

Report on Operations of ING Bank Śląski S.A. Capital Group

in 1 half 2008



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I. MACROECONOMIC CONDITIONS IN 1H 2008

Major Economic Trends

Gross Domestic Product

In spite of the earlier negative forecasts, in 1H 2008, the Polish economy sustained the high rate of growth. In 1Q 2008, the Gross Domestic Product grew by 6.1% and by 5.6%¹ in the following quarter.

However, the structure of economic growth changed. Intensified consumption became the key driver of GDP growth and allowed for partial compensation of the lower dynamics of investments and negative contribution of net export. In 1H 2008, the total consumption was 5.8% higher than a year ago, while the gross outlays for noncurrent assets went up by 14.3%. The annual result in foreign trade grew by 19.1% for import and by 16.8% for export in 1H 2008.

Labour market and Pay Level

Throughout 1H 2008, the continuation of the phenomena already present on the labour market in 2007 was observed; i.e. a significant growth of demand for employees, which in view of the limited labour resources resulted in the growing pressure on salary rise at the same time.

At the end of June 2008, employment in the enterprise sector was 4.8% higher than a year earlier, and the registered unemployment rate went down to 9.6% (compared with 11.4% as at the end of December 2007). However, the last months of 1H 2008 saw slowdown both in the growth of employment rate and decrease of unemployment rate. These phenomena could be a sign of potential alleviation of tensions on the labour market in the future.

In 1H 2008, the average monthly pay in the enterprise sector was 11.7% higher than a year earlier, which caused a visible increase in the unit labour costs. In March 2008, pensions and disability benefits were indexed, which also increased the real value of an average pension and disability benefit.

Inflation

The acceleration of prices growth was one of the basic problems of the Polish economy. Apart from the pressure on salary growth, the global factors such as high prices of food and fuel, resulted in higher price growth rate. In June 2008, the inflation ratio was 4.6% per annum (or, 2.1 p.p. above the inflation target set by the Monetary Policy Council).

¹ Forecast by the Chief Economist of ING Bank Śląski concerning GDP growth in 2Q as well as consumption and investments growth in 1H 2008.

FX Market

In 1H 2008, the appreciation trend for the Polish currency continued, mainly courtesy of the interest rate disparity and still high growth rate of the Polish economy. Altogether, the Polish zloty gained 13.0% against USD and 6.4% against EUR in 1H 2008.

State Budget

The deficit of the State Budget totalled PLN 3.7 billion, i.e. 18.1% of the amount planned for the entire 2008. Such low deficit resulted from relatively high inflows from PIT and CIT, as well as delays in subsidies for the Social Insurance Fund and lower-than-planned costs of the domestic debt service.

Monetary Policy

In 1H 2008, the Monetary Policy Council (MPC) continued the policy of monetary tightening run in 2007 and increased the interest rates four times: in January, February, March and June. Altogether, in the first six months of 2008, the interest rates went up by 100 b.p. and as at the end of June 2008, they were as follows:

- Reference rate – 6.00%,
- Rediscount rate – 6.25%,
- Lombard rate – 7.50%,
- Deposit rate – 4.50%.

In the opinion of the MPC, which was presented in the update after the last meeting in June 2008, within the next quarters the pressure of salary rise and resulting inflation pressure would probably continue in spite of the expected lower rate of the economic growth. The increased inflation would to a large extent result from the growth of regulated prices as well as rise of food and fuel prices, observed in the world economy and affecting the Polish market. In the light of the mid-term outlook, the inflation pressure may be limited by the following: still good financial standing of companies; high growth rate of investments that may result in higher effectiveness; slowdown of the global economy, globalisation processes; increases of interest rates and appreciation of the Polish currency.

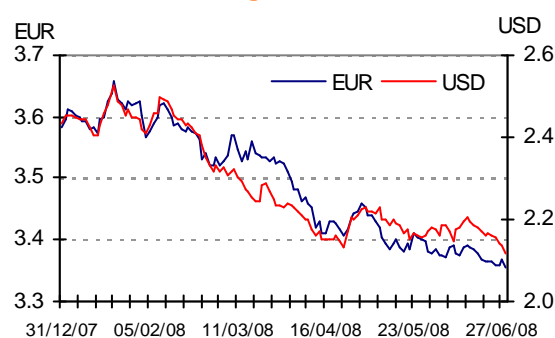
Banking Market

In 1H 2008, the Polish banking sector proved resistant to unfavourable trends observed in the world finance and continued to develop dynamically. At the end of June 2008, the assets of the Polish banking sector grew to PLN 883.7 billion, up by 21.4% per annum.

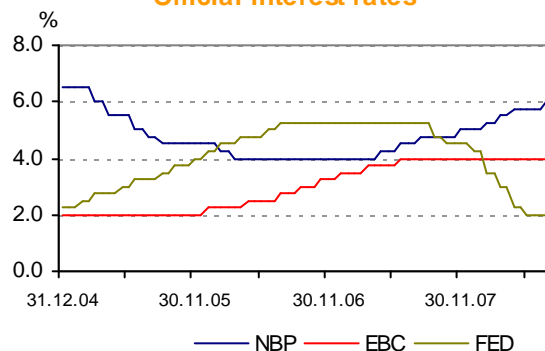
However, the money supply was subject to significant changes, i.e.:

- Dynamic growth of salaries and the situation on the stock market, encouraging to lower the exposures on the capital market, translated into the rate of households

PLN exchange rate in 1H 2008

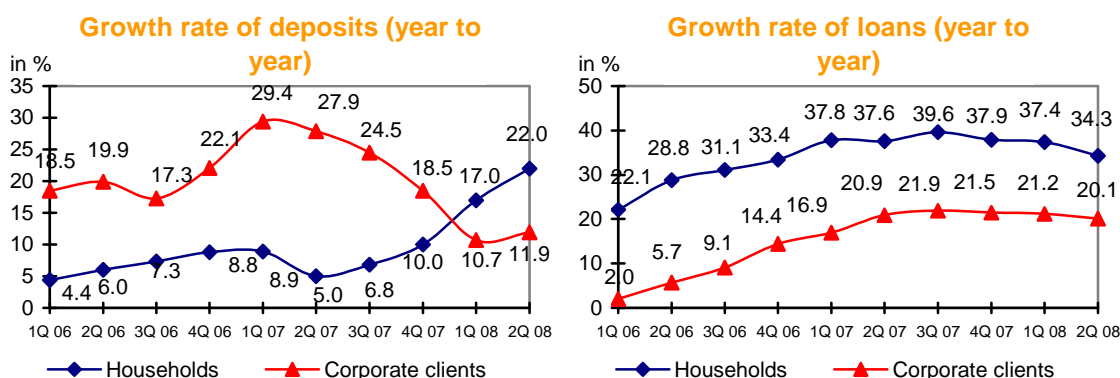


Official interest rates



deposits growth being much higher than in the previous years. As at the end of June 2008, the liabilities of the banking sector towards households totalled PLN 296.8 billion, up by 22.0% from a year earlier.

- The growth rate for funds accumulated in corporate clients' accounts was lower than in 2007 first of all due to an increase of costs (inclusive of salary-related ones), which were translated into slightly worse financial results of enterprises. Funds accumulated in corporate clients' accounts² reached PLN 219.8 billion in June 2008, up by 11.9% from June 2007.
- Due to certain stagnation on the domestic real property market and slowdown of mortgage lending as well as the appreciation of the Polish currency, the growth rate of the banks' credit exposure towards households slightly went down. At the end of June 2008, credit receivables of the banking sector from the households totalled PLN 299.0 billion, up by 34.3% from a year earlier.
- The stable growth rate for the banks' receivables from corporate clients continued. At the end of June 2008, the credit exposure of the banking sector for corporate clients reached PLN 239.7 billion, up by 20.1% from a year earlier.



According to the preliminary data, net profit of the banking sector in 1H 2008 totalled PLN 8.6 billion, up by nearly 20% from a year earlier. The high efficiency of the sector's activity was sustained as well. For instance, the return on equity ratio (ROE) reached 27.3% compared with 27.5% a year earlier.

On the income part, the interest- and exchange-related income of banks went up first of all. Meanwhile, the commission income and income on FM operations were affected by the unfavourable situation on the capital markets (including the investment funds one) and drop of prices of the government debt papers.

However, the growth of the banks' profits was slowed down by a 16 per cent growth of the operating costs. Banks spent considerable funds on hiring new employees (and to attract them, banks usually had to offer salaries higher than in previous years), on functioning of the pro-sales incentive systems and development of bank outlets network.

The quality of the banks' credit portfolios (though already very good) kept improving. In June 2008, the share of impaired loans in the total portfolio of loans for the non-financial sector hit

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

the lowest levels ever and totalled 4.7% (from 5.4% in December 2007). At the same time, the intensified lending contributed to the higher risk costs than a year earlier.

The upward trends, started in 2005, in the number of employees and bank outlets, continued. In the first six months of 2008, banks opened over 450 new branches. Along with the branch network, banking institutions also increased the headcount with approximately 6,500 new employees.

As of 1 January 2008, the Polish Financial Supervision Authority took over the oversight of the banking sector, which should improve the supervision over the entire financial sector in Poland, according to the regulators. The New Capital Accord (Basel 2) became effective at the beginning of 2008, which resulted in an increase of capital needs and lower solvency ratios of the banks due, first of all, to the necessity of accounting for an additional capital requirement for operational risk.

Capital Market

The first half of 2008 saw the continuation of disturbances on the world finance markets, triggered by the crisis on the USA subprime loans market mid 2007. The bear market on SE was additionally aggravated by record prices of raw materials and a threat of global economic slowdown.

In spite of the solid foundations of the Polish economy and good financial results of companies, the Warsaw Stock Exchange recorded mostly the drops interrupted only by minor corrections. In 1H 2008, WIG went down by 26.1%, while WIG20 by 25.0%. In particular, investors continued to exit the entities of lower capitalisation (the process initiated in 2H 2007). The drop of listings on WSE was caused – apart from the situation on global markets alone – by the actions taken by the investment funds companies which sold shares to obtain cash for the clients withdrawing their funds.

At the end of June of 2008, the value of domestic companies listed on WSE totalled PLN 379 billion, down by 25.7% from December 2007. A drop in the market capitalisation was to a certain extent mitigated by new debuts. However, due to the bear market on SE the number of debuts was much smaller than last year – 23 new companies debuted on the Stock Exchange (32 a year ago).

In the first six months of 2008, the trading covered the shares of PLN 170.4 billion (down by 29% from a year earlier). The derivatives market developed dynamically. In 1H 2008, the volume of trading in derivatives totalled 6.3 million pieces, approximately 62% more than last year.

Concurrently, the exchange market in Poland underwent considerable qualitative changes as a result of:

- Introduction as of 1 January 2008 the *Best Practices of WSE Listed Companies*.
- Changes to the segmentation of the regulated market based on the capitalisation of SE companies, such as for example the launch of an Alert List (companies with penny stock, whose listings are characterised by substantial volatility and companies declared bankrupt).
- Implementation of the Liquidity Support Program to improve trading in shares.

- Launch of other structured products onto the market.
- Expanding the scope of co-operation with foreign markets, inclusive of establishing the WSE Agency in Kiev.

The first half of 2008 was also unfavourable for the investment and pension funds market. A drop of SE indexes and withdrawal of savings by the clients substantially reduced the value of the investment funds' assets. It is estimated that in the first six months of 2008 the clients withdrew over PLN 19 billion from the investment funds. In June 2008, the net assets of the investment funds totalled PLN 96.4 billion, down by 28% from the end of 2007. The equity funds suffered in particular as their assets fell by almost 40%. The managers of mixed, stable-growth and debt papers funds had no reasons for satisfaction either.

In spite of the unfavourable market situation, a few new investment funds appeared on the market in 1H 2008. As of the beginning of 2008, the Polish Financial Supervision Authority issued consent to the operation of next six investment fund companies. Pursuant to the announced strategies, the new companies would, first of all, offer closed-end funds for the most affluent clients.

In spite of the record amounts provided by the Social Insurance Company to the pension funds (PLN 10.7 billion) and increase of the funds' members, the bear market on SE caused the assets of pension funds to go down in 1H 2008 by approximately 3%, while the clearing unit value dropped by 9%.

II. STRATEGY OF ING BANK ŚLĄSKI S.A.

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

The mission of ING Bank Śląski S.A. reads: *We help our clients manage their financial future.*

While pursuing its mission, the Bank – similarly as the entire ING Group – follows the following paradigms:

- *To follow a client-centric approach.* Each element of customer service is provided in a transparent and candid manner. The Bank wants the client to understand the offer and realise the relative risks. The client is aware of all terms and conditions from the moment the offer is placed; the services are provided in a candid manner, they are clear for the client, with no strings attached and with full functionality without additional costs for the client. The Bank does its best to offer its clients products and services that fulfil their expectations as much as possible.
- *To maximise added value.* The Bank understands added value as the difference between the income and costs related to the service of a specific client group. By using assorted distribution channels adapted to the needs of the individual clients, the Bank is able to manage effectively the costs of their service, and thus maximise the added value.
- *To promote sustainable growth.* The Bank endeavours to reach steady growth of profits by stable expansion of client base and gradual increase of volumes while offering products at prices that are attractive for clients. It is the Bank's intention to create stable growth of value rather than take advantage of quick wins from offering high-margin products that do not meet the clients' needs.
- *To strive for service excellence.* It is the Bank's objective to continue improving customer service quality while guaranteeing high security of systems used. ING Bank Śląski S.A. keeps improving processes and simplifying procedures and adequate IT tools to establish new standards of customer service. The Bank continues works to optimise the operational activity.
- *To take care about employees.* The Bank attaches great importance to its corporate culture based on integrity, respect and transparency. It is essential that the employees identify with the Bank's values, its mission and vision and that they know their roles in the organisation and feel a part of it. Upgrading the qualifications of the staff and their professional development is one of the Bank's priorities.

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

- Strengthening the market position by harmonious development of basic operational areas; i.e. retail banking, wholesale banking and financial markets. The Bank's expansion on these markets means supporting the sale of priority products such as: savings accounts (OKO), mortgage loans, credit cards, asset based lending and sale of FM products.

