The number of branches and employees went up primarily in the dynamically-growing mid-sized retail banks operating on the housing and consumer loans market.

### Legal Environment

In March 2006, the Banking Supervision Commission issued Recommendation S on best practices in terms of credit exposures secured with mortgages. The Recommendation contained numerous qualitative requirements concerning FX-loans; the most important one of them being the one providing for higher credit capacity of clients who apply for an FX-loan. Works were also underway to introduce quantitative requirements for FX-exposures to households.

Banks were also preparing to implement the New Capital Accord (Basel II). In the opinion of the banking regulator, upon implementation of Basel II, the solvency ratio of the Polish banks will go down by 1-2 p.p. due to higher operational risk burden being put on banks with a reduced weight of the receivables risk from retail clients. In view of the high solvency ratio levels observed at the moment, most banks should not fret about the adverse impact of the New Capital Accord on their ability to expand on the credit market.

### Polish Economy in 2000–2007

Specification	2000	2001	2002	2003	2004	2005	2006	2007F
(%) GDP growth	4.0	1.1	1.4	3.8	5.3	3.5	5.8	6.0
Budget Deficit (% of GDP)	-2.0	-5.3	-5.0	-4.5	-3.9	-2.5	-1.5	-3.4
Money Supply M3 (in PLN billion)	300.8	328.4	321.6	339.8	369.5	412.5	477.1	543.9
(%) Increase of Industrial Output	7.1	-0.2	1.5	8.7	12.3	3.7	12.0	10.4
(%) Inflation (CPI) (annual average)	10.1	5.5	1.9	0.8	3.5	2.1	1.0	1.8
(%) Unemployment rate	15.1	17.5	18.0	20.0*	19.1*	17.6	14.9	12.7
PLN/USD exchange rate (year-end)	4.1432	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.8462
PLN/EUR exchange rate (year-end)	3.8544	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.7000
3M WIBOR (year-end)	19.45	11.91	6.87	5.60	6.64	4.60	4.20	4.20

\* Upon the inclusion of the number of individual farmers pursuant to the results of the 2002 National Census of Population and Households and the 2002 General Census of Agriculture.



## II. STRATEGIC LINES OF ING BANK ŚLĄSKI S.A. DEVELOPMENT

In 2006, ING Bank Śląski S.A. was consistently implementing the strategic directions set out in 2004. Main strategic targets of the Bank:

- Reinforcement of the market position via harmonious development of basic operational areas, that is: retail banking, wholesale banking, and financial markets. The Bank's operations on these markets is expanded by supporting the sale of priority products, such as: savings accounts (OKO), mortgages, credit cards, asset-based lending and FM products.
- Meeting the shareholders' requirements as regards the growth of the company's value, accompanied by sustaining the strategic balance, i.e. taking account of needs of other stakeholders (clients, employees) in the Bank's business as well.

Implementation of strategic tasks of ING Bank Śląski S.A. is based on the activities aimed at building long-lasting and valuable relations with the clients. The Bank's mission is to assist its clients in managing their finances. The Bank operates under the motto *Each client adds value and gets value*. To ensure beneficial co-operation, the Bank regularly analyses clients' needs, creates the product offer that meets the expectations of individual segments (both in terms of their attributes and price) as well as develops the multi-channel distribution system. The vision of ING Bank Śląski S.A. comprises the following five elements:

- *To follow a client-centric approach.* Each element of customer service is provided in a transparent and candid manner. The Bank wants the client to understand the offer and realise the relative risks. The client is aware of all terms and conditions from the moment the offer is placed; the services are provided in a candid manner, they are clear for the client, with no strings attached and with full functionality without additional costs for the client. The Bank offers its clients products and services that are best suited to their needs and financial objectives.
- *To maximise added value.* The Bank understands added value as the difference between the income and costs related to the service of a specific client group. By using assorted distribution channels adapted to the needs of the individual clients, the Bank is able to manage effectively the costs of their service, and thus maximise the added value.
- *To promote sustainable development.* The Bank endeavours to reach steady growth of profits by stable expansion of client base and gradual increase of volumes while offering products at prices that are attractive for clients. The Bank wants to create stable growth of good-will rather than take advantage of quick wins from offering high-margin products to clients.
- *To strive for service excellence.* It is the Bank's objective to continue improving customer service quality while guaranteeing high security of systems used. ING Bank Śląski S.A. keeps improving processes, simplify procedures and adequate IT tools to establish new standards of customer service. The Bank continues works to optimise the operational activity.

- *To take care about employees.* The Bank attaches great importance to its corporate culture. It is essential for the employees to be actively involved in the implementation of the Bank's strategy, to know their roles in the organisation, to feel a part of the organisation and accept its corporate values as their own. Upgrading the qualifications of the staff and their professional development is one of the main priorities of the Bank.

The position of ING Bank Śląski S.A. in the Polish banking sector is reinforced by harmonious, organic development on basic markets of banking services. The Bank is not planning any major capital investments in the nearest future. The main projects that support the Bank's development on these markets include:

- Retail banking – reconstruction of the credit process and revised approach to credit risk; continuous improvement of entry products that allow for acquisition of a substantial number of new clients; use of new sales tools (such as: scoring system, new Front-End application, system of marketing campaigns); development of multi-channel distribution system, inclusive of the franchise outlet network and activities aimed at the change of the institution's organisational culture towards the pro-sales approach.
- Wholesale banking – efficient cross-selling to the existing client base; acquisition of new clients from the segment of large and mid-sized corporates; improvement of the asset-based lending offer (ABL); optimisation of the business model for the mid-sized corporates and implementation of the new Internet banking system for corporate clients.
- Financial markets – supporting the sale of Financial Markets products to the current client base; acquisition of new clients; new competitive products; implementation of efficient support systems (inclusive of IT applications improvement).

Investments related to the above projects will be financed from the Bank's own funds. At present, ING Bank Śląski S.A. does not see anything that could pose a threat to the completion of the above projects.

Efficient implementation of strategic targets will also require ING Bank Śląski S.A. to strengthen the institution foundations, in particular in the scope of:

- the Bank's brand with top-quality service as one of the main attributes,
- the organisational structure, based on transparency and clarity,
- structures and procedures that guarantee the proper fulfilment of supervisory requirements.

Therefore, an important tool for the execution of the ING Bank Śląski S.A. strategy will be the implementation of the following projects: creation of a new management information system, efficient system of cost management, actions taken to improve service quality, and full adjustment of procedures to the requirements of Basel II and MiFID.



### III. ING BANK ŚLĄSKI S.A. ON THE BANKING MARKET IN 2006

#### Sources of Financing – Deposit Base

Over 2006, ING Bank Śląski S.A. reinforced its good position on the deposit market. At the end of December 2006, the total value of funds accumulated by Bank amounted to PLN 36,338.3 million, up by 17.3% from December 2005. According to estimates, the deposits at the Bank represented 8.6% of the total value of funds deposited with the banking sector (up by 0.2 p.p. from the end of 2005).

ING Bank Śląski S.A. recorded particularly good results on the market of household deposits. As at the end of December 2006, household deposits at the Bank totalled PLN 21,274.5 million. The balance of household deposits at ING Bank Śląski S.A. increased by PLN 2,123.5 million from December 2005, which represented an increment by some 12% of the value of funds deposited by households in the entire banking sector.

The Bank was particularly successful on the household deposits market as a result of consistent implementation of the strategy for deposit acquisition, in force as of mid-2004. In line with this strategy, ING Bank Śląski S.A. aims at maintaining high attractiveness of the Open Savings Account, which is the Bank's key deposit product. At the same time, the Bank ensures support of that product's sales in the form of extensive marketing campaigns. The marketing highlights of 2006 were two nationwide campaigns for the Open Savings Account that employed a wide range of marketing tools, such as: TV spots, Internet banners, press announcements, leaflets and stands at the Bank's branch.

**Table. Deposit structure of ING Bank Śląski S.A.**

	31.12.2006	31.12.2005	31.12.2004
Households	21,274.5	19,151.0	15,101.0
Business entities	10,389.3	8,519.2	9,089.0
Financial entities (other than banks)	3,146.4	1,911.1	1,165.4
Entities of the sector of central and local government agencies	1,528.1	1,384.5	1,195.1
<b>Total</b>	<b>36,338.3</b>	<b>30,965.8</b>	<b>26,550.5</b>

#### Credit Operations

Actions continued by ING Bank Śląski S.A. for many months in order to revive the lending brought about the first visible results in 2006.

At the end of December 2006, the total value of loans and other receivables of ING Bank Śląski S.A. from clients amounted to PLN 13,082.6 million against PLN 10,026.1 million in December 2005 (up by 30.5%). With those results, the Bank kept its position on the credit market and held a 3.8 per cent share in the total credit receivables of the entire banking sector in December 2006.

The biggest growth in 2006 was related to the Bank's credit receivables from institutional clients.<sup>3</sup> In December 2006, they amounted to PLN 10,253.6 million, up by PLN 2,564.8 million (or 33.4%) from December 2005. The Bank's credit exposure towards the clients from all corporate market segments went up.

The expansion of ING Bank Śląski S.A. on the household loans market was considerably hindered due to the lack of currency-denominated loans in the offer addressed to retail clients. It limited in particular the possibilities of growth of the Bank's credit exposure on a very dynamically growing market for housing loans. According to the NBP data, in 2006 the receivables of the banking sector due to housing loans increased by 54.1%. Loans denominated in foreign currencies represented approx. 65% of the incremental value of housing loans.

**Table: Structure of loans and other receivables from the clients of ING Bank Śląski S.A.**

	31.12.2006	31.12.2005	31.12.2004
Households	3,527.6	3,138.5	3,262.6
Business entities	7,264.2	6,167.7	6,864.4
Financial entities (other than banks)	2,010.5	829.2	529.2
Entities of the sector of central and local government units	668.6	426.0	386.4
Other receivables	310.3	265.9	270.0
Impairment write-off	-698.6	-,801.2	-793.1
<b>Total</b>	<b>13,082.6</b>	<b>10,026.1</b>	<b>10,519.5</b>

## Retail Banking

### *Product Offer and Changes Introduced*

ING Bank Śląski S.A. offers its individual clients a state-of-the-art and comprehensive range of products, which covers maintenance of personal accounts; clearing-, deposit- and credit products; bank cards (debit-, credit- and pre-paid cards) as well as products and services of other ING Group members, such as: mutual funds, lease- and broker services.

The personal Lion Accounts, the OKO Open Savings Accounts, mortgage loans and credit cards play major role in establishing long-term relationships with the clients.

The product offer of ING Bank Śląski S.A. addressed to private individuals was completely revamped in 2005, and the main changes in terms of products introduced over 2006 involved the following:

- Introducing a special pricing offer for new deposits to the Open Savings Accounts. As part of a marketing campaign run under the theme "Money Loves Interest", the Bank offered its clients higher interest rates on funds deposited to OKO accounts between 8 May and 23 June 2006.
- Rendering available the special offer for the clients from the small business segment (medical and legal professionals), which consists, among others, in offering preferential terms of current-account opening.

<sup>3</sup> In total for the following sub-sectors: corporate, non-commercial institutions operating for households, non-monetary financial institutions, local government institutions and social security funds.

- Modification of the credit offer, including improvement of the occasional loan by extending its tenor from 12 to 24 months; introduction of the refinancing loan; improving the attractiveness of overdraft facility in the Lion Account by relating the interest rate to the overdraft amount.

To ensure the widest range of savings products available on the market, allowing the clients to pursue their individual investment preferences, in 2006 the Bank intensified co-operation with other members of ING Group by:

- Offering in its distribution channels the ING Umbrella Specialist Open-end Investment Fund with five sub-funds of differentiated investment strategies. Investors who deposit their savings in umbrella funds are offered new possibilities of mitigating the tax burden, and thus gain higher yield on their investments.
- Holding subsequent subscriptions of structured products in co-operation with ING Nationale-Nederlanden Poland: Term Investment Deposits and Insurance Investment Deposits. These products – previously offered to up-scale clients – were presented to a wide range of individual clients.
- Preparing the sales campaign of direct sales of additional insurance to the Lion Account and Open Savings Accounts, in co-operation with ING Nationale-Nederlanden Poland.

The Bank also changed the principles and procedures for servicing individual clients in several core areas of activity. It is worth to note several pre-scoring campaigns that were completed for the very first time (including but not limited to the pre-scoring campaigns for the overdraft facility in the Lion Account, or the Spring Cash Loan); the campaigns involved full assessment and verification of client's credit capacity, and giving a firm decision prior to sending a credit offer to the client. The new solution helped simplify the processes, minimise the formalities and cement the relationship with clients as clients received an offer guaranteed by the Bank.

Furthermore, ING Bank Śląski S.A. prepared and approved standard principles for the hard pre-scoring campaigns and for taking automated credit decisions with regard to clients applying for a credit product. Implementing these solutions on a wide scale will certainly improve the quality of customer service, as clients will have to visit a bank branch only once.

As part of its retail activity, ING Bank Śląski SA also services small businesses. In accordance with the rules in force at the Bank, the small business segment comprises both sole traders, partnerships and companies, as well as non-profit organisations with annual income from net sales or annual disposable budget worth up to EUR 800,000.

The offer addressed to small businesses was thoroughly re-organised and simplified in 2005, and it consists of the following products: Small Business Lion Account; Small Business Open Savings Account; term deposits and credit products, such as a credit line in the current account addressed to small businesses, and a special cash loan, which combines the features of an investment loan and a working capital loan, addressed to that segment.

In 2006, the clients from the small business segment were granted simplified access to the Bank's clearing and deposit offer, as the Bank started to sell the Lion Accounts to small businesses through external sales structures (intermediaries). With these solutions in place clients can open an account without having to visit a branch at all. As of April 2006, small businesses may also get their accounts opened at franchise outlets. In May, the Bank offered a

special pricing for the Small Business Lion Accounts, whereunder the maintenance fees were waived for new clients for a specific period of time. The special pricing offer was available as part of a larger campaign for the Small Business Lion Accounts.

As regards the credit service of small businesses, ING Bank Śląski S.A. focused its efforts on activating lending to that segment and further improvement of the quality and efficiency of the credit process. Notably, the Bank has:

- implemented a new application to expedite and improve the credit process, and considerably lower operating costs,
- changed the manner of assessing the credit risk in order to improve the availability of loans for small businesses, as well as conducted a pre-scoring sales campaign for the Bank clients,
- enhanced the offer of investment loans for housing co-operatives.

The quality of service of small businesses at ING Bank Śląski S.A. also improved as a result of simplifying and automating most of the product processes in all distribution channels and introducing new principles of in-branch service of small businesses (notably: designating groups of Sales Advisers dedicated to acquiring new clients and assisting the top ones).

### ***Service of Up-scale Customers***

Up-scale clients of ING Bank Śląski S.A. can select from a wide array of deposit-, investment- and credit products. Some of the products are offered in close co-operation with other members of ING Group in Poland and with third parties.

One of the major events in 2006 was the closing of the project to open 30 state-of-the-art Private Banking Centres; the process started in the fall of 2005. The new Private Banking Centres meet the market standards for the service of up-scale clients, and they are located on a separate space within a branch. Each Centre has special meeting rooms that provide clients with full privacy and high comfort of service.

