

Report on the Activity of ING Bank Śląski S.A. in 1st Half of 2006

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

I.1. Key Trends in Economy

The first six months of the year 2006 were quite prosperous for the Polish economy. According to the data of the Main Statistical Office, the Gross Domestic Product went up by 5.2% in 1Q 2006 and by 5.5% in 2Q 2006.

The first half of 2006 witnessed an increase – compared with the previous years – of the domestic demand's contribution to the economic growth. Due to the decreasing number of the unemployed, growing salaries in the corporate sector, old-age and disability pensions as well as the dynamic growth of debts in the banking sector, the individual consumption in 1H 2006 was 5.1% higher on a year-to-year basis. Investments were also growing, particularly in 2Q. Altogether, the gross outlays for non-current assets were in 1H 2006 by 11.4% higher than in the same period of the last year.

Export continued to positively affect the Poland's economic situation. In 1H 2006, the export in current prices was 16% higher, whereas the import's value was 14% higher. The negative foreign trade balance amounted to PLN 17.4 billion (PLN 18.0 billion in 1H 2005).

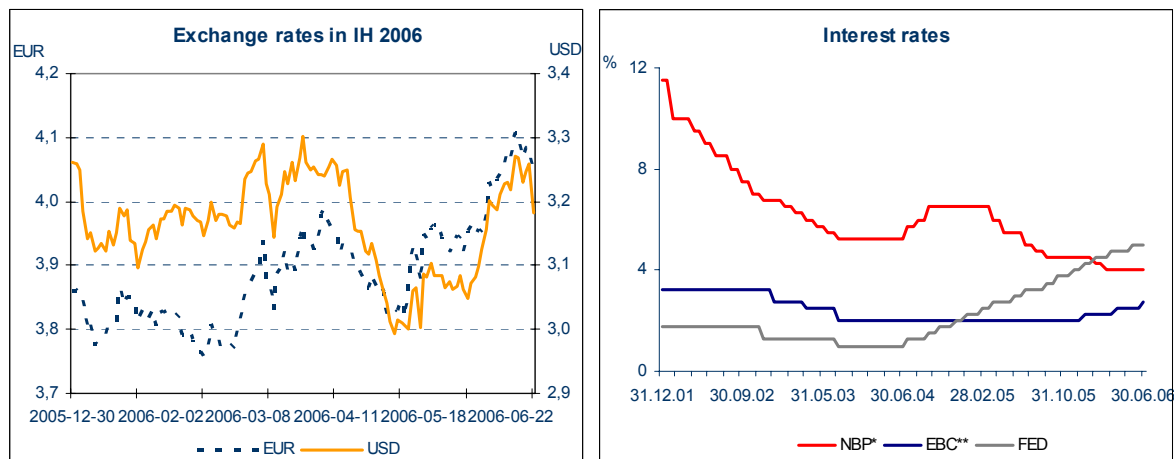
The demand of Polish companies for new employees was systematically growing. During the first six months of 2006, the number of employed in the corporate sector went up by 2.6%, whereas the employment was growing at the fastest pace in the services area. The improvement on the labour market translated into the decrease of the unemployed. In June 2006, there remained 2,488,000 jobless persons, down 10.3% from the end of 2005, as a result of which the unemployed rate went down from 17.6% in December 2005 to 16.0% in June 2006. Apart from the improvement on the Polish labour market, the unemployment rate's level in Poland was positively affected by the emigration in search of jobs. An estimated 1 million people tried to find jobs abroad since the Poland's EU accession¹.

After a long period of stagnation the salaries considerably increased. In 1H 2006, the average salary in the corporate sector was 4.6% higher on a year-to-year basis. According to analysts, this phenomenon – due to the accompanying high rate of the labour effectiveness – did not cause any pressure on the growth of prices.

After a long period of a record low inflation accompanying the good economic results, in 2Q 2006 (along with the growth of the prices of fuels and energy) there came the time of a higher growth of prices. Finally, in June 2006, the prices were up by 0.8% from a year earlier. The prices of foodstuffs were lower vis-à-vis the previous year (by 0.2%) as well as the prices of clothes and footwear (by 6.9%), whereas the costs of apartment maintenance and energy were much higher (by 5.2%) as well as the fuel for private means of transport (by 5.9%). At the same time, the level of most base inflation ratios indicated that in June 2006 the fundamental inflationary pressure remained weak.

¹ According to the estimates of the Finance Ministry, at the end of 2005, a 20% decrease of the number of unemployed resulted from the emigration of the Polish citizens. (Source: Finance Ministry, "Macroeconomic Review, June 2006).

The first half of 2006 witnesses a significant volatility of the zloty exchange rate. In the first months of the year the zloty exchange rates were relatively stable, and after that – in April and in early May – the zloty appreciation was observed. It resulted from the situation on global markets and the positive signals given by the Polish economy. However, in the last weeks of 1H 2006 the value of zloty weakened, mainly due to the reduction of the investors' involvement in assets exposed to a bigger risk in connection with the high interest rates in US, bigger expectations relating to the increase of interest rates in the Euro zone and the revaluation of other Region's currencies (in Hungary, Turkey and the Czech Republic). The beginning of July brought about another strengthening of the zloty and a quiet period for FX markets.



* Reference rate

** Minimum interest rate offered for basic refinancing operations.

In 1H 2006, the Monetary Policy Council reduced twice (in February and in March) the base interest rates (by 0.50 p.p. in total). Those reductions were justified mainly by the low inflation level and the absence of any indications of the inflationary pressure in the perspective of several months. As a result, at the end of June 2006 the NBP rates were positioned at the lowest level in the history and amounted to, respectively:

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

In the opinions of analysts, the observed mid-year's interest rate level will be maintained at least until the end of 2006, due to the situation on global markets (increases of interest rates in many countries and a bigger aversion to risk on financial markets) and the domestic situation (in particular a fast-growing domestic demand and an accelerated growth of prices).

1.2. Banking Sector

In 1H 2006, the advantageous trends observed in the year 2005 remained with the Polish banking sector.

The demand for banking services was growing in the first place, which was reflected by the growth of the key monetary aggregates:

- Due to the higher earnings of clients, decreasing interest rates and the continuing trend of easing up the terms and conditions of lending, in June 2006 the credit receivables of the banking sector from households went up to the level of PLN 161.8 billion (by 14.6% from December 2005). The growth was basically triggered by a dynamic development of the housing loans. However, the clients preferred – due to lower interest rates – the housing loans denominated in foreign currencies. In the last weeks of June the rate of growth of the housing loans value was even higher in connection with the clients' fears that the introduction as of 1 July 2006 of the Banking Supervisory Commission's S Recommendation, related to best practices in regard to mortgage-backed credit exposures, would result in more restrictive terms and conditions of granting FX loans for housing purposes.
- After years of downwards trends, a revival was also observed on the market of loans for corporate clients. At the end of June 2006, the credit exposure of the banking sector towards the institutional clients² reached the level of PLN 165.1 billion, up by 5.6% from the end of 2005. The growth resulted from the revival in the area of investments and changes in the credit policies of banks that were eased up for small and medium-sized companies.
- The deposits of households were growing at a moderate rate. At the end of June 2006, the value of liabilities of the banking sector towards households amounted to PLN 231.5 billion, up by 3.7% from December 2005.
- Good financial standing of business entities was reflected by the growing balance of funds of institutional clients deposited on bank accounts. At the end of 1H 2006, they went up to the level of PLN 153.6 billion (by 7.0% from the end of December 2005).

At the end of June 2006, the assets of the banking sector reached the level of PLN 673.5 billion, up by 6.6% vis-à-vis December 2005.

According to preliminary data, in 1H 2006 the net profit of the banking sector amounted to PLN 5.8 billion, up by ¼ on a year-to-year basis. The continuing improvement of financial results recorded by banks was stimulated by the growth of the sector's activities, which translated into the improvement of the result on banking activity. The growth was accompanied by a restrictive cost control. Therefore, the costs of the banks' operation were growing at a moderate rate. Mainly the personnel costs were growing, among others due to the increased number of employees, since the limited human resources represented for some banks an obstacle for further development of operations and the maintenance of their market positions.

The quality of the banks' credit portfolios improved. The share of loans at risk in the receivables from the non-financial sector went down from 11.0% in December 2005 to 9.2% in June 2006. Due to the efforts aimed at ensuring a high level of security in the growing lending conditions, the encumbrance of the banks' performance statements with costs of provisions remained quite large, despite the drop.

Good development perspectives of the Polish banking sector (in particular on the retail banking market) allowed for continuing in 1H 2006 the trend – started in the year 2005 – in regard to the growing number of employees and the number of bank outlets. The plans for

² In total for the following sub-sectors: corporate entities, non-commercial institutions acting for households, non-monetary financial institutions, local government institutions and social security funds.

development of the network of small outlets were announced, among others, by some banks from the group of ten biggest banks in Poland.

In March 2006, the Banking Supervisory Commission issued S Recommendation concerning the best practices in regard to mortgage-backed credit exposures. It contains many qualitative requirements relating to currency-denominated loans, the most important of which include:

- a higher requirement in regard to credit capacity,
- an obligation to conduct stress tests at least once a year,
- a uniform information standard for clients when granting currency-denominated loans,
- diversification of the financing sources.

Works were also conducted in order to introduce quantitative requirements for currency-denominated exposures for households.

I.3. Capital Market

The first month of 2006 witnessed several records at the Warsaw Stock Exchange in regard to the basic stock exchange indices. However, May brought about a strong correction. It was caused by external factors, including those of key importance such as the expectations (discussed in the previous item) connected with the further growth of interest rates in US and the retreat of foreign investors from so-called emerging markets, also from Poland. At the end of June 2006, the earlier decreasing trends were overcome and the basic stock exchange indices went up again.

Finally, over the whole first half of 2006 WIG gained 14.2%, and WIG gained 8.8%. The biggest returns on investments were delivered by shares of construction companies (55.2%), whereas losses were recorded by investors holding shares of media companies (-12.7%), fuel sector (-7.6%) and telecommunication companies (-11.0%). According to analysts, the spring revaluation brought down the stock prices to more attractive levels, thus creating an opportunity for clients of brokerage houses of seeking potentially interesting investments.

In June 2006, the market value of the 256 listed Polish companies amounted to PLN 338.8 billion vis-à-vis PLN 308.4 billion at the end of 2005 (up by 9.9%). Over the first six months of 2006 eight companies debuted on the stock exchange and four were withdrawn from the stock exchange.

Over the first half of 2006, the volume of transactions on the cash equity market reached the value of PLN 164.7 billion, an increase by 113% on a year-to-year basis. The futures market was also dynamically growing – the number of futures contracts was 58.2% bigger than a year ago.

The expected continuation of the world economic growth, the hypothetical possibility of the inflationary pressure and the perspective of growing interest rates put also the bond market in a worse situation. However, the decrease in the bond price resulted in a higher attractiveness of investing in the Polish T-bond due to their higher yield.

Despite the May decrease (caused by the revaluation on the equity market), the first half of 2006 was advantageous for the market of investment funds. In June – along with the improvement of the stock exchange situation – the value of assets of investment funds was rebuilt and at the month-end they amounted to PLN 77.3 billion. In total, the first six months

of 2006 brought about the growth of the assets of investment funds by PLN 15.9 billion (or 26%).

