



# **2007 Annual Report of ING Bank Śląski S.A.**

**ING  BANK ŚLĄSKI**

## Table of Contents

<b>Table of Contents.....</b>	<b>2</b>
<b>Chair's Statement.....</b>	<b>5</b>
<b>Chief Executive's Review.....</b>	<b>7</b>
<b>Brief Characteristics of ING Bank Śląski S.A.....</b>	<b>9</b>
<b>I. POLISH ECONOMY IN 2007.....</b>	<b>10</b>
Major Economic Trends.....	10
Monetary Policy .....	11
Banking Market.....	12
Capital Market.....	13
Macroeconomic factors that will affect the banking sector in 2008 .....	15
<b>II. STRATEGY OF ING BANK ŚLĄSKI S.A. ....</b>	<b>17</b>
Mission Statement and Vision of ING Bank Śląski S.A.....	17
Business Lines Objectives for 2008 .....	18
<b>III. MAJOR ACHIEVEMENTS OF ING BANK ŚLĄSKI S.A. IN 2007</b>	<b>20</b>
Strong Expansion on Deposit Market .....	20
Breakthrough in Lending .....	21
Material Progress in Adaptation of the Organisation to Market Challenges .....	22
<b>IV. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2007 .....</b>	<b>23</b>
Retail Banking.....	23
<i>Product Offer and Changes Introduced</i> .....	23
<i>Deposit Activity</i> .....	25
<i>Lending</i> .....	25
<i>Bank Cards</i> .....	26
Corporate Banking .....	27
<i>Product Offer and Changes Introduced</i> .....	27
<i>Changes in the Principles of Client Service</i> .....	28
<i>Deposit and Clearing Strategy</i> .....	29
<i>Lending</i> .....	30
Money and Capital Markets .....	30
<b>V. BUSINESS OPERATIONS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP COMPANIES.....</b>	<b>33</b>
Structure of ING Bank Śląski S.A. Capital Group.....	33
ING Securities S.A. ....	34
ING Bank Hipoteczny S.A. (former Śląski Bank Hipoteczny S.A.).....	35
Centrum Banku Śląskiego Sp. z o.o. ....	36
ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytalne S.A.....	37
[ING Nationale-Nederlanden Poland Pension Fund Company] .....	37
ING BSK Development Sp. z o.o. ....	37
Solver Sp. z o.o. ....	38

<b>VI. MANAGEMENT OF KEY RISKS .....</b>	<b>39</b>
Credit Risk.....	39
<i>Credit Policy</i> .....	39
<i>Credit Process and Assessment of Credit Risk</i> .....	40
<i>Credit Portfolio Quality and Provisioning</i> .....	41
Market Risk Management .....	42
Capital Adequacy .....	43
Operational Risk and Compliance.....	44
<b>VII. CORPORATE GOVERNANCE RULES.....</b>	<b>46</b>
Supervisory Board's Report on Operations of ING Bank Śląski S.A. in 2007.....	46
Observance of Good Practices of the Corporate Governance .....	47
Statutory Authorities of the Bank.....	48
Remuneration of the Members of Management Board and Supervisory Board of ING Bank Śląski S.A. ....	49
Auditor .....	50
<b>VIII. INVESTOR INFORMATION.....</b>	<b>52</b>
Price of ING Bank Śląski S.A. Shares .....	52
Shareholding Structure of ING Bank Śląski S.A. ....	53
History of Dividend Payout and Proposal of 2007 Dividend Payout .....	53
Ratings.....	54
ING Bank Śląski Financial Results calendar for 2008.....	55
<b>IX. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT OF ING BANK ŚLĄSKI S.A. IN 2007 .....</b>	<b>56</b>
Information Technology .....	56
Operations .....	57
Development of Electronic Distribution Channels .....	57
Development of the Network of Bank Outlets .....	58
<b>X. ING BANK ŚLĄSKI S.A. IN THE SOCIETY.....</b>	<b>60</b>
ING Children Foundation.....	60
Employees in Voluntary Service.....	61
ING Polish Art Foundation .....	62
<b>XI. HUMAN RESOURCES.....</b>	<b>63</b>
Headcount.....	63
Payroll Policy .....	63
Recruitment and Selection .....	64
Employee Training and Development.....	64
Working Conditions .....	65
<b>XII. AWARDS AND DISTINCTIONS.....</b>	<b>67</b>
<b>XIII. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. IN 2007 ..</b>	<b>68</b>
Balance-Sheet Structure .....	68
<i>Assets</i> .....	68
<i>Liabilities</i> .....	68
Income Statement .....	69

<i>Gross and Net Profit .....</i>	69
<i>Interest Result .....</i>	70
<i>Non-interest Income .....</i>	70
<i>Operating Expenses .....</i>	71
<i>Impairment Losses and Provisions .....</i>	71
Share of Business Lines in Creation of Financial Result .....	71
Basic efficiency ratios .....	72

#### **XIV. STATEMENTS OF MANAGEMENT BOARD OF ING BANK ŚLĄSKI S.A..... 73**

Truthfulness and Accuracy of Statements.....	73
Selection of Entity Authorised to Audit Financial Statements .....	73
Additional Information.....	73
<i>Agreements Concluded .....</i>	73
<i>Number of value of writs of execution.....</i>	73

## Chair's Statement

Ladies and Gentlemen,

Throughout 2007, the Supervisory Board analysed in-depth all facets of the operations of ING Bank Śląski S.A. and was engaged in a dialogue with the Bank's Management Board to define the best solutions that would stimulate the development of the Company.

During their meetings, the Supervisory Board and the committees operating as part of it discussed the commercial and financial results of ING Bank Śląski S.A., as well as the main issues related to the company's management including: Credit and financial risk management, compliance, HR policy, progress of strategic projects conducted at the Bank. The co-operation between the Supervisory Board and the Management Board of the Bank was effective, and the co-operation formula developed by the parties ensured objective ownership oversight and adherence to the best corporate governance practices.

In the opinion of the Supervisory Board, 2007 was a good year for ING Bank Śląski S.A., both in terms of the growth rate in key areas, and in terms of financial results generated by the company.

As at the end of December 2007, the balance-sheet total of the capital group of ING Bank Śląski S.A. amounted to PLN 52.0 billion, up by 7% from a year earlier. Higher scale of the Bank's operations resulted from dynamic growth of both lending and deposits acquired from the clients.

As at the end of 2007, the overall value of deposits in the accounts kept at the Bank capital group totalled PLN 42.9 billion, nearly 1/5 higher than a year earlier. The Bank had very good results in the acquisition of household deposits, which are crucial for the stability of the entire deposit base.

The continuing high growth rate of lending also bode well for the future. As at the end of December 2007, credit receivables of the Bank capital group totalled PLN 16.4 billion, up by 27% throughout the year. Consequently, the structure of the Bank's balance sheet improved in terms of its ability to generate income.

The commercial results for 2007 show that ING Bank Śląski S.A. selected the right instruments to implement its strategy. The Bank deserves special credit for its achievements in the following areas: Further optimisation of the lending process, better efficiency of the operations area, the end of the first implementation stages of the new Front-End application, construction of the new type of outlets, and the increasingly higher number of self-banking zones in the branches.

The capital group of ING Bank Śląski S.A. closed 2007 with net profit of PLN 630.7 million, up by 6.7% from a year earlier. The Bank earned PLN 18.9 per each PLN 100 worth of invested capital. The Bank conducted its operations in a highly secure environment and at the end of 2007, the solvency ratio of the Bank's capital group totalled 13.1%.

Since the Bank's capital needs in 2008 will go up considerably as a result of the credit expansion plans, and the new regulatory requirements in the area of risk management, the Supervisory Board agrees to the Management Board's request for allocating the majority of the 2007 profits for equity increase and will recommend the General Shareholders Meeting to pay out the dividend of PLN 152,217,000.00, representing approximately 25% of the 2007 net profit. The proposed dividend will total PLN 11.7 per share. We strongly believe that the decision to increase the capital base will bring considerable growth of the fundamental value of ING Bank Śląski S.A. in the future, which should certainly give cause for satisfaction of our shareholders as well.

Yours sincerely,

Anna Fornalczyk  
Chair of the Supervisory Board

## Chief Executive's Review

Dear Shareholders,

ING Bank Śląski S.A. took full advantage of the good situation on the Polish banking market in 2007. The year saw us building relationships with thousands of new clients, acquiring billions *złotys* of savings of private individuals and surplus funds of businesses, and bringing lending to levels that have not been seen for years.

Thanks to highly attractive flagship products, such as the OKO Open Savings Account and the PLN-mortgages, we were able to attract nearly 220,000 new individual clients. Moreover, our complex offer of corporate finance management together with professionalism of our advisors attracted further 555 companies.

With the larger client base and stronger relationship with our existing clients, we were able to expand in the deposit market faster than the average for the entire banking sector. As at the end of December 2007, total deposits at ING Bank Śląski S.A. capital group amounted to PLN 42.9 billion, which represented nearly 9% of all deposits in the entire Polish banking system. We are particularly pleased with our outstanding results in the acquisition of household savings.

We also noted a breakthrough in terms of lending. In December 2007, the total credit exposure of the capital group of ING Bank Śląski S.A. amounted to PLN 16.4 billion, up by 27% from a year earlier. Consequently, we were able to defend our existing position on the credit market, while maintaining very good quality of our receivables from the client. The share of impaired loans in the total portfolio went down to 3.0%, well below the average for the entire banking sector.

ING Bank Śląski S.A. would not have been able to achieve its current good position without ongoing changes effected within our organisation to adapt it to the market developments and new challenges. Our sales capacities grew in 2007 upon the implementation of a new application Front-End for client service in branches. We also expanded our distribution network as we opened nearly seventy outlets of the new type for our clients and launched fifty self-banking zones in our branches. We offered new products to the clients, such as: A new line of mortgage loans offered in co-operation with agents; new types of loans for corporate clients; microchip cards and sophisticated FM products. We enhanced our risk management systems, which cover both financial and operational risks, to adapt them to the new regulatory requirements. We also adopted a new Compliance Code and took efforts to promote corporate culture based on honesty, transparency, respect and common sense. As in the previous years, we were actively working towards social development and encouraged our employees to be socially responsible, e.g. by doing voluntary work.

The capital group of ING Bank Śląski S.A. closed 2007 with profit of PLN 630.7 million, up by 6.7% from a year earlier. It is worth to note a nearly 14 per cent increase of the result on core operations, which was earned based on recurring incomes. The year also saw considerable increase in our value, which is measured by economic profit.

Looking ahead, I would like to declare that in 2008 we will continue our efforts to cement the position of ING Bank Śląski S.A. in the Polish banking sector. Further expansion on this

dynamically growing, though highly competitive, market will only be feasible if we continue to retain the innovative nature of our organisation, which is able to translate the growing requirements of its clients into state-of-the art and reliable processes and service excellence. The following projects are of key importance for the achievement of our plans for 2008: Completing a project to encourage as many clients as possible to take advantage of the Internet-based accounts, continuing the project of new type outlet network development, implementing the subsequent functionalities of the new Front-End applications, introducing self-banking zones to most outlets and implementation of additional modules to the new Internet banking system for corporate clients.

Planning ahead, we are also aware of the challenges we will have to face while implementing our corporate strategy, which include both external threats such as the potential decrease of the economic growth rate and unfavourable conditions on the capital markets, as well as internal ones related to effective use of our outlays on development. I believe that we will be able to overcome all those obstacles because the years we have spent building a modern and stable organisation with high potential for long-term growth will certainly pay off.

Concluding, I would like to express my gratitude to and 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 in-depth evaluation of our operations and support to the Management Board in the implementation of the corporate strategy.

Yours sincerely,

Brunon Bartkiewicz

CEO  
ING Bank Śląski S.A.



## Brief Characteristics of ING Bank Śląski S.A.

ING Bank Śląski S.A. is one of the largest universal banks in Poland that has been present on the Polish market since 1989. The Bank operates in the area of retail banking, wholesale banking, on the money market and on the capital markets.

ING Bank Śląski is number four on the Polish market by total assets. As at the end of December 2007, the balance-sheet total of the Bank amounted to PLN 51,826 million, or 6.5% of the Polish banking sector's assets.

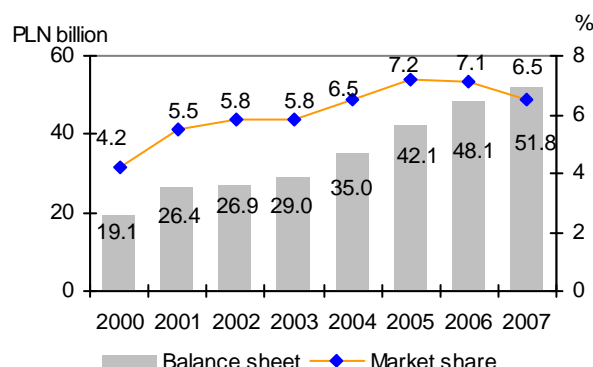
As at the end of December 2007, ING Bank Śląski S.A. provided service to more than 2.1 million individual clients, 146,000 small businesses and 12,400 large companies.

The Bank had a nationwide network of 404 bank outlets. The clients of ING Bank Śląski S.A. are guaranteed free access to a network of 630 ING ATMs as well as Euronet ATMs. The Bank provides the clients with banking services via the state-of-the-art electronic banking systems, such as: the Internet banking systems (ING BankOnLine, ING BusinessOnLine), a phone banking system (HaloŚląski), an office-banking system (MultiCash) and a text messaging system.

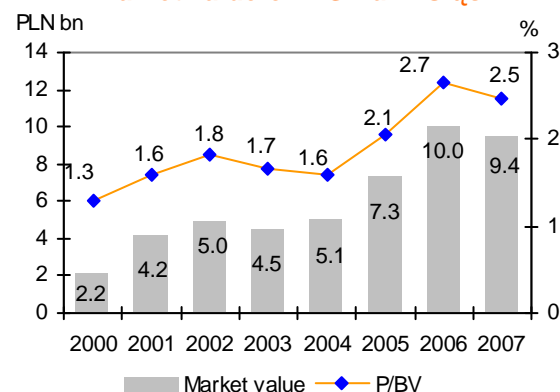
As at the end of 2007, of ING Bank Śląski S.A. had more than 7,800 employees.

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

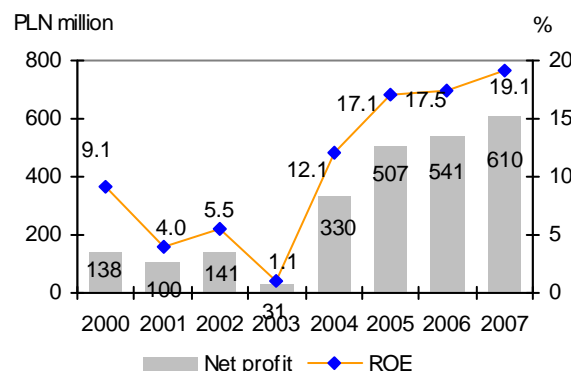
**Balance sheet of ING Bank Śląski**



**Market value of ING Bank Śląski**



**Net profit of ING Bank Śląski**



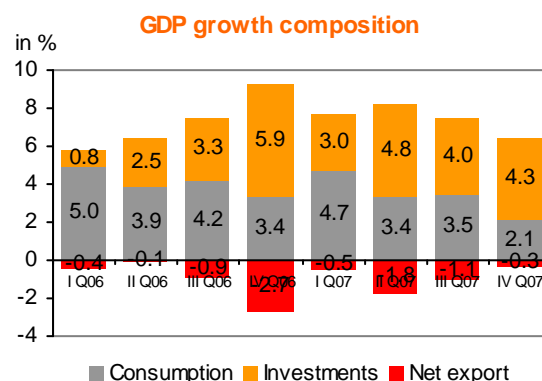
## I. POLISH ECONOMY IN 2007

### Major Economic Trends

#### Gross Domestic Product

In 2007, the Polish economy was in the phase of strong growth with culmination in the first half of the year. According to preliminary data, in 2007 the Gross Domestic Product (GDP) went up by 6.5% compared with 6.2% a year earlier. 2007 was yet another year in which the Polish economy grew faster than the economies of most EU countries.

The structure of economic drivers proved favourable as well. Internal demand, especially high investment activity of the Polish companies, turned out to be the key growth engine for the Polish economy. Gross outlays on non-current assets in 2007 were 20.4% higher than a year earlier, which provided solid foundations for further growth. Individual consumption also went up considerably, following the increase of mean pay, the growth in the employed number in the economy, and also as a result of dynamic growth of debt of bank clients. In 2007, it was 5.2% higher than a year earlier.



Foreign demand for Polish goods continued to be at a high level. In 2007, export in EUR was 14.9% higher than a year earlier, at the same time import went up by 17.3% due to further increase of internal demand. Consequently, net export lowered the growth rate of GDP.

#### Labour Market and Pay Level

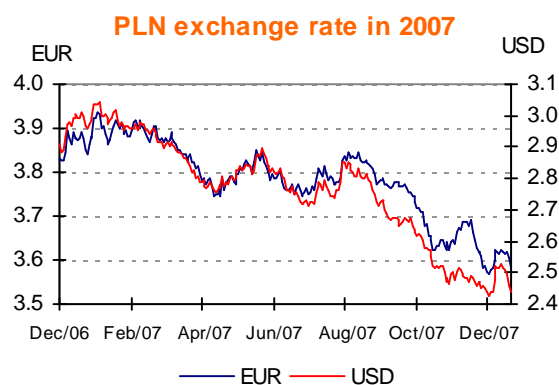
High economic growth rate was accompanied by high increase in the number of employment, which resulted in further decrease of the jobless rate. As at the end of December 2007, employment in the enterprise sector was 4.9% higher than a year earlier, and the registered jobless rate went down to 11.4% (compared with 14.8% as at the end of December 2006). Growing demand for employees, with the quickly dwindling labour resources (due to low professional activeness of the Polish society; structural mismatch on the labour market and emigration in search of better life) resulted in a deficit of qualified labour and an unprecedented growth of pay. In 2007, the average monthly pay in the enterprise sector was 9.2% higher than in 2006, which caused a visible increase in the unit labour costs.

#### Inflation

Global factors such as high prices of food and fuel, as well as the pay pressure resulted in higher price growth rate. In December 2007, the inflation ratio was 4.0% per annum (or, 1.5 p.p. above the inflation target set by the Monetary Policy Council).

#### FX Market

In 2007, the appreciation trend for the Polish currency continued, mainly courtesy of solid foundations of the



Polish economy, higher rating for Poland and interest rate hikes by the Monetary Policy Council. The strengthening of zloty was clearly visible, especially in relation to the US dollar. Altogether, the Polish zloty gained 16.3% against USD and 6.5% against EUR in 2007.

