

# **Report on Operations of Capital Group of ING Bank Śląski S.A. in 1H 2007**

## TABLE OF CONTENTS

<b>TABLE OF CONTENTS.....</b>	<b>2</b>
<b>MAJOR ACHIEVEMENTS OF CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN FIRST HALF OF 2007.....</b>	<b>4</b>
<b>I. POLISH ECONOMY IN FIRST HALF OF 2007.....</b>	<b>5</b>
Major Economic Trends.....	5
Monetary Policy.....	6
Capital Market.....	7
Banking Sector.....	8
<b>II. STRATEGIC LINES OF ING BANK ŚLĄSKI S.A. DEVELOPMENT.....</b>	<b>10</b>
<b>III. GROUP OF ING BANK ŚLĄSKI S.A. ON DEPOSIT AND CREDIT MARKET IN FIRST HALF OF 2007.....</b>	<b>12</b>
Sources of funding – deposit base.....	12
Lending.....	13
<b>IV. ING BANK ŚLĄSKI S.A. ON BANKING MARKET IN 1H 2007... 15</b>	<b>15</b>
Retail Banking.....	15
<i>The Offer Scope and Changes</i> .....	15
<i>Deposit Activity</i> .....	16
<i>Lending</i> .....	17
<i>Bank Cards</i> .....	17
Wholesale Banking.....	18
<i>Product Offer and Changes Made</i> .....	18
<i>Changes in the Principles of Client Service</i> .....	20
<i>Deposit and Clearing Activity</i> .....	20
<i>Lending</i> .....	21
Money and Capital Market.....	21
<b>V. BUSINESS OPERATIONS OF MEMBERS OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP.....</b>	<b>23</b>
Structure of ING Bank Śląski S.A. Capital Group.....	23
ING Securities S.A.....	23
Śląski Bank Hipoteczny S.A.....	25
Centrum Banku Śląskiego Sp. z o.o.....	26
ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A.....	26
[ING Nationale-Nederlanden Poland Pension Fund Company].....	26
ING BSK Development Sp. z o. o.....	27
Solver Sp. z o. o.....	27
<b>VI. MANAGEMENT OF KEY RISKS.....</b>	<b>28</b>
Credit Risk.....	28
<i>Credit Policy and Procedures</i> .....	28
<i>Risk Measurement and Monitoring Tools</i> .....	29

<i>Credit Portfolio Quality and Provisioning</i> .....	30
Market Risk Management .....	31
Capital Adequacy .....	32
Operational Risk and Compliance.....	32
<b>VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2007.....</b>	<b>35</b>
IT and Operations.....	35
Development of Electronic Distribution Channels .....	36
Branch Network .....	36
Human Resources Management.....	37
<i>Headcount</i> .....	37
<i>Remuneration Policy</i> .....	37
<i>Recruitment</i> .....	38
<i>Staff Training and Development</i> .....	38
<i>Work Conditions</i> .....	39
<b>VIII. CORPORATE GOVERNANCE PRINCIPLES.....</b>	<b>40</b>
Shareholding Structure of ING Bank Śląski S.A. ....	40
Changes in the Statutory Authorities of the Bank.....	40
Remuneration of the Members of Management Board and Supervisory Board of ING Bank Śląski S.A. ....	42
<b>IX. STATEMENTS OF MANAGEMENT BOARD OF ING BANK ŚLĄSKI S.A.....</b>	<b>43</b>
Truthfulness and Accuracy of Statements.....	43
Selection of Entity Authorised to Audit Financial Statements .....	43
Notes .....	43
<i>Agreements</i> .....	43
<i>Number and value of writs of execution</i> .....	43
<b>X. INVESTOR INFORMATION.....</b>	<b>44</b>
Price of ING Bank Śląski S.A. Shares .....	44
Ratings.....	45
<b>XI. FINANCIAL STANDING OF CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2007 .....</b>	<b>46</b>
Balance-Sheet Structure .....	46
<i>Assets</i> .....	46
<i>Liabilities</i> .....	47
Income Statement.....	48
<i>Gross and Net Profit</i> .....	48
<i>Interest Result</i> .....	49
<i>Non-Interest Income</i> .....	49
<i>Operating Expenses</i> .....	49
<i>Impairment Losses and Provisions</i> .....	50
Share of Individual Business Lines in Creation of Financial Result.....	50
Efficiency .....	51

## MAJOR ACHIEVEMENTS OF CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN FIRST HALF OF 2007

In the first half of 2007, ING Bank Śląski S.A. with its subsidiaries consistently pursued the strategy of action that had been in force since mid-2004. The following should be emphasised in particular:

- Dynamic business growth and strengthening of the Bank's position on many top-priority markets:
  - Due to the growth of bank deposits and ING TFI assets sold via the Bank's distribution channels, in June 2007 the funds obtained from retail clients exceeded PLN 32 billion, up by 1/5 from December 2006.
  - After years of decrease, the Bank recorded a substantial growth of retail credit exposure (up by 15.1% from the end of 2006). This allowed the Bank to stop the downward trend for its position on the household loans market. The Bank obtained good results first of all in sales of PLN mortgage loans (lending up by 45.4% from the end of 2006) and Small Business loans (growth rate at 23.0%).
  - More-than-ten-percent growth of credit receivables from institutional clients as a result of bigger lending volumes in all segments of corporate clients.
- Further development of a simple and transparent product offer. New products were offered to the clients, such as: GBP savings accounts, platinum credit card, fast track for corporate clients and new financial markets products (e.g. exotic options).
- Further improvement of the client service quality. Among others, the Bank simplified and shortened the credit process for retail clients as a result of expanding the functionality of the application servicing credit application forms, introducing of pre-scoring and a new Front-End application. The Bank's services became more easily available due to the opening of subsequent partner outlets and self-service zones in retail branches. New procedural and IT solutions were adopted for the client complaint handling. The quality of the corporate clients service improved due to the introduction of new functionalities in the Bank's core IT system and better cash service solutions (e.g. Cash Collection).
- Increase of the financial results recorded by the Bank's capital group, generated based on repeat income. In 1H 2007, the group's result before the costs of risk went up by 22.2% in comparison with the same period last year. We observed a steady growth of income both in retail and wholesale segments. Due to the controlled costs increase, accompanied by the expanding operational scale and follow-up of numerous strategic projects, the cost efficiency ratios improved (Costs/Assets and Costs/Income). The employees' efficiency increased as well, which was manifested in the growth of assets and result before the costs of risk per 1 FTE.

## I. POLISH ECONOMY IN FIRST HALF OF 2007

### Major Economic Trends

In 1H 2007, the Polish economy recorded a substantial growth in all of its sectors. In the first quarter, the growth rate of the Gross Domestic Product was 7.4% (the highest for 10 years), whereas in 2Q 2007 it reached the level of 6.7%.

The structure of economic drivers proved favourable as well. The key growth engine was internal demand, and in particular strong revival observed in individual consumption. As a result of the average salary rise, drop of unemployment and dynamic growth of debt in the banking sector, individual consumption in 1H 2007 went up by 6.0% from a year earlier. Simultaneously, the investment activity of the Polish enterprises intensified and in 1H 2007 the gross outlays on non-current assets were up by 25.3% from the same period last year.

The foreign demand for Polish commodities was sustained at the high level. In 1H 2007, the export in Euro went up by 16.6% in comparison with the same period last year. At the same time, the dynamic growth of internal demand contributed to an improvement of the import growth rate, which stood at 20.4%. Thus, after years of positive contribution, in 1H 2007 the net export slowed the pace of growth of the Polish economy.

In 1H 2007, we observed clear and favourable changes on the labour market. At the end of June, the employment in the enterprise sector was 4.6% higher than a year earlier, while registered unemployment rate went down to 12.4% (compared with 16.0% in June 2006). The growing demand for employees, accompanied by quickly depleted free workforce (as a result of poor professional activity of the Polish society, structural mismatch on the labour market and economic migration) generated a substantial growth of average salaries. In 1H 2007, the average monthly pay in the enterprise sector was 8.4% higher than a year earlier, which – in the light of the work efficiency growth by 7.0% – increased the unit labour costs in the Polish economy.

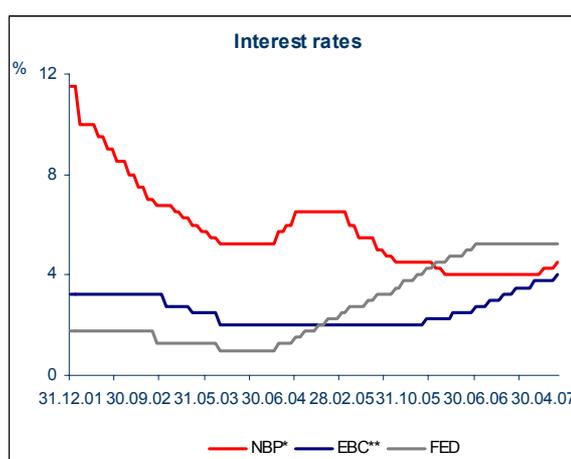
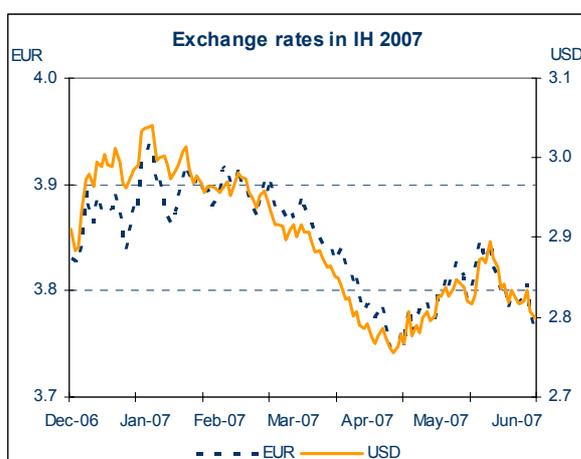
The unprecedented growth of salaries was one of the basic factors that contributed to the increase of prices. In June 2007, the inflation ratio per annum was 2.6% (i.e. slightly above the inflation target set by the Monetary Policy Council). The accelerated growth of consumer goods prices was accompanied by a certain increase of all the metrics of base inflation.

The exchange rates for Polish zloty were relatively stable. Within the first six months of 2007 the Polish currency slightly strengthened its position against the US dollar (by 3.8%) and against Euro (by 1.7%). The situation on the FX market was controlled first of all by the domestic factors, such as good news about the economy, improved rating for Poland and increases of interest rates by the Monetary Policy Council.

In 1H 2007, the basic financial ratios of enterprises improved in view of a faster growth of income on total business in comparison with the costs of its generation. Within the first two quarters of 2007, 75.4% of all enterprises generated net profit (69.3% last year). The gross turnover profitability ratio was 6.5% (5.6% in the same period last year). The companies' financial liquidity improved since over 43.3% companies (compared with 41.1% last year) recorded the current ratio of over 20%.

The condition of the state budget was better than assumed. Due to higher-than-planned PIT and CIT inflows, as well as more stringent expenditure discipline, after 1H 2007 the budgetary deficit amounted to 12.3% of the amount assumed in the Budget Act for the entire 2007. The good condition of the state budget allowed the Polish Parliament to pass the act on reduction of pension contribution, among other things. The first stage of this reduction was introduced as of 1 July 2007.

In April 2007, Poland and Ukraine won the bid to host the UEFA EURO 2012 Soccer Championship, which according to some analysts should positively influence the long-term prospects of economic growth in Poland. Preparations for this event will involve very substantial outlays, first of all for the transport network, hotels and stadiums, which should trigger better utilisation of EU funds as well as increased inflow of foreign investments.



\* Reference rate

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

## Monetary Policy

In response to the strong economic growth, an almost 10% salary growth and a 40% growth rate of household loans per annum, the Monetary Policy Council tightened their policy. In 1H 2007 (on 26 April and 28 June), the Council increased twice the interest rates (by 0.50 p.p. in total) and at the end of June 2007 they were as follows:

- reference rate – 4.50%,
- rediscount rate – 4.75%,
- lombard rate – 6.00%,
- deposit rate – 3.00%.

The more stringent monetary policy resulted among others in a growth of T-bonds profitability and drop of their prices. However, the drop of bond prices was partially neutralised by their relatively low supply and improved rating for Poland.

According to most analysts, in the next few quarters the pace of GDP growth will exceed its potential level. The arising supply barriers will intensify the inflation phenomena. According to some forecasts, at the end of 2007 the basic NBP rate will grow to 5.00%.

## **Capital Market**

The first six months of 2007, similarly as the entire year 2006, turned out to be a very good period for the capital market in Poland.

In 1H 2007, WIG index went up by 31.1%, whereas WIG20 by 14.4%. The highest rates of return were generated by shares of the Polish companies operating in the construction (51.7%) and IT sectors (30.4%).

Apart from the boom on the global stock market, the inflow of money to investment funds and fundamental factors (i.e. dynamic growth of the Polish economy) were also conducive for the continuation of bull market on the Warsaw Stock Exchange.