Despite the increase of interest rates on bank deposits due to the sharp competition, the lack of a mass outflow of funds under the influence of unfavourable situation on the stock exchange indicated a great attractiveness of the expanding offer of investment fund companies.

The first half of 2006 also witnessed the changes in the structure assets of investment funds. The significance of stable growth funds rose (from 24% at the end of 2005 to 26% in June 2006) and mixed funds (growth from 19% to 23%) at the expense of debt securities funds (decrease of the share from 17% to 11%).

II. MAIN DEVELOPMENTS AT ING BANK ŚLĄSKI IN 1H 2006

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

Over the first six months of 2006 the composition of the capital group of ING Bank Śląski S.A. did not change and as at 30 June 2006 it was composed of the following companies, apart from the dominant entity:

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

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. As a parent company 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. Their business is strictly co-ordinated, and capital interconnections are often strengthened with the trade relationships and concluded contracts. The companies being part of the capital group hold accounts at ING Bank Śląski S.A., on which they make standard settlement operations, and also deposit their free funds on term deposits. The Bank also provides lends funds for the business of some companies (Centrum Banku Śląskiego, Śląski Bank Hipoteczny). The transactions of ING Bank Śląski S.A. with subsidiaries are performed on an arms' length basis.

Over the first half of 2006 the companies forming the Bank's capital group maintained their strong market position. At the end of June 2006, ING Bank Śląski S.A. held a 6.8% share in the assets of the Polish banking sector and was the fourth largest bank in Poland in terms of assets. The position of ING Securities S.A. was also robust. In 1H 2006, the Brokerage House of ING Bank Śląski settled 10.7% of transactions on the cash equity market which gave it the fourth place in this ranking.

II.2. Adjusting Organisation to Market Challenges

In 1H 2006, ING Bank Śląski S.A. continued the actions aimed at building an institution to be able to establish long-lasting and valuable relations with its clients in the conditions of an increasingly growing competition. Thus, it conducted works aimed at the full realisation of the “Bank for the Client” concept.

Among those actions one needs to highlight the works carried out as part of the following projects:

- Retail 2006. On the one hand, the objectives of that project provide for an improvement of the Bank’s services by enhancing the service effectiveness and speeding up the processes and, on the other hand, they provide for improving the effectiveness of the Bank’s operation due to the limitation of labour consumption and the simplification of the service process. The project’s deliverables comprised, among others, the implementation in March 2006 of the new service organisation for the most popular clients’ instructions placed at branches, i.e. for in-payments, withdrawals and transfers. The most important changes concerned the limits of withdrawals, the authorisation methods and advising of withdrawals.
- Corporate 2006. Its main objective is the improvement of quality and effectiveness of business processes and raising the level of satisfaction of corporate clients. Upon having defined the ultimate operating model for corporate clients (in the year 2005), in the first months of 2006 there was commenced the phase of reorganisation of processes for ten key product groups as part of the so-called Product Strategies. At the same time, works were conducted on the change of the organisation structure and reallocation of a part of tasks to the regional level. Implementation of all organisational changes in the form of establishment of 13 Corporate Clients Support Sections was finished as scheduled in April 2006.
- The new remuneration system, along with the change of the job valuation method. The new job valuation method is based on a number of clearly defined criteria and on the job’s scoring. It makes it possible to compare the salaries at the Bank with the market conditions. The new solutions were introduced at the beginning of April 2006.
- Building the service network for up-scale clients. In June 2006, the Bank finished building the network of Private Banking Centres. It comprises 29 units located at Bank branches. They cover a separated, standardised area that ensures privacy and confidentiality during the meeting with clients. Along with the establishment of Private Banking Centres the role of Private Banking Advisers also changed. They became mobile, fully professional guides to the for the Bank’s investment offer for clients.
- The project of establishment of the network of partner’s outlets. In order to broaden the accessibility to its products and services, in autumn 2005 the Bank commenced the establishment of the network of outlets on the franchise basis. In the period of April-May 2006, the Bank launched (on a pilot basis) the first two partner’s outlets. According to the solutions adopted, the functionality of such an outlet is similar to the operation of a small branch. Thanks to the relevant equipment (ATM, cash deposit machine, Internet terminal, telephone allowing access to HaloŚląski), a great number of operations at the partner’s outlet are conducted by the client themselves (self-service). The technological solutions that meet restrictive security requirements also allow for a total elimination of cash from the Client – Partner relations.

II.3. Acquisition of Deposits

Over the first half of 2006, ING Bank Śląski S.A. maintained its strong position on the deposit market. At the end of June 2006, the total value of funds gathered by the capital group of ING Bank Śląski S.A. amounted to PLN 32,285.9 million, up by 5.3% from December 2005. According to estimates, the deposits at the Bank's capital group represented 8.4% of the total value of funds deposited with the banking sector (the same figure as at the end of 2005).

ING Bank Śląski S.A. recorded particularly good results on the market of household deposits. At the end of June 2006, the value of funds deposited by households on the accounts at the Bank exceeded PLN 20 billion and amounted to PLN 20,520.4 million. The balance of household deposits at ING Bank Śląski S.A. increased by PLN 1,369.4 million vis-à-vis December 2005, which represented an increment by more than 16% of the value of funds deposited by households in the whole banking sector.

The Bank achieved the success on the market of household deposits as a result of consistent implementation of the strategy for acquisition of deposits, in force as of mid- 2004. According to this strategy, ING Bank Śląski S.A. aims at maintaining a high attractiveness of the Bank's key deposit product, such as the Open Savings Account. At the same time, the Bank ensures the support of that product's sales in the form of extensive marketing campaigns. An important marketing event in the first half of 2006 was the campaign for Open Savings Account, carried out in May and June under the slogan "Money Loves Interest". During that campaign the Bank offered special price conditions for amounts deposited in OKO accounts.

The structure of deposits of ING Bank Śląski S.A. Group

	31.12.2005	30.06.2006
Households	19,151.0	20,520.4
Business entities	8,513.1	8,553.8
Financial entities (other than banks)	1,624.5	1,722.0
Entities of the sector of central and local government agencies	1,384.5	1 489.7
Total	30,673.1	32,285.9

II.4. Rebuilding of Credit Portfolio

Actions continued by ING Bank Śląski S.A. for many months in order to revive the lending brought about the first visible results in 1H 2006.

At the end of June 2006, the total value of loans and other receivables of the capital group of ING Bank Śląski S.A. from clients amounted to PLN 11,243.3 million, compared with PLN 9,902.9 million in December 2005 (up by 13.5%).

The biggest growth in the first half of 2006 was related to the Bank's credit receivables from institutional clients³. In June 2006, they amounted to PLN 8,589.5 million, up by PLN 1,120.2 million (or 15.0%) from December 2005. The Bank's credit exposure towards the clients from all corporate market segments increased.

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

The expansion of ING Bank Śląski S.A. on the market of household loans was considerably hindered due to the lack of currency-denominated loans in the offer addressed to retail clients. It limited in particular the possibilities of growth of the Bank's credit exposure on a very dynamically growing market for housing loans. According to NBP data, in 1H 2006 the receivables of the banking sector due to housing loans increased by 26.2%. Loans denominated in foreign currencies represented approx. 80% of the incremental value of housing loans.

The structure of loans and other receivables from the clients of ING Bank Śląski S.A. Group

	31.12.2005	30.06.2006
Households	3,238.7	3,419.4
Business entities	5,926.1	6,402.9
Financial entities (other than banks)	829.2	1,434.1
Entities of the sector of central and local government units	426.0	400.4
Other receivables	288.0	352.1
Impairment write-off	- 805.1	-765.6
Total	9,902.9	11,243.3

II.5. Structure of Shareholders of ING Bank Śląski S.A.

Over the first half of 2006, the structure of shareholders of ING Bank Śląski S.A. did not change and at the end of June 2006 was as follows:

Shareholder's name	Number of shares and votes at GSM	Share in the initial capital and the total number of votes at GSM
ING Bank N.V.	9,757,500	75.00%
Commercial Union OFE BPH CU WBK	850,000	6.53%
Other	2,402,500	18.47%
Total	13,010,000	100.00%

II.6. Changes in Bank Statutory Bodies

Over the first half of 2006, significant changes took place within the Supervisory Board of ING Bank Śląski S.A. They were as follows:

- At the Supervisory Board meeting held on 31 March 2006, Mr. Andrzej Wróblewski, the Chairperson of the Supervisory Board, and Mr. Jerzy Rokita, the Board Secretary, submitted resignations from their positions in the Supervisory Board as of 27 April 2006, or as of the date of the General Shareholders Meeting, approving the financial statement for 2005. Submitting their resignations the Board members adhered to the corporate governance rules, adopted by the Bank in the Statement on applying "2005 Best Practices in Public Companies", and the new wording Bank's Charter, in force as of 1 May 2006. They introduced, among others, the criterion of maximum 12-year term of holding the office in the Supervisory Board.
- On 19 April 2006, the Bank Management Board was informed that Mr. Hans van der Noordaa and Mr. Lech Węclewski submitted resignations from their functions in the

Supervisory Board as of the date of the General Shareholders Meeting, or 27 April 2006.

- On 27 April 2006, the General Shareholders Meeting accepted the resignations of: Mr. Andrzej Wróblewski from the position of the Chairperson of Supervisory Board, Mr. Jerzy Rokita from the position of the Secretary of Supervisory Board, and Mr. Lech Węclewski and Mr. Hans van der Noordaa from the positions of members of Supervisory Board. At the same time, the following new members of the Supervisory Board were appointed: Mr. Ralph Hamers, Mr. Jerzy Hausner, Mr. Mirosław Kośmider and Mr. Wojciech Popiołek.
- At the first meeting of the Supervisory Board, held directly after the meeting of the General Shareholders Meeting, the Supervisory Board adopted the following new internal structure:

– Ms. Anna Fornalczyk	Chairperson, Independent Member,
– Mr. Cornelis Leenaars	Deputy Chairperson,
– Mr. Wojciech Popiołek	Board Secretary, Independent Member,
– Mr. Ralph Hamers	Member,
– Mr. Jerzy Hausner	Member, Independent Member,
– Mr. Mirosław Kośmider	Member, Independent Member,
– Mr. Marcus van der Ploeg	Member,
– Mr. Igno van Waesberghe	Member.

Shortly after the end of IH 2006, important decisions were taken in regard to changes in the composition of the Management Board of ING Bank Śląski S.A. At the meeting held on 5 July 2006, the Supervisory Board:

- Accepted the resignations of:
 - Mr. Krzysztof Brejda from the function of Vice-president of Bank Management Board, effective as of 5 July 2006,
 - Mr. Grzegorz Cywiński from the function of Vice-president of Bank Management Board as of 1 August 2006, due to his transfer within ING structures beyond the Poland's borders,
 - Mr. Donald Koch from the function of Vice-president of Bank Management Board, effective as of 1 August 2006, due to his transfer within ING structures beyond the Poland's borders.
- Appointed as of 1 August 2006:
 - Mr. Mirosław Boda, the Vice-president of Bank Management Board,
 - Ms. Marlies van Elst, the Vice-president of Bank Management Board.