### **State Budget**

The condition of the State Budget was much better than planned. Courtesy of higher-than-planned inflows from PIT and CIT, as well as costs discipline, the budget deficit totalled PLN 16.9 billion, or 56.4% of the amount planned in the Budget Act for the entire 2007. Good condition of the State Budget, which continued from the beginning of the year, helped, among other things, reduce fiscal burden by way of lowering the disability contribution. The first stage of that reduction was introduced on 1 July 2007, and the second one as of 1 January 2008.

### **Euro 2012**

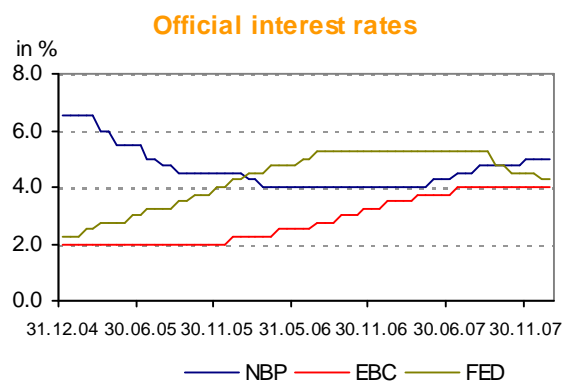
In April 2007, Poland and Ukraine were chosen to host the 2012 European Football Championships, which – according to most analysts – will have positive impact on the long-term perspectives of economic growth in Poland. The preparations for that event will require higher investment outlays, especially for road infrastructure, hotels and sports facilities. It will also give an impulse for better utilisation of EU funds and increased inflows of foreign investments.

## **Monetary Policy**

In 2007, the Monetary Policy Council (MPC) tightened its monetary policy in response to the strong inflationary pressure, high pay growth rate and considerable growth rate of loans to households. The MPC increased the interest rates four times, notably in April, June, August and November. In 2007, the interest rates went up by 100 b.p. and as at the end of December 2007, they were as follows:

- Reference rate – 5.00%,
- Rediscount rate – 5.25%,
- Lombard rate – 6.50%,
- Deposit rate – 3.50%.

The interest rate hikes by the MPC and the expected continuation of the monetary policy tightening led to a considerable increase of rates on the domestic money market. There was also a significant increase in the profitability of debt instruments.



In the opinion of the MPC, which was presented in the update after the last meeting in 2007, within the next quarters the growth rate of the GDP would be higher than the potential one. Furthermore, the likelihood that inflation will be above the inflation target will be higher than likelihood that inflation will be below the inflation target. The MPC listed the following factors that add to the growth of inflationary phenomena: High growth rate of pays and unfavourable ratios between the pay increase and productivity; rising prices of food and oil, which covered the global economy and affected the Polish market; as well as pro-cyclical impact of the adopted state budget on the economy in 2008. By contrast, the growth rate of prices will be limited by the following: Very good financial standing of companies; high

growth rate of investments that may result in higher effectiveness; the globalisation process and the related competition growth; the relative stability of the PLN exchange rate and the potential slowdown of the global economy.

## Banking Market

Favourable macroeconomic conditions supported the development of the Polish banking sector. In 2007, credit exposure of banks both to retail and corporate clients went up considerably, and so did the sales of investment fund units and other financial products. Quality of credit portfolios improved even further.

Following a considerable growth of the scale of operations, as at the end of December 2007, the assets of the Polish banking sector went up to PLN 804.0 billion, up by 17.6% from a year earlier. Dynamic lending growth was the decisive element for the fast development of the banking institutions:

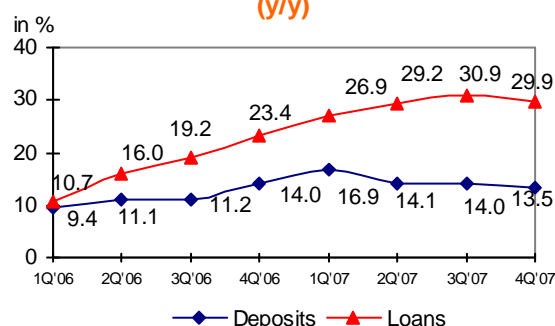
- As at the end of December 2007, credit receivables of the banking sector from the households went up by 37.9% from a year earlier, and totalled PLN 260 billion. The growth resulted mainly from better financial standing of the clients, and more relaxed terms of extending loans. Housing loans were decisive for that increase, and in 2007, their growth rate totalled 50.4%. In the discussed period, PLN-denominated housing loans grew faster, mainly as a result of the implementation of the Recommendation S in 2006 and the higher costs of loans denominated in foreign currencies due to the increase of interest rates in Switzerland and in the euro zone.
- Lending to corporate clients also went up significantly. As at the end of 2007, credit exposure of the banking sector to the institutional clients<sup>1</sup> totalled PLN 217.2 billion, up by 21.5% from the end of 2006. The increase was related to visibly higher investment outlays of the companies and changes to the corporate policy of the banks, which mainly relaxed the requirements towards small and mid-sized enterprises.

Deposits in bank accounts also went up in 2007:

- Due to higher growth rate as at the end of December the liabilities of the banking sector towards households totalled PLN 267.0 billion<sup>2</sup>, up by 10.0% from a year earlier.
- The continued good financial standing of businesses was reflected in growing funds of institutional clients at bank accounts. As at the end of December 2007, they totalled PLN 207.6 billion, up by 18.5% from the end of 2006.

According to preliminary data, net profit of the banking sector in 2007 totalled PLN 13.8 billion, up by nearly 30% from a year earlier. The efficiency of operations was higher as well. For instance, the return on equity (ROE) reached 26% compared with 23% a

Deposits and loans growth rate (y/y)



<sup>1</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.

<sup>2</sup> Including deposits in excess of 2 years.

year earlier. Consequently, the Polish banking sector retained its position among the most profitable ones in the European Union.

Higher profits were largely the result of higher incomes of the banks. Major increase was recorded for interest income (by 17% per annum) and for commission income (up by 21%) due to dynamic growth of lending and the sales of products of other financial institutions (investment fund units, factoring and insurance products).

However, the growth of the banks' profits was slowed down by a 14 per cent growth of the operating costs. Banks spent considerable funds on hiring new employees (and to attract them, banks often had to offer higher salaries than in previous years), the functioning of the pro-sales incentive systems; on the development of bank outlets network, on the adjustment of the institutions to the new legal regulations and on the marketing activities.

At the same time, thanks to good economic conditions and the application of increasingly better methods of credit risk management, the quality of the banks' credit portfolios kept improving. In December 2007, the share of impaired loans in the total portfolio of loans for non-financial sector hit the lowest levels ever and totalled 5.4% (from 7.6% in December 2006). Very good quality of the credit portfolios enabled the banks to keep the risk costs at a low level.

In autumn 2007, the value of the banks' credit receivables exceeded the deposits in the banking sector, which changed the liquidity situation in the entire system. Banks were often forced to look for external funding and try harder to win new depositors.

The considerable growth potential of the Polish banking sectors encouraged the banking institutions operating on the Polish market to implement their expansion plans; it also attracted new entities to the Polish market. Therefore, the upward trends, which started in 2005 and which characterised the number of employed and the number of bank outlets, continued throughout 2007. In 2007, banks started nearly 1,000 new branches, both proprietary and partner ones. Along with the branch network, the banking institutions also increased the number of employed with more than 9,000 new employees.

The balance of powers in the Polish banking sector underwent significant changes due to stronger consolidation processes, and mainly due to the integration of Bank Pekao SA with Bank BPH S.A. As a result of the merger, there was a reshuffle on the first position by balance-sheet total.

As of 1 January 2008, the Polish Financial Supervision Authority took over the oversight of the banking sector, which should improve the supervision over the entire financial sector in Poland, according to the regulators.

### **Capital Market**

2007 was a period of dynamic development of the Polish capital market. The Warsaw Stock Exchange recorded a considerable increase in the trading of shares and derivatives; the number of companies debuting on the WSE was record-breaking; new categories of instruments were introduced, and the new alternative market called NewConnect was launched. In the final months of 2007, the growth took place in the conditions of considerable

volatility and significant revaluation of shares due to the developments on the global financial markets.

As at the end of 2007, the value of companies listed on the Warsaw Stock Exchange exceeded PLN 1 billion, up by 70% from a year earlier. The growth of the market value was largely related to the record number of debuts. With 81 stock-exchange debuts, the WSE was ranked second in Europe, only slightly below the London Stock Exchange. The value of the initial offers totalled PLN 18.2 billion, including PLN 15.4 billion worth of new share issues. It was an absolute record in the WSE history. Among the debutants, there were 12 foreign companies, including businesses from markets that have not been represented on the Warsaw Stock Exchange before.

In 2007, shares worth PLN 479.5 billion, up by 42% from 2006, changed hands. The derivatives market also developed dynamically. The total volume of trading in all derivatives in 2007 totalled nearly 10 million, up by some 48% from a year earlier.

The stock exchange indexes were volatile in 2007. The first half of the year was characterised by strong growth of share prices, especially in the segment of small and mid-sized companies. By contrast, in the second half of the year, the high prices of raw materials, hard-to-estimate losses of international banks after the sub-prime crisis in the US and the threat of a global slowdown caused high volatility and considerable decrease in the share prices on the stock exchanges around the world. These sentiments were also reflected in the Warsaw Stock Exchange. Altogether, in 2007 WIG went up by 10.4%, and WIG 20 by 5.2%.

The year 2007 also brought considerable qualitative changes in the functioning of the exchange market in Poland as a result of:

- Launching a new market for innovative companies called NewConnect. The purpose of that market is to finance the development of small businesses with short business history and large growth potential that do not meet the requirements effective on the main capital market.
- Denominating all sector subindexes (including the Banks subindex) to improve the transparency and simplify the analysis
- Changing the rules of constructing and announcing indexes and subindexes, whereby the mid-sized companies index MIDWIG was replaced by mWIG40 and the smallest companies index WIRR was replaced with sWIG80.
- Changing the market segmentation. As of 1 April, the shares of all companies listed on the regulated market are classified – on a quarterly basis – into one of the three segments: 5 PLUS, 50 PLUS and 250 PLUS. The classification is based on the market value of the company.
- Launching a new free and widely available website for investors with information on Polish and international companies listed on the WSE and on the markets in Central and Eastern Europe.
- Lowering all transactional fees (by 15-20%).

Discussions were held on the new corporate governance rules. The new *Best Practices of Public Companies*, which were accepted by the Supervisory Board of the Stock Exchange on 9 July 2007, came into force on 1 January 2008.



2007 can also be considered a good year for the investment funds market. The value of savings deposited in the investment funds units grew dynamically throughout the major part of the year. It was not until the last two months of the year that the value of investment fund assets went down as a result of the revaluations on the stock exchange and the withdrawal of some funds by the clients. As at the end of December 2007, investment funds corporations managed PLN 133.5 billion, up by 36% from the end of last year. The year 2007 also brought considerable changes in the structure of assets by individual segments. The biggest success was recorded in the area of equity funds due to dynamic growth of funds in the international equity funds; their share in total assets went up to 31% in December 2007 (up by 10% p.p. throughout the year).

It is expected that the Polish capital market will continue to grow in 2008. It is estimated that another 70 companies will debut on the stock exchange, including 15-20 foreign ones. The value of initial offers may be in excess of PLN 10 billion. Privatisation offers of the State Treasury companies, in accordance with the government's plans, will represent an absolute majority of that figure. The conditions on the Polish capital market will largely depend on the condition of the American economy and of the global financial sector.

### **Macroeconomic factors that will affect the banking sector in 2008**

According to most analysts, the high level of economic activity in Poland will continue over the next quarters. As per the forecasts prepared at ING Bank Śląski S.A., GDP in 2008 will go up by 5.4%. The economic growth will be less stable, though. Higher trade deficit and higher inflation are expected as well.

It is forecasted that the Polish economy will develop thanks to growing domestic demand. Continuation of the double-digit growth rate of investment outlays is expected and the individual consumption will probably grow at a level similar to the one recorded in 2007.

As a result of the global increase of the prices of fuels and foods, and the pay pressure, it is expected that the prices in 2008 will go up by 4.1% on the average. Therefore, the continuation of the tightening cycle of the monetary policy is highly probable. It is forecasted that the Polish zloty will remain strong thanks to the solid foundations of the Polish economy.

The following factors can be listed among the main threats to the development of the Polish economy and the banks operating in Poland:

- Maintaining of disturbances on the global financial market in the long term that could result in an outflow of equity from the emerging markets, depreciation of the Polish zloty and further increase of the interest rates. These phenomena could result, among other things, in lower lending, deterioration of the financial standing of the borrowers and of the quality of the credit portfolios, and lower incomes of the banks due to the sales of investment fund units and trading on the stock exchange market.
- The phenomena on the supply side of the Polish economy, including in particular problems finding new employees and growing pay pressure that pose a threat to the profitability of the Polish companies and that may have an adverse impact on the production level and the propensity to start investment projects.

## Polish Economy in 2000–2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008F
(%) GDP growth	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.5	5.4
Budget Deficit (% of GDP)	-3.0	-5.1	-5.0	-6.3	-5.7	-4.3	-3.8	-2.5	-2.9
Money Supply M3 (in PLN billion)	300.8	329.7	326.1	345.1	377.5	427.1	495.3	561.7	640.3
(%) Increase of Industrial Output	7.8	0.6	1.4	8.6	13.1	4.1	12.0	9.7	7.2
(%) Inflation (CPI) (annual average)	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	4.1
(%) Unemployment rate	15.0	19.4	20.0	20.0	19.0	17.6	14.9	11.4	8.7
PLN/USD exchange rate (year-end)	4.1432	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.400
PLN/EUR exchange rate (year-end)	3.8544	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	3.3100
3M WIBOR (year-end)	19.45	11.91	6.87	5.60	6.64	4.60	4.20	5.68	6.05



## II. STRATEGY OF ING BANK ŚLĄSKI S.A.

### Mission Statement and Vision of ING Bank Śląski S.A.

The mission of ING Bank Śląski S.A. is to *Help clients in managing their financial future.*

While pursuing its mission, the Bank, as the entire ING Group, followed these paradigms:

- *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 does it best to offer 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. It is the Bank's intention to create stable growth of value 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 and simplifying 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 based on honesty, respect and transparency. It is essential that the employees identify with the Bank's values, its mission and vision and that they know their roles in the organisation and feel a part of it. Upgrading the qualifications of the staff and their professional development is one of the Bank's priorities.

Main strategic targets of the ING Bank Śląski S.A.:

- 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 are 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 financial future. The Bank operates under the motto *Each client adds value and gets value*. To ensure beneficial co-operation, the Bank regularly analyses the clients' needs, creates a product offer that meets the expectations of individual segments (both in terms of the product features and pricing), as well as develops the multi-channel distribution system.

### **Business Lines Objectives for 2008**

In 2008, ING Bank Śląski S.A. intends to fulfil its strategic objectives in a consistent manner. The main activities of the individual business lines will be focused on the fulfilment of the following objectives:

#### **Retail Banking**

- To build *The most Internet-based Bank ever* by modernising the product offer and expanding the functionalities of the electronic banking service.
- To ensure dynamic growth of sales of mortgages (by implementing the *Loan Xpress* product to the financial intermediaries network, among other things).
- To continue further development of the new type outlets and the self-banking zones in order to optimise costs and improve customer service.
- To improve the competitiveness of the offer to ensure constant growth of funds entrusted to the Bank.

#### **Wholesale Banking and Financial Markets**

- To increase the market share measured by loans and deposits volume as well as number of clients.
- To modify the products, both the tailor-made ones dedicated to strategic clients and the standard yet price flexible offer addressed to clients from other segments.
- To enhance processes and improve cost efficiency.
- To increase cross-selling, especially of high value added products and services (i.e. financial markets derivatives, ABL).
- To pay attention to increase of employees qualifications and professional development.

#### **Factors that support development**

The strategy of ING Bank Śląski S.A. is based on the assumption that the Bank will take full advantage of its competitive strengths, identify opportunities and eliminate threats in its business environment. ING sees key factors that support its growth, both in the internal and external environment.

#### **Internal**

- Large customer base.
- Solid capital base.
- Membership in the large international financial group that provides wide access to the expertise, technologies and best practices.
- The Bank's image as an organisation that cares about high standards of customer service.

- High brand recognition level.
- Fully-fledged multi-channel distribution system.
- Business model based on process effectiveness (optimisation, standardisation and automation of processes; adoption to the client expectations).
- Organisational culture based on honesty, respect and transparency that helps retain existing employees and win new valuable candidates.

#### **External**

- With stable economic growth and payroll growth, we can expect further consumption and higher demand for loans among individual clients.
- With higher investments in the enterprise segment thanks to absorption of EU funds, we can expect higher demand for financial products.
- With more affluent society, the growing financial awareness of the clients combined with low penetration level of banking services increases the potential for the growth of the financial market.

#### **Threats to Development**

Successful implementation of the strategic objectives by ING Bank Śląski may be put into threat by the following factors:

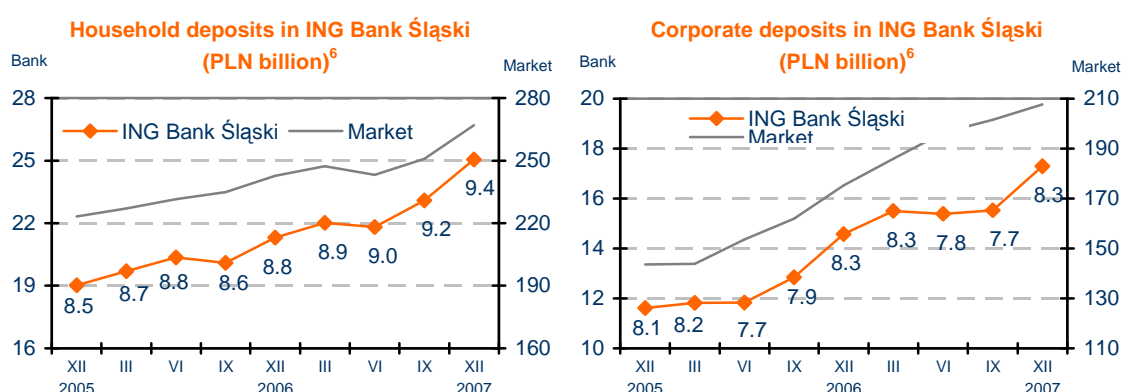
- High likelihood of a restrictive monetary policy, and – by extension – decrease in the demand for loans.
- High real estate prices with the expected market interest rate hikes may result in lower demand for mortgage loans.
- Continued uncertainty on the capital market combined with the growing inflation may make the clients look for alternative forms of depositing their savings.
- Higher remuneration pressure that may have considerable impact on the Bank's financial result.

### III. MAJOR ACHIEVEMENTS OF ING BANK ŚLĄSKI S.A. IN 2007

#### Strong Expansion on Deposit Market

One of the major achievements of ING Bank Śląski S.A. in 2007 was the retention of favourable trends in terms of acquisition of surplus funds, both from retail and institutional clients. The strong deposit base is a major advantage for the Bank's future expansion on the credit market, especially in view of lowering liquidity of the banking sector.

