



# 2009

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## Report on Operations of ING Bank Śląski S.A. Capital Group in 1H 2009

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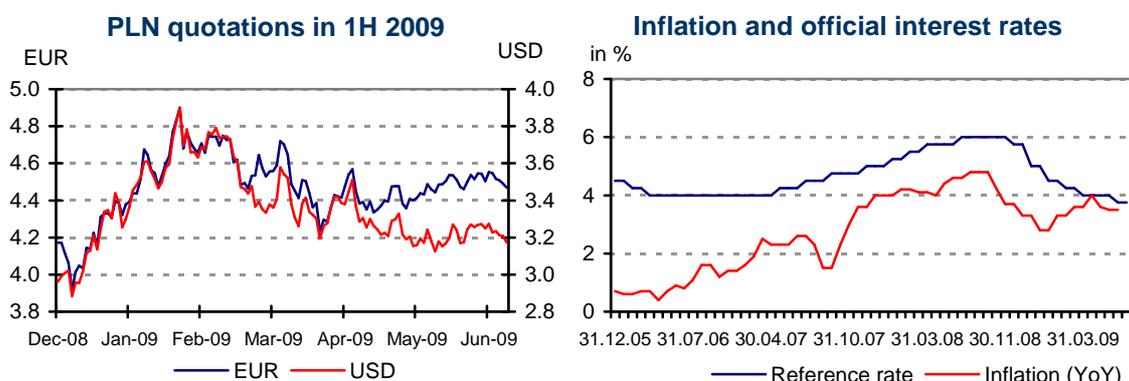
## I. MACROECONOMIC SITUATION IN 1H 2009

### 1. Basic economic trends

Although the growth pace slowed down, Polish economy proved to be the most resistant to global economy turmoil in the EU. In Q1 2009, Gross Domestic Product increased in Poland by 0.8%. Forecasts prepared by ING Bank Śląski S.A. assume increase of GDP by 0.3% in Q2 2009.

In 1H 2009, slow-down in Polish economy was mostly reflected in:

- Growing number of the unemployed. The unemployment rate went up from 9.5% as at the end of 2008 to 10.7% in June 2009.
- Decrease in the salaries growth pace. In June 2009, the average salary in the enterprises sector was higher by 2.0% from June 2008.
- Further weakening and significant fluctuations in the PLN quotation. As the Central and Eastern European countries are still not willing to take the risk, in the first six months of 2009 Polish zloty lost 7.1% compared both to USD and EUR.
- A relatively high inflation rate – as the result of the increased cost of maintaining the living quarters and increase in the prices of food, alcohol and tobacco, the prices of consumer goods and services were higher by 3.5% in June 2009 YoY.
- Increase in public finances deficit. Lower than budgeted income (mostly from CIT) forced the government to draft the budget amendment that assumed increase in budget deficit to PLN 27 billion in 2009 instead of the originally assumed deficit of PLN 18 billion.



### 2. Monetary policy

Deteriorating perspectives of Polish economy, hindered access of businesses to loans, and alleviating payroll and inflation pressure gave the Monetary Policy Council arguments for further easing of monetary policy.

In 1H 2009, the interest rates were decreased four times, and they went down by 150 basic points in total. As at the end of June 2009, they were as follows:

- reference rate – 3.50%,
- bills of exchange rediscount rate – 3.75%,
- lombard rate – 5.00%,
- deposit rate – 2.00%.

To provide the banking sector with better lending opportunities, the Monetary Policy Council decreased also the mandatory reserve rate from 3.50% to 3.00%. The decision is binding as of 30 June 2009.

To support entrepreneurship, the government approved the principles of granting warranties by the Bank Gospodarstwa Krajowego (National Economy Bank, or BGK). Lending potential under the above programme is estimated to be approximately PLN 20 billion. Furthermore, a bill on subsidies to mortgages for persons who lost their jobs after 30 June 2008 was drafted.

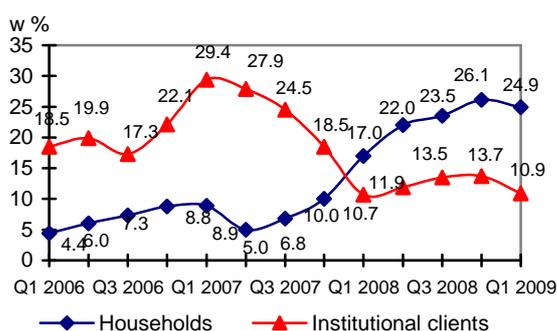
### 3. Banking sector

As at the end of June 2009, the assets of the banking sector amounted to PLN 1,053.7 billion, or went up by 1% from December 2008.

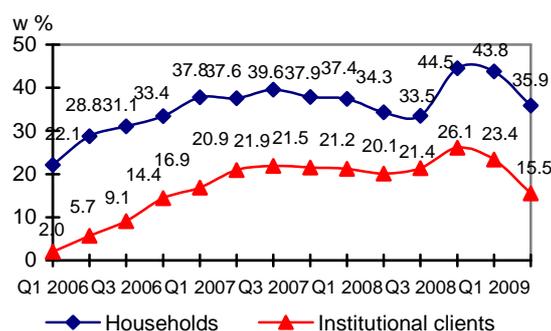
The situation as regards basic monetary categories in 1H 2009 was as follows:

- *Household deposits.* In the first months of 2009, there was a significant increase in funds on the bank accounts of households. In 1H, they grew by 9.7% up to PLN 369.1 billion.
- *Deposits of institutional clients.* Deterioration of the financial standing of businesses, and their limited access to loans that forced the businesses to use their own funds to run their activity – resulted in the decrease of funds on the accounts of institutional clients. In June 2009, they totalled PLN 234.1 billion, or they decreased by 0.9% from the end of 2008.
- *Credit receivables from households.* Despite of the stagnation on domestic real property market, drop in salaries dynamics, increase in the number of the unemployed, deterioration of the clients' mood, and toughening of credit policies – lending for households went up by 8.2% and amounted to PLN 406.3 billion. A part of that growth resulted from the Polish zloty depreciation (in June, FX loans constituted about 40% of the entire portfolio). Bank lending was backed by the government programme called "Rodzina na swoim" (Own apartment for a family) that went down very well with the bank clients after it was changed a little at the beginning of the year.
- *Credit receivables from institutional clients.* The growth of that portfolio was stopped by the strict credit policies introduced by the banks and the businesses being less willing to start investments. In the first six months 2009, credit exposure of the banking sector as regards institutional clients grew by 1.0% (up to PLN 276.9 billion). As FX loans constituted about a quarter of the portfolio, we may say that lending decreased from the end of 2008.

Dynamics of deposits (YoY)



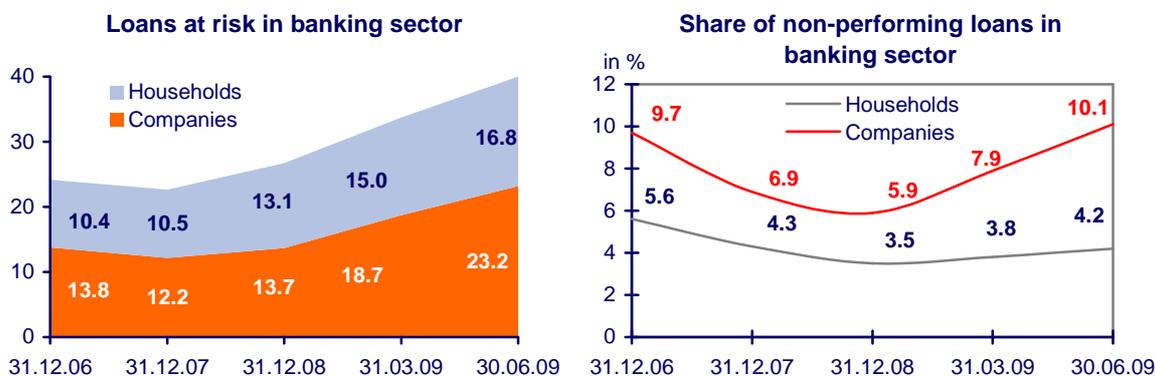
Dynamics of loans (YoY)



According to the initial data, in 1H 2009, net profit of the banking sector totalled PLN 4.3 billion, or it was lower by half YoY. Drop in financial results of the banks was most of all caused by:

- Deterioration of the financial standing of bank clients, and significant increase of risk costs.
- Price war for deposits caused by decrease of liquidity and deterioration of mutual confidence among financial institutions, which had undesirable impact on the main income element – interest income.

- Negative pricing of FX options concluded with the clients. According to the Polish Supervision Authority, in the middle of April 2009, negative pricing under exposure of businesses FX options amounted to PLN 4.5 billion.<sup>1</sup>



The fact that the banks applied mild credit policy, and that lending was developing dynamically during good economic times – resulted in significant growth of loans at risk when the economic situation deteriorated. This portfolio was impacted to a certain extent by the banks' involvement in FX derivatives with the clients. The above resulted in the increase of loans at risk to the receivables from the non-financial sector from 4.4% in December 2008 up to 6.3% in June 2009.

To have a proper capital buffer in difficult macroeconomic conditions, majority of the banks decided to assign the entire 2008 profit for raising their own funds. Some of the banks received also subordinated loans from their owners.

Thanks to raising own funds, prudent equity management, limiting development to the key business areas, and still good quality of the credit portfolios – banks' equity was on a satisfactory level. As at the end of June 2009, solvency ratio of majority of the banks was above 10%.

#### 4. Capital market

The first two months of 2009 were marked by deep drops in share prices at the Warsaw Stock Exchange. As of the beginning of March, increases were reported on the WSE, and in the second half of June, the main stock exchange index went above the line of increasing trend. In the last few days of June, the share prices decreased by a few percent, and WIG showed the side trend. In 1H 2009, share prices increased by 11.7% on the Warsaw Stock exchange as the result of the above trends. In terms of sector, it turned out that the best investments were the ones in the shares of the companies from the sectors that reported the highest reductions in 2008, namely developers (increase by 62.4%), and companies from food industry (growth by 69.1%). The prices of the shares of the banks dropped most significantly (Banking sub-index lowered by 15.4%).

As at the end of June 2009, value of domestic companies quoted on the WSE totalled PLN 286.4 billion, or increased by 7.1% from December 2008. In 1H 2009, 6 companies had their IPO, and 4 others were withdrawn from trading.

In the first six months of 2009, during session transactions the shares worth PLN 146.6 billion changed their holders, that is the trading was lower by 14% YoY. Whereas, the term contracts market was still developing. In 1H 2009, the total volume of trading in all derivatives amounted to 6.3 million items, i.e. was by 4% higher than in the last year.

<sup>1</sup> Polish Supervisory Authority – Updated information about exposure of businesses in FX derivatives, 28 April 2009. Pricing at the EUR/PLN rate of 4.28.

After first six months 2009, the Warsaw Stock Exchange was a leader among the Central and Eastern European countries under the category of capitalisation and trading in shares (before Wiener Boerse). WSE was on a good position in Europe on the IPO market. According to the IPO Watch Europe report in 1H 2009 WSE was the top European stock exchange in terms of number of debuts.

After a significant drop in 1Q, in the spring the situation on the investment funds market improved. At the end of June 2009, value of net assets of the investment funds totalled PLN 77.2 billion (compared to PLN 73.7 billion as at the end of December 2008). Growth of value of the funds' assets resulted from the improvement of management (increase in the stock exchange indexes), and to a lesser extent from the change of the investors' approach as regards investing in the funds and significant redemptions (it is estimated that in the period from May to June, the positive balance of the flow of equity to the investment funds was PLN 0.6 billion).

## **5. Macroeconomic factors that will have an impact on the operation of the banking sector in 2009**

Forecasts developed by ING Bank Śląski S.A. state that in 3Q 2009 GDP will decrease in Poland. Then, economic situation should slowly improve, and there should be a slight economic growth in 4Q 2009. The Bank foresees that in 2009 GDP in Poland will be probably 0.4% higher than in the previous year. The growth will be driven by individual consumption and net export with simultaneous decrease in investments.

Complicated situation in macroeconomic environment will have undesirable impact on the banking sector, both as regards dynamics of its development, and financial results achieved. Lower market growth potential, sustainable pressure on the margin, lack of the potential of the increase of income from capital markets, limited possibilities of reducing the operating costs, and much higher risk costs will probably result in lowering the profitability of the banking sector.