At the time of submission of this report, the Management Board of ING Bank Śląski S.A. was composed of the following persons:

- | | |
|----------------------------|--|
| • Mr. Brunon Bartkiewicz | – President of Bank Management Board, |
| • Mr. Mirosław Boda | – Vice-president of Bank Management Board, |
| • Mr. Ian B. Clyne | – Vice-president of Bank Management Board, |
| • Ms. Marlies van Elst | – Vice-president of Bank Management Board, |
| • Mr. Michał Szczurek | – Vice-president of Bank Management Board, |
| • Mr. Benjamin van de Vrie | – Vice-president of Bank Management Board, |
| • Mr. Maciej Węgrzyński | – Vice-president of Bank Management Board. |

II.7. Ratings

At the time of publication of this report (i.e. on 29 September 2006) the ratings of financial soundness of ING Bank Śląski S.A. given by the top rating agencies were as follows:

Moody's Investors Service Ltd.

Long-term deposits	A2
Short-term deposits	P-1
Bank financial strength	D+
Outlook for long-term and short-term deposits ratings	Stable

Fitch Ratings Ltd.

Long-term liabilities	A+
Outlook for maintenance of the abovementioned rating	Positive
Short-term liabilities	F1
Individual rating	C/D
Support rating	1

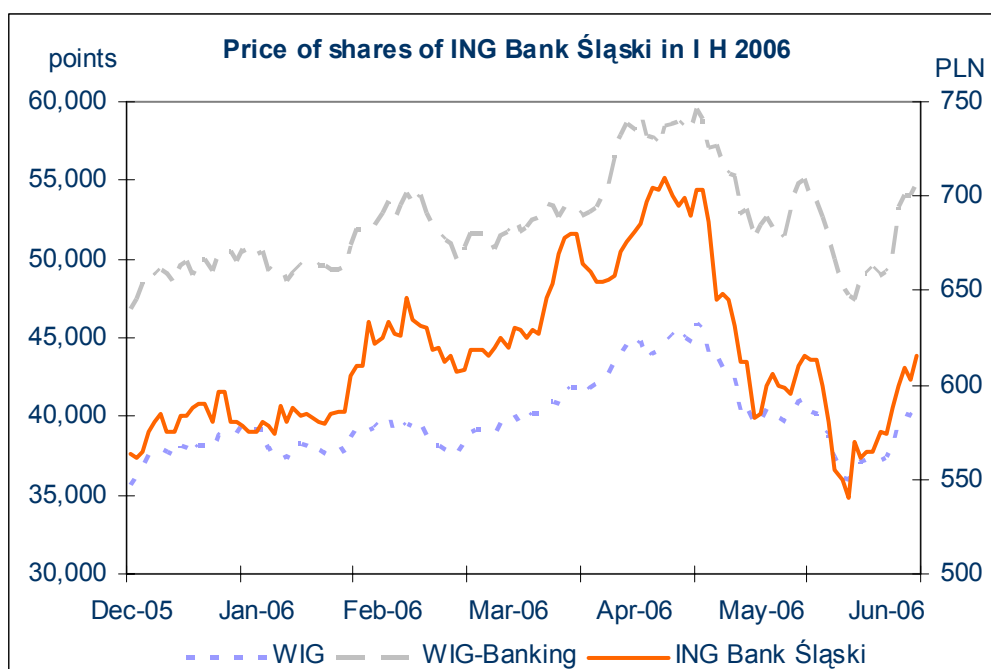
On 2 June 2006, Fitch Ratings Ltd. informed the Management Board of ING Bank Śląski S.A. about raising the individual rating from D to C/D. The other ratings remained unchanged. The individual rating was raised as a result of the improving quality of the Bank's assets, the advantageous macro-economic situation, the increasingly better risk management as well as a strong capitalisation and an excellent liquidity. The Agency also informed the Bank that the rating of ING Bank Śląski S.A. also reflected the potential support that it may receive from the foreign investor – ING Group (having AA- rating). At the same time, the ratings for ING Bank Śląski S.A. were restricted by the limit of Poland's sovereign ratings (at the level of A).

On 17 August, 2006 Fitch Rating Ltd. notified the Bank Management Board about raising the rating for long-term liabilities of ING Bank Śląski S.A. from A to A+. It was caused by raising the sovereign ratings for Poland from A to A+.

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

Over the first half of 2006, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange responded in a similar manner as the entire equity market. May and the first half of June, in particular, saw considerable movements in the share prices. The highest price for ING Bank Śląski S.A. shares was paid at the closing session on 5 May (PLN 710); the lowest price was paid on 14 June (PLN 540). On 30 June 2006 the price of ING Bank Śląski S.A. shares finally settled at PLN 615, up by 9.0% from 30 December 2005. By comparison, the sub-index WIG-Banks gained 16.8%.

At the end of 1H 2006, the market value of ING Bank Śląski S.A. was PLN 8,001 million, whereas the P/BV ratio was 2.36.



II.7. Observance of Corporate Governance Best Practices

On 28 April 2006, the Management Board of ING Bank Śląski S.A. presented a statement on the observance of corporate governance rules, wherein they declared that the Bank and its authorities observe the corporate governance rules, as defined in the “2005 Best Practices in Public Companies”, adopted by the Bank in accordance with the declaration submitted by the Bank on 17 February 2005 and approved by Resolution No. 11 of the Bank General Shareholders Meeting of 9 June 2005. At the same time, the Management Board declared their intention of the continued application of the abovementioned rules by ING Bank Śląski S.A. Afterwards, the statement was accepted by the General Shareholders Meeting on 27 April 2006.

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

- it is the Bank’s target to have all the activities of the company’s authorities aimed at the long-term development of the company;
- it creates the conditions for the exercise of the majority shareholder’s rights in such a manner as to take into account the interests of the minority shareholders;
- the Bank – being a company where the majority shareholder holds a stake, which entitles it to more than 50% of the total number of votes – has at least two independent members on its Supervisory Board.

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

II.8. Emoluments for Members of Management Board and Supervisory Board of ING Bank Śląski S.A.

In 1H 2006, the total amount of emoluments (that is the gross value of remuneration and bonuses paid or due as well as cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the members of its Management Board amounted to PLN 9,185 thousand. This amount also included the bonus for the Management Board members for 2005, paid in 1H 2006.

The members of the Management Board and other people who are 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 2006, the total amount of emoluments (as defined above) paid by ING Bank Śląski S.A. to the members of its Supervisory Board amounted to PLN 487 thousand.

III. ING BANK ŚLĄSKI S.A. ACTIVITY IN 1H 2006

ING Bank Śląski S.A. is one of the largest universal banks in Poland. At the end of June 2006, it was the fourth largest bank in Poland with the balance sheet total at PLN 42,995.3 million (or 6.8% of the assets of the Polish banking sector).

Strong market position of ING Bank Śląski S.A. was the consequence of a steady expansion of its activity in the primary markets of banking services; i.e. in retail banking, wholesale banking and also on money and capital markets.

III.1. Retail Banking

Product Offer and Changes Introduced

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

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

The ING Bank Śląski S.A. product offer addressed to private individuals was completely revamped in 2005, and the main changes in terms of products introduced over the 1H 2006 involved the following:

- Introducing a special pricing offer for new deposits to the Open Savings Accounts. As part of a marketing campaign run under the theme “Money Loves Interest”, the Bank offered its clients higher interest rates on funds deposited to OKO accounts between 8 May and 23 June 2006.
- Introducing the Deposit and Fund Plus Deposit (in co-operation with ING Investment Funds Corporation), which included umbrella funds, among other things. Investors who deposit their savings in umbrella funds are offered new possibilities of mitigating the tax burden, and thus gain higher return rate on their funds.

- Improving the seasonal cash loan offer by extending the credit period from 12 to 24 months. As a result of that change, clients were given the ability to draw down loans at higher amounts (that may be repaid over a longer period of time).
- Introducing a refinance cash loan that helps credit the client's debt in the event of threatened difficulties to repay the liabilities towards the Bank.
- Enhancing the overdraft offer for the Lion Accounts by making the interest rate conditional on the overdraft amount (the higher the overdraft amount, the lower the interest rate).
- Implementing a new functionality of automated account opening, debit card opening and changing the image of the debit cards in the ING BankOnLine electronic banking system, which significantly improved the availability of the Bank's services.

The Bank also changed the principles and procedures for servicing individual clients in several basic areas of activity. The changes included the following, among other things:

- Development and implementation of new principles of effecting and controlling transactions made in the bank branches following the implementation of a new model of control in the back-office. The changes were aimed, among other things, at the improvement of the transactions safety.
- Conducting several pre-scoring campaigns (including but not limited to the pre-scoring campaigns for the overdraft facility in the Lion Account, or the Spring Cash Loan), including full assessment and verification of client's credit capacity (including a check with the Credit Information Bureau), and giving a "firm decision" prior to sending a credit offer to the client. The new solution helped simplify the processes, minimise the formalities and reinforce the relationship with clients as clients received an offer guaranteed by the Bank.

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

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

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

Over the first half of 2006, the clients from the small business segment were granted simplified access to the Bank's clearing and deposit offer as the Bank started to sell the Lion Accounts for small businesses through external sales structures (intermediaries). With these solutions in place clients can open an account without having to visit a branch. As of April 2006, small businesses may also get accounts at franchise outlets. At the end of May, the Bank started a marketing campaign for the Lion Account for small businesses. Apart from a

special pricing offer (with temporary waiver of the maintenance fees for new clients), the Bank also promoted quick and cheap Internet transfer orders to other banks.

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

- implemented a new application to expedite and improve the credit process, and considerably lower operating costs,
- changed the manner of assessing the credit risk in order to improve the availability of loans for small businesses, as well as conducted a pre-scoring sales campaign for the Bank clients,
- introduced changes to the fees related to VISA credit cards for small businesses (the card was issued free of charge, provided that the client made the requisite volume of non-cash transactions),
- enhanced the offer of investment loans for housing communities.

The quality of service of small businesses at ING Bank Śląski S.A. also improved as a result of:

- simplifying and automating most of the product processes in all distribution channels, including but not limited to: the processes of current account opening and maintenance, or debit card distribution,
- implementing a new model of servicing cash and non-cash transactions,
- introducing new principles of in-branch service of small businesses, i.e. designating groups of Sales Advisers dedicated to acquiring new clients and assisting the top clients (who receive customised service).

ING Bank Śląski S.A. on the Housing Loans Market

Pursuant to the lending policy in force, housing needs finance is one of the priority lines of ING Bank Śląski S.A. activity.

In order to improve its position on the mortgages market, in 1H 2006 the Bank introduced numerous changes to make its offer more attractive and flexible, and to improve the efficiency of its credit processes. The most important changes included:

- Improving the mortgage loan by: changing the manner of verifying the clients liabilities; introducing a possibility of opening mortgage line to repay other liabilities; expanding the group of clients in pension age who may apply for mortgage loans, specifying the manner of assessing credit capacity of clients who run a business activity and pay taxes on a lump-sum basis.
- Conducting a promotional campaign for PLN mortgage loans; as part of the campaign, the Bank issued to clients certificates that guaranteed special terms of mortgages drawn down by the end of 2006. One of the most attractive features of the campaign included special pricing conditions in terms of commission (for credit applications filed between 1 February and 30 April 2006); a guarantee of obtaining an attractive interest rate on the loan; assistance of advisers in completing the credit documentation and making certain formalities.
- Introducing the possibility of granting loans to borrowers applying for a housing mortgage loan or a construction&mortgage loan where the borrower's down-payment is lower than required.

- Introducing a pilot programme to test the Group Life Insurance Policy for borrowers applying for mortgage products (as part of an agreement between ING Bank Śląski S.A. and ING Nationale-Nederlanden Poland).