- Meeting the shareholders' expectations with regard to the growth of the company value, while maintaining the strategic balance; i.e. taking into consideration in the Bank's activity also the needs of other stakeholders (clients, employees).

As part of implementation of the general development strategy of ING Bank Śląski S.A., in 2008 the main actions by individual business lines focus on the following areas:

Retail Banking

- To build "the most Internet-based bank ever" by offering an attractive Internet account and expanding the functionalities of the electronic banking service.
- To ensure dynamic growth of sales of mortgages (by developing the Loan Xpress line in the financial intermediaries network) among other things.
- To continue further development of the outlets of new type and the self-banking zones in order to optimise costs and improve customer service.
- To make the offer more competitive to ensure constant growth of funds entrusted to the Bank.

Wholesale Banking and Financial Markets

- To increase the market share measured by the size of loans and client number.
- To modify the products, both the tailor-made ones for strategic clients and the standard, yet flexible in terms of pricing, offer addressed to clients from the lower segments.
- To improve the processes and cost effectiveness.
- To be more active in terms of cross-selling, especially in terms of products and services with high added value (including but not limited to FM derivatives, asset-based lending).
- To focus on upgrading the employees' skills and on their professional development.

Factors that support development

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

Internal

- Large customer base.
- Membership in the large international financial group that provides wide access to the expertise, technologies and best practices.
- The Bank's image as an organisation that cares about high standards of customer service.
- High brand recognition level.
- Fully-fledged multi-channel distribution system.
- Business model based on process effectiveness (optimisation, standardisation and automation of processes; meeting client expectations).
- Organisational culture based on honesty, respect and transparency that helps retain existing employees and win new valuable candidates.

External

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

Threats to Development

Successful implementation of the strategic objectives by ING Bank Śląski S.A. may be put at risk by the following factors:

- Deceleration of economic growth, which translates into deterioration of the corporate financial standing and lower demand for labour. Ultimately, it may have negative impact on both the size and the quality of bank credit portfolios.
- Growth of inflation and a restrictive monetary policy resulting in decrease in the demand for loans.
- Continued crisis in financial markets may make the clients look for alternative forms of depositing their savings.
- Lower real estate prices and the risk of deterioration in the quality of mortgage portfolios.

III. MAJOR ACHIEVEMENTS OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2008

Expansion of client base

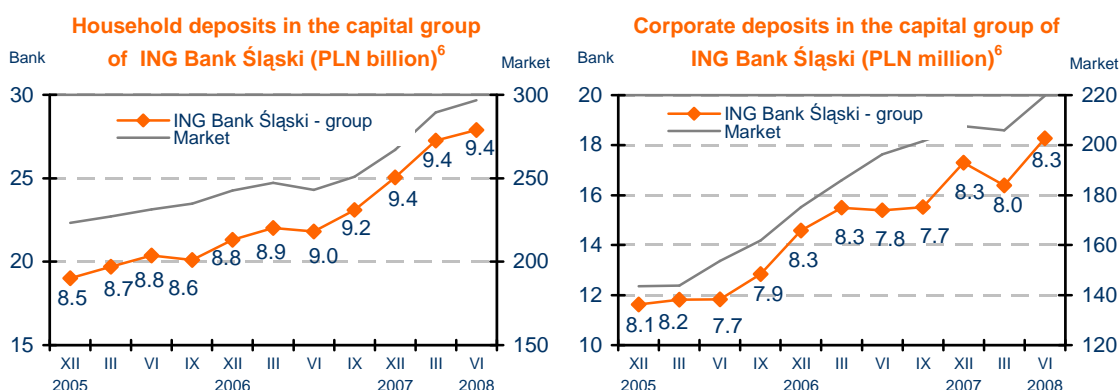
I H 2008 brought a major expansion both of individual and corporate client base. As at the end of June 2008, ING Bank Śląski S.A. provided service to:

- 2.41 million of retail clients, i.e. 150,000 more than as at the end of 2007,
- 12,742 corporate clients, as compared to 12,309 entities in 2007 (increase by 433 entities).

Strong Expansion on both Deposit and Credit Market

Similarly as in previous years, also in 1H 2008, ING Bank Śląski S.A. managed to sustain the favourable trends in terms of acquisition of surplus funds. The strong deposit base is a major advantage for the Bank's future expansion on the credit market, especially in view of declining liquidity of the banking sector.

As at the end of June 2008, the total value of deposits accumulated by the capital group of ING Bank Śląski S.A. amounted to PLN 46,686.2 million, up by 8.8% from December 2007. The deposits at the Bank's capital group represented 8.9% of the total value of funds deposited with the banking sector (the same share as at the end of 2007)³.



The Bank took advantage of the situation observed on the market due to a transfer of household deposits invested in mutual funds onto bank deposits. At the end of June 2008, the household funds deposited in the accounts of the Bank's capital group totalled PLN 28,227.8 million. The balance of household deposits in the capital group grew by PLN 2,871.3 million (or, 11.3%) in comparison with the end of 2007.

³ The diagrams show the shares of ING Bank Śląski S.A. in the core markets.

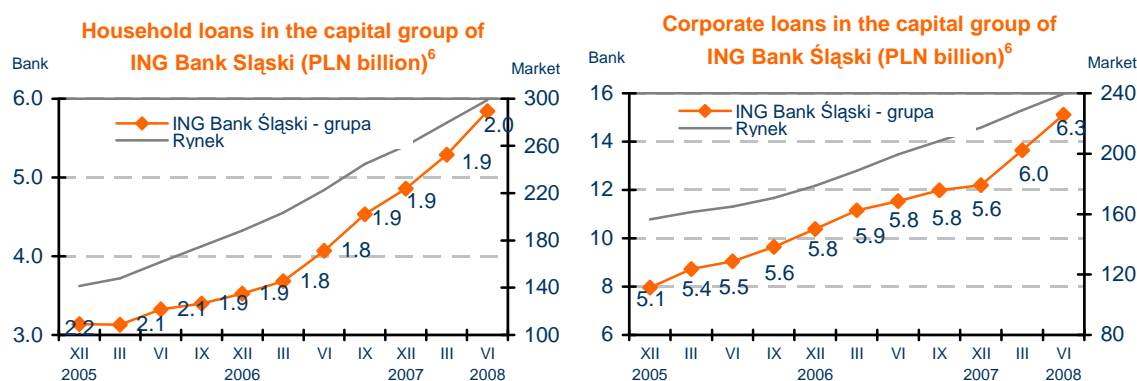
Table. Structure of deposits from clients of the capital group of ING Bank Śląski S.A.

	30.06.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Households	28,227.8	25,356.5	21,472.4	19,151.0	15,101.0
Business entities	11,990.7	12,746.7	10,375.3	8,513.1	9,076.2
Financial entities (other than banks)	3,587.0	2,226.2	2,881.6	1,624.5	1,037.3
Entities of the sector of central and local government agencies	2,880.7	2,571.2	1,528.1	1,384.5	1,195.1
Total	46,686.2	42,900.6	36,257.3	30,673.1	26,409.6

The good financial standing of corporate clients of ING Bank Śląski S.A. translated into a growth of the corporate clients' deposits from PLN 17,544.1 million in December 2007 to PLN 18,458.4 million in June 2008 (by 5.2%).

One of the major achievements recorded in 1H 2008 by ING Bank Śląski S.A. was a breakthrough in the downward trend observed in the last years in the lending market share.

At the end of June 2008, the total value of loans and other receivables of the capital group of ING Bank Śląski S.A. from clients totalled PLN 20,385.7 million versus PLN 16,379.1 million as at the end of 2007 (up by 24.5%). With those results, the Bank's group held a 3.9 per cent share in the total credit receivables of the entire banking sector (compared with 3.6% at the end of 2007).



Credit exposure of the Bank's capital group, both to the retail and corporate clients, went up dynamically in the first six months of 2008. The relatively quicker growth was recorded for the household credit receivables, which resulted in a larger diversification of the entire credit portfolio. In June 2008, loans to households totalled PLN 5,916.3 million, up by PLN 988.0 million (or 20.0%) from the end of 2007. This growth was driven basically by PLN mortgage loans. The credit receivables from institutional clients⁴ totalled PLN 13,851.5 million, up by PLN 2,034.5 million (or 17.2%) from the end of 2007.

⁴ In total for the following sub-sectors: corporate, non-commercial institutions operating for households, non-monetary financial institutions, local government institutions and social security funds.

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

	30.06.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Households	5,916.3	4,928.3	3,615.4	3,238.7	3,385.3
Business entities	10,582.0	8,896.6	7,064.7	5,926.1	6,614.5
Financial entities (other than banks)	2,596.8	2,225.2	2,010.5	829.2	529.1
Entities of the sector of central and local government units	672.6	695.2	668.6	426.0	386.4
Other receivables	1,007.5	195.3	211.8	288.0	287.8
Impairment write-off	-389.6	-561.4	-702.9	-805.1	-795.3
Total	20,385.7	16,379.1	12,868.1	9,902.9	10,407.9

Clear Improvement of Financial Results and efficiency

In 1H 2008, net profit of the capital group of ING Bank Śląski S.A. totalled PLN 407.5 million, up by 21.6% from a year earlier.

As regards the generation of financial results by the capital group of ING Bank Śląski S.A., the focus should be laid on the following phenomena:

- Growth of net interest income, totalling PLN 606.3 million (inclusive of swap points), up by 28% from a year earlier. This growth resulted, first of all, from the growth of basic balance sheet figures and increase of loans' shares in the assets structure.
- Good results recorded on the financial markets, both on operations with the clients and own operations. In 1H 2008, these operations generated PLN 271.8 million, up by 92.4% from a year earlier. This amount also included PLN 25.3 million on the sale of MasterCard Incorporated shares.
- Continuing favourable trends in the scope of risk costs due to a very good quality of credit portfolio. The balance of impairment charges was positive and totalled PLN 58.2 million, including PLN 43.0 million from the sale of the old portfolio of "loss" category loans, transferred to the off-balance sheet books.

Upon deducting the one-off gains (from the sale of credit portfolio and MasterCard shares), the gross profit in 1H 2008 would be higher by 6.6% than in 1H 2007.

The basic ratios of operational efficiency improved as well:

- ROE went up from 20.5% in 1H 2007 to 23.7% in 1H 2008.
- Cost/Income ratio went down from 64.1% to 62.6%.

Material Progress in Adaptation of the Organisation to Market Challenges

In 1H 2008, ING Bank Śląski S.A. continued efforts to create an institution that is capable of building long-lasting and valuable relations with the clients, despite the growing competition. The following projects run as part of these efforts deserve special mention:

- New Front-End application. The replacement of the old branch system was primarily aimed at improving the service quality by simplifying the processes of acquisition, sales and customer service and by lowering operational risk. In 1H 2008, works were run to implement new solutions in the electronic banking systems and credit cards

systems. Ultimately, the new application will cover all sales and customer service processes as well as all distribution channels.

- Network of outlets of new type. In 1H 2008, 25 outlets of new type (mostly based on the franchising model) were added to the Bank's distribution channels.
- Self-Banking. The core of the Self-Banking lies in separating self-banking zones in the existing branches that would be operational 24 hours a day, where the clients may deposit and withdraw cash on their own (using the machines available there), where they can make a transfer via *ING BankOnLine*, get connection with the *HaloŚląski* service or talk to a Call Centre consultant. In 1H 2008, the Bank launched 101 self-banking zones in the Bank's branches and in June 2008 148 branches out of the total number of 330 had such zones.
- The Most Internet-Based Retail Bank Programme At the beginning of January, the Bank's offer was expanded with the Internet *Direct Account*, oriented at clear improvement of the Bank's share in the sale of personal cards with access to the Internet together with new solutions for the Internet banking systems.
- Microchip Cards. Towards the end of 2007, the Bank began the mass issue of debit microchip cards. In 1H 2008, the Bank was getting ready for the issue of credit microchip cards.
- Loan Xpress. The Bank expanded the scope of the programme by financing the purchase of apartments in other towns and cities and by covering the primary market with funding as well.
- Migration of the service of strategic clients' loans to the ICBS central banking system. This migration improved the process efficiency and added new functionalities (enabling among others the implementation of new credit products).

IV. OPERATIONS OF ING BANK ŚLĄSKI S.A. IN 1H 2008

Retail Banking

Product Offer and Changes Made

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

The personal *Lion Accounts*, the OKO *Open Savings Accounts*, and mortgage loans play a major role in retaining long-term relations with individual clients.

The basic modification introduced in 1H 2008 by ING Bank Śląski S.A. to the deposit and clearing offer for individual clients was the *Direct Account* offered as of the beginning of the year. Apart from zero fees for its maintenance, the account offer comprises free debit cards, a wide network of free ATMs and safety of deposited funds that may be guaranteed only by a large and stable bank. This account together with new solutions in the area of the Internet banking is to strengthen the image of ING Bank Śląski S.A. as an Internet-based bank.

Moreover, in 1H 2008, the Bank raised the interest rates on funds deposited in OKO accounts and introduced the e-Deposit with a minimum amount of PLN 100,000 at an attractive interest rate.

In response to the growing interest of the clients in structured finance products, the Bank in co-operation with ING Life Insurance Company held three subscriptions for the Investment Insurance Deposit. In view of the situation observed on global markets, the yield on these two products depended on indexes, diversified in geographical terms and based on the raw material prices. Works were also run on launching a new savings product, *Profit without Risk*, that would combine the features of savings, structured and insurance products. It was included in the offer mid-July 2008.

As regards lending, ING Bank Śląski S.A. focused its efforts mostly on comprehensive solutions for the *Loan Xpress*, a new line of loans. This line, offered in co-operation with agents, was launched on a pilot basis in autumn of 2007. It is characterised, first of all, by simplicity, high standardisation and automation. Due to these features, the credit decision should be communicated to the clients within fifteen minutes, and the final one within maximum three days from the date of the application submission. In 1H 2008, the main activities run by the Bank in connection with *Loan Xpress* Project consisted in:

- Expanding the Project so as to include the real property funding in other cities; i.e. Poznań, Kraków, Łódź, Szczecin and Katowice.
- Pilot sales via new distribution channels: Private Banking Centres, franchising outlets, selected employees of ING Life Insurance Company and leading retail outlets.
- Modification of the product attributes, including: expansion of acceptable sources of income for credit capacity assessment, lending for purchase/construction of the real property on the primary market and increase of the maximum loan amount for refinance of previously drawn credit facilities.