Responding to the needs and requirements of the most affluent clients, the Bank opened the first Private Banking Investment Centre in Warsaw for clients whose disposable assets total at least PLN 1 million. Clients who take advantage of the services provided by the Centre have direct access to forward transactions on FX markets, the asset management portfolio customised to the client's requirements and credit facilities offered on flexible terms and conditions.

With the establishment of the Private Banking Centres, the role of the Private Banking Adviser also changed. The key task of the Advisers is to assist the client in the creation of their long-term financial strategy. The Adviser's role also includes the creation of investment portfolios that best match the clients' expectations, but also allow for ongoing management of funds. As each Private Banking Advisor has a company car at his/ her disposal, they can easily meet the clients at their convenience, even outside the premises of the Private Banking Centre.

The next step to improve the quality of services rendered for up-scale clients was starting to certify the Private Banking Advisers. All Advisers underwent intensive training programme, which covered topics related to capital markets, law, sophisticated financial instruments; the training and was followed by an external examination to test the financial and specialist knowledge of each Adviser. The certificate will prove that its holder has adequate expertise and competencies to provide top quality advising services.

Changes introduced in terms of up-scale clients service in 2006 brought a nearly 50 per cent increase in the number of Private Banking clients, and a nearly 100 per cent increase of assets entrusted to the Bank by up-scale clients.

The client loyalty survey conducted among the Bank's up-scale clients showed that the clients were highly satisfied with the Bank's services, and also very loyal to ING Bank Śląski S.A. Based on that survey, and an analysis of the private banking market in Poland, the Bank decided to change the criteria for classifying the client as a Private Banking one. Starting 2007, any client who holds at least PLN 200,000 in assets at the Bank can take advantage of the services of our Certified Private Banking Adviser.

### ***Development of Housing Finance***

Pursuant to the lending policy in force, housing needs financing is one of the priority lines of ING Bank Śląski S.A. operations. The Bank focuses on PLN-mortgages.

Such dynamic growth of the Bank's exposure due to PLN-mortgages resulted primarily from numerous modifications, which were introduced to make the offer more attractive and flexible, the credit processes more effective, and the mortgages more available to the clients. The most important changes included:

- Conducting two promotional campaigns for PLN mortgage loans. As part of the spring campaign, the Bank issued certificates to clients that guaranteed special terms of mortgages drawn down by the end of 2006. The most attractive features of the campaign included special pricing conditions in terms of commission; a guarantee of obtaining an attractive interest rate on the loan; assistance of advisers in completing the credit documentation and making certain formalities. During the fall marketing campaign, clients were guaranteed mortgages on special terms if they applied by the end of 2006.
- Improving the mortgage loan by: changing the manner of verifying the clients liabilities; introducing a possibility of opening mortgage line to repay other liabilities; expanding the group of clients in pension age who may apply for mortgage loans, specifying the manner of assessing credit capacity of clients who run a business activity and pay taxes on a lump-sum basis.
- Introducing a pilot programme to test the Group Life Insurance Policy for borrowers applying for mortgage products (as part of an agreement between ING Bank Śląski S.A. and ING Nationale-Nederlanden Poland).
- Launching mortgage products indexed with CHF in order to enhance the mortgage products offer and improve the image of ING Bank Śląski S.A. as a specialist in financing of individual clients in terms of real estate needs. The new offer of mortgage loans and cash loans indexed with CHF, which was introduced as of 1 July 2006, was of auxiliary nature and was supposed to support the PLN-mortgage offer. The products are addressed to Personal and Private Banking clients only.

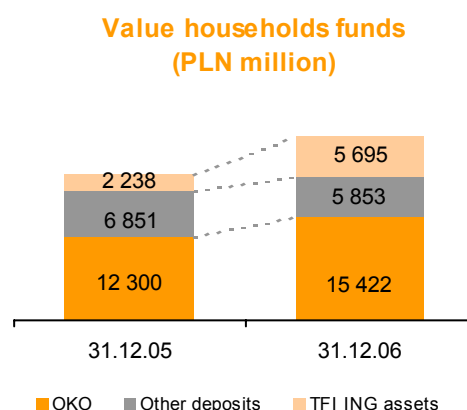
At the end of 2006 ING Bank Śląski S.A. was also preparing to conclude an agreement with Bank Gospodarstwa Krajowego regarding preferential loans in keeping with the Financial Assistance to Families in Own Apartment Purchase Act.

### Deposit Activity

As at 31 December 2006, household deposits at ING Bank Śląski S.A. totalled PLN 26,970 million, up by PLN 5,581 million, or 26.1%, from December 2005.

Banking deposits formed their major part. They reached the level of PLN 21,275 million (up by 11.1% from December 2005). At the end of 2006, household deposits accumulated at the Bank represented 8.8% of the total household deposits in the banking sector (vs. 8.5% in December 2005).

The results reported in terms of acquisition of funds from retail clients confirm efficiency of the actions taken by ING Bank Śląski S.A. as part of its deposit acquisition strategy. The Bank was particularly successful in terms of growth of funds in the OKO Savings Accounts (OKO). The value of funds deposited in OKO accounts went up from PLN 12,300.1 million in December 2005 to PLN 15,421.8 million (up by 25.4%).



To provide the clients with a wide array of savings products, ING Bank Śląski S.A. also distributes units of ING TFI investment funds via its distribution channels. At the end of December 2006, net assets of ING TFI acquired via intermediation of ING Bank Śląski S.A. totalled PLN 5,695 million (vs. PLN 2,238 million at the end of 2005). It represented approximately 55% of the value of retail assets of investment funds managed by ING TFI.

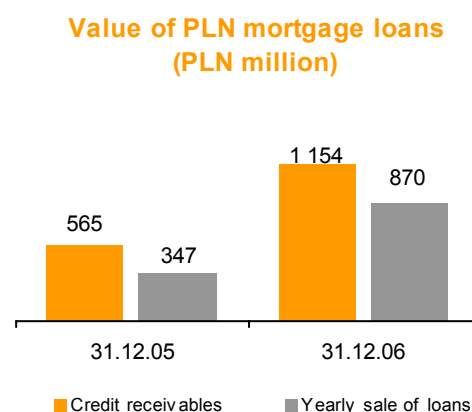
At the end of December 2006, ING Bank Śląski S.A. maintained 1,035,500 personal accounts compared with 1,002,100 at the end of 2005 (up by 3.3%). The net growth in the number of those accounts was the consequence of the continued closure of inactive accounts, accompanied by a dynamic increase of new personal accounts. In 2006, the Bank opened 170,600 new Lion Accounts for individual clients.

### Lending

As at the end of 2006, household credit receivables of ING Bank Śląski S.A. totalled PLN 3,527.6 million. The Bank held a 1.9%-share in household credit receivables of the banking sector. Over 2006, the Bank's credit exposure towards households went up by PLN 389.1 million, or 12.4%.

The growth rate of lending to households at ING Bank Śląski S.A. was mainly determined by the adopted credit policy, whereby retail clients were offered mainly loans in PLN, while the clients preferred FX-loans (especially in terms of housing loans that report the most dynamic development).

The PLN mortgage loans play a major role in activating the Bank's lending to households as they do not pose any FX-risk (which is beneficial to both borrowers and the Bank). In





December 2006, credit receivables of the Bank due to PLN-mortgage loans totalled PLN 1,153.8 million against PLN 564.6 million at the end of 2005.

The Bank's exposure towards small businesses also rose considerably. In December 2006, those receivables totalled PLN 587 million (up by 26.8% from a year earlier).

### **Bank Cards**

ING Bank Śląski S.A. offers to individual clients: debit cards (Maestro and VISA Electron), embossed credit cards (MasterCard, VISA Classic and VISA Gold) and Maestro pre-paid cards (such as the Gift Card, the Traveller's Prepaid Card, the Gift Vouchers, etc.). For the small business segment ING Bank Śląski S.A. issues debit cards (Maestro Business), charge cards (VISA Business and Eurocard/MasterCard Business Gold) as well as prepaid Maestro ones (e.g. Business Trip Card).

Over 2006, ING Bank Śląski S.A. considerably expanded its offer of bank cards for retail clients by introducing the following products:

- Orange VISA Credit Card addressed to people who have lower incomes (starting as low as PLN 700 net per month).
- My ING Card – ING Bank Śląski was one of the first banks on the market to introduce the customisation service, whereby individual clients are given the ability to personalise their debit cards. The My ING Card service is offered to individual clients and available for debit cards issued by VISA Electron, Maestro and Maestro in euro.
- VISA pre-paid i-Card for small business – the first card of that type in Poland and one of the first ones in Europe. The main advantage of that cut-out and semi-translucent card is that it gives its user the ability to pay for goods and services both on the Internet and in merchants that honour VISA cards.
- Cashback service for selected debit cards whereby clients are given the ability to withdraw cash (up to PLN 200) at retailers or service providers while making payments with their cards. This service increases the availability of funds in personal accounts.

Works were also underway to implement a platinum credit card addressed to the Private Banking clients.

By the end of December 2006, ING Bank Śląski S.A. issued 1,557,700 payment cards<sup>4</sup>.

Credit cards are among the strategic products of the ING Bank Śląski S.A. retail offer. The Bank puts emphasis on the sale of embossed credit cards, which are safer and in wider use, such as: Visa Classic, Visa Credit Gold and MasterCard Credit. Altogether, by the end of 2006, the Bank issued 152,300 credit cards, including 144,100 embossed ones.

## **Corporate Banking**

### **Product Offer and Changes Introduced**

ING Bank Śląski S.A. provides corporate clients with a comprehensive offer of banking services and products, which is being improved on an ongoing basis.

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<sup>4</sup> In accordance with the NBP data on the number of cards issued, at the end of December 2006, ING Bank Śląski held a 6.5%-share in the total number of payment cards.

The Bank offers a wide range of deposit products addressed to corporate clients, such as: current accounts in PLN, USD and EUR (including the Pro-Business and Pro-Business Plus packages), a consolidated account, savings products, PLN standard deposits, and also non-standard deposits in PLN, EUR and USD, as well as deposit products of investment nature (the Investment Term Deposit).

The Bank's deposit offer is accompanied by a wide range of clearing services, including: Mass Payment Identification System (SIMP), cash collection, direct debit and Business-to-Business Direct Debit (GOBI). The clearing products based on electronic banking allow for the effective payment management, thus improving the efficiency of corporate finance management.

In 2006, ING Bank Śląski S.A. launched many innovative products in the area of liquidity management, payments and cash handling of corporate clients. The car collection service was rendered available, among other things. It is a service consisting in collection of sealed cash deposits from the client's office by a transport company and their delivery to the place specified by the client. An Electronic Withdrawal System was another service added to the Bank's offer. It enables clients to send an electronic cash withdrawal instruction to the Bank. In future, this solution will provide for elimination of costly and labour-intensive cash cheques.

The ING Bank Śląski S.A. credit offer for corporate clients covers the following among other things: overdraft, a working capital loan, a cheque loan, an investment loan, an indexed loan, a loan to finance export receivables insured by KUKA S.A., preferential loans with subsidies from the Agency for Modernisation and Restructuring of Agriculture as well as loans for financing of the projects connected with the EU structural funds. The offer of traditional loans is supplemented with other forms of business funding, including leasing, factoring and finance of commercial properties.

In 2006, ING Bank Śląski S.A. focused on actions aimed at improving its offer of specialist forms of funding (such as: factoring, leasing, or finance of commercial properties). The Bank offers these services in close co-operation with other members of ING Group.

- Based on nearly one year of experience in offering lease products of ING Lease through its Corporate Sales Network, the Bank modified the model of co-operation with the company, as well as its credit- and pricing policy concerning leasing. At the end of the year, the Bank offered clients fast-track movables lease.
- In the early months of 2006, the Bank took efforts to prepare for offering the products of the second largest factoring company in Poland, ING Commercial Finance (formerly known as Heller-Handlowy). As part of these efforts, the Bank conducted thorough training for the employees of the Corporate Sales Network, the representatives of the risk and support forces. The Bank started to offer factoring solutions in spring 2006, and the results generated by the yearend show considerable interest in the new possibilities of business funding among clients.
- The Bank entered into a new stage of co-operation with Śląski Bank Hipoteczny, which – in accordance with the new strategy – is ING Excellence Centre for commercial property finance in Poland. Under the new strategy, the Corporate Sales Network of ING Bank Śląski S.A. is the major distribution channel for the products of ŚBH. In order to increase the credit exposure, the Bank reconstructed thoroughly the credit process, and the new solution was tested in selected Regions of the Bank.



In response to the increasingly larger demand of companies for long-term funding, the Bank considerably modified its credit investment offer. The Bank launched a supplementary investment loan and simplified the procedures for granting refinance and reinvestment loans. Introduction of 1-5Y working capital loans, loans for the bill of exchange and improvement of the credit line for the holders of ProBusiness and ProBusiness Plus Package proved conducive to intensification of lending by the Bank on the corporate market in 2006.

ING Bank Śląski S.A. also offers custody services. These are purchased primarily by home investment and pension funds, insurance institutions and client assets management companies. The Bank also co-operates with Polish brokerage houses and renders custody for foreign financial institutions and, notably, for global custodians and international brokers and dealers.

### ***Changes in the Principles of Client Service***

In 2006, the principles of service of clients in the corporate sales network were significantly modified. The changes pertained to service of large and mid-sized companies and consisted, first of all, in:

- Reorganisation of the operational model for corporate clients. As part of these activities, the Bank reallocated some client service-tasks to Regions; in April 2006, it established 13 Corporate Clients Support Sections.
- Commencement of modification of the processes related to offering of deposit products and electronic banking services. As a result of changes made, the share of paper transactions in the total number of operations dropped considerably.
- Enhancement of credit service by standardisation of credit documentation, revision of the credit policy and redefinition of credit processes (to define new, simpler and more effective procedures).
- First introduction of the sectoral approach in the corporate sales network. Under an extensive project, in 1H2006, the Bank launched new solutions (as a pilot programme) in the Region of Opole; towards the yearend, the Region of Gdańsk joined the project.

A new Procedure of Client Identification and Acceptance for Corporate Banking (Customer Due Diligence, or CDD) was also implemented. It should be of a significant impact on fostering and sustaining the relationship with clients. Its implementation signified fulfilment of the requirements of the Basle Committee for Banking Supervision (Basle II) and the EU Directive.

The Bank continued to attach great importance to the service of European Union programmes. As part of its efforts in that area, the Bank:

- Continued training programmes for Account Managers regarding the available aid funds, including in particular the Financial Mechanism of the European Economic Area and the Norwegian Financial Mechanism.
- Participated in meetings and conferences organised for business entities where it presented its offer of financing sectoral projects subsidised with aid funds.
- Co-operated with institutions managing or implementing the individual EU programmes and with the Polish Banks Association in terms of advising the operational projects for the years 2007-2013 and the banks' role in the future financial EU perspective for the period 2007-2013. The Bank was involved, among other initiatives, in the works of the PBA working group on a new project to adapt the

principles of preferential loans extension to the EU requirements and on the 2007-2013 Rural Area Development project.