As at the end of December 2007, the total value of deposits accumulated by ING Bank Śląski S.A. amounted to PLN 43,152.9 million, up by 18.8% from December 2006. The deposits at the Bank represented 8.9% of the total value of funds deposited with the banking sector (against 8.6% in December 2006)<sup>3</sup>.



As was the case in the previous years, in 2007 ING Bank Śląski S.A. recorded particularly good results on the market of household deposits. As at the end of December 2007, household deposits at ING Bank Śląski S.A. totalled PLN 25,356.5 million. The balance of household deposits at ING Bank Śląski S.A. increased by PLN 4,082.0 million over the year, which represented an increment by some 18% of new funds deposited in the bank accounts of that segment of clients in 2007.

**Table. Clients deposits structure of ING Bank Śląski S.A.**

	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Households	25,356.5	21,274.5	19,151.0	15,101.0
Business entities	12,802.0	10,389.3	8,519.2	9,089.0
Financial entities (other than banks)	2,423.2	3,146.4	1,911.1	1,165.4
Entities of the sector of central and local government agencies	2,571.2	1,528.1	1,384.5	1,195.1
<b>Total</b>	<b>43,152.9</b>	<b>36,338.3</b>	<b>30,965.8</b>	<b>26,550.5</b>

The Bank was 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.

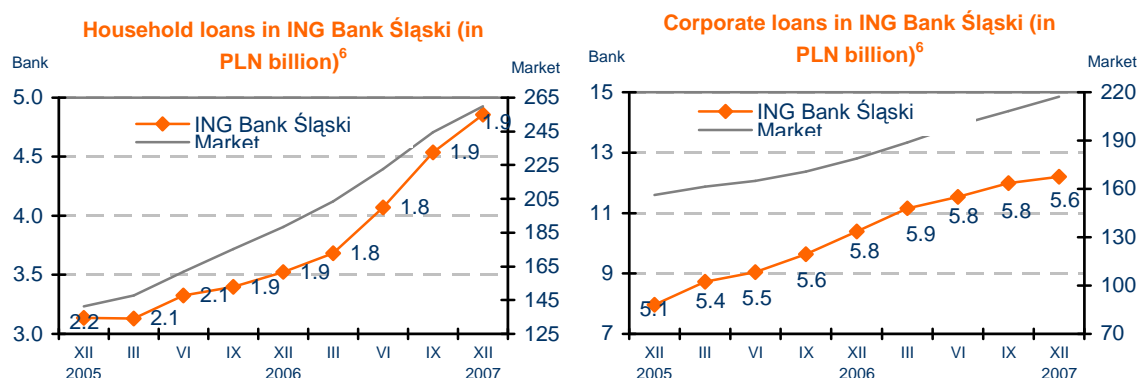
As a result of the good financial standing of the corporate clients of ING Bank Śląski S.A., the value of deposits of institutional clients went up from PLN 15,063.8 million in December 2006 to PLN 17,796.4 million in December 2007 (up by 18.1%).

<sup>3</sup> The diagrams show the shares of ING Bank Śląski S.A. in the core markets (in %).

## Breakthrough in Lending

In 2007, ING Bank Śląski S.A. intensified lending in line with the high growth rate in the Polish banking system.

As at the end of December 2007, the total value of loans and other receivables of ING Bank Śląski S.A. from clients amounted to PLN 16,049.7 million versus PLN 12,962.4 million as at the end of 2006 (up by 23.8%). With those results, the Bank held a 3.6 per cent share in the total credit receivables of the entire banking sector.



Credit exposure of the Bank, both to the retail and corporate clients went up dynamically in 2007. As at the end of 2007, credit receivables from institutional clients<sup>4</sup> totalled PLN 11,647.7 million, up by PLN 1,704.4 million (or 17.1%) from the end of 2006. Loans to households totalled PLN 4,862.0 million, up by PLN 1,334.4 million (or 37.8%) from the end of 2006. This result was largely possible thanks to the PLN-mortgage loans.

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

	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Households	4,862.0	3,527.6	3,138.5	3,262.6
Business entities	8,727.3	7,264.2	6,167.7	6,864.4
Financial entities (other than banks)	2,225.2	2,010.5	829.2	529.2
Entities of the sector of central and local government units	695.2	668.6	426.0	386.4
Other receivables	99.2	190.1	265.9	270.0
Impairment write-off	-559.2	-698.6	-801.2	-793.1
<b>Total</b>	<b>16,049.7</b>	<b>12,962.4</b>	<b>10,026.1</b>	<b>10,519.5</b>

<sup>4</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.

## Material Progress in Adaptation of the Organisation to Market Challenges

In 2007, ING Bank Śląski S.A. continued efforts to build an institution that is capable of building long-lasting and valuable relations with the clients, despite the growing competition. The following projects run as part of these efforts deserve special mention:

- New Front-End application. The replacement of the old branch system was primarily aimed at improving the service quality by simplifying the processes of acquisition, sales and customer service and by lowering operational risk. Ultimately, the new application will cover all sales and customer service processes as well as all distribution channels.
- Network of outlets of new type. In 2007, 68 outlets of that model were added to the Bank's distribution channels.
- Self-Banking. The core of the Self-Banking lies in separating self-banking zones in the existing branches that would be operational 24 hours a day, where the clients could deposit and withdraw cash on their own (using the machines available there), where they could make a transfer via ING BankOnLine, get connection with the HaloŚląski service or talk to a Call Centre consultant. Throughout 2007, the Bank launched 50 self-banking zones.
- Loan Xpress mortgage facility. The new product offered in co-operation with agents was launched as a pilot in autumn 2007. Its attributes include but are not limited to: simplicity, high standardisation degree and a short time for taking a credit decision. In 2007, the Bank signed co-operation agreements regarding sale of loans with several leading financial intermediaries.
- ING BusinessOnLine, the new Internet banking system for corporate clients. It is the Bank's response to the ever growing expectations of the companies. The new system meets top international standards; it is simple, secure and fully customised.
- The Most Internet Bank Programme for Retail Customers The Bank launched that project to make the offer more competitive in the aspect of internet banking. The plan is to launch a new Internet account – the *Direct Account*, distinct from the competitors' proposals – among other things.
- Microchip Cards. Towards the end of 2007, the Bank issued the first microchip cards. They guarantee not only higher security of the transactions, but are more functional as well.

## IV. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 2007

### Retail Banking

#### *Product Offer and Changes Introduced*

ING Bank Śląski S.A. offers its individual clients a state-of-the-art and transparent range of products, which covers maintenance of personal accounts; 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 a major role in establishing long-term relations with the clients.

The main changes in terms of deposit and clearing products for individual clients introduced over 2007 involved the following:

- Perfecting the *Lion Account*, including modification of some commissions and fees in order to encourage clients to use electronic distribution channels.
- Raising the interest rates on *OKO* and term deposits to the level making those products very attractive for the clients.
- Launching new products: personal accounts and *OKO* savings accounts in British pounds and the European transfer.
- Holding six subscriptions of structured products (*Term Investment Deposits and Insurance Investment Deposits*), allowing a higher investment yield compared with traditional deposits and guaranteeing that the capital will remain intact.

Furthermore, the Bank focused its efforts on the internet *Direct Account*. The Account, launched in early January 2008, is offered free of charge but with a unique range of additional services giving the Bank a competitive edge.

The scope of the Bank's co-operation with the members of ING Group in respect of offering other forms of investing:

- ING TFI S.A. – new investment products were launched, including: *Fund and 3M Deposit Package*, *ING Central European Financial Sector Plus Subfund* and *Central European SME Plus Subfund*.
- ING Nationale-Nederlanden S.A. – the process of authorising the Bank to act as the agent of ING Nationale-Nederlanden S.A. in respect to the sale of individual life policies in the Bank outlets, additional insurance to *Lion Accounts* and *OKO* accounts was proposed and life insurance combined with a capital fund (one-off premium) was launched (referred to as the Investment Programme for the Future).

On the side of the lending offer, the Bank focused its efforts mostly on comprehensive solutions for the new line of loans (*Loan Xpress*) offered in co-operation with agents. In line with the adopted timeline, the *Loan Xpress* was launched on a pilot basis in autumn of 2007. Its predominant features include simplicity, high standardisation and automation that allow for taking a conditional credit decision within a shorter time than the competitors. According to the programme assumptions, the initial credit decision should be communicated to the clients within fifteen minutes, and the final one within maximum three days from the date of the application's submission. In late 2007, the clients were able to apply for the *Loan Xpress* via several major financial intermediaries.



Regulations governing the existing mortgage products were also modified. In particular, the principles of real estate valuation and the client credit capacity assessment were simplified, the range of acceptable income sources was broadened and the loan tenor was extended.

In the area of cash loans, ING Bank Śląski S.A. made the cash loan more attractive (i.e. raised the amount of unsecured loan, extended the forms of collateral and extended the tenor), raised the maximum *Lion Account* overdraft and offered bi-contracts (combining cash loans and credit cards).

Owing to the implementation of the Front-End system and extending the functionality of the application used for processing credit application (SOWK), the Bank was able to make pre-scoring offers on a broad scale. Pre-scoring involves the full assessment of the client's credit capacity and the client's verification along with setting out the global credit limit prior to mailing the offer to the client. It allows for producing and signing the credit agreement and disbursing funds during a single visit of the client at the Bank's branch.

As part of its retail activity, ING Bank Śląski S.A. also services small businesses<sup>5</sup>. 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, a special cash loan (which combines the features of an investment loan and a working capital loan, addressed to that segment) and credit cards.

As regards the credit service of small businesses, in 2007 ING Bank Śląski S.A.:

- Launched the so-called start-up account for people starting up their own business. It is an account with credit card having a relatively low limit granted in a simplified manner.
- Eased the terms and conditions of the loan origination, as a result of, among others, increasing the maximum amount of the credit line and the cash loan, increasing the overall amount of unsecured exposures under the credit line and the cash loans, offering the possibility of calculating the credit capacity on the basis of current data.
- Modified the consolidated loan for small business.
- Prepared three pre-scoring campaigns for clients using only the deposit offer.

In line with the strategy, in 2007 ING Bank Śląski S.A. strongly supported the sale of products of key importance for the accomplishment of business objectives. The main projects in this area included: the Open Savings Accounts campaign under the slogan *You may freeze money in your deposit account but what for?*, two large marketing campaigns promoting mortgage products (*Do you go to the client? Yes, we do* and *Viva ipoteczny*), the campaign *Reward for active clients* and the marketing campaign promoting investment funds where 3M Deposit Package was the core product.

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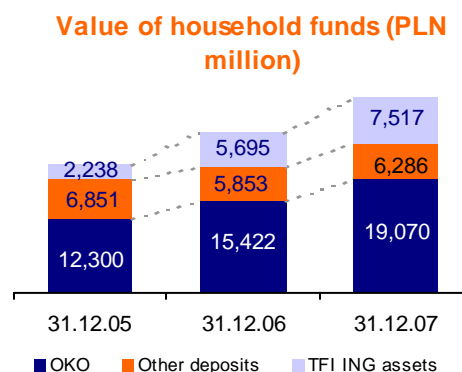
<sup>5</sup> In line with the rules in force at the Bank, the segment of small business includes private individuals running their own business, partnerships and corporations as well as non-profit entities reporting yearly net sales income or having at their disposal yearly budget up to EUR 800 thousand.



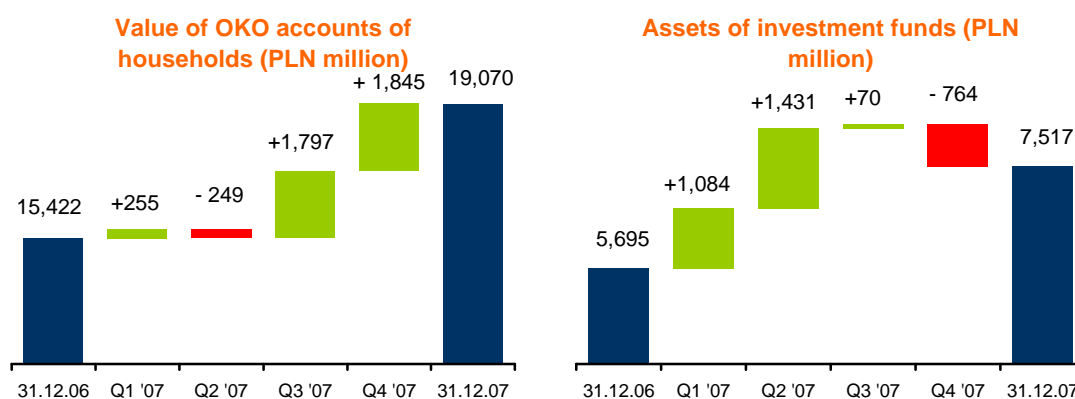
### Deposit Activity

As at 31 December 2007, the funds entrusted with ING Bank Śląski S.A. by households totalled PLN 32,873.5 million, up by PLN 5,904.0 million, or 21.9%, from December 2006.

Banking deposits formed their major part. They reached the level of PLN 25,356.5 million, up by 19.2% from the end of December 2006. At the end of 2007, household deposits accumulated at the Bank represented 9.4% of the total household deposits in the banking sector (vs. 8.8% in December 2006). Consequently, the Bank cemented its strong third position on the household deposit market.



The clients of the household segment deposit their excess funds with ING Bank Śląski S.A. mainly in the *Open Savings Accounts (OKO)*. As at the end of December 2007, the value of funds deposited in OKO accounts by households totalled PLN 19,070.0 million (vs. PLN 15,421.8 million in December 2006).

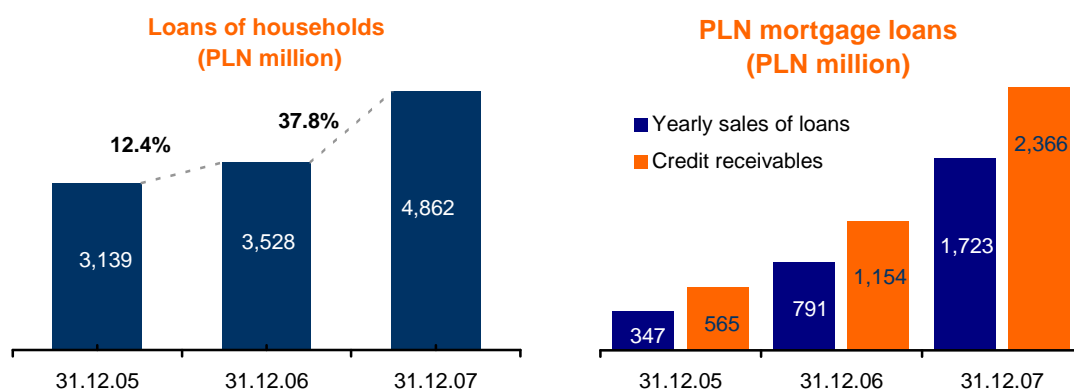


To provide the clients with a wide array of savings products, ING Bank Śląski S.A. also distributes units of ING TFI S.A. investment funds via its distribution channels. At the end of 2007, net assets of ING TFI S.A. acquired via intermediation of ING Bank Śląski S.A. totalled PLN 7,517 million (vs. PLN 5,695 million as at the end of 2006). It represented more than 59% of the value of retail assets of investment funds managed by ING TFI S.A.

The range of clearing services for retail clients was also extended. As at the end of December 2007, ING Bank Śląski S.A. maintained 1,153,900 personal accounts compared with 1,039,700 at the end of 2006 (up by 11.0%). Small businesses had 141,800 deposit accounts with the Bank with funds in excess of PLN 3.2 billion. As at the end of 2006, the figures were respectively: 127,600 and PLN 2.6 billion.

### Lending

As at the end of December 2007, household credit receivables of ING Bank Śląski S.A. totalled PLN 4,862.0 million. In 2007, the Bank's credit exposure towards households went up by PLN 1,334.4 million, or 37.8%. The Bank held a 1.9%-share in household credit receivables of the banking sector.



The PLN-denominated mortgage loans played a major role in activation the Bank's lending to households as they did not pose any FX-risk (which is beneficial to both the borrowers and the Bank). Throughout the year 2007, the Bank extended PLN 1,723 million worth of mortgages (vs. PLN 791 million a year earlier). As at the end of December 2007, the Bank's credit receivables due to PLN-denominated mortgage loans totalled PLN 2,365.5 million against PLN 1,153.8 million as at the end of 2006 (up by 105.0%).

The Bank's exposure towards small businesses also rose considerably. As at the end of 2007, those receivables totalled PLN 811 million, up by 38.2% from the end of 2006.

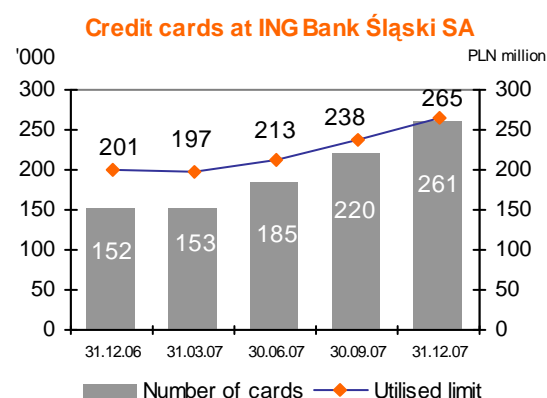
### Bank Cards

ING Bank Śląski S.A. is one of the main issuers of bank cards in Poland and has a wide array of bank cards addressed to both individual clients and small businesses.

In March 2007, the Bank offered its most affluent clients a MasterCard platinum credit card with a high credit limit, an attractive interest rate and a broad package of additional services. At the year end – as one of the first banks in Poland – the Bank launched chip cards. The future of banking services belongs to chip cards since they provide the clients, merchants and financial institutions with better security of operations, convenience and new opportunities (those may play for example additional non-payment functions).

The Bank also changed the principles governing issuance of credit cards:

- Some groups of clients were offered the possibility of applying for credit cards with relatively low limits on the basis of their declared income.
- The activating fees were reduced or even waived and changes were made to fees and commissions in order to encourage the clients to actively use credit cards.
- Pre-scoring campaigns for credit cards were launched to cover the clients of the Bank and those of ING Nationale-Nederlanden S.A..



Credit cards are among the strategic products of the ING Bank Śląski S.A. retail offer and thus in 2007 they were promoted as part of large-scale marketing campaigns. The most important campaigns included the new edition of the *Promotion 50* campaign, promotion of

direct debit to pay from the card limit the ING Nationale-Nederlanden S.A. life insurance policy and the promotion campaign for the cash back service<sup>6</sup>.

Altogether, by the end of December 2007, ING Bank Śląski S.A. issued 1,588,700 payment cards to retail clients, including 260,900 credit cards. In total, the clients took advantage of the credit limit of PLN 265 million.

## Corporate Banking

### *Product Offer and Changes Introduced*

The scope and quality of the product offer and how well it matches the clients' preferences is one of the main factors influencing corporate clients selection of a bank. ING Bank Śląski S.A. takes every effort to ensure that bank's product offer is in line with best market standards.