In June 2007, the market value of the 294 domestic companies listed on the Warsaw Stock Exchange was PLN 584.3 billion compared with PLN 437.7 billion at the end of 2006 (up by 34.2%). There were 32 debuts over the first six months of 2007, and 7 companies were delisted. The primary offerings totalled PLN 15.2 billion, out of which PLN 13.3 billion came from the new issues. This was an absolute record in the history of the Warsaw Stock Exchange. By comparison, in 1H 2006 these values were respectively: PLN 364 million and PLN 216 million.

With higher indices and a higher number of companies listed, the stock turnovers continued to grow as well. During the stock trading in the first half of 2007, PLN 240.1 billion worth of shares changed hands, up by 49% from a year earlier. Dynamic development was also observed on the derivatives market which in 1H 2007 recorded the turnover of 3.9 million pieces. This placed the Warsaw Stock Exchange on the fifth position in Europe in terms of trading in indexed forwards.

In 1H 2007, we observed essential qualitative changes on the Polish stock market in Poland, being the result of:

- Denomination of all the sector sub-indexes (inclusive of the sub-index Banking) to make the listings more legible and to simplify the analyses.
- Changes to the principles of structuring and announcing the indexes and sub-indexes. The changes assumed for maintaining the largest companies index (WIG20), as well as replacing the mid-size companies index MIDWIG with WIG40 (covering another 40 largest companies) and the smallest companies index WIRR with WIG80 (another 80 companies smaller than the companies with WIG20 and WIG40).
- Changes in the market segmentation. As of 1 April, the shares of all companies listed on the regulated markets are classified on a quarterly basis to one of three segments (based on the company's market value): 5 PLUS (company capitalisation below EUR 50 million), 50 PLUS (market value of EUR 50-250 million), 250 PLUS (company capitalisation over EUR 250 million).

- Launching a new, generally available and free website for investors, about the Polish and foreign companies listed on the Polish Stock Exchange as well as markets of the Central and Eastern Europe.
- Reduction of all the transaction fees (by 15-20%).
- Introduction of a new instrument – indexed certificates, or the simplest financial instrument that allows for investing into the portfolios of shares included in a given index.

Works were also finalised to launch a new market for innovative companies (NewConnect), specialised in funding the development of small entities with short history and substantial potential, which do not meet yet the requirements binding on the main capital market.

Discussion was also continued over the new principles of the corporate governance, which were drafted in the document *Best Practices for Companies Listed on the Warsaw Stock Exchange*. The new practices, adopted by the Supervisory Board of the Stock Exchange on 9 July 2007, will come into effect on 1 January 2008.

The favourable conditions on the stock market were also related to the growing interest among Poles in depositing their savings in investment funds. In June 2007, net assets of the domestic investment funds went up to PLN 139.0 billion (up by 40.7% from December 2006).

The assets of funds investing in the shares of foreign and domestic companies (including small and mid-sized ones), as well as mixed funds (i.e. balanced funds and active allocation funds) grew at a particularly dynamic pace.

At the end of 1H 2007, some analysts predicted that in 2H 2007 the situation on the Warsaw Stock Exchange might be subject to more fluctuations. Possible correction would also have an impact on the developments on the investment funds market.

## **Banking Sector**

In 1H 2007, the boom in the Polish banking sector continued. The banks' credit exposure increased significantly (both for retail and corporate clients), the sales of investment funds units and other financial products grew, the quality of credit portfolios improved, which allowed the banks to keep the costs of risk at the low level.

As a result of the significant growth of activity, at the end of June 2007 the assets of the Polish banking sector grew to PLN 728.0 billion, up by 6.5% from December 2006. The fast development of banking institutions derived first of all from the dynamic growth of lending and:

- Following an improvement in the financial standing of clients and the continuing trend to relax the lending conditions, in June 2007 credit receivables of the banking sector from households went up to PLN 222.7 billion (up by 18.2% from December 2006). The housing loans were decisive for this growth (their rate of growth was 23.7%). As a result of introducing the S Recommendation and growth of interest rates in Switzerland and the eurozone, the clients' interest in PLN housing loans grew visibly.

- Corporate lending was intensified as well. At the end of June 2007, credit exposure of the banking sector towards institutional clients <sup>1</sup> totalled PLN 199.5 billion, up by 11.6% from the end of 2006. The increase resulted from visibly higher activity in terms of investments and changes to the credit policies of banks, which relaxed the criteria for small- and mid-sized companies.

In 1H 2007, the deposits on bank accounts grew as well, notably:

- As a result of growing interest in other forms of savings investment, at the end of June 2007, the value of the banking sector's liabilities towards households totalled PLN 243.2 billion<sup>2</sup>, close to the figure at the end of 2006.
- The continuing good financial standing of businesses was reflected by the growing funds in the bank accounts of institutional clients. At the end of the first half of 2007, they totalled PLN 196.4 billion, up by 12.0% from the end of December 2006.

According to the preliminary data, net profit of the banking sector in the first half of 2007 totalled PLN 7.1 billion, up by 1/5 from the same period last year. For instance, return on equity (ROE) reached 27% compared with 25% last year. Thus the Polish banking sector maintained its position of one of the most profitable sectors in the entire European Union.

The increase of profits resulted first of all from the banks' income growing every quarter. This growth covered first of all the interest income (up by 15% per annum) and income on commissions (up by 22%) due to the dynamic intensification of lending and sales of products offered by other financial institutions (investment funds units, factoring, insurance products).

The growth rate of the banks' profits was, however, slowed by a 12 per cent rise in operating costs. First of all, the banks assigned substantial funds for hiring new employees (whose acquisition frequently involved higher salaries than in previous years), for pro-sales incentive systems, development of the banking outlets network, adjustment of institutions to the new legal regulations as well as to marketing actions.

Simultaneously, the quality of credit portfolios also improved due to the good economic situation as well as increasingly better methods of credit risk management applied by the banks. In June 2007, the share of irregular loans in the credit portfolio for the non-financial sector went down to the lowest level ever, i.e. 6.2% (compared with 7.6% in December 2006). A very good quality of the credit portfolios allows the banks to keep the costs of risk at low level.

The high development pace of the Polish banking market, both currently and in future, encouraged the banking institutions already operating on the Polish market to implement their expansion plans and attracted new players as well as. According to the analysts, approximately 1,000 new branches will be opened in 2007, both bank and partner ones. The growth of branch networks is expected to be followed by an increase of headcount by at least 5,000 to 6,000 people.

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

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

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

It is the mission of ING Bank Śląski S.A. to *set the standard in helping our customers manage their financial future.*

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

- *Transparent organisation*, which is in compliance with the adopted strategic targets, based on transparency, measurable values and client-generic approach. As part of this principle, the Bank sets clear targets regarding growth of value for the shareholders, resulting from both the market expansion and an above-average return on equity.
- *Implementation*. The profitable and organic development of the Bank should be based on the correct foundations of the organisation in such areas as: management of costs, risk, reputation and model quality of the client service.
- *Growth*. The Bank strives to strengthen its market position on the Polish banking market, which is characterised by substantial development potential.
- *Corporate culture*. In order to achieve market success, the employees need to be familiar with and properly understand the Bank's strategy as well as specific targets set for their units. Employees should be aware of their role in the achievement of these targets, should be provided with regular feedback on their performance as well as receive adequate compensation for their efforts.

The main strategic targets of ING Bank Śląski S.A. are to:

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

Implementation of strategic tasks from the ING Bank Śląski S.A. plan is based on the activities aimed at building long-lasting and valuable relations with the clients. To ensure beneficial co-operation, the Bank regularly analyses the clients' needs, creates a product offer that meets the expectations of the individual segments (both in terms of their attributes and price) as well as develops the multi-channel distribution system.

The main projects that support the Bank's development on these markets include:

- Retail Banking – reconstruction of the credit process and revised approach to credit risk; improvement of entry products that allow for acquisition of a substantial number of new clients; use of new sales tools (such as: the scoring system, new Front-End application, or the system of marketing campaigns management); development of a multi-channel distribution system, inclusive of the franchise outlet network and

activities aimed at the change of the institution's organisational culture towards the pro-sales approach.

- Wholesale Banking – efficient cross-selling to the existing client base; acquisition of new clients from the segment of large and mid-sized corporates; improvement of the asset-based lending offer (ABL); optimisation of the business model for the mid-sized corporates and implementation of the new Internet banking system for corporate clients.
- Financial Markets – supporting the sale of Financial Markets products to the current client base; acquisition of new clients; new competitive products; implementation of efficient support systems (inclusive of IT applications improvement).

Investments connected with the aforementioned projects will be financed from the Bank's proprietary funds. Currently ING Bank Śląski S.A. does not see any threats to implementation of the above projects.

### III. GROUP OF ING BANK ŚLĄSKI S.A. ON DEPOSIT AND CREDIT MARKET IN FIRST HALF OF 2007

#### Sources of funding – deposit base

At the end of June 2007, the total value of funds accumulated by the capital group of ING Bank Śląski S.A. totalled PLN 37,544.5 million, up by 3.6% from December 2006. According to estimates, the deposits at the Bank's capital group represented 8.5% of the total value of funds deposited with the banking sector (compared with 8.6% in December 2006).

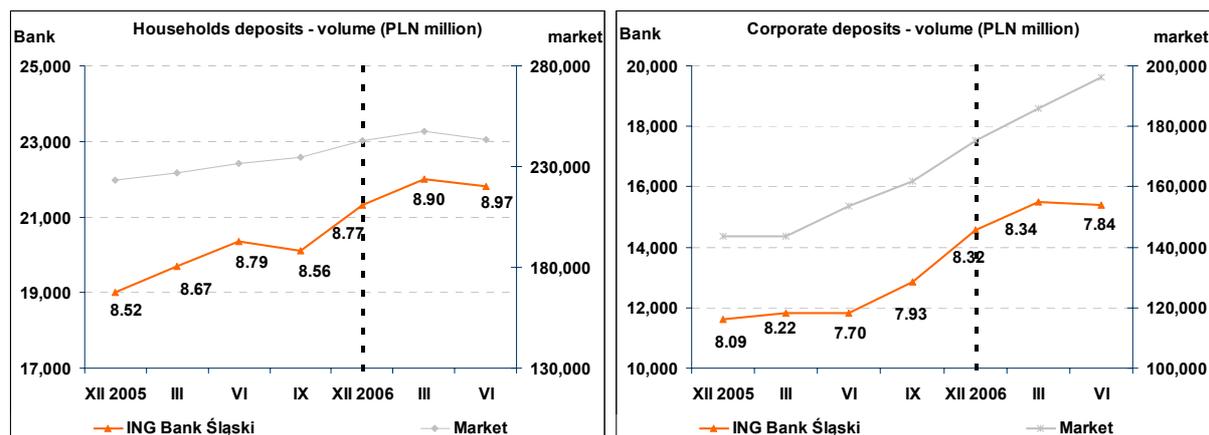
In the first half of 2007, ING Bank Śląski S.A. recorded particularly good results on the market of household deposits. As at the end of June 2007, household deposits at ING Bank Śląski S.A. totalled PLN 21,983.7 million. The balance of household deposits at ING Bank Śląski S.A. increased by PLN 511.3 million from December 2006. By comparison, the funds deposited by household in the entire banking sector grew by PLN 369 million in the discussed period.

The Bank's success on the household deposits market was the result of consistent implementation of the strategy for deposit acquisition, in force as of mid-2004. In line with this strategy, ING Bank Śląski S.A. aims at maintaining high attractiveness of the Open Savings Account, which is the Bank's key deposit product. At the same time, the Bank ensures extensive marketing support for that product. In January 2007, the Bank started a nationwide campaign under the theme *You may freeze your money on deposit, but what for?*. The campaign used a wide range of marketing tools, such as: TV spots, Internet banners, press adverts, leaflets and stands in the Bank branches.

Due to the good financial standing of corporate clients of ING Bank Śląski S.A., the corporate deposits went up from PLN 14,785 million in December 2006 to PLN 15,561 million in June 2007 (up by 5.2%).

**Table. Deposit structure at ING Bank Śląski S.A. capital group**

	30.06.2007	31.12.2006	31.12.2005	31.12.2004
Households	21,983.7	21,472.4	19,151.0	15,101.0
Corporate entities	10,688.3	10,375.2	8,513.1	9,076.2
Financial entities (other than banks)	2,744.3	2,881.5	1,624.5	1,037.3
Entities of the government and local government institutions sector	2,128.2	1,528.1	1 384.5	1,195.1
<b>Total</b>	<b>37,544.5</b>	<b>36,257.2</b>	<b>30,673.1</b>	<b>26,409.6</b>



The charts present market shares.