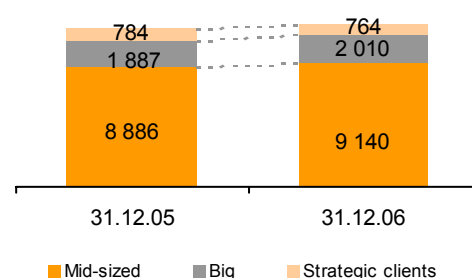
### Deposit and Clearing Activity

As at 31 December 2006, the value of institutional clients' deposits<sup>5</sup> in the Bank totalled PLN 15,063.8 million. It is estimated that in December 2006, ING Bank Śląski S.A. held a 8.8%-share in the market of institutional clients' deposits (i.e. up by 0.2 p.p. from a year earlier).

Increase of the value of deposits of institutional clients at ING Bank Śląski S.A. over 2006 was in major part the consequence of growth of the corporate clients base (up by 358 clients over the year) and improved financial standing of the companies using Bank services.

A dynamic increase of the funds in the accounts of the corporate sales network clients; in other words: the clients of big and mid-sized companies, deserves special attention. Their share in the structure of corporate deposits went up from 49.4% at the end of 2005 to 51.0% in December 2006.

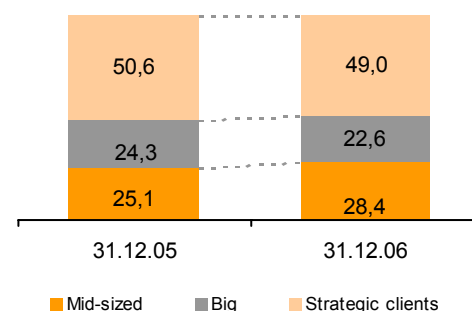
Number of corporate clients



Keeping the clearing and deposit offer of ING Bank Śląski S.A. very attractive resulted in an increase of the number of current accounts held by corporate clients. For instance, in December 2006; 5,809 Pro-Business packages were held by the clients from the segment of mid-sized companies, up by more than 12% from the end of 2005. Corporate clients also showed more and more interest in electronic distribution channels and state-of-the-art clearing systems, reflected by the following:

- the number of clients with access to Internet banking grew from 6,400 in December 2005 to 12,300 in December 2006,
- the number of Mass Payment Identification System installations for the companies co-operating with numerous off-takers (such as insurance companies, power supply plants and mobile telecommunications companies) went up from 179 at the end of 2005 do 241 in December 2006.

Structure of corporate deposits (in %)



### Lending

As at the end of December 2006, credit receivables of ING Bank Śląski S.A. from institutional clients<sup>6</sup> totalled PLN 10,253.6 million versus PLN 7,688.8 million in December 2005 (up by 33.4%). With lending growing twice as fast as in the banking sector, at the end of

<sup>5</sup> Figures cover the Bank's liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, social security institutions.

<sup>6</sup> Figures cover the Bank's receivables from: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, social security institutions.

2006, the Bank held a 5.8%-share in the market of institutional loans (5.1% in December 2005).

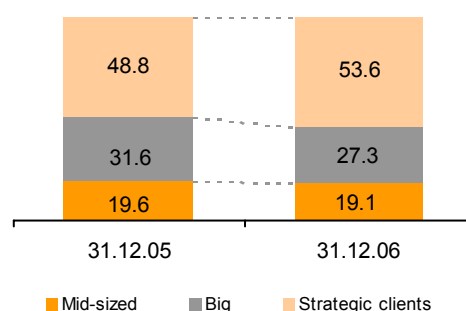
ING Bank Śląski S.A. was able to improve its position on the institutional client loans market thanks to:

- the actions it had performed for two years to improve the efficiency of credit products, including shortening the process of credit application service,
- making the Bank's conservative credit policy more lax with regard to business from selected industries,
- increase in the businesses' demand for loans due to certain revival in the investment area.

In 2006, the credit exposure of ING Bank Śląski S.A. went up in all segments of corporate clients. Bank's lending to the clients from the strategic segment showed a particular growth rate (up by 48% over a year).

The highlight of 2006 was the participation of ING Bank Śląski S.A., together with ING Bank N.V., Citibank and Bank Handlowy in Warsaw, in the organisation of long-term funding, involving project finance, for Power Plant BOT Bełchatów. The project totalled EUR 879 million, and was awarded the prestigious title of the "European Power Deal of the Year" by the international sectoral monthly *Project Finance Magazine*.

Structure of corporate loans (in %)



Throughout 2006, ING Bank Śląski S.A. increased its credit exposure S.A. due to the service of EU aid programmes. As at the end of December 2006, the total value of loans extended and the value of promises of EU loans amounted to PLN 834.3 million (PLN 633.2 million at the end of 2005).

## Money and Capital Market

As far as financial markets are concerned, in 2006 – by analogy to previous years – ING Bank Śląski S.A. focused specially on developing operations with clients. First of all, the Bank strove to enlarge the group of FM products users with the clients from the segment of large and mid-sized companies and individual affluent clients.

In 2006, the Bank extended its offer of FM products available to clients by launching: structured forward transactions, repo transactions on T-bonds, dual currency deposits with the threshold (DCD) and an Asian option.

To carry out its sales tasks on the financial markets, the Bank additionally:

- liberalised in mid-2006 its policy for FM products limits,
- upgraded the expertise and specialist competencies of dealers,
- introduced a new incentive system for exceeding sales tasks,
- trained all Relationship Managers from the corporate sales network in FM products.

In 2006, ING Bank Śląski was classified by the National Bank of Poland on the first position as regards the Dealer Activity Index (IAD). Thus, it was placed on the 2007 Money Market Dealers List. In the competition of the Ministry of Finance for the function of the Treasury Securities Dealer in 2007, which lasted from early October 2005 to the end of September 2006, ING Bank Śląski was classified on the eighth position.

In 2006, ING Bank Śląski S.A. intensified its business in terms of servicing issuers, by implementing, among other things, the new principles of service of clients in respect of non-public trading in debt securities. After a few-year break, the Bank recommenced operations on the market of municipal bonds as a result of establishment of issue programmes for the Radzionków and Niepołomice communes. Furthermore, there were launched two issue programmes of Deposit Certificates – for AIG Bank Polska S.A. and VW Bank Polska S.A. Their structure took account of the outsourcing-related modifications in the banking law while establishing the market standards for service of programmes of issue of bank securities.

ING Bank Śląski S.A. is also an active participant of the short-term debt papers market. In 2006, it held, among others, the record in terms of value programme of bonds issue for PKN Orlen. In December 2006, the Bank was classified on the sixth position with the share of 7.5% in debt due to the issue of short-term debt papers.

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

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

Over 2006, the composition of ING Bank Śląski S.A. capital group did not change and as at 31 December 2006 the group was formed – apart from the dominant entity – by the following companies:

- ING Securities S.A.,
- Śląski Bank Hipoteczny S.A.,
- ING BSK Development Sp. z o.o.,
- ING Nationale-Nederlanden Polska PTE S.A.,
- Solver Sp. z o.o.,
- Centrum Banku Śląskiego Sp. z o.o.

ING Bank Śląski S.A. capital group consists of entities, whose business is of key significance in pursuit of its development strategy. They operate in various segments of the financial market or in its infrastructural zone. As a parent company of the capital group, ING Bank Śląski S.A. takes key decisions pertaining to both the operations and financial matters of the entities forming the group by fulfilling the control functions in the supervisory authorities of those companies. Their business is strictly co-ordinated, and capital interconnections are often strengthened with the trade relationships and concluded contracts. The companies being part of the capital group hold current accounts at ING Bank Śląski S.A., and also deposit their free funds on term deposits. The Bank also lends funds to the business of some companies (Centrum Banku Śląskiego, Śląski Bank Hipoteczny). The transactions of ING Bank Śląski S.A. with subsidiaries are performed on an arms' length basis.

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

ING Securities S.A. is one of the largest brokerage houses in Poland. In 2006, it held the following shares in transactions of the Warsaw Stock Exchange:

- stock market<sup>7</sup> – 10.6% (fourth position),
- bond market – 3.2% (fifth position),
- futures market – 5.7% (sixth position),
- option market – 13.0% (third position).

The Brokerage House of ING Bank Śląski S.A. services investors' operations, both on the Warsaw Stock Exchange and on the largest world financial markets, including but not limited to New York, Chicago, London, Paris and Frankfurt. The offer covers all capital market products available for individual investors in Poland, notably: brokerage in stock exchange transactions, OTC and in foreign markets, investment loans, securities lending, analytical service, investment recommendations, assets management, and sales of participation units of the mutual funds.

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<sup>7</sup> Trading in stocks and stock rights.

At the end of December 2006, ING Securities S.A. maintained 40,100 investment accounts, including 7,400 Internet ones.

In 2006, the organisation of and the access to services offered by the brokerage house of ING Bank Śląski S.A. were improved as a result of:

- enriching the Internet application with basket orders, defined by the clients themselves and based on the key stock exchange indexes,
- signing an annex to the agreement with ING Bank Śląski S.A. on the acquisition of the Bank Private Banking Customer Relationship Managers for the services of ING Securities S.A.,
- modifying the co-operation model of recommending brokers, namely the extension of the scope of services with the proposals to purchase securities of companies displayed on the list of “companies of interest”,
- making changes in regard to the service of the loan for securities purchase (the product offered in co-operation with ING Bank Śląski S.A.),
- establishment of the Telephone Service Centre within the Brokerage House’s structure and the implementation of the system for monitoring and control of the agents’ operation within the said Centre (CMS),
- offering the Direct Market Access (DMA) service, in co-operation with ING London and using its own access to the Securities Stock Exchange, for foreign brokers interested in direct access to the Polish stock market,
- launching the implementation of a new project providing for services to be rendered via an investment company, agents (in 2006, two agents commenced their activities).

The efforts made by the brokerage house in order to improve the quality of investor service were appreciated by the market. In 2006, ING Securities S.A. was proclaimed the best brokerage house in Poland in the ranking by the *Forbes* monthly, developed in co-operation with the Association of Individual Investors.

As far as the capital funding is concerned, the Company offers a wide array of services, including: underwriting in the public- or non-public market, maintaining the deposit of non-public companies, acting as the Issue Sponsor, as well as comprehensive financial and legal advisory services connected with the capital funding.

The year 2006 was a record year for ING Securities S.A. in respect of activities for issuers. Over the year, ING Securities S.A. finalised or participated in seven IPOs of the total value of nearly PLN 2 billion, including the first IPOs totalling PLN 1.2 billion. Three of those transactions covered foreign companies.

In 2006, ING Securities S.A. completed, among others, the following projects and transactions:

- It performed the role of IPO underwriter on the stock exchange for:
  - the Ukrainian agricultural & industrial holding, Astarta Holding NV; it was the first offer of an East-European company in Poland (the transaction value: PLN 95 million),
  - the NASDAQ-listed American company, CEDS, the largest distributor and importer of alcoholic beverages in Poland and one of the largest liquor producers (the value: PLN 220 million),



- the FOTA company, the second larger distributor of spare parts for passenger cars and trucks (the transaction value: PLN 100 million),
- the Czech Pegas Nonwovens company during the parallel IPOs on the stock exchanges in Prague and Warsaw (the value EUR 136 million).
- ING Securities S.A. floated the new shares of GTC, one of the leading developers in Poland, of the value of USD 151 million. It was an initial public offering finalised in the process of accelerated book building without drafting the prospectus (the first transaction of that type on the Polish market).
- ING Securities S.A. carried out the first IPO of Cinema International NV, the largest cinema operators in Central and Eastern Europe of the transaction value of PLN 349 million.
- ING Securities S.A. was the broker in the sales of the shares of:
  - GTC owned by EBRD (the value: USD 35 million),
  - Bank Pekao SA owned by LOT (the value: PLN 225 million).
- ING Securities S.A. participated in the offering of the shares of CEME, a company listed in the USA and the Czech Republic.
- ING Securities S.A. was the broker in the purchase of 100% of ORFE S.A. shares for OPG Groep NV.

At the end of 2006, ING Securities S.A. received the award granted by the Securities Exchange for:

- Initial Public Offerings of the largest number of foreign companies on the Warsaw Stock Exchange,
- the first Initial Public Offering of a company from the East Europe,
- the biggest total value of Initial Public Offerings among all brokerage houses in Poland.

In addition, the brokerage house won the third place in the category: *Initial Public Offerings of the largest number of new companies in the year 2006*.

In 2006, ING Securities S.A. generated net profit of PLN 55.4 million compared to PLN 33.1 million a year earlier.

### **Śląski Bank Hipoteczny S.A.**

In 2006, Śląski Bank Hipoteczny S.A. continued the restructuring initiated in the year 2005. It aimed at making ŚBH S.A. the Centre of Excellence in Commercial Real Estate Funding for other entities of ING Group in Poland, operating in that area.

In 2006, the actions relating to the implementation of the business strategy of ŚBH S.A. focused on:

- Re-engineering of the lending processes. Credit decisions are taken in a much shorter time due to the change of the decision-taking process and the establishment of the credit risk rating team.
- Setting out the model of co-operation with the Wholesale Sales Network of ING Bank Śląski S.A. According to the strategy, the wholesale outlets of ING Bank Śląski S.A. represent the most important distribution channel for the products of ŚBH S.A.

- Development of marketing, including the identification of top-priority segments and regions of operation and building its own sales network.

The structures of the mortgage bank also underwent considerable transformation, among others as a result of the introduction of the new organisational structure and the establishment of specialised teams (such as the Risk Team or the Sales Team) and making extensive changes both among the managers and employees.

Over 2006, Śląski Bank Hipoteczny S.A. signed credit agreements totalling PLN 313.5 million. Many of those loans were granted together with ING Bank Śląski S.A., therefore only half of them were recorded in the books of ŚBH. In 2006, ŚBH was gradually building up its position on the market of commercial property financing. As a result of establishing relations with important market players, the average value of lending transactions rose from PLN 2 million in 2005 to PLN 25 million in 2006.

In the year 2007, after the restructuring, Śląski Bank Hipoteczny S.A. will significantly magnify the scale of lending business. Due to the expected enlargement of the scope of co-operation with top clients, most loans will be still granted by the syndicate formed with ING Bank Śląski S.A.

In 2006, Śląski Bank Hipoteczny reported a net loss of PLN 1.0 million (in 2005, it was PLN 0.6 million). The main factors affecting the financial result of ŚBH include: an insignificant build-up of the credit portfolio and relatively high costs of the Bank's restructuring.

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

Centrum Banku Śląskiego Spółka z o.o. is the owner of buildings in Katowice, at 34 Sokolska St. and 50 Chorzowska St. It deals with the lease of space in the said buildings. In total, the Company administers almost 35,000 square metres of office and commercial space.

In 2006, Centrum Bank Śląski was pursuing its policy aimed at maximising the occupancy rate by taking the following actions, among other things: focusing on large tenants, preparing office space ready to move in, taking over the costs of interior design and applying flexible terms of payment, depending on the size of the leased space.

In 2006, as part of the activities aimed at enhancing the attractiveness of the office buildings, the Company continued modernisation works started in the year 2005. The Company also succeeded in including the real property remaining in its possession into the Katowice Special Economic Zone. The entry into the special zone should encourage the potential tenants since by running their business within the zone they would be eligible to receive public aid, in line with the applicable law. The location of the Company's building also became more attractive due to the opening for public use of the cross-regional highway [*Drogowa Trasa Średnicowa*] in Katowice.