In order to enhance the mortgage product offer and improve the image of ING Bank Śląski S.A. as a specialist in financing the housing needs of individual clients, in 1H 2006 the Bank took efforts to prepare for the launch of a mortgage loan indexed to CHF-exchange rate. The offer of CHF-indexed loans and cash loans, which was launched on 1 July 2006, is of auxiliary nature and is to supplement the existing offer of mortgage products offered in PLN. The offer is addressed to the clients from the Personal and Private Banking segments only.

Service of Up-scale Customers

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

One of the major events in the first half of 2006 was closing the project related to the opening of 29 state-of-the-art Private Banking Centres; the process was started in the fall of 2005. The new Private Banking Centres meet the market standards for the service of up-scale clients, and they are located on separate space within a branch. Each Centre has special meeting rooms that provide clients with full privacy and high comfort of service.

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

The next step to improve the quality of services rendered for up-scale clients was to start certifying the Private Banking Advisers. In 1H 2006, the Bank started to offer specialist training programmes followed by an external examination to test the financial and specialist knowledge of each Adviser. The certificate will prove that its holder has adequate expertise and competencies to provide top quality advising services.

In 1H 2006, ING Bank Śląski S.A. continued the process of expanding the portfolio of products addressed to up-scale clients, including in particular the structured products. The Bank carried out subscriptions to seven Investment Term Deposits and two Investment Insurance Deposits.

In June 2006, ING Bank Śląski S.A. was one of the first entities on the Polish market to start offering umbrella funds. The clients in the Private Banking segment were offered the Selective Sub-fund that is to produce double-digit returns on investment as it invests in a selection of the most attractive shares. The funds were very well received by the clients.

In 1H 2006, ING Bank Śląski S.A. also signed an agreement with Union Investment Fund Corporation, whereby the Private Banking clients are given the ability to acquire the participation units in that Corporation.

The client loyalty survey conducted among the Bank's up-scale clients showed that the clients were highly satisfied with the Bank's services, and also very loyal to ING Bank Śląski S.A.

Deposit Activity

As at 30 June 2006, household deposits at ING Bank Śląski S.A. totalled PLN 20,520.4 million, up by PLN 1,369.4 million, or 7.2%, from December 2005. At the end of June 2006, household deposits accumulated at the Bank represented 8.8% of the total value of household deposits in the banking sector (8.5% in December 2005).

The actions taken by the Bank with regard to the acquisition of funds from retail clients as part of the applicable deposit strategy, proved very successful. The Bank was particularly successful in terms of the OKO Savings Accounts. The value of funds deposited by households in OKO accounts went up from PLN 12,300.1 million in December 2005 to PLN 13,558.9 million (up by 10.2%).

At the end of June 2006, ING Bank Śląski S.A. maintained 1,017,400 personal accounts compared with 1,002,100 at the end of 2005 (up by 1.5%).

To provide its clients with a wide array of savings products, ING Bank Śląski S.A. also distributes units of ING TFI investment funds. As at the end of June 2006, net assets of ING TFI acquired by intermediation of ING Bank Śląski S.A. totalled PLN 3,181 million (versus PLN 2,238 million at the end of 2005). It represented approximately 54% of the value of retail assets of investment funds managed by ING TFI.

Lending

As at the end of June 2006, the household credit receivables of ING Bank Śląski S.A. totalled PLN 3,419.4 million. The Bank held a 2.1%-share in the household credit receivables of the banking sector. Over the first six months of the year 2006, the Bank's credit exposure towards households went up by PLN 180.7 million, or 5.6%.

In 1H 2006, growth rate of lending to households at ING Bank Śląski S.A. was mainly determined by the applicable credit policy whereby retail clients were offered only loans in PLN, while the clients preferred FX-loans (especially in terms of housing loans that report the most dynamic development).

The PLN mortgage loans play a major role in activating the Bank's lending to households as they do not pose any FX-risk (which is beneficial to both borrowers, and the Bank). In June 2006, credit receivables of the Bank due to PLN-mortgage loans totalled PLN 872.6 million compared with PLN 653.3 million at the end of 2005.

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

Over 1H 2006, ING Bank Śląski S.A. considerably expanded its offer of bank cards for retail clients by introducing the following products:

- Orange VISA Credit Card addressed to people who have lower incomes (starting as low as PLN 700 net per month).
- My ING Card – ING Bank Śląski was one of the first banks on the market to introduce the customisation service, whereby individual clients are given the ability to personalise their debit cards. The My ING Card service is offered to individual clients and available for debit cards issued by VISA Electron, Maestro and Maestro in euro. The card may be ordered by the Internet or HaloŚląski phone service, as well as in-branch.
- VISA pre-paid i-Card for small businesses – the first card of that type in Poland and one of the first ones in Europe. A cut-out and semi-translucent card. The main advantage of that card is that it gives its user the ability to pay for goods and services both on the Internet and in merchants that accept payments with VISA cards.

By the end of June 2006, ING Bank Śląski S.A. issued 1,317,100 payment cards⁴ to individual clients.

Credit cards are among the strategic products of the ING Bank Śląski S.A. retail offer. The Bank puts emphasis on the sale of embossed credit cards, that would be safer and of wider use, such as: Visa Classic, Visa Credit Gold and MasterCard Credit. In total, by the end of June 2006 the Bank issued 131,100 credit cards, including 121,800 embossed ones.

III.2. Corporate Banking

Product Offer and Changes Introduced

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

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

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

The ING Bank Śląski S.A. credit offer for corporate clients covers among others: overdraft, a working capital loan, a cheque loan, an investment loan, an indexed loan, a loan to finance export receivables insured by KUKE 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. The offer of traditional loans is supplemented with other forms of business funding, including leasing, factoring and finance of commercial properties.

In 1H 2006, ING Bank Śląski S.A. focused on actions aimed at improving its offer of specialist forms of funding (such as: factoring, leasing, or finance of commercial properties). The Bank offers these services in close co-operation with other members of ING Group.

⁴ According to NPB data concerning the number of cards issued, as at the end of June 2006 ING Bank Śląski had a 7.0% share in the total number of payment cards.

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

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

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

Other major actions supporting the Bank's lending on the corporate market in 1H 2006 included the launch of 1 to 5-year-working capital loans, and the improvement of the overdraft facility for the holders of the ProBusiness and ProBusiness Plus Package.

In June 2006, the Bank finalised works related to the improvement of FX-loans and clearing services for corporate clients (direct debit, cash settlements).

During 1H 2006, the Bank also conducted a project to introduce sectoral approach to the Corporate Sales Network (which services large and mid-sized companies). Experience gathered in the service of strategic corporate clients showed that the establishment of specialist knowledge centres for the individual sectors helps make the relationship with the clients stronger. During the first stage of that extensive project, the Bank introduced new solutions (to be tested as part of a pilot programme) in the Region of Opole. It was in that Region that the first sectoral conference was held in 2006 devoted to the common agricultural policy of the EU on sugar and fuels. The Bank also continued works on preparing subsequent sectoral meetings in other Regions.

Deposit Activity

As at 30 June 2006, the value of institutional clients' deposits⁵ in the Bank totalled PLN 11,765.5 million. It is estimated that in June 2006, ING Bank Śląski S.A. held a 7.7%-share in the market of institutional clients' deposits.

Deposits of corporate entities⁶ formed the major part of institutional clients' deposits accumulated at the Bank. They deposited the funds worth PLN 8,553.8 million in accounts at ING Bank Śląski S.A., which accounted for 72.7% of the total value of institutional clients' deposits.

An essential share in the Bank's liabilities was also held by the funds obtained from the non-monetary financial institutions; i.e. insurance institutions, pension funds, mutual funds and leasing companies. Their value was PLN 1,722.0 million and represented 14.6% of total deposits of institutional clients. Deposits of the central and local government agencies amounted to PLN 1,489.7 million (or 12.7% of total deposits of institutional clients).

Making the clearing and deposit offer of ING Bank Śląski S.A. more attractive resulted in an increase of the number of current accounts held by corporate clients. For instance, in June 2006, 5,508 Pro-Business packages were held by the clients from the segment of mid-sized companies; up by more than 7% than at the end of 2005. Corporate clients also showed more and more interest in electronic distribution channels and state-of-the-art clearing systems, reflected by the following:

- the number of clients with access to internet banking grew from 6,400 in December 2005 to 9,600 in June 2006,
- the number of Mass Payment Identification System installations for the companies co-operating with numerous off-takers (such as insurance companies, power supply plants and mobile telecommunications companies) went up from 179 at the end of 2005 to 210 in June 2006.

Lending

As at the end of June 2006, credit receivables of ING Bank Śląski S.A. from institutional clients⁷ totalled PLN 8,589.5 million versus PLN 7,469.3 million in December 2005. It is estimated that in June 2006 the Bank held a 5.5%-share in the market of institutional loans (5.1% in December 2005).

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

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

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

⁶ Sub-sector of corporate entities comprises the following types of entities: state-owned enterprises and partnerships, private enterprises and partnerships and co-operatives and non-commercial institutions operating for the benefit of households.

⁷ Figures cover due from companies, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and self-government institutions, social security companies.

In 1H 2006, the credit exposure of ING Bank Śląski S.A. went up in all segments of credit clients.

The Bank's receivables due to the loans extended to corporate entities amounted to PLN 6,402.9 million and represented 74.5% 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 1,434.1 million (or 16.7% of Bank's credit receivables from institutional clients).

During the first half of 2006, ING Bank Śląski S.A. increased its credit exposure due to the service of EU aid programmes. As at the end of June 2006, the total value of loans extended and the value of promises of EU loans amounted to PLN 741.4 million (versus PLN 633.2 million at the end of 2005).

III.3. Money and Capital Market

In 2006, ING Bank Śląski S.A. maintained its strong position on the Polish money market among others due to continuous efforts to ensure the highest quality of services rendered for the clients as well to present the top level of professionalism in co-operation with other participants of financial markets. The Bank held the Status of Money Market Dealer and after 1H 2006 was classified by the National Bank of Poland on the first position as regards the Dealer Activity Index (IAD). The Bank also held the function of the Treasury Securities Dealer.

On the money market, the Bank substantially developed the scale of operations with the clients (both retail and corporate ones). This increase was supported, among others, by continuous works over the expansion of scope and improvement of the product and service offer. Within 1H 2006, the Bank supplemented its offer with the following products:

- Structural forward transactions. This instrument is dedicated to the corporate clients and is used for the management of exchange rate risk. It combines the best features of FX forward transaction and FX option. Main characteristics of this product include: hedging of FX exposure against unfavourable changes of exchange rate, introduction of the guaranteed exchange rate, which is determined by the client as the worst exchange rate case, participation in advantageous changes of exchange rate as well as reduction or elimination of the premium cost resulting from the traditional FX option.
- Repo transactions on T-bonds. These transactions allow the clients to obtain a higher rate of return compared with traditional deposits or short-term funding.
- Double currency deposit (DCD) with a threshold. An additional parameter in the form of threshold exchange rate allows the client to lower the exchange rate risk (the risk is taken over by the Bank in exchange for lower interest rate of the investment in comparison with standard DCD transactions).
- Asian option, in which the exercise rate is agreed in future based on the average exchange rate recorded in the agreed observation period. This is a product addressed to corporate clients.
- Subscription of the Insurance Investment Deposit, combining a return on deposits with the development of the situation on the market of shares, commodities and currencies. The Bank implemented this product jointly with ING Nationale-Nederlanden and ING Amsterdam.