In the area of mortgage loans offered within the own branch network, due to visible rekindled growth of interest in loans in Swiss francs on the part of clients, ING Bank Śląski S.A. launched CHF-indexed loans in mid-April. The plans assumed the expansion of CHF loans – upon provision of relevant system solutions – also onto the *Loan Xpress* Program.

For cash loans, the Bank continued the big-scaled pre-scoring campaigns addressed to the selected group of clients. Pre-scoring means performing the complete credit capacity assessment and verification of the client as well as determining the global credit limit and product limit before sending the offer to the client. It allows for preparing the credit agreement, its signing and funds disbursement during a single visit to the Bank's branch. In 2Q 2008, the Bank modified the pre-scoring offer by increasing the maximum amount of loan that may be extended within pre-scoring and extending the maximum tenor.

As part of its retail activity, ING Bank Śląski SA also services small businesses⁵. The main products of ING Bank Śląski S.A. for the Small Business segment include: *Lion Accounts* and *Direct Accounts* for Small Business, *Small Business Open Savings Account*, term deposits, credit products (such as a credit line in the current account addressed to small businesses, and a cash loan, which combines the features of an investment loan and a working capital loan, addressed to that segment) as well as credit cards.

In 1H 2008, ING Bank Śląski S.A. modified the offer for Small Business by:

- Implementing the Internet-based *Direct Account* for Small Business. Attributes of this account are similar to these of *Direct Account* offered to individual clients.
- Modifying the credit offer by increasing the limit for non-collateralised exposures and adding the offer of consolidation loans drawn from other banks, addressed to the housing communities, among other things.
- Conducting another pre-scoring campaign offering credit cards, credit line and cash loans to Small Business.

ING Bank Śląski S.A. strongly supported the sale of products of key importance for the accomplishment of business objectives with wide-scale marketing campaigns. The main projects in this area include:

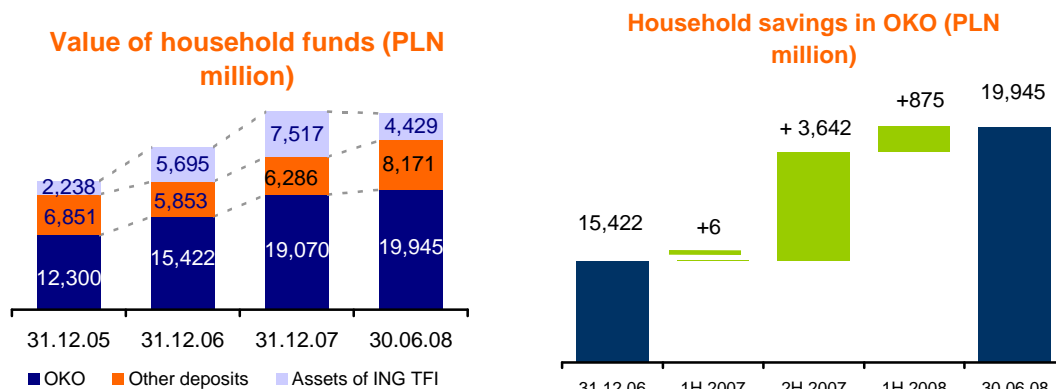
- Market launch of the *Direct Account* with the leading theme *So big and so Internet-wise* whose basic targets included strengthening the Bank's image as an Internet-based bank.
- Comprehensive wide-ranged loyalty program *You bank - you buy* which allows clients to purchase products by program partners at attractive prices.

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

Deposits

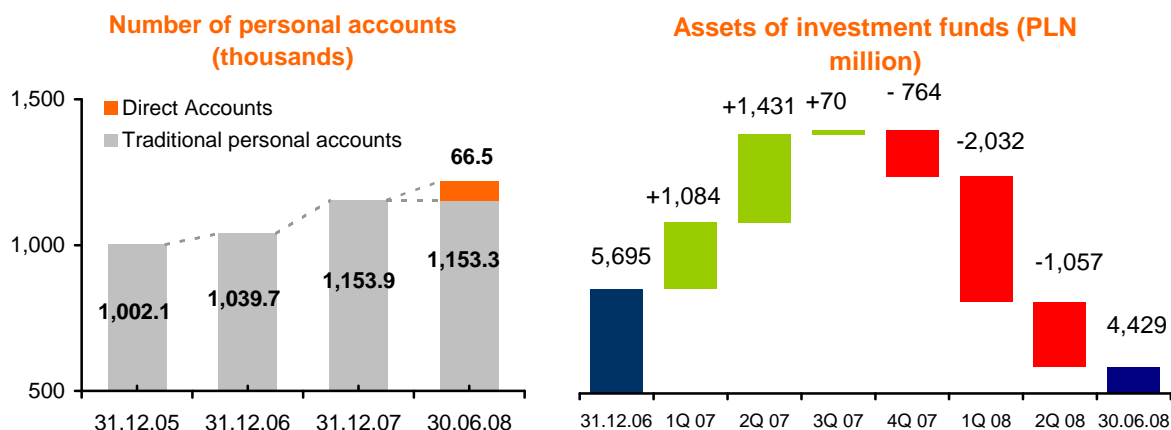
As at 30 June 2008, the funds entrusted with ING Bank Śląski S.A. by households totalled PLN 32,544.9 million, versus PLN 32,873.5 million recorded in December 2007.

Banking deposits formed their major part. They reached the level of PLN 28,116.1 million, up by 10.9% from the end of December 2007. At the end of June 2008, household deposits accumulated at the Bank represented 9.4% of the total household deposits in the banking sector (i.e. the same market share as at the end of 2007).



The households deposit their spare funds with ING Bank Śląski S.A. mainly in the *Open Savings Accounts (OKO)*. As at the end of June 2008, the value of funds deposited in OKO accounts by households totalled PLN 19,945 million, up by PLN 875 million (4.6%) from December 2007.

The range of clearing services for retail clients was also significantly extended at the Bank. As at the end of June 2008, ING Bank Śląski S.A. maintained 1,222,800 personal accounts compared with 1,153,900 in December 2007 (up by 6%). This figure included 66,500 *Direct Accounts*. Small businesses held 161,900 current accounts with the Bank, inclusive of 16,100 *Direct Accounts*.

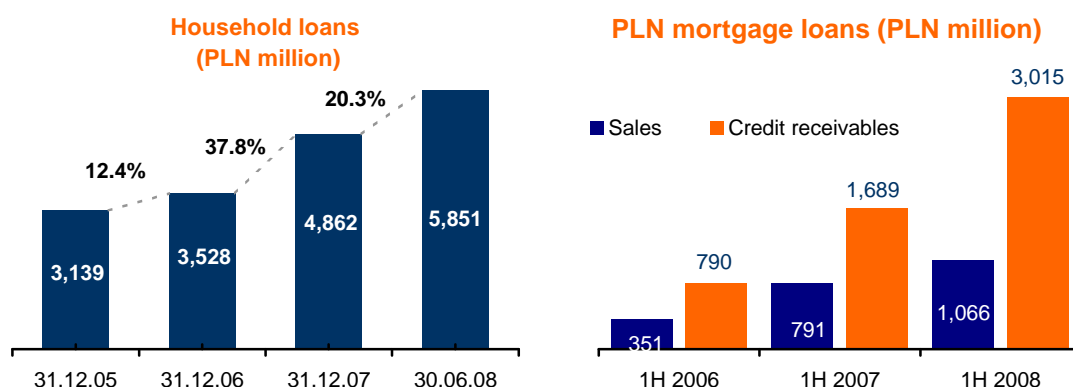


To provide the clients with a wide array of savings products, ING Bank Śląski S.A. also distributes units of ING TFI investment funds via its distribution channels. Due to a bear market on the stock exchange market, at the end of June 2008 the net assets of ING TFI acquired via ING Bank Śląski S.A. went down to PLN 4,429 million (from

PLN 7,517 million at the end of 2007). A significant part of funds withdrawn from the investment funds was located in the Investment Insurance Deposits that attracted a lot of interest among the clients. At the end of June 2008, their value reached PLN 1,243 million versus PLN 816 million at the end of 2007.

Lending

As at the end of June 2008, household credit receivables of ING Bank Śląski S.A. totalled PLN 5,850.7 million. In 1H 2008, the Bank's credit exposure towards households went up by PLN 988.7 million, or 20.3%. Thus the Bank increased its share in the market of household credit receivables to 2.0% (from 1.9% in December 2007).



The PLN-denominated mortgage loans played a major role in invigorating the Bank's lending to households. Throughout the first six months of 2008, the Bank extended PLN 1,066 million worth of PLN-denominated mortgages (vs. PLN 791 million a year earlier). As at the end of June 2008, the Bank's credit receivables due to PLN-denominated mortgage loans totalled PLN 3,015 million against PLN 2,365.5 million as at the end of 2007 (up by 27.5%).

The CHF-indexed loans, launched mid-April 2008, were very popular among the clients. By the end of June 2008, the Bank extended PLN 154.2 million worth of such credit facilities.

The Bank's exposure towards small businesses also rose considerably. As at the end of June 2008, those receivables totalled PLN 1,067 million, up by 31.6% from the end of 2007.

Bank Cards

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

At the end of 2007, the Bank was among the first Polish banks to issue chip cards on a mass scale. At first, debit cards with magnetic strip were replaced with chip cards. In 1H 2008, works were run over the EMV project for credit cards. The Bank will issue chip credit cards in 3Q 2008.

Altogether, by the end of June 2008, ING Bank Śląski S.A. issued 1,736,200 payment cards to retail clients (up by 9.3% from the end of 2007), inclusive of 273,700 credit cards (up by 4.9% from the end of 2007).

Corporate Banking

Product Offer and Changes Made

The product offer, its scope, quality and suitability to clients' preferences are among the main factors for selecting a bank by corporate clients. This is why, ING Bank Śląski S.A. never gives up its efforts to have the products characterised by top market standards in stock.

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

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

In 1H 2008, ING Bank Śląski S.A. continued works to improve the offer and optimise the processes related to the cash management area, which is becoming more and more popular among the clients. Consequently, the Bank:

- Finalised the implementation of the new Internet banking system for corporate clients called *ING BusinessOnLine*. In 1H 2008, the Bank expanded the functionality of the new application with Direct Debit and *GOBI*, service of Trade Finance products, European transfer and loan service. *ING BusinessOnLine* is one of the most sophisticated Internet banking systems on the Polish market. It features full security of transactions, a flexible configuration of user rights and customisation to suit best the companies' needs by providing access to almost all products offered by the Bank.
- Improved the bank account by implementing, among others, a new procedure for verification of company representatives as well as launching the closed cash withdrawals.
- Implemented the innovations for liquidity products such as: *SIMP* and *SIMP Deposit* as well as Direct Debit.

The ING Bank Śląski S.A. credit offer for corporate clients covers the following: overdrafts, working/maintenance capital loans, investment loans, indexed loans, loans to finance export receivables insured by Export Credit Insurance Corporation, Joint Stock Company (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, such as leasing, factoring and commercial property finance.

The offer of ING Bank Śląski S.A. in regard to financing the operations of wholesale clients was modified in 1H 2008. The Bank:

- Introduced new product assumptions for the guarantee line.
- Started the third pilot of the credit *Fast Track*. *Fast Track* is based on automatic setting of limits for standardised credit products, thus simplifying and shortening the end-to-end loan origination process. The action held in 1H 2008 resulted in setting transactional limits for current clients and performing additional calculations of limits that allow for automatic renewal of products granted within the track.

- Modified procedures to align them with legal regulations binding for the following types of loans: those offered in co-operation with Bank Gospodarstwa Krajowego (loans with thermal modernisation premium), with subsidies from the Agency for Modernisation and Restructuring of Agriculture as well as funding of receivables insured with Export Credit Insurance Corporation, Joint Stock Company (KUKE S.A.).

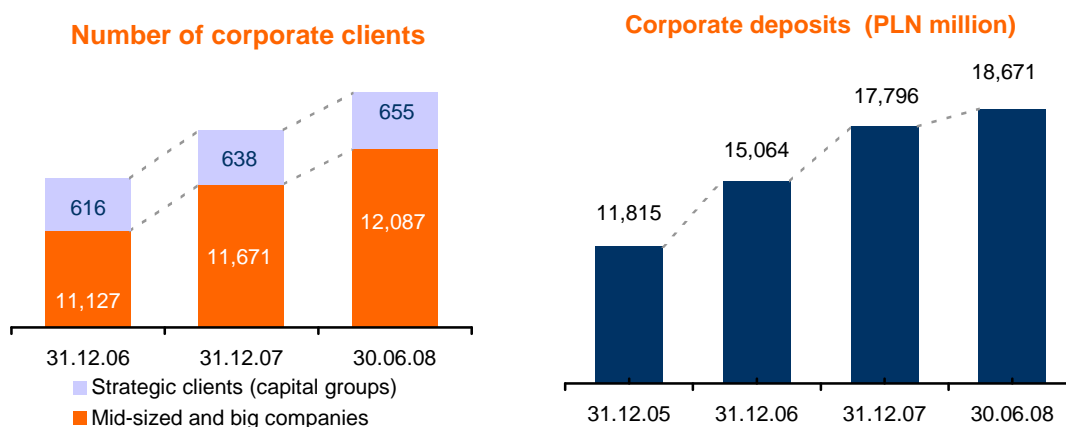
The Bank also co-operated with many institutions to develop a special credit offer for Polish companies. As part of its efforts in that area, the Bank:

- Participated in the meetings of the Working Group of the Polish Banks Association over the recommendation pertaining to the co-operation between the banks as well as local and regional funds operating on the Polish market. ING Bank Śląski S.A. as one of few banks has been invited by BGK to participate in works over developing the operational model for these funds.
- Participated within the Polish Banks Association in works of the team for aligning the principles of investment- and calamity loans extension as well as credit sureties to EU regulations.