The persistent pursuing of the policy resulted in the growth of the share of occupied space vis-à-vis the total space. As at the end of 2006, some 94% of the building's area at 50 Chorzowska was leased. The office building's tenants included large international concerns and the biggest Polish companies such as: Mittal Steel Poland, PKN Orlen, Ernst & Young or Deutsche Bank.



The fairness and diligence in business activities of Centrum Bank Śląski Sp. z o.o. were also proven by the fact of being awarded the title and certificate of the 2006 Fair Play Company.

In 2006, the financial standing of Centrum Banku Śląskiego was sound. The Company recorded growth of revenue from the core business while the costs remained at a stable level. The final net result of PLN 12.9 million was also affected by the Euro exchange rate, determining the costs of service of the Euro-denominated loan, representing a source of financing for the company's core assets and the change in the method of measurement of real properties. By contrast, in 2005 Centrum Banku Śląskiego closed the year with profit of PLN 46.1 million.

### **ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A.**

#### **[ING Nationale-Nederlanden Poland Pension Fund Company]**

ING Nationale-Nederlanden Poland Pension Fund Company manages ING Nationale-Nederlanden Polska Open Pension Fund that was established pursuant to the licence of the Supervision Office over the Pension Funds dated 26 January 1999.

In 2006, positive trends in the business activity of ING Nationale-Nederlanden Polska OFE maintained.

Over 2006, the number of the Fund members grew by 190,600, representing the best result of the Fund since the year 2000 and the best result in the year 2006 among all funds operating in Poland. Good results in terms of an increment of the Fund participants' number were possible due to the fact that 34% of persons selecting the pension fund for the first time chose the pension with ING, and also due to the extreme loyalty of the Fund participants. In 2006, only 8% of pension-fund switchers left ING N-NP OFE. As a result, in December 2006, the number of ING Nationale-Nederlanden Polska OFE participants reached the level of 2,401,100. In terms of the number of participants, the Fund was number two on the market providing services to 19.4% of all participants of pension funds (18.9% at the end of 2005).

High loyalty of Fund members was, first of all, the consequence of very good investment results, the high quality of service and fully-fledged distribution channels. Potential and existing clients of the Fund are provided service by approximately 2,000 Insurance-Financial Representatives and at a few hundred outlets of ING Nationale-Nederlanden Polska S.A. and ING Bank Śląski S.A. Clients can contact the Fund over the phone (infoline, SMS and WAP) and the Internet as well.

In 2006, the acquisition of clients by the Fund was also supported by the nation-wide marketing campaign, launched in television, radio and press. It reminded, among others, about the approaching draw to select participants of the open-end pension funds, emphasised the good investment results of ING N-N OFE and promoted the possibility of joining the Fund via the Internet.

Over 2006, the value of net assets of the Fund grew by approximately PLN 7.5 billion, and as at the end of December 2006 totalled PLN 27.2 billion. With a 23.3% share in the value of net assets of open-ended pension funds (up by 0.5 p.p. from a year earlier), ING Nationale-

Niederlanden Polska OFE was in the second place on the market in terms of assets. Apart from the record contributions transferred from the Social Security Institution (ZUS) – ING N-NP OFE received PLN 3.8 billion, the net assets of the Fund were also growing due to the good management results. The Fund's yield amounted to 16.5%, higher than the benchmark by 23 b.p.

In 2006, ING Bank Śląski S.A received from ING Nationale-Niederlanden Polska Powszechnie Towarzystwo Emerytalne the 2005-profit dividend of PLN 24.6 million.

### **ING BSK Development Sp. z o.o.**

ING BSK Development Sp. z o.o. deals with business and management consulting, proprietary lease and intermediation in real property trading as well as management of real property.

The Company signed an agreement with Centrum Banku Śląskiego Sp. z o.o. to lease the building at 34 Sokolska Street in Katowice with the total functional area of 18,800 square meters for sub-lease. ING BSK Development sub-leases space to such entities as: ING Bank Śląski S.A., ING Securities S.A., ING Lease (Polska) Sp. z o.o. and ING Real Estate Sp. z o.o.

In 2006, ING BSK Development Sp. z o.o. recorded a positive net result of PLN 26,000 (in 2005, it reported a net loss of PLN 44,000.)

### **Solver Sp. z o.o.**

Organisation of recreation for the Bank's employees and their families in the retreat centres in Krynica, Wisła and Głębinów forms the core business of Solver Sp. z o.o.

In 2006, net result of Solver Sp. z o.o. was PLN 26,000; whereas in the previous year it was PLN 11,000.

## V. MANAGEMENT OF KEY RISKS

### Credit Risk

#### *Credit Policy and Procedures*

In 2006, ING Bank Śląski S.A. maintained the key rules of its credit policy and still focused on granting loans to business entities operating in low- or medium-risk sectors. However, the credit requirements were slightly eased at the Bank in regard to entities representing some sectors that used to be perceived as risky, due to their better-than-predicted financial results (e.g. developers or companies from the metallurgical sector).

ING Bank Śląski S.A. observes the credit risk concentration limits as stipulated in the Banking Law. Under the Banking Law Act, a bank's exposure towards a single party or parties related by equity or management must not exceed 20% of the bank's own funds, when any of those parties is related to the bank; or 25% of the bank's own funds for other parties. Furthermore, the aggregate amount of the bank's exposures equal or exceeding 10% of its own funds in relation to such undertakings must not be larger than 800% of these funds.

In October 2006, with the aim of better control of the exposure concentration limits and full adoption of the existing procedures to the requirements of New Capital Accord (Pillar II), ING Bank Śląski S.A. adopted a new procedure for *Limiting the Wholesale Exposure Concentrations*, determining among others internal concentration limits in respect of sectors, the principles of concentration monitoring in geographical areas (Regions) and in respect of collateral types.

The new procedure for management of the credit concentration risk at ING Bank Śląski S.A. provides for setting limits for sectors whose overall share in the Bank's whole credit portfolio oscillates around 60%, and the share of a given sector in the wholesale credit portfolio is higher than 5%. At the same time, the list of sectors covered with the limit may be extended in the future to include sectors where considerable growth of exposure is expected, that represent an area of a special interest for the Bank (target sector) or are exposed to high risks.

According to the new procedure, the qualification and verification of sectors being subject to limiting will be handled on a quarterly basis by the Corporate and Retail Risk Strategy Department. However, the setting of the sector limits lies within the powers of the Credit Policy Committee, taking decisions on establishing a new limit or changing the existing one based on the report on the sectoral exposure structure, drafted on a monthly basis.

Due to the low level of the credit portfolio concentration in geographical terms, ING Bank Śląski S.A. does not set any permanent credit limits for Regions. However, there was adopted a rule of an open geographical limit up to 20% share in the Bank's entire wholesale portfolio. Any overrun of that limit may represent a signal for the Credit Policy Committee that a geographical limit needs to be established, however, it is not an mandatory in the light of the effective procedures. Also in case of any change in the risk level in a given Region, the Committee may at any time decide to establish the relevant credit limit.

Due to the policy and procedures adopted by ING Bank Śląski S.A. in respect of the forms of collateral, the Bank did not note any risks resulting from the collateral concentration. It was supported by the intrabank collateral classification system (SRS), where – taking into

consideration the legal effectiveness and the current market situation – individual collateral types were assigned a specific rank (class). According to that system, collaterals being more acceptable from the perspective of the Bank's interests have a higher class. Thus, the classification system affects the realistic collateral recovery value, thus the risk costs relating to the secured amount receivable.

ING Bank Śląski S.A. periodically reviews the collateral structure of the wholesale and retail portfolios. In case of identification of a significant collateral concentration, the Credit Policy Committee takes decisions on adopting specific recommendations and formulates guidance as to the preferred forms of collaterals in the form of guidelines for the collateral policy update. Thus, the currently used solutions allowed for eliminating unfavourable concentrations in respect of the collateral forms for the Bank's credit portfolio.

In the retail area, the Bank continued in 2006 the policy for focusing of lending on the existing customer base, offering lending products based on cross-selling and pre-selection. At the same time, the acceptance criteria were eased up in case of a good quality of the credit portfolio.

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

In 2006, ING Bank Śląski S.A. concentrated its efforts in particular on harmonisation of the processes connected with the risk credit management to the Basel II requirements. The Bank:

- Analysed and validated the new model for assessment of the wholesale client credit risk. In this model, the risk classes are associated with a specific probability of insolvency and the process of determining of the risk class is separated from the process of taking the credit decision. As part of the assessment of the model's operations, the Bank collated and analysed the database built by the existing credit risk assessment model, and also the list of exceptions from the model as a result of expert's decisions taken by the Appeal Committee.
- Changes the mode and rules as well as the tools for monitoring of the financial standing of wholesale clients.
- Initiated works aimed at building the Loss Given Default (*LGD*) and Exposure at Default (*EAD*) models in connection with the decision taken by ING Group on implementing the internal rating method (Internal Rating Base, or *IRB*). The Bank also continued actions aimed at implementation of the procedures ensuring high quality of data in the systems representing sources of information in the process of estimating capital requirements.
- Due to the significant automation of the process of risk identification and calculation of provisioning level, the Bank intensified functional control in respect of the monitoring of the quality of data entered to IT systems, including the data determining the provisioning level.
- Changed the credit competence system for the irregular portfolio due to the changes in the lending process organisation (centralisation in the area of the management of the irregular portfolio of wholesale loans).
- Continued works on the implementation of the new IT application supporting the lending process in the retail area.

### ***Organisation of the Credit Process***

As part of the Corporate Lending Improvement Project, finalised in the year 2005, ING Bank Śląski S.A. simplified the lending process and equipped all process participants (especially the risk units) with additional IT tools supporting the lending processes (i.e. applications for monitoring of the lending process, preparing draft agreements, electronic transfer of documents).

As a result of the improvement of tools, standardisation of procedures and unification of the credit documentation, the Bank was able to transfer the function of wholesale loans administration to the Operations Division. This process was carried out gradually in the first half of 2006.

In the area of the retail portfolio credit risk management, the Bank:

- Defined new solutions in the lending process relating to the scope of data, the process automation, appraisal of collateral and functional control.
- Carried out the sale of past-due credit receivables to the securitisation fund.

### ***Credit Portfolio Quality and Provisioning***

As at the end of December 2006, the value of credit exposures of ING Bank Śląski S.A. was PLN 13,770 million. The value of impaired loans amounted to PLN 688 million.

Over 2006, the quality of the credit portfolio of the Bank – the share of the impaired portfolio in the total credit portfolio – decreased from 8.1% in December 2005 to 5.0% as at the end of 2006. Those data prove that at the end of 2006 the quality of the credit portfolio of ING Bank Śląski S.A. was better than the average in the entire banking sector and confirm the effectiveness of the actions carried out in the Bank with the aim of improving the effectiveness of the credit risk management processes.

In December 2006, ING Bank Śląski S.A. held PLN 714 million worth of provisions for the credit portfolio. The share of impairment charges for the impaired portfolio was 87.8% compared with 78.7% at the end of 2005.

**Table: The quality of credit portfolio of ING Bank Śląski S.A.**

	31.12.2005	31.12.2006
<b>Total exposure (PLN million)</b>	<b>10,703</b>	<b>13,770</b>
<b>Total provisions (PLN million)</b>	<b>809</b>	<b>714</b>
<b>Provisioning rate (%)</b>	<b>7.6</b>	<b>5.2</b>
<b>Exposure – corporate banking (PLN million)</b>	<b>7,834</b>	<b>10,522</b>
Non-default portfolio (PLN million)	7,236	10,055
Default portfolio (PLN million)	598	467
Impairment (PLN million)	493	434
IBNR (PLN million)	69	74
Provisions for off-balance sheet liabilities (PLN million)	14	9
<b>Provisioning rate for default portfolio (%)</b>	<b>82.7</b>	<b>92.8</b>
<b>Exposure – retail banking (PLN million)</b>	<b>2,870</b>	<b>3,247</b>
Non-default portfolio (PLN million)	2,598	3,026
Default portfolio (PLN million)	271	221
Impairment (PLN million)	191	170
IBNR (PLN million)	26	14
Provisions for off-balance sheet liabilities (PLN million)	15	13
<b>Provisioning rate for default portfolio (%)</b>	<b>70.1</b>	<b>76.7</b>
<b>Share of default portfolio in %</b>	<b>8.12</b>	<b>5.00</b>

## Market Risk Management

The basic aim of effective market risk management at ING Bank Śląski S.A. is to maximise profit while mitigating any potential loss that may result from unfavourable changes in interest rates, FX rates and other market parameters and client behaviour.

ING Bank Śląski S.A. and its subsidiaries measure and monitor all significant market risk categories, such as: the interest rate risk, FX risk and FX optionality risk. In order to improve the quality of the market risk management, some categories are measured and monitored according to the split into the banking book and trading book. In case of the banking portfolio, the basic aim of the market risk management is to minimise it as much as possible. This objective is accomplished, among other things, by transferring the market risk due to the transactions concluded by business divisions (Retail, Wholesale) to the Financial Markets area, with the use of the transfer pricing system. The Financial Markets Division makes transactions (on the interbank market, in securities or derivatives, among other things) in order to keep the risk at an acceptable level.

The market risk – excluding the liquidity risk – is measured by ING Bank Śląski S.A. with the use of the Value-at-Risk methodology. It allows for calculating the potential loss from the positions taken and the volatility of prices, interest rates, market rates (and volatility for FX options), as well as the interdependencies among the abovementioned parameters. Moreover, the Bank measures the value at risk in crisis situation (EVaR), determining the size of the potential loss to be incurred on a given market position in case of extreme changes in market parameters.

The market risk is controlled at ING Bank Śląski S.A. mainly by managing the risk within the formal limits approved by the Bank Management Board for individual business areas.

The Bank's measurement of interest rate risk includes measurement of the risks arising from:

- embedded optionality in non-FM activities (e.g. early-withdrawal of deposits or early repayment risk),
- the so-called "basis risk", i.e. the risk of mismatch of the mechanisms used for setting the interest rates used in the operations with clients with the rates at which those positions are transferred to the Financial Markets (including non-standard loan pricing mechanisms),
- models used to determine the investment of demand liabilities (such as current and savings accounts).

In 2006, following the steady growth of the value of demand liabilities at the Bank, all material liabilities in terms of size were obligatorily invested in PLN, in accordance with the replicating portfolio rules. The models, that are used to determine the investment of demand liabilities and prepare the reports for the Bank Management Board, containing predictions of potential changes in the income statement arising from those models, also underwent continuous refinement. Risk arising from the options embedded into the wholesale and retail banking products are regularly monitored.

As regards FX-risk, the core system for measuring FX risk at ING Bank Śląski S.A. was changed in 2006 to a professional system used by most other subsidiaries and branches of ING Bank N.V. The bank's planned expansion of FX option types offered required an analogous expansion of market risk measurement tools, which was successfully accomplished in 2006.

In 2006, the Bank made substantial progress in ensuring compliance with the Basel II requirements as regards market risk management. As part of these efforts, the Bank:

- re-defined the split of its business into the banking and trading portfolios,
- started to include internal transactions (aimed at risk transfer) to the calculation of the capital requirements,
- ensured that proper calculation methods are in place to determine the economic capital requirements arising from the Bank's exposure to market risk,
- formalised the bank-wide approach to ensuring sufficient regulatory and economic capital adequacy.