To ensure the further progress of professionalism for operations on money markets, in 1H 2006 the Bank also laid emphasis on the improvement of the dealers' preparation – both in factual and specialist aspect.

ING Bank Śląski S.A. is also an active participant of the short-term debt papers market. At the end of June 2006 the Bank was classified on the fourth position, with the share of 11.6% in debt due to the issue of short-term debt papers.

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

IV.1. ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 1H 2006, it held the following shares in the transactions of the Warsaw Stock Exchange:

- stock market – 10.7% (4 position),
- bond market – 4.6% (5 position),
- futures market – 5.5% (7 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, and sales of participation units of the investment funds.

On 30 June 2006, ING Securities S.A. maintained 39,700 investment accounts, including 6,000 internet ones.

In 1H 2006 the principles of service were improved as well as the availability of ING Bank Śląski S.A. brokerage house services increased as a result of:

- reconstruction of the website www.ingsecurities.pl aimed at improving its transparency and unification with graphic layout of the website www.ing.pl,
- adding to the Internet application the “basket orders”, defined independently by the client and based on basic SE indices,
- signing an annex to the agreement with ING Bank Śląski S.A. on winning the Bank Private Banking Advisers for services of ING Securities S.A.,
- modification of the model of co-operation with recommending brokers, consisting in expanding the range of services with offering to the clients the purchase of shares currently placed on the list of “interesting companies”,
- introduction of changes to the service of loan for purchase of securities (product offered in co-operation with ING Bank Śląski S.A.),
- separating in the House structure the Call Centre with a system of monitoring and control over the agents' work (CMS).

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 comprehensive financial and legal advisory services connected with the capital funding.

In 1H 2006, ING Securities S.A. pursued, among others, the following projects and transactions:

- participation in the sale of GTC shares, worth USD 151 million,
- intermediation in the sale of bundle of GTC shares owned by EBRD (worth USD 35 million),

- participation in the sale of CEME shares, a company listed in the USA and the Czech Republic,
- intermediation in purchase of 100% of ORFE S.A. shares for OPG Groep NV,
- co-operation with Cinema City International in organisation of funding before the company going public,
- organisation of the tender call and compulsory purchase of Milmet S.A. shares,
- introduction to the offer of six new sub-funds incorporate in ING Umbrella Special Open Investment Fund.

In 1H 2006, ING Securities S.A. generated the net profit of PLN 26.6 million compared to PLN 16.9 million a year earlier.

IV.2. Śląski Bank Hipoteczny S.A.

In 1H 2006, the restructuring of Śląski Bank Hipoteczny S.A., started in 2005, was continued. This process is aimed at creating with z ŚBH S.A. the Excellence Centre for Commercial Property Finance within the capital group of ING Bank Śląski S.A.

Main actions connected with implementation of the ŚBH S.A. new strategy included:

- Reconstruction of credit processes. Due to modifying the decision-taking process (representatives of sales, risk and legal forces are involved in the credit process as of the very beginning), establishing the new team for credit risk assessment, among others the time necessary for taking a credit decision was substantially reduced.
- Definition of the principles of co-operation with the Corporate Sales Network of ING Bank Śląski S.A. Pursuant to the strategy, the corporate branches of ING Bank Śląski S.A. constitute the most important distribution channel for ŚBH S.A. products.
- Development of the marketing strategy, inclusive of the identification of priority operational segments and regions as well as construction of the own sales network.

As a result of gradual personnel changes, the Management Board of ŚBH S.A. has had a new composition as of mid 2006.

In 1H 2006, Śląski Bank Hipoteczny S.A. concluded a few significant credit agreements (inclusive of syndicated agreements concluded jointly with ING Bank Śląski S.A.), which generated over 60% growth in the value of loans portfolio for commercial property finance. As of the beginning of 2005, ŚBH S.A. has not acquired new retail clients, servicing only the “old” portfolio of housing and building-mortgage loans.

In 1H 2006, Śląski Bank Hipoteczny recorded the net loss of PLN 0.3 million (in 1H 2005 the net loss of PLN 1.1 million).

IV.3. Centrum Banku Śląskiego Sp. z o.o.

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

In 1H 2006, Centrum Banku Śląskiego continued its previous actions, aimed at winning new tenants. These comprised preparation of offices ready for occupation, takeover of costs of room arrangement and application of flexible terms of payment depending on space occupied. Within actions aimed at improving the attractiveness of the real estate held, the Company also ran modernisation works (launched in 2005) and started the construction of a lighting system for the buildings. The consequent implementation of the adopted policy resulted in a growth of the share of space occupied in total space owned by the Company to 94% in June 2006.

The Company also initiated the actions aimed at covering the real estate held with the area of the Katowice Special Economic Zone, which in future should enable the lease of large space to the entities making use of public aid within the Zone. Moreover, the Company jointed to the “Fair Play Enterprise” programme.

For 1H 2006, Centrum Banku Śląskiego recorded the net profit of PLN 2.4 million (PLN 10.5 million for 1H 2005). The Company obtains positive flows from the current operations whereas the balance of total flows to a large extent depends on the costs of service for the credit facility in Euro, from which the Company’s main assets are financed.

IV.4. ING BSK Development Sp. z o.o.

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

ING BSK Development signed an agreement with Centrum Banku Śląskiego Sp. z o.o. on lease of the building located at 34 Sokolska St. in Katowice, of total usable space of 18,811 square meters, for the purpose of further sub-lease. The company runs the sub-lease of space for 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 2006, ING BSK Development Sp. z o.o. recorded a positive net result of PLN 17,000.

IV.5. Solver Sp. z o.o.

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

The net profit of Solver Sp. z o.o. for 1H 2006 amounted to PLN 7,000.

IV.6. ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A.

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

In 1H 2006, the current good trends observed in operations of ING Nationale-Nederlanden Polska OFE continued. In this period the Fund acquired 74,700 new clients from the primary market, which constituted 27.7% of all the people selecting a pension fund for the first time as well as 28,500 people from the secondary market (17.4% of total number of people changing their pension fund). The net growth of the clients number, obtained by ING N-N OFE (90,100 people) was the highest on the market and twice as high as the result recorded by the second

most active (as regards client acquisition) fund on the market. At the end of June 2006, the number of Nationale-Nederlanden Polska OFE members totalled 2,300,600. As regards the number of members, the Fund held the second position on the market, servicing 19.2% of all the pension funds members (18.9% at the end of 2005).

The acquisition of clients to the Fund was supported in 1H 2006 by the nationwide marketing campaign, with coverage in TV, radio and press. The campaign reminded about the coming draw to the open pension funds, emphasised the good investment results of ING N-N OFE as well as promoted the possibility of joining the Fund via Internet.

In 1H 2006 the value of the Fund net assets grew approximately by PLN 2.9 billion and at the end of June 2006 totalled PLN 22.6 billion. As regards the value of assets, ING Nationale-Nederlanden Polska OFE held the second position on the market, with the share of 23.1% in the value of assets held by the open pension funds (i.e. up by 0.3 p.p. from the end of 2005).

Fluctuations on the stock exchange (in particular the strong correction observed at the turn of May and June) was of limited impact on results of ING N-NP OFE investments. Within the first half of 2006, the value of the Fund clearing units grew by 4.6%, i.e. at the level similar to other large pensions funds.

In the income statement for 1H I 2006, ING BSK S.A. recorded the share of PLN 17.2 million in the profits of Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne.

V. RISK MANAGEMENT

V.1. Credit Risk

Credit Policy and Procedures

In 1H 2006, ING Bank Śląski S.A. maintained its current credit policy, which means that the Bank still focused on lending to corporate entities operating in the sectors characterised by low and medium risk. At the same time, the credit requirements for the entities operating in some sectors previously perceived as risky were slightly mitigated due to the fact that these sectors generated better financial results than previously prognosticated (e.g. developer companies, steel industry). The Bank's propensity to extend the long-term credit facilities also increased compared with previous years due to the Bank's participation in co-finance of EU projects (credit facilities extended within these projects are perceived by the Bank as encumbered with lower risk). At the same time, the conservative credit policy was maintained for the extension of FX and indexed loans to corporate entities.

The basic tool supporting at ING Bank Śląski S.A. the credit processes for corporate clients was still the sector analysis. It specifies the minimum requirements for the desirable risk profile, define the lending terms, collateral forms as well as the recommended method for financing the operations of the client operating in a given sector. In 1H 2006, the Bank initiated at the same time the works connected with the development of specific risk programmes for groups of clients, products and sectors.

In the retail area, the Bank continued the policy of concentrating the credit activeness on the client database held, offering credit products pursuant to the cross-selling and pre-selection

principles. At the same time, the approval criteria for the good quality cases in the credit portfolio were made less stringent.

Tools for Risk Measurement and Monitoring

In 1H 2006, ING Bank Śląski S.A. concentrated, in particular, on the adjustment of processes connected with credit risk management to the Requirements of Basle II Accord. Therefore, the Bank:

- In view of the model validation planned for the second half of 2006, covered with continuous analysis the new model of credit risk assessment for corporate clients. In this model, the risk categories are associated with the probability of default, while the process of risk category determination is separated from the process of taking a credit decision. Its element is the appeal process applicable for the cases when the risk category set by the model is not consistent with the expert assessment of credit risk. Then an independent and final risk category is assigned by the Appeal Committee of the Bank Head Office. Within the evaluation of the model performance, the Bank collected and analysed the base of data indicated by the existing model of credit risk assessment as well as the list of exceptions from the model due to the Appeal Committee expert decisions.
- Revised the mode and principles as well as tools for monitoring the economic and financial standing of corporate clients.
- Initiated works over the construction of Loss Given Default (LGD) and Exposure at Default (EAD) models due to the decision taken by ING Group on implementation of the Internal Rating Base (*IRB*). The Bank also continued the actions aimed at implementation of the procedures ensuring the high quality of data in the systems being the source of information for the process of capital requirements estimation.
- In view of substantial automation of the risk determination and provision calculation process, intensified functional control for monitoring of the quality of data entered to IT systems, inclusive of the data determining the value of provisions made.
- Introduced changes in the credit authority system for the non-performing portfolio due to changes implemented in the credit organisation (centralisation with regard to the management of non-performing corporate loan portfolio).
- Continued works over implementation of the new IT application, supporting the credit process in the retail area.

Organisational Changes in Risk Management

Within the Corporate Credit Process Efficiency Improvement, completed in 2005, ING Bank Śląski S.A. simplified the credit process and equipped all the participants of this process (and especially risk units) with additional IT tools supporting the loan extension process (i.e. with applications for monitoring of the credit process flow, preparation of agreement drafts, electronic document flow).

As a result of tools improvement, standardisation of procedures and unification of credit documentation, the Bank created the premises for transfer of the corporate loans administration to the Operations Division. The process ran in stages throughout 1H 2006. Excluding from the range of activities performed by the Regional Risk Section the function of loan administration with a simultaneous change of the concept for service of non-performing loans (higher centralisation of the restructuring processes as well as debt collection and its transfer for low exposures to the Operations Division) enabled further optimisation of the credit process for corporate clients.

Within the management of the retail portfolio credit risk, the Bank:

- defined within the Retail 2006 Project the new solutions for credit process as regards the scope of data, process automations, collateral evaluation and functional control,
- concluded the first sale of overdue credit receivables to the securitisation fund.