Within the launched action of collecting the requests for subsidies both at national and provincial level, ING Bank Śląski S.A. started an intensive promotion of programmes by individual meetings with companies and as part of the cycle *Breakfast with the EU*.

Deposit and Clearing Activity

As at 30 June 2008, the value of institutional clients' deposits⁶ at the Bank totalled PLN 18,671.2 million (vs. PLN 17,796.4 million in December 2007). It is estimated that in June 2008 ING Bank Śląski S.A. held an 8.3% share in the market of institutional clients' deposits, which was the same as at the end of 2007.



The higher value of deposits of institutional clients at ING Bank Śląski S.A. was in major part the consequence of a larger corporate clients base. The number of corporate entities using Bank's services went up in 1H 2008 by 433. The newly acquired clients were mostly mid-sized companies.

⁶ Figures cover the Bank's liabilities towards: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, social security institutions.

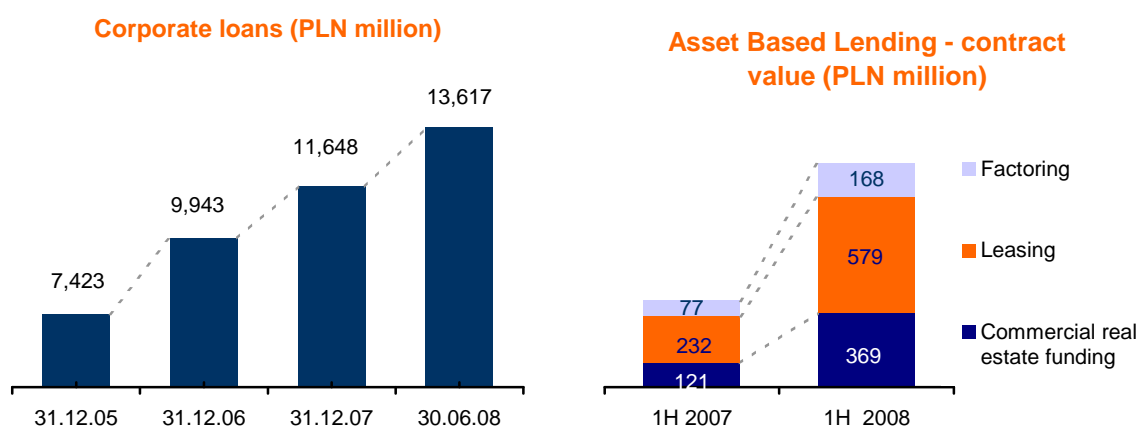
The solid and highly attractive level of the clearing and deposit offer of ING Bank Śląski S.A. resulted in an increase of the number of current accounts held by corporate clients. For instance, in June 2008, the Bank maintained 14,400 such accounts (14,100 at the end of 2007). Corporate clients also showed more and more interest in electronic distribution channels and state-of-the-art clearing systems, and notably:

- The number of users with access to Internet banking grew from 16,500 in December 2007 to 17,100 in June 2008.
- 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 311 at the end of 2007 to 326 in June 2008.

Lending

As at the end of June 2008, credit receivables of ING Bank Śląski S.A. from institutional clients⁷ totalled PLN 13,616.8 million versus PLN 11,647.7 million in December 2007 (up by 16.9%). This result substantially improved the share of ING Bank Śląski S.A. in the lending market. At the end of June 2008, the Bank held a 6.3 percent share in the market of institutional loans (versus 5.6% at the end of 2007).

The value of credit receivables of ING Bank Śląski S.A. from all segments of corporate clients went up in 2008. The Bank's lending to the clients from the large and mid-sized companies rose at a particularly dynamic pace (up by 25.4% throughout the year).



In 1H 2008, ING Bank Śląski S.A. recorded a substantial growth of the credit exposures connected with service of the EU aid programmes. At the end of June 2008, the loans extended and commitment letters covering EU loans totalled PLN 1,399.4 million (vs. PLN 1,290.4 million as at the end of 2007).

ING Bank Śląski S.A. expanded co-operation with other ING companies in the area of asset based finance; i.e. in respect of sale of leasing and factoring services as well as commercial property finance. In 1H 2008, the total value of asset based finance agreements signed in co-

⁷ Figures cover the Bank's receivables from: enterprises, non-commercial institutions operating for the benefit of households, non-monetary financial institutions, government and local government units, social security institutions.

operation with other ING companies reached PLN 1,116 million, up by 160% from a year earlier.

Money and Capital Markets

In 1H 2008, ING Bank Śląski S.A. recorded sound results in financial markets, both in the area of client- and proprietary trading.

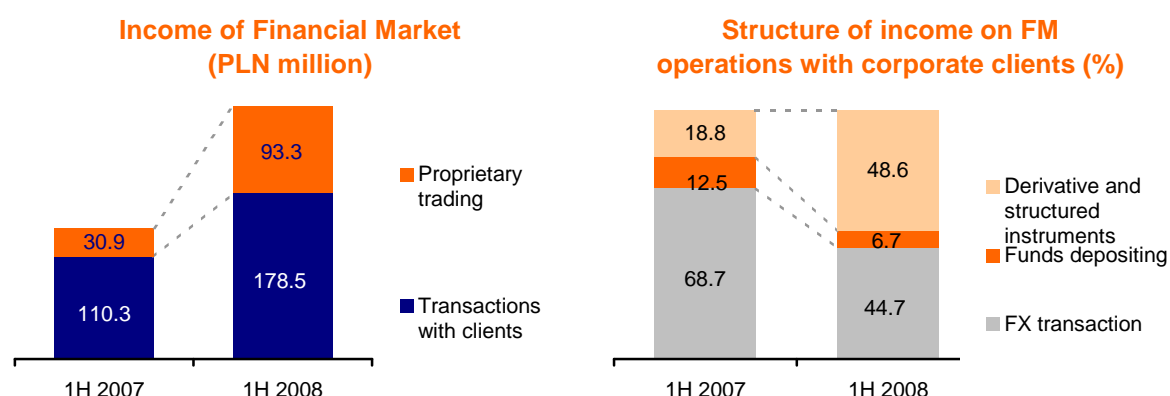
A significant increase in the scale of client trading was possible owing to the high service quality and attractive product offer, especially in comparison with competitors, which included exotic options and barrier options, among other products.

In response to market needs, in 1H 2008 ING Bank Śląski S.A. added new currencies to the exchange rate table such as Bulgarian lev (BGN), Icelandic krona (ISK), Romanian leu (RON) and South African rand (ZAR). On the other hand, within the plan to improve the client service model, works were run to upgrade the IT systems and to launch an Internet platform for executing transactions (ING Trade).

Some steps were also taken in order to invigorate the REPO market developing in Poland, as well as to stimulate the Bank's direct involvement in the European markets within proprietary trading. At the same time, the Bank continued implementation of the plan initiated in 2007 to mitigate the credit risk connected with proprietary trading by signing the Credit Support Annex to ISDA agreements with main partners on the inter-bank market.

In June 2008, ING Bank Śląski S.A. attended to 52 debt papers issuers. The debt due to issue totalled PLN 5,537.7 million. ING Bank Śląski S.A. became the fourth market player, in terms of the debt due to issue of short-term debt securities (with a market share of 12.5%) and the third player in terms of the value of debt due to the issue of corporate bonds with maturities over 1 year (share of 19.0%). In December 2007, these shares were respectively: 17.0% and 19.5%.

In the period from November 2007 to April 2008, ING Bank Śląski S.A. was ranked on the second position in terms of the Dealer Activity Index (IAD) from among seventeen banks candidating to fulfil the function of the 2009 Money Market Dealer. The Bank also held the status of the Treasury Securities Dealer in 2008.



In 1H 2008, the Financial Markets Division recorded the income of PLN 271.8 million versus PLN 141.3 million a year earlier.

Approximately 65% of the Bank's income on Financial Markets was generated by transactions with the clients. In 1H 2008, it totalled PLN 178.5 million, up by 61.8% from a year earlier. Further favourable changes were also observed with regard to the structure of the Bank's FM-related income. The share of income from simple FX transactions fell, whereas the share of income generated by more sophisticated and profitable derivative instruments went up. For example, the share of FX transactions in the overall FM income from wholesale client operations fell from 68.7% in 1H 2007 to 44.7% in 1H 2008.

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

Structure of ING Bank Śląski S.A. Capital Group

In 1H 2008, the composition of ING Bank Śląski S.A. capital group remained unchanged and – apart from the dominant entity – as at 30 June 2008 the group was formed by the following companies:

- ING Securities S.A.,
- ING Bank Hipoteczny S.A. (former Śląski Bank Hipoteczny S.A.),
- ING BSK Development Sp. z o.o.,
- ING Pension Fund Society,
- Solver Sp. z o.o.,
- Centrum Banku Śląskiego Sp. z o.o. in liquidation.

ING Bank Śląski S.A. capital group consists of entities that operate in various segments of the financial market or in its infrastructural zone. As the dominant entity, ING Bank Śląski S.A. takes key decisions pertaining to both the operations and financial matters of the entities forming the group, by performing control functions in the supervisory authorities of those companies. Capital links with companies are strengthened with the trade relationships. The capital group members hold current accounts, and also deposit their surplus funds in term deposits at ING Bank Śląski S.A. The Bank also credits business of some companies (e.g. ING Bank Hipoteczny). The transactions of ING Bank Śląski S.A. with subsidiaries are performed on an arm's length basis.

ING Securities S.A.

ING Securities S.A. is one of the largest brokerage houses in Poland. In 1H 2008, it held the following shares in transactions of the Warsaw Stock Exchange:

- stock market⁸ – 12.2% (number two),
- forwards market – 5.1% (number five).

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

⁸ Cash market.

As at the end of June 2008, ING Securities S.A. maintained 31,500 investment accounts, including 13,000 Internet ones.

To maintain the high level of customer service, in 1H 2008, the Brokerage House modified the product offer and distribution channels, notably the Brokerage House:

- Modified the loans for purchase of securities offered in co-operation with ING Bank Śląski S.A.
- Enhanced the website www.ingsecurities.pl with additional functions (including the presentation of financial results recorded by companies, new table with listings, chat with analysts).
- Expanded the analytical service by launching a new product called *Company of the Day*.
- Added a new software for technical analysis to the Internet application – 3Max Listings and PAP Messages.

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

The difficult situation on the stock exchange affected the scale of operations run by ING Securities S.A. with regard to capital accumulation from the market. In 1H 2008, ING Securities S.A. completed the following projects and transactions:

- Public offerings: secondary public offering of shares of Kernel Holding (offer value: PLN 195 million) and IPO of Marvipol S.A. on the Warsaw Stock Exchange.
- Public calls:
 - end of the call for 100% of Praterm S.A. shares (transaction value of approximately PLN 500 million),
 - arrangement of the compulsory buyout (squeeze-out) of Praterm S.A. shares announced by Dalia Polska S.A., a daughter company of Veolia International,
 - arrangement of the call for 66% of shares of Kruk S.A. announced by Vistula S.A. (transaction value of approximately PLN 300 million).

In 1H 2008, ING Securities S.A. generated net profit of PLN 18.8 million versus PLN 47.6 million a year earlier.

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

ING Bank Hipoteczny S.A. is the Centre of Excellence in Commercial Property Funding for other entities of ING Group in Poland.

In 2007, ING Bank Hipoteczny S.A. – in view of the market situation – updated its strategy. Consequently, the company now concentrates on refinancing the existing projects instead of the previously preferred lending to housing developers.

To ensure the growth of the credit portfolio, in 1H 2008 ING Bank Hipoteczny S.A. first of all:

- continued co-operation with ING Bank Śląski S.A. within consortiums where this entity acted as the Bank's agent.

- expanded co-operation with the leading entities operating on the commercial property market.
- started co-operation with other banks which in the opinion of ING BH S.A. handle real estate funding in a professional manner, which should allow it in the future to become involved in large projects in commercial property funding.

In 1H 2008, ING Bank Hipoteczny S.A. signed credit agreements totalling PLN 434 million. A majority of those loans were granted in consortium with ING Bank Śląski S.A.

In 1H 2008, ING Bank Hipoteczny S.A. generated profit of PLN 1.0 million (versus loss of PLN 0.5 million in 1H 2007).

Centrum Banku Śląskiego Sp. z o.o. in liquidation

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

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

In 1H 2008, net profit of Centrum Banku Śląskiego Sp. z o.o. totalled PLN 1.1 million (versus PLN 7.2 million a year earlier).

ING Pension Fund Society (former ING Nationale-Nederlanden Poland Pension Fund Society)

On 4 April 2008, the brand of ING Nationale-Nederlanden was abbreviated to ING. This change derives from the global brand unification and applies to the entire ING Group worldwide. As a consequence of this decision, the names were also changed for the open pension fund within ING Group, i.e. ING Nationale-Nederlanden Poland Open Pension Fund, which was changed to ING Open Pension Fund, as well as the company managing this fund, i.e. ING Nationale-Nederlanden Poland Pension Fund Society, which was changed into ING Pension Fund Society. The other data of the Open Pension Fund and the Pension Fund Society were left unchanged; the signed agreement and all the regulations for co-operation with the clients remained effective as well.

ING Open Pension Fund is the second largest pension fund in Poland, both in terms of the members number and value of net assets. In 1H 2008, the Fund strengthened its position and in June 2008 it had the following market share:

- Net assets of PLN 32.3 billion, or 23.7% of the total value of assets of pension funds operating in Poland (compared with 23.5% as at the end of 2007).

- 2,697,800 members, or 20.0% of all members of pension funds (compared with 19.7% in December 2007).

ING Open Pension Fund was able to constantly improve its position on the market mainly thanks to the high quality of service and fully-fledged distribution channels. Potential and existing clients of the Fund are provided service by approximately 2,000 Insurance and Financial Representatives and at a few hundred outlets of ING Life Insurance Company and ING Bank Śląski S.A. Clients can contact the Fund over the phone (infoline, text messages and WAP) and the Internet as well.

The situation on the financial markets influenced the investment results of open pension funds in 1H 2008. Throughout the first six months of 2008, the unit value for all pension funds went down by 9%. ING Open Pension Fund recorded a similar rate of return.