Development of the banks operating in Poland may be threatened by:

- Lasting recession in the countries being chief business partners of Poland that will lead to deterioration of the financial standing of businesses, notable increase in unemployment, and a drop of citizens' income. The above phenomena will have an adverse impact on the bank clients' ability to repay the loans in time, and will cause a significant increase in the risk costs.
- Strong depreciation of Polish zloty causing an increase in clients' liabilities under FX housing loans, and liabilities under the FX options.
- Notable drop in prices of real estates, which resulted in lowering the value of collaterals for the housing loans.
- Drop in confidence in the banks, which resulted in mass withdrawal of clients' funds from bank accounts.
- Bad financial standing of parent companies of the Polish banks that limited development possibilities and access to the equity of Polish daughter companies.

## II. MAIN ACHIEVEMENTS OF THE CAPITAL GROUP OF ING BANK ŚLĄSKI S.A. IN 1H 2009

### 1. Growth of the client base

At the end of June 2009, the services offered by ING Bank Śląski S.A. were used by:

- 2,484 thousand individual clients, some 66.8 thousand more than at the end of 2008,
- 188.4 thousand small businesses, up by 9.3 thousand over the first half of 2009,
- and 12,926 wholesale clients vis-à-vis 12,976 in December 2008.

A multimillion base of loyal clients represents a significant advantage of ING Bank Śląski S.A. in the situation of the sluggish economic and a lower rate of growth of the demand for banking services.

### 2. Better position in the lending market

At the end of June 2009, the total value of gross credit receivables of the capital group of ING Bank Śląski S.A. from clients was PLN 25,794.0 million, up by PLN 1,437.3 million (5.9%) from the end of 2008. According to estimates, the share of the capital group in the total value of credit receivables owing to the whole banking sector was 3.9% (3.7% at the end of 2008).

A better position of the Bank's capital group in the lending market resulted from:

- A dynamic growth in the credit exposure towards retail clients. In June 2009 the value of loans granted to retail clients was PLN 8,568.8 million, up by PLN 1,344.8 million (18.6%) vis-à-vis the end of 2008. On a yearly basis the group noted 51.6% growth of the credit portfolio.
- Maintaining the value of wholesale clients credit portfolio. Credit receivables from wholesale clients amounted to PLN 17,225.2 million, up by 0.5% vis-à-vis the end of 2008. On a yearly basis the wholesale loans rose by 15.8%.

**Table. The value of loans for clients of ING Bank Śląski S.A. capital group**

	30.06.2009 million PLN	31.12.2008 million PLN	30.06.2008 million PLN	30.06.2009/ 31.12.2008	30.06.2009/ 30.06.2008
Total lending	25,794.0	24,356.7	20,520.8	105.9%	125.7%
Total retail clients	8,568.8	7,224.0	5,650.6	118.6%	151.6%
Total wholesale clients	17,225.2	17,132.7	14,870.2	100.5%	115.8%

### 3. Maintaining the level of retail deposits

At the end of June 2009, the total value of the funds deposited in the accounts with the capital group of ING Bank Śląski S.A. was PLN 46,352.8 million, down by PLN 1,086,8 million (2.3%) from December 2008. According to estimates, the share of the Bank's capital group in the total value of the banking sector's deposits was 7.4% (8.0% at the end of 2008).

Over the first half of 2009 the core element of the deposit base of the Bank's capital group, i.e. the retail deposits, went up. In June 2009 those amounted to PLN 33,288.5 million vis-à-vis PLN 32,517.5 million at the end of 2008 (up by 2.4%).

**Table. The value of deposits of clients of ING Bank Śląski S.A. capital group**

	30.06.2009 million PLN	31.12.2008 million PLN	30.06.2008 million PLN	30.06.2009/ 31.12.2008	30.06.2009/ 30.06.2008
Total deposits	46,352.8	47,439.6	47,478.4	97.7%	97.6%
Total retail clients	33,288.5	32,517.5	30,477.1	102.4%	109.2%
Total wholesale clients	13,064.3	14,922.1	17,001.3	87.6%	76.8%

#### 4. Financial results

The net profit of the capital group of ING Bank Śląski S.A. in 1H 2009 was PLN 263.5 million, down by 35.3% vis-à-vis 1H 2008.

The key factors affecting the financial result of the Bank's capital group in 1H 2009 included:

- **Growth of the result on core business.** In 1H 2009 it was PLN 1,242.4 million, up by 3.0% vis-à-vis 1H 2008. It was generated mostly by the increase in the result on interest (by 21.4%), result on commissions (by 3.6%) and a decrease in other income (by 61.6%). However, the other income of 1H 2009 reflected PLN 124.9 million worth of negative valuation of option transactions with clients, while a year ago it reflected PLN 25.3 million worth of income from the sale of MasterCard Incorporated shares.
- **Decrease in operating costs.** Those amounted to PLN 745.5 million, down by 1.3% YOY. The biggest decreases were noted in the costs of personnel, marketing and new projects.
- **Increased risk costs.** In 1H 2009, the balance of impairment charges was negative at PLN 165.6 million (vis-à-vis the positive balance YOY at PLN 58.2 million). This amount includes provisions established for amounts due from companies under matured option transactions (PLN 81.5 million).

In 1H 2009, the comprehensive income of the capital group of ING Bank Śląski S.A. (covering, apart from the net profit, other income and cost items of capitals) was PLN 292.6 million vis-à-vis PLN 291.1 million YOY.

**Table. Financial results of ING Bank Śląski S.A. capital group**

	I H 2009 PLN milion	I H 2008 PLN milion	Change I H 2009 / I H 2008
Total operating income*	1,242.4	1,206.0	3.0%
Total costs	-745.2	-755.2	-1.3%
Result before risk cost	497.2	450.8	10.3%
Risk cost	-165.6	58.2	x
Result before tax	331.6	508.9	-34.8%
Net profit	263.5	407.5	-35.3%
Earnings pe ordinary share (PLN)	20.3	31.3	-35.3%
Profitability ratio (%)	17.0	28.2	-11.2 p.p.
Return on assets (%)	0.8	1.5	-0.7 p.p.
Return on equity (%)	13.5	23.7	-10.2 p.p.
Cost/Income ratio (%)	60.0	62.6	-2.6 p.p.
Solvency ratio (%)	10.87	11.22	-0.35 p.p.

\*/ Including share In net profits of affiliates recognized by equity method.

## 5. Implementation of key projects for the organisation's sustainable growth

Special emphasis should be placed on the effects of the following projects:

- New Front-End application. In 1H 2009 the subsequent phases of implementation of the new branch system were finalised and the following functionalities were offered: non-standard deposits, structured products and transfers via the telephone banking system.
- Self-banking Project. The Bank's primary focus was on enhancing the availability of devices installed in self-banking zones which may be found in 80% of the Bank's branches.
- New approach to Private Banking segment clients. Apart from adopting a new segmentation criterion, the Bank developed financial solutions to match the clients' needs and their life plans by offering five investment profiles. Moreover, appropriate structures (including sales ones) are being built for dedicated PB segment service.
- Changes in the service model for Small Business segment clients. The Bank established Small Business Centres in all Regions This should allow for adjusting the business to the actual situation in a given region of Poland and improving the client service quality.
- Working Capital Management Project. It aims at proposing professional and tailor-made working capital management solutions to wholesale clients. Considering the market pressures, the new approach to providing financial services to wholesale clients should allow for attracting new clients.
- Foreign Payments. In April 2009, the Bank implemented comprehensive processing of inbound SEPA CT payments via the new system for euro settlements. In June the Bank became a direct participant of TARGET2 system.

As a result of the modifications in the IT and Operations area and continued development of functionalities of the electronic distribution channels, the share of automated transactions in the overall number of transactions made at ING Bank Śląski S.A. rose from 92.2% in December 2008 to 93.8% in June 2009.

## 6. Awards

In the first half of 2009, ING Bank Śląski S.A. received the following awards:

- TOP RATED Status granted by the GLOBAL CUSTODIAN (prestigious and influential American Publishing House) to ING Bank Śląski for custody operations run in Poland in 2008,
- St. Brother Albert's medal granted to ING for Children Foundation for 2008 for supporting activities for disabled persons,
- "Róża bez Kolców" – 1st place in the Best Banks' ranking granted by the biggest enterprises in Poland (Home & Market magazine),
- 1st place in the "Investment Banks and Advisors" Category in the 14th edition of the Book of Lists (the largest and the oldest Polish-English business publication in the Polish publishing market which follows the changes taking place in the Polish business),
- 3rd place in the "Best Stock Exchange Listed Company" (Puls Biznesu daily),
- "Leopards 2007" Bankers' award for the most admired banking brand creation,
- title of "Ecologically Friendly Company" awarded by the European Ecologic Responsibility Forum,
- title of *Superbrand Polska* in the fourth edition of Superbrands organised by the international Superbrands organisation,
- Cristal Trusted Brand Statuette in the *bank* category in the largest European consumer survey (European Trusted Brands), organised by Reader's Digest,

- third place for the Bank's Team of Economists in the first edition of the competition for the best analysts organised by NBP and Rzeczpospolita and Parkiet dailies,
- top position among the Polish economists for Mateusz Szczurek, the Bank's Chief Economist in the international ranking of Thomson Reuters Extel Survey.

Furthermore, ING Securities S.A., the Bank's subsidiary won the following awards:

- first place in the *Stockbroker Companies* category in the ranking by Book of Lists yearly,
- second place in the ranking of the best financial institutions by Rzeczpospolita daily for the results achieved in 2008 in the *Brokerage Houses* category,
- the title of the best analysts in the European Emerging Markets (EMEA) in the Thomson Reuters Extel Survey won by Milena Olszewska-Miszuris and Piotr Palenik.

### III. ACTIVITY OF ING BANK ŚLĄSKI S.A. IN 1H 2009

#### 1. Retail Banking

##### **Changes in the product offer and principles of client service**

Actions taken by ING Bank Śląski S.A. as regards the offer and principles of client service are well fitted in the general strategy of its operation that provides a simple and honest offer, simplifies and automates processes, and increases the significance of internet banking in the processes of client service.

In 1H 2009, the Bank introduced such main modifications as:

- The holders of PLN Open Savings Account were offered other PLN deposits with attractive interest: *Extra Bonus 5* (offered only at the Bank Branches) and *eDeposit* (sold via Internet). Interest rate on the said products (introduced to the market in the middle of January) was then adjusted to the market situation several times.
- Subsequent structured products were introduced onto the market, where the products differentiated both in terms of legal formula, investment time horizon, and client target group. In total, 14 subscriptions of the structured products of *Investment Insurance Scheme* were carried out, and 4 *Investment Term Deposits*. Furthermore, subsequent *Fund With a Deposit* packages were offered to the clients.
- Promotional campaigns were carried out in connection with the sale of personal accounts – *Accounts With a Lion* – such as: *100 zlotys for a salary paid into the account* and *300 score for a start* (under the *You Bank - You Buy Programme*).
- Introduction of a special offer *Percents for Additional Payments* for the clients saving on the Open Savings Accounts and Direct Open Savings Accounts. The offer that was proposed at the end of May was connected with *Save and Win* and *Royal Collection* competitions. Besides additional percents, the clients could win attractive prizes, and their chances of winning grew proportionally to the value of funds newly paid in.

As regards credit products, the Bank:

- Introduced changes in the criteria of preparing the prescoring data bases aimed at mitigating the credit risk and making the offer for the best clients more attractive.
- Prolonged the repayment period of the cash loan from the prescoring offer available at ING BankOnLine and added the possibility of making use of the *Safe Loan* insurance programme.
- Withdrew cash loans with variable interest rate from the offer.
- Adjusted credit margins applied in the SB offer to the complicated market situation.

In 1H 2009, the Bank introduced also changes in the *Table of Fees and Commissions* that resulted from the costs analysis, and which took into account the targets of *The Most Internet Bank* project. Thus the charges for the operations carried out at the branches were increased, while a lot of internet services remained to be offered free of charge (*Direct Account*, ING BankOnLine transfers for individual clients).

At the beginning of 2009, the Bank changed its approach to service of the affluent clients, and separated two segments within its structure: Personal Banking (clients with the assets worth at least PLN 200,000) and Private Banking (with the assets of at least PLN 1 million).

The clients from the Personal Banking segment are under the care of their personal AMs who are available at 30 BP Centres seated in selected Bank Branches all over Poland. VIP account is the core element of the Personal Banking offer. That account provides the clients a free of charge access to their funds deposited with the Bank via a dedicated telephone line, and free of charge withdrawals from all the ATMs in Poland.

