

Report on Activity of ING Bank Śląski S.A. Capital Group in First Half of 2005

Katowice, September 2005

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I. EXTERNAL CONDITIONS OF ING BANK ŚLĄSKI S.A. DEVELOPMENT

I.1. Basic Trends in Economy

The period of the economic boom that resulted from a dynamically growing demand due to the Poland's accession to the European Union was followed by a slowdown of the economic growth in 1H 2005. The scale of this phenomenon was quite significant – in 1Q 2005 the Gross Domestic Product grew by 2.1%, whereas in the 2Q by 2.8%. Low domestic demand was the main reason for the drop of economic growth pace, i.e.:

- individual consumption was increasing at the rate of 1.7% in the 1Q and 1.5% in the 2Q,
- investments – growth by: 1.0% and 3.8%, respectively.

In 1H 2005 – similarly as in the year 2004 – economic growth was mostly stimulated by export. After first 6 months of 2005, the export – in terms of PLN – was higher by 4.1% than the level achieved in the same period last year, whereas import was lower by 5.3%. Negative balance of foreign trade transactions amounted to PLN 16.3 billion as compared to PLN 30.3 billion in the same period last year. Terms of trade were at a favourable level as a result of lower prices of imported commodities.

According to the analysts, the economic tendencies observed in May and June (especially in the field of the dynamics of industrial production as well as building and assembly) suggest that the Polish economy will speed up again in 2H 2005. The outlook for the entire year 2005 is that GDP will grow by 3.4%¹.

The situation on the labour market was improving gradually. As of the end of June 2005 the number of the unemployed dropped to 2,827,800 people, and the unemployment rate amounted to 18.0% (as compared to 19.1% as of the end of 2004). Despite of the improvement on the labour market, the companies were still not willing to raise the salaries. In 1H 2005 the average real salary in the sector of enterprises was lower by 0.4% than in the same period last year, however, the last two months of the 1H were characterised with the growth of the buying power of salaries in the sector of enterprises.

In 1H 2005, due to the slower growth of income on general business as compared to the growth of the tax deductible costs, the basic financial ratios of the enterprises deteriorated. Net profit was reported by 66.0% of all the enterprises (70.3% a year ago). The gross turnover profitability ratio amounted to 5.2% (6.5% in the same period last year). Whereas the financial liquidity of the companies improved – liquidity ratio grade 1 at the level above 20% was shown by 38.5% enterprises, whereas a year ago 37.1%.

The impact of the Poland's accession to the European Union on the raise of prices extinguished slowly. In June 2005 the prices were higher by 1.4% than a year ago and it was the lowest inflation rate since the Poland's accession to the EU. At the same time, the low level of majority of base inflation ratios showed that there was no threat of intensification of the inflation phenomena.

¹ Forecast by the Chief Analyst of ING Bank Śląski S.A.

The rate of PLN to the main currencies depended on the tendencies observed in the world market i.e. stronger and stronger USD against EUR. As the result of the said tendencies, within 1H 2005 Polish zloty strengthened by 1% as compared to EUR and weakened by 11.9% against USD. The exchange rates of the Polish currency were as follows:

	31.12.2004	31.06.2005
PLN/USD	2.9904	3.3461
PLN/EUR	4.0790	4.0401

As the consequence of much higher than a year ago inflows from the income tax, the situation of the State Treasury was favourable. After 1H 2005 budget deficit amounted to PLN 18.5 billion and it was lower by 6.2% than in the same period last year.

In the period from March to April 2005 the Monetary Policy Council lowered the NBP interest rates twice (in total by 100 base points). The improvement of balance of risks for the future inflation was the rational for lowering the interest rates. The said balance showed that regarding the impact of the monetary policy instruments, there is higher probability that the inflation will be below the inflation target. In April, together with lowering the interest rates there was a change of the monetary policy approach – from mild to neutral, which showed that in the opinion of the Council the probability of increase of prices below and above the inflation target was similar. As of the end of June 2005, based on the information showing a significantly slower pace of economic growth and based on the appraisal of the balance of risks for the future inflation, the Monetary Policy Council lowered once more the interest rates (by 0.50 p.p.) and changed the monetary policy approach for mild. On 30 June 2005 the basic interest rates were at the following levels:

- reference rate – 5.0%,
- draft rediscount rate – 5.5%,
- lombard rate – 6.5%,
- deposit rate – 3.5%.

I.2. Banking Sector

The 2004 favourable tendencies in the operations of the banking sector sustained in 1H 2005. According to the preliminary data, as of the end of June 2005 the net assets of the banking sector reached the level of PLN 573.3 billion, i.e. they grew by more than 6% as compared to the data as of the end of 2004.

After the drop that took place in the years 2003-2004, together with the improvement of the situation on the labour market and certain growth of salaries in the sector of enterprises, we could observe the growth of household deposits in the banking sector. As of the end of June 2005 deposits and long-term liabilities² of households amounted to PLN 218.4 billion and they were higher by 5.4% than at the end of 2004. Deposits of institutional customers³ achieved the value of PLN 128.1 billion, i.e. they grew by 6.1% as compared to December 2004. On one hand, it showed a good financial standing of business entities, and on the other hand, it showed the still low investment activeness of the companies.

² According to the accelerated information – inclusive of deposits with the term above 2 years.

³ The total amount of deposits for the following entities: companies, non-monetary financial institutions, non-commercial institutions acting for the benefit of households, local government institutions, social security funds.

The lack of interest of the institutions resulted at the same time in the situation that as of the end of June 2005 the lending for institutional customers was at the level of PLN 156.2 billion, i.e. similar to the status as of the end of 2004. Credit receivables of the banking sector from the households amounted to PLN 125.6 billion (growth by 8.8% as compared to December 2004). The said growth resulted mostly from the dynamic development of housing loans and cash loans.

The tendency observed in the year 2004 referring to the improvement of the quality of the credit portfolios of the banks was maintained. The share of the loans at risk in the credit amounts due from the non-financial sector dropped from 15.6% as of the end of 2004 to the level of 12.9% in June 2005.

It is initially estimated that in 1H 2005 the banking sector earned PLN 4.7 billion net as compared to PLN 3.7 billion in the same period last year. Significantly lower costs of the credit risk had a good impact on the financial result of the sector.

Moreover, regulatory changes influenced the financial results of the banking sector in 1H 2005, i.e. the evaluation of receivables according to the effective interest rate binding since 2005, and application of the International Standards of Financial Reporting / International Accounting Standards. However, it was difficult to evaluate the impact of the said changes on the result of the banking sector.

I.3. Capital Market

1H 2005 was good for the Polish capital market that is proved by the increase of all basic stock exchange ratios, i.e.:

- 19 companies debuted at the stock exchange as compared to 11 companies in the 1H 2004, thanks to which the Warsaw stock exchange maintained the 4th position in Europe in terms of the number of debuts.
- As of the end of June 2005 the value of domestic companies listed at the stock exchange achieved the level of PLN 232.1 billion, i.e. it grew by 44% as compared to June 2004.
- Turnover on particular markets increased significantly – for example the turnover on the equity market increased by more than 47% as compared to the same period last year.
- The level of almost all stock exchange ratios improved as compared to the situation as of the end of June last year; the highest growths had the following sector sub-indexes: WIG-TELEKOM (by 28.1%) and WIG-BANKI (by 24.9%).

The following events that took place in 1H 2005 on the Stock Exchange were important:

- extremely high dividends – the companies listed on the stock exchange paid PLN 7.9 billion as dividend, i.e. more than three times than a year ago,
- allowing first remote members to operate on the Stock Exchange,
- lowering transactional fees – by 5% on average,
- starting to quote term contracts for T-bonds;

As of the end of June 2005 the net assets of the investment funds achieved the level of PLN 45.1 billion, i.e. they were higher by nearly 20% as compared to the status as of the end of December 2004. The increased interest in funds resulted most of all from the drop of the interest rates lowering the attractiveness of the bank deposits and from the good situation on

the Warsaw stock exchange. Besides the shares funds, also the bonds funds achieved favourable results in the field of investing due to the good situation on the bonds market.

II. MAJOR DEVELOPMENTS AT ING BANK ŚLĄSKI IN FIRST-HALF OF 2005

II.1. Bank Restructuring Process

In line with the accepted in the year 2004 strategy of creating the “The Bank for the Customer”, in 1H 2005, ING Bank Śląski S.A. carried out numerous projects aimed at increasing the quality of service significantly, ensuring transparency, making the product offer attractive and improving the Bank’s market position.

In the field of wholesale banking the Bank finalised most of all the Credit Process Effectiveness Improvement Project. Its main aim was to facilitate and shorten the credit process for the corporate customers. In 1H 2005, after the completion of the project phase, the Bank gradually implemented new solutions in the field of extending wholesale loans (including new procedures and IT applications) in all Regions of the Bank. Furthermore, the works regarding the reconstruction of the Wholesale Division were finalised, including re-organisation of the Strategic Customers Service Department, and the creation of the Wholesale Products Development Department.

Essential changes to the Bank’s operational zone shall be introduced by the Regional Operational Centre (RCO) Optimisation Project, under implementation since December 2004. The aim of the said project was to develop simpler, cheaper, more convenient and more secure methods of work in the area of operations. In 1H 2005 the Bank worked out the target organisational model upon the RCO optimisation, prepared the auxiliary applications for processes implemented in the new structure and introduced the new transport model.

At the beginning of the year 2005, the Bank started the “Retail 2006” Project aimed at increasing the quality of service by guaranteeing quick and efficient service on one hand and increasing the effectiveness of the Bank’s activities by way of limiting the workload and simplification of the service process on the other hand. To achieve it the Bank started a detailed analysis of the processes connected with the sale of products and services. The said actions should make it possible for the Bank to eliminate redundant activities, define the target processes for particular products and prioritise realisation of the proposed modifications. Furthermore, the Best Service Programme was adjusted to the new market challenges. It is the programme addressed to the employees of the retail network – Account Managers and Managers in the Bank Branches.

As of the beginning of 2005 ING Bank Śląski S.A. implemented also a new incentive system based on the Key Performance Indicators. The new system is clear and oriented strongly on the realisation of the commercial tasks of the Bank.

II.2. Market expansion

In 1H 2005 ING Bank Śląski S.A. noticed a significant growth of the scale of activities. As of the end of June 2005 the balance sheet total of the Bank capital group amounted to PLN 38,669.3 million, i.e. it grew by 8.6% as compared to December 2004. ING Bank Śląski S.A.

was the fourth biggest bank in Poland and it had 6.6% share of the assets of the banking sector. The Bank's market position improved mostly thanks to the acquisition of deposits.

Deposit acquisition

In 1H 2005 ING Bank Śląski S.A. strengthened its position as the fourth biggest deposit bank in Poland mostly thanks to good results in the field of acquiring the household deposits.

As of the end of June 2005 the total value of funds collected in ING Bank Śląski S.A. amounted to PLN 30,521.9 million and it was higher by 7.0% than in December 2004. Deposits acquired from other domestic entities (i.e. excluding the funds of the banks and central budgets) amounted to PLN 27,438.8 million as compared to PLN 26,172.5 million in December 2004 (growth by 4.8%). The amounts represented 8.0% of the total value of funds deposited in the banking sector.

Structure of liabilities of ING Bank Śląski S.A.