While selecting a pension fund, the clients should, first of all, focus on the long-term perspective of investments and stability of generated results. ING Open Pension Fund maintained its very good position in the rankings of long-terms investments. The calculations made by the Analizy Online portal at the beginning of July 2008 demonstrated that in the period from the end of August 1999 by the end of June 2008, a potential pensioner would accumulate most funds on an account with ING Open Pension Fund.

In its income statement for 1H 2008, ING Bank Śląski S.A. recognised its share in the profits of ING Pension Fund Society S.A. in the amount of PLN 25.8 million.

ING BSK Development Sp. z o.o.

Pursuant to its charter, 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 at the order of third parties.

In 1H 2008, ING BSK Development Sp. z o.o. recorded loss of PLN 19,000 (in 1H 2007, it recorded profit of PLN 20,000).

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 1 H 2008, Solver Sp. z o.o. recorded net profit of PLN 4,000 versus PLN 30,000 a year earlier.

VI. MANAGEMENT OF KEY RISKS

Credit Risk

Credit Policy and Credit Risk Assessment

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

Risk measurement and management process at the Bank provides for efficient identification and classification of credit risk as well as for adequate valuation of credit exposures, considering adequate level of impairment charges.

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

The Bank analyses development prospects of individual sectors on a regular basis and systematically determines the desirable lines of lending expansion per sector. The procedure for mitigation of the credit concentration risk at ING Bank Śląski S.A. provides for setting limits for sectors whose overall share in the Bank's whole credit portfolio oscillates around 60%, and the share of a given sector in the wholesale credit portfolio is higher than 5%. According to the regulations, the list of sectors covered with the limit may be extended in the future to include sectors where considerable growth of exposure is expected, that represent an area of a special interest for the Bank or are exposed to high risks. Decisions on establishing a new limit or changing the existing one are taken by the Credit Policy Committee.

The Bank monitors exposure concentration risk in terms of geographical areas on the basis of the regional division of the branch network. 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 the Regions. However, there was adopted a rule of an open geographical limit up to 20% share in the Bank's entire wholesale portfolio. Any overrun of that limit or change in the risk level in a given Region may represent a signal for the Credit Policy Committee that a geographical limit needs to be changed or established, however, the above is not mandatory in the light of the effective procedures.

The collateral policy in force at the Bank takes account of all aspects of the KNB Resolution 1/2007 relating to application of Loss Given Default models, legal certainty of collaterals and their monitoring. The Bank regularly reviewed collaterals in line with the new regulations and finished the process in 1H 2008. The collateral policy and procedures pursued by ING Bank Śląski S.A. provided for diversified structure of individual groups of collaterals at the Bank.

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

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

Following the decision by ING Group, ING Bank Śląski S.A. resolved to implement the Advanced Internal Rating Base (AIRB) in credit risk assessment of corporate clients. In 2007, the Bank obtained the permission of the Banking Supervision Authority to apply AIRB as of 2009 upon obtaining full and complete consistency with the requirements of the New Capital Accord.

ING Bank Śląski S.A. treats all retail receivables (towards private clients and small businesses) as individually insignificant; in calculation and formation of provisions for those exposures, the Bank approaches them collectively. The New Capital Accord-based principles are the foundation of grouping exposures to portfolios with the use of the collective approach. These principles differentiate among three basic groups for retail products: revolving loans, mortgage loans and other consumer loans.

In 1H 2008, ING Bank Śląski S.A. modified its credit policy in the following manner:

- Corporate clients:
 - Following the best practices of ING Group, new rules for taking credit decisions for the lending portfolio (on the four-eye basis) were introduced and credit powers were aligned therewith;
 - The rating models admitted by the permission obtained from the regulator concerning the use of AIRB to estimate the capital charge under KNB Resolution 1/2007 were used to a larger degree;
 - The provisions of the profitable real estate funding policy were revised.
- Retail portfolio:
 - To improve the competitive position of the Bank, the documentation-related requirements were streamlined, the maximum amounts of exposures were raised and the tenors for selected products were extended.
 - The target market was expanded for residential loans granted in Swiss francs (these loans were previously granted to Private Banking clients).

The credit risk monitoring and measurement tools and instruments were brought into line with the amended credit policies, including:

- The credit risk assessment procedures were revised for profitable real estates to guarantee their full compliance with Resolution 1/2007 and Recommendation S.
- The procedure for monitoring corporate credit exposures was modified.

- The procedures determining the principles of conducting global stress tests and the stress tests under Recommendation S for credit risk for the segment of corporate clients and small businesses were instituted.
- The scope of application of Basle models in the credit risk management process was set out.
- The policy for monitoring and control of rating system for the corporate portfolio was instituted.
- The principles for granting syndicated loans together with ING Bank Hipoteczny S.A. were verified.
- For credit risk embedded in the retail portfolio, system changes were made to lending processes which aimed at optimising costs and the time of taking credit decisions; a comprehensive review of the risk assessment methods currently in place for individual products and segments was initiated.

Credit Portfolio Quality and Specific Provisioning

As at the end of June 2008, the value of credit exposures of the ING Bank Śląski S.A. capital group was PLN 20,424 million.

During 1H 2008, the quality of the credit portfolio of the Bank's capital group continued to improve. As at the end of June 2008, the value of impaired loans amounted to PLN 365 million versus PLN 508 million at the 2007 year-end. In other words, the share of the impaired portfolio in the total credit portfolio fell from 3.0% in December 2007 to 1.8% as at the end of June 2008.

Over the recent years, the quality of the credit portfolio of ING Bank Śląski S.A. Group was considerably better than the average in the entire banking sector. Apart from the enhanced efficiency of the processes related to credit risk management and improved standing of borrowers, the said quality was also positively affected by the productive restructuring of the old portfolio of irregular credit receivables.

In June 2008, ING Bank Śląski S.A. sold irregular receivables of the corporate entities and small and mid-sized enterprises totalling PLN 1,056.8 million for PLN 47.7 million. The old portfolio, which was fully provisioned and which was later moved to the off-balance sheet records, formed major part thereof.

Table. Quality of credit portfolio of the capital group of ING Bank Śląski S.A.

PLN million	30.06.08	31.12.07	31.12.06	31.12.05	31.12.04
Total exposure (PLN million)	20,424	17,081	13,651	10,562	11,349
Total provisions⁹ (PLN million)	400	576	715	813	949
Provisioning rate (%)	2.0	3.4	5.2	7.7	8.4
Exposure – corporate banking (PLN million)	14,700	12,434	10,323	7,592	8,150
Non-default portfolio (PLN million)	14,477	12,057	9,856	6,983	7,331
Default portfolio (PLN million)	223	377	467	609	818
Impairment (PLN million)	185	364	434	493	593
IBNR (PLN million)	77	81	74	70	73
Provisions for off-balance sheet liabilities (PLN million)	6	9	9	14	33
Provisioning rate for default portfolio (%)	82.8	96.7	92.8	81.1	72.5
Exposure – retail banking (PLN million)	5,724	4,647	3,328	2,970	3,199
Non-default portfolio (PLN million)	5,582	4,516	3,105	2,698	2,908
Default portfolio (PLN million)	142	131	223	272	291
Impairment (PLN million)	101	91	170	191	201
IBNR (PLN million)	16	16	15	28	31
Provisions for off-balance sheet liabilities (PLN million)	14	14	13	15	19
Provisioning rate for default portfolio (%)	71.5	69.0	76.4	70.1	69.0
Share of default portfolio in %	1.79	2.97	5.06	8.35	9.78

As at the end of June 2008, the capital group of ING Bank Śląski S.A. held PLN 286 million worth of provisions for the credit portfolio. The share of impairment charges for the impaired portfolio was 78.4% versus 89.6% as at the end of 2007. The share of impairment charges for the impaired portfolio dropped in June 2008 courtesy of the securitisation transaction above all.

Market Risk Management

The primary aim of effective market risk management at ING Bank Śląski S.A. is to ensure support for actions that involve risk. This includes, first of all, ensuring understanding and quantification of market risk and – whenever necessary – sustaining the potential losses following unfavourable movements in interest rates, exchange rates and other market parameters or client behaviour within the limits approved by the Management Board.

All market categories of significance for ING Bank Śląski S.A. (interest rate risk, currency risk, FX option risk) are measured and kept within the limits approved for both the Bank and its subsidiaries.

For market risk management purposes, in line with Basel II provisions, the Bank's books were split into:

- *Banking books.* They include commercial banking books of both Retail and Wholesale Banking and comprise commercial deposits and loans as well as FM banking books (used, among other things, to manage the liquidity position and assets and liabilities). The market risk of retail and wholesale business is generally transferred to the Financial Markets area, where the result is managed within the limits approved via transactions with external parties (usually on the interbank and home markets).

⁹ The provisions do not include the write-offs for shares and stakes taken over against debt claims.

- *Trading books.* These does not relate directly to the traditional lending and deposit business of the Bank and are kept within restrictive limits for maximum acceptable market risk exposures.

The market risk is mainly measured by ING Bank Śląski S.A. with the use of the Value-at-Risk methodology; i.e. the standard applied throughout the sector to measure the market risk. The VaR allows for calculating a one-day potential loss following movements in prices, instability or other market parameters for open positions as well as the correlations between the above mentioned parameters. Moreover, the Bank measures the value at risk in crisis situation (EVAR), determining the potential loss to be incurred on a given market position in case of extreme changes in market parameters, using a number of predefined scenarios.

ING Bank Śląski S.A. measures the interest rate risk resulting from:

- Optionality embedded into the operations pursued outside of the Financial Markets area; e.g. the risk of early deposit withdrawal or credit prepayment;
- Base risk; i.e. the risk of mismatch of mechanisms used to set interest rates for clients' operations to match the rates at which these positions are moved to the Financial Markets area (credit and non-standard deposit valuation mechanisms);
- Models used to determine the manner of investing demand assets and liabilities, like current and savings accounts.

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

Striving for appropriate liquidity management, the Bank:

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

In 1H 2008, ING Bank Śląski S.A. amended individual policies relating to market risk management in the following manner, among other modifications:

- *Statutory Capital Adequacy Policy.* It was revised after implementation of Basel II; i.e. the level of statutory capital adequacy considered as safe/ below the safe threshold was determined, the capital adequacy management methodology oriented more towards the future was introduced (based on the capital charge/capital base forecasts) and the impact of the replicating process on the Bank's solvency was considered.
- *Liquidity and Funding Policy.* Courtesy of these modifications, the policy was brought into line with the liquidity regulations introduced by the National Bank of Poland. They apply to all Polish banks in the aspect of measuring of the earlier defined liquidity risk ratios, and as of 30 June 2008, to sustaining those ratios within the limits published by the National Bank of Poland. As part of liquidity policy update, there was implemented a more precise simulation methodology for the impact of early deposit withdrawal and differences between the present market value and the value of the hedge for debt papers assumed for crisis situations. In view of the growing role of

liquidity risk management policy in the banking sector, new reports were also developed for liquidity risk. They focus to a larger degree on the short-/midterm funding profile and present the liquidity position of the Bank from various angles; e.g. its ability to finance and the volume of liquid assets in terms of structural changes.

- *Replicating Portfolio Policy* (concerning proprietary investing of demand liabilities). The revised policy took account of additional objectives (such as: liquidity, solvency and balance sheet management) and related limitations of the replicating portfolio management process.

Other material changes in the market risk management system at the Bank involved:

- Implementation of macro cash flow hedge accounting (MCFH) for floating assets and liabilities. Month by month, the Bank checks efficiency of hedges by way of: a test of hypothetical derivatives and a test of future cash flows due to interest on hedged items and hedging transactions. In addition, the Bank performs a back test for real volumes of hedged items every quarter. Based on efficiency control and in line with the pricing of hypothetical derivatives the Bank makes reallocations between the income statement and equity.
- Use of fair value option for deposits on the interbank market, enabling periodical pricing verification.

The above changes should reduce the accounting asymmetry; i.e. limit the volatility of the financial result also in case an item is closed in economic terms.

Under Basle II, in risk management, financial institutions are obliged to base on risk models approved internally. In 1H 2008, ING Bank N.V. made an independent validation of market risk models used by ING Bank Śląski S.A. All models employed by the Bank were validated and considered as meeting their purpose.

Capital Adequacy

In 1H 2008, ING Bank Śląski S.A. complied with the capital adequacy-related prudency norms in force.

At the beginning of 2008 – as the Basel II requirements came into force – the solvency ratio of ING Bank Śląski S.A. went down. This was, first of all, the consequence of the fact that the Bank had to account for extra capital charge (of PLN 274 million) for operational risk and apply standard models in assessing the charge due to credit risk of the corporate portfolio. The subsequent months of 2008 saw the capital adequacy ratio remain relatively stable and as at the end of June 2008 it was 11.2%. In other words, the Bank's capital group had capital sufficient to cover certain financial and credit risks.

Economic capital is managed at ING Bank Śląski S.A., first of all, in line with the internal regulations. This process differs from estimation of statutory capital requirements, among other things, by the fact that the Bank considers more types of risk in it (e.g., interest rate risk of the banking book) and may use in-house models to determine capital charges without having to obtain the regulator's consent thereto.

The economic capital measurement results for 1H 2008 confirm that ING Bank Śląski S.A. is well secured in capital terms.

Operational Risk, Compliance Risk and Fraud Risk

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

The Bank manages operational risk based on the Polish Banking Law Act, Recommendation M of the National Bank of Poland that takes into account the directives of the Basle Committee regarding the operational risk management, Resolution no. 4/2007 of the Banking Supervision Commission and standards effective at ING Group.

There is the Operational Risk Management Policy applicable in ING Bank Śląski S.A. It sets out a consistent methodology and procedure for that area. This Policy along with the detailed regulations is revised on a regular basis, as necessary.