ING Bank Śląski S.A. ensures the maintenance of a prudential liquidity policy. With the aim of appropriate liquidity management, the Bank:

- Develops and analyses control reports for liquidity ratios and monitors the limit level.
- Prepares procedures ensuring the appropriate supply of cash to branches.
- Harmonises the contingency planning in regard to liquidity to the changes in the Bank's organisational structure and the changes in definition of warning signals.

In 2006, the bank continued to expand the use of statistical measurements in control reports used for liquidity risk measurement.



## Capital Adequacy

In 2006, ING Bank Śląski S.A. complied with the obligatory prudent standards in regard to the capital adequacy. At the end of 2006, the capital adequacy ratio was 15.1%, which means that the Bank had sufficient amount of equity to cover specific credit and financial risks.

## Operational Risk

Operational risk is understood in ING Bank Śląski as the risk of suffering direct or indirect material loss or as the loss of reputation resulting from failure to adjust or improper functioning of the internal processes, people or technical systems, and also as the result of external events. This definition also covers the litigation risk.

The Bank manages operational risk based on the Recommendation M of National Bank of Poland that takes into account the directives of the Basel Committee regarding the operational risk management and standards effective at ING Group.

Operational risk management covers the operations in the field of identification, measurement, monitoring of the said risk as well as taking appropriate actions aimed at maintaining it at an acceptable level. All organisational units of the Bank and Bank subsidiaries are involved in the implementation of tasks connected with the operational risk management.

The Bank's organisation structure comprises the Operational Risk Management and Compliance Department, directly reporting to the President of the Bank Management Board. Moreover, the permanent Operational Risk Committees are in place at the Bank – at the Head Office and business line levels. They supervise the operational risk management and the processes of identification, measurement, monitoring and mitigation of operational risk in the entire Bank or a given business area.

In the field of the operational risk management, the Bank concentrates on the following issues:

- Implementation of the mechanisms for active identification of operational risk, its measurement and mitigation in individual areas of the activity, upon consideration of the new and modified products, pending projects, outsourcing processes and organisational changes as well as the changes in the environment.
- Gathering information on operational risk incidents, their analysis and initiation of actions preventing their occurrence in the future.
- Determining the factors of material risk and their monitoring.
- Reducing the losses by improving the system of controlling the operations.
- Active mitigation of the operational risk by the application of an integrated system of recording and tracking the realisation of audit recommendations and other risk mitigating activities.
- The allocation of economic capital adequate to the risk level.
- Testing the business continuity planning for critical and important business processes.
- Improving physical security, with a special stress on the integrated system for branch security monitoring and ensuring immediate assistance in crisis situations.



- Launching awareness programmes and training schemes in the area of operational risk management.
- The compliance function.

The new Operational Risk Management Policy at ING Bank Śląski S.A. has been in place since October 2006. It was introduced in order to improve the security of the Bank, its clients and to reduce the operating costs.

## **VI. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT ING BANK ŚLĄSKI S.A. IN 2006**

### **Changes in Organisation of ING Bank Śląski S.A.**

In 2006, ING Bank Śląski S.A. modified considerably its organisational structures; the changes aimed at incorporating the process-centric approach in the institution performance. Application of this approach should contribute to better understanding of the role and expectations of both external and internal clients of the Bank, enhance efficacy of organisation performance and, ultimately, provide for appropriate accomplishment of commercial and performance efficacy improvement objectives.

At the end of 2006, the Head Office units of ING Bank Śląski S.A. operated within the following nine divisions:

- Wholesale Banking Division;
- Treasury and Financial Markets Division;
- Credit Risk and Market Risk Management Division;
- Retail Banking Division;
- Finance Division;
- Organisation and Strategic Planning Division;
- Operations Division;
- Services Division;
- IT Division.

The ones that report directly to the Bank Management Board are a separate group, and they include: the Management Board Bureau, Internal Audit Department, Human Resources Management Department and the Credit Risk Inspection Department.

The Banking Marketing and Advising Division was liquidated in 2006 at ING Bank Śląski, and the units comprising that division were incorporated into the Retail Banking Division.

### **IT and Operations**

To ensure adequate support in accomplishment of business objectives and pro-efficiency initiatives, in 2006, ING Bank Śląski S.A. carried out the following IT projects, among other things,:

- Creation of the IT infrastructure for the franchise outlets network. It makes use of an innovative solution, whereby non-disc terminals are opened at partner outlets, which allow for working on the servers placed at the Bank via Internet links. The solution features low costs and high security level. Cash deposit machines were launched for the first time at Bank branches as part of that project as well.
- The Bank launched the Credit Request Service System – a new application used to handle, analyse and assess credit requests for the small business segment. Its implementation should streamline the process of client service and facilitate communication among individual Bank units.

- The Bank implemented new solutions to improve the efficiency of the operations. The solutions included: migration of the reporting system from the expensive platform to a new flexible system used for Windows-controlled applications; up-grade of disc matrixes.

ING Bank Śląski S.A. strives to assure top quality of IT services rendered to its units. A few selected IT units of the Bank implemented subsequent elements of the ITIL standard (Information Technology Infrastructure Library); i.e. the set of principles detailing the good practices of supply and support of IT services. Being the supplier of IT services for the Bank's internal clients, the IT Division also started implementation of SLA (the Service Level Agreement), which is an agreement between the IT service provider and the service recipient. It defines the guaranteed quality level of their provision as well as the accountability and expectations of both parties.

Throughout 2006, there occurred major changes in the operational area of the Bank. Successful centralisation of certain operational functions on the regional level was accompanied by numerous new solutions and technology innovations. First of all, the Bank replaced the time- and cost-consuming paper document workflow with the electronic one, by implementing the so called Image, Workflow and Archiving System, or IWA. Completion of this project was of significance for the successful centralisation of the Regional Operational Centres. At the same time, the system provides for numerous options of copious facilities to be introduced in the operations of various Bank units and ensures an efficient exchange of information.

The Bank also carried out a cash transport costs optimisation project to rationalise the costs of cash transport and enhance the quality of cash-handling process. Implementation of this project will also allow for creating a cash service offer for network clients with high cash turnovers. During the implementation of this project, the car collection service for wholesale clients was introduced in 2006, among other things.

The modifications introduced in the operational area of the Bank caused the share of automated operations to rise in the overall number of operations from 85% in 2005 to 88% in 2006.

### **Development of Electronic Distribution Channels**

In 2006, the potential of wholesale clients as to usage of remote access to the products and services of ING Bank Śląski S.A. rose considerably as a result of:

- Implementation of ING OnLine, an internet banking system addressed to the strategic clients segment. The system is an alternative to the MultiCash electronic banking system, which was offered to that group of clients so far. ING OnLine is a bilingual system (Polish and English versions), providing for execution of all types of domestic and foreign transfers, as well as Business-to-Business Debits (GOBI), currency conversions and transfers to the Social Security Institution (ZUS) and the revenue office. The technology of encryption, validation and access control, used in ING OnLine, ensures the top level of security and confidentiality of transactions. The project was carried out within ING Group; the plans are to create one common Internet-based banking system, providing for management of accounts maintained by ING in various countries upon one logging in.

- Launch of a new Internet service for wholesale clients. It ensures faster and more structured access to information and convenient navigation. The service complies with the new graphical standards of ING Bank as well.

The Bank also improved the security level and the functionality of the internet banking system for individual clients by:

- implementation of the automated account opening and debit card ordering functionality, as well as change of the image of debit cards in the Internet banking system ING BankOnLine, whereby Bank's services became much more available,
- introduction of extra security measures and additional validation for larger transactions,
- implementation of statements in PDF format and providing clients with access to archived statements,
- rendering the option of GSM phone prepaid card replenishment.

Throughout 2006, the Bank was closing inactive electronic banking services (ING BankOnLine and HaloŚląski). As at the end of December 2006, there were 507,900 Internet banking system users (up by 40.3% from the end of 2005). The group of active users of HaloŚląski phone banking system rose considerably as well (up by approximately 14% from December 2005).

<b>Number of clients:</b>	<b>31.12.2005</b>	<b>31.12.2006</b>
HaloŚląski (active users)	127,428	144,744
ING BankOnLine, ING OnLine	361,944	507,905
SMS	79,789	148,197
MultiCash	9,404	7,818

In December 2006, ING Bank Śląski S.A. had a network of 568 ATMs.

## Branch Network

From the beginning of 2006, ING Bank Śląski S.A. started to established the network of partner outlets. In line with the adopted model, the service and sales capacity of a franchise outlet are almost identical to the one of small retail branches. The client may purchase financial products of ING Bank Śląski S.A. and ING TFI as well as certain products of ING N-N Poland there. The partner outlet is innovative in that it provides clients with self-service machines (an ATM, a cash deposit machine, access to ING BankOnLine service and HaloŚląski and Call Centre), where they can deposit or withdraw cash, make a transfer or place a deposit. Consequently, it is the client of a franchise outlet him/herself who makes all operations rather than an employee, which is the case at a traditional bank branch. At the same time, the solutions in place completely eliminate cash from trading in the Client-Partner relation. Besides the transactional area, the franchise outlet also has a sales area with an info point, stands of account managers and a meeting room, among other things.

Throughout the year 2006, the Bank opened seven partner outlets. In December 2006, the network of ING Bank Śląski S.A. outlets totalled 337 branches (up by 6 from the 2005 yearend).

As planned, ING Bank Śląski S.A. will have 100 franchise outlets as at the end of 2007.

## VII. CORPORATE GOVERNANCE PRINCIPLES

### Supervisory Board's Report on Operations of ING Bank Śląski S.A. in 2006

In 2006, ING Bank Śląski S.A. earned net profit of PLN 540.6 million versus 506.8 million in 2005. Its level was affected by the following factors:

- Increase of income on core operations – in 2006, the result on core operations was PLN 1,711.8 million compared with PLN 1,596.4 million in the previous year (up by 7.2%). The improved result followed both the growth of balance sheet values and increase of the scale of intermediation operations; e.g. in terms of sales of investment fund units, broker services, leasing and factoring.
- Earmarking of considerable financial outlays on institution reconstruction and performance of nationwide marketing campaigns to support the sales of key products; in consequence, total costs of the Bank amounted to PLN 1,199.3 million (up by 11.0% from 2005).
- Obtainment of a positive balance of impairment charges – further improvement of the macroeconomic situation, enhancement of the credit risk management functions and effective restructuring of the old portfolio of loss loans, moved to the off-balance sheet records resulted in a considerable, positive balance of risk costs. It was PLN 171.5 million versus PLN 120.2 million last year.

Therefore, for the second year in a row, the net result of ING Bank Śląski S.A. in 2006 was driven by a factor related to improvement of the lending portfolio quality.

In the opinion of the Supervisory Board, the positive phenomena observed in the operations pursued by ING Bank Śląski S.A. in 2006 include, first of all, the following:

- Growth of lending. In December 2006, the Bank's credit receivables amounted to PLN 13.1 billion (up by PLN 3.1 billion over the year). This result provided for an increase of the Bank's share in financing the credit needs of the Polish economy.
- A very good quality of the amounts due from clients. The share of impaired loans in the entire portfolio was 5.0% and was among the lowest ones in the group of the largest banks operating in Poland.
- The results generated in acquisition of deposits. In December 2006, the funds deposited with ING Bank Śląski S.A. amounted to PLN 36.3 billion, up by PLN 5.4 billion. This was one of the best results in terms of deposit acquisition, enabling the Bank to reinforce its market position.
- The progress of project works of key significance for the future development of the Bank. Creation of a new model for service of up-scale clients, establishment of the first partner outlets, offering of alternative forms of company operations funding (e.g. leasing and factoring) and further streamlining of the operational area deserve particular attention. These changes either improved the competitive position of ING Bank Śląski or increased its operational efficiency.

While holding good opinion on the overall performance of ING Bank Śląski S.A. in 2006, the Supervisory Board draw attention to the challenges the Bank will have to face in the coming months, such as:

- Necessity of a dynamic growth of lending, translating into the increase of the share of loans in the Bank's assets. Against a backdrop of the projected further intensification of competition in the Polish banking sector, a higher degree of utilisation of the funds acquired from clients for lending should be one of the primary drivers of growth of ING Bank Śląski S.A. income;
- Need to use the outlays made in previous years on institution reconstruction in an efficient manner, which will be reflected by the improved cost effectiveness.

In the opinion of the Supervisory Board, ING Bank Śląski S.A. is well placed to compete: with a large and stable client base, well qualified employees, professional managerial staff, fully-fledged distribution channels and efficient risk management systems, which will make it possible to continue market expansion and enhance the efficiency of institution performance.

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

The share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is divided into 13,010,000 ordinary shares of the face value of PLN 10 each. There are no limitations as to the transfer of ownership rights or exercise of rights to vote under the shares held. The Bank's shares do not give any special control rights towards the issuer.

Throughout 2006, the shareholding structure of ING Bank Śląski S.A. remained unchanged and as at the end of December 2006 it was as follows:

Name of Shareholder	Number of shares and votes at GSM	Share in equity and total votes at GSM
ING Bank N.V.	9,757,500	75.00%
Commercial Union OFE BPH CU WBK	850,000	6.53%
Others	2,402,500	18.47%
<b>Total</b>	<b>13,010,000</b>	<b>100.00%</b>

ING Bank N.V. is the strategic investor of ING Bank Śląski S.A. ING Bank N.V. is a member of ING Group, a global financial institution, boasting a 150-year tradition of offering banking, insurance and assets management to clients in more than 50 countries. In terms of market value, ING is among the top twenty financial institutions in the world and the top ten in Europe.

ING Bank N.V. considers its stake in ING Bank Śląski S.A. as a long-term investment and perceives Poland as the home market for its business, next to the Netherlands and Belgium. Apart from banking operations, ING Group is also active in Poland on other core markets of financial services including, but not limited to: insurance, investment funds, as well as leasing and factoring services.

As at the publication date of this report, ING Bank Śląski S.A. did not have any information on agreements which could result in changes to the proportion of shares held by the existing shareholders.

## Changes in the Statutory Authorities of the Bank

In 2006, there were the following important changes in the composition of the Supervisory Board of ING Bank Śląski S.A.:

- At the Supervisory Board meeting of 31 March 2006, Mr. Andrzej Wróblewski, the Chairman of the Supervisory Board, and Mr. Jerzy Rokita, the Secretary of the Supervisory Board, resigned from their positions at the Board, effective as of 27 April 2006, or the day of the General Shareholders Meeting approving the 2005 financial report. While tendering their resignations, the Supervisory Board members conformed to the principles of corporate governance, adopted by the Bank in the Declaration on accepting the “Best Practices in Public Companies in 2005” and also the new provisions the Bank Charter in force as of 1 May 2006; the latter document introduced the criterion of the maximum 12-year period of the Supervisory Board tenure, among other things.
- On 19 April 2006, the Management Board was notified that Mr. Hans van der Noordaa and Mr. Lech Węclewski tendered their resignations from the capacity of the Supervisory Board members as of the date of the General Shareholders Meeting, that is 27 April 2006 .
- On 27 April 2006, the General Shareholders Meeting accepted the resignations of Mr. Andrzej Wróblewski from the position of the Chairman of the Supervisory Board, Mr. Jerzy Rokita from the position of the Secretary of the Supervisory Board as well as of Mr. Lech Węclewski and Mr. Hans van der Noordaa from the positions of the Supervisory Board members. At the same time, Messrs. Ralph Hamers, Jerzy Hausner, Mirosław Kośmider and Wojciech Popiołek were appointed new Supervisory Board members.
- At the first Supervisory Board meeting, held immediately after the General Shareholders Meeting, the Supervisory Board accepted their new internal structure, which is as follows:
  - Ms. Anna Fornalczyk                      Chairwoman, Independent Member,
  - Mr. Cornelis Leenaars                      Deputy Chairman,
  - Mr. Wojciech Popiołek                      Secretary, Independent Member,
  - Mr. Ralph Hamers                      Member,
  - Mr. Jerzy Hausner                      Member, Independent Member,
  - Mr. Mirosław Kośmider                      Member, Independent Member,
  - Mr. Marcus van der Ploeg                      Member,
  - Mr. Igno van Waesberghe                      Member.