The Bank offers a wide range of deposit products addressed to corporate clients, such as: current accounts in PLN, USD and EUR, a consolidated account, savings products, PLN standard deposits, and also non-standard deposits in PLN, EUR and USD, as well as deposit products of an investment nature.

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 modern solutions allow for the effective payment management, thus improving the efficiency of corporate finance management.

In 2007, ING Bank Śląski S.A. continued works to improve the offer and optimise the processes related to the cash management area, which is very popular among the clients. Consequently, the Bank:

- Implemented a new Internet banking system for corporate clients called *ING BusinessOnLine*. It is one of the most sophisticated Internet banking systems in the Polish market. It features the full security of transactions, a flexible configuration of rights and customisation to suit the companies' needs owing to the access to almost all products offered by the Bank.
- Modified *Cash Collection* services and extended the network of night vaults.
- Implemented customised and flexible commission plans.
- Offered a new comprehensive service – never offered in the Polish market before – for courts with the aim of supporting the management of the court clients' deposits (SIMP Deposit).
- Considerably reduced the fees for European transfers.

The Bank also aligned the products and processes to the Single Euro Payment Area (SEPA) and participated in the ING Group's project aimed at improving the effectiveness of payment processing.

The ING Bank Śląski S.A. credit offer for corporate clients covers the following: overdrafts, working capital loans, investment loans, indexed loans, loans to finance export receivables insured by KUKE S.A., preferential loans with subsidies from the Agency for Modernisation

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<sup>6</sup> Cash back service is the cash withdrawal at the store's cash counter when paying for the purchases.

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, such as leasing, factoring and finance of commercial properties.

In 2007, the changes in the offer of ING Bank Śląski S.A. in regard to financing the operations of wholesale clients included:

- Implementation of the fast credit track for small credit exposures. It involves setting automated limits for selected standardised lending products, thus simplifying and shortening the entire loan origination process.
- Incorporating a new module (aggregated limits) into the Bank's core IT system in order to maintain transparent records of credit agreements and facilitate automated control of the utilised credit limits of clients from the segment of large and mid-sized firms.
- Perfecting the offer of working capital loans for clients from the segment of large and mid-sized firms, among others by extending the functionalities of the bank account overdraft secured with bill of exchange.
- Extending the scope of crediting the receivables insured with KUKE to include domestic contracts.
- Aligning the internal procedures with the new regulations introduced by Bank Gospodarstwa Krajowego in respect of functioning of the EU Guarantee Fund.
- Establishing a closer co-operation with the entities of ING Group in the area of asset based lending, i.e. implementing a new model for sales of leasing products offered by ING Lease and ING Car Lease and extending the offer to include reverse factoring offered together with ING Commercial Finance.

The Bank also co-operated with many institutions to develop a special credit offer for Polish companies. As part of its efforts in that area, the Bank:

- Participated in the meetings of the Working Group of the Polish Banks Association harmonising the regulations governing the service of preferential loans for agriculture with the EU legislation. Thus, it signed as one of the first banks a new co-operation agreement with ARiMR in the area of granting preferential loans with interest subsidies.
- Participated in the Working Groups of the Polish Banks Association in terms of advising the operational projects for the years 2007-2013.

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

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

In 2007, an important area of the Bank's activities comprised the works aimed at improving the quality of service of wholesale clients and reducing the unit transaction costs, conducted as part of the so-called Product Strategies for Cash Management products. One of the main tasks of those projects was to reduce considerably the importance of paper-based payments, limit the quantity of paper-based statements generated in branches and continue the migration of those documents to electronic distribution channels. A measure of the effectiveness of those changes was a regular decrease of the share of paper-based transactions in the overall

number. For example, in December 2007, the share of paper-based transfers in the overall number of transactions dropped to approx. 0.9%.

With the aim of establishing closer relations with the clients there were also continued efforts for implementing the sectoral approach in the wholesale network. It assumed adjusting the offer for banking and financial services to the special requirements of the sector. As part of those activities, the Bank organised conferences for companies representing such sectors as transport & logistics, agriculture, steel industry, plastic industry, construction, airports, leather industry and revitalisation. During those meetings the current and prospective clients of ING Bank Śląski S.A. could familiarise themselves with the outlook for a give sector and the opportunities created by services offered by the Bank (in particular, in the business finance area).

The Bank disseminated information concerning the financing in the new EU financial perspective. To that end the Bank organised training programmes for employees and participated in organising conferences on Operating Programmes (*Time Vehicles, Gazelles of Business*) dedicated to entrepreneurs, farmers and local government units.

### **Deposit and Clearing Strategy**

As at 31 December 2007, the value of institutional clients' deposits<sup>7</sup> at the Bank totalled PLN 17,796.4 million (vs. PLN 15,063.8 million in December 2006). It is estimated that as at the end of 2007, ING Bank Śląski S.A. held an 8.3% share in the market of institutional clients' deposits, which was the same as a year earlier.

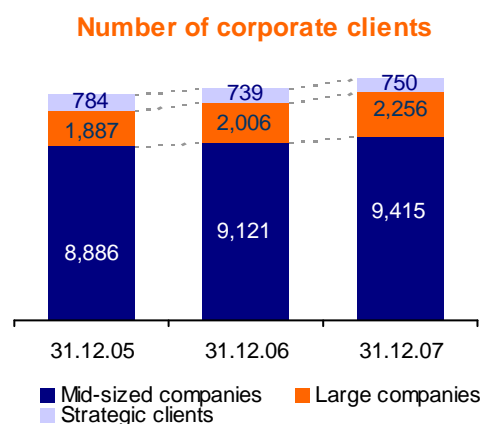
Increase of the value of deposits of institutional clients at ING Bank Śląski S.A. was in major part the consequence of growth of the corporate clients base and further improvement of the financial standing of the companies using the services of the Bank.

The number of companies using the services of ING Bank Śląski S.A. went up by 555 over 2007. Entities from the segment of large- and mid-sized companies dominated among the newly acquired clients.

The funds in the accounts of the corporate clients from all segments went up over 2007.

Regular and highly attractive level of the clearing and deposit offer of ING Bank Śląski S.A. resulted in an increase of the number of current accounts held by corporate clients. Corporate clients also showed more and more interest in electronic distribution channels and state-of-the-art clearing systems, and notably:

- The number of users with access to Internet banking grew from 12,300 in December 2006 to 16,500 in December 2007.
- The number of Mass Payment Identification System installations for the companies co-operating with numerous off-takers (such as insurance companies, power supply



<sup>7</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.

plants and mobile telecommunications companies) went up from 241 at the end of 2006 to 311 in December 2007.

### Lending

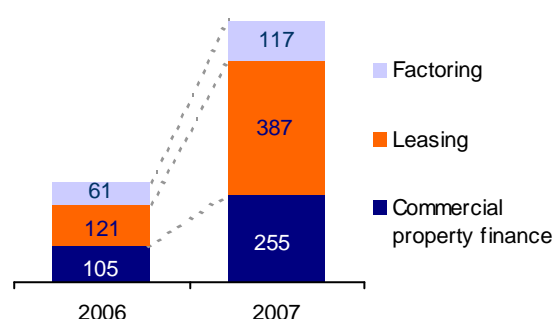
As at the end of December 2007, credit receivables of ING Bank Śląski S.A. from institutional clients<sup>8</sup> totalled PLN 11,647.7 million versus PLN 9,943.3 million in December 2006 (up by 17.1%). As at the end of 2007, the Bank held a 5.6 per cent share in the market of institutional loans.

The value of credit receivables of ING Bank Śląski S.A. from all segments of corporate clients went up in 2007. The Bank's lending to the clients from the large and mid-sized companies' grew at a particularly dynamic rate (up by 25.4% throughout the year).

As a result of the campaigns disseminating information concerning the EU aid programmes, ING Bank Śląski S.A. considerably increased its credit exposure due to the service of the said programmes. As at the end of December 2007, the total value of loans extended and the value of commitment letters covering EU loans amounted to PLN 1,290.4 million (vs. PLN 834.3 million as at the end of 2006).

In 2007, ING Bank Śląski S.A. observed the first visible results of tightening the co-operation with other ING companies in the area of asset based lending, i.e. in respect of the sale of leasing and factoring services and commercial property finance. In 2007, the total value of implemented asset based lending agreements signed in co-operation with other ING companies reached the value of PLN 759 million, up by 165% from a year earlier.

Asset based lending - value of agreements (PLN million)



### Money and Capital Markets

In 2007, ING Bank Śląski S.A. recorded sound results in financial markets, both in the area of client and proprietary trading.

A significant increase in the scale of client trading was possible owing to the high service quality. Quality is of key significance for maintaining the reputation of ING Bank Śląski S.A. as a professional player in the financial market.

In 2007, the Bank efforts focused on extending the offer to include new and promising financial instruments, namely the Bank:

- Proposed the clients exotic options in order to better align the transaction's risk profile to individual requirements of the client and reduce the collateral costs.
- Received – as part of ING Group – the product mandate for barrier options with a single and double barrier for EUR/PLN, USD/PLN, EUR/CZK and EUR/HUF. It

<sup>8</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.

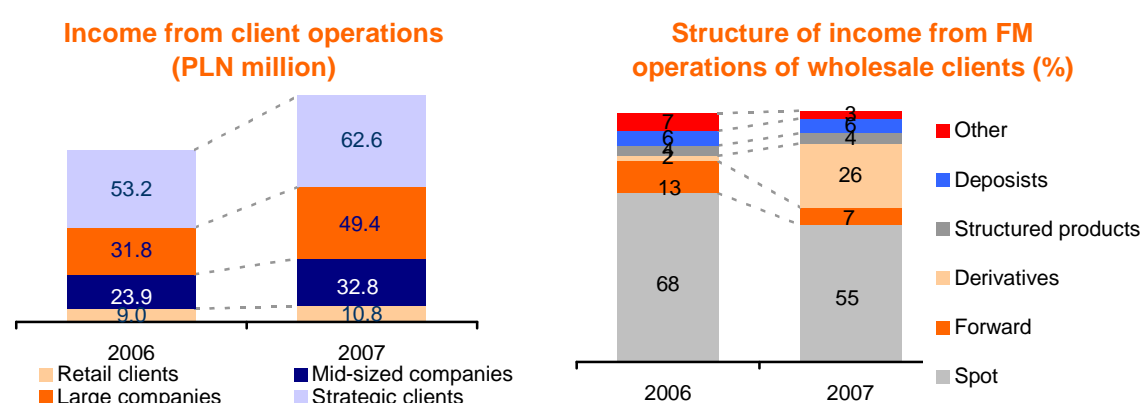


allowed for shortening the process of concluding the option strategies, very popular among the clients.

- Provided the wholesale clients with the opportunity of signing standard derivative transaction agreements (ISDA) in wholesale regions (instead of the Head Office), thus the time of those operations was reduced.

Some steps were also taken in order to activate the REPO markets, such as: educational and marketing campaigns, changing the price policy, allowing *sell-buy-back* transactions on securities within the banking portfolio kept by the Bank.

The client service model was also improved, among other, as a result of a more common use of electronic channels for closing simple transactions with wholesale clients, reorganisation of sales teams and up-grade of IT systems.



The policy pursued by the Bank led not only to a considerable increase in the number of clients using FM products, but also to a significant growth of income generated by the client operations. In 2007, it totalled PLN 155.6 million, up by 31.9% from a year earlier. The structure of the Bank's FM-related income also changed. The share of income from simple FX transactions decreased whereas the share of income generated by more sophisticated and profitable derivative instruments went up. For example, the share of spot transactions in the overall FM income from wholesale client operations fell from 68% in 2006 to 55% in 2007.

In 2007, ING Bank Śląski S.A. participated more actively in the issue of debt securities. The Bank was:

- The Leading Arranger of the Bond Issue Programme for Polska Grupa Energetyczna S.A. for the amount of PLN 6,200 million.
- The Bond Issue Agent for the following largest Polish energy sector companies: BOT Turów Power Plant (PLN 2,540 million worth of bond issue programme), Dolna Odra Power Plants (PLN 780 million worth of programme), Lublin-Wrotków Power and Heat Plant (PLN 125 million worth of bond issue) and Energetyka Południe S.A. (PLN 150 million worth of bond issue programme).
- The Arranger of the Bond Issue Programme for AHOLD Polska Sp. z o.o. (PLN 500 million worth of programme).

During the year 2007 the Bank supported 49 companies for whom it issued debt securities of the total value PLN 9,895 million. In December 2007, ING Bank Śląski S.A. became the market player number three in terms of the debt due to issue of short-term debt securities

(with a market share of 17.0%) and player number two in terms of the value of debt due to the issue of corporate bonds with maturities over 1 year (share of 19.5%).

As part of proprietary trading, in 2007 the Bank extended the range of operations in foreign markets to include, among others, forward contracts on foreign securities and investments in the debt market. In order to mitigate the risk posed by that type of activities, the Bank initiated – with the support of and in co-operation with ING Amsterdam – negotiations and signing of Credit Support Annex to ISDA agreements with major counterparties in the interbank market.

The Bank was also implementing the Markets in Financial Instruments Directive (MiFID) of the European Parliament. The clients using product covered by that directive were subject to classification in line with the required segmentation, the information package containing the category and the duties of the client and those of the Bank was sent out. The sales procedures were supplemented with additional clauses, thus sanctioning, among others the notion of the order and the best execution.

In 2007, ING Bank Śląski received the highest score in terms of the Dealer Activity Index (IAD) from among seventeen banks candidating to fulfil the function of the 2008 Money Market Dealer. The Bank also obtained the status of the Treasury Securities Dealer in 2008.



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

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

In 2007, the composition of ING Bank Śląski S.A. capital group did not change and as at 31 December 2007 the group was formed – apart from the dominant entity – by the following companies:

- ING Securities S.A.,
- ING Bank Hipoteczny S.A. (former 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 (in liquidation).

ING Bank Śląski S.A. capital group consists of entities that operate in various segments of the financial market or in its infrastructural zone. As a dominant entity, ING Bank Śląski S.A. takes key decisions pertaining to both the operations and financial matters of the entities forming the group, by performing control functions in the supervisory authorities of those companies. Capital links with companies are strengthened with the trade relationships. The capital group members hold current accounts, and also deposit their surplus funds in term deposits at ING Bank Śląski S.A. The Bank also credits business of some companies (e.g. ING Bank Hipoteczny). There are also agreements concluded between the companies related to the Bank, pertaining to access to distribution channels, space sub-lease, equipment lease, data processing, leasing of non-current assets and intangible assets. The transactions of ING Bank Śląski S.A. with subsidiaries are performed on an arms' length basis.

In 2007, ING Bank Śląski S.A. increased its capital exposure and streamlined the composition of its group, notably:

- It made a capital injection in Śląski Bank Hipoteczny twice. In total, the Bank contributed PLN 63.5 million worth of equity to ŚBH S.A. in 2007. As a result of these transactions, ING Bank Śląski S.A. owned 2,269 shares representing 99.96% of the share capital of that company. One share representing 0.04% of the share capital of ŚBH was held by ING Securities S.A. Increasing the equity of Śląski Bank Hipoteczny will facilitate its expansion of lending operations, especially including financing of large commercial projects. On 17 December 2007, the change of the Śląski Bank Hipoteczny S.A. business name into ING Bank Hipoteczny S.A. was registered. The change of the company business name finalised the process of thorough reconstruction and confirmed the company's role as an entity responsible within ING Group for commercial property funding in Poland.
- On 19 September 2007, ING Bank Śląski S.A. concluded an agreement with Buildco S.A. whereunder it purchased shares of Centrum Banku Śląskiego Sp. z o.o. 36,716 shares were purchased, whose face value totalled PLN 36,716,000 and which represented 40% of the share capital of Centrum Banku Śląskiego Sp. z o.o. The purchase price was EUR 5 million, or PLN 18,865,000. As a result of that transaction, ING Bank Śląski S.A. started to directly or indirectly control 100% of the share capital

of CBS Sp. z o.o. On 23 November, the Extraordinary General Shareholders Meeting of Centrum Banku Śląskiego Sp. z o.o. resolved to dissolve the company and put it into liquidation as of 1 December 2007.

- On 30 November, the Bank made a capital injection in Solver Sp. z o.o. by an in-kind contribution in the form of the Recreation Centre in Głębinów worth PLN 1,188,000. As a result of that transaction, the share of ING Bank Śląski S.A. in the share capital of Solver went up from 79.79% to 82.30%.

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

ING Securities S.A. is one of the largest brokerage houses in Poland. In 2007, it held the following shares in transactions of the Warsaw Stock Exchange:

- stock market<sup>9</sup> – 11.0% (number one),
- forwards market – 5.9% (number six).

The Brokerage House of ING Bank Śląski S.A. handles 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, asset management, and sales of participation units of investment funds.

As at the end of December 2007, ING Securities S.A. maintained 32,300 investment accounts, including 11,800 Internet ones.

In May 2007, the Brokerage House offered – as one of the few in Poland – a special investment account for students named *Young Lion*. Attractive fees and commissions for using this account substantially encourage young investors to use ING Securities S.A. services. Simultaneously, an intensive promotional campaign of the new product was launched both in the mass media and at the largest universities in Poland.

In order to improve access to its services, in 2007, ING Securities S.A.:

- Concluded an agreement with ING Bank Śląski S.A. on winning clients via Bank's partners (it signed 19 agreements with Bank's partners over the year).
- Registered further 5 brokers providing agency services with regard to performing some broker operations for an investment company with the Polish Financial Supervision Authority (as at the yearend, the Brokerage House had 7 agents in total).

As far as the capital accumulation 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 accumulation.

In 2007, ING Securities S.A. completed the following projects and transactions:

- Public offerings: CEDC (two secondary public offerings as part of accelerated book building at the total amount of PLN 199 million), Pegas Nonwovens (offer value: PLN

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<sup>9</sup> Cash market.

410 million), ASBISc Enterprises PLC (worth USD 60 million), Kernel Holding S.A. (offer value: PLN 546 million);

- Public calls:
  - organisation of the call for Polmos shares, announced by Carey Agri International-Poland, a daughter company of CEDC,
  - organisation of the compulsory buyout of Polmos shares announced by Carey Agri International-Poland,
  - beginning of subscription for Polmos shares as a response to the call announced by Dalia Polska.

In March 2007, ING Securities S.A. together with ING Wholesale Banking and Warsaw Stock Exchange organised ING EMEA & Warsaw Stock Exchange Polish MidCap Conference in London for foreign investors. It was aimed at presenting the Polish stock exchange market and a dozen or so midsize companies listed on the Warsaw Stock Exchange. About 40 institutional investors, representatives of the biggest funds investing in Polish shares participated therein.