Operational risk management covers the operations in the field of identification, measurement and monitoring of the said risk as well as taking appropriate actions aimed at maintaining it at an acceptable level. These include above all:

- implementation of policies, standards and regulations for management of operational, informational, staff and resources security risks;
- implementation of the mechanisms for active identification of operational risk, its measurement and mitigation in individual areas of activity, upon consideration of the new and modified products, pending projects, outsourcing processes and organisational changes as well as the changes in the sector;
- gathering information on operational risk incidents, their analysis and initiation of actions preventing their occurrence in the future;
- determining the factors of material risk and their monitoring;
- monitoring of IT systems and applications settings;
- classification and analysis of information resources-related risks;
- reduction of the losses by improving the system of the Bank's operations control;
- active mitigation of the operational risk by the application of an integrated system of recording and tracking of the realisation of audit recommendations and other risk mitigating activities;
- allocation of economic capital adequate to the risk level;
- testing of the business continuity planning for critical and important business processes;
- improving physical security at the Bank, with special stress on the integrated system for branch security monitoring and ensuring immediate assistance in crisis situations;
- management of the global and local insurance process;
- development of management reporting for operational risk management;
- launching awareness programmes and training schemes in the area of operational risk management.

ING Bank Śląski S.A. understands the compliance risk as the risk of tarnishing the Bank's reputation or exposing the Bank to legal sanctions or financial losses due to failure to abide by the norms, regulations of procedure standards. The Bank instituted the *Compliance Policy* to

manage the compliance risk; it defines the rules of accountability and the procedure standards for management of that risk.

The Supervisory Board performs regulatory and control obligations for the compliance risk management area. The Audit Committee, formed from among its members, acts as the executive body in that regard.

The Management Board is accountable for appropriate compliance risk management. It is responsible for implementation of requisite policies and regulations at the Bank and setting an efficient framework in that area, among other things.

In the compliance risk management area, the Bank focuses on performance of tasks aimed at supporting business processes by identification of the compliance risk and implementation of risk controls and mitigation mechanisms. These include, but are not limited to:

- implementation of the compliance policies, standards and procedures;
- enhancement of methods and tools for identification, assessment and monitoring as well as limiting of the compliance risk;
- consulting and support as regards observance of compliance principles rendered by the Compliance Officer to the Management Board, management staff and employees;
- considering compliance risks in the process of advising on business initiatives (projects) and amendments to internal regulations of the Bank;
- launching awareness programmes and training schemes in the area of compliance risk;
- analysis of transactions and accounts in terms of risk of money laundering or financing terrorism, monitoring of accounts and clients, and also realisation of the Customer Due Diligence process in line with the *Financial and Economic Crime Policy* in force at the Bank;
- supervision over private investments made by the employees, observance of information sharing restrictions (*Chinese Walls*) and observance of limitations as to accepting or giving gifts by employees;
- limitation of the risk of conflict of interest;
- periodical revision of the list of key compliance risks (*Compliance Chart*);
- accepting Whistleblower reports from employees and pursuing investigations;
- supporting the process of compliance risk management at the Bank's subsidiaries;
- co-operation with other ING Group units, external auditors or regulators.

To circumscribe the losses of ING Bank Śląski S.A. that may arise due to frauds outside and inside the Bank, the following actions are carried out:

- identification of fraud risks and vulnerability for the lending, deposit handling and internet banking processes made at the Bank;
- implementation of mechanisms counteracting fraud to make the control model more efficient;
- preparation of threat messages and alerts for Bank clients;
- designing economic fraud training schemes for Bank employees;
- identification of risks and vulnerability concerning internal use of IT systems;
- monitoring of card and internet transactions, and also of the internet network in terms of fraud search.

Since April 2008, the organisational structure of ING Bank Śląski S.A. has included: Operational Risk Management Department, Compliance Department and Anti-fraud Department. All of them report directly to the Bank Management Board and are supervised by the Bank Executive Director in charge of operational risk, compliance and anti-fraud management.

VII. CORPORATE GOVERNANCE RULES

Observance of the Corporate Governance Rules

New corporate governance rules, adopted by the Polish Stock Exchange Board on 4 July 2007 with their Resolution no. 12/1170 and set out in the *Best Practices for WSE Listed Companies*, became effective as of the beginning of 2008.

In keeping with § 29.3 of the Polish Stock Exchange Regulations, should a certain corporate governance rule not be applied on a permanent basis or should it be breached incidentally, the issuer is obliged to publish a report stating the grounds for not applying the rule, the related circumstances, and the reasons of the rule non-observance, and also the manner in which the issuer intends to remedy potential consequences thereof or the measures it is to take to limit the future risk of non-compliance with the corporate governance rules.

On 2 January 2008, ING Bank Śląski S.A. published the *Report on the Observance of the Corporate Governance Rules*, wherein it declared that the Bank and its authorities were willing to observe the corporate governance rules set out in the *Best Practices for WSE Listed Companies*, save for the Rule IV.8 concerning a change of the chartered auditor.

The Management Board and the Supervisory Board resolved to make a declaration of non-observance of the rule concerning a change of the chartered auditor in the wording of the *Best Practices for WSE Listed Companies*¹⁰, since the rotation of the auditor of the financial statements of ING Bank Śląski S.A. depends on the possible change of the entity examining the financial statements of the Bank's strategic shareholder. This is the consequence of the need to consolidate the financial statements and it results from the EU regulations.

In April 2007, the General Shareholders Meeting of ING Groep N.V. resolved that as of 2008, Ernst&Young should be the sole auditor for ING Group consolidated statements and mandatory financial reporting of subsidiaries. Following this decision, on 30 November 2007, the Supervisory Board of ING Bank Śląski S.A. resolved that as of 2008, Ernst&Young Audit Spółka z o.o. whose registered office is in Warsaw should be the auditor eligible to examine the financial statements for the coming three years.

In April 2008, ING Group adopted the *ING Group Policy on External Auditors Independence*. It defines the rules of change of external auditors, among other matters. In keeping therewith, after the lapse of the maximum term of five consecutive years, during which ING Group was provided with audit services, the leading (or co-ordinating) audit partner and the examining partner will be replaced with other auditors and will be subject to the five-year period of exclusion.

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

¹⁰ The rule reads: "The general meeting or the supervisory board should ensure that the company authorised to audit financial statements changes at least once every seven financial years".

on the reliability of reporting systems and existence of adequate internal controls as well as on evaluation of their efficiency, as at the end of the last accounting year of the company.

Changes in the Statutory Authorities of the Bank

On 24 April 2008, the General Shareholders Meeting of ING Bank Śląski S.A. acknowledged the resignation of Messrs. Marc van der Ploeg and Ignace van Waesberghe from the positions of the ING Bank Śląski S.A. Supervisory Board Members. At the same time, Messrs. Nicolaas Cornelis Jue and Tom Kliphuis were appointed Supervisory Board Members.

As at the end of June 2008, the Supervisory Board of ING Bank Śląski S.A. was composed of:

- Ms. Anna Fornalczyk Chair, Independent Member,
- Mr. Cornelis Leenaars Deputy Chair,
- Mr. Wojciech Popiołek Secretary, Independent Member,
- Mr. Ralph Hamers Member,
- Mr. Jerzy Hausner Member, Independent Member,
- Mr. Nicolaas Cornelis Jue Member,
- Mr. Tom Kliphuis Member,
- Mr. Mirosław Kośmider Member, Independent Member.

During 1H 2008, the composition of the Management Board of ING Bank Śląski S.A. changed as well. At the Supervisory Board meeting held on 15 May 2008, Ms. Maria Elisabeth van Elst tendered her resignation from the position of the Vice-President of the Management Board, effective as of 31 May 2008, due to her being transferred to another position within ING Group. At the same time, the Supervisory Board appointed Ms. Justyna Kesler as the Vice-President of the Management Board, effective as of 1 June 2008.

At the end of June 2008, the Management Board of ING Bank Śląski S.A. had six members and worked in the following composition:

- Mr. Brunon Bartkiewicz **Management Board President** in charge of units that report directly to the Management Board of the Bank, including: the Human Resources Management Department; Internal Audit Department; Legal Department, Press Office
- Mr. Mirosław Boda **Management Board Vice-President** in charge of the Finance Division and Strategy and Controlling Division
- Ms. Justyna Kesler **Management Board Vice-President** in charge of the Operations Division, Services Division and IT Division
- Mr. Oscar Swan **Management Board Vice-President** in charge of the Credit- and Market Risk Management Division

- Mr. Michał Szczurek **Management Board Vice-President** in charge of the Retail Banking Division
- Mr. Benjamin van de Vrie **Management Board Vice-President** in charge of the Wholesale Banking Division and Financial Markets and Treasury Division

At the Supervisory Board meeting held on 12 June 2008, Mr. Benjamin van de Vrie tendered his resignation from the position of the Vice-President of the Management Board, effective as of 30 June 2008, due to his being transferred to another position within ING Group. At the very same meeting, the Board appointed Ms. Małgorzata Kołakowska and Mr. Michał Bolesławski as the Vice-Presidents of the Management Board, effective as of 1 July 2008.

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

In 1H 2008, 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 8,264 thousand. The total amount of remuneration and bonuses paid out or due for 1H 2008 given here is the gross amount of remuneration paid out or due and payable for the period from January to June 2008 and the 2007 bonus, which was paid out in 2008, totalling PLN 3,205 thousand.

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

Table. Remuneration of Members of the Management Board of ING Bank Śląski in 1H 2008 (in PLN thousand)

Period	Remuneration and awards	Benefits	Total
1H 2008	6,621	1,643	8,264
1H 2007	7,882	1,984	9,866

In 1H 2008, the remuneration (defined as above) paid by ING Bank Śląski S.A. to Supervisory Board members totalled PLN 257 thousand .

Table. Remuneration of Members of the Supervisory Board of ING Bank Śląski in 1H 2008 (in PLN thousand)

Period	Remuneration and awards	Benefits	Total
1H 2008	257	0	257
1H 2007	308	0	308

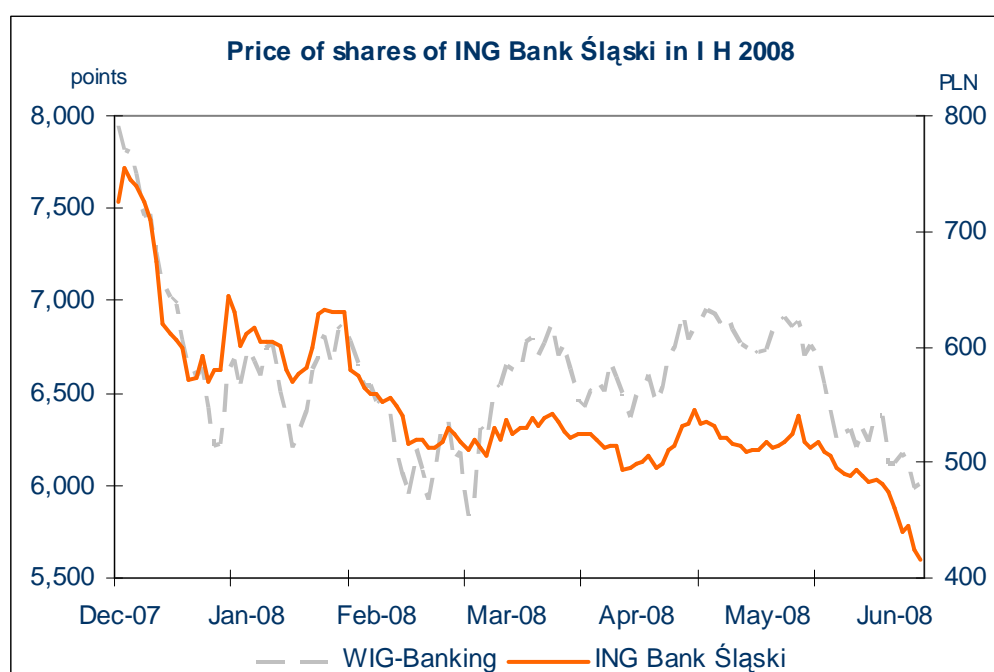
VIII. INVESTOR INFORMATION

Price of ING Bank Śląski S.A. Shares

In the first six months of 2008, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange reflected the stock market developments.

In 1H 2008, the Warsaw Stock Exchange was still affected by an unfavourable trend and the key stock exchange ratios were continually decreasing. On 30 June of 2008, the price of shares of ING Bank Śląski S.A. fell to the lowest level in 1H 2008, namely PLN 415. That rate was 42.8% lower vis-à-vis the last day of quoting in 2007. For comparison, WIG-Banking sub-index decreased 24.4%.

At the end of June 2008, the capitalisation of ING Bank Śląski S.A. was PLN 5.4 billion, which determined the following ratios: P/BV at 1.35 and P/E at 8.5.



Shareholding Structure of ING Bank Śląski S.A.

The share capital of ING Bank Śląski S.A. amounts to PLN 130,100,000 and is sub-divided into 13,010,000 ordinary shares of the face value of PLN 10 each. There are no constraints as to transferring ownership right and exercising the right to vote on account of shares held. The Bank's shares do not grant any special control powers towards the issuer either.

According to the Bank's knowledge, as at the date of publication of this report the following entities held 5 percent or more of the shares and overall number of votes at GSM:

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	700 000	5.38%
Other	2 552 500	19.62%
Total	13 010 000	100.00%

Over the first half of 2008, the shareholding structure of the company remained stable. ING Bank N.V. is the strategic investor of ING Bank Śląski S.A. and a member of ING Group, a global financial institution with 150-year tradition, operating in more than 50 countries in the banking, insurance and asset management markets. In terms of capitalisation, ING is among the top twenty financial institutions in the world and in the top ten in Europe.

ING Bank N.V. recognises its shareholding in ING Bank Śląski S.A. as a long-term investment. Apart from operations in the banking market, ING Group marks its presence in Poland also in other markets for financial services, such as insurance, mutual funds, leasing and factoring services.

As at the date of the report's publication, ING Bank Śląski S.A. was not aware of any agreements as a result of which the proportion of shareholdings of the current shareholders could change in the future.

Ratings

ING Bank Śląski S.A. co-operates with rating agencies Fitch Ratings and Moody's Investors Service. Fitch Ratings agency assigns full rating to the Bank, and the Bank's rating assigned by Moody's Investors Service is solely based on information found in the public domain.

On 5 June 2008, Fitch Ratings Ltd. informed the Bank Management Board that the ratings assigned to ING Bank Śląski S.A. in 2007 were sustained.

Fitch Ratings Ltd.