	31.12.2003	30.06.2004	31.12.2004	30.06.2005
Households	12 757.6	12 497.0	15 046.6	17 854.6
Enterprises	5 493.5	6 844.3	8 463.2	6 606.3
Non-monetary financial institutions	1 173.4	1 122.5	1 166.7	1 274.6
Non-commercial institutions acting for the households	667.8	613.2	617.1	655.6
Local government institutions	635.5	797.7	828.8	997.7
Social security funds	63.8	67.3	50.1	50.0
Other domestic sectors total	20 791.6	21 942.0	26 172.5	27 438.8
<i>Banks and central budget</i>	<i>1 911.8</i>	<i>2 224.2</i>	<i>2 352.4</i>	<i>3 083.1</i>
Total	22 703.4	24 166.3	28 524.8	30 521.9

The stability of the deposit base of the Bank improved. As of 30 June 2005 the value of funds acquired from households achieved the level of PLN 17,854.6 million as compared to PLN 15,046.6 million as of the end of 2004, whereas its share in the total value of funds deposited in the Bank increased from 52.7% to 58.5%. The increase of importance of household deposits was the effect of the Bank's success in respect of the sale of the key deposit product of the Bank i.e. Open Savings Account (OKO). As of the end of June 2005 the value of funds deposited on the OKO accounts amounted to PLN 10,448.4 million as compared to PLN 8,109.1 million in December 2004.

Lending

In 1H 2005, the Bank finalised the implementation of the new organisation of the sale of credits, service of credit applications and monitoring of the credit processes, both referring to the retail and wholesale customers. The said activities should make it possible for the Bank to reconstruct the credit portfolio on a longer run and to balance the assets and liabilities side of the balance sheet better. As of the end of 1H 2005 the Bank's efforts aimed at increasing lending showed first results. The Bank increased its exposure in some types of loans e.g. in the field of PLN housing loans and credit cards related loans.

As of the end of June 2005, the total value of credit receivables of the Bank amounted to PLN 11,437.4 million as compared to PLN 11,370.7 million in December 2004 (increase by 0.6%).

The credit receivables of ING Bank Śląski S.A. from other domestic entities (excluding banks and central budgets) amounted to PLN 11,426.4 million, which constituted 4.2% of the credit receivables of the banking sector.

Structure of receivables of ING Bank Śląski S.A.

	31.12.2003	30.06.2004	31.12.2004	30.06.2005
Households	3 669.0	3 617.8	3 267.4	3 089.2
Enterprises	8 765.5	8 373.3	7 275.5	7 146.5
Non-monetary financial institutions	958.3	913.5	563.2	866.5
Non-commercial institutions acting for the households	42.2	28.4	22.9	7.4
Local government institutions	376.0	356.5	338.8	316.8
Social security funds	0.0	0.0	0.0	0.0
Other domestic sectors total	13 811.0	13 289.5	11 467.8	11 426.4
<i>Banks and central budget, CIRS</i>	<i>35.1</i>	<i>-202.0</i>	<i>-97.2</i>	<i>11.0</i>
Total	13 846.2	13 087.4	11 370.7	11 437.4

Amounts due from the institutional customers constituted the main part of the Bank's credit portfolio⁴. As of 30 June 2005 the value of loans of institutional customers was at the level of PLN 8,337.2 million, as compared to PLN 8,200.4 million as of the end of 2004. The share of the credit receivables from the institutional customers in the credit portfolio of the Bank regarding the loans extended to other domestic entities amounted to 73.0% (71.5% as of the end of 2004).

II.3. Shareholding Structure of ING Bank Śląski S.A.

On 18 March 2005 – fulfilling the commitment made towards the Banking Supervision Commission regarding lowering the shareholding of ING Bank N.V. in ING Bank Śląski S.A. down to 75% - ING Bank N.V. sold 1,661,141 shares of ING Bank Śląski S.A. through the agency of the Stock Exchange. The said shares were sold in the following tranches:

- 150,886 shares under the Retail Investors Tranche, where:
 - 149,282 shares under the Privileged Sub-tranche at PLN 431 per share,
 - 1,604 shares under the Basic Sub-tranche at PLN 440 per share,
- 1,510,255 shares under the Institutional Investors Tranche at PLN 440 per share.

Lowering the equity exposure in ING Bank Śląski S.A. by the ING Group increased the liquidity of the Bank's shares listed at the Warsaw Stock Exchange.

According to the information obtained by ING Bank Śląski S.A., as at the General Shareholders Meeting, i.e. on 9 June 2005 the structure of shareholding of ING Bank Śląski S.A. is as follows:

⁴ Figures cover the Bank's liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, local government units, social security institutions and other monetary financial institutions (i.e. banks) and the central budget. Suspended liabilities and interest are not accounted for therein.

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
	30 June 2005		31 December 2004	
ING Bank N.V.	9,757,500	75.00%	11,418,641	87.77%
Commercial Union OFE BPH CU WBK	830,000	6.38%	700,000	5.38%
Others	2,422,500	18.62%	891,359	6.85%
Total	13,010,000	100.00%	13,010,000	100.00%

II.4. Changes to the Bank's Management Board and Supervisory Board

In 1H 2005 there were the following changes in the composition of the statutory authorities of ING Bank Śląski S.A.:

- At the meeting of 11 February 2005 the Supervisory Board of ING Bank Śląski S.A. appointed Mr. Ian Clyne for the position of the Vice President of the Management Board of ING Bank Śląski S.A. as of 1 March 2005.
- On 29 April 2005 the Supervisory Board appointed the Management Board of ING Bank Śląski S.A. for the new tenure in the so far composition, i.e.:
 - Mr. Brunon Bartkiewicz – President of the Bank Management Board,
 - Mr. Krzysztof Brejda – Vice President of the Bank Management Board,
 - Mr. Ian B. Clyne – Vice President of the Bank Management Board,
 - Mr. Grzegorz Cywiński – Vice President of the Bank Management Board,
 - Mr. Donald Koch – Vice President of the Bank Management Board,
 - Mr. Michał Szczurek – Vice President of the Bank Management Board,
 - Mr. Benjamin van de Vrie – Vice President of the Bank Management Board,
 - Mr. Maciej Węgrzyński – Vice President of the Bank Management Board.

The tenure of the Bank Management Board started as of the date of the General Shareholders Meeting of ING Bank Śląski S.A. approving the Bank's financial report for the year 2004 i.e. on 9 June 2005, and it will last till the date of the General Shareholders Meeting approving the Bank's financial report for the year 2009.

- On 9 June 2005, the General Shareholders Meeting of ING Bank Śląski S.A. accepted the resignation of Mr. Erik Dralans from his capacity as member of the Supervisory Board. At the same time, the following individuals were appointed to the Supervisory Board: Ms. Anna Fornalczyk, Mr. Hans van der Noordaa, Mr. Marc van der Ploeg and Mr. Igno van Waesberghe. Since 9 June 2005 the Supervisory Board of the Bank work in the following composition:

– Mr. Andrzej Wróblewski	Chairman	Independent Member,
– Mr. Eli Leenaars	Vice Chairman,	
– Mr. Jerzy Rokita	Secretary	Independent Member,
– Ms. Anna Fornalczyk	Member	Independent Member,
– Mr. Hans van der Noordaa	Member,	
– Mr. Marc van der Ploeg	Member,	
– Mr. Igno van Waesberghe	Member,	
– Mr. Lech Węclewski	Member	Independent Member.

II.5. Ratings

As at the end of June 2005, the credibility ratings for ING Bank Śląski S.A. given to it by the largest rating agencies were as follows:

Moody's Investors Service Ltd.

Long-term deposits	A2
Short-term deposits	P-1
Financial strength of the Bank	D
Outlook for long-term and short-term deposit ratings	Positive

Fitch Ratings Ltd.

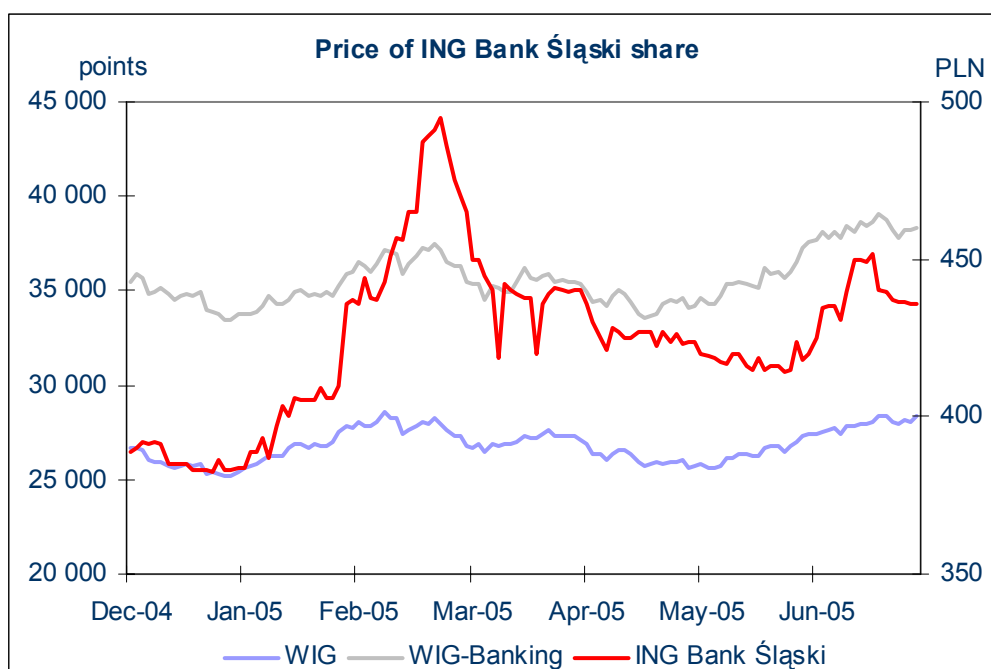
Long-term liabilities	A
Outlook for long-term rating	Positive
Short-term liabilities	F1
Individual rating	D
Support rating	1

On 24 March 2005, the Fitch Ratings Ltd. informed the Bank Management Board about raising the outlook for long-term rating of ING Bank Śląski S.A. from Stable to Positive. The said change resulted from the change of long-term sovereign outlook for Poland that took place on 23 March 2005 from BBB+ to Positive. The improvement of rating for Poland reflected a few good tendencies present in the economy, such as positive impact of some structural reforms on the results of foreign trade and macroeconomic stability. At the same time, the Agency informed that the long-term rating and rating of ING Bank Śląski S.A. support took into account potential support of the Bank's foreign investor i.e. ING Group.

II.6. Price of ING Bank Śląski S.A Shares.

On 30 June 2005 the share price of ING Bank Śląski S.A. amounted to PLN 436, whereas on 31 December 2004 it was at the level of PLN 389. Thus, in 1H 2005 the price of the Bank's share increased by 12.1%.

As of the end of 1H 2005 the market value of ING Bank Śląski S.A. amounted to PLN 5 672 million, whereas the P/BV ratio was at the level of 1.85.



II.7. Observance of Best Practices (Corporate Governance)

On 17 February 2005 the Management Board of ING Bank Śląski S.A. presented a declaration on accepting the “Best Practices in Public Companies in 2005” to be observed by the Bank. The above mentioned declaration had a positive opinion of the Bank Supervisory Board. Then, the declaration was accepted by the General Shareholders Meeting on 9 June 2005.