## Lending

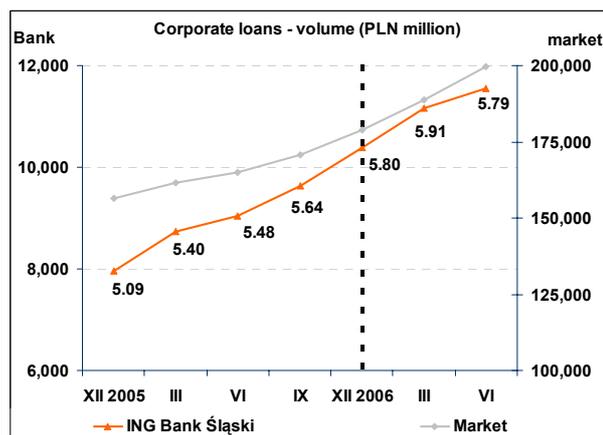
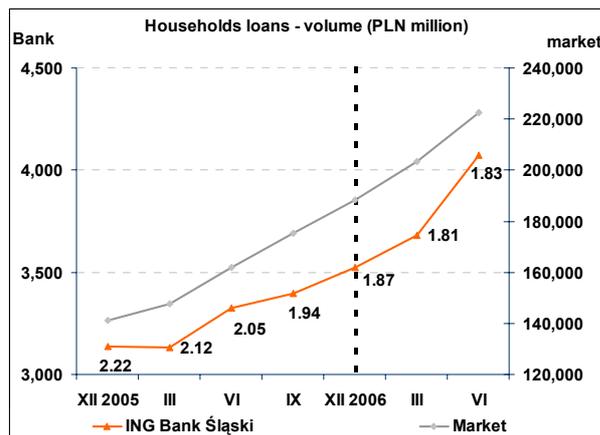
At the end of June 2007, the total value of loans and other receivables of the capital group of ING Bank Śląski S.A. from clients amounted to PLN 14,567.2 million against PLN 12,868.1 million in December 2006 (up by 13.2%). With those results, the Bank's group kept its position on the credit market and held a 3.7 per cent share in the total credit receivables of the entire banking sector in June 2007.

Within the first six months of 2007, the credit exposure of the Bank's capital group grew both for retail and corporate clients. In June 2007, credit receivables from institutional clients<sup>3</sup> amounted to PLN 11,033.1 million, up by PLN 1,077.5 million (or, 10.8%) from December 2006. The loans to households, on the other hand, totalled PLN 4,162.0 million, up by PLN 546.6 million (or, 15.1%) from December 2006.

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

	30.06.2007	31.12.2006	31.12.2005	31.12.2004
Households	4,162.0	3,615.4	3,238.7	3,385.3
Corporate entities	8,145.6	7,064.7	5,926.1	6,614.5
Financial entities (other than banks)	2,053.5	2,010.5	829.2	529.1
Entities of the government and local government institutions sector	603.7	668.6	426.0	386.4
Other receivables	230.3	211.8	288.0	287.8
Impairment charge	-627.9	-702.9	-805.1	-795.3
<b>Total</b>	<b>14,567.2</b>	<b>12,868.1</b>	<b>9,902.9</b>	<b>10,407.9</b>

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



The charts present market shares.

## IV. ING BANK ŚLĄSKI S.A. ON BANKING MARKET IN 1H 2007

### Retail Banking

#### *The Offer Scope and Changes*

ING Bank Śląski S.A. provides individual clients with a modern and transparent product offer. It covers personal accounts, settlement products, deposit accounts, credit products, debit, credit and pre-paid bank cards as well as the products and services of other members of ING Group, such as: mutual funds, insurance products, leasing and brokerage services.

The main role in maintaining the Bank's long-term relations with individual clients is played by the personal Lion Accounts, savings accounts referred to as the Open Savings Accounts (OKO), mortgage loans and credit cards.

In 1H 2007, ING Bank Śląski S.A. modified the personal Lion Account. Some commissions and fees were changed in order to encourage clients to use electronic distribution channels and a special offer for employees of companies being the Bank's wholesale clients was launched. Works were also finalised on incorporating into the offer the personal accounts and OKO savings accounts in British pounds (those were launched in early July) as well as a special deposit referred to as "Extra Bonus" (available for clients since 2 July).

The scope of the Bank's co-operation with the ING Group members in respect of offering other forms of savings was considerably extended, namely:

- ING TFI – new investment products were offered; they included: the Fund plus 3M Deposit Package, a new mutual fund in USD (India/China) and EUR (Russia), and ING Central European Financial Sector Sub-fund Plus.
- ING Nationale-Nederlanden – additional insurance was offered to accompany Lion Accounts; the SPUL product *Program Inwestycyjny na Przyszłość* was launched on a pilot basis and the process of assigning the Bank with the ING Nationale-Nederlanden S.A. agent's authorisation, facilitating sale in the Bank's outlets of individual life policies, was finalised.

The credit process was also considerably expedited following the implementation of the new Front-End system, and expanding functionalities of the application for processing credit applications (SOWK). Those modifications allowed for preparing the hard pre-scoring offer (i.e. the client's full assessment and verification prior to preparing the offer), drafting the agreement, signing it and disbursing the funds during one client's visit at the branch. The persons not being the Bank's clients could apply for the minimum amount of Lion Account overdraft and cash loans solely on the basis of their income statement.

In order to continue the dynamic growth of the mortgage loans portfolio, in the year 2007 ING Bank Śląski S.A. was working on launching the new line of PLN-denominated mortgage loans to be offered to clients via the intermediaries.

The new mortgage loans offered by the Bank will be characterised by the following attributes:

- simplicity and a high level of standardisation (no exceptions and negotiations),
- taking fast credit decisions (owing to the automation of the credit process), giving the product a competitive edge,
- loan interest rate at an average market level.

In accordance with the adopted schedule, it will be launched in 3Q 2007.

Regulations were also modified in regard to the currently offered mortgage products, i.e. the Mortgage Loans Platform received higher-level credit approval powers, rules of measurement and assessment of credit capacity were simplified, new loan purposes were accepted, the scope of acceptable sources of income was extended and the lending term was prolonged.

As part of the retail operations, ING Bank Śląski S.A. also services Small Business clients. In accordance with the Bank's rules, the Small Business segment includes both natural persons running business, partnerships and corporations as well as non-profit entities earning net sales income per year or having the yearly budget not exceeding EUR 800 thousand.

The offer of ING Bank Śląski S.A. for Small Business, thoroughly reviewed and simplified in the year 2005, comprises: Lion Account for Small Business, Open Savings Account for Small Business, term deposits and credit products such as: credit line for Small Business as part of the current account and cash loan for Small Business combining the attributes of investment and working capital loans.

In the area of credit services for Small Business the Bank made the following modifications:

- The Bank developed the pre-scoring offer for more than 7 thousand clients using solely the deposit offer,
- The Bank introduced more liberal crediting conditions as a result of:
  - increasing the maximum amount of the credit line to PLN 500 thousand and of the cash loan to PLN 1 million,
  - increasing the total amount of unsecured exposures due to the credit line and cash loan,
  - introducing the possibility of calculating the credit capacity on the basis of current data.
- The Bank modified the consolidation loans for Small Business.
- The Bank implemented a new version of the SOWK application for processing loans for Small Business, allowing to take automated credit decisions on the basis of the data from the credit application having been verified by the SOWK application.

A special offer for businesses starting their activity (start-up) was prepared. It will cover mostly the offer for financing in an early phase of the company's operations.

In line with the strategy, during the first half of 2007 ING Bank Śląski S.A. consistently supported sales of key products for realisation of business objectives. The main projects comprised: the campaign promoting the Open Savings Account under the slogan *You may freeze your money on a bank deposit, but what for?*, a nation-wide marketing campaign for mortgage loans, the campaign *Rewards for active clients* and the marketing campaign promoting mutual funds where the 3M Deposit Package represented the key product.

### ***Deposit Activity***

As at 30 June 2007, the savings entrusted with ING Bank Śląski S.A. by households totalled PLN 30,194 million, up by PLN 3,224 million, or 12.0%, from December 2006.

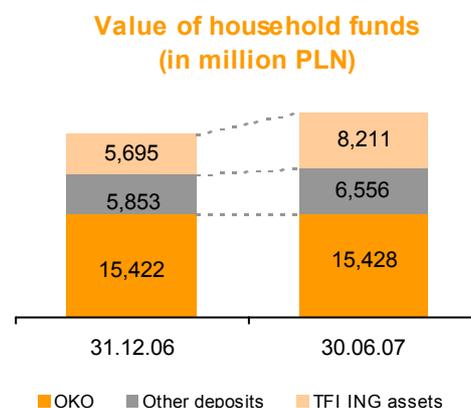
Banking deposits, which formed the major part of the household savings, reached the level of PLN 21,984 million, up by 3.3% from the end of December 2006. In June 2007, household

deposits accumulated at the Bank represented 9.0% of the total household deposits in the banking sector (vs. 8.8% in December 2006).

Households deposit their savings with ING Bank Śląski S.A. using mainly the Open Savings Accounts (OKO) therefore. At the end of June 2007, the funds deposited by households in OKO accounts totalled PLN 15,427.6 million (vs. PLN 15,421.8 million in December 2006).

To provide the clients with a wide array of savings products, ING Bank Śląski S.A. also distributes units of ING TFI investment funds via its distribution channels. At the end of June 2007, the ING TFI assets acquired via ING Bank Śląski S.A. were valued at PLN 8,211 million net (PLN 5,695 million at the end of 2006). The said amount accounted for approximately 58% of retail investment funds assets managed by ING TFI.

The offer of bank services for individual clients was also expanded. At the end of June 2007, ING Bank Śląski S.A. maintained 1,093,900 personal accounts compared with 1,035,500 at the end of 2006 (up by 5.6%).

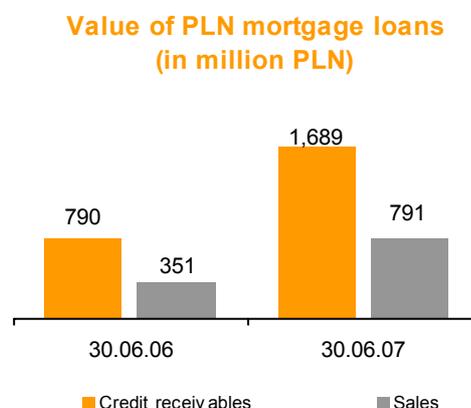


### Lending

At the end of June 2007, household credit receivables of ING Bank Śląski S.A. totalled PLN 4,093.0 million. Over 1H 2007, the Bank's credit exposure towards households went up by PLN 565.4 million, or 16.0%. The Bank held a 1.8 per cent share in household credit receivables of the banking sector.

The PLN-denominated mortgage loans, which were not encumbered with FX-risk (a fact that was beneficial to both borrowers and the Bank), played a major role in activating the Bank's retail lending. In June 2007, credit receivables of the Bank due to PLN mortgage loans totalled PLN 1,689,3 million against PLN 1,153.8 million at the end of 2006 (up by 46,4%).

Bank's exposure towards small businesses also rose considerably. In June 2007, those receivables totalled PLN 722 million, up by 23.0% from December 2006.



### Bank Cards

ING Bank Śląski S.A. offers individual clients the following types of cards: 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 or the Gift Vouchers, etc.). For the small business segment, the Bank 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).

In March 2007, the Bank presented the most affluent clients a platinum credit card MasterCard with a high credit limit and attractive interest rate. The card is accompanied by a wide array of ancillary services comprising: free use of VIP Lounges at airports, discounts

and free-of-charge hotel and car rental booking services, assistance in fast blocking of stolen payment cards and an insurance package.

In addition, ING Bank Śląski S.A. modified its procedures, relaxed some requirements and changed the fees and commissions charged for credit card issue and use, i.e.:

- Prescoring campaigns were run for credit cards addressed to the Bank and ING Nationale-Nederlanden clients.
- Clients from certain segments were provided with an option of applying for a credit card with a relatively low limit based on the declaration of income.
- Some activation fees were reduced or cancelled, while some fees and commissions were modified to entice clients to use credit cards.

In 1H 2007, wide-reaching marketing actions were undertaken in respect of credit cards, being a strategic product for the Bank business. The most important actions comprised: a new release of the *PLN 50 Promotion* campaign, promotion of a direct debit service (enabling clients to pay the premiums under the ING Nationale-Nederlanden life insurance policy from the card limit), and a promotion campaign of the cashback service.

By the end of June 2007, ING Bank Śląski S.A. issued 1,669,500 payment cards to clients, including 184,900 credit cards.

## **Wholesale Banking**

### ***Product Offer and Changes Made***

ING Bank Śląski S.A. provides corporate clients with a comprehensive offer of banking services and products 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 package), a consolidated account, savings products, standard and 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 broad array of clearing services, including: the 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 effective payment management, thus improving the efficiency of corporate finance management.

In 1H 2007, ING Bank Śląski S.A. continued to optimise its cash management services-related processes (under the so-called product strategies), which led to modification of the cash collection process and introduction of customer-tailored flexible commission plans, among other things. Furthermore, the Bank was finishing the implementation of bail management (SIMP Deposit services), a new service for courts yet unknown on the Polish market. The Bank also participated in an ING Group project to raise the efficiency of payment processing. Another project implemented by the Bank was the one aimed at accomplishing compatibility of its products and processes with the requirements effective in the Single European Payment Area (SEPA).

The ING Bank Śląski S.A. credit offer for corporate clients covers the following, among other things: an overdraft, working capital loan, cheque loan, investment loan, indexed loan, loan to finance export receivables insured by KUKI S.A., preferential loans with subsidies from the Agency for Modernisation and Restructuring of Agriculture as well as loans for financing of the projects connected with the EU structural funds. The offer of traditional loans is supplemented with other forms of business funding, including but not limited to leasing, factoring and finance of commercial properties.