In mid-2006, important decisions were taken in regard of changes in the composition of the Management Board of ING Bank Śląski S.A. At the meeting of 5 July 2006, the Supervisory Board:

- Accepted resignation of:
  - Mr. Krzysztof Brejda from the position of the Vice-President of the Management Board, effective as of 5 July 2006,
  - Mr. Grzegorz Cywiński from the position of the Vice-President of the Management Board, effective as of 1 August 2006, due to moving to work within the ING structures abroad,



- Mr. Donald Koch from the position of the Vice-President of the Management Board, effective as of 1 August 2006, due to moving to work within the ING structures abroad.
- Appointed as of 1 August 2006 :
  - Mr. Mirosław Boda to the position of the Vice-President of the Management Board,
  - Ms. Marlies van Elst to the position of the Vice-President of the Management Board.

At the end of December 2006, the Management Board of ING Bank Śląski S.A. worked in the following composition:

- |                            |                             |
|----------------------------|-----------------------------|
| • Mr. Brunon Bartkiewicz   | – Chief Executive Officer,  |
| • Mr. Mirosław Boda        | – Executive Vice-President, |
| • Mr. Ian B. Clyne         | – Executive Vice-President, |
| • Ms. Marlies van Elst     | – Executive Vice-President, |
| • Mr. Michał Szczurek      | – Executive Vice-President, |
| • Mr. Benjamin van de Vrie | – Executive Vice-President, |
| • Mr. Maciej Węgrzyński    | – Executive Vice-President. |

### **Observance of Good Practices of the Corporate Governance**

On 28 April 2006, the Management Board of ING Bank Śląski S.A. presented a declaration on observing the principles of corporate governance. The declaration reads that the Bank and its authorities conform to the principles of the corporate governance adopted by them and set forth in the “Best Practices in Public Companies in 2005”, in accordance with the declaration submitted by the Bank on 17 February 2005, and accepted with the Resolution no. 11 of the Bank General Shareholders Meeting of 9 June 2005. At the same time, the Management Board stated their intention of further adherence to the above principles by ING Bank Śląski S.A. This declaration was subsequently approved by the General Shareholders Meeting held on 27 April 2006.

In line with the declaration, the Bank observes all the principles stipulated in the “Best Practices in Public Companies in 2005”, especially:

- the Bank strives to have all activities of company authorities focused on the long-term development of the company,
- it creates the conditions for the execution of rights of the majority shareholder to take into account the interests of the minority shareholders,
- being a company with the majority shareholder holding the stake, which ensures more than 50% of the total number of votes, the Bank has at least two independent members in its Supervisory Board.

As a member of ING Group, which is listed on the New York Stock Exchange, ING Bank Śląski S.A. was involved in the implementation process of internal audit standards as set forth in the Section 404 of the Sarbanes-Oxley Act (abbreviated as SOX 404). Under that regulation, the companies listed on the American stock exchanges are obligated to submit - along with the financial reporting – the declarations on the reliability of reporting systems and

existence of adequate internal control mechanisms as well as on evaluation of their efficiency, as at the end of the last accounting year of the company. In 2006, there was a SOX process run at ING Bank Śląski S.A. whose main objectives comprised performance of an end-to-end implementation procedure necessary to fulfil the provisions of the SOX 404 resolution.

There are also internal legal and ethical norms in place at the Bank, or the so-called compliance norms. They were implemented to counteract occurrence of the reputational risk in respect of ING Bank Śląski S.A., ING Group or any of its entity, as a result of non-observance of ethical and legal norms by employees. In 2006, the Bank, among other things:

- reviewed and revised the compliance regulations in force,
- drew up and implemented a new Complaint Management Policy,
- implemented the system for analysis and monitoring of transactions and accounts.

Two e-learning training modules regarding performance with compliance norms - one of which is used by all employees – were also prepared.

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

In 2006, the total amount of remuneration (understood as the value of remuneration, bonuses, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board members amounted to PLN 16,207,000. The total amount of remuneration and bonuses paid out or due for 2006 given here is the gross amount of remuneration paid out or due and payable for the period from January to December 2006 and the 2005 bonus, which was paid out in 2006 at the total amount of PLN 2,393,000.

The members of the Bank Management Board and other individuals being the employees of ING Bank Śląski S.A. receive neither remuneration nor bonus for holding any functions in the authorities of subsidiaries and affiliates of the ING Bank Śląski capital group.

**Table. Remuneration of Members of the Management Board of ING Bank Śląski in 2006 (PLN 000)**

Forename and surname	Period from - to	Remuneration and awards	Benefits	Total
Brunon Bartkiewicz	01.01.06-31.12.06	1,843	623	2,466
Mirosław Boda	01.08.06-31.12.06	400	84	484
Krzysztof Brejda	01.01.06-05.06.06	1,518	311	1,829
Ian Clyne	01.01.06-31.12.06	1,279	950	2,229
Grzegorz Cywiński	01.01.06-31.07.06	943	366	1,309
Marlies van Elst	01.08.06-31.12.06	460	398	858
Donald Koch	01.01.06-31.07.06	836	717	1,553
Michał Szczurek	01.01.06-31.12.06	1,224	207	1,431
Benjamin van de Vrie	01.01.05-31.12.05	1,239	658	1,948
Maciej Węgrzyński	01.01.06-31.12.06	1,847	253	2,100
<b>Total</b>		<b>11,640</b>	<b>4,567</b>	<b>16,207</b>

In 2006, the remuneration (defined as above) paid by ING Bank Śląski S.A. to Supervisory Board members totalled PLN 931,000.

**Table. Remuneration of Members of the Supervisory Board of ING Bank Śląski in 2006 (PLN 000)**

Forename and surname	Period from - to	Remuneration and awards	Benefits	Total
Anna Fornalczyk	01.01.06-31.12.06	136	-	136
Cornelis Leenaars	01.01.06-31.12.06	120	-	120
Wojciech Popiółek	27.04.06-31.12.07	81	-	81
Ralph Hamers	27.04.06-31.12.06	64	-	64
Jerzy Hausner	27.04.06-31.12.06	64	-	64
Mirosław Kośmider	27.04.06-31.12.06	81	-	81
Marcus van der Ploeg	01.01.06-31.12.06	96	-	96
Igno van Waesberghe	01.01.06-31.12.06	96	-	96
Andrzej Wróblewski	01.01.06-27.04.06	71	-	71
Hans van der Noordaa	01.01.06-27.04.06	32	-	32
Jerzy Rokita	01.01.06-27.04.06	59	-	59
Lech Węclewski	01.01.06-27.04.06	32	-	32
<b>Total</b>		<b>931</b>	<b>-</b>	<b>931</b>

### Agreement with Entity Authorised to Audit Financial Statements

On 29 April 2005, the Supervisory Board selected KPMG Audyt Spółka z o.o. with its registered office in Warsaw at 51 Chłodna Street (licence of the National Chamber of Certified Auditors no. 458) to be the certified auditor carrying out the audit of the financial statements of ING Bank Śląski S.A. for the period from 30 June 2005 to 30 June 2008.

ING Bank Śląski S.A. has been using the services provided by KPMG in the field of financial statements audit since 1990.

**Table. Auditor's remuneration in 2006 (PLN 000)**

	Accounting year ending on 31 December 2006	Accounting year ending on 31 December 2005
Remuneration for the audit (1)	1,600,600	1,510,000
Remuneration for related services (2)	1,264,600	1,344,000

- (1) Remuneration for the audit covers the amounts paid to KPMG Audyt Sp. z o.o. for the professional services related to the audit of the standalone and consolidated financial statements of the dominant entity (agreement of 12 August 2005) and review of the interim standalone and consolidated financial statements (agreement of 12 August 2005).
- (2) Remuneration for related services covers the amounts paid to KPMG Audyt Sp. z o.o. They cover validation services related to the audit or review of financial statements of the dominant entity and subsidiaries that were not included in item 1.

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

### **Truthfulness and Accuracy of Statements**

To the best knowledge of the Management Board of the Bank, the annual financial data for 2006 and the comparable data presented in the annual consolidated financial statements of the capital group of ING Bank Śląski S.A. were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial standing of the Bank's capital group and its financial result. The annual statements of the Management Board enclosed herewith contain a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's Capital Group in 2006.

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

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

### **Additional Information**

#### ***Agreements Concluded***

The Management Board of the Bank hereby declare that ING Bank Śląski S.A. does not have any:

- significant cash loan agreements, sureties or guarantees not related to business operations,
- contractual obligations arising from the debt securities issued or financial instruments.

In 2006, ING Bank Śląski S.A. took advantage of a lombard cash loan from the central bank. Information on the Bank's inter-company transactions have been presented in Note 50.

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

The collateral used by the Bank to hedge against risk related to its lending activities includes: transfers of ownership and pledges, mortgages, transfer of rights to insurance policies, sureties under Civil Code, transfer of debt, appropriation of assets in bank accounts, guarantees, deposits and others.

In 2006, the Bank referred 1,034 cases to the court regarding retail clients. Writs of execution issued by and legal actions started on behalf of the Bank totalled PLN 63.7 million.

## IX. INVESTOR INFORMATION

### Price of ING Bank Śląski S.A. Shares

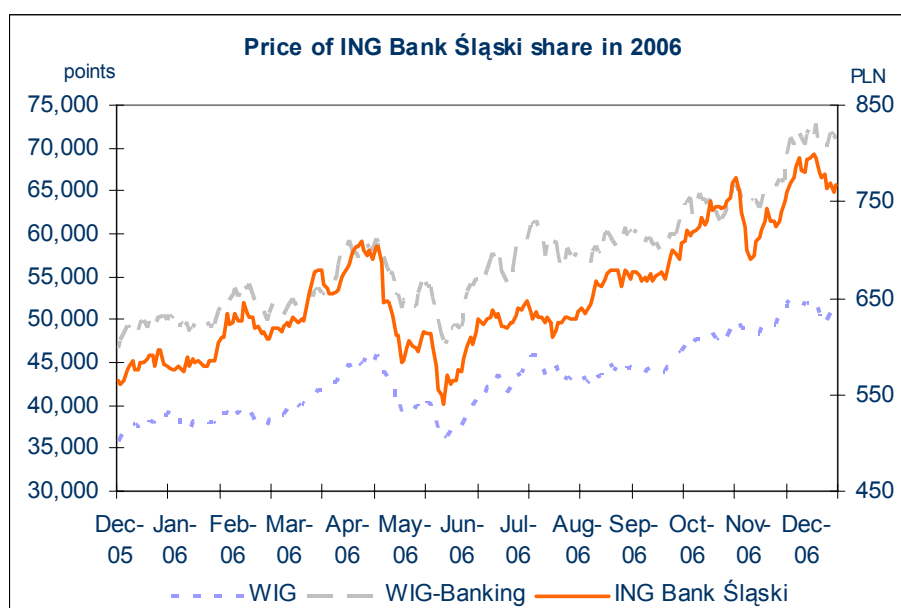
The shares of ING Bank Śląski S.A. were admitted to public trading with the decision of the Polish Securities and Stock Exchange Commission of 3 September 1993 and became floated on the Warsaw Stock Exchange on 25 January 1994. The Bank's shares are traded on the primary market of the Warsaw Stock Exchange in the system of continuous quotations.

In addition, the Bank was a participant of the so-called Plus segment, which apart from the measurable requirements defined by the Warsaw Stock Exchange, was subject to the quality criteria, specifically: implementation of all corporate governance principles and adequate standards in respect of issuers' communication with investors.

Throughout 2006, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange reflected the stock market developments. Significant fluctuations in the price of the Bank shares were reported in May and in the first half of June. On 14 June, the price of ING Bank Śląski S.A. shares was PLN 540 (the lowest in 2006).

In the second half of the year, an upward trend in the pricing of Bank shares was visible. The shares of ING Bank Śląski S.A. reached the top price of PLN 799 at the session closure on 15 December 2006. Finally, during the last stock exchange session, on 29 December 2006, the price of ING Bank Śląski S.A. shares was PLN 768, up by 36.0% from the price of 30 December 2005. To compare, the sub-index WIG-Banki rose by 51.4%.

As at the 2006 yearend, the market value of ING Bank Śląski S.A. was PLN 9,992 million, while the P/BV ratio was 2.66.



## History of Dividend Payout and Proposal of 2006 Dividend Payout

Until 2002, ING Bank Śląski S.A. was paying out the dividend of approximately 20% of the net profits earned. For the year ending on 31 December 2003, the Bank increased the dividend level and earmarked 34.1% of net profit for that purpose.

In the years 2004-2005, the amounts paid out to shareholders in the form of dividend rose considerably owing to a high level of equity capital of ING Bank Śląski S.A. accompanied by a relatively low degree of risk-weighted assets; the dividend pay-outs were as follows:

- In 2004, ING Bank Śląski raised the dividend to 40% of net profit; the Bank also paid out as a dividend some amount of the provisions shifted to the equity capital in connection with implementation of the International Accounting Standards by the Bank. In total, the Bank paid out the dividend of PLN 266.7 million (72.8% of the profit). When divided, the shareholders received PLN 20.5 per share in the form of dividend.
- The results generated by ING Bank Śląski in 2005 and the internal needs related to the Bank's expansion allowed for raising the dividend level up to 50% of the "underlying profit"; i.e. the profit less the impact of a one-off event, being adaptation of provisions to the credit portfolio condition and effective risk management standards. Furthermore, together with the dividend from the underlying profit for 2005 the Bank paid out the shareholders 100% of the net amount arising from a considerable drop in risk costs. In total, the Bank earmarked PLN 357.8 million of the profit (70.6%) for the dividend. When divided, the Bank paid PLN 27.5 per share.

When dividing the 2006 profit, ING Bank Śląski S.A. sustained the principles adopted to define the dividend based on the 2005 profit.

In the income statement, the Bank disclosed positive impairment write-off in the amount of approximately PLN 165.8 million. Similarly as in 2005, the Bank assumed that additional risk costs could not be identified as typical for normal banking operations and decided that they constituted extraordinary profit, which means that the Bank's net baseline profit amounted to PLN 406.3 million in 2006.

It was also decided that the Bank would pay PLN 228.6 million, or 56.3% of the baseline profit, in the form of dividend. 100% of net positive balance for the impairment of the credit portfolio will also be paid in the form of dividend. In line with the assumptions adopted, the Bank would pay the dividend in the amount of PLN 362.9 million from the profit for 2006.