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

- the Bank’s target is to have all the activities of the company’s bodies aimed at the long-term development of the company;
- it creates the conditions for the realisation of the rights of the majority shareholder taking into account the interests of the minority shareholders;
- being a company with the majority shareholder with the shareholding ensuring more than 50% of the total votes, that Bank has at least two independent outsiders in its Supervisory Board.

Moreover, the accepted in the year 2004 Compliance Manual is binding in the Bank. It was introduced in order to counteract the risk of infringing good reputation of ING Bank Śląski S.A., ING Group or any its entities as the result of non-compliance with the ethical and legal norms by the employees.

II.8. Selection of certified auditor

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

ING Bank Śląski S.A. has made use of the services provided by KPMG in the field of auditing the financial statements since 1990.

II.9. Remuneration for the Members of Management Board and Supervisory Board of ING Bank Śląski S.A.

In 1H 2005 the total amount of remuneration (understood as the value of remuneration, bonus, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board members amounted to PLN 6,947,000. The members of the Bank Management Board and other people being the employees of ING Bank Śląski S.A. receive neither remuneration nor bonus for holding any functions in the authorities of subsidiaries and affiliates of the ING Bank Śląski Capital Group.

In 1H 2005 the total amount of remuneration (defined as above) paid by ING Bank Śląski S.A. to the Supervisory Board members amounted to PLN 513,000. In the period under consideration the persons supervising ING Bank Śląski S.A. did not hold any functions in the authorities of the companies belonging to the ING Bank Śląski Capital Group.

III. RETAIL BANKING

III.1. Scope of the Offer and Changes Introduced

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

In 1H 2005, ING Bank Śląski S.A. introduced essential changes in the basic product addressed to individual clients, i.e. personal account – the so-called Lion Account. In order to simplify the offer of personal accounts and make it more transparent, in March 2005, the Bank withdrew some variants of the Lion Account from the market, expanded a range of services available within the package via electronic channels (implementation of SMS Package) and modified the Table of Fees and Commissions so as to promote the electronic distribution channels. Modification of Accounts was accompanied by a simplification of the client service process, e.g. a few bylaws in force were replaced with just one and the principles of co-operation both for the personal account, debit cards and electronic banking systems were defined. To encourage clients to open personal accounts, ING Bank Śląski S.A. held various marketing campaigns, among others, the continued exemption from 3 subsequent account maintenance fees for the new Lion Account holders.

In 2004 – within the new strategy of deposit acquisition – ING Bank Śląski S.A. substantially restructured its deposit offer for the individual clients. The Bank focused on the simple and transparent products construction as well as their competitive interest rate. The Open Savings Account (OKO) remained the Bank's key deposit product. The savings account is the most flexible deposit product, since the clients may accumulate and withdraw funds without a loss of interest. OKO is offered both in PLN as well as euro and dollar. The Bank's actions run within the deposit acquisition strategy included, among others, an increase of the interest rate for new funds accumulated in OKO accounts by 2 percentage points (May 2005). This

interest rate was offered for two months and promoted within a nationwide multi-tool marketing campaign.

The Bank also improved other deposit products, e.g.:

- in February 2005 the Deposit and Fund Package was introduced (in co-operation with ING TFI), where the client's funds are deposited in 50% on a term deposit of fixed interest rate and in 50% in participation units of the ING TFI mutual fund selected by the client,
- the offer of FX deposit products was modified, among others, the Open Savings Account OKO in foreign currency was introduced, the deposits of variable interest rate and fixed interest rate for the period of 3 and 6 months were put on hold, but a 24-month deposit in USD with fixed interest rate was introduced.

The credit offer of ING Bank Śląski S.A. for individual clients includes mortgage, housing and car loans, loans for the purchase of securities, overdraft and a wide range of occasional loans. The Bank mainly offers PLN loans. In 1H 2005, the Bank introduced the following changes to its credit offer:

- introduced the loan for purchase of securities in public offering in the form of a credit line assigned for 12 months, which allows for multi drawing of funds in the contractual period and reduces the costs of loan disbursement,
- modified offer of cars loan, among others, extended the tenor, reduced the required downpayment, simplified procedures, made loans available at the car dealer premises,
- offered new types of occasional loans (Springtime and Holiday).

Within the retail activity the Bank also services the companies from the small-business segment. In 1H 2005, ING Bank Śląski restructured the offer addressed to small business in the following manner:

- on 1 February 2005, a new clearing-deposit offer was introduced for small business, incorporating the PROFIT Lion Account for small business (for individuals running a business activity as a sole businessman or in the form of partnership) as well as the + PROFIT Lion Account for small business (for capital associations). The Bank's new current accounts are characterised first of all by: a simplified procedure of account opening (one agreement client opens a settlement account, savings account and renders available the electronic banking services), attractive fees for account maintenance and electronic transfers. These packages include also a savings account in USD and deposits in EUR and USD.
- as of March 2005, a new credit offer was introduced together with a new model of sales and service, incorporating an overdraft for small business within the current account as well as a cash loan for small business, combining the features of investment loan and working capital loan. An important feature of this offer constitute the clear and standardised principles for assessing the client's credit capacity, based on scoring, BIK verification and information contained in the client database.

Changes to the small business offer were presented to the clients by means of the nationwide promotional campaigns. These aroused their great interest and were translated into a growth of the newly opened accounts for small business.

III.2. Deposit Activity

As per 30 June 2005, the value of household deposits at ING Bank Śląski S.A. amounted to PLN 17,854.6 million and grew by PLN 2,808.0 million, i.e. 18.7% as compared with December 2004. The Bank substantially strengthened its position on the market of household deposits – in June 2005, 8.1% of household deposits in the banking sector were accumulated on accounts at ING Bank Śląski S.A. (7.2% in December 2004).

The expansion of ING Bank Śląski S.A. on the market of household deposits resulted from an efficient new strategy of the deposit acquisition.

The household deposits in the Bank are dominated by the private persons' ones. At the end of June 2005, these deposits totalled PLN 17,064.8 million and grew by PLN 2,840.2 million, i.e. up by 20.0% as compared with December 2004.

As per 30 June 2005, ING Bank Śląski S.A. maintained 981,800 personal accounts, compared with 974,800 at the end of 2004. ING Bank Śląski S.A. held the 5th position on the personal accounts market with a share of 6.1% in the total.

At the end of June 2005, 107,700 small enterprises held a current account at ING Bank Śląski S.A., out of which 101,500 in the form of the Lion Account for small business.

III.3. Lending

At the end of June 2005, the household credit receivables of ING Bank Śląski S.A. totalled PLN 3,089.2 million. The Bank held a share of 2.5% in the household credit receivables of the banking sector. Within the first six months of 2005, the Bank's credit exposure towards households went down by PLN 178.2 million. This drop resulted, among others, from the sale of the credit portfolio of approximately PLN 148 million, extended in co-operation with the credit intermediary Finplus.

Within the retail activity the Bank grants loans to individual clients, first of all. At the end of June 2005, the receivables of ING Bank Śląski S.A. due to the loans extended to individual clients amounted to PLN 2,314.1 million and constituted 74.9% of credit receivables from households.

The following elements held a significant share in the Bank's portfolio of loans granted to private persons: housing loans (33.7% of the total portfolio), overdrafts (20.6%) and loans for purchase of means of transport (12.7%).

III.4. Bank Cards

ING Bank Śląski S.A. offers to its individual clients, first of all, debit cards (Maestro and VISA Electron), embossed credit cards (MasterCard, VISA Classic and VISA Gold) and prepaid cards Maestro.

By the end of June 2005, ING Bank Śląski S.A. issued 1,254,000 payment cards for individual clients, which was translated into the fourth position on the card market, with a share of 7.5%.

Credit cards belong to the strategic products of the ING Bank Śląski S.A. retail offer. The Bank puts emphasis on the sale of cards from the new offer (Visa Classic, Visa Credit Gold and MasterCard Credit). These cards were rendered available to the clients at the beginning of 2004. A number of credit cards from the new offer, issued by the Bank, grew from 31,700 at the end of 2004 to 65,700 in June 2005. Totally, the Bank issued 78,000 credit cards by the end of 1H 2005.

For the small business segment ING Bank Śląski S.A. issues debit cards (Maestro Business), charge cards (VISA Business and Eurocard/MasterCard Business Gold) as well as prepaid Maestro ones (e.g. Business Trip Card).

III.5. Service of Upscale Clients

ING Bank Śląski S.A. has the Private Banking offer for the upscale clients. As a result of close co-operation with other ING Group entities, the Bank renders available to the upscale clients various financial services at attractive pricing, with a wide range of deposit, investment and credit products.

In 1H 2005, the Bank continued the works initiated in 2004, aimed at developing the new quality service concept and the product offer for upscale clients. Upon an analysis of the upscale clients' preferences in the aspect of banking services, ING Bank Śląski S.A. adopted the following segmentation of the Private Banking clients:

- assets held of at least PLN 100,000 or equivalent in a convertible currency, or
- average monthly inflows to a personal account of at least PLN 7,500.

In 1H 2005, it was observed essential changes, both in the service principles and product offer in the Private Banking area. The Bank:

- Prepared a new VIP account – a package of products dedicated to the Private Banking segment and based on the personal account. Within this package the client also receives comprehensive advisory services, access to non-standard financial products, a full range of the internet and telephone banking services as well as free access to all ATMs in Poland.
- Consequently developed an offer of structured products (functioning under the name of the Investment Term Deposit). Subsequent subscriptions of this deposit met with a warm reception of clients.
- Appointed the dedicated VIP Call Centre team of operational and service character, whose tasks include provision of comprehensive information and client service as well as operational support for account managers.
- Continued an analysis of the Private Banking portfolio structure on the basis of the introduced segmentation criteria, which shall constitute the basis for further works on improving the attractiveness of the Private Banking offer.

In 2H 2005, the Bank is going to finalise the works over a new concept of the upscale clients service as well as introduction of new products dedicated to the Private Banking clients, such as: structured instruments, mutual funds, credit cards.

III.6. Other Activities

Pursuant to its mission, which assumes offering the integrated financial services, ING Bank Śląski S.A. sells in its outlets also other products of the ING Group members in Poland, such as participation units of the ING mutual funds and insurance of ING Nationale Nederlanden, inclusive of pension funds.

ING Bank Śląski S.A. contributed substantially to the market success recorded by ING Investment Funds Company. At the end of June 2005, the assets of ING TFI under the Bank's management amounted to PLN 1,343 million, compared with PLN 211 million at the end of 2004.

IV. CORPORATE BANKING

IV.1. Scope of the Offer and Modifications Introduced

ING Bank Śląski S.A. offers to the corporate clients one of the most modern offers of banking services and products on the market.

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

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

The ING Bank Śląski S.A. credit offer for corporate clients covers among others: overdraft in current account, working capital loan, cheque loan, investment loan, indexed loan, loan to finance export receivables insured by KUKA S.A., preferential loans with subsidies from the Agency for Modernisation and Restructuring of Agriculture as well as loans for financing of the projects connected with the EU pre-accession or structural funds.

ING Bank Śląski S.A. belongs to the leading custodian banks in Poland. The custody services are purchased, first of all, by domestic mutual and pension funds and also insurance and asset management institutions. The Bank also co-operates with the Polish brokerage houses and renders custody services to foreign financial institutions, especially to global custodians, international dealers and brokers.