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

The Agency stated in the report that ratings assigned to ING Bank Śląski S.A. in respect of long-term and short-term liabilities reflect very high probability of the potential support to be received by the Bank from the majority shareholder, ING Bank N.V., having rating AA with a stable outlook. Sustaining the Bank's individual rating at the current level reflected the improving quality of the Bank's assets and the high ratio of provisions covering exposures at risk, high liquidity and the robust position on the deposit market. At the same time, the rating was assigned upon consideration of the growing pressures on the solvency ratio.

In 1H 2008, Moody's sustained the ratings for ING Bank Śląski S.A.

Moody's Investors Service Ltd.

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

IX. GROWTH OF ORGANISATION AND INFRASTRUCTURE OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2008

IT and operations

To ensure adequate support for accomplishment of business objectives and pro-efficiency initiatives, in 1H 2008 ING Bank Śląski S.A. was implementing the following large IT and Ops projects:

- New Front-End application in retail outlets. It is a customer relationship management application (CRM) used to take customer-tailored sales actions, and thus be more efficient in accomplishing the Bank's commercial objectives. This tool allows for improving the quality of service and reducing the operational risk. Works relating to the implementation of other modules (such as deposits, structured products, debit cards and financial processes) were also conducted. Ultimately, the new application will cover all sales and customer service processes as well as all distribution channels.
- Applications supporting credit processes. The Bank expanded the functionality of the System for Handling Credit Applications (SOWK) with the service of mortgage loans. Combining within a single application the functionalities which used to belong to various systems will shorten the time of processing the credit application, reduce the risk of errors and result in reducing the process costs.
- Programme: You bank - you buy. That loyalty programme, which is unique on the Polish market, comprises among others the sales platform integrated with the system of electronic payments, on-line system of scoring points and an easy solution for purchases in Internet stores.
- Migration of strategic client service to the central bank system – ICBS. This allowed for improving the efficiency of processes and implementing new functionalities (e.g. launching new credit facilities).
- Development of IT solutions for partner's outlets. Preparations were made for providing Front-End and SOWK applications in the Internet technology. Implementation of those solutions will represent a milestone in the preparation of the future standard for customer service systems for the Bank's branches and outlets.
- Personalisation of chip cards. The aim of the project is to outsource the process of chip card personalisation.
- Optimisation of ATM network. The project provides mostly for improving the availability of the ATM network and reducing the workload relating to the ATM handling for branches.
- Development of the ultimate cash handling model for the Bank. That project provides for outsourcing of the cash handling process at the Bank.
- Security. Management of all cash deposit machines was migrated to the state-of-the-art central application, works were continued on the implementation of microchip technology for credit cards, preparations were made for the ATMs migration to the

TCP/IP protocol, the project of development of data retention systems and back-up copies for open-end systems was continued, thus allowing for centralisation and unification of back-up procedures.

Development of electronic distribution channels

The development of electronic banking channels was seen as one of the priorities of ING Bank Śląski S.A. In 1H 2008, the Bank:

- Finalised the project of implementation of *ING BusinessOnLine*, the Internet banking system for the wholesale banking clients. At present, the Bank offers practically all products and services within a single application. At the same time, the migration of current *MultiCash* users to the new Internet banking system started.
- Implemented a new version of the *ING BankOnLine* system. The system has now a new user interface, improved ergonomics and additional functionality in the form of the channel for active sale of loans offered on the pre-scoring basis.
- Launched, as part of the project *The most Internet-wise Bank*, the new communication channel through the most popular Internet communicator Skype.

At the end of June 2008, the Internet banking systems offered by ING Bank Śląski S.A. were used by 955,100 users, a 24.7% increase year-to-year. The number of the telephone banking system *HaloŚląski* users also increased by approx. 25.2% vis-à-vis December 2007.

In June 2008, the number of transactions made at the Bank via electronic banking systems was 6.3 million vis-à-vis 4.8 million from a year earlier (up by 31%).

Number of clients:	30.06.2008	31.12.2007
ING BankOnLine, ING OnLine	955,057	765,920
HaloŚląski	498,747	398,297
SMS	304,775	233,745
MultiCash	5 033	5,464

At the end of June 2008, ING Bank Śląski S.A. had an ATM network of 667 ATMs, whereas in December 2007 the number of ATMs was 630.

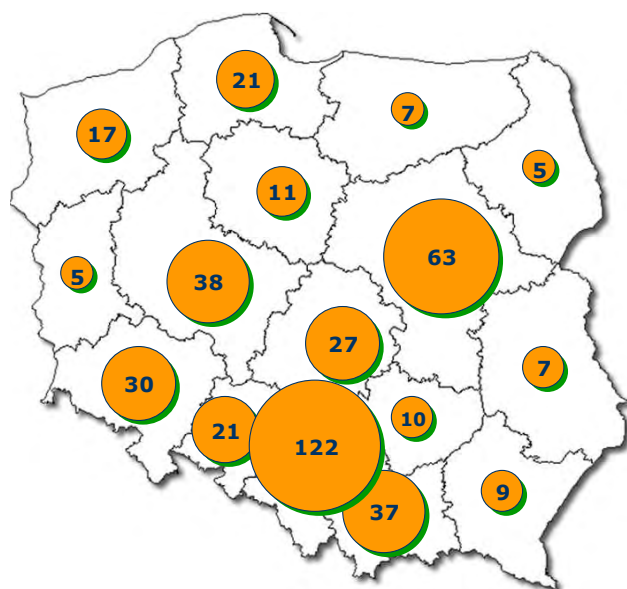
Development of the network of bank outlets

In 1H 2008, ING Bank Śląski S.A. continued implementation of the programme of building new type outlets and opened 25 such outlets. Outlets based on the franchise model represented a large part of them.

Such outlets have almost the same sales and service potential as the traditional retail branches. Apart from the broad range of products of ING Bank Śląski S.A., those also offer products of other members of ING Group, including ING TFI S.A. and selected products of ING Life Insurance Company. An important feature of such an outlet – owing to self-service devices – is the elimination of cash in the relations between the client and the outlet employee. A new

type outlet, beside the transactional area, has also the sales area with information desk, relationship managers' desks and a meeting room.

In order to provide easier access to the Bank's products and services and to optimise costs, in 1H 2008 ING Bank Śląski S.A. was opening new self-banking zones. The idea behind the project is to separate in the existing branches the self-banking zones working round-the-clock where clients may deposit and withdraw monies, make transfer via *ING BankOnLine*, call *HaloŚląski* or talk to the Call Centre consultant. The self-banking zones are designed for individual clients, small businesses and wholesale clients. In 1H 2008, the Bank offered 101 self-banking zones to be used by clients in the Bank branches and in June 2008 those totalled 148.



As at 30 June 2008, ING Bank Śląski S.A. pursued operating activity through 430 branches, including 100 new type outlets. The Bank's branches are located all over Poland with the largest concentration – due to the Bank's history – in the Silesian province. The Private Banking Centres, which service up-scale clients, operated in 30 retail branches. For clients with assets of at least PLN 1 million, the Bank also opened the Private Banking Investment Centre in Warsaw.

The wholesale clients from the large and mid-sized segment were serviced by the Bank through 28 wholesale branches and

11 Wholesale Banking Centres. The largest wholesale clients were serviced by the Strategic Clients Department and its 2 representation offices (in Katowice and Gdańsk).

X. HUMAN RESOURCES MANAGEMENT

Headcount

As at 30 June 2008, the capital group of ING Bank Śląski S.A. employed 8,387 persons. In 1H 2008, the number of employees in the companies forming the Bank's group rose by 313 persons (or, 3.9%).

In June 2008, the number of employees of ING Bank Śląski S.A. increased to 8,154 persons, an increase by 310 persons (3.8%) from December 2007.

Table. Headcount structure at ING Bank Śląski

	30.06.2008		31.12.2007	
	persons	%	persons	%
Retail banking	4,663	57.2	4,513	57.5
Wholesale banking and Financial Markets	984	12.1	938	12.0
Operations/IT/Services	1,687	20.7	1,710	21.8
Risk/Organisation/Human Resources	820	10.0	683	8.7
Total	8,154	100.0	7,844	100.0

In 1H 2008, the changes in the Bank's headcount structure included:

- Marking the importance of the Risk/Organisation/Human Resources area in the headcount structure as a result of the growing scale of operations (in particular in the mortgages market) and as a result of the changed risk management procedures and processes.
- A considerable decrease of the share of Operations/IT/Services employees in the overall headcount as a result of automation and centralisation in the Ops area.

Payroll Policy

In 1H 2008, ING Bank Śląski S.A. continued the payroll policy based on assuring consistency of the system, as well as fair salaries at the market level offered to employees. The Bank's payroll policy also assumes offering at least such salaries as proposed by most banks as well as presenting one of the best offers on the labour market for higher positions. Such an approach contributes to the execution of the Bank's business objectives and rational use of the personnel costs budget due to better possibilities of employee recruitment, motivation and retention.

As of 1 April 2008, a new base salary table was introduced at ING Bank Śląski S.A. and salary increases were granted to employees. Similarly to the last year, the increase amount depended on the result of the employee annual appraisal and the location of the old salary within the new salary brackets. At the beginning of 2008, some modifications to the incentive system were also initiated. Those aimed at increasing the emphasis on the effectiveness of processes and the stronger link between the bonus paid to employees and the results and quality of business processes in which they participated.

Recruitment and selection

In 1H 2008, a great emphasis was placed on promoting internal recruitment as one of the available methods of professional development of the Bank employees. To that end, the principles of internal recruitment were established, thus unifying the rules of employee transfers between units (those were implemented early in 2H 2008). Works were also continued with the aim of improving the system of communication as to the possible movement to a different position within the organisation.

Employee training and development

In the first months of 2008, the 2007 Annual Interview process was carried out at ING Bank Śląski S.A. After that, the results of the annual employee appraisal were presented to the Bank Management.

The distribution of competence profiles and competence gaps/excesses were analysed in the next phase of the process. The results of those analyses served as a basis for verification of the competence model and facilitated the establishment of the new method of building profiles for positions, closely linked with the salary grades and preparation of training plan in 2008.

The main training areas in 1H 2008 in ING Bank Śląski S.A include:

- Employee competencies. Based on the results of the Annual Interview the Catalogue of Competence Training Schemes was developed and made available to the employees. The Catalogue presents the proposed training schemes to be delivered by external training units.
- Managerial training. Those covered such modules as: *Recruitment and selection* (the entire managerial staff were trained by May 2008) and *Team building*. The following module, *Management and non-financial motivation*, was also prepared and will be launched in 2H 2008.
- For new employees. One-day training schemes for all newly employed persons were launched at the Bank.
- Sales network staff. Training schemes conducted as part of the Best Service Programme and the Wholesale Banking Training Centre focused on new and modified products, service quality and development of sale skills.
- Language courses. In the March-June semester, the language courses were attended by nearly 660 persons.

A substantial part of the training schemes at ING Bank Śląski S.A. was represented by e-learning. Over 1H 2008, approx. 18,700 employees completed e-learning courses. The main topics of training included: product and application training schemes for the sales network as well as security and operational risk. In 1H 2008, the processes of updating and producing of 26 training schemes were initiated or completed, and in June 2008 the total number of courses offered by the Bank's e-learning platform was 94.

Initiated in spring 2007, ING BSK Management Development Programme, which is designed for people with the highest potential, who may in the future be promoted to the key positions within the Bank, was continued in 1H 2008. The planned development activities focusing on the people covered by the programme were continued, the promotion process was carried out for some of the participants, and new members were recruited for the Programme.

Work terms and conditions

The aim of ING as employer is to continually enhance the satisfaction of employees. In June 2008, the ING's survey was sent to all employees of ING Bank Śląski S.A. (*Winning Performance Culture*). That survey provided the employees with the possibility of expressing their opinions on topics such as: change management, recognition, communication, training and career opportunities.

The conclusions formulated on the basis of the survey results will form the basis for modifications of the HR policy and determining top-priority actions in respect of the corporate culture.

XI. THE FINANCIAL STANDING OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2008

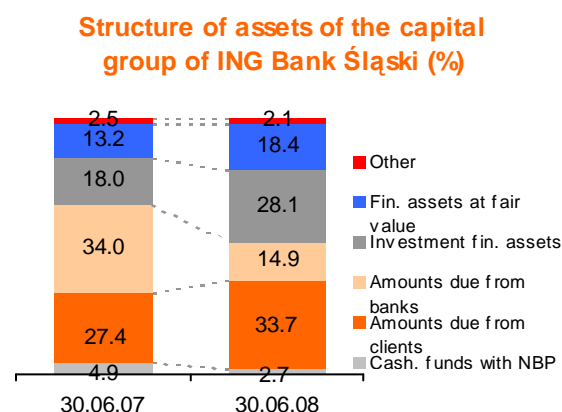
The balance sheet structure

As at 30 June 2008, the balance sheet total of the capital group of ING Bank Śląski S.A.¹¹ was PLN 60,527.1 million, up by PLN 7,324.0 million, or 13.8%, from a year earlier. The group's balance sheet total and the structure of assets and liabilities were determined by the operations of ING Bank Śląski S.A. At the end of 1H 2008, the balance sheet total of ING Bank Śląski S.A. was PLN 60,448.6 million vis-à-vis PLN 53,007.9 million at the end of 1H 2007 (up by 14.0%).

Assets

The structure of assets of the capital group of ING Bank Śląski S.A. as at 30 June 2008 considerably differed from the structure in June 2007. Namely:

- Following the dynamic growth of lending at ING Bank Śląski S.A., the share of loans in the group's assets went up. As at 30 June 2008, loans and cash loans granted to the clients of the capital group amounted to PLN 20,385.7 million compared with PLN 14,567.2 million in June 2007. Those accounted for 33.7% share in assets, up by 6.3 p.p. from a year earlier.
- The share of investment-related financial assets, the core of which represented debt securities, also rose in the overall structure of assets. At the end of June 2008, their value amounted to PLN 17,001.3 million vis-à-vis PLN 9,593.8 million a year earlier. Those figures accounted for 28.1% and 18.0% in the balance sheet total, respectively.
- The share of receivables from banks in the total assets went down sharply. At the end of June 2008 those reached the level of PLN 9,002.0 million vis-à-vis PLN 18,078.9 million a year earlier. Their shares in total assets were 14.9% and 34.0% respectively.
- The value of financial assets carried through the income statement at fair value (or assets designed for sale in a short term) was PLN 11,160.1 million compared with PLN 6,998.0 million a year earlier. Their share in the balance sheet total was 18.4%, up by 5.2 p.p. from the end of June 2007.
- At the end of June 2008, the value of cash at hand and in the Central Bank was PLN 1,662.9 million vis-à-vis PLN 2,608.9 million in June 2007. Their share in the balance sheet total amounted to 2.7% and 4.9%, respectively.