In June 2009, the Bank served more than 24,000 Personal Banking clients holding assets worth approximately PLN 6 billion in total.

The Bank started also to build the structures for the Private Banking clients (at first, they were served by the Investment Centre in Warsaw). The target of creating a group of Private Banking AMs dedicated to serve this client segment is to give the clients easier access to a more attractive offer tailored to their individual needs. Furthermore, five investment profiles have been worked out that are characterised with a different risk level. In 1H 2009, majority of clients selected the preferred investment profile, and the Bank offered to them model investment funds portfolios appropriate for the risk level selected by them. Thinking about that client group, four subscriptions of the *Investment Term Deposits* were carried out, and six new *Deposits With a Fund* were introduced.

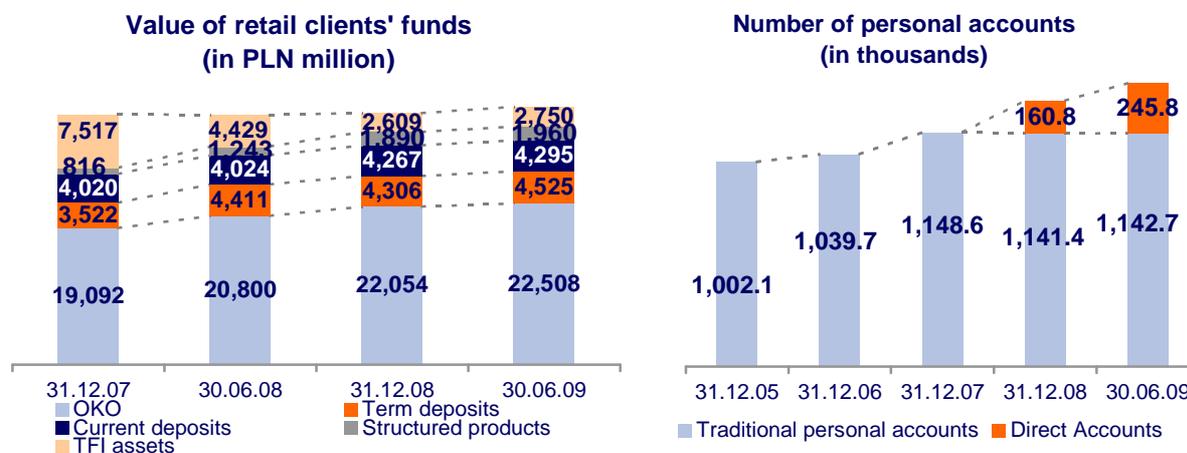
In June 2009, approximately 1,600 clients made use of the Private Banking offer of ING Bank Śląski S.A. who entrusted their assets of the total value of more than PLN 4 billion to the Bank.

In 1H 2009, the Bank introduced also changes in the SB service system. The Bank created the Small Business Centres in each Region, which should allow to adjust the activity to local markets, and which should contribute to improving the quality of client service.

### Deposit activity

As at 30 June 2009, the total value of savings entrusted to ING Bank Śląski S.A. by retail clients amounted to PLN 36,038.4 million, compared to PLN 35,126.5 million in December 2008 (increase by 2.6%).

The savings were entrusted to the Bank mostly as bank deposits whose worth was PLN 33,288.5 million, or which went up by 2.4% from the end of December 2008. That result was reflected in 7.8% share in the household deposits market (compared to 8.2% share as at the end of 2008).



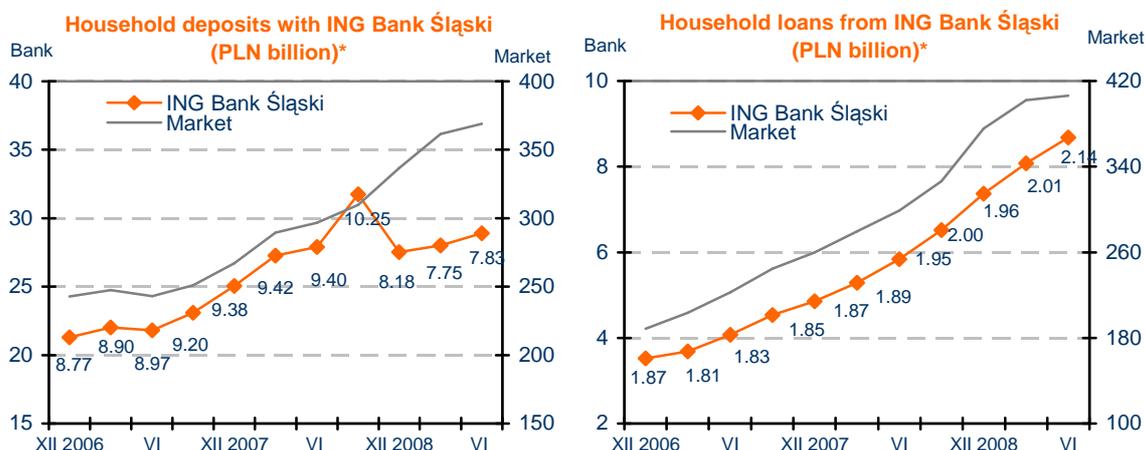
Retail clients deposit free funds with ING Bank Śląski S.A. most of all on the *Open Savings Accounts (OKO)*. As at the end of June 2009, the funds deposited on *OKO* amounted to PLN 22,508.3 million, or increased by PLN 454.2 million (by 2.1%) from December 2008. This growth resulted most of all from the *Percents for Additional Payments* offered by the Bank at the end of May.

Maintaining attractive deposits in the offer (*Extra Bonus, eDeposit*) led to the increase in balance of term accounts – from PLN 4,306.1 million in December 2008 to PLN 4,525.4 million as at the end of June 2009. The funds invested in structured products grew from PLN 1,890.2 million in December 2008 to PLN 1,960.1 million as at the end of June 2009.

The range of clearing services for retail clients was significantly extended at the Bank. As of the end of June 2009, ING Bank Śląski S.A. maintained 1,388,500 personal (ROR) accounts. This means that in the first six months of 2009 the Bank acquired 86,300 ROR accounts net. The largest share in this

increase belonged to *Direct Accounts*. As of the end of June 2009 the Bank held 245,800 such accounts (increase by 85,000 in comparison to December 2008). Small businesses held 180,600 current accounts with the Bank, inclusive of 46,000 *Direct Accounts*. At the end of 2008 the numbers were respectively 161,900 current accounts and 27,600 *Direct Accounts*.

Improvements in the stock exchange market had a positive impact on the ING TFI net assets acquired via ING Bank Śląski S.A. At the end of June 2009 their value reached PLN 2,749.9 million (in comparison to PLN 2,609.0 million at the end of 2008).



\*Numbers illustrates the shares of ING Bank Śląski S.A. in the market.

### Lending

As of the end of June 2009, credit receivables of ING Bank Śląski S.A. from retail clients totalled PLN 8,568.8 million. In 1H 2009, the Bank's credit exposure towards retail clients went up by PLN 1,344.8 million, or 18.6%. Thus the Bank increased its share in the market of household credit receivables to 2.1% (from 2.0% in December 2008).



Mortgage and cash loans played the major role in invigorating the Bank's lending to retail clients. At the end of June 2009 the Bank's credit receivables due to mortgage loans totalled PLN 5,267.9 million against PLN 4,488.0 million as of the end of 2008 (up by 17.4%). Throughout the first six months of 2009, the Bank extended PLN 1,003 million worth of mortgages (vs. PLN 1,066 million a year earlier). The Polish Bank Association's data shows that in 1H 2009 ING Bank Śląski S.A. held an almost 7% share in the sales of mortgage loans (versus 3.7% in 1H 2008).

The value of cash loans increased from PLN 624.6 million in December 2008 to PLN 939.9 million at the end of June 2009 (by 50.5%).

The Bank's exposure towards small businesses also rose. At the end of June 2009, those receivables totalled PLN 1,423.7 million, which means an increase by 21.7% in comparison to the end of 2008.

### **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.

In 1H 2009 the following products were added to the offer:

- ING contactless card (Maestro PayPass). In addition to the standard functions of a debit card, this card may be used to conclude contactless transactions for small amounts without confirmation by PIN code or signature.
- ING virtual c@rd. It is the first pre-paid card in Poland without the actual plastic. It is designed to conclude remote cashless transactions (via the Internet, telephone or mail). It is offered to individual clients and small businesses that are also users of ING BankOnLine.

By the end of June 2009, ING Bank Śląski S.A. issued 2,037,000 payment cards to retail clients (increase by 2.7% in comparison to the end of 2008). Among those cards, 265,000 were credit cards. The newly introduced cards were popular among the clients. By the end of June 2009, the Bank issued 59,800 contactless cards and 2,000 virtual c@rds.

## **2. Wholesale Banking**

### **Products offer and changes introduced**

Surveys show that ING Bank Śląski S.A. is the bank of first choice for large companies. This is because our high quality products offer is suited to the clients' preferences. High quality products offer is among the main factors that decide about selecting a bank by wholesale clients.

In 1H 2009 the Bank:

- Implemented Multi-product Agreement that replaced three products functioning before: guarantee line, integrated loan limit and multi-currency loan. The main benefits for the client include access to several credit products on the basis of one application and the possibility of using various products, depending on the current needs.
- Made new solutions available under Umbrella Facility Agreement – a master agreement concluded by the mother company with a unit from ING Group in the Netherlands or Belgium, under which a limit is allocated to subsidiaries operating in countries where ING Group entities operate.
- Developed a complete offer dedicated to local government units.
- Modified eCall deposit offered to large and medium companies and offered new deposit product called Term Deposit.
- Introduced changes in the offer of preferential loans with subsidies on interest rates paid by the Agency for Restructuring and Modernisation of Agriculture (the level of subsidies was increased and interest rates for some agreements were lowered).
- Signed new cooperation agreement with Bank Gospodarstwa Krajowego (BGK) for loans with thermal insulation bonus and loans with renovation bonus. These loans bear smaller risk for the Bank because a part of such loan (usually 20%) is repaid by BGK. We are also preparing to launch a new product – technological investment loan that will supplement the current EU offer.

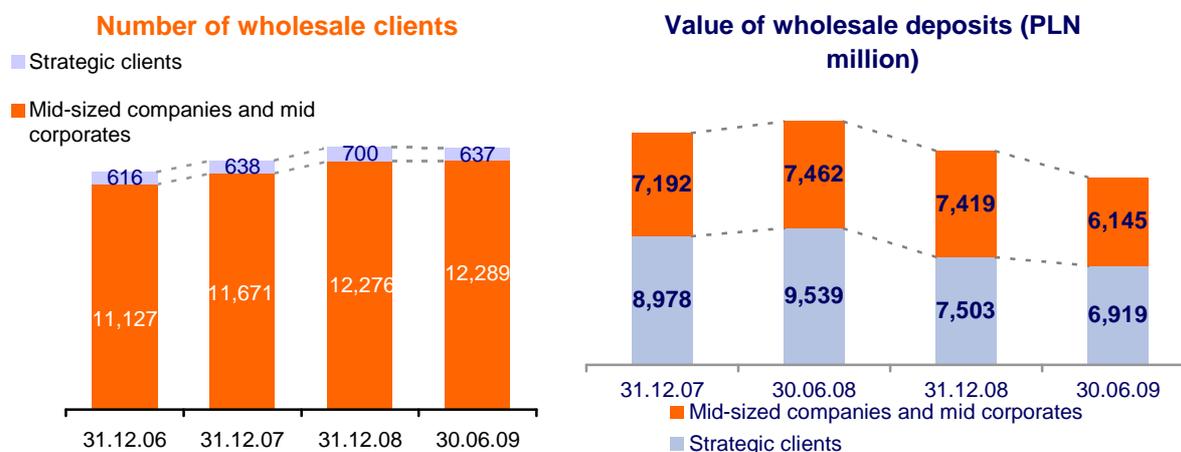
In 1H 2009, the managing institutions called for applications for subsidies in several operating programmes, both on the national level (for entrepreneurs who process the produce, execute advanced technological projects, and projects in environment protection) and on the regional level (for small and medium companies). ING Bank Śląski S.A. actively advised companies both on selecting support programmes and financial engineering for the projects. At the same time, the Bank intensively promoted the programmes by organizing individual meetings with entrepreneurs and representatives of local government units, as well as by continuing the series "Breakfasts with the EU". Moreover, the

Bank is a partner in the series of conferences “European Commune – European Town” (organized in cooperation with Gazeta Prawna (the Legal Daily), the Ministry of Finance and the Ministry of Regional Development). Those conferences promote the knowledge of effective public fund management using advanced banking solutions.