In 1H 2007, the offer of business funding for corporate clients was modified in the following manner:

- The first stage of credit fast track implementation for small exposures was carried out. It consisted in automated setting of limits for selected standardised credit facilities whereby the end-to-end lending process could be simplified and shortened. Upon completion of the first project stage of the project, limits were set for almost 900 clients with good standing, in respect whereof the Bank's credit exposure was relatively low (in other words: it was below PLN 2 million).
- A new functionality was launched in the Bank's mainframe system whereby credit agreements are registered in a transparent manner, while control of credit limit utilisation by big and mid-sized clients is fully automated.
- The offer of working capital loans was enhanced for big and mid-sized companies in that the functionality of the draft-backed overdraft was developed, among others.
- An annex to the Agreement with KUKI S.A. was signed whereunder the scope of lending in terms of the receivables insured thereby was extended with domestic contracts.
- A new model for offering of ING Lease and ING Car Lease products to clients was implemented.
- The offer was broadened with reverse factoring, offered in collaboration with ING Commercial Finance.

The Bank also co-operated with numerous institutions in the aspect of special lending offer development for Polish companies; for example:

- Participated in the meetings of the Association of Polish Banks' working team during which the regulations on handling preferential loans for agriculture were adapted to the European Union ones. Consequently, the Bank was among the first commercial banks to conclude a new co-operation agreement with Agency for Modernisation and Restructuring of Agriculture (ARiMR) regarding extension of preferential loans with interest subsidies.
- Was involved in the consulting works of the Association of Polish Banks' working teams devoted to the 2007-2013 operational programmes. At the same time, the Bank focused on propagating (among network employees and clients) the knowledge of financing options in the new EU environment, such as training and organisation of conferences for entrepreneurs, farming producers and representatives of local authorities on new Operational Programmes.
- Adapted its manuals to the new EU Guarantee Fund operations-related regulations established by Bank Gospodarstwa Krajowego (BGK) and conducted a series of training courses on the products offered together with BGK for its employees.

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

services for foreign financial institutions and, notably, for global custodians and international brokers and dealers.

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

So as to tighten relationships with clients and facilitate accomplishment of sales objectives, the Bank sustained implementation of the sector approach in service of big and mid-sized companies. Among other activities, four sector conferences were held in the regions of: Opole (for agriculture), Łódź (on “Revitalisation”), Częstochowa (for steel industry) and Bielsko-Biała (for plastic processing industry). During those meetings, ING Bank Śląski S.A. existing and potential clients could familiarise themselves with the development perspectives of a given industry and the opportunities arising from usage of Bank service (notably in terms of business funding).

Another field the Bank focused on was enhancement of quality of corporate client service and reduction of unit transaction costs. As a result of changes made to the deposit account maintenance procedures and growth in importance of electronic distribution channels, the share of paper transactions in the total number of transactions was further lowered. The share of paper transfers in the total volume of transactions fell to approximately 1.2%, for example.

### **Deposit and Clearing Activity**

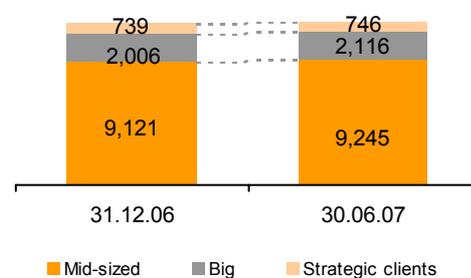
As at 30 June 2007, deposits of institutional clients<sup>4</sup> in the Bank totalled PLN 15,835.9 million (PLN 15,063.8 million in December 2006). It is estimated that at the end of 1H 2007, ING Bank Śląski S.A. held a 7.8 per cent share in the market of institutional clients’ deposits.

Increase in the value of deposits of institutional clients at ING Bank Śląski S.A. over 1H 2007 was in major part the consequence of growth of the corporate clients base (up by 241 clients) and improved financial standing of the companies using Bank services.

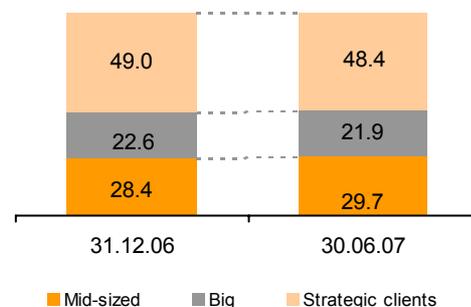
Core deposits saw a rise in the accounts of corporate clients from all segments. However, the funds in the accounts of the corporate sales network clients, in other words: the clients of large and mid-sized companies, grew slightly faster. Their share in the structure of corporate deposits went up from 51.0% at the end of 2006 to 51.6% in June 2007.

The invariably appealing deposit and clearing offer of ING Bank Śląski S.A. translated into growth of the number of current accounts held by corporate clients. For instance, in June 2007, corporate clients held 6,007 ProBusiness packages, up by 3.4% from the end of 2006. Corporate clients also showed more and more interest in electronic distribution channels and state-of-the-art clearing systems, the fact that was reflected by the following:

**Corporate clients in ING Bank Śląski S.A.**



**Structure of corporate deposits (in %)**



<sup>4</sup> Figures cover the Bank’s liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, and social security institutions.

- the number of clients with access to Internet banking grew from 12,300 in December 2006 to 14,400 in June 2007,
- 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 241 at the end of 2006 to 267 w June 2007.

### Lending

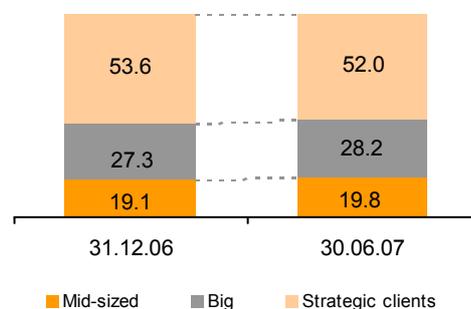
At the end of June 2007, credit receivables of ING Bank Śląski S.A. from institutional clients<sup>5</sup> totalled PLN 10,990.9 million versus PLN 9,943.3 million in December 2006 (up by 10.5%). At the end of June 2007, the Bank held a 5.8%-share in the market of institutional loans, the same as at the end of 2006.

Although surrounded by more and more intense competition, ING Bank Śląski S.A. managed to sustain its position on the institutional client loans market thanks to further improvement of procedures and efficiency of credit processes, accompanied by some liberalisation of the Bank's conservative credit policy with regard to businesses from selected industries.

In 1H 2007, the credit exposure of ING Bank Śląski S.A. went up in all segments of corporate clients. The Bank's lending to the clients from the large and mid-sized companies segments showed a particular growth rate (up by 13.7% over the year).

In 1H 2007, ING Bank Śląski S.A. increased its credit exposure due to the service of EU aid programmes. At the end of June 2007, the loans extended and the promises of EU loans issued totalled PLN 1,268.4 million (PLN 834.3 million at the end of 2006). According to IBnGR, at the end of March 2006 the share of ING Bank Śląski S.A. in EU loans was 10% (number three in the ranking).

Structure of corporate credit receivables (in %)



### Money and Capital Market

Over 1H 2007, ING Bank Śląski S.A. reported goods results on financial markets, both in the aspect of client operations and proprietary trading.

A considerable enlargement of the operations made for clients proved possible thanks to ensuring high quality of the services rendered. Quality is of significance for maintaining the reputation of a professional FM player by ING Bank Śląski S.A.

Throughout 1H 2007, the Bank worked on further broadening of the offer with new, promising financial instruments. For example:

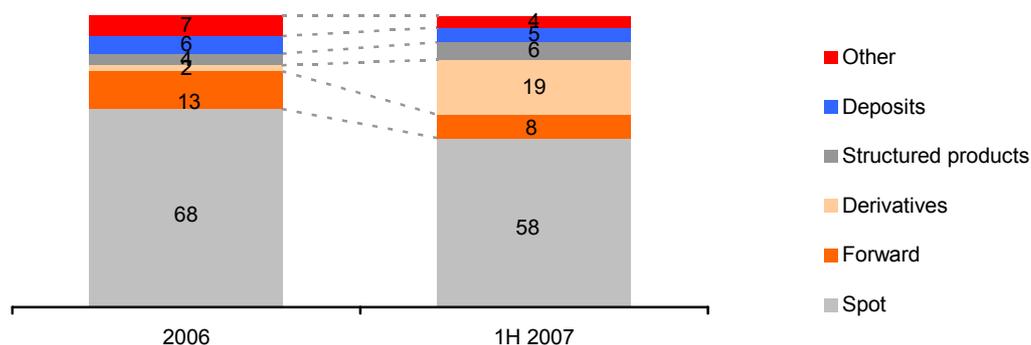
<sup>5</sup> Figures cover the Bank's receivables from: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, and social security institutions.

- Recommended exotic options to clients, which provide for better adaptation of a transaction risk profile to specific client's requirements, thus limiting hedging costs.
- Obtained a product mandate for barrier options (with single or dual barrier for EUR/PLN, USD/PLN, EUR/CZK and EUR/HUF) within ING Group. This will enable the Bank to shorten the process of concluding the option strategies which are very popular among clients.
- Enabled corporate clients to sign standard agreements for derivative transactions (ISDA) in the corporate network regions (rather than in the Head Office) whereby the time of this operation was shortened.

The Bank also took actions to activate the REPO market, still poorly fledged in Poland. The Bank conducted educational and marketing activities, changed its pricing policy and introduced an option of concluding sell-buy-back transactions on the papers it held in the bank portfolio.

The policy pursued by the Bank led not only to a considerable rise in the number of clients using FM products, but also to a change in the relevant Bank's income structure. The share of income from simple foreign exchange transactions went down for the benefit of more sophisticated and profitable derivatives. In 2006, spot transactions accounted for 68% of the Bank's income from operations with corporate clients, for example, while in 1H 2007, their share was 58%.

Structure of income on FM operations with corporate clients (%)



As part of proprietary trading, the Bank broadened the range of international market operations with FX futures and debt market investments, among other products. To mitigate the proprietary trading-related risk, the Bank commenced negotiations followed by signing Credit Support Annex to ISDAs – with support of and in collaboration with ING Amsterdam.

The Bank also worked on implementation of the Markets in Financial Instruments Directive (MiFID) as published by the European Parliament, developed IT systems and rearranged sales teams.

After 1H 2007, ING Bank Śląski S.A obtained the highest score under the Dealer Activity Index, among seventeen banks – candidates for the Money Market Dealer in 2008.

The Bank was also an active player on the short-term securities market, which became more popular among clients than it was in 2006. In June 2007, the Bank was classified on the fourth position with the share of 11.7 per cent in debt due to the issue of short-term securities.

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

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

The composition of the ING Bank Śląski S.A. capital group remained unchanged throughout 1H 2007, and as at 30 June 2007 it was formed by 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.

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

On 10 April 2007, ING BSK gave Śląski Bank Hipoteczny S.A. ("SBH") a capital injection of PLN 13.5 million by taking up all of the mortgage bank's 270 newly issued shares. The increase of the share capital of Śląski Bank Hipoteczny marks a major step towards implementation of the long-term strategy aimed at turning SBH into a commercial real estate centre of ING Group in Poland.

Upon the end of the reporting period, i.e. on 19 September 2007, ING Bank Śląski S.A. signed the agreement on purchase from Buildco S.A. the shares in Centrum Banku Śląskiego Sp. z o.o. The subject of the agreement were 36,716 shares of face value PLN 36,716,000 equivalent to 40% of the initial capital of Centrum Banku Śląskiego Sp. z o.o. The purchase price was Euro 5 million, which was the equivalent of PLN 18,865,000. As a result of this transaction, ING Bank Śląski S.A. both directly and indirectly controls 100% of the initial capital of Centrum Banku Śląskiego Sp. z o.o.

### ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 1H 2007, it held the following shares in transactions of the Warsaw Stock Exchange:

- equity market<sup>6</sup> – 10.8% (second position),
- futures market – 5.8% (fifth 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. Its offer covers all capital market products available for individual investors in Poland, notably: brokerage in stock exchange trading, OTC and in foreign markets, investment loans, securities lending, analytical service, investment recommendations, assets management, and sales of participation units of the mutual funds.

At the end of June 2007, ING Securities S.A. maintained 31,000 investment accounts, including 10,000 Internet ones.

In May 2007, the Brokerage House was among the few in Poland who offered clients a special investment account for students – the so-called *Young Lion*. Attractive fees and commissions for the usage of that account are an important incentive for young investors to take advantage of ING Securities S.A. services. At the same time, the new product was intensively promoted both in the mass media and at the top Polish universities.

So as to make its services more available to clients, in 1H 2007, ING Securities S.A.:

- concluded an agreement with ING Bank Śląski S.A. on winning new clients via Bank Partners (ten agreements were concluded with partners throughout the period under discussion);
- filed with the Banking Supervision Commission four subsequent applications for registration of brokers co-operating with the investment company.

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

In 1H 2007, ING Securities S.A. completed the following projects and transactions:

- CEDC (the NASDAQ-listed American company, CEDS, the largest distributor and importer of alcoholic beverages in Poland and one of the largest liquor producers):
  - public offering of newly issued shares worth USD 24.9 million,
  - public offering of shares sold by a subsidiary of Remy Cointreau.
- Polmos Białystok:
  - arranging invitation to sell Polmos shares, announced by Carey Agri International-Poland, a daughter company of CEDC, and
  - arranging compulsory buyout of Polmos shares, announced by Carey Agri International-Poland.