Similarly as in the previous years, in 2007, ING Securities S.A. received numerous awards and distinctions including, but not limited to the title of the best Financial Institution in 2006 in the Brokerage Houses category in the ranking of *Rzeczpospolita* daily and the second place in the general classification of brokerage houses of *Parkiet* magazine (including first places in the categories: *Service level/ quality*, *Service speed* and *Access to on-line quotations*). The Analysis Team of the Brokerage House was also highly appraised, which was reflected by the second place in the Institutional Investor ranking and the first place in the prestigious Extel Thompson ranking in which Piotr Palenik was also awarded the title of the best Polish analyst.

Operations of the Brokerage House were also appreciated by the Warsaw Stock Exchange which at the beginning of 2008 awarded it a prize *For marking out the route to the Warsaw Stock Exchange for issuers from eastern markets* and *For helping to approach new markets inside and outside Central and Eastern Europe*.

In 2007, ING Securities S.A. generated net profit of PLN 64.7 million compared with PLN 55.4 million a year earlier.

### **ING Bank Hipoteczny S.A. (former Śląski Bank Hipoteczny S.A.)**

The restructuring of ING Bank Hipoteczny S.A. was finalised in 2007. As part of the process, the company implemented, among other things, a new strategy of its development. Under that strategy, ING Bank Hipoteczny S.A. is the Centre of Excellence in Commercial Property Funding for other entities of ING Group in Poland.

Major achievements with regard to the restructuring process of ING Bank Hipoteczny S.A. include:

- Adopting a new organisational structure, changes in credit procedures and building a highly-qualified team (also in the sales area).
- Defining the principles of co-operation with ING Bank Śląski S.A. with regard to developing credit consortia and using Bank's distribution channels (inclusive of economic mechanisms stimulating co-operation).

- Promoting the image of ING Bank Hipoteczny as an entity specializing in structuring and servicing big transactions on the real estate market.
- Development of the marketing strategy, including identification of top-priority segments and regions of operation, and building its own sales network.

While carrying through the basic guidelines of the operating strategy adopted in 2006, ING Bank Hipoteczny S.A. modified it at the beginning of 2007 in response to the market situation. Consequently, the company shall concentrate on refinancing the existing projects instead of the previously preferred lending to housing developers.

In 2007, the restructuring process of ING Bank Hipoteczny S.A. as well as the sales strategy modification produced the first visible effects in the form of the significant increase in value of the transactions made. Over 2007, ING Bank Hipoteczny S.A. signed credit agreements totalling PLN 839 million. An absolute majority of those loans were granted together with ING Bank Śląski S.A., therefore the loans worth PLN 171 million were entered into ING Bank Hipoteczny S.A. books. By contrast, the total amount of loans signed in 2006 was PLN 246 million.

Yet, a relatively small scale of lending resulted in the negative net result of ING Bank Hipoteczny S.A. in 2007. Net loss totalled PLN 0.5 million (in 2006, net loss of PLN 1.0 million).

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

Centrum Banku Śląskiego Spółka z o.o. was the owner of buildings in Katowice, at ul. Sokolska 34 and at ul. Chorzowska 50. It dealt with the lease of space in the said buildings.

In 2007, CBS Sp. z o.o. 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. These activities resulted in further growth of the share of occupied space versus the total space. As at the end of October 2007, 97% of space at Chorzowska 50 was leased (notably up by 0.5 p.p. as at the end of 2006).

On 31 October 2007, the company of Centrum Banku Śląskiego Sp. z o.o. and its liabilities were acquired by ING Bank Śląski S.A. From that day on, the company ceased its statutory operations, and as of 1 November 2007 all employees of CBS Sp. z o.o. became employees of ING Bank Śląski S.A.; the members of the Management Board were appointed as liquidators. By the decision of the Extraordinary General Shareholders Meeting, as of 1 December 2007 the company's liquidation procedure was opened. It is expected to be closed in 3Q 2008.

In 2007, net profit of Centrum Banku Śląskiego Sp. z o.o. totalled PLN 7.6 million (versus PLN 12.9 million a year earlier).

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

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

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

ING Nationale-Nederlanden Polska OFE is the second largest pension fund in Poland, both in terms of the number of members and value of net assets. Over 2007, the Fund strengthened its position and as at the end of the year it had the following market share:

- Net assets of PLN 32.9 billion, or 23.5% of the total the value of assets of pension funds operating in Poland (compared with 23.3% as at the end of 2006).
- 2,591,600 members, or 19.7% of all members of pension funds (compared with 19.4% in December 2006).

ING Nationale-Nederlanden Polska OFE was able to constantly improve its position on the market mainly thanks to 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, text messages and WAP) and the Internet as well.

The situation on the stock exchange and drops in bonds' prices influenced the investment results of open pension funds in 2007. Throughout the year, the unit value for all funds increased by 5.7% on average. At ING Nationale-Nederlanden Polska OFE, the return rate was at the level of 5.2%. At the same time, Nationale-Nederlanden Polska OFE retained its very good position in breakdowns concerning long investment periods. The calculation made at the beginning of 2008 by 'Analizy Online' web portal suggests that in the period between the end of August 1999 and December 2007 a pensioner would accumulate the largest capital in the account at ING Nationale-Nederlanden Polska OFE. The Fund also won the first place in the ranking of *Gazeta Wyborcza* daily developed in December 2007. In this ranking, apart from investment results, the stability of managers' condition and actual growth of pension fund contribution from the beginning of the fund's existence were taken into account.

In 2007, ING Bank Śląski S.A received from ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytalne the 2006-profit dividend of PLN 36.6 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 ul. Sokolska 34 in Katowice with the total functional area of 18,800 square meters for sub-lease. ING BSK Development sub-leased 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 2007, ING BSK Development Sp. z o.o. recorded a positive net result of PLN 13,000 (in 2006 it was PLN 26,000).

### **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 2007, net result of Solver Sp. z o.o. was PLN 41,000; whereas in the previous year it was PLN 26,000.



## VI. MANAGEMENT OF KEY RISKS

### Credit Risk

#### *Credit Policy*

ING Bank Śląski S.A. accumulates and keeps in its portfolio credit exposures that ensure the safety of Bank's deposits and equity by generating stable income.

In 2007, ING Bank Śląski S.A. modified both its overall credit policy and the stipulations of the *Collateral Policy* to bring them into line with the requirements under the Resolution No. 1/2007 of the Banking Supervision Commission dated 13.03.2007.

In order to ensure appropriate control of the exposure concentration risk and adoption of procedures to the requirements of New Capital Accord (Pillar II), the Bank has in place the procedure for *Limiting the Wholesale Exposure Concentrations*, determining, among others, internal concentration limits in respect of sectors, the principles of concentration monitoring in Regions and in respect of accepted collateral types.

The procedure for mitigation 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%. According to the regulations, 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 or are exposed to high risks. Decisions on establishing a new limit or changing the existing one are taken by the Credit Policy Committee.

In 2007, while effecting the requirements set forth in the S Recommendation, ING Bank Śląski S.A. introduced limits for the exposures collateralised with mortgage in the corporate area and adopted the *Credit Policy for Financing Commercial Properties*, determining, among other things: investor description, structure of exposure portfolio, types of properties financed and requirements for the needed collaterals.

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 or change in the risk level in a given Region may represent a signal for the Credit Policy Committee that a geographical limit needs to be changed or established, however, the above is not mandatory in the light of the effective procedures.

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. ING Bank Śląski S.A. periodically reviews the collateral structure. 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.

### ***Credit Process and Assessment of Credit Risk***

The current process of risk management and measurement at ING Bank Śląski S.A. provides for efficient identification and classification of risk as well as adequate measurement of credit exposures considering the appropriate level of impairment charges.

Decision powers for individual credit cases are separated from the decisions on the credit policy and risk management. All decisions (except for strategic clients) are taken collectively by credit committees whose powers are correlated with the credit risk level. The fact that they are taken collectively does not exempt any decision process participant from personal accountability for the decisions taken. For strategic clients, credit decisions are produced on a four-eye basis (SAP), under a separate instruction.

Commercial functions carrying through the activities leading to occurrence of credit risk are separated from the process of transaction risk and client risk assessment (a four-eye principle). Account Managers enter the data and suggest the rating using the model dedicated to a given group of clients. Risk Managers are responsible, first of all, for verification whether a correct model was applied and determination of the final rating. When the class risk assigned by the model and the proposal made by the Account Manager differ, the rating may be appealed against.

In 2007, ING Bank Śląski S.A. was finalising the works whereby internal processes related to credit risk management are brought into line with the requirements of the Basle II Accord.

In the Wholesale Banking area:

- In keeping with the ING Group's decision to implement the Advanced Internal Rating Base (AIRB), the Loss Given Default and Exposure At Default models were designed. They were implemented in the systems for calculation of regulatory and economic capital.
- The new model of corporate client risk assessment was validated. An independent team of experts analysed its prediction strength and the quality of risk ratios, among other elements. In the assessment, considerable prediction strength of the model and a correct selection of ratios were confirmed.
- The process of calculation and revision of provisions for the Bank's credit receivables was harmonised with the standards in force at ING Group.
- An IT system, which is to guarantee efficient realisation of the rating process, was implemented.
- Modified mechanisms ensuring high quality of data in IT systems supporting estimation of capital requirements and provisions were introduced.
- Fast-track credit procedure was implemented as pilot for specific types of transactions for the entities already financed by the Bank.
- The consent of the Banking Supervision Commission to apply the Advanced Internal Rating Base for estimating the capital requirement was obtained; the model will be used as of 2009, after full harmonisation with the Basle II Accord requirements.

In the Retail Banking area, as of 2008, the Bank will apply the standard method of capital requirement calculation, in line with the ING Group's strategy. In the distant future, the Bank



plans to shift to advanced methods (IRB). Construction of a probability of default model for consumer loans and the EAD/LGD one for retail exposures started.

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

As at the end of December 2007, the value of credit exposures of ING Bank Śląski S.A. was PLN 16,845 million.

In 2007, the quality of the credit portfolio of the Bank continued to improve. As at the end of December 2007, the value of impaired loans amounted to PLN 507 million against PLN 690 million as at the end of 2006. The share of the impaired portfolio in the total credit portfolio decreased from 5.1% in December 2006 to 3.0% as at the end of 2007.

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

	31.12.2007	31.12.2006	31.12.2005	31.12.2004
<b>Total exposure (PLN million)</b>	<b>16,845</b>	<b>13,651</b>	<b>10,562</b>	<b>11,349</b>
<b>Total provisions<sup>10</sup> (PLN million)</b>	<b>574</b>	<b>715</b>	<b>813</b>	<b>949</b>
<b>Provisioning rate (%)</b>	<b>3.4</b>	<b>5.2</b>	<b>7.7</b>	<b>8.4</b>
<b>Exposure – corporate banking (PLN million)</b>	<b>12,264</b>	<b>10,323</b>	<b>7,592</b>	<b>8,150</b>
Non-default portfolio (PLN million)	11,889	9,856	6,983	7,331
Default portfolio (PLN million)	376	467	609	818
Impairment (PLN million)	364	434	493	593
IBNR (PLN million)	79	74	70	73
Provisions for off-balance sheet liabilities (PLN million)	9	9	14	33
<b>Provisioning rate for default portfolio (%)</b>	<b>96.9</b>	<b>92.8</b>	<b>81.1</b>	<b>72.5</b>
<b>Exposure – retail banking (PLN million)</b>	<b>4,580</b>	<b>3,328</b>	<b>2,970</b>	<b>3,199</b>
Non-default portfolio (PLN million)	4,449	3,105	2,698	2,908
Default portfolio (PLN million)	131	223	272	291
Impairment (PLN million)	90	170	191	201
IBNR (PLN million)	16	15	28	31
Provisions for off-balance sheet liabilities (PLN million)	14	13	15	19
<b>Provisioning rate for default portfolio (%)</b>	<b>69.0</b>	<b>76.4</b>	<b>70.1</b>	<b>69.0</b>
<b>Share of default portfolio in %</b>	<b>3.01</b>	<b>5.06</b>	<b>8.35</b>	<b>9.78</b>

In 2007, the quality of the credit portfolio of ING Bank Śląski S.A. was considerably better than the average in the entire banking sector. Besides enhanced efficiency of the processes related to credit risk management and improved standing of borrowers, the said quality was also positively affected by the productive restructuring of the old portfolio of irregular receivables moved to off-balance sheet records. In 2007, the Bank sold a part of portfolio of retail loans to the securitisation fund and the shares of *Jedność Tube Mill* which it took over within the debt restructuring process.

At the end of 2007, ING Bank Śląski S.A. held PLN 454 million worth of provisions for the credit portfolio. The share of impairment charges for the impaired portfolio was 89.5% versus 87.5% as at the end of 2006.

<sup>10</sup> The provisions do not include the write-offs for shares and stakes taken over against debt claims.

## 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.

The market risk management process at ING Bank Śląski S.A. and its subsidiaries includes risk identification, measurement, monitoring and reporting. The Bank measures and monitors 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 at the Bank, some categories are measured and monitored according in split into:

- *Trading books.* These are the Financial Markets books, which include the positions taken in expectation of short-term financial gain from market movements or the positions made for arbitration purposes.
- *Banking books.* They include commercial banking books of both Retail and Wholesale Banking and comprise commercial deposits and loans as well as FM banking books (used, among other things, to manage the liquidity position and assets and liabilities). The risk from commercial banking books is transferred to FM banking books via internal transactions.

The market risk with respect to the risk of the trading books and of the banking books is mainly measured by ING Bank Śląski S.A. with the use of the Value-at-Risk methodology. The VaR defines the potential loss which should not be overrun assuming certain probability level. The Bank uses a 99% confidence interval and 250 daily market observations to measure volatility and correlation. Moreover, the Bank measures the value at risk in crisis situation (EVAR), determining the potential loss to be incurred on a given market position in case of extreme changes in market parameters.

For commercial banking books, the Earnings-at-Risk value (EaR) is the main measure applied to calculate the exposure to interest rates at ING Bank Śląski S.A. Furthermore, the Bank measures optionality risk (the potential losses on these positions given early-withdrawal of deposits and/or prepayment of loans) and basis risk (the potential losses on these positions arising from non-standard rate-setting mechanisms).

In 2007, ING Bank Śląski S.A. remodelled the market risk management area, among other things, in the following manner:

- Prepared a new policy for the replicating portfolio, whereunder all PLN liabilities significant in terms of value are invested.
- Perfected and extended the number of ratios used to measure the interest rate risk for the banking book and formalised the methodology of Earnings-at-Risk calculation for banking books.
- Adopted a new market risk management policy for subsidiaries.
- Finished preparations for implementation of hedge accounting for papers available for sale at fair value and macro hedge accounting for cash flows.

A project aimed at introducing a new Transfer Pricing System (TPS) at the Bank was also carried through. The objective of the system is to make the results presented in the management accounting system more consistent and recognise liquidity features of positions in internal contracts, among other things.

Market risk is controlled at ING Bank Śląski S.A. mainly by keeping the risk within the limits approved by the Management Board for individual operating areas. In 2007, the main ratios used to measure market risk were low and remained within the limits adopted by the Bank.

Detailed information about the market risk management system at ING Bank Śląski S.A. and quantification of individual risk measures in 2007 is presented in the Financial Report.

The liquidity risk policy is understood by ING Bank Śląski as keeping liquidity positions in such a way that the cash obligations of the Bank may always be met by cash on hand, inflows from maturing transactions and/or from the liquidation of marketable assets.

Striving for 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 with the changes in the Bank's organisational structure and the changes in definition of warning signals.

In 2007, the *Liquidity and Funding Policy of ING Bank Śląski* was revised. With the Policy the more advanced method of calculation of repayment of term deposits in crisis and the analysis of opening term deposits for subsequent periods were introduced, among other things.

ING Bank Śląski S.A. pursues a prudential liquidity policy. Detailed information about liquidity risk management and reports of liquidity gap per maturity and in a difficult liquidity situation are presented in the Financial Report.

## Capital Adequacy

In 2007, ING Bank Śląski S.A. maintained an adequate capital level, both in regulatory and economic aspects.

At the end of 2007, the capital adequacy ratio for ING Bank Śląski S.A. was 12.0%.

While working on implementation of the New Capital Accord, in 2007, ING Bank Śląski S.A. among other things:

- Revised the principles of economic capital calculation for market risk purposes. A new division of Bank's operations into the trading and banking books was approved for the purpose of calculation of capital adequacy and the methodology applied to calculate regulatory capital requirements for equity in the banking book was modified.
- Changed Key Risk Indicators relating to the regulatory and economic capital adequacy.

Economic capital is managed at ING Bank Śląski S.A., first of all, in line with the internal regulations. As of 1 January 2007, the rules of calculation of economic capital elements were changed due to moving from the RAROC methodology to NewRAC for credit risk. These changes affected a considerable reduction of the economic capital requirement for this risk, and ultimately growth of economic profit and return on risk-weighted capital.

### **Operational Risk and Compliance**

Operational risk is understood in ING Bank Śląski S.A. 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 Polish Banking Law Act, Recommendation M of the National Bank of Poland that takes into account the directives of the Basle Committee regarding the operational risk management, Resolution no. 4/2007 of the Banking Supervision Commission and standards effective at ING Group.

Operational risk management covers the operations in the field of identification, measurement and 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 performance 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 standing 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 activity, upon consideration of the new and modified products, pending projects, outsourcing processes and organisational changes as well as the changes in the sector.
- 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 Bank's 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.
- Allocation of economic capital adequate to the risk level.
- Testing the business continuity planning for critical and important business processes.
- Improving physical security at the Bank, 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.

- Preparing management reports on operational risk management.

The Supervisory Board oversees and controls compliance of Bank's operations with standards. Its activities in that area are carried out by the Compliance and Remuneration Committee appointed from among its members. The Management Board is responsible for observing compliance standards at the Bank; the Board is in charge of implementation of requisite policies and regulations as well as establishment of effective compliance structure, among other things.

As of 1 June 2007, a new *Compliance Policy* and *Compliance Manual* were introduced at the Bank. A compliance monitoring plan and a compliance training plan were developed and implemented. The *Compliance Chart* was revised as well.

The compliance risk management system at ING Bank Śląski S.A. covers first of all:

- Implementation of internal regulations, setting forth compliance standards.
- Implementation and improvement of methods and tools for identification, assessment and monitoring of compliance risk.
- Counteracting financial and economic crimes, inclusive of counteracting introducing asset values from illegal or undisclosed sources into financial turnover as well as counteracting financing terrorism and performance of client identification and acceptance processes.
- Reporting incidents and taking adequate remedy measures.
- Personal data protection.
- Supervision of employees' private investments – in connection with protection of internal information.
- Counteracting conflicts of interests and pursuing by employees business competitive to the Bank.
- Taking account of compliance risk in the process of banking products implementation and modification.
- Realisation of training programmes devoted to compliance risk matters.
- Development and periodical revision of the Compliance Chart.

To ensure proper observance of adopted ethical and legal standards, in 2007, the Bank, e.g.:

- Trained all employees in performance according to Compliance standards using the e-learning course formula.
- Adopted a new model of complaint management and launched a complaint handling application.