In 1H 2005, the Bank implemented the following changes to the offer addressed to corporate clients:

- Introduced the Plus Pro-Business Package, whose basic elements – apart from the current account – are the electronic banking system ING BankOnLine and debit payment cards. This package is characterised by a considerable flexibility (prices depend on the scale of operations on a given account) and may be supplemented with deposit and credit accounts as well as clearing services.

- Integrated of the Autodealing system with the internet banking system ING BankOnLine. Due to this modification the clients may use the negotiated exchange rate for currency conversions between their accounts.
- Offered for corporate clients a possibility of depositing their free funds on the Investments Term deposits – an investment product with a guaranteed interest rate, whose actual rate of return depends on the exchange rates of SE indices.
- Implemented in three Regions the new principles of co-operation with ING Lease within a pilot, consisting in offering a lease of real estate by relationship managers employed in the Corporate Banking Centres.
- Prepared towards an introduction of the 3rd ELIXIR clearing session (rendered available on 15 July 2005).

Moreover, the Bank ran works over supplementing the offer for corporate clients with the dispatch of payments to the Eurogiro participants and virtual consolidated account as well as improving the Cash Collection service. These changes will be introduced to the offer in 2005.

IV.2. Deposit Activity

As per 30 June 2005, the corporate clients' deposits in the Bank totalled⁵ PLN 12,667.3 million compared with PLN 13,478.2 million in December 2004. The value of corporate clients' deposits without funds of banks and state budget units was PLN 9,584.2 million. It is estimated that in June 2005 ING Bank Śląski S.A. held the share of 7.8% in the corporate deposits market.

Corporate clients' deposits held by the Bank were dominated by the ones of enterprises⁶. They deposited on accounts at ING Bank Śląski the funds of PLN 6,606.3 million, which is equivalent of 52.2% of the total corporate clients' deposits.

A substantial share in the liabilities of ING Bank Śląski S.A. was also held by the funds obtained from the non-monetary financial institutions, i.e. from insurance institutions and pension funds, custody funds and lease companies. Their value amounted to PLN 1,274.6 million and constituted 10.1% of total corporate deposits. Deposits of the local government units amounted to PLN 997.7 million (7.9% of total corporate deposits), while of the non-commercial institutions acting on behalf of households⁷ to PLN 655.6 million (5.2%).

IV.3. Lending

At the end of June 2005, credit receivables of ING Bank Śląski S.A. from corporate clients⁸ totalled PLN 8,348.2 million compared with PLN 8 103,3 million in December 2004. It is estimated that at the end of 1H 2005 the Bank held the share of 5.5% in the corporate loans

⁵ Figures cover the Bank's liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, local government units, social security institutions and other monetary financial institutions (i.e. banks) and the central budget. Suspended liabilities and interest are not accounted for therein.

⁶ The sub-sector of enterprises comprises the following entities: state-owned enterprises and companies, private enterprises and companies as well as co-operatives.

⁷ Pursuant to the sector classification effective as of March 2002 those are non-profit entities including but not limited to charities, trade unions, scientific societies, political parties and churches.

⁸ Figures cover the Bank's liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, local government units, social security institutions and other monetary financial institutions (i.e. banks) and the central budget.

market. The Bank's credit exposure towards corporate clients derived both from the situation observed on the corporate loans market (small interest in loans in view of the low investment level) and the credit policy binding at the Bank, especially for the selected industrial sectors.

At the end of June 2005, the credit portfolio was dominated by PLN loans, which constituted 78.4% of total loans extended to institutional clients, while their share in the portfolio grew by 3.6 p.p. as compared with the end of December 2004.

The Bank's receivables due to the loans extended to enterprises amounted to PLN 7,146.5 million and represented 85.6% of the Bank's credit exposure towards corporate clients. An essential share in the Bank's credit portfolio was also held by the loans extended to the non-monetary financial institutions – the credit liabilities of clients from this sector towards the Bank amounted to PLN 866.5 million (10.4% of the Bank's credit receivables from corporate clients).

As per 30 June 2005, ING Bank Śląski S.A. held 8 significant exposures, i.e. the value of which constituted 10% or more of the total value of the Bank's equity, in the following amounts: PLN 540.2 million, PLN 499.7 million, PLN 410.4 million, 407.8 PLN million, PLN 303.9 million, PLN 300.1 million, PLN 294.7 million and PLN 272.4 million. In case of two entities there were capital links with ING Bank Śląski S.A.

V. MONEY AND CAPITAL MARKETS

In 1H 2005, ING Bank Śląski S.A. maintained its strong position in the Polish money market. The Bank had the Status of the Money Market Dealer and also acted as Dealer of Treasury Bills and Bonds.

As in 2004, ING Bank Śląski S.A. laid emphasis on the development of operations with clients. In particular the Bank intensified actions aimed at expanding the number of clients making use of the FM products with corporate clients classified to the segment of large and mid-size companies as well as individual up-scale clients.

In 1H 2005, the Bank expanded the range of the financial markets products available for the clients. At the beginning of 2005, the Bank started to offer the Term Investment Deposits also to corporate clients, and in June introduced onto the market the FX options in HUF, SKK, CZK. Works were also run over an investment product combined with the SE indices as well as over the FX-binary options.

On the debt papers market ING Bank Śląski S.A. concentrates on offering the comprehensive financial solutions with the use of the debt instruments issue. The Bank also develops service for professional investors, by providing them with access to a wide group of issuers as well as market transactions, which allows for changing the risk profile of the portfolio held.

On the market of short-term debt papers in June 2005 ING Bank Śląski S.A. was classified on the fourth position with the share of 13.3% in the debt due to the issue of commercial papers.

VI. RISK MANAGEMENT

VI.1. Credit risk

Credit Policy and Procedures

The sector policy binding at ING Bank Śląski S.A. assumes financing of corporate entities classified to the sectors of moderate risk. The economic recovery, accession of Poland to the European Union and inflow of aid funds caused that after the period of strict constrictions for financing of some sectors, in 1H 2005 the Bank alleviated the requirements towards some entities classified to the sectors previously deemed as more risky. These included the meat sector (since this sector eliminated the delay in implementation of the EU requirements) and developers (improvement of financial results). The Bank was also more willing to extend long-term credit facilities due to the fact that the Bank started to co-finance the EU projects.

In 1H 2005, the Bank updated the sector analyses prepared previously for individual sectors of the economy. The aforementioned analyses were to facilitate the process of credit applications review and credit decision taking process. They specify the minimum requirements for the preferable risk profile as well as stipulate the lending terms, collateral forms and recommended types of loans for the client operating in a given sector.

In the credit policy referring to retail clients the Bank first of all:

- Strived to strengthen the credit co-operation with the current clients, by offering additional credit products (credit cards, cash loans). This process based on the concept of preliminary acceptance made on the grounds of analysis of cash flows on personal accounts, value of the deposits held and their relation to the credit exposure drawn.
- Completed the centralisation of acceptance process for the individual clients and small business.
- Totally revised the policy for small business, i.e. standardised the product offer, introduced the statistical tools of risk measurement and centralised the decision-taking process. Actions were also initiated to centralise the management of the small business credit portfolio (monitoring and debt collection). This process will be completed in 2H 2005.
- Introduced changes to the strategy of recovering the overdue repayment by monitoring repayments more intensively and taking actions to recover the overdue receivables.
- Implemented the methodology of calculating assets impairment and covering the related loss with provisions, pursuant to the International Accounting Standards.

Due to the implementation as of the beginning of 2005 of the International Accounting Standards as well as continuation of works over the Bank's adjustment to the Basel II Accord requirements, the Bank introduced the following changes to the tools of risk measurement and monitoring:

- At the beginning of the year the new model for assessment of the corporate client's credit risk was implemented in the branch network, in which the risk categories are associated with a specific probability of default (PD). An element of this model is the process of appeal, applicable to certain cases where the risk category determined by the model is different from risk assessment issued by the branch network representatives. In such situation the final risk category is assigned by the Bank Head Office Appeal Committee.
- The collateral policy was updated, by modifying the Severity Rating System for the purpose of calculating the loss given default (LGD), among others.

- The methods for calculation and update of the provisions for credit receivables were introduced, based on the tools applied in the ING Group, especially for the portfolio of individual significant financial assets (ISFA).
- In the retail area electronic data were further compiled; they are necessary for the construction of models consistent with the requirements of the Basel II Accord. The Bank also started the initial works over the construction of these models and implemented the scoring card for the small business risk assessment as well as continued the works over implementation of the new application supporting the risk assessment.

Organisation of the Credit Process

In 2H 2004, the “Improvement of the credit process efficiency” Project was launched in ING Bank Śląski S.A. Its main target was to facilitate and shorten the credit process for corporate clients. In the course of project works, the mode of co-operation of all credit process participants was considerably changed, among others. They (notably Risk employees) were equipped with new IT tools and applications to monitor the credit process. Electronic transfer of documents was also ensured, which was related to the further concurrent standardisation and unification of the credit documentation.

In the retail area works were finalised over standardisation of the credit process as well as transfer of the decision part and service following the loan disbursement to central units (central sales platforms). At the same time, risk management units of analysts were established at the central level – to support the former ones.

ING Bank Śląski S.A. also reactivated the Credit Inspection, which in 1H 2005 began a fully-fledged control of the Bank’s entire credit area.

Quality of the Credit Portfolio and Provisioning

Implementation of the International Accounting Standards resulted in the revision of the principles for reporting the credit portfolio quality as well as provisioning. According to the International Accounting Standards the following are established: asset impairment loss, write-off for the Incurred But Not Reported losses (IBNR) as well as provisions for the off-balance sheet liabilities.

These standards do not allow for keeping the general reserves, therefore in the 2005 opening balance sheet the Bank transferred the provisions established as per 31.12.2004 (specific provision and general risk reserve) as well as contingent interest for equity. Simultaneously, the Bank established impairment losses and a write-off for the incurred but not reported losses (IBNR). The value of write-offs in the Bank’s 2005 opening balance sheet was by PLN 127 million lower than the provisions established as per 31 December 2004.

The amount of decrease presented in the report for 1H 2005 is different than the amount presented in the annual report for 2004.

At the end of June 2005, the credit exposure of the ING Bank Śląski S.A. Capital Group – according to the International Accounting Standards – amounted to PLN 11,272 million⁹. The

⁹ Figures cover the Bank’s liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, local government units, social security institutions and other monetary financial institutions (i.e. banks) and the central budget. Figures include the discount loans and subordinated loan, while suspended liabilities and interest are not accounted for therein.

default loans totalled PLN 1,037 million. In 1H 2005, the quality of the credit portfolio held by the Bank Capital Group improved – the default portfolio share went down from 9.8% in December 2004 to 9.2% at the end of June 2005.

In 1H 2005, the balance of asset impairment loss, presented in the Bank's income statement, was positive and amounted to PLN 28.8 million. In June 2005, the Bank held for the credit portfolio the provisions of PLN 896 million, which is equivalent to the default portfolio provisioning rate of 71.3% (63.3% at the end of 2004).

At the end of 2004, ING Bank Śląski S.A. held in the off-balance sheet records the fully provisioned loss loans of PLN 1,195.3 million. As per 1 January 2005, the Bank valued the portfolio of credit receivables, transferred to the off-balance sheet records, at PLN 44.1 million. This amount was included in the Bank's balance sheet under assets in correspondence with equity (retained result of the previous years) resulting in its increase by PLN 38.4 million, equal to the discounted market value of this portfolio.