In March 2007, ING Securities together with ING Wholesale Banking and the Warsaw Stock Exchange held an ING EMEA & Warsaw Stock Exchange Polish MidCap Conference for foreign investors in London. Its purpose was to present the Polish stock market and a dozen or so mid-sized companies listed on that stock exchange. The conference was attended by 40 institutional investors, representatives of top funds investing in Polish shares.

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<sup>6</sup> Trading in stocks and stock rights.

Throughout 1H 2007, ING Securities S.A. won numerous awards and distinctions, such as:

- The title of the 2006 Best Financial Institution in the category of the Brokerage Houses and Bureaus in the ranking of the *Rzeczpospolita* daily.
- The second place in the general classification of brokerage bureaus made by the *Parkiet* paper (including the first place in the categories: *Service Level/Quality*, *Service Speed* and *Access to On-line Listings*). The House's Analysis Team was highly appreciated as well, which was reflected by the fact that they won the second and first places in the Institutional Investor and prestigious Extel Thompson rankings, respectively. Simultaneously, Piotr Palenik earned recognition as the best Polish analyst.

In 1H 2007, ING Securities S.A. generated net profit of PLN 38.4 million compared to PLN 26.6 million a year earlier.

### **Śląski Bank Hipoteczny S.A.**

In 1H 2007, the restructuring of Śląski Bank Hipoteczny S.A. was finalised. It covered among others the implementation of a new development strategy. In line with the said strategy, ŚBH S.A. represents the Commercial Property Financing Competence Centre for other ING Group companies in Poland operating in that area.

The main achievements in respect of the restructuring of Śląski Banku Hipoteczny S.A. were as follows:

- Introduction of the credit process which defines in a clear and precise manner the duties of individual units.
- Implementation of the new organisational structure and building a high-skilled team (also in the sales force area).
- Defining the rules of co-operation between ŚBH and ING Bank Śląski S.A. (including the economic mechanisms stimulating co-operation)
- Promoting within ING the image of ŚBH as a unit specialising in structuring and servicing large transactions on the property market.
- Development of the marketing strategy, including identification of top-priority segments and regions of operation and building own sales network.

Realising the basic strategy assumptions adopted in the year 2006, in 1H 2007 Śląski Bank Hipoteczny introduced a modification to the said assumptions in line with which its primary focus is on refinancing of existing projects instead of financing the business of housing developers, as preferred before.

Śląski Bank Hipoteczny S.A. is gradually building its credit portfolio and during 1H 2007 the Bank signed credit agreements totalling PLN 466 million (whereas during the whole 2006 the value of agreements totalled PLN 314 million).

Due to the lack of a significant credit portfolio, in 1H 2007 the net profit of Śląski Bank Hipoteczny S.A. was negative. It amounted to PLN 0.4 million (in 1H 2006 the net loss of PLN 0.3 million).

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

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

In 2007, Centrum Banku Śląskiego continued its policy aimed at maximising the occupancy rate by taking the following actions, among other things: focusing on large tenants, preparing office space ready to move in, taking over the costs of interior design and applying flexible terms of payment, depending on the size of the leased space.

The persistent pursuing of the policy resulted in the growth of the share of occupied space vis-à-vis the total space. At the end of June 2007, 95.5% of the building's area at 50 Chorzowska was leased (up by 1.5 p.p. from the end of 2006). The tenants included both the biggest Polish companies and large international entities, such as: Mittal Steel Poland, PKN Orlen, Ernst & Young or Deutsche Bank.

In 1H 2007, the financial standing of Centrum Banku Śląskiego was sound. The Company recorded growth of revenue from the core business while the operational costs remained at a stable level (at the same time the Company guaranteed a high standard of services to its tenants). The final net result of PLN 6.6 million was also affected by the Euro exchange rate as it determined the costs of service of the Euro-denominated loan, which represented a source of financing for the Company's core assets. By comparison, in 1H 2006, Centrum Banku Śląskiego closed the year with profit of PLN 2.4 million.

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

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

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

ING Nationale-Nederlanden Polska OFE is the second largest pension fund in Poland, by the number of members and net assets. At the end of June 2007, the Pension Fund had the following market shares:

- Net assets stood at PLN 32.3 billion, or 23.3% of the total assets of pension funds operating in Poland (the same as at the end of 2006).
- Number of members stood at 2,553,100, or 19.3% of all pension fund members (compared with 19.4% in December 2006).

In the April ranking of pension funds, prepared by the *Rzeczpospolita* daily every 6 months, ING Nationale-Nederlanden Polska was once again the number one. In that ranking, the Fund won 55 scores out of 60. As published in that daily, ING Nationale-Nederlanden proved "very good in the regulator's rankings, especially the long-term ones".

In its income statement for 1H 2006, ING Bank Śląski S.A. recognised its share in the profits of ING Nationale-Nederlanden Poland Pension Fund Company in the amount of PLN 23.3 million.

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

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

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

In 1H 2007, ING BSK Development Sp. z o. o. recorded a positive net result of PLN 16,000 (in 1H 2006, it was PLN 17,000).

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

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

In 1H 2007, net profit of Solver Sp. z o. o. was PLN 19,000, whereas in the previous year it was PLN 7,000.

## VI. MANAGEMENT OF KEY RISKS

### Credit Risk

#### *Credit Policy and Procedures*

In 1H 2007, ING Bank Śląski S.A. maintained the key rules of its credit policy towards credit clients – effective in the year 2006 – and was further focused on granting loans to business entities operating in low- or medium-risk sectors. While improving the sector policy, the Bank approved the *Credit Policy for Commercial Property Funding*. This policy defines, among others, the Bank's preferences for the characteristics of investors (developers), types and locations of funded real property, exposure structure and types of collateral.

In view of the good macroeconomic situation and improved process of the credit risk assessment, ING Bank Śląski S.A. alleviated the terms of loan extension for retail clients. In particular, the growth of the Bank's exposure was stimulated with regard to the existing base of individual clients based on the pre-assigned limits (within pre-scoring), Small Business and funding of housing needs.

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

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

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

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

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

consideration the legal effectiveness and the current market situation – individual collateral types were assigned a specific rank (class). According to that system, collaterals being more acceptable from the perspective of the Bank's interests have a higher class. ING Bank Śląski S.A. periodically reviews the collateral structure of the wholesale and retail portfolios. In case of identification of significant collateral concentration, the Credit Policy Committee takes decisions on adopting specific recommendations and formulates guidance as to the preferred forms of collaterals in the form of guidelines for the collateral policy update. As a result of the analysis, in 1H 2007 the limits for the most significant credit collateral were defined in the Bank.

Following the guidelines of S Recommendation by the Banking Supervision Commission, in 1H 2007 ING Bank Śląski S.A. introduced the limits for exposures collateralised with mortgage in the retail and corporate area. Within the adjustment of the Bank's internal procedures to Resolution no. 1/2007 by the Banking Supervision Commission on scope and detailed principles of defining the capital requirements for individual risk types, works began over the policy of accepting collateral for corporate credit exposures. New regulations were also developed for the management of environmental risk.

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

In 1H 2007, ING Bank Śląski S.A. finalised its efforts aimed at harmonisation of the processes connected with the credit risk management to the Basel II requirements, for instance:

- In the Wholesale Banking area:
  - Implemented IT systems that support the process of assigning risk categories to mid-size companies.
  - Built the Loss Given Default (*LGD*) and Exposure at Default (*EAD*) models in connection with the decision taken by ING Group on implementing the internal rating method (Internal Rating Base, or *IRB*). These models were implemented in the systems of the regulatory and economic capital calculation.
  - Validated the new model for assessment of the wholesale client credit risk where the risk classes are associated with a specific probability of insolvency. An independent team of experts analysed the predictive force, quality of risk ratios and exceptions from the model as a result of decisions taken by the Appeal Committee. The analysis confirmed a substantial predictive force of the model and correct selection of ratios. Simultaneously, the team of experts recommended the trends for further development of the model.
  - Introduced the mechanisms aimed at ensuring the top quality data in the systems that constitute the source of information in the process of estimating the capital requirements and provisions pursuant to the International Accounting Standards as well as the procedure of data reconciliation between systems of the Risk Division and Finance Division.
  - Unified the process of calculation and update of provisions for the Bank's credit receivable with the standards applied by ING Group.
  - Submitted – as part of a motion filed by ING Group - a request to the Banking Supervision Commission to enable applying the advanced method of internal ratings to estimate the capital requirement pursuant to Resolution 1/2007 by the Banking Supervision Commission.
  - Held a pilot programme of the credit fast track for specific types of transaction for the entities already funded by the Bank.

- As regards the retail banking area, as of the beginning of 2008, the Bank will apply the standard method for calculation of the capital requirement pursuant to the strategy of ING Group. Far in the future, a transfer is planned onto the advanced methods (IRB). The Bank began a construction of the model that estimates the probability of default parameter for consumer loans and EAD/LGD model for retail exposures. The Bank participated in the project of ING Group with regard to implementation of the new Risk Adjusted Capital methodology which essentially facilitated the calculation of economic capital and the quality of measuring the Risk Adjusted Return on Capital.

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

At the end of June 2007, the value of credit exposure of the ING Bank Śląski S.A. capital group was PLN 15,295 million.

Over 1H 2007, the quality of the credit portfolio of the Bank capital group improved even further. At the end of June 2007, the impaired portfolio totalled PLN 587 million compared with PLN 690 million at the end of 2006. Therefore, the share of the impaired portfolio in the total credit portfolio decreased from 5.1% in December 2006 to 3.8% at the end of June 2007.

Those data prove that in June 2007 the quality of the credit portfolio of ING Bank Śląski S.A. was much better than the average in the entire banking sector. Apart from improving the efficiency of credit risk management, also the sales of a part of the retail loans portfolio to the securitisation fund will have a positive impact on the Bank's portfolio quality.

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

	30.06.2007	31.12.2006	31.12.2005	31.12.2004
<b>Total exposure (PLN million)</b>	<b>15,295</b>	<b>13,651</b>	<b>10,562</b>	<b>11,349</b>
<b>Total provisions (PLN million)</b>	<b>646</b>	<b>715</b>	<b>813</b>	<b>949</b>
<b>Provisioning rate (%)</b>	<b>4.2</b>	<b>5.2</b>	<b>7.7</b>	<b>8.4</b>
<b>Exposure – corporate banking (PLN million)</b>	<b>11,408</b>	<b>10,323</b>	<b>7,592</b>	<b>8,150</b>
Non-default portfolio (PLN million)	10,964	9,856	6,983	7,331
Default portfolio (PLN million)	444	467	609	818
Impairment (PLN million)	425	434	493	593
IBNR (PLN million)	80	74	70	73
Provisions for off-balance sheet liabilities (PLN million)	9	9	14	33
<b>Provisioning rate for default portfolio (%)</b>	<b>95.5</b>	<b>92.8</b>	<b>81.1</b>	<b>72.5</b>
<b>Exposure – retail banking (PLN million)</b>	<b>3,887</b>	<b>3,328</b>	<b>2,970</b>	<b>3,199</b>
Non-default portfolio (PLN million)	3,744	3,105	2,698	2,908
Default portfolio (PLN million)	143	223	272	291
Impairment (PLN million)	97	170	191	201
IBNR (PLN million)	18	15	28	31
Provisions for off-balance sheet liabilities (PLN million)	18	13	15	19
<b>Provisioning rate for default portfolio (%)</b>	<b>67.6</b>	<b>76.4</b>	<b>70.1</b>	<b>69.0</b>
<b>Share of default portfolio in %</b>	<b>3.84</b>	<b>5.06</b>	<b>8.35</b>	<b>9.78</b>

In June 2007, the capital group of ING Bank Śląski S.A. held PLN 646 million worth of provisions for the credit portfolio. The share of impairment charges for the impaired portfolio was 88.9% compared with 87.5% at the end of 2006.

## Market Risk Management

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

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

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

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

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

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

In 1H 2007, ING Bank Śląski S.A. introduced among others the following changes in the market risk management:

- A new policy was developed for the replication portfolio, pursuant to which all the significant PLN liabilities are invested. Contrary to the previous policy applicable to liabilities only, the new one covers also the principles of development of internal contracts for non-term assets and liabilities other than those of the Financial Markets Division.
- The Bank updated the principles of calculating the economic capital for the purposes related to market risk. The Assets and Liabilities Committee (ALCO) approved the new division of the Bank's operations into the trading and bank books to calculate the capital adequacy. The methodology of calculating the regulatory capital requirements

to equity in the bank book was revised. The introduced changes are consistent with the requirements of the New Capital Accord pertaining to the market risk.

- Changes were introduced to Key Risk Indicators pertaining to the regulatory and economic capital adequacy.
- The Bank expanded the number of and improved the ratios used to measure the interest rate risk of the bank book as well as formalised the methodology for calculation of earnings at risk (EaR) for bank books.
- Preparations were finalised for implementation of the hedge accounting principles for assets available for sale at fair value.

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

- develops and analyses control reports for liquidity ratios and monitors the limit level,
- prepares procedures ensuring the appropriate supply of cash to branches,
- harmonises the liquidity contingency planning with the changes in the Bank's organisational structure and the changes to the warning signals definition.