## VII. CORPORATE GOVERNANCE RULES

### **Supervisory Board's Report on Operations of ING Bank Śląski S.A. in 2007**

In 2007, ING Bank Śląski S.A. earned net profit of PLN 610.2 million versus PLN 540.6 million in 2006. Its level was affected by the following factors:

- Increase of income on operations – in 2007, it was PLN 1,990.5 million compared with PLN 1,726.0 million a year earlier (up by 15.3%). 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, retention of highly-qualified staff and performance of nationwide marketing campaigns to support the sales of key products; total costs of the Bank amounted to PLN 1,349.2 million, up by 11.9% from 2006.
- Obtainment of a positive balance of impairment charges – good financial standing of clients, 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 impairment provisions. It was PLN 103.9 million versus PLN 162.4 million a year earlier.

For another year in a row, the net result of ING Bank Śląski S.A. in 2007 was clearly driven by 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 2007 include, first of all, the following:

- High growth of lending. In December 2007, the Bank's credit receivables amounted to PLN 16.0 billion, up by some PLN 3.1 billion (or, 23.8%) throughout the year. This result helped sustain the Bank's existing position on the credit market.
- Good quality of the amounts due from clients. The share of impaired loans in the entire portfolio was 3.0% and for another year running it was among the lowest ones in the group of the largest banks operating in Poland.
- Record-breaking results in acquisition of deposits. In December 2007, the funds deposited with ING Bank Śląski S.A. amounted to PLN 43.2 billion, up by PLN 6.8 billion. This result guaranteed visible improvement of the Bank's share in the deposit market.
- The progress of project works of key significance for the future development of the Bank, in line with the forecast. Successful completion of the first implementation stages of the new Front-End application, network development of outlets of a new type, considerable progress of the process of providing branches with self-service zones as well as further operational area optimisation are also worthy of note. These changes either enhanced the operational efficiency of the organisation or improved the availability of the services of ING Bank Śląski S.A., strengthening its competitive position.



The Supervisory Board – within the operations of the Audit Committee – continuously supervises management processes for individual types of risk at the Bank. The results of this supervision enable us to declare that in 2007 ING Bank Śląski S.A. fulfilled all the requirements of safe operation and capital adequacy, and in particular:

- Pursued prudent lending policy while credit processes and procedures were compliant with supervisory requirements and top market standards.
- Developed complex risk assessment tools and is prepared to comply with the norms set forth in the Basle II Accord.
- Applies good procedures and systems in the field of market and operational risk management. In 2007, the level of particular market risk categories remained at the Bank within acceptable limits.
- Possesses efficient internal audit system.

While formulating a good opinion on the overall performance of ING Bank Śląski S.A. in 2007, the Supervisory Board draws attention to the challenges the Bank will have to face in the coming months, such as:

- Necessity of constant income growth being the main element of the value creation. Further dynamic development of lending, enabling effective usage of the Bank's strong deposit base, should be one of the basic factors of income increase.
- Need to use the outlays on strategic projects in an optimum manner, which will be reflected by the improved cost effectiveness of the institution.

In the opinion of the Supervisory Board, ING Bank Śląski S.A. has solid foundations: a large and stable client base, well qualified employees, professional managerial staff, fully-fledged distribution channels and efficient risk management systems, which will allow to stand up to macroeconomic challenges, ensure further market expansion and enhance the financial results of the institution.

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

In 2007, ING Bank Śląski S.A. observed all the rules stipulated in the “Best Practices in Public Companies in 2005”. The fact was confirmed with the current report released by the Management Board on 14 May 2007, which contained a declaration on observing the corporate governance rules at ING Bank Śląski S.A. Relevant resolution to that effect was passed by the General Shareholders Meeting of ING Bank Śląski on 9 May 2007 (Resolution no. 11).

In keeping with §29 (5) of the WSE Rules and the Resolution no. 1013/2007 of the Management Board of the Warsaw Stock Exchange dated 11 December 2007 ING Bank Śląski S.A. prepared the *Report on Observance of Corporate Governance Rules at ING Bank Śląski S.A.* which forms an integral part of the *2007 Annual Report of the ING Bank Śląski S.A.*

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



as well as on evaluation of their efficiency, as at the end of the last accounting year of the company.

ING Bank Śląski S.A. carried through the SOX process for 2007 within the prescribed deadline and in line with the regulations of the Sarbanes-Oxley Act. The Bank Management Board submitted to ING Group the required declaration pertaining to functioning of the control environment. The SOX process – through the analysis of potential risks and solutions efficiency - also contributes to strengthening of the Bank's control environment.

Acting in compliance with the law and business ethics, honesty and good reputation are considered to be the key assets of ING Bank Śląski S.A. Thus, the Bank for years now has been using internal regulations to counteract occurrence of the reputational risk in respect of ING Bank Śląski S.A., ING Group or any of its entities, as a result of non-observance of ethical and legal norms by employees. As of 1 June 2007, the new *Compliance Policy* and the *Compliance Manual*, including previous experience of the Bank and ING Group with regard to organisational culture management and growing demands of the environment in relation to financial institutions as the institutions of public trust, were introduced at the Bank. The new code puts special emphasis on propagating among employees values such as: integrity, openness, respect and common sense.

Developing relationships with investors, analysts and journalists, in particular via organising conferences in which the Management Board members participate contributes to the corporate transparency of ING Bank Śląski S.A. During meetings, the Bank spares no effort to inform the market about its results and business plans.

### **Statutory Authorities of the Bank**

In 2007, there were the following changes in the composition of the Management Board of ING Bank Śląski S.A.:

- At the meeting held on 20 April 2007, the Supervisory Board of ING Bank Śląski S.A. acknowledged the resignation of Mr Maciej Węgrzyński from the position of Vice-President of the Management Board of ING Bank Śląski S.A. as of the date of the Ordinary General Shareholders Meeting of the Bank approving the financial statement for the year 2006, i.e. as of 9 May 2007. Despite leaving the Bank, Mr. Maciej Węgrzyński has remained in ING Group and manages the FM operations for the entire CEE Region.
- At the Supervisory Board meeting held on 28 September 2007, Mr. Ian B. Clyne in charge of the Credit- and Market Risk Management Division tendered his resignation from his capacity as Vice-President of the Management Board, effective 1 December 2007. He cited personal reasons for his decision. During the same meeting, the Supervisory Board appointed Mr. Oscar Edward Swan to the position of Vice-President of the Management Board, pending consent of the Banking Supervision Commission. On 23 January 2008, the Banking Supervision Commission approved the appointment of Mr. Swan to the Bank's Management Board.

Mr. Oscar Swan is an experienced market risk specialist. He started his career in banking in 1999 at ING Bank N.V. Warsaw Branch as Trading and Counterparty Risk Manager. Later on, he became the Risk Manager at ING Bank Warsaw, and after the Branch consolidation with Bank Śląski. In 2002-2004, Mr. Swan continued his career at Bank Zachodni WBK S.A.

as Director of Financial Markets Risk Management. He returned to ING Bank Śląski S.A. in 2004 when he assumed the position of the Director of the Market Risk Management Department. He worked in this capacity until his appointment to the Management Board of ING Bank Śląski S.A.

At the end of December 2007, the Management Board of ING Bank Śląski S.A. had six members and worked in the following composition:

- Mr. Brunon Bartkiewicz **Chief Executive Officer** in charge of units that report directly to the Management Board of the Bank, including: Human Resources Management Department; Internal Audit Department; Legal Department, Press Office,
- Mr. Mirosław Boda **Vice-President** in charge of the Finance Division, Organisation and Strategic Planning Division, and the Credit- and Market Risk Management Division (until the approval of Mr. Oscar Swan as the Management Board Member by the Commission for Financial Supervision),
- Ms. Maria Elisabeth van Elst **Vice-President** in charge of Operations Division, Services Division and IT Division,
- Mr. Oscar Swan **Vice-President**,
- Mr. Michał Szczurek **Vice-President** in charge of Retail Banking Division,
- Mr. Benjamin van de Vrie **Vice-President** in charge of Wholesale Banking Division and Financial Markets and Treasury Division.

The Supervisory Board remained unchanged throughout 2007:

- Ms. Anna Fornalczyk Chair, Independent Member,
- Mr. Cornelis Leenaars Deputy Chair,
- 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.

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

In 2007, 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 14,662,000. The total amount of remuneration and bonuses paid out or due for 2007 given here is the gross amount of remuneration paid out or due and payable for the period from January to December 2007 and the 2006 bonus, which was paid out in 2007 to the total amount of PLN 3,743,000. Furthermore, in 2007 the Bank established a provision of PLN 3,200,000 for the bonus payable for that year.

Bank Management Board members and other individuals employed by 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 S.A. in 2007 (PLN 000)**

Name	Period from - to	Remuneration and awards	Benefits	Total
Brunon Bartkiewicz	01.01.07-31.12.07	2,067	893	2,960
Mirośław Boda	01.01.07-31.12.07	1,110	148	1,258
Krzysztof Brejda	MB Member until 2006. Bonus for 2006.	170	0	170
Ian Clyne	01.01.07-31.12.07	1,373	1,193	2,567
Grzegorz Cywiński	MB Member until 2006. Bonus for 2006.	231	0	231
Maria Elisabeth van Elst	01.01.07-31.12.07	1,221	698	1,919
Donald Koch	MB Member until 2006. Bonus for 2006.	167	25	191
Oscar Swan	01.12.07-31.12.07	80	1	81
Michał Szczurek	01.01.07-31.12.07	1,566	369	1,935
Benjamin van de Vrie	01.01.07-31.12.07	1,290	666	1,956
Maciej Węgrzyński	01.01.07-09.05.07	1,335	58	1,393
<b>Total</b>		<b>10,610</b>	<b>4,052</b>	<b>14,662</b>

In 2007, the remuneration (defined as above) paid by ING Bank Śląski S.A. to Supervisory Board members totalled PLN 548,000. Starting from March 2007, Supervisory Board members representing strategic investor haven't received remuneration for the membership in the Supervisory Board.

**Table. Remuneration of Members of the Supervisory Board of ING Bank Śląski S.A. in 2007 (PLN 000)**

Name	Period from - to	Remuneration and awards	Benefits	Total
Anna Fornalczyk	01.01.07-31.12.07	144	0	144
Ralph Hamers	01.01.07-28.02.07	16	0	16
Jerzy Hausner	01.01.07-31.12.07	96	0	96
Mirośław Kośmider	01.01.07-31.12.07	120	0	120
Cornelis Leenaars	01.01.07-28.02.07	20	0	20
Wojciech Popiołek	01.01.07-31.12.07	120	0	120
Marcus van der Ploeg	01.01.07-28.02.07	16	0	16
Igno van Waesberghe	01.01.07-28.02.07	16	0	16
<b>Total</b>		<b>548</b>	<b>0</b>	<b>548</b>

### Auditor

The 2007 financial statements of ING Bank Śląski S.A. were audited by KPMG Audyt Sp. z o.o. pursuant to the Supervisory Board's decision of 29 April 2005.

In 2005, the Supervisory Board selected KPMG Audyt Spółka z o.o. to be the certified auditor carrying out the audit of the financial statements of ING Bank Śląski S.A. for three years. The relevant agreement to that effect was signed on 12 August 2005. KPMG Audyt Spółka z o.o.

with its registered office in Warsaw, ul. Chłodna 51 is entered on the list kept by the National Chamber of Certified Auditors under the number 458.

**Table. Auditor's fee in 2007**

	Accounting year ended 31 December 2007	Accounting year ended 31 December 2006
Net fee for the audit (1)	PLN 1,697,000	PLN 1,601,000
Net fee for related services (2)	PLN 604,000	PLN 1,265,000

- (1) Fee 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) Fee 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 that were not included in item 1 above.

ING Bank Śląski S.A. has been using the services provided by KPMG in the field of financial statements audit since 1990. The company also audited the financial statements of ING Bank N.V., the strategic shareholder of the Bank.

Rotation of the auditor of financial statements of ING Bank Śląski S.A. depends on the potential change of the entity auditing financial statements of the Bank's strategic shareholder. It results from the necessity of financial statements' consolidation and binding EU regulations.

In 2007, on 3 October the Supervisory Board of ING Groep N.V. decided to recommend Ernst & Young as the sole auditor for ING Group to the General Shareholders Meeting in 2008.

On 30 November 2007, the Supervisory Board of ING Bank Śląski S.A. selected Ernst & Young Audit Spółka z o.o. whose registered office is in Warsaw, Rondo ONZ 1 (entered on the list kept by the National Chamber of Certified Auditors under the number 130) as its external audit firm to examine the financial statements of ING Bank Śląski S.A. for the period of 3 years, starting with the 2008 financial statements.

ING Bank Śląski S.A. has not used the services of Ernst & Young Spółka z o.o. previously.

## VIII. INVESTOR INFORMATION

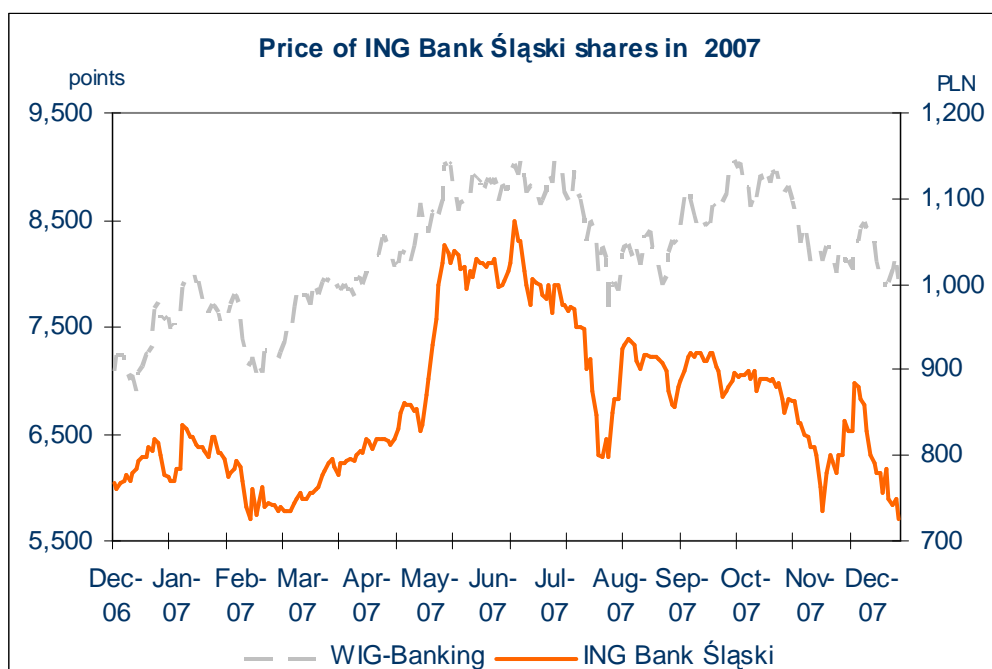
### Price of ING Bank Śląski S.A. Shares

In 2007, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange reflected the stock market developments.

After the increase recorded in the first few weeks of 2007, the share prices on the Warsaw Stock Exchange fell at the end of February. During this adjustment, the share price of ING Bank Śląski S.A. fell on 1 March to the lowest level in 2007, notably to PLN 725. With the beginning of 2Q 2007 the growing trend was back on the Warsaw Stock Exchange. The shares of ING Bank Śląski S.A. reached the highest price at the session closure – in the amount of PLN 1,075 – on 4 July 2007.

In the second decade of July – under the influence of the intensifying crisis in the real estate funding sector in the USA and concerns about its scale and long-term consequences – the moods on the financial markets went down as well as the prices on global markets, including the Warsaw Stock Exchange. The situation continued until the end of 2007. On the last day of quotations in 2007, notably on 28 December, the shares of ING Bank Śląski S.A. were priced at PLN 725, down by 5.6% from 29 December 2006. By contrast, WIG-Banks gained 12.2% in 2007.

As of the end of December 2007, the market value of ING Bank Śląski S.A. was PLN 9.4 billion and had the following ratios: P/BV at 2.5 and P/E at 15.0.



## 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 sub-divided into 13,010,000 ordinary shares of the face value of PLN 10 each.

There are no limitations as to transferring ownership right and exercising right to vote on account of shares held. Bank's shares do not grant special control powers towards the issuer either.

Throughout 2007, the shareholding structure of ING Bank Śląski S.A. was not subject to any significant change and was as presented in table below:

Name of Shareholder	Number of shares and votes at GSM	Share in equity and total votes at GSM	Number of shares and votes at GSM	Share in equity and total votes at GSM
	31 December 2007		31 December 2006	
ING Bank N.V.	9,757,500	75.00%	9,757,500	75.00%
Commercial Union OFE BPH CU WBK	696,926	5.36%	850,000	6.53%
Other	2,555,574	19.64%	2,402,500	18.47%
<b>Total</b>	<b>13,010,000</b>	<b>100.00%</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 asset 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. 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 report publication date, ING Bank Śląski S.A. did not have any information on agreements whereby there could be changes in proportion of the shares held by the existing shareholders in the future.

## History of Dividend Payout and Proposal of 2007 Dividend Payout

Up until 2002, ING Bank Śląski S.A. had paid out dividend representing approximately 20% of the net profits earned. Together with the increase of equity accompanied by a relatively low level of risk-weighted assets, as of 2003, the Bank earmarked an increasingly higher portion of financial result for the dividend payout, notably:

- for the year ending on 31 December 2003, the Bank earmarked 34.1% of net profit for dividend payout,
- from profits for 2004-2006 the Bank paid out to the shareholders in the form of dividend – apart from the net value of the positive balance of the credit portfolio impairment – also 40-50% of the recurring profit of the Bank's capital group.

In the coming years, the capital needs will grow and the level of the solvency ratio at ING Bank Śląski S.A. will be lower, mainly due to:

- Planned dynamic growth of credit exposure.
- Coming into effect of the Basle II Accord which:
  - requires taking operational risk into account when calculating the capital adequacy level,
  - changes the principles of credit risk assessment, which can increase Bank's capital requirements until advanced rating models are used (pursuant to the decision of the Commission of Financial Supervision they shall be implemented at the Bank as of 2009).

Thus, in 2007, ING Bank Śląski S.A. verified its current dividend policy. At the General Shareholders Meeting approving the results for 2007, the Bank Management Board will apply for paying out the amount of PLN 152,217,000 (near 25% of the Bank's net profit) in the form of the dividend. The proposed dividend level will be PLN 11.7 per 1 share.