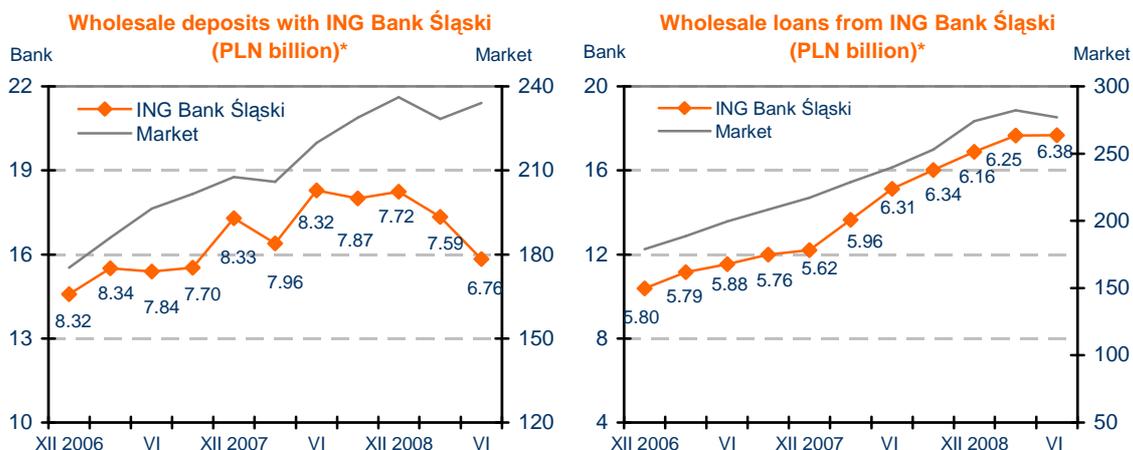
### Deposit and clearing activity

As of 30 June 2009, the value of wholesale clients' deposits at the Bank totalled PLN 13,064.3 million (vs. PLN 14,922.1 million in December 2008). It is estimated that at the end of June 2009 ING Bank Śląski S.A. held a 6.8% share in the market of institutional clients' deposits (vs. 7.7% at the end of 2008).

The macroeconomic situation, in particular the worsening condition of companies and increasing competition for entities' surplus funds caused that the value of funds deposited on accounts of wholesale network's clients (mid-sized companies and mid corporates) and strategic clients decreased in 1H 2009. The decrease was by 17.2% and 7.8% respectively.



The solid and highly attractive level of the clearing and deposit offer of ING Bank Śląski S.A. resulted in a 6% increase in the number of current accounts held by wholesale clients. Wholesale clients also showed more and more interest in electronic distribution channels, and in particular the latest Internet banking system – ING BusinessOnLine. At the end of June 2009, the system was used by 7,000 companies.



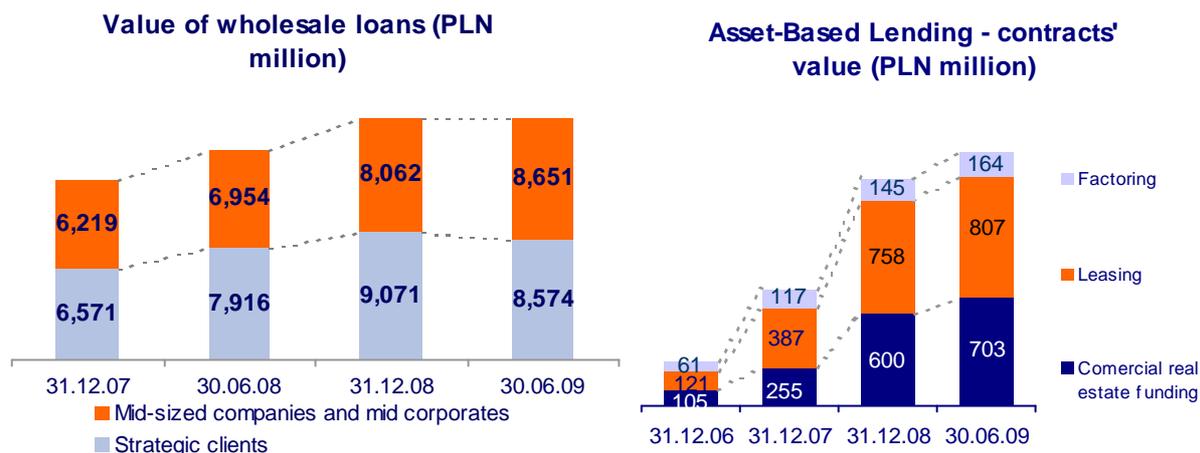
\*Numbers illustrates the shares of ING Bank Śląski S.A. in the market.

## Lending

As of the end of June 2009, credit receivables of ING Bank Śląski S.A. from wholesale clients totalled PLN 17,225.2 million versus PLN 17,132.7 million in December 2008 (up by 0.5%). It is estimated that at the end of June 2009, the Bank held a 6.4% share in the market of institutional clients loans.

In 1H 2009, ING Bank Śląski S.A. recorded a growth in credit exposures to the clients of wholesale sales network. Credit receivables from those wholesale clients totalled PLN 8,650.7 million and were higher by 7.3% in comparison to December 2008. As part of cooperation with those clients, the Bank signed loan agreements with the cities of Łódź and Gdańsk.

The Bank's lending to strategic clients totalled PLN 8,574.5 million, which is a decrease by 5.5% in comparison to December 2008.



Large-scale actions that promoted the knowledge of EU support programmes resulted in a considerable increase of credit exposure of ING Bank Śląski S.A. connected with handling such programmes. At the end of June 2009 the total value of extended loans and promises of EU loans totalled PLN 2,681.2 million (vs. 2,301.8 million at the end of 2008). Among companies covered by the IBnGR (Institute for Market Economics) survey, ING Bank Śląski S.A. held 22% share in crediting EU projects which gave it the first position.

Despite bad market conditions, in 1H 2009 ING Bank Śląski S.A. cooperated more closely with other ING companies on asset-based lending, i.e. on sales of leasing and factoring services and commercial real estate funding. The total value of contracts for asset-based lending concluded in cooperation with other ING companies reached PLN 1,673 million, which means an increase by 11.3% in comparison to December 2008. In particular the value of contracts for commercial real property funding increased (by 17.2%) and for factoring services (by 13.1%).

### 3. Money and capital markets

In 1H 2009, ING Bank Śląski S.A. recorded sound results in financial markets, both in the area of client- and proprietary trading. The Bank's results in the area were positively influenced by gradual stabilisation of situation in world financial markets.

The Bank was particularly active in developing a relevant strategy for development of business in new market conditions. The Bank worked on improving the client service model on the basis of proven sales standards complying with the best practices. By putting stress on responsible, stable and effective development of operations, the Bank focused on using advanced solutions for products of transactional banking and continued to offer its clients (under stage 2 of the pilot programme) an Internet platform ING Trade designed for concluding FX transactions, opening negotiable deposits, and concluding FX futures transactions. The Bank also worked towards integration and improvement of currently used IT systems.

As result of the Bank's strategy the number of clients using advanced financial solutions tailored to

individual needs of particular business areas increased.

The Bank also continued effective management of market risk exposures and implemented the plan on reducing credit risk of own operations by signing Credit Support Annexes to ISDA agreements with major partners in the interbank market. The Bank participated in GPW (Stock Exchange Market) works on development and organization of new model of government and corporate bonds market. It was also an active participant in the REPO market that is developing in Poland and took actions aimed at direct participation in European markets as part of its own operation.

On 19 May 2009, the Bank signed the Consortium Agreement of the Bond Issue Programme for PLN 1.5 billion for PGE Polska Grupa Energetyczna S.A. for which it was the Issue Agent, Payment Agent and Dealer.

During 1H 2009, ING Bank Śląski S.A. provided services to over 60 entities and maintained its strong position in the debt securities market. As of 30 June 2009, the total value of debt related to issue of bonds reached PLN 6,383.8 million. The Bank was on the first position in the market in terms of debt related to issue of short-term debt securities (with a share of 23.6%) and maintained the second position in the market in terms of value of debt related to issue of corporate bonds whose maturity exceeds one year (20.7% share).

From November 2008 to April 2009, among eighteen banks aiming at the function of Money Market Dealer in 2010 ING Bank Śląski S.A. was classified in first position in terms of Dealing Activity Index. The Bank also held the title of Treasury Bond Dealer in 2009. In the competition for the Treasury Bond Dealer for 2010 announced by the Minister of Finance that was held from October 2008 to March 2009, the Bank took the seventh position.

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

### **1. Structure of ING Bank Śląski S.A. capital group**

In 1H 2009, the composition of ING Bank Śląski S.A. capital group remained unchanged and – apart from the dominant entity – as of 30 June 2009 the following Companies formed the group:

- ING Securities S.A. (subsidiary, 100% share),
- ING Bank Hipoteczny S.A. (subsidiary, 100% share),
- Centrum Banku Śląskiego Sp. z o.o. (subsidiary, 100% share),
- ING BSK Development Sp. z o.o. in liquidation (subsidiary, 100% share),
- Solver Sp. z o.o. (subsidiary, 82,3% share),

In addition, the Bank held the share of affiliated entity – ING Powszechnie Towarzystwo Emerytalne S.A. (20% share).

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 by the trade relationships. The capital group members hold current accounts, and 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

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

ING Securities S.A. is one of the largest brokerage houses in Poland. In 1H 2009, it held the following shares in transactions of the Warsaw Stock Exchange:

- stock market – 12.5% (number two),
- forwards market – 6.3% (number four).

As of the end of June 2009, ING Securities S.A. maintained 34,700 investment accounts, including 16,600 Internet ones.

ING Securities 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.

To maintain the high level of customer service, in 1H 2009, the Brokerage House modified the product offer and distribution channels, notably:

- *Products.* The Brokerage house added to its offer hedge funds of the Superfund group and lowered the value of clients' security deposit for futures to 100% of the deposit value required by KDPW (the National Depository for Securities), at the same time introducing interest rates on the deposited funds.
- *Electronic banking.* The Brokerage House published in ING BankOnLine an application to open an investment account, it also developed and implemented an information page for mobile devices (mini.ingsecurities.pl) and published the program for technical analysis Notowania 3Max to all internet clients free of charge.

- *Service points.* The Brokerage House registered three new agents who mediate in execution of certain brokerage activities for an investment company (there were 10 active agents in June). On 31 January 2009, cooperation with Dom Maklerski Polonia Net S.A. on accepting and transferring orders of ING Securities clients was ended.

In 1H 2009, ING Securities S.A. generated net profit of PLN 10.9 million versus PLN 18.8 million a year earlier.

### **3. ING 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 1H 2009, ING BH S.A. pursued its long-term strategy. However, in response to market situation, active monitoring of the credit portfolio and risk control became priorities. The growth of the portfolio and acquiring new clients were of secondary importance. The Bank also paid greater attention to control of operating costs by reducing, among others, the sales personnel.

In 1H 2009, ING BH S.A. was capitalized twice by ING Bank Śląski S.A. with a total amount of PLN 100 million. This was done by taking up two issues (in January and in May) of new shares of ING BH S.A. in a closed offering.

In 1H 2009, ING Bank Hipoteczny S.A. generated net profit of PLN 2.4 million (versus PLN 1.0 million in 1H 2008).

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

In connection with the change of ING Bank Śląski S.A. approach to management of owned real property, at Extraordinary General Shareholders Meeting of Centrum Banku Śląskiego Sp. z o.o. in liquidation held on 23 December 2008, decision was taken to continue the operation of the company and stop its liquidation as of 1 January 2009.

In 1H 2009, Centrum Banku Śląskiego Sp. z o.o. was preparing to start business in the area of providing real property management services for ING Bank Śląski S.A. As a target, the company will be the administrator of three office buildings that belong to the Bank: in Katowice at ul. Sokolska 34 and at ul. Chorzowska 50 and in Warsaw at ul. Modzelewskiego 77.

In 1H 2009, net profit of Centrum Banku Śląskiego Sp. z o.o. totalled PLN 1.1 million (at the same level as in 1H 2008).