The *Liquidity and Funding Policy of ING Bank Śląski* was updated in 1H 2007. It introduces, among others, a more advanced method for calculating the repayment of term deposits in emergency situations and analysing of term deposits opened for subsequent periods. The policy pertaining to market risk in subsidiaries was verified as well, and the liquidity limits were defined for the entire capital group of ING Bank Śląski S.A.

## Capital Adequacy

In 1H 2007, ING Bank Śląski S.A. complied with the obligatory prudent standards in regard to the capital adequacy. In June 2007, the capital adequacy ratio was 13.4%, which means that the Bank's capital group had sufficient amount of equity to cover specific credit- and financial risks.

## Operational Risk and Compliance

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

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

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

The Bank's organisation structure comprises the Operational Risk Management and Compliance Department, reporting directly to the President of the Bank Management Board. Moreover, the permanent Operational Risk Committees are in place at the Bank – at the Head

Office and business line levels. They supervise the operational risk management and the processes of identification, measurement, monitoring and mitigation of operational risk in the entire Bank or a given business area.

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

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

The regulatory and control duties in the scope of the Bank's operations' adherence to the compliance standards are exercised by the Supervisory Board whose actions in this scope are executed via the Compliance and Remuneration Committee elected from among the Supervisory Board members. The responsibility for observance of the compliance standards at the Bank is assigned to the Management Board which is responsible, among other things, for implementation of the mandatory policies and regulations as well as establishment of the efficient compliance organisational structure.

As of 1 June 2007, the new *Compliance Policy* and *Compliance Rules* were introduced in the Bank. The compliance monitoring and training plans were developed and implemented, and the *Compliance Chart* was updated.

The system of compliance risk management at ING Bank Śląski S.A. covers the following, among other things:

- monitoring of incidents, development of preventing programs and monitoring over their execution,
- actions taken within the *Financial and Economic Crime Prevention Policy* (FEC), such as: analysis of transactions and accounts in terms of money laundering and terrorism funding, Customer Due Diligence as well as monitoring of clients in terms of them being included on the freeze lists,
- supervision over observance of the personal data protection,
- implementation of training and educational programs as well as regular support for employees in the scope of compliance standards observance,

- initiation of explanatory and remedy actions due to irregularities reported by employees within *Whistleblower*.

To ensure the proper observance of the adopted ethical and legal standards, in 1H 2007 the Bank took the following steps, among other things:

- trained all the employees in the e-learning formula in the rules of conduct pursuant to the Compliance standards,
- finalised works over the new model of complaint handling and implement the relevant application.

## VII. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT AT CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2007

### IT and Operations

To ensure adequate support in accomplishment of business objectives and pro-efficiency initiatives, in 1H 2007 ING Bank Śląski S.A. carried out the following IT projects, among other things:

- Was implementing the new Front-End application in retail branches. As part of the existing functionalities (such as the client identification and the possibility of viewing his/her products), the Bank employee is able to initiate “custom-made” sales activities. Owing to the presentation of the hard pre-scoring offer, the new solutions also simplified and expedited the process of granting an overdraft in the Lion Account, cash loan and credit cards.
- Extended the functionalities of the Credit Applications Service System (SOWK) to include the service of individual clients (previously the application was only available for the service of Small Business). The main benefits from SOWK implementation include: full service of pre-scoring offers, automated credit decisions, printout of credit applications directly from the IT application. Those allowed for reducing the number of errors.
- Implemented the PerfectCase application, or the system for reporting complaints by clients. Owing to the system, the Bank may react faster to the problems reported by clients.
- Replaced the old staff & payroll system with a new solution, characterised among others by centralised database and simplified operating processes.

During 1H 2007, numerous modifications were made in the operations area. Those included among others the development of the IWA system for electronic workflow (Image, Workflow and Archiving). Finalisation of that project allowed for: reducing the number of paper documents, extending the scope of documentation available immediately for authorised users and developing tools for management and control of processes and measurement of their outcome. The project aimed at outsourcing the printing and mailing of mass correspondence was also finalised. It was carried out within ING Group and its implementation should facilitate the optimisation of costs of mailing documents to the clients.

Projects in the area of cash processing and optimisation of cash transport costs were also finalised at the Bank. The newly implemented solutions in regard to cash transport will contribute to rationalising the cash transport costs and improving the quality of cash service. They will also allow for creating a cash service offer for network clients with high cash turnovers. Other activities covered optimisation of ATM network management, new solutions in respect of archiving of documents and modification of operating solutions preventing money laundering practices.

As a result of modifications introduced in the operational area of the Bank, in 1H 2007 the share of automated operations in the overall number of operations rose to 90% (compared with 88% in 2006).

## Development of Electronic Distribution Channels

In order to provide better access to products and services of the Bank and rationalise the costs, in 1H 2007, ING Bank Śląski S.A. initiated the project for arranging self-service zones in its own retail branches and in partner outlets (Self Banking Project). The main idea behind the project was to separate self-service zones in existing branches, open 24/7, where our clients would be able to make cash deposits and withdrawals, transfers via ING BankOnLine, call HaloŚląski or talk to our Call Centre consultants. The self-service zones are designed for individual clients, Small Businesses as well as wholesale clients. As part of that project, the Bank implemented in 1H 2007 the pilot version of the software for cash deposit machines (in the total of 45 cash deposit machines located in the partner outlets and own branches).

The Bank's activities also focused on improving the safety of operations in electronic distribution channels:

- ING BankOnLine:
  - in order to improve safety, the works on transaction authorisation by a one-off SMS code were finalised,
  - a new layout and improved ergonomic solutions were prepared,
  - the works on extending the functionality to include the pre-scoring credit offer were continued.
- The new Internet application for wholesale clients – according to the plan, it will be made available to clients at the end of 2007 and provide functionalities compliant with the preferences of that market segment.

At the end of June 2007, there were 646,000 Internet banking users, up by 27.2% from the end of 2006. The group of active users of HaloŚląski phone banking system rose considerably as well - up by approximately 19.4% from December 2006.

<b>Number of clients:</b>	<b>30.06.2007</b>	<b>31.12.2006</b>
ING BankOnLine, ING Online	646,026	507,905
HaloŚląski	353,347	295,833
SMS	196,414	148,197
MultiCash	5,801	7,818

In June 2007, ING Bank Śląski S.A. had a network of 592 ATMs.

## Branch Network

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

The service and sales capacity of a franchise outlet is almost identical to the one of small retail branches. The client may purchase financial products of ING Bank Śląski S.A. and ING TFI as well as certain products of ING N-N Poland there. The partner outlet is innovative in that it provides clients with self-service machines (an ATM, a cash deposit machine, access to ING BankOnLine service as well as HaloŚląski and Call Centre), where they can deposit or withdraw cash, make a transfer or set up a deposit.

Over the first six months of 2007, the Bank opened 24 partner outlets in total, and at the end of June its partner outlet network totalled 31 outlets. As planned, ING Bank Śląski S.A. will have 100 franchise outlets as at the end of 2007.

As at 30 June 2007, ING Bank Śląski S.A. conducted its operating activity through 330 own branches. Those are located all over Poland; however, the highest concentration – due to the Bank’s history – is observed in the Silesia province. Thirty retail branches house Private Banking Centres dedicated for service of wealthy clients. Moreover, the Bank also opened Private Banking Investment Centre in Warsaw for clients with assets at the minimum level of PLN 1 million.

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

## Human Resources Management

### *Headcount*

As at 30 June 2007, the capital group of ING Bank Śląski S.A. employed 7,683 persons. Over the first six months of 2007, the number of employees in the companies forming the Bank’s group increased by 168 persons.

In June 2007, the number of persons employed at ING Bank Śląski S.A. rose to 7,447. Thus, it was higher by 166 persons compared with December 2006.

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

	30.06.2007		31.12.2006	
	persons	%	persons	%
Retail banking	4,266	57.3	4,135	56.8
Wholesale banking and financial markets	908	12.2	897	12.3
Operations/IT/Services	1,607	21.6	1,682	23.1
Risk/Organisation/HR	666	8.9	567	7.8
<b>Total</b>	<b>7,447</b>	<b>100.0</b>	<b>7,281</b>	<b>100.0</b>

The trends observed in the year 2006 in respect of the Bank’s headcount structure continued. As a result of centralisation and automation processes in the operations area, the share of persons employed in Operations/IT/Services Divisions went down for the benefit of the headcount in the retail banking area.

### *Remuneration Policy*

In 1H 2007, ING Bank Śląski S.A. still pursued the remuneration policy based on the new system of base salaries introduced in the year 2006. The new system is characterised by consistence, fairness and market-competitive salaries. It also supports the rational use of the personnel cost budget. Those assumptions are met, among others, owing to the setting of the remuneration system based on market salary levels for jobs representing a specific job value and adjusting it to the regional salary differentiation. The new remuneration policy of the Bank also assumes offering at least such salaries as those proposed by most banks, and presenting one of the best offers on the job market along with the growth of the job’s rank.

Such approach – as a result of broadening the opportunities for recruiting, motivating and retaining employees – helps to accomplish the Bank’s business objectives.

As of 1 April 2007, the new pay scale was introduced at ING Bank Śląski S.A. and pay rises were granted to all employees. The salary after the pay rise could not have been lower than the minimum amount set in the new pay scale, and the individual pay rise depended on the outcome of the annual employee appraisal process.

In response to the dynamic changes in the job market, at the turn of May and June another review of salaries in the Bank was carried out and it was decided to make another base salary adjustment in October 2007. Efforts were also continued in order to streamline and simplify the bonus system. The new solutions will be implemented in early 2008.

The employee benefit systems are verified and extended at the Bank on an on-going basis. The medical care offer for employees was extended to include dentist’s subscriptions. Works also focus on developing investment benefits, representing an alternative to the Bank’s group life insurance plus capital fund.

### ***Recruitment***

The principles of recruitment of new employees at ING Bank Śląski S.A. also changed. There was implemented a full pre-employment screening procedure (PES), i.e. check on the professional background of candidates covering: verification of qualifications, identity and documents (validity and authenticity), completeness and truthfulness of CVs and references. The PES procedure covers all newly employed persons (based on employment contracts, contracts of mandate/ specific task, those hired for the partner’s outlets). The selection tools were extended to include the competence interview and the competencies being part of the Assessment Centre’s tasks were adjusted in line with the competence model.

### ***Staff Training and Development***

During the first three months of 2007, the Bank’s managers assessed their subordinates on the basis of the newly launched system of annual appraisal based on the competence model. It allows, among others, for identifying any competence gaps of individual employees, i.e. areas requiring changes in behaviour and skills. The electronic appraisal forms allowed for aggregating data and using the results of Annual Employee Appraisal for the purpose of identifying training needs in individual areas and designing the catalogue of training schemes.

In April 2007, the Management Development Programme was launched at ING Bank Śląski S.A. It aims at identifying and developing the employees having potential predestining them to assume in future key positions in the organisation. The programme comprises three phases: identification, diagnosis and development activities. During the period of May-June, as a result of discussions with managers representing various levels, there were identified 160 persons whom the Bank planned to put on fast development track. The tools for diagnosing the potential were improved and the new process of 360° Assessment with the use of in-depth interview was prepared and implemented. In 1H 2007, the appraisal using that method covered 15 top managers.

In 1H 2007, the key directions of training at ING Bank Śląski S.A. referred to:

- Competence training schemes. Due to the introduction of the competence model and completion of Annual Employee Interviews, the Catalogue of Competence Training Schemes was made available to managers. Apart from the training schemes listed in

the Catalogue, the Bank employees also participated in trainings conducted by the Wholesale Banking Training Centre (employees of the Wholesale Division), as part of the Best Service Programme (for the Retail Banking Division) and dedicated training schemes for staff in newly opened partner's outlets.

- Managerial training schemes. As part of the programme initiated in the year 2006, another module referred to as *Recruitment and Selection* was introduced.
- E-learning training schemes. There were prepared 21 new training programmes and in total 65 training schemes were available on the platform. Those include mostly product and application training schemes for the retail sales network as well as security and operational risk. Over the six months of 2007, the number of man-training was 20 thousand.
- Language training schemes. Nearly 850 persons participated in training schemes organised in line with the new formula.

### **Work Conditions**

The aim of ING Bank Śląski S.A., as an employer, is to continually increase the satisfaction of employees. Therefore, an anonymous employee satisfaction scan was conducted. The conclusions from the scan will be taken into consideration when developing the new HR policy and in the next round of the employee satisfaction scan.

A questionnaire for persons leaving the Bank on their own initiative was also prepared in order to establish the reasons and take actions to improve the level of employee satisfaction at ING Bank Śląski S.A.

In 1H 2007, the quarterly meetings of the Bank Management Board with the Works Council were held. Those meetings reflect the Bank's care of the best performance of duties stipulated in the Act on informing and consulting the employees.

## VIII. CORPORATE GOVERNANCE PRINCIPLES

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

The share capital of ING Bank Śląski S.A. totals PLN 130,100,000 and is sub-divided into 13,010,000 ordinary shares whose face value is PLN 10 each. There are no restrictions in respect of transferring ownership and exercising the voting rights under the shares held. The Bank's shares do not give any special control prerogatives towards the issuer, either.