The Bank Management Board intends to propose to the General Shareholders Meeting, approving the results for 2005, an additional element of the dividend in the amount of PLN 31.1 million (the amount of PLN 38.4 million decreased by the tax encumbrance of PLN 7.3 million).

Quality of the Credit Portfolio of ING Bank Śląski Capital Group S.A.

	31.12.2003	31.12.2004	31.12.2004 IFRS	30.06.2005
Total exposure/exposure acc. to IFRS	13,720	11,307	11,349	11,272
Total provisions	1,255	1,072	945	896
Provisioning rate (%)	8.9	9.5	8.3	8.0
Corporate Banking	10,211	8,134	8,150	8,331
Regular portfolio / Non-default portfolio	7,113	7,021	7,331	7,559
Irregular portfolio / Default portfolio	3,097	1,113	818	773
Sub- standard	866	144		
Doubtful	1,489	430		
Loss	742	539		
Total provisions	965	771	691	638
including:				
Specific provisions / Impairment loss	752	601	588	555
Allocation of the general reserve / IBNR	178	153	68	55
Provisions for off-balance sheet liabilities	35	17	35	28
Provisioning rate for the irregular portfolio/ default portfolio (%)	30.0	67.7	71.8	71.9
Retail Banking	3,510	3,172	3,199	2,941
Regular portfolio / Non-default portfolio	3,079	2,865	2,908	2,676
Irregular portfolio / Default portfolio	431	307	291	264
Sub- standard	103	68		
Doubtful	69	20		
Loss	259	219		
Total provisions	290	301	256	259
including:				
Specific provisions / Impairment loss	264	245	184	189
Allocation of the general reserve / IBNR	26	56	42	39
Provisions for off-balance sheet liabilities			30	31
Provisioning rate for the irregular portfolio/ default portfolio (%)	67.4	97.9	63.3	71.3
Share of irregular loans in total portfolio	25.72%	12.56%		
Share of default portfolio in %			9.78%	9.20%

VI.2. Market Risk

The basic target of the effective market risk management in ING Bank Śląski is to maximise profit with simultaneous limiting the potential losses that may be an effect of undesirable changes of interest rates, FX rates, and other market parameters as well as customer behaviour.

The process of market risk management in the Bank covers the following elements:

- market risk identification;
- risk measurement (covering back-testing in order to ensure adequacy of the applied models);
- current monitoring of the market risk within the awarded limits;
- limiting or acceptance of the risk limit based on the risk analyses in relation to the rate of return.

Principles of the market risk management and the methods of measurements applied by ING Bank Śląski are in compliance with the methodology used by ING Group and with the European standards in this area.

For the measurement of the market risk – besides the liquidity risk – ING Bank Śląski applies mainly the Value-at-Risk (VaR) methodology. It makes it possible to calculate the potential loss resulting from accepted proposals and volatility of prices, interest rates, market FX rates (and volatility in case of FX options), as well as mutual dependencies among the mentioned parameters. In order to appraise the adequacy of applied models, the risk level set with VaR is subject to back-testing process, i.e. comparing the actual and hypothetical results (set only based on the positions maintained as of the end of the day) with VaR.

Moreover, the Bank measures Emergency Value at Risk (EVAR) that determines the value of potential loss that may appear on a given market position in case of extreme changes of market parameters. EVAR is determined based on a group of macroeconomic scenarios (selecting the worst of them) assuming that the more extreme changes of market parameters than the ones presented in the scenarios should not happen more often than once every 10 years.

The risk measurement methods that are applied differ depending on the area of activities and on the degree of complexity of the instruments offered by the Bank. In connection with that, VaR and EVAR are measured and monitored in three areas:

- FX spot,
- FX options,
- interest rate.

The interest rate area covers in total all the interest rate transactions, i.e. simple instruments like deposits and term deposits as well as derivative transactions – FRA, IRS and securities. All interest rate items resulting from the concluded FX future transactions such as FX Forward or FX Swap – after being discounted to the spot value date – are transferred with internal transaction to the interest rate area.

Besides applying the VaR methodology, ING Bank Śląski monitors also other types of limits e.g. amount limits that define the position in the securities maintained in the Bank portfolio

and time limits connected with maintaining the above positions. Vulnerability parameters such as Basis Point Value (BPV) showing vulnerability of the interest rate to the changes of the market interest rates are under permanent observation.

Control of the market risk area is connected also with additional determination of a list of available instruments offered to the customers by the Bank. Depending on the type of the risk generated, only these products that were formally approved by appropriate Bank units may be in the portfolio.

The process of market risk management refers both to the trading portfolio as well as to the Bank's portfolio. However, in case of the Bank's portfolio, from the point of view of the market risk management, limiting the risk to the minimum is of fundamental significance. This task is realised in two ways: by way of direct funding system and by way of transfer pricing system. Transfer pricing system makes it possible – via the internal transactions – moving the market risk appearing as the result of concluding transactions by the business divisions (Corporate, Retail) to the Financial Markets area. VaR calculated on a monthly basis for the bank portfolio controls the correctness of functioning of both the direct funding process and transfer pricing system. The level of VaR cannot exceed the limit set specially for that area of the limit.

One of the essential elements of the market risk management process at ING Bank Śląski S.A. is the process of liquidity monitoring and management. The liquidity risk is understood in the Bank as a risk of failure to meet the cash liabilities, arising from the balance sheet and off-balance sheet items. The Bank's policy for managing the liquidity risk consists in maintaining the liquidity positions in such a manner so as to meet the Bank's cash liabilities with cash in hand, inflows from transactions of a specific maturity date and/or with sale of the available-for-sale assets. Striving for the proper liquidity management, the Bank:

- prepares and analyses the control reports such as:
 - daily reports on liquidity ratios,
 - monthly reports on liquidity gaps,
 - monthly reports on the structure of finance, concentration and stability of the deposit base,
 - monthly reports on informational indices, calculated on the basis of data from the obligatory reporting.

For each index a permissible limit is determined, subject to continuous monitoring.

- prepares the procedures that ensure the correct cash delivery to branches,
- adjusts the emergency liquidity maintenance plan to changes in the Bank's organisational structure and changes in the warning signal definition.

The market risk management is a dynamic process, which requires a continuous adjustment to the needs of the developing organisation. In 1 H of 2005, the Bank worked on:

- the new policy for the financing the liquidity risk management (the policy was adopted by the Bank Management Board in August 2005 and its basic elements remained unchanged),
- defining the actions that allow for limiting the impact of the subsidiaries' activities on market risk in the scale of the entire Bank,
- ensuring the content-related and technical compliance of the market risk assessment with the ING Group standards,

- creating the mechanisms that guarantee a regular measurement of risk deriving from the application of non-standard pricing mechanisms for deposit and credit products.

VI.3. Capital Adequacy

In 1H 2005, ING Bank Śląski S.A. complied with the obligatory prudent standards in regard to the capital adequacy. At the end of June 2005, the capital adequacy ratio was 17.44%, which means that the Bank Capital Group had sufficient amount of equity to cover specific credit and financial risks.

VI.4. Operational Risk

Operational risk is understood in ING Bank Śląski as the risk of bearing direct or indirect material loss or as the loss of reputation resulting from not adjusting or faulty functioning of the internal processes, people or technical systems, and also as the result of external events.

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

Operational risk management covers the operations in the field of identification, measurement, monitoring of the said risk as well as taking appropriate actions aimed at limiting it. All organisational units of the Bank and Bank subsidiaries are engaged in the realisation of the tasks connected with the operational risk management. The works regarding the operational risk management are co-ordinated in the Bank by the Committee for the Operational Risk, whereas the Management Board and Supervisory Board of the Bank supervise these activities on a permanent basis.

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

- implementation of mechanisms of estimating the level of operational risk and limiting it in particular areas of the Bank activities;
- collecting information, analysing it, and reporting the events connected with the operational risk;
- determining the ratios of important risk and monitoring them;
- limiting the losses by way of improving the system of controlling the Bank operations;
- improving the audit process as the result of the implementation of the integrated system of recording and monitoring the realisation of recommendations and post-control recommendations;
- allocation of the economic capital adequate to the risk level;
- testing business continuity plans for critical and important business processes;
- improvement of physical securities of the Bank, paying special attention to integrated system of monitoring the security of the branches and ensuring immediate help in case of emergency;
- organisation of awareness programmes and training in the field of operational risk management.

VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT

VII.1. IT and Operations

In 1H 2005, ING Bank Śląski S.A. launched several modifications in the IT systems. Their purpose was to simplify the client service, further automate processes and tailor the system functionalities to business processes to a larger extent. The most important developments include:

- implementation in all regional branches of the new application supporting the credit processes, making it possible to develop credit agreements for corporate clients and mortgage loan agreements for individual ones in a fast and swift manner,
- adaptation of the front-office application to the new application-decision process with regard to issue of credit and charge cards and extension of cash loans,
- launch of a new system servicing the sales of mutual funds' participation units,
- implementation of a new application to service seizures and allowing to centralise and fully automate the seizure-related service activities.

The Bank was also developing the reporting applications so that the financial and management reports could not only be prepared efficiently and appropriately, but also in the manner reflecting adoption of the International Accounting Standards by the Bank.

In March 2005, the long-prepared migration of the IT environment at the Branches into the new state-of-the-art technology-based platform started at the Bank. This process comprises, first of all, standardisation of systems and applications as well as replacement of the IT equipment. The new technology creates conditions to optimise the processes of user work environment management and develop IT tools supporting the sales of bank products. By the end of June 2005, a new standard was implemented in 95 branches for more than 2,000 users. The Bank plans to finalise the implementation of a new IT platform at the branches till the end of 2005.

In the sphere of actions aimed at improving efficiency in operations, the Bank implemented:

- The Project of Optimisation of Regional Operating Centres (RCO), aimed at improving the standards of customer service, streamlining and improving back-office processes and generating cost savings. As part of that project the target RCO organisational model was developed and the applications were tailored to the processes incorporated by the new structure.
- The Cash Outsourcing Project, aimed at decreasing costs and operational risk and also to create a standard Bank's offer of cash services addressed to the clients featuring high cash flows and operating as chains. In 1H 2005, the pilot launch of cash outsourcing project took place in two cash centres.
- The Monitoring and Vindication Project, aimed at raising efficacy of vindication processes, decreasing time and labour consumption related to reporting and reducing the number of clients' complaints caused by possible recording mistakes. The project was finished in 1H 2005.
- A centralised service of loans of clients from the small business segment.
- The Bank also started centralisation of the Client Information File and established a team to administer it.

VII.2. Electronic Distribution Channels

Thanks to a fully-fledged multi-channel distribution system, ING Bank Śląski S.A. guarantees its clients an easy access to products and services. Its key element are up-to-date electronic banking systems such as Internet banking (ING BankOnLine), phone banking system (HaloŚląski), SMS banking system and electronic banking systems (MultiCash, HomeCash, TransDysk).

In 1H 2005, the Bank continued works aimed at improving the functionality of electronic distribution channels. The Bank implemented the following changes, among others:

- the Bank presented the clients of ING BankOnLine with credit cards (statements, current transactions) and the functionality of card credit debt repayment;
- the Bank made it possible for the corporate clients to place multiple signatures both under single instructions and batches of instructions (domestic and international ones);
- the Bank expanded the functionality as to master instructions in order to satisfy requirements of corporate clients;
- in selected branches the Bank started pilot of internet kiosks enabling the clients to perform banking operations on their own.