**Table. Dividend for the Years 2002-2006 and Proposed Dividend from the 2007 Profit**

	2007	2006	2005	2004	2003	2002
<b>Net profit of the Bank's capital group PLN million</b>	<b>630.7</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>610.2</b>	<b>540.6</b>	<b>506.8</b>	<b>366.3</b>	<b>30.6</b>	<b>141.1</b>
<b>Total dividend PLN million</b>	<b>152.2</b>	<b>363.0</b>	<b>357.8</b>	<b>266.7</b>	<b>10.4</b>	<b>31.2</b>
<b>Dividend yield</b>						
% of the Bank's capital group profit	24.1%	61.4%	65.1%	72.8%	34.1%	22.1%
% of the Bank profit	24.9%	67.1%	70.6%	72.8%	34.1%	22.1%
<b>Total dividend per share in PLN</b>	<b>11.7</b>	<b>27.9</b>	<b>27.5</b>	<b>20.5</b>	<b>0.8</b>	<b>2.4</b>

## 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 under the agreement, whereas Moody's Investors Service makes the Bank's assessment based only on the information available in the public.

Fitch Ltd. increased the credibility rating for ING Bank Śląski S.A. twice since January 2007. On 22 January 2007, the Agency raised the long-term liabilities ratings for ING Bank Śląski S.A. from A+ to AA - in view of higher credibility ratings for Poland.

On 11 April 2007, the Management Board of ING Bank Śląski S.A. was notified of increasing the individual rating for the Bank from C/D to C and the short-term rating from F1 to F1+ in view of better quality of the Bank's assets, low risk profile and strong capital base of the Bank.

As per the release date hereof, Fitch Ratings Ltd. Issued the following financial credibility ratings for ING Bank Śląski S.A.:



#### Fitch Ratings Ltd.

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

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.

Following a change in the rating methodology, on 10 April 2007, the Agency lowered the rating for long-term deposits in home currency for 44 banks. In case of ING Bank Śląski S.A., the rating was lowered from Aa3 to A1.

In case of the Moody's agency financial credibility ratings for ING Bank Śląski S.A. were as follows (As per the release date of Report):

#### Moody's Investors Service Ltd.

Long-term deposits in foreign currencies	A2
Long-term deposits in home currency	A1
Short-term deposits	P-1
Financial strength	D+
Long-term and short-term deposits rating outlook	Stable

### ING Bank Śląski Financial Results calendar for 2008

ING Bank Śląski Financial Results publication dates scheduled for 2008 are as followed:

- **31.03.2008** – Publication of the 2007 Annual Report of ING Bank Śląski S.A. and the 2007 Consolidated Annual Report of the Capital Group of ING Bank Śląski S.A.
- **14.05.2008** - Publication of the consolidated report for 1Q 2008, comprising the abridged financial report of the Bank.
- **13.08.2008** - Publication of the consolidated report for 2Q 2008, comprising the abridged financial report of the Bank.
- **30.09.2008** - Publication of the consolidated report for 1H 2008, comprising the abridged financial report of the Bank
- **12.11.2008** - Publication of the consolidated report for 3Q 2008, comprising the abridged financial report of the Bank.

## IX. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT OF ING BANK ŚLĄSKI S.A. IN 2007

### Information Technology

To ensure adequate support in accomplishment of business objectives and pro-efficiency initiatives, ING Bank Śląski S.A. implemented the following IT projects in 2007, among other things:

- New *Front-End* application in retail outlets. It is a CRM application (*customer relationship management*) used at Bank branches to optimise the customer service process. Thanks to the available modules, a branch employee may take customer-tailored sales actions, and thus be more efficient in accomplishing the Bank's commercial objectives. This tool also guarantees that a bank's employee has access to those client data whose knowledge allows enhancing the quality of service and efficiency of sales actions as well as reducing the operational risk. Ultimately, the new application will cover all sales and customer service processes as well as all distribution channels.
- Marketing campaign management system. The system enables selection of an appropriate target group for marketing actions, ensures coherent and organised communication with the client and allows detailed reporting of promotional campaign results.
- Applications supporting credit processes. The Bank expanded the functionality of the System for Handling Credit Applications with the service of private clients (the application was earlier used for small business clients). Among the main benefits of that system rollout are: ensuring end-to-end service of prescoring offer, option of automated credit decision and co-operation with external databases like the one of the Credit Information Bureau. Furthermore, towards the end of the year, a group of applications handling mortgage loans sold by agents co-operating with the Bank was implemented. An advanced solution whereby corporate clients are offered a new product – aggregated limits – was prepared.
- PerfectCase application. The system was implemented for registering client's complaints. It enables the Bank to react faster and better to the problems signalled.
- Applications servicing financial operations. The Bank implemented all changes required by MIFiD into these applications.
- Uniform IT configuration standard at the Head Office. The actions initiated in the previous year in the network of branches were continued. Thanks to standardisation and centralised remote support for end users, the project will contribute to reduction of operating costs of IT forces.
- Security. Works were conducted to optimise management of the ATM network and personalise cards in the microchip technology. New solutions were introduced for archiving of documents and preventing money laundering. Furthermore, some improvements were made to enhance security of the ING *BankOnLine* system (e.g., introduction of transaction validation with the use of a one-off code sent as an SMS).

## Operations

In 2007, ING Bank Śląski S.A. made numerous changes in the area of operations. The most important ones include:

- Image, Workflow and Archiving System. Finalisation of this project made it possible, first of all, to limit the number of paper documents, extend the scope of documentation immediately available for authorised users and develop tools enabling process management, control and measurement of deliverables.
- Mass mail and printing outsourcing. The project was carried through within ING Group. Its implementation ought to prove conducive to optimisation of costs of document dispatch to clients.
- Cash circulation management and cash transport costs optimisation project. The changes made will contribute to containing transport costs and enhancing the quality of cash handling; they will also enable creation of a cash handling offer for the chain clients with high cash turnover.
- Improvements within the Operations Division. Division's performance proved more efficient as a result of introduction of a standard method of work performance measurement and application of the Lean Six Sigma in carrying through streamlining projects.

## Development of Electronic Distribution Channels

Development of electronic banking channels was among the Bank's priorities. In 2007, the following projects were carried out in that area:

- Implementation of the ING BusinessOnLine system for corporate clients. First functionalities of ING *BusinessOnLine* were rendered available at the end of 2007. The plan is to gradually migrate the MultiCash users to the new internet banking system.
- The Most Internet Bank Programme. The goal of the project is to make the offer more competitive in the aspect of internet banking. The plan is to launch a new, internet account – the *Direct Account*, distinct from the competitors' proposals – among other things.
- Loan Xpress mortgage facility. The new product, offered by intermediaries, was launched as a pilot in autumn 2007. In 2007, the Bank signed co-operation agreements regarding sale of loans with a few leading financial intermediaries.
- Improvements of ING BankOnLine system. The system functionality was expanded with new products, the graphical layout was prepared and new ergonomic solutions were launched.

At the end of December 2007, there were 765,900 Internet banking users, up by 50.8% from the end of 2006. The group of active users of HaloŚląski phone banking system rose considerably as well - up by approximately 34.6% from December 2006.

In December 2007 5.8 million transactions were made with the use of electronic banking systems, as compared to 4.8 million in the previous year (an increase of 21%).

Number of clients:	31.12.2007	31.12.2006
ING BankOnLine, ING Online	765,920	507,905
HaloŚląski	398,297	295,833
SMS	233,745	148,197
MultiCash	5,464	7,818

In December 2007, ING Bank Śląski S.A. had a network of 630 ATMs, as compared to 568 ATMs in 2006.

## Development of the Network of Bank Outlets

According to the strategy, in 2007 ING Bank Śląski S.A. concentrated its efforts on the expansion of the network of new type outlets.

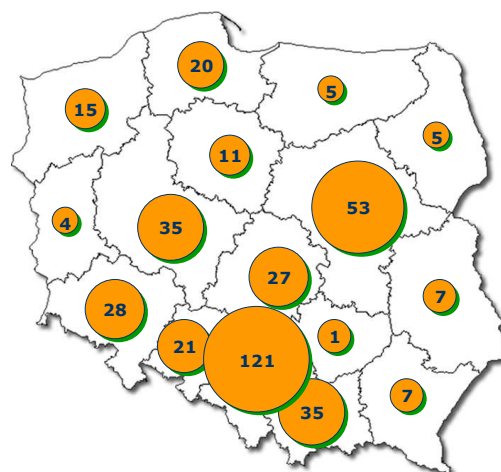
In 2006, it was decided that 100 new type outlets should be opened, mainly in parts of the country characterised with the greatest banking services potential. Sales and service offer of such branches is virtually identical to that of traditional retail branches. Apart from a wide array of ING Bank Śląski S.A. products, they supply products of other members of ING Group, including TFI ING S.A., as well as chosen products of ING Nationale Nederlanden Polska. Implementation of self-banking zones allowed for elimination of cash in Client-Outlet employee contacts, which is a novelty. Besides a transactions zone, new type outlets also have a sales zone with an inquiry desk, advisers desks and a meeting room.

In 2007, 68 new type outlets in the Bank were opened. It is planned that 25 further similar outlets shall be opened in the first quarter of 2008.

Striving to improve the availability of bank services and containment of operational costs, early 2007, ING Bank Śląski S.A. started the self-banking zones project. The core of the Self-Banking lies in separating self-banking zones that would be operational 24 hours a day, where the clients could deposit and withdraw cash on their own, where they could make a transfer via ING BankOnLine, get connection with the HaloŚląski service or talk to a Call Centre consultant. The zones are addressed to individual and small business clients, as well as wholesale clients. Throughout 2007, the Bank launched 50 self-banking zones.

As at 31 December 2007, ING Bank Śląski S.A. conducted its operating activity through 404 branches including 75 new type outlets. Those are located all over Poland; however, the highest concentration – due to the Bank's history – is observed in the Silesia province. Thirty retail branches house Private Banking Centres dedicated for service of wealthy clients. Moreover, the Bank also opened Private Banking Investment Centre in Warsaw for clients with assets at the minimum level of PLN 1 million.

Branch network of ING Bank Śląski S.A.  
(status as of 31.12.2007)



The wholesale clients from the mid-sized and large segments are serviced by the Bank through 28 wholesale branches and 11 Corporate Banking Centres. The largest wholesale clients are serviced by the Strategic Clients Department and its two units (in Katowice and Gdańsk).

## **X. ING BANK ŚLĄSKI S.A. IN THE SOCIETY**

### **ING Children Foundation**

Charity and social activities of ING Bank Śląski S.A. lie at the heart of the operations of Bank Śląski Foundation, established in 1991. During more than ten years of the Foundation's activity, more than PLN 38 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 ING 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 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. The following youth clubs participate in the programme: Bytom, Katowice, Opole, Szczecin, Poznań, Łódź and Jasło.
- ING Internet youth clubs. This is a joint initiative of all the ING companies in Poland, whereunder free internet clubs are opened for children from poverty areas. In 2007, an Internet club was opened in Olkusz and as at the end of the year, there were three youth clubs like that (including one in Katowice-Załęże and in the Social Prevention and Integration Centre in Pabianice).
- Rehabilitation and holiday stays. This initiative is based on organising educational and recreational camps addressed to children at different age, development and disability level. In 2007, there were altogether more than 220 children from seven childcare centres who stayed in the holiday centre Regle in Wisła.
- In the company of the lion. This is a programme propagating the library therapy techniques, within which the children receive, among other things, a free copy of the book called *Lucian, the Lion One of its Kind*. As part of the 3<sup>rd</sup> edition of the programme, 4,000 children received a copy of the book in 2007, including 500 children from nephrology, oncology and haematology hospital wards. As in previous years, children in hospitals were visited by good will ambassadors including celebrities from the world of sports, culture and art. Reading together some fragments of the book about the Lion Lucian was one of the main points of those meetings. A special website was developed with games, pictures to colour and wallpapers with book characters.

The Foundation also supports schools with special educational needs in that it finances the most urgent modernisation works, provides teaching materials and school equipment and subsidises meals for children. In 2007, seven schools (mainly from the Bieszczady area) were assisted in that connection. Co-operation with twelve children's homes, initiated by ING Nationale-Nederlanden, continued.

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. Its objective is to prepare children and youth to live under the conditions of market economy and in the civil society as well as to enable them to gather knowledge and learn practical skills facilitating successful pursuit of career plans. The Foundation operates 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. As part of the co-operation of both foundations in 2007, the employees of ING Bank Śląski S.A. took part in the Job Shadow Day. On that day, the Bank was visited by approximately 130 students of secondary schools, considering work in the banking sector.

The many-year co-operation of ING with Leszek Możdżer, an outstanding Polish jazz musician of the young generation, led to an initiative of providing deaf and hearing-impaired children with financial assistance. The arranger of the concert tour of Leszek Możdżer, Lars Danielsson and Zohar Fresco assigned some proceeds therefrom for the purchase of musical instruments for the children attending schools with special educational programme for hearing-impaired children, assisted by the ING Children Foundation.

### **Employees in Voluntary Service**

ING Bank Śląski S.A. promotes social activity among Bank's clients and employees as well. For the latter group, an employee volunteering programme was launched; it is pursued in co-operation with the ING Children Foundation and the Voluntary Service Centre Association.

Thanks to the relevant amendment of the Labour Bylaw, since 2007 each employee can devote 8 hours of his/ her working time to voluntary service. Beginners are supported by the Bank in selecting the form of helping others that would match their own skills.

The voluntary actions initiated in 2007 were in major part group activities during which rooms in schools, youth clubs and children's homes were renovated, playgrounds were built and trips were organised. Some employees used their professional skills to offer children help in learning English or operating computers, or by giving banking workshops. Some actions concerned environmental protection (trees were planted in forests lost to pests, among other things). In 2007, 14 group projects were carried out in total. Various voluntary actions involved more than 500 employees of ING. The most interesting and valuable voluntary initiatives were subsidised by the ING Children Foundation.

The Bank's employees also support financially the children and young people in care of the ING Children Foundation within the ING Employees for Children programme. Every month, employees make symbolic contributions therefor from their salary. In 2007, the ING Children



Foundation was registered as a public benefit organisation. The Bank's employees paid into its account the amount of PLN 64,000 as the so-called 1% of their tax deduction.

Since 2002 the employees of ING Group in Poland have been taking part in the voluntary blood donation campaigns. 40 people donated blood during the fifth campaign while 400 employees from the beginning of that enterprise respectively.

### **ING Polish Art 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.

## XI. HUMAN RESOURCES

### Headcount

As at 31 December 2007, ING Bank Śląski S.A. employed 7,844 people. In 2007, the number of people employed in the Bank grew by 563 people (or 7.7%).

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

	31.12.2006		31.12.2007	
	people	%	people	%
Retail banking	4,135	56.8	4,513	57.5
Wholesale banking and financial markets	897	12.3	938	12.0
Operations/IT/Services	1,682	23.1	1,710	21.8
Risk/Organisation/ HR issues	567	7.8	683	8.7
<b>Total</b>	<b>7,281</b>	<b>100.0</b>	<b>7,844</b>	<b>100.0</b>

In 2007, there were considerable changes in the Bank's headcount structure, including but not limited to the following:

- Mobile network development and expansion on the market of mortgage loans resulted in the increase of the share of retail banking employees in the total number of Bank's employees.
- Expansion of operations (notably on the market of mortgage loans) as well as modification of risk management-related procedures and processes caused the area of Risk/Organisation/HR Affairs to become more visible in the headcount structure.
- Automation and centralisation of the operational area translated into a considerable drop in the share of Operations/IT/Services employees in the total number of employees.

### Payroll Policy

In 2007, ING Bank Śląski S.A. pursued the payroll policy based on the new system of base salaries implemented in 2006. Coherent and fair payroll policy that is competitive in market terms is the chief quality of the payroll system in place at the Bank. These assumptions are pursued, among other things, by setting salary tables 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 and rational use of the personnel costs budget due to better possibilities of employee recruitment, motivation and retention.

As of 1 April 2007, new increased base salary tables were instituted in ING Bank Śląski S.A. and the salary rise process was conducted which covered all employees. The increased salary could not fall below the minimum level set in the new tables, while the individual salary rise was conditioned by the annual employee appraisal outcome as well. In response to dynamic changes on the labour market, at the beginning of October, base salaries were additionally adjusted, first of all for the employees with the lowest remuneration.

Fringe benefits systems functioning at the Bank are verified and adjusted on a regular basis. In 2007, the medical care offer for employees was expanded with dental service programmes. Works continued on introducing the system of investment benefits and orienting the bonus system to supporting the process approach implemented at the Bank. New bonus solutions were launched at the Bank as of the beginning of 2008.

### **Recruitment and Selection**

In 2007, the principles of employee recruitment by ING Bank Śląski S.A. were modified. The full pre-employment screening procedure was implemented first of all. In this process, the professional history of candidates is verified: vocational qualifications, identity and documents (their validity and originality), completeness and reliability of the curriculum vitae as well as references are checked. The pre-employment screening procedure applies to all new employees (hired under the contract of employment, contract of mandate/ task to perform and the ones at partners' outlets).

Recruitment tools and methods were also gradually developed at the Bank; e.g. by communicating staff needs outside and co-operating with agencies. Potential diagnosis tools were improved as well and a new 360° Assessment process – using the method of in-depth interviews – was prepared and implemented, among other solutions.

### **Employee Training and Development**

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 2007, the Bank assigned substantial outlays for 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.

During the first months of 2007, Bank's managers were appraising their employees using a new annual appraisal system, based on the competency model. The system allows for determining potential competency gaps (the areas requiring changes in terms of behaviour and skills) of individual employees, among other things. Annual Interview results were also used to identify training needs in individual areas and prepare the catalogue of courses.

In 2007, 45,300 man-days of training courses were provided at ING Bank Śląski S.A. In order to adapt the training programmes to the specific needs of the Bank, the majority of them were given as internal courses. They were delivered by Bank's experts and internal coaches both at training centres and directly at the branches.

Internal training courses at ING Bank Śląski S.A. were devoted, above all, to:

- Development of sales network employees skills. Employees from the retail network participated in training programmes on change of the range of available products and quality of service. New employees of Front-Office and new type outlets were also trained. Throughout the year, an employee of the retail network attended 3.4 courses on the average. In the wholesale network, in major part, the courses were devoted to

risk management, financial analysis, new products, processes and regulations as well as interpersonal skills. 1 employee attended 2.1 courses on the average.

- Development of managerial skills. The executive staff participated in the courses provided within the Managerial Training Programme established in 2006. The main part of the training courses was connected with preparing the executive staff for the annual appraisal process in 2007 according to a new modified formula and employee recruitment and selection (620 people were trained in total).

Language courses run according to the newly adopted Policy of Language Courses at ING Bank Śląski S.A. prevailed among the courses made with the use of external training units. In 2007, 850 people attended the language courses rendered in the new formula.

In April 2007, ING Bank Śląski S.A. launched the Management Development Programme. Its objective is to identify and develop the employees with potential for assuming executive positions in the organisation in the future. The programme consists of three stages: identification, diagnosis and development activities. In the period of May and June, based on discussions with managers on various levels, 160 people were identified whom the Bank decided to provide with faster development opportunities. Subsequently, the selected employees were appraised using the 360° Interview method and in October development actions were initiated for them. 120 people were trained, mainly in soft skills. The succession plan for individual areas was also developed.