In total, the Bank Management Board recommend the General Shareholders Meeting that the amount of PLN 362,979,000 from the profit for 2006 should be paid in the form of the dividend. In other words: when divided, the Bank will pay PLN 27.9 per share. The dividend level per share as proposed by the Management Board will translate into the dividend yield of 3.6%<sup>8</sup>.

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<sup>8</sup> As compared to the share price of 29 December 2006.

**Table. Dividend for the Years 2002-2005 and Proposed Dividend from the 2006 Profit**

	2006	2005	2004	2003	2002
<b>Net profit of the Bank capital group PLN million</b>	<b>591.4</b>	<b>549.5</b>	<b>366.3</b>	<b>30.6</b>	<b>141.1</b>
<b>Net profit of the Bank PLN million</b>	<b>540.6</b>	<b>506.8</b>	<b>366.3</b>	<b>30.6</b>	<b>141.1</b>
<i>Elimination of one-off items impact on net result PLN million (drop in risk costs)</i>	-134.3	-104.2			
<b>Dividend from recurring part of net profit PLN million</b>	<b>228.6</b>	<b>222.6</b>	<b>147.0</b>	<b>10.4</b>	<b>31.2</b>
% of recurring part of net profit of capital group	50.0%	50.0%	40.0%	34.1%	22.1%
% of recurring part of net profit of the Bank	56.3%	55.3%	40.0%	34.1%	22.1%
<b>Dividend from non-recurring items PLN million</b>	<b>+134.2</b>	<b>+135.3</b>	<b>+119.7</b>		
<i>Due to adjustment of provisions</i>	+134.2	+104.2			
<i>Due to adjustment of IFRS opening balance sheet</i>		+31.1	+119.7		
<b>Total dividend (estimated) PLN million</b>	<b>362.9</b>	<b>357.9</b>			
<b>Total dividend PLN million</b>	<b>363.0</b>	<b>357.8</b>	<b>266.7</b>	<b>30.5</b>	<b>141.1</b>
<b>Dividend yield</b>					
% of net profit of the Bank capital group	61.4%	65.1%	72.8%	34.1%	22.11%
% of net profit of the Bank	67.1%	70.6%	72.8%	34.1%	22.11%
<b>Total dividend per share in PLN</b>	<b>27.9</b>	<b>27.5</b>	<b>20.5</b>	<b>0.8</b>	<b>2.4</b>

### The 2007 Corporate Events Calendar

Since the shares of ING Bank Śląski S.A. are quoted in the Plus segment on the primary market, the Management Board release the 2007 Corporate Events Calendar:

- Publication of the 2006 Annual Report of ING Bank Śląski S.A. and the 2006 Consolidated Annual Report of the capital group of ING Bank Śląski S.A. – 23 April 2007;
- Publication of the consolidated report for 1Q 2007, comprising the abridged financial report of the Bank – 16 May 2007;
- Publication of the consolidated report for 2Q 2007, comprising the abridged financial report of the Bank – 08 August 2007;
- Publication of the consolidated report for 1H 2007, comprising the abridged financial report of the Bank – 30 September 2007;
- Publication of the consolidated report for 3Q 2007, comprising the abridged financial report of the Bank – 07 November 2007;
- Open meeting with investors devoted to the Bank results for 3Q 2007 – November 2007.



## X. RATINGS

ING Bank Śląski S.A. co-operates with the following rating agencies: Fitch Ratings and Moody's Investors Service. The Fitch Ratings agency issues ratings for the Bank based on the agreement, whereas Moody's Investors Service makes the Bank assessment based only on the information available in the public.

As per the release date of this report (i.e. on 23 April 2007) the largest rating agencies issued the following financial credibility ratings for ING Bank Śląski S.A.:

### Moody's Investors Service Ltd.

Long-term deposits in foreign currencies	A2
Long-term deposits in home currency	Aa3
Short-term deposits	P-1
Financial strength	D+
Long-term and short-term deposits rating outlook	Stable

On 23 February 2007, the Moody's agency assigned to ING Bank Śląski S.A. the Aa3 rating for long-term deposits in home currency. While assigning this rating, the Agency took into consideration the potential support that could be provided for the Bank by both the majority shareholder and the government of the Republic of Poland.

### Fitch Ratings Ltd.

Long-term liabilities	AA -
Outlook for sustaining the above rating	Stable
Short-term liabilities	F1
Individual rating	C/D
Support rating	1

Fitch Ltd. increased the credibility rating for ING Bank Śląski S.A. three times since January 2006. On 2 June 2006, the Management Board of ING Bank Śląski S.A. was notified of increasing the individual rating for the Bank from D to C/D. Then (on 17 August 2006 and 22 January 2007), the Agency raised the long-term liabilities ratings for ING Bank Śląski S.A. in view of higher credibility ratings for Poland.

## XI. SOCIAL RESPONSIBILITY

### ING Bank Śląski S.A. in Society

#### *Charity*

Charity and social activities of ING Bank Śląski S.A. lie at the heart of the operations of Bank Śląski Foundation, established in 1991. Within several years of the Foundation's activity, the funds of over PLN 36 million were provided for those in need, thanks to the knowledge and commitment of people working for this organisation.

At the end of 2005, the Bank Śląski Foundation was transformed into ING Children Foundation. This was a joint initiative of ING companies operating in Poland and at the same time a response to the Group's global programme run under the name of *ING Chances for Children*. Brunon Bartkiewicz, the CEO of ING Bank Śląski, became the ambassador of ING Chances for Children in Poland.

The mission of the newly established ING Children Foundation is to educate and thus provide equal opportunities for children from the poverty areas and with chronic illnesses, to promote entrepreneurship among the young people, as well as to provide assistance to young people from poor families in gaining access to university education.

The knowledge of social issues, supported by the experience of many years, guarantees the highest quality of the operations pursued by the ING Children Foundation. The main programmes run by the Foundation include:

- *English with ING*. The main assumption of this programme is to overcome the educational barriers and convince its young participants how significant the foreign language knowledge would be for their professional future. This programme is run in youth clubs in co-operation with a language school.
- *ING Internet youth clubs*. This is a joint initiative of all the ING companies in Poland, whereunder internet clubs are opened for children from poverty areas. The first club was opened in 2005 in the Katowice district of Zależe. In 2006, another club was opened in the Social Prevention and Integration Centre in Pabianice.
- Rehabilitation and holiday stays as well as aid for schools from poverty areas. Altogether 200 children from seven childcare centres stayed in the holiday centre Regle in Wisła. Moreover, seven special education schools were granted the financial support for purchase of teaching equipment, extra meals (mainly schools from the area of Bieszczady Mountains) and necessary maintenance.
- *In the company of the lion*. This is a programme propagating the library therapy techniques, within which the children receive, among other things, the book called *Lucian, the Lion One of its Kind*. 20,000 children received this book, including 12,000 children being the patients of hospitals and outpatient health care units. Within two editions of the programme, the representatives of ING Bank Śląski S.A. as well as the good will ambassadors (culture and art celebrities) visited 60 children centres, oncological-, haematological- and nephrology hospital wards. Almost 2,000 children played together with Lucian the Lion and Hannah.

The ING Children Foundation also co-operates with other foundations and organisations whose mission and statutory objectives are consistent with the social strategy of ING. One of them is the Junior Achievement Foundation operating within the Junior Achievement Worldwide – the oldest organisation in the world (and with the quickest growth) handling the economic education of young people in over one hundred countries. Due to the co-operation of both foundations in 2006, the Bank's employees took part in the Job Shadow Day for young people who would like to work in financial institutions in future. Almost 200 positions were prepared at ING for secondary schools students. Individual work with young people was first of all to make them acquainted with specific professions and help in rational choice of a grown-up career.

The Foundation of ING Group also supports the specialist research hospitals as well as social aid centres. In 2006, ten oncological paediatric hospitals in Poland received financial support for the purchase of medical equipment, following a fund-raiser among ING employees in December 2005. The co-operation with twelve orphanages, initiated by ING Nationale-Nederlanden, is also continued.

ING Bank Śląski S.A. promotes also social activity among the Bank's employees and clients. A wide range of social programmes and in-house campaigns makes it possible for the Bank's employees to choose a form of co-operation and assistance. Among others, the volunteering programme is run for employees with help of the ING Children Foundation. In 2006, more than a dozen of people joined the ING Volunteering Program (working for their local communities), whereas several dozens declared their will to join the programme in 2007. The most interesting and valuable volunteering initiatives of the employees may be financially supported by the Foundation. The Bank's employees also provide financial support for ING Children Foundation as part of the ING Employees for Children Programme in the form of the monthly symbolic deduction from their salary, as determined by the employee.

For many years, ING Bank Śląski S.A. has held the Good Gesture campaign in December for the Bank's clients. As part of this campaign, the Personal Banking clients choose an organisation that is to receive PLN 100,000, previously earmarked for Christmas gifts for that group of clients. In 2006, the largest number of client votes, nearly 50%, was cast in favour of the ING Children Foundation. The Foundation assigned the funds received for development of the English with ING programme. Other votes of the clients were distributed evenly among the Synoptis Foundation for autistic children and the Polish Children's Fund for highly gifted children.

#### ***Activity for the Benefit of Culture and Art***

In 2006, ING Bank Śląski S.A. focused its support for culture on a few prestigious events. The most important one was the patronage over the project called *Between Us and the Light* by Leszek Możdżer, prepared in collaboration with Lars Danielsson and Zohar Fresco. The project included the release of a new record, a continuation of *The Time* record, which was released a year earlier, with a concert tour to eight cities all over Poland.

The record promotion was combined with a charity campaign run in co-operation with the ING Children Foundation. The musicians decided to assign some funds from the sales of the record during the concert tour to financial aid for the special education schools covered by the activities of the ING Group Foundation.

ING Bank Śląski S.A. is an active member of the ING Polish Art Foundation. The main target of the Foundation activities is to promote the Polish contemporary art, especially by young artists. The Foundation collects the works of art that represent various trends of the contemporary art and different artistic techniques (painting, drawing, graphics or photography), abstract and figurative art.

In regional terms, ING Bank Śląski S.A. is involved in the *Interpretations* – the Polish Directing Festival and the Summer Theatrical Garden prepared by the Upper Silesian Centre of Culture.

## Human Resources

### Headcount

In December 2006, the number of ING Bank Śląski S.A. employees grew to 7,281, up by 64 from December 2005.

**Table. Headcount Structure at ING Bank Śląski**

	31.12.2005		31.12.2006	
	people	%	people	%
Retail banking	3,866	53.5	4,135	56.8
Wholesale banking and financial markets	907	12.6	897	12.3
Operations/IT/Services	1,831	25.4	1,682	23.1
Risk/Organisation/ HR issues	613	8.5	567	7.8
<b>Total</b>	<b>7,217</b>	<b>100.0</b>	<b>7,281</b>	<b>100.0</b>

In 2006, essential changes were introduced in the Bank's headcount structure. Following the centralisation and automation of the operational area, as well as reorganisation of the credit risk management units at the regional level, the number of people working in these areas went down to the advantage of headcount in the retail banking.

The reconstruction of the operational area and risk forces, finalised in the first half of 2006, was accompanied by the process of group layoffs started in 2005. This process was supported by the operations of HR Platforms whose main task is to find jobs within the Bank for the employees from the units under reorganisation (vacant FTEs in other organisational units). Special efforts were taken to find employment for the employees with children with special needs as well as single parents. As a result of these efforts, 80 out of 400 people were covered with the reorganisation found employment with the Bank. Other activities of the Platform included: support for employees via participation in the Outplacement Program, refund of professional training costs, extending the employment contracts for the employees who would have had the right to earlier retirement or pre-pension benefit by the end of 2006.

### Payroll Policy

In April 2006, ING Bank Śląski S.A. implemented the new system of base salaries and the new payroll policy. Changes in the payroll system were aimed at introducing a coherent and fair payroll policy that is competitive in market terms, as well as ensuring the rational use of the personnel costs budget. These assumptions are pursued, among other things, due to the payroll system defined based on the market data on salaries for individual positions that represent a specific job value as well as its adjustment to the regional salary differentiation. The new Bank's payroll policy also assumes offering at least such salaries as proposed by most banks as well as presenting one of the best offers on the labour market for higher

position ranks. Such approach should contribute to execution of the Bank's business targets due to better possibilities of employee recruitment, motivation and retention.

Implementation of the new system of base salaries at the same time enforced the need to verify and adjust accordingly the fringe benefits systems functioning in the Bank; therefore in the second half of 2006, the policy concerning the medical care for employees was modified, among other things.

In 2006, a new system of annual appraisal was introduced in the Bank, based on the competency model. The key competencies with their optimum levels were defined for each group of positions. The applied approach allows, among others, for identification of possible competency gaps for individual employees, specifically the areas that require changes in the scope of behaviour and skills held. For the first time, the new tools were to be applied in the employee annual appraisal for 2006.

### ***Training***

ING Bank Śląski S.A. is of the opinion that the employee's professional development constitutes one of the basic factors in building the institution's competitive edge. Therefore, as in previous years, also in 2006, the Bank assigned substantial outlays on and took effort to the managerial staff development as well as basic operational staff to improve their qualifications that are used for efficient establishment of relations with clients, improvement of quality of the services offered as well as improvement of sales skills.

In 2006, ING Bank Śląski S.A. trained 6,100 employees in the course of stationary training sessions. Since some employees took part in a number of training courses, the total number of training participants was 14,400. Each of the employees covered with training devoted 2.5 days to training on average. Additionally, almost 13,000 people took part in the courses run in e-learning formula. These individuals reached the required minimum scope both in unit and final tests.

To adjust the training syllabus to the specific needs of ING Bank Śląski S.A., their dominant part was of internal or closed character and:

- Approximately 60% of participants took part in the sessions run by the Bank's employees, (experts in specific issues). They were held both in the Bank's training centres as well as directly in branches.
- Almost 1/3 of participants took part in training sessions held in banking centres (closed formula). They were addressed only to the Bank employees and run by instructors from different training institutions. The Bank had a decisive impact on the syllabus of these courses.

The largest training projects of the Bank in 2006 referred to:

- Sales network employees. Employees from the retail network participated in training within the Best Service Program (inclusive of difficult situations in the client service), solution of problems with sales management, sale of investment funds as well as mortgage loans. Training of the private banking advisors was combined with the certification procedure, which was successfully completed by 278 advisors. Within the wholesale network, the training sessions were held with regard to risk management, financial analysis, new products, processes and regulations as well as interpersonal skills.

- Development of managerial skills among the executive staff within the Managerial Training Programme established in 2006. The first large training session was connected with preparing the executive staff for the annual appraisal process in 2007 according to the new modified formula. 969 people completed this training.
- Service of system applications, inclusive of the new Credit Applications Service System (SOWK) and electronic document distribution.

The employees also participated in training courses and conferences organised by external companies, especially in the post-graduate ones with funding from the European Social Fund.

Moreover, as of fall 2006, language courses have been run according to the newly adopted Policy of Language Courses at ING Bank Śląski S.A. Almost 1,000 employees started to learn English; more than 80% learn English at standardised courses.

At the beginning of 2006, ING Bank Śląski S.A. introduced on a large scale training in e-learning formula. The main topics of e-learning courses included: personnel management in the process of annual interviews (for managers), annual interviews system for the appraised person, security issues (Security Handbook, money laundering prevention), occupational safety training. Works were also run over preparations of 10 product training courses in e-learning form.