Credit Portfolio Quality and Status of Provisions

At the end of June 2006, the credit exposures of ING Bank Śląski S.A. capital group totalled PLN 11,907 million. The value of exposures at default loans was PLN 791 million. In 1H 2006, the quality of credit portfolio held by the Bank capital group improved – the share of the exposures at default portfolio in the entire credit portfolio went down from 8.4% in December 2005 to 6.6% at the end of June 2006. These data confirm that in June 2006 the quality of the credit portfolio held by ING Bank Śląski S.A. was better than the average quality recorded by the banking sector.

Credit portfolio quality for the ING Bank Śląski S.A. capital group

	31.12.2004	30.06.2005	31.12.2005	30.06.2006
Total exposure (PLN million)	11,349	11,272	10,562	11,907
Total provisions (PLN million)	949	896	813	784
Provisioning rate (%)	8.4	8.0	7.7	6.6
Exposure – corporate banking (PLN million)	8,150	8,332	7,592	8,785
Non-default portfolio (PLN million)	7,331	7,559	6,983	8,256
Default portfolio (PLN million)	818	773	609	530
Impairment (PLN million)	593	555	493	467
IBNR (PLN million)	73	55	70	69
Provisions for off-balance sheet liabilities (PLN million)	33	28	14	12
Provisioning rate for default portfolio (%)	72.5	71.8	81.1	88.1
Exposure – retail banking (PLN million)	3,199	2,941	2,970	3,121
Non-default portfolio (PLN million)	2,908	2,676	2,698	2,861
Default portfolio (PLN million)	291	264	272	261
Impairment (PLN million)	201	189	191	199
IBNR (PLN million)	31	39	28	22
Provisions for off-balance sheet liabilities (PLN million)	19	31	15	16
Provisioning rate for default portfolio (%)	69.0	71.5	70.1	76.1
Share of default portfolio in %	9.78	9.20	8.35	6.64

In June 2006, ING Bank Śląski group held the provisions of PLN 784 million for the credit portfolio, which means a coverage of 84.2% (77.6% at the end of 2005) for the portfolio of exposures at default.

V.2. Market Risk

Principles of the market risk management as well as the methods of measurements applied by ING Bank Śląski S.A. are consistent with the European standards in this area as well as the methodology applied by ING Group.

ING Bank Śląski S.A. is already, to a large extent, prepared for implementation of the Basle II resolutions pertaining to the market risk management. Within works over the adjustment to the requirements of Basle II, the Bank re-defined the division of its operations into the banking portfolio and trading portfolio as well as started to include the internal transactions (aimed at risk transfer) to the capital requirements calculation.

The methodology applied by the Bank for measurement and management of interest rate risk, being the most significant risk category in Basle II, is consistent with the Directive. The status of works over the models translating the risk measurement into the required economic capital is also advanced at the Bank.

For the measurement of market risk – apart from the risk of liquidity – ING Bank Śląski S.A. applied mainly the Value-at-Risk methodology (abbreviated as VaR). Moreover, the Bank measures the Extreme Value-at-Risk (EVAR), defining the value of potential loss that may arise for a given market position in the cases of extreme market parameters changes. In the process of measurement and management of individual types of market risk, ING Bank Śląski S.A. apart from all the Bank's areas takes into consideration the operations of subsidiaries.

In 1H 2006, the Bank introduced the following changes in the area of market risk management:

- FX risk. Pursuant to the approach applied in ING Group the risk measurement was transferred to centralised systems.
- Interest rate risk. Due to a continuous growth in the value of call deposits, all the significant liabilities in PLN are invested pursuant to the replication portfolio rules (previously they were applied only for call deposits). Rules of this portfolio precisely reflect the characteristics of interest rates for these volumes.
- Optionality risk. Introduction of the regular monitoring for the risk deriving from options embedded in the corporate and retail banking products (i.e. the risk earlier deposit collection or loan pre-payment by the client).

One of the essential elements of the market risk management at ING Bank Śląski S.A is the process of liquidity monitoring and management. Striving after 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 based on data from the obligatory reporting.

An admissible limit is determined for each index, subject to continuous monitoring.

- prepares the procedures ensuring the correct delivery of cash to branches.
- adjusts the emergency plan of liquidity sustenance to changes in the Bank's organisational structure and changes in the definition of warning signals.

V.3. Capital Adequacy

In 1H 2006, ING Bank Śląski S.A. complied with the obligatory prudence standards in regard to the capital adequacy. At the end of June 2006, the capital adequacy ratio was 16.09%, which means that the Bank capital group had sufficient amount of equity to cover specific credit and financial risks.

V.4. Operational Risk

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 effective at ING Group.

Operational risk management covers operations in the field of identification, measurement, monitoring of the said risk as well as taking appropriate actions aimed at its mitigation. All organisational units of the Bank and Bank subsidiaries are involved in the implementation of tasks connected with the operational risk management. The works regarding the operational risk management are co-ordinated in the Bank by the Operational Risk Management Committee, 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 the individual areas of the Bank activities;
- determining the key risk indicators and their monitoring;
- 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 means of physical protection 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.

VI. DEVELOPMENT OF ORGANISATION AND IT INFRASTRUCTURE

VI.1. IT

To ensure the proper support of business targets and pro-efficiency initiatives, in 1H 2006 ING Bank Śląski S.A. introduced the following changes in IT:

- Replaced the time-consuming and costly (in the aspect of administration) flow of paper documents with the electronic one, i.e. the Bank implemented the IWA system (Image, Workflow and Archiving). Completion of this project was of large significance for the successful centralisation of Regional Operational Centres. It also provides a number of opportunities for numerous improvements in the operation of different units of the Bank and efficient exchange of information between them.
- Developed the IT infrastructure for the network of franchise outlets, based on a modern solution that assumes installation of non-disc terminals in the franchise outlets, which via Internet enable work on servers located in the Bank. The solution applied is characterised by low costs and high security level. Within this project the cash deposit machines were for the first time put into operation in the Bank branches.

- Finished the card project aimed at implementation of new applications closely connected with the service of embossed cards. Basic advantages from implementation of the new applications include:
 - possibility of flexible response to the market requirements, inclusive of creating the basis for chip cards implementation,
 - improved security and quality of the system operation,
 - improved quality of client service via Call Centre – providing the consultants with quick and full access to all the information referring to the card and transactions performed therewith.
- Put into operation the Credit Application Service, i.e. a new application for service, analysis and assessment of the credit applications for the small business segment. Implementation of this application should facilitate the process of client service and communication between individual units of the Bank.
- Due to ever increasing demands of the users, performed an upgrade of the disc matrixes. Very modern and efficient matrixes were put into operation, which should meet the Bank's requirements in the coming years. Due to the application of the capacity and demand licence methodology, the Bank will be capable of expanding the matrixes according to the growing requirements, without incurring additional costs connected with the equipment upgrade.
- In co-operation with the Dutch units of ING, started the service of card personalisation. The Bank clients may order now a card with graphical layout designed by them.

ING Bank Śląski S.A. strives to guarantee the top quality of IT service for its units. Successive elements of the ITIL standard (Information Technology Infrastructure Library), being a collection of principles describing the best practices of IT services delivery and support, were implemented in the selected IT cells of the Bank. As the provider of IT Services for internal clients within the Bank, the IT Division started implementation of SLA Agreements (Service Level Agreement). It is an agreement between the IT service provider and the consumer, which defines the guaranteed quality of services provision as well as the accountabilities and expectations of both parties.

VI.2. Electronic Distribution Channels

In 1H 2006, corporate clients' capacities arising from remote access to products and services of ING Bank Śląski S.A. improved considerably as a result of:

- Implementation of ING OnLine – the internet banking system for the clients belonging to the segment of corporate strategic clients. The system is an alternative to the electronic banking system MultiCash offered to date to the clients from the group. ING OnLine is a bilingual system (Polish and English versions) providing for execution of all types of domestic and foreign transfers, and also Business-to-Business Direct Debits (GOBI), currency conversions and transfers to the Social Security Office (Polish ZUS) and the revenue office. The encoding, validation and assess control technology applied in ING OnLine guarantees the top level of security and confidentiality of the transactions made. This project was implemented within ING Group. The plans are to create a joint internet banking system, providing for management of accounts run by ING in various countries via a single logging.

- Launch of a new internet service for corporate clients. It ensures fast and more structured access to information and convenient navigation. It is also compliant with the new graphical standards of ING Bank.

Internet banking system security and functionality also improved for individual clients due to: implementation of additional securities and extra validation for bigger transactions, launch of statements in the PDF format and providing clients with access to archived statements.

In addition, the Bank was closing inactive services of electronic banking (ING BankOnLine and HaloŚląski). As at the end of June, there were 421,600 ING BankOnLine system users; i.e. 16.5% more than as at the 2005 year-end. The number of active HaloŚląski phone banking system users also rose substantially (up by approximately 7% from December 2005).

Number of clients:	31.12.2005	30.06.2006
HaloŚląski (active users)	127,428	136,202
ING BankOnLine	361,944	421,649
SMS	79,789	106,526
MultiCash	9,404	8,999

In June 2006, ING Bank Śląski S.A. had a network of 563 ATMs.

VI.3. Bank Outlets

As at the end of June 2006, the network of ING Bank Śląski S.A. comprised 332 branches; it had one more branch versus the 2005 year-end. The Bank closed 1 branch, but opened 2 partner outlets.

In April 2006, ING Bank Śląski S.A. opened as pilot its first partner outlet. In line with the solutions adopted, the service and sales capacities of a franchise outlet are almost identical to the ones of small retail branches. The outlet enables the client to buy financial products of ING Bank Śląski S.A., ING TFI and selected products of ING N-N Poland. A partner outlet is innovative in that it renders available to clients the self-service machines (an ATM, a cash deposit machine, access to ING BankOnLine service as well as HaloŚląski phone service and Call Centre), in which one can either deposit cash or withdraw it therefrom, make a transfer and open a deposit, among others. In other words, clients of a franchise outlet perform themselves all operations made by the employee at a traditional branch. At the same time, the solutions adopted resulted in elimination of all cash from trading in the relationships Client-Partner. Besides the transactional part, the franchise outlet also has a sales one, in which an information point, advisors' stands and a meeting room are found, among others.

As at the end of 1H 2006, ING Bank Śląski S.A. launched two franchise-based outlets.

VI.4. Headcount and Training

As at 30 June 2006, the capital group of ING Bank Śląski S.A. employed 7,547 people. Over the first half of 2006, the headcount of companies of the Bank's capital group rose by 1.4%.

In June 2006, the headcount of ING Bank Śląski S.A. went up to 7,318 people, or 1.4%, from December 2005. Throughout the first half of 2006, the headcount figures still included some

people covered by the group layoffs commenced in 2H 2005 in connection with implementation of new IT solutions, centralisation and automation of the operational area and reorganisation of regional credit risk management units.

The process of group layoffs at the Bank was supported by the HR Platform, established in the year 2005. Throughout 2006, the said Platform focused on participation in the reorganisation of the Operations Division. Its activities comprised:

- Seeking work for the people leaving the units reorganised in other Bank cells, increasing their headcount. Particular effort was taken to find new jobs for the employees raising children with special needs and single parents. 80 out of 400 people affected by the reorganisation process found employment.
- Supporting employees by participation in the Outplacement Programme. Those employees could attend the training preparing them to recurrence on the labour market. In 1H 2006, 191 people participated in the programme.
- Reimbursing vocational training courses. 100 employees took advantage of extra benefits in that form.
- Prolonging employment (delegation to other tasks) of the employees to become eligible for early retirement or pre-retirement allowance by the end of 2006.