### **5. ING Powszechne Towarzystwo Emerytalne S.A**

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 2009, the Fund strengthened its position and in June 30, 2009, it had the following market share:

- Net assets of PLN 37.0 billion, or 24.2% of the total value of assets of pension funds operating in Poland (compared to 23.9% as of the end of 2008).
- 2,869,400 members or 20.3% of all members of pension funds (compared to 20.2% as of the end of 2008).

ING Open Pension Fund was able to improve its position in the market constantly 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 3,000 Insurance and Financial Representatives, a network of branches and franchise operations ING Usługi Finansowe S.A., outlets of ING Bank Śląski S.A. and a network of brokers who cooperate with ING throughout Poland. Clients can contact the Fund over the

phone (info line, text messages and WAP) and the Internet as well.

While selecting a pension fund, the clients should focus on the long-term perspective of investments and stability of generated results in the first place. In 1H 2009, ING Polska OFE 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 2009 demonstrated that ING OFE was in the fourth place when it comes to the amount of funds that a potential pensioner could accumulate in the period from the end of August 1999 to the end of June 2009.

In its income statement for 1H 2009, ING Bank Śląski S.A. recognised its share in the profits of ING PTE S.A. in the amount of PLN 25.6 million (compared to PLN 25.8 million in 1H 2008).

#### **6. ING BSK Development Sp. z o.o. in liquidation**

On 23 December 2008 at General Shareholders Meeting of ING BSK Development Sp. z o.o. decision was taken to dissolve the company and open its liquidation on 1 January 2009.

In 1H 2009, ING BSK Development Sp. z o.o. in liquidation recorded a net loss of PLN 20,000 (in 1H 2008, it recorded a net loss of PLN 19,000).

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

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

In 1H 2009, Solver Sp. z o.o. recorded net net loss of PLN 34,000 versus net profit at the level of PLN 4,000 a year earlier.

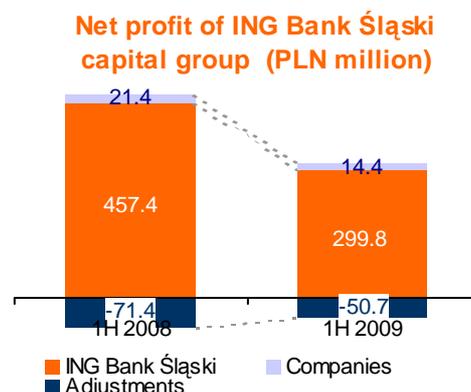
## V. FINANCIAL STANDING OF CAPITAL GROUP OF ING BANK ŚLĄSKI S.A IN 1H 2009

### 1. Gross and net profit

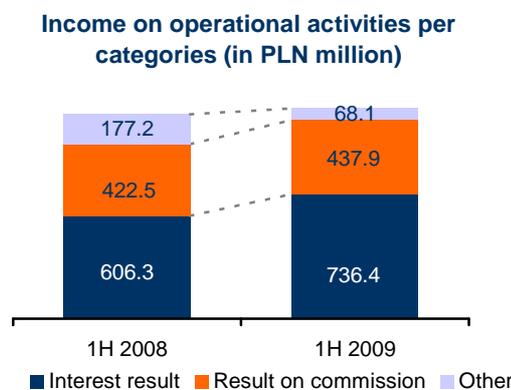
In 1H 2009, the gross financial profit of ING Bank Śląski S.A. capital group was PLN 331.6 million versus PLN 508.9 million in 1H 2008. Net profit totalled PLN 263.5 million as compared with PLN 407.5 million a year earlier (down by 35.3%)

The main factors influencing the financial results of the capital group of ING Bank Śląski S.A. in 1H 2009 were as follows<sup>2</sup>:

- Increase of income on operations. It totalled PLN 1,242.4 million (versus PLN 1,206.0 in 1H 2008). The group recorded an increase in interest result and result on commission while other net income decreased.
- Decrease of operating costs by 1.3% mainly due to lower staff costs (drop in the number of employees) and lower outlays for promotion and execution of projects.
- Significant increase of risk costs. In 1H 2009 the balance of impairment provisions was negative and amounted to PLN 165.6 million against a group's positive balance of impairment provisions amounting to PLN 58.2 million a year earlier.



In 1H 2009, result before risk costs amounted to PLN 497.2 million for the capital group of the Bank, or it was higher by 10.3% YoY.



In 1H 2009, the comprehensive income of the capital group of ING Bank Śląski S.A. (covering, apart from the net profit, other income and cost items of capitals) was PLN 292.6 million vis-à-vis PLN 291.1 million YOY.

<sup>2</sup> 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 figures of consolidated Income Statement in analytical terms (in PLN million)**

	I H 2009	I H 2008	Change IH 2009/IH 2008	
	PLN million	PLN million	PLN million	in %
Interest income*	736.4	606.3	130.1	21.4
Commission income	437.9	422.5	15.4	3.6
Other income**	68.1	177.2	-109.1	-61.6
<b>Total operating income</b>	<b>1,242.4</b>	<b>1,206.0</b>	<b>36.4</b>	<b>3.0</b>
Total costs	-745.2	-755.2	-10.0	-1.3
<b>Result before risk cost</b>	<b>497.2</b>	<b>450.8</b>	<b>46.4</b>	<b>10.3</b>
Risk cost	-165.6	58.2	223.7	X
<b>Result before tax</b>	<b>331.6</b>	<b>508.9</b>	<b>-177.3</b>	<b>-34.8</b>
Income tax	-68.1	-101.4	-33.3	-32.8
Net profit assigned to minority shareholders	0.0	0.0		
<b>Net profit</b>	<b>263.5</b>	<b>407.5</b>	<b>-144.0</b>	<b>-35.3</b>

\*Interest income includes swap points, which in financial statements are presented in position „Result on financial instruments carried through profit and loss and revaluation.

\*\* Including share in net profits of affiliates recognized by equity method.

## 2. Interest result

In 1H 2009, net interest income generated by the capital group of ING Bank Śląski S.A. totalled PLN 736.4 million as compared to PLN 606.3 million a year earlier (increase by 21.4%). Growth of the said income resulted most of all from a good for us change in the balance sheet structure, namely increase of the share of loans in assets.

In 1H 2009, the capital group of the Bank executed interest margin of 2.37%, whereas a year earlier it was 2.10%.

## 3. Non-interest income

Preponderance of the non-interest income of the capital group of ING Bank Śląski S.A. consisted of fees and commission income. In 1H 2009, the said income amounted to PLN 437.9 million as compared to PLN 422.5 million in 1H 2008 (increase by 3.6%).

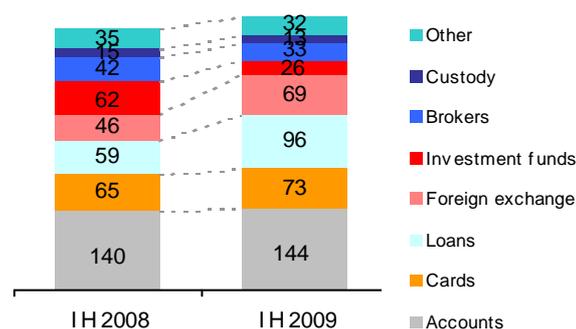
Capital group of the Bank reported a significant increase of commission on granting loans (by 62.2%, for instance as a result of introduction of credit insurance), on transactional margin on FX operations (increase by 50.1%) and card-related commission (by 11.2%). Whereas, commission income related to the distribution of the participation units was lower (by 57.1%) than in 1H 2008, related to brokerage activity (by 22.6%), and subscription of structured deposits (by 70.2%).

In 1H 2009, other income of the capital group of the Bank totalled PLN 68.1 million, or it decreased by 61.6% YoY. Other income was impacted by the following factors:

- Valuation of the FX options concluded with the clients – negative correction of PLN 124.9 million.
- Sale and repurchase of euro-bonds on which the Bank executed a negative valuation of PLN 20.3 million.

In 1H 2008, other income was impacted by the sale of MasterCard Incorporated shares which resulted in generating income of PLN 25.3 million.

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



#### 4. Share of business lines In generating income on operations

In the structure of income on operations the income generated by the retail banking segment had a highest share. In 1H 2009, it totalled PLN 610.2 million versus PLN 623.5 million in the same period of the previous year. These results were mainly the consequence of:

- decrease of the income on deposit, credit and settlement operations by PLN 15.9 million, or by 3.0% as compared to 1H 2008 (decrease of interest income was partly compensated with higher commission income on credit insurance and higher transactional margin on FX sales),
- increase on sales of products of the Financial Markets Division by PLN 2.8 million or 4.6%, as compared to 1H 2008.

Income in the wholesale banking area in 1H 2009 totalled 291.0 million and was lower by PLN 121.1 million or 29.4% in the same period of the previous year. These results were mainly the consequence of:

- decrease of income on capital market transactions and on sales of products of the Financial Markets Division (total drop in deposits amounted to PLN 151.7 million, out of which PLN 124.9 million was a result of valuation of FX Options concluded with Bank clients),
- increase of the income on deposit, credit and settlement operations by PLN 30.6 million or 11.3%.

Income on proprietary operations of the group after the first six months of 2009 totalled PLN 341.1 million and was higher by PLN 170.8 million or by 100.3% as compared to the same period of the previous year, as a result of:

- good results on trading on own account – income thereon increased by PLN 127.1 million or by 136.2%,
- increase of income on ALCO business on PLN 43.8 million or 56.8%<sup>3</sup>

	IH 2009	IH 2008	Change IH 2009/IH 2008	
	PLN million	PLN million	PLN million	%
Retail Banking	610.2	623.5	-13.3	-2.1%
Corporate Banking	291.0	412.1	-121.1	-29.4%
Own operations	341.1	170.3	170.8	100.3%
<b>Total operating income</b>	<b>1,242.4</b>	<b>1,206.0</b>	<b>36.4</b>	<b>3.0%</b>

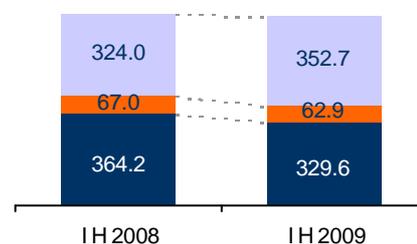
#### 5. Operating expenses

In 1H 2009, operating expenses<sup>4</sup> of the capital group of ING Bank Śląski S.A. amounted to PLN 745.2 million, compared to PLN 755.2 million, the same period last year, or there was a drop by 1.3%.

Economic slow-down and necessity of adjusting the activities to a limited market potential led to taking actions aimed at optimisation of the operating expenses of the capital group of the Bank. The said actions resulted most of all in decrease in personnel costs that in 1H 2009 amounted to PLN 329.6 million, and were lower by 9.5% YoY.

As the results of works related to optimisation of the operational area, in 1H 2009 the depreciation charges were closed with the amount of PLN 62.9 million, or decreased by 6.1% YoY.

Operating expenses by categories (PLN million)



■ Staff costs ■ Amortization/ depreciation ■ Other

<sup>3</sup> Income on ALCO (Assets and Liabilities Management Committee) business together with income on investment operations

<sup>4</sup> Operating expenses increased by other costs.

Other costs (general administrative costs and other costs) totalled PLN 352.7 million compared to PLN 324.0 million a year earlier. Mostly, the costs of maintenance and hire of buildings increased (also as a result of Polish zloty weakening).

## 6. Impairment and provisions

In 1H 2009, the risk costs taken into account in the Income Statement of the capital group of ING Bank Śląski S.A. were negative and they totalled PLN 165.6 million. They were impacted by the following:

- Setting up provisions against the risk of FX options for the amount of PLN 81.5 million.
- Deterioration of the financial standing of borrowers, and higher than before provisions against the credit related debts (write-downs of PLN 84.1 million).

## 7. Key effectiveness ratios

In 1H 2009, some of the effectiveness ratios of the capital group of ING Bank Śląski S.A. lowered, for instance ROA and ROE. Whereas, improvement of the C/I ratio is worth mentioning as it gave us bigger security buffer in case of deterioration of the market situation that could result in potential drop in income of the capital group of ING Bank Śląski S.A.

**Table. Basic effectiveness ratios (in %)**

	1H 2009	1H 2008
Profitability ratio	17.0	28.2
Cost to income ratio (C/I)	60.0	62.6
Return on assets ratio (ROA)	0.8	1.5
Return on equity (ROE)	13.5	23.7
Interest margin ratio	2.37	2.10
Solvency ratio	10.9	11.2

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

**Cost to income ratio (C/I)** – operating expenses to operational income in analytical terms.

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

**Return on equity (ROE)** – net profit for the shareholders of the parent entity to the average Tier I and Tier II capitals.