In 1H 2005 the number of clients making use of electronic distribution channels increased considerably. For instance, the number of ING BankOnLine and HaloŚląski users rose by 75.0% and 15.6% respectively. A dynamic growth of ING BankOnLine users was also a proof that the nationwide advertising campaign of internet banking – held in March and April 2005 – was effective.

Number of clients:	31.12.2004	30.06.2005
HaloŚląski	560,788	648,341
ING BankOnLine	152,832	267,446
SMS	40,650	60,766
Multicash	9,323	9,260

In June 2005, ING Bank Śląski S.A. had the network of 561 ATMs. The Bank was running an ATM optimisation project, aimed at, among others, improving service quality, increasing the degree of ATM network utilisation, and expanding the ATM functionality with additional banking services.

VII.3. Banking Outlets

As at the end of June 2005, the network of ING Bank Śląski S.A. comprised 332 branches, i.e. the number of branches has not changed since the end of 2004.

VII.4. Employment and Training Programmes

As at 30 June 2005, the Capital Group of ING Bank Śląski S.A. employed 7,684 people, including 7,363 people employed at ING Bank Śląski S.A. Over 1H 2005, the headcount increased by 4.0% and 4.1% in the Group and the Bank respectively.

Implementation of projects at the Bank is accompanied by changes in the headcount structure in individual Bank units. While striving to limit their negative effects – both in respect of the

Bank and the employees covered by restructuring processes – an HR platform was established in May 2005 at the Bank. Its tasks comprise mainly:

- ensuring fast and transparent communication addressed to all employees and, notably, the ones affected by reorganisation,
- limiting the number of employees leaving the Bank due to reorganisation, which should enable us to contain the costs of severance pays and the costs of new employees recruitment,
- creating the image of the Bank as a reliable employer,
- covering the employees for whom no position can be found in the new structures with the Outplacement Programme and making additional severance pays to them.

In 1H 2005, ING Bank Śląski S.A. modified base salaries by:

- including (vacation and Christmas) allowances in the base salaries,
- raising base salaries in spring and correlating the increase amount with the employee appraisal of the previous year,
- launching as of the beginning of the year a new incentive system, in which the bonus amount depends on the performance of tasks defined individually for a given area.

Furthermore, in spring 2005, the Bank started implementation of the project intended to completely reconstruct the base salary system, using a new method of job valuation. A few clearly defined criteria and job scoring will be its underpinnings. The new valuation method should also make it possible to apply more evident rules with regard to employee recruitment process, headcount planning and specification of training needs.

In 1H 2005, ING Bank Śląski trained 5,229 employees. The number of all the training attendees totalled 9,849 and each spent 2.3 day in training on the average.

In-house training sessions, given both at training centres and directly at branches, were attended by the majority of participants. They were given mainly by in-houses tutors being experts on given matters.

The training sessions held in 1H 2005 at ING Bank Śląski S.A. covered, first of all, the sales network and were devoted to:

- in the retail network – the new product offer for small business, efficient sales with elements of negotiations (for employees selling mortgage loans) and for managerial staff with regard to upgrading managerial skills and sales coaching;
- in the corporate network – active sales, a new credit process in the segment of corporate clients and for managerial staff with regard to sales coaching.

In addition, numerous training sessions were held for branch employees in connection with the implementation of a new IT platform. They were provided with the use of the e-learning formula.

The Bank also undertook certain organisational activities that will be of significance for coaching in the years to come; namely the Bank:

- decided to launch training by means of the e-learning formula on a large scale and started technical and IT preparations in that connection,
- established a Section of In-house Coaches in the Retail Division that will be in charge of giving permanent Best Service training,

- established a Wholesale Banking Training Project whose task it is to provide standard training for the wholesale network.

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

VIII.1. Composition of Capital Group

As per 30 June 2005, the Capital Group of ING Bank Śląski S.A. comprised the following companies:

- ING Securities S.A.,
- Śląski Bank Hipoteczny S.A.,
- ING Services Polska Sp. z o.o.,
- 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.

The Capital Group of ING Bank Śląski S.A. consists of entities whose business is of key significance in pursuit of strategy of its development. They operate in various segments of the financial market or in its infrastructure zone. Their business is strictly co-ordinated, and capital interconnections are often strengthened with the trade relationships and concluded contracts. As a major stakeholder of the capital group, ING Bank Śląski S.A. takes key decisions pertaining to both operations and financial matters of the entities forming the group by fulfilling the control functions in the supervisory authorities of those companies.

The composition of the Capital Group of ING Bank Śląski S.A. remained unchanged during the 1H 2005.

VIII.2. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 1H 2005, it held the following shares in the transactions of the Warsaw Stock Exchange ING Securities S.A.:

- stock market – 12.4% (third position),
- bond market – 4.0% (sixth position),
- futures market – 5.6% (seventh position),
- option market – 12.3% (third position).

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

As per 30 June 2005, ING Securities S.A. maintained 40,900 investment accounts, including 3,800 internet ones. In 1H 2005, the House acquired a few important clients in the segment of

institutional investors and concluded contracts of brokerage in transactions on the Warsaw Stock Exchange with Goldman Sachs London and the Social Security Office, among others.

In 1H 2005, the offer of the Bank's Brokerage House on the secondary market was enhanced by the following:

- a loan for purchase of shares in public offering in the form of a credit line, rendered to clients for 12 months (in co-operation with ING Bank Śląski S.A.),
- distribution of GTFI mutual funds.

In the year 2005, ING Securities S.A. commenced co-operation with ING Bank Śląski S.A. under a new contract that made it possible to open 305 temporary Points of Instruction Acceptance at Bank Branches.

As far as the capital funding is concerned, the Company offers services that are not only related to the service of issues in the public- or non-public market but also others (such as maintaining the deposit of non-public companies, acting as the Issue Sponsor) as well as complex financial and legal advisory services connected with the capital funding.

In 1H 2005, ING Securities S.A. implemented the following projects:

- serviced the sale of shares of ING Bank Śląski S.A. by ING to the total value of PLN 729 million,
- serviced a new issue of shares of Huta Ferrum S.A. – a transaction valued at PLN 17.9 million,
- participated in the consortia offering securities: Grupa Lotos S.A. (market share of 9.75%), Zakłady Chemiczne Police S.A. (market share of 8.4%), Polmos Białystok S.A. (5.2%) and also of Zelmer S.A., Interia S.A. and Opoczno S.A.,
- serviced the call for subscription for the shares of Jupiter S.A. – a transaction valued at PLN 149.5 million,
- acted as a broker in OTC transactions in shares of: Polkomtel S.A. (a transaction valued at PLN 170 million) and PPRM S.A. (a transaction valued at PLN 25 million),
- advised CEDS at the purchase of 61% of shares of Polmos Białystok S.A. from the State Treasury,
- concluded an agreement with Netia to realise the project of redemption of own shares valued at PLN 120 million,
- signed an agreement with Bank Gospodarstwa Krajowego for broking in the sales of minority shares in public companies, listed on the Warsaw Stock Exchange.

In 1H 2005, ING Securities S.A. generated a net profit of PLN 16.9 million compared with PLN 7.9 million in a year earlier period.

VIII.3. Śląski Bank Hipoteczny S.A.

Śląski Bank Hipoteczny S.A. (ŚBH S.A.) was established in the year 2001. It is the third specialist bank on the Polish market, operating under the Act on Pledge Bonds and Mortgage Banks.

In 1H 2005, ŚBH S.A. focused its operations on making final arrangements and preparations to implement a new strategy of development, adopted in autumn 2004. In line with that strategy, Śląski Bank Hipoteczny functions in the capital group of ING Bank Śląski S.A. as a

Centre of Excellence in Commercial Real Estate Funding. While striving to perform new functions, ŚBH S.A.:

- together with ING Bank Śląski S.A. developed the rules of co-operation as to acquisition of new corporate clients and concluded a Master Co-operation Agreement with the Bank, specifying sales of ŚBH S.A. commercial loans in the corporate network of the Bank,
- run product training sessions for Relationship Managers of the Corporate Banking Centre of ING Bank Śląski S.A.,
- strived to establish its image as the institution financing the commercial real estates.

After a few-month interval, the first commercial loans were disbursed by ŚBH S.A. and the first syndicated loan agreement was signed, in which ŚBH S.A. and ING Bank Śląski S.A. participated. Since the beginning of 2005, Śląski Bank Hipoteczny has not been winning any new retail clients; it has been servicing the “old” portfolio of housing and construction-mortgage loans only. In connection with intensified marketing activities of other banks granting mortgage loans to individual clients, ŚBH S.A. observed the process of earlier repayment of the loans drawn.

In 1H 2005, Śląski Bank Hipoteczny reported a net loss of PLN 1.1 million (in 1H 2004 it was PLN 1.4 million).

VIII.4. ING Services Polska Sp. z o.o.

The primary objective of ING Services Sp. z o.o. is to render IT services to the members of ING Group in Poland and Central Europe.

In the year 2005, as part of activities aimed at consolidation of IT business for the companies operating in Central and Eastern Europe, ING Services took the following actions:

- it started provision of the acceptance hosting service for the ING Online Banking application to ING Bank N.V. in Amsterdam,
- prepared the plan of IT infrastructure consolidation in the ING units in Hungary and commenced work at technical elements of that project.

The Company also endeavoured to improve the quality of services provided, by carrying out numerous investments adapting the available system resources to growing needs, among others. The technical conditions related to the expansion of IT support in Poland – in the aspect of covering ING entities in Central Europe with service – were also created.

In 1H 2005, ING Services Polska Sp. z o.o. generated the net result of PLN 0.3 million (PLN 0.9 million in 1H 2004).

VIII.5. Centrum Banku Śląskiego Sp. z o.o.

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

In 1H 2005, Centrum Banku Śląskiego continued its current activities, aimed at winning new lessees. Those comprised preparation of offices ready to be settled, takeover of the space arrangement costs and application of flexible payment terms. The Company assigned

considerable amounts to improve the standard of the estates owned. These pursuits led to acquisition of a few important lessees and increase of space leased by the current tenants. Consequently, in June 2005, the share of space leased in the total owned by the Company went up to 96% (91% as at the end of 2004).

For 1H 2005 Centrum Banku Śląskiego recorded the net profit of PLN 10.5 million (PLN 18.4 million in 1H 2004). The Company has positive flows from current operations, while the balance of all flows to a large degree depends on the service costs of a Euro loan, with which Company's main assets are funded.

VIII.6. ING BSK Development Sp. z o.o.

ING BSK Development Sp. z o.o. deals with consulting as to running business and management, lease of real estates, intermediation in trading of real estates and commissioned management of real property.

The Company was established in August 2004. In February 2005, ING BSK Development signed an agreement with Centrum Banku Śląskiego Sp. z o.o. to lease the building at 34 Sokolska Street in Katowice with the total functional area of 18,811 square meters for sub-lease.

The Company sub-leases space to such entities as: ING Bank Śląski S.A., ING Securities S.A., ING Lease (Polska) Sp. z o.o. and ING Real Estate Sp. z o.o.

In 1H 2005, ING BSK Development Sp. z o.o. recorded a positive net result of PLN 20,800.

VIII.7. Solver Sp. z o.o.

The Company's key business is the organisation of the recreation for the Bank's employees and their families in the recreational centres in Krynica, Wisła and Głębinów.

In 1H 2005, the net profit of Solver Sp. z o.o. amounted to PLN 31,000.