Pursuant to the Agreement concluded with trade union organisations in regard to the termination of labour relationship with employees for the reasons not pertaining to the employees of ING Bank Śląski S.A., the employees dismissed were covered with extra benefits in the form of severance pays they were eligible for.

In April 2006, ING Bank Śląski S.A. implemented a new base salary system along with the new remuneration policy. The objective of changes in the salary system was to institute a consistent, fair and competitive in market terms remuneration policy as well as to provide for a rational utilisation of the staff costs budget. These assumptions are realised by determination of the salary system based on the market data about the payrolls of individual positions representing a specific labour value and by matching the said system with the salary diversification across regions. The new remuneration policy of the Bank also assumes that salaries will be offered at least on the level provided by a majority of banks and that the offer presented will be among the best ones available on the labour market for the positions of higher rank. This approach should facilitate accomplishment of business objectives of the Bank thanks to larger employee recruitment, stimulation and retention potential.

Besides the new remuneration system, the Bank also changed considerably other domains of the employment policy. Above all, the modifications pertained to:

- The Annual Appraisal Interviews System – the Bank commenced a thorough reporting of annual appraisal results (Annual Appraisal Interviews System). It includes, but is not limited to the analysis of spread of scores within individual business areas and the analysis of evaluation of behavioural criteria based on a representative sample of questionnaires completed. The Bank also started to implement the competence model under the Appraisal Interviews System.
- Succession planning – the Bank prepared development tools for future successors and individual Development Centre programme for middle management staff.
- Recruitment – the Bank planned changes of recruitment tools and methods, aimed at optimisation of recruitment of employees processes. The actions taken should also lead to promotion of ING Bank Śląski S.A. as an attractive employer, and thus enhance the recruitment process pursued.

In 1H 2006, ING Bank Śląski S.A. trained during stationary sessions 4,925 employees. Since a majority of them attended the training sessions several times, the total number of trainees was 8,915. Each trained employee spent 2.5 days at training sessions, on average.

Employees attended internal training sessions predominantly, which gathered $\frac{3}{4}$ of all participants. They were delivered by Bank employees, experts in specific matters and internal coaches. Employees were sent to training sessions and conferences given by external companies. Post-graduate studies, subsidised by the European Social Fund, formed a significant part thereof.

The biggest training undertakings of the Bank throughout 1H 2006 pertained to:

- Sales network employees. Retail network employees attended training sessions under the Best Service Programme (including the ones devoted to difficult client service situations), the ones dedicated to solving sales management problems and sales of investment funds. Within the corporate network, there were provided training sessions focusing on risk management, new products and regulations as well as the ones developing interpersonal skills.
- Service of system applications, including the new System of Credit Applications Processing (Polish SOWK), also electronic document workflow.

As of the beginning of 2006, ING Bank Śląski S.A. launched training in the form of e-learning on a large scale. Approximately 15,000 training sessions were delivered via this medium. The main e-learning sessions topics are: staff management in the process of annual appraisal interviews (for managers), the annual appraisal interviews system for the person assessed, security problems (Security Vademecum, anti-money laundering activities). The Bank also commenced preparation works for 10 product training sessions in the e-learning formula.

VII. FINANCIAL RESULTS OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN THE FIRST HALF OF 2006

VII.1. Balance Sheet Structure

The 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., Centrum Banku Śląskiego Sp. z o.o., Solver 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 at 30 June 2006, the net balance sheet total of the capital group of ING Bank Śląski S.A. amounted to PLN 43,119.8 million, up by PLN 4,541.4 million, or 11.8%, from a year earlier. The balance sheet total of the group and the structure of assets and liabilities have been determined by the operations of ING Bank Śląski S.A. As at 30 June 2006, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 42,995.3 million versus PLN 38,549.8 million at the end of June last year (up by 11.5%).

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

Assets

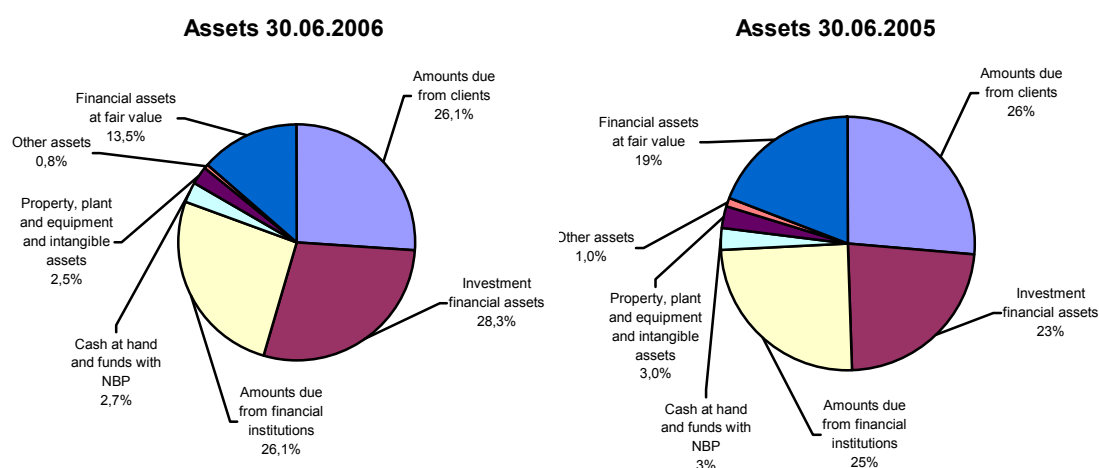
In June 2006, the structure of assets of the capital group of ING Bank Śląski S.A. was similar to the one in June last year. The main change was an increase of the share of investment financial assets at the cost of share of financial assets carried at fair value through profit or loss (i.e. the papers held for trading).

As at 30 June 2006, loans and cash advances extended to clients of the capital group amounted to PLN 11,243.3 million compared with PLN 10,179.1 million as at the end of June 2005. Their share in the assets was 26.1% versus 26.4% a year earlier.

As at the end of June 2006, receivables of the capital group from the financial sector amounted to PLN 11,269.9 million versus PLN 9,580.5 million recorded a year earlier. The share of receivables from financial institutions in assets went up from 24.8% at the end of June 2005 to 26.1% as on 30 June 2006.

Financial assets for investment were valued at PLN 12,221.2 million versus PLN 8,885.6 million as at the end of June of the previous year. Their share in the balance sheet total was 28.3%, up by 5.3 percentage points from 30 June 2005.

Financial assets measured at fair value through profit and loss amounted to PLN 5,836.4 million versus PLN 7,413.6 million as at the end of June last year. Their share in the balance sheet total was 13.5% versus 19.2% as at the end of June 2005.

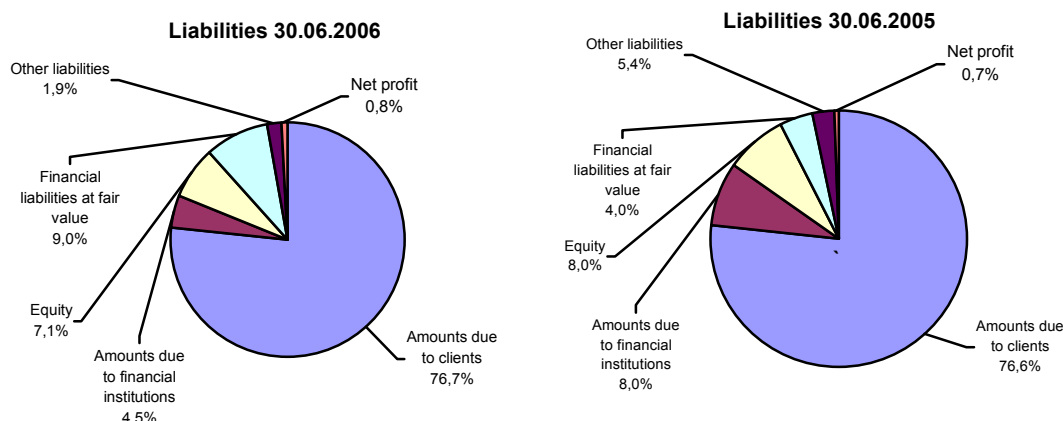


Cash and funds with the Central Bank went up from PLN 1,063.0 million in June 2005 to PLN 1,152.2 million at the end of June 2006. Their share in the balance sheet total amounted to 2.8% and 2.7% respectively.

As at the end of June 2006, the value of property, plant and equipment and of intangible assets of the ING Bank Śląski S.A. capital group amounted to PLN 1,068.9 million versus PLN 1,070.3 million as at the end of June 2005.

Liabilities

The value of liabilities towards the clients went up from PLN 29,560.2 million as at the end of June 2005 to PLN 33,062.9 million as at the end of June 2006, up by 11.9%. In June 2006, they represented 76.7% of total liabilities, a share similar to the one recorded in June 2005.



The good results recorded by ING Bank Śląski S.A. in the area of deposit acquisition and a relatively poor lending caused the liabilities of the group towards financial institutions to amount to PLN 1,944.6 million at the end of June 2006 versus PLN 3,099.3 million at the end of June 2005. The funds obtained from financial institutions constituted 4.5% of total liabilities, whereas in June 2005 their share was 8.0%.

The share of equity in liabilities of the group of ING Bank Śląski S.A. as at the end of June 2006 totalled 7.1% versus 8.0% in June 2005.

VII.2. Income Statement

Gross and Net Profit

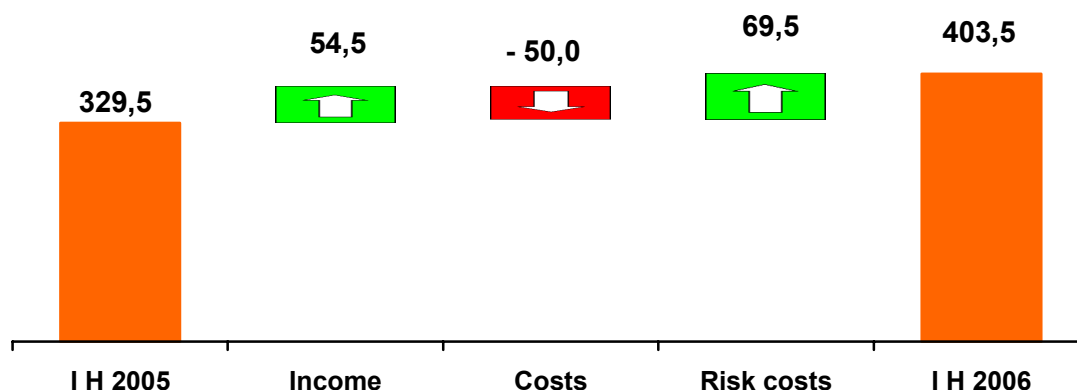
In 1H 2006, the gross profit of the capital group of ING Bank Śląski S.A. was PLN 403.5 million versus PLN 329.5 million in the same period last year.

Net profit reached PLN 332.1 million versus PLN 258.2 million a year earlier (up by 28.6%).