**Interest margin ratio** – net interest income to average earnings assets of the Bank<sup>5</sup> (inclusive of amounts due from financial and non-financial entities, securities of fixed and variable earnings and participation shares).

**Solvency ratio** – net Tier I and Tier II capitals and risk weighted off-balance sheet assets and liabilities.

## 8. Balance sheet structure

As of 30 June 2009, the balance sheet total of the capital group of ING Bank Śląski S.A. amounted to PLN 64,516.5 million, down by PLN 5,094.0 million, or 7.3%, as of the end of 2008; however, the balance sheet total of the capital group of the Bank was higher by 6.6% year on year. The balance sheet total of the group and the structure of assets and liabilities have been determined by the operations of ING Bank Śląski S.A. As of the end of June 2009, the balance sheet total of ING Bank Śląski S.A. amounted to PLN 64,408.3 million compared to PLN 60,434.9 million in June 2008 (up by 6.6%).

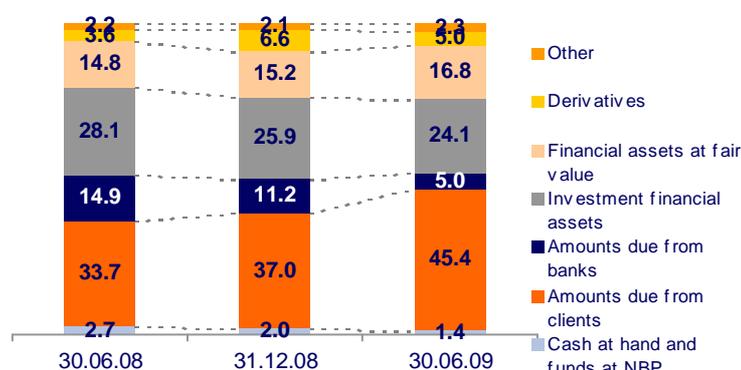
### Assets

The structure of assets of the capital group of ING Bank Śląski S.A. as of 30 June 2009 was significantly different from the structure as of June 2008. Items, which share in the total assets structure increased are as follows:

<sup>5</sup> Average assets calculated based on the data for five periods: 30.06.2008, 30.09.2008, 31.12.2008, 31.03.2009 and 30.06.2009.

- Amounts due from clients.** They totalled PLN 29,268.6 million which constituted 45.4% of all assets of the capital group. In 2008, ING Bank Śląski S.A. benefited from the changes introduced to IAS 39 and changed classification of PLN 1,982.6 million worth of debt securities into "amounts due from". The debt securities were previously in the available-for-sale portfolio. Moreover, in Q1 2009 the Bank sold Eurobonds classified as of 31.12.2008 to the portfolio of financial assets initially carried at fair value (face value of Eurobonds was EUR 417 million). Subsequently, the Bank repurchased the Eurobonds at market price from an independent counterparty and classified them to the category of "amounts due from clients". Loans and cash loans extended to clients as of June 2009 accounted for PLN 25,159.5 million of the grand amount of amounts due from clients versus PLN 19,800.7 million a year earlier.

Assets structure of ING Bank Śląski capital group (%)



- The financial assets carried at fair value through profit or loss** (i.e. assets to be introduced into financial turnover in a short time) in assets also increased. As of the end of June 2009 their value was at the level of PLN 10,822.1 million versus PLN 8,974.2 million a year earlier. Their share in assets totalled 16.8% and 14.8% respectively.
- The valuation of instruments.** In June it totalled PLN 3,242.0 million (which constituted 5.0% of the balance sheet total) versus PLN 2,185.9 million (3.6%) in June 2008.

The following position faced drops:

- Investment financial assets.** Their value as of the end of June 2009 totalled PLN 15,568.2 million which constituted 24.1% of group assets. In June 2008 these figures were: PLN 17,001.3 million and 28.1% respectively.
- Amounts due from banks.** As of the end of June 2009 they totalled PLN 3,233.6 million versus PLN 9,002.0 million a year earlier. It translated into the following shares in the balance sheet total: 5.0% and 14.9%.

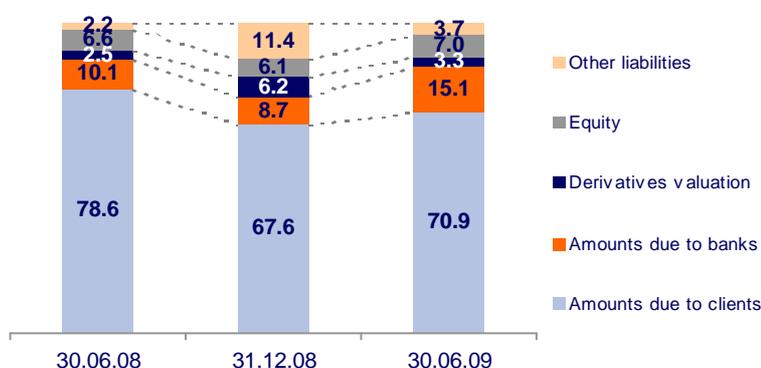
### Liabilities

The funds deposited with the Bank by clients were the dominant source of funding for the operations of ING Bank Śląski S.A. capital group. In June 2009 their totalled PLN 45,732.4 million which represented 70.9% of total liabilities, whereas of 30 June 2008 they totalled PLN 47,591.1 million (78.6% of the balance sheet total).

As of the end of June 2009, the group's liabilities towards other banks amounted to PLN 9,730.8 million versus PLN 6,085.2 million a year earlier. The funds acquired from monetary financial institutions accounted for 15.1% of the liabilities value, while in June 2008 their share was 10.1%.

In June 2009 the capital group of the Bank had no liabilities to the Central Bank, whereas in December 2008 total liabilities of the capital group under lombard loan and repo transactions amounted to PLN 5,932.1 million which represented 8.5% of total liabilities (recognised in other liabilities).

Liabilities structure of ING Bank Śląski capital group (%)



The share of equity in liabilities of the group of ING Bank Śląski S.A. totalled 7.0% versus 6.6% in June 2008.

## VI. MANAGEMENT OF KEY RISKS

### 1. Credit risk

#### **Credit policy**

In 1H 2009, ING Bank Śląski S.A introduced modifications with regard to corporate credit exposures as a response to the overall economic situation in the country related to the global financial crisis. These modifications were aimed at:

- increasing effectiveness of the credit process while ensuring adequate credit risk identification and measurement mechanisms compliant with the requirements set forth in the resolution of the Polish Financial Supervision Authority no. 380/2008,
- maintenance of the Bank's credit risk level at the acceptable level.

Main modifications of the Bank's credit policy for corporate clients concerned in particular:

- principles of taking credit decisions for the regular portfolio of corporate clients taking into account best practices of ING Group and adjustment of credit powers thereto,
- introduction of a new policy for financial market instruments with regard to settlement and pre-settlement risk,
- credit process in case of industries with a higher financing risk,
- collateral policy in order to further increase its compliance with the requirements set forth in the resolution of the Polish Financial Supervision Authority no. 380/2008 and solutions applied in ING Group,
- provisions of the policy of commercial property finance in order to take account of the situation in the real estate market, especially in the housing market.

In the area of credit risk management of retail portfolio, the Bank first of all did the following:

- *Mortgage loans.* The Bank stopped extending loans with low own contribution, introduced procedures that define the principles of updating and monitoring the value of real property that constitutes a collateral, reintroduced monitoring of real property insurance policies and introduced the process of monitoring increased-risk loans indexed to CHF.
- *Small business loans.* The Bank modified segmentation of clients and increased the significance of the financial criterion, reduced crediting in relation to certain types of entities and introduced new principles of calculating credit capacity for housing communities.

#### **Credit process and credit risk assessment**

At the same time the Bank was adjusting tools and instruments of the corporate client risk measurement and monitoring to credit policy modifications, i.e.:

- Carried out a review of templates of all documents related to financial market instruments. Gradual modification and implementation of templates of documents related to financial market instruments was initiated to increase legal certainty of applied solutions.
- Updated credit risk assessment procedures and issued recommendations concerning the industries classified as bearing higher risk.
- Carried out an additional one-off review and evaluation of monitoring results of all credit exposures.
- Developed additional controls with regard to the review of exposure and ratings for the corporate portfolio.
- Carried out global stress tests for the entire credit portfolio and also the stress tests compliant with the S Recommendation with regard to credit risk in the corporate clients and Small Business segment.

### **Credit portfolio quality and provisioning**

At the end of June 2009, the total value of loans and other facilities extended to clients by the capital group of ING Bank Śląski S.A. was PLN 25,159.5 million.

The value of impaired loans was at the level of PLN 1,026.7 million versus PLN 502.4 million at the end of 2008. Thus, the share of the impaired portfolio in the entire credit portfolio of the capital group increased from 2.1% in December 2008 to 4.1% at the end of June 2009. Therefore, for the next time in a row, the credit portfolio quality of the capital group of ING Bank Śląski S.A. was much better than the average in the entire banking sector.

**Table. Breakdown of loans and cash loans extended to clients according to the impairment criterion (PLN million)**

	<b>30.06.2009</b>	<b>31.12.2008</b>	<b>30.06.2008</b>
Total loans and cash loans (gross), inclusive of:	25,159.5	23,657.6	19,800.7
- non-impaired	24,132.8	23,155.2	19,436.0
- impaired	1,026.7	502.4	364.8
Impairment charge (for impaired items and IBNR)	-756.4	-493.5	-393.3
<b>Loans and other receivables (net)</b>	<b>24,403.1</b>	<b>23,164.0</b>	<b>19,407.4</b>

At the end of June 2009 the capital group of ING Bank Śląski S.A. hold the provisions for the impaired credit portfolio in the amount of PLN 756.4 million. The impaired portfolio provisioning ratio was 73.7%.

## **2. Market risk management**

### **General information**

Market risk is defined in ING Bank Śląski S.A. as a potential loss due to unfavourable changes in market prices (e.g. yields, FX rates, equity prices, etc.) and/or market parameters (e.g. volatility of market prices and the correlation between moves in market prices) and/or customer behaviour (e.g. early loan repayments).

The main goal of market risk management in ING Bank Śląski S.A. is to ensure that the Bank's exposure to market risk is understood, properly managed, and – where applicable – within approved limits. Market risk management in the Bank also covers the Product Control function which assures correctness of Financial Markets products valuation and P&L reporting.

Market risk management process within ING Bank Śląski S.A. covers the identification, measurement, monitoring, and reporting of risk, both within the Bank itself and also in its subsidiaries. Independent from the Bank units generating market risk Market Risk Management Department provides FM Management, Management Board and ALCO Committee members with market risk updates. An important consultative role in the market risk management process is performed by the Bank's majority shareholder – ING Bank N.V.

To measure and monitor market risk, the Bank applies mainly the Value at Risk (VaR) and Earnings at Risk (EAR) method.

### **VaR limits in 2009**

In first half of 2009 three VaR limit excesses were recorded in the FX options business. The markets were still unstable; spot volatility and volatility of volatility continued increasing. Two of the excesses were observed in January and February when liquidity in the market was quite poor and possibilities to hedge the portfolio were limited. The third excess occurred in April and was due to an overestimation of the maximum position that could be taken under the VaR limit. In all cases risks in excess were mitigated on the following day.

Also, several excesses were reported for the VaR sub-limit on ALM. This purely had a technical nature and was related to valuation of EUR-bond positions in ALM. The open bpv position as reported by

market risk management was over-estimating the real market risks. The technical problem has been resolved in the course of the first half of 2009.

#### **Effects of price changes on FX options businesses**

The first half of 2009 showed a continuation of the market turmoil. One of the main consequences was a deterioration of PLN versus foreign currencies. Although the Bank was properly hedged for fluctuation in FX rates, some customers faced substantial losses in MtM valuation of their transactions. This resulted in a continuous stream of restructuring customer's obligations. Some losses were realized, while also provisions were taken to cater for further potential losses.

In addition, other price changes led a lower revaluation of government securities. A bulk of illiquid EUR denominated government securities were sold and generated some losses. Also, the revaluation reserve showed large fluctuations.

#### **Liquidity risk management**

Liquidity risk management 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. The process of liquidity management covers:

- Development and analysis of control reports, liquidity ratios and monitoring of liquidity limits.
- Analysis of development (structural) liquidity position.
- Preparation of liquidity procedures/policies.
- Harmonization of contingency planning in regard to liquidity with the changes in the Bank's organisational structure and the changes in definition of warning signals.