VIII.8. ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A. [ING Nationale-Nederlanden Poland Pension Fund Company]

In 1H 2005, ING Nationale-Nederlanden Poland Open Pension Fund, managed by ING Nationale-Nederlanden Poland Pension Fund Company increased the number of its members. At the end of June 2005, Nationale Nederlanden Poland OFE had 2,134 thousand members as compared with 2,105 thousand at the 2004-year-end. The Fund held the second position on the market; it was servicing 18.7% of all members of open pension funds (17.6% at the end of 2004).

For 1H 2005 ING NNP OFE recorded a PLN 16,527,000 million-worth portfolio of net assets, which gave the Fund the second position with a 22.7%-share in the net assets of open pension funds (0.2 p.p. up as compared to the end of 2004).

By analogy to previous years, in 1H 2005, the Fund generated very good results from investing. As per 30 June 2005, the Fund's settlement unit was valued at PLN 22.73 (7.42% up as compared to December 2004). This was the biggest 6-month increase of the unit value among all pension funds operating in Poland. ING Nationale-Nederlanden Poland OFE also

reported top growth rates of the unit value over a longer time perspective (three- and five years).

In the Income Statement for 1H 2005, ING Bank Śląski S.A. included its share in the profits of Nationale-Nederlanden Poland Pension Fund Company in the amount of PLN 10.4 million (PLN 5.5 million in 1H 2004).

IX. FINANCIAL RESULTS OF THE CAPITAL GROUP IN 1 HALF OF 2005

IX.1. Application of IAS and Comparability of Financial Data

As of the year 2005, ING Bank Śląski S.A. develops financial statements in accordance with the International Financial Reporting Standards / International Accounting Standards. While preparing the financial statement for 1H 2005 the Bank made the financial statements for 1H 2004 and 2004 comparable with regard to:

- loss of the company's goodwill, acquired as a result of takeover of Wielkopolski Bank Rolniczy S.A.,
- goodwill depreciation for 2004, resulting from the takeover of ING Bank N.V. Branch in Warsaw,
- measurement of financial instruments due to the long-term incentive system,
- revaluation to the estate fair value,
- modified presentation of the subsidiaries valuation at the acquisition price (applicable to the stand-alone statement only).

The data related to the application in the financial statements for the year 2005 of IAS 39 (measurement using depreciated cost based on the effective interest rate, impairment losses of financial assets listed according to the depreciated cost based on the effective interest rate) were not made comparable. The said exemption is governed by paragraph 36A IFRS 1.

IX.2 Balance Sheet Structure

Consolidated balance sheet and consolidated income statement of the Capital Group of ING Bank Śląski S.A. covers ING Bank Śląski S.A. together with: ING Securities S.A., Śląski Bank Hipoteczny S.A., ING BSK Leasing S.A., Centrum Banku Śląskiego Sp. z o.o., Solver Sp. z o.o., ING Services Polska Sp. z o.o. and ING BSK Development Sp. z o.o. all of which were consolidated with the full method, and also ING Nationale-Nederlanden Polska PTE, which was consolidated with the equity method.

As per 30 June 2005, the net balance sheet total of the Capital Group of ING Bank Śląski S.A. amounted to PLN 38,669.3 million; i.e. it was PLN 7,931.9 million (25.8%) up as compared to the analogical period last year. The level of balance sheet total of the Group, as well as the structure of assets and liabilities are determined by the operations of ING Bank Śląski S.A. As per 30 June 2005, the total balance sheet of ING Bank Śląski S.A. amounted to PLN 38,631.3 million against PLN 30,675.0 million in June last year (up by 25.9%).

Increase of liabilities towards clients from the non-financial sector was the primary source of growth of balance sheet total and funding of operations of the Capital Group of ING Bank Śląski S.A.

Assets

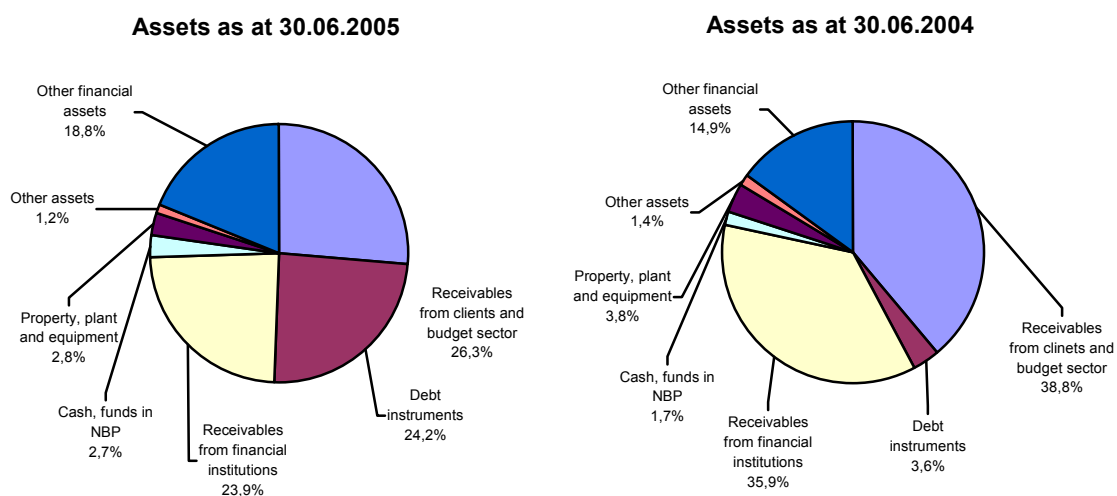
During 1H 2005 important changes occurred in the structure of assets of the Capital Group of ING Bank Śląski S.A. They comprised a substantial drop in the share of credit receivables that were replaced by debt instruments. This change resulted, first of all, from a low dynamics of lending at ING Bank Śląski S.A.

As per 30 June 2005, receivables of the Capital Group from clients and the budget sector amounted to PLN 10,179.1 million against PLN 11,912.1 million at the end of June 2004. Their share in the assets was 26.3% against 38.8% in the previous year.

As at the end of 1H 2005 the investment commercial papers were valued at PLN 9,372.0 million against PLN 1,095.2 million in the similar period last year. Their share in the total sheet balance was 24.2% - up by 20.6 p.p. as compared to 30 June 2004.

Other financial assets assigned for trading amounted to PLN 7,254.1 million against PLN 4,570.8 million as at the end of 1H 2004. Their share in the balance sheet total was 18.8%, while at the end of 1H 2004 it amounted to 14.9%.

As per 30 June 2005, receivables of the Capital Group from the financial sector amounted to PLN 9,253.6 million against PLN 10,038.9 million in a similar period last year. The share of receivables from financial institutions in assets dropped from 35.9% at the end of June 2004 to 23.9% as at 30 June 2005.

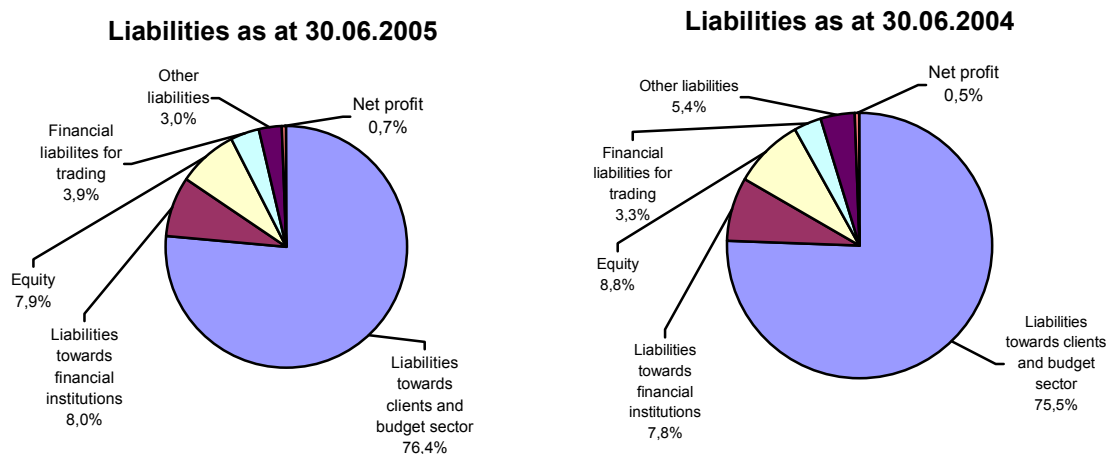


Cash and funds with the Central Bank amounted to PLN 1,063.0 million against PLN 521.1 million at the end of 1H 2004. Their share in the balance sheet total was 2.7% versus 1.7% at the end of June 2004.

As at the end of 1H 2005 the net value of property, plant and equipment and of intangible assets of the Capital Group of ING Bank Śląski was PLN 1,070.3 million against PLN 1,158.5 million as at the end of June 2004.

Liabilities

The value of liabilities towards the clients increased from PLN 23,206.9 million as at the end of June 2004 to PLN 29,560.2 million as at the end of June 2005; i.e. up 27.4%. In June 2005, they constituted 76.4% of the liabilities' value (75.5% at the end of June 2004).



As at the end of June 2005, the liabilities towards financial institutions amounted to PLN 3,099.3 million against PLN 2,399.8 million last year. The funds obtained from financial institutions constituted 8.0% of the liabilities' value, whereas in June 2004 their share was 7.8%.

The share of equity in liabilities of the Group of ING Bank Śląski S.A. was 7.9% as at the end of June 2005 against 8.8% in June last year.

IX.3. Income Statement

Gross and Net Profit

In 1H2005, the gross profit of the Capital Group of ING Bank Śląski S.A. amounted to PLN 329.5 million, compared with PLN 181.4 million in the same period last year.

The net profit was at the level of PLN 258.2 million against PLN 159.0 million in a similar period last year (up by 62.4%).

The key factors of impact on the financial results of the Capital Group of ING Bank Śląski S.A. in the first six months of 2005 are the following:

- increase of the result on banking operations as compared to one of the same period last year, being the consequence of growth of the result on instruments with fair value indicated and net interest income,
- increase of operational costs, in connection with the growth of the number of the sales network employees, implementation of the pro-sales incentive system and completion of marketing activities on a large scale
- a significant drop in risk costs as a result of a considerable improvement of the credit portfolio quality.

Basic values of the consolidated income statement (in PLN million)

	1H2005	1H2004
Result on interest	327.4	283.0
Result on commissions	253.3	251.6
Income on dividends	1.6	0.0
Result on instruments with fair value indicated	165.3	147.5
Result on investment commercial papers	0.0	2.0
Result on fair value correction in collateral bookkeeping	5.2	0.0
Result on exchange rate differences	87.5	128.8
Result on banking operations	840.3	812.9
Result on other operational income/costs	-0.3	4.8
Operating costs and depreciation	-548.9	-508.6
Impairment losses and provisions	24.2	-133.2
Share in net profits (losses) of subsidiaries and affiliates determined with equity method	10.4	5.5
Result on non-current assets and assets for sale, result on disposal of assets other than for sale	3.8	0.0
Gross financial result	329.5	181.4
Income tax	-64.0	-17.5
Net result of minority shareholders	-7.3	-4.9
Net financial result	258.2	159.0

Interest Result

Net interest rate income generated by the Bank's Capital Group in 1H 2005 amounted to PLN 327.4 million against PLN 283.0 million in the same period last year. That income resulted from:

- a considerable growth of the value of deposits that the Bank later invested in safe debt papers,
- increase of operations on the market of derivatives,
- inclusion in interest income – in line with IAS – of credit commission income,
- drop in interest rates, and subsequent shrinking of interest margins.