¹¹ Consolidated balance sheet and consolidated income statement of the capital group of ING Bank Śląski S.A. cover ING Bank Śląski S.A. and the following subsidiaries consolidated with the use of the full method: ING Securities S.A., ING Bank Hipoteczny S.A., Centrum Banku Śląskiego Sp. z o.o. w likwidacji, Solver Sp. z o.o., ING BSK Development Sp. z o.o., and ING PTE consolidated with the use of the equity method.

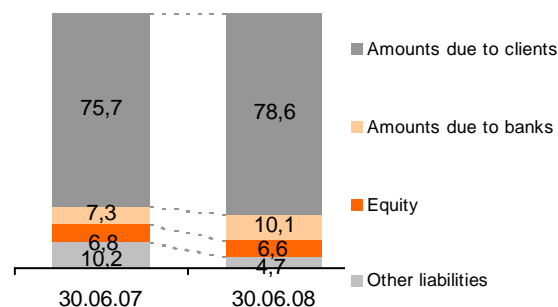
Liabilities

The funds deposited with the Bank by clients were the dominant source of funding for the operations ING Bank Śląski S.A. capital group. They went up from PLN 40,253.4 million as at the end of June 2007 to PLN 47,591.1 million as at the end of June 2008, up by 18.2%. In June 2008, they represented 78.6% of the group's liabilities, up by 2.9 p.p. from a year earlier.

As at the end of June 2008, the group's amounts due to other banks were PLN 6,085.2 million vis-à-vis PLN 3,868.4 million as at the end of June 2007. The funds acquired from financial institutions accounted for 10.1% of the liabilities value, while in June 2007 their share was 7.3%.

The share of equity in liabilities of the group of ING Bank Śląski S.A. dropped from 6.8% in June 2007 to 6.6% as at the end of June 2008.

Structure of liabilities of the capital group of ING Bank Śląski (%)



Income statement

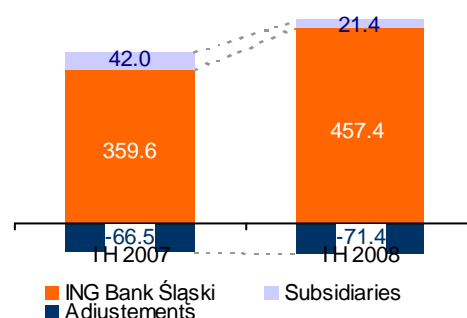
Gross and net profit

In 1H 2008, the capital group of ING Bank Śląski S.A. reported gross financial result at the level of PLN 508.9 million vis-à-vis PLN 413.3 million in 1H 2007. The net profit was PLN 407.5 million compared with PLN 335.2 million a year earlier (up by 21.6%).

The main factors influencing the financial results of the capital group of ING Bank Śląski S.A. in 1H 2008 were as follows¹²:

- A nearly 13 per cent increase in income on core operations from a year earlier, mainly as a result of an increase of the interest result (up by 28.0%) and other income (up by 36.3%).
- An 11.2 per cent increase of operating costs as a result of higher staff costs (growth of the number of the sales network employees, indexation of salaries) and other costs (following a considerable growth of the scale of operations and the implementation of strategic projects).
- A positive balance of impairment of assets due to both further improvement of the lending portfolio quality and efficient restructuring activities. As a result, in 1H 2008 the group recorded a positive balance of impairment charges, an increase by PLN 25.2 million from a year earlier.

Net profit of the capital group of ING Bank Śląski (PLN million)



In 1H 2008, the result before risk costs for the Bank's capital group was PLN 450.8 million, up by 18.6% from a year earlier.

¹² The characteristics discussed in this document 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 equity basis. Other operating costs were added to the costs of operations.

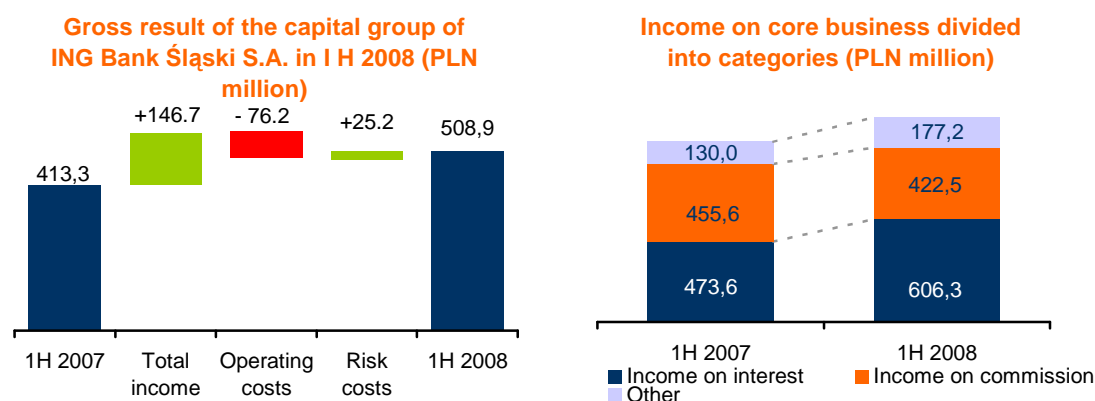


Table. Basic Values of the Consolidated Income Statement – analytical (PLN million)

	1H 2008	1H 2007
Interest result ¹³	606.3	473.6
Result on commission	422.5	455.6
Other	177.2	130.0
Income on operations	1206.0	1059.2
Operating costs including depreciation/ amortisation	-755.2	-679.0
Result before risk costs	450.8	380.3
Impairment losses and provisions	58.2	33.0
Gross financial result	508.9	413.3
Income tax	-101.4	-73.0
Net result of minority shareholders	0.0	5.1
Net financial result	407.5	335.2

Result on interest

In 1H 2008, the net interest income (including swap points) of the capital group of ING Bank Śląski S.A. was PLN 606.3 million vis-à-vis PLN 473.6 million a year earlier. That income resulted from:

- growth of the scale of operations, both in lending and deposits,
- an advantageous change in the balance sheet structure, namely growth of the share of loans in total assets;
- good results on swap transactions.

In 1H 2008, the Bank's capital group realised the interest margin at the level of 2.10% compared with 1.92% a year earlier. This figure resulted mostly from:

- a continued low share (despite a growth noted last year) of loans in assets and a relatively high share of amounts due from the financial sector (including FX amounts),
- the price policy pursued by the Bank in the recent years, namely offering attractive interest rates,
- growth of interest rates which was partly compensated by growing competition.

Non-interest income

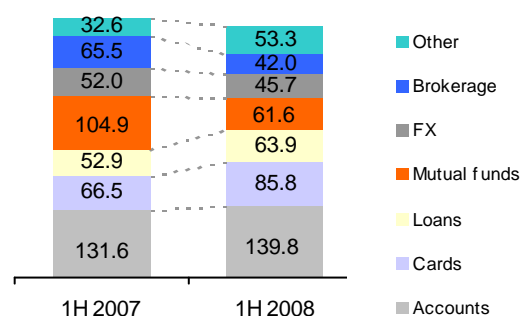
A major part of non-interest income was formed by income on fees and commissions. In 1H 2008, those amounted to PLN 422.5 million vis-à-vis PLN 455.6 million a year earlier (down by 7.3%).

¹³ Including swap points.

The following factors affected the result:

- Decreasing commission on distribution of TFI participation units (41%), brokerage services (36%) and FX transaction margin (12%).
- Increasing commission relating to account maintenance (6%), payment- and credit cards (29%) and loans (21%).
- Earning additional commission on subscription for structured deposits ¹⁴ (in the amount of PLN 14.5 million).

Commission income of the group of ING Bank Śląski (in PLN million)



Other income amounted to PLN 177.2 million vis-à-vis PLN 130.0 million a year earlier (up by 36,3%). The income was mostly affected by the strong results in Financial Markets and sales of the shares of MasterCard Incorporated that generated income of PLN 25.3 million.

Operating costs

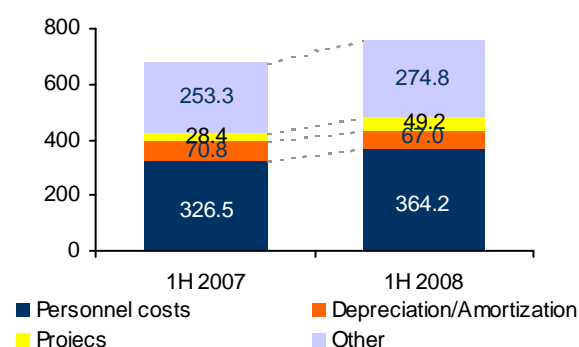
In 1H 2008, the operating costs ¹⁵ of the capital group of ING Bank Śląski S.A. were PLN 755.2 million vis-à-vis PLN 679.0 million a year earlier, up by 11.2%.

The total costs of the Bank's capital group were going up mostly due to the growing scale of operations. The market expansion contributed, among others, to the growth of the main cost driver, i.e. the personnel costs. As a result of the growing number of employees, the new table and indexation of salaries, in 1H 2008 the personnel costs were PLN 364.2 million, up by 11.5% from a year earlier.

The depreciation/amortisation costs amounted to PLN 67.0 million, down by 5.4% from a year earlier.

Other costs amounted to PLN 324.0 million vis-à-vis PLN 281.7 million a year earlier. Their growth resulted mostly from the larger scale of operations (including the bigger number of branches) and continuation of numerous projects aimed at improving processes and optimising the sales structure.

Operating costs divided into categories in PLN million



Impairment charges and commissions

In 1H 2008, the risk costs recognised in the income statement of the capital group of ING Bank Śląski S.A. were positive and amounted to PLN 58.2 million. The main item (PLN 43.0 million) was the dissolved impairment charges following the sale of the credit portfolio.

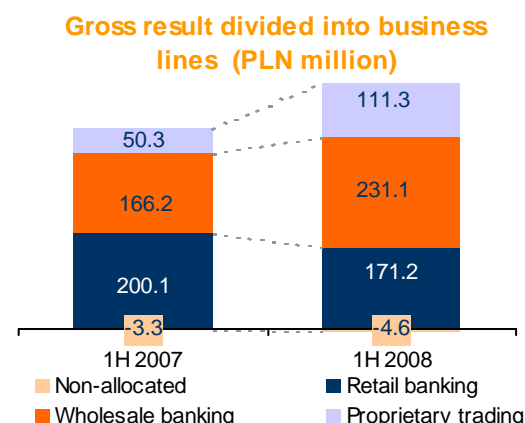
¹⁴ The value of commission shown in the chart was included in other income from commission.

¹⁵ Operating costs plus other costs.

Share of business lines in financial result

In 1H 2008, the Retail Banking Division reported results after risk costs at the level of PLN 171.2 million compared to PLN 200.1 million a year earlier (down by 14.4%). The following factors determined the Division's result: lower year-to-year income on distribution of mutual funds and brokerage activity and, at the same time, income on traditional banking activity (deposits and loans) and on sales of FM products. In 1H 2008, the Retail Banking Division also incurred higher operating costs and slightly lower recoveries in net impairment losses line on a year-to-year basis. The result of the Retail Banking Division represented 29.5% of the gross result of the Bank's capital group.

The gross result of the Wholesale Banking Division was PLN 231.1 million compared with PLN 166.2 million a year earlier (up by 39.0%). The better result of the Division resulted mostly from high income on sales of FM products and bigger income on deposits. The Wholesale's result was enhanced by the lower year-to-year balance of impairment charges (due to the portfolio securitisation). In 1H 2008, the share of the Wholesale Banking Division in creation of the gross result of the Bank's capital group was 45.4%.



The result on proprietary trading was PLN 111.3 million, up by 121.3% from a year earlier. It resulted from very strong results of the trading activity, with an insignificant decrease of ALCO income.

Key effectiveness ratios

In 1H 2008, most of the basic efficiency ratios for the capital group of ING Bank Śląski S.A. were slightly higher than a year earlier.

Table. Key effectiveness ratios (%)

	1H 2008	1H 2007
C/I ratio	62.6	64.1
ROA	1.5	1.4
ROE	23.7	20.5
Interest margin ratio	2.10	1.92
Solvency ratio	11.2	13.4

Cost to Income ratio (C/I) – total costs to operating income in analytic terms.

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

Return on equity (ROE) – net profit for shareholders of the dominant entity to average equity.

Interest margin ratio – relation between the net interest income and average yield assets of the Bank¹⁶ (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.

¹⁶ Net interest income increased with the income on "internal deposit swaps". Average assets are calculated based on the data from three periods: 30.06.2007, 30.09.2007, 31.12.2007, 31.03.2008 and 30.06.2008.

XII. STATEMENTS OF THE 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 2008 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 annual report of the Management Board presented herein represents a true presentation of the development, achievements and standing (including a description of key risks) of the Bank's capital group in 1H 2008.

Selection of Entity Authorised to Audit Financial Statements

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

Additional Information

Agreements Concluded

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

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

Number and value of writs of execution

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

As at 30 June 2008, in cases relating to the loans for business purposes, the number of writs of execution issued by the Bank was 68 and covered debt totalling PLN 218.7 million. At the end of 2007, those figures were: 250 writs totalling PLN 471.9 million. A significant decrease of the number and value of writs issued by the Bank resulted from the fact that a part of the bad debt portfolio was sold as part of the securitisation process.

In respect of retail clients, over 1H 2008 the Bank issued 40 banking writs of execution of the total value of PLN 629.2 thousand and filed 651 claims of the total value of PLN 8,166.7 thousand.