One of the most important aspects of the liquidity risk management process is the contingency funding plan which provides guidance as regards identifying a liquidity crisis and, in case such identification is made, as regards the actions to be taken to survive the crisis. During the first part of 2009 ING Bank Śląski S.A. continued to put development of the liquidity position under increased observation. Appropriate actions were taken where necessary.

In the second half of 2008 liquidity premium have been observed in the Polish financial markets. ING Bank Śląski ALCO is closely monitoring development of liquidity premium for both PLN and foreign currencies. Appropriate reflection of these liquidity premium in product pricing is seen as very important for balance sheet management purposes.

#### **Replicating portfolios**

Internal investment of PLN demand funds is done by means of a replicated investment structure. The replicating portfolios represent a significant part of the ING Bank Śląski S.A. balance sheet. Because of continuation of the volatile market environment in the first half of 2009, investments focused on protecting the liquidity position of the Bank. This approach was in line with the primary goal of the ING Bank Śląski S.A. Replicating Portfolio Policy, which is to hedge the long-term interest rate result within additional constraints connected to the effect of these investments on the Bank's solvency and liquidity.

#### **New transfer pricing system (TPS)**

ING Bank Śląski S.A. continued developing a new transfer pricing system. This system will transfer, besides interest rate, also liquidity characteristics of non-FM positions to FM. Final implementation of New TPS is expected in the second half of 2009.

### 3. Capital adequacy

In the course of 2009 the solvency ratio of ING Bank Śląski S.A. slightly decreased, but was in June 2009 back at the level of December 2008. Development of the solvency ratio (in the short and long run) is closely monitored by the Management Board of ING Bank Śląski S.A. in order to maintain a prudent capital adequacy. Taking into account the downside pressure on this ratio due to current challenging economic circumstances and the strong desire of the regulator to – in general – have higher solvency ratios, issuance of subordinated debt to strengthen the capital position of the Bank is seriously considered. Other areas for attention are:

- reducing solvency requirements (for example, related to the introduction of advanced models for credit risk), and
- reducing volatility of solvency base (changes in the MtM value of AFS securities are taken into account in the regulatory capital base).

At the end of June 2009 the capital adequacy ratio of ING Bank Śląski S.A capital group was 10.9% (versus 10.4% in December 2008).

### 4. Operational risk and compliance

The Bank manages operational risk based on the Polish Banking Law Act, Recommendation M of the National Bank of Poland based on the directives of the Basle Committee, Resolution No. 383/2008 of the Polish Financial Supervision Authority and ING Group standards.

Operational risk is understood in ING Bank Śląski S.A. as the risk of suffering direct or indirect material loss or loss of reputation resulting from inadequate or failing internal processes, people or technical systems or external events. This definition also covers the litigation risk.

The Bank has in place the Operational Risk Management Policy. The Policy principles recognise the operational risk management as an integrated area of the banking activity, regulated by standards, pursued in order to reduce the risk level and mitigate potential losses by relevant control mechanisms and an adequate level of capital. The Policy implementation serves the purpose of improving the security of the Bank and its clients, reducing costs and improving operational efficiency. The Bank's Operational Risk Management Policy is updated on an ongoing basis, as required.

In 1H 2009, the Bank extended and improved the operational risk management system by:

- Implementing a new tool for measurement and monitoring of risk in the IT area (in seven IT risk areas in critical and high-risk applications). In June, identification of irregularities was completed and the schedule of their liquidation agreed.
- Adopting the principles of integrated risk assessment performed jointly by the management of business areas and operational risk, compliance risk and legal risk management units.
- Updating the Operational Risk Management Policy (shall become effective in 2H 2009).

## VII. INVESTOR INFORMATION

### 1. 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 the shares held. The Bank's shares do not grant any special control powers towards the issuer either.

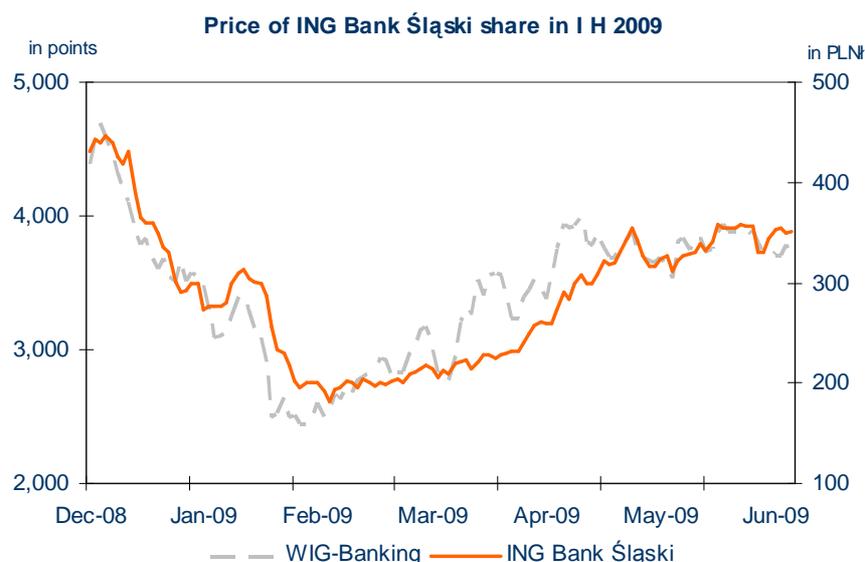
According to the Bank's knowledge, as of the date of the Ordinary General Shareholders Meeting (i.e. 3 April 2009) the following entities held 5 percent or more of the shares and overall number of votes in the company: ING Bank N.V (75.00%) and Commercial Union OFE BPH CU WBK (6.53%).

Name of Shareholder	Number of Shares and Votes at GSM		Share in Equity and Total Votes at GSM	
	3 April 2009	31 December 2008	3 April 2009	31 December 2008
ING Bank N.V.	9,757,500	9,757,500	75.00%	75.00%
Commercial Union OFE BPH CU WBK (from 1 June 2009 called Aviva OFE Aviva WBK)	850,000	884,798	6.53%	6.80%
Other	2,402,500	2,367,702	18.47%	18.20%
<b>Total</b>	<b>13,010,000</b>	<b>13,010,000</b>	<b>100.00%</b>	<b>100.00%</b>

As of the date of publication of the report, 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.

### 2. Price of ING Bank Śląski S.A. shares

In the first six months of 2009, the price of ING Bank Śląski S.A. shares on the Warsaw Stock Exchange was in line with the trends of prices of the remaining banking companies.



The closing rate of the Bank shares was between PLN 182.1 (on 3 March) and PLN 447.0 (on 7 January). On 30 June 2009 the price of ING Bank Śląski S.A. share amounted to PLN 350.5 which means it was lower by 18.5% than on the last day of trading in 2008 (for comparison, the Banking sub-

index fell by 15.4%).

Thus, on 30 June 2009 the market value of the Bank amounted to PLN 4,560 million while its book value amounted to PLN 4,515 million.

### 3. Changes in statutory authorities of Bank

As the term of office of the Supervisory Board ended, on 3 April 2009 the General Shareholders Meeting of ING Bank Śląski S.A. appointed Supervisory Board for the next term covering the years 2009-2014. All the appointed members of the Supervisory Board held functions in the Supervisory Board during the previous term of office. The Supervisory Board was formally established at the meeting held on 8 May 2009 and its composition is as follows:

- 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.

On 28 January 2009, the Supervisory Board was informed by Mr. Michał Szczurek about his resignation from the position of Vice-President of the Management Board of ING Bank Śląski S.A. as of 16 March 2009. The resignation was connected with transfer to Retail Banking structures of ING Group in Asia.

At the meeting held on 8 May 2009, the Supervisory Board appointed Mr. Evert Derks Drok as the Vice-President of ING Bank Śląski S.A.

Mr. Evert Derks Drok has been working for ING Group for many years. Before taking the position of the Vice-President of ING Bank Śląski S.A., he was the CEO of ING Direct and ING Bank Australia.

In June 2009, the Management Board of ING Bank Śląski S.A. had seven members and worked in the following composition:

- Mr. Brunon Bartkiewicz **President of the Management Board** in charge of units that report directly to the Management Board of the Bank, including: HR Policy and Development Department, Internal Audit Department, Legal Department, Press Office,
- Mr. Mirosław Boda **Vice-President of the Management Board** in charge of the Finance Division,
- Mr. Michał Bolesławski **Vice-President of the Management Board** in charge of Corporate Sales Network,
- Mr. Evert Derks Drok **Vice-President of the Management Board** in charge of Retail Banking Division,
- Ms. Justyna Kesler **Vice-President of the Management Board** in charge of Operations Division, Services Division and IT Division,
- Ms. Małgorzata Kołakowska **Vice-President of the Management Board** in charge of Strategic Clients Division and Treasury and Financial Markets Division,

- Mr. Oscar Swan

**Vice-President of the Management Board**, in charge of Credit- and Market Risk Management Division.

#### 4. Remuneration of members of Management Board and Supervisory Board of ING Bank Śląski S.A.

In 1H 2009, 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 5,122 thousand. The total amount of remuneration paid out or due for 1H 2009 given here is the gross amount of remunerations paid out or due and payable for the period from January to June 2009.

The 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 2009 (in PLN thousand)**

Period	Remunerations and Bonuses	Benefits	Total
1H 2009	4,079	1,044	5,122
1H 2008	6,621	1,643	8,264

In 1H 2009, the total amount of remunerations (defined as above) paid out by ING Bank Śląski S.A. to Members of the Supervisory Board amounted to PLN 290 thousand.

**Table. Remuneration of members of the Supervisory Board of ING Bank Śląski in 1H 2009 (in PLN thousand)**

Period	Remunerations and Bonuses	Benefits	Total
1H 2009	290	0	290
1H 2008	257	0	257

#### 5. Ratings

ING Bank Śląski S.A. co-operates with the following 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 28 January 2009, Fitch Ratings Ltd. downgraded the long-term rating assigned to ING Bank Śląski S.A. from AA- to A+ and indicated its outlook as Stable. At the same time, the short-time rating of ING Bank Śląski S.A. was downgraded from F+ to F1. The fact that the ratings of ING Bank Śląski S.A. were downgraded resulted from change in the ratings of the Bank's dominant shareholder, i.e. ING Bank N.V.

On the day of publishing this report, the ratings assigned by the Fitch agency to ING Bank Śląski S.A. were as follows:

##### Fitch Ratings Ltd.

Long-term IDR	A+
Rating outlook	Stable
Short-term IDR	F1
Individual rating	C
Support rating	1

Long-term IDR and short-term IDR reflect the entity's capability of timely settlement of financial liabilities. A+ rating reflects the Bank's very high capability of timely settlement of long-term financial

liabilities. Short-term rating of F1 means the highest grade for timely settlement of short-term financial liabilities (up to 13 months). In the case of both grades for the Bank, Fitch agency included high probability of getting potential support from the majority shareholder of the company – ING Bank N.V. (the highest support rating).

Individual rating of C assigned to ING Bank Śląski S.A. reflects: adequate level of capital, improving quality of assets, high ratio of provisions covering exposures at risk, high liquidity and strong position in the deposit market. In addition, the individual rating of the Bank includes the pressure on the level of capitals in connection with increasing capital requirements resulting from the regulation “New Capital Agreements” and increasing values of risk-weighted assets.

On 28 January 2009, Moody’s Investors Service Ltd downgraded the rating assigned to ING Bank Śląski S.A. in relation to long-term deposits in local currency from A1 to A2. The remaining ratings were sustained. The change was connected with revision of ING Bank N.V. rating.

#### Moody’s Investors Service Ltd.

Long-term deposits in foreign currency	A2
Long-term deposits in local currency	A2
Short-term deposits	P-1
Financial strength	D+
Outlook of financial strength	Stable

On 26 May 2009, Moody’s changed the rating outlook assigned to ING Bank Śląski S.A. in relation to long-term deposits (A2) from Stable to Negative. The remaining ratings were sustained. In Moody’s opinion, in light of the new ratings for the level of system support, Negative outlook for financial strength of the mother company (ING Bank N.V. has been assigned ratings Aa3/P1/C+) may affect the rating for long-term deposits of ING Bank Śląski S.A.

## 6. Information on the Auditor

According to the resolution of the Bank Supervisory Board, starting from 2008 the entity authorized to audit financial statements of ING Bank Śląski S.A. Group for the subsequent 3 years is Ernst&Young Audit Spółka z o.o. with its seat in Warsaw, at Rondo ONZ 1 (entered into the list kept by the National Chamber of Certified Auditors under the number 130).