The key factors of impact on the financial results of the capital group of ING Bank Śląski S.A. in 1H 2006 are the following:

- over a 5% increase of the result on core operations versus the one generated in the same period of the previous year following the growth of the interest result (up by 36.7%), the result on commission (by 20.3%),
- a 9.1% increase of operational costs, above all, as a result of a rise in staff costs (headcount restructuring costs, growth of the number of the sales network employees, a new remuneration system), cost of depreciation and other costs,
- a positive balance of impairment losses due to improvement of the quality of the lending portfolio and effective restructuring activities in the area of the loss portfolio moved to the off-balance sheet records.

Factors affecting the gross profit of ING Bank Śląski in I H 2006



Basic consolidated values of the income statement (PLN million)

	I H 2006	I H 2005
Interest result	447.6	327.4
Commission-related result	304.6	253.3
Dividend income	1.6	1.6
Result on instruments measured at fair value	14.3	165.3
Result on investment financial assets	15.1	0.0
Result on measurement at fair value of investment property	6.7	-0.5
Result on non-current assets and assets held for trading	0.0	3.7
Result on fair value adjustments in hedge accounting	7.0	5.2
Result on FX differences	73.0	87.5
Result on other operating income / expenses	20.5	-1.1
Result on core operations	890.4	842.4
Operating costs incl. depreciation/amortisation	-598.0	-548.0
Impairment losses and provisions	94.0	24.5
Participation in the net profits (losses) of related and associated entities evaluated with the equity method	17.1	10.4
Result on disposal of assets other than the ones held for trading	0.0	0.2
Gross financial result	403.5	329.5
Income tax	-68.2	-64.0
Net result of minority shareholders	-3.2	-7.3
Net financial result	332.1	258.2

Interest Result

In 1H 2006, the net interest income generated by the capital group of ING Bank Śląski amounted to PLN 447.6 million, whereas a year earlier it was PLN 327.4 million. This income was the consequence of:

- a considerable growth of the value of deposits that the Bank subsequently invested on financial markets,
- growth of the scale of operations on the derivatives market,
- a drop in interest rates affecting shrinking of interest margins.

As a result of those trends, in 1H 2006, the capital group of ING Bank Śląski S.A. earned an interest margin of 2.21% against 2.62% in the same period last year.

Non-Interest Income

Fees and commissions income constituted the major part of non-interest income. After 1H 2006, it amounted to PLN 304.6 million versus PLN 253.3 million earned during the first 6 months of 2005.

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

In 1H 2006, the result on instruments measured at fair value totalled PLN 29.4 million, while it was PLN 165.3 million in the comparable period of the previous year.

The result on FX differences was PLN 73.0 million versus PLN 87.5 million recorded a year earlier.

Operating Expenses

In 1H 2006, the overheads of the capital group of ING Bank Śląski S.A. (the operating costs including depreciation of non-current assets and amortisation of intangible assets) amounted to PLN 598.0 million versus PLN 548.0 million in the same period of the previous year (up by 9.1%).

Increase of total costs of the Bank was in major part the consequence of the expanded scale of operations and of the institution restructuring. Staff costs accounted for almost one half of costs (46.7%). Launch of a new remuneration system combined with salary indexation and higher costs of the incentive system, arising from the execution of the Bank's commercial plans, caused the staff costs to amount to PLN 279.2 million in 1H 2006; i.e. they went up by 5.3% from a year earlier.

Amortisation/depreciation amounted to PLN 69.2 million, or went up by 10.3% versus the same period of the previous year. This growth was the consequence of commencing depreciation of the outlays borne for the projects carried out in previous years, including new IT systems for servicing cards and monitoring of credit repayments.

The other costs amounted to PLN 249.6 million versus PLN 220.0 million in the same period of the previous year. When compared to June 2005, a growth of consulting costs was recorded as a result of launch of numerous projects aimed at further enhancement of processes and optimisation of sales structures. The value of other costs was also affected by sale of ING Services Sp. z o.o. and signing an outsourcing agreement for cash service.

Impairment Losses and Provisions

After the first 6 months of 2006, the risk costs as recognised in the income statement of the capital group of ING Bank Śląski S.A. were positive and amounted to PLN 94.0 million. The income from the portfolio of impaired loans moved to the off-balance sheet records formed the main position thereof. They amounted to PLN 53.6 million.

Impairment Losses and Provisions

	Total	Balance sheet exposure		Contingent liabilities	
		Impairment	IBNR	Provision	IBNR provision
Total group					
Total	93.8	84.9	7.0	3.0	-1.1
Impairment losses	40.2	31.2	7.0	3.0	-1.1
Recovery of written-off receivables	53.6	53.6			
Corporate banking					
Total	80.9	77.7	0.8	2.5	-0.1
Impairment losses	44.8	41.6	0.8	2.5	-0.1
Recovery of written-off receivables	36.1	36.1			
Retail banking					
Total	12.9	7.2	6.2	0.5	-1.0
Impairment losses	-4.7	-10.4	6.2	0.5	-1.0
Recovery of written-off receivables	17.5	17.5			

VII.3. 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 2006, the Retail Banking Division generated income of PLN 467.6 million versus PLN 390.5 million in the same period of the previous year (up by 19.8%). The Division's income was under the influence of the following factors: increase of income on deposit-lending and clearing operations and income on capital markets (mainly on the market of brokerage services). Income of the Retail Banking Division accounted for 52.0% of the result from banking operations of the capital group (versus 45.2% in 1H 2005).

Income earned by the Wholesale Banking Division was PLN 292.5 million, up by 1.0% from the year earlier. 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. By contrast, the Division's income on core operations – deposits and lending – was lower. In 1H 2006, the share of the Wholesale Banking Division in the result on banking operations of the capital group of the Bank was 32.5% (versus 33.6% in 1H 2005).

Income on proprietary operations of the capital group of ING Bank Śląski S.A. was PLN 138.9 million, or 15.5% of the total result on banking activity. Income on operations generated in the financial markets area represented almost a half of them. The total income of the capital group of the Bank from the financial markets operations (inclusive of the FM sales for the corporate and retail segments) was PLN 136.5 million versus PLN 138.0 million in the same period of the previous year.

In terms of ALCO, in 1H 2006, the capital group of Bank earned PLN 74.8 million, down by 33.2% from a year earlier. Their decline was mainly caused by a drop in rates that led to a decrease in the income on proprietary operations by PLN 23.4 million.

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

PLN million	6M 2005	12M 2005	6M 2006	6M 2006 / 6M 2005	
Retail banking	390,5	805,9	467,6	77,1	119,8%
Cash Management-Lending and settlements	376,9	773,0	446,9	70,1	118,6%
Income on Pension Funds shares	10,8	26,7	16,4	5,6	151,3%
FM products sales	2,8	6,2	4,3	1,5	155,0%
Corporate banking	289,7	579,8	292,5	2,8	101,0%
Cash Management-Lending and settlements	206,6	416,9	198,6	-8,0	96,1%
FM products sales	64,2	123,1	68,0	3,8	105,9%
Equity Markets	18,9	39,8	25,9	7,0	136,9%
Own operations	183,1	322,5	138,9	-44,1	75,9%
Proprietary trading	71,0	115,5	64,2	-6,9	90,3%
ALCO	112,0	207,0	74,8	-37,2	66,8%
Income total	863,3	1 708,2	899,1	35,8	104,1%
Operational expenses, including:	558,3	1 120,3	589,5	31,2	105,6%
Personnel costs	265,2	516,6	279,2	14,1	105,3%
Headcount restructuring cost	0,0	11,3	0,0	0,0	x
Marketing costs	26,3	54,9	26,2	-0,1	99,5%
Depreciation	62,8	128,3	69,2	6,4	110,3%
Other expenses	193,7	398,4	223,4	29,6	115,3%
Other operational costs	10,3	10,9	-8,5	-18,8	x
Result before risk costs	305,0	587,9	309,6	4,6	101,5%
Risk costs	24,5	118,0	94,0	69,5	383,3%
Result before tax	329,5	705,8	403,5	74,1	122,5%
CIT	-63,9	-139,4	-68,3	-4,3	106,8%
Result after tax	265,5	566,4	335,3	69,7	126,3%
- assigned to shareholders of the holding company	258,2	549,5	332,1	73,8	128,6%
- assigned to minority shareholders	7,3	17,0	3,2	-4,1	44,0%

VII.4. Profitability

The results recorded by the capital group of ING Bank Śląski S.A. in 1H 2006 caused the basic efficiency ratios to improve considerably.

An exception was a growth of C/I ratio, connected both with the continued process of the Bank restructuring, implementation of the new remuneration system as well as wide-scale marketing actions.

Basic efficiency ratios (%)

	IH 2006	IH 2005
Profitability ratio	34.8	27.0
C/I ratio	65.6	64.7
ROA	1.5	1.3
ROE	21.7	16.9
Interest margin ratio	2.21	2.62
Solvency ratio	16.09	17.44

Profitability ratio – gross profit to total costs.

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

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

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

Interest margin ratio – relation between the net interest income and average yield assets of the Bank⁸ (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).

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

⁸ Net interest income was increased with the income on "internal deposit swaps". Average assets are calculated based on the data from three periods: 30.06.2005, 31.12.2005, and 30.06.2006.

VIII. 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, assuming accomplishment of the following basic objectives:

- reinforcement of the market position by a dynamic growth of priority areas of operation such as current accounts, savings accounts (OKO), mortgage loans, credit cards, asset-based lending and sale of FM products;
- fulfilment of expectations of shareholders in regard of the increase of company goodwill, while sustaining the strategic balance; i.e. consideration of interests of other stakeholders (clients, employees) in the Bank's operations as well.

Establishment of long-lasting and beneficial for both parties relationships with the clients from all segments – in line with the slogan “Each client is given and creates value” – constitutes the basis of accomplishment of long-term objectives by ING Bank Śląski S.A.

So that beneficial co-operation is guaranteed, the Bank analyses clients' needs, develops the product offer meeting expectations of individual segments, and also brings the product prices and distribution channels in line with the preferences of individual groups of clients. Notably, the Bank:

- enhances the offer of key products being:
 - on the retail banking market – the Lion Account, open savings account OKO, mortgage loans, credit cards,
 - on the wholesale banking market – cash management services (including state-of-the-art clearing solutions), FM products, services related to business funding; e.g. asset-based lending and the ones connected with transfers of EU funds.
- aims at the efficiency improvement. The Bank simplifies the procedures and implements the proper technological tools (e.g. as to processing of credit applications, new front-office solutions), contributing to the efficiency growth and costs reduction.
- 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 a partner outlets network, 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 products and services of the Bank.
- stimulates the sales motivation of employees. The Bank pursues a consistent and market-competitive remuneration policy, wherein the incentive system, based on evaluation of sales results, is an important element.

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

Implementation of such projects as establishment of a network of partner outlets, optimisation of the ATM network, and implementation of new front-end solutions in outlets as well as creation of a state-of-the-art management information system will be of special significance for implementation of the main objectives of ING Bank Śląski S.A. in the months to come.

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

IX.1. Truthfulness and Accuracy of Statements

To the best knowledge of the Management Board of the Bank, the semi-annual financial data and the comparable data presented in the semi-annual consolidated financial statements of the capital group of ING Bank Śląski S.A. were prepared, in all material aspects, in accordance with the effective accounting principles and present fairly, accurately and transparently all the information on the property and financial standing of the Bank's capital group and its financial result. The semi-annual statements of the Management Board enclosed herewith contain a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's capital group in 1H 2006.

IX.2. Truthfulness and Accuracy of Statements

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