In 2007, ING Bank Śląski S.A. expanded the training offer in the e-learning formula. 39,400 courses were carried out in total on this platform; they were mainly devoted to products, applications and competencies. The main topics of e-learning courses included: Compliance (7,200 participants), operational risk management (5,800) and Security Handbook (3,700). Furthermore, as of 2007, the occupational safety training is provided at the Bank in the e-learning formula only.

In 2007, additional courses were rendered available on the e-learning platform; e.g. new employee induction training and Winning Performance Culture.

### **Working Conditions**

In 2007, the Management Board of ING Bank Śląski S.A. and the Bank Works Council made an agreement whereby detailed principles of mutual co-operation and the mode of supporting the activities related to information and consultancy obligations as required under the law were set forth.

The agreement defines in particular: the frequency of Council's meetings with the employer, the principles and mode of information provision and consultancy, the principles relating to the company secrecy as well as the mode and manner of dispute settlement. Considering the interest of both the employer and the employees, its stipulations remain, at the same time, in line with the principles of information provision and consultancy as set forth in the legal regulations in force.

The objective of the Bank as the employer is always to improve all employees' satisfaction with work. In 2007, ING Bank Śląski S.A. conducted a satisfaction survey in which almost 2,000 employees took part. The conclusions formulated based thereon stimulated changes in

the HR policy and initiated works on the satisfaction survey that would cover all Bank's employees. Launch of periodical surveys will allow for diagnosis of potential problems and introduction of changes conducive to establishment of a friendly workplace.

A new questionnaire was also implemented for the employees leaving the Bank on their own initiative in order to verify the reasons of resignation from work and undertake actions whereby satisfaction with work at ING Bank Śląski S.A. would improve.

## XII. AWARDS AND DISTINCTIONS

In 2007, ING Bank Śląski S.A. received numerous awards and distinctions.

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

- The highest TOP RATED rating for custody activities run in Poland assigned in 2006 by the prestigious American sector quarterly *GLOBAL CUSTODIAN*.
- First place in the ranking by *Gazeta Finansowa* in the category *Credit Card for Business* for the VISA credit card for business.
- The main award in the fifth edition of the competition by *Gazeta Bankowa* for the 2006 *Best Banking IT Project* in the category *Electronic Banking and E-finance* for the ING Agent application.
- Silver Rock 2006 in the category *Card Products Development* for the first Maestro card with the customisation option, assigned by the Polish branch of MasterCard Europe.
- The title of 2007 Franchiser – an award for the most dynamic systems operating as agency and franchise networks.
- Gold Standard distinction for the Lion Account – a consumers' award.
- The emblem 2007 *Product* in the category *Bank Deposit* – a certificate from the readers of the *Reader's Digest* monthly.
- *Rose without Thorns* – number one in the ranking of best banks according the largest enterprises in Poland (*Home & Market*).
- Distinctions *European Cash Management Award 2007* and *Eastern European Cash Management Award 2007* assigned by *Treasury Management International Magazine* issued by *European Association of Corporate Treasurers*.

The market also highly appraised the efficiency of marketing actions run by ING Bank Śląski S.A., supporting the sale of key products. The Bank won, for instance:

- First place in the ranking by the *Home & Market – Advertising Campaigns of Banks in 2006* for the campaign *We promise you a mortgage loan on good terms*.
- Third place in the ranking by *Gazeta Finansowa* – The most recognisable and viable financial brands.
- 2006 Lamparts – a bankers' award for the most admired creation of the banking brand.
- Silver Effie 2007 in the category *Financial Services* for the nationwide campaign *Do you go to the client? Yes we do!*

Striving for financial clarity and transparency is among the primary principles observed by ING Bank Śląski S.A. in business pursuit. The fact that this principle is efficiently implemented at the Bank is demonstrated by:

- The special award of the Individual Investors Association in the competition *The Best Annual Report 2006*.
- Third place in the *Stock-listed Company of the Year 2007* ranking by *Puls Biznesu*.

### XIII. FINANCIAL STANDING OF ING BANK ŚLĄSKI S.A. IN 2007

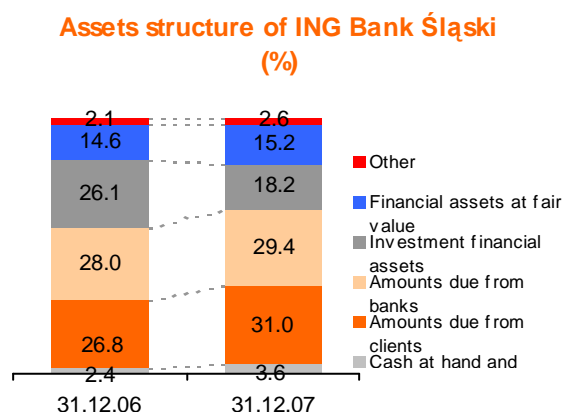
#### Balance-Sheet Structure

As at 31 December 2007, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 51,826.4 million compared with PLN 48,360.8 million a year earlier (up by 7.2%).

#### Assets

The structure of assets of ING Bank Śląski S.A. as at 31 December 2007 was significantly different from the structure as at December 2006, notably:

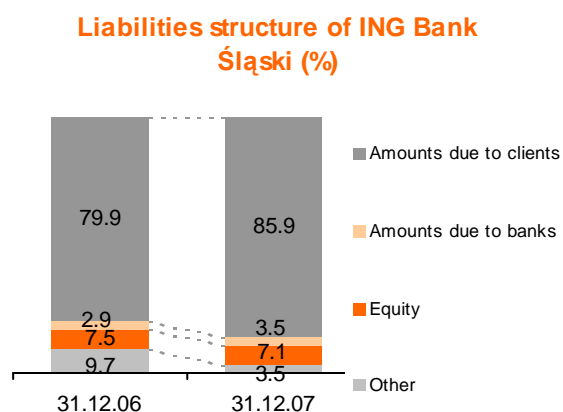
- As a result of lending reactivation at ING Bank Śląski S.A., the share of loans in the assets rose. As at 31 December 2007, loans and cash loans granted to clients of the Bank totalled PLN 16,049.7 million compared with PLN 12,962.4 million as at the end of 2006. They had a 31.0 per cent share in assets, up by 4.2 p.p. from a year earlier.
- The share of amounts due from banks slightly rose in the total assets. As at the end of December 2007, they were at the level of PLN 15,238.7 million compared with PLN 13,560.2 million a year earlier. Their share in assets totalled respectively: 29.4% and 28.0%.
- The share of investment financial assets, in major part formed by debt securities, fell considerably. As at the end of December 2007, they totalled PLN 9,418.4 million compared with PLN 12,644.7 million as at the end of 2006, which translated into the following shares in the balance sheet total: 18.2% and 26.1%.
- Financial assets carried at fair value through profit or loss (i.e. the assets held for sale over a short period of time) totalled PLN 7,869.0 million compared with PLN 7,066.0 million as at the end of December of 2006. Their share in the balance sheet total was 15.2%, slightly different from the one recorded as at the end of 2006.
- As at the end of December 2007, the value of cash at hand and with the Central Bank totalled PLN 1,841.7 million against PLN 1,147.9 million as at the end of 2006. Their share in the balance sheet total was: 3.6% and 2.4%, respectively.



#### Liabilities

The funds deposited with the Bank by clients were the dominant source of funding for the operations ING Bank Śląski S.A. They went up from PLN 38,626.4 million as at the end of December 2006 to PLN 44,502.2 million as at the end of 2007, up by 15.2%. In December 2007, they represented 85.9% of the Bank's liabilities, up by 6.0 p.p. from a year earlier.

As at the end of December 2007, the Bank's amounts due to other banks amounted to PLN 1,812.3 million





versus PLN 1,400.2 million as at the end of December 2006. The funds acquired from monetary financial institutions accounted for 3.5% of the liabilities value, while in December 2006 their share was 2.9%.

The share of equity in liabilities of ING Bank Śląski S.A. dropped from 7.5% in December 2006 to 7.1% as at the end of December 2007.

## Income Statement

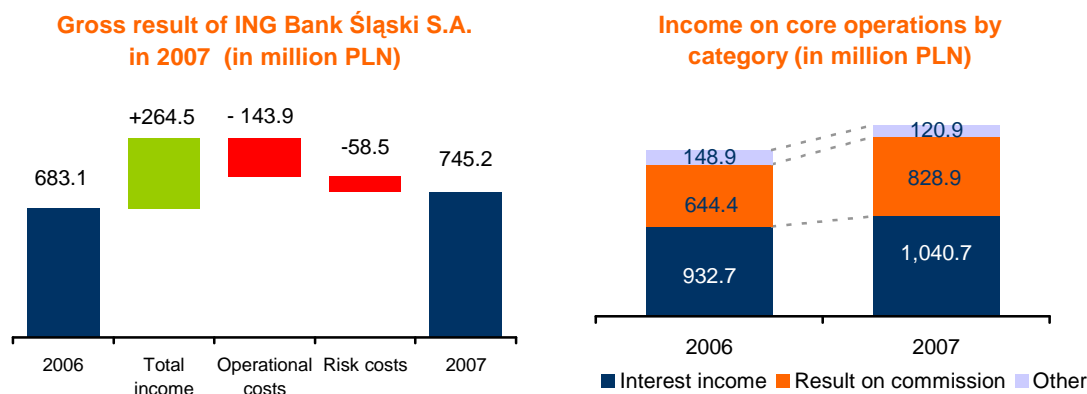
### Gross and Net Profit

In 2007, the gross financial profit of ING Bank Śląski S.A. was PLN 745.2 million versus PLN 683.1 million in 2006. Net profit totalled PLN 610.2 million as compared with PLN 540.6 million a year earlier (up by 12.9%).

The main factors influencing the financial results of ING Bank Śląski S.A. in 2007 were as follows<sup>11</sup>:

- An over 15 per cent increase in income on core operations from a year earlier, mainly as a result of an increase of the commission result (up by 28.6%) and of the interest result (up by 11.6%).
- A 11.9 per cent increase of operating 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 (including the costs of marketing and strategic projects).
- A positive balance of impairment of assets due to both further 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. Nonetheless, when compared with 2006, the favourable impact of the positive balance of assets impairment on the Bank's bottom result was lower due to a very good quality of the portfolio. In 2007, the positive balance was down by PLN 58.5 million from a year earlier.

In 2007, the result before the risk costs for the Bank was PLN 641.3 million, up by 23.2% from a year earlier.



<sup>11</sup> The characteristics discussed in this document apply to analytical income statement. The category operating costs includes the other costs.

**Table. Basic Values of the Income Statement of ING Bank Śląski – analytical (PLN million)**

	2007	2006
Interest result	1,040.7	932.7
Result on commission	828.9	644.4
Other income	120.9	148.9
<b>Income on operations</b>	<b>1,990.5</b>	<b>1,726.0</b>
Operating costs including depreciation/ amortisation	-1,349.2	-1,205.3
<b>Result before risk costs</b>	<b>641.3</b>	<b>520.7</b>
Impairment losses and provisions	103.9	162.4
<b>Gross financial result</b>	<b>745.2</b>	<b>683.1</b>
Income tax	-135.0	-142.5
<b>Net financial result</b>	<b>610.2</b>	<b>540.6</b>

**Interest Result**

In 2007, net interest income generated by ING Bank Śląski S.A. amounted to PLN 1,040.7 million versus PLN 932.7 million a year earlier. This income was the result of:

- growth of the scale of operations, both in lending and deposit activity,
- favourable change in the balance-sheet structure thanks to a higher share of loans in assets.

In 2007, the Bank earned the interest margin of 2.17% against 2.20% a year earlier. Its amount resulted, first of all, from:

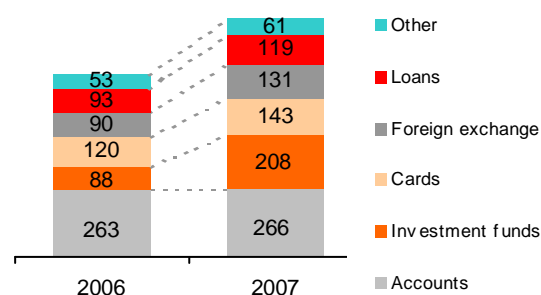
- the sustained low share of loans in assets, accompanied by a relatively high share of amounts due from the financial sector (including in foreign currency),
- the pricing policy applied during the last years by the Bank, providing for attractive interest rates,
- growth of interest rates, which was partly eliminated by the growing competition.

**Non-interest Income**

Income on fees and commissions constituted the major part of non-interest income. In 2007, it totalled PLN 828.9 million compared with PLN 644.4 million a year earlier (up by 28.6%).

The dynamic growth of the result on fees and commissions was in major part the consequence of higher fees and commissions paid due to the distribution of participation units (up by 137.3%), transactional margin on foreign exchange operations (45.9%) and loans commissions (by 27.4%).

Other income accounted for PLN 120.9 million versus PLN 148.9 million earned a year earlier. Its lower value was mainly caused by the negative result of fair value measurement of debt instruments and interest rate derivative transactions, following the growth of market interest rates. As at the end of 2007, the Bank finalised its preparations for implementation of hedge accounting, which should facilitate market risk management and reduce the volatility of income earned on those operations in the future.

**Commission income of ING Bank Śląski (in million PLN)**

### Operating Expenses

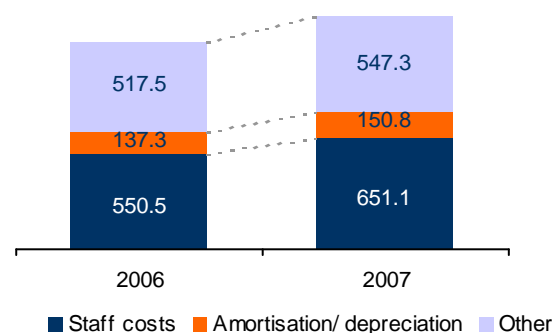
In 2007, the overheads<sup>12</sup> of ING Bank Śląski S.A. totalled PLN 1,349.2 million against PLN 1,205.3 million a year earlier, up by 11.9%.

Total costs of the Bank went up, in major part due to the expanded scale of operations. Market expansion resulted in an increase of the main element of costs; that is the staff costs, among other things. Following the increase of headcount, the launch of a new remuneration system connected with salary indexation, higher costs of the incentive system, arising from the execution of Bank commercial objectives, the staff costs in 2007 totalled PLN 651.1 million, up by 18.3% from 2006.

Amortisation/depreciation costs totalled PLN 150.8 million, up by 9.8% from a year earlier (mainly as a result of higher intangible assets amortisation).

Other costs totalled PLN 547.3 million against PLN 517.5 million a year earlier. They included, among other things, the costs of marketing activities, which totalled PLN 63.6 million in 2007 (vs. PLN 58.6 million a year earlier). When compared with the year 2006, a rise in consulting costs was recorded as a result of continuing numerous projects intended for the further enhancement of processes, optimisation of the sales structure, and the costs of space rental due to the development of the outlets network.

Costs by category in million PLN



### Impairment Losses and Provisions

In 2007, the risk costs recognised in the income statement of ING Bank Śląski S.A. were positive and amounted to PLN 103.9 million. The income on the repayment of some receivables from the impaired loans portfolio moved in previous years to the off-balance sheet records formed the main position thereof. It amounted to PLN 81.9 million.

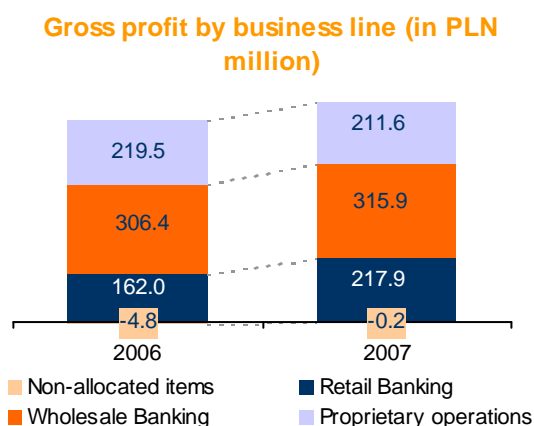
### Share of Business Lines in Creation of Financial Result

In 2007, the Retail Banking Division generated gross financial result including risk cost of PLN 217.9 million compared with PLN 162.0 million a year earlier (up by 34.5%). The Division's result was influenced by the following factors: increase of income on deposit-, lending- and clearing activities and income on shares in ING Nationale-Nederlanden PTE S.A. Income from the sales of FM products was slightly higher than a year earlier. In 2007, the Retail Banking Division's result represented 29.2% of the total gross financial result of the Bank.

<sup>12</sup> The operating expenses along with amortisation/ depreciation of non-current asset and intangible assets increased with other operating costs.

Gross financial result generated by the Wholesale Banking Division amounted to PLN 315.9 million compared with PLN 306.4 million a year earlier. Increase of the Division's result was, in major part, the consequence of high income on core operations; that is deposits and lending. Income on capital market transactions and income on the sales of FM products to wholesale clients were higher as well. In 2007, the share of the Wholesale Banking Division in the total gross financial result of the Bank amounted to 42.4%.

Result on proprietary operations of ING Bank Śląski S.A. was PLN 211.6 million, or 28.4% of the total gross financial result of the Bank. Result on operations generated in the financial markets area represented more than 30% of it and totalled PLN 63.9 million, down by PLN 40.4 million from a year earlier. Their level was affected unfavourably by the negative measurement of derivative transactions and debt instruments, following the rise in market interest rates.



### Basic efficiency ratios

In 2007, most of the basic efficiency ratios for ING Bank Śląski S.A. remained at the same level as in 2006.

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

	2007	2006
Profitability ratio	25.7	29.2
C/I ratio	67.8	69.8
ROA	1.2	1.2
ROE	19.1	17.5
Interest margin ratio	2.17	2.20
Solvency ratio	12.03	15.09

**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>13</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>13</sup> Net interest income increased with the income on "internal deposit swaps". Average assets are calculated based on the data from five periods: 31.12.2006, 31.03.2007, 30.06.2007, 30.09.2007 and 31.12.2007.

## **XIV. 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 2007 and the comparable data presented in the annual financial statements 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 and its financial result. The annual report of the Management Board presented herein represents a true presentation of the development, achievements and standing (including a description of key risks) of the Bank in 2007.

### **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 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 Bank Management Board declare that ING Bank Śląski S.A. does not have:

- significant cash loans agreements, sureties or guarantees not concerning operating activity,
- contractual obligations due to issued debt securities or financial instruments.

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

To secure against the lending-related risk, the Bank accepts various personable and tangible collaterals; e.g. a bank guarantee, a surety under the civil law, a blank promissory note, a draft guarantee, transfer of debt claims, mortgage of pledge register, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank's account and freezing of funds in the bank account.

As of 31 December 2007, in the cases related to loans on business activity, the number of banking enforcement titles issued by the Bank amounted to 250, which summed up to PLN 471.9 million.

With regard to Retail Banking clients, in the year 2007 the Bank issued 185 banking enforcement titles, summing up to PLN 9,926,900, as well as 1,599 suits for payment amounting to PLN 20,806,000.