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

Ernst & Young is also the only external auditor of consolidated statements of ING Group.

## VIII. GROWTH OF ORGANISATION AND INFRASTRUCTURE OF ING BANK ŚLĄSKI S.A. CAPITAL GROUP IN 1H 2009

### 1. IT and Operations

The effects of projects executed in the area of IT at ING Bank Śląski S.A. and supporting the activity of business divisions include:

- Joining the TARGET2 settlement system by the Bank as a direct participant. In practice, this means strengthening the market position of the Bank thanks to the possibility of offering new business solutions to the Bank clients. TARGET2 allows for real-time settlement of transactions in EUR between participants of the system and reduces the costs of their handling.
- Achieving, as one of a few participants of KDPW (National Depository for Securities), full technical readiness to launch *New Deposit and Settlement System*.
- Implementation of new system for handling all SEPA CREDIT TRANSFER transactions. Thanks to this system, the transactions are processed in a fully automated way (except for transactions with negotiable exchange rate).
- Up-grade of the main application that handles and supports the operation of the dealing room.
- Introducing new card-related solutions, such as implementation of a technology for handling contactless payment cards, adjusting the card system to new global system of electronic payment authorization and launching the system for remote management of ATMs.
- Making other modules of Front-End application available, such as handling non-standard deposits and structured products as well as transfers in the telephone banking system.

When it comes to works connected with optimization of processes and security systems, the Bank:

- implemented new application for change management that offers new possibilities in the scope of handling software errors, reporting application modifications and handling project applications as well as tracking the status of every application on-line and automated development of reports,
- introduced solutions that guarantee compliance of the Bank with the requirements of ING Group in the scope of non-financial risk management,
- automated back-office processes for retail loans by modification of card processes handling applications,
- improved operational processes for the area of wholesale clients and implemented electronic circulation of Wholesale Client File documents.

In 1H 2009, ING Bank Śląski S.A. executed also projects in the area of operations. The most important of those projects include the project on optimization of cash process in the branches' network, projects connected with mass printouts and documents archiving and projects on optimization of ATMs network.

### 2. Development of electronic distribution channels

In 1H 2009, ING Bank Śląski S.A. continued works aimed at broadening the functionalities of electronic distribution channels. The Bank, first of all:

- made the internet banking system for retail clients available in mobile version, dedicated to mobile phones,
- offered virtual c@rd ING VISA,

- expanded the possibilities of ING BankOnLine system by: offering structured products (Investment Term Deposit, Investment Insurance Scheme), Safe Cash Loan programme and the possibility of joining ING OFE,
- modified the Corporate Internet Banking application by adjusting the credit module to the requirements of strategic clients and replacing applications in paper form by electronic applications.

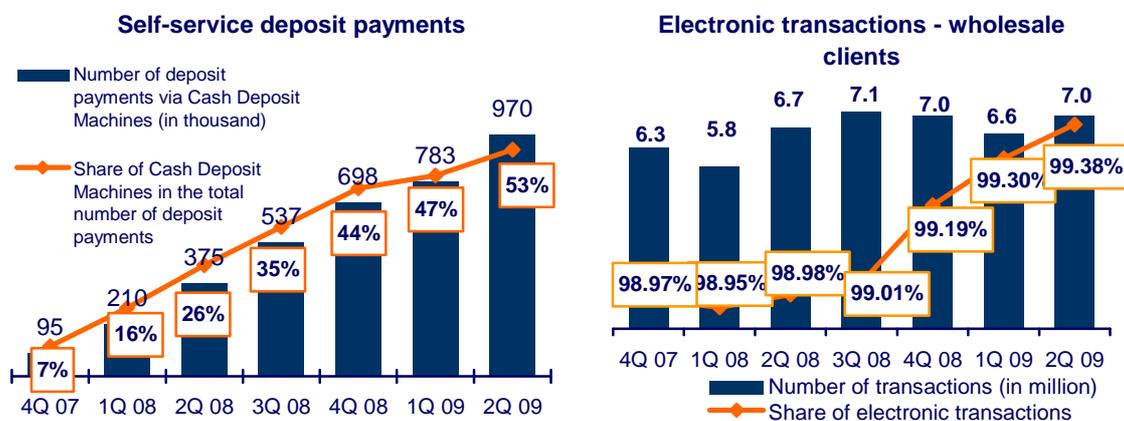
The scope of loyalty programme *You Bank – You Buy* (Bankujesz-kupujesz) was also extended by adding new deposit products (endowment policies, term deposits, *Extra Premia* deposits and e-deposits). The programme is an important part of the project *The Most Internet Bank*.

At the end of June 2009, the electronic banking systems offered by ING Bank Śląski S.A. were used by 1,358.5 thousand clients, a 16.4% increase as compared to December 2008. The number of the telephone banking system *HaloŚląski* users also increased by 21.9% in comparison to December 2008.

	30.06.09	31.03.09	31.12.08	30.09.08	30.06.08
ING BankOnLine, ING OnLine, ING BusinessOnLine and MultiCash	1,358,473	1,270,260	1,167,054	1,067,415	960,090
HaloŚląski	752,914	689,979	617,422	561,571	498,747
Tex message (SMS)	498,313	443,689	387,456	346,961	304,775

At the end of June 2009, ING Bank Śląski S.A. had a network of 694 ATMs whereas in December 2008, the number of ATMs was 683.

In June 2009, the number of transactions conducted at the Bank via electronic banking systems was 8.3 million in comparison to 6.3 million a year earlier (up by 31.7%).



### 3. Bank outlets' network

As of 30 June 2009, ING Bank Śląski S.A. had 438 branches (including 67 franchise operations). Within 1H 2009, the Bank set up three new branches and closed four franchise operations.

There were 367 self-banking zones operating at Bank branches (360 zones at the end of 2008). After a period of dynamic increase in the number of self-banking zones, in 1H 2009 the Bank focused on improving their functioning and increasing the availability. Kiosks and Internet stations were installed in the existing self-banking zones. Pilot programme of the Media Tower pillar was also launched. It is a device resembling a poster-pillar, installed near a branch and equipped with an ATM, Internet kiosk and multimedia information touch-screens. As of June 2009, there were 376 kiosks and Internet

stations functioning at Bank branches in total.

**Table. Network of ING Bank Śląski S.A. branches**

	30.06.09	31.03.09	31.12.08	30.09.08	30.06.08	31.03.08
Number of branches	438	439	439	432	430	415
Number of self-banking zones	367	360	360	313	248	170

#### 4. HR management

As of 30 June 2009, the capital group of ING Bank Śląski S.A. employed 8,378 persons. In H1 2009, the number of people employed in the companies forming the Bank's group decreased by 199 persons.

In June 2009, ING Bank Śląski S.A. employed 8,150 people, down by 189 persons or 2.3% when compared to December 2008. The decrease in the number of employed people at the Bank was a result of limiting to the minimum of external recruitment and headcount streamlining by optimisation of numerous procedures and processes, among others.

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

	30.06.2009		31.12.2008	
	persons	%	persons	%
Retail banking	4,438	54.5	4,755	57.0
Wholesale banking and financial markets	992	12.2	998	12.0
Operations/IT/Services	1,860	22.8	1,732	20.8
Risk/Organisation/Finance/HR issues	860	10.5	854	10.2
<b>Total</b>	<b>8,150</b>	<b>100.0</b>	<b>8,339</b>	<b>100.0</b>

In 1H 2009, changes in the headcount structure at the Bank mainly consisted in:

- Decrease of the number and share of persons employed in the Retail Banking Division as a result of reduction in the number of employees in the mortgage business area and of moving credit platforms to the Operations Division.
- Increase of the number and share of persons employed in Operations/IT/Services, while the overall headcount level in this area was not only a result of taking over the functions from the Retail Division but also of further automation of many bank processes.

In 1H 2009, the Bank pursued the payroll policy which focuses on offering coherent, fair and competitive salaries to employees. At the same time, the policy was aimed at minimising impact of recently deteriorating market conditions on employee motivation.

At the beginning of 2009, the results of the annual appraisal of employees for 2008 were analysed. The analysis helped, among others, to develop a plan of training sessions for 2009. Main training directions include employee competencies, managerial training, training for sales network employees and language courses.

Training courses in the form of e-learning constitute a separate type of training programmes. In 1H 2009, employees participated in approx. 21,500 man-days of training courses. They mainly consisted of: product- and application related training courses for the retail network, security- and operational risk-related training courses and competency training courses.

## IX. DEVELOPMENT OF ING BANK ŚLĄSKI S.A. IN 2009

The main strategic target of ING Bank Śląski S.A. is its sustainable development aimed at improvement, and then maintaining its leading position in the Polish banking sector by undisturbed development of basic areas of its business, namely: retail banking, wholesale banking and financial markets.

Economic slow-down and crisis on global financial markets made ING Bank Śląski S.A. to verify the instruments of its strategy execution while maintaining its core assumptions.

In difficult macroeconomic situation, the Bank comes back to basics, namely it:

- focuses on the clients' needs,
- uses strengths of the institution and its people,
- eliminates ineffectiveness.

In practice, it means most of all focusing resources on the execution of key projects for a stabile, long-lasting development of the institution. However, the Bank does not plan stopping any already started big infrastructural projects, but it will assign less funds for their execution in 2009, which will postpone their completion date.

In 2H 2009, the Bank will continue the following projects:

- Retail banking:
  - Front-End branch system. The new branch application will be equipped with additional functionalities.
  - Creation of *The Most Internet* retail bank. The Bank plans further improvement of the transactional part of its operation, development of e-commerce possibilities, increase of the number of clients using internet banking.
  - Restructuring of Private Banking segment service. Structures for service of this segment and the product offer will be developed.
- Wholesale banking and financial markets:
  - Deposit strategies. They assume creating the ING Bank Śląski S.A. image as a deposit bank for wholesale clients thanks to innovativeness and completeness of the offer and competitive prices.
  - Corporate Lending. The project aim is to rebuild lending process entirely, including but not limited to, its simplification and automation. It will allow to improve its effectiveness and shorten the service process.
  - A new approach to the sale in wholesale network (Working Capital Management).
  - A new model of operational service of wholesale clients. Rendering the documentation available in electronic form should improve effectiveness of processes and quality of client service.
  - Improvement of strategic clients' service resulting from widening the offer of settlement products (implementation of the X-border Cash Balancing, modification of foreign trade finance products), and modernization of IT systems used by the Financial Markets Division.

ING Bank Śląski S.A. will continue its activities aimed at increasing effectiveness and work efficiency, for instance: limiting the recruitment of new employees, transfer of the existing employees among the Bank units, and supporting the process of the employees' leaving our organisation voluntarily. There are no funds in the 2009 budget for raising salaries, and the funds for bonuses were lowered making them even more depending on financial result and effects of costs optimisation.

Additionally to the reduction of budgets of majority of projects, savings refer also to the expenses for training, consulting and foreign business trips.

Due to dynamically developing macroeconomic situation, ING Bank Śląski S.A. will adjust its business plan to the changing market situation on a current basis.

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

### **1. Truthfulness and accuracy of statements**

To the best knowledge of the Management Board of the Bank, the financial data for 1H 2009 and the comparable data presented in the semi-annual condensed 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 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 2009

### **2. Selection of entity authorised to audit financial statement**

The entity authorised to audit the financial statements who audited the semi-annual condensed 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.

### **3. 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 2009, in cases relating to the loans for business purposes, the number of writs of execution issued by the Bank was 76 and covered debt totalling PLN 334.4 million.

In respect of retail clients, over 1H 2009 the Bank issued 624 banking writs of execution of the total value of PLN 9,198.4 thousand and filed 1,655 claims of the total value of PLN 17,214.6 thousand.

**Signatures of the Management Board Members of ING Bank Śląski S.A.:**

**Brunon Bartkiewicz**

President

*(signed on the Polish original)*

**Mirosław Boda**

Vice-President

*(signed on the Polish original)*

**Michał Bolesławski**

Vice-President

*(signed on the Polish original)*

**Evert Derks Drok**

Vice-President

*(signed on the Polish original)*

**Justyna Kesler**

Vice-President

*(signed on the Polish original)*

**Małgorzata Kołakowska**

Vice-President

*(signed on the Polish original)*

**Oscar Edward Swan**

Vice-President

*(signed on the Polish original)*

**August, 7 2009**