## Awards and Distinctions

In 2006, ING Bank Śląski S.A. received numerous foreign and domestic awards and distinctions.

The awards and distinctions which the Bank received for the attractiveness of its product offer are of particular value. They include:

- The title of the best bank for individual clients according to the Forbes monthly.
- Promotional Emblem *Bank Friendly for Entrepreneurs* in the category *Commercial Banks*. It is assigned to these banks which to the largest extent expanded the availability of services for clients from the SME sector.
- The highest TOP RATED rating for custody activities run in Poland assigned in 2006 for the prestigious American sector quarterly GLOBAL CUSTODIAN.
- 2<sup>nd</sup> position in the Newsweek Friendly Bank ranking.
- 3<sup>rd</sup> position in the ranking of *Home&Market* monthly: “Best Accounts for SME Sector”.
- Silver Rock 2005 for the best achievements in the development of new card products for MasterCard Business debit card in Euro, assigned by the Polish branch of MasterCard Europe.

The market also highly appraised the efficiency of marketing actions run by ING Bank Śląski S.A., supporting the sale of key products. In the Polish edition of EFFIE – one of the most important world marketing campaigns which awards the results of promotional campaigns and not only the outstanding creative ideas – ING Bank Śląski S.A. received three statuettes: (2 silver and 1 bronze) for the campaign *Banks are supposed to make money, Questions – kids*



and *So big, so Internet wise*. In the first survey of brand reputation PremiumBrand 2006, the Bank won the title *High Reputation Brand*, with the third position in the Finance category.

In April 2006, the editorial team of *Gazeta Bankowa* awarded the title of the 2005 Banker of the Year to Brunon Bartkiewicz, the President of the ING Bank Śląski Management Board. This award manifested the high appreciation of changes implemented in the Bank and achievements in the retail banking.

One of the basic principles of running business at ING Bank Śląski S.A. is striving after the financial clarity and transparency. The fact that this principle is efficiently implemented in the Bank is demonstrated by the victory of ING Bank Śląski S.A. in the competition *The Best 2005 Annual Report*, for the best 2005 report developed according to the International Accounting Standards, held by the Accounting and Tax Institute and the newspaper *Gazeta Giełdy Parkiet* in the category “banks and financial institutions”.

## XII. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. IN 2006

### Balance-Sheet Structure

As at 31 December 2006, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 48,351.5 million compared with PLN 42,084.0 million as at the end of December 2005 (up by 14.9%). Increase of liabilities towards clients from the non-financial sector was the primary source of growth of the balance sheet total and funding of operations of the Bank.

### Assets

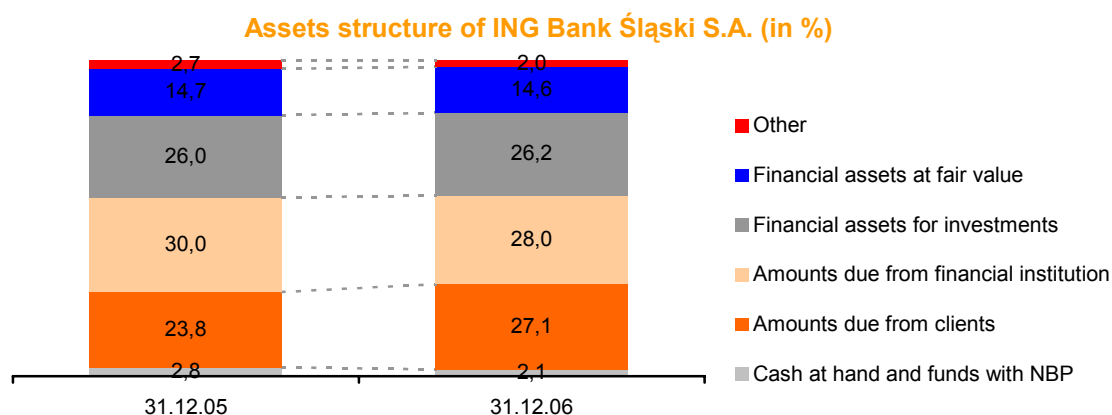
Intensification of lending activity at ING Bank Śląski S.A. in 2006 was reflected in the structure of assets.

As at 31 December 2006, loans and cash loans granted to clients of the Bank totalled PLN 13,082.6 million versus PLN 10,026.1 million as at the end of December 2005. They held a 27.1% share in assets, while a year earlier their share was at the level of 23.8%.

The increase of loan shares in the asset structure occurred at the expense of receivables from the financial sector. As at the end of December 2006, they were at the level of PLN 13,560.2 million compared with PLN 12,626.5 million a year earlier. As at the end of December 2006, the share of receivables from financial institutions in assets amounted to 28.0% against 30.0% at on 31 December 2005.

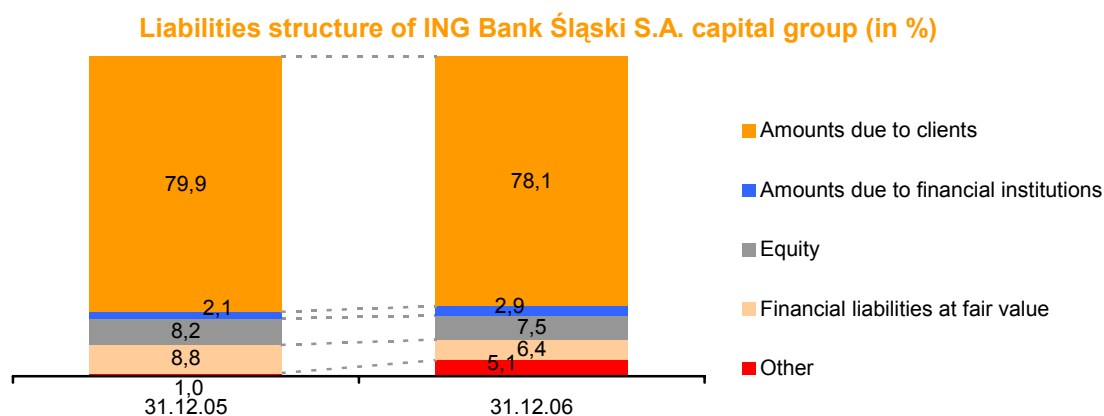
The significance of other elements in the assets of ING Bank Śląski S.A. as at the end of 2006 was similar to the one reported at the end of the previous year; i.e.:

- The value of investment financial assets reached PLN 12,644.7 million versus PLN 10,952.0 million as at the end of December 2005. Their share in the balance sheet total was at the level of 26.2% (26.0% in 2005).
- Financial assets carried at fair value through profit or loss amounted to PLN 7,056.7 million compared to PLN 6,165.7 million as at the end of December. Their share in the balance sheet total was close as a year earlier, and totalled 14.6%.
- The value of cash at hand and with the Central Bank as at the end of December 2006 was PLN 1,027.7 million against PLN 1,176.4 million as at the end of 2005. Their share in the balance sheet total was 2.1% and 2.8% respectively.



### Liabilities

The stable increase of the deposit base of ING Bank Śląski S.A. resulted in growth of the share of amounts due to clients in the liabilities. The value of amounts due to clients went up from PLN 32,878.0 million as at the end of December 2005 to PLN 38,526.4 million as at the end of December 2006, up by 17.5%. In December 2006, they constituted 79.9% of the Bank's liabilities, which translated into an increase by 1.8 p.p. against the previous year.



As at the end of December 2006, the Bank's amounts due to financial institutions amounted to PLN 1,400.2 million compared with PLN 877.0 million as at the end of 2005. The funds acquired from financial institutions accounted for 2.9% of the value of liabilities, while in December 2005 their share was 2.1%.

The share of equity in liabilities of ING Bank Śląski S.A. dropped from 8.2% in December 2005 to 7.5% as at the end of 2006.

## Income Statement

### Gross and Net Profit

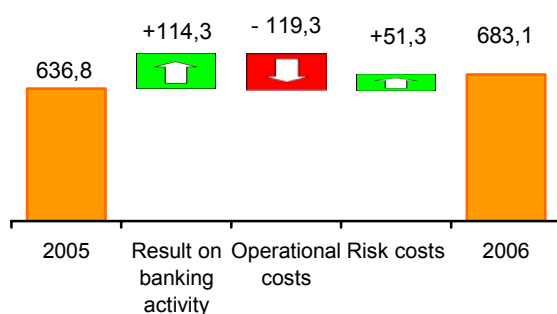
In 2006, the gross financial profit of ING Bank Śląski S.A. was PLN 683.1 million compared with PLN 636.8 million a year earlier.

Net profit reached PLN 540.6 million as compared with PLN 506.8 million a year earlier (up by 6.7%).

The main factors influencing the financial results of ING Bank Śląski S.A. in 2006 were<sup>9</sup>:

- over 7% increase of the result on banking activity versus the one generated a year earlier following the growth of the interest result (up by 30.5%) and the result on commission (up by 18.9%),
- an 11.0% increase of operational costs, as a result of higher staff costs (growth of the number of the sales network employees, a new remuneration system), depreciation/amortisation costs and other costs,
- a positive balance of impairment of assets due to both improvement of the quality of the lending portfolio and efficient restructuring activities in the area of the loss portfolio, transferred to the off-balance sheet records.

Gross profit of ING Bank Śląski S.A. in 2006



Result on banking activity by category (PLN million)

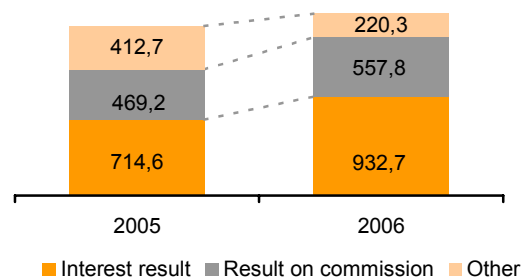


Table. Basic Values of the Income Statement – analytical (PLN million)

	2006	2005
Interest result	932.7	714.6
Result on commission	557.8	469.2
Other	220.3	412.7
<b>Result on banking activity</b>	<b>1,710.8</b>	<b>1,596.5</b>
<b>Operating costs incl. depreciation/amortisation</b>	<b>-1,199.3</b>	<b>-1,080.0</b>
<b>Impairment losses and provisions</b>	<b>171.5</b>	<b>120.2</b>
<b>Gross financial result</b>	<b>683.1</b>	<b>636.8</b>
Income tax	-142.5	-130.0
<b>Net financial result</b>	<b>540.6</b>	<b>506.8</b>

<sup>9</sup> The characteristics discussed in this documents apply to analytical income statement. The category result on core operations includes the result on core operations plus the result on sales of assets other than those available for sale.

### Interest Result

In 2006, net interest income generated by ING Bank Śląski S.A. amounted to PLN 932.7 million versus PLN 714.6 million a year earlier. This income was the result of:

- a significant increase of the value of deposits that the Bank subsequently invested mainly on financial markets,
- growth of the scale of operations on the derivatives market,
- drop in interest rates affecting shrinking of interest margins – in 2006, the Bank earned the interest margin of 2.07% against 2.33% in the same period last year.

### Non-Interest Income

Income on fees and commissions constituted the major part of non-interest income. In 2006, it totalled PLN 557.8 million compared with PLN 469.2 million in 2005 (up by 18.9%).

In the structure of commission income, the largest share was related to commission on current account-related services, operations made with payment cards and commissions paid due to the distribution of TFI units.

In 2006, the result on instruments measured at fair value was PLN 0.1 million, while it was PLN 211.8 million a year earlier.

The result on the revaluation of FX items and FX transactions was PLN 146.7 million against PLN 160.1 million a year earlier.

Other operating revenue includes, among other things, the amount of PLN 8.1 million (upon deducting the contribution), which the Bank received upon liquidation of a damage by the insurer.

### Operating Expenses

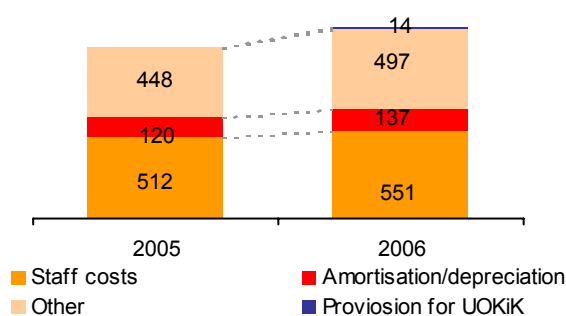
In 2006, the overheads of ING Bank Śląski S.A. (the operating costs including depreciation of non-current assets and amortisation of intangible assets) were PLN 1,199.3 million against PLN 1,080.0 million a year earlier (up 11.0%).

Total costs went up following the expanded scale of operations and the institution restructuring. Staff costs accounted for almost one half of costs (46.0%). Launch of a new remuneration system connected with salary indexation, higher costs of the incentive system, arising from the execution of Bank commercial objectives, caused the staff costs to amount to PLN 551.3 million in 2006 (up 7.7% from 2005).

Amortisation / depreciation costs totalled PLN 137.3 million, or went up by 14.0% from a year earlier. This growth was the consequence of commencing depreciation of the outlays borne for the projects realised during previous years, including new IT systems for servicing cards and monitoring of credit repayments.

The other costs amounted to PLN 497 million versus PLN 448 million a year earlier. When compared with the year 2005, a growth of consulting costs was recorded as a result of

Operating expenses by category  
(PLN million)



undertaking numerous projects intended for the further enhancement of processes and optimisation of sales structures. The value of other costs was also affected by the sale of ING Services Sp. z o.o. and signing of the outsourcing agreement for cash handling.

Towards the end of 2006, ING Bank Śląski S.A. also established a PLN 14 million worth of provision following the decision of the Office of Competition and Consumer Protection (UOKiK) regarding the amount of fees charged for transactions made with VISA and MasterCard payment cards.

### ***Impairment Losses and Provisions***

In 2006, the risk costs recognised in the income statement of ING Bank Śląski S.A. were positive and amounted to PLN 171.5 million. The income from the impaired loans portfolio moved to the off-balance sheet records formed the main position thereof. It amounted to PLN 119.5 million.

## **Performance**

The results recorded by ING Bank Śląski S.A. in 2006 caused the basic efficiency ratios to improve considerably against the previous year.

An exception thereto was the increase of the Cost/Income ratio, following the continued process of the Bank rebuilding, implementation of a new remuneration system and extensive marketing activities.

**Table. Basic efficiency ratios (%)**

	2006	2005
Profitability ratio	28.8	27.4
C/I ratio	70.3	67.9
ROA	1.2	1.3
ROE	17.5	17.1
Interest margin ratio	2.07	2.33
Solvency ratio	15.08	17.96

**Profitability ratio** – gross profit to total costs.

**Cost to Income ratio (C/I)** – total overhead costs to the result on banking activity in analytic terms.

**Return on assets (ROA)** – net profit to total assets.

**Return on equity (ROE)** – net profit to equity.

**Interest margin ratio** – relation between the net interest income and average yield assets of the Bank<sup>10</sup> (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).

**Solvency ratio** – net equity to off-balance sheet assets and liabilities including risk weights.

<sup>10</sup> Net interest income increased with the income on "internal deposit swaps". Average assets are calculated based on the data from three periods: 31.12.2005, 30.06.2006 and 31.12.2006.