As at the end of June 2007 the shareholding structure of ING Bank Śląski S.A. was as follows:

Name of Shareholder	Number of shares and votes at GSM	Share in equity and total votes at GSM
ING Bank N.V.	9,757,500	75.00%
Commercial Union OFE BPH CU WBK	800,000	6.15%
Others	2,452,500	18.85%
<b>Total</b>	<b>13,010,000</b>	<b>100.00%</b>

As at the date of report's publication, ING Bank Śląski S.A. did not have any knowledge of agreements as a result of which the proportion of shares held by the current shareholders may change.

### Changes in the Statutory Authorities of the Bank

At the meeting held on 20 April 2007, the Supervisory Board of ING Bank Śląski S.A. acknowledged the resignation of Mr. Maciej Węgrzyński from the position of Vice-president of the Management Board of ING Bank Śląski S.A. as of the date of the Bank Ordinary General Shareholders Meeting approving the financial statements for the year 2006, i.e. as of 9 May 2007. Upon leaving the Bank, Mr. Maciej Węgrzyński remained in the structures of ING Group and now manages the entire operations on financial markets in Central and Eastern Europe.

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

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

The Supervisory Board worked in an unchanged composition in 1H 2007:

- Ms. Anna Fornalczyk – Chairwoman, Independent Member,
- Mr. Cornelis Leenaars – Deputy Chairman,

- Mr. Wojciech Popiołek Secretary, Independent Member,
- Mr. Ralph Hamers Member,
- Mr. Jerzy Hausner Member, Independent Member,
- Mr. Mirosław Kośmider Member, Independent Member,
- Mr. Marcus van der Ploeg Member,
- Mr. Igno van Waesberghe Member.

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

ING Bank Śląski S.A. observes all principles contained in the *Best Practices in Public Companies in 2005*. Over the year 2007 that fact was confirmed by the Bank Management Board in the form of the current report issued on 14 May and containing the declaration on observing the corporate governance principles at ING Bank Śląski S.A. A resolution to that effect was also taken by the General Shareholders Meeting of ING Bank Śląski on 9 May 2007 (Resolution no. 11).

In particular, ING Bank Śląski S.A.:

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

The Bank Management Board's commentary as to the application of best practices at ING Bank Śląski S.A. was presented as part of current report no. 4 on 17 February 2005.

As a member of ING Group, which is listed on the New York Stock Exchange, ING Bank Śląski S.A. was involved in the implementation process of internal audit standards as set forth in Section 404 of the Sarbanes-Oxley Act (or SOX 404). Under that regulation, the companies listed on the American stock exchanges are obligated to submit – along with the financial reporting – the declarations on the reliability of reporting systems and existence of adequate internal control mechanisms as well as on evaluation of their efficiency, as at the end of the last accounting year of the company.

Observance of the law and business ethics rules, integrity and good reputation are treated as the key assets of ING Bank Śląski S.A. Therefore, the Bank has in place regulations aimed at preventing any risks that may tarnish the reputation of ING Bank Śląski S.A., ING Group or any subsidiaries thereof, due to the employees' failure to comply with any ethical or legal norms. As of 1 June 2007, the Bank introduced the new *Compliance Policy* and *Compliance Code of Conduct*, taking into consideration the experience gathered to date by ING Group and the Bank in respect of the corporate culture management and growing external requirements for such public trust institutions as financial institutions. The new code emphasises the promotion among the employees of such values as: integrity, openness, respect and common sense.

Information concerning the rules of the compliance risk management at ING Bank Śląski S.A. was presented in chapter VI of the report under the item relating to the operational risk and compliance.

The corporate transparency of ING Bank Śląski S.A. is also supported by the development of contacts with investors, analysts and journalists, among others by organising conferences attended by the Bank Management Board members. During those meetings, the Bank makes every endeavour to inform the market about its performance and plans relating to its activities.

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

In 1H 2007, the total amount of remuneration (understood as the value of remuneration, bonuses, cash benefits, in-kind benefits or any other benefits) paid by ING Bank Śląski S.A. to the Management Board members amounted to PLN 9,866,000. The total amount of remuneration and bonuses paid out or due for 1H 2007 given here is the gross amount of remuneration paid out or due and payable for the period from January to June 2007 and the 2006 bonus, which was paid out in 2007 at the total amount of PLN 3,743,000.

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

**Table. Remuneration of Members of the Management Board of ING Bank Śląski in 1H 2007 (PLN 000)**

<b>Period</b>	<b>Remuneration and awards</b>	<b>Benefits</b>	<b>Total</b>
I half 2007	7,882	1,984	9,866
I half 2006	7,991	1,194	9,185

In 1H 2007, the remuneration (defined as above) paid by ING Bank Śląski S.A. to Supervisory Board members totalled PLN 308,000.

**Table. Remuneration of Members of the Supervisory Board of ING Bank Śląski in 1H 2007 (PLN 000)**

<b>Period</b>	<b>Remuneration and awards</b>	<b>Benefits</b>	<b>Total</b>
I half 2007	308	0	308
I half 2006	487	0	487

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

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

To the best knowledge of the Management Board of the Bank, the financial data for 1H 2007 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 2007.

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

The entity, which is authorised to audit the financial statements and which audited the semi-annual financial statements of the Bank's Capital Group, was selected according to the effective laws and the 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.

### **Notes**

#### ***Agreements***

The Bank Management Board represents that ING Bank Śląski S.A. does not have any:

- material agreements for loans, sureties and guaranties not relating to operating activity,
- contractual liabilities arising from the issued debt securities or financial instruments.

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

In order to secure the risk connected with its lending activity, the Bank accepts legal personal and tangible collaterals in various forms, e.g. bank guarantee, surety under civil law, blank promissory note, surety in form of promissory note, transfer of debt claims, mortgage, registered pledge, ordinary pledge, repossession for collateral, transfer of a specific amount to the Bank account and blocking funds on bank account.

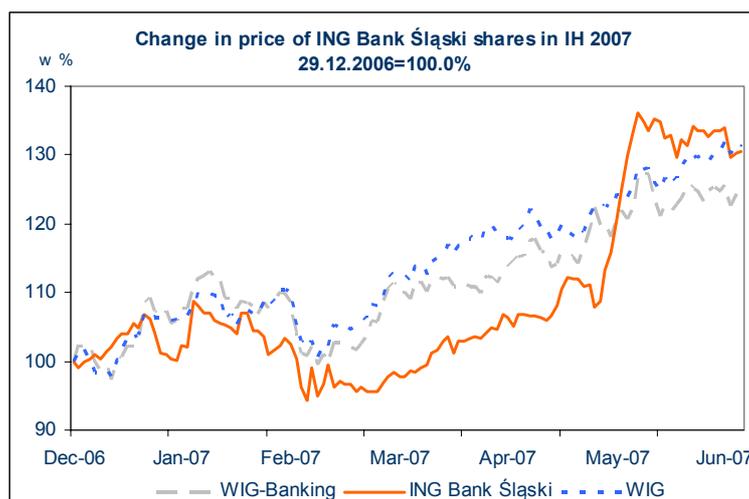
In respect of retail clients, in 1H 2007 the Bank filed 1,061 cases with the court. The total value of writs of execution issued on the Bank's behalf and lawsuits was PLN 10.0 million. For the corporate area those figures were: 24 writs totalling PLN 6.9 million.

## X. INVESTOR INFORMATION

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

The shares of ING Bank Śląski S.A. were admitted to public trading with the decision of the Polish Securities and Stock Exchange Commission of 3 September 1993 and became floated on the Warsaw Stock Exchange on 25 January 1994. The Bank's shares are traded on the primary market of the Warsaw Stock Exchange in the system of continuous quotations. In accordance with the segmentation effective as at 1 April 2007, in the second quarter ING Bank Śląski S.A. was classified to the segment of the largest companies, i.e. to 250 PLUS segment.

Throughout 1H 2007, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange reflected the stock market developments. After the growth recorded in the first weeks of 2007, at the end of February the shares price fell on the Warsaw Stock Exchange. At the time of that correction, on 1 March the price of shares of ING Bank Śląski S.A. decreased to PLN 725 and was the lowest in 1H 2007.



At the beginning of 2Q 2007 the upwards trend returned at the Warsaw Stock Exchange. The shares of ING Bank Śląski S.A. reached the top price of PLN 1,046 at the session closure on 1 June 2007. Finally, during the last stock exchange session closing the first half of 2007, on 29 June 2007, the price of ING Bank Śląski S.A. shares was PLN 1,003, up by 30.6% from the price of 29 December 2006. By comparison, the sub-index WIG-Banking rose by 24.0%.

At the end of June 2007, the market value of ING Bank Śląski S.A. was PLN 13,049 million, while the P/BV ratio was 3.6.

## Ratings

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

As per the release date of this report, the financial credibility ratings for ING Bank Śląski S.A. were as follows:

### Moody's Investors Service Ltd.

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

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

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

### Fitch Ratings Ltd.

Issuer Default	AA -
Outlook on the Issuer Default rating	Stable
Short-term foreign currency	F1+
Individual rating	C
Support	1

Fitch Ratings Ltd. has twice upgraded the credibility ratings for ING Bank Śląski S.A. since January 2007. On 22 January 2007, the Agency upgraded the Issuer Default Rating, or IDR, from 'A+' to 'AA-' following the upgrade of credibility ratings for Poland.

On 11 April 2007, Fitch Ratings Ltd. notified the Management Board of ING Bank Śląski S.A. of upgrading its individual rating from "C/D" to "C" and short-term foreign currency rating from "F1" to "F1+". The upgrade is based on the Bank's improving asset quality and low risk profile, combined with a strong capital base.

## **XI. FINANCIAL STANDING OF CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2007**

### **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.

On 30 June 2007, the net balance sheet total of the capital group of ING Bank Śląski S.A. amounted to PLN 52,796.6 million, up by PLN 9,676.8 million (or 22.4%) 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 2007, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 52,601.4 million compared with PLN 42,995.3 million as at the end of June last year (up by 22.3%).

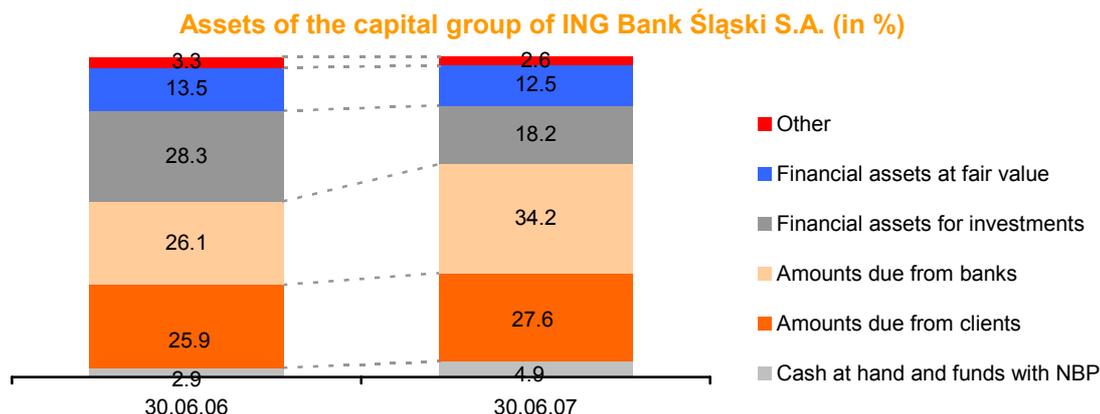
### **Assets**

As at 30 June 2007, the structure of assets of the capital group of ING Bank Śląski S.A. differed considerably from the one reported in June last year, specifically:

- The share of loans in the group's assets rose at ING Bank Śląski S.A. as a result of lending reactivation. As at 30 June 2007, loans and cash loans granted to clients of the capital group totalled PLN 14,567.2 million versus PLN 11,164.5 million at the end of June 2006. They represented a 27.6 per cent share in assets, while a year earlier their share was at the level of 25.9%.
- The share of receivables from banks went up in the balance sheet total. As at the end of June 2007, they amounted to PLN 18,078.9 million against PLN 11,269.9 million last year. They accounted for 34.2% and 26.1% of assets, respectively.
- The share of investment financial assets, mainly formed by debt securities, went down. As at the end of June 2007, they were valued at PLN 9,593.8 million versus PLN 12,221.2 million in June last year. This amount translated into the respective shares of 18.2% and 28.3% in the balance sheet total.