As a result of those trends, in 1H 2005, the Capital Group of ING Bank Śląski S.A. earned an interest margin of 2.62% against 3.09% in the same period last year.

Non-Interest Results

The fees and commissions income constituted a significant part of the non-interest income. After 1H 2005, it amounted to 253.3 million as compared to PLN 251.6 million in the first six months of 2004.

The total amount of commission income as presented in the income statement of the Capital Group of ING Bank Śląski S.A. for 1H 2005 was affected by the application of International Accounting Standards (IAS 39), in accordance with which certain credit commissions were included in commission income, subsequently settled in line with the schedule of the credit receivable repayment.

In the structure of commission income, the largest share was related to the commission on current account-related services, granting loans and operations made with payment cards.

In 1H 2005, the result on instruments with fair value indicated amounted to PLN 165.3 million, while to PLN 147.5 million in the same period of the previous year.

At the end of June 2005, the result on exchange rate differences totalled PLN 87.5 million versus PLN 128.8 million in the same period of the previous year.

Operational Costs

In 1H 2005, the operational costs of the Capital Group of ING Bank Śląski S.A. (costs of operations, depreciation of non-current assets and intangible assets) amounted to PLN 548.9 million against PLN 508.6 million in the same period of last year; i.e. a rise by 7.9%.

Increase of costs was the consequence of market expansion of ING Bank Śląski S.A. A dynamic growth of the bank was translated into the rise of both personnel and tangible costs. As employment in the sales network went up and the new incentive system – correlated with performance of commercial tasks – was implemented, in 1H 2005 the personnel costs were 15.2% higher than in 1H 2004. Tangible costs rose by 2.9%, mainly due to increased promotional-marketing outlays.

Impairment losses and provisions

As of 2005, the Capital Group of ING Bank Śląski S.A. established provisions in accordance with IFRS/IAS, i.e. it makes impairment losses when a loss of the assets' value is proved in an objective manner. After 6 months of 2005, the risk costs recognised in the income statement of the Capital Group were positive and amounted to PLN 24.2 million, while the positive balance caused by the loss of the credit portfolio's value was at the level of PLN 28.8 million. In 1H 2004 the risk costs of the Capital Group of the Bank were negative and amounted to PLN 133.2 million.

Impairment losses and provisions

	Total	Balance sheet exposure		Contingencies	
		Impairment	IBNR	Provision	IBNR provision
Total	28.8	8.0	15.6	8.5	-3.3
Wholesale	32.9	13.4	12.9	7.8	-1.2
Retail	-4.1	-5.4	2.7	0.7	-2.1

IX.4. Share of Individual Business Lines in Creation of Financial Result

The breakdown of results by business lines presented below was prepared based on the data from the management information system.

In 1H 2005, the Retail Banking Division generated income of PLN 399.2 million as compared to PLN 415.7 million in the same period last year (down by 4.0%). The Division's income was under the influence of the following factors: increase of income on deposit and clearing operations and on activities on the capital market (mainly in terms of broking services) and relatively low income on lending. The income of the Retail Banking Division accounted to 46.6% of the result on banking operations of the Capital Group (against 50.7% in 1H 2004).

The income earned by the Wholesale Banking Division was PLN 298.5 million and went up by 4.3% as compared to the same period of the previous year. Increase of the Division's income was, in major part, the consequence of very good results being achieved from transactions in capital markets and expansion of FM operations with corporate clients. On the

contrary, the Division's income on core operations – deposits and lending – was lower. In 1H 2005, the share of the Wholesale Banking Division in the result on banking operations of the Capital Group of the Bank was 34.8%; i.e. it remained at a similar level as in 1H 2004.

The income on proprietary operations of the Capital Group of ING Bank Śląski S.A. was PLN 159.5 million and made up to 18.6% of the entire result on banking activity. The income generated by the Financial Markets stood for 50% thereof.

The total income of the Capital Group of the Bank on FM operations (inclusive of the sales of FM products to the wholesale and retail segments) amounted to PLN 138.0 million against PLN 122.5 million in the same period last year (up by 12.7%). The earnings of the Financial Markets Division made it play a more important role in creation of the Group's result; up from 14.9% in 1H 2004 to 16.1% in 1H 2005.

In 1H 2005, in the area of ALCO¹⁰, the Capital Group of the Bank generated income of PLN 88.5 million, i.e. 58.0% higher as compared to the same period of last year. This growth was, first of all, the consequence of the higher income earned from own investments, valuation of PTE NN and a favourable change in the valuation of Centrum Banku Śląskiego. The latter resulted from the acceleration of the Polish zloty in January and February 2005.

PROFIT AND LOSS ACCOUNT OF ING BANK ŚLĄSKI (analytical, consolidated)

PLN mio	1H 2004	12M 2004	1H 2005	1H2005/1H2004	
Retail	415,7	839,7	399,2	-16,4	96,0%
<i>Core banking</i>	413,4	835,7	396,4	-17,0	95,9%
<i>FM products sales</i>	2,3	4,0	2,8	0,5	123,4%
Wholesale	286,3	605,0	298,5	12,3	104,3%
<i>Core banking</i>	221,7	469,5	215,7	-6,0	97,3%
<i>FM products sales</i>	58,2	114,4	64,2	5,9	110,2%
<i>Equity markets</i>	6,3	21,2	18,7	12,3	295,2%
Own operations	117,9	245,3	159,5	41,6	135,2%
<i>Trading</i>	62,0	122,3	71,0	9,1	114,6%
<i>ALCO and other</i>	56,0	123,0	88,5	32,5	158,0%
Revenue total	819,9	1 690,0	857,2	37,4	104,6%
Operational expenses, of which:	510,2	1 068,2	559,2	49,0	109,6%
Personal	230,2	464,3	265,2	35,0	115,2%
Marketing	17,1	37,2	26,3	9,2	153,5%
Depreciation	63,7	145,6	62,8	-1,0	98,5%
Other expenses	197,5	392,9	194,7	-2,8	98,6%
Other operating expenses	1,6	28,2	10,3	8,7	643,8%
Result before risk cost	309,7	621,8	298,0	-11,7	96,2%
Risk cost	-133,2	-150,9	24,2	157,3	-18,1%
Result before tax	176,5	470,9	322,2	145,7	182,5%
CIT	-36,7	-93,3	-61,2	-24,5	166,9%
Net result	139,8	377,6	260,9	121,1	186,6%
Tax adjustment (FPU Act)	19,1	17,2	-2,7		
Result after tax adjusted	159,0	394,8	258,2	99,3	162,5%

¹⁰ Inclusive of other income.

IX.5. Profitability

The results recorded by the Capital Group of ING Bank Śląski S.A. in 1H 2005 caused the basic efficiency ratios to improve considerably.

Basic efficiency ratios (%)

	I H 2005	I H 2004
Profitability ratio	26.4	16.9
Cost/ Income ratio	65.2	62.2
ROA	1.3	1.0
ROE	16.9	11.8
Interest margin ratio	2.62	3.09
Solvency ratio	17.44	14.94

Profitability ratio – relation between the gross profit¹¹ and total costs.

Cost/income ratio (C/I) – relation between the overheads and the result on banking operations in the analytical breakdown.

Return on assets ratio (ROA) – relation between the net profit and total assets.

Return on equity ratio (ROE) – relation between the net profit and equity and own funds.

Interest margin ratio – relation between the net interest income and average yield assets of the Bank¹² (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).

Solvency ratio – relation between the equity and net own funds to assets and off-balance sheet liabilities taking into account the risk weights.

X. LINES OF ING BANK ŚLĄSKI S.A. DEVELOPMENT

In the months to come, ING Bank Śląski S.A. will further pursue the current strategy of development. Its main objectives comprise market expansion by organic growth and increase of the company goodwill by a considerable improvement of efficacy of its operations.

ING Bank Śląski S.A. accomplishes the said objectives in that it implements the concept of “The Bank for the Customer”. This means that the Bank performs activities making it an institution able to establish long-lasting and valuable relationships with clients. First of all, the Bank:

- enhances the offer to ensure that it is attractive and competitive. The Bank pays special attention to efficient offering of a simple and transparent product offer. The following products are of key significance in fostering relationships with clients:
 - on the retail banking market – the Lion Account, the OKO Open Savings Accounts, mortgage facilities and credit cards,
 - on the wholesale banking market – cash management services (including state-of-the-art clearing solutions), loans and, notably, the ones related to transfers of funds from the European Union;
- aims at the efficiency improvement. The Bank simplifies the procedures and implements the proper technological tools, contributing to the efficiency growth and costs reduction;

¹¹ Upon adjusting with profits (losses) of minority shareholders.

¹² Net interest income was increased with the income pertaining to ‘internal deposit swaps’. Average assets are calculated on the basis of the data from three periods: 30.06.2004, 31.12.2004 and 30.06.2005.

- develops infrastructure, including the sales network and IT systems. The Bank makes its offer more and more available by continuous development of functionalities of electronic distribution channels and creation of new access paths, e.g. establishment of its own network of intermediaries, growth of co-operation with agents;
- reinforces its brand presence and recognition. The market expansion of the Bank is supported by campaigns – visible on the market – promoting the sales of key Bank's products and services.
- stimulates the sales motivation of employees. The Bank works on establishing a new system of base salaries and improves the incentive system based on key performance indicators.

Striving after the market expansion, ING Bank Śląski S.A. simultaneously maintains the high level of operational security and observes the stringent standards for risk management.

The projects that were launched in 2005 – Retail 2006 and Wholesale 2006 – are an important element in the Bank's activity focused on improving the quality and efficacy of service. Their main objective is to develop and implement new processes at the Bank that will guarantee not only effective service of clients, but also increase efficiency of the institution's performance. Development of new solutions with regard to offering Bank's products and services necessitates preparation of adequate IT tools, regulations and procedures. It also requires new skills from employees, which means that numerous Bank units have to be involved in those processes.

The activities undertaken with regard to enhancement of service efficacy and implementation of new products and distribution channels should cause the favourable trends – both market expansion and improvement of performance efficacy – that were observed since 2004 in the business of ING Bank Śląski S.A. to be sustained in the nearest future. However, the scale of the Bank's market expansion and the growth of the financial result will be conditioned by economic situation and financial standing of clients.

XI. MANAGEMENT BOARD ASSERTIONS

XI.1. True and fair presentation of the financial statements

According to the best knowledge of the Bank Management Board the financial data for 6 months and comparative data presented in the consolidated financial statement of the Capital Group of ING Bank Śląski S.A. were made in line with the binding principles of accounting and they reflect the property and financial standing of the Capital Group of the Bank and the financial result achieved by it in a true, reliable and clear way. The semi-annual report of the Management Board that is included herein gives a true picture of the development, achievements and situation (including the description of the basic risks) of the Capital Group of the Bank in the first half of the year 2005.

XI.2. Selection of the entity authorised to audit the financial statements

The entity authorised to audit the financial statements was elected in line with the legal regulations to carry out an audit of the semi-annual financial statements of the Capital Group

of the Bank. The said entity and certified auditors met the prerequisites to issue an objective and independent post-audit report in accordance with the relevant regulations of the Polish law.