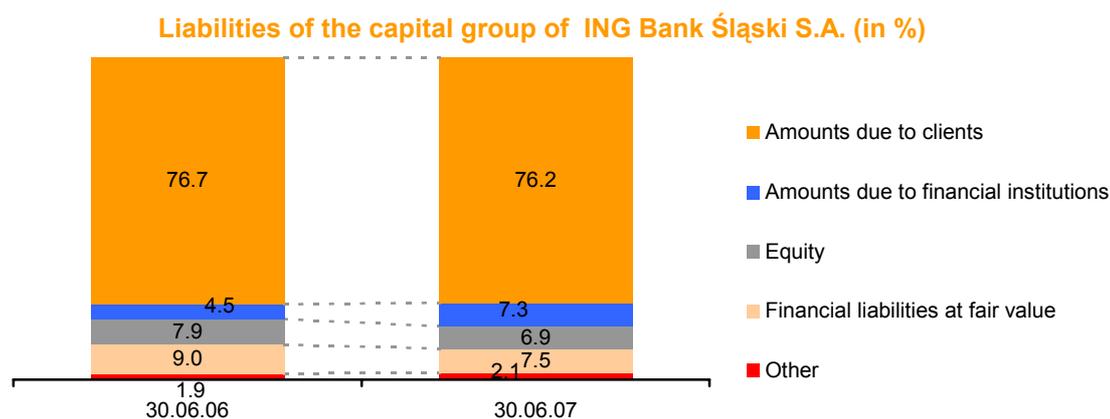
Financial assets carried at fair value through profit or loss (i.e. the ones held for trading over a short timeframe) amounted to PLN 6,591.5 million compared to PLN 5,836.4 million at the end of June 2006. Their share in the balance sheet total was 12.5% against 13.5% in the same period last year.

At the end of June 2007, cash at hand and with the Central Bank totalled PLN 2,608.9 million against PLN 1,231.0 million at the end of June 2006. Their share in the balance sheet total was 4.9% and 2.9%, respectively.



### Liabilities

The funds deposited with the Bank by clients predominated in the sources of funding of the ING Bank Śląski S.A. capital group operations. The value of amounts due to clients went up by 21.7% – from PLN 33,062.9 million at the end of June 2006 to PLN 40,253.4 million at the end of 1H 2007. In June 2007, they constituted 76.2% of the group's liabilities, which translated into an increase by 0.5 p.p. from the same period last year.



At the end of June 2007, the group's amounts due to financial institutions amounted to PLN 3,868.4 million compared with PLN 1,944.6 million at the end of June 2006. The funds acquired from financial institutions accounted for 7.3% of the value of liabilities, while in June 2006 their share was 4.5%.

The share of equity in liabilities of the group of ING Bank Śląski S.A. dropped from 7.9% in June 2006 to 6.9% at the end of June 2007.

## Income Statement

### Gross and Net Profit

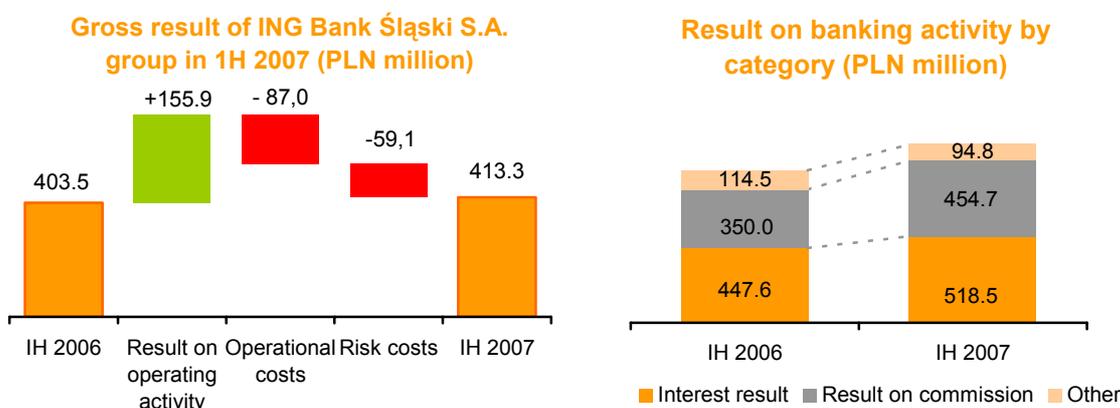
In 1H 2007, the gross financial profit of the Capital Group of ING Bank Śląski S.A. was PLN 413.3 million compared with PLN 403.5 million a year earlier.

Net profit totalled PLN 335.2 million as compared with PLN 332.1 million in 1H 2006 (up by 0.9%).

The main factors influencing the financial results of the capital group of ING Bank Śląski S.A. in 1H 2007 were<sup>7</sup>:

- An over 17 per cent increase of the result on operating activity versus the one generated a year earlier, following the growth of the commission and interest results (up by 29.9% and by 15.8% respectively).
- A 14.4 per cent increase of operational costs, as a consequence of higher staff costs (growth of the number of sales network employees and a new remuneration system), and other costs.
- A positive balance of impairment of assets due to further improvement of the quality of the lending portfolio and efficient restructuring activities in the area of the loss portfolio, transferred to the off-balance sheet records. Nevertheless, due to a very good quality of the portfolio in 2006, the positive impact of the assets impairment on the group's bottom line was lower from 1H 2006. In 1H 2007, the positive balance was PLN 59.1 million below the one reported a year earlier.

In 1H 2007, the result before risk costs for the capital group of the Bank was PLN 378.5 million, up by 22.3% from the same period last year.



<sup>7</sup> The characteristics discussed herein apply to analytical income statement. The category result on core operations includes the result on core operations plus the share in net profits of entities recognised on an equity basis.

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

	IH 2007	IH 2006
Interest result	518.5	447.6
Result on commission	454.7	350.0
Other	94.8	114.5
<b>Result on banking activity</b>	<b>1,068.0</b>	<b>912.1</b>
Operating costs incl. depreciation/amortisation	-689.5	-602.5
<b>Result before risk costs</b>	<b>378.5</b>	<b>309.6</b>
Impairment losses and provisions	34.8	93.9
<b>Gross financial result</b>	<b>413.3</b>	<b>403.5</b>
Income tax	-73.0	-68.3
Net result of minority shareholders	-5.1	-3.2
<b>Net financial result</b>	<b>335.2</b>	<b>332.1</b>

### *Interest Result*

In 1H 2007, net interest income generated by the capital group of ING Bank Śląski S.A. amounted to PLN 518.5 million versus PLN 447.6 million a year earlier. This income derived from:

- a rise in the value of loans and deposits,
- the balance sheet structure, i.e. a continuing low share of loans in assets and a relatively high share of receivables from the financial sector (including FX receivables),
- the pricing policy pursued at ING Bank Śląski S.A., which consisted in offering attractive interest rates, followed by a slight drop in interest margins. In 1H 2007, the capital group of the Bank earned the interest margin of 2.29% versus 2.31% in the same period last year.

### *Non-Interest Income*

Income on fees and commissions constituted the major part of non-interest income. In 1H 2007, it totalled PLN 454.7 million compared with PLN 350.0 million as generated in the same period last year (up by 29.9%).

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

The result on financial instruments carried through profit or loss and revaluation amounted to PLN 25.0 million versus PLN 33.1 million a year ago, while the result on investment financial assets went up. The group earned PLN 22.9 million thereon compared with PLN 16.7 million in the same period last year.

### *Operating Expenses*

In 1H 2007, 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) were PLN 689.5 million against PLN 602.5 million a year earlier, up by 14.4%.

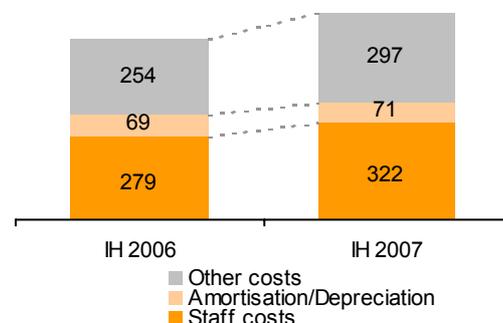
Total costs went up mainly due to the enlarged scale of operations. Market expansion resulted, among other things, in a rise of the main element of costs; i.e. the staff costs. Growth of the number of employees, launch of a new remuneration system at ING Bank Śląski S.A.

connected with salary indexation, higher costs of the incentive system, arising from the execution of Bank commercial objectives, caused the staff costs in 1H 2007 to reach PLN 321.6 million, up by 15.2% from 1H 2006.

Amortisation/depreciation costs totalled PLN 70.8 million, up by 2.3% from a year earlier.

The other costs amounted to PLN 297.2 million versus PLN 254.1 million a year earlier. When compared with 1H 2006, growth of consulting costs was recorded as a consequence of the continuation of numerous projects intended to enhance the processes as well as optimise the sales structures and the costs of space rental connected with development of partner outlets' network.

Costs per category in million PLN



### Impairment Losses and Provisions

After 1H 2007, the risk costs recognised in the income statement of the capital group of ING Bank Śląski S.A. were positive and amounted to PLN 34.8 million. The income from the impaired loans portfolio moved to the off-balance sheet records (PLN 46.9 million) formed the main position thereof. At the same time, the group's income statement reflected the negative impairment due to current lending (mainly in retail area) of PLN 12.5 million.

**Table. Impairment Losses and Provisions**

	Total	Balance sheet exposure		Contingent liabilities	
		Impairment	IBNR	Provision	IBNR provision
<b>Total group</b>					
<b>Total</b>	<b>34.4</b>	<b>46.5</b>	<b>-7.7</b>	<b>0.1</b>	<b>-4.5</b>
Impairment losses	-12.5	-0.4	-7.7	0.1	-4.5
Recovery of written-off receivables	46.9	46.9			
<b>Wholesale banking</b>					
<b>Total</b>	<b>19.4</b>	<b>24.3</b>	<b>-5.2</b>	<b>0.6</b>	<b>-0.3</b>
Impairment losses	0.8	5.7	-5.2	0.6	-0.3
Recovery of written-off receivables	18.6	18.6			
<b>Retail banking</b>					
<b>Total</b>	<b>15.0</b>	<b>22.2</b>	<b>-2.5</b>	<b>-0.5</b>	<b>-4.2</b>
Impairment losses	-13.3	-6.1	-2.5	-0.5	-4.2
Recovery of written-off receivables	28.3	28.3			

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

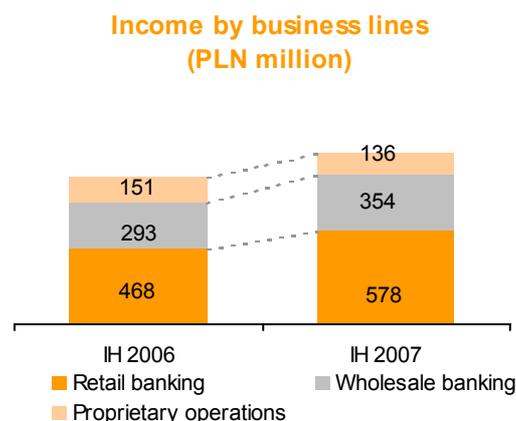
In 1H 2007, the Retail Banking Division generated income of PLN 578.3 million compared with PLN 468.4 million a year earlier (up by 23.4%). The Division's income was influenced by the following factors: increase of income on deposit-lending and clearing activities, and income on shares in the ING Nationale-Nederlanden PTE. Income from sales of FM products was also slightly higher than a year earlier. The Retail Banking Division's income constituted 54.1% of the result on banking operations of the capital group (versus 51.4% in 1H 2006).

Income earned by the Wholesale Banking Division amounted to PLN 353.5 million compared with PLN 292.5 million a year earlier. Increase of the Division's income was, in a major part, the consequence of good results being achieved from core operations, i.e. deposit and lending activity. The Division's income earned from both capital market transactions and sales of FM products to Wholesale Banking Clients proved also higher. In 1H 2007, the share of the

Wholesale Banking Division in the result on banking operations of the capital group of the Bank amounted to 33.1% compared with 32.1% in 1H 2006.

Income on proprietary operations of the capital group of ING Bank Śląski S.A. was PLN 136.2 million, or 12.8% of the total result on banking activity. Income on operations generated in the financial markets area represented almost 50% thereof. The total income of the capital group of the Bank on FM operations (including FM sales for the wholesale and retail segments) amounted to PLN 141.6 million compared with PLN 136.5 million a year earlier.

In 1H 2007, the capital group of the Bank earned PLN 72.8 million in the ALCO area, down by 16.4% from 1H 2006.



## Efficiency

In 1H 2007, the efficiency ratios for the capital group of ING Bank Śląski S.A. were slightly lower than in 1H 2006 when the group's bottom line was affected by a one-off development being a considerable positive balance generated due to impairment of assets.

As regards the efficiency of operations of the capital group, a rise in the operating leverage in 1H 2007 – reflected in the C/I ratio – is particularly noteworthy. This ratio was 64.6% against 66.1% a year earlier. The changes made in the operating area also translated into the enhanced performance, measured with the value of assets and result before risk costs calculated per 1 FTE.

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

	IH 2007	IH 2006
Profitability ratio	29.5	35.0
C/I ratio	64.6	66.1
Return on assets ratio	1.4	1.6
Equity on assets ratio	20.5	21.1
Interest margin ratio	2.29	2.31
Result before risk costs per FTE in thousand PLN	49.3	41.0
Assets per FTE in million PLN	6.87	5.71
Solvency ratio	13.41	16.09

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

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

**Return on assets (ROA)** – net profit per shareholders of the dominant entity to average assets.

**Return on equity (ROE)** – net profit per shareholders of the dominant entity to average equity and own funds.

**Interest margin ratio** – the net interest income to average yield assets of the Bank<sup>8</sup> (including receivables from financial and non-financial entities, fixed and floating yield securities and participation units).

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

<sup>8</sup> Net interest income increased with the income on "internal deposit swaps". Average assets are calculated based on the data from three periods: 30.06.2006, 31.12.2006 and 30.